Notes to Accounts

For the year ended 31st December, 2000

1. ORGANISATION

Chongqing Iron & Steel Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 12th August 1997 as part of the restructuring ("Restructuring") of a State-owned enterprise known as Chongqing Iron & Steel Company (Group) Limited (the "Holding Company"). Pursuant to the Restructuring, the principal iron and steel business undertakings and one of the subsidiaries, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), of the Holding Company were taken over by the Company, whereupon the Company issued 650,000,000 State-owned shares of Rmb1 each to the Holding Company. The Company and its subsidiary are hereinafter collectively referred to as the "Group".

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary made up to 31st December. All significant intra-group transactions and balances have been eliminated on consolidation.

(c) Subsidiary

A subsidiary is an enterprise in which the Company holds an interest of more than 50% of its equity as a long-term investment.

In the Company's balance sheet, investment in subsidiary is stated at cost less provision for diminution in value other than temporary in nature considered necessary by the directors.

(d) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of buildings, plant and machinery including interest costs arising from the related borrowed funds during the construction period and prior to the commissioning date are capitalised as fixed assets (note 2(m)).

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate PRC authorities.

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on the straight-line method, after taking into account their estimated residual values. The estimated useful lives of fixed assets are as follows:

Buildings	40-45 years
Plant, machinery and equipment	15-22 years
Transportation vehicles and equipment	8 years

No depreciation is provided in respect of construction in progress.

Repairs and maintenance expenses are charged to the profit and loss account as incurred. Improvements are capitalised and depreciated over their expected useful lives to the Group. The cost of relining of blast furnaces is amortised using the straight-line method over their estimated repairing cycles ranging from 8 to 10 years.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line method over the lease term.

(g) Inventories

Inventories comprise raw materials, work in progress, finished goods, and spare parts and consumables. Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost, calculated using the weighted average method, comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined by reference to the proceeds of goods sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions, less estimated selling expenses.

Spare parts and consumables are stated at cost less provision for obsolescence.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) Translation of foreign currencies

The Company maintains its books and records in Renminbi ("Rmb").

Transactions in foreign currencies are translated at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(k) Revenue recognition

Revenue from the sale of goods is recognised when the goods are delivered to customers. Other revenues are recognised on accruals basis.

(l) Retirement benefit costs

The Group contributes, through the Holding Company, to a defined contribution scheme established by the Chongqing Municipal Government. The Holding Company has undertaken to assume retirement benefits obligations in excess of the annual contributions made by the Group. Contributions to the scheme are charged to the profit and loss account as incurred.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

3. TURNOVER AND OTHER REVENUES

The Group is principally engaged in the manufacture and sale of steel products. Revenues recognised during the year are summarised as follows:

	2000 Rmb'000	1999 Rmb'000
Turnover		
Steel plates	1,663,790	1,278,944
Steel sections	579,084	461,781
Wire rods	251,824	202,770
Steel billets	889,172	558,397
Others	338,886	315,412
	3,722,756	2,817,304
Other revenues		
Sale of by-products	3,525	3,896
Transportation services	1,716	469
	5,241	4,365
Total revenues	3,727,997	2,821,669

Majority of the sales of the Group were conducted in the PRC. Export sales for the year were Rmb262,260,000 (1999: Rmb67,600,000). Since export sales contributed less than 7% (1999: 2.4%) of the consolidated turnover and results. No geographical information is shown.

No analysis of operating profit by segment is presented as the amount attributed to the segment other than the sale of steel products is not significant.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2000 Rmb'000	1999 Rmb'000
Crediting		
Net exchange gains	77	—
Gains on disposal of fixed assets	—	1,033
Charging		
Depreciation of fixed assets	153,590	151,778
Staff costs	213,973	182,170
Operating leases of land and buildings	13,316	12,826

Fixed assets impairment loss	—	16,711
Retirement benefit costs	44,698	34,469
Auditors' remuneration	2,670	2,670
Amortisation of relining cost of blast furnaces	10,799	10,078
Loss on disposal of fixed assets	16,290	—

5. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments paid to directors and supervisors of the Company during the year are as follows:

	2000 Rmb'000	1999 Rmb'000
Fees	70	35
Other emoluments:		
Basic salaries, housing allowances and other allowances	110	102
Bonuses	247	186
Pension	42	44
	469	367

Directors' fees disclosed above are all paid to independent non-executive directors.

The emoluments of the directors and supervisors fell within the following band:

	Number of directors and supervisors	
Emoluments band	2000	1999
Rmbnil - Rmb1,000,000	14	12

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and supervisors and their emoluments are reflected in the analysis presented above.

6. NET FINANCE COSTS

	2000 Rmb'000	1999 Rmb'000
Interest expenses on bank loans	63,498	56,349
Less: Amount capitalised in construction in progress	(5,203)	(8,006)
	58,295	48,343
Interest income on bank balances	(2,483)	(815)
	55,812	47,528

Interest was capitalised on loans borrowed to finance construction in progress at rates ranging from 3.2% to 7.6% (1999: 3.2% to 9.7%) per annum.

7. TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profit in Hong Kong for the year (1999: nil)

In accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to that of the joint stock company with foreign investment. In accordance with Article 8 of the Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises, enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ended 31st December 2000 is the Group's first profitable year after the change, accordingly no taxation has been provided in the accounts. The Group incurred a loss for the year ended 31st December 1999 and no taxation has been provided in the accounts.

8. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDRES

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb204,248,000 (1999: loss attributable to shareholders of Rmb55,824,000).

9. DIVIDEND

	2000 Rmb'000	1999 Rmb'000
Final, proposed, of Rmb0.03 (1999: nil) per share	31,918	—

10. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of Rmb198,686,000 (1999: loss attributable to shareholders of Rmb49,482,000) and 1,063,944,000 (1999: 1,063,944,000) shares in issue during the year.

11. FIXED ASSETS

	Group				
	Buildings Rmb'000	Plant and machinery Rmb'000	Transportation vehicles and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost					
At 1st January 2000	1,409,024	2,441,514	18,589	256,262	4,125,389
Additions	12,895	49,249	6,111	241,634	309,889
Transfer upon completion	122,881	207,971	-	(330,852)	-
Disposals	(1,777)	(46,039)	(1,257)	-	(49,073)
At 31st December 2000	1,543,023	2,652,695	23,443	167,044	4,386,205
Accumulated depreciation					
At 1st January 2000	543,015	1,245,920	12,699	-	1,801,634
Charge for the year	47,996	101,290	4,304	-	153,590
Disposals	(904)	(29,838)	(1,117)	-	(31,859)
At 31st December 2000	590,107	1,317,372	15,886	-	1,923,365
Net book value					
At 31st December 2000	952,916	1,335,323	7,557	167,044	2,462,840
At 31st December 1999	866,009	1,195,594	5,890	256,262	2,323,755

	Buildings Rmb'000	Plant and machinery Rmb'000	Company Transportation vehicles and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost					
At 1st January 2000	770,192	1,060,749	7,210	233,166	2,071,317
Additions	5,969	45,046	5,947	206,751	263,713
Transfer upon completion	116,138	189,722	-	(305,860)	-
Disposals	(1,338)	(45,729)	(1,257)	-	(48,324)
At 31st December 2000	890,961	1,249,788	11,900	134,057	2,286,706
Accumulated depreciation					
At 1st January 2000	68,449	155,095	1,963	-	225,507
Charge for the year	39,235	75,061	4,124	-	118,420
Disposals	(795)	(29,540)	(1,117)	-	(31,452)
At 31st December 2000	106,889	200,616	4,970	-	312,475
Net book value					
At 31st December 2000	784,072	1,049,172	6,930	134,057	1,974,231
At 31st December 1999	701,743	905,654	5,247	233,166	1,845,810

(a) As at 31st December 2000, the net book value of fixed assets of the Group pledged as security for the Group's and the Company's bank loans amounted to Rmb203,232,000 (1999: Rmb42,151,000).

(b) As at 31st December 2000, accumulated interest expense capitalised in fixed assets of the Group and the Company amounted to Rmb27,863,000 (1999: Rmb22,660,000).

12. SUBSIDIARY

	Company 2000 Rmb'000	1999 Rmb'000
Unlisted investment, at cost	242,986	242,986
Amount due from subsidiary	69,851	72,765
	312,837	315,751

The amount due from subsidiary is unsecured, interest free and has no fixed terms of repayment.

Particulars of the subsidiary are as follows:

Name	Place of establishment/ operation	Principal activities	Particulars of issued share capital	Type of company	Group equity interest
Chongqing Hengda Steel Industrial Co., Ltd.	Chongqing, PRC	Steel smelting	332,180,000 shares of Rmb1 each	Joint stock limited liability company	69.51%

13. OTHER ASSETS

		Group and Company	
		2000	1999
	Note	Rmb'000	Rmb'000
Value added tax recoverable	(a)	-	20,218
Relining cost of blast furnaces, less amortisation	(b)	64,605	62,882
		64,605	83,100

(a) Value added tax recoverable

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Book amount at 1st January	20,218	37,418
Less: Recovered during the year	(20,218)	(17,200)
Book amount at 31st December	-	20,218

As a result of the introduction of the value added tax ("VAT") legislation which became effective from 1st January 1994, the Group had a deemed input VAT credit, amounting to Rmb229,248,000 in respect of the inventory balance as at 31st December 1993. In accordance with an approval document issued by the Chongqing Taxation Bureau, the Group will be able to offset this amount against future output VAT payable by the Group.

During the year, an amount of Rmb20,218,000 (1999: Rmb17,200,000) was offset against output VAT payable in accordance with the notice given by the Chongqing Taxation Bureau. The input VAT credit has been fully offset against output VAT payable during the year.

(b) Relining cost of blast furnaces, less amortisation

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Net book value at 1st January	62,882	57,379
Additions during the year	12,522	15,581
Less: Amortisation during the year	(10,799)	(10,078)
Net book value at 31st December	64,605	62,882

14. INVENTORIES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	356,264	464,082	323,092	427,233
Work in progress	125,971	171,147	111,087	145,379
Finished goods	62,615	259,757	62,615	259,757
Spare parts and consumables	119,971	92,449	100,762	65,775
	664,821	987,435	597,556	898,144

As at 31st December 2000, provision for slow-moving inventories totalled Rmb79,510,000 (1999: Rmb52,310,000).

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables (note (a))	362,530	426,960	362,530	426,960
Amounts due from fellow subsidiaries (note (b))	133,173	98,407	133,173	98,407
Prepayments and deposits	71,092	15,013	71,092	13,373
Other receivables	20,360	18,493	20,287	18,462
	587,155	558,873	587,082	557,202

(a) Included in the trade receivables are Rmb15,001,000 (1999: Rmb35,992,000) due from enterprises owned by independent third parties but managed by the Holding Company pursuant to management contracts entered into with each of these enterprises, and Rmb20,905,000 (1999: Rmb46,070,000) due from fellow subsidiaries. All balances arose from the sale of finished goods.

The Company normally requires its new customers to make advanced payments before delivery is made. For other customers, the Company normally offers a 3-month credit period.

The ageing analysis of trade receivables (net of provision) as at 31st December 2000 is as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within 3 months	272,393	226,865	272,393	226,865
Between 3 months and 1 year	36,802	127,907	36,802	127,907
Between 1 and 2 years	19,214	67,206	19,214	67,206
Between 2 and 3 years	34,121	4,982	34,121	4,982
	362,530	426,960	362,530	426,960

(b) Amounts due from fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables (note (a))	660,606	780,121	660,194	777,799
Advances from customers	73,746	114,980	73,746	114,980
Amounts due to Holding Company and fellow subsidiaries (note (b))	20,723	8,327	20,723	8,316
Other payables	29,191	46,145	29,081	45,520
Value added tax and sundry taxes payable	98,013	-	98,013	-
	882,279	949,573	881,757	946,615

(a) The ageing analysis of trade payables as at 31st December 2000 is analysed as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within 6 months	360,408	406,865	359,996	404,543
Between 6 months and 1 year	236,772	291,202	236,772	291,202
Between 1 and 2 years	3,865	4,876	3,865	4,876
Between 2 and 3 years	2,768	1,030	2,768	1,030
Over 3 years	56,793	76,148	56,793	76,148
	660,606	780,121	660,194	777,799

(b) Amounts due to Holding Company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

17. SHORT-TERM BANK LOANS

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Secured bank loans (note)	180,000	111,780
Unsecured bank loans	70,630	30,000
	250,630	141,780

Note:

Included in short-term bank loans of the Group and the Company outstanding at 31st December 2000 are loans of Rmb180,000,000 (1999: Rmb30,000,000) secured by a pledge of the Company's State-owned shares owned by the Holding Company (note 24).

18. SHARE CAPITAL

	Company	
	2000	1999
	Rmb'000	Rmb'000
Registered, issued and paid up capital		
650,000,000 State-owned shares of Rmb1 each	650,000	650,000
413,944,000 H shares of Rmb1 each	413,944	413,944
	1,063,944	1,063,944

The Stated-owned and H shares rank pari passu in all respects.

19. RESERVES

	Group					
	Share premium Rmb'000	Capital surplus Rmb'000	Statutory common reserve Rmb'000	Statutory provident fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1st January 1999	276,208	295,878	11,906	5,953	86,696	676,641
Loss attributable to shareholders	-	-	-	-	(49,482)	(49,482)
Write back of revaluation surplus	-	(20,004)	-	-	20,004	-
At 31st December 1999	276,208	275,874	11,906	5,953	57,218	627,159
At 1st January 2000	276,208	275,874	11,906	5,953	57,218	627,159
Profit attributable to shareholders	-	-	-	-	198,686	198,686
Appropriations for the year (note (a) and (b))	-	-	16,458	8,229	(24,687)	-
Dividend (note 9)	-	-	-	-	(31,918)	(31,918)
At 31st December 2000	276,208	275,874	28,364	14,182	199,299	793,927

	Company					
	Share premium Rmb'000	Capital surplus Rmb'000	Statutory common reserve Rmb'000	Statutory provident fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1st January 1999	276,208	227,834	11,906	5,953	62,558	584,459
Loss attributable to shareholders	-	-	-	-	(55,824)	(55,824)
Write back of revaluation surplus	-	(20,004)	-	-	20,004	-
At 31st December 1999	276,208	207,830	11,906	5,953	26,738	528,635
At 1st January 2000	276,208	207,830	11,906	5,953	26,738	528,635
Profit attributable to shareholders	-	-	-	-	204,248	204,248
Appropriations for the year (note (a) and (b))	-	-	16,458	8,229	(24,687)	-
Dividend (note 9)	-	-	-	-	(31,918)	(31,918)
At 31st December 2000	276,208	207,830	28,364	14,182	174,381	700,965

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit as stated in the accounts prepared under PRC accounting regulations to the statutory common reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividend to shareholders.

The statutory common reserve shall only be used to make up losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve into share capital and issue bonus shares to existing shareholders in proportion to their existing shareholdings or increase the nominal value of each share. After converting the Company's statutory common reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

As the Company incurred a loss in 1999, no transfer to the statutory common reserve was recommended in 1999. In 2000, the directors recommended the transfer of 10% of the net profit for the year ended 31st December 2000 after deducting the net loss for the year ended 31st December 1999 as determined under the PRC accounting regulations to the statutory common reserve.

(b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit as stated in the accounts prepared under PRC accounting regulations to the statutory provident fund. The transfer to this fund must be made before the distribution of dividend to shareholders. This fund shall only be used for the collective welfare of employees.

As the Company incurred a loss in 1999, no transfer to the statutory provident fund was recommended in 1999. In 2000, the directors recommended the transfer of 5% of the net profit for the year ended 31st December 2000 after deducting the net loss for the year ended 31st December 1999 as determined under the PRC accounting regulations to the statutory provident fund.

(c) In accordance with the Company's Articles of Association, the distributable reserves of the Company is deemed to be the lesser of the amount determined in accordance with the PRC accounting standards and the amount determined in accordance with accounting principles generally accepted in Hong Kong. Distributable reserves of the Company at 31st December 2000 amounted to Rmb174,381,000 (1999: Rmb26,738,000) which is based on the retained earnings as determined in accordance with accounting principles generally accepted in Hong Kong.

20. LONG-TERM LIABILITIES

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Secured bank loans (note (a))	452,000	431,300
Unsecured bank loans	284,570	402,000
	736,570	833,300
Amount due to Holding Company (note (c))	202,784	302,040
	939,354	1,135,340

Less: Amounts due within one year included under current liabilities		
Bank loans	(236,570)	(279,800)
Amount due to Holding Company	(99,284)	(99,284)
	(335,854)	(379,084)
	603,500	756,256

(a) Included in secured bank loans are loans of Rmb232,000,000 (1999: Rmb414,000,000) secured by a pledge of the Company's State-owned shares owned by the Holding Company (note 24); loans of Rmb30,000,000 (1999: Rmb2,300,000) guaranteed by the Holding Company (note 24); and loans of Rmb190,000,000 (1999: Rmb15,000,000) secured by the fixed assets of the Group (note 11(a)). Interest is charged at rates ranging from 3.24% to 6.21% (1999: 3.24% to 9.72%) per annum.

(b) The maturity of the long-term bank loans is as follows:

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Within one year	236,570	279,800
In the second year	245,000	418,500
In the third to fifth years inclusive	255,000	135,000
	736,570	833,300

(c) The amount due to Holding Company is unsecured, interest free and repayable on demand commencing 12th August 1998 with annual repayments between 12th August 1998 and 11th August 2003 being limited to a maximum of 20% of the principal amount of Rmb496,419,000.

21. DEFERRED TAXATION

As at 31st December 2000 the unrecognised potential deferred taxation asset of the Group and the Company in respect of timing differences relating to provisions amounted to Rmb36,511,000 (1999: Rmb28,893,000) and Rmb33,903,000 (1999: Rmb27,577,000) respectively.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

	2000 Rmb'000	1999 Rmb'000
Profit/(loss) before taxation	206,375	(46,700)
Depreciation	153,590	151,778
	10,793	9,277
Fixed assets impairment loss	-	16,711
Loss/(gain) on disposal of fixed assets	16,290	(1,033)
Decrease/(increase) in inventories	322,614	(166,329)
(Increase)/decrease in trade and other receivables	(39,075)	66,654
(Decrease)/increase in trade and other payables	(47,076)	77,525
Interest income	(2,483)	(815)
Interest expenses	58,295	48,343
Net cash inflow from operating activities	690,122	165,489

(b) Analysis of changes in financing

	Bank loans Rmb'000	Amount due To Holding Company Rmb'000	Total Rmb'000
At 1st January 1999	730,080	397,174	1,127,254
Net cash inflows/(outflows) from financing	245,000	(95,134)	149,866
At 31st December 1999	975,080	302,040	1,277,120
At 1st January 2000	975,080	302,040	1,277,120
Net cash inflows/(outflows) from financing	12,120	(99,256)	(87,136)
At 31st December 2000	987,200	202,784	1,189,984

23. CAPITAL AND OPERATING LEASE COMMITMENTS

(a) Capital commitments

Construction and purchase of fixed assets

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted but not provided for	48,060	280,874	41,485	267,485
Authorised but not contracted for	665	267,126	665	240,515
	48,725	548,000	42,150	508,000

(b) Operating lease commitments

At 31st December 2000, the Group and the Company had commitments to make payments in respect of land and buildings in the next twelve months under operating leases which expire as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	1,316	1,664	1,316	1,664
After the fifth year	11,994	11,994	11,059	11,059
	13,310	13,658	12,375	12,723

Included in the above operating lease commitments, the Group and the Company had annual commitments of approximately Rmb11,994,000 (1999: Rmb11,994,000) and Rmb11,059,000 (1999: Rmb11,059,000) respectively in respect of the land under operating lease agreements with the Holding Company expiring in approximately 50 years commencing from August 1997.

24. RELATED PARTY TRANSACTIONS

In 1998, the Holding Company pledged 650,000,000 State-owned shares of the Company to a bank as security for facilities made available to the Group by the bank up to a maximum amount of Rmb650,000,000 during the period from 12th October 1998 to 12th October 2003. As at 31st December 2000, these facilities were utilized to the extent of short-term loans and long-term loans of Rmb180,000,000 (1999: Rmb30,000,000) (note 17) and Rmb232,000,000 (1999: Rmb414,000,000) (note 20) respectively.

In addition to the above, long-term loans of the Group and the Company at 31st December 2000 amounting to Rmb30,000,000 (1999: Rmb2,300,000) (note 20) were guaranteed by the Holding Company.

Other than the transactions described above, the Group has, in the normal course of business and on normal commercial terms, entered into transactions with the Holding Company, fellow subsidiaries and other related parties. Other related parties refer to enterprises owned by independent third parties and managed by the Holding Company pursuant to management contracts entered into with each of these enterprises. The following is a summary of the significant transactions during the year:

	2000 Rmb'000	1999 Rmb'000
Income		
Sales to		
— fellow subsidiaries (note (a))	754,907	492,150
— other related parties (note (a))	-	10,899
Fees received for supporting services (note (b))	811	469
Expenditure		
Fees paid for supporting services (note (c))	43,739	32,043
Purchase of raw materials and spare parts (note (d))	586,794	434,065
Purchase of fixed assets (note (e))	69,538	45,247
Rental for land leases(note (f))	11,994	11,994
Retirement benefits costs paid through Holding Company (note (g))	44,698	34,469
Social welfare expenses paid through Holding Company (note (g))	38,633	30,424
Agency fees paid to fellow subsidiaries (note (h))	-	7,332

(a) Sales to fellow subsidiaries and other related parties were made at prices determined by reference to those charged to and contracted with other third party customers of the Group.

(b) Fees received for supporting services mainly represent fees charged to the Holding Company and fellow subsidiaries for water, electricity, natural gas and internal railway transportation services, the price of which is regulated by the Chongqing government.

(c) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by the Holding Company and fellow subsidiaries. These services were charged at prices determined by reference to market prices.

(d) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.

(e) Purchase of fixed assets was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries. Included in the balance are amounts of Rmb21,385,900 and Rmb6,449,300 arising from the acquisition of the High Speed Steel Cutter for Wire Rods Production Line and the Iron and Steel Research Office from the Holding Company. The prices were determined based on the valuation performed by Chongqing Hua Kang Certified Public Accountants, an independent PRC valuer.

(f) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.

(g) Retirement benefit costs and social welfare expenses were paid through the Holding Company. No handling fee was charged by the Holding Company.

(h) In 1999, agency fees paid to fellow subsidiaries represent charges of 3% and 6% of the total invoiced value of import of raw materials and export of finished goods and spare parts on behalf of the Group respectively.

25. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company is Chongqing Iron & Steel Company (Group) Limited, a corporation established in the PRC.

26. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 9th April 2001.