



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)



INTERIM REPORT

2018

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IMPORTANT NOTICE

- I. The board of directors, the Supervisory Committee and directors, supervisors and senior management of the Company warrant that there are no false representations, misleading statements contained in or material omissions from this interim report and individually and collectively accept full responsibility for the truthfulness, accuracy and completeness of the contents hereof.
- II. All directors of the Company attended Board meetings.
- III. This interim report has not been audited.
- IV. Mr. Zhou Zhu Ping, head of the Company, Mr. Lv Feng, the Chief Financial Officer and the Chief Accountant, have declared that they guarantee the truthfulness, accuracy and completeness of the financial statements in the interim report.
- V. The profit distribution proposal or proposal to transfer capital reserve to share capital for the Reporting Period as considered by the Board
Nil
- VI. Risk warning in respect of forward-looking statements
 Applicable Not applicable
The forward-looking statements in this interim report, such as the future plans, are subject to uncertainties and do not constitute the Company's substantive undertakings to investors. Investors should pay attention to investment risks.
- VII. Is there any non-operational fund occupancy by the controlling shareholder or its related party?
No
- VIII. Is there any provision of external guarantee by the Company in violation of the stipulated decision making procedure?
No
- IX. Major Risk Warning
During the Reporting Period, there was no major risk warning
- X. Others
 Applicable Not applicable

Section I Definitions

Unless the context otherwise requires, the following expressions have the following meanings in this report:

DEFINITIONS OF COMMON TERMS

CSRC	China Securities Regulatory Commission
SSE	Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Siyuanhe Investment	Siyuanhe Equity Investment Management Co., Ltd.
Siyuanhe Fund	Siyuanhe (Shanghai) Steel Industry Equity Investment Fund Center (Limited Partnership)
Changshou Iron & Steel, controlling shareholder	Chongqing Changshou Iron & Steel Company Limited
Chongqing Iron & Steel Group	Chongqing Iron & Steel Company (Group) Limited
Company, Group, Chongqing Iron & Steel	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 general meeting of Chongqing Iron & Steel Company Limited
Articles of Association	Articles of Association of Chongqing Iron & Steel Company Limited
Companies Law	the Companies Law of the People's Republic of China
Reporting Period	From January to June 2018
RMB, RMB'000, RMB0'000, RMB000'000'000	RMB yuan, RMB thousand yuan, RMB ten thousand yuan, RMB hundred million yuan

Section II Company Profile and Major Financial Indicator

I. COMPANY INFORMATION

Chinese name	重慶鋼鐵股份有限公司
Abbreviation of Chinese name	重慶鋼鐵
English name	Chongqing Iron & Steel Company Limited
Abbreviation of English name	CISC
Legal representative	Zhou Zhu Ping

II. CONTACT INFORMATION

	Secretary to the Board	Securities representative
Name	Yu Hong	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	IR@email.cqgt.cn	IR@email.cqgt.cn

III. 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	IR@email.cqgt.cn
Query index for the change during the Reporting Period	There was no change during the Reporting Period.

Section II Company Profile and Major Financial Indicator (Continued)

IV. CHANGE IN DISCLOSURE OF INFORMATION 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 posting the interim report	http://www.sse.com.cn , http://www.hkex.com.hk (HKEx)
Place for inspection of the interim report	Secretariat of the Board of the Company
Query index for the change during the Reporting Period	There was no change during the Reporting Period.

V. BASIC INFORMATION ABOUT THE SHARES OF THE COMPANY

Class of shares	Place of listing	Abbreviated name	Stock code	Stock name before change
A shares	Shanghai Stock Exchange	Chongqing Iron & Steel	601005	*ST Chonggang
H shares	The Stock Exchange of Hong Kong Limited	Chongqing Iron & Steel	1053	No

VI. OTHER RELATED INFORMATION

Applicable Not applicable

Accounting firm engaged by the Company (domestic & overseas)	Name	Ernst & Young Hua Ming LLP
	Office address	16/F, Ernst & Young Tower, Oriental Plaza, 1 East Chang'an Avenue, Beijing, the PRC
	Name of accountants signing-off the report	Chen Xiaoxiang (陳曉祥), Ai Wei (艾維)

Section II Company Profile and Major Financial Indicator (Continued)

VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

(I) Key Accounting Data

Unit: RMB'000 Currency: RMB

Key accounting data	This Reporting Period (January to June)	Same period last year	Change from the same period of last year to this Reporting Period (%)
Revenue	11,092,899	4,521,727	145.32
Net profit attributable to shareholders of the Company	761,960	-998,482	Not applicable
Net profit attributable to shareholders of the Company after deduction non- recurring profit or loss	736,096	-1,004,337	Not applicable
Net cash flow generated from operating activities	-1,301,188	-82,023	-1,486.37

	At the end of the Reporting Period	At the end of last year	Change from the end of last year to the end of the Reporting Period (%)
Net assets attributable to shareholders of the Company	17,499,888	16,730,115	4.60
Total assets	24,402,346	25,012,459	-2.44

Note: The net cash flow from operating activities decreased significantly year-on-year. The main reasons are as follows: 1. The Company has fully repaid the agreed supply debts and the relevant employees' claims in the amount of approximately RMB1.1 billion, which was derived by the continuous performance of contracts and judicially adjudicated in the process of judicial reorganization in the end of June 2018, such that cash outflow from operating activities increased; 2. In the first half of 2018, the Company effectively implemented the production and operation policy of "achieving full production and sales", and further expanded the scale of production and sales to ensure stable production and crude fuel inventory increased significantly. The inventory occupied funds at the end of the Reporting Period increased by approximately RMB674 million compared to the beginning of the period, resulting in an increase in cash outflows from operating activities; 3. To ensure the variety and quality of crude fuel resources, the Company gradually established direct cooperation with relevant excellent suppliers and crude fuel advance payments increased by RMB151 million compared to the beginning of the period, resulting in an increase in cash outflows from operating activities.

Section II Company Profile and Major Financial Indicator (Continued)

VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY (CONTINUED)

(II) Key Financial Indicators

Key financial indicators	This Reporting Period (January to June)	Same period last year	Change from the same period of last year to this Reporting Period (%)
Basic earnings per share (<i>RMB per share</i>)	0.09	-0.23	139.13
Diluted earnings per share (<i>RMB per share</i>)	0.09	-0.23	139.13
Basic earnings per share after deducting non-recurring profit or loss (<i>RMB per share</i>)	0.08	-0.23	134.78
Weighted average return on net assets (%)	4.45	Not applicable	
Weighted average return on net assets after deducting non-recurring profit or loss (%)	4.30	Not applicable	

Explanation on the major financial data and financial indicators

Applicable Not applicable

VIII. DIFFERENCE IN ACCOUNTING DATA BETWEEN THE PRC ACCOUNTING STANDARDS AND OVERSEAS ACCOUNTING STANDARDS

Applicable Not applicable

Section II Company Profile and Major Financial Indicator (Continued)

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

Applicable Not applicable

Unit: RMB'000 Currency: RMB

Non-recurring profit or loss items	Amount
Gains from disposal of non-current assets	8,482
Government grants charged in the profit or loss for the current period (except for those closely related to the ordinary operation and gained constantly at a fixed amount or quantity according to certain standard based on state policies)	1,502
Capital occupied income from non-financial entities	31,896
Non-operating income and expenses other than the above items	-13,717
Impact of non-controlling interest (after tax)	-531
Impact of income tax	-1,768
Total	25,864

X. OTHERS

Applicable Not applicable

Section III Company Business Summary

I. MAIN BUSINESS, OPERATIONAL MODE OF THE COMPANY AND EXPLANATION ON INDUSTRY SITUATION DURING THE REPORTING PERIOD

The Company is mainly engaged in the production, processing and sale of steel plates, steel sections, wire rods, bar materials, billets and thin plates; production and sale of coal chemical products, pig iron & grain slag, steel slag, and steel scrap.

The quality, environment and occupational health and safety management system of the Company was built according to ISO9001–2015, ISO14001–2015 and GB/T28001: 2011 standards. Some of its products such as the steel plates for ship plate, boiler and pressure vessel won national golden quality awards, the “Golden Cup Award” for the physical quality of metallurgical products and the honour of Products of Top Brands in Chongqing for many times. Its steel plates for ship plates of normal and high strength and ship structures of ultra-high strength have passed the certification of ship classification societies in nine countries, namely China, the United States, the United Kingdom, Germany, France, Norway, Japan, South Korea and Italy.

The Company currently mapped out the market positioning of “taking root in Chongqing, pursuing further development in Sichuan and Chongqing, and branching out across southwest regions” and focused on the operational policies “achieving full production and sales, low cost and high efficiency” to strengthen cost management and optimize product mix. Following the orientation of the market and the principle of prioritising efficiency, the Company increased the production and sales of core products with high added value, such as high strength structural steel plates, steel plates for boiler and pressure vessel, steel plates for high-rise architecture structures, structural steel for bridges, quality carbon-structured steel, hot rolling steel for automobiles, cold rolled base material, earthquake resistant steel for buildings, etc. The Company rebuilt the marketing system featured with direct supply, sales and distribution to achieve product appreciation.

In the first half of 2018, the international trade environment became increasingly complicated and austere with continuous decline in the export of steel products. China actively promoted the supply-side reform in the iron and steel industry, vigorously conducted supervisions and inspections on environmental protection and restricted production for environmental protection. The results in solving overcapacity and eliminating the “ground steel strip” were consolidated, the quality production capacity was effectively unleashed and the supply and demand of iron and steel achieved balance generally. The median value of the steel price index jumped from 107.61 in 2017 to 114.75 in the first half of 2018 while the price of iron ores witnessed weak fluctuation. All in all, iron and steel enterprises continued to see improved profits and the environmental protection continued to be enhanced.

Looking into the second half of 2018, the control on environment protection will remain strict with growing efforts on production curtailment and expanding areas under restriction and the growth in the supply of iron & steel will be further restrained. In respect of demand, with changes in the domestic economic situation and the increasingly intensified trade war between China and the U.S., the domestic economy is set to see stable growth with expected higher growth in infrastructure investment and further optimized fundamentals of supply and demand, thus the prospects of the steel market are still expected. Meanwhile, the evolving of the trade war between China and the U.S. coupled with changes in the macroeconomic environment will bring uncertainties to the operation trend of the iron & steel industry.

Section III Company Business Summary (Continued)

II. EXPLANATION ON SUBSTANTIAL CHANGES OF MAJOR ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

Applicable Not applicable

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Applicable Not applicable

Since the beginning of the judicial reorganization, the Company, with the market positioning of “taking root in Chongqing, pursuing further development in Sichuan and Chongqing, and branching out across southwest regions” and the vision of “becoming the most competitive iron & steel company in southwest regions, the leader among mainland steel plants characterized by eco-friendly development and active transformation and upgrade and the model for common development of employees and the enterprise”, the Company constantly deepened reform and carried out strategies with leading cost and manufacturing technology to make Chongqing Iron & Steel to “Be Strong”, “Be Beautiful” and “Be Attractive” and enhance the core competitiveness of the Company.

1. Geographical advantages. The Company is the only iron and steel conglomerate meeting national policies on the industry in Chongqing market and southwestern regions with net inflows in steel consumption. With its proximity to the Yangtze River, the Company enjoys favourable logistic conditions of the port with its products mainly sold in southwestern regions and regions along the Yangtze River. It boasts obvious comparable advantages in regional markets and enjoys bright development prospects.
2. System and mechanism advantage. Siyuanhe Investment, the de facto controller of Chongqing Iron & Steel, fully displayed the advantages of mix ownership, introduced professional managers and established a streamlined and efficient operation system and a fully market-oriented incentive mechanism for the Company, which integrated the interests of the employees with the performance and the corporate value of the Company and injected vitality and momentum to the sustainable development of the Company.
3. Technical advantage of the production line. The Company was included amongst the third batch of pilot enterprises of recycling economy by the National Development and Reform Commission and passed the environmental assessment and acceptance of the Ministry of Environmental Protection. The production equipment of the Company is above the average level of the country, its product structure meets the development demands in regional markets and the “Sanfeng” brand is highly recognized in regional markets. The Company owned innovative technical achievements with proprietary intellectual property rights such as the “one molten iron tank” in the steel making techno-interface method and dry-type vacuum metallurgical technology (“乾式真空冶金技術”).
4. Advantage of the management team. The Company brought in a management team with profound management experience in the steel industry by taking advantage of the strengths and resources of the shareholders and established a development route for green and intelligent manufacturing, hence providing solid support to the sustainable development of the Company.

Section IV Management Discussion and Analysis

I. MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, the Company earnestly implemented the operation principle of “achieving full production and sales, low cost and high efficiency” and the strategies of cost leadership and leading manufacturing technologies. It advanced a smooth integration of production, supply and sale and realised stable and smooth production, substantial improvement of cost effectiveness, and rapid growth of systematic capabilities. In the first half of the year, the Company realised iron, steel and steel products production of 2,784,500 tonnes, 3,100,100 tonnes and 2,966,900 tonnes respectively, representing an increase of 79.10%, 89.96% and 91.57%, respectively, as compared to the same period last year; sales of steel products of 2,943,500 tonnes, representing a year-on-year increase of 125.45%; revenue of RMB11.093 billion, representing a year-on-year increase of 145.32%; and total profit of RMB763 million, marking a dramatic turnaround as compared with the loss of RMB999 million of the same period last year. Earnings before interest, taxes and depreciation (EBITDA) rose from RMB205 million in the same period last year to RMB1.348 billion, representing an increase of 5.58 times. The asset-liability ratio at the end of the half-year period further decreased from 32.62% at the end of the first quarter to 28.29%, representing a decrease of 74.72 percentage points from 103.01% in the same period of last year. The Company’s production and operation entered a virtuous cycle.

In the first half of the year, the Company had taken the following key measures:

1. Through accurate market positioning and restructuring of the marketing system, the Company’s position in regional market gradually changed from “getting on the bandwagon” to “taking the lead”
 - (1) The Company mapped out the market positioning of “taking root in Chongqing, pursuing further development in Sichuan and Chongqing, and branching out across southwest regions”. In the first half of the year, according to the market and customer needs, the Company reasonably arranged product flow and proactively expanded the channel layout, which resulted in a significant year on-year increase in the market share in Chongqing and Chengdu. In the second quarter, the Company’s medium and heavy sheets accounted for 85% and 60% of the market share in Chongqing and Chengdu, respectively; while its hot rolled coil accounted for 80% and 25% of the market share in Chongqing and Chengdu, respectively.
 - (2) A marketing system featured with direct supply, sales and delivery was established to achieve sales premium and appreciation. Based on in-depth analysis of regional market demand, the Company further tapped the terminal market. In the first half of the year, the proportion of direct supply of major products to strategic direct supply users rose sharply, amounting to more than 40%. The Company established factory distribution centers and developed its own logistics distribution and service platform, striving to increase direct delivery and realise benefits and value appreciation through logistics chain and service.
 - (3) Leveraging the development opportunities brought by the western development and the Belt and Road, the Company made its foray into the market of steel for steel structures. In the first half of the year, the Company focused on the construction of major projects and key municipal projects in the regional market, and managed to supply products for key projects including Xi’an Silk Road Convention Center, Chongqing Raffles Plaza, Chengdu Tianfu International Airport, Hengfeng Guiyang Center, Xi’an Olympic Sports Center and Xi’an Jinmao Center and key infrastructure including Longzhouwan Tunnel Project, Chongqing Light Rail Line 10, Yulin River Bridge, Luzhou Yangtze River Bridge 6 and Guangxi Pingnan Bridge 3.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. The procurement supply chain management was remodeled
 - (1) The procurement supplier structure was optimised. In the first half of the year, the Company consolidated and upgraded the proportion of strategic suppliers, expanded the scope, platform, resources and channels of procurement, and realised resource guarantee, structural optimisation, platform consolidation, and smooth channels. The resource channels were stabilised through expanding and strengthening cooperation with quality ore suppliers; due to the strengthened cooperation, the proportion of direct supply + strategic coal resources steadily increased. The Company effectively reduced the restriction in terms of coal resources purchased from other places and logistics through intensifying the cooperation in respect of local direct supply of resources, resulting in a substantial increase in the proportion of local resources.
 - (2) By strengthening tracking and analysis of market information on ore, coal and scrap steel, the Company implemented strategic procurement when the prices temporarily touched the bottom.
3. The capability in production organisation and management and equipment support was intensified
 - (1) The Company promoted first-class and lean management of plan and organisation, to ensure the centralised, unified and efficient plan and organisation throughout the process from raw material procurement to product delivery; and set up the principle of “process obedience and mutual support” to maintain a safe, stable and smooth production system. In addition, the Company strengthened contract fulfillment management and improved contract completion capability.
 - (2) In order to achieve “stable state, effectiveness of functions and maintenance of precision”, the Company propelled integrated management of equipment. Spot inspection management was intensified so as to ensure reliable operation of equipment in each production line under high load production conditions. In the first half of the year, the Company completed “adjustments and replenishments” for equipment at a faster pace, put in maintenance cost of RMB446 million and significantly improved the disrepair of equipment of all processes of the Company, which effectively guaranteed the functionality of equipment and dramatically reduced equipment failure rate.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Optimisation of product mix was promoted based on the analysis of product profitability
 - (1) The Company established and improved the product profitability analysis system, which was capable of providing prompt external response and effective internal synergy, and allocating production lines and product resources reasonably, dynamically and efficiently, based on the product profitability. As a result, the great misalignment between the previous product mix and the demand in the target market and the situation of external-dependent purchase and sales were practically changed.
 - (2) The existing product mix was optimised at a higher speed. Leveraging its advantages in production lines and product portfolio, the Company applied its years of advantages in medium and heavy sheets products into high value-added products for building structures and generated products with different quality, including Q345 to Q420 series of structural steel for bridges and buildings, Q345 to Q690 low-alloy high-strength structural steel plates as well as products with Z-direction properties, thus improving the proportion and structure of variety steel and boosting the profitability of production lines.
 - (3) More efforts were devoted to the development of new high value-added products. Giving play to the advantages in the production sales-research linkage mechanism and closely following market demands, the Company expanded downstream industries and customers for high value-added products and promoted the development of new products in the first half of the year. It developed HB400 (NM400) high-strength abrasion resistance steel plates used for engineering machinery and completed the trial production of HRB500E thread steel; and continued to advance the development of high-strength steel belts for vehicles with series of products, including CG590CL and 610L, already put into the market.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5. The cost management system was established and improved and meticulous cost management was implemented
 - (1) The cost management system was consummated. The Company shifted the emphasis in cost management from the headquarters to the cost center to specify and implement responsibilities in grass-root cost management; it completed the connection of the financial information system and all business information systems and thus enhanced the standardisation, accuracy, timeliness and comprehensiveness of major business and fundamental financial data.
 - (2) The thorough synergy between finance and business was reinforced. The Company set up a hierarchical technical index system to match the standards of advanced enterprises externally and meet the standards of all cost centers internally through comparing with budget targets, the performance of the previous period, the best performance in history and other procedures, and provide on-site guidance on cost improvement; it increased the weightiness of cost management in the performance appraisal system and set up rewards for cost reduction and efficiency enhancement, which is based on the cost, consumption and index of all processes.
 - (3) The overall planning on cost reduction was advanced. On the basis of cost, index and consumption under full production and sales, which became reasonable stepwise in the first quarter, the Company systematically schemed, formulated and promoted the annual overall planning on cost reduction in the second quarter. It strengthened the establishment of the overall planning system on annual cost reduction, index subdividing, implementation of responsibilities, tracking and analysis, appraisal and encouragement. As a result, the proportion of contribution from internal cost reduction gradually increased and the cost safety margin further hiked in the first half of the year.
 - (4) Plans for Coal blending and ore blending were optimised. In close accordance with market conditions, dynamic adjustments were made with the orientation of the “optimal molten iron cost”, achieving structural cost reduction. The Company implemented the principle of best quality to enhance index on process control. In the second quarter, the hot strength, ash content and sulfur content of coke reached 63.36%, 13.25% and 1.10% while the tumbler strength of sintering mines and the comprehensive grade of furnace coke were 77.27% and 58.25%, respectively, all representing their respective best standard historically, which laid a solid foundation for the stable and high production of blast furnaces and cost reduction. Technological cost reduction was carried out comprehensively. In the first half of the year, the Company augmented the learning, application and promotion of advanced and mature technologies in the industry. In the second quarter, the consumption of hot molten iron in the first and second steel making plants reached 871.16kg/t and 865.84kg/t, respectively, reaching the advanced level in the industry.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

6. Increasing investment in environmental protection and carrying out special treatment for energy conservation and environmental protection
 - (1) Efforts were devoted to renovate the environment protection functions of facilities and to guarantee the synchronous operation rate. The Company further strengthened environmental awareness and carried out function renovation for the existing 72 sets of environmental protection facilities in the first half of the year. It contributed eco-friendly operation fees of RMB367 million to ensure 100% synchronous operation of the environmental protection facilities.
 - (2) Special environmental management projects were launched. In the first half of the year, the Company thoroughly inspected the operation efficiency and effectiveness of environmental protection facilities, and conducted centralised rectification on treatment of waste water, exhaust, dust and solid waste. In terms of the waste water system, efficiency of coking waste water treatment was improved and the concentration of pollutants in recycling coking water was reduced to make sure that the quality of water with ammonia nitrogen met the index requirements. Waste water from the sintering desulfurization system was recycled and reused in the system after satisfying the standards. The emergency response capacity in the central waste water treatment system was enhanced to guarantee conformable water quality, improve recycling rate and reduce waste water discharge. As for waste gas treatment, the main target was to control disordered emissions in the plant area and reduce total dust fall. In the first half of the year, 22 treatment projects were implemented. The disordered emissions of dust in the plant area were effectively controlled, and the dustfall in the plant area decreased by 36.8%, thus completing the periodical treatment targets.
7. Comprehensive transformation was carried out with the view of developing systematic capabilities
 - (1) The “100-day Plan” was fully promoted to complete key tasks and solve difficulties. Proceedings from project-based method, a special action plan was formed in six aspects including full production and full sale, capability of cost management and control, energy saving and emission reduction, technical transformation of spare parts and utilisation of inventories, management capacity improvement, the Party building and employee care action. The Company also screened and developed the “Quickly-won Project”, and promoted the “filling-in and replenishing” for the production and operation and corporate management as soon as possible.
 - (2) Organisational framework was optimised and post setup was streamlined. The Company solved the problem of “lack of function and absence of management”, clarified and implemented professional management responsibility. The Company implemented reform of separation of production execution segment and professional management functions in each secondary production plant, integrated the functional departments for simplicity and efficiency, and streamlined management structure to ensure smooth production, orderly management and a stable team.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

7. Comprehensive transformation was carried out with the view of developing systematic capabilities (Continued)
- (3) It standardised the management system, updated the management process, and achieved “concentrated and consistent” management. The Company developed 36 new systems, made amendments to 212 systems and abolished 8 systems.
 - (4) The “horse racing mechanism” was rolled out to stimulate the vitality of employees. The Company fully implemented the “horse racing mechanism”, which prescribed that, all management personnel at the office head-level or above should be appointed through open recruitment, aiming at creating a fair, just and open environment to compete for the positions, and inspiring the employees.
 - (5) Performance-oriented approach was advocated and remuneration reform was promoted. By fully utilizing the advantages of mixed ownership, the Company actively promoted the incentive mechanism reform, advocated performance-oriented approach, designed a market-competitive remuneration system and introduced cost reduction and efficiency enhancement incentive plan as well as profit sharing plan which were linked to cost improvement and operation performance. It integrated the interests of management, employees and the shareholders, aiming to accomplish mutual development of the employees and the Company.

In the first half of the year, the Board and the General Meeting considered, approved and disclosed the 2018 – 2020 Employee Share Ownership Plan (Draft), pursuant to which, the performance incentives for the management and key staff of core technology, business and management would be honoured through the employee share ownership plan to arouse the enthusiasm of the management and core staff, accomplish shared responsibility, risk and benefits and facilitate the long-term and stable development of the Company and improvement of the shareholder value.

8. The promise to compensate the supply debts and employee claims of the judicial reorganization was fulfilled, and the business reputation has gradually improved.

In the first half of the year, the Company has already fully compensated the supply debts and employee claims of the judicial reorganization as agreed; as the administrator has made a decision to discharge the joint venture contract, the Company has completed the liquidation and deregistration procedures of Chongqing POSCO Chonggang Automobile Co., Ltd. (重慶浦項重鋼汽車板有限公司) and Chongqing Chonggang Heavy and High-strength Cold-Rolled Sheet Co., Ltd (重慶重鋼高強冷軋板材有限公司) as planned in the first half of the year. In the first half of the year, the Company has kept its promises and faithfully performed its contractual duties. The financial institutions gradually recovered their confidence. As of the end of the Reporting Period, the Company has obtained a credit line of RMB1 billion.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

9. Development plans were in place for future prosperity

In the first half of the year, the Company organised and prepared the plan on future process optimisation and green smart manufacturing improvement. In the short term, it mainly improved the existing facility and equipment and enhanced the competitiveness of long products. In the medium term, it gradually increased production and gave effect to the economies of scale. In the long run, the Company aimed to enhance product mix and ameliorate the process. The plan will pave the way for the Company in developing into the most competitive steel enterprise in Southwest China, creating a modern production mode with less environmental impact and high resource efficiency, and building a green steel plant with clean production, waste reclamation and low-carbon emission; the Company will integrate intelligent and information technologies into the steel technology to build an intelligent manufacturing system and lay a sound foundation for the sustainable development of the enterprise.

In 2018, the Company plans to achieve 5.37 million tonnes of iron production, 6 million tonnes of steel, and 5.75 million tonnes of commodity billets.

In the second half of 2018, the Company will aim at becoming “the most competitive steel enterprise in Southwest China; the transforming and upgrading leader of environmentally friendly steel mill in the mainland; a model company in which employees and enterprises mutually develop”. It also continues to strengthen the reform, to focus on the target of “full production full sales”, to emphasise on market demand and profitability, to optimise the existing product structure, and to continue promoting the marketing strategies of “direct supply, direct sales and direct distribution”. It builds a foundation in Sichuan and Chongqing and further explores the Yuan Gui Region, improving the capabilities of the marketing network and fully expanding its influence in the regional market. The Company also further enhances the ability to respond quickly to market changes, promotes the launch of smart logistics operation platform for products, improves the efficiency of logistics and delivery, reduces the cost of logistics so as to improve user satisfaction, and continues to focus on cost reduction in regard to the system and techniques as well as to develop potential personnel internally and reducing the cost, in order to equip with stronger competitiveness regarding costs in the southwest region at the end of 2018.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis

1. Analysis of changes in certain items from financial statements

Unit: RMB'000 Currency: RMB

Subject	For the period	For the corresponding period last year	Change (%)
Revenue	11,092,899	4,521,727	145.32
Cost of sales	9,344,298	4,412,817	111.75
Distribution and selling expenses	41,986	23,681	77.30
General and administrative expenses	731,376	532,656	37.31
Financial expenses	147,250	515,559	-71.44
Total profit	762,972	-998,821	Not applicable
Net cash flow from operating activities	-1,301,188	-82,023	-1,486.37
Net cash flow from investing activities	664,294	-17,868	Not applicable
Net cash flow from financing activities	217,947	109,566	98.92
R&D spending	221,857	126,312	75.64

Note: Net cash flow from investing activities increased significantly, which is mainly attributable to the receipt of investment income from financial products of RMB660 million by Chongqing Chonggang Heavy and High-strength Cold-Rolled Sheet Co., Ltd., a subsidiary of the Company.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis (Continued)

2. Others

- (1) Detailed notes to the major changes in the Company's profits structure or profits sources

Applicable Not applicable

In the first half of 2018, the Group realized an operating income of RMB11.093 billion, with a year-on-year increase of 145.32%; it incurred an operating cost of RMB9.344 billion, with a year-on-year increase of 111.75%; and it recorded a gross profit of RMB763 million, representing a year-on-year increase of RMB1.762 billion as compared with the loss of RMB999 million last year. The considerable turnaround was mainly attributable to:

- ① In the first half of 2018, revenue of the principal operations of the Group amounted to RMB11.066 billion, representing a year-on-year increase of 145.32%, mainly attributable to the expansion of production scale, the full production and sales, the increased sales volume and the rising selling price of steel products.

Type	First half of 2018		First half of 2017		Year-on-year percentage growth of Amount (%)
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)	
Plate products	2,654,990	23.99	734,615	16.29	261.41
Hot rolled coil	6,004,637	54.26	2,980,277	66.07	101.48
Rod products	918,454	8.30	207,770	4.61	342.05
Wire rods	939,650	8.49	-	-	/
Sub-total of rolled steel					
billet	10,517,731	95.04	3,922,662	86.97	168.13
Processing on order	-	0.00	164,340	3.64	/
Others	548,036	4.96	423,685	9.39	29.35
Total	11,065,767	100.00	4,510,687	100.00	145.32

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis (Continued)

2. Others (Continued)

(1) Detailed notes to the major changes in the Company's profits structure or profits sources (Continued)

① (Continued)

In the first half of 2018, revenue from the sale of rolled steel billet of the Group amounted to RMB10.518 billion, representing an increase of RMB6.595 billion as compared with the corresponding period of last year. This was mainly attributable to the increase in both selling price and sales volume. The average selling price of rolled steel billet of the Group was RMB3,573 per tonne, representing an increase of 18.94% as compared with the corresponding period of last year, leading to an increase of RMB1.507 billion in the sales income. The Group sold 2,943,500 tonnes of rolled steel billet, representing a year-on-year increase of 125.45%, leading to an increase of RMB5.088 billion in the sales income.

Item	Selling price for the first half of 2018 RMB/tonne	Selling price for the first half of 2017 RMB/tonne	Year-on-year growth (%)	Revenue increase (RMB'000)
Plate products	3,776	2,976	26.88	562,724
Hot rolled coil	3,515	2,993	17.44	891,249
Rod products	3,498	3,297	6.10	52,603
Wire rods	3,488		/	
Total	3,573	3,004	18.94	1,506,576

Item	Sales volume for the first half of 2018 (0'000 tonnes)	Sales volume for the first half of 2017 (0'000 tonnes)	Year-on-year growth (%)	Revenue increase (RMB'000)
Plate products	70.30	24.68	184.85	1,357,651
Hot rolled coil	170.85	99.58	71.57	2,133,111
Rod products	26.26	6.30	316.83	658,081
Wire rods	26.94		/	939,650
Total	294.35	130.56	125.45	5,088,493

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis (Continued)

2. Others (Continued)

(1) Detailed notes to the major changes in the Company's profits structure or profits sources (Continued)

② The principal operations realized a gross profit of RMB1.726 billion, representing a year-on-year increase of RMB1.625 billion, mainly due to the significant increase in sales volume and selling price of steel products, enhancement of cost control and the decrease of purchasing and processing cost.

③ The Group incurred expenses for the period in the amount of RMB921 million, representing a year-on-year decrease of RMB151 million, mainly attributable to: first, the year-on-year increase of RMB18 million in selling expenses as a result of the year-on-year increase in sales volume of steel products by 125.45% in the first half of the year; second, the Company's production scale improved, and in order to ensure the normal functioning of the equipment, the maintenance cost of the first half of the year was RMB446 million, resulting in an increase of RMB199 million in administrative expenses; third, the considerable year-on-year decrease of RMB368 million in finance costs benefiting from proper management of the Group's interest-bearing financial liabilities after the judicial reorganisation.

Item	Amount for the current Period (RMB'000)	Amount for the last period (RMB'000)	Percentage change in the amount for the current period as compared with that of the last period (%)
Distribution and selling expenses	41,986	23,681	77.30
General and administrative expenses	731,376	532,656	37.31
Financial expenses	147,250	515,559	-71.44
Total	920,612	1,071,896	-14.11

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis (Continued)

2. Others (Continued)

(2) Others

Applicable Not applicable

Principal operations by sectors, products and regions

By sectors	Principal operations by sectors					
	Income from principal operations (RMB'000)	Costs of principal operations (RMB'000)	Gross profit margin (%)	Change in operating income from last year (%)	Change in operating costs from last year (%)	Change in gross profit margin from last year
Iron and steel	11,065,767	9,339,727	15.60	145.32	111.81	Increased by 13.36 percentage points

By products	Principal operations by products					
	Income from principal operations (RMB'000)	Costs of principal operations (RMB'000)	Gross profit margin (%)	Change in operating income from last year (%)	Change in operating costs from last year (%)	Change in gross profit margin from last year
Rolled steel billet	10,517,731	8,816,571	16.17	168.13	129.52	Increased by 14.09 percentage points
Others	548,036	523,156	4.54	29.35	44.03	Decreased by 9.73 percentage points

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) Principal business analysis (Continued)

2. Others (Continued)

(2) Others (Continued)

Principal operations by sectors, products and regions

By regions	Principal operations by regions					
	Income from principal operations (RMB'000)	Costs of principal operations (RMB'000)	Gross profit margin (%)	Change in operating income from last year (%)	Change in operating costs from last year (%)	Change in gross profit margin from last year (%)
Southwest region	10,110,216	8,530,117	15.63	-	-	-
Other regions	955,551	809,610	15.27	-	-	-
Total	11,065,767	9,339,727	15.60	-	-	-

Note: Establishing a scientific marketing system with accurate market positioning. By leveraging its geographical advantages and product competitive edges, the Company mapped out the market positioning of “taking root in Chongqing, pursuing further development in Sichuan and Chongqing, and branching out across southwest regions”. In the first half of 2018, income from southwest regions accounted for 91.36%.

Regions	Income from principal operations (RMB'000)	As a percentage of income from principal operations (%)
Southwest region	10,110,216	91.36
Other regions	955,551	8.64
Total	11,065,767	100.00

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(II) Explanation on material change in profit due to non-principal business

Applicable Not applicable

(III) Analysis of assets and liabilities

Applicable Not applicable

1. Assets and liabilities

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets (%)	Amount at the end of the previous period	Percentage of the amount at the end of the previous period in total assets (%)	Year-on-year change (%)	Explanation
Cash and bank balances	450,015	1.84	2,050,538	8.20	-78.05	Payment for the supply debts and employee claims of the judicial reorganization
Notes and accounts receivables	1,595,154	6.54	167,134	0.67	854.41	Increased sales income and effective implementation of recovery of payments for goods policy
Prepayments	221,939	0.91	70,022	0.28	216.96	Expansion of production and sales volume and significant increase in raw material inventories
Other receivables	14,331	0.06	10,355	0.04	38.40	
Inventories	2,212,662	9.07	1,330,469	5.32	66.31	Expansion of production and sales volume and significant increase in raw material inventories
Other current assets	167,659	0.69	1,128,655	4.51	-85.15	Completion of liquidation of subsidiaries and the receipt of investment income from financial products
Long-term equity investments		0.00	124,158	0.50	-100.00	Completion of liquidation and cancellation of associates
Available-for-sale financial assets			5,000	0.02	-100.00	

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

1. Assets and liabilities (Continued)

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets (%)	Amount at the end of the previous period	Percentage of the amount at the end of the previous period in total assets (%)	Year-on-year change (%)	Explanation
Other equity investments	5,000	0.02				Not applicable
Property, plant and equipment	17,239,463	70.65	17,595,699	70.35	-2.02	
Construction in progress	10,702	0.04	8,695	0.03	23.08	
Intangible assets	2,485,434	10.19	2,521,734	10.08	-1.44	
Notes and accounts payables	1,138,403	4.67	2,155,294	8.62	-47.18	Payment for the supply debts of the judicial reorganization
Advance from customers			187,099	0.75	-100.00	Expansion of production and sales volume and strict implementation of sales policies
Contract liabilities	1,449,496	5.94				Not applicable
Employee benefits payable	128,587	0.53	563,547	2.25	-77.18	Payment for the employee claims of the judicial reorganization
Tax payable	10,668	0.04	13,095	0.05	-18.53	
Other payables	410,646	1.68	1,491,912	5.96	-72.48	Payment for the relevant secured claims of the judicial reorganization
Non-current liabilities due within one year	590,000	2.42	400,000	1.60	47.50	
Long-term borrowings	500,000	2.05	700,000	2.80	-28.57	
Long-term employee benefits payable	232,936	0.95	243,190	0.97	-4.22	
Provisions	0.00	0.00	11,204	0.04	-100.00	
Deferred income	41,722	0.17	43,154	0.17	-3.32	
Other non-current liabilities	2,400,000	9.84	2,400,000	9.60	0.00	

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

1. Assets and liabilities (Continued)

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets (%)	Amount at the end of the previous period	Percentage of the amount at the end of the previous period in total assets (%)	Year-on-year change (%)	Explanation
Share capital	8,918,602	36.55	8,918,602	35.66	0.00	
Capital reserve	19,282,147	79.02	19,282,147	77.09	0.00	
Special reserve	7,813	0.03	0.00	0.00	Not applicable	
Surplus reserve	606,991	2.49	606,991	2.43	0.00	
Accumulated losses	-11,315,665	-46.37	-12,077,625	-48.29	-6.31	
Total equity attributable to owners of the parent company	17,499,888	71.71	16,730,115	66.89	4.60	
Non-controlling interests	0.00	0.00	73,849	0.30	-100.00	

Note: The Group's asset-liability ratio at the end of the first half of the year was 28.29%.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

2. Major restricted assets at the end of the Reporting Period

Applicable Not applicable

Item	Carrying amount at the end of period (RMB'000)	As a percentage of similar assets	Notes
Inventories	1,170,000	Not applicable	Note 1
Property, plant and equipment- machinery and equipment	830,000	15.15%	
Property, plant and equipment- plant and buildings	1,853,622	15.76%	Note 2
Intangible assets	2,287,182	92.02%	Note 3
Total	6,140,804		

Note 1: In December 2017, the Group entered into a purchase agreement with Chongqing Qianxin International Trading Co., Ltd. ("Qianxin International") (重慶千信國際貿易有限公司), to ensure the smooth cooperation of the supply of raw materials. The Group's inventories with a net carrying amount of RMB1,170 million and machinery and equipment with a net carrying amount of RMB830 million were pledged to secure the above purchases.

Note 2: As at 30 June 2018, the plant and buildings with a net carrying amount of RMB1,854 million (31 December 2017: RMB963 million) were pledged to banks to secure the bank loans and facilities granted to the Group.

Note 3: As at 30 June 2018, the land use right with a net carrying amount of RMB2,287 million (31 December 2017: RMB1,405 million) was pledged to banks to secure the bank loans and facilities granted to the Group. The amortisation of above land use right for the current period was RMB29 million.

3. Other explanations

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(IV) Investment Analysis

1. *General analysis of external equity investment*

Applicable Not applicable

(1) *Significant Equity Investment*

Applicable Not applicable

(2) *Significant Non-Equity Investment*

Applicable Not applicable

(3) *Financial Assets Measured at Fair Value*

Applicable Not applicable

(V) Major Assets and Equity Disposal

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(VI) Analysis of principal controlled and investee companies

Applicable Not applicable

Unit: RMB'000

Name of the subsidiary/ investee companies	Principal business	Registered capital	Shareholdings (%)	Total assets	Net assets	Net profit
Jingjiang CIS Huadong Trading Co., Ltd.	Sale of metal and metal ore, manufacturing and sale of environmental pollution prevention and control equipment, etc	50,000	100	49,340	43,529	-
Chongqing CIS Building Materials Sales Co., Ltd	Sale of metal and metal products	10,000	100	5,212	-2,916	359

Note: The board of directors of the Company has approved the resolution of the cancellation of Jingjiang CIS Huadong Trading Co., Ltd (靖江華東商貿有限公司) and is currently handling the relevant procedures.

(VII) Structured entities under the control of the Company

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. OTHER DISCLOSURE

- (I) Warning and description of a forecast of recording a loss-making aggregate net profit from the beginning of the year to the end of next reporting period or recording a substantial year-on-year change

Applicable Not applicable

The Company's net profit for the first three quarters of last year was RMB-883 million. It is expected that the aggregate net profit at the end of the next reporting period will mark a dramatic turnaround. The specific data is subject to the disclosure of the third quarterly report.

- (II) Potential Risks

Applicable Not applicable

- (III) Other disclosure

Applicable Not applicable

- (1) *Compliance with the Corporate Governance Code*

To the best knowledge of the Board, the Company had complied with the requirements of the "Corporate Governance Code", Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange during the Reporting Period, and no deviation from the Code has been identified.

- (2) *Model Code for Securities Transactions by Directors*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code for trading of the Company's securities by Directors. All Directors of the Company confirmed upon specific enquiries that they had complied with the required standards as set out in the Model Code for the six months ended 30 June 2018.

II. OTHER DISCLOSURE (CONTINUED)

(III) Other disclosure (Continued)

(3) *Interim dividend*

Given the fact that the undistributed profit of the Company remained negative as of the end of the Reporting Period, the Company does not recommend distribution of any interim dividend for the six months ended 30 June 2018.

(4) *Purchase, Sale or Redemption of Listed Securities of the Company*

None of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company during the Reporting Period.

(5) *Major acquisition and disposal of subsidiaries and affiliates*

No major acquisition and disposal of subsidiaries and affiliates occurred during the Reporting Period.

(6) *Audit Committee*

The Audit Committee is comprised of three independent non-executive directors and one non-executive director, namely, Xin Qingquan, Zheng Jie, Wong Chunwa and Zheng Yuchun with Mr. Xin Qingquan acting as the chairman of the Audit Committee.

The unaudited interim financial report of the Company for the six months ended 30 June 2018 had been reviewed by the members of the Audit Committee before submitting to the Board for approval.

Section V Significant Events

I. INTRODUCTION OF GENERAL MEETINGS

Meeting	Date	Website designated for publication of resolutions	Date of publication of resolutions
2018 First Extraordinary General Meeting	29 January 2018	Announcement on Resolutions of 2018 First Extraordinary General Meeting (Ann. No.: 2018-006) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn)	30 January 2018
2017 Annual General Meeting	15 May 2018	Announcement on Resolutions of Annual General Meeting of 2017 (Ann. No.: 2018-027) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn)	16 May 2018

Explanation on shareholders' meeting

Applicable Not applicable

The 2018 First Extraordinary General Meeting of the Company was convened by the Board of the Company and presided by the chairman Mr. Tu De Ling. The convening of and the procedures for holding the meeting and the voting procedures at the meeting were in compliance with the relevant requirements of the Company Law and other laws and regulations as well as the Articles of Association of the Company. The following resolutions were approved at the meeting: 1. resolution on the proposed amendments to the Articles of Association of Chongqing Iron & Steel Company Limited; 2. resolution on the by-election of directors of the seventh session of the board of directors of the Company; 3. resolution on the election of independent non-executive director of the seventh session of the board of directors of the Company; 4. resolution on the by-election of shareholders representative supervisors of the seventh session of the Supervisory Committee of the Company.

Section V Significant Events (Continued)

I. INTRODUCTION OF GENERAL MEETINGS (CONTINUED)

Explanation on shareholders' meeting (Continued)

The 2017 Annual General Meeting of the Company was convened by the Board of the Company and presided by the chairman Mr. Zhou Zhu Ping. The convening of and the procedures for holding the meeting and the voting procedures at the meeting were in compliance with the relevant requirements of the Company Law and other laws and regulations as well as the Articles of Association of the Company. The following resolutions were approved at the meeting: 1. the performance report of the independent directors of the Company for the year 2017; 2. the report of the board of directors of the Company for the year 2017; 3. the report of the Supervisory Committee of the Company for the year 2017; 4. the 2017 annual report of the Company; 5. the final financial accounts report of the Company for the year 2017; 6. the proposal in relation to no profit distribution by the Company for the year 2017; 7. the proposal for the budget of the Company for the year 2018; 8. the proposal for engagement of the financial and internal control auditor of the Company for the year 2018; 9. the proposal for the amendment to the Rules of Procedure for the Board of Directors of Chongqing Iron & Steel Company Limited; 10. the proposal for the amendment to the Rules of Procedure for the Supervisory Committee of Chongqing Iron & Steel Company Limited; 11. the plan for the remunerations of the directors and supervisors of the eighth session of board of directors and Supervisory Committee; 12. the proposal for the Employee Share Ownership Plan from 2018 to 2020 (Draft) of Chongqing Iron & Steel Company Limited and its summary; 13. the proposal for Management Measures on Employee Share Ownership Plan of Chongqing Iron & Steel Company Limited; 14. the proposal for the proposed authorisation to the board of directors by the general meeting to handle relevant matters regarding employee share ownership plan; 15. the proposal for election of directors of the eighth session of the board of directors of the Company; 16. the proposal for election of independent non-executive directors of the eighth session of the board of directors of the Company; 17. the proposal for election of shareholder representative supervisors of the eighth session of the Supervisory Committee of the Company.

Section V Significant Events (Continued)

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

(I) Interim proposals on profit distribution and the proposal on transferring capital reserve to share capital

Profit distribution or transfer of capital reserve to share capital: No

Relevant explanation on proposals on profit distribution and transfer of capital reserve to share capital

Given the accumulated undistributed profit of the Company remained negative as at the end of the Reporting Period, there was no profit distribution or transfer of capital reserve to share capital in the first half of 2018.

III. COMPLIANCE WITH UNDERTAKINGS

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period

Applicable Not applicable

Background	Type	Commitment party	Commitment Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Commitment made in acquisition report or equity change report	Restriction on sale of shares	Changshou Iron & Steel	In 36 months after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the shares of Chongqing Iron & Steel held by Changshou Iron & Steel will not be transferred. In five years after the date of completion of the implementation of the bankruptcy reorganisation plan, the control over Chongqing Iron & Steel will not be transferred, except when Changshou Iron & Steel transfers the controlling interests in Chongqing Iron & Steel to China Baowu Steel Group Corporation Limited or its holding subsidiaries.	From 29 December 2017 to 28 December 2020	Yes	Yes
	Restriction on sale of shares	Siyuanhe Fund	In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the controlling interests held by the Siyuanhe Fund in Changshou Iron & Steel will not be lost by way of transferring or capital increase or by other means, except when the Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries.	From 29 December 2017 to 28 December 2022	Yes	Yes

Section V Significant Events (Continued)

III. COMPLIANCE WITH UNDERTAKINGS (CONTINUED)

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period (Continued)

Background	Type	Commitment party	Commitment Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	Restriction on sale of shares	Siyuanhe Investment	In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the Siyuanhe Investment will precipitate Siyuanhe Fund to hold the controlling interests in Changshou Iron & Steel by way of transferring or capital increase or by other means, except when Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries.	From 29 December 2017 to 28 December 2022	Yes	Yes
	Others	Changshou Iron & Steel	During the period when Changshou Iron & Steel holds the shares of Chongqing Iron & Steel, Changshou Iron & Steel will, in strict compliance with the rules of CSRC, Stock Exchanges, as well as those of the management system of Chongqing Iron & Steel such as the Articles of Association, exercise the shareholders' rights and fulfill the shareholders' obligations in the same manner as other shareholders. The company will not seek improper interests by using the position of shareholders but respect the independence of Chongqing Iron & Steel in terms of its personnel, assets, business, finance, and organization.	1 December 2017	No	Yes
	To solve the horizontal competition	Changshou Iron & Steel	(1) As of 1 December 2017, Changshou Iron & Steel has not engaged in any business that is the same as or similar to the existing core business of Chongqing Iron & Steel. (2) During the period when Changshou Iron & Steel is the controlling shareholder of Chongqing Iron & Steel, if Changshou Iron & Steel obtains a business opportunity of engaging in the same business as Chongqing Iron & Steel, Changshou Iron & Steel shall concede the business opportunity to Chongqing Iron & Steel and can invest only after Chongqing Iron & Steel has given up such business opportunity. ("engaged/engaging in" refers to any situations in which the business is conducted directly or indirectly through a controlling entity, excluding minority equity investments that do not generate a controlling position.)	1 December 2017	No	Yes

Section V Significant Events (Continued)

III. COMPLIANCE WITH UNDERTAKINGS (CONTINUED)

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period (Continued)

Background	Type	Commitment party	Commitment Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	To solve the related party transactions	Changshou Iron & Steel	(1) After the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, Changshou Iron & Steel will, in strict accordance with the requirements of laws and regulations such as the Company Law and the relevant provisions of the Articles of Association of Chongqing Iron & Steel, exercise the rights of shareholders, or urge the directors nominated by Changshou Iron & Steel to exercise the rights of directors according to law and to fulfill the obligation to abstain from voting when the General Meeting and the Board vote on the related party transactions involving Chongqing Steel and Changshou Iron & Steel. (2) After the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, for the possible related party transactions arising from various reasonable reasons, Changshou Iron & Steel will, according to applicable laws and regulations and on the principles of justice and equity, sign agreements according to law, perform relevant procedures, and perform its obligation of information disclosure in a timely manner, so as to ensure that such transactions will not harm the legitimate rights and interests of Chongqing Iron & Steel and other shareholders.	1 December 2017	No	Yes

Section V Significant Events (Continued)

III. COMPLIANCE WITH UNDERTAKINGS (CONTINUED)

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period (Continued)

Background	Type	Commitment party	Commitment 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	Chongqing Iron & Steel Group	<p>(1) Chongqing Iron & Steel Group and enterprises controlled or invested by Chongqing Iron & Steel Group is not, 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 ways 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 Chongqing Iron & Steel.</p> <p>(2) If Chongqing Iron & Steel Group and enterprises controlled or invested by it 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 Chongqing Iron & Steel, Chongqing Iron & Steel is entitled to require Chongqing Iron & Steel Group 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 Chongqing Iron & Steel Group remains the controlling shareholder or de facto controller of Chongqing Iron & Steel. Chongqing Iron & Steel Group will be willing to take responsibility for the damages should Chongqing Iron & Steel suffer any loss of interests due to Chongqing Iron & Steel Group's violation of the aforesaid undertakings.</p>	3 May 2012	No	Yes

Section V Significant Events (Continued)

III. COMPLIANCE WITH UNDERTAKINGS (CONTINUED)

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period (Continued)

Background	Type	Commitment party	Commitment Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	To solve the related party transactions	Chongqing Iron & Steel Group	(1) To ensure that Chongqing Iron & Steel shall have independent business, complete assets, independent and complete production, supply and sales, and other auxiliary systems, to prevent and reduce unnecessary transactions between related parties; (2) To determine the transaction price and sign transaction agreements between related parties 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 related party transactions; (3) To follow procedures of having the shareholders and related Directors to abstain from voting and the independent Directors to express opinions on related party transactions in strict accordance with the Articles of Association of Chongqing Iron & Steel Group and relevant regulations of regulatory authorities, and to ensure that the procedures for related party transactions are legal and the results of related party transactions are fair and reasonable; (4) To strictly comply with the rules on information disclosure regarding related party transactions.	3 May 2012	No	Yes

Section V Significant Events (Continued)

III. COMPLIANCE WITH UNDERTAKINGS (CONTINUED)

(I) Commitment of de facto controller, shareholders, related parties, acquirer and the Company during or sustained to the Reporting Period (Continued)

Background	Type	Commitment party	Commitment Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	Release of liabilities	Chongqing Iron & Steel Group	(1) If creditors who have not returned their reply slips agreeing the relevant creditors' rights and liabilities to be generally assumed by Chongqing Iron & Steel before the completion of the material assets reorganisation and would claim their rights against Chongqing Iron & Steel Groups after the completion of the material assets reorganisation, Chongqing Iron & Steel Group will send the written notices to Chongqing Iron & Steel within 2 days after receiving the notices from the creditors claiming their rights, and will refer the aforesaid claims to Chongqing Iron & Steel. If the above creditors do not agree to transfer their rights and liabilities to Chongqing Iron & Steel, Chongqing Iron & Steel Group will inform Chongqing Iron & Steel by written notice and assist in handling the transfer. Under this premise, Chongqing Iron & Steel can choose to settle its debts directly with creditors or through Chongqing Iron & Steel Group. If the above creditors request Chongqing Iron & Steel Group's guarantee, Chongqing Iron & Steel Group would provide guarantee to them. (2) If Chongqing Iron & Steel faces any liabilities or loss in the course of generally assuming creditors' rights and liabilities during the material assets reorganisation, Chongqing Iron & Steel Group will make full compensation to Chongqing Iron & Steel within 5 working days after receiving Chongqing Iron & Steel'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
Commitment regarding the initial public issuance	To solve the related party transactions	Chongqing Iron & Steel Group	As long as Chongqing Iron & Steel's shares remained listed on any stock exchange in PRC or Hong Kong, and Chongqing Iron & Steel Group held 30% or more in issued shares of Chongqing Iron & Steel or be deemed to be a controlling shareholder under the requirements on relevant stock exchanges or laws, Chongqing Iron & Steel Group and its subsidiaries or companies directly or indirectly invested or controlled by Chongqing Iron & Steel Group 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).	2 September 1997	No	Yes

IV. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Explanation for appointment and removal of accounting firms

Applicable Not applicable

Upon the consideration and approval at the 2016 Annual General Meeting and the ninth meeting of the seventh session of the Board, Pan-China Certified Public Accountants (Special General Partnership) was appointed as the Company's auditor for financial and internal control in 2017 for a term of one year. In February 2018, Pan-China Certified Public Accountants (Special General Partnership) completed the audit work in 2017, and its term expired on the date of the 2017 Annual General Meeting of the Company. The Company needs to elect and appoint an auditor for financial and internal control for 2018.

Upon the consideration and approval at the 2017 Annual General Meeting and the 15th meeting of the seventh session of the Board, Ernst & Young Hua Ming LLP was appointed as the Company's auditor for financial and internal control in 2018 for a term till the convening of the 2018 annual general meeting. The annual remuneration is RMB2.25 million for auditing services and RMB0.7 million for internal control.

Explanation for change of the accounting firm during the auditing period

Applicable Not applicable

Explanation for the “Non-Standard Audit Report” Issued by the Accounting Firm

Applicable Not applicable

Explanation for the “Non-Standard Audit Report” Issued by the Certified Public Accountant in respect of the Financial Report in the Annual Report for the Previous Year

Applicable Not applicable

V. MATTERS RELATING TO INSOLVENCY OR REORGANISATION

Applicable Not applicable

Section V Significant Events (Continued)

VI. MATERIAL LITIGATION AND ARBITRATION

- Material litigations and arbitrations occurs during the Reporting Period
- No material litigations and arbitrations occurs during the Reporting Period

VII. PUNISHMENT ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER AND ACQUIRER AND RECTIFICATION MEASURES

- Applicable
- Not applicable

VIII. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

- Applicable
- Not applicable

IX. EQUITY INCENTIVE PLAN, EMPLOYEE SHARE OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES AND EFFECTS THEREOF

(I) Relevant incentive events disclosed in extraordinary announcements but without subsequent development or changes during implementation

Applicable Not applicable

Overview of events

Employee Share Ownership Plan: in order to fully arouse the enthusiasm of the employees and accomplish shared responsibility, risk and benefits, the Company implemented performance incentive and equity incentive simultaneously and integrated the interests of the management, the core and mainstay personnel and the shareholders, aiming to accomplish mutual development of the employees and the Company and facilitate the long-term and stable development of the Company and improvement of the shareholder value. The Company has prepared the Employee Share Ownership Plan from 2018 to 2020 (Draft) and its summary in accordance with relevant laws, regulations as well as the Articles of Association, which was approved at the 2017 Annual General Meeting and the Fifteenth meeting of the seventh session of the Board.

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Announcement of Resolutions Passed at the Fifteenth Meeting of the Seventh Session of the Board of Directors (Ann. No.: 2018-018), Summary of Employee Share Ownership Plan from 2018 to 2020 (Draft) (Ann. No.: 2018-022), Announcement of Resolutions Passed at the 2017 Annual General Meeting (Ann. No.: 2018-027) and Employee Share Ownership Plan from 2018 to 2020 published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>), China Securities Journal, Shanghai Securities News, Securities Times And Securities Daily on 22 March and 16 May 2018, respectively.

Section V Significant Events (Continued)

IX. EQUITY INCENTIVE PLAN, EMPLOYEE SHARE OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES AND EFFECTS THEREOF (CONTINUED)

- (II) Incentive events not disclosed in extraordinary announcements or with subsequent development

Equity incentive

Applicable Not applicable

Other explanations

Applicable Not applicable

Employee share ownership plan

Applicable Not applicable

Other incentive measures

Applicable Not applicable

Section V Significant Events (Continued)

X. MATERIAL RELATED PARTY TRANSACTIONS

(I) Related party transactions related to day-to-day operation

1. *Matters disclosed in extraordinary announcements but without development or changes in subsequent implementation*

Applicable Not applicable

2. *Matters disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

On 13 January 2017, the Company and the Chongqing Iron & Steel Group entered into the Service and Supply Agreement between Chongqing Iron & Steel Company (Group) Limited and Chongqing Iron & Steel Company Limited in respect of the proposed continuing connected transactions and annual caps with a term from 13 January 2017 to 31 December 2019 (Please refer to the Announcement of Continuing Connected Transactions (No. 2017-008) of the Company dated 14 January 2017 for details). During the Reporting Period, the actual amounts of related party transactions were within the annual caps, the details of which are as follows:

Type of related party transaction	Pricing principle	Transaction amount (Unit: RMB'000)
Procurement of products and acceptance of services	Market price	1,127,889
Sale of products and provision of services	Market price	454,905
Lease	Market price	519

Note: In December 2017, the First Intermediate People's Court of Chongqing ruled that the Company's reorganization plan has been completed. Following the acquisition of 2,096,981,600 shares of the Company held by Chongqing Iron & Steel Group, Changshou Iron & Steel became the top shareholder of the Company. The parent company of the Company has been changed from Chongqing Iron & Steel Group to Changshou Iron & Steel. Chongqing Iron & Steel Group no longer acted as the parent company of the Company. According to Rule 10.1.6(II) of the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, Chongqing Iron & Steel Group and its subsidiaries were related parties of the Company in the past twelve months.

3. *Matters not disclosed in extraordinary announcements*

Applicable Not applicable

Section V Significant Events (Continued)

X. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions related to acquisition and disposal of assets and equity interests

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

Applicable Not applicable

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

4. *Disclosure of the performance of the results relating to the results agreement during the Reporting Period*

Applicable Not applicable

(III) Material related party transactions related to joint external investment

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

Applicable Not applicable

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

X. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Amounts due to or from related parties

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

Applicable Not applicable

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

(V) Other material related party transactions

Applicable Not applicable

(VI) Others

Applicable Not applicable

Section V Significant Events (Continued)

XI. MATERIAL CONTRACTS AND THE IMPLEMENTATION

1. Trust, contracted businesses and leasing affairs

Applicable Not applicable

(1) Trust

Applicable Not applicable

(2) Contracted businesses

Applicable Not applicable

(3) Leasing affairs

Applicable Not applicable

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	Whether a related party transaction	Connected relations
Chongqing Iron & Steel Group	The Company	Normal		2018.01.01	2018.12.31	-70,763	Bank telegraphic money order	Affecting the production costs	Yes	Other
Changshou Iron & Steel	The Company	Normal		2018.01.01	2018.12.31	-91,930	Bank telegraphic money order	Affecting the production costs	Yes	Controlling shareholder

2. Guarantee

Applicable Not applicable

3. Other significant contracts

Applicable Not applicable

XII. POVERTY ALLEVIATION BY THE LISTED COMPANY

Applicable Not applicable

XIII. PARTICULARS OF CONVERTIBLE BOND OF THE COMPANY

Applicable Not applicable

XIV. ENVIRONMENTAL INFORMATION

- (I) Explanation on the performance of environmental protection of companies and its key subsidiaries under the classification of key pollutant discharging entity as published by the environmental protection department

Applicable Not applicable

1. *Pollutant discharging*

Applicable Not applicable

Pollutants generated by the Company mainly include waste gas (including sulfur dioxide, oxynitride and particulate matter) and waste water (including COD and ammonia nitrogen). Information about pollutant discharging is disclosed on the website of the environmental protection department on a regular basis. In the first half of 2018, the supervision and monitoring data of Company on environmental protection met the required standards of the environmental protection department.

2. *Construction and operation of pollution control facilities*

Applicable Not applicable

There was no newly-constructed pollution control facility in the first half of 2018. All of the existing pollution control facilities were operated in parallel with our production facilities and were under sound operating condition.

Section V Significant Events (Continued)

XIV. ENVIRONMENTAL INFORMATION (CONTINUED)

(I) Explanation on the performance of environmental protection of companies and its key subsidiaries under the classification of key pollutant discharging entity as published by the environmental protection department (Continued)

3. *Environmental impact assessment of construction projects and other environmental protection administrative licensing*

Applicable Not applicable

4. *Environmental emergency plan*

Applicable Not applicable

In order to implement the requirements of the laws and regulations on strengthening the environmental protection of enterprises promulgated by the central and local government, the Company has established a sound environmental risk prevention system, formulated the Environmental Emergency Plan of Chongqing Iron & Steel Company Limited (《重慶鋼鐵股份有限公司突發環境事件應急預案》) and filed the same with the environment protection department in January 2018.

5. *Self-monitoring program on environmental protection*

Applicable Not applicable

According to the requirements of the Measures for Self-monitoring and Information Disclosure by the Enterprises Subject to Intensive Monitoring and Control of the State (Trial Implementation) (《國家重點監控企業自行監測及信息公開辦法(試行)》) and the General Rules for Technical Guidance on Self-monitoring of Pollutant Discharging Organizations (《排污單位自行監測技術指南總則(發佈稿)》), the Self-monitoring Program of Chongqing Iron & Steel Company Limited (《重慶鋼鐵股份有限公司自行監測方案》) in 2018 was formulated and filed with the environmental protection department in order to regulate the self-monitoring and information disclosure of the Company and ensure the conscious fulfillment of its legal obligations and social responsibilities. The Company has carried out its self-monitoring work in accordance with such program.

6. *Other environmental information required to be disclosed*

Applicable Not applicable

XIV. ENVIRONMENTAL INFORMATION (CONTINUED)

(II) Explanation on environmental protection of companies beyond the classification of key pollutant discharging entity

Applicable Not applicable

(III) Explanation of reasons for non-disclosure of environmental information by companies beyond the classification of key pollutant discharging entity

Applicable Not applicable

(IV) Explanation on development or changes in environmental information disclosed during the Reporting Period

Applicable Not applicable

Section V Significant Events (Continued)

XV. EXPLANATIONS ON OTHER SIGNIFICANT MATTERS

- (I) Changes of accounting policies, estimations and methods and their reasons and influence as compared to the last accounting period

Applicable Not applicable

The changes made to the accounting policies of the Company during the Reporting Period are detailed as follows:

Particulars of and reasons for the changes in accounting policies

Since 1 January 2018, the Group has adopted the revised editions of four accounting standards relating to financial instruments promulgated by the MOF: “ASBE No.22 Recognition and Measurement of Financial Instruments”, “ASBE No.23 Transfer of Financial Assets”, “ASBE No.24 Hedge Accounting” and “ASBE No.37 Presentation of Financial Instruments” (collectively the “New Financial Instrument Standards”). The New Financial Instrument Standards require that on the implementation date of the standards, the enterprise shall classify and measure the financial instruments according to the regulations. If the data of the previous comparative financial statements are inconsistent with the requirements of the standards, no adjustment is needed. Retained earnings at the beginning of 2018, other comprehensive income and other items in the financial statements should be adjusted according to the difference between the original book value of the financial instrument and the new book value at the date of implementation of the new standards.

Notes (names and amounts of report items materially affected)

Based on the assessment of the Group, except for the re-classification of available-for-sale financial assets into financial assets measured at FVOCI, the implementation of the New Financial Instrument Standards does not have a significant impact on the classification and measurement of the remaining financial assets. And it does not have a significant impact on the provisions for bad debts of Group's notes and accounts receivables and other receivables.

XV. EXPLANATIONS ON OTHER SIGNIFICANT MATTERS (CONTINUED)

- (I) Changes of accounting policies, estimations and methods and their reasons and influence as compared to the last accounting period (Continued)

Particulars of and reasons for the changes in accounting policies

Since 1 January 2018, the Group has adopted the “ASBE No.14 Revenue” (“New Revenue Standard”) revised and promulgated by the MOF on 5 July 2017. The standard requires that enterprises that the implementation of this standard for the first time should adjust the opening balance of retained earnings of the first year and other items in the financial statements based on the cumulative number of impacts, and the information for the comparable period will not be adjusted. The change in accounting policy does not involve restatement of comparative information and has no impact on financial statements of 2017. The group need to adjust the retained earnings at the beginning of 2018 and other items in the financial statements.

Notes (names and amounts of report items materially affected)

Based on the Group's assessment, the implementation of the New Revenue Standard does not have a significant impact on the revenue recognition of the Group's existing contracts. The Group is not required to adjust the retained earnings at the beginning of the year.

Section V Significant Events (Continued)

XV. EXPLANATIONS ON OTHER SIGNIFICANT MATTERS (CONTINUED)

(I) Changes of accounting policies, estimations and methods and their reasons and influence as compared to the last accounting period (Continued)

Particulars of and reasons for the changes in accounting policies

As the implementation of the Notice of the Ministry of Finance on Revising and Circulating General Corporate Financial Statement Formats (Financial Accounting [2018] No.15), for the Statement of Financial Position, the Group:

- (a) combines notes receivable and accounts receivable into the new item notes and accounts receivables;
- (b) combines notes payable and accounts payable into the new item notes and accounts payables;
- (c) incorporates interests payable and dividends payable into the other payables.

Notes (names and amounts of report items materially affected)

The Group has retrospectively restated the relevant accounts of the comparative statement of financial position. The change of accounting policy has no impact on the consolidated and the Company's shareholders' equity.

XV. EXPLANATIONS ON OTHER SIGNIFICANT MATTERS (CONTINUED)

(I) Changes of accounting policies, estimations and methods and their reasons and influence as compared to the last accounting period (Continued)

Particulars of and reasons for the changes in accounting policies

Notes (names and amounts of report items materially affected)

Since 1 January 2018, the Group has adopted the “ASBE Interpretation No.9 Accounting Treatment on Net Loss of Investment under the Equity Method”, “ASBE Interpretation No.10 Depreciation method based on income generated from the use of property plant and equipment”, “ASBE Interpretation No.11 Amortisation method Based on Income generated from the use of intangible assets”, and “ASBE Interpretation No.12 Regarding whether the provider and recipient of the key management personnel service are related parties” (collectively the “Interpretation No.9-12”) promulgated by the Ministry of Finance in 2017.

Based on the assessment of the Group, the implementation of the Interpretation No. 9-12 did not have a significant impact on the Group's financial position and operating results.

The aforesaid changes in the accounting policies were considered and approved at the third meeting of the eighth session of the Board and the second meeting of the eighth session of the Supervisory Committee of the Company. Independent directors of the Company expressed independent opinion on such changes.

(II) Correction of significant accounting errors requiring restatement, correction amount, and their reasons and influence during the Reporting Period

Applicable Not applicable

(III) Others

Applicable Not applicable

Section VI Movement of Ordinary Shares and the Particulars of Shareholders

I. INFORMATION ON CHANGES IN SHARE CAPITAL

(I) Table of movement of shares

1. *Table of movement of shares*

During the Reporting Period, the total number of shares and the structure of the share capital of the Company remained unchanged.

2. *Explanation on movement of shares*

Applicable Not applicable

3. *Impact on financial indicators such as earnings per share and net assets per share from change in shares occurred from the Reporting Period up to the disclosure date of the interim report (if applicable)*

Applicable Not applicable

4. *Other information considered necessary by the Company or required by regulators to be disclosed*

Applicable Not applicable

(II) Information on Changes in Lock-up Shares

Applicable Not applicable

Section VI Movement of Ordinary Shares and the Particulars of Shareholders (Continued)

II. PARTICULARS OF SHAREHOLDERS

(I) Total number of shareholders:

Total number of ordinary shareholders as of the end of the Reporting Period	153,266
Total number of preferential shareholders with resumed voting rights as of the end of the Reporting Period	0

(II) Table of Shareholdings of the Top Ten Shareholders, Top Ten Tradable Share Holders (or Shareholders Without Trading Limitations) as of the End of the Reporting Period

Unit: share

Shareholdings of top ten shareholders

Name of shareholder (full name)	Increase/ Decrease during Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to trading moratorium	Pledged or frozen		Type of shareholder
					Status of shares	Number	
Chongqing Changshou Iron & Steel Company Limited	0	2,096,981,600	23.51	0	Pledged	2,096,981,600	Domestic non-state-owned legal person
HKSCC NOMINEES LIMITED	-243,600	530,755,540	5.95	0	Unknown		Foreign legal person
Chongqing Qianxin Energy Environmental Protection Company Limited	0	427,195,760	4.79	0	Unknown		Unknown
Chongqing Rural Commercial Bank Co., Ltd.	0	289,268,939	3.24	0	Unknown		Unknown
Chongqing Guochuang Investment and Management Co., Ltd.	0	278,288,059	3.12	0	Unknown		Unknown
Sinosteel Equipment & Engineering Co., Ltd.	0	252,411,692	2.83	0	Unknown		Unknown
Bank of Chongqing Co., Ltd.	0	226,042,920	2.53	0	Unknown		Unknown
Industrial Bank Co., Ltd. Chongqing Branch	0	219,633,096	2.46	0	Unknown		Unknown
Agricultural Bank of China Limited Chongqing Branch	0	216,403,628	2.43	0	Unknown		Unknown
China Shipbuilding Industry Complete Logistics Co., Ltd. (中船工業成套物流有限公司)	0	211,461,370	2.37	0	Unknown		Unknown

II. PARTICULARS OF SHAREHOLDERS (CONTINUED)

(II) Table of Shareholdings of the Top Ten Shareholders, Top Ten Tradable Share Holders (or Shareholders Without Trading Limitations) as of the End of the Reporting Period (Continued)

Shareholdings of Top Ten Shareholders Without Trading Limitations

Unit: share

Name of shareholder	Shareholdings of tradable shares without trading limitations	Type and number of shares	
		Type	Number
Chongqing Changshou Iron & Steel Company Limited	2,096,981,600	RMB denominated ordinary shares	2,096,981,600
HKSCC NOMINEES LIMITED	530,755,540	Overseas listed foreign shares	530,755,540
Chongqing Qianxin Energy Environmental Protection Company Limited	427,195,760	RMB denominated ordinary shares	427,195,760
Chongqing Rural Commercial Bank Co., Ltd.	289,268,939	RMB denominated ordinary shares	289,268,939
Chongqing Guochuang Investment and Management Co., Ltd.	278,288,059	RMB denominated ordinary shares	278,288,059
Sinosteel Equipment & Engineering Co., Ltd.	252,411,692	RMB denominated ordinary shares	252,411,692
Bank of Chongqing Co., Ltd.	226,042,920	RMB denominated ordinary shares	226,042,920
Industrial Bank Co., Ltd. Chongqing Branch	219,633,096	RMB denominated ordinary shares	219,633,096
Agricultural Bank of China Limited Chongqing Branch	216,403,628	RMB denominated ordinary shares	216,403,628
China Shipbuilding Industry Complete Logistics Co., Ltd.	211,461,370	RMB denominated ordinary shares	211,461,370
The above shareholders' connected relationship or concerted action	There is no connection between Chongqing Changshou Iron & Steel Company Limited, the controlling shareholder of the Company, and the other 9 shareholders, nor are they persons acting in concert regulated 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 acting in concert.		
Preferential shareholders with resumed voting rights and their shareholding	Nil		

II. PARTICULARS OF SHAREHOLDERS (CONTINUED)

(II) Table of Shareholdings of the Top Ten Shareholders, Top Ten Tradable Share Holders (or Shareholders Without Trading Limitations) as of the End of the Reporting Period (Continued)

Shareholdings and Trading Limitations of Top Ten Shareholders with Trading Limitations

Applicable Not applicable

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

Applicable Not applicable

III. CHANGES IN THE CONTROLLING SHAREHOLDER OR THE DE FACTO CONTROLLER

Applicable Not applicable

Section VII Related Information on Preference Shares

Applicable Not applicable

Section VIII Directors, Supervisors and Senior Management

I. INFORMATION ON CHANGES IN SHAREHOLDINGS

(I) Changes in shareholdings of directors, supervisors and senior management currently holding office or having resigned during the Reporting Period

Applicable Not applicable

(II) Information on incentive share option granted to directors, supervisors and senior management during the Reporting Period

Applicable Not applicable

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

Applicable Not applicable

Name	Position	Change
Zhou Zhuping	Chairman	Election
Li Yongxiang	Vice Chairman, General Manager	Election
Tu Deling	Vice Chairman	Election
Zhang Shuogong	Director	Election
Zheng Jie	Director	Election
Xu Yixiang	Independent director	Election
Xin Qingquan	Independent director	Election
Wong Chun Wa	Independent director	Election
Zheng Yuchun	Independent director	Election
Xiao Yuxin	Chairman of the Supervisory Committee	Election
Lu Junyong	Supervisor	Election
Yin Dong	Supervisor	Election
Xia Tong	Staff Representative Supervisor	Election
Zhou Yaping	Staff Representative Supervisor	Election
Li Rensheng	Deputy General Manager	Appointment
Lv Feng	Deputy General Manager, Chief Financial Officer (financial controller)	Appointment
Yu Hong	Secretary to the Board	Appointment
Liu Dawei	Chairman	Resigned
Zhou Hong	Director	Resigned

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY (CONTINUED)

Name	Position	Change
Li Rensheng	Director	Resigned
Zhang Liquan	Director	Resigned
Yao Xiaohu	Director	Resigned
Hwang Yuhchang	Independent director	Resigned
Xia Tong	Chairman of the Supervisory Committee	Resigned
Li Zheng	Supervisor	Resigned
Xu Chun	Staff Representative Supervisor	Resigned
Jia Zhigang	Staff Representative Supervisor	Resigned
Tu Deling	Financial Controller	Resigned

Details on changes in directors, supervisors and senior management of the Company

Applicable Not applicable

(I) Changes in directors

- Due to work adjustment, Mr. Liu Dawei, chairman of the seventh session of the Board, and Mr. Zhou Hong, Mr. Li Rensheng, Mr. Zhang Liquan and Mr. Yao Xiaohu, all being directors of the seventh session of the Board, submitted their written resignation reports, with effect from 29 January 2018. (Please refer to the Announcement on Resignation of Directors and Supervisors (Announcement No.: 2017-114) published by the Company on 14 December 2017 for details.)
- As considered and approved at the 12th and 13th meetings of the seventh session of the Board and 2018 First Extraordinary General Meeting, Zhou Zhuping was elected as the chairman, Li Yongxiang as the vice-chairman, Zhang Shuogong, Zheng Jie and Hwang Yuhchang as directors of the seventh session of the Board (Hwang Yuhchang being an independent director). Please refer to Announcement of Resolutions Passed at the 12th Meeting of the Seventh Session of the Board (Announcement No.: 2017-115), Announcement of Resolutions Passed at the 2018 First Extraordinary General Meeting (Announcement No.: 2018-006) and Announcement of Resolutions Passed at the 13th Meeting of the Seventh Session of the Board (Announcement No.: 2018-007) published by the Company respectively on 14 December 2017, 30 January 2018 and 31 January 2018 for details.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY (CONTINUED)

(I) Changes in directors (Continued)

3. Due to the election of the new session of the Board and as considered and approved at the 14th meeting of the seventh session of the Board, the 1st meeting of the eighth session of the Board and the 2017 Annual General Meeting, Zhou Zhuping was elected as the chairman, Li Yongxiang and Tu Deling as vice chairmen, Zhang Shuogong, Zheng Jie, Xin Qingquan, Xu Yixiang, Wong Chun Wa and Zheng Yuchun as directors of the eighth session of the Board (Xin Qingquan, Xu Yixiang, Wong Chun Wa and Zheng Yuchun being independent directors). Please refer to Announcement of Resolutions Passed at the 14th Meeting of the Seventh Session of the Board (Announcement No.: 2018-012) published on 28 February 2018, and Announcement of Resolutions Passed at the 2017 Annual General Meeting (Announcement No.: 2018-027) and Announcement of Resolutions Passed at the 1st Meeting of the Eighth Session of the Board (Announcement No.: 2018-028) both published on 16 May 2018 for details.

(II) Changes in supervisors

1. Due to work adjustment, Xia Tong, chairman of the seventh session of the Supervisory Committee, and Li Zheng, supervisor of the seventh session of the Supervisory Committee, submitted their written resignation reports, with effect from 29 January 2018. (Please refer to the Announcement on Resignation of Directors and Supervisors (Announcement No.: 2017-114) published by the Company on 14 December 2017 for details.)
2. As considered and approved at the 15th and 16th meeting of the seventh session of the Supervisory Committee and 2018 first extraordinary general meeting, Xiao Yuxin was elected as the chairman, Lu Junyong and Yin Dong as supervisors of the seventh session of the Supervisory Committee. Please refer to Announcement of Resolutions Passed at the 15th Meeting of the Seventh Session of the Supervisory Committee (Announcement No.: 2017-116), Announcement of Resolutions Passed at the 2018 First Extraordinary General Meeting (Announcement No.: 2018-006) and Announcement of Resolutions Passed at the 16th Meeting of the Seventh Session of the Supervisory Committee (Announcement No.: 2018-008) published by the Company respectively on 14 December 2017, 30 January 2018 and 31 January 2018 for details.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

(II) Changes in supervisors (Continued)

3. As considered and approved at the 7th meeting of the third session of staff congress of the Company, Xia Tong and Zhou Yaping were elected as staff representative supervisors of the eighth session of the Supervisory Committee. Please refer to the Announcement on Election of Staff Representative Supervisors of the Company (Announcement No.: 2018-021) published by the Company on 22 March 2018 for details.
4. Due to the election of the new session of the Supervisory Committee and as considered and approved at the 17th meeting of the seventh session of the Supervisory Committee, the 1st meeting of the eighth session of the Supervisory Committee and the 2017 Annual General Meeting, Xiao Yuxin was elected as the chairman, Lu Junyong and Yin Dong as supervisors of the eighth session of the Supervisory Committee. Please refer to the Announcement of Resolutions Passed at 17th Meeting of the Seventh Session of the Supervisory Committee (Announcement No.: 2018-013) published on 28 February 2018, and Announcement of Resolutions Passed at the 2017 Annual General Meeting (Announcement No.: 2018-027) and Announcement of Resolutions Passed at the 1st Meeting of the Eighth Session of the Supervisory Committee (Announcement No.: 2018-029) both published on 16 May 2018 for details.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

(III) Changes in senior management

1. Due to work adjustment, Tu Deling resigned as the chief financial officer of the Company. Please refer to the Announcement on Resignation of Chief Financial Officer (Announcement No.: 2018-010) published by the Company on 23 February 2018 for details.
2. As considered and approved at the 14th meeting of the seventh session of the Board, Lv Feng was appointed as the chief financial officer (financial controller) of the Company. Please refer to Announcement of Resolutions Passed at the 14th Meeting of the Seventh Session of the Board (Announcement No.: 2018-012) published by the Company on 28 February 2018 for details.
3. As considered and approved at the 1st meeting of the eighth session of the Board, Li Yongxiang was appointed as general manager, Li Rensheng as deputy general manager, Lv Feng as deputy general manager and chief financial officer, and Yu Hong as secretary to the Board of the Company. Please refer to Announcement of Resolutions Passed at the 1st Meeting of the Eighth Session of the Supervisory Committee (Announcement No.: 2018-029) published by the Company on 16 May 2018 for details.

(IV) Directors' and Supervisors' Interests in the Shares of the Company or Associated Corporations

As at 30 June 2018, none of the directors, supervisors or senior management members of the Company had any interests and short positions in the shares or underlying shares or debentures of the Company and any of its associated corporations (please refer to the definition in Securities and Futures Ordinance).

As at 30 June 2018, the Company was not aware of any interests or short positions which were required to be recorded in the register pursuant to Securities and Futures Ordinance.

Section IX Relevant Information on Corporate Bond

Applicable Not applicable

Consolidated Statement of Financial Position

As at 30 June 2018

I. AUDITOR'S REPORT

The Interim report is unaudited

II. FINANCIAL REPORT

Unit: RMB'000

Items	Note VII	Closing balance	Opening balance
Current assets:			
Cash and bank balances	1	450,015	2,050,538
Notes and accounts receivables	2	1,595,141	167,134
Prepayments	3	221,939	70,022
Other receivables	4	14,331	10,355
Inventories	5	2,212,662	1,330,469
Other current assets	6	167,659	1,128,655
Total current assets		4,661,747	4,757,173
Non-current assets:			
Available-for-sale financial assets	8	–	5,000
Long-term equity investments	7	–	124,158
Other equity investments	8	5,000	–
Property, plant and equipment	9	17,239,463	17,595,699
Construction in progress	10	10,702	8,695
Intangible assets	11	2,485,434	2,521,734
Total non-current assets		19,740,599	20,255,286
Total assets		24,402,346	25,012,459

Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Note VII	Closing balance	Opening balance
Current liabilities:			
Notes and accounts payables	13	1,138,403	2,155,294
Advances from customers		–	187,099
Contract liabilities	14	1,449,496	–
Employee benefits payable	15	128,587	563,547
Tax payable	16	10,668	13,095
Other payables	17	410,646	1,491,912
Non-current liabilities due within one year	18	590,000	400,000
Total current liabilities		3,727,800	4,810,947
Non-current liabilities:			
Long-term borrowings	10	500,000	700,000
Long-term employee benefits payable	20	232,936	243,190
Provisions		–	11,204
Deferred income	21	41,722	43,154
Other non-current liabilities	22	2,400,000	2,400,000
Total non-current liabilities		3,174,658	3,397,548
Total liabilities		6,902,458	8,208,495

Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Note VII	Closing balance	Opening balance
Owner's equity:			
Share capital	23	8,918,602	8,918,602
Capital reserve	24	19,282,147	19,282,147
Special reserve	25	7,813	–
Surplus reserve	26	606,991	606,991
Accumulated losses	27	(11,315,665)	(12,077,625)
Total equity attributable to owners of the parent		17,499,888	16,730,115
Non-controlling interests		–	73,849
Total shareholder's equity		17,499,888	16,803,964
Total liabilities and shareholders' equity		24,402,346	25,012,459

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Statement of Financial Position

As at 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Note XVI	Closing balance	Opening balance
Current assets			
Cash and bank balances		443,453	1,961,403
Notes and accounts receivables	1	1,599,602	169,949
Prepayments		221,518	69,581
Other receivables	2	14,325	10,355
Inventories		2,211,332	1,330,469
Other current assets		167,640	478,510
Total current assets		4,657,870	4,020,267
Non-current assets:			
Available-for-sale financial assets		–	5,000
Long-term equity investments	3	50,000	835,780
Other equity investments		5,000	–
Property, plant and equipment		17,239,463	17,595,699
Construction in process		10,702	8,695
Intangible assets		2,485,434	2,521,734
Total non-current assets		19,790,599	20,966,908
Total assets		24,448,469	24,987,175

Statement of Financial Position (Continued)

As at 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Note XVI	Closing balance	Opening balance
Current liabilities:			
Notes and accounts payables		1,183,695	2,204,070
Advances from customers		–	185,905
Contract liabilities		1,448,926	–
Employee benefits payable		128,587	563,518
Tax payable		10,667	13,113
Other payables		404,951	1,486,183
Non-current liabilities due within one year		590,000	400,000
Total current liabilities		3,766,826	4,852,789
Non-current liabilities:			
Long-term borrowings		500,000	700,000
Long-term employee benefits payable		232,936	243,190
Provisions		–	11,204
Deferred income		41,722	43,154
Other non-current liabilities		2,400,000	2,400,000
Total non-current liabilities		3,174,658	3,397,548
Total liabilities		6,941,484	8,250,337
Owner's equity			
Share capital		8,918,602	8,918,602
Capital reserve		19,313,090	19,313,090
Special reserve		7,813	–
Surplus reserve		577,012	577,012
Accumulated losses		(11,309,532)	(12,071,866)
Total shareholder's equity		17,506,985	16,736,838
Total liabilities and shareholders' equity		24,448,469	24,987,175

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Note VII	Six months ended 30 June 2018	Six months ended 30 June 2017
Revenue	28	11,092,899	4,521,727
Less: Cost of sales	28	9,344,298	4,412,817
Taxes and surcharges	29	52,437	39,779
Distribution and selling expenses	30	41,986	23,681
General and administrative expenses	31	731,376	532,656
Finance expenses	32	147,250	515,559
Including: Interest expenses		190,466	539,309
Interest income		(46,428)	(7,146)
Impairment losses on assets		–	–
Add: Other income	35	1,502	6,286
Investment income/(loss)	33	(1,826)	(1,911)
Including: investment income/(loss) from an associate		(2,628)	(1,911)
Gains on disposal of assets	34	8,482	6
Operating profit/(loss)		783,710	(998,384)
Add: Non-operating income	36	325	78
Less: Non-operating expenses	37	21,063	515
Total profit/(loss)		762,972	(998,821)
Less: Income tax expenses	38	885	2

Consolidated Statement of Profit or Loss (Continued)

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Note VII	Six months ended 30 June 2018	Six months ended 30 June 2017
Net Profit/(loss)		762,087	(998,823)
Breakdown by continuity of operations			
Net profit/(loss) from continuing operations		762,087	(998,823)
Net profit/(loss) from discontinued operations		–	–
Breakdown by attributable interests			
Net profit/(loss) attributable to owners of the parent		761,960	(998,482)
Non-controlling interests		127	(341)
Other comprehensive income after tax		–	–
Total comprehensive income/(loss)		762,087	(998,823)
Total comprehensive income/(loss) attributable to owners of the parent		761,960	(998,482)
Total comprehensive income/(loss) attributable to non-controlling interests		127	(341)
Earnings per share:	39		
Basic earnings/(loss) per share (RMB/share)		0.09	(0.23)
Diluted earnings/(loss) per share (RMB/share)		0.09	(0.23)

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Statement of Profit or Loss

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Note XVI	Six months ended 30 June 2018	Six months ended 30 June 2017
Revenue	4	11,093,696	4,385,450
Less: Cost of sales	4	9,345,628	4,277,126
Taxes and surcharges		52,430	39,576
Distribution and selling expenses		41,815	21,810
General and administrative expenses		728,145	526,699
Finance expenses		152,589	519,174
Including: Interest expenses		190,466	539,309
Interest income		(38,073)	(1,739)
Impairment losses on assets		–	(1)
Add: Other income		1,502	6,286
Investment income/(loss)	5	52	(4,547)
Including: investment income/(loss) from an associate		(2,628)	(1,911)
Gains on disposal of assets/(loss)		8,482	6
Operating profit/(loss)		783,125	(997,189)
Add: Non-operating income		241	76
Less: Non-operating expenses		21,032	515
Total profit/(loss)		762,334	(997,628)
Less: Income tax expenses		–	–
Net Profit/(loss)		762,334	(997,628)
Breakdown by continuity of operations			
Net profit/(loss) from continuing operations		762,334	(997,628)
Net profit/(loss) from discontinued operations		–	–
Other comprehensive income after tax		–	–
Total comprehensive income/(loss)		762,334	(997,628)

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Note VII	Six months ended 30 June 2018	Six months ended 30 June 2017
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		10,366,330	847,862
Other cash received relating to operating activities	40	109,689	2,170,517
Sub-total of cash inflows from operating activities		10,476,019	3,018,379
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Cash paid for purchase of goods and services		9,743,269	836,390
Cash paid to and on behalf of employees		1,030,356	253,804
Cash paid for all types of taxes		58,176	38,646
Other cash paid relating to operating activities	40	945,406	1,971,562
Sub-total of cash outflows from operating activities		11,777,207	3,100,402
<hr style="border-top: 1px dashed #0056b3;"/>			
Net cash flows from operating activities	41	(1,301,188)	(82,023)
<hr style="border-top: 1px dashed #0056b3;"/>			
II. Cash flows from investing activities:			
Cash received from disposal of investments		651,376	–
Cash received from return on investments		7,021	–
Net cash received from disposal of property plant and equipment, intangible assets and other long-term assets		8,561	–
Sub-total of cash inflows from investing activities		666,958	–
<hr style="border-top: 1px dashed #0056b3;"/>			
Cash paid for acquisition of property plant and equipment, intangible assets and other long-term assets		2,664	17,868
Sub-total of cash outflows from investing activities		2,664	17,868
<hr style="border-top: 1px dashed #0056b3;"/>			
Net cash flows from investing activities		664,294	(17,868)
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Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Note VII	Six months ended 30 June 2018	Six months ended 30 June 2017
III. Cash flows from financing activities:			
Cash received from borrowings		–	1,817,740
Other cash received relating to financing activities	40	1,181,576	412,753
Sub-total of cash inflows from financing activities		1,181,576	2,230,493
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Cash repayments of borrowings		10,000	1,311,117
Cash paid for distribution of dividends or profits, and for interests expenses		189,060	164,600
Other cash paid relating to financing activities	40	764,569	645,210
Sub-total of cash outflows from financing activities		963,629	2,120,927
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Net cash flows from financing activities		217,947	109,566
<hr style="border-top: 1px dashed #005696;"/>			
IV. Effect of changes in exchange rate on cash and cash equivalents		–	(1,790)
<hr/>			
V. Net increase in cash and cash equivalents		(418,947)	7,885
Add: Cash and cash equivalents at the beginning of the period		868,962	745,447
<hr/>			
VI. Cash and cash equivalents at the end of the period		450,015	753,332
<hr/>			

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Statement of Cash Flows

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
I. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	10,362,602	746,155
Other cash received relating to operating activities	108,270	2,160,248
Sub-total of cash inflows from operating activities	10,470,872	2,906,403
Cash paid for purchase of goods and services	9,743,269	736,245
Cash paid to and on behalf of employees	1,030,327	248,254
Cash paid for all types of taxes	57,285	38,516
Other cash paid relating to operating activities	939,061	1,965,467
Sub-total of cash outflows from operating activities	11,769,942	2,988,482
Net cash flows from operating activities	(1,299,070)	(82,079)
II. Cash flows from investing activities:		
Cash received from return on investments	1,376	-
Net cash received from disposal of property plant and equipment, intangible assets and other long-term assets	8,561	-
Sub-total of cash inflows from investing activities	9,937	-
Cash paid for acquisition of property plant and equipment, intangible assets and other long-term assets	2,664	16,512
Sub-total of cash outflows from investing activities	2,664	16,512
Net cash flows from investing activities	7,273	(16,512)

Statement of Cash Flows (Continued)

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
III. Cash flows from financing activities:		
Cash received from borrowings	–	1,817,740
Other cash received relating to financing activities	1,181,576	412,753
Sub-total of cash inflows from financing activities	1,181,576	2,230,493
Cash repayments of borrowings	10,000	1,311,117
Cash paid for distribution of dividends or profits, and for interests expenses	188,597	164,600
Other cash paid relating to financing activities	27,556	645,210
Sub-total of cash outflows from financing activities	226,153	2,120,927
Net cash flows from financing activities	955,423	109,566
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	–	–
V. Net increase in cash and cash equivalents	(336,374)	10,975
Add: Cash and cash equivalents at the beginning of the period	779,827	5,138
VI. Cash and cash equivalents at the end of the period	443,453	16,113

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of the
accounting department:
Lv Feng

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Six months ended 30 June 2018													Non-controlling interests	Total shareholders' equity
	Total equity attributable to owners of the parent														
	Share capital	Other equity instruments			Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Accumulated losses				
		Preferred shares	Perpetual bonds	Others											
I. Closing balances of the preceding year and opening balances of the current year	8,918,602	-	-	-	19,282,147	-	-	-	606,991	-	(12,077,625)	73,849	16,803,964		
II. Changes in the current period	-	-	-	-	-	-	-	7,813	-	-	761,960	(73,849)	695,924		
(I) Total comprehensive income	-	-	-	-	-	-	-	-	-	-	761,960	127	762,087		
(II) Owners' contribution and decrease in share capital	-	-	-	-	-	-	-	-	-	-	-	(73,513)	(73,513)		
1. Others	-	-	-	-	-	-	-	-	-	-	-	(73,513)	(73,513)		
(III) Profit Appropriation	-	-	-	-	-	-	-	-	-	-	-	(463)	(463)		
1. Distribution to owners (or shareholders)	-	-	-	-	-	-	-	-	-	-	-	(463)	(463)		
(IV) Special reserve	-	-	-	-	-	-	-	7,813	-	-	-	-	7,813		
1. Amount established during the period	-	-	-	-	-	-	-	10,260	-	-	-	-	10,260		
2. Amount utilised during the period	-	-	-	-	-	-	-	2,447	-	-	-	-	2,447		
III. Closing balance for the period	8,918,602	-	-	-	19,282,147	-	-	7,813	606,991	-	(11,315,665)	-	17,499,888		

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Items	Six months ended 30 June 2017													
	Total equity attributable to owners of the company												Non-controlling interests	Total shareholders' equity
	Share capital	Other equity instruments				Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Accumulated losses			
		Preferred shares	Perpetual bonds	Others	Capital reserves									
I. Closing balances of the preceding year and opening balances of the current year	4,436,023	-	-	-	7,154,203	-	-	-	606,991	-	(12,397,711)	93,060	(107,434)	
II. Changes in the current period	-	-	-	-	8,508	-	-	-	-	-	(998,482)	(341)	(990,315)	
(I) Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(998,482)	(341)	(998,823)	
(II) Owners' contribution and decrease in share capital	-	-	-	-	8,508	-	-	-	-	-	-	-	8,508	
1. Others	-	-	-	-	8,508	-	-	-	-	-	-	-	8,508	
(III) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Amount established during the period	-	-	-	-	-	-	-	9,332	-	-	-	-	9,332	
2. Amount utilised during the period	-	-	-	-	-	-	-	9,332	-	-	-	-	9,332	
III. Closing balance for the period	4,436,023	-	-	-	7,162,711	-	-	-	606,991	-	(13,396,193)	92,719	(1,097,749)	

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of
the accounting department:
Lv Feng

Statement of changes in Equity

For the six months ended 30 June 2018

II. FINANCIAL REPORT (CONTINUED)

Unit: RMB'000

Items	Six months ended 30 June 2018											
	Share capital	Other equity instruments			Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Accumulated losses	Total shareholders' equity
		Preferred shares	Perpetual bonds	Others								
I. Closing balances of the preceding year and opening balances of the current year	8,918,602	-	-	-	19,313,090	-	-	-	577,012	-	(12,071,866)	16,736,838
II. Changes in the current period	-	-	-	-	-	-	-	7,813	-	-	762,334	770,147
(I) Total comprehensive income	-	-	-	-	-	-	-	-	-	-	762,334	762,334
(II) Special reserve	-	-	-	-	-	-	-	7,813	-	-	-	7,813
1. Amount established during the period	-	-	-	-	-	-	-	10,260	-	-	-	10,260
2. Amount utilised during the period	-	-	-	-	-	-	-	2,447	-	-	-	2,447
III. Closing balance for the period	8,918,602	-	-	-	19,313,090	-	-	7,813	577,012	-	(11,309,532)	17,506,985

Items	Six months ended 30 June 2017											
	Share capital	Other equity instruments			Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Accumulated losses	Total shareholders' equity
		Preferred shares	Perpetual bonds	Others								
I. Closing balances of the preceding year and opening balances of the current year	4,436,023	-	-	-	7,185,146	-	-	-	577,012	-	(12,398,006)	(199,825)
II. Changes in the current period	-	-	-	-	8,508	-	-	-	-	-	(997,628)	(989,120)
(I) Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(997,628)	(997,628)
(II) Owners' contribution and decrease in share capital	-	-	-	-	8,508	-	-	-	-	-	-	8,508
1. Others	-	-	-	-	8,508	-	-	-	-	-	-	8,508
(III) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-
1. Amount established during the period	-	-	-	-	-	-	-	9,332	-	-	-	9,332
2. Amount utilised during the period	-	-	-	-	-	-	-	9,332	-	-	-	9,332
III. Closing balance for the period	4,436,023	-	-	-	7,193,654	-	-	-	577,012	-	(13,395,634)	(1,188,945)

Legal Representative:
Zhou Zhuping

The person in charge of
accounting body:
Lv Feng

The head of the
accounting department:
Lv Feng

Notes to Financial Statements

For the six months ended 30 June 2018

(Unit: RMB'000)

III BASIC INFORMATION ON THE COMPANY

According to the approval of Ti Gai Sheng Zi [1997] No. 127 issued by the State Commission for Restructuring Economic Systems and the approval of Guo Zi Qi Fa [1997] No. 156 issued by the State-owned Assets Administration Bureau, Chongqing Iron & Steel Company Limited (the “Company”) was established as a limited liability company by Chongqing Iron & Steel (Group) Co., Ltd. (“CISG”) as the sole promoter. The Company was incorporated and registered with Chongqing Municipal Administration of Industry and Commerce on 11 August 1997, whose headquarter is located in Changshou Economic Development Zone of Chongqing. The Company holds the business license with unified social credit code of 91500000202852965T, with the registered capital of RMB8,918,602,000 and the sum of 8,918,602,000 shares with par value of RMB1 each, including 8,380,475,000 A shares without any restricted condition and 538,127,000 H shares. The Company’s shares were listed in the Stock Exchange of Hong Kong Ltd. and listed in Shanghai Stock Exchange on 17 October 1997 and 28 February 2007, respectively.

Pursuant to the reorganisation plan, 2,096,981,600 shares of the Company held by CISG were transferred to Chongqing Changshou Iron and Steel Co., Ltd. (重慶長壽鋼鐵有限公司) (“Changshou Iron & Steel”) on 27 December 2017, and the share transfer procedures were completed with China Securities Depository and Clearing Corporation Limited. Subsequent to the completion of the share transfer, Changshou Iron & Steel holds 2,096,981,600 shares of the Company, with a shareholding percentage of 23.51%, and became the controlling shareholder of the Company. Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) is the ultimate controlling shareholder of the Company.

The Company and its subsidiaries (collectively the “Group”) are mainly engaged in the production, processing and sale of steel plates, steel sections, wire rods, bar materials, billets and thin plates, and in the production and sale of coking and coal chemical products, pig iron & grain slag, steel slag, and steel scrap.

The interim financial statements were approved by the Board of Directors of the Company on 16 August 2018.

The Company consolidated Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司) and Chongqing CIS Building Materials Sales Co., Ltd. (重慶市重鋼建材銷售有限責任公司) in the interim consolidated financial statements of the Group. The change in the scope of consolidation during the period is described in Note VIII.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

IV PREPARATION BASIS OF THE FINANCIAL STATEMENTS

1. Basis of preparation

These financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises – Basic Standards” promulgated by the Ministry of Finance of the People’s Republic of China (the “MOF”) and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations as subsequently announced and revised (collectively “CAS”).

These financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises – No. 32 Interim Financial Reporting” issued by the MOF and the “Contents and Formats requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 3 – Contents and Formats Rules on Interim Financial Reporting (revised in 2017)” promulgated by the China Securities Regulatory Commission.

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017, except for the changes in accounting policies as set out in Note V.26. These interim financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

These financial statements are prepared on a going concern basis.

Other than certain financial instruments, these financial statements have been prepared at historical cost convention. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

2. Assessment of the ability to continue as a going concern

The Group does not have any events or circumstances that may cast significant doubt upon the Group’s ability to continue as a going concern within twelve months from the end of the reporting period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to provision of bad debt of receivables, depreciation of Property, plant and equipment ("PPE"), amortisation of intangible assets, and revenue recognition, etc.

1. Statement of compliance

The financial statements for the six months ended 30 June 2018 have been prepared in accordance with CAS, and present truly and completely the financial position of the Group and the Company as at 30 June 2018 and the results of their operations and cash flows for the six months ended 30 June 2018.

2. Accounting period

The accounting year of the Group is from 1 January to 31 December of each calendar year. The current accounting period starts on 1 January 2018 and ends on 30 June 2018.

3. Functional currency

The functional currency of the Group and the currency used in preparing the financial statements are Renminbi. The amounts in the financial statements were denominated in thousand of Renminbi, unless otherwise stated.

4. Business combination

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

4. Business combination (Continued)

(1) *Business combination involving entities under common control*

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the absorbing party, while that other entity participating in the combination is a party being absorbed. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed. Assets and liabilities that are obtained by the absorbing party in a business combination involving entities under common control, including goodwill arising from the acquisition of the party being absorbed by the ultimate controller, shall be accounted for on the basis of the carrying amounts on the financial statements of the ultimate controller at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

(2) *Business combination not involving entities under common control*

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. Acquisition date refers to the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination not involving entities under common control at their fair values on the acquisition date.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

4. Business combination (Continued)

(2) *Business combination not involving entities under common control (Continued)*

The excess of the sum of the consideration paid (or equity securities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognised as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or fair value of equity securities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or fair value of equity securities issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equity securities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognised in current profit or loss.

For a business combination involving enterprises not under common control and achieved in stages, the Group re-measures 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 in current profit and loss; the amount recognised in other comprehensive income using the equity method and relating to the previously-held equity interest in the acquiree shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution) shall be transferred to profit or loss for the current period to which the acquisition date belongs.

5. Consolidated financial statements

The consolidation scope of consolidated financial statements is determined on the basis of control, including the financial statements of the Company and all of its subsidiaries for the six months period ended 30 June 2018. A subsidiary is an entity that is controlled by the Company, including separable parts of an enterprise or investee and structured entities controlled by the Company etc.

In preparation of consolidated financial statements, the subsidiaries use the same accounting period and accounting policies as those of the Company. All intra-group assets, liabilities, equity interests, income, expenses and cash flow are eliminated in full on consolidation.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

5. Consolidated financial statements (Continued)

Where the amount of losses of a subsidiary attributable to the non-controlling shareholders in the current period exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against non-controlling interests.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the day on which the Group gains control, till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognised on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative consolidated financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination has been existing since the ultimate controller begins to exercise control.

The Group's control over an investee is re-assessed if change in relevant facts and situations causes changes in one or more of the control substances.

Any change in the non-controlling interests without losing control is recognised as an equity transaction.

6. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

7. Foreign currency translation

The Group translates the amount of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate prevailing on the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate prevailing on the balance sheet date. All the resulting differences on settlement and monetary item translation are taken to profit or loss in the current period, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalised in accordance with the principle of capitalisation of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The difference thus resulted are recognised in profit or loss for the current period or as other comprehensive income based on the nature of the non-monetary items.

Foreign currency cash flows are translated using the average exchange rate for the period during which the cash flows occur. The effect of exchange rate changes on cash is separately presented as an adjustment item in the cash flow statement.

8. Financial instruments

The financial instruments of the Group include cash and cash equivalents, other equity instruments, notes receivable and accounts receivable, notes payable and accounts payable, long-term borrowings, other non-current liabilities due within one year, etc.

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

The Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

Except for the accounts receivable without material financing component, financial assets and financial liabilities should be initially measured at fair value. For financial assets and financial liabilities measured at fair value through profit or loss ("FVTPL"), the related transaction costs are directly included in the profit and loss of the current period; for other financial assets and financial liabilities, the related transaction costs are recognised as initial investment costs. The Group would initially measure the accounts receivable without material financing component at the transaction price which is set under the accounting policy of Note V.19.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(2) Classification of financial assets

Based on the Group's business model for managing the financial assets and characteristics of contractual of cash flows, the Group classifies its financial assets into different categories at initial recognition, including financial assets measured at amortised cost, measured at fair value through other comprehensive income ("FVOCI") and measured at FVTPL.

Unless the Group changes its business model for managing the financial assets, all the affected financial assets should be reclassified on the first day of the first reporting period after the business model changed, the financial assets should not be reclassified after initially recognition.

The Group classifies the financial assets which meet the following conditions and are not measured at FVTPL into financial assets measured at amortised cost:

- 1) The Group's business model for managing the financial assets is aimed at collecting contractual cash flows.
- 2) The contractual terms of the financial assets stipulate that the cash flows generated on a specific date represent solely payments of principal and interest on the principal amount outstanding ("SPPI").

The Group classifies the financial assets which meet the following conditions and are not measured at FVTPL into financial assets measured at FVOCI:

- 1) The Group's business model for managing the financial assets is aimed at both to collect contractual cash flows and to sale.
- 2) The contractual terms of the financial assets stipulate that the cash flow generated on a specific date represent SPPI.

For non-trading equity instruments, the Group can irrevocably classifies them as the financial assets measured at FVOCI at initial recognition. This classification is based on the single investment and the relevant investment is in line with the definition of the equity instrument from the issuer's perspective.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(2) *Classification of financial assets (Continued)*

Except for the financial assets measured at amortised cost and FVOCI described above, the Group classifies other financial assets as measured at FVTPL. At the time of initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the Group can irrevocably reclassify the financial assets that should be measured at amortised cost or at FVOCI as the financial assets measured at FVTPL.

The business model for managing financial assets refers to how the Group manages financial assets to generate cash flows. Business model determines whether the cash flows of financial assets managed by the Group is derived from contractual cash flows, sale of financial assets or both. And the Group determines the business model of managing financial assets based on the objective facts, and the special business purposes of managing financial assets by the key management.

The Group assesses the contractual cash flows characteristics of financial assets to confirm whether the cash flows generated by relative financial assets on a particular date are SPPI. The principal is the fair value of the financial assets at initial recognition, the interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits. Besides, to confirm whether the cash flow satisfy the characteristics above, the Group would assess the contractual terms which could result in the change in the time and amount of contractual cash flows from the financial assets.

(3) *The subsequent measurement of financial assets*

1) *Financial assets measured at FVTPL*

After initial recognition, the financial assets are subsequently measured at FVTPL, except for the part of hedging instruments.

2) *Financial assets measured at amortised cost*

After initial recognition, the financial assets are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from financial assets measured at amortised cost that are not part of any hedging instruments is recorded in current profit or loss when in the case of derecognition, amortisation based on the effective interest method, or impairment consideration.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(3) *The subsequent measurement of financial assets (Continued)*

3) *Other equity instruments measured at FVOCI*

After initial recognition, the financial assets are subsequently measured at fair value. Dividend income is included in the profit or loss, other gains or losses are included in other comprehensive income. The accumulated gains or losses previously included in other comprehensive income should be transferred from other comprehensive income to retained earnings when in the case of derecognition.

(4) *Classification and subsequent measurement of financial liabilities*

The Group classifies financial liabilities into two categories: the financial liabilities measured at FVTPL, and the financial liabilities measured at amortised cost.

1) *Financial liabilities measured at FVTPL*

This kind of financial liabilities include transaction financial liabilities (including derivatives of financial liabilities) and regarding as financial liabilities measured at FVTPL. After initial recognition, the financial liabilities are subsequently measured at FVTPL, except for the part of hedging instruments. The profit or loss (including interest expense) is recorded in current profit or loss.

2) *Financial liabilities measured at amortised cost*

After initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method.

(5) *Offsetting of financial instruments*

Financial assets and financial liabilities are disclosed separately in the statement of financial position without offsetting. However, if the following conditions are met at the same time, the net amount after offsetting should be disclosed in the statement of financial position:

- 1) The Group has the currently enforceable legal right to offset the recognised amounts; and
- 2) The Group has the intention to settle on a net basis, or to realise the assets and the liabilities simultaneously.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(6) *Derecognition of financial assets and financial liabilities*

The Group derecognises the financial assets when one of the following conditions is met:

- 1) It terminates the contractual right to obtain the cash flow from the financial assets;
- 2) The Group has transferred the financial assets with almost all benefits and risks to others; or
- 3) The Group has transferred the financial assets. And even though the Group neither transfer nor retain almost all benefits and risks on the ownership of the financial assets, the Group does not retain the control of the financial assets.

When the transfer of financial assets as a whole satisfies the criteria of termination, the Group recorded the residual amount between the two amounts below in current profit or loss:

- 1) The carrying amount of the transferring financial asset on the termination date;
- 2) The sum of the price obtained from transferring the financial asset, and the amount of terminated part in the accumulated changed amount of fair value directly included in other comprehensive income (the related transferring financial assets are the debt investment measured at FVOCI).

The Group would terminate the whole or part of financial liability, when the current obligation of the whole or part of financial liability has been eliminated.

(7) *Impairment*

Based on the expected credit loss ("ECL"), the Group takes the impairment accounting treatment and recognises the impairment loss provision for the financial assets measured at amortised cost. Other financial assets which are measured at fair value held by the Group do not satisfy the expected impairment model, including debt or equity investments measured at FVTPL, and regarded as the equity investing instruments measured at FVOCI.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(7) Impairment (Continued)

Measurement of the ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls, i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Except for accounts receivable, the Group takes the impairment provision under the ECL in the future 12 months for the financial instruments which satisfy any criteria below, and the others should be taken the impairment provision under the whole duration ECL situation:

- i. The financial instruments have lower credit risks on the financial position date; or
- ii. The financial instruments' credit risks have not increased significantly after initial recognition.

Low credit risk

If the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations, the credit risk on a financial instrument is considered low.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(7) Impairment (Continued)

Significant increase in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

When determine whether credit risks have significantly increased after initial recognition, the Group considers information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The information should be in consideration as below:

- i. Failure to make payments of principal or interest on their contractually due dates;
- ii. An actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- iii. An actual or expected significant deterioration in the operating results of the debtor; and
- iv. Existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(7) Impairment (Continued)

The financial assets with credit impairment

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- i. Significant financial difficulties of the debtor;
- ii. A breach of contract, such as a default or delinquency in interest or principal payments;
- iii. The creditor gives the debtor no concession in any other circumstances for economic or contractual considerations related to the debtor's financial crisis.
- iv. It becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- v. The disappearance of an active market for a security because of financial difficulties of the issuer.

The disclosure of the expected credit impairment provision

In order to reflecting the change of credit risk after initial recognition, the Group should re-evaluate the ECL on every financial position date. And as a result, the increasing or reversible amount of impairment provision should recorded as impairment loss or reversal in current profit or loss. For the financial assets measured at amortised cost, impairment provision should offset the carrying amount of the financial assets disclosed in the statement of financial position.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (Continued)

(7) Impairment (Continued)

Written off

The gross carrying amount of a financial asset, lease receivable or contract asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, according to the process of collecting unexpired fund, the written off financial assets could be affected by the executed activities.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

9. Receivables

(1) Receivables that are individually significant and subject to separate provision

The criterion applied to individually significant balances

For accounts receivable, any individual amount exceeds RMB20,000,000 is considered to be "individually significant"; for other receivables, the criteria is any individual amount which exceeds RMB5,000,000.

Separate bad debt provision for receivables that are individually significant

Bad debt provision is made for the difference between the book value and the present value of the estimated cash flows arising from separate impairment test.

(2) Receivables that are subject to provision by group with similar credit risk characteristics

1) Bad debt provision for receivables that are subject to provision by group with similar credit risk characteristics

Basis for group determination
Receivables grouped by ageing
Receivables from related parties

Provision methods
Ageing analysis method
No provision for bad debts is made, if no impairment identified after the impairment test

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Receivables (Continued)

(2) *Receivables that are subject to provision by group with similar credit risk characteristics (Continued)*

2) *Ageing analysis method*

Ageing	Provisioning percentage applied for accounts receivable
Within 3 months (including 3 months, same as belows)	0%
4–12 months	5%
1–2 years	25%
2–3 years	50%
Over 3 years	100%

(3) *For other receivables, the Group applies individual assessment to make bad debt provision.*

(4) *Receivables that are not individually significant but subject to separate provision.*

The reason for separate provision Significant difference exists between the present value of estimated future cash flow of receivables and the present value of estimated future cash flow of receivables that are subject to provision by group with similar credit risk characteristics

The method of provision for bad debts The provision for bad debts is determined based on the difference of the carrying amount and the present value of estimated future cash flows based on separate impairment test.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

10. Inventories

(1) *Categories of inventories*

Inventories include hold-for-sale stock goods in the ordinary course of business, working in progress in the process of production, raw materials to be consumed in the production process or in the rendering of services, lower valued consumables and repaired spare parts etc.

(2) *Accounting method of dispatching inventories*

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is assigned by using weighted average method. Costs of spare parts, lower valued consumables and packing materials shall be amortised by using immediate write-off method.

(3) *Net realisable value of inventories*

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the cost of inventories is higher than the net realisable value, a provision for decline in value of inventories is recognised in profit or loss for the current period. If factors that previously resulted in the provision for decline in value of inventories no longer exist, so that the net realisable value is higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for the decline in value of inventories. The amount of the reversal is recognised in current profit or loss.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The provision for decline in value of inventories is made on an individual basis.

(4) *The principal of inventory stock*

The Groups adopts the perpetual inventory system.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

11. Long-term equity investments

Long-term equity investments consist of equity investments in subsidiaries and an associate.

Long-term equity investments are recognised at initial investment cost upon acquisition. For a long-term equity investment acquired through a business combination under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owners' equity of the party being absorbed in the consolidated financial statements of the ultimate controlling party at combination date. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. Any other comprehensive income previously recognised shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit appropriation) is charged to profit or loss upon disposal of such long-term equity investment. For those partially disposed equity investments, gains or losses upon disposal are proportionately recognised in profit or loss when they still constitutes long-term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for step acquisitions not under common control, the initial investment cost is the sum of the carrying amount of the equity investment in the acquiree held before the acquisition date and the additional investment cost paid on the acquisition date), which is the sum of the fair value of assets transferred, liabilities incurred or assumed and equity instruments issued. If the equity investments in the acquiree involve other comprehensive income prior to the acquisition date, when disposing of the investments, the relevant other comprehensive income will be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit appropriation) is charged to profit or loss upon disposal of such long-term equity investment. The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price has been paid plus those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for those acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

The cost method is applied for long-term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the power over the investee such that the Company is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

When the cost method is adopted, long-term equity investments are recorded at initial investment cost. Adjusting the cost of long-term equity investment by adding or withdrawing investment. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income for the period.

The equity method is applied for long-term equity investments when the investees are significantly influenced by the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, the excess is included in the initial investment cost. Where the initial investment cost is less than the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly.

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's results should be based on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. The gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, they should be entirely recognised). The recognition should be based on the adjusted net profit of the investee. The investor's share of profit distributions or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other long-term equity interests that are investment in the investee in substance is reduced to zero, except for which the investor has an extra obligation to assume loss of it. For the changes of equity in an investee other than profit or loss, the investor adjusts the carrying amount of the investment and recognised it in shareholders' equity.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

When long-term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to profit or loss. For long-term equity investments under the equity method, if the method would not be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit appropriation, should be all charged to the profit or loss for the period; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to profit or loss for the period in proportion.

12. Property, plant and equipment

PPE are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of PPE only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognised; otherwise, is charged to profit or loss.

PPE are initially recorded taking discard expenses into consideration. The purchase cost of PPE comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Except for the source from work safety fund, the depreciation of PPE is calculated on the straight-line basis. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of PPE are as follows:

Item	Estimated Useful life (years)	Estimated residual rate	Annual depreciation rate
Plant and buildings	30–50	3%	1.94%–3.23%
Machinery and other equipment	8–22	3%–5%	4.32%–12.13%
Motor vehicles	8	3%	12.13%

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Property, plant and equipment (Continued)

For PPE leased in under finance lease, depreciation for leased assets is provided for using policy similar to that applied to self-owned PPE. When it can be reasonably determined that the ownership of a leased asset will be obtained at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and its useful life.

The Group reviews the useful life and estimated net residual value of a PPE and the depreciation method applied at least at the end of each year and makes adjustments if necessary.

13. Construction in progress

The cost of construction in progress is determined according to the actual expenditure for the construction, including all necessary construction expenditure incurred during the construction period, borrowing costs that should be capitalised before the construction reaches the condition for intended use and other relevant expenses. Construction in progress is transferred to PPE when the asset is ready for its intended use.

14. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including borrowing interest, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs that are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a PPE, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

- 1) Expenditures for the assets are incurred;
- 2) Borrowing costs are incurred; and
- 3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Borrowing costs (Continued)

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are charged to profit or loss.

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by the following methods:

- 1) For specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during the current period after deducting any temporary interest or investment income.
- 2) For general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the weighted average of capital expenditure that exceeds the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a PPE is interrupted abnormally and the interruption lasts for more than three months until the acquisition or construction is resumed. The borrowing costs incurred during such period are recognised as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.

15. Intangible assets

Intangible assets are recognised if and only if it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for an intangible asset acquired in the business combination not under common control whose fair value can be reliably measured, it is separately recognised and is measured at its fair value.

The useful lives of intangible assets are assessed based on estimated economic benefit periods. Those intangible assets without foreseeable economic benefit periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

Item	Useful life (years)
Land use rights	50

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

15. Intangible assets (Continued)

Land use rights that are acquired by the Group are generally accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and relevant land use rights and buildings, are accounted for as intangible assets and PPE, respectively. Payments for the land and buildings acquired are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as PPE.

Intangible assets with finite useful lives are amortised over the useful lives on the straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts them if appropriate, at least at the end of each reporting year.

The Group classifies the expenditure on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase is recognised in profit or loss for the period in which it is incurred. Expenditure on the development phase is capitalised when the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Expenditure in the development phase that does not meet the above criteria is recognised in profit and loss of the period in which it is incurred.

16. Impairment of long-term assets

Except for inventories and financial assets, the Group determines the impairment of assets according to the following method:

The Group assesses whether an indication of impairment exists at the end of each reporting period, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. Intangible assets that unavailable for use are tested for impairment annually.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

16. Impairment of long-term assets (Continued)

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs of sale and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case the recoverable amount is determined for the asset groups to which the asset belongs. An asset group is recognised based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to profit or loss and an impairment allowance is provided.

Impairment losses cannot be reversed in subsequent accounting periods.

17. Payroll and employee benefits payable

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or the termination of employment, including short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits that the Group provides to the spouses, children and dependents of employees, the late employees' family and other beneficiaries also shall be deemed as employee benefits.

(1) *Short-term employee benefits payable*

The Company recognises, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) *Post-employment benefit (defined contribution plans)*

Expenditures for employees' endowment insurance and unemployment insurance managed by the local government established by the Group are capitalised in the related assets or charged to profit or loss.

(3) *Termination benefits*

Termination benefits provided to employees are recognised as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: 1) when the entity cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or 2) when the entity recognises cost or expenses related to a restructuring that involves the payment of termination benefits.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

17. Payroll and employee benefits payable (Continued)

(4) Other long-term employee benefits

When other long-term employee benefits provided by the Group to the employees satisfied the conditions for classifying as post-employment benefits, the Company recognises and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to post-employment benefits. And all changes in the carrying amount of liabilities for other long-term employment benefits are recognised in profit or loss, or included in the cost of a relevant asset.

18. Provisions

Except for contingent considerations or contingent liabilities assumed for business combination not under common control, a provision is recognised if:

- 1) the obligation is a present obligation assumed by the Group; and
- 2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- 3) A reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering risks, uncertainties, present value, etc. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

19. Revenues

The Group recognises revenue when the entity satisfies a performance obligation included in the contract, namely, when the customer obtains control of the relevant goods or services.

When the contract includes two or more performance obligations, the Group shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis at contract inception, and recognise the revenue according to the allocation of the transaction price to each individual performance obligation.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

19. Revenues (Continued)

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price recognised by the Group does not exceed the amount at which the accumulated recognised revenue is unlikely to be materially reversed when the relevant uncertainty is eliminated. The amount that is expected to be returned to the customer is considered as a refund liability which is not included in the transaction price. When the contract contains a significant financing component, the Group determines the transaction price based on the amount payable in cash, assuming that the customer is in control of the goods or services. The difference between the transaction price and the contract consideration is amortised using the effective interest method during the contract period. The Group need not consider for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation and recognises revenue over time if one of the following criteria is met, otherwise it satisfies the performance obligation at a point in time:

- 1) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- 2) the Group's performance creates or enhances an asset (for example, work in progress) that the customer can control as the asset is created or enhanced or;
- 3) the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

For the performance obligation satisfied over time, the group shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. If the progress of the performance cannot be reasonably determined and the Group's costs incurred are expected to be compensated, the revenue shall be recognised according to the amount of costs incurred, until the progress of the performance can be reasonably determined.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

19. Revenues (Continued)

For the performance obligation satisfied at a point in time, the Group recognises revenue when the customer obtains control of the relevant goods or services. To determine the point in time at which a customer obtains control of relevant goods or services, the Group shall consider the following indicators:

- 1) The Group has a present right to receive consideration for the relevant goods or services;
- 2) The Group has transferred physical possession of the goods;
- 3) The significant risks and rewards of ownership of the goods have been transferred from the Group to the customer;
- 4) The customer has accepted the relevant goods or services.

The Group has the right to receive consideration after transferring goods or services to customers (and the rights are subject to other factors other than the passage of time) as contract assets, and the impairment of contract assets is based on the ECLs. The Group has the unconditional right to charge customers (depending on the passage of time) as accounts receivable. The obligation of the Group to transfer goods or services to customers with customers' considerations received or receivable is presented as contract liabilities.

The specific accounting policies related to the main activities of the Group's revenue are as follows:

(1) *Sales of goods*

Revenue should be recognised at the point when the Group has completed the performance obligation in contracts which is with commercial substance, thus, the control of the goods or services is transferred to the customer.

(2) *Rendering of services*

Revenue from services is recognised when the related services are completed and the considerations that are entitled to be obtained by providing services to customers are likely to be collected.

(3) *Interest income*

Interest income is recognised based on the time horizon of the use of the Group's cash by others and the effective interest rate.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

19. Revenues (Continued)

(4) *Royalty income*

Royalty income is recognised according to the agreed contract terms.

(5) *Lease income*

Lease income from operating leases is recognised over the lease terms on the straight-line basis. Contingent lease income is recognised when incurred.

20. Government grants

Government grants are recognised in profit or loss, when they are highly probable to be received and all conditions are fulfilled. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in form of non-monetary asset, it is measured at fair value of the asset. If the fair value cannot be reliably determined, it is measured at the nominal amount.

Asset-related government grants are recognised when the government document designates that the government grants are used for constructing or forming long-term assets. If the government document is inexplicit, the Company should make a judgement based on the basic conditions to obtain the government grants, and recognises them as asset-related government grants if the conditions are to form long-term assets through construction or other method. Otherwise, the government grants should be income-related.

A government grant related to income is accounted for as follows: (a) if the grant is a compensation for related costs or expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or offset against relevant costs over the periods in which the related costs are recognised; (b) if the grant is a compensation for related costs or expenses or losses already incurred, it is recognised immediately in profit or loss or offset against relevant costs for the current period.

A government grant related to asset can be either accounted by reducing the carrying amount of the asset or by being recognised as deferred income, and evenly amortised systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognised in profit or loss immediately for the period). When the asset is sold, transferred, discarded or destroyed within the useful life, the related deferred income should be recognised in profit or loss immediately.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as credit or expense in profit or loss, except for goodwill arising from a business combination or items that have been recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, and the differences between the carrying amounts of some items that have a tax base but are not recognised as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

- 1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- 2) as to temporary differences associated with subsidiaries and associates: the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

- 1) is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- 2) as to deductible temporary differences associated with subsidiaries and associates: a deferred tax asset is recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilised.

At the end of each reporting period, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the end of each reporting period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and liabilities should be offset and disclosed in net if and only if: the entity has a legally enforceable right to set off current tax and liabilities; and the deferred tax assets and liabilities concerned related to income taxes raised by the same authority on the same taxable entity, or taxable entities which intend, in each future period in which significant amounts of deferred tax are expected to be settled or recovered, to settle their current tax assets and liabilities either on a net basis or simultaneously.

22. Leases

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as a finance lease. All the other leases are termed as operating leases.

(1) *As lessee in operating leases*

Rentals payable under operating leases are charged to profit or loss or capitalised on the straight-line basis over the lease terms, and contingent rental payment is charged to profit or loss when it is incurred.

(2) *As lessor in operating leases*

Rentals receivable under operating leases are credited to profit or loss over the lease terms on the straight-line basis.

23. Safety reserve fund

The safety reserve fund extracted by the Group shall be recognised as the cost of the related products or income statement, while be recognised as special reserve. When using safety reserve fund, it shall be distinguished whether it will form PPE or not. The expenditure shall write down the special reserve; the capital expenditure shall be recognised as PPE when meet the expected conditions for use, and write down the special reserve while recognising accumulated depreciation with the same amount.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

24. Fair value measurement

The Group measures held equity investment instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other supporting information are available to measure fair value, giving priority to the use of relevant observable inputs, and using unobservable inputs only when observable inputs are unavailable or not feasible to obtain.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

25. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

1) *Deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

2) *Provision for bad debts of receivables*

For receivables that are individually significant and subject to separate provision, the Group performs individual impairment test and makes provision for bad debts based on the difference between the book value and the present value of the estimated cash flows. For receivables that are subject to provision by group with similar credit risk characteristics, the bad debt provision is made based on ageing analysis method, but bad debt provision shall not be made for receivables from related parties. For receivables that are not individually significant but subject to separate provision, the Group performs individual impairment test and makes provision for bad debts based on the difference between the book value and the present value of the estimated cash flows.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

25. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

3) *Estimation of useful life and residual value of property plant and equipment*

The estimation of useful life of its property plant and equipment is based on the historical experience of the actual useful lives of property plant and equipment of similar nature and functions. If the useful life of these property plant and equipment is shortened, the Group will increase the depreciation rate and eliminate the idle or technically obsolete parts of property plant and equipment.

4) *Net realisable values of inventories*

At the end of reporting period, inventories are measured at the lower of cost and net realisable value and the provision for inventory write-down is made on the difference between the cost and the net realisable value. The net realisable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realisable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business.

5) *Impairment of non-current assets other than financial assets*

The Group assesses whether there are any indicators of impairment for non-current assets other than financial assets at the financial position date. Non-current assets other than financial assets are tested for impairment when there are indication that the carrying amounts may not be recoverable. When the carrying amount of an asset or asset group is higher than its recoverable amount, that is the higher of fair value less costs to sell and the present value of estimated future cash flows, the related asset or asset group is impaired. The fair value less costs to sell of an asset is determined as the contractual price of similar assets in an arm's length transaction, or the observable market price of similar assets, after deducting the additional costs directly attributable to the disposal of this asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a proper discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

26. Changes in accounting policies

The changes in accounting policy and reasons thereto	Procedures for Approval	Notes (names and amounts of the financial statement items materially affected)
<p>Since 1 January 2018, the Group has adopted the revised editions of four accounting standards relating to financial instruments promulgated by the MOF: “ASBE No.22 Recognition and Measurement of Financial Instruments”, “ASBE No.23 Transfer of Financial Assets”, “ASBE No.24 Hedge Accounting” and “ASBE No.37 Presentation of Financial Instruments” (collectively the “New Financial Instrument Standards”). The New Financial Instrument Standards require that on the implementation date of the standards, the enterprise shall classify and measure the financial instruments according to the regulations. If the data of the previous comparative financial statements are inconsistent with the requirements of the standards, no adjustment is needed. Retained earnings at the beginning of 2018, other comprehensive income and other items in the financial statements should be adjusted according to the difference between the original book value of the financial instrument and the new book value at the date of implementation of the new standards.</p>	<p>Reviewed and approved by the third meeting of the eighth board of directors of the Company</p>	<p>Based on the assessment of the Group, except for the re-classification of available-for-sale financial assets into financial assets measured at FVOCI, the implementation of the New Financial Instrument Standards does not have a significant impact on the classification and measurement of the remaining financial assets. And it does not have a significant impact on the provisions for bad debts of Group’s notes and accounts receivables and other receivables.</p>

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

26. Changes in accounting policies (Continued)

The changes in accounting policy and reasons thereto	Procedures for Approval	Notes (names and amounts of the financial statement items materially affected)
<p>Since 1 January 2018, the Group has adopted the “ASBE No.14 Revenue” (“New Revenue Standard”) revised and promulgated by the MOF on 5 July 2017. The standard requires that enterprises that the implementation of this standard for the first time should adjust the opening balance of retained earnings of the first year and other items in the financial statements based on the cumulative number of impacts, and the information for the comparable period will not be adjusted. The change in accounting policy does not involve restatement of comparative information and has no impact on financial statements of 2017. The group need to adjust the retained earnings at the beginning of 2018 and other items in the financial statements.</p>	<p>Reviewed and approved by the third meeting of the eighth board of directors of the Company</p>	<p>Based on the Group’s assessment, the implementation of the New Revenue Standard does not have a significant impact on the revenue recognition of the Group’s existing contracts. The Group is not required to adjust the retained earnings at the beginning of the year.</p>
<p>As the implementation of the Notice of the Ministry of Finance on Revising and Circulating General Corporate Financial Statement Formats (Financial Accounting [2018] No.15), for the Statement of Financial Position, the Group: (a) combines notes receivable and accounts receivable into the new item notes and accounts receivables; (b) combines notes payable and accounts payable into the new item notes and accounts payables; (c) incorporates interests payable and dividends payable into the other payables.</p>	<p>Reviewed and approved by the third meeting of the eighth board of directors of the Company</p>	<p>The Group has retrospectively restated the relevant accounts of the comparative statement of financial position. The change of accounting policy has no impact on the consolidated and the Company’s shareholders’ equity.</p>

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

V SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

26. Changes in accounting policies (Continued)

The changes in accounting policy and reasons thereto	Procedures for Approval	Notes (names and amounts of the financial statement items materially affected)
<p>Since 1 January 2018, the Group has adopted the “ASBE Interpretation No.9 Accounting Treatment on Net Loss of Investment under the Equity Method”, “ASBE Interpretation No.10 Depreciation method based on income generated from the use of property plant and equipment, “ASBE Interpretation No.11 Amortisation method Based on Income generated from the use of intangible assets”, and “ASBE Interpretation No.12 Regarding whether the provider and recipient of the key management personnel service are related parties” (collectively the “Interpretation No.9–12”) promulgated by the Ministry of Finance in 2017.</p>	<p>Reviewed and approved by the third meeting of the eighth board of directors of the Company</p>	<p>Based on the assessment of the Group, the implementation of the Interpretation No. 9–12 did not have a significant impact on the Group's financial position and operating results.</p>

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VI. TAXES

1. Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax ("VAT")	The taxable revenue from sale of goods	3%,6%,10%,11%, 13%,16%,17%
Housing property tax	For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at the rate of 12%	1.2%,12%
City maintenance and construction tax	Amount of commodity turnover tax paid	7%
Education surcharge	Amount of commodity turnover tax paid	3%
Local education surcharge	Amount of commodity turnover tax paid	2%
Corporate income tax ("CIT")	Taxable income	15%,25%

The applicable CIT rate of the Company and its subsidiaries are analysed as follows:

Name of subject of taxation	Income tax rate
The Company	15%
Jingjiang CIS Huadong Trading Co., Ltd.	25%
Chongqing CIS Building Materials Sales Co., Ltd.	25%
Chongqing CISL high strength cold rolling steel Co., Ltd. ("Cold Rolling Company") (重慶重鋼高強冷軋板材有限公司) (Note)	25%

Note: Cold Rolling Company was dissolved in May 2018, and the applicable income tax rate was 25% before the deregistration.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VI. TAXES (CONTINUED)

2. Tax benefits

The tax benefits for the development of the western region enjoyed by the Company expired on 31 December 2010. Pursuant to the requirement of the Notice Concerning Issues on Taxation Policies Relating to the Thorough Implementation of China's Strategy of Western Development (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) promulgated by the MOF, the State Administration of Taxation and the General Administration of Customs, enterprises located in the western region that fall into the Catalogue of Encouraged Industries are subject to a reduced Corporate Income Tax rate of 15% from 1 January 2011 to 31 December 2020. These enterprises refer to the enterprises that are mainly engaged in the industrial projects stipulated in the Catalogue of Encouraged Industries, and whose main business income accounts for more than 70% of the total income of the enterprises. Pursuant to the Catalogue of Encouraged Industries in the Western Region issued by the National Development and Reform Commission on 20 August 2014, the Company has qualified to implement preferential tax policy of 15% for the Western Development as the business operations belong to the encouraged industries in the western region, and all of them are stipulated in the Catalogue of Encouraged Industries in the Western Region. Thus in this year, the Company's tax rates and preferential tax policies remained unchanged as compared to last year.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

(1) Details

Items	Closing balance	Opening balance
Cash on hand	41	41
Bank deposits	449,974	1,969,797
Other monetary assets	–	80,700
Total	450,015	2,050,538

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash and bank balances (Continued)

(2) Other descriptions

Restricted cash and bank balances:

Items	Closing balance	Opening balance
Reserve funds for the reorganisation plan	–	1,100,000
Guarantee deposit for notes	–	80,700
Others	–	876
Total	–	1,181,576

The restricted cash and bank balances at the end of the previous period have been released in the current period. At the end of the period, the Group had no restricted cash and bank balances.

2. Notes and accounts receivables

(1) Notes receivable

1) Details

Items	Closing balance	Opening balance
Commercial acceptance notes	4,303	–
Bank acceptance notes	1,501,020	123,096
Total	1,505,323	123,096

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(1) Notes receivable (Continued)

2) Notes receivable has been endorsed or discounted but not yet due at the end of the period

Items	Amount derecognised at the end of the period	Amount not derecognised at the end of the period
Commercial acceptance notes	22,595	–
Bank acceptance notes	4,577,146	–
Sub-total	4,599,741	–

As at 30 June 2018, The Group endorsed certain unexpired notes receivable (the “endorsed notes”) with a total carrying amount of RMB4,599,741,000 (31 December 2017: RMB1,795,100,000) to certain of its suppliers in order to settle payables due to those suppliers. Management believed that the Group has transferred substantially all risks and rewards relating to the endorsed notes. Accordingly, the Group has derecognised these endorsed notes and related accounts payable. The extent to which the Group continues to be involved in the derecognition of the endorsed notes is limited to the issuer’s inability to settle the notes to the noteholders. The maximum loss of continuing involvement of the endorsed notes would be RMB4,599,741,000 on 30 June 2018 (31 Dec 2017: RMB1,795,100,000).

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(2) Accounts receivable

1) Details on categories

Categories	Book value		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Individually significant and subject to separate provision	65,424	28	1,680	3	63,744
Receivables that are subject to provision by group with similar credit risk characteristics	167,894	72	141,820	84	26,074
Individually not significant but subject to separate provision	-	-	-	-	-
Total	233,318	100	143,500	62	89,818

Categories	Book value		Opening balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Individually significant and subject to separate provision	31,710	17	1,680	5	30,030
Receivables that are subject to provision by group with similar credit risk characteristics	155,828	83	141,820	91	14,008
Individually not significant but subject to separate provision	-	-	-	-	-
Total	187,538	100	143,500	77	44,038

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(2) Accounts receivable (Continued)

1) Details on categories (Continued)

- i Receivables that are Individually significant and subject to separate provision are as follows:

Company	Book value	Closing balance		Reason for provision
		Provision for bad debts	Provision proportion (%)	
Zhongjian steel Sichuan Company, Limited (中建鋼構四川有限公司)	36,931	-	-	
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	28,493	1,680	6	Provision based on the expected recoverable amount
Sub-total	65,424	1,680	3	

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(2) Accounts receivable (Continued)

1) Details on categories (Continued)

- ii Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for using ageing analysis method are as follows:

Ageing	Book value	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	9,756	–	–
4–12 months (first year inclusive)	2,220	111	5
1–2 years	5,196	1,299	25
2–3 years	2,440	1,220	50
Over 3 years	136,030	136,030	100
Sub-total	155,642	138,660	89

- iii Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for other method are as follows:

Portfolios	Book value	Closing balance Provision for bad debts	Provision proportion (%)
Accounts receivable from historical related parties	12,252	3,160	26

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(2) Accounts receivable (Continued)

2) Ageing Analysis

Ageing	Book value	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	76,355	–	–
4–12 months (first year inclusive)	2,220	111	5
1–2 years	13,512	3,378	25
2–3 years	2,440	1,220	50
Over 3 years	138,791	138,791	100
Total	233,318	143,500	62

Ageing	Book value	Opening balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	4,843	–	–
4–12 months (first year inclusive)	26,346	1,317	5
1–2 years	16,473	4,118	25
2–3 years	3,622	1,811	50
Over 3 years	136,254	136,254	100
Total	187,538	143,500	77

The ageing analysis was based on the month when incurred. The accounts receivable recognised firstly will be firstly settled.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Notes and accounts receivables (Continued)

(2) Accounts receivable (Continued)

3) During the current period, no provision for bad debts and no recovery or reversal of provision for bad debts was made.

4) Top five accounts receivable balances

As at 30 June 2018, the top five balances in respect of accounts receivable aggregating RMB93,249,000, accounting for 40% of the total of closing balance of accounts receivable. The closing balance in respect of bad debt provision made for the top five balances amounted to RMB34,006,000.

5) As at 30 June 2018, there were no accounts receivable that were derecognised due to the transfer of financial assets (31 December 2017: Nil).

3. Prepayments

(1) Ageing analysis

Ageing	Closing balance		Opening balance	
	Book value	Proportion (%)	Book value	Proportion (%)
Within 1 year	210,112	95	70,022	100
1–2 years	11,827	5	–	–
Total	221,939	100	70,022	100

(2) Top five prepayments balances

As at 30 June 2018, the closing balances of the top five prepayments balances in aggregate to RMB113,068,000, representing 51% of the total closing balances of prepayments at the end of reporting period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Other receivables

(1) Details

1) Details on categories

Categories	Book value		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision	
				proportion (%)	
Individually significant and subject to separate provision	23,052	43	16,646	72	6,406
Individually not significant but subject to separate provision	31,014	57	23,089	74	7,925
Total	54,066	100	39,735	73	14,331

Categories	Book value		Opening balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision	
				proportion (%)	
Individually significant and subject to separate provision	23,052	46	16,646	72	6,406
Individually not significant but subject to separate provision	27,038	54	23,089	85	3,949
Total	50,090	100	39,735	79	10,355

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Other receivables (Continued)

(1) Details (Continued)

- 2) Other receivables that are individually significant and subject to separate provision are as follows:

Company	Book value	Provision for bad debts	Provision proportion (%)	Reasons for provision
Chongqing Iron and Steel Industry and Trading (Zhanjiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability to recover
Chang Zhou Chunzhixin Metal Material Co., Ltd. (常州市春之鑫金屬材料有限公司)	7,222	3,611	50	Provision based on the expected recoverable amount
Jiangsu Hetuo International Trading Co., Ltd. (江蘇和拓國際貿易有限公司)	5,590	2,795	50	Provision based on the expected recoverable amount
Sub-total	23,052	16,646	72	

(2) Other receivables presented by nature

Nature	Closing balance	Opening balance
Prepayments for trading	32,622	32,265
Guarantee deposits and staff advances	17,910	15,576
Others	3,534	2,249
Total	54,066	50,090

- (3) During the current period, no provision for bad debts and no recovery or reversal of provision for bad debts was made.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Other receivables (Continued)

(4) As of 30 June 2018, the five largest other receivables are as follows:

Company	Amount	nature	ageing	Ratio in other receivables (%)	Provision for bad debts
First	10,240	Prepayment for trading	More than 3 years	19	10,240
Second	7,222	Prepayment for trading	2-3 years	13	3,611
Third	5,590	Prepayment for trading	More than 3 years	10	2,795
Fourth	4,126	Prepayment for trading	More than 3 years	8	4,126
Fifth	3,921	Prepayment for trading	More than 3 years	7	3,921
Total	31,099			57	24,693

The top five balances in respect of other receivables aggregating RMB31,099,000, accounting for 57% of the total closing balance of other receivables. The closing balance in respect of bad debt provided for the top five balances amounted to RMB24,693,000.

(5) As at 30 June 2018, there were no other receivables that were derecognised due to the transfer of financial assets (31 December 2017: Nil).

5. Inventories

(1) Details

Items	Book value	Closing balance		Opening balance		
		Provision for decline in value	Carrying amount	Book value	Provision for decline in value	Carrying amount
Raw materials	1,497,771	166,991	1,330,780	824,355	169,466	654,889
Work-in-progress	382,928	-	382,928	292,914	476	292,438
Finished goods	266,404	-	266,404	152,224	-	152,224
Low value consumables and maintenance and spare parts	396,838	164,288	232,550	395,206	164,288	230,918
Total	2,543,941	331,279	2,212,662	1,664,699	334,230	1,330,469

Note: For details of inventories with ownership or use right restricted, please refer to Note VII.42.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Inventories (Continued)

(2) Provision for inventories

1) Details

Items	Opening balance	Increase		Decrease		Closing balance
		Provision	Others	Reversal or written-off	Others	
Raw materials	169,466	-	-	2,475	-	166,991
Work in progress	476	-	-	476	-	-
Low value consumables and maintenance and spare parts	164,288	-	-	-	-	164,288
Sub-total	334,230	-	-	2,951	-	331,279

2) Determination basis of net realisable value and reasons for the reversal or written-off of provision for inventories

Items	Determination basis for provision for decline in value	Basis for determination of net realisable value	Reasons for the reversal or the write-off of provision for decline in value of inventories in the current period
Raw materials	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges	Relevant inventories used or disposed
Work in progress	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges	Relevant inventories used
Low value consumables and maintenance and spare parts	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges	

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other current assets

Items	Closing balance	Opening balance
Wealth management products from banks	–	650,000
Input VAT to be deducted	167,659	478,655
Total	167,659	1,128,655

7. Long-term equity investments

(1) Categories

Items	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Investments in an associate	–	–	–	124,158	–	124,158

(2) Details

Investees	Opening balance	Increase/(decrease)		Closing balance
		Investments decreased	Investment income recognised under equity method	
Chongqing POSCO CISL automotive steel Co., Ltd. ("POSCO CISL", 重 慶浦項重鋼汽車板有 限公司) (Note)	124,158	(121,530)	(2,628)	–

Note: In May 2018, POSCO CISL had completed deregistration, and obtained the notice of deregistration of foreign-invested enterprises ((Yu Chang) Foreign-invested He Zhun [2018] No.000079).

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Other equity investments

(1) Details

Items	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Equity instruments measured at FVOCI	5,000	-	5,000	5,000	-	5,000

Note: Since 1 January 2018, the Group has adopted the New Financial Instrument Standards and reclassified the available-for-sale financial assets to equity investments at FVOCI, which disclosed as other equity investments accordingly.

(2) Equity instruments measured at fair value through other comprehensive income at the end of period

Investee	Opening balance	Book value		Closing balance	Provision for impairment	Shareholding proportion in investees (%)	Cash dividend in current period
		Increase	Decrease				
Xiamen Shipbuilding Industry Co., Ltd. (廈門船舶重工股份有限公司)	5,000	-	-	5,000	-	1.8	-

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Property, plant and equipment

(1) Details

Items	Plant and buildings	Machinery and other equipment	Motor vehicles	Total
Cost				
Opening balance	13,623,580	7,724,644	14,770	21,362,994
Increase	132	3,184	128	3,444
1)Purchase	–	–	128	128
2)Transfer from construction in progress	132	3,184	–	3,316
Decrease	–	–	1,260	1,260
1)Disposal or retirements	–	–	1,260	1,260
Closing balance	13,623,712	7,727,828	13,638	21,365,178
Accumulated depreciation				
Opening balance	1,688,230	2,066,284	12,781	3,767,295
Increase	177,613	181,483	505	359,601
1)Provided	177,613	181,483	505	359,601
Decrease	–	–	1,181	1,181
1)Disposal or retirements	–	–	1,181	1,181
Closing balance	1,865,843	2,247,767	12,105	4,125,715
Provision for impairment				
Opening balance and closing balance	–	–	–	–
Carrying amount				
Carrying amount at the end of period	11,757,869	5,480,061	1,533	17,239,463
Carrying amount at the beginning of period	11,935,350	5,658,360	1,989	17,595,699

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Property, plant and equipment (Continued)

(2) PPE leased out under operating lease are as follows:

Items	Carrying amount at the end of period	Carrying amount at the beginning of period
Plant and buildings	14,699	14,469

(3) PPE without certificates of ownership are as follows:

Items	Carrying amount	Reason for lacking certificates of ownership
Workshop in Changshou district	1,093,912	Application materials in preparation

(4) For details of PPE with ownership restricted, please refer to Note VII.42.

10. Construction in progress

(1) Details

Projects	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Continuous caster reconstruction project	3,590	–	3,590	3,590	–	3,590
Repair Technology Innovation Integration Project	1,996	–	1,996	–	–	–
Boiler supporting project	1,018	–	1,018	–	–	–
Others	4,098	–	4,098	5,105	–	5,105
Total	10,702	–	10,702	8,695	–	8,695

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Construction in progress (Continued)

(2) Changes in significant projects for the period

Name of project	Budget	Opening balance	Current period additions	Transferred to PPE	Closing balance	Source of funds
Continuous caster reconstruction project	4,500	3,590	–	–	3,590	Self-owned funds
Repair Technology Innovation Integration Project	4,610	–	1,996	–	1,996	Self-owned funds
Boiler supporting project	5,800	–	1,018	–	1,018	Self-owned funds
Others		5,105	2,309	3,316	4,098	Self-owned funds
Sub-total		8,695	5,323	3,316	10,702	

11. Intangible assets

Items	Land use rights
Cost	
Opening balance and closing balance	2,871,067
Accumulated amortisation	
Opening balance	349,333
Provision	36,300
Closing balance	385,633
Provision for impairment	
Opening balance and closing balance	–
Carrying amount	
Carrying amount at the end of period	2,485,434
Carrying amount at the beginning of period	2,521,734

As at 30 June 2018, there was no land use right for which the Group had not obtained title certificates (31 December 2017: Nil). For details of intangible assets with ownership restricted, please refer to Note VII.42.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax assets

(1) *Particulars of deferred tax assets not yet recognised are presented as follows:*

Items	Closing balance	Opening balance
Deductible losses	6,251,702	7,107,926
Provision for assets impairment	514,514	517,465
Early retirement benefits	290,357	243,190
Accrued liabilities	–	11,204
Others	112,273	519,841
Total	7,168,846	8,399,626

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as it is not considered probable that future taxable profits will be available against which the above items can be utilised.

(2) *The aforesaid unrecognised deductible losses will be due in the following years:*

Year	Closing balance	Opening balance
2018	624,634	1,480,858
2019	465,978	465,978
2020	1,506,919	1,506,919
2021	3,651,305	3,651,305
2022	2,866	2,866
Total	6,251,702	7,107,926

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Notes and accounts payables

(1) *Details*

Items	Closing balance	Opening balance
Bank acceptance notes	–	80,700
Accounts payable for goods and services	1,138,403	2,074,594
Total	1,138,403	2,155,294

(2) *Ageing analysis*

Ageing	Closing balance	Opening balance
Within 1 year	1,126,327	2,065,051
1–2 years	5,736	8,776
2–3 years	6,046	731
Over 3 years	294	36
Total	1,138,403	2,074,594

(3) *Accounts payable with ageing over one year:*

Items	Closing balance	Reasons for unsettlement
Accounts payable for goods and services	12,076	Contract completed but settlement has not been completed

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Contract liabilities

	Closing balance
Opening balance (<i>Note</i>)	187,099
Add: Cash increase (excluding revenue recognised in the current period)	1,447,584
Less: The contractual liabilities at the beginning of the period are recognised in the current period.	185,187
	<hr/>
Closing balance	1,449,496

Note: Since 1 January 2018, the Group has adopted the New Revenue Standard and recorded the obligation to transfer goods or services to customers based on the considerations received as contract liabilities.

15. Employee benefits payable

(1) *Details*

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	135,833	427,789	523,297	40,325
Post-employment benefits – defined contribution plans	427,714	82,865	479,738	30,841
Early retirement benefits	–	57,421	–	57,421
	<hr/>			
Total	563,547	568,075	1,003,035	128,587

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Employee benefits payable (Continued)

(2) *Details of short-term employee benefits*

Items	Opening balance	Increase	Decrease	Closing balance
Salaries, bonuses, allowances and subsidies	19,876	335,612	336,828	18,660
Staff welfare	–	920	920	–
Social security contributions	70	44,850	37,000	7,920
Including: Medical insurance	65	40,994	33,139	7,920
Work injury insurance	5	3,856	3,861	–
Housing fund	113,126	25,761	138,841	46
Labour union funds and employee education funds	2,543	20,381	9,273	13,651
Others	218	265	435	48
Sub-total	135,833	427,789	523,297	40,325

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Employee benefits payable (Continued)

(3) Details of defined contribution plans

Items	Opening balance	Increase	Decrease	Closing balance
Basic pension insurance	427,710	81,209	478,507	30,412
Unemployment insurance	4	1,656	1,231	429
Sub-total	427,714	82,865	479,738	30,841

According to the Labour Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries paid basic pension insurance for employees. And the local government authorities were responsible for the entire pension obligations payable to retired employees who reached retirement age pursuant to relevant regulations or quitted the work force due to other reasons. The Company and its subsidiaries had no other obligation to make payment in respect of pension benefits.

16. Tax payable

Items	Closing balance	Opening balance
Environmental protection tax	6,000	–
Individual income tax	2,437	–
Stamp duty	2,230	13,045
VAT	1	50
Total	10,668	13,095

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Other payables

Items	Closing balance	Opening balance
Reserve funds for the reorganisation (<i>Note</i>)	206,173	999,792
Guarantee deposits	63,381	16,300
Rental	31,625	–
Rural network loan repayment	30,899	–
Accrued electricity expenses	21,018	13,180
Large and medium-sized reservoir resettlement support fund	10,821	–
Interest payable	4,561	7,174
Payment for trading and interest	2,669	422,890
Others	39,499	32,576
Total	410,646	1,491,912

Note: The decrease in reserve funds for the reorganisation during the current period was mainly due to the payment of RMB785,832,000 to Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership) (重慶戰略性新興產業股權投資基金合夥企業有限合夥).

18. Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term loan due within one year (<i>Note</i>)	590,000	400,000

Note: Long term loan due within one year was mortgage and guaranteed loan, which was guaranteed by Siyuanhe Equity Investment Management Co., Ltd. free of charge. As at 30 June 2018, the interest rate of the above loan was 4.75% per annum (31 December 2017: 4.75%).

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Long-term borrowings

(1) Details

Items	Closing balance	Opening balance
Mortgage and guaranteed loan (Note)	500,000	700,000

Note: The mortgage and guaranteed loan was guaranteed by Siyuanhe Equity Investment Management Co., Ltd. free of charge. As at 30 June 2018, the interest rate of the above loan was 4.75% per annum (31 December 2017: 4.75%).

(2) Analysis on due date of long-term borrowings is as follows:

Items	Closing balance	Opening balance
Spot or within 1 year	590,000	400,000
1–2 years	350,000	400,000
2 to 5 years	150,000	300,000
Over 5 years	–	–
Sub-total	1,090,000	1,100,000
Wherein: Long-term loans due within one year	590,000	400,000
Long-term loans due over one year	500,000	700,000

20. Long-term employee benefits payable

Items	Closing balance	Opening balance
Early retirement benefits	232,936	243,190

Early retirement benefit scheme was implemented by the Group due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses, social insurance and housing fund during the early retirement period until the employees meet official retirement age (male: 60, female: 50 or 55). The amounts of social insurance and housing fund are determined on the base of the contributions, and the proportion of contributions in accordance with local social security requirement.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Long-term employee benefits payable (Continued)

As at 30 June 2018, key actuarial assumptions used are as follows:

Item	Closing Balance
Discount rate	3.30%
Retirement age	
Male	60
Female	50/55
Increase rate	
Social average wage increase rate	10%
Lowest wage increase rate	20% per 2 years

The Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasure bond rate of 30 June 2018 and accounted in profit and loss of the current period. As of 30 June 2018, the current portion of the payment responsibility was accounted for in short-term employee benefits.

21. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons
Government grants	43,154	–	1,432	41,722	Government grants

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Deferred income (Continued)

(2) Details of government grants

Items	Opening balance	Increase	Recognition during the period as other income (Note)	Closing balance	Related to assets/income
Grants for construction of environmental protection equipment and facilities	6,028	–	119	5,909	Related to assets
Grants for recycle heat power station	37,126	–	1,313	35,813	Related to assets
Sub-total	43,154	–	1,432	41,722	

Note: For details of government grants credited to the current profit or loss or offset against the related cost in the current period, please refer to explanation of government grants in Note VII.35.

22. Other non-current liabilities

Items	Closing balance	Opening balance
Borrowings from non-financial institutions	2,400,000	2,400,000

According to the reorganisation plan, Changshou Iron & Steel provided RMB2.4 billion loan to the Company for the execution of the reorganisation plan. The loan term is 7 years, which is from 24 November 2017 to 23 November 2024, and bears interest at the rate of 4.9% (31 December 2017: 4.9%) per annum.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Share capital

Items	Opening balance	New shares issued	Increase/(decrease) during the current period					Sub-total	Closing balance
			Bonus shares	Reserve transferred to shares	Restricted share unlocked	Others			
Non-restricted shares	8,918,602	-	-	-	-	-	-	8,918,602	
A shares	8,380,475	-	-	-	-	-	-	8,380,475	
H shares	538,127	-	-	-	-	-	-	538,127	
Total	8,918,602	-	-	-	-	-	-	8,918,602	

On 11 January 2018, Changshou Iron & Steel pledged 2,096,981,600 non-restricted shares of the Company to China Development Bank. The pledge period started from 11 January 2018, to the registration is cancelled through China Securities Depository and Clearing Co., Ltd. (中國證券登記結算有限責任公司). The purpose of this pledge was to provide guarantee for Changshou Iron & Steel to borrow RMB2.4 billion from China Development Bank. The loan term is 7 years, which is from 30 November 2017 to 29 November 2029. As at the report day, Changshou Iron & Steel held 2,096,981,600 shares of the Company, of which 2,096,981,600 shares has been pledged, accounting for 23.51% of the total share capital of the Company.

24. Capital reserve

Items	Opening balance	Increase	Decrease	Closing balance
Share premium	18,454,409	-	-	18,454,409
Other capital reserves	827,738	-	-	827,738
Total	19,282,147	-	-	19,282,147

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Special reserve

Items	Opening balance	Increase	Decrease	Closing balance
Safety fund	–	10,260	2,447	7,813

Special reserve was the safety fund accrued according to article of No.16 “The regulation on the accrual and usage of enterprise’s safety production fee” (Cai Qi [2012] No.16) promulgated by the MOF and the State Administration of Work Safety on February 14, 2012.

26. Surplus reserve

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	606,991	–	–	606,991

In accordance with Articles of Association of the Company, the net profits should be used first to make up for the previous year’s losses. The company should appropriate 10% of the net profit which had been offset for the previous year’s losses to the statutory surplus reserve, where the appropriation can be ceased when the statutory surplus reserve reaches 50% of the registered capital.

27. Accumulated losses

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Opening balance	(12,077,625)	(12,397,711)
Add: Net profit attributable to the shareholders of the parent company	761,960	(998,482)
Closing balance	(11,315,665)	(13,396,193)

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Revenue and cost of sales

Items	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue	Cost	Revenue	Cost
Revenue from principal operations	11,065,767	9,339,727	4,510,687	4,409,460
Revenue from other operations	27,132	4,571	11,040	3,357
Total	11,092,899	9,344,298	4,521,727	4,412,817

Revenue from principal operations:

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Sale of steel products	10,517,731	3,922,662
Processing	–	164,340
Others	548,036	423,685
Sub-total	11,065,767	4,510,687

Revenue from other operations:

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Sale of waste materials	20,153	7,112
Others	6,979	3,928
Sub-total	27,132	11,040

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Taxes and surcharges

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Land use right tax	21,146	21,249
Housing property tax	16,849	16,530
Environmental protection tax	10,161	–
Stamp duty	4,273	1,779
Others	8	221
Total	52,437	39,779

30. Distribution and selling expenses

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Transportation expenses	30,947	14,406
Labour costs	5,726	4,873
Processing fees	2,444	190
Others	2,869	4,212
Total	41,986	23,681

31. General and administrative expenses

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Repair expenses	446,318	188,420
Labour costs	79,501	65,939
Loss on suspension of production	10,945	187,714
Depreciation and amortisation	64,217	60,866
Early retirement benefits	67,225	–
Consulting and services expenses	6,033	2,208
Others	57,137	27,509
Total	731,376	532,656

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Finance Expenses

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Bank interest and other in kind	190,466	539,309
Interest income	(46,428)	(7,146)
Others	3,212	(16,604)
Total	147,250	515,559

33. Investment Income

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Investment income from long-term equity investments under equity method	(2,628)	(1,911)
Gains from disposal of long-term equity investments	802	–
Total	(1,826)	(1,911)

34. Gains on disposal of assets

Items	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount included in non-recurring profit or loss
Gains on disposal of non-current assets	8,482	6	8,482

35. Other income

Items	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount included in non-recurring profit or loss
Government grants	1,502	6,286	1,502

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Other income (Continued)

Government grants related to daily operating activities are as follows:

Items	Six months ended 30 June 2018	Six months ended 30 June 2017	Relate to assets or income
Grants for recycle heat power project	1,313	1,125	Relate to assets
Others	119	1,553	Relate to assets
Subtotal	1,432	2,678	
Position stability subsidies	–	3,588	Relate to income
Others	70	20	Relate to income
Subtotal	70	3,608	
Total	1,502	6,286	

36. Non-operating income

Items	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount included in non-recurring profit or loss
Incomes from fines	105	–	105
Others	220	78	220
Total	325	78	325

37. Non-operating expenses

Items	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount included in non-recurring profit or loss
Losses on the reorganisation	19,062	–	19,062
Others	2,001	515	2,001
Total	21,063	515	21,063

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Income tax expenses

(1) *Details*

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Current income tax	885	2
Deferred tax	–	–
Total	885	2

(2) *Income tax expense reconciliation from profit before tax*

Items	Six months ended 30 June 2018
Profit before tax	762,972
Tax rate	15%
Income tax expenses calculated at the applicable tax rate	114,446
Effect of different tax rate applicable to subsidiaries	620
Expenses not deductible for tax purposes	718
Adjustment of income tax in the prior periods	265
Profit and loss attributable to associates	394
Utilisation of deductible losses from prior years	(128,434)
Effect of unrecognised deductible temporary difference	12,876
Income tax expenses	885

(3) No provision for Hong Kong profit tax has been made as the Group had no taxable profits arising in Hong Kong for the period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the current period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding. Shares are usually included in the weighted average number of shares from the date of their issuance according to the terms of contract of issuance.

The Group holds no potential shares that are dilutive.

Items	Current period
Earnings	
Profit attributable to ordinary shareholders of the Company (RMB)	761,960,000
Number of shares	
Weighted average number of ordinary shares outstanding (Note)	8,918,602,267

Note: During the current period, the Company had not incurred any changes that may result in changes in the number of ordinary shares or potential ordinary shares outstanding. Therefore, the weighted average number of ordinary shares outstanding during the period was 8,918,602,267 shares, which was used by the Company to calculate the current earnings per share.

No change occurred in the period from the financial position date to the date of approval of the financial statements, resulting in changes in the number of ordinary shares or potential ordinary shares outstanding on the financial position date.

40. Notes to items of the consolidated cash flow statement

(1) Other cash received relating to operating activities

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Guarantees and deposit	47,007	1,225
Interest income	39,407	7,146
Others	23,275	2,162,146
Total	109,689	2,170,517

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Notes to items of the consolidated cash flow statement (Continued)

(2) *Other cash paid relating to operating activities*

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Distribution and selling expenses	35,963	18,451
General and administrative expenses	509,488	218,117
Others	399,955	1,734,994
Total	945,406	1,971,562

(3) *Other cash received relating to financing activities*

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Reserve fund for the reorganisation plan	1,100,000	–
Notes deposit	80,700	–
Others	876	412,753
Total	1,181,576	412,753

(4) *Other cash paid relating to financing activities*

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Payment to non-controlling interests of a subsidiary	73,513	–
Repayment of guarantee obligations from the reorganisation	664,890	–
Repayment of operating ordinary obligations from the reorganisation	26,166	–
Others	–	645,210
Total	764,569	645,210

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Supplementary information to the consolidated cash flow statement

(1) *Supplement information to the consolidated cash flow statement*

Supplementary Information	Six months ended 30 June 2018	Six months ended 30 June 2017
1) Reconciliation from net profit to cash flows from operating activities:		
Net profit	762,087	(998,823)
Add: Impairment provision	–	–
Depreciation of property plant and equipment	359,601	633,274
Amortisation of intangible assets	36,300	31,840
Amortisation of deferred income	(1,432)	–
Gains on disposal of assets	(8,482)	(7)
Financial expenses	178,364	515,481
Investment losses	1,826	1,911
Increase in inventories	(885,878)	(958,960)
Decrease/(increase) in operating receivables	(1,272,889)	169,146
Increase/(decrease) in operating payables	(478,498)	524,115
Others	7,813	–
Net cash flow from operating activities	(1,301,188)	(82,023)
2) Net changes in cash and cash equivalents:		
Cash at the end of the period	450,015	753,332
Less: cash at the beginning of the period	868,962	745,447
Net increase in cash and cash equivalents	(418,947)	7,885

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Supplementary information to the consolidated cash flow statement (Continued)

(2) *Non-cash payment of material investing and financing activities:*

Items	Six months ended 30 June 2018
Proceeds from disposal of investment offset against debt (<i>Note</i>)	120,942

Note: On 29 March 2018, the company entrusted POSCO CISL to pay, on behalf of the Company, liquidation amount of RMB120,942,000 attributable to the company to Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership) for the settlement of its guaranteed creditor.

(3) *Components of cash and cash equivalents*

Items	Closing balance	Opening balance
1) Cash	450,015	868,962
Wherein: Cash on hand	41	41
Bank deposit available on demand for payment	449,974	868,921
2) Cash and cash equivalents at the end of the period	450,015	868,962

(4) *Endorsement amount of notes receivable with no cash receipts and payments*

Items	Six months ended 30 June 2018
Endorsement amount of notes receivable	5,139,566
Including: Payment for goods	4,692,701
Payment for others	446,865

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Assets with ownership or use right restricted

Items	Carrying amount at the end of the period	Reasons for restriction
Inventories	1,170,000	Note 1
PPE – Machinery and equipment	830,000	
PPE – Plant and buildings	1,853,622	Note 2
Intangible assets	2,287,182	Note 3
Total	6,140,804	

Note 1: In December 2017, the Group entered into a purchase agreement with Chongqing Qianxin International Trading Co., Ltd. ("Qianxin International") (重慶千信國際貿易有限公司), to ensure the smooth cooperation of the supply of raw materials. The Group's inventories with a net carrying amount of RMB1,170,000,000 and machinery and equipment with a net carrying amount of RMB830,000,000 were pledged to secure the above purchases.

Note 2: On 30 June 2018, the plant and buildings with a net carrying amount of RMB1,853,622,000 (31 December 2017: RMB962,898,000) were pledged to banks to secure the bank loans and facilities granted to the Group.

Note 3: On 30 June 2018, the land use right with a net carrying amount of RMB2,287,182,000 (31 December 2017: RMB1,405,002,000) were pledged to banks to secure the bank loans and facilities granted to the Group. The amortisation of above land use right for the current period was RMB28,581,000.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Foreign currency monetary items

Items	Original currency	Exchange rate	RMB equivalent
Cash and bank balances			
Wherein: USD	49,592	6.6166	328,128
HKD	6,113	0.8431	5,154

44. Government grants

(1) Details

1) Government grants related to assets

Items	Opening deferred income	Newly-added grants for the period	Amortisation for the period	Closing deferred income	Items stated of the amortisation for the period
Construction of environmental protection equipment and facilities	6,028	-	119	5,909	Other income
Recycle heat power project	37,126	-	1,313	35,813	Other income
Sub-total	43,154	-	1,432	41,722	

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

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VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Government grants (Continued)

(1) *Details (Continued)*

2) *Government grants that related to the income and used to compensate for related costs and losses incurred by the Company*

Items	Amount	Items stated
Other	70	Other income

(2) *The total amount of government grants included in profit and loss of the current period was RMB1,502,000.*

VIII. CHANGES IN THE SCOPE OF CONSOLIDATED

Changes in the scope of consolidation caused by other reasons:

Company	Method for Disposal of equity interests	Time of disposal of equity interests	Net assets at the date of disposal	Net profits from the beginning of the period to the date of disposal
Cold Rolling Company	Cancellation	May 2018	737,334	1,273

On 10 November 2017, the Board of Cold Rolling Company decided to dissolve Cold Rolling Company. In May 2018, Cold Rolling Company had completed the deregistration of foreign investment corporation. For details please refer to Note XV.3.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

IX. INTERESTS IN OTHER ENTITIES

Equity in subsidiaries

Composition of significant subsidiaries

Name of the subsidiary	Main operating place	Place of registration	Business nature	Shareholding proportion		Acquisition method
				Direct	Indirect	
Jingjiang CIS Huadong Trading Co., Ltd	Jingjiang, Jiangsu Province	Jingjiang, Jiangsu Province	Trade industry	100%	–	Incorporation
Chongqing CIS Building Materials Sales Co., Ltd.	Changshou Economic Development District, Chongqing	Changshou Economic Development District, Chongqing	Trade industry	100%	–	Incorporation

On 30 June 2018, there were no subsidiaries with material interests of non-controlling shareholders.

X. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

As of 30 June 2018 and 31 December 2017, the net carrying amount of financial instruments is as follows:

(1) Financial assets

30 June 2018	Other equity investment	Financial assets measured at amortised cost	Total
Cash and bank balances	–	450,015	450,015
Notes and accounts receivables	–	1,595,141	1,595,141
Other receivables	–	14,331	14,331
Other equity investment	5,000	–	5,000
Total	5,000	2,059,487	2,064,487

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

(1) Financial assets (Continued)

31 December 2017	Available-for-sale financial assets	Financial assets measured at amortised cost	Total
Cash and bank balances	–	2,050,538	2,050,538
Notes and accounts receivables	–	167,134	167,134
Other receivables	–	10,355	10,355
Available-for-sale financial assets	5,000	–	5,000
Other current asset – Bank wealth management product	–	650,000	650,000
Total	5,000	2,878,027	2,883,027

(2) Financial liabilities

	Other financial liabilities	
	Closing balance	Opening balance
Notes and accounts payables	1,138,403	2,155,294
Other payables	347,908	1,478,732
Non-current liabilities due within one year	590,000	400,000
Long-term borrowings	500,000	700,000
Other non-current liabilities	2,400,000	2,400,000
Total	4,976,311	7,134,026

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfer of financial assets

Financial assets fully derecognised and transferred but still continuing involved

As of 30 June 2018, the Group endorsed bank acceptance notes and commercial acceptance notes to the suppliers with a carrying amount of RMB4,599,741,000 for settlement of account payables (31 December 2017: RMB1,795,100,000). As of 30 June 2018, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group derecognised the book value of the related accounts payable that have been settled by the bills. The undiscounted cash flow and maximum loss of continuing involvement and repurchase were equal to the book value of the bills. The Group considers the fair value of continuing involvement is not significant.

During the period, the Group did not recognise gains or losses at the date of transfer. The Group had no current or accumulated gain or expense arising from the continuing involvement in financial assets which had been derecognised. The endorsement and discount were incurred evenly throughout this period.

3. Risk of financial instruments

The Group’s risk management objectives were to strike a balance between risk and return, minimised the negative impact of risk on the Group’s operating results, and maximised the interests of shareholders and other equity investors. Based on this risk management objective, the basic strategy of the Group’s risk management was to identify and analysed the various risks faced by the Group, and establish an appropriate risk tolerance bottom line and conduct risk management, as well as timely and reliably monitor various risks and control risks to a limited extent.

The main risks arising from the Group’s financial instruments were credit risk, liquidity risk, and market risk. Management had reviewed and approved policies to manage these risks, and these risk management policies were outlined below.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk

The Group traded only with recognised and creditworthy third parties. It was the Group's policy that all customers who wished to trade on credit terms were subject to credit verification procedures. In addition, trade receivables and notes receivable balances were monitored on an ongoing basis and the Group's exposure to bad debts was not significant.

The credit risk of other financial assets of the Group, which included cash, other receivables raised from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group traded only with recognised and creditworthy third parties, there was no requirement for collateral. Credit risk was managed in accordance with customer and industry. At the end of the reporting period, the Group had a certain concentration of credit risk as 40% (31 December 2017: 35%) of the Group's trade receivables were due from the Group's five largest customers in terms of trade receivables. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

As of 30 June 2018 and 31 December 2017, the ageing analysis of the Group's financial assets not impaired is as follows:

Items	30 June 2018				Total
	Neither overdue nor impaired	Overdue and no impaired		Over 2 years	
		Less than 1 year	1-2 years		
Cash and bank balances	450,015	-	-	-	450,015
Notes and accounts receivables	1,581,678	2,109	10,134	1,220	1,595,141
Other receivables	14,331	-	-	-	14,331
Other equity investment	5,000	-	-	-	5,000
Total	2,051,024	2,109	10,134	1,220	2,064,487

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

Items	Neither overdue nor impaired	31 December 2017 Overdue and no impaired			Total
		Less than 1 year	1-2 years	Over 2 years	
Cash and bank balances	2,050,538	–	–	–	2,050,538
Notes and accounts receivables	127,939	25,029	12,355	1,811	167,134
Other receivables	10,355	–	–	–	10,355
Available-for-sale financial assets	5,000	–	–	–	5,000
Other current asset – Bank wealth management product	650,000	–	–	–	650,000
Total	2,843,832	25,029	12,355	1,811	2,883,027

As of 30 June 2018 and 31 December 2017, accounts receivable that were not past due and not impaired related to a large number of customers who had no recent history of default.

As of 30 June 2018 and 31 December 2017, the Group's accounts receivable that were not considered to be impaired mainly relate to a number of independent customers that had a good track record with the Group. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(2) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in collecting liabilities from counterparts of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

The Company and its subsidiaries were responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands (subject to approval by the board of directors of the Company when the borrowings exceeded certain predetermined levels of authority). The Group's liquidity management method was to make sure enough liquidity for the performance of matured debts, so as not to cause any unacceptable losses or any damage to its reputation. As at 30 June 2018, the Group's current liabilities already exceeded current assets by RMB933,947,000 (31 December 2017: RMB53,774,000).

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(2) Liquidity risk (Continued)

Classification of financial liabilities based on the rest maturity date:

Items	Carrying amount	Undiscounted contract amount	30 June 2018			
			Within 1 year	1-2 years	2 to 5 years	Over 5 years
Notes and accounts payables	1,138,403	1,138,403	1,138,403	-	-	-
Other payables	347,908	347,908	347,908	-	-	-
Non-current liabilities due within one year	590,000	603,852	603,852	-	-	-
Long-term borrowings	500,000	543,331	23,750	366,038	153,543	-
Other non-current liabilities	2,400,000	2,944,814	119,233	198,585	1,635,828	991,168
Total	4,976,311	5,578,308	2,233,146	564,623	1,789,371	991,168

Items	Carrying amount	Undiscounted contract amount	31 December 2017			
			Within 1 year	1-2 years	2 to 5 years	Over 5 years
Notes and accounts payables	2,155,294	2,155,294	2,155,294	-	-	-
Other payables	1,478,732	1,478,732	1,478,732	-	-	-
Non-current liabilities due within one year	400,000	415,014	415,014	-	-	-
Long-term borrowings	700,000	767,203	33,250	424,739	309,214	-
Other non-current liabilities	2,400,000	2,995,669	117,600	127,550	1,299,879	1,450,640
Total	7,134,026	7,811,912	4,199,890	552,289	1,609,093	1,450,640

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(3) *Market risk*

Market risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the market price variation. Market risk mainly includes interest risk and foreign exchange risk.

1) *Interest risk*

Interest risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the market interest variation. The market interest rate variation risk faced by the company mainly correlated with its loans with the interest measured by the floating interest rate.

As at 30 June 2018, the Group's interest-bearing borrowings with floating rates amounted to RMB3,490,000,000 (31 December 2017: RMB3,500,000,000). In the current period, if interest rates calculated on the floating rate of interest-bearing liabilities had risen/fallen by 50 basis points while all other variables was stay constant, the Group's net profit and shareholder's equity would have decreased/increased by approximately RMB9,275,000.

2) *Foreign exchange risk*

Foreign exchange risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the variation in the foreign exchange rate. Foreign exchange risk faced by the Company is mainly correlated with its monetary assets in foreign currency. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may trade foreign currency at market exchange rate when necessary to ensure that the net risk exposure is maintained at an acceptable level.

During the current period, the transactions are denominated in RMB, and the Group's operating activities were carried out in Mainland China. The Group expected that fluctuation of the foreign currency exchange rate of the RMB does not have a significant impact on the Group's operating results.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

X. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints and monitors capital using debt-to-asset ratio. In the current period and 2017, there had been no change in the objectives, policies or procedures of capital management of the Group.

On 30 June 2018 and 31 December 2017, the Group's debt-to-asset ratio, which is total liabilities divided by total assets as at the end of the reporting period, is as follows:

	30 June 2018	31 December 2017
Debt-to-asset ratio	28.29%	32.82%

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XI. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value

As at 30 June 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Other equity investments	–	–	5,000	5,000

2. Assets and liabilities disclosed at fair value

As at 30 June 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Long-term borrowings	–	–	499,718	499,718
Other non-current liabilities	–	–	2,396,046	2,396,046

3. Fair value estimation

Management has assessed that the fair values of cash and cash equivalents, notes receivables and accounts receivables, other receivables, notes payable and accounts payable, other payables, non-current liabilities due within one year approximate to their carrying amounts due to short remaining period.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the long-term borrowings and other non-current liabilities are determined using discount cash flows, at rates equal to market yield of other financial instruments with similar contract terms, credit risks and remaining Term. As at 30 June 2018, non-performance risks underlying long-term borrowings and other non-current liabilities were appraised as immaterial.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1. Parent company

Name of the parent company	Place of registration	Business nature	Registered capital	Shareholding proportion over the company (%)	Voting right proportion over the Company (%)
Chongqing Changshou Iron & Steel Company Limited	Chongqing	Technology development, technology transfer, technology service and management consultancy services of the fields of iron and steel, metallurgy and mining, coal, chemical industry, electricity and transportation; sales of raw materials, namely steel; operation of terminals; warehouse services; leases of owned property and equipment; import and export of goods and technology; corporate management and consultancy services	4,000,000	23.51	23.51

Note: In December 2017, Chongqing Municipal First Intermediate People's Court (重慶市第一中級人民法院) judged that the reorganisation plan had been completed. Changshou Iron & Steel received 2,096,981,600 shares held by CISG and became the Company's largest shareholder. The parent company of the Company has been changed from CISG to Changshou Iron & Steel whose substantial controller is Siyuanhe Equity Investment Management Co., Ltd. According to Article 71 (3) of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), CISG "directly or indirectly inter-ground control a listed company as the legal person, within the past 12 months or within the next 12 months according to relevant agreements", which is a historical related party of the company.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

- Please refer to notes “Interests in other entities” of the interim report for details of the Company’s subsidiaries.
- Information about other related parties of the Company

Name of the other related parties	Relationship between the Company and the other related parties
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Yingsite Mould Company Limited (重慶鋼鐵集團英斯特模具有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Other (Note 1)
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Other (Note 1)
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Other (Note 1)
Chongqing Hongfa Real Estate Development Company (重慶宏發房地產開發公司)	Other (Note 1)
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Other (Note 1)
Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	Other (Note 1)
Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	Other (Note 1)
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Other (Note 1)
Chongqing Xingang Loading and Transportation Company Limited (重慶新港裝卸運輸有限公司)	Other (Note 1)

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Information about other related parties of the Company (Continued)

Name of the other related parties	Relationship between the Company and the other related parties
Chongqing Iron & Steel (Hong Kong) Company Limited (重慶鋼鐵(香港)有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鐵業有限責任公司)	Other (Note 1)
Chongqing Iron & Steel Group television station (重慶鋼鐵集團電視台)	Other (Note 1)
Chongqing steel structure industry Company Limited (重慶鋼結構產業有限公司)	Other (Note 1)
Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	Other (Note 1)
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Other (Note 2)
San FengJingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Other (Note 2)
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Other (Note 3)

Note 1: All of the aforesaid companies are the subsidiaries of CISG, and under common control of CISG before the reorganisation plan were completed. According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the period.

Note 2: In November and December 2017, CISG transferred its 30% equity interest in Chongqing Xingang Changlong Logistics Co., Ltd. and its 35% equity interest in Sanfeng Jingjiang Port Logistics Co., Ltd. to Qianxin International. Respectively. After the completion of the equity transfer, Chongqing Xingang Changlong Logistics Co., Ltd. and Sanfeng Jingjiang Port Logistics Co., Ltd. were no longer affiliated with the Company due to under common control of CISG. Chongqing Xingang Changlong Logistics Co., Ltd., Sanfeng Jingjiang Port Logistics Co., Ltd. and the Company were "the subsidiaries of CISC and under common control of CISG within the past 12 months". According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the period.

Note 3: In August 2017, CISG transferred its 40% equity interest in Chongqing Qianxin Energy Environmental Protection Co., Ltd. ("Qianxin Environmental Protection") to Qianxin International. Qianxin Environmental Protection was "a legal person holding more than 5% of the company's shares in the past 12 months", which according to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), was disclosed as historical related parties of the Company during the period. As of 30 June 2018, Qianxin Environmental Protection held 4.23% of the shares of the Company due to the reorganisation plan.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions

(1) Transaction of goods and services with related parties

1) Purchase of goods and receiving of services from related parties

Related party	Content of transaction	Six months ended 30 June 2018	Six months ended 30 June 2017
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Purchase of goods, receiving of services	287,303	42,949
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Purchase of goods, receiving of services	256,301	162,774
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Purchase of goods	252,467	96,628
Chongqing Iron Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Purchase of goods, receiving of services	96,629	25,072
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Purchase of goods, receiving of services	61,702	23,600
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Purchase of goods, receiving of services	58,735	37,009
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Purchase of goods, receiving of services	35,986	50,487
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Purchase of goods, receiving of services	35,203	22,816
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Receiving of services	19,210	7,709
Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	Purchase of goods	13,337	2,951
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Purchase of goods, receiving of services	3,181	4,563
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Purchase of goods, receiving of services	2,439	4,094

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

1) Purchase of goods and receiving of services from related parties (Continued)

Related party	Content of transaction	Six months ended 30 June 2018	Six months ended 30 June 2017
Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	Purchase of goods, receiving of services	2,424	2,728
Chongqing Iron & Steel Group Steel Company Limited(重慶鋼鐵集團鐵業有限責任公司)	Purchase of goods	1,841	–
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Purchase of goods, receiving of services	642	208
Chongqing San Gang Steel Company Limited(重慶三鋼鋼業有限責任公司)	Purchase of goods	463	305
Chongqing Iron & Steel Group General Hospital (重鋼集團總醫院)	Receiving of services	–	2
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Purchase of goods	26	–
San FengJingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Purchase of goods, receiving of services	–	9,732
Chongqing Xingang Loading and Transportation Company Limited (重慶新港裝卸運輸有限公司)	Purchase of goods, receiving of services	–	114
Total		1,127,889	493,741

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

2) Sale of goods and rendering of services to related parties

Related party	Content of transaction	Six months ended 30 June 2018	Six months ended 30 June 2017
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Sale of steels, energy	201,494	275
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Sale of energy, rendering of services	190,446	117,096
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Sale of energy, etc.	44,466	24,827
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Sale of energy, etc.	10,316	2,683
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Sale of energy	5,602	4,004
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Sale of steels, energy, etc.	1,330	827
Chongqing Iron & Steel Group Transportation Company limited (重慶鋼鐵集團運輸有限責任公司)	Sale of energy, etc. and rendering of services	750	231
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Sale of energy, rendering of services	329	585
Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	Sale of energy	132	783
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Sale of steels	28	75
Chongqing Iron & Steel (Group) Co., Ltd. (重慶鋼鐵(集團)有限責任公司)	Sale of energy, etc.	12	58
Chongqing Iron & Steel Group television station (重慶鋼鐵集團電視台)	Rendering of services	-	3

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) *Transaction of goods and services with related parties (Continued)*

2) *Sale of goods and rendering of services to related parties (Continued)*

Related party	Content of transaction	Six months ended 30 June 2018	Six months ended 30 June 2017
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Rendering of services	-	3
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Sale of steels	-	1
Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	Rendering of services	-	1
Total		454,905	151,452

3) *Other descriptions*

For the purchase price of commodities of the related party, refer to the price or cost plus profit premium for similar transactions between the related party and other third parties, or the suppliers' bid price. The considerations for PPE and construction-in-progress purchased from related party or undertaken by related party for construction are determined by the suppliers' bid price.

The price of products sold to related parties are determined with reference to the prices charged by the Company to other third parties or as stipulated by the competent authorities of the Chongqing municipal government.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(2) Leases

1) As a lessor

Name of Lessee	Type of assets leased	Lease income in six months ended 30 June 2018	Lease income in six months ended 30 June 2017
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Plant and buildings	167	172
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Plant and buildings	100	95
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Plant and buildings	67	63
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Plant and buildings	53	–
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Plant and buildings	38	36
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Plant and buildings	35	33
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Plant and buildings	33	32
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Plant and buildings	25	24
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Plant and buildings	1	–
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Plant and buildings	–	24

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

1) As a lessor (Continued)

Name of Lessee	Type of assets leased	Lease income in six months ended 30 June 2018	Lease income in six months ended 30 June 2017
Chongqing Iron & Steel Group Training Centre (重鋼集團培訓中心)	Plant and buildings	–	6
Chongqing Iron & Steel Group General Hospital (重鋼集團總醫院)	Plant and buildings	–	4
Total		519	489

2) As a lessee

Name of lessor	Types of asset leased	Lease expenses in six months ended 30 June 2018	Lease expenses in six months ended 30 June 2017
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Plant and buildings	–	222
Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司) (note)	Machinery and other equipment	91,930	–
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團)有限責任公司) (note)	Machinery and other equipment	70,763	–
Total		162,693	222

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(2) Leases (Continued)

2) As a lessee (Continued)

Note: In order to raise funds, during the reorganisation period the administrator conducted a public auction in respect of pre-ironmaking assets (mainly including machinery and equipment of coking plants, sintering plants and smelting plants, etc.), and the second system and related assets (mainly including the machinery and equipment at the second steel making plant and for bar and wire rod and profile steel). Changshou Iron & Steel acquired pre-ironmaking assets at a transaction price of RMB3.9 billion, and CISG acquired second system and related assets at a transaction price of RMB3 billion. As of 31 December 2017, the Company had completed the delivery of the relevant assets to Changshou Iron & Steel and CISG.

In February 2018, the Proposal on Leasing the Relevant Assets of Related Companies by the Company in 2018 was considered and approved by the 14th Session of the Seventh Board Meeting. The Board agreed that the Company shall lease the aforesaid pre-ironmaking assets from Changshou Iron & Steel and lease the aforesaid second system and related assets from CISG.

On 27 February 2018, the Group entered into an asset leasing contract with Changshou Iron & Steel to lease the aforesaid pre-ironmaking assets, with a monthly rent of RMB17,875,000 and a lease term from 9 December 2017 to 31 December 2018. On the same day, the Group entered into an asset leasing contract with CISG to lease the aforesaid second system assets, with a monthly rent of RMB13,750,000 and a lease term from 1 January 2018 to 31 December 2018.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(3) Guarantee

Guarantee provided by related parties:

Guaranteed party	Amount		Commencement date	Maturity date	Performance of guarantee completed or not
	guaranteed				
Siyuanhe Equity Investment Management Co., Ltd. (Note 1)	400,000		2017/12/27	2018/4/20–2018/10/20	No
Siyuanhe Equity Investment Management Co., Ltd. (Note 1)	700,000		2017/12/27	2019/4/20–2020/12/26	No
Changshou Iron & Steel (Note 2)	197,309		Two Years	–	–

Note 1: According to the reorganisation plans in 2017, the Company applied for a loan of RMB1.1 billion from China Development Bank, and Siyuanhe Investment Management Co., Ltd. provided guarantees for the above loan.

Note 2: On 5 December 2017, the Group entered a purchase agreement with Qianxin International. Changshou Iron & Steel provided a guarantee for the payables within RMB2 billion. At the same time, the Group's inventories and machinery and equipment were pledged to secure the above purchases. The term of guarantee is 2 years, starting from the date on which the Group's payment terms of the last debt payment of Qianxin International is fulfilled.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(4) Interest fee paid to a related party

Related party	Amount borrowed	Interest in the current period
Changshou Iron & Steel (Note)	2,400,000	59,127

Note: Pursuant to the reorganisation plan, Changshou Iron & Steel provided RMB2.4 billion loans to the Company for its execution of the reorganisation plan. The loan term is 7 years, which is from 24 November 2017 to 23 November 2024, and bears interest at the rate of 4.9% (31 December 2017:4.9%) per annum.

(5) Remuneration of Key Management Personnel

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Remuneration of Key Management Personnel	10,770	2,238

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(6) Other related-party transactions

Non-planned and unified social insurance management

The Company has joined the supplementary pension insurance plan implemented by CISG and paid non-integrated pension insurance. The total pension insurance of the Company is calculated and contributed on the basis of the salary paid during the year and the basic pension insurance contribution percentage as stipulated by the State, in which, after deducting the basic pension insurance payable to the social security authorities, the remaining balance is passed on to CISG as the supplementary pension insurance for retired employees of the Company for centralised administration, and in turn, CISG will pay relevant supplementary pension to the retired employees of the Company. Pursuant to an agreement related to the entrusted administration of the retired personnel signed by the Company and CISG, the Company shall pay supplementary pension insurance to CISG, and the retired personnel of the Company is entitled to supplementary pension benefits. Supplementary pension paid by CISG to the retired personnel of the Company include: food subsidy, subsidy for utilities, seniority payments, birthday expenses, living expenses for dependents of deceased retired employees, Chinese New Year bonuses. The above expenses are funded by the supplementary pension insurance paid by the Company to CISG, with shortfalls borne by CISG. In February 2018, the Company and CISG entered into an agreement that both parties unanimously confirmed the termination of the "Agreement on Payment of Supplementary Pension Insurance for Retired Employees" on 31 December 2017, hereby the Company shall no longer participate in the supplementary pension insurance plan implemented by CISG. The Company no longer paid supplementary pension insurance and labour union fee to CISG during the current period in 2018.

During the year of 2017, pursuant to the relevant requirements, the Company made contributions to the supplementary medical insurance centrally managed by CISG. Such contributions were used for the payment of medical expenses of the Company's employees with heavy individual financial burdens and retired personnel. From January to March in 2018, as medical insurance of the Company has been managed by CISG, the supplementary medical insurance collected and paid by the Company through CISG amounted to RMB4,960,000. From April 2018, the Company has begun to manage the medical insurance separately with CISG. The Company no longer paid medical insurance to CISG.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(6) Other related-party transactions (Continued)

Non-planned and unified social insurance management (Continued)

During the year of 2017, pursuant to the relevant requirements, the Company pays for the labour union fee centrally managed by CISG. Such contributions are used for the payment of the operation expenses of the labour union of the Company. The Company no longer paid medical insurance to CISG during the current period in 2018.

According to the “Agreement on Withholding and Remitting Basic Medical Insurance” and the “Agreement on Withholding and Remitting Large Amount Medical Insurance” entered into between the Company and CISG, the Company’s basic medical insurance and large amount medical insurance are calculated and contributed to CISG on the payment base of the current year’s salary and the proportion stipulated by the state, and in turn paid by CISG to the Medical Insurance Management Centre on behalf of the Company. From January to March in 2018, the basic medical insurance and the large amount medical insurance collected and paid by the Company through CISG amounted to RMB15,728,000 (2017:RMB25,755,000). The Company no longer paid the basic medical insurance and the large amount medical insurance to CISG from April in 2018. CISG has not charged any handling fee for the above transactions.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties

(1) Balance due from related parties

Items	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Accounts receivable	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	28,493	1,680	31,710	1,680
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	3,599	–	–	–
	Chongqing Iron & Steel Group Yingsite Mould Company Limited (重慶鋼鐵集團英斯特模具有限公司)	2,756	2,756	2,756	2,756
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	2,285	28	506	28
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	1,482	371	1,482	371
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	1,208	–	–	–
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	856	–	–	–
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	46	–	–	–
	Chongqing Donghua Special Steel Company Limited (重慶東華特殊鋼有限責任公司)	15	–	–	–
	Chongqing Hongfa Real Estate Development Company (重慶宏發房地產開發公司)	5	5	5	5
Sub-total		40,745	4,840	36,459	4,840

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(6) Other related-party transactions (Continued)

Items	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Other Receivables	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	2,236	—	—	—
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	167	—	—	—
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限公司)	100	—	—	—
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	67	—	—	—
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	53	—	—	—
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	38	—	—	—
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限公司)	35	—	—	—
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限公司)	25	—	—	—
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限公司)	1	—	—	—
	Sub-total	2,722	—	—	—

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties

Items	Related party	Closing balance	Opening balance
Accounts payable	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	66,931	67,345
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	47,191	–
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	27,172	22,536
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	25,532	184,349
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	23,960	–
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限公司)	21,469	6,764
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	12,029	11,828
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限公司)	6,345	2,704
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	1,430	–
	Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限公司)	1,300	–
	Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	1,247	2,570
	Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	544	487

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties (Continued)

Items	Related party	Closing balance	Opening balance
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	182	2,345
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	17	–
	Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	9	–
	Chongqing Dadukou District Qianye Education And Training Company Limited (重慶市大渡口區千業教育培訓有限責任公司)	2	–
	Sub-total	235,360	300,928
Contract liabilities	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	32,193	–
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	222	–
	Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	58	–
	Chongqing Iron & Steel (Group) Co., Ltd. (重慶鋼鐵(集團)有限責任公司)	18	–
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	4	–
	Sub-total	32,495	–

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XII. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties (Continued)

Items	Related party	Closing balance	Opening balance	
Other payables	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	19,330	19,330	
	Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司)	17,875	–	
	Chongqing Iron & Steel (Group) Co., Ltd. (重慶鋼鐵(集團)有限責任公司)	13,750	332,384	
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	459	459	
	Chongqing Iron & Steel Group Qijiang Iron mine Construction and Installation engineering Company (重鋼綦江鐵礦建築安裝工程公司)	271	271	
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	145	145	
	Chongqing Iron & Steel Group Transportation Company Limited(重慶鋼鐵集團運輸有限責任公司)	126	126	
	Chongqing Metallurgical Technology Consulting Company(重慶冶金技術諮詢公司)	104	104	
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	29	29	
	Chongqing Iron & Steel Group Design and Research Institute(重慶鋼鐵集團設計院)	28	28	
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	–	90,506	
	Sub-total		52,117	443,382
	Other non-current liabilities	Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司)	2,400,000	2,400,000

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XIII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Significant operation lease:

As a lessee, under the lease contract with the lessor, the minimum payment for the non-cancellable lease is as follows:

Item	30 June 2018
Within 1 year (including 1 year)	189,750

2. Contingencies

As of the financial position date, the Group had no important contingencies that need to be disclosed.

XIV. EVENTS AFTER BALANCE SHEET DATE

As of the date of approval of this financial report, the Group had no significant events after the balance sheet date that need to be disclosed.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XV. OTHER SIGNIFICANT EVENTS

1. Segment information

(1) *Identification basis and accounting policies for reportable segments*

The Group will determine different segments based on the internal organisational structure, management requirements and internal report system. The Group's operation segments refer to those components meeting the following conditions at the same time:

- 1) The segment may generate revenue and incur expenses in daily activities;
- 2) Management of the Group can regularly evaluate the operating results of the segment to decide on the allocation of resources to it and evaluate its performance;
- 3) The segment's financial position, operation result, cash flow and other accounting information can be obtained by analysis.

(2) *Financial information of reportable segments*

The Group's revenue and profit are mainly comprised of steel manufacturing and domestic sales. The Group's major assets are all in China. The management of the Company evaluates the Group's operating results as a whole. Therefore, no segment report has been prepared in this period.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Segment information (Continued)

(3) Information of significant customers

The Group generated revenue from one customer (Six months ended 30 June 2017: one) that reached or exceeded 10% of the Group's revenue, which accounting for 40% of the Group's revenue (Six months ended 30 June 2017: 84%).

The information of this customer stated below:

Name of Customer	Revenue	Proportion of the Group's revenue (%)
Chongqing Qianxin International Trade Co., Ltd.	4,388,753	40

2. Matters relating to the cooperation in purchase and sales

In December 2016, the Company entered into a cooperation framework agreement with Qianxin International, agreeing that the parties thereto would cooperate in the purchase of main materials needed in the production and sales of steel products, and would determine the purchase prices and selling prices following the market pricing principle with an agreed cooperation period of three years from 1 January 2017 to 31 December 2019. In March 2017 and July 2017, the parties entered into a supplemental agreement on the purchase and selling prices, respectively, to set forth details on such major terms as the pricing principle, acceptance and settlement of the transactions relating to ores, coal and metallurgical materials as well as steel products. In December 2017, the parties re-entered into a cooperative framework agreement with an agreed cooperation period of three years, agreeing to terminate the original cooperative framework agreement on 31 December 2017 and specifying the mode of cooperation for 2018 and afterwards. According to the agreement, the parties thereto agreed to negotiate and determine the prices for purchase settlement with reference to the interests on the fund utilised by Qianxin International, and to enter into specific supply and sales agreements separately to specify the rules of operations for supply and sales cooperation. According to the cooperation framework agreement, the total amount of raw materials such as ores and coal purchased by the Company from Qianxin International in 2018 was RMB4,731 million (excluding tax), and the total amount of steel products sold by the Company to Qianxin International was RMB4,389 million (excluding tax). It has been confirmed by both parties that the balance payable by the Company to Qianxin International as at 30 June 2018 was RMB197 million.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Termination of significant investment event

On 6 August 2015, the Company reached a primary consensus and signed a cooperation framework agreement with POSCO Korea Co., Ltd. ("POSCO") for the joint venture project for cold rolling and joint venture project for galvanised projects in Chongqing. On 6 April 2016, the Company and POSCO signed the Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on Cold Rolling Company and Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on POSCO CISL respectively. Under the contracts, the parties thereto will establish joint venture companies in Chongqing for the joint venture project for cold rolling and galvanised projects respectively. The total amount of investment at all stages is RMB6,235 million, and the total amount of investment at the time of establishment is RMB3,231 million. The parties thereto agree to make capital contribution in cash, of which the Company will contribute 90% of the capital of Cold Rolling Company and 49% of the capital of POSCO CISL. The above joint venture contract was adopted at the 41st meeting of the 7th session of the Board and the annual shareholders' meeting in 2015.

Based on the decision made by the Company's bankruptcy administrator to terminate the joint venture contract, in November 2017, the Board of Cold Rolling Company and POSCO CISL decided to dissolve the joint venture company and separately set up a liquidation group to liquidate the joint venture company. In May 2018, Cold Rolling Company and POSCO CISL had completed the cancellation of foreign investment corporation registration, and the relevant disposal amount of RMB785,831,000 had been paid in full to the Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) to settle the secured claims.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable

(1) Notes receivable

1) Details

Items	Closing balance	Opening balance
Commercial acceptance notes	4,303	–
Bank acceptance notes	1,501,020	123,096
Total	1,505,323	123,096

2) Notes receivable has been endorsed or discounted but not yet due at the end of the period

Items	Amount derecognised at the end of the period	Amount remain recognised at the end of the period
Commercial acceptance notes	22,595	–
Bank acceptance notes	4,577,146	–
Sub-total	4,599,741	–

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(1) Notes receivable (Continued)

2) Notes receivable has been endorsed or discounted but not yet due at the end of the period (Continued)

As at 30 June 2018, the Company endorsed certain unexpired notes receivable (the "endorsed notes") with a total carrying amount of RMB4,599,741,000 (31 Dec 2017: RMB1,795,100,000) to certain of its suppliers in order to settle payables due to those suppliers. Management believed that the Company has transferred substantially all risks and rewards relating to the endorsed notes. Accordingly, the Company has derecognised these endorsed notes and related accounts payable. The extent to which the Company continues to be involved in the derecognition of the endorsed notes is limited to the issuer's inability to settle the notes to the noteholders. The maximum loss of continuing involvement of the endorsed notes would be RMB4,599,741,000 on 30 June 2018 (31 December 2017: RMB1,795,100,000).

(2) Accounts receivable

1) Details on categories

Categories	Book value		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Individually significant and subject to separate provision	65,420	28	1,680	3	63,740
Receivables that are subject to provision by group with similar credit risk characteristics	171,915	72	141,376	82	30,539
Individually not significant but subject to separate provision	-	-	-	-	-
Total	237,335	100	143,056	60	94,279

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(2) Accounts receivable (Continued)

1) Details on categories (Continued)

Categories	Book value		Opening balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Individually significant and subject to separate provision	31,710	17	1,680	5	30,030
Receivables that are subject to provision by group with similar credit risk characteristics	158,199	83	141,376	89	6,823
Individually not significant but subject to separate provision	-	-	-	-	-
Total	189,909	100	143,056	75	46,853

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(2) Accounts receivable (Continued)

1) Details on categories (Continued)

- i. Receivables that are individually significant and subject to separate provision are as follows:

Company	Book value	Closing balance		Reason for provision
		Provision for bad debts	Provision proportion (%)	
Zhongjian steel Sichuan Company, Limited (中 建 鋼 構 四 川 有 限 公 司)	36,931	-	-	
Chongqing Iron & Steel Group Industrial Company Limited (重 慶 鋼 鐵 集 團 產 業 有 限 公 司)	28,489	1,680	6	Provision based on the expected recoverable amount
Sub-total	65,420	1,680	3	

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(2) Accounts receivable (Continued)

1) Details on categories (Continued)

- ii. Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for using ageing analysis method are as follows:

Ageing	Book value	Closing balance	
		Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	9,596	—	—
4–12 months (first year inclusive)	2,220	111	5
1–2 years	5,196	1,299	25
2–3 years	1,552	776	50
Over 3 years	136,030	136,030	100
Sub-total	154,594	138,216	89

- iii. Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for other method are as follows:

Portfolios	Book value	Closing balance	
		Provision for bad debts	Provision proportion (%)
Accounts receivable from historical related parties	17,321	3,160	18

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(2) Accounts receivable (Continued)

2) Ageing Analysis

Ageing	Book value	Closing balance	
		Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	81,260	–	–
4–12 months (first year inclusive)	2,220	111	5
1–2 years	13,512	3,378	25
2–3 years	1,552	776	50
Over 3 years	138,791	138,791	100
Total	237,335	143,056	60

Ageing	Book value	Opening balance	
		Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	4,790	–	–
4–12 months (first year inclusive)	28,028	1,316	5
1–2 years	16,964	4,069	24
2–3 years	3,873	1,417	37
Over 3 years	136,254	136,254	100
Total	189,909	143,056	75

3) During the current period, no provision for bad debts and no recovery or reversal of provision for bad debts was made.

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

1. Notes and accounts receivable (Continued)

(2) Accounts receivable (Continued)

4) Top five accounts receivable balances

As at 30 June 2018, the top five balances in respect of accounts receivable aggregating RMB93,040,000, accounting for 39% of the total of closing balance of accounts receivable. The closing balance in respect of bad debt provided for the top five balances amounted to RMB33,801,000.

2. Other receivables

(1) Details

1) Details on categories

Categories	Book value		Closing balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision for bad debts proportion (%)	
Individually significant and subject to separate provision	23,052	43	16,646	72	6,406
Individually not significant but subject to separate provision	31,008	57	23,089	74	7,919
Total	54,060	100	39,735	74	14,325

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

2. Other receivables (Continued)

(1) Details (Continued)

1) Details on categories (Continued)

Categories	Book value		Opening balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Individually significant and subject to separate provision	23,052	46	16,646	72	6,406
Individually not significant but subject to separate provision	27,038	54	23,089	85	3,949
Total	50,090	100	39,735	79	10,355

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

2. Other receivables (Continued)

(1) Details (Continued)

2) Other receivables that are individually significant and subject to separate provision are as follows:

Company	Book value	Provision for bad debts	Provision proportion (%)	Reasons for provision made
Chongqing Iron and Steel Industry and Trade (Zhanjiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability to recover
Changzhou Zhixin Metal Material Co., Ltd. (常州市之鑫金屬材料有限公司)	7,222	3,611	50	Provision based on the expected recoverable amount
Jiangsu Hetuo International Trade Co., Ltd. (江蘇和拓國際貿易有限公司)	5,590	2,795	50	Provision based on the expected recoverable amount
Sub-total	23,052	16,646	72	

(2) Other receivables presented by nature

Nature	Closing balance	Opening balance
Prepayment for trading	32,622	32,352
Guarantee deposits and staff advances	17,910	15,576
Others	3,528	2,162
Total	54,060	50,090

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

2. Other receivables (Continued)

(3) During the current period, no provision for bad debts and no recovery or reversal of provision for bad debts was made.

(4) As of 30 June 2018, the five largest other receivables are as follows:

Company	Book value	nature	ageing	Ratio in other receivables (%)	Provision for bad debts
First	10,240	Prepayment for trading	More than 3 years	19	10,240
Second	7,222	Prepayment for trading	2-3 years	13	3,611
Third	5,590	Prepayment for trading	More than 3 years	10	2,795
Fourth	4,126	Prepayment for trading	More than 3 years	8	4,126
Fifth	3,921	Prepayment for trading	More than 3 years	7	3,921
Subtotal	31,099			57	24,693

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

3. Long-term equity investments

(1) Details

Items	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Investment in subsidiaries	50,000	-	50,000	711,622	-	711,622
Investment in an associate	-	-	-	124,158	-	124,158
Total	50,000	-	50,000	835,780	-	835,780

(2) Investments in subsidiaries

Investees	Opening balance	Change		Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
		Increase	Decrease			
Jingjiang CIS Huadong Trading Co., Ltd.	50,000	-	-	50,000	-	-
Chongqing CIS Building Materials Sales Co., Ltd. (Note 1)	-	-	-	-	-	-
Cold Rolling Company (Note 2)	661,622	-	661,622	-	-	-
Sub-total	711,622	-	661,622	50,000	-	-

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

3. Long-term equity investments (Continued)

(3) Investments in joint venture

Investees	Opening balance	Investments decreased	Increase/(decrease)	
			Investment income recognised under equity method	Closing balance
POSCO CISL (Note 2)	124,158	(121,530)	(2,628)	–

(4) Investments in unlisted companies

Items	Closing balance	Opening balance
Investments in unlisted companies	50,000	835,780

Note 1: the Company incorporated Chongqing CIS Building Materials Sales Co., Ltd., and the amount of the subscribed contribution is RMB10 million. As of the financial position date, the Company has not yet paid the above capital contribution.

Note 2: Cold Rolling Company and POSCO CISL were dissolved. For details please refer to Note VX.3.

4. Revenue and cost of sales

Items	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue	Cost	Revenue	Cost
Revenue from principal operations	11,067,089	9,341,057	4,374,410	4,273,769
Revenue from other operations	26,607	4,571	11,040	3,357
Total	11,093,696	9,345,628	4,385,450	4,277,126

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

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

4. Revenue and cost of sales (Continued)

Revenue from principal operations:

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Sale of steel products	10,519,053	3,922,583
Processing	—	164,340
Others	548,036	287,487
Sub-total	11,067,089	4,374,410

Revenue from other operations:

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Sale of waste materials	20,153	7,112
Others	6,454	3,928
Sub-total	26,607	11,040

5. Investment income

Items	Six months ended 30 June 2018	Six months ended 30 June 2017
Investment income from long-term equity investments under equity method	(2,628)	(1,911)
Investment income from disposal of long-term equity investments	2,680	(2,636)
Total	52	(4,547)

Notes to Financial Statements (Continued)

For the six months ended 30 June 2018

(Unit: RMB'000)

XVII. OTHER SUPPLEMENTARY INFORMATION

1. Non-recurring profit or loss

Items	Amount
Gains from disposal of non-current assets, including offset portion of impairment provision for such asset	8,482
Government grants charged in profit or loss of the current period, except for those closely related to the ordinary operation and gained constantly at a fixed amount or quantity according to certain standard based on state policies	1,502
Capital occupied income from non-financial entities	31,896
Loss from debt restructuring	(19,062)
Income from disposal of wealth management products	7,021
Non-operating income and expenses other than the above items	(1,676)
Sub-total	28,163
Less: Impact of income tax	1,768
Less: Impact of non-controlling interests (after tax)	531
Non-recurring profit or loss attributable to owners of the parent	25,864

Note: The items of non-recurring profit or loss were stated at the pre-tax amount. The Group recognised extraordinary profit and loss items in accordance with the provisions in Explanatory Announcement on Information Disclosure for Companies Offering their Securities to the Public No. 1 – Extraordinary Items (CSRC Announcement [2008] No. 43).

2. Return on net assets and earnings per share

Profit of the reporting period	Weighted average return on net assets (%)	Earnings per share (RMB)	
		Basic earnings per share	Diluted Earnings per share
Net profit attributable to ordinary shareholders of the Company	4.45	0.09	0.09
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	4.30	0.08	0.08

Chongqing Iron & Steel Company Limited
16 August, 2018

Documents Available for Inspection

Documents Available for Inspection	<p>A copy of interim report, containing the signature of the legal representative of the Company and company seal</p> <p>A copy of financial report, containing signatures of the legal representative, the person in charge of the accounting function and the person in charge of the accounting department and company seal</p> <p>Copies of all documents which publicly disclosed in the publications designated by the CSRC during the Reporting Period.</p> <p>Copies of all documents which publicly disclosed on the websites of the SSE and the HKEx during the Reporting Period.</p> <p>Copies of other relevant documents.</p>
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Chairman: **Zhou Zhuping**

The date of approval of the Board for submission: 16 August 2018

REVISION

Applicable Not applicable