

CONDENSED INCOME STATEMENT
FOR THE SIX MONTHS ENDED AT 30TH JUNE 2005

	Note	Unaudited	
		Six months ended 30th June	
		2005	2004
		RMB'000	RMB'000
Sales	3	4,705,291	4,289,239
Cost of goods sold		(3,981,364)	(3,550,822)
Gross profit		723,927	738,417
Other revenues		9,178	14,517
Distribution costs		(71,128)	(67,905)
Administrative expenses		(123,539)	(102,295)
Other operating expenses		(25,779)	(5,773)
Operating profit	4	512,659	576,961
Finance costs		(50,443)	(40,573)
Profit before taxation		462,216	536,388
Taxation	6	(69,652)	(40,389)
Profit attributable to shareholders		392,564	495,999
Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)			
– basic	7	0.369	0.466
Dividends	8	—	—

Tang Min Wei
Director

Tu De Ling
Director

CONDENSED BALANCE SHEET
AS AT 30TH JUNE 2005

		As at	
		30th June	31st December
		2005	2004
		Unaudited	Restated
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets	9	4,691,179	4,038,634
Leasehold land and land use rights	9	27,396	27,665
Available for sale financial assets		5,000	—
Investment security		—	5,000
Deferred tax assets	12	15,099	9,775
		<u>4,738,674</u>	<u>4,081,074</u>
Current assets			
Inventories		1,739,837	1,541,267
Trade and other receivables	10	617,585	782,191
Cash and cash equivalents		988,831	796,302
		<u>3,346,253</u>	<u>3,119,760</u>
Total assets		<u>8,084,927</u>	<u>7,200,834</u>
EQUITY			
Share capital	11	1,063,944	1,063,944
Reserves		883,785	883,785
Retained earnings			
– Proposed final dividend		—	159,592
– Others		2,129,956	1,737,392
Total equity		<u>4,077,685</u>	<u>3,844,713</u>

CONDENSED BALANCE SHEET (CONTINUED)**AS AT 30TH JUNE 2005**

		As at	
		30th June 2005	31st December 2004
		Unaudited	Restated
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans	14	803,045	692,045
Current liabilities			
Trade and other payables	13	1,606,080	1,552,631
Income tax payable		59,217	27,545
Short-term bank loans	14	965,900	565,900
Current portion of long-term bank loans	14	573,000	518,000
		3,204,197	2,664,076
Total liabilities		4,007,242	3,356,121
Total equity and liabilities		8,084,927	7,200,834
Net current assets		142,056	455,684
Total assets less current liabilities		4,880,730	4,536,758

Tang Min Wei
Director

Tu De Ling
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY AS AT 30TH JUNE 2005

	Unaudited						
	Reserves						
	Share capital	Share premium	Capital surplus	Statutory	Statutory	Retained earnings	Total
				common reserve	provident fund		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1st January 2004	1,063,944	276,208	216,071	175,202	87,601	1,394,753	3,213,779
Profit for the period	—	—	—	—	—	495,999	495,999
2003 final dividend paid	—	—	—	—	—	(212,789)	(212,789)
At 30th June 2004	<u>1,063,944</u>	<u>276,208</u>	<u>216,071</u>	<u>175,202</u>	<u>87,601</u>	<u>1,677,963</u>	<u>3,496,989</u>

	Unaudited						
	Reserves						
	Share capital	Share premium	Capital surplus	Statutory	Statutory	Retained earnings	Total
				common reserve	provident fund		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1st January 2005	1,063,944	276,208	216,071	261,004	130,502	1,896,984	3,844,713
Profit for the period	—	—	—	—	—	392,564	392,564
2004 final dividend paid	—	—	—	—	—	(159,592)	(159,592)
At 30th June 2005	<u>1,063,944</u>	<u>276,208</u>	<u>216,071</u>	<u>261,004</u>	<u>130,502</u>	<u>2,129,956</u>	<u>4,077,685</u>

CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	<u>479,285</u>	<u>65,985</u>
Net cash used in investing activities	<u>(698,217)</u>	<u>(312,340)</u>
Net cash generated from/(used in) financing activities	<u>411,461</u>	<u>(228,988)</u>
Net increase/(decrease) in cash and cash equivalents	192,529	(475,343)
Cash and cash equivalents at 1st January	<u>796,302</u>	<u>1,346,583</u>
Cash and cash equivalents at 30th June	<u>988,831</u>	<u>871,240</u>
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	1,071,596	871,240
Less: time deposit	<u>(82,765)</u>	<u>—</u>
Cash and cash equivalents	<u>988,831</u>	<u>871,240</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed interim accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of this condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Company has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

These condensed interim accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these condensed interim accounts.

The changes to the Company’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Company adopted the new / revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effect of adopting new HKFRS (continued)

- (i) HKFRS did not result in substantial change

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 23, 24 and 33 did not result in substantial changes to the Company's accounting policies. In summary:

- HKASs 1, 2, 7, 8, 10, 16, 23, 33 had no material effect on the Company's policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

- (ii) HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effect of adopting new HKFRS (continued)

(ii) HKAS 17 (continued)

The adoption of revised HKAS17 resulted in a reclassification of balance sheet at 31 December 2004 by:

	As at	
	30th June	31st December
	2005	2004
	RMB'000	RMB'000
Decrease in fixed assets	(27,396)	(27,665)
Increase in leasehold and land use rights	<u>27,396</u>	<u>27,665</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(a) Effect of adopting new HKFRS (*continued*)

(iii) HKAS 36

The adoption of HKAS 36 has resulted in a change in the accounting policy relating to impairment of assets. Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The above changes in accounting policy do not have any material effect on the accounts.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(a) Effect of adopting new HKFRS (*continued*)

(iv) HKAS 32 and 39

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries, associates and jointly controlled entities, were previously classified as long-term investments. Effective from 1 January 2005, these are grouped under available-for-sale financial assets. Available-for-sale financial assets are carried at fair value, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(a) Effect of adopting new HKFRS (*continued*)

(iv) HKAS 32 and 39 (*continued*)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material effect on the accounts.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New Accounting Policies

The accounting policies used for the condensed interim accounts for the six months ended 30 June 2005 are the same as those set out in note 3 to the Company's annual accounts for the year ended 31st December 2004 except for the following:

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New Accounting Policies (*continued*)

(ii) Investments

Until 31st December 2004, the Company classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as other investment and categorised as non-current assets.

Effective from 1st January 2005, the investment are classified as available-for-sale financial assets. The Company did not hold investment in other categories during the six months ended 30th June 2005.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments classified as available-for-sale financial assets are carried at fair value, where an active market exists. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities. Those investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New Accounting Policies (*continued*)

(ii) Investments (*continued*)

The Company's long-term investments are grouped under this category.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Purchases and sales of investments are recognised on trade-date — the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) **New Accounting Policies** (*continued*)

(iii) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

NOTES TO CONDENSED INTERIM ACCOUNTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New Accounting Policies (*continued*)

(iv) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO CONDENSED INTERIM ACCOUNTS

3 TURNOVER AND SEGMENT INFORMATION

The Company is principally engaged in the manufacture and sale of steel products. An analysis of the Company's turnover is as follows:

	Six months ended 30th June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Sale of steel products	4,454,266	4,064,794
Other sales	251,025	224,445
	<u>4,705,291</u>	<u>4,289,239</u>

No business segment information is presented as over 90% of the Company's turnover and operating profit are earned from the sale of steel and its by-products.

No geographical segment information is presented as all of the Company's turnover and operating profit are earned within the People's Republic of China ("PRC") and all of the Company's assets are located in the PRC, which is considered as one geographic location with similar risks and returns.

NOTES TO CONDENSED INTERIM ACCOUNTS

4 OPERATING PROFIT

Operating profit is stated after changing the follows:

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Changing		
Depreciation of fixed assets	106,740	107,790
Impairment of fixed assets	5,555	—
Staff costs (including director's emoluments) (note 5)	308,208	254,984
Operating leases of land and buildings	7,200	6,600
Loss on disposal of fixed assets	14,804	1,287
	<u>336,507</u>	<u>370,671</u>

5 STAFF COSTS

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Wages and salaries	205,075	171,517
Retirement benefit costs		
- defined contribution plans	43,830	34,304
Other social welfare expenses	59,303	49,163
	<u>308,208</u>	<u>254,984</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

6 TAXATION

The amount of taxation charged to the income statement represents:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
PRC income taxation		
– PRC current income tax provision	74,976	40,389
– Deferred taxation (note 12)	(5,324)	—
	<u>69,652</u>	<u>40,389</u>
Taxation charge	<u>69,652</u>	<u>40,389</u>

The taxation on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the Company as follows:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Profit before taxation	<u>462,216</u>	<u>536,388</u>
Calculated at a taxation rate of 15% (2004: 7.5%) (note (b))	69,332	40,229
Expenses not deductible for taxation purposes	<u>320</u>	<u>160</u>
Taxation charge	<u>69,652</u>	<u>40,389</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

6 TAXATION (CONTINUED)

- (a) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the six months ended 30th June 2005 (2004: nil).
- (b) As a production enterprise with foreign investment established at the riverside of Yangtse River, the Company was originally entitled to a preferential income tax rate of 24% in accordance with "The Notice issued by the State Tax Bureau on Taxation Policy Concerning Foreign Invested Enterprises for Further Opening of Frontier, Coastal, Inland and Riverside Cities" (Guo Shui Fa [1992] No. 218). In April 2003, the Company obtained approvals ([Yu Guo Shui Han [2003] No. 57] and [Da Dukou Guo Shui Han [2003] No. 8]) issued by the relevant tax authorities under which the preferential income tax treatment for enterprises in the western development region is granted to the Company. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and the income tax rate is reduced to 15% for the period from 2001 to 2010.

NOTES TO CONDENSED INTERIM ACCOUNTS

6 TAXATION (CONTINUED)

In addition, 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 a joint stock limited 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 ending 31st December 2005 is the Company's sixth profitable year after the change; income tax rate has been provided at 15% on its estimated taxable income for the six months ended 30th June 2005 (2004: 7.5%).

7 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of RMB392,564,000 (2004: RMB495,999,000) and the 1,063,944,000 (2004: 1,063,944,000) shares in issue during the period.

8 DIVIDENDS

The directors do not recommend the payment of interim dividend for the six months ended 30th June 2005 (2004: nil).

NOTES TO CONDENSED INTERIM ACCOUNTS

9 CAPITAL EXPENDITURE

	Fixed assets	Leasehold land and land use rights
	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount as at 1st January 2005	4,038,634	27,665
Additions	786,554	—
Disposals	(21,714)	—
Depreciation/amortization charge (Note 4)	(106,740)	(269)
Impairment charge (Note 4)	(5,555)	—
	<hr/>	<hr/>
Closing net book amount as at 30th June 2005	<u>4,691,179</u>	<u>27,396</u>
Opening net book amount as at 1st January 2004	3,277,732	—
Additions	320,775	—
Disposals	(10,904)	—
Depreciation/amortization charge (Note 4)	(107,790)	—
	<hr/>	<hr/>
Closing net book amount as at 30th June 2004	<u>3,479,813</u>	—
Additions	682,923	27,665
Disposals	(25,565)	—
Depreciation/amortization charge	(98,537)	—
	<hr/>	<hr/>
Closing net book amount as at 31st December 2004	<u>4,038,634</u>	<u>27,665</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

9 CAPITAL EXPENDITURE (CONTINUED)

As at 30th June 2005, the net book value of fixed assets of the Company pledged as security for the Company's bank loans amounted to RMB335,568,000 (31st December 2004: RMB346,384,000).

As at 30th June 2005, accumulated interest expense capitalised in fixed assets amounted to RMB30,997,000 (31st December 2004: RMB29,465,000).

10 TRADE AND OTHER RECEIVABLES

	30th June	31st December
	2005	2004
	RMB'000	RMB'000
Trade receivables – net (note (a))	188,096	367,965
Prepayments	200,461	141,442
Other receivables	125,641	212,015
Receivables from fellow subsidiaries (note (b))	103,387	60,769
	617,585	782,191

NOTES TO CONDENSED INTERIM ACCOUNTS

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (a) The ageing analysis of trade receivables as at 30th June 2005 is analysed as follows:

	30th June 2005 RMB'000	31st December 2004 RMB'000
Within 3 months	159,576	247,467
Between 3 months and 1 year	26,460	118,233
Between 1 and 2 years	2,060	2,148
Between 2 and 3 years	—	117
	<u>188,096</u>	<u>367,965</u>

- (b) Amounts due from fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.
- (c) The carrying amounts of trade and other receivables approximate their fair value.

NOTES TO CONDENSED INTERIM ACCOUNTS

11 SHARE CAPITAL

	30th June 2005 RMB'000	31st December 2004 <i>RMB'000</i>
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
	<u>1,063,944</u>	<u>1,063,944</u>

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

12 DEFERRED TAXATION

Deferred taxation is provided in full under the liability method on temporary differences using the tax rates that are expected to apply to the period when the deferred tax asset is realised or the deferred tax liability is settled, based on tax rates that have been enacted by the balance sheet date.

NOTES TO CONDENSED INTERIM ACCOUNTS

12 DEFERRED TAXATION (CONTINUED)

The movement of the deferred tax assets account is as follows:

	Six months ended 30th June	
	2005 RMB'000	2004 RMB'000
At the beginning of the period	9,775	10,757
Deferred taxation credited to income statement	5,324	—
At the end of the period	<u>15,099</u>	<u>10,757</u>

The components of deferred tax assets are as follows:

	Impairment			Total RMB'000
	Provisions RMB'000	of assets RMB'000	Other RMB'000	
As at 1st January 2005	2,058	1,517	6,200	9,775
Deferred taxation credited to income statement	1,231	833	3,260	5,324
As at 30th June 2005	<u>3,289</u>	<u>2,350</u>	<u>9,460</u>	<u>15,099</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

13 TRADE AND OTHER PAYABLES

	30th June 2005	31st December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (note (a))	875,611	792,859
Advance from customers	484,082	512,428
Amounts due to fellow subsidiaries and Holding Company (note (b))	106,974	55,445
Other payables	111,418	126,709
Value added tax and sundry taxes payable	27,995	65,190
	<u>1,606,080</u>	<u>1,552,631</u>

- (a) At 30th June 2005, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) were as follows:

	30th June 2005	31st December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	496,305	495,145
Between 6 months and 1 year	357,482	269,577
Between 1 and 2 years	3,622	8,632
Between 2 and 3 years	332	1,247
Over 3 years	17,870	18,258
	<u>875,611</u>	<u>792,859</u>

- (b) Amounts due to the Holding Company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.
- (c) The carrying amounts of trade and other payables approximate their fair value.

NOTES TO CONDENSED INTERIM ACCOUNTS

14 BANK LOANS

	30th June 2005 RMB'000	31st December 2004 RMB'000
Non-current		
Long-term bank loans (note (a))	803,045	692,045
Current		
Short-term bank loans (note (b))	965,900	565,900
Current portion of long-term bank loans (note (a))	573,000	518,000
Total bank loans	<u>2,341,945</u>	<u>1,775,945</u>

(a) Long-term bank loans

	30th June 2005 RMB'000	31st December 2004 RMB'000
Secured bank loans (notes 9 and 16)	460,250	342,750
Unsecured bank loans (notes 16)	915,795	867,295
	1,376,045	1,210,045
Less: Current portion of long-term bank loans	(573,000)	(518,000)
	<u>803,045</u>	<u>692,045</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

14 BANK LOANS (CONTINUED)

(a) Long-term bank loans (continued)

The maturity of long-term bank loans is as follows:

	30th June 2005 RMB'000	31st December 2004 RMB'000
Within one year	573,000	518,000
In the second year	653,045	692,045
In the third to fifth year inclusive	150,000	—
	<u>1,376,045</u>	<u>1,210,045</u>

(b) Short-term bank loans

	30th June 2005 RMB'000	31st December 2004 RMB'000
Secured bank loans (notes 9 and 16)	415,000	315,000
Unsecured bank loans (notes 16)	550,900	250,900
	<u>965,900</u>	<u>565,900</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

14 BANK LOANS (CONTINUED)

- (c) The carrying amounts and fair value of the long-term bank loans are as follows:

	Carrying amounts		Fair values	
	30th June 2005 <i>RMB'000</i>	31st December 2004 <i>RMB'000</i>	30th June 2005 <i>RMB'000</i>	31st December 2004 <i>RMB'000</i>
Long-term bank loans	<u>803,045</u>	<u>692,045</u>	<u>813,831</u>	<u>682,062</u>

The fair values are based on cash flows discounted using a rate based on the borrowings rate from 5.76% to 6.12% (31 December 2004: from 5.76% to 6.12%).

- (d) The carrying amounts of short-term bank loans approximate their fair value.
- (e) The carrying amounts of the bank loans are denominated in following currencies:

	30th June 2005 <i>RMB'000</i>	31st December 2004 <i>RMB'000</i>
RMB yuan	<u>2,093,650</u>	1,527,650
US dollar	<u>248,295</u>	<u>248,295</u>
	<u>2,341,945</u>	<u>1,775,945</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

15 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

At 30th June 2005, the Company had capital commitments in respect of construction and purchase of fixed assets as follows:

	30th June 2005 RMB'000	31st December 2004 RMB'000
Contracted but not provided for	846,445	1,050,082
Authorised but not contracted for	361,286	325,494
	<u>1,207,731</u>	<u>1,375,576</u>

(b) Operating lease commitments

At 30th June 2004, the Company had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th June 2005 RMB'000	31st December 2004 RMB'000
Within one year	15,146	13,313
In the second to fifth year	58,251	52,780
After the fifth year	538,487	495,837
	<u>611,884</u>	<u>561,930</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

15 COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

(b) Operating lease commitments *(continued)*

Included in the above operating lease commitments are commitments of the Company in respect of the land under operating lease agreements with the Holding Company expired in approximately 44 years. At 30th June 2005, the Company had future aggregate minimum lease payments under such operating leases amounting to RMB611,092,000 (31st December 2004: RMB561,802,000).

(c) Contingent liabilities

At 30th June 2005, the Company had no contingent liabilities (31st December 2004: nil).

16 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 Company by the bank up to a maximum amount of RMB650,000,000 during the period from 12th October 1998 to 12th October 2003. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's State-owned shares by the Holding Company's land and certain fixed assets of the Company. The maximum credit facility amount under the new arrangement is RMB407,420,000. As at 30th June 2005, these facilities were utilised to the extent of short-term and long-term loans of RMB415,000,000 (31st December 2004: RMB315,000,000), and RMB361,500,000 (31st December 2004: RMB214,000,000) respectively.

In addition to the above, the Company's short-term and long-term loans at 30th June 2005 amounting to RMB450,900,000 (31st December 2004: RMB250,900,000) and RMB878,295,000 (31st December 2004: RMB827,295,000) respectively were guaranteed by the Holding Company.

NOTES TO CONDENSED INTERIM ACCOUNTS

16 RELATED PARTY TRANSACTIONS (CONTINUED)

Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company and fellow subsidiaries during the period:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Income		
Sales to fellow subsidiaries (note (a))	514,823	455,895
Fees received for supporting services (note (b))	1,573	893
Expenditure		
Fees paid for supporting services (note (c))	117,749	74,292
Purchase of raw materials and spare parts (note (d))	480,590	450,190
Purchase of fixed assets (note (e))	83,762	101,457
Rental for land leases (note (f))	7,200	6,600
Social welfare expenses paid through the Holding Company to schemes administrated by the municipal government (note (g))	7,358	4,665
Staff welfare expenses and retirement benefit contribution paid to defined contribution schemes administered by the Holding Company	38,670	32,600
	<u>38,670</u>	<u>32,600</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

16 RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Sales to fellow subsidiaries were made at prices determined by reference to those charged to and contracted with other third party customers of the Company.
- (b) Fees received for supporting services mainly represent fees charged to the Holding Company and fellow subsidiaries for internal railway transportation services at prices determined by reference to those charged to and contracted with other third party customers of the Company.
- (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 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 similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (f) Rental expenses for land leases to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.
- (g) Social welfare expenses which were paid through the Holding Company. No handling fee was charged by the Holding Company.