



NOTES TO THE ACCOUNTS

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

1 ORGANISATION

Chongqing Iron and Steel Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”) in August 1997 as part of the restructuring (“Restructuring”) of a state-owned enterprise known as Chongqing Iron and 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.

In December 2002, the Company acquired all assets and liabilities of Hengda, the former subsidiary of the Company. At the same time, the Company disposed of its entire interest in Hengda to its Holding Company. Following the disposal of Hengda, the Company does not have any subsidiary.

2 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 accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Company has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial statements.



3 PRINCIPAL ACCOUNTING POLICIES

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

(a) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of buildings, plant and machinery including borrowing costs arising from funds borrowed to finance the acquisition or construction of fixed assets during the construction period and prior to the commissioning date are capitalised as fixed assets.

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 certificates by the appropriate PRC authorities.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss.

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 and machinery	8-22 years
Transportation vehicles and equipment	8 years



NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Fixed assets and depreciation *(continued)*

No depreciation is provided in respect of construction in progress.

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Company.

Repairs and maintenance expenses are charged to the profit and loss account as incurred.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account.

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.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Investment security

Investment security represents equity interest in a non-listed company over which the Company has no control or significant influence, and is stated at cost less provision for impairment loss. The carrying amount of the investment security is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of the security will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(d) 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. Payment made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) 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 on the basis of anticipated sales proceeds less estimated selling expenses.

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



NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) 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.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

(h) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred taxation is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred taxation assets is realised or the deferred taxation liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Translation of foreign currencies

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

Transactions in foreign currencies are translated into Rmb 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 Rmb 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) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Transportation service income is recognised when related services are rendered.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(m) Retirement benefit costs

The Company's employees participate in defined contribution retirement schemes organised by the municipal government and the Holding Company whereby the Company is required to make monthly contributions to the plans at certain percentages of the employees' salaries. The municipal government and the Holding Company have respectively undertaken to assume the retirement benefit obligation of all existing and future retired employees' payable under the relevant plans. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Contributions to the retirement benefit schemes are charged to the profit and loss account as incurred.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) 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.

(o) Segment reporting

In accordance with the Company's internal financial reporting, the Company has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

4 TURNOVER AND OTHER REVENUES

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

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover		
Steel plates	3,792,438	2,795,956
Steel sections	1,907,896	1,132,379
Wire rods	1,036,152	520,685
Steel billets	1,312,090	716,323
Other	503,347	443,966
	8,551,923	5,609,309
Other revenues		
Sale of by-products	11,457	8,823
Subsidy income	6,740	—
Transportation services	2,492	2,836
Rental	2,472	1,035
	23,161	12,694
Interest income	8,450	7,443
Total revenues	8,583,534	5,629,446

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

4 TURNOVER AND OTHER REVENUES *(continued)*

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 virtually all of the Company's turnover and operating profit are earned within the PRC and all assets of the Company are located in the PRC, which is considered as one geographic location with similar risks and returns.

5 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
<hr/>		
Crediting		
Write back of provision for doubtful debts	8,600	35,875
Net exchange gain	16	74
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Charging		
Staff costs (included directors' remuneration) (note 6)	555,149	489,705
Depreciation of fixed assets	206,327	219,896
Loss on disposal of fixed assets	26,218	35,481
Impairment of fixed assets (included in other operating expenses)	—	31,499
Operating leases of land and buildings	14,521	15,234
Provision for obsolete inventories	10,000	10,780
Auditors' remuneration	2,678	2,650
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NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

6 STAFF COST (INCLUDED DIRECTORS' REMUNERATION)

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries	379,895	341,083
Retirement benefit costs - defined contribution plans	77,087	74,665
Other social welfare costs	98,167	73,957
	555,149	489,705

7 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:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Fees	120	120
Other emoluments:		
Basic salaries, housing allowances and other allowances	185	148
Bonuses	1,144	778
Pension	83	72
	1,532	1,118



7 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

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

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

Emoluments band	Number of directors and supervisors	
	2004	2003
Nil – HK\$1,000,000 (Rmb1,063,000 equivalent)	14	14

No directors and supervisors waived their emoluments and no emoluments were paid or payable by the Company to any directors and supervisors as an inducement to join or as compensation for loss of office in respect of the year ended 31st December 2004 (2003: nil).

(b) Five highest paid individuals

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

8 NET FINANCE COSTS

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Interest expense on bank loans	92,327	75,015
Less: Amount capitalised in construction in progress	(1,116)	(416)
	91,211	74,599
Less: Interest income on bank balances	(8,450)	(7,443)
	82,761	67,156

The capitalisation rate applied to funds borrowed is 5.49% (2003: 5.49%) per annum.

9 TAXATION

	<i>Note</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Current taxation			
– PRC income tax provision	(b)	64,345	77,174
– Reduction in income tax arising from the purchase of domestic equipment	(c)	(36,894)	(75,675)
PRC income tax		27,451	1,499
Deferred taxation charge/(credit) (note 13)		982	(10,757)
Taxation charge / (credit)		28,433	(9,258)

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004



Chongqing Iron & Steel Company Limited

9 TAXATION *(continued)*

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:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Profit before taxation	872,156	967,781
Calculated at a taxation rate of 7.5% (2003: 7.5%) (note (b))	65,412	72,584
Utilisation of previously unrecognised temporary differences	(1,957)	(7,670)
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	512	1,503
Expenses not deductible for taxation purposes	1,360	—
Reduction in income tax arising from the purchase of domestic equipment (note (c))	(36,894)	(75,675)
Taxation charge / (credit)	28,433	(9,258)

- (a) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the year (2003: nil).



NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

9 TAXATION *(continued)*

- (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.

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 ended 31st December 2004 is the Company’s fifth profitable year after the above change in status; income tax has been provided at 50% of the applicable income tax rate (i.e. 7.5%, being 50% of 15%) on its estimated taxable income for the year ended 31st December 2004 (2003: 7.5%).

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

9 TAXATION *(continued)*

- (c) In 2003, the Company purchased certain domestic manufactured equipment. In accordance with Cai Shui Zi [2000] No. 49 "The Notice concerning the Reduction in Corporate Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises" issued by the Ministry of Finance and State Tax Bureau, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company's corporate income tax.

In accordance with the approval letters (DDKGSH [2004] No.69) issued by State Tax Bureau in Dadukou District, Chongqing, with respect to the application for income tax reduction lodged by the Company relating to the purchase of domestic manufactured equipment in 2003, the total tax reduction that the Company is entitled to amounted to Rmb36,894,000. The above tax deductible amount was utilised to offset the Company's income tax liability for 2004.

10 DIVIDENDS

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Final, proposed, of Rmb0.15 (2003: Rmb0.20) per share	159,592	212,789

At a meeting held on 10th March 2005, the directors proposed a final dividend of Rmb0.15 per share for the year ended 31st December 2004. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb843,723,000 (2003: Rmb977,039,000) and the 1,063,944,000 (2003: 1,063,944,000) shares in issue during the year.

No diluted earnings per share is presented as there was no potential dilutive shares outstanding as of 31st December 2004 (2003: nil).

12 FIXED ASSETS

	Buildings <i>Rmb'000</i>	Transportation		Construction in progress <i>Rmb'000</i>	Total <i>Rmb'000</i>
		Plant and machinery <i>Rmb'000</i>	vehicles and equipment <i>Rmb'000</i>		
Cost					
At 1st January 2004	1,707,333	3,535,149	34,615	358,097	5,635,194
Additions	2,960	4,141	1,680	1,022,582	1,031,363
Transfer upon completion	21,535	121,161	—	(142,696)	—
Disposals	(11,828)	(185,443)	(13,288)	(927)	(211,486)
At 31st December 2004	1,720,000	3,475,008	23,007	1,237,056	6,455,071
Accumulated depreciation and impairment					
At 1st January 2004	709,593	1,625,167	21,098	1,604	2,357,462
Depreciation	43,879	160,304	2,144	—	206,327
Disposals	(5,814)	(161,301)	(6,975)	(927)	(175,017)
At 31st December 2004	747,658	1,624,170	16,267	677	2,388,772
Net book value					
At 31st December 2004	972,342	1,850,838	6,740	1,236,379	4,066,299
At 31st December 2003	997,740	1,909,982	13,517	356,493	3,277,732

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

12 FIXED ASSETS (continued)

- (a) As at 31st December 2004, the net book value of fixed assets pledged as security for the Company's bank loans amounted to Rmb346,384,000 (2003: Rmb368,014,000) (note 18(a) and note 21(a)(i) and (ii)).
- (b) As at 31st December 2004, accumulated interest expense capitalised in fixed assets amounted to Rmb29,465,000 (2003: Rmb28,349,000).

13 DEFERRED TAXATION

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

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
At 1st January	10,757	—
(Credited)/charged to profit and loss account (note 9)	(982)	10,757
At 31st December	9,775	10,757

The components of deferred tax assets are as follows:

	Provisions <i>Rmb'000</i>	Impairment of assets <i>Rmb'000</i>	Other <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2004	1,559	4,111	5,087	10,757
Charged/(credited) to profit and loss account	499	(2,594)	1,113	(982)
At 31st December, 2004	2,058	1,517	6,200	9,775

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

14 INVENTORIES

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Raw materials	966,490	572,935
Work in progress	207,253	105,166
Finished goods	246,110	115,943
Spare parts and consumables	121,414	98,715
	1,541,267	892,759

As at 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to Rmb74,213,000 (2003: Rmb81,275,000).

15 TRADE AND OTHER RECEIVABLES

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables (note (a))	367,965	213,834
Amounts due from fellow subsidiaries (note (b))	60,769	57,865
Prepayments and deposits	141,442	78,534
Other receivables	46,485	28,601
	616,661	378,834

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

15 TRADE AND OTHER RECEIVABLES *(continued)*

- (a) The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a 3-month credit period.

The ageing analysis of trade receivables as at 31st December 2004 is as follows:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 3 months	247,467	180,356
Between 3 months and 1 year	118,233	30,307
Between 1 and 2 years	2,148	2,234
Between 2 and 3 years	117	937
	367,965	213,834

- (b) The analysis of amounts due from fellow subsidiaries as at 31st December 2004 is as follows:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Amounts due from fellow subsidiaries	63,479	60,575
Provision for doubtful debts	(2,710)	(2,710)
Amounts due from fellow subsidiaries - net	60,769	57,865

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

16 BANK BALANCES AND CASH

For the purposes of the cash flow statement, cash and cash equivalents comprises the following:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Bank balances and cash	961,832	1,346,583
Less: bank deposits with maturity of more than 3 months	(165,530)	—
Cash and cash equivalents	796,302	1,346,583

17 TRADE AND OTHER PAYABLES

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade payables (note (a))	792,859	523,367
Advances from customers	512,428	363,621
Amounts due to Holding Company and fellow subsidiaries (note (b))	55,445	58,226
Other payables	126,709	151,228
Value added tax and sundry taxes payable	65,190	136,374
	1,552,631	1,232,816

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

17 TRADE AND OTHER PAYABLES *(continued)*

(a) The ageing analysis of trade payables as at 31st December 2004 is as follows:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 6 months	495,145	251,050
Between 6 months and 1 year	269,577	250,993
Between 1 and 2 years	8,632	2,031
Between 2 and 3 years	1,247	1,699
Over 3 years	18,258	17,594
	792,859	523,367

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

18 SHORT-TERM BANK LOANS

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (note (a))	315,000	86,000
Unsecured bank loans (note (b))	250,900	409,900
	565,900	495,900

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

18 SHORT-TERM BANK LOANS (continued)

(a) The secured bank loans outstanding are secured by the Company's fixed assets with net book value of Rmb97,431,000 (2003: Rmb101,080,000) as at 31st December 2004 (note 12(a)) and the Holding Company's land (note 24(a)).

(b) The unsecured bank loans are guaranteed by the Holding Company (note 24(a)).

Interests are charged at rates ranging from 5.31% to 6.14% (2003: 5.49% to 6.34%) per annum on the above loans.

19 SHARE CAPITAL

	2004	2003
	<i>Rmb'000</i>	<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
	1,063,944	1,063,944

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

20 RESERVES

	Reserve					Total Rmb'000	Retained earnings Rmb'000
	Share premium Rmb'000	Capital surplus Rmb'000	Statutory	Statutory	Total		
			common reserve Rmb'000	provident fund Rmb'000			
At 1st January 2003	276,208	207,830	77,649	38,825	600,512	649,159	
Profit attributable to shareholders	—	—	—	—	—	977,039	
2002 final dividend paid	—	—	—	—	—	(85,116)	
Donation received							
from fellow subsidiaries	—	8,241	—	—	8,241	—	
Transfer to reserves (notes (a) and (b))	—	—	97,553	48,776	146,329	(146,329)	
At 31st December 2003	276,208	216,071	175,202	87,601	755,082	1,394,753	
Representing:							
2003 final dividend proposed (note 10)						212,789	
Other						1,181,964	
Retained earnings at 31st December 2003						1,394,753	
At 1st January 2004	276,208	216,071	175,202	87,601	755,082	1,394,753	
Profit attributable to shareholders	—	—	—	—	—	843,723	
2003 final dividend paid	—	—	—	—	—	(212,789)	
Transfer to reserves (notes (a) and (b))	—	—	85,802	42,901	128,703	(128,703)	
At 31st December 2004	276,208	216,071	261,004	130,502	883,785	1,896,984	
Representing:							
2004 final dividend proposed (note 10)						159,592	
Other						1,737,392	
Retained earnings at 31st December 2004						1,896,984	



NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

20 RESERVES *(continued)*

- (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.

In 2004, the directors recommended the transfer of 10% (2003: 10%) of the net profit for the year ended 31st December 2004 as determined under 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.

In 2004, the directors recommended the transfer of 5% (2003: 5%) of the net profit for the year ended 31st December 2004 as determined under PRC accounting regulations to the statutory provident fund.

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2004



Chongqing Iron & Steel Company Limited

21 LONG-TERM LIABILITIES *(continued)*

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Secured bank loans (note (a))	342,750	340,000
Unsecured bank loans (note (b))	867,295	627,000
	1,210,045	967,000
Less: Amounts due within one year included under current liabilities		
– Bank loans	(518,000)	(277,000)
	692,045	690,000

Note:

- (a) (i) Secured bank loans of Rmb214,000,000 (2003: Rmb145,000,000) are secured by the Company's fixed assets with net book value of Rmb97,431,000 (2003: Rmb101,080,000) as at 31st December 2004 (note 12(a)) and the Holding Company's land (note 24(a)).
- (ii) The loans of Rmb128,750,000 (2003: Rmb175,000,000) are secured by the Company's fixed assets with net book value of Rmb248,953,000 (2003: Rmb266,934,000) as at 31st December 2004 (note 12 (a));

Interests are charged at rates ranging from 5.28% to 6.73% (2003: 5.49% to 6.34%) per annum on the above loans.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

21 LONG-TERM LIABILITIES

(b) Included in the unsecured bank loans are loans of Rmb827,295,000 (2003: Rmb595,000,000) guaranteed by the Holding Company (note 24(a)).

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

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	518,000	277,000
In the second year	692,045	360,000
In the third to fifth year inclusive	—	330,000
	1,210,045	967,000

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

22 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit before taxation	872,156	967,781
Depreciation	206,327	219,896
Write back of provision for doubtful debts	(8,600)	(35,875)
Provision for obsolete inventories	10,000	10,780
Impairment of fixed assets	—	31,499
Loss on disposal of fixed assets	26,218	35,481
Operating profit before working capital changes	1,106,101	1,229,562
Increase in inventories	(658,508)	(25,593)
(Increase)/decrease in trade and other receivables	(229,227)	37,583
Increase/(decrease) in trade and other payables	300,507	(10,189)
Interest income	(8,450)	(7,443)
Interest expense	91,211	74,599
Net cash inflow generated from operations	601,634	1,298,519

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

22 NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing

	Bank loans <i>Rmb'000</i>	Amount due to Holding Company <i>Rmb'000</i>	Pledged bank deposit <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January 2003	1,022,530	18,646	(3,000)	1,038,176
Net cash inflows/(outflows) from financing	440,370	(18,646)	3,000	424,724
At 31st December 2003	1,462,900	—	—	1,462,900
At 1st January 2004	1,462,900	—	—	1,462,900
Net cash inflows from financing	313,045	—	—	313,045
At 31st December 2004	1,775,945	—	—	1,775,945

23 COMMITMENTS

(a) Capital commitments for fixed assets

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Contracted but not provided for	1,050,082	364,779
Authorised but not contracted for	325,494	167,142
	1,375,576	531,921



23 COMMITMENTS *(continued)*

(b) Operating lease commitments

At 31st December 2004, the future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Within one year	13,313	13,893
In the second to fifth year inclusive	52,780	52,792
After the fifth year	495,837	509,030
	561,930	575,715

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 expiring in approximately 44 years. At 31st December 2004, the Company had future aggregate minimum lease payments under such operating leases amounting to Rmb561,802,000 (2003: Rmb574,995,000).

24 RELATED PARTY TRANSACTIONS

- (a) The Company's secured short term bank loans of Rmb315,000,000 (2003: Rmb86,000,000) (note 18(a)) and long term bank loans of Rmb214,000,000 (2003: Rmb145,000,000) (note 21(a)) at 31st December 2004 are secured by the Holding Company's land and certain fixed assets of the Company.

In addition to the above, the Company's unsecured short-term bank loans of Rmb250,900,000 (2003: Rmb409,900,000) (note 18(b)) and long-term bank loans of Rmb827,295,000 (2003: Rmb595,000,000) (note 21(b)) at 31st December 2004 are guaranteed by the Holding Company.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

24 RELATED PARTY TRANSACTIONS *(continued)*

- (b) 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 year:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Income		
Sales to fellow subsidiaries (note (i))	903,244	660,510
Fees received for supporting services (note (ii))	3,298	1,377
Expenditure		
Fees paid for supporting services (note (iii))	173,308	303,313
Purchase of raw materials and spare parts (note (iv))	938,679	691,718
Purchase of fixed assets (note (v))	284,251	67,780
Rental for land leases (note (vi))	14,521	12,998
Rental for office premises (note (vii))	—	2,236
Social welfare expenses and retirement benefit contribution paid through the Holding Company to schemes administrated by the municipal government (note (viii))	10,644	9,491
Staff welfare expenses and retirement benefit contribution paid to defined contribution schemes administered by the Holding Company	76,782	84,332
Donation received from fellow subsidiaries	—	8,909

24 RELATED PARTY TRANSACTIONS *(continued)*

- (b) (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.
- (vii) Rental expenses for office premises were determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (viii) For social welfare expenses and retirement benefit contribution which were paid through the Holding Company, no handling fee was charged by the Holding Company.



NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2004

Chongqing Iron & Steel Company Limited

25 POST BALANCE SHEET DATE EVENT

On 10th March 2005, the board of directors approved the Company's application to issue Renminbi common shares (A shares) to the public. The resolution is subject to the shareholders' approval in the upcoming annual general meeting.

26 ULTIMATE HOLDING COMPANY

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

27 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 10th March 2005.