



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)



2014

INTERIM REPORT



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IMPORTANT NOTICE

1. The Board, the Supervisory Committee, and directors, supervisors and senior management of Company warrant that there are no false representations, misleading statements contained in or material omissions from this interim report and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents of this interim report.
2. All directors of the Company attended Board meetings.
3. The interim financial statements of the Company are unaudited.
4. Mr. Zhu Jianpai, head of the Company, and Mr. Zhang Zongming, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness, accuracy and completeness of the financial statements in the interim report.
5. The forward-looking statements set out in this interim report such as future plans involve uncertainties and do not constitute the Company's substantial commitment to investors. Investors are advised to be aware of investment risks.
6. The Company proposes not to distribute cash dividend, issue bonus share, or transfer capital reserve to the share capital.
7. During the Reporting Period, the Company did not provide external guarantee in violation of the stipulated decision making procedure.
8. The financial data in the report are prepared in accordance with the PRC GAAP.
9. The announcement is published in both Chinese and English. For any discrepancy between the Chinese and English, the Chinese version shall prevail.

Definition

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	From January to June in 2014
RMB, RMB'000	RMB yuan, RMB'000 yuan

1. COMPANY INFORMATION

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

2. CONTACT INFORMATION

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

3. CHANGES IN BASIC INFORMATION

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

4. CHANGES IN INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

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

5. BASIC INFORMATION ABOUT THE SHARES OF THE COMPANY

Basic Information about the Shares of the Company

Class of shares	Place of listing	Abbreviated name	Stock code	Abbreviated name before change
A Shares	Shanghai Stock Exchange	重慶鋼鐵	601005	/
H Shares	The Stock Exchange of Hong Kong Limited	Chongqing Iron	01053	/

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD

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

7. OTHER RELATED INFORMATION

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

Summary of Financial Data and Financial Indicators

I THE COMPANY'S KEY FINANCIAL DATA AND INDICATORS

(I) Major financial data

Unit: RMB'000

Major financial data	For the Reporting Period (Jan.—Jun.)	For the corresponding period of last year	Increase/decrease from the corresponding period of last year (%)
Operating revenue	6,024,856	9,294,698	-35.18%
Net profit attributable to shareholders of the Company	-945,237	-1,115,978	15.30%
Net profit after extraordinary gain and loss attributable to shareholders of the Company	-1,377,764	-1,120,458	-22.96%
Net cash flow from operating activities	1,556,024	-388,547	500.47%

	At the end of the Reporting Period	At the end of last year	Increase/decrease at the end of reporting period from the end of last year (%)
Net assets attributable to shareholders of the Company	8,973,413	9,917,303	-9.52%
Total assets	48,294,774	48,045,977	0.52%

Summary of Financial Data and Financial Indicators (Continued)

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

(II) Major financial indicators

Major financial indicators	For the Reporting Period (Jan.—Jun.)	For the corresponding period of last year	Increase/decrease from the corresponding period of last year (%)
Basic earnings per share (RMB/share)	-0.213	-0.644	66.93%
Diluted earnings per share (RMB/share)	-0.213	-0.644	66.93%
Basic earnings per share after extraordinary gain and loss (RMB/share)	-0.311	-0.646	51.86%
Return on net assets (weighted average) (%)	-10.01	-30.86	Increased by 20.85 percentage points
Return on net assets net of extraordinary gain and loss (weighted average) (%)	-14.59	-30.99	Increased by 16.4 percentage points

Summary of Financial Data and Financial Indicators (Continued)

II. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNTS

Unit: RMB'000

Extraordinary gain and loss item	Amount	Note (if applicable)
Gain or loss arising from disposal of non-current assets	154	
Tax refund or relief arising from unauthorized approval, without official approval or on an occasional basis		
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	508,620	
Other non-operating income and expenses except items above	81	
Other gain or loss items falling into the definition of extraordinary gain or loss		
Effect of income tax	76,328	
Total	432,527	

Report of the Board of Directors

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

During the Reporting Period, the growth of domestic economy slowed down, the contradiction between supply and demand in the iron and steel industry was still prominent and the demand for steel products showed a slow growth. Despite the continuous decline in the price of upstream raw materials and fuels, e.g. iron ore, etc. which was favorable for the improvement of benefits of the principal business of iron & steel, the situation of excess capacity and oversupply in the industry had not changed, and the price of steel products remained low.

During the Reporting Period, the Group closely centered on the target of reducing costs in a systematic way, endeavored to shorten five differences, i.e. reducing financial expenses, logistics costs, environmental protection expenses and process costs, and improving the comprehensive selling price of steel products, insisted on the main line of economic production and low cost products, vigorously promoted system and mechanism reform with the focus placed on the simulative market accounting and implementation of risk responsibility system, proactively conducted various works with well tackling problems in key technologies, adjusting internal control standards according to different circumstances, and solving the miscellaneous minerals in use, grade reduction and stable operation of blast furnace as the breakthroughs, and achieved the economical efficiency and stability of the Company's production.

During the Reporting Period, the Group comprehensively established the operation mechanism of "simulative market accounting, independent operation and risk responsibility centering on costs", granted appropriate rights to sign certain economic contracts to secondary units, built the new operation and management model impelled by the market, and greatly promoted the implementation initiative of reducing costs in a systematic way. In the meantime, it divided the benchmarking work into procurement benchmarking, sales benchmarking and process benchmarking according to the cost control target and strengthened the operability of tapping potential by benchmarking through subdividing tasks. Through the above measures, the costs reduction had obtained good effects.

During the Reporting Period, the Group produced 2,100,000 tonnes of iron, 2,070,000 tonnes of steel and 1,920,000 tonnes of steel products. Owing to the material adverse impact of the general conditions of the domestic steel industry, in the first half year, the Group's sales revenue only came at RMB6,025,000,000, representing a year-on-year decrease of 35.18%.

Report of the Board of Directors (Continued)

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

(I) Analysis of principal operations

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

Unit: RMB'000

Item	For the period	For the corresponding period of last year	Change (%)
Operating revenue	6,024,856	9,294,698	-35.18%
Operating costs	6,324,670	9,394,978	-32.68%
Selling and distribution expenses	123,488	188,125	-34.36%
General and administrative expenses	397,711	450,092	-11.64%
Financial expenses	631,866	376,021	68.04%
Net cash flow from operating activities	1,556,024	-388,547	500.47%
Net cash flow from investing activities	-2,065,088	-748,971	-175.72%
Net cash flow from financing activities	447,961	-1,632,795	127.44%
Research and development expenses	174,721	263,040	-33.58%

Report of the Board of Directors (Continued)

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

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

2. Others

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

In the first half of 2014, the Group's operating revenue amounted to RMB6,024,856,000 representing a year-on-year decrease of 35.18%; revenue from principal operations amounted to RMB6,008,387,000, representing a year-on-year decrease of 35.21%; total profit amounted to RMB-945,216,000, representing a year-on-year decrease of loss of 15.14%, mainly due to the following reasons:

- ① In the first half of 2014, the Group's revenue from the principal operation of steel products (billets) amounted to RMB5,561,167,000, representing a year-on-year decrease of 36.21%, mainly due to the sustained decline in the selling prices as a result of the continued slump in the steel market and reduction of production scale, resulting in a substantial decrease in sales volume.

Unit: RMB'000

Product	Operating revenue for the first half of 2014		Operating revenue for the first half of 2013		Year-on-year increase/decrease (%)
	Amount	Percentage (%)	Amount	Percentage (%)	
Steel plates	2,307,819	38.41	4,243,486	45.76	-45.62
Hot rolled coil	3,170,393	52.77	4,266,358	46.01	-25.69
Cool rolled plates	49,867	0.83	133,792	1.44	-62.73
Steel billets	33,088	0.55	74,892	0.81	-55.82
Subtotal	5,561,167	92.56	8,718,528	94.02	-36.21
Others	447,220	7.44	554,727	5.98	-19.38
Total	6,008,387	100.00	9,273,255	100.00	-35.21

The average selling price of the Group's steel products (billets) was RMB3,138 per tonne, representing a year-on-year drop of 6.88%, which reduced sales revenue by approximately RMB384,486,000; the Group sold 1,172,400 tonnes of steel products (billets), representing a year-on-year decrease of 31.49%, which reduced sales revenue by approximately RMB2,772,875,000.

Report of the Board of Directors (Continued)

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

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

2. Others *(Continued)*

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

- ① In the first half of 2014, the Group's revenue from the principal operation of steel products (billets) amounted to RMB5,561,167,000, representing a year-on-year decrease of 36.21%, mainly due to the sustained decline in the selling prices as a result of the continued slump in the steel market and reduction of production scale, resulting in a substantial decrease in sales volume. *(Continued)*

Product	First half of 2014 (RMB/tonne)	First half of 2013 (RMB/tonne)	Year-on-year increase/decrease (%)	Increase/decrease in contribution to revenue (RMB'000)
Steel plates	3,367	3,453	-2.49	-58,962
Hot rolled coil	2,995	3,289	-8.94	-311,867
Cool rolled plates	3,195	3,935	-18.81	-11,521
Steel billets	2,610	2,774	-5.91	-2,136
Total	3,138	3,370	-6.88	-384,486

Product	First half of 2014 (0'000 tonnes)	First half of 2013 (0'000 tonnes)	Year-on-year increase/decrease (%)	Increase/decrease in contribution to revenue (RMB'000)
Steel plates	68.55	122.90	-44.22	-1,876,705
Hot rolled coil	105.86	129.70	-18.38	-784,098
Cool rolled plates	1.56	3.40	-54.12	-72,404
Steel billets	1.27	2.70	-52.96	-39,668
Total	177.24	258.70	-31.49	-2,772,875

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

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

2. Others *(Continued)*

- (1) Detailed explanations for significant changes in the composition or sources of profit of the Company *(Continued)*
 - ② The cost of principal operations (steel billets) dropped by 32.63% year on year as a result of the decrease in the prices of ore and coal and other raw and auxiliary materials, and the Group's stronger control over costs. As the decrease in the cost of principal operations was lower than that in the revenue from principal operations, the gross profit from principal operations for the current period saw a decline, which is the main reason for the increase of loss for the period.
 - ③ The period expense incurred by the Group was RMB1,153,065,000, representing an increase of RMB138,827,000 from last year, mainly due to (i) a year-on-year decrease of RMB64,637,000 in selling and distribution expenses due to the decline in sales volume; (ii) A year-on-year decrease of RMB52,381,000 in general and administrative expenses due to the decrease in 30-year and 5-year retirement compensation and repair fee; and (iii) a year-on-year increase of RMB255,845,000 in financial expenses.
 - ④ The Group recorded net non-operating income of RMB508,855,000, representing a decrease of RMB503,084,000, mainly attributable to the receipt of government subsidy amounting to RMB509 million.

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

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

2. Others *(Continued)*

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

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.

The said assets reorganisation and fundraising have been completed in 2013.

- (3) Explanation for the progress of business plans

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

- (4) Others

Report of the Board of Directors (Continued)

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

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

1. Principal operations by industry and product

Principal operations by industry and product

Unit: RMB'000

By industry	Operating revenue	Operating costs	Gross profit margin (%)	Principal operations by industry		
				Increase/decrease in operating revenue from the corresponding period of last year (%)	Increase/decrease in operating costs from the corresponding period of last year (%)	Increase/decrease in gross profit margin from the corresponding period of last year (%)
Iron and steel	5,973,894	6,285,418	-5.21	-35.30	-32.77	-3.97
Electronic services	16,378	13,269	18.98	8.15	8.29	-0.11
Transportation	18,115	21,087	-16.41	-25.31	6.35	-34.66

By product	Operating revenue	Operating costs	Gross profit margin (%)	Principal operations by product		
				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)	5,561,167	5,901,823	-6.13	-36.21	-33.92	-3.68
By-products	412,727	383,595	7.06	-19.91	-7.94	-12.08
Electronic engineering design, and installation	16,378	13,269	18.98	8.15	8.29	-0.11
Transportation	18,115	21,087	-16.41	-25.31	6.35	-34.66

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

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

2. Principal operations by region

Unit: RMB'000

Region	Revenue from principal operations	Increase/ decrease in revenue from principal operations from the corresponding period of last year (%)
Southwestern region	2,569,110	-27.86
Other regions	3,404,784	-40.39
Total	5,973,894	-35.30

(III) Analysis of core competitiveness

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

1. Variety

Medium-gauge plates, as the Company's leading product, holds a dominant position in the industry with a full range of varieties and specifications. Special-purpose plates account for 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 $\varnothing 12\text{mm}\sim 150\text{mm}$ and most structural alloy steel which can only be produced by special steel plants, making the Company an important steel bar production base in southwestern China.

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

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

2. Brand

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

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

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

3. Customer resources

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

4. Geographical location

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

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

(IV) Analysis of investments

1. *Analysis of external equity investment*

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

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

(1) Entrusted wealth management

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

(2) Entrusted loan

The Company did not have entrusted loans during the Reporting Period.

(3) Other investment, wealth management and investment in derivatives

During the Reporting Period, the Company did not have other investment, wealth management or investment in derivatives.

Report of the Board of Directors (Continued)

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

(IV) Analysis of investments (Continued)

3. Use of raised proceeds

As at 30 June 2014, the Company used proceeds amounting to RMB1,950,162,232.06 and obtained deposit interest amounting to RMB203,213.55. The balance in the special account for raised proceeds was RMB41,178.95. 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 as at 31 December 2013	1,762,222,232.06
Amount used to supplement working capital in the first half of 2014	187,940,000.00
Add: interest income from raised proceeds actually received	203,213.55
Deposit used for opening an account	200.00
Balance in the special account for raised proceeds as at 30 June 2014	41,178.95

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

Items	Amount (RMB)	Purpose
January 2014	110,000,000.00	Honoring L/C
January 2014	40,000,000.00	Honoring promissory note
January 2014	37,940,000.00	Repayment of borrowings
Total	187,940,000.00	

In order to regulate the management and use of raised proceeds of the Group and safeguard the legitimate interests of investors, 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 strictly 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.

Report of the Board of Directors (Continued)

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

(IV) Analysis of investments (Continued)

4. Analysis of major subsidiaries and investees

Unit: RMB'000

Name of subsidiaries/ investees	Principal operations	Registered capital	Shareholding Percentage (%)	Total assets	Net assets	Net profit
Chongqing Iron & Steel Group Electronic Company Limited	Maintenance and repair of elevators, development, production and sale of computer software, and software for electronic products, technical services, etc.	22,172	100	81,207	60,133	6,068
Chongqing Iron & Steel Group Transportation Company Limited	Ordinary freight, hazardous goods transportation, chartered bus transportation, vehicle maintenance and repair	21,000	100	89,406	12,244	-12,711
San Feng Jingjiang Port Logistics Company Limited	Cargo handling, lighterage, storage agency, freight agency, loading distribution, ordinary freight, etc.	300,000	10	1,444,895	300,269	58
Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. (靖江三峰鋼材加工配送有限公司)	Processing and distribution of steel products, manufacture and sales of steelwork	70,000	72.86	83,439	70,000	
Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司)	Sales of metal and metallic ore, manufacture and sales of environmental pollution control equipment, etc.	50,000	100	139,618	49,328	-1,136

Report of the Board of Directors (Continued)

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

(IV) Analysis of investments *(Continued)*

5. *Projects financed by non-raised proceeds*

Unit: RMB'000

Name of project	Amount	Progress	Amount invested in the Reporting Period	Total amount actually invested	Earnings
Product mix adjustment project	6,480,000	96%	714,005	6,225,882	N/A
Waste heat power generation project	375,000	100%	4,582	365,822	N/A
Revamp project	742,474	94%	68,184	557,221	N/A
Railway project	401,734	100%	500	438,766	N/A
Others	—	100%	38,396	210,077	N/A
Total	7,999,208		825,667	7,797,768	

II. OUTLOOK

In the second half of 2014, the previous sluggish situation of the iron and steel industry is hard to be changed. The Group will well conduct costs reduction in a systematic way and tapping potential by benchmarking with the focus placed on loss reduction and control in the second half year. The specific measures are as follows:

1. Deepen the reform in terms of maintenance system, marketing system, etc., and further mobilize the enthusiasm and creativity of various units and employees for decreasing costs and increasing benefits.
2. Solidly boost and further improve the simulative market price accounting system, strictly implement the risk responsibility system and increase efforts for allocation and assessment of costs reduction.
3. Resolutely reduce the costs of steel smelting and rolling to the benchmarking enterprise level centering on costs reduction for steel smelting.
4. Insist on product mix adjustment to let the selling price of steel products reach or exceed benchmarking enterprise level throughout the year.
5. Insist on economic production and low cost production.

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

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

The Company held the annual general meeting on 16 May 2014 and considered and approved the profit distribution plan for 2013, pursuant to which the Company would neither pay dividends to distribute profit nor transfer the capital reserve to share capital. In accordance to relevant rules, such matters have been disclosed in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times and on the websites of Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited.

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

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

Considering the substantial losses the Group suffered for business operation in the first half of 2014 after non-recurring profit and loss and considerable capital needs in future periods, the Board proposed neither to distribute profit for the first half of 2014 nor to transfer the capital reserve to share capital.

IV. OTHER DISCLOSURES

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

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

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

✓ N/A

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

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

II. BANKRUPTCY REORGANISATION RELATED MATTERS

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

III. ASSETS TRADING AND BUSINESS COMBINATION

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

On 26 May 2014, the Company and Chongqing Iron & Steel Group Mining Company Limited entered into the Assets Transfer Agreement, pursuant to which, the Company transferred certain machinery and equipments, buildings, construction in progress and other assets the Company invested and constructed for Dabaopo Limestone Mine of Mining Company to the Mining Company at the appraised value of RMB146,783,200.

On 21 July 2014, the Company and Chongqing Iron & Steel (Group) Company Limited entered into the Equity Transfer Agreement, pursuant to which, the Company transferred the 10% equity interest in San Feng Jingjiang Port Logistics Company Limited ("San Feng Jingjiang Logistics") at the appraised value of RMB1,050,702,300.

Media for information disclosure

For details, please refer to the Announcement on Disposal of Equity Interests to a Related Party (No. 2014-022) (《向關聯方出售股權公告》(2014-022)) published by the Company on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 27 May 2014 and the Connected Transaction – Disposal of Assets published by the Company on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/index_c.htm) on the same date.

For details, please refer to the Announcement on Disposal of Equity Interests to a Related Party (No. 2014-029) (《向關聯方出售股權公告》(2014-029)) published by the Company on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 22 July 2014 and the Connected Transaction – Disposal of 10% Equity Interest in San Feng Jingjiang Logistics published by the Company on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/index_c.htm) on the same date.

IV. SHARE OPTION INCENTIVE AND ITS IMPACT

✓ N/A

V. MATERIAL RELATED PARTY TRANSACTION

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

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

Service and Supply Agreement

On 19 March 2014, the Company and the Parent Company entered into the Service and Supply Agreement between Chongqing Iron & Steel Company (Group) Limited and Chongqing Iron & Steel Company Limited ("Service and Supply Agreement") with a term of three years from 1 January 2014 to 31 December 2016. (Refer to the announcement of the Company dated 20 March 2014 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) transportation, technical services (software development services) and other services.

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

Service and Supply Agreement *(Continued)*

- ② Pursuant to the Service and Supply Agreement, the Parent Group agreed to provide products and services to the Group in summary as follows:
- (a) raw materials such as pig iron, iron ore, coal, scrap steel, refractory materials and ancillary products (including dolomite and limestone);
 - (b) water and road transportation and technical services (including construction, design and supervision, and labour services etc);
 - (c) electricity, water, industrial gas, 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 Group and the Parent Group will allow each other to use and occupy their respective factory premises.

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

Service and Supply Agreement *(Continued)*

④ Pricing basis and of Service and Supply Agreement:

- (a) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions);
- (b) if no such price is set by the PRC Government, not lower than the guide prices set by the PRC Government for such transactions; or
- (c) if there is no set price and no guide prices set by the PRC Government, choose the applicable methods as follows, subject to the condition:
 - I. for products and services provided by the Parent Company to the Company, not higher than such open market price between independent parties on normal commercial terms in the PRC generally,
 - II. for products and services provided to the Parent Company by the Company, not lower than such open market price between independent parties on normal commercial terms in the PRC generally,

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

Service and Supply Agreement *(Continued)*

④ Pricing basis and of Service and Supply Agreement: *(Continued)*

(d) if there are no comparable market prices, choose the applicable methods as follows, subject to the condition:

I. for products and services provided by the Parent Company to the Company, not higher than such open market price between independent parties on normal commercial terms in the PRC generally,

II. for products and services provided to the Parent Company by the Company, not lower than such open market price between independent parties on normal commercial terms in the PRC generally,

(e) if there is no set price and no guide prices set by the PRC Government and there is no open market price for such transactions, the parties are to negotiate on normal commercial terms for the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit.

Significant Events (Continued)

V. MATERIAL RELATED PARTY TRANSACTION (Continued)

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

2. Matters undisclosed in extraordinary announcements

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a	Payment method for connected transaction	Market price	Reason
							percentage of the total amount of similar transactions (%)			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		1,232,278	38.40%			
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy	By reference to market price		177,740	95.41%			
Chongqing Wuxia Mining Industry Incorporated Company	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Coal	By reference to market price		72,682	4.38%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Fixed assets and scrap steel	By reference to market price		4,401	1.56%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Instrument parts, energy and scrap steel	By reference to market price		8,435	0.74%			
Chongqing Iron & Steel Research Institute	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Alloy	By reference to market price		509	0.18%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Energy and accessories	By reference to market price		22,349	1.68%			
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Refractory materials	By reference to market price		293	0.25%			
Others		Purchase of goods				1,161	0			

Significant Events (Continued)

V. MATERIAL RELATED PARTY TRANSACTION (Continued)

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

2. Matters undisclosed in extraordinary announcements (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 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	Sale of goods	Energy and accessories	By reference to market price		148,115	73.44%			
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Sale of goods	Energy and accessories	By reference to market price		40,112	9.12%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Sale of goods	Steel and accessories	By reference to market price		5,658	0.10%			
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under common control of Chongqing Iron & Steel Group	Sale of goods	Steel	By reference to market price		14,336	0.26%			
Chongqing Iron & Steel Group	Under common control of Chongqing Iron & Steel Group	Sale of goods	Accessories	By reference to market price		3,549	1.49%			
Chongqing San Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Sale of goods	Steel	By reference to market price		6,766	0.12%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Sale of goods	Steel and accessories	By reference to market price		8,202	0.15%			
Others		Sale of goods				2,318				

V. MATERIAL RELATED PARTY TRANSACTION (Continued)

(II) Connected transaction related to acquisition and disposal of assets

1. Events disclosed in extraordinary announcements without subsequent development or changes during implementation

Overview and type of events

On 26 May 2014, the Company and Chongqing Iron & Steel Group Mining Company Limited entered into the Assets Transfer Agreement, pursuant to which the Company has agreed to transfer certain machinery and equipments, buildings, construction in progress and other assets the Company invested and constructed for Dabaopo Limestone Mine of Mining Company to Mining Company at a consideration of RMB146,783,200.

On 21 July 2014, the Company and Chongqing Iron & Steel (Group) Company Limited entered into the Equity Transfer Agreement, pursuant to which, the Company has agreed to dispose 10% equity interest in San Feng Jingjiang Port Logistics Company Limited ("San Feng Jingjiang Logistics") to Chonggang Holding based on the appraised value at a transfer consideration of RMB105,070,230.

Search index

For details please see the Announcement on Disposal of Assets to Related Party (《向關聯方出售資產公告》(2014-022) published on the website of Shanghai Stock Exchange at <http://www.sse.com.cn> by the Company on 27 May 2014 and the Connected Transaction- Disposal of Assets published on the website of Hong Kong Stock Exchange at http://www.hkexnews.hk/index_c.htm by the Company on the same date.

For details please see the Announcement on Disposal of Equity Interest to Related Party (Asset Disposal to Related Party (《向關聯方出售股權公告》)(2014-029) published on the website of Shanghai Stock Exchange at <http://www.sse.com.cn> by the Company on 22 July 2014 and the Connected Transaction- Disposal of 10% Equity Interest in San Feng Jingjiang Logistics published on the website of Hong Kong Stock Exchange at http://www.hkexnews.hk/index_c.htm by the Company on the same date.

VI. MATERIAL CONTRACTS AND EXECUTION THEREOF

(I) Custody, contracting and leasing

(1) Custody

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

(2) Contracting

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

(3) Leasing

Unit: RMB'000

Name of lessor	Name of lessee	Status of leased assets	Amount of leased assets	Date of commencement of lease	Expiry date of lease	Gain on lease	Basis of determination of such gain	Effect of gain on lease on the Company	Effect of gain on lease on the Company	Connected relations
Chongqing Iron & Steel Company Limited (Sichuan Sales Branch)	Chengdu Chuangmeijia Decoration Engineering Co., Ltd. (成都創美家裝飾工程有限公司)	Normal	5,768	1 January 2014	30 June 2014	252.69	Lease agreement	It formed part of other operating income	No	N/A

(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 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	

Significant Events (Continued)

VII. MATERIAL CONTRACTS AND EXECUTION THEREOF (CONTINUED)

(II) Guarantee (Continued)

Total guarantees during the Reporting Period (excluding those for subsidiaries)	
Total guarantee balance at the end of Reporting Period (A) (excluding those for subsidiaries)	734,908
Guarantees provided by the Company for subsidiaries	
Total guarantees for subsidiaries during the Reporting Period	
Total guarantee balance for subsidiaries at the end of Reporting Period (B)	
Total amount of guarantees provided by the Company (including those for subsidiaries)	
Total amount of guarantees (A+B)	734,908
Total amount of guarantees over the net assets of the Company(%)	8.17%
Including:	
Amount of guarantees provided to shareholders.	
De facto controllers and their related parties (C)	734,908
Amount of debt guarantees directly or indirectly provided for sponsored parties with the gearing ratio exceeding 70% (D) (excluding the related parties)	
Amount of the total guarantees exceeding 50% of net assets (E)	
Total amount of above three guarantees (C+D+E)	734,908

In the second quarter of 2014, the Company did not offer external guarantees but provided a guarantee for San Feng Jingjiang Port Logistics Company Limited, a former controlling subsidiary of the Company, 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. At the end of the Reporting Period, the Company had a balance of external guarantees of RMB735 million. Since the Company has disposed the remaining equity interest in San Feng Jingjiang Port Logistics Company Limited in the second quarter (for details please refer to the Announcement on Disposal of Equity Interest to A Related Party (2014-029) published by the Company on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>), and the Connected Transaction — Disposal of 10% Equity Interest in San Feng Jingjiang Logistics published by the Company on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/index_c.htm) on the same date), the negotiation on the appropriate liability to guarantee and the transfer procedures are underway.

(III) Other material contracts or transactions

The Company had no other material contracts for the year.

VII. 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

Significant Events (Continued)

VII. 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	<p>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 assistant companies 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 assistant companies 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."</p>	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

Significant Events (Continued)

VII. 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

As at 30 June 2014, there was no change in the contents and performance of the commitments.

VIII. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

On 16 May 2014, the 2013 annual general meeting of the Company passed the proposal in Relation to Re-appointment of KPMG Huazhen (Special General Partnership) as the Auditor and Internal Control Auditor of the Company for the Year 2014.

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

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

X. CORPORATE GOVERNANCE

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

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

(I) Explanations of Changes in Accounting Estimate of the Company

The Proposal Relating to Changes in Accounting Estimates was passed by the 73rd written proposal of the Sixth Session of the Board by the Company on 25 June 2014.

1. Overview of changes in accounting estimates

As approved by 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 China Securities Regulatory Commission, on 18 November 2013, the Company entered into the “Confirmation of Completion” with Chongqing Iron & Steel (Group) Co., Ltd. (the “Chonggang Group”), pursuant to which the Chonggang Group transferred iron-making and steelmaking related assets and supporting public and ancillary facilities invested and constructed in Changshou new district to the Company. The Company has undertaken the front end production line invested and constructed in the new district by the Chonggang Group through material assets reorganisation and possessed a complete iron and steel production line in Changshou new district.

In order to optimise the uniform management of the assets throughout the entire process of the front and back end production lines, upon completing the delivery of physical assets in the material assets reorganisation by the Company, the Company conducted a comprehensive streamlining and review of the assets throughout the entire process of iron and steel production line after the material assets reorganisation. In accordance with the relevant provisions under the Accounting Standards for Business Enterprises and the actual situation of fixed assets in Changshou new district, and with reference to the depreciations of other comparable companies in the iron and steel industry, the Company decided to adjust the estimated useful life and net residual rate of fixed assets since 1 April 2014. The detailed plan is set out below:

	Before changes		After changes	
	Estimated useful life	Estimated net residual rate	Estimated useful life	Estimated net residual rate
Plant and buildings	40 years	3%	30-50 years	3%
Machinery and equipment	8-20 years	3%	8-22 years	3%-5%

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(I) Explanations of Changes in Accounting Estimate of the Company (Continued)

II. Explanations on the reasonableness of changes in the accounting estimate

The Company adopted 40 years of useful life for all its plant and buildings before the changes. Through the comprehensive streamlining and review of the assets throughout the entire process of the iron and steel production lines, the Company subdivided and managed its plant and buildings by categories, and made estimation on their respective useful lives based on different breakdowns and categories to reflect the estimated useful life of plant and buildings under different categories more accurately. The annual depreciation rate for plant and buildings is 2.36% after the changes, as compared to 2.43% before the changes.

Upon completion of the material assets reorganisation, the Company owns iron and steel production lines with an entire process in Changshou new district, which symbolises the periodical results of the re-layout of the Company's environmental relocation and iron and steel production lines. The iron and steel production lines in Changshou new district are new iron and steel production lines constructed applying the latest iron and steel production techniques and technologies. With the completion of the material assets reorganisation in the end of 2013, the assets throughout the entire process in Changshou new district were operating smoothly with machinery and equipment stepping into the phase of efficient and stable operation. The enhancement of anticorrosion, cooling and abrasion resistance of machinery and equipment resulting from the application of new techniques and technologies will extend the estimated useful life of machinery and equipment. In addition, the Company further improved the routine maintenance and inspection system for machinery and equipment in 2014, and gradually increased the investment in periodic maintenance and repair and routine inspection. The optimisation of routine maintenance and repair for assets will reduce abrasion of machines and will also extend the useful life of machinery and equipment.

Moreover, based on the experiences in the disposal of relevant machinery and equipment of iron and steel production lines in the process of material assets reorganisation and processing and analysis of relevant data, the Company adjusted the estimated net residual rate for certain machinery and equipment to 5%.

For the purpose of making the financial information of the Company more objective, the Company decided to adjust the estimated useful life and net residual rate of fixed assets since 1 April 2014.

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS *(CONTINUED)*

(I) Explanations of Changes in Accounting Estimate of the Company *(Continued)*

III. *Effects of changes in accounting estimates on the Company*

The changes in accounting estimates have no impact on the business scope of the Company. There is no effect on the financial statements previously disclosed by the Company as prospective approach was adopted to measure the aforementioned changes in accounting estimates. The changes in accounting estimates resulted in a decrease of RMB27 million in depreciation of fixed assets and an increase of RMB27 million in owner's equity and net profit of the Company from January to June 2014.

For details, please refer to the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times published on 26 June 2014, as well the announcement published on the website Shanghai Stock Exchange and the website of the Hong Kong Stock Exchange (www.sse.com.cn; www.hkexnews.hk).

(II) Explanations of Change in Accounting Policy of the Company

As compared with the financial report in the previous year, following adjustments were made in the accounting policy of the Group: the Group implemented the newly issued/revised Accounting Standards for Business Enterprises No.41 — Disclosure of Interest in Other Entities (“Standard No.41”), which standardizes and revises the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of the above standard did not have significant effect on the financial position and operating results of the Group.

Movement of Shares and the Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Movement of shares

1. Table of movement of shares

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

(II) Change in shares subject to trading moratorium

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 2014	Increase in shares subject to trading moratorium at the end of 2014	Number of shares subject to trading moratorium at the end of 2014	Reasons for trading moratorium	Date of release of trading moratorium
Chongqing Iron & Steel (Group) Co., Ltd.	1,996,181,600	0	0	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)	212,020,000	212,020,000	0	0	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)	200,000,000	200,000,000	0	0	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)	147,150,000	147,150,000	0	0	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)	129,880,000	129,880,000	0	0	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)	17,663,780	17,663,780	0	0	Non-public issuance to specific objects for raising funds	20 December 2014
Total	2,702,895,380	706,713,780	0	1,996,181,600	/	/

II. PARTICULARS OF SHAREHOLDERS

(I) Total number of shareholders and particulars of top ten shareholders holding 5% or more of the Company's shares at the end of the Reporting Period

Unit: share

Total number of shareholders at the end of the Reporting Period	84,306, including 84,005 holders of A Shares and 301 holders of H Shares
Total number of shareholders holding preference shares resuming voting rights at the end of the Reporting Period	0

Movement of Shares and the Particulars of Shareholders (Continued)

II. PARTICULARS OF SHAREHOLDERS (CONTINUED)

(I) Total number of shareholders and particulars of top ten shareholders holding 5% or more of the Company's shares at the end of the Reporting Period (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	0	1,996,181,600	841,336,000 pledged
HKSCC NOMINEES LIMITED	Foreign legal person	11.88	527,099,270	221,300	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	0	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	0	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	0	147,150,000	Unknown
CGB 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	0	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	0	17,663,780	Unknown
Lin Zhangyi (林章義)	Domestic natural person	0.09	4,075,044	3,845,044	0	Unknown
Xiamen International Trust Co., Ltd. — Jujinxing No. 1 New Type Structure Securities Investment Collected Fund Trust (廈門國際信託有限公司—聚金星一號新型結構化證券投資集合資金信託)	Unknown	0.06	2,474,512	2,474,512	0	Unknown
Bai Jiping (白計平)	Domestic natural person	0.05	2,310,000	0	0	Unknown

Movement of Shares and the Particulars of Shareholders (Continued)

II. PARTICULARS OF SHAREHOLDERS (CONTINUED)

(I) **Total number of shareholders and particulars of top ten shareholders holding 5% or more of the Company's shares at the end of the Reporting Period (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	527,099,270	Overseas listed foreign shares 527,099,270
Lin Zhangyi (林章義)	4,075,044	RMB-denominated ordinary shares 4,075,044
Xiamen International Trust Co., Ltd. — Jujinxing No. 1 New Type Structure Securities Investment Collected Fund Trust (廈門國際信託有限公司 — 聚金星一號新型結構化證券投資集合資金信託)	2,474,512	RMB-denominated ordinary shares 2,474,512
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
Liu Weimin (劉偉民)	1,373,100	RMB-denominated ordinary shares 1,373,100
Shen Shasha (申颯颯)	1,347,300	Overseas listed foreign shares 1,347,300
Wang Chuantong (王傳統)	1,155,802	RMB-denominated ordinary shares 1,155,802
Xu Wei (徐偉)	1,145,620	RMB-denominated ordinary shares 1,145,620
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.	
Explanation about shareholders holding preference shares resuming voting rights and their shareholdings	There is no shareholders holding preference shares as the Company did not issue preference shares.	

Movement of Shares and the Particulars of Shareholders (Continued)

II. PARTICULARS OF SHAREHOLDERS (CONTINUED)

(I) Total number of shareholders and particulars of top ten shareholders holding 5% or more of the Company's shares at the end of the Reporting Period (Continued)

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

Unit: shares

No.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Number of shares subject to trading moratorium available for trading Time available for trading	Trading moratorium Number of new shares available for trading
1	Chongqing Iron & Steel (Group) Co., Ltd.	1,996,181,600	25 November 2016	0 New shares resulting from Material Assets Reorganisation for acquisition of assets.
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.
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.
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.
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.
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.

Explanation about connected relationship and acts in concert of the above shareholders

There is no connection between the Parent Company and other 5 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 5 shareholders or whether they are parties acting in concert.

(II) Strategic investors or ordinary legal persons who became top ten shareholders due to placing of new shares

Nil

III. CHANGES IN THE CONTROLLING SHAREHOLDER OR THE ULTIMATE CONTROLLER

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

Information on Preferred Shares

I. ISSUANCE AND LISTING OF PREFERENCE SHARES DURING THE REPORTING PERIOD

The Company did not issue preference shares during the Reporting Period.

II. PARTICULARS OF SHAREHOLDERS HOLDING PREFERENCE SHARES

The Company has no shareholder holding preference shares.

III. REPURCHASE AND CONVERSION OF PREFERENCE SHARES BY THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company has no events relating to repurchase or conversion or preference shares.

IV. DISCLOSURE OF RESUMPTION AND EXERCISE OF VOTING RIGHTS OF PREFERENCE SHARES RESUMING VOTING RIGHTS BY THE COMPANY DURING THE REPORTING PERIOD

Nil

V. ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES BY THE COMPANY AND THE REASONS THEREFOR

Nil

Directors, Supervisors and Senior Management

I CHANGES IN SHAREHOLDINGS

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

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

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

Name	Position	Change	Reason for change
Zhu Jian Pai	Director	Elected	Election at the 2013 annual general meeting.
Zhou Hong	Director	Elected	Election at the 2013 annual general meeting.
Zhang Li Quan	Director	Elected	Election at the 2013 annual general meeting.
Zeng Jing	Deputy General Manager	Appointed	Appointed by the resolution of the eighth meeting of the sixth session of the Board.

Note: In accordance with the “Opinions on Further Regulation on Party and Political Leaders and Cadres Working Part-Time (Holding Office) in Enterprises” (Zhong Zu Fa No.18 of 2013) issued by the Organization Department of the CPC Central Committee, Mr. Zhang Guo Lin and Mr. Ran Mao Sheng have resigned as independent non-executive Directors and from relevant positions in the special committee of the Company on 8 July 2014 on a voluntary basis. Following the resignation of Mr. Zhang Guo Lin and Mr. Ran Mao Sheng as independent non-executive directors, there would only be one independent non-executive director in the Board, which would fall below the requisite quorum under relevant regulations, namely one-third of the Board. As such, according to “Guidance regarding the establishment of independent non-executive director system in listed companies” issued by China Securities Regulatory Commission and the Articles of Association of the Company, the resignation application will take effect since new independent non-executive directors are elected at the shareholders’ general meeting of the Company to fill up the vacancy. During this period, Mr. Zhang Guo Lin and Mr. Ran Mao Sheng will continue to perform their duties as independent non-executive directors.

Chongqing Iron & Steel Company Limited

Chairman:

28 August 2014

Consolidated balance sheet (Continued)

as at 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	Closing balance	Opening balance
Current assets:			
Cash at bank and on hand	V.1	1,144,023	1,553,350
Bills receivable	V.2	198,591	340,783
Accounts receivable	V.3	510,538	535,906
Prepayments	V.4	480,379	364,264
Other receivables	V.5	47,283	51,859
Inventories	V.6	9,145,182	8,792,179
Other current assets	V.7	1,712,824	1,713,216
Total current assets		13,238,820	13,351,557
Non-current assets:			
Available-for-sale financial assets	V.8	5,000	5,000
Long-term equity investments	V.9	104,752	104,752
Fixed assets	V.10	24,577,694	24,570,568
Construction in progress	V.11	7,152,090	6,977,960
Construction materials	V.12	35,667	34,031
Intangible assets	V.13	2,827,489	2,860,193
Deferred tax assets	V.14	17,866	17,866
Other non-current assets	V.15	335,396	124,050
Total non-current assets		35,055,954	34,694,420
Total assets		48,294,774	48,045,977

The notes on pages 61 to 180 form part of these financial statements

Consolidated balance sheet (Continued)

as at 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans	V.18	3,870,703	4,705,734
Bills payable	V.19	2,203,650	2,583,300
Accounts payable	V.20	14,279,485	13,506,498
Advances from customers	V.21	2,191,222	2,303,266
Employee benefits payable	V.22	145,943	197,105
Taxes payable	V.23	2,943	308,379
Interest payable	V.24	76,752	68,372
Other payables	V.25	2,269,403	1,500,212
Non-current liabilities due within one year	V.26	1,689,281	2,355,454
Other current liabilities		10,007	9,445
Total current liabilities		26,739,389	27,537,765
Non-current liabilities:			
Long-term loans	V.27	9,774,932	7,348,938
Debentures payable	V.28	1,979,391	1,976,699
Long-term payables	V.29	649,841	1,083,193
Other non-current liabilities	V.30	158,808	163,079
Total non-current liabilities		12,562,972	10,571,909
Total liabilities		39,302,361	38,109,674

The notes on pages 61 to 180 form part of these financial statements

Consolidated balance sheet (Continued)

as at 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity (continued)	Note	Closing balance	Opening balance
Shareholders' equity:			
Share capital	V.31	4,436,023	4,436,023
Capital reserve	V.32	6,650,572	6,648,883
Specific reserve	V.33	1,002	1,344
Surplus reserve	V.34	606,991	606,991
Retained earnings (“()” for undistributed deficit)	V.35	(2,721,175)	(1,775,938)
Total equity attributable to shareholders of the Company		8,973,413	9,917,303
Minority interests		19,000	19,000
Total shareholders' equity		8,992,413	9,936,303
Total liabilities and shareholders' equity		48,294,774	48,045,977

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

Zhu Jian Pai	Zhang Zong Ming	Zhang Zong Ming	
<i>Legal Representative</i>	<i>The person in charge of</i>	<i>The head of the</i>	
<i>(Signature and stamp)</i>	<i>accounting affairs</i>	<i>accounting department</i>	<i>(Company stamp)</i>
	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 61 to 180 form part of these financial statements

Balance sheet

as at 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	Closing balance	Opening balance
Current assets:			
Cash at bank and on hand		1,140,318	1,536,656
Bills receivable		189,673	329,619
Accounts receivable	IX.1	480,440	468,322
Prepayments		387,189	93,234
Other receivables	IX.2	35,852	46,271
Inventories		9,138,629	8,782,016
Other current assets		1,711,943	1,712,544
Total current assets		13,084,044	12,968,662
Non-current assets:			
Available-for-sale financial assets		5,000	5,000
Long-term equity investments	IX.3	219,610	219,610
Fixed assets		24,534,757	24,523,710
Construction in progress		7,146,394	6,974,608
Construction materials		35,667	34,031
Intangible assets		2,823,512	2,856,166
Deferred tax assets		17,116	17,116
Other non-current assets		267,096	58,750
Total non-current assets		35,049,152	34,688,991
Total assets		48,133,196	47,657,653

The notes on pages 61 to 180 form part of these financial statements

Balance sheet (Continued)

as at 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans		3,870,702	4,705,734
Bills payable		2,203,650	2,583,300
Accounts payable		14,198,052	13,470,028
Advances from customers		2,103,429	1,990,185
Employee benefits payable		144,303	193,331
Taxes payable		1,462	307,438
Interest payable		76,752	68,372
Other payables		2,358,198	1,562,280
Non-current liabilities due within one year		1,689,281	2,355,454
Other current liabilities		10,007	9,445
Total current liabilities		26,655,836	27,245,567
Non-current liabilities:			
Long-term loans		9,774,932	7,348,938
Debentures payable		1,979,391	1,976,699
Long-term payables		649,841	1,083,193
Other non-current liabilities		157,627	162,286
Total non-current liabilities		12,561,791	10,571,116
Total liabilities		39,217,627	37,816,683
Shareholders' equity:			
Share capital		4,436,023	4,436,023
Capital reserve		6,682,020	6,680,331
Surplus reserve		577,012	577,012
Retained earnings ("(") for undistributed deficit)		(2,779,486)	(1,852,396)
Total shareholders' equity		8,915,569	9,840,970
Total liabilities and shareholders' equity		48,133,196	47,657,653

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

<u>Zhu Jian Pai</u>	<u>Zhang Zong Ming</u>	<u>Zhang Zong Ming</u>	
<i>Legal Representative</i> (Signature and stamp)	<i>The person in charge of</i> <i>accounting affairs</i> (Signature and stamp)	<i>The head of the</i> <i>accounting department</i> (Signature and stamp)	(Company stamp)

The notes on pages 61 to 180 form part of these financial statements

Consolidated income statement

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
I. Operating income	V.36	6,024,856	9,294,698
II. Less: Operating costs	V.36	6,324,670	9,394,978
Business taxes and surcharges		1,192	5,075
Selling and distribution expenses		123,488	188,125
General and administrative expenses		397,711	450,092
Financial expenses		631,866	376,021
Impairment losses		—	—
Add: Gains from changes in fair value ("(" for losses)		—	—
Investment income ("(" for losses)		—	—
Including: Income from investment in associates and jointly controlled enterprises		—	—
III. Operating profit ("(" for losses)		(1,454,071)	(1,119,593)
Add: Non-operating income	V.37	509,056	8,682
Including: Gains from disposal of non-current assets		154	176
Less: Non-operating expenses	V.38	201	2,911
Including: Losses from disposal of non-current assets		—	3
IV. Profit before income tax ("(" for losses)		(945,216)	(1,113,822)
Less: Income tax expense	V.39	21	2,156
V. Net profit for the period ("(" for net losses)		(945,237)	(1,115,978)
Attributable to:			
Shareholders of the Company		(945,237)	(1,115,978)
Minority interests		—	—
VI. Earnings per share:			
(1) Basic earnings per share (<i>Renminbi Yuan</i>) ("(" for net losses)	V.40	(0.213)	(0.644)
(2) Diluted earnings per share (<i>Renminbi Yuan</i>) ("(" for net losses)	V.40	(0.213)	(0.644)

The notes on pages 61 to 180 form part of these financial statements

Consolidated income statement (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
VII. (1) 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		—	—
(2) 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)		—	—
VIII. Total comprehensive income for the period		(945,237)	(1,115,978)
Attributable to:			
Shareholders of the Company		(945,237)	(1,115,978)
Minority interests		—	—

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

<u>Zhu Jian Pai</u>	<u>Zhang Zong Ming</u>	<u>Zhang Zong Ming</u>	
<i>Legal Representative</i>	<i>The person in charge of accounting affairs</i>	<i>The head of the accounting department</i>	(Company stamp)
<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 61 to 180 form part of these financial statements

Income statement

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
I. Operating income	IX.4	5,988,352	9,245,198
Less: Operating costs	IX.4	6,303,510	9,369,560
Business taxes and surcharges		417	441
Selling and distribution expenses		121,956	186,445
General and administrative expenses		376,634	428,716
Financial expenses		631,873	373,881
Impairment loss		—	—
Add: Gains from changes			
in fair value (“()” for losses)		—	—
Investment income (“()” for losses)		10,366	7,770
Including: Income from investment in associates and jointly controlled enterprises		—	—
II. Operating profit (“()” for losses)		(1,435,672)	(1,106,075)
Add: Non-operating income		508,782	5,304
Including: Gains from disposal of non-current assets		154	—
Less: Non-operating expenses		200	2,911
Including: Losses from disposal of non-current assets		—	3
III. Profit before income tax (“()” for losses)		(927,090)	(1,103,682)
Less: Income tax expense		—	—
IV. Net profit for the period (“()” for losses)		(927,090)	(1,103,682)

The notes on pages 61 to 180 form part of these financial statements

Income statement (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
V. (1) 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		—	—
(2) 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		(927,090)	(1,103,682)

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

<u>Zhu Jian Pai</u>	<u>Zhang Zong Ming</u>	<u>Zhang Zong Ming</u>	
<i>Legal Representative</i>	<i>The person in charge of accounting affairs</i>	<i>The head of the accounting department</i>	(Company stamp)
<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 61 to 180 form part of these financial statements

Consolidated cash flow statement

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		7,458,659	11,300,755
Refund of taxes		519	—
Cash received from government subsidies		507,437	—
Cash received relating to other operating activities		11,869	9,325
Sub-total of cash inflows		7,978,484	11,310,080
Cash paid for goods and services		5,844,333	11,053,534
Cash paid to and for employees		530,503	605,284
Cash paid for all types of taxes		26,009	27,485
Cash paid relating to other operating activities		21,615	12,324
Sub-total of cash outflows		6,422,460	11,698,627
Net cash (outflow)/inflow from operating activities	V.41(1)	1,556,024	(388,547)
II. Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		147,447	536
Cash received relating to other investing activities		12,385	9,859
Sub-total of cash inflows		159,832	10,395
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		2,224,920	759,366
Sub-total of cash outflows		2,224,920	759,366
Net cash outflow from investing activities		(2,065,088)	(748,971)

The notes on pages 61 to 180 form part of these financial statements

Consolidated cash flow statement (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
III. Cash flows from financing activities:			
Cash received from borrowings		4,995,377	3,009,208
Sub-total of cash inflows		4,995,377	3,009,208
Cash repayments of borrowings		2,993,991	3,283,758
Cash paid for dividends, profit distributions or interest		613,858	295,474
Cash paid relating to other financing activities	V.41(3)	939,567	1,062,771
Sub-total of cash outflows		4,547,416	4,642,003
Net cash outflow from financing activities		447,961	(1,632,795)
IV. Effect of changes in exchange rate on cash and cash equivalents			
		(1,542)	—
V. Net increase in cash and cash equivalents (“()” for decreases)			
	V.41(1)	(62,645)	(2,770,313)
Add: Cash and cash equivalents at the beginning of the period		519,061	3,394,564
VI. Cash and cash equivalents at the end of the period			
	V.41(2)	456,416	624,251

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

<u>Zhu Jian Pai</u>	<u>Zhang Zong Ming</u>	<u>Zhang Zong Ming</u>	
<i>Legal Representative</i>	<i>The person in charge of</i>	<i>The head of the</i>	
<i>(Signature and stamp)</i>	<i>accounting affairs</i>	<i>accounting department</i>	<i>(Company stamp)</i>
	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 61 to 180 form part of these financial statements

Cash flow statement

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		7,396,661	11,044,854
Refund of taxes		519	—
Cash received from government subsidies		507,437	—
Cash received relating to other operating activities		12,268	5,304
Sub-total of cash inflows		7,916,885	11,050,158
Cash paid for goods and services		5,833,493	10,867,448
Cash paid to and for employees		489,226	551,001
Cash paid for all types of taxes		18,480	15,142
Cash paid relating to other operating activities		21,612	11,556
Sub-total of cash outflows		6,362,811	11,445,147
Net cash (outflow)/inflow from operating activities	IX.5	1,554,074	(394,989)
II. Cash flows from investing activities:			
Cash received from return on investments		4,174	7,770
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		146,934	—
Cash received relating to other investing activities		12,372	9,859
Sub-total of cash inflows		163,480	17,629
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		2,213,627	755,101
Sub-total of cash outflows		2,213,627	755,101
Net cash outflow from investing activities		(2,050,147)	(737,472)

The notes on pages 61 to 180 form part of these financial statements

Cash flow statement (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2014	Jan-Jun 2013
III. Cash flows from financing activities			
Cash received from borrowings		4,995,377	3,009,208
Sub-total of cash inflows		4,995,377	3,009,208
Cash repayments of borrowings		2,993,991	3,278,758
Cash paid for dividends, profit distributions or interest		613,858	293,333
Cash paid relating to other financing activities		939,567	1,062,771
Sub-total of cash outflows		4,547,416	4,634,862
Net cash outflow from financing activities		447,961	(1,625,654)
IV. Effect of changes in exchange rate on cash and cash equivalents			
		(1,542)	—
V. Net increase in cash and cash equivalents (“()” for decreases)			
	IX.5	(49,654)	(2,758,115)
Add: cash and cash equivalents at the beginning of the period		502,366	3,364,836
VI. Cash and cash equivalents at the end of the period			
		452,712	606,721

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

<u>Zhu Jian Pai</u>	<u>Zhang Zong Ming</u>	<u>Zhang Zong Ming</u>	
<i>Legal Representative</i>	<i>The person in charge of</i>	<i>The head of the</i>	
<i>(Signature and stamp)</i>	<i>accounting affairs</i>	<i>accounting department</i>	<i>(Company stamp)</i>
	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 61 to 180 form part of these financial statements

Consolidated statement of changes in shareholder's equity

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Jan-Jun 2014							Jan-Jun 2013							
	Note	Attributable to shareholders of the Company						Total	Attributable to shareholders of the Company						Total
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	
I. Balance at the end of the previous period		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
Add: adjustment for business combination under common control		-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the period		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
III. Changes in equity for the period ("(") for decreases)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Net profit for the period		-	-	-	-	(945,237)	-	(945,237)	-	-	-	-	(1,115,978)	-	(1,115,978)
2. Other comprehensive income for the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1 & 2		-	-	-	-	(945,237)	-	(945,237)	-	-	-	-	(1,115,978)	-	(1,115,978)
3. Contributions from shareholders		-	1,689	-	-	-	-	1,689	-	-	-	-	-	-	-
— Contributions from shareholders		-	-	-	-	-	-	-	-	-	-	-	-	-	-
— Others		-	1,689	-	-	-	-	1,689	-	-	-	-	-	-	-
4. Appropriate of profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
— Appropriation for surplus reserve		-	-	-	-	-	-	-	-	-	-	-	-	-	-
— Distributions to shareholders		-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Specific reserve		-	-	(342)	-	-	-	(342)	-	-	(41)	-	-	-	(41)
(1) Accrued		-	-	11,533	-	-	-	11,533	-	-	5,615	-	-	-	5,615
(2) Utilised		-	-	(11,875)	-	-	-	(11,875)	-	-	(5,656)	-	-	-	(5,656)
Sub-total of 3 & 6		-	1,689	(342)	-	-	-	1,347	-	-	(41)	-	-	-	(41)
IV. Balance at the end of the period		4,436,023	6,650,572	1,002	606,991	(2,721,175)	19,000	8,992,413	1,733,127	1,109,163	1,574	606,991	(392,898)	19,000	3,076,957

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

Zhu Jian Pai	Zhang Zong Ming	Zhang Zong Ming	
_____ <i>Legal Representative</i> (Signature and stamp)	_____ <i>The person in charge of</i> <i>accounting affairs</i> (Signature and stamp)	_____ <i>The head of the</i> <i>accounting department</i> (Signature and stamp)	(Company stamp)

The notes on pages 61 to 180 form part of these financial statements

Statement of changes in shareholder's equity

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Item	Note	Jan-Jun 2014					Total	Jan-Jun 2013					Total
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	
I. Balance at the end of the previous 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
Add: Changes in accounting policy		—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning 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
III. Changes in equity for the year													
1. Net profit for the year ("—" for decrease)		—	—	—	—	(927,090)	(927,090)	—	—	—	—	(1,103,682)	(1,103,682)
2. Other comprehensive income		—	—	—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	—	(927,090)	(927,090)	—	—	—	—	(1,103,682)	(1,103,682)
3. Contributions from shareholders		—	1,689	—	—	—	1,689	—	—	—	—	—	—
(1) Contributions from shareholders		—	—	—	—	—	—	—	—	—	—	—	—
(2) Others		—	1,689	—	—	—	1,689	—	—	—	—	—	—
4. Appropriate of profits		—	—	—	—	—	—	—	—	—	—	—	—
(1) Appropriation for surplus reserve		—	—	—	—	—	—	—	—	—	—	—	—
(2) Distributions to shareholders		—	—	—	—	—	—	—	—	—	—	—	—
5. Disposal of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—
6. Specific reserves		—	—	—	—	—	—	—	—	—	—	—	—
— Accrued		—	—	11,415	—	—	11,415	—	—	4,889	—	—	4,889
— Utilized		—	—	(11,415)	—	—	(11,415)	—	—	(4,889)	—	—	(4,889)
Sub-total of 3 & 6		—	1,689	—	—	—	1,689	—	—	—	—	—	—
IV. Balance at the end of the year		4,436,023	6,682,020	—	577,012	(2,779,486)	8,915,569	1,733,127	1,140,611	—	577,012	(475,978)	2,974,772

These financial statements were approved by the Board of Directors of the Company on 28 August 2014.

Zhu Jian Pai	Zhang Zong Ming	Zhang Zong Ming	
_____ <i>Legal Representative</i> (Signature and stamp)	_____ <i>The person in charge of accounting affairs</i> (Signature and stamp)	_____ <i>The head of the accounting department</i> (Signature and stamp)	(Company stamp)

The notes on pages 61 to 180 form part of these financial statements

Notes to the financial statements

*for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)*

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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

I. COMPANY STATUS (CONTINUED)

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.

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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

I. COMPANY STATUS (CONTINUED)

Environmental Relocation and Material Assets Reorganization (continued)

Considering the extra expenses occurred in the environmental relocation of the Company, after the approval of State-owned Assets Supervision and Administration Commission (“SASAC”), 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)).

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.

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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Statement of compliance (continued)

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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

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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 under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that the ultimate controlling party first obtained control. The opening balances and the comparative figures of the consolidated financial statements are also restated. In the preparation of the consolidated financial statements, the subsidiary's assets and liabilities based on their carrying amounts are included in the consolidated balance sheet, and financial performance is included in the consolidated income statement, respectively, from the date that the ultimate parent company of the Company obtains the control of the subsidiary to be consolidated.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

For a business combination involving enterprises not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve (share premium) in the consolidated balance sheet. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

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.

Notes to the financial statements (Continued)

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

6 Consolidated financial statements (continued)

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.

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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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

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

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.

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:

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
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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 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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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

9 Financial instruments (continued)

(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;
- (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.

Notes to the financial statements (Continued)

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

9 Financial instruments (continued)

(4) Impairment of financial assets (continued)

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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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

10 Impairment of receivables

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

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

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

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

(1) 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.

Notes to the financial statements (Continued)

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

10 Impairment of receivables (continued)

(2) *Receivables that are individually insignificant but assessed individually for impairment*

Reason for assessing individually for impairment of receivables that are individually insignificant	Except for note (a) stated above of other receivable and accounts receivable from related party due to the special properties of the company and amount, an impairment is assessed on an individual basis.
Method of provisioning for bad and doubtful debts	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.

(3) *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

Notes to the financial statements (Continued)

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

10 Impairment of receivables (continued)

(3) Receivables that are collectively assessed for impairment (continued)

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

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

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

11 Inventories

(1) Classification

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

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).

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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

11 Inventories (continued)

(2) Cost of inventories transferred out

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

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.

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

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

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
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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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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

12 Long-term equity investments (continued)

(2) Subsequent measurement

(a) Investments in subsidiaries

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

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the policies described in Note II.6.

(b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control (see Note II. 12(3)) in accordance with a contractual agreement between the Group and other parties.

An associate is an enterprise over which the Group has significant influence (see Note II. 12(3)).

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

Notes to the financial statements (Continued)

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

12 Long-term equity investments (continued)

(2) Subsequent measurement (continued)

(b) Investment in jointly controlled enterprises and associates (continued)

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.
- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss after deducting the amortisation of the debit balance of the equity investment difference, which was recognised by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group.
- The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. 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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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

12 Long-term equity investment (continued)

(2) Subsequent measurement (continued)

(b) Investment in jointly controlled enterprises and associates (continued)

- The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.
- 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.

(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;

Notes to the financial statements (Continued)

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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 (continued)**

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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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

13 Fixed assets (continued)

(2) Depreciation of fixed assets

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

Except for the fixed assets suspended for the compensation of the Parent Group (refer to Note II.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	30~50 years	3%	1.94%~3.23%
Machinery and equipment	8~22 years	3%~5%	4.32%~12.13%
Motor vehicles	8 years	3%	12.13%

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

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

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

For the recognition and measurement of fixed assets acquired under finance leases, refer to the accounting policy set out in Note II.24 (3).

Notes to the financial statements (Continued)

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

13 Fixed assets (continued)

(5) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is on disposal; or
- when no future economic benefit is expected to be generated from its use or disposal.

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

14 Construction in progress

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

Notes to the financial statements (Continued)

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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.

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

15 Borrowing costs (continued)

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.

16 Intangible assets

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

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

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

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

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

16 Intangible assets (continued)

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

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

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

Notes to the financial statements (Continued)

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

17 Impairment of assets other than inventories, financial assets (continued)

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.

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.

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

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.

(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.

Notes to the financial statements (Continued)

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

20 Revenue recognition (continued)

(2) Rendering of services (continued)

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.

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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

23 Income tax (continued)

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

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

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

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

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

- the taxable entity has a legally enforceable right to offset current tax liabilities, and current tax assets;
- they relate to income taxes levied by the same tax authority on either;
- the same taxable entity; or
- different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

Notes to the financial statements (Continued)

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

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.

(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.

Notes to the financial statements (Continued)

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

24 Operating leases and finance leases (continued)

(3) Assets acquired under finance leases (continued)

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.

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

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

26 Related parties (continued)

- (g) associates of the Group, including subsidiaries of associates
- (h) principal individual investors of the Group and close family members of such individuals
- (i) key management personnel of the Group and close family members of such individuals
- (j) key management personnel of the Company's parent
- (k) close family members of key management personnel of the Company's parent and
- (l) other enterprises that are controlled or, jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

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

- (m) enterprises or persons that act in concert which hold more than 5% of the Company's shares
- (n) individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members
- (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.

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

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

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.

Notes to the financial statements (Continued)

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

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

(1) Impairment of receivables

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

(2) Provision for diminution in value of inventories

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

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

28 Significant accounting estimates and judgments (continued)

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

As described in Note II.17, assets other than inventories, financial assets and other long-term equity investments are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset (or an asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset (or the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

(4) **Depreciation and amortisation of assets such as fixed assets and intangible assets**

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

Notes to the financial statements (Continued)

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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

The Company has adopted the following Accounting Standards for Business Enterprises (ASBE) newly issued/amended by the Ministry of Finance from 1 January 2014:

- ASBE No. 41 — Disclosure of Interests in Other Entities (“ASBE No.9 (Revised)”)

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

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

ASBE No. 41 integrates and improves the disclosure requirements for subsidiaries, joint ventures and associates and includes the new disclosure requirements for joint operations and structured entities. According to the standard, the Group has modified relevant disclosure, refer to Note IV, V.9 and VI.3.

The changes to the above accounting policies do not have any material impact on the financial position and operation results of the Group and the Company.

(2) Changes in accounting estimates

On 18 November 2013 (“Completion Day”), with the permission of “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 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. Through the material assets reorganization, the company has undertake the front production lines which invested and constructed in Changshou New Zone by Chongqing Iron & Steel (Group) Company Limited, and this makes the company has a well-developed iron-makingp production-line in Changshou New Zone.

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

29 Significant accounting policies and changes in accounting estimates (continued)

(2) Changes in accounting estimates (continued)

After the transition of the assets from the Group to the Company, In April, 2014, in order to optimize the unified management of the assets of the whole process, the company organized the professionals from motor, accounting, engineering, maintenance and related fix-assets management department to make a comprehensive tease and review of the whole iron-making production-line assets which have been reorganized. According to the relevant provisions of the accounting standards for enterprises and the actual situation of fixed assets in Changshou New Zone, and refer to the depreciation of other comparable iron and steel companies, the company decided to adjust the estimated useful life and estimated net residual value rate of the fixed assets from 1 April 2014 onward. Specific information is as follows:

	Before Adjustment		After Adjustment	
	Estimated useful life (years)	Residual value rate	Estimated useful life (years)	Residual value rate
Plant and buildings	40years	3%	30 - 50years	3%
Machinery and equipment	8 - 20years	3%	8 - 22years	3% - 5%

In 25 June 2014, the changes in accounting estimate written resolutions passed at the sixth session of the board of directors of seventy-third meeting.

The changes in accounting estimate make no effect to the scope of the business, the company applied prospective application to account the changes in accounting estimate, and it will not have an impact on the company's disclosure of financial statements. After measurement, the matter of changes in accounting estimate is expected to decrease the company's depreciation of fixed assets by RMB 27,000,000 and increase the equity and net profit by RMB 27,000,000 for the 2014 financial year.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(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	RMB2 - 7/m ²

The income tax rate applicable to the Company for the period is 15% (2013: 15%).

The income tax rates for the subsidiaries are as follows:

	2014	2013
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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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IV. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Period end actual investment	Closing balance of other items that in substance from net investment in a subsidiary	Share-holding percentage	Voting rights percentage	Consolidated	Closing balance of minority interests at the period end	Reversal of minority profit loss interest	Organization code	Term of operation
Jingjiang San Feng Steel Processing & Distribution Company Limited	Company Limited	Jingjiang, Jiangsu Province	Chen Hong	Steel Processing and Distribution	70,000	Metal cutting processing; Picking & 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 limited	Jingjiang, Jiangsu Province	Jin Zili	Trading of metal products	50,000	Metal and mineral mine, metal products, non-metallic ores and products, machinery and equipments, sales of electronic products, manufacturing and sales of special equipments for environmental pollution control, recycling and sales of scrap metal products	50,000	—	100%	100%	Y	—	—	59864716-6	06/07/2012 to 05/07/2092

(2) Subsidiaries acquired under common control

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Period end actual investment	Closing balance of other items that in substance from net investment in a subsidiary	Share-holding percentage	Voting rights percentage	Consolidated	Closing balance of minority interests at the period end	Reversal of minority profit loss 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	—	—	50427900-6	05/01/1996 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

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

Item	Closing balance			Opening balance		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
RMB	—	—	429	—	—	1,062
Deposits with banks:						
RMB	—	—	192,704	—	—	493,936
US Dollars	42,655	6.1528	262,448	3,857	6.0969	23,517
HK Dollars	69	0.7938	55	60	0.7833	47
Sub-total			455,207			517,500
Other monetary funds:						
RMB	—	—	688,155	—	—	942,066
US Dollars	38	6.1528	232	15,208	6.0969	92,722
Sub-total			688,387			1,034,788
Total			1,144,023			1,553,350

Other cash and cash equivalents include:

Item	Closing balance			Opening balance		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Restricted						
— Guarantees for letter of credit:						
RMB	—	—	687,375	—	—	941,567
US Dollars	38	6.1528	232	15,208	6.0969	92,722
Sub-total			687,607			1,034,289
Unrestricted						
— Cash in transit:						
RMB	—	—	780	—	—	499
Total			688,387			1,034,788

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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).
- (3) As at 30 June 2014, the amount of bank acceptance receivable pledged as security by the Group is 0 (2013: RMB 62,125,000).
- (4) At the period end, no bills were transferred to accounts receivable due to non-performance of the issuers.

3 Accounts receivable

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

Type	Note	Closing balance	Opening balance
Third party		314,172	360,054
Related party	VI.7(2)	351,017	330,503
Sub-total		665,189	690,557
Less: Provision for bad and doubtful debts		154,651	154,651
Total		510,538	535,906

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

Debtor	Closing balance Carrying amount	Provision for bad and doubtful debt	Opening balance Carrying amount	Provision for bad and doubtful debt
Parent Group	29	—	160	—

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (continued)

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	286,940	312,085
Over 1 year but within 2 years (inclusive)	2,996	85,134
Over 2 year but within 3 years (inclusive)	196,107	141,844
Over 3 years	179,146	151,494
Sub-total	665,189	690,557
Less: Provisions for bad and doubtful debt	154,651	154,651
Total	510,538	535,906

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

(4) Accounts receivable by category:

Category	Note	Closing balance				Opening balance			
		Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and assessed individually for impairment		—	—	—	—	—	—	—	—
Individually insignificant but assessed individually for impairment	(5)	2,756	0%	2,756	100%	2,756	0%	2,756	100%
Collectively assessed for impairment (*)									
Group 1	(6)	314,172	47%	151,895	48%	360,054	52%	151,895	42%
Group 2		348,261	53%	—	—	327,747	48%	—	—
Sub-total		662,433	100%	151,895	23%	687,801	100%	151,895	22%
Total		665,189	100%	154,651	23%	690,557	100%	154,651	22%

* 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.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

(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
Individually insignificant but assessed individually for impairment	2,756	2,756	100%

As at 30 June 2014, 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:

Aging	Closing balance			Opening balance		
	Carrying amount	Provision for bad and doubtful debts		Carrying amount	Provision for bad and doubtful debts	
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 3 months	134,308	43%	—	161,640	45%	—
4 to 12 months	18,786	6%	2,221	44,430	12%	2,221
Sub-total	153,094	49%	2,221	206,070	57%	2,221
1 and 2 years(inclusive)	10,399	3%	1,145	4,580	2%	1,145
2 and 3 years(inclusive)	2,290	1%	875	1,750	0%	875
Over 3 years	148,389	47%	147,654	147,654	41%	147,654
Total	314,172	100%	151,895	360,054	100%	151,895

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (continued)

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

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
1. Chongqing Si Gang Steel Co., Ltd	Related party	154,577	within 3 year (inclusive)	23%
2. Chongqing San Gang Steel Co., Ltd	Related party	96,991	within 3 year (inclusive)	15%
3. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,273	within 2 years (inclusive)	11%
4. Customer 1	Third party	38,070	within 1 year (inclusive)	6%
5. Customer 2	Third party	27,632	within 1 years (inclusive)	4%
Total		387,543		59%

4 Prepayment

(1) The prepayments by category:

Item	Closing balance	Opening balance
Material prepayments	438,414	350,897
Others	41,965	13,367
Total	480,379	364,264

(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 period.

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Prepayment (continued)

(3) Prepayments by ageing:

Ageing	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	464,686	96%	350,358	96%
Over 1 but within				
2 years (inclusive)	2,656	1%	3,796	1%
Over 2 but within				
3 years (inclusive)	3,412	1%	1,046	0%
Over 3 years	9,625	2%	9,064	3%
Total	480,379	100%	364,264	100%

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

5 Other receivables

(1) Other receivables by customer type:

Customer type	Note	Closing balance	Opening balance
The third parties		64,241	68,817
Less: Provision for bad and doubtful debts		16,958	16,958
Total		47,283	51,859

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Other receivables (continued)

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	27,823	20,223
Over 1 year but within 2 years (inclusive)	1,810	14,867
Over 2 years but within 3 years (inclusive)	7,571	7,864
Over 3 years	27,037	25,863
Sub-total	64,241	68,817
Less: Provision for bad and doubtful debts	16,958	16,958
Total	47,283	51,859

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

(3) Other receivables by category:

Category	Closing balance				Opening balance			
	Carrying amount		Provision for bad and doubtful debt		Carrying amount		Provision for bad and doubtful debt	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and assessed individually for impairment	25,930	40%	16,958	65%	31,922	46%	16,958	53%
Individually insignificant but assessed individually for impairment	38,311	60%	—	—	36,895	54%	—	—
Total	64,241	100%	16,958	26%	68,817	100%	16,958	25%

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

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

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Inventories

(1) Inventories by category

Item	2014			2013		
	Book value	Provision for diminution in value of inventories	Carrying amount	Book value	Provision for diminution in value of inventories	Carrying amount
Raw materials	6,902,924	—	6,902,924	6,968,615	101,967	6,866,648
Work in progress	1,029,057	—	1,029,057	1,008,832	15,970	992,862
Finished goods	625,869	—	625,869	394,118	24,914	369,204
Consumables	614,647	27,315	587,332	590,780	27,315	563,465
Total	9,172,497	27,315	9,145,182	8,962,345	170,166	8,792,179

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

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Raw materials	6,968,615	11,645,380	11,711,071	6,902,924
Work in progress	1,008,832	16,908,316	16,888,091	1,029,057
Finished goods	394,118	6,991,833	6,760,082	625,869
Consumables	590,780	343,508	319,641	614,647
Sub-total	8,962,345	35,889,037	35,678,885	9,172,497
Less: Provision for diminution in value of inventories	170,166	—	142,851	27,315
Total	8,792,179	35,889,037	35,536,034	9,145,182

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
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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 period	Provision made for the period	Written back during the period		Balance at the end of the period
			Reversal	Write-off	
Raw materials	101,967	—	—	101,967	—
Work in progress	15,970	—	—	15,970	—
Finished goods	24,914	—	—	24,914	—
Consumables	27,315	—	—	—	27,315
Total	170,166	—	—	142,851	27,315

The written down provision for the period is mainly arising from the realization of utilization or sale of the provisional inventories.

7 Other current assets

Item	Closing balance	Opening balance
Deductible input VAT	1,711,943	1,702,012
Others	881	11,204
Total	1,712,824	1,713,216

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Available-for-sale financial assets

(1) Available-for-sale financial assets

Item	2014	2013
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 period	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	—	—

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Long-term equity investments

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Investments in associates	104,752	104,752

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

Investee	Investment cost	Balance at the beginning	Increase/decrease	Balance at the end of the period	Share-holding percentage	Voting rights percentage	Provision for impairment	Provision made during the period	Cash dividend for the period
					(%)	(%)			
Equity method-associates									
San Feng Jingjiang Logistics Co., Ltd (San Feng Logistics)									
	30,000	104,752	—	104,752	10%	10%	—	—	—

(3) Details of major associates

Name of investee	Total assets at the end of the period	Total liabilities at the end of the period	Net assets at the end of the period	Total operating income for the period	Net profit for the period
	San Feng Logistics	1,444,895	1,144,626	300,269	136,754

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.

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Fixed assets

(1) Fixed assets

Item	Plant & buildings	Machinery & equipment	Motor vehicles	Total
Cost				
Balance at the beginning of the period	11,155,322	15,605,484	104,535	26,865,341
Additions during the period	—	—	—	—
Transfer from construction in progress	181,821	463,857	—	645,678
Disposal during the period	117,290	32,536	4,366	154,192
Balance at the end of the period	11,219,853	16,036,805	100,169	27,356,827
Accumulated depreciation				
Balance at the beginning of the period	553,857	1,673,682	65,755	2,293,294
Charge for the period	134,920	370,005	3,987	508,912
Written off during the period	10,041	11,770	2,741	24,552
Balance at the end of the period	678,736	2,031,917	67,001	2,777,654
Provision for impairment				
Balance at the beginning of the period	—	286	1,193	1,479
Charge for the period	—	—	—	—
Written off on disposal	—	—	—	—
Balance at the end of the period	—	286	1,193	1,479
Carrying amounts				
At the end of the period	10,541,117	14,004,602	31,975	24,577,694
At the beginning of the period	10,601,465	13,931,516	37,587	24,570,568

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Fixed assets (continued)

(2) Fixed assets acquired under finance leases

Item	Closing balance			Opening balance			Net book value
	Cost	Accumulated depreciation	Provision for impairment	Cost	Accumulated depreciation	Provision for impairment	
Machinery and equipment:							
— Sale leaseback	1,075,063	182,049	—	893,014	3,100,827	752,399	—
— Direct lease	1,280,713	94,545	—	1,186,168	1,720,713	106,168	—
Total	2,355,776	276,594	—	2,079,182	4,821,540	858,567	—

(3) Fixed assets with pending certificates of ownership

As at 30 June 2014, the Group was in the process of obtaining ownership certificates of certain plants and buildings with cost of RMB 840,165,000 and carrying amount of RMB 785,881,000 (2013: cost of RMB 848,556,000 and carrying amount of RMB 795,523,000).

(4) Fixed assets leased out under operating leases

Item	Closing balance	Opening balance
Plant and buildings	6,177	6,221

(5) For plant and buildings used as mortgage for bank loans by the Group as at 30 June 2014, see NoteV.17 (2013: None).

Notes to the financial statements (Continued)

for the six months ended 30 June 2014

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Construction in progress

(1) Construction in progress

Project	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Product restructuring project	6,225,882	—	6,225,882	5,511,877	—	5,511,877
Recycle heat power station	—	—	—	361,240	—	361,240
Dabaopo project	—	—	—	5,859	—	5,859
Equipment upgrade project	287,436	—	287,436	489,037	—	489,037
Railway project	438,766	—	438,766	438,266	—	438,266
Others	200,006	—	200,006	171,681	—	171,681
Total	7,152,090	—	7,152,090	6,977,960	—	6,977,960

The book value of construction in progress at the end of period included capitalised borrowing costs of RMB 354,161,000 (2013: RMB 287,951,000).

(2) The Group's major constructions in progress as for the period

Project	Note	Balance at		Additions		Transfer to		Balance at		Percentage of actual cost to budget	Project progress	Accumulated capitalised interest	Including:		Sources of funds
		the beginning of the period	the end of the period	during the period	fixed assets	others	the end of the period	the end of the period	interest capitalised in 2013				interest rate for capitalisation in 2013		
Product restructuring project		6,480,000	5,511,877	714,005	—	—	—	6,225,882	96%	96%	319,397	77,203	5.78%-11.45%	Bank loans/ self-financing	
Recycle heat power station		375,000	361,240	4,582	365,822	—	—	—	98%	100%	—	—	—	Bank loans/ self-financing	
Dabaopo project		47,580	5,859	—	—	5,859	—	—	100%	100%	—	—	—	Bank loans/ self-financing	
Equipment upgrade project		742,474	489,037	68,184	269,785	—	—	287,436	112%	94%	27,789	10,316	6.30%	Bank loans/ self-financing	
Railway project		401,734	438,266	500	—	—	—	438,766	109%	100%	—	—	—	Bank loans/ self-financing	
Others		—	171,681	38,396	10,071	—	—	200,006	—	—	6,975	1,389	6.30%		
Total		8,046,788	6,977,960	825,667	645,678	5,859	—	7,152,090			354,161	88,908			

Notes to the financial statements (Continued)

for the six months ended 30 June 2014
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Construction in progress (continued)

(3) The Group's major constructions in progress as for the period

Project	Progress	Note
Product restructuring project	96%	Main Equipment installation completed and under commission
Equipment upgrade project	94%	Equipment under installation
Railway project	100%	Main Construction completed and under acceptance

(4) Construction in progress under finance lease

Item	Closing balance	Opening balance
Machinery and equipment	1,012,738	1,452,738

12 Construction materials

(1) Construction materials

Item	Balance at the beginning of the period	Additions during the period	Decrease during the period	Balance at the end of the period
Construction materials for large equipment	31,814	11,597	10,799	32,612
Construction materials for special equipment	2,217	1,949	1,111	3,055
Total	34,031	13,546	11,910	35,667

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Intangible assets

Item	Land use rights	Trademark	Total
Book value			
Balance at the beginning of the period	2,984,920	6,478	2,991,398
Additions during the period	—	—	—
Reductions during the period	708	—	708
Balance at the end of the period	2,984,212	6,478	2,990,690
Accumulated amortisation			
Balance at the beginning of the period	124,727	6,478	131,205
Additions during the period	32,137	—	32,137
Reductions during the period	141	—	141
Balance at the end of the period	156,723	6,478	163,201
Net book value			
Balance at the end of the period	2,827,489	—	2,827,489
Balance at the beginning of the period	2,860,193	—	2,860,193

The trademark was invested by the Parent Group during the restructuring of the Company. The initial amount was determined based on the appraisal value issued by the independent valuer which has been certified by the State-owned Assets Administration Department at the time of the restructuring of the Company.

The Group signed the land transfer contract with Land Reserve Centre of Changshou economic and Technological Development Zone to transfer the land use rights with the book value of RMB 708,000 and accumulated amortisation 141,000.

The land use right used as mortgage for bank loans by the Group as at 30 June 2014. See Note V.17.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets or liabilities after offsetting and the corresponding deductible or taxable temporary differences

Item	Closing balance		Opening balance	
	Deductible or taxable temporary differences (“()” for taxable temporary difference)	Deferred tax assets/liabilities (“()” for liabilities)	Deductible or taxable temporary differences (“()” for taxable temporary difference)	Deferred tax assets/liabilities (“()” for liabilities)
Deferred tax assets:				
Provision for impairment against assets	4,206	631	4,206	631
Deferred income	793	119	793	119
Deductible tax losses	1,026,176	153,927	1,026,176	153,927
Sub-total	1,031,175	154,677	1,031,175	154,677
Amount of offsetting	—	(136,811)	—	(136,811)
Balance after offsetting	—	17,866	—	17,866
Deferred tax liabilities:				
Capitalized realised gain or loss arising from try run	(640,309)	(136,811)	(640,309)	(136,811)
Sub-total	(640,309)	(136,811)	(640,309)	(136,811)
Amount of offsetting	—	136,811	—	136,811
Balance after offsetting	—	—	—	—

As at 30 June 2014, 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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Other non-current assets

Item	Closing balance	Opening balance
Prepayment for construction	68,300	65,300
Prepayments for purchase of raw materials	4,950	10,350
Prepaid land use right premiums	212,846	—
Guarantee monies for finance lease	40,300	46,900
Guarantee monies for loan	7,500	—
Others	1,500	1,500
Total	335,396	124,050

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. Prepaid land use right premiums represents the cost of four pieces of industrial lands and related expenses paid to the the Bureau of Land Resources of Changshou District. The Guarantee monies for finance lease will be refunded from the lessor when the finance lease ends. Guarantee monies for loan. The Guarantee monies for loan is the guarantee monies that the Group paid for the loan guarantor Chongqing Sanxian security group limited company, and settled when the guaranty period end.

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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Provisions for impairment

As at 30 June 2014 the assets provisions for impairment of the Group were as follows:

Item	Note	Balance at the beginning of the period	Charge for the period	Decrease during the period		Balance at the end of the period
				Reversal	Write-off	
Accounts receivable	V.3	154,651	—	—	—	154,651
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	170,166	—	—	142,851	27,315
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.10	1,479	—	—	—	1,479
Total		343,754	—	—	142,851	200,903

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

17 Restricted assets

As at 30 June 2014, the assets with restrictions placed on their ownership were as follows:

Item	Note	Balance at the beginning of the period	Additions during the period	Decrease during the period	Balance at the end of the period
Cash at bank and on hand	V.1	1,034,289	1,037,195	1,383,877	687,607
Bills receivable	V.2	62,125	—	62,125	—
Assets secured as mortgage					
Plant and building	V.10(5)	47,305	46,540	47,305	46,540
Land use rights	V.13	314,405	265,845	314,405	265,845
Finance leases					
Fixed assets	V.10(2)	3,962,973	—	1,883,791	2,079,182
Construction in progress	V.11(4)	1,452,738	—	440,000	1,012,738
Total		6,873,835	1,349,580	4,131,503	4,091,912

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Short-term loans

Item	Closing balance	Opening balance
Loans with pledge	—	44,313
Loans with mortgage	246,113	274,361
Loans with guarantee	2,974,590	3,682,487
Loans on credit	650,000	704,573
Total	3,870,703	4,705,734

(1) **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, see Notes V.2.

The mortgages for the loans with mortgage are the plants and land use rights of the Group, see Notes V.17.

(2) **As at the balance sheet date, no short-term loans were overdue.**

19 Bills payable

(1) **Bills payable by category:**

Item	Closing balance	Opening balance
Commercial acceptance bills	656,700	436,000
Bank acceptance bills	1,546,950	2,147,300
Total	2,203,650	2,583,300

(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.**

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Accounts payable

(1) Accounts payable by category:

Item	Closing balance	Opening balance
Accounts payable for raw material	8,421,210	6,814,486
Accounts payable for construction and equipment	5,858,275	6,692,012
Total	14,279,485	13,506,498

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

Creditor	Note	Closing balance	Opening balance
Parent Company	VI.7(4)	942,406	944,082

For other related party creditors see Note VI.7(4)

(3) Ageing analysis of accounts payable:

Ageing	Closing balance		Opening balance	
	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	11,720,852	82%	12,015,426	89%
Over 1 year but within 2 years (inclusive)	1,702,978	12%	1,150,924	8%
Over 2 years but within 3 years (inclusive)	519,097	4%	244,612	2%
Over 3 years	336,558	2%	95,536	1%
Total	14,279,485	100%	13,506,498	100%

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

As at 30 June 2014, 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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 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.*

22 Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
I. Salaries, bonus, allowances	31,061	336,170	339,747	27,484
II. Staff welfare fees	19,499	31,016	39,350	11,165
III. Social insurances				
Including:				
1. Basic medical insurance premium	—	37,107	37,107	—
2. Large quantity medical insurance premium	—	10,118	10,118	—
3. Supplementary medical insurance premium	—	3,374	3,374	—
4. Basic pension insurance premium	127,359	68,725	111,284	84,800
5. Supplementary pension insurance premium	—	10,000	10,000	—
6. Unemployment insurance premium	2,094	7,450	6,489	3,055
7. Work injury insurance premium	—	2,207	2,207	—
8. Maternity insurance premium	—	1,947	1,947	—
IV. Housing fund	—	31,088	31,088	—
V. Termination benefits (including early retirement expenses)*	12,302	3,830	3,647	12,485
VI. Labour cost	—	60,393	60,393	—
VII. Others	4,790	16,174	14,010	6,954
Including: union fund and employee education fund	4,789	11,933	9,813	6,909
Total	197,105	619,599	670,761	145,943

* As at 30 June 2014, no termination benefits stated above include the compensation payment for the termination of certain labor contract relationship.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Taxes payable

Item	Closing balance	Opening balance
Deed tax	—	293,356
Stamp duty	1,381	13,726
Value added tax	1,334	1,163
Business tax	37	60
Urban maintenance and construction tax	111	—
Others	80	74
Total	2,943	308,379

24 Interests payable

Item	Closing balance	Opening balance
Interest payable for long-term loans with interest paid in installments and principal repaid on maturity	4,419	58,039
Interest payable for debentures	72,333	10,333
Total	76,752	68,372

25 Other payables

(1) Other payables by category:

Item	Note	Closing Balance	Opening Balance
Payables to third party		162,014	128,360
Payables to related parties	VI.7(5)	2,107,389	1,371,852
Total		2,269,403	1,500,212

(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	Closing balance	Opening balance
Parent Group	VI.7(5)	1,646,476	985,320

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Non-current liabilities due within one year

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

Item	Note	Closing balance	Opening balance
Long-term loans due within one year	(2)	744,655	953,364
Long-term payables due within one year	(3)	944,626	1,402,090
Total		1,689,281	2,355,454

(2) **Long-term loans due within one year**

Item	Closing balance	Opening balance
Loans with guarantee	739,655	938,364
Loans on credit	5,000	15,000
Total	744,655	953,364

Guaranteed loans are guaranteed by the Parent Group solely, Chongqing Yu Fu Assets Management Group Co., Ltd (“Yu Fu”) solely, jointly guaranteed by the Parent Group and Yu Fu and Chongqing Sanxian security group limited company, of which, the amount are RMB 176,000,000, RMB 372,140,000, RMB 141,515,000 and RMB 50,000,000 respectively (see Note VI.6(4)).

(3) **Long-term payables due within one year**

As at 30 June 2014, the closing balance of long-term payables due within one year are net obligations under finance leases of RMB 944,626,000 (total amount of RMB 1,011,839,000 net of unrecognised finance charges of RMB 67,213,000). 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 amounted to RMB 65,770,000).

As at 30 June 2014, long-term payables due within one year are guaranteed by the Parent Group (see Note VI.6(4)) solely or jointly guaranteed by the Parent Group and Yu Fu, of which, the amount are RMB 266,919,000 and RMB 260,419,000 respectively.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Long-term loans

(1) Long-term loans by category

Item	Closing balance	Opening balance
Loan with guarantee	9,679,932	7,348,938
Loan on credit	95,000	—
Total	9,774,932	7,348,938

Loan with guarantee are guaranteed by the Parent Group solely, Yu Fu solely and Chongqing Sanxian security group limited company, of which, the amount are RMB 945,432,000, RMB 8,484,500,000, and RMB 250,000,000 respectively (see Note VI.6 (4)).

28 Debentures payable

Item	Balance at the beginning of the period	Additions during the period	Decreases during the period	Balance at the end of the period
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,976,699	2,692	—	1,979,391

The analysis of debentures payable is set out as follows:

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable		Interests payable at		Balance at the end of the period
					beginning of the period	the period	the end of the period	the period	
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 December 2010	7 year	2,000,000	10,333	62,000	—	72,333	1,979,391

The Company use the effective interest method on the transaction expense of these bond payable, and use the amortised method as the subsequent measurement. The real rate in 2014 is 6.55% (2013: 6.55%)

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Long-term payables

Item	Closing balance	Opening balance
Obligations under finance leases	1,594,467	2,485,283
Less: Obligations under finance leases due within a year	944,626	1,402,090
Total	649,841	1,083,193

(1) As at 30 June 2014, the five largest long-term payables are as follows:

Lender	Amount	Unrecognised finance charge	Closing balance Less: amounts within a year	Ending balance	Interest rate	Borrowing terms
Unismart International Leasing Co., Ltd	330,212	22,827	158,305	149,080	5.78%	
Hua Rong Leasing Co., Ltd	233,601	14,464	87,221	131,916	6.97%	Guarantee
Unismart International Leasing Co., Ltd	282,463	18,822	135,967	127,674	5.21%	
Kun Lun Financial Leasing Co., Ltd	398,811	12,412	260,419	125,980	6.52%	Guarantee
Hua Rong Leasing Co., Ltd	252,555	24,508	157,552	70,495	11.45%	Guarantee
Total	1,497,642	93,033	799,464	605,145		

As at 30 June 2014, the amounts of long-term payables which were guaranteed by the Parent Group solely (Note VI.6(4)) or jointly guaranteed by the Parent Group and Chongqing Yu Fu Assets Management Group Co., Ltd were RMB 226,669,000 and RMB 125,980,000 respectively.

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Long-term payable (continued)

(2) Details of obligations under finance leases included in long-term payables

The total future minimum lease payments under finance leases after 30 June 2014 are as follows:

Minimum lease payments	Closing balance	Opening balance
Within 1 year (inclusive)	1,011,839	1,467,860
Over 1 year but within 2 years (inclusive)	670,813	965,255
Over 2 year but within 3 years (inclusive)	16,132	239,320
Over 3 years	—	—
Sub-total	1,698,784	2,672,435
Less: Unrecognised finance charges	104,317	187,152
Total	1,594,467	2,485,283

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.26.

(3) **No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of long-term payables in the current reporting period.**

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Other non-current liabilities

Item		Closing balance	Opening balance
Other financial liabilities	(1)	437,469	428,512
Less: part expected to be realised in one year		437,469	428,512
Sub-total		—	—
Deferred income - government grants	(2)	62,472	62,749
Deferred income - unrealised income of sale and leaseback transactions	(3)	106,343	109,775
Less: expected to realised in one year		10,007	9,445
Sub-total		158,808	163,079
Total		158,808	163,079

(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 June 2014. 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 2014, the interest rate was 5.40% (2013: 5.40%); interest expense for financial liabilities has been recognised at RMB 8,957,000 (2013: RMB 18,390,000). 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.**

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 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	16,956	—	476	—	16,480	Asset
Grants for recycle heat power station	45,000	—	187	—	44,813	Asset
Others	793	460	74	—	1,179	Profit
Total	62,749	460	737	—	62,472	

- (3) *The Company entered into sale and leaseback finance leasing transactions with several financial leasing companies respectively from 2009 to 2011(see Note V.10(2)), and the difference between the selling prices and the book value of the assets is deferred, amounted to RMB 137,125,000 (2013: 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 3,432,000 in the period (2013: RMB 6,839,000).*

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Share capital

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
RMB - denominated ordinary share - domestically listed A shares	3,897,896	—	—	3,897,896
Overseas listed foreign shares - Hong Kong listed H shares	538,127	—	—	538,127
Total	4,436,023	—	—	4,436,023

32 Capital reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Share premiums	6,341,095	—	—	6,341,095
Transfer from items under previous standards	270,127	—	—	270,127
Other capital reserves	37,661	1,689	—	39,350
Total	6,648,883	1,689	—	6,650,572

33 Specific reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Specific reserve	1,344	11,533	11,875	1,002

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.

34 Surplus reserve

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

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Retained earnings

Item	Amount
Undistributed deficit at the end of the year	(1,775,938)
Add: net profits for the period attributable to shareholders of the Company	(945,237)
Less: Appropriation of statutory surplus reserve	—
Retained earnings at the end of the period	(2,721,175)

36 Operating income and operating costs

(1) Operating income and operating costs

Item	Jan-Jun 2014	Jan-Jun 2013
Operating income from principal activities	6,008,387	9,273,255
Other operating income	16,469	21,443
Operating income	6,024,856	9,294,698
Operating costs from principal activities	6,319,774	9,380,778
Other operating costs	4,896	14,200
Operating costs	6,324,670	9,394,978

(2) Principal activities (by industry)

Industry	Jan-Jun 2014		Jan-Jun 2013	
	Operating income from principal activities	Operating costs from principal activities	Operating income from principal activities	Operating costs from principal activities
Iron and steel	5,973,894	6,285,418	9,233,857	9,348,697
Electronic engineering design, construction and installation	16,378	13,269	15,144	12,253
Transportation	18,115	21,087	24,254	19,828
Total	6,008,387	6,319,774	9,273,255	9,380,778

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Operating income, operating costs (continued)

(3) Principal activities (by product)

Product	Jan-Jun 2014		Jan-Jun 2013	
	Operating income from principal activities	Operating costs from principal activities	Operating income from principal activities	Operating costs from principal activities
Steel plates	2,307,819	2,423,396	4,243,486	4,399,227
Hot-rolled coil	3,170,393	3,366,766	4,266,358	4,310,288
Steel billets	33,088	36,859	74,892	78,083
Cool-rolled sheets	49,867	74,802	133,792	144,407
By-product	412,727	383,595	515,329	416,692
Others	34,493	34,356	39,398	32,081
Total	6,008,387	6,319,774	9,273,255	9,380,778

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

Name of customer	Operating income	Percentage total operating income (%)
China Shipbuliding Industrial Complete Equipment & Logistics Co., Ltd.	1,050,581	17%
Chongqing Jiangnan Metal Materials Company	530,677	9%
Sichuan Tianhao Metallurgical Industry Co., Ltd.	427,921	7%
The Yangtze River Shipping Materials Corporation (Wuhan)	426,089	7%
China Shipbuliding Industrial Complete Equipment & Logistics (Guangzhou) Co., Ltd	364,945	6%
Total	2,800,213	46%

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Non-operating income

(1) Non-operating income by item is as follows:

Item	Note	Jan.-Jun 2014	Jan.-Jun 2013	Amount recognised in extraordinary gain and loss in 2014
Gains on disposal of fixed assets		154	176	154
Government grants	(2)	508,620	2,639	508,620
Received tax refunds, exemptions and reductions		—	2,225	—
Others		282	3,642	282
Total		509,056	8,682	509,056

(2) Government grants

Item	Note	Jan.-Jun 2014	Jan.-Jun 2013	Relevant to asset/profit
Government environmental relocation grants	(a)	506,983	—	Profit
Land use tax refunds		519	1,933	Profit
Others		1,118	706	Profit
Total		508,620	2,639	

- (a) According to the distributions of Financial Bureau of Changshou District, Chongqing City "The notice of financial subsidy funds from Financial Bureau of Changshou District, Chongqing City to Chongqing Iron & Steel Company Limited" (Chang Cai Jing Fa [2014] NO. 45) in 26 March 2014 and (Chang Cai Jing Fa [2014] NO. 117) in June 24, 2014, the company received the government grants of RMB 354,604,700 and RMB 152,378,600 in 26 March 2014 and 24 June 2014, all the grants are used to make up for the operation costs which increase by the environment expense caused of the environment relocation.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Non-operating expenses

Item	Jan.-Jun 2014	Jan.-Jun 2013
Losses on disposal of fixed assets	—	3
Donations provided	200	2,508
Others	1	400
Total	201	2,911

39 Income tax expenses

Item	Note	Jan.-Jun 2014	Jan.-Jun 2013
Current tax expense for the period based on tax law and corresponding regulations		21	2,156
Difference in final settlement		—	—
Total		21	2,156

40 Basic earnings per share and diluted earnings per share

(1) Basic earnings per share

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

	Jan.-Jun 2014	Jan.-Jun 2013
Consolidated net profit of the Company attributable to ordinary shareholders (“()” for losses)	(945,237)	(1,115,978)
Weighted average number of ordinary shares outstanding (‘000 shares)	4,436,023	1,733,127
Basic earnings per share (“()” for losses)	(0.213)	(0.644)

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Basic earnings per share and diluted earnings per share (continued)

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. As in the period, there were no issuance of dilutive potential ordinary shares (Jan - June 2013: Nil), the diluted earnings per share equal to basic earnings per share.

41 Supplement to cash flow statement

(1) Supplement to cash flow statement

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

Supplement	Jan.-Jun 2014	Jan.-Jun 2013
Net profit (“()” for losses)	(945,237)	(1,115,978)
Add: Impairment provisions		
for fixed assets	—	—
Depreciation of fixed assets	508,912	189,818
Amortization of intangible assets	32,137	7,450
Losses on disposal of fixed assets		
(gains denoted with “()”)	(154)	(173)
Losses on change in fair value		
(gain denoted with “()”)	—	—
Financial expenses		
(income denoted with “()”)	602,018	363,344
Investment losses		
(gain denoted with “()”)	—	—
Decrease in deferred tax assets		
(increase denoted with “()”)	—	—
Decrease in gross inventories		
(increase denoted with “()”)	(336,329)	(2,619,243)
Decrease in operating receivables		
(increase denoted with “()”)	92,099	953,764
Increase in operating payables		
(decrease denoted with “()”)	1,256,237	1,859,921
Increase in safety fees	(342)	(41)
Decrease in restricted cash		
(increase denoted with “()”)	346,683	(27,409)
Net cash flow from operating activities	1,556,024	(388,547)

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Supplement to 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:

	Jan.-Jun 2014	Jan.-Jun 2013
Acquisition of construction in progress and construction materials under finance leases	—	581,000

- (c) Change in cash and cash equivalents:

Item	Jan.-Jun 2014	Jan.-Jun 2013
Cash at the end of the year	456,416	624,251
Less: Cash at the beginning of the year	519,061	3,394,564
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 “()”)	(62,645)	(2,770,313)

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Supplement to cash flow statement (continued)

(2) Cash and cash equivalents

Item	Jan-Jun 2014	Jan-Jun 2013
I. Cash and cash equivalents	456,416	624,251
Including: Cash on hand	429	352
Bank deposits available on demand	455,207	623,899
Other monetary fund available on demand	780	—
II. Cash equivalents	—	—
III. Closing balance of cash and cash equivalents	456,416	624,251

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

(3) Cash paid relating to other financing activities

Item	Amount
Rent for finance leases	939,567

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1 Information on the parent of the Company

Company name	Related party		Registered place	Legal representative	Business nature	Registered capital	Shareholding percentage (%)	Percentage of voting rights (%)	Ultimate controlling party of the company	Organisation code
	relationship	Entity type								
Chongqing Iron & Steel Group Limited Company	The parent	Company Limited	Chongqing	Liu Jiakai	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		Registered capital	Shareholding Percentage (%)	Percentage of voting rights (%)	Related party	
			representative	Business nature				relationship	Organization code
San Feng Logistics	Company Limited	Jingjiang district, Jiangsu province	Jin Zili	Logistics	300,000	10%	10%	Associate	55025866-3

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(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	Organization code	Related party relationship
Chongqing Iron & Steel Group Export and Import Company Limited	20280613-3	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	62190279-5	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	00928742-3	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	20299276-5	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	20287686-0	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	20355285-X	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	20343945-1	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	20305150-2	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Company Limited	20298850-4	Under the same parent company
Chongqing San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construct Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company
Chongqing Iron & Steel Group Industrial Company Limited	20298762-4	Under the same parent company

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4 Information on other related parties (continued)

Name of other related parties	Organization code	Related party relationship
Chongqing Donghua Special Steel Company Limited	75622782-X	Under the same parent company
Chongqing Iron & Steel Research Institute	45038430-4	Under the same parent company
Chongqing Iron & Steel Group TV	20298426-3	Under the same parent company
Chongqing Wuxia Mining Industry Incorporated Company	67612426-5	Under the same parent company
Chongqing Huanya Construction Materials Company Limited	70936427-4	Under the same parent company
Chongqing Hongfa Real Estate Development Company	20288082-7	Under the same parent company
Chongqing Iron & Steel (Hong Kong) Company Limited ("Chonggang HK")	16393102-000 -10-08-0	Under the same parent company
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	75929686-3	Under the same parent company
Chongqing Chonggang Mining Exploitation and Investment Company Limited	69656683-7	Under the same parent company
Chongqing Mining Investment Overseas Company Limited	1599001	Under the same parent company
Chongqing Xin Gang Chang Long Logistics Company Limited	66641868-1	Under the joint control of same parent company
Asia Iron & Steel Shareholding Co., Ltd	34244066-000 -01-12-4	Under the joint control of same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the joint control of the parent company in the past 12 months

5 Transactions with its key management personnel

Remuneration of key management personnel	Jan-Jun 2014	Jan-Jun 2013
Key management personnel	1,267	1,265

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties

(1) Purchase of goods

(a) The Group

Name of related party	Purchase of products	Jan-Jun. 2014		Jan-Jun. 2013	
		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	1,359,129	29.79%	3,056,008	79.23%
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	1,232,278	38.40%	810,748	9.92%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	177,740	95.41%	267,265	94.91%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	72,682	4.38%	96,538	3.05%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	4,401	1.56%	50,114	5.78%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	—	—	32,518	10.46%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	—	—	8,751	1.03%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	8,435	0.74%	19,465	1.52%
Chongqing Iron & Steel Research Institute	Alloy and accessories	509	0.18%	4,361	0.99%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	293	0.25%	932	0.64%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and scrap steel	22,349	1.68%	2,467	0.88%
Others		1,161		11,230	
Total		2,878,977		4,360,397	

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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	Jan-Jun. 2014		Jan-Jun. 2013	
		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	1,359,129	29.79%	3,056,008	79.23%
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	1,232,278	35.63%	810,748	9.92%
San Feng Logistics	Ore	7,596	0.17%	3,444	0.09%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	177,733	95.40%	267,259	94.90%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	72,682	4.38%	96,538	3.05%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	4,401	1.56%	50,114	5.78%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	—	—	8,751	1.03%
Chongqing Electronics	Spare parts	6,508	2.33%	8,304	1.89%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	8,391	0.74%	19,410	1.52%
Chongqing Transportation	Scrap steel	471	0.11%	965	0.24%
Chongqing Iron & Steel Research Institute	Alloy and accessories	509	0.18%	4,361	0.99%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	293	0.25%	932	0.64%
Chongqing Iron & Steel Group Iron Company Limited	Iron	22,349	1.68%	2,387	0.85%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	—	—	32,518	10.46%
Others		1,132		2,097	
Total		2,893,472		4,363,836	

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(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 (continued)

- (i) As at period ended 30 June 2014 the Chonggang HK purchased iron ore from third party on behalf of the Company at RMB 1,359,129,000 (2013: RMB 3,056,008,000). The cumulative service fee charged is RMB 5,194,000 (2013: RMB 8,839,000).

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

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 bidding price of supplier.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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	Jan-Jun. 2014		Jan-Jun. 2013	
		Amount	Percentage of the same type of transaction (%)	Amount	Percentage of the same type of transaction (%)
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy and spare parts	148,115	73.44%	170,646	73.58%
Chongqing Iron & Steel Group Mining Company Limited	Energy and spare parts	40,112	9.12%	44,555	19.21%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and spare parts	5,658	0.10%	18,485	0.21%
Chongqing San Gang Steel Company Limited	Steel products	6,766	0.12%	2,623	0.03%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products and Spare parts	14,336	0.26%	10,419	0.12%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and spare parts	8,202	0.15%	7,797	0.09%
Parent Group	Spare parts	3,549	1.49%	3,611	0.04%
Others		2,318		4,292	
Total		229,056		262,428	

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(2) Sale of goods (continued)

(b) The Company

Name of related party	Sale of Products	Jan-Jun. 2014		Jan-Jun. 2013	
		Amount	Percentage of the same type of transaction (%)	Amount	Percentage of the same type of transaction (%)
East China Trading (note (i))	Steel products and Spare parts	771,471	12.19%	3,914,065	45.08%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy and Spare parts	148,072	73.42%	170,594	73.56%
Chongqing Iron & Steel Group Mining Company Limited	Energy and Spare parts	39,855	9.65%	44,322	19.11%
Chongqing San Gang Steel Company Limited	Steel products	6,762	0.11%	2,623	0.03%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products and Spare parts	14,336	0.23%	10,419	0.12%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and Spare parts	4,289	0.07%	13,760	0.16%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and Spare parts	8,066	0.13%	7,278	0.08%
Others	Spare parts	2,664		5,023	
Total		995,515		4,168,084	

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(3) Leases

In 2014, the Group paid lease rental fees of leasing land and offices to Parent Group and its subsidiaries totalling RMB 375,000 (2013: RMB 375,000).

In 2014, the Company paid rental fees of offices to the Parent Group and its subsidiaries totalling RMB 294,000 (2013: RMB 294,000).

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(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	4,589,610	25/02/2011	10/12/2016	N
Guaranty secured	(ii)	Parent Group and Yufu.	The Company	527,914	12/10/2011	11/10/2015	N

(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	734,908	17/04/2012	30/08/2022	N
Guaranty secured	(ii)	Parent Group	The Company	4,589,610	25/02/2011	10/12/2016	N
Guaranty secured	(ii)	Parent Group and Yufu	The Company	527,943	12/10/2011	11/10/2015	N

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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 (continued)

- (i) As at 30 June 2014, the bank loans and finance leases of San Feng Logistics amounting to RMB734,908,000 were guaranteed by the Company (2013: RMB 739,038,000).
- (ii) As at 30 June 2014, the short-term and long-term bank loans (including long-term borrowings due within one year) amounting to RMB2,974,590,000 and RMB 1,121,432,000 were guaranteed by the Parent Group individually. The long-term bank loans (including long-term borrowings due within one year) amounting to RMB141,514,000 were jointly guaranteed by the Parent Group and Yufu (2013: RMB3,682,487,000 and RMB281,000,000 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.26 (3), V.29 (1)) amounting to RMB 493,588,000 and RMB386,399,000 were respectively guaranteed by the Parent Group individually and jointly guaranteed by the Parent Group and Yufu (2013: RMB965,234,000 and RMB516,777,000 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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(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 2014	Remarks
Funds received					
Chongqing Iron & Steel Group Mining Company Limited	300,000	25/06/2013	24/12/2014	8,494	Interest rate is agreed loan period corresponding to the People's Bank of China grade benchmark lending rate
Parent Group (note (i))	150,000	18/03/2014	18/03/2015	2,564	Interest rate is agreed loan period corresponding to the Peoples Bank of China grade benchmark lending rate
Parent Group (note (i))	250,000	21/03/2014	21/03/2015	4,151	Interest rate is agreed loan period corresponding to the Peoples Bank of China grade benchmark lending rate

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.

The transactions stated above constitute the transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(6) Rendering of service

(a) The Group

	Note	Jan-Jun. 2014 Amount	Jan-Jun. 2014 Percentage of the same type of transaction (%)	Jan-Jun. 2013 Amount	Jan-Jun. 2013 Percentage of the same type of transaction (%)
Fees received for supporting services	(i)	5,656	34%	10,420	62%

(b) The Company

	Note	Jan-Jun. 2014 Amount	Jan-Jun. 2014 Percentage of the same type of transaction (%)	Jan-Jun. 2013 Amount	Jan-Jun. 2013 Percentage of the same type of transaction (%)
Fees received for supporting services	(i)	624	4%	—	—

- (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.

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(7) Receiving services

(a) The Group

	Note	Jan-Jun. 2014 Amount	Percentage of the same type of transaction (%)	Jan-Jun. 2013 Amount	Percentage of the same type of transaction (%)
Fees paid for supporting services	(i)	242,965	40%	279,184	35%

(b) The Company

	Note	Jan-Jun. 2014 Amount	Percentage of the same type of transaction (%)	Jan-Jun. 2013 Amount	Percentage of the same type of transaction (%)
Fees paid for supporting services	(i)	328,406	58%	173,108	22%
Transportation fee	(ii)	31,103	27%	57,267	30%
Labor cost	(ii)	36,750	7%	48,514	6%
Total		396,259		278,889	

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(7) Receiving services (continued)

(b) The Company (continued)

- (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.

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

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.

Notes to the financial statements (Continued)

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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

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

January to June 2014, the Company's contributions to the supplementary pension insurance, supplementary medical insurance and part of labour union fees amounted to RMB 24,122,000 (January to June 2014: RMB 20,381,000).

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. January to June 2014 the Company's contributions in this regard withheld and remitted by the Parent Group amounted to RMB 40,630,000 (January to June 2013: RMB 40,402,000). The Parent Group did not charge any fees on the above transactions.

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

6 Transactions with related parties (continued)

(9) Transfer the assets between Related Parties

According to the “Assets Transfer Agreement” signed between the Company and Chongqing Iron & Steel Group Mining Company Limited (“Mineral Company”) on 26 May 2014, the company transfer the assets to the Mineral Company, the assets include part of the machinery and equipment, buildings and the construction in progress which invested by the company to the Dabao slope limestone mine of the Mineral Company. And the transfer price is RMB 146,783,000 which according to the evaluation value.

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14 A of the Stock Exchange of Hong Kong.

7 Receivables from and payables to related parties

(1) Bills receivable

The Group and the Company

Related party	Closing balance	Opening balance
Chongqing Iron & Steel Group Steel Pipe Company Limited	1,000	—
Chongqing San Gang Steel Company Limited	—	1,986
Chongqing Iron & Steel Group Construction and Engineering Company Limited	250	—
Total	1,250	1,986

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

7 Receivables from and payables to related parties (continued)

(2) Accounts receivable

(a) The Group

Related party	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	154,577	154,577
Chongqing San Gang Steel Company Limited	96,991	91,587
Chongqing Iron & Steel Group Steel Pipe Company Limited	70,273	74,967
Parent Group	29	160
Chongqing Iron & Steel Group San Feng Industrial Company Limited	6,203	2,213
Chongqing Iron & Steel Group Yingsite Mould Company Limited	2,756	2,756
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	—	2,273
Chongqing Iron & Steel Group Construction and Engineering Company Limited	5,322	1,256
Chongqing Iron & Steel Group Mining Company Limited	—	135
Others	14,866	579
Sub-total	351,017	330,503
Less: Provision for bad and doubtful debts	2,756	2,756
Total	348,261	327,747

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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 (continued)

(b) The Company

Related party	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	153,935	153,935
Chongqing San Gang Steel Company Limited	96,991	91,587
Chongqing Iron & Steel Group Pipe Company Limited	70,273	74,967
Chongqing Iron & Steel Group San Feng Industrial Company Limited	6,203	2,213
Chongqing Iron & Steel Group Yingsite Mould Company Limited	2,756	2,756
Others	2,012	10
Sub-total	332,170	325,468
Less: Provision for bad and doubtful debts	2,756	2,756
Total	329,414	322,712

(3) Other non-current liabilities

(a) The Group

Related party	Closing balance	Opening balance
San Feng Logistics	68,300	65,300
Total	68,300	65,300

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

7 Receivables from and payables to related parties (continued)

(4) Accounts payables

(a) The Group

Related party	Closing balance	Opening balance
Chonggang HK	825,843	1,344,190
Parent Group	942,406	994,082
Chongqing Iron & Steel Group Construction and Engineering Company Limited	493,973	572,672
Chongqing Iron & Steel Group Design and Research Institute	102,175	88,475
Chongqing Sanhuan Construct Supervision Consultant Company Limited	50,837	59,837
Chongqing Iron & Steel Group Mining Company Limited	886,386	63,062
Chongqing Wuxia Mining Industry Incorporated Company	—	2,467
Others	8,219	—
Total	3,309,839	3,124,785

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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)

(4) Accounts payables (continued)

(b) The Company

Related party	Closing balance	Opening balance
Chonggang HK	825,843	1,344,190
Parent Group	942,406	994,082
Chongqing Iron & Steel Group Construction and Engineering Company Limited	493,770	572,358
Chongqing Iron & Steel Group Design and Research Institute	101,690	88,475
Chongqing Iron & Steel Group Mining Company Limited	885,759	62,808
Chongqing Sanhuan Construct Supervision Consultant Company Limited	50,837	59,837
East China Trading Chongqing Wuxia Mining Industry Incorporated Company	33,586	33,586
Others	8,219	—
Total	3,342,110	3,157,803

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

7 Receivables from and payables to related parties (continued)

(5) Other payables

(a) The Group

Related party	Closing balance	Opening balance
Parent Group	1,646,476	985,320
Chongqing Chonggang Mining Exploitation and Investment Company Limited	300,000	300,000
San Feng Logistics	30,754	28,685
Chongqing Iron & Steel Group Industrial Company Limited	11,531	24,329
Chongqing Donghua Special Steel Company Limited	20,658	20,658
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	96,364	11,184
Chongqing Xin Gang Chang Long Logistics Company Limited	—	171
Others	1,605	1,505
Total	2,107,388	1,371,852

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(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 payables (continued)

(b) The Company

Related party	Closing balance	Opening balance
Parent Group	1,646,476	985,320
Chongqing Chonggang Mining Exploitation and Investment Company Limited	300,000	300,000
Chongqing Electronics	28,453	44,663
Chongqing Transportation	42,143	29,263
San Feng Logistics	25,631	25,626
Chongqing Iron & Steel Group Industrial Company Limited	11,464	24,159
Chongqing Donghua Special Steel Company Limited	20,658	20,658
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	96,364	11,184
Chongqing Xin Gang Chang Long Logistics Company Limited	—	171
Others	1,078	1,501
Total	2,172,267	1,442,545

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

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VII. COMMITMENTS

1 Capital commitments

Item	Note	Closing balance	Opening balance
Significant construction contracts entered into under performance or preparation of performance		3,208,475	3,111,219
Significant construction contracts authorized but not yet contracted for		396,591	1,536,321
Finance leases contracts entered into under performance or preparation of performance		1,698,784	2,672,434
Total		5,303,850	7,319,974

2 Operating lease commitments

As at 30 June 2014, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Item	Closing balance	Opening balance
Within 1 year (inclusive)	25	25
Over 1 year but within 2 years (inclusive)	25	25
Over 2 years but within 3 years (inclusive)	25	25
Over 3 years	188	200
Total	263	275

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VIII. OTHER MATERIAL EVENTS

1 Leases

Details of finance lease refer to Note V.10(2), 11(4) and 29(1).

2 Segment reporting

The Group has three reportable segments, which are iron and steel, electronic construction and installation and logistics segment, determined based on the structure of its internal organization, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance. Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses will be allocated to each segment based on revenue.

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as accounts receivable, with the exception of deferred tax assets and other unallocated corporate assets. Segment liabilities include payables, prepayments and bank borrowings attributable to the individual segments.

Financial performance is the amount of revenue after deducting expenses, depreciation, amortization and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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VIII. OTHER MATERIAL EVENTS (CONTINUED)

2 Segment reporting (continued)

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

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination among segments		Total	
	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.	Jan.-Jun.
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Operating income from external customers	5,990,126	9,255,100	16,378	15,144	18,352	24,454	—	—	6,024,856	9,294,698
Inter-segment operating income	233	759	56,625	56,797	31,504	58,618	(88,362)	(116,174)	—	—
Interest in the profit or loss of associate and joint ventures	—	—	—	—	—	—	—	—	—	—
Impairment for the year	—	—	—	—	—	—	—	—	—	—
Depreciation and amortization	537,436	193,708	452	452	3,161	3,108	—	—	541,049	197,268
Interest income from bank deposits	12,380	9,853	5	4	2	3	—	—	12,387	9,860
Interest expense	485,916	354,420	—	—	—	158	—	—	485,916	354,578
Profit before income tax ("(") for losses)	(928,221)	(1,099,473)	6,082	4,367	(12,711)	(10,946)	(10,366)	(7,770)	(945,216)	(1,113,822)
Income tax expense	6	2,122	15	13	—	21	—	—	21	2,156
Net profit ("(") for losses)	(928,227)	(1,101,595)	6,067	4,354	(12,711)	(10,967)	(10,366)	(7,770)	(945,237)	(1,115,978)
Total assets	48,260,119	30,501,035	81,207	86,315	172,901	84,511	(219,453)	(168,076)	48,294,774	30,503,785
Total liabilities	39,295,223	27,401,707	21,075	28,751	90,657	49,587	(104,594)	(53,217)	39,302,361	27,426,828

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VIII. OTHER MATERIAL EVENTS (CONTINUED)

2 Segment reporting (continued)

(3) Geographic information

The following table sets out information about the geographical location of the Group's operating income from external customers and the Group's non-current assets (excluding financial instruments, independent accounts assets, deferred tax assets, same as below). The geographical information is based on the location of customers receiving services or goods. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of fixed assets, the location of the operation to which they are allocated, in the case of intangible assets and goodwill; and the location of operations, in the case of interests in associates and jointly controlled enterprises.

Country or region	Operating income from external customers		Specified non-current assets	
	Jan-June	Jan-June	Jan-June	Jan-June
	2014	2013	2014	2013
China				
Including: Mainland China	6,024,856	9,294,698	34,928,336	34,566,802
Hong Kong	—	—	—	—
Total	6,024,856	9,294,698	34,928,336	34,566,802

(4) Major customers

The Group has one customers (2013: three) from which the operating income is over 10% of the Group's total operating income. The operating income from the customers represents approximately 17% of the Group's total operating income (2013: 57%), which is listed in the table below:

Customer	Jan-Jun. 2014	Jan-Jun. 2013
Customer 1	1,050,581	3,400,429
Customer 2	Below 10% of the Group's total operating income	922,025
Customer 3	Below 10% of the Group's total operating income	904,913

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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IX. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS

1 Accounts receivable

(1) Accounts receivable by customer type:

Type	Note	Closing balance	Opening balance
Third party		300,638	295,222
Related party	VI.7(2)	332,170	325,468
Sub-total		632,808	620,690
Less: Provision for bad and doubtful debts		152,368	152,368
Total		480,440	468,322

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	273,102	249,175
Over 1 year but within 2 years (inclusive)	2,143	82,751
Over 2 years but within 3 years (inclusive)	184,211	140,821
Over 3 years	173,352	147,943
Sub-total	632,808	620,690
Less: Provisions for bad and doubtful debt	152,368	152,368
Total	480,440	468,322

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

Notes to the financial statements (Continued)

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(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable (continued)

(3) Accounts receivable by category:

Category	Note	Closing balance				Opening balance			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(%)		(%)		(%)		(%)
Individually significant and assessed individually for impairment		—	—	—	—	—	—	—	—
Individually insignificant but assessed individually for impairment	(4)	2,756	0%	2,756	100%	2,756	0%	2,756	100%
Collectively assessed for impairment(*)									
Group 1	(5)	300,638	48%	149,612	50%	295,222	48%	149,612	51%
Group 2		329,414	52%	—	0%	322,712	52%	—	—
Sub- total		630,052	100%	149,612	24%	617,934	100%	149,612	24%
Total		632,808	100%	152,368	24%	620,690	100%	152,368	25%

* 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.

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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IX. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS (CONTINUED)

1 Accounts receivable (continued)

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

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

As at 30 June 2014, the Company's amounts due from related parties which aged over 3 years represented the balance of RMB 2,756,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited. Due to the unsatisfactory financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that it was unlikely to recover the amount. A full provision of RMB 2,756,000 was therefore made for the debts.

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

Ageing	Closing balance			Opening balance		
	Amount	Percent-age	Provision for bad and doubtful debts	Amount	Percent-age	Provision for bad and doubtful debts
Within 1 year						
Including						
Within 3 months	125,280	42%	–	100,165	34%	–
Within 4 to 12 months	18,660	6%	2,191	43,828	15%	2,191
Sub-total	143,940	48%	2,191	143,993	49%	2,191
Over 1 year but within 2 years (inclusive)	9,784	3%	1,133	4,534	2%	1,133
Over 2 year but within 3 years (inclusive)	940	0%	406	813	0%	406
Over 3 years	145,974	49%	145,882	145,882	49%	145,882
Total	300,638	100%	149,612	295,222	100%	149,612

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

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

1 Accounts receivable (continued)

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

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Chongqing Si Gang Steel Co., Ltd	Related party	153,935	more than 3 years	24%
Chongqing San Gang Steel Co., Ltd	Related party	96,991	within 3 years	15%
Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,273	within 1 years	11%
Customer 1	Third party	38,070	within 1 years	6%
Customer 2	Third party	27,632	within 1 years	5%
Total		386,901		61%

(7) **No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of accounts receivable (Note VI.7(2)).**

Notes to the financial statements (Continued)

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

2 Other receivables

(1) Other receivables by customer type:

Type	Note	Closing balance	Opening balance
Third parties		52,810	63,229
Less: Provision for bad and doubtful debts		16,958	16,958
Total		35,852	46,271

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	17,387	15,292
Over 1 year but within 2 years (inclusive)	971	14,344
Over 2 year but within 3 years (inclusive)	7,470	7,808
Over 3 years	26,982	25,785
Sub-total	52,810	63,229
Less: Provision for bad and doubtful debts	16,958	16,958
Total	35,852	46,271

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

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

2 Other receivables (continued)

(3) Other receivables by category:

Category	Closing balance			
	Carrying amount		Provision for bad and doubtful debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	20,174	38%	16,958	84%
Individually insignificant but assessed individually for impairment	32,636	62%	—	—
Total	52,810	100%	16,958	32%

Category	Opening balance			
	Carrying amount		Provision for bad and doubtful debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	31,922	50%	16,958	53%
Individually insignificant but assessed individually for impairment	31,307	50%	—	—
Total	63,229	100%	16,958	27%

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
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IX. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS (CONTINUED)

3 Long-term equity investment

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Investments in subsidiaries	189,589	189,589
Investments in associates	30,021	30,021
Total	219,610	219,610

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

Investee	Accounting for method	Investment cost	Balance at the beginning of the period	Increase/decrease	Balance at the end of the period	Shareholding percentage (%)	Voting Rights percentage (%)	Provision for impairment	Provision made during the period	Cash dividend for the period
Cost method- subsidiaries										
Chongqing										
Electronics	Cost method	29,745	41,290	—	41,290	100%	100%	—	—	—
San Feng Steel	Cost method	51,000	51,000	—	51,000	51%	51%	—	—	—
Chongqing										
Transportation	Cost method	47,299	47,299	—	47,299	100%	100%	—	—	—
East China										
Trading	Cost method	50,000	50,000	—	50,000	100%	100%	—	—	—
Subtotal		178,044	189,589	—	189,589			—	—	—
Equity method- associates										
San Feng										
Logistics	Equity method	30,000	30,021	—	30,021	10%	10%	—	—	—
Total		208,044	219,610	—	219,610			—	—	—

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

(3) Details of major associates

Name of investee	Total assets at the end of the period	Total liabilities at the end of the period	Net assets at the end of the period	Total operating income for the period	Net profit for the period
San Feng Logistics	1,444,895	1,144,626	300,269	136,754	58

Notes to the financial statements (Continued)

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

4 Operating income, operating costs

(1) Operating income, operating costs

Item	Jan.-Jun. 2014	Jan.-Jun. 2013
Operating income from principal activities	5,972,102	9,223,774
Other operating income	16,250	21,424
Operating income	5,988,352	9,245,198
Operating costs from principal activities	6,298,652	9,355,243
Other operating costs	4,858	14,317
Operating costs	6,303,510	9,369,560

(2) Principal activities (by product)

Product	Jan.-Jun. 2014		Jan.-Jun. 2013	
	Operating income from principal activities	Operating cost from principal activities	Operating income from principal activities	Operating cost from principal activities
Steel plates	2,305,793	2,423,396	4,232,825	4,399,227
Hot-rolled coil	3,170,393	3,366,766	4,266,358	4,310,288
Steel billets	33,088	36,859	74,892	78,083
Cool-rolled sheets	49,867	74,802	133,792	144,407
By-product	412,961	396,829	515,907	423,238
Total	5,972,102	6,298,652	9,223,774	9,355,243

(3) Information on the Company's operating income from top five customers refer to Note V.36 (4).

Notes to the financial statements (Continued)

For the six months ended 30 June 2014
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Supplement to cash flow statement

Item	Jan.-Jun. 2014	Jan.-Jun. 2013
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit (“()” for losses)	(927,090)	(1,103,682)
Add: Impairment provisions for fixed assets	—	—
Depreciation of fixed assets	505,349	186,288
Amortisation of intangible assets	32,087	7,400
Losses on disposal of fixed assets (gains denoted with “()”)	—	3
Financial expenses (income denoted with “()”)	602,025	361,202
Investment losses (gain denoted with “()”)	(10,366)	(7,770)
Decrease in gross inventories (increase denoted with “()”)	(339,939)	(2,615,653)
Decrease in operating receivables (increase denoted with “()”)	(119,518)	591,646
Increase in operating payables (decrease denoted with “()”)	1,464,844	2,212,986
Decrease in restricted cash (increase denoted with “()”)	346,682	(27,409)
Net cash flow from operating activities	1,554,074	(394,989)
(2) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance lease	—	581,000
(3) Change in cash and cash equivalents:		
Cash at the end of the period	452,712	606,721
Less: Cash at the beginning of the period	502,366	3,364,836
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents (decrease denoted with “()”)	(49,654)	(2,758,115)

Notes to the financial statements (Continued)

For the six months ended 30 June 2014

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

IX. CONTINGENCIES

1 **Contingent liabilities arising from outstanding litigations and arbitration and related financial effect**

No contingent liabilities arose from outstanding litigations and arbitration and related financial effect during the period.

2 **Contingent liabilities arising from guarantees provided for other enterprises and related financial effect**

At the balance sheet date, the Company provided guarantees for the bank loans of its subsidiaries amounted to 0 (2013: Nil). The Company provided guarantees for the bank loans and finance lease of its associate amounted to RMB 739,038,000 (2013: RMB 739,038,000).

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

Supplementary Information To Financial Statement

1 EXTRAORDINARY GAIN AND LOSS

Item	Note	Jan.-Jun. 2014	Jan.-Jun.2013
Disposal of non-current asset		154	173
Tax refunds, exemptions and reductions without proper approved or without formal approval document		—	2,225
Government grants recognised through profit or loss		508,620	2,639
Income from gas emission reduction		—	1,573
Other non-operating income and expenses other than the above items		81	(839)
Less: Amount of effect on taxation		76,328	1,291
Total		432,527	4,480

The above extraordinary gain and loss items are before taxation.

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 9 – Calculation and Disclosure of the Return on Net Assets and Earnings per share” (2010 revised) issued by the CSRC, the Group’s return on net assets is calculated as follows:

Profit under reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company’s ordinary equity shareholders	(10.01%)	(0.213)	(0.213)
Net profit deducted extraordinary gain and loss attributable to the Company’s ordinary equity shareholders	(14.59%)	(0.311)	(0.311)

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

(1) Cash at bank and on hand

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

(2) Prepayment

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

(3) Inventories

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

(4) Fixed assets

The increase in the balance of fixed assets was mainly due to transference of the construction in progress into fixed assets.

(5) Construction in progress

The increase in the construction in progress is due to the promotion of the construction progress of product structure adjustment project.

(6) Other non-current assets

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

(7) Short-term loan

The decrease in the balance of short-term loan was mainly due to the payment of short-term loan due.

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

(8) 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.

(9) Interest payable

The increase in the balance of interest payable was mainly due to the accrue of interest payable for debentures which was unpaid as at 30 June 2014.

(10) Other payable

The increase in the balance of other payable was mainly due to the increase payable to the Chongqing Iron and Steel Group Limited.

(11) Long-term loans

The increase in the balance of long-term loans was mainly due to increase in the loans for operating purpose.

(12) Long-term payables

The decrease in the balance of the long-term payables was mainly due to the payment of the financial lease.

(13) Operating income and operating costs

The decrease in the operating income and operating costs is mainly due to the decrease price of the product and the decrease sales volume.

(14) Financial expenses

The increase in financial expenses was mainly due to increase in the long-term loans which cause the increase of the interest expenses.

(15) Non-operating income

The increase in non-operating income was mainly due to the government grant gained.

Documents Available for Inspection

1. The copy of interim report signed by the Chairman.
2. The copy of financial report signed and sealed by the person in charge of the Company, the Chief Financial Officer and the Chief Accountant.
3. The copies of all documents of the Company which have been publicly disclosed in the newspapers designated by the CSRC during the Reporting Period.
4. The copies of summary of interim report published in China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and preliminary results announcement published on the website of Hong Kong Stock Exchange.

Chairman:

Chongqing Iron & Steel Company Limited

28 August 2014