1. General information

China Oriental Group Company Limited (the "Company") was incorporated in Bermuda on 3 November 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda as a result of a group reorganisation (the "Reorganisation") as detailed in the section headed "Corporate Structure" of the global offering prospectus dated 18 February 2004.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Following the completion of the global offering, the Company's shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of iron and steel products. The Group has manufacturing plants in Hebei Province and Guangdong Province of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

These consolidated financial statements are presented in thousands of units of RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(All amounts in RMB thousands unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior years have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36, 38, 40, HKFRSs 3, 4 and HKAS-Int15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net results of associates and other disclosures.
— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36, 38, 40 and HKFRS 3 have no material effect on the Group's policies.
— HKAS 21 has affected the Group's policy on functional currency. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
— HKAS 24 has affected the identification of related parties and some other related party disclosures.
— HKFRS 4 has affected the Group's policies on the financial guarantee provided by the entities of the Group.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 and HKAS-Int 15 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policies relating to the classification of financial assets at fair value through profit or loss and held-to-maturity investments. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the prior years' comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKAS-Int 15 — does not require the recognition of incentives for leases beginning before 1 January 2005.

— HKFRS 3 — prospectively after 1 January 2005.

(All amounts in RMB thousands unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 and HKAS-Int 15 has no impact on the opening reserves at 1 January 2004. The impact on other items of the financial statements is as follows:

	As at 31 December	
	2005	2004
Decrease in property, plant and equipment	**(79,569)**	(55,239)
Increase in leasehold land and land use rights	**79,569**	55,239

The adoption of revised HKAS 21 resulted in:

	Year ended 31 December	
	2005	2004
(Decrease)/increase in other gains, net	**(44,247)**	4,398
(Decrease)/increase in retained earnings	**(39,849)**	4,398
(Decrease)/increase in basic earnings per share (RMB per share)	**(0.02)**	0.01
Increase/(decrease) in other reserves	**39,849**	(4,398)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).

  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group's operations, as the Group does not participate in any multi-employer plans or defined benefit plans.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

- HKAS 21 (Amendment), The Effects of Changes in Foreign Exchange Rates-Net Investment in a Foreign Operation (effective from 1 January 2006).

  The amendment relates to intragroup loans that fund foreign operations, addressing concerns raised by constituents that the definition of a net investment was too restrictive and unclear in the previous version of the standard. Management is currently assessing the impact of HKAS 21 (Amendment) on the Group's operation.

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).

  This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Group regards its financial guarantee contracts provided within the Group and to third parties as insurance contracts.

- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards (effective from 1 January 2006).

  This amendment is not relevant to the Group's operations, as the Group is not a first-time adopter.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

- HKFRS 6 and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

  HKFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specific considering certain requirements of HKAS 8. It requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. Management is currently assessing the impact of HKFRS 6 and its amendment on the Group's operations.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective from 1 January 2007).

  HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group 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 the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).

  HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).

  HKFRS-Int 5 is not relevant to the Group's operations.

- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective from 1 December 2005).

  HK(IFRIC)-Int 6 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for those companies composing the Group upon the Reorganisation, which have been accounted for on the merger basis, as described in Note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group except for those subsidiaries composing the Group upon the Reorganisation. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

All significant intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates (Continued)

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

2.4 Translation of foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the major operating entities within the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

2. Summary of significant accounting policies *(Continued)*

2.4 Translation of foreign currencies *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property plant and equipment, comprising buildings, machinery, furniture and fixtures, leasehold improvements and vehicles are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	10-20 years
Machinery	5-10 years
Furniture and fixtures	5-10 years
Vehicles	5-10 years
Leasehold improvements	2 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 2.9)*.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Leasehold land and land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method.

2. Summary of significant accounting policies *(Continued)*

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at depreciated cost less accumulated impairment. Fair value is determined and disclosed based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors. Changes in fair values are not recognised in the income statement.

Depreciation of investment properties is calculated using the straight-line method to allocate cost to their residual value over their estimated useful lives of 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

2.8 Intangible assets

Intangible assets mainly comprised iron ore mining licenses purchased, which are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives (3-5 years).

2. Summary of significant accounting policies *(Continued)*

2.9 Impairment of non-financial assets

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

2.10 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also amortised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

2. Summary of significant accounting policies *(Continued)*

2.10 Financial assets *(Continued)*

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(d) Available-for-sale financial assets

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

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other (losses)/gains — net' in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models , making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Summary of significant accounting policies *(Continued)*

2.10 Financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.13.

2.11 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date when derivative contracts are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations (net investment hedge). A hedge of the foreign currency risk of a firm commitment is accounted for either as a cash flow hedge or as a fair value hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in Note 19. The full fair value of hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2. Summary of significant accounting policies *(Continued)*

2.11 Accounting for derivative financial instruments and hedging activities *(Continued)*

(a) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other (losses)/gains — net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains — net'.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2. Summary of significant accounting policies *(Continued)*

2.11 Accounting for derivative financial instruments and hedging activities *(Continued)*

(c) *Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other (losses)/gains — net'.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'administrative expenses'.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2. Summary of significant accounting policies *(Continued)*

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Borrowings

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

Borrowings at nil or low interest rates from government are regarded as government assistant and recognised initially at the cost of consideration received.

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

2.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss . Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of significant accounting policies *(Continued)*

2.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.19 Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar 1,000 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 27. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are charged to the income statement as incurred.

2.20 Provisions

Provisions recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Government grants

A government grant in the form of subsidy or financial refund is recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

2. Summary of significant accounting policies *(Continued)*

2.21 Government grants *(Continued)*

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of a depreciable asset by way of a reduced depreciation charge.

2.22 Revenue recognition

(a) Sales

Sales comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Sales is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Sales from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the Group has delivered goods to the customers and collectibility of the related receivables is reasonably assured.

(b) Other gains

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income is recognised when the right to receive payment is established.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies *(Continued)*

2.24 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Insurance contract

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Group regards financial guarantee contracts provided by it as insurance contracts *(Note 36)*. The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in income statement.

2.27 Comparative

The Group previously disclosed share premium as other reserves. Management believes that their inclusion in share capital is a better representation of the Group's activities.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain foreign exchange risk.

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its non-current borrowings. Non-current borrowings at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's borrowings have been disclosed in Note 22.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit policy for the sales of products is mainly delivery either on cash or upon receipt of bank acceptance notes with maturity dates within six months.

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, together with adequate banking facilities.

(d) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain bank deposits and financial assets that are denominated in foreign currencies, mainly United States Dollars (the "US$"), Euros and Hong Kong Dollars (the "HK$"), which are exposed to foreign currency translation risk. Details of the Group's bank and cash balances are disclosed in Note 17.

Payables for certain equipment imported by the Group were denominated in Euro, and the Group used forward contract to hedge partial foreign exchange risk arising from these Euro payables or commitment.

3. Financial risk management *(Continued)*

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less impairment provision of trade and other receivables and payables approximates their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the balance sheet date and the historical experience of manufacturing and selling products of similar nature.

4 Critical accounting estimates and judgements *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.5. The recoverable amount is higher of an asset's value in use and fair value less costs to sell, which is based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal, or cash to be generated from continuously using the assets.

4.2 Critical judgements in applying the entity's accounting policies

(a) Borrowing costs eligible for capitalisation

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

Borrowing costs capitalised into property, plant and equipment are shown in Note 7.

(b) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately, the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

(All amounts in RMB thousands unless otherwise stated)

5. Sales and segment information — Group

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the years ended 31 December 2005 and 2004 are as follows:

	2005	2004
Sales:		
Gross sales, less discounts and returns		
— billets	**3,631,593**	5,214,573
— strips and strip products	**5,389,347**	3,871,053
— cold rolled sheets	**117,159**	—
— others	**44,594**	33,249
	9,182,693	9,118,875

(b) Segment information

No business segment information is presented as over 90% of the Group's sales and operating profit are earned from the sales of iron and steel products.

No geographical segment information is presented as over 90% of the Group's sales and operating profit are earned within the PRC and over 90% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. Leasehold land and land use rights — Group

The Group's interests in leasehold land and land use rights represent the prepaid operating lease payments and their net book value are analysed as follows:

	2005	2004
Opening	**55,239**	43,106
Additions	**25,644**	13,000
Amortisation of prepaid operating lease payment	**(1,314)**	(867)
	79,569	55,239

As at 31 December 2005, the net book value of leasehold land and land use rights pledged as security for the Group's current borrowings amounted to approximately RMB67 million (2004: RMB42 million) *(Note 22)*.

(All amounts in RMB thousands unless otherwise stated)

6. Leasehold land and land use rights — Group *(Continued)*

The Group's leasehold land and land use rights are located outside Hong Kong and the remaining lease period is between 47 years to 50 years.

7. Property, plant and equipment

The Group

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	CIP	Total
Cost							
At 1 January 2004	310,406	1,377,489	7,577	21,237	—	490,478	2,207,187
Additions	66	36,236	2,015	14,494	577	329,982	383,370
Acquisition of a subsidiary	—	—	58	—	—	167,736	167,794
Transfers	439,482	141,836	4,052	115	—	(585,485)	—
Disposals	(698)	—	—	(340)	—	—	(1,038)
At 31 December 2004	749,256	1,555,561	13,702	35,506	577	402,711	2,757,313
At 1 January 2005	749,256	1,555,561	13,702	35,506	577	402,711	2,757,313
Additions	51,414	17,578	10,504	10,612	760	2,044,372	2,135,240
Transfers	166,513	688,162	8,354	302	—	(863,331)	—
Transfer to CIP for repair	(12,520)	(7,441)	—	—	—	9,869	(10,092)
Disposals	(24,988)	(59,815)	(9,615)	(2,960)	—	—	(97,378)
At 31 December 2005	929,675	2,194,045	22,945	43,460	1,337	1,593,621	4,785,083
Accumulated depreciation							
At 1 January 2004	59,721	190,063	3,184	6,998	—	—	259,966
Charge for the year	31,704	110,744	1,575	4,470	261	—	148,754
Disposals	(145)	—	—	(330)	—	—	(475)
At 31 December 2004	91,280	300,807	4,759	11,138	261	—	408,245
At 1 January 2005	91,280	300,807	4,759	11,138	261	—	408,245
Charge for the year	37,250	158,698	4,962	6,473	351	—	207,734
Transfer to CIP for repair	(4,810)	(5,282)	—	—	—	—	(10,092)
Disposals	(7,833)	(41,213)	(5,078)	(2,751)	—	—	(56,875)
At 31 December 2005	115,887	413,010	4,643	14,860	612	—	549,012
Net book value							
At 31 December 2005	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071
At 31 December 2004	657,976	1,254,754	8,943	24,368	316	402,711	2,349,068

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment *(Continued)*

The Group *(Continued)*

As at 31 December 2005, the net book value of buildings and machinery pledged as security for the Group's current and non-current borrowings amounted to approximately RMB568 million (2004: RMB452 million) *(Note 22)*.

During the year ended 31 December 2005, borrowing costs amounting to approximately RMB25 million were capitalised into the cost of property, plant and equipment (2004: approximately RMB1 million) at an average capitalisation rate of 5% approximately.

The Company

	Buildings	Furniture and fixtures	Vehicles	Leasehold improvements	Total
Cost					
At 1 January 2004	—	—	—	—	—
Additions	—	374	1,468	577	2,419
Disposals	—	—	—	—	—
At 31 December 2004	—	374	1,468	577	2,419
At 1 January 2005	—	374	1,468	577	2,419
Additions	12,399	303	1,189	760	14,651
Disposals	—	—	—	—	—
At 31 December 2005	12,399	677	2,657	1,337	17,070
Accumulated depreciation					
At 1 January 2004	—	—	—	—	—
Charge for the year	—	65	245	261	571
Disposals	—	—	—	—	—
At 31 December 2004	—	65	245	261	571
At 1 January 2005	—	65	245	261	571
Charge for the year	258	91	341	351	1,041
Disposals	—	—	—	—	—
At 31 December 2005	258	156	586	612	1,612
Net book value					
At 31 December 2005	12,141	521	2,071	725	15,458
At 31 December 2004	—	309	1,223	316	1,848

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties — Group and Company

The investment properties are located in the PRC and their net book value are analysed as follows:

Cost	
At 31 December 2004	—
Additions	21,356
At 31 December 2005	21,356
Accumulated depreciation	
At 31 December 2004	—
Charge for the year	445
At 31 December 2005	445
Net book value	
At 31 December 2005	20,911
At 31 December 2004	—

As at 31 December 2005, the directors of the Company assessed the fair value of the investment properties to be approximately RMB22.5 million based on the prices in an active market.

(All amounts in RMB thousands unless otherwise stated)

9. Intangible assets — Group

	Iron ore mining licenses
Cost	
At 31 December 2004	—
Additions	10,229
At 31 December 2005	10,229
Accumulated amortisation	
At 31 December 2004	—
Charge for the year	682
At 31 December 2005	682
Net book value	
At 31 December 2005	9,547
At 31 December 2004	—

10. Investments in and loans to subsidiaries — Company

(a) Investments in subsidiaries

	2005	2004
Unlisted investments, at cost	**224,017**	224,017

(All amounts in RMB thousands unless otherwise stated)

10. Investments in and loans to subsidiaries — Company *(Continued)*

(a) Investments in subsidiaries *(Continued)*

The significant subsidiaries at 31 December 2005 and 2004 are as follows:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis Development Limited ("Gold Genesis")	British Virgin Islands ("BVI") 21 February 2003	Limited liability company	100% (Directly held)	US$ 1	US$ 50,000	Investment holding
Good Lucky Enterprises Limited ("Good Lucky")	BVI 21 February 2003	Limited liability company	100% (Directly held)	US$ 1	US$ 50,000	Investment holding
First Glory Services Limited ("First Glory")	BVI 16 October 2003	Limited liability company	100% (Directly held)	US$ 2	US$ 50,000	Investment holding
Accordpower Investments Limited ("Accordpower")	BVI 30 November 2004	Limited liability company	100% (Directly held)	US$ 2	US$ 50,000	Investment holding
Fullhero Investments Limited ("Fullhero")	BVI 3 May 2005	Limited liability company	100% (Directly held)	US$ 2	US$ 50,000	Investment holding
Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited")	PRC 24 December 1999	Joint stock company with limited liability	97.6% (Indirectly held)	RMB 228,635,573	RMB 228,635,573	Manufacture and sales of iron and steel products
Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited ("Foshan Jinxi")	PRC 26 December 2003	Limited liability company	60% (Indirectly held)	US$ 29,800,000	US$ 29,800,000	Manufacture and sales of steel products
Jinxing Charging Company Limited ("Jinxing Charging")	PRC 2 August 2005	Limited liability company	62% (Indirectly held)	RMB 5,000,000	RMB 5,000,000	Manufacture and sales of lime products
Oriental Fullhero Leasing (Shenzhen) Co., Ltd. ("Shenzhen Leasing")	PRC 23 September 2005	Limited liability company	100% (Indirectly held)	US$ 65,000,000	US$ 65,000,000	Leasing and financial leasing

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

10. Investments in and loans to subsidiaries — Company *(Continued)*

(b) Loans to subsidiaries

The loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

11. Interests in an associate — Group

	2005	2004
Beginning of the year	**12,474**	5,564
Share of associate's results		
— (loss)/profit before taxation	**(2,272)**	10,313
— taxation	**(47)**	(3,403)
	(2,319)	6,910
Dividends	**(4,074)**	—
Capital injection to the associate	**2,800**	—
End of the year	**8,881**	12,474

The information of the unlisted associated company is as follows:

Name	**Place and date of incorporation**	**Percentage of equity interest attributable to the Group**	**Assets**	**Liabilities**	**Revenues**	**Net loss**
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing Iron Mine")	PRC 21 May 2002	35% (indirectly held)	39,772	6,605	40,375	(6,626)

(All amounts in RMB thousands unless otherwise stated)

12. Long-term advances to suppliers — Group

The maturity profile of the long-term advances to suppliers of the Group is as follows:

	2005	2004
Within 1 year	—	50,000
	—	50,000
Less: Current portion included in current assets	—	(50,000)
	—	—

13. Inventories — Group

	2005	2004
Raw materials and materials-in-transit	894,832	822,871
Work-in-progress	122,459	60,382
Finished goods	86,083	16,954
	1,103,374	900,207

As at 31 December 2005, the net book value of inventories pledged as security for the Group's notes payables amounted to approximately RMB32 million (2004: nil) *(Note 20)*.

14. Trade receivables — Group

	2005	2004
Accounts receivable	23,369	227
Notes receivable *(a)*	690,815	827,667
	714,184	827,894

(All amounts in RMB thousands unless otherwise stated)

14. Trade receivables — Group *(Continued)*

(a) As at 31 December 2005 and 2004, notes receivable were all bank acceptance notes.

As at 31 December 2005, notes receivable that were pledged as security for issuing notes payable amounted to approximately RMB67 million (2004: RMB79 million) *(Note 20)*.

As at 31 December 2005, notes receivable that were pledged as security in favour of a third party for issuing letters of credit amounted to approximately RMB248 million (2004: RMB111 million) *(Note 36)*.

As at 31 December 2005 and 2004, the carrying amount of the Group's trade receivables approximated their fair value.

As at 31 December 2005 and 2004, the ageing analysis of trade receivables is as follows:

	2005	2004
Within 3 months	**714,184**	827,894

The credit policy usually adopted by the Group for the sales of products to customers is to deliver goods either on receipt in cash or upon receipt of bank acceptance notes with maturity dates within six months.

15. Financial assets at fair value through profit or loss — Group and Company

	2005	2004
Liquid Reserve Fund — Euro, quoted	**52,479**	—
Liquid Reserve Fund — US dollars, quoted	**12,154**	—
	64,633	—

The above financial assets are designated at fair value through profit or loss on initial recognition.

16. Prepayments, deposits and other receivables

The Group	**2005**	2004
Prepayments	**107,899**	217,552
Deposits and other receivables	**77,656**	91,217
	185,555	308,769

(All amounts in RMB thousands unless otherwise stated)

16. Prepayments, deposits and other receivables *(Continued)*

The Company

	2005	2004
Prepayments	**801**	818
Deposits and other receivables	**4,339**	6,356
	5,140	7,174

17. Bank and cash balances and Restricted bank balances

The Group

	2005	2004
Bank and cash balances	**709,870**	1,218,056
Restricted bank balances *(a)*	**1,015,416**	1,707,949
	1,725,286	2,926,005

(a) As at 31 December 2005, restricted bank balances amounting to approximately RMB128 million (2004: RMB94 million) were pledged as security for issuing notes payables *(Note 20)*.

As at 31 December 2005, restricted bank balances, amounting to approximately US$110 million (RMB888 million equivalent) (2004: RMB1,359 million) were pledged as security for current borrowings of the Group *(Note 22)*.

The Company

	2005	2004
Bank and cash balances	**53,724**	791,281
Restricted bank balances *(a)*	**887,722**	1,359,001
	941,446	2,150,282

(a) As at 31 December 2005, restricted bank balances amounting to approximately US$110 million (RMB888 million equivalent) (2004: RMB1,359 million) were pledged as security for current borrowings of the Group *(Note 22)*.

18. Share capital — Group and Company

	Number of shares (thousands)	Amount Ordinary shares	Share premium	Total
At 1 January 2004	1,000	—	—	—
Share issued and allotted on 20 January 2004 to acquire subsidiaries *(i)*	2,099,000	223,776	—	223,776
New issue of shares *(ii)*	700,000	74,417	1,969,268	2,043,685
Over-allotment of shares *(ii)*	105,000	11,147	295,390	306,537
Share issue expenses *(ii)*	—	—	(113,623)	(113,623)
At 31 December 2004	2,905,000	309,340	2,151,035	2,460,375
At 31 December 2005	2,905,000	309,340	2,151,035	2,460,375

As at 31 December 2005 and 2004, the total number of authorised ordinary shares is 5,000,000,000 shares with a par value of HK$0.1 per share.

As at 31 December 2005 and 2004, the number of issued and fully paid ordinary shares is 2,905,000,000 shares.

(i) On 20 January 2004, the Company entered into an agreement with Wellbeing Holdings Limited ("Wellbeing"), Chingford Holdings Limited ("Chinford") and Smart Triumph Corporation ("Smart Triumph"), pursuant to which the Company purchased the entire issued share capital of Gold Genesis, Good Lucky and First Glory (which collectively held 97.6% of the issued share capital of Jinxi Limited) in consideration of the Company (a) issuing 2,099,000,000 shares, credited as fully paid to Wellbeing (as to 1,230,142,124 shares), Chingford (as to 51,727,725 shares) and Smart Triumph (as to 817,130,151 shares) and (b) credited as fully paid at par the 1,000,000 shares issued nil paid by the Company on 13 November 2003.

(ii) On 12 March 2004, the Company completed its global offering of 805,000,000 shares at HK$2.75 per share for cash. 700,000,000 shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004 and the over-allotment of 105,000,000 shares was completed on 12 March 2004. The excess over the par value of the shares was credited to the share premium account.

(All amounts in RMB thousands unless otherwise stated)

19. Other reserves — Group

	Merger reserve *(a)*	Capital surplus	Statutory reserve *(b)*	Hedging Reserve *(c)*	Translation	Total
Balance at 1 January 2004	(599)	8,028	313,772	—	—	321,201
Profit appropriation	—	—	232,874	—	—	232,874
Others	—	5,108	—	—	—	5,108
Balance at 31 December 2004	(599)	13,136	546,646	—	—	559,183
Balance at 1 January 2005, as previously reported	(599)	13,136	546,646	—	4,398	563,581
Opening adjustment for the adoption of HKAS 21 *(Note 2.1)*	—	—	—	—	(4,398)	(4,398)
Balance at 1 January 2005, as restated	(599)	13,136	546,646	—	—	559,183
Cash flow hedges:						
— Fair value loss in the year	—	—	—	(3,370)	—	(3,370)
— Transfer to property, plant and equipment	—	—	—	3,370	—	3,370
Profit appropriation	—	—	172,084	—	—	172,084
Others	—	4,058	—	—	—	4,058
Balance at 31 December 2005	(599)	17,194	718,730	—	—	735,325

(a) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(All amounts in RMB thousands unless otherwise stated)

19. Other reserves — Group *(Continued)*

(b) Statutory reserve

In accordance with the PRC regulations and the Articles of the Association of the PRC companies within the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the entity's share capital after such issuance.

Also, in accordance with the Articles of the Association of the PRC companies within the Group, each of the companies registered in the PRC within the Group is required to set aside 5% to 10% of its statutory net profit for the year to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items, for the entity's employees and cannot be used to pay off staff welfare expenses. Titles to these capital items remain with the entity.

(c) Hedging reserve

The hedging reserve represents the gain or loss of the hedging instrument that is determined to be an effective hedge.

The hedging reserve was removed from equity and included in the initial cost or other carrying amount of the asset or liability which was designated as hedged items when the hedge of a firm commitment subsequently resulted in the recognition of a non-financial asset or a non-financial liability.

20. Trade payables — Group

	2005	2004
Accounts payable	**430,159**	254,530
Notes payable *(a)*	**202,280**	163,200
	632,439	417,730

(a) As at 31 December 2005, the notes payable represented bank acceptance notes secured by inventories *(Note 13)*, notes receivable *(Note 14)* and the restricted bank balances *(Note 17)*, amounting to approximately RMB32 million (2004: nil), RMB67 million (2004: RMB79 million) and RMB128 million (2004: RMB94 million) respectively.

(All amounts in RMB thousands unless otherwise stated)

20. Trade payables — Group *(Continued)*

As at 31 December 2005 and 2004, the ageing analysis of the trade payables is as follows:

	2005	2004
Within 3 months	**546,684**	333,165
4-6 months	**82,623**	76,605
7-9 months	**640**	2,867
10-12 months	**815**	1,294
Above 1 year	**1,677**	3,799
	632,439	417,730

21. Accruals, advances from customers and other current liabilities — Group

	2005	2004
Accruals	**10,108**	26,839
Advances from customers	**275,835**	425,087
Value-added tax payable	**55,838**	11,721
Other taxes payables	**1,883**	15,195
Other payables *(a)*	**671,244**	255,900
	1,014,908	734,742

(a) The breakdown of other payables as at 31 December 2005 and 2004 is as follows:

	2005	2004
Pension payables and other social welfare payables	**99,431**	100,772
Payables for purchase of property, plant and equipment	**418,555**	58,311
Customer deposits	**76,920**	47,660
Employee deposits	**15,308**	14,023
Salary payables	**15,513**	16,041
Others	**45,517**	19,093
	671,244	255,900

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

22. Borrowings — Group

	2005	2004
Non-current		
Bank borrowings—		
Secured *(i)*	**149,230**	184,230
Guaranteed *(ii)*	**—**	130,000
	149,230	314,230
Other borrowings, unsecured *(iii)*	**145,000**	145,000
	294,230	459,230
Current		
Bank borrowings-		
Secured (i)	**1,205,900**	1,388,000
Guaranteed (ii)	**130,000**	70,000
	1,335,900	1,458,000
Total borrowings	**1,630,130**	1,917,230

(i) As at 31 December 2005 and 2004, secured borrowings were secured by certain restricted bank balances *(Note 17)*, certain property, plant and equipment *(Note 7)* and leasehold land and land use rights *(Note 6)* of the Group.

(ii) As at 31 December 2005, the guaranteed current borrowings were guaranteed by two third parties amounting to RMB30 million and RMB100 million respectively. As at 31 December 2004, the guaranteed current and non-current borrowings were guaranteed by two third parties and Foshan Jin Lan Aluminium Company Limited ("Foshan Jin Lan") (the shareholder of Foshan Jinxi) amounting to RMB130 million and RMB70 million respectively.

(iii) Other unsecured borrowing represented a borrowing from the local county government amounting to RMB145 million which will be repaid from 1 January 2008 onwards at an amount of RMB20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit.

(All amounts in RMB thousands unless otherwise stated)

22. Borrowings — Group *(Continued)*

The maturity of borrowings as at 31 December 2005 and 2004 is as follows:

	2005	2004
Within 1 year	**1,335,900**	1,458,000
Between 1 and 2 years	**149,230**	165,000
Between 2 and 5 years	**60,000**	189,230
Over 5 years	**85,000**	105,000
	1,630,130	1,917,230

The effective interest rates at the balance sheet date were as follows:

	2005	2004
Bank borrowings	**5.02%-7.15%**	4.78%-5.90%
Other borrowings	**2.25%**	1.98%

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	2005	2004	**2005**	2004
Bank borrowings	**149,230**	314,230	**149,230**	314,230
Other borrowings	**145,000**	145,000	**119,309**	120,403
	294,230	459,230	**268,539**	434,633

The carrying amounts of the borrowings are all denominated in RMB.

23. Long-term advances from customers — Group

The maturity profile of the long-term advances from certain customers of Jinxi Limited is as follows:

	2005	2004
Within 1 year	**10,000**	—
1-2 years	**15,000**	10,000
2-5 years	**—**	15,000
	25,000	25,000

(All amounts in RMB thousands unless otherwise stated)

24. Deferred income tax — Group

(a) Movement of the deferred tax assets is as follows:

	2005	2004
Beginning balance of the year	**—**	208
Credited to consolidated income statement *(Note 29 (a))*	**2,327**	(208)
Ending balance of the year	**2,327**	—

Deferred taxation is calculated on temporary differences under the liability method using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement for the year ended 31 December 2005. The total balance of deferred tax assets will be recovered within 12 months.

(b) Deferred tax assets are attributed to the following items:

	2005	2004
Losses on disposal of property, plant and equipments pending approval of tax authority	**1,877**	—
Other expenses pending approval of tax authority	**450**	—
	2,327	—

25. Other gains — net — Group

	2005	2004
Other gains — net:		
Interest income *(Note 33)*	**66,324**	32,940
Subsidy income	**345**	—
Loss on disposal of property, plant and equipment *(Note 33)*	**(36,359)**	(9)
Sales of raw materials and by-products	**27,267**	19,412
Foreign exchange loss, net *(Note 33)*	**(44,858)**	(2,741)
Bank charges	**(1,006)**	(660)
Others	**4,158**	(2,203)
Total	**15,871**	46,739

(All amounts in RMB thousands unless otherwise stated)

26. Expenses by nature — Group

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005	2004
Staff costs (including directors' emoluments)		
— Salaries and welfare	144,062	123,080
— Pension costs-defined contribution plan *(Note 27)*	24,546	22,739
	168,608	145,819
Amortisation of leasehold land and land use rights *(Note 6,33)*	1,314	867
Depreciation of property, plant and equipment *(Note 7,33)*	207,734	148,754
Amortisation of intangible assets *(Note 9,33)*	682	—
Depreciation of investment properties *(Note 8,33)*	445	—
Operating lease rental in respect of land use rights	3,368	2,123
Reversal of impairment provision for doubtful receivables	—	(6,347)
Write-down inventories to their net realisable value *(Note 33)*	12,632	—
Auditors' remuneration	3,000	2,555

27. Employee benefit expense

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group that are incorporated in the PRC participate in a defined contribution retirement benefit plan organised by the relevant provincial government. For the year ended 31 December 2005 and 2004, the Group is required to make monthly defined contributions to these plans at rates from 20.5% to 28%, with the base of their total salary subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in Note 26.

(All amounts in RMB thousands unless otherwise stated)

27. Employee benefit expense *(Continued)*

(b) Directors' and senior management's emoluments

The emoluments of every director for the year ended 31 December 2005 and 2004, on a named basis, are set out as below:

Name of Director	Fees	Salaries and allowances	Bonus	Pension costs — defined contribution plan	Total
2005					
Mr. Han Jingyuan	246	1,393	105	5	1,749
Mr. Zhu Jun	164	1,050	—	15	1,229
Mr. Shen Xiaoling *(a)*	105	650	—	10	765
Mr. Liu Lei	167	436	58	5	666
Mr. Yu Tung Ho	263	—	—	—	263
Ms. Chen Ningning	244	—	—	7	251
Mr. Tang Chi Fai	214	—	—	7	221
Mr. Wong Man Chung, Francis	210	—	—	—	210
Mr. Gao Qingju	164	—	—	—	164
	1,777	3,529	163	49	5,518
2004					
Mr. Han Jingyuan	171	254	800	5	1,230
Mr. Zhu Jun	103	36	699	6	844
Mr. Zhu Zijiu *(b)*	77	36	300	6	419
Mr. Yu Tung Ho	273	—	—	—	273
Ms. Chen Ningning	114	—	80	4	198
Mr. Liu Lei	27	162	—	—	189
Mr. Tang Chi Fai	103	—	30	7	140
Mr. Gao Qingju	103	—	—	—	103
Mr. Wong Man Chung, Francis	75	—	—	—	75
	1,046	488	1,909	28	3,471

None of the directors waived or agreed to waive any remuneration during the years 2005 and 2004. The emoluments of the independent non-executive directors during the year are RMB637,000 approximately (2004: RMB451,000).

(a) Mr. Shen Xiaoling was appointed on 1 July 2005.

(b) Mr. Zhu Zijiu resigned on 9 September 2004.

(All amounts in RMB thousands unless otherwise stated)

27. Employee benefit expense *(Continued)*

(c) Five highest paid individuals

The five highest paid individuals consisted of:

	2005	2004
Number of directors	**4**	2
Number of employees	**1**	3
	5	5

The five individuals whose emoluments were the highest in the Group for the year include four (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: three) individuals during the year are as follows:

	2005	2004
Salaries and allowances	**737**	110
Bonuses	**58**	1,650
Pension costs-defined contribution plan	**13**	18
	808	1,778

During the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of office.

The remuneration of the five highest paid individuals during the years ended 31 December 2005 and 2004 fell within the following bands:

	Number of individuals	
	2005	2004
Nil to RMB1,040,000 (approximately to HK$1,000,000)	**3**	4
RMB1,040,001 to RMB2,080,000 (approximately HK$1,000,001 to HK$2,000,000)	**2**	1

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

28. Finance costs — Group

	2005	2004
Interest expenses		
— borrowings	**70,071**	59,275
— amount due to related parties *(Note 34(c))*	**2,764**	—
— discount of notes receivable	**1,354**	4,995
	74,189	64,270

29. Taxation — Group

(a) Taxation represents:

	2005	2004
Current income tax		
— PRC enterprise income tax (the "EIT")	**159,408**	(33,894)
Deferred taxation *(Note 24 (a))*	**(2,327)**	208
	157,081	(33,686)

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and, accordingly, is exempted from payment of Bermuda income tax.

The subsidiaries directly held by the Company were incorporated in BVI with limited liability under the International Business Companies Act Chapter 291 and, accordingly, are exempted from payment of BVI income tax.

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year ended 31 December 2005 (2004: nil).

The PRC EIT is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

The PRC state enterprise income tax rate of the indirect subsidiary of the Company, Jinxi Limited, is 30% and the local income tax rate is 3%. Therefore, an aggregate tax rate of 33% was applicable for income tax filing purpose.

(All amounts in RMB thousands unless otherwise stated)

29. Taxation — Group *(Continued)*

(a) Taxation represents *(Continued)*:

Effective from 25 December 2002, Jinxi Limited was approved to be a foreign-invested joint stock company. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 20 January 2003, effective from 1 January 2003, Jinxi Limited was entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT.

Approved by local tax authority at 22 July 2004, Jinxi Limited was entitled to a five-year full exemption followed by a five-year 50% tax deduction from the local income tax started from 1 January 2003. Accordingly, the effective tax rate of Jinxi Limited was 15% for the year ended 31 December 2005 (2004: nil).

Foshan Jinxi qualified as a foreign investment production enterprise and was established in a coastal economic development zone. Accordingly, the applicable enterprise income tax rate is 24% and the local tax rate is 3%, resulting in an aggregate tax rate of 27%. As at 31 December 2005, Foshan Jinxi was in a cumulative tax loss position. Accordingly, the effective tax rate is nil (2004: nil).

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 33% for the years ended 31 December 2005 and 2004 as follows:

	2005	2004
Profit before taxation	**1,004,196**	1,175,832
Taxation calculated at statutory tax rate	**331,385**	388,025
Effect of tax exemption of Jinxi Limited	**(196,590)**	(382,524)
Effect of reversal of prior year local income tax	**—**	(33,894)
Effect of different tax rate upon assessing deferred tax assets	**21,015**	9
Effect of change of tax rate upon assessing deferred tax assets	**—**	208
Effect of other non-taxable income	**(988)**	(5,510)
Effect of non-deductible expenses	**2,259**	—
	157,081	(33,686)

30. Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the accounts of the Company to the extent of approximately RMB124,790,000 (2004: RMB108,042,000).

31. Dividends

	2005	2004
Special dividend paid *(a)*	—	390,450
Interim, paid	—	92,789
Final, proposed *(b)*	**136,044**	142,142
	136,044	625,381

(a) In connection with the Reorganisation, at a meeting held on 5 January 2004, the directors of Jinxi Limited proposed a special dividend of RMB400 million to the then shareholders.

(b) At a meeting held on 31 March 2005, the directors proposed a final dividend in respect of the year ended 31 December 2004 of HK$133,630,000 (approximately RMB142,142,000), representing HK$0.046 per ordinary share. The Annual General Meeting held on 19 May 2005 approved the directors' dividend proposal.

At a meeting held on 30 March 2006, the directors proposed a final dividend in respect of the year ended 31 December 2005 of HK$130,725,000 (approximately RMB136,044,000), representing HK$0.045 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

32. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company	**846,585**	1,181,006
Weighted average number of ordinary shares in issue (thousands)	**2,905,000**	2,769,509
Basic earnings per share (RMB per share)	**0.29**	0.43

Diluted

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2005 (2004: nil).

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

33. Notes to the consolidated cash flow statement

(i) Reconciliation of profit before taxation to cash generated from operations is as follows

	2005	2004
Profit before income tax	**1,004,196**	1,175,832
Reversal of impairment provision for doubtful receivables	**—**	(6,347)
Depreciation of property, plant and equipment *(Note 7,26)*	**207,734**	148,754
Depreciation of investment properties *(Note 8,26)*	**445**	—
Amortisation of leasehold land and land use rights *(Note 6,26)*	**1,314**	867
Amortisation of intangible assets *(Note 9,26)*	**682**	—
Write-down inventories to their net realisable value *(Note 26)*	**12,632**	—
Share of losses/(profit) of an associate company *(Note 11)*	**2,319**	(6,910)
Loss on disposal of property, plant and equipment, net *(Note 25)*	**36,359**	9
Exchange loss *(Note 25)*	**44,858**	2,741
Interest income *(Note 25)*	**(66,324)**	(32,940)
Interest expenses *(Note 28)*	**74,189**	64,270
Operating profit before working capital changes	**1,318,404**	1,346,276
Increase in financial assets at fair value through profit or loss	**(64,633)**	—
Increase in inventories	**(215,799)**	(209,022)
Decrease/(increase) in restricted bank balances	**221,254**	(294,069)
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	**(574,307)**	(466,614)
Decrease in long-term advances to suppliers	**50,000**	50,000
Decrease in amount due from related parties	**—**	68,366
Increase/(decrease) in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities	**90,466**	(64,925)
Decrease in long-term advances from customers	**—**	(33,000)
Decrease in amount due to related parties	**(200,905)**	(3,796)
Cash generated from operations	**624,480**	393,216

33. Notes to the consolidated cash flow statement *(Continued)*

(ii) Major non-cash transactions:

During the year ended 31 December 2005, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately RMB801 million (2004: approximately RMB203 million).

34. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) During the year 2005 and 2004, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Wellbeing	Substantial shareholder of the Company
Smart Triumph	Substantial shareholder of the Company
Qianxi County Heli Industry and Trade Co., Ltd. ("Qianxi Heli") *(i)*	The controlling shareholder was Mr. Han Jingyuan, a director of the Company
Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd. ("Qianxi Fuqin")	The controlling shareholder is Mr. Han Jingyuan, a director of the Company
Pioneer Metals Co., Ltd. ("PMC")	The controlling shareholder is Ms. Chen Ningning, a director of the Company
Tangshan City Jinxi Iron and Steel Group Co., Ltd. ("Tangshan Jinxi Group")	Shareholder of Jinxi Limited and its legal representative is Mr. Han Jingyuan, a director of the Company
Beijing PMC New Century Technology Co., Ltd. ("Beijing PMC")	Subsidiary of PMC
Foshan Jin Lan Aluminium Company Limited ("Foshan Jin Lan")	Substantial shareholder of Foshan Jinxi

(All amounts in RMB thousands unless otherwise stated)

34. Related party transactions *(Continued)*

(a) *(Continued)*

Name	Relationship with the Group
Zhongxing Iron Mine	Jinxi Limited's associated company
Beijing Wanlihe Trading Co., Ltd. ("Beijing Wanlihe")	Its controlling shareholder is Mr. Han Jingyuan, a director of the Company
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Mr. Zhou Weijie	Director of Foshan Jinxi
Ms. Fu Ruiyun	The shareholder of Jinxing Charging

(i) Qianxi Heli was deregistered in March 2005 and ceased to be the Group's related party from then on.

(b) Save as disclosed elsewhere in these consolidated financial statements, during the year 2005 and 2004, the directors were of the view that the following significant related party transactions were carried out in the normal course of business of the Group:

(i) Purchases

	2005	2004
Purchase of property, plant and equipment		
— Foshan Jin Lan	**25,785**	—
Purchases of goods:		
— Zhongxing Iron Mine	**28,383**	95,866

(ii) Contribution

Pursuant to the "New Joint Venture Agreement" as announced in the Company's circulars dated 18 January 2005, Foshan Jin Lan contributed a building to Foshan Jinxi in February 2005, with a fair value of approximately RMB2.8 million.

(All amounts in RMB thousands unless otherwise stated)

34. Related party transactions *(Continued)*

(b) *(Continued)*

(iii) Loan received

Tangshan Jinxi Group provided a loan, amounting to RMB70 million to Jinxi Limited, which was fully repaid to Tangshan Jinxi Group during the year ended 31 December 2005. The loan was unsecured, interest-free and had no fixed term of repayment.

(iv) Transfer notes receivables and bank balances

	2005	2004
Transfer notes receivables		
— Qianxi Heli	—	597,404
— Tangshan Jinxi Group	—	334,325
Transfer bank balances		
— Qianxi Heli	—	700,000

The Group transferred certain bank acceptance notes to Qianxi Heli and Tangshan Jinxi Group at a consideration equivalent to the par value of those receivables in the year 2004.

The Group transferred bank balances of RMB700 million to Qianxi Heli. As at 31 December 2004, the bank balances of RMB700 million was transferred back by Qianxi Heli. In addition, an amount of RMB0.37 million, equivalent to the bank deposit interest at the rate of 0.72% per annum, was paid to the Group in the year 2005.

(v) Repayment of the amount due to PMC and Qianxi Heli

Subject to certain agreements entered into in December 2003, the payables owing to PMC and Qianxi Heli, amounting to RMB100 million and RMB116 million respectively, were due after 30 June 2005. In the year 2005, Jinxi Limited repaid RMB100 million to Beijing PMC according to the written instruction of PMC, and repaid RMB114 million to Beijing Wanlihe and RMB2 million to Qianxi Fuqin according to the written instruction of Qianxi Heli.

(All amounts in RMB thousands unless otherwise stated)

34. Related party transactions *(Continued)*

(c) As at 31 December 2005 and 2004, the directors were of the view that the following related party balances were attributed to the above-mentioned related party transactions, amounts paid on behalf of the companies within the Group, dividend appropriation during the years and other ordinary business transactions.

	2005	2004
Payables to related parties		
— PMC	**—**	100,023
— Qianxi Heli	**—**	116,666
— Mr. Han Jingyuan	**—**	11
— Tangshan Jinxi Group	**—**	2,063
— Foshan Jin Lan	**45,082**	1,463
— Ms. Fu Ruiyun	**16,783**	—
— Mr. Zhou Weijie	**—**	25,083
— Zhongxing Iron Mine	**2,535**	2,535
	64,400	247,844

The balance due to Foshan Jin Lan was unsecured and had no fixed term of repayment, a portion of which amounting to RMB2 million was interest-free and the remaining portion of approximately RMB43 million bore interest at a rate of 7.15% per annum. For the year ended 31 December 2005, interest expense of approximately RMB2.8 million was incurred *(Note 28)*, and RMB2.3 million was repaid (2004: nil).

Except for the loan provided by Foshan Jin Lan as disclosed above, the related party balances were all unsecured, interest free and had no fixed term of repayment.

35. Commitments- Group

(a) Capital commitments

	2005	2004
Investment commitment in Foshan Jinxi	**—**	147,984
Purchase of property, plant and equipment		
— Contracted but not provided for	**256,266**	757,304
— Authorised but not contracted for	**—**	539,590
	256,266	1,296,894

(All amounts in RMB thousands unless otherwise stated)

35. Commitments- Group *(Continued)*

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of land use rights and building under non-cancellable operating leases are payable as follows:

	2005	2004
Not later than one year	**4,629**	2,746
Later than one year and not later than five years	**13,404**	7,497
Later than five years	**65,969**	40,460
	84,002	50,703

36. Contingent events

The Group

Guarantee for third parties

	2005	2004
Guarantees for bank borrowings of third parties *(i)*	**28,986**	29,880
Guarantees for letter of credit issued by a third party *(ii)*	**248,429**	366,000
	277,415	395,880

(i) As at 31 December 2005, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB28,986,000 (2004: approximately RMB29,880,000). The directors considered that no material liabilities will arise from the guarantee.

(ii) During the year ended 31 December 2005, a third party acted as an agent and issued letter of credit to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB248 million *(Note 14)* as collaterals (2004: bank deposits of RMB255 million and notes receivable of RMB111 million respectively).

(All amounts in RMB thousands unless otherwise stated)

36. Contingent events *(Continued)*

The Company

	2005	2004
Guarantee for bank borrowings of subsidiaries	**872,900**	1,200,000

As at 31 December 2005, the Company pledged bank deposits amounting to US$110,000,000 (equivalent to approximately RMB888 million) as collaterals to secure current borrowings of Jinxi Limited and Foshan Jinxi.

37. Subsequent events

Saved as disclosed elsewhere in these consolidated financial statements, the significant subsequent events of the Group are as follows:

(a) On 29 March 2006, the directors of Jinxi Limited proposed a final dividend of RMB150,000,000 in respect of the year ended 31 December 2005.

(b) The Company provided an interest-free shareholder's loan, amounting to US$56.7 million (equivalent to approximately RMB458 million), to Jinxi Limited in January 2006, with a repayment term of 20 years.

(c) Accordpower entered into an agreement with Foshan Jinxi and Foshan Jin Lan in January 2006. In accordance with the agreement:

(i) Foshan Jin Lan shall additionally provide a loan to Foshan Jinxi, amounting to US$1.5 million (equivalent to approximately RMB12 million), on the condition that Accordpower provided a new loan to Foshan Jinxi, amounting to US$2.25 million (equivalent to approximately RMB18 million).

(ii) Foshan Jin Lan will designate the existing receivable from Foshan Jinxi (including in the payables to Foshan Jin Lan of RMB45 million as described in Note 34 (c)) amounting to approximately RMB44.7 million as interest-free, on the condition that Accordpower additionally will provide another loan to Foshan Jinxi, amounting to US$9.03 million (equivalent to approximately RMB73 million).

(iii) On the condition that (i) and (ii) as above are met, all of above loans and payables due to Accordpower and Foshan Jin Lan by Foshan Jinxi would be interest-free and repayable only after five years.

In February 2006, Foshan Jinxi received the loans provided by Accordpower amounting to US$18.5 million (equivalent to approximately RMB150 million).

37. Subsequent events *(Continued)*

(d) In January 2006, the Company and Foshan Jin Lan granted a guarantee in favour of Foshan Jinxi for bank borrowing facilities amounting to RMB150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively.

38. Approval of accounts

These consolidated financial statements were approved by the board of directors on 30 March 2006.