

## CONDENSED INTERIM BALANCE SHEET

|  |   | <b>30th June</b> | 31st December |
|--|---|------------------|---------------|
|  |   | <b>2006</b>      | 2005          |
|  |   | <b>Unaudited</b> | Audited       |
| Note   |   | <b>RMB'000</b>   | RMB'000       |
| <b>ASSETS</b>  |   |                  |               |
| <b>Non-current assets</b>  |   |                  |               |
| Tangible and intangible assets                                   | 5 | <b>5,470,669</b> | 5,082,027     |
| Available-for-sale financial asset                               |   | <b>5,000</b>     | 5,000         |
| Deferred income tax assets                                       |   | <b>2,467</b>     | 2,493         |
| Trade and other receivables                                      |   | <b>67,100</b>    | 71,600        |
|  |   | <hr/>            | <hr/>         |
| <b>Total non-current assets</b>                                  |   | <b>5,545,236</b> | 5,161,120     |
| <b>Current assets</b>  |   |                  |               |
| Inventories  |   | <b>1,686,714</b> | 1,849,341     |
| Trade and other receivables                                      | 6 | <b>649,802</b>   | 636,878       |
| Prepayment for income tax  |   | <b>13,750</b>    | 20,378        |
| Bank deposits with maturity over<br>3 months and restricted cash |   | <b>54,959</b>    | 13,342        |
| Cash and cash equivalents  |   | <b>455,746</b>   | 451,220       |
|  |   | <hr/>            | <hr/>         |
| <b>Total current assets</b>                                      |   | <b>2,860,971</b> | 2,971,159     |
|  |   | <hr/>            | <hr/>         |
| <b>Total assets</b>  |   | <b>8,406,207</b> | 8,132,279     |
|  |   | <hr/> <hr/>      | <hr/> <hr/>   |



**CONDENSED INTERIM BALANCE SHEET (CONTINUED)**

|   | Note | 30th June<br>2006<br>Unaudited<br>RMB'000 | 31st December<br>2005<br>Audited<br>RMB'000 |
|---|------|---|---|
| <b>EQUITY</b>   |      |   |   |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |   |   |
| Share capital   | 7    | 1,383,127                                 | 1,063,944                                   |
| Other reserves  |      | 922,720                                   | 922,720                                     |
| Retained earnings   |      |   |   |
| - Proposed interim / final dividend                                       |      | 110,650                                   | 159,592                                     |
| - Others  |      | 1,368,220                                 | 1,769,668                                   |
| <b>Total equity</b>   |      | <b>3,784,717</b>                          | <b>3,915,924</b>                            |
| <b>LIABILITIES</b>  |      |   |   |
| <b>Non-current liabilities</b>  |      |   |   |
| Borrowings  | 8    | 407,000                                   | 705,000                                     |
| Deferred income   |      | 8,130                                     | 10,154                                      |
| Trade and other payables  |      | 227,838                                   | 126,144                                     |
| <b>Total non-current liabilities</b>                                      |      | <b>642,968</b>                            | <b>841,298</b>                              |
| <b>Current liabilities</b>  |      |   |   |
| Trade and other payables  | 9    | 1,821,366                                 | 1,468,247                                   |
| Borrowings  | 8    | 2,157,156                                 | 1,906,810                                   |
| <b>Total current liabilities</b>  |      | <b>3,978,522</b>                          | <b>3,375,057</b>                            |
| <b>Total liabilities</b>  |      | <b>4,621,490</b>                          | <b>4,216,355</b>                            |
| <b>Total equity and liabilities</b>                                       |      | <b>8,406,207</b>                          | <b>8,132,279</b>                            |
| <b>Net current liabilities</b>  |      | <b>(1,117,551)</b>                        | <b>(403,898)</b>                            |
| <b>Total assets less current liabilities</b>                              |      | <b>4,427,685</b>                          | <b>4,757,222</b>                            |

The notes on pages 31 to 56 form an integral part of this condensed interim financial information.

**CONDENSED INTERIM INCOME STATEMENT**

|  | Note | Six months ended 30th June |             |
|--|------|----------------------------|-------------|
|  |      | 2006                       | 2005        |
|  |      | Unaudited                  | Unaudited   |
|  |      | RMB'000                    | RMB'000     |
| Sales  |      | <b>4,420,427</b>           | 4,705,291   |
| Cost of goods sold   |      | <b>(4,118,740)</b>         | (3,981,364) |
| <b>Gross profit</b>  |      | <b>301,687</b>             | 723,927     |
| Other gains / (losses) - net   |      | <b>14,655</b>              | (16,601)    |
| Selling and marketing costs  |      | <b>(85,023)</b>            | (71,128)    |
| Administrative expenses  |      | <b>(99,853)</b>            | (123,539)   |
| <b>Operating profit</b>  |      | <b>131,466</b>             | 512,659     |
| Finance costs  |      | <b>(96,427)</b>            | (50,443)    |
| <b>Profit before income tax</b>  |      | <b>35,039</b>              | 462,216     |
| Income tax expense   | 11   | <b>(6,654)</b>             | (69,652)    |
| <b>Profit for the half-year</b>  |      | <b>28,385</b>              | 392,564     |
| <b>Attributable to:</b>  |      |                            |             |
| Equity holders of the Company  |      | <b>28,385</b>              | 392,564     |
| <b>Earnings per share for profit attributable to the equity holders of the Company</b> |      |                            |             |
| - basic and diluted  | 12   | <b>RMB0.021</b>            | RMB0.284    |
| <b>Dividends</b>   | 13   | <b>110,650</b>             | —           |

The notes on pages 31 to 56 form an integral part of this condensed interim financial information.



## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

|                                    | Note | Attributable to equity holders of the Company |                |                   |                  |
|------------------------------------|------|---|----------------|-------------------|------------------|
|                                    |      | Share capital                                 | Other reserves | Retained earnings | Total equity     |
|                                    |      | Unaudited                                     | Unaudited      | Unaudited         | Unaudited        |
|                                    |      | RMB'000                                       | RMB'000        | RMB'000           | RMB'000          |
| <b>Balance at 1st January 2005</b> |      | 1,063,944                                     | 883,785        | 1,896,984         | 3,844,713        |
| - Profit for the half-year         |      | —   | —              | 392,564           | 392,564          |
| - Dividend relating to 2004        | 13   | —   | —              | (159,592)         | (159,592)        |
| <b>Balance at 30th June 2005</b>   |      | <u>1,063,944</u>                              | <u>883,785</u> | <u>2,129,956</u>  | <u>4,077,685</u> |
| <b>Balance at 1st January 2006</b> |      | 1,063,944                                     | 922,720        | 1,929,260         | 3,915,924        |
| - Profit for the half-year         |      | —   | —              | 28,385            | 28,385           |
| - Dividend relating to 2005        | 13   | —   | —              | (159,592)         | (159,592)        |
| - Appropriation of share dividend  |      | 319,183                                       | —              | (319,183)         | —                |
| <b>Balance at 30th June 2006</b>   |      | <u>1,383,127</u>                              | <u>922,720</u> | <u>1,478,870</u>  | <u>3,784,717</u> |

The notes on pages 31 to 56 form an integral part of this condensed interim financial information.

**CONDENSED INTERIM CASH FLOW STATEMENT**

|   | <b>Six months ended 30th June</b> |           |
|---|-----------------------------------|-----------|
|   | <b>2006</b>                       | 2005      |
|   | <b>Unaudited</b>                  | Unaudited |
|   | <b>RMB'000</b>                    | RMB'000   |
| <b>Cash flows from operating activities</b>                     | <b>364,396</b>                    | 479,285   |
| <b>Cash flows from investing activities:</b>                    |                                   |           |
| - purchases of property,<br>plant and equipment                 | <b>(423,710)</b>                  | (783,884) |
| - proceeds on disposal of property,<br>plant and equipment      | <b>1,314</b>                      | 2,902     |
| - other investing cash flow - net                               | <b>—</b>                          | 82,765    |
| <b>Cash flows used in investing<br/>activities - net</b>        | <b>(422,396)</b>                  | (698,217) |
| <b>Cash flows from financing activities:</b>                    |                                   |           |
| - dividends paid  | <b>(97,500)</b>                   | (159,592) |
| - repayments of borrowings                                      | <b>(948,792)</b>                  | (625,600) |
| - new additions of borrowings                                   | <b>901,138</b>                    | 1,191,600 |
| - other finance cash flows - net                                | <b>207,680</b>                    | 5,053     |
| <b>Cash flows generated from<br/>financing activities - net</b> | <b>62,526</b>                     | 411,461   |
| <b>Net increase in cash and<br/>cash equivalents</b>            | <b>4,526</b>                      | 192,529   |
| Cash and cash equivalents<br>at beginning of period             | <b>451,220</b>                    | 796,302   |
| <b>Cash and cash equivalents<br/>at end of period</b>           | <b>455,746</b>                    | 988,831   |

The notes on pages 31 to 56 form an integral part of this condensed interim financial information.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

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 (the "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 of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), 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 has its primary listing on The Stock Exchange of Hong Kong Limited since 17th October 1997.

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.

The Company is principally engaged in the manufacture and sale of steel products.

The address of the Company's registered office is No. 30, Gangtie Road, Dadukou District, Chongqing, the PRC.

This unaudited condensed interim financial information was approved for issue on 30th August 2006.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 2 BASIS OF PREPARATION

This condensed interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with HKAS 34, 'Interim financial report'. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

### 3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005, as described in the annual financial statements for the year ended 31st December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006.

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Company;
- Amendment to HKAS 39, Amendment 'The fair value option', effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Company;



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 3 ACCOUNTING POLICIES (CONTINUED)

- Amendment to HKAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Company;
- Amendment to HKAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Company;
- Amendment to HKAS 39 and HKFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Company;
- HKFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1st January 2006. This standard is not relevant for the Company;





## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 3 ACCOUNTING POLICIES (CONTINUED)

- HKFRIC - Int 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1st January 2006. The Company has reviewed its contracts and concluded no material contracts to be accounted for as leases;
- HKFRIC - Int 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Company; and
- HKFRIC - Int 6, 'Liabilities arising from participating in a specific market - waste, electrical and electronic equipment', effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant for the Company.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HKFRIC - Int - 7, 'Applying the Restatement Approach under HKFRS - 29', effective for annual periods beginning on or after 1st March 2006. Management do not expect the interpretation to be relevant for the Company;



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

### 3 ACCOUNTING POLICIES *(CONTINUED)*

- HKFRIC - Int - 8, 'Scope of HKFRS - 2', effective for annual periods beginning on or after 1st May 2006. Management do not expect the interpretation to be relevant for the Company;
- HKFRIC - Int - 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1st June 2006. Management do not expect the interpretation to be relevant for the Company; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1st January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1st January 2007. The Company assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Company will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 4 REVENUE AND SEGMENT INFORMATION

|                        | Six months ended 30th June |                         |
|------------------------|----------------------------|-------------------------|
|                        | 2006                       | 2005                    |
|                        | Unaudited                  | Unaudited               |
|                        | RMB'000                    | RMB'000                 |
| Sale of steel products | <b>4,172,698</b>           | 4,454,266               |
| Other sales            | <b>247,729</b>             | 251,025                 |
|                        | <b><u>4,420,427</u></b>    | <b><u>4,705,291</u></b> |

The Company mainly conducts its business within one business segment - the business of manufacture and sale of steel products in the PRC. No segment statement of income has been prepared by the Company for the six months ended 30th June 2006. The Company also mainly operates within one geographical segment because its revenue is primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 5 CAPITAL EXPENDITURE

|  | <b>Tangible and<br/>intangible assets</b> |
|--|---|
|  | <b>Unaudited</b>                          |
|  | <i>RMB'000</i>                            |
| <b>Six months ended 30th June 2005</b>             |   |
| <b>Opening net book amount 1st January 2005</b>    | 4,066,299                                 |
| Additions  | 786,554                                   |
| Disposals  | (21,714)                                  |
| Depreciation, amortisation and impairment          | (112,564)                                 |
|  | <u>4,718,575</u>                          |
| <b>Closing net book amount 30th June 2005</b>      |   |
|  | <u><u>4,718,575</u></u>                   |
| <b>Six months ended 30th June 2006</b>             |   |
| <b>Opening net book amount at 1st January 2006</b> | 5,082,027                                 |
| Additions  | 510,204                                   |
| Disposals  | (47)                                      |
| Depreciation and amortisation                      | (121,515)                                 |
|  | <u>5,470,669</u>                          |
| <b>Closing net book amount at 30th June 2006</b>   | <u><u>5,470,669</u></u>                   |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 6 TRADE RECEIVABLES

The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a 1-month credit period. The ageing analysis of accounts receivables (including amounts due from related parties of trading in nature) as at 30th June 2006 and 31st December 2005 is as follows:

|                            | As at                                     |   |
|----------------------------|---|---|
|                            | 30th June<br>2006<br>Unaudited<br>RMB'000 | 31st December<br>2005<br>Audited<br>RMB'000 |
| Within 3 months            | 323,470                                   | 108,323                                     |
| Between 3 month and 1 year | 184,379                                   | 37,125                                      |
| Between 1 and 2 years      | 17,115                                    | 5,742                                       |
| Between 2 and 3 years      | 2,517                                     | 11,589                                      |
| Over 3 years               | 163,192                                   | 154,586                                     |
|                            | <b>690,673</b>                            | 317,365                                     |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 7 SHARE CAPITAL

|   | Number of<br>shares<br>(‘000) | Registered, issued and fully paid:                    |   |                             |
|---|-------------------------------|---|---|-----------------------------|
|   |                               | State-owned   |   | Total                       |
|   | Unaudited                     | shares of<br>RMB1 each<br>Unaudited<br><i>RMB'000</i> | H shares of<br>RMB1 each<br>Unaudited<br><i>RMB'000</i> | Unaudited<br><i>RMB'000</i> |
| At 30th June 2005 and<br>1st January 2005 | <u>1,063,944</u>              | <u>650,000</u>  | <u>413,944</u>  | <u>1,063,944</u>            |
| At 1st January 2006                       | 1,063,944                     | 650,000   | 413,944   | 1,063,944                   |
| Appropriation of<br>bonus shares          | <u>319,183</u>                | <u>195,000</u>  | <u>124,183</u>  | <u>319,183</u>              |
| At 30th June 2006                         | <u>1,383,127</u>              | <u>845,000</u>  | <u>538,127</u>  | <u>1,383,127</u>            |

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

Pursuant to the resolution approved by the Annual General Meeting held on 9th June 2006, a bonus share dividend of 3 (2005: nil) shares per 10 shares, totalling bonus shares of 319,183,000 shares (2005: nil) was appropriated from the Company's retained earnings.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 8 BORROWINGS

|             | <b>As at</b>            |                  |
|-------------|-------------------------|------------------|
|             | <b>30th June</b>        | 31st December    |
|             | <b>2006</b>             | 2005             |
|             | <b>Unaudited</b>        | Audited          |
|             | <b>RMB'000</b>          | RMB'000          |
| Non-current | <b>407,000</b>          | 705,000          |
| Current     | <b>2,157,156</b>        | 1,906,810        |
|             | <b><u>2,564,156</u></b> | <u>2,611,810</u> |

Movements in borrowings is analysed as follows:

|  | <b>Unaudited</b>        |
|--|-------------------------|
|  | <i>RMB'000</i>          |
| <b>Six months ended 30th June 2005</b>     |                         |
| Opening amount as at 1st January 2005      | 1,775,945               |
| New borrowings from banks                  | 1,191,600               |
| Repayments of borrowings                   | <u>(625,600)</u>        |
| <b>Closing amount as at 30th June 2005</b> | <b><u>2,341,945</u></b> |
| <b>Six months ended 30th June 2006</b>     |                         |
| Opening amount 1st January 2006            | 2,611,810               |
| New borrowings from banks                  | 901,138                 |
| Repayments of borrowings                   | <u>(948,792)</u>        |
| <b>Closing amount as at 30th June 2006</b> | <b><u>2,564,156</u></b> |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 8 BORROWINGS (CONTINUED)

Interest expense on borrowings for the six months ended 30th June 2006 is RMB83,282,000 (six months ended 30th June 2005: RMB50,443,000).

### 9 TRADE PAYABLES

As at 30th June 2006, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) is as follows:

|                             | As at                                     |   |
|-----------------------------|---|---|
|                             | 30th June<br>2006<br>Unaudited<br>RMB'000 | 31st December<br>2005<br>Audited<br>RMB'000 |
| Within 6 months             | 347,298                                   | 687,168                                     |
| Between 6 months and 1 year | 511,872                                   | 189,514                                     |
| Between 1 and 2 years       | 9,866                                     | 4,955                                       |
| Between 2 and 3 years       | 2,125                                     | 1,744                                       |
| Over 3 years                | 16,853                                    | 15,791                                      |
|                             | <b>888,014</b>                            | 899,172                                     |





## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 10 OPERATING PROFIT

The following items have been credited / charged to the operating profit during the interim period:

|   | Six months ended 30th June |               |
|---|----------------------------|---------------|
|   | 2006                       | 2005          |
|   | Unaudited                  | Unaudited     |
|   | RMB'000                    | RMB'000       |
| Provision for impairment of receivables<br>(Written-back of provision) / Provision<br>for impairment of inventories | 6,334                      | —             |
| Provision for impairment of property,<br>plant and equipment  | (8,796)                    | 8,207         |
| Loss on disposal of property,<br>plant and equipment  | —                          | 5,555         |
|   | <u>(1,267)</u>             | <u>18,811</u> |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 11 INCOME TAXES

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for 2006 is 15% (2005: 15%).

|                        | Six months ended 30th June |               |
|------------------------|----------------------------|---------------|
|                        | 2006                       | 2005          |
|                        | Unaudited                  | Unaudited     |
|                        | RMB'000                    | RMB'000       |
| Current PRC income tax | 6,628                      | 77,202        |
| Deferred income tax    | 26                         | (7,550)       |
|                        | <u>6,654</u>               | <u>69,652</u> |

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 2006 (six months ended 30th June 2005: nil).

### 12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company of RMB28,385,000 (six months ended 30th June 2005: RMB392,564,000) by the weighted average number of ordinary shares in issue during the half-year period of 1,383,127,000 shares (six months ended 30th June 2005: 1,383,127,000 shares).



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 12 EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share equals to basic earnings per share as there are no potential dilutive shares outstanding as at 30th June 2006 (30th June 2005: nil).

### 13 DIVIDENDS

A 2005 final dividend of RMB0.15 (2004 final: RMB0.20) per share, totalling RMB159,592,000 (2004 final: RMB212,789,000).

A dividend of RMB0.08 per share amounting to a dividend of RMB110,650,000 was proposed on 30th August 2006 by the Board of Directors. This interim financial report does not reflect this dividend payable, which will be recognised in shareholders' equity as an appropriation of retained earnings in the year ending 31st December 2006.

|   | <b>Six months ended 30th June</b> |           |
|---|-----------------------------------|-----------|
|   | <b>2006</b>                       | 2005      |
|   | <b>Unaudited</b>                  | Unaudited |
|   | <b>RMB'000</b>                    | RMB'000   |
| Interim, proposed, of RMB0.08 per share<br>(six months ended 30th June 2005: nil) | <b>110,650</b>                    | —         |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 14 CONTINGENT LIABILITIES

As at 30th June 2006, the Company had no material contingent liabilities.

### 15 RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

- (a) The Company's bank borrowings of RMB613,650,000 (31st December 2005: RMB625,000,000) as at 30th June 2006 are secured by certain parcels of land use right of the Holding Company together with certain property, plant and equipment of the Company.

In addition to the above, as at 30th June 2006 the Company's bank borrowings of RMB921,000,000 (31st December 2005: RMB1,336,900,000) are guaranteed by the Holding Company.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 15 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 its fellow subsidiaries during the first half year:

|  | Six months ended 30th June |           |
|--|----------------------------|-----------|
|  | 2006                       | 2005      |
|  | Unaudited                  | Unaudited |
|  | RMB'000                    | RMB'000   |
| Income   |                            |           |
| Sales to fellow subsidiaries of the Holding Company (Note (ii))  | 404,477                    | 514,823   |
| Fees received for supporting services (Note (iii))   | 1,572                      | 1,573     |
| Fees received for lease rental (Note (iii))  | 455                        | —         |
| Expenditure  |                            |           |
| Fees paid for supporting services (Note (iv))  | 114,276                    | 117,749   |
| Purchase of raw materials and spare parts (Note (v))   | 620,137                    | 480,590   |
| Purchase of property, plant and equipment (Note (vi))  | 61,457                     | 83,762    |
| Rental for land (Note (vii))   | 8,608                      | 7,200     |
| Social welfare expenses paid through the Holding Company to schemes administered by the PRC government (Note (viii))   | 21,372                     | 7,358     |
| Staff welfare expenses and supplementary retirement benefit contribution paid to defined contribution retirement schemes administered by the Holding Company | 16,441                     | 38,670    |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

### 15 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 its fellow subsidiaries during the first half year: *(CONTINUED)*
- (i) Sales to the fellow subsidiaries were made at prices determined by reference to those charged to other third party customers of the Company or the prices as prescribed by the relevant Chongqing government departments.
- (ii) Fees received for supporting services mainly represent fees charged to the fellow subsidiaries for internal railway transportation services at prices determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 15 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 its fellow subsidiaries during the first half year: (CONTINUED)
- (iii) Fees received for lease rental mainly represents fee charged to the fellow subsidiaries for the lease of the Company's factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.
- (iv) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by the fellow subsidiaries. These services were charged at prices determined by reference to transactions of a similar nature contracted with other third party customers of the fellow subsidiaries or a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries, or prices prescribed by the relevant Chongqing government departments.



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 15 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 its fellow subsidiaries during the first half year:  
(CONTINUED)
  - (v) 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 fellow subsidiaries or a profit mark-up above the cost of providing such products as agreed between the Company and the fellow subsidiaries, or the prices offered by suppliers of such spare parts.
  - (vi) Purchase of property, plant and equipment was made at prices determined by reference to the prices offered by suppliers of such equipments.
  - (vii) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.





## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 15 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 its fellow subsidiaries during the first half year: (CONTINUED)

(viii) For social welfare expenses which were paid through the Holding Company, no handling fee was charged by the Holding Company.

(c) Key management compensation

|  | Six months ended 30th June |              |
|--|----------------------------|--------------|
|  | 2006                       | 2005         |
|  | Unaudited                  | Unaudited    |
|  | RMB'000                    | RMB'000      |
| Salaries and other short-term<br>employee benefits | <u>1,366</u>               | <u>1,256</u> |



## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 16 CAPITAL COMMITMENT FOR PROPERTY, PLANT AND EQUIPMENT

|                                   | As at                                     |   |
|-----------------------------------|---|---|
|                                   | 30th June<br>2006<br>Unaudited<br>RMB'000 | 31st December<br>2005<br>Audited<br>RMB'000 |
| Contracted but not provided for   | 1,297,510                                 | 525,956                                     |
| Authorised but not contracted for | 390,781                                   | 501,973                                     |
|                                   | <u>1,688,291</u>                          | <u>1,027,929</u>                            |

### 17 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As at 30th June 2006, except those disclosed in other notes of the condensed interim financial information, the Company had no material events after the balance sheet date.

