

# BALANCE SHEET

As at 31st December 2006

Assets	Note	31st December 2006 Rmb'000	31st December 2005 Rmb'000
<b>Current assets</b>			
Cash at bank and in hand	(IV)(1)	<b>377,642</b>	464,562
Notes receivable	(IV)(2)	<b>350,504</b>	387,540
Accounts receivable	(IV)(3)(a)	<b>179,398</b>	160,953
Other receivables	(IV)(3)(b)	<b>11,003</b>	14,781
Prepayments	(IV)(4)	<b>147,156</b>	73,604
Inventories	(IV)(5)	<b>2,146,968</b>	1,849,341
<b>Total current assets</b>		<b>3,212,671</b>	2,950,781
Long-term equity investment	(IV)(6)	<b>5,000</b>	5,000
<b>Fixed Assets</b>			
Fixed assets, cost		<b>7,496,438</b>	6,112,530
Less: accumulated depreciation		<b>(2,718,244)</b>	(2,493,939)
Fixed assets, net		<b>4,778,194</b>	3,618,591
Less: Provision for impairment on fixed assets		<b>(10,329)</b>	(13,095)
Fixed assets, net book value	(IV)(7)	<b>4,767,865</b>	3,605,496
Construction materials	(IV)(8)	<b>108,218</b>	148,255
Construction in progress	(IV)(9)	<b>671,926</b>	1,311,874
<b>Total fixed assets</b>		<b>5,548,009</b>	5,065,625
<b>Intangible assets and other assets</b>			
Intangible assets	(IV)(10)	<b>10,215</b>	11,025
Other long-term assets	(IV)(11)	<b>62,600</b>	71,600
<b>Total intangible assets and other assets</b>		<b>72,815</b>	82,625
Deferred tax assets	(IV)(12)	<b>2,938</b>	2,493
<b>Total assets</b>		<b>8,841,433</b>	8,106,524

# BALANCE SHEET (CONTINUED)

As at 31st December 2006

Liabilities and shareholders' equity	Note	31st December 2006 Rmb'000	31st December 2005 Rmb'000
<b>Current liabilities</b>			
Short-term loans	(IV)(13)	<b>1,826,653</b>	1,189,900
Notes payable	(IV)(14)	<b>110,000</b>	125,000
Accounts payable	(IV)(15)	<b>1,073,647</b>	774,172
Advances from customers	(IV)(16)	<b>658,523</b>	443,733
Wages payable		<b>16,296</b>	30,003
Staff welfare		—	1,562
Taxes payable/(prepaid)	(IV)(17)	<b>32,176</b>	(3,521)
Other payables	(IV)(18)	<b>90,640</b>	78,613
Current portion of long-term loans	(IV)(19)	<b>521,000</b>	716,910
<b>Total current liabilities</b>		<b>4,328,935</b>	3,356,372
<b>Long-term liabilities</b>			
Long-term loans	(IV)(19)	<b>295,000</b>	705,000
Grants payable	(IV)(20)	<b>15,981</b>	6,990
Other long-term liabilities	(IV)(21)	<b>210,000</b>	110,000
<b>Total long-term liabilities</b>		<b>520,981</b>	821,990
<b>Total liabilities</b>		<b>4,849,916</b>	4,178,362
<b>Shareholders' equity</b>			
Share capital	(IV)(22)	<b>1,383,127</b>	1,063,944
Capital surplus	(IV)(23)	<b>546,333</b>	527,573
Surplus reserve	(IV)(24)	<b>461,925</b>	430,441
Including: statutory public welfare fund	(IV)(24)	—	143,480
Undistributed profit	(IV)(25)	<b>1,600,132</b>	1,906,204
Including: proposed distributed cash dividend		<b>173,313</b>	159,592
<b>Total shareholders' equity</b>		<b>3,991,517</b>	3,928,162
<b>Total liabilities and shareholders' equity</b>		<b>8,841,433</b>	8,106,524

The accompanying notes form an integral part of the financial statements.

# PROFIT STATEMENT

Items	Note	31st December 2006 Rmb'000	31st December 2005 Rmb'000
I. Revenue from principal operations	(IV)(26)	<b>9,612,897</b>	8,856,126
Less: Cost of principal operations	(IV)(27)	<b>(8,747,813)</b>	(8,129,125)
II. Profit from principal operations		<b>865,084</b>	727,001
Add: Other operating profit		<b>9,558</b>	10,922
Less: Selling and distribution expenses		<b>(195,785)</b>	(150,380)
General and administrative expenses		<b>(196,530)</b>	(177,598)
Financial costs, net	(IV)(28)	<b>(163,173)</b>	(117,009)
III. Operating profit		<b>319,154</b>	292,936
Add: Non-operating income	(IV)(29)	<b>3,458</b>	18,971
Less: Non-operating expenses	(IV)(30)	<b>(6,682)</b>	(19,668)
IV. Total profit		<b>315,930</b>	292,239
Less: Income tax	(III)(1)	<b>(1,093)</b>	(32,663)
V. Net profit		<b>314,837</b>	259,576

The accompanying notes form an integral part of the financial statements.

# PROFIT DISTRIBUTION STATEMENT

Items	Note	31st December 2006 Rmb'000	31st December 2005 Rmb'000
I. Net profit		<b>314,837</b>	259,576
Add: Undistributed profit at the beginning of the year		<b>1,906,204</b>	1,845,155
II. Distributable profit		<b>2,221,041</b>	2,104,731
Less: Transfer to statutory surplus reserve	(IV)(24)	<b>(31,484)</b>	(25,957)
Transfer to statutory public welfare fund	(IV)(24)	—	(12,978)
III. Profit distributable to shareholders		<b>2,189,557</b>	2,065,796
Less: Dividends payable on ordinary share	(IV)(25)	<b>(270,242)</b>	(159,592)
Transfer to share capital	(IV)(25)	<b>(319,183)</b>	—
IV. Undistributed profit	(IV)(25)	<b>1,600,132</b>	1,906,204

The accompanying notes form an integral part of the financial statements.

# CASH FLOW STATEMENT

Items	Note	2006 Rmb'000
I. Cash flows from operating activities		
Cash received from sales of goods and rendering of services		11,611,533
Other cash received relating to operating activities		1,372
Sub-total of cash inflows		11,612,905
Cash paid for goods and services		(9,011,738)
Cash paid to and on behalf of employees		(582,011)
Tax payments		(521,114)
Other cash paid relating to operating activities	(IV)(31)	(643,811)
Sub-total of cash outflows		(10,758,674)
Net cash flows from operating activities		854,231
II. Cash flows from investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,686
Other cash received relating to investing activities		4,435
Sub-total of cash inflows		8,121
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(612,408)
Sub-total of cash outflows		(612,408)
Net cash flows from investing activities		(604,287)
III. Cash flows from financing activities		
Cash received from borrowings		2,676,357
Sub-total of cash inflows		2,676,357
Repayments of borrowings		(2,620,000)
Dividends paid, profit distributed or interests paid		(443,749)
Sub-total of cash outflows		(3,063,749)
Net cash flows from financing activities		(387,392)
IV. Effects of changes of exchange rate on cash		—
V. Net decrease in cash	(IV)(1)	(137,448)

## CASH FLOW STATEMENT (CONTINUED)

Supplementary Information	Note	2006 Rmb'000
I. Reconciliations of net profit to net cash flows from operating activities		
Net profit		314,837
Add: Provision for impairment of assets		9,904
Depreciation of fixed assets		260,187
Amortisation of intangible assets		810
Loss on disposal of fixed assets, intangible assets and other long-term assets		3,992
Financial expenses		169,072
Increase in deferred tax assets		(445)
Increase in inventories		(301,470)
Increase in operating receivables		(98,772)
Increase in operating payables		496,116
Net cash flows from operating activities		854,231
2. Investing and financing activities not involving cash settlement		—
3. Net decrease in cash		
Cash balance at the end of the year		313,772
Less: Cash balance at the beginning of the year		(451,220)
Net decrease in cash	(IV)(1)	(137,448)

The accompanying notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (I) Corporate Profile

With Chongqing Iron & Steel Company (Group) Limited (重慶鋼鐵(集團)有限責任公司) (the "Holding Company") as the sole promoter, Chongqing Iron & Steel Company Limited (the "Company") was established as part of the restructuring ("Restructuring") of the Holding Company in August 1997.

The Company is principally engaged in the manufacture and sale of medium-gauge steel plates, steel billets, steel sections, wire rods and coking by-products.

Pursuant to the Restructuring plan, the Company was established on 11st August 1997 and took over the principal iron and steel business and the relevant assets and liabilities and one of the subsidiaries of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), whereupon the Company issued 650,000,000 state-owned shares of Renminbi ("Rmb")1 each to the Holding Company. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17th October 1997.

In 2002, the Company acquired all assets and liabilities of Hengda and disposed of its entire interest of 230,898,000 legal person shares in Hengda (representing 69.51% of Hengda's total share capital) to the Holding Company. Following the disposal of Hengda, the Company does not have any subsidiary.

The Company's A shares were listed on the Shanghai Stock Exchange ("SSE") on 28th February 2007.

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) Basis of preparation

The financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" as promulgated by the State of the People's Republic of China.

### (2) Accounting period

The accounting period of the Company starts on 1st January and ends on 31st December.

### (3) Recording currency

The recording currency of the Company is the Rmb.

### (4) Basis of accounting and measurement bases

The Company follows the accrual basis of accounting. Assets were recorded at their actual costs when acquired. Subsequently, if they are impaired, impairment provisions will be made accordingly. The assets invested during the Restructuring were accounted for based on the revalued amount approved by the State Assets Management Bureau following the revaluation.

### (5) Foreign currency translation

Foreign currency transactions are translated into Rmb at the exchange rates stipulated by the People's Bank of China ("the stipulated exchange rates") at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the stipulated exchange rates at the balance sheet date. Exchange differences arising from these translations are expensed, except for those attributable to foreign currency borrowings that have been taken out specifically for the constructions of fixed assets, which are capitalized as part of the fixed asset costs.

### (6) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises all cash in hand and call deposits. Cash equivalents refer to short-term and highly-liquid investments with original maturities of these months or less that are readily convertible to known amounts and which are subject to an insignificant risk of changes in value.

### (7) Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables. The provision method is used to account for potential bad debts identified by the Company. Receivables is presented at actual amounts net of provision for bad debts.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (7) Receivables and provision for bad debts (Continued)

#### (a) Accounts receivable

The accounts receivable comprises related-party receivables and receivables from non-related parties ("third-party receivables").

The Company makes specific bad debts provision on an individual basis for related-party receivables and third-party receivables that are distinctively different from any other receivables in recoverability. A general provision for the remaining third-party receivables that have not been specifically provided for is made based on the ageing of receivables, at the following percentages:

Ageing	Ratio
Within 3 months	0%
4-12 months	5%
1-2 years	25%
2-3 years	50%
Over 3 years	100%

#### (b) Other receivables

Specific provisions are made for other receivables on an individual basis.

#### (c) Recognition criteria of bad debts loss

Where evidence exists that balances cannot be recovered, e.g. the debtor is dissolved or declared bankruptcy or becomes insolvent or is badly in short of cash flows, the bad debts are recognized and the balances are written off against the provision for bad debts.

#### (d) Discounted notes

Where notes receivable are discounted to the financial institutions without recourse, the corresponding payment is recorded as cash received from customers. The difference between proceeds derived from the transaction, net of relevant taxes, and the carrying amounts of the notes receivable is expensed in the period.

### (8) Inventories

Inventories include raw materials, work in progress, finished goods and spare parts, and are presented at the lower of cost and net realisable value.

Inventories are recorded at actual cost. The cost of inventories are accounted for using the weighted average method. Cost of finished goods and work in progress comprise material costs, direct labour and an allocation of indirect production overhead expenditures incurred based on normal operating capacity.

Provision for inventories is calculated based on the lower of cost and net realisable value on an individual basis. As for certain inventories with similar use and relating to the manufactured and sold product series in the same region which is difficult to be differentiated from other items of the product series in revaluation, provision for decline in value is consolidated. As for inventories with low price and large quantities, provision for decline in value is provided according to different classes of the inventories. Net realisable value is the estimated selling price of inventories in the ordinary course of business, less the estimated costs to completion and the estimated costs necessary to conclude the sale.

The Company adopts perpetual inventory system.

### (9) Long-term equity investments

Long-term equity investments refer to equity investments that the Company intends to hold for more than one year.

Long-term equity investments are recorded at the actual cost of acquisition less cash dividends which have been declared but unpaid at the time of acquisition. The equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting, and investment gains are recognised when the investees declare dividends.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (9) Long-term equity investments (Continued)

When the recoverable amount is lower than the carrying values for individual long-term investment due to the stagnancy of investees' operation, impairment provision is accrued for the difference. The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting any incremental direct disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

### (10) Fixed assets and depreciation

Fixed assets refer to tangible assets used in production, held for rental to others, or held for management purposes, which have useful lives of more than one year and have relatively high unit price. Effective from 1st January 2001, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets being revalued during the Restructuring of the Company in 1997 are recorded at the revalued amount approved by the State Assets Management Bureau.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost or revalued amount of the assets to their residual values over their estimated useful lives. The value of land use rights corresponding to the years by which the estimated useful lives of land use rights are higher than the estimated useful lives of buildings, shall be made as the net residual value. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset are recalculated based on the asset's carrying amount and its remaining useful life.

The estimated useful lives, estimated residual values expressed as a percentage of cost and annual depreciation rates are as follows:

	Estimated useful lives	Net estimated residual values	Annual depreciation rates
Plant and buildings	40 -45 years	3%-20%	2% to 2.43%
Machinery and other equipment	8 -22 years	0%-3%	4.41% to 12.5%
Motor vehicles	8 years	3%	12.13%

When fixed assets are sold, transferred, disposed of or destroyed, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

Individual fixed assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss.

When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years.

# NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### (11) Construction in progress

Construction in progress represents fixed assets under construction or installation and is stated at cost. Cost comprises construction cost and other direct costs, original cost of plant and equipment and installation costs. Borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets are capitalized as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

Individual constructions in progress for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

### (12) Intangible assets

Intangible assets include land use rights and trademark use rights.

#### (a) Land use rights

Land use rights obtained through payment of land transfers fees are recorded at actual cost and are amortised on a straight-line basis over the estimated useful lives of 50 years. Effective from 1st January 2001, if construction takes place on the Company's land held for own use, the carrying value of the related land use rights is transferred to the construction in progress account.

#### (b) Trademark use rights

Cost of trademark use rights invested by the Holding Company during the Restructuring were accounted for based on the revalued amount approved by the State Assets Management Bureau and are amortized over 10 years.

#### (c) Provision for impairment of intangible assets

Individual intangible assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years.

### (13) Borrowing costs

Borrowing costs, including interest and exchange differences, incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalization of borrowing costs ceases when the assets are ready for their intended use. Borrowing costs incurred thereafter are recognized as expenses in the period in which they are incurred. If acquisition and construction of one item of fixed assets are abnormally discontinued for 3 months, interest is temporarily ceased to be capitalized until the restart of acquisition and construction of assets.

Auxiliary expenses as a result of special borrowings which are accrued after the fixed assets acquired or constructed come into an expected usable state will be accounted for the current period in which they are accrued.

Borrowing cost include interest calculated based on the weighted average cost of fixed assets purchased or constructed and the weighted average rate of related borrowings during the period. The amount of borrowing costs capitalised during the period should not exceed the interest amount of borrowing costs actually incurred during that period.

All other borrowing costs are expensed in the period when incurred.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (14) Provisions

Provisions are recognised when the Company has a present obligation as a result of product quality guarantee, external guarantee and pending litigation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are stated at the best estimated amount based on the relevant experience in the previous years.

### (15) Employee social security benefits

Employees of the Company participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the government authorities in accordance with relevant regulations. In addition, the Company also participated in the non-social retirement benefit plans organised by the Holding Company for employees.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Company are calculated based on percentages of the total salary of employees subject to a certain ceiling. Contributions to the plans are capitalized as costs or expensed as incurred. The premiums and welfare benefit contributions that should be borne by the Company are calculated based on the following percentages:

	Provision percentage
Basic pension insurance	20%
Basic housing fund	7%
Basic medical insurance	8%
Supplementary medical insurance	3%
Large amount medical insurance	1%
Unemployment insurance	2%
Occupational injury insurance	1%
Maternity insurance	0.7%

The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance and maternity insurance organised by labour and social security bodies, and makes welfare contribution to other non-social retirement benefit plans through the Holding Company. Save for the above security and benefit plans as required, the Company has no additional commitment to other pension or welfare benefits. The Holding Company is liable for payment of any other payable employee benefit and pension expense other than the above-mentioned benefit and pension expenses.

### (16) Dividends distribution

Distribution of cash dividends is recognized as a liability in the period when the profit appropriation plan is approved by the General Meeting of Shareholders.

### (17) Revenue recognition

#### (a) Sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the products are transferred to the customer, when the Company neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the enterprises and when the relevant amount of revenue and costs can measure sales revenue reliably.

#### (b) Other revenues are recognised on the following bases:

Revenue from transportation services is recognised after providing relevant services.

Interest income is recognised on a time basis taking into account deposit balances and effective yield.

Subsidy income is recognized when received.

Leasing income is recognised using the straight-line method over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (II) ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (18) Operating Lease

Lease of assets where all the risk and rewards incident to ownership of the assets are not in substance transferred to the leases are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

### (19) Accounting for income tax

The Company accounts for income taxes using the liability method under the deferred tax method. The timing difference in taxable income arises from the timing difference of recognition of revenue, expense or loss on tax and accounting basis. Cumulative income taxes at the end of each period are adjusted by applying the currently enacted tax rates on timing differences.

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which timing differences can be utilized within 3 years.

## (III) MAJOR TAXES

### (1) Enterprise income tax

	2006 Rmb'000	2005 Rmb'000
Enterprise income tax (a)	53,932	37,559
Reduction in income tax arising from the purchase of domestic manufactured equipment (b)	(52,394)	(12,178)
Income tax payable	1,538	25,381
Deferred income tax (c)	(445)	7,282
Income tax	1,093	32,663

(a) The Company is approved as a foreign-invested joint stock limited company under the approval ([1998] Wai Jing Mao Zi Er Han Zi No. 748) issued by the Ministry of Foreign Trade and Economic Cooperation of the PRC on 7th December 1998. 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 the "Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited" (Yu Guo Shui Han [2003] No. 57) issued by the State Administration of Taxation of Chongqing on 17th February 2003 and the "Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited" (Da Dukou Guo Shui Han [2003] No. 8) issued by the State Administration of Taxation of Da Dukou District, Chongqing on 21st February 2003. 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. The Company was exempted from local income tax in 2006 and 2005.

(b) The Company purchased certain domestic manufactured equipment during the period from 2004 to 2005. 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 the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company's enterprise income tax.

In accordance with the approval (Da Dukou Guo Shui Han [2006] No.3) on application for income tax reduction lodged by the Company relating to the purchase of domestic manufactured equipment in 2005 and the application form for the income tax reduction lodged by the Company relating to purchase of domestic manufactured equipment in 2006 both approved by the State Administration of Taxation of Da Dukou District, Chongqing, the Company is entitled to a tax reduction of Rmb170,821,000 during the period from 2005 to 2006. Of them, Rmb12,178,000 and Rmb52,394,000 were utilised to offset the Company's income tax liability for 2005 and 2006 respectively. The remaining Rmb24,542,000 approved in 2005 and Rmb81,707,000 approved in 2006 can be utilised to prospectively offset the additional enterprise income tax of each next year over the year in which the domestic manufactured equipment is purchased for a term not more than 5 years.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (III) MAJOR TAXES *(Continued)*

### (1) Enterprise income tax *(Continued)*

- (c) Deferred income tax is the impact balance of income tax adjusted based on the prevailing applicable tax rate arising from timing difference, including the following items:

	2006 Rmb'000	2005 Rmb'000
Deferred income tax		
— Provision for diminution in value of inventories and provision for bad debts of accounts receivables	445	(569)
— Deductible loss arising from inventory count in previous years approved by Administration of Taxation/ (Deductible loss of inventory count to be approved by Administration of Taxation)	—	(1,830)
— Deductible obsolescence of fixed assets in previous years approved by Administration of Taxation/ (Deductible obsolescence of fixed assets to be approved by Administration of Taxation)	—	(4,883)
	445	(7,282)

### (2) Value added tax

The Company is subject to value added tax with sales output rate of 17%. Input VAT from purchase of raw materials can be netted off against output VAT from sales. VAT payable is the net difference between output VAT and deductible input VAT.

### (3) Business tax

Business tax for the Company's rental income is payable at 5% of the taxable turnover.

## (IV) NOTES TO THE FINANCIAL STATEMENTS

### (1) Cash at bank and in hand

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Cash in hand	784	799
Cash at bank	303,229	449,981
Other cash balances (a)	73,629	13,782
	377,642	464,562

- (a) *Other cash balances:*

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Cash pledged as security for letter of credit	26,126	13,342
Cash pledged as security for notes payable	37,744	—
Cash in transit	9,759	440
	73,629	13,782

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (1) Cash at bank and in hand (Continued)

Bank balances and cash held in foreign currencies as at 31st December 2006 are as follows:

Currency	Amount	Exchange rate	Rmb equivalent Rmb'000
USD	75,396	7.8087	589
HKD	41,068	1.0047	41
			630

Cash stated in the cash flow statement includes the following:

	31st December 2006 Rmb'000
Cash at bank and in hand	377,642
Less: Cash pledged as security for letter of credit	(26,126)
Cash pledged as security for notes payable	(37,744)
Cash as at 31st December 2006	313,772
Less: Cash as at 31st December 2005	(451,220)
Net decrease in cash	(137,448)

### (2) Notes receivable

The Company's notes receivable as at 31st December 2006 are bank drafts.

As at 31st December 2006, the Company's notes receivable includes amounts due from related parties totalling Rmb35,078,000 (2005: Rmb31,463,000) (Note (V))(6)(b)).

### (3) Accounts receivable and other receivables

#### (a) Accounts receivable

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Amounts due from third parties (i)	107,737	95,635
Amounts due from related parties (ii)	71,661	65,318
	179,398	160,953

#### (i) Amounts due from third parties

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Amounts due from third parties	258,685	249,337
Less: General provision	(150,948)	(153,702)
	107,737	95,635

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (3) Accounts receivable and other receivables (Continued)

#### (a) Accounts receivable (Continued)

##### (i) Amounts due from third parties (Continued)

An ageing analysis of amounts due from third parties and general provision for bad debts is as follows:

	31st December 2006			31st December 2005		
	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000
Within 3 months	101,420	39	—	89,614	36	—
4-12 months	1,360	1	(68)	3,498	1	(175)
1-2 years	5,308	2	(1,327)	2,092	1	(523)
2-3 years	2,089	1	(1,045)	2,257	1	(1,128)
Over 3 years	148,508	57	(148,508)	151,876	61	(151,876)
	<b>258,685</b>	<b>100</b>	<b>(150,948)</b>	<b>249,337</b>	<b>100</b>	<b>(153,702)</b>

In 2006, the Company has written off irrecoverable accounts receivable and bad debt provision with ageing over 3 years, totalling Rmb387,000 (2005: Rmb1,425,000).

As at 31st December 2006, the balance of the top five debtors of amounts due from third parties amounts to RMB93,356,00 (2005: Rmb71,654,000), representing 36% (2005: 29%) of the total amounts due from third parties.

##### (ii) Amounts due from related parties

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Amounts due from related parties <small>(Note (V)(6)(a))</small>	<b>81,740</b>	68,028
Less: Specific provision	<b>(10,079)</b>	(2,710)
	<b>71,661</b>	65,318

An ageing analysis of amounts due from related parties and specific provision for bad debts is as follows:

	31st December 2006			31st December 2005		
	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000
Within 3 months	67,239	82	—	18,709	28	—
4-12 months	4,372	5	—	33,627	49	—
1-2 years	34	—	—	3,650	5	—
2-3 years	16	—	—	9,332	14	—
Over 3 years	10,079	13	(10,079)	2,710	4	(2,710)
	<b>81,740</b>	<b>100</b>	<b>(10,079)</b>	<b>68,028</b>	<b>100</b>	<b>(2,710)</b>

In light of the poor financial position of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that there was a slight possibility for recovering the amount. Therefore, a provision of Rmb2,710,000 was made for bad debts in full before 2005.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (3) Accounts receivable and other receivables (Continued)

#### (a) Accounts receivable (Continued)

##### (ii) Amounts due from related parties

As at 31st December 2006, the Company's amounts due from related parties with aging over 3 years mainly include the amount of Rmb7,369,000 due from Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Since Chongqing Iron & Steel Group Thermal Ceramics Company Limited was during the period of cession of business and restructuring, the Company's management considered that there was a slight possibility for recovering the amount. Therefore, a provision of Rmb7,369,000 was made for bad debts in full in 2006.

Except for the amounts due from related parties, accounts receivable as at 31st December 2006 did not include any other amount due from shareholders with 5% or more of shares (with voting power) of the Company.

As at 31st December 2006, the balance of the top five debtors of amounts due from related parties amounts to RMB70,141,000 (2005: Rmb54,488,000), representing 86% (2005: 80%) of the total amounts due from related parties.

#### (b) Other receivables

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Other receivables	22,721	25,440
Less: Specific provision	(11,718)	(10,659)
	<b>11,003</b>	<b>14,781</b>

An ageing analysis of other receivables and specific provision for bad debts is as follows:

	31st December 2006			31st December 2005		
	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000	Amount Rmb'000	Percentage (%)	Provision for bad debts Rmb'000
Within 3 months	8,060	35	—	13,801	54	—
4-12 months (i)	2,700	12	—	5,259	21	(4,528)
1-2 years (i)	5,587	25	(5,587)	28	—	—
2-3 years	22	—	—	221	1	—
Over 3 years	6,352	28	(6,131)	6,131	24	(6,131)
	<b>22,721</b>	<b>100</b>	<b>(11,718)</b>	<b>25,440</b>	<b>100</b>	<b>(10,659)</b>

(i) During the year ended 31 December 2005, the Company had received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to certain debts owed by the Holding Company and Chongqing Special Steel (Group) Limited Company ("CSSG"; former subsidiary of the Holding Company which ceased to have shareholding relationship with the Holding Company since June 2003) to their creditors amounting to Rmb18,200,000 and Rmb18,340,000, respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate Rmb36,540,000 dividend to be distributed to the Holding Company ("the Dividend"). The Company did not withhold the Dividend and without notifying the Company, two of the Courts had withdrawn Rmb4,528,000 and Rmb1,059,000 from the Company's bank accounts in 2005 and 2006 respectively.

In November 2006, as the Holding Company settled its debts amounting to Rmb18,200,000, the Courts withdrew those verdicts and enforcement orders against the Holding Company, and accordingly the Company was not required to assist the execution of the verdicts.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (3) Accounts receivable and other receivables (Continued)

(b) Other receivables (Continued)

(i) (Continued)

As at the date of these financial statements are approved for issue, the case relating to the debts owed by CSSG has not been finalised. Based on the advice from the Company's legal counsel, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Holding Company or the Company, and accordingly the Company has no obligation to assist the execution of the verdicts. The Company has made objections to the Courts and seek assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress.

Although the above objection is still in process, management of the Company is of view that the recoverability of the withdrawn bank deposits (recorded as other receivable) is uncertain, thus a full impairment provision of Rmb4,528,000 and Rmb1,059,000 was recorded for the years ended 31 December 2005 and 2006 respectively.

Other receivables as at 31st December 2006 did not include any amount due from shareholders with 5% or more of shares (with voting power) of the Company.

As at 31st December 2006, the balance of the top five debtors of other receivables amounts to RMB15,667,000 (2005: Rmb13,522,000), representing 69% (2005: 53%) of the total other receivables.

### (4) Prepayments

The aging analysis of prepayments is as follows:

	31st December 2006		31st December 2005	
	Amount Rmb'000	Percentage (%)	Amount Rmb'000	Percentage (%)
Within 1 year	145,509	99	70,393	96
Between 1 and 2 years	595	—	2,952	4
Between 2 and 3 years	793	1	—	—
Over 3 years	259	—	259	—
	<b>147,156</b>	<b>100</b>	<b>73,604</b>	<b>100</b>

As at the balance sheet date, the balance of prepayments was mainly prepayments for raw materials.

As at 31st December 2006, there were no prepayments to shareholders holding 5% or more shares of the Company with voting rights.

### (5) Inventories

	31st December 2006			31st December 2005		
	Cost Rmb'000	Provision Rmb'000	Net value Rmb'000	Cost Rmb'000	Provision Rmb'000	Net value Rmb'000
Raw materials	1,454,704	(7)	1,454,697	1,163,984	(138)	1,163,846
Work in process	384,403	(613)	383,790	272,343	(1,575)	270,768
Finished goods	152,499	(3,843)	148,656	230,855	(8,796)	222,059
Spare parts	207,754	(47,929)	159,825	248,406	(55,738)	192,668
Total	<b>2,199,360</b>	<b>(52,392)</b>	<b>2,146,968</b>	<b>1,915,588</b>	<b>(66,247)</b>	<b>1,849,341</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (5) Inventories (Continued)

Provisions for impairment of inventories are mainly the provisions made for raw materials, work in process and spare parts with prolonged stock aging and finished goods with net realisable value lower than inventory cost.

Provision	31st December 2005 <i>Rmb'000</i>	Addition <i>Rmb'000</i>	Decrease <i>Rmb'000</i>	31st December 2006 <i>Rmb'000</i>
Raw materials	138	—	(131)	7
Work in process	1,575	—	(962)	613
Finished goods	8,796	3,843	(8,796)	3,843
Spare parts	55,738	—	(7,809)	47,929
	66,247	3,843	(17,698)	52,392

In 2006, the inventory recognized as cost and expenses by the Company was Rmb7,179,794,000 (2005: Rmb6,347,620,000).

### (6) Long-term equity investment

As at the balance sheet date, the long-term equity investment is made by the Company in a non-listing company. The Company does not control nor has significant influence over the investee. Details of investment in the company as follows:

Name of the investee	Investment starting time	Investment cost <i>Rmb'000</i>	Equity interest held (%)
Xiamen Shipbuilding Industry Co., Ltd.	March 2002	5,000	2%

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (7) Fixed assets

	Plant and buildings <i>Rmb'000</i>	Machinery and other equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Original cost				
31st December 2005	1,944,846	4,145,974	21,710	6,112,530
Transfer from construction in progress	486,684	936,499	308	1,423,491
Addition	995	2,100	3,648	6,743
Disposal	(9,943)	(34,369)	(2,014)	(46,326)
31st December 2006	2,422,582	5,050,204	23,652	7,496,438
Accumulated depreciation				
31st December 2005	761,148	1,716,479	16,312	2,493,939
Charge for the year	47,687	210,412	2,088	260,187
Disposal	(2,589)	(31,853)	(1,440)	(35,882)
31st December 2006	806,246	1,895,038	16,960	2,718,244
Net value				
31st December 2006	1,616,336	3,155,166	6,692	4,778,194
31st December 2005	1,183,698	2,429,495	5,398	3,618,591
Provision for impairment in value				
31st December 2005	12,947	107	41	13,095
Disposal	(2,733)	—	(33)	(2,766)
31st December 2006	10,214	107	8	10,329
Net book value				
31st December 2006	1,606,122	3,155,059	6,684	4,767,865
31st December 2005	1,170,751	2,429,388	5,357	3,605,496

As at 31st December 2006, fixed assets with a net book value of Rmb596,339,000 (original cost: Rmb1,005,580,000) (2005: net book value of Rmb575,347,000, original cost of Rmb946,892,000) had been pledged as security for long- and short-term bank loans (Notes (IV) (13) and (19)).

As at 31st December 2006, fixed assets with a net book value of Rmb61,923,000 (original cost: Rmb78,583,000) (2005: Nil) were temporarily idle due to high production cost. These assets will be put into use after the technical improvements have been completed.

As at 31st December 2006, fixed assets with a net book value of Rmb18,529,000 (original cost: Rmb664,686,000) (2005: net book value of Rmb14,189,000, original cost of Rmb479,364,000) were fully depreciated and still in use.

As at 31st December 2006, fixed assets with a net book value of Rmb12,315,000 (original cost: Rmb51,610,000) (2005: net book value of Rmb13,364,000, original cost of Rmb62,585,000) having made provisions for impairment were to be disposed.

As at 31st December 2006, the Company was in the process of obtaining ownership certificates of certain plants and buildings with a net book value of Rmb169,407,000 (original cost: Rmb181,803,000) (2005: net book value of Rmb123,449,000, original cost of Rmb131,573,000).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (8) Construction materials

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Prepayment for large-sized equipment	47,772	134,406
Prepayment for special equipment	60,446	13,849
	<b>108,218</b>	<b>148,255</b>

### (9) Construction in progress

Item	Budget Rmb'000	31st December 2005 Rmb'000	Addition Rmb'000	Transfer to fixed assets Rmb'000	31st December 2006 Rmb'000	Source of capital	amount incurred as a percentage of budget (%)
Overhaul to No. blast furnace	578,390	553,237	129,446	(682,683)	—	Self financing	100%
Cold rolling project	420,000	—	32,858	(32,858)	—	Self financing	100%
50MW gas-steam combined power generating set	290,000	3,095	275,305	—	278,400	Self financing	96%
New No. 1 sintering project	260,000	16,335	9,143	(25,478)	—	Self financing	100%
Heat treatment production line	210,000	9,039	111,858	—	120,897	Self financing	70%
Overhaul to No. 1 and No. 2 coke oven and support facilities	204,849	229,107	17,742	(165,845)	81,004	Self financing	94%

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (9) Construction in progress (Continued)

Item	Budget Rmb'000	31st December 2005 Rmb'000	Addition Rmb'000	Transfer to fixed assets Rmb'000	31st December 2006 Rmb'000	Source of capital	amount incurred as a percentage of budget (%)
No. 6 casting machine project	200,000	1,546	10,119	—	11,665	Self financing	6%
Renovation of No. 4 furnace	155,000	2,959	15,269	(18,228)	—	Self financing	86%
Width and capacity expansion project	139,980	121,517	18,767	(140,284)	—	Self financing	100%
Transportation and handling yard for large-scale finishing roller	49,968	32,894	9,796	(42,593)	97	Self financing	85%
Supporting project of cross-river baffle for overhaul to No. 3 and No. 4 blast furnaces	48,000	8,313	21,511	—	29,824	Self financing	62%
No. 3 Electrical blower	41,000	26,045	6,711	(32,756)	—	Self financing	100%
Public and auxiliary facilities	34,975	12,629	4,264	(516)	16,377	Self financing	48%
Coking coal gas cabinet with a capacity of 70,000 cubic meters	34,890	—	8,165	—	8,165	Self financing	23%
Site levelling project for renovation of 130t/h boiler air-compressor	33,260	30,494	7,117	(37,611)	—	Self financing	100%
Technical renovation of railway in smelting area	31,370	3,029	1,748	(4,777)	—	Self financing	89%
12,000 kwh power generator	28,740	24,647	791	(25,438)	—	Self financing	100%
Overall construction of the informationization project of the share-holding companies	24,255	20,375	4,047	(24,422)	—	Self financing	100%
Project of waste water treatment facilities renovation	22,440	16,577	7,422	—	23,999	Self financing	100%
Capacity expansion and modification of Dabaopo	19,990	11,634	8,356	—	19,990	Self financing	100%
Capacity expansion and modification project	17,600	4,161	70	—	4,231	Self financing	31%
Liujiaba railway transportation project	17,000	9,767	4,482	(14,249)	—	Self financing	83%
Project of change of power transmission lines and voltage upgrading	14,500	10,379	60	(10,439)	—	Self financing	72%
Ancillary 35KV power station for No. 2 1800 oxygen generator	10,000	1,268	6,607	(7,875)	—	Self financing	79%
Other		162,827	71,889	(157,439)	77,277	Self financing	
		1,311,874	783,543	(1,423,491)	671,926		

In 2006, construction in progress included no significant capitalised interest expense.

As at 31st December 2006, as no impairment was incurred in the construction in progress of the Company, there was no provision for impairment.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (10) Intangible assets

	Cost Rmb'000	31st December 2005 Rmb'000	Amortisation for the year Rmb'000	31st December 2006 Rmb'000	Accumulated amortisation Rmb'000	Remaining amortisation years	Acquisition method
Trade mark use right	6,478	980	(600)	380	(6,098)	1 year	Infusion of funds
Land use right	10,080	10,045	(210)	9,835	(245)	49 years	Purchase
	16,558	11,025	(810)	10,215	(6,343)		

The amount for right to use the trade mark was invested by the Holding Company when the Company was restructured. Its original amount was determined based on the appraisal value issued by the independent valuer Zhongzi Assets Assessment Co. Ltd. certified by the state-owned assets administration department at the time of the Company's restructuring.

As at 31st December 2006, land use right with amortised value of Rmb9,835,000 (original cost: Rmb10,080,000) was pledged as security for the Company's long-term bank loans. (Note (IV) (19)) (2005: amortised value of Rmb10,045,000, original cost of Rmb10,080,000).

As at 31st December 2006, as no impairment was incurred in the intangible assets of the Company, there was no provision for impairment.

### (11) Other long-term assets

Other long-term assets are long-term prepayments used for purchase of raw materials and will be settled between 2007 and 2013.

### (12) Deferred tax assets

Arising from	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Provision for decline in value of inventories and impairment of receivables	1,421	976
Provision for impairment of fixed assets	1,517	1,517
	2,938	2,493

### (13) Short-term loans

	Currency	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Guaranteed loans			
— Secured and guaranteed (a)	Rmb	643,000	454,000
— Guaranteed (b)	Rmb	954,000	600,900
Unsecured loans			
— Loans in Rmb	Rmb	171,088	135,000
— Loans in USD	USD	58,565	—
		1,826,653	1,189,900

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (13) Short-term loans (Continued)

As at 31st December 2006, the guaranteed loans are as follows:

(a) Secured and guaranteed loans are secured by the Company's fixed assets with net book value of Rmb135,990,000 (original cost: Rmb279,230,000) (2005: net book value of Rmb93,782,000, original cost of Rmb220,542,000) (Note (IV)(7)) together with the land use rights owned by the Holding Company and certain properties owned by other related companies (Note (V) (5) (d)).

(b) The guaranteed loans are guaranteed by the Holding Company (Note (V) (5) (d)).

The range of the interest rate of short-term loans in 2006 was from 2.88% to 7.13% per annum (2005: 5.58% to 6.34%).

### (14) Notes payable

As at 31st December 2006, the notes payable by the Company were bank acceptance.

### (15) Accounts payable

As at 31st December 2006, there were no payables to shareholders holding 5% or more shares of the Company with voting rights.

As at 31st December 2006, payables with aging over three years amounting to Rmb16,564,000, which mainly represent payables for engineering and equipment and for purchases. Since there are disputes about the quality of part of the goods or equipment, the final payment remains unsettled so far. As at the date of approval of the financial statements, the said payments remain unsettled.

### (16) Advances from customers

As at 31st December 2006, there were no advances from shareholders holding 5% or more of shares with voting shares.

As at 31st December 2006, the aging of advances was within one year.

### (17) Taxes payable/(prepaid)

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Income tax prepaid	(21,871)	(20,378)
Value-added tax payable	52,866	16,041
Business tax payable	26	35
Stamp tax payable	1,155	781
	<b>32,176</b>	<b>(3,521)</b>

### (18) Other payables

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Payables to related parties (Note (V) (6) (c)).	57,678	47,667
Deposits payable for sales	4,275	12,565
Others	28,687	18,381
	<b>90,640</b>	<b>78,613</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (18) Other payables (Continued)

As at 31st December 2006, save for the above payables to related parties, there were no other payables to shareholders holding 5% and above of the Company's voting shares.

As at 31 December 2006, other payables with aging over three years amounting to Rmb2,043,000 (2005: Rmb2,043,000), mainly dividends to the minority shareholders of Hengda, which remains unsettled due to change of Hengda shareholders' address. As at the date of approval of the financial statements, the said payments remain unsettled.

### (19) Long-term loans and current portion of long-term loans

	Currency	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Guaranteed loans			
— Secured and guaranteed loans (a)	Rmb	205,000	171,000
— Secured loans (b)	Rmb	150,000	254,000
— Guaranteed loans (c)	Rmb	461,000	736,000
Unsecured loans			
— Loans in Rmb	Rmb	—	18,750
— Loans in USD	USD	—	242,160
		<b>816,000</b>	1,421,910
Less: Current portion of long-term loans			
Guaranteed loans			
— Secured and guaranteed loans (a)	Rmb	(135,000)	(36,000)
— Secured loans (b)	Rmb	—	(104,000)
— Guaranteed loans (c)	Rmb	(386,000)	(316,000)
Unsecured loans			
— Loans in Rmb	Rmb	—	(18,750)
— Loans in USD	USD	—	(242,160)
		<b>(521,000)</b>	(716,910)
		<b>295,000</b>	705,000

(a) As at 31st December 2006, secured and guaranteed loans are secured and guaranteed by the Company's fixed assets with net book value of Rmb90,135,000 (original cost: Rmb220,542,000) (2005: net book value of Rmb93,782,000, original cost of Rmb220,542,000) (Note (IV) (7)) together with the land use rights owned by the Holding Company (Note (V) (5) (d)).

(b) As at 31st December 2006, secured loans are secured by the Company's fixed assets with net book value of Rmb460,349,000 (original cost: Rmb726,350,000) (2005: net book value of Rmb481,565,000, original cost of Rmb726,350,000) (Note (IV) (7)), and the land use right with net book value of Rmb9,835,000 (original cost: Rmb10,080,000) (2005: net book value of Rmb10,045,000, original cost of Rmb10,080,000) (Note (IV) (10)) owned by the Company.

(c) The guaranteed loans are guaranteed by the Holding Company (Note (V) (5) (d)).

The range of the interest rate of long-term loans in 2006 was from 2.88% to 6.73% per annum (2005: 2.88% to 6.73%).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006  
(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (20) Grants payable

As at 31st December 2006, the grants payable of the Company was the special appropriation for environment protection project used for the treatment project of waste water, which can be refunded upon passing the acceptance inspection for such project by concerning authorities.

### (21) Other long-term liabilities

Under relevant agreements, in 2005 and 2006, the Company received a long-term receipt in advance of Rmb500,000,000 for sales from a customer. Such receipts will be settled from April 2006 to September 2009 on a monthly basis. As at 31st December 2006, such receipts due within one year and due over one year amounting to Rmb200,000,000 and Rmb210,000,000 respectively (2005: Rmb90,000,000 and Rmb110,000,000 respectively), which are booked as receipts in advances and other long-term liabilities respectively.

### (22) Share capital

Nominal value: Rmb1 per share

	31st December 2005 in thousand shares	Addition in thousand shares	31st December 2006 in thousand shares
Shares with nominal value of Rmb1 each			
Non-circulating shares			
Shares held by promoter	650,000	195,000	<b>845,000</b>
Of which: Shares held by domestic legal persons	650,000	195,000	<b>845,000</b>
Circulating shares not subject to trading moratorium			
Overseas listed foreign shares			
— H shares listed in Hong Kong	413,944	124,183	<b>538,127</b>
<b>Total</b>	<b>1,063,944</b>	<b>319,183</b>	<b>1,383,127</b>

Pursuant to the special resolutions approved at the 2005 annual general meeting, the class meeting of H shares and class meeting of domestic shares held on 9th June 2006, the Company declared a bonus share dividend ("Bonus Shares") of 3 shares per 10 shares to shareholders from distributable profit in June 2006. After the bonus share issuance, the registered capital of the Company increased by Rmb319,183,000 to Rmb1,383,127,000. Beijing Zhonglei Certified Public Accountants has issued a capital verification report (Zhonglei Zi [2007] No. 8001) for the capital increase of the Company.

In February 2007, the Company issued 350,000,000 A shares to public investors at Rmb2.88 per share, thus raising funds of Rmb1,008,000,000, which were then listed on The Stock Exchange of Shanghai on 28th February 2007.

### (23) Capital surplus

	31st December 2005	Addition	31st December 2006
Share premium	276,206	—	<b>276,206</b>
Provision for receipt of donations of non-cash assets	2,954	—	<b>2,954</b>
Other capital surplus	248,413	18,760	<b>267,173</b>
	<b>527,573</b>	<b>18,760</b>	<b>546,333</b>

Other capital surplus added for the year 2006 was the borrowings for environment treatment project exempted pursuant to the documents Yu Cai Jian [2006] No. 326 and No. 549 issued by Chongqing Environmental Protection Bureau.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

### (24) Surplus reserve

	Statutory surplus reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Total <i>Rmb'000</i>
31st December 2005	286,961	143,480	430,441
Addition/(Deduction)	174,964	(143,480)	31,484
31st December 2006	461,925	—	461,925

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions by the Board, the Company is required to transfer 5% to 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserve may be utilised to make up losses or to increase the capital of the Company upon approval by concerning authorities. Save for utilised to make up losses, after converting the Company's statutory surplus reserve into capital, the balance of such reserve must not be less than 25% of the registered capital. In 2006, the Company transferred 10% (2005: 10%) of the net profit to statutory surplus reserve, totalling Rmb31,484,000 (2005: Rmb25,957,000).

According to the Company Law of PRC amended on 27th October 2005 and effective from 1st January 2006, the Company's Articles of Association, and resolutions from the Board, the Company is not required to appropriate any statutory public welfare fund from 1st January 2006. According to the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by Ministry of Finance in PRC on 15th March 2006, the Company transferred the balance of statutory public welfare fund as at 31st December 2005 to statutory surplus reserve.

The amount appropriated to discretionary surplus reverse is proposed by the Board of Directors and subject to the approval by shareholders at the General Meeting. Discretionary surplus reserve may be utilised to make up losses or to increase the capital of the Company upon relevant approval. No amount was appropriated to discretionary surplus reserve by the Company in 2006.

### (25) Undistributed profit

	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>
Undistributed profit at the beginning of the year	1,906,204	1,845,155
Add: Profit for the year	314,837	259,576
Less: Transfer to statutory surplus reserve <i>(Note (IV) (24))</i>	(31,484)	(25,957)
Transfer to statutory public welfare fund	—	(12,978)
Dividends for ordinary shares — Cash dividends for the previous year / half year approved by general meeting	(270,242)	(159,592)
Transfer to capital <i>(Note (IV) (22))</i>	(319,183)	—
Undistributed profit at the end of the year	1,600,132	1,906,204

During the annual general meeting of shareholders on 18 May 2005, it was resolved to declare dividends in respect of 2004 of Rmb0.15 per share, totalling Rmb159,592,000. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,063,944,000 as at 31 December 2004.

During the general meeting of shareholders on 9 June 2006, it was resolved to declare dividends in respect of 2005 of Rmb0.15 per share, totalling Rmb159,592,000, and a bonus share dividend of 3 shares per 10 shares, totalling of 319,183,000 bonus shares. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,063,944,000 as at 31 December 2005.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (25) Undistributed profit (Continued)

During the Board of Directors' meeting on 30 August 2006, the directors of the Company resolved to declare an interim dividend for 2006 of Rmb0.08 per share, totalling Rmb110,650,000, which was authorized by the general meeting of shareholders on 9 June 2006. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,383,127,000 as at 30 June 2006.

During the Board of Directors' meeting on 20 April 2007, a dividend in respect of 2006 of Rmb0.10 per share, amounting to a total dividend of Rmb173,313,000, was proposed and to be approved at the forthcoming annual general meeting of shareholders. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,733,127,000 as at 28 February 2007, including the 350,000,000 A shares issued by the Company in 2007, as the extraordinary general meeting of shareholders held on 16 April 2003 had resolved that the retained earnings before the issuance of A shares be shared by all the shareholders, including the A shares shareholders, after the issuance of the A shares. The financial statements of 2006 do not reflect this dividend payable. Once the Annual General Meeting will approve the above proposal, the dividend payable will be reflected in the financial statements of 2007.

Based on the Notice [1995] 31 issued by the Ministry of Finance in PRC on 24 August 1995, the dividend appropriation of the Company after the listing of its H shares on the Main Board of the Stock Exchange of Hong Kong Limited is determined based on the lower of retained earnings in the financial statements prepared in accordance with (i) PRC accounting standards, and (ii) HKFRS, after deducting the transfers to statutory surplus reserve and statutory public welfare fund.

### (26) Revenue from principal operations

Product	2006 Rmb'000	2005 Rmb'000
Steel plates	4,196,946	4,033,920
Steel billets	889,964	1,193,859
Steel sections	2,400,326	1,850,854
Wire rods	1,245,013	1,006,570
Cold rolled sheets	272,595	227,922
Others	608,053	543,001
	<b>9,612,897</b>	<b>8,856,126</b>

In 2006, the top five sales revenue of the Company was totaled Rmb1,378,096,000 (2005: Rmb1,103,996,000), accounting for 14% of the total sales revenue for the year ( 2005:12%).

### (27) Cost of principal operations

Product	2006 Rmb'000	2005 Rmb'000
Steel plates	3,451,338	3,232,224
Steel billets	870,567	1,184,149
Steel sections	2,381,144	1,901,739
Wire rods	1,213,491	1,029,211
Cold rolled sheets	310,747	298,125
Others	520,526	483,677
	<b>8,747,813</b>	<b>8,129,125</b>

### (28) Financial costs - net

	2006 Rmb'000	2005 Rmb'000
Interest expense	173,507	127,944
Less: Interest Income	(4,435)	(9,385)
Net interest expense	169,072	118,559
Foreign exchange gains	(6,571)	(3,287)
Others	672	1,737
	<b>163,173</b>	<b>117,009</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (IV) NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (29) Non-operating income

	2006 Rmb'000	2005 Rmb'000
Net gains from disposal of fixed assets	2,086	17,412
Penalty income	331	810
Others	1,041	749
	<b>3,458</b>	<b>18,971</b>

### (30) Non-operating expenses

	2006 Rmb'000	2005 Rmb'000
Net loss from disposal of fixed assets	6,078	19,370
Penalty expenditures	81	56
Others	523	242
	<b>6,682</b>	<b>19,668</b>

### (31) Other cash paid relating to operating activities

Other cash paid relating to operating activities include maintenance expenses, transportation fee, shipbuilding inspection expenses and pollution discharge fee.

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS

### (1) Related party which can exercise control over the Company

Company	Registered address	Principal Operations:	Relationship with the Company	Economic nature or type	Legal representative
the Holding Company	No.1, Building No1, Dayan Village III, Dadukou District, Chongqing, the PRC	sintering, iron smelting, steel smelting, steel rolling and the by-products of iron and steel, mining, milling, machinery, electrics, transportation by automobile, construction, refractory materials,	Parent company	State-owned enterprise	Dong Lin

### (2) Registered capital and changes for related parties which can exercise control over the Company

Company	31st December 2005 Rmb'000	Increase for the year Rmb'000	31st December 2006 Rmb'000
the Holding Company	1,038,280	540,764	1,579,044

### (3) Changes in shares held by related parties which can exercise control over the Company

	31st December 2005		Increase for the year		31st December 2006	
	Amount Rmb'000	Percentage (%)	Amount Rmb'000	Percentage (%)	Amount Rmb'000	Percentage (%)
the Holding Company	650,000	61	195,000	—	845,000	61

The company distributed 3 bonus shares for every 10 shares to all shareholders of the Company in 2006. As a result, the shares held by the Holding Company increased to 845,000,000 shares with unchanged shareholding percentage.

The Company issued 350,000,000 A shares in February 2007 and made them listed on the Shanghai Stock Exchange on 28th February 2007( Note(IV)(22)). The A share issue decreased the shareholding of the Holding Company to 49%.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### (4) Related parties in which the Company has no control

Name of related party	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under the same parent company
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	Under the same parent company
Chongqing Iron & Steel Group Transportation Company Limited	Under the same parent company
Chongqing Iron & Steel Group Electronic Company Limited	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	Under the same parent company
Chongqing Xinteng Metallurgical Burden Materials Company Limited	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Manufacturing Co. Ltd.	Under the same parent company
Chongqing Iron & Steel Group Material Trading Company Limited	Under the same parent company
Chongqing San Gang Steel Company Limited	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Under the same parent company
Chongqing Si Gang Steel Company Limited	Under the same parent company
Chongqing San Feng Environmental Industrial Co Ltd	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	Under the same parent company
Chongqing San Huan Construction Supervisory and Consultancy Co Ltd	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company	Under the same parent company

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### (5) Related party transactions

(a) Pricing policy

The price of transaction with related parties was based on the agreement price.

(b) Set out below are purchase of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties:

		Purchase of Products	2006 Rmb'000	2005 Rmb'000
Chongqing Iron & Steel Group Mining Company Limited	Ore and ancillarys product		625,294	487,952
Chongqing Iron & Steel Group Iron Company Limited	Pig iron		373,532	319,173
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Components and fixed assets		57,412	49,838
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Gas for industrial use		217,215	202,013
Chongqing Xinteng Metallurgical Burden Materials Company Limited	Ferroalloy		914	20,936
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts		61,290	49,842
Chongqing Iron & Steel Group Electronic Company Limited	Components of instruments		21,052	21,087
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials		11,686	11,233
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Refractory materials		8,414	6,529
Chongqing Iron & Steel Group Logistics Services Company Limited	Office supply		4,281	6,305
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Scrap steel		1,399	7,053
Chongqing Si Gang Steel Company Limited	Scrap steel		4,094	6,349
Others			46,744	35,719
			<b>1,433,327</b>	<b>1,224,029</b>

Save for the purchase aforesaid, the Company had no purchase of raw materials, spare parts, fixed assets and construction in progress from shareholders holding 5% or more of its shares with voting rights.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

(c) Sales of products to related parties by the Company are summarized as follows:

		Purchase of Products	2006 Rmb'000	2005 Rmb'000
Chongqing Si Gang Steel Company Limited	Steel products		281,408	406,237
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Water, electricity		148,945	135,830
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products		129,208	114,132
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and other materials		16,714	76,912
Chongqing San Gang Steel Company Limited	Steel products		106,683	67,658
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Steel products		35,034	38,111
Chongqing Iron & Steel Group Export and Import Company Limited	Steel products		2,764	23,528
Chongqing Iron & Steel Group Mining Company Limited	Steel products		10,490	2,767
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Water, electricity, natural gas		1,664	897
Chongqing Iron & Steel Group Transportation Company Limited	Water, electricity, natural gas		6,309	6,820
Others			14,979	32,723
			<b>754,197</b>	<b>905,615</b>

Save for the sales above-mentioned, the Company had no sales to shareholders holding 5% or more of its shares with voting rights.

(d) The Holding Company and other related parties provided guarantee for the Company.

As at 31st December 2006, the short-term and long-term bank borrowings of the Company amounting to Rmb643,000,000(2005:Rmb454,000,000)(Note (IV)(13)(a)) and Rmb205,000,000 (2005: Rmb171,000,000)(Note(IV)(19)(a)) respectively were guaranteed and secured by fixed assets of the Company and land use right of the Holding Company

In addition, as at 31st December 2006, the Holding Company provided guarantee to the short-term and long-term bank borrowings of the Company amounting to Rmb954,000,000 (2005: Rmb600,900,000)(Note (IV)(13)(b)) and Rmb461,000,000 (2005: Rmb736,000,000)(Note(IV)(19)(c)) respectively.

As at 31st December 2006, the short-term bank borrowings of the Company amounting to Rmb99,000,000 (2005:nil)(Note(IV)(13)(a)) were secured by the plants of Chongqing Iron & Steel Group Chaoyang Gas Company Limited, Chongqing Iron & Steel Group Construction and Engineering Company Limited and Chongqing Iron & Steel Group Machinery Manufacturing Company Limited.

The Holding Company and other related parties did not charge to the Company in respect of the above pledges and guarantees.

# NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(Continued)*

### (5) Related party transactions *(Continued)*

(e) Transactions between the Company and the Holding Company and its subsidiaries:

	2006 Rmb'000	2005 Rmb'000
Prepayments paid by the Holding Company(i)		
Fees paid for supporting services(ii)	263,894	335,181
Rental expenses for land use right (iii)	16,286	14,521
Fees received for supporting services(iv)	2,746	2,646

- (i) Prepayments paid by the Holding Company mainly represent the pensions and social welfare expenses which were paid through the Holding Company. No handling fee was charged by the Holding Company.
- (ii) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agencies services provided by the Holding Company and its subsidiaries. The services were charged at prices determined by reference to market price of such services or a profit mark-up above the cost of providing such services as agreed, or prices prescribed by the relevant Chongqing government departments.
- (iii) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.
- (iv) Fees received for supporting services mainly represent fees charged to the Holding Company and its 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 Holding Company.

### (6) Balances of the receivable and payable for the related parties

(a) Accounts receivable

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Chongqing Iron & Steel Group Iron Company Limited	—	15,000
Chongqing San Gang Steel Company Limited	22,912	13,822
Chongqing Si Gang Steel Company Limited	24,553	11,956
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	7,369	7,369
Chongqing Iron & Steel Group Steel Pipe Company Limited	9,779	6,341
Chongqing Iron & Steel Group Refractory Materials Company Limited	3,179	3,709
Chongqing Iron & Steel Group Yingsite Mould Manufacturing Co. Ltd.	2,710	2,710
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	3,384	1,549
Chongqing Iron & Steel Group San Feng Industrial Company	5,528	—
Others	2,326	5,572
	<b>81,740</b>	<b>68,028</b>

(b) Notes receivable

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Chongqing San Gang Steel Company Limited	13,148	9,037
Chongqing Si Gang Steel Company Limited	11,880	14,337
Chongqing Iron & Steel Group Steel Pipe Company Limited	10,000	8,089
Chongqing Iron & Steel Group Construction and Engineering Company Limited	50	—
	<b>35,078</b>	<b>31,463</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (V) RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### (6) Balances of the receivable and payable for the related parties (Continued)

(c) Other payables

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
the Holding Company	38,458	21,269
Chongqing Iron & Steel Group Construction and Engineering Company Limited	14,004	18,690
Chongqing San Feng Environmental Industrial Co Ltd	1,240	4,993
Chongqing Iron & Steel Group Electronic Company Limited	1,220	—
Chongqing San Huan Construction Supervisory and Consultancy Co Ltd	1,368	50
Others	1,388	2,665
	<b>57,678</b>	<b>47,667</b>

The amounts due from/to the related parties are unsecured, un-guaranteed and have no fixed terms of repayment.

## (VI) Contingencies

As at 31st December 2006, save for the pending litigation disclosed in Note (IV) (3) (b), the Company had no other disclosable significant contingencies.

## (VII) COMMITMENTS

### (1) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the financial statements are as follows:

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Buildings, machinery and equipment	525,493	525,956

### (2) Operating lease commitments

The future aggregate minimum lease payments due under non-cancellable operating leases are as follows:

	31st December 2006 Rmb'000	31st December 2005 Rmb'000
Less than 1 year	17,904	14,913
1 ~ 2 years	17,904	14,623
2 ~ 3 years	15,964	14,521
Over 3 years	122,391	124,639
	<b>174,163</b>	<b>168,696</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31st December 2006

(All amounts in Rmb'000 unless otherwise stated)

## (VII) COMMITMENTS (Continued)

### (2) Operating lease commitments (Continued)

The above lease commitments include three lease agreements of land use rights signed between the Company and the Holding Company:

	Lease starting year and month	Lease period (years)	the future aggregate minimum lease payments	
			31st December 2006 Rmb'000	31st December 2005 Rmb'000
Lease agreement 1 (a)	August, 1997	20	157,013	155,095
Lease agreement 2 (a)	December, 2002	15	13,269	13,107
Lease agreement 3	January, 2006	3	3,881	—
			<b>174,163</b>	<b>168,202</b>

- (a) In January 2007, the Company signed a supplementary agreement with the Holding Company in relation to the rental of the leased land use rights, which increases from 2007.

## (VIII) EVENTS AFTER THE BALANCE SHEET DATE

- (1) In February 2007, the Company issued 350,000,000 A shares at Rmb2.88 each to public investors, and raised total gross proceeds of Rmb1,008,000,000. The Company's A shares were then listed on The Stock Exchange of Shanghai on 28 February 2007.
- (2) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008.

Since the deferred tax assets shall be measured at the tax rates that are expected to apply to the period when the asset is realized, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets of the Company. As at the date that these financial statements are approved for issue, detailed measures of the new CIT Law have yet to be issued, specific provisions concerning the applicable income tax rates, computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions for the periods from 2008 and onwards have not been clarified. Consequently, the Company is not in a position to reasonably assess the impact, if any, to the carrying values of deferred tax assets as the result of the implementation of the new CIT Law. The Company will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

## (IX) NET PROFIT AFTER DEDUCTING NON-RECURRING ITEMS

	2006 Rmb'000	2005 Rmb'000
Net profit	314,837	259,576
Add/(less): Non-recurring items		
-Net loss on disposal of fixed assets	3,992	1,958
-Non-operating income	(1,372)	(1,559)
-Non-operating expenses	604	298
-Reversal of provision for impairments of assets in prior years	(2,367)	(15,382)
Tax impact on non-recurring items	428	1,797
Net profit after deducting non-recurring items	<b>316,122</b>	<b>246,688</b>

## (X) RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.