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").

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 3 April 2007.

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.

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 Group'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.

(a) Standards, amendments and interpretations to standards effective in 2006

- HKFRS 6, "Exploration for and evaluation of mineral resources", is mandatory for the Group's accounting periods beginning on or after 1 January 2006. HKFRS 1 Amendment — First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources, is mandatory for the Group's accounting periods beginning on or after 1 January 2006.

  HKFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specific consideration of certain requirements of HKAS 8. Amendments to HKFRS 1 exempt the requirement to present comparative information for HKFRS 6. The Group has reviewed related operation and identified no material exploration and evaluation assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) ***Standards, amendments and interpretations to standards effective in 2006*** *(Continued)*

- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts, is mandatory for the Group's accounting periods beginning on or after 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 has concluded that the amendment was relevant to the Group's operation. The impact of adopting the amendment is described in Note 2.27.

- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", is mandatory for the Group's accounting periods beginning on or after 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 standards.

  The Group has reviewed the amendment and concluded that the amendment was relevant to the Group's operation. The impact of adopting the amendment is described in Note 2.4.

- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", is mandatory for the Group's accounting periods beginning on or after 1 January 2006.

  The Group has reviewed its contracts and believed that the Group did not have relevant arrangements that might be affected by this interpretation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. 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 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 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. This standard supersedes HKAS 14 Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. Management is currently assessing the impact of HKFRS 8 on the Group's operations. The Group will apply HKFRS 8 with effect from 1 January 2009;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group has already assessed whether embedded derivative should be separated using the principles that are consistent with HK(IFRIC)-Int 9;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* *(Continued)*

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007; and

- HK(IFRIC)-Int 11, HKFRS 2-Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). It clarifies the application of share-based payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008.

(c) *Interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006); and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

(d) *Amendments and interpretations to standards effective in 2006 but not relevant for the Group's operations*

The following amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment — Employee Benefits;

- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

- HKAS 39 Amendment — The fair value option;

- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, 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 interest. 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment 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 provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interest 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 unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(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 functional and presentation currency of the Company and its subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(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.

(c) Net investment in foreign operation

The Company and some subsidiaries have some monetary item that is receivable for or payable to a foreign operation within the Group. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items include long-term receivables or loans, which do not include trade receivables and trade payables.

Exchange differences arising on a monetary item that forms a part of the Group's net investment in a foreign operation is recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (consolidated financial statements when the foreign operation is a subsidiary), such exchange differences, if appropriate, is recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

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.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives *(Note 4.1)*, 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	2-5 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 the carrying amount and are recognised within other gains/(losses) — net, 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 available for intended use. When the assets concerned are ready for their intended 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.

2.7 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment properties *(Continued)*

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).

Intangible assets should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It should be recognised in profit or loss when the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, and are tested annually for impairment. 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). 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 financial assets, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets 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; these are classified as current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

(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 years ended 31 December 2006 and 2005, the Group has no financial assets categorised as held-to-maturity or available-for-sale financial assets.

Regular purchases and sales of financial assets are recognised on the 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. Financial assets 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. Financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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 are presented in the income statement within other (losses)/gains — net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

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.

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. Impairment testing of trade receivables is described in Note 2.13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is 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 designed 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 transaction (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 objectives 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.

Except for the cash flow hedge disclosed in Note 18, the Group has no other hedging activities during the years ended 31 December 2006 and 2005. The full fair value of a hedging derivative is classified as a non-current asset or liability when 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.

(a) 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 gains/(losses) — net.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Derivative financial instruments and hedging activities *(Continued)*

(a) *Cash flow hedge* *(Continued)*

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, 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. The gain or loss relating to the ineffective portion is recognised in the income statement within other gains/(losses) — net. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory, or in depreciation in case of fixed assets.

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 within other gains/(losses) — net.

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

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(losses) — 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the 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 receivable is 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

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.

2.15 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 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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, 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.

2.19 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.

2.20 Employee benefits

(a) 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 26. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits *(Continued)*

(a) *Pension obligations* *(Continued)*

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

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

2.22 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)*

2.22 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.

2.23 Revenue recognition

(a) *Sales of goods produced*

Revenue 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. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) *Interest income*

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.

(c) *Dividend income*

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

(d) *Rental income*

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

2.24 Operating leases as a lessee

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)*

2.25 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.

2.26 Dividends distribution

Dividends 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.

2.27 Financial guarantee liabilities

Financial guarantee liabilities are recognised in respect of the financial guarantee contract issued by the Group to the contract holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee contract. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

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 21.

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 16.

Payables for certain equipment imported by the Group were denominated in Euro. During the year ended 31 December 2006 the Group has not used any foreign exchange rate swaps to hedge its exposure to foreign exchange risk.

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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Fair value estimation *(Continued)*

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.

(b) Impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy stated in Note 2.9. The recoverable amount of cash-generating unit has been determined based on higher of value-in-use and fair value less costs to sell.

The Group determined that there was an impairment indication relating to a production line of a subsidiary which manufactures galvanised and cold rolled sheets. This production line was identified as a cash-generating unit.

The Group measured the value in use and fair value less costs to sell by discounting the future estimated cash flow deriving from the production line. These calculations required the Group to estimate the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) *Impairment of property, plant and equipment* *(Continued)*

As at 31 December 2006, the value in use and fair value less costs of sell approximated to RMB245.3 million and RMB240.4 million respectively. The Group considered that the recoverable amount was the higher of value in use and fair value less costs of sell. The recoverable amount of the production line was lower than its carrying amount by RMB41.9 million approximately *(Note 7)*.

If the estimated gross margin in all forecast years had been 10% lower or higher than the management's estimates at 31 December 2006 (for example, 18% or 22% instead of 20%), the Group would have recognised the impairment as follows:

	2006	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	**75,956**	**—**

If the estimated pre-tax discount rate applied to the discounted cash flows had been 10% (for example, 9% or 11% instead of 10%) lower or higher than management's estimates, the Group would have recognised the impairment as follows:

	2006	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	**10,065**	**59,097**

(c) *Useful life of the property, plant and equipment*

Useful life is the period over which an asset is expected to be available for use by an entity. The depreciable amount of an asset is allocated on a systematic basis over its useful life *(Note 2.5)*.

The following factors are considered in determining the useful life of an asset:

(i) Expected usage of the asset

(ii) Expected physical wear and tear

(iii) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset

(iv) Legal or similar limits on the use of the asset,

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Useful life of the property, plant and equipment (Continued)

The useful life of an asset is reviewed at each financial year-end and, if expectations differ from previous estimates, the change will be accounted for as a change in an accounting estimate in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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 2006 and 2005 were as follows:

	2006	2005
Sales:		
Gross sales, less discounts and returns		
— billets	**2,752,589**	3,631,593
— strips and strip products	**5,723,391**	5,389,347
— H section steel products	**728,933**	—
— galvanised sheets	**381,209**	—
— cold rolled sheets	**160,332**	117,159
— others	**35,662**	44,594
	9,782,116	9,182,693

(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:

	2006	2005
Opening	**79,569**	55,239
Additions	**—**	25,644
Amortisation of prepaid operating lease payment *(Note 25, 32)*	**(1,477)**	(1,314)
	78,092	79,569

As at 31 December 2006, the net book value of leasehold land and land use rights pledged as security for the Group's borrowings amounted to approximately RMB65 million (2005: RMB67 million) *(Note 21)*.

The Group's leasehold land and land use rights are located in the PRC and the remaining lease period is between 46 years to 49 years.

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improvements	CIP	Total
At 1 January 2005							
Cost	749,256	1,555,561	13,702	35,506	577	402,711	2,757,313
Accumulated depreciation	(91,280)	(300,807)	(4,759)	(11,138)	(261)	—	(408,245)
Net book amount	657,976	1,254,754	8,943	24,368	316	402,711	2,349,068
Year ended 31 December 2005							
Opening net book amount	657,976	1,254,754	8,943	24,368	316	402,711	2,349,068
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 repairment	(7,710)	(2,159)	—	—	—	9,869	—
Disposals *(Note 32)*	(17,155)	(18,602)	(4,537)	(209)	—	—	(40,503)
Depreciation *(Note 25, 32)*	(37,250)	(158,698)	(4,962)	(6,473)	(351)	—	(207,734)
Closing net book amount	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improvements	CIP	Total
At 31 December 2005							
Cost	929,675	2,194,045	22,945	43,460	1,337	1,593,621	4,785,083
Accumulated depreciation	(115,887)	(413,010)	(4,643)	(14,860)	(612)	—	(549,012)
Net book amount	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071
Year ended 31 December 2006							
Opening net book amount	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071
Additions	9,543	15,995	2,952	7,308	—	787,387	823,185
Transfers	411,025	1,733,268	2,413	25	—	(2,146,731)	—
Disposals *(Note 32)*	(2,688)	(12,415)	(209)	(86)	—	—	(15,398)
Depreciation *(Note 25, 32)*	(49,772)	(265,923)	(3,157)	(7,668)	(171)	—	(326,691)
Impairment *(Note 25, 32)*	(9,060)	(32,150)	(450)	(199)	—	—	(41,859)
Closing net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	4,675,308
At 31 December 2006							
Cost	1,346,713	3,924,966	28,063	50,121	1,337	234,277	5,585,477
Accumulated depreciation and impairment	(173,877)	(705,156)	(8,212)	(22,141)	(783)	—	(910,169)
Net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	4,675,308

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

Depreciation expenses have been charged to the consolidated income statements as follows:

	2006	2005
Cost of sales	**318,204**	199,647
Administrative expenses	**8,487**	8,087
	326,691	207,734

(a) As at 31 December 2006, the net book value of buildings and machinery pledged as security for the Group's current and non-current borrowings amounted to approximately RMB1,088 million (2005: RMB568 million) *(Note 21)*.

During the year ended 31 December 2006, borrowing costs amounting to approximately RMB6 million were capitalised into the cost of property, plant and equipment (2005: approximately RMB25 million) at an average capitalisation rate of 5% approximately.

(b) As at 31 December 2006, the Directors considered that certain production line in relation to production of galvanised and cold rolled sheets belonging to a subsidiary was carried at more than its recoverable amount *(Note 4.1)*.

Impairment of the Group's property, plant and equipment has been charged to the consolidated income statement as follow:

	2006	2005
Cost of sales	**41,859**	—

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Buildings	Furniture and fixtures	Vehicles	Leasehold improve-ments	Total
At 1 January 2005					
Cost	—	374	1,468	577	2,419
Accumulated depreciation	—	(65)	(245)	(261)	(571)
Net book amount	—	309	1,223	316	1,848
Year ended 31 December 2005					
Opening net book amount	—	309	1,223	316	1,848
Additions	12,399	303	1,189	760	14,651
Disposals	—	—	—	—	—
Depreciation	(258)	(91)	(341)	(351)	(1,041)
Closing net book amount	12,141	521	2,071	725	15,458
At 31 December 2005					
Cost	12,399	677	2,657	1,337	17,070
Accumulated depreciation	(258)	(156)	(586)	(612)	(1,612)
Net book amount	12,141	521	2,071	725	15,458
Year ended 31 December 2006					
Opening net book amount	12,141	521	2,071	725	15,458
Additions	365	2	46	—	413
Disposals	—	—	(1,082)	—	(1,082)
Depreciation	(646)	(130)	(341)	(171)	(1,288)
Closing net book amount	11,860	393	694	554	13,501
At 31 December 2006					
Cost	12,764	679	1,513	1,337	16,293
Accumulated depreciation	(904)	(286)	(819)	(783)	(2,792)
Net book amount	11,860	393	694	554	13,501

(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:

At 1 January 2005	
Cost	—
Accumulated depreciation	—
Net book amount	—
Year ended 31 December 2005	
Opening net book amount	—
Additions	21,356
Depreciation *(Note 25, 32)*	(445)
Closing net book amount	20,911
At 31 December 2005	
Cost	21,356
Accumulated depreciation	(445)
Net book amount	20,911
Year ended 31 December 2006	
Opening net book amount	20,911
Additions	629
Depreciation *(Note 25, 32)*	(1,112)
Closing net book amount	20,428
At 31 December 2006	
Cost	21,985
Accumulated depreciation	(1,557)
Net book amount	20,428

During the year ended 31 December 2006, the rental income arising from investment properties approximately amounted to RMB1.26 million (2005: RMB0.14 million) *(Note 24)*.

As at 31 December 2006, the Directors of the Company assessed the fair value of the investment properties to be approximately RMB25.8 million based on the prices in an active market (2005: RMB22.5 million).

(All amounts in RMB thousands unless otherwise stated)

9. INTANGIBLE ASSETS — GROUP

	Iron ore mining licenses
At 1 January 2005	
Cost	—
Accumulated amortisation	—
Net book amount	—
Year ended 31 December 2005	
Opening net book amount	—
Additions	10,229
Amortisation charge *(Note 25, 32)*	(682)
Closing net book amount	9,547
At 31 December 2005	
Cost	10,229
Accumulated amortisation	(682)
Net book amount	9,547
Year ended 31 December 2006	
Opening net book amount	9,547
Additions	36,822
Deduction	(24,498)
Amortisation charge *(Note 25, 32)*	(3,582)
Closing net book amount	18,289
At 31 December 2006	
Cost	22,418
Accumulated amortisation	(4,129)
Net book amount	18,289

(All amounts in RMB thousands unless otherwise stated)

10. INVESTMENTS IN AND LOANS TO SUBSIDIARIES — COMPANY

(a) Investments in subsidiaries

	2006	2005
Unlisted investments, at cost	224,017	224,017

The particular subsidiaries at 31 December 2006 and 2005 were 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	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
Tangshan Jinxi Mining Company Limited ("Jinxi Mining") *(i)*	PRC 20 December 2004	Limited liability company	100% (Indirectly held)	RMB 2,000,000	RMB 2,000,000	Management service for mining rights

(i) Jinxi Limited entered into an equity acquisition agreement with Mr. Wang Shujun on 5 September 2006 to acquire 2% equity shares of Jinxi Mining held by Mr. Wang Shujun. The total consideration is RMB0.04 million in the form of cash. With completion of the transaction, Jinxi Mining has been a wholly owned subsidiary of Jinxi Limited.

(All amounts in RMB thousands unless otherwise stated)

10. INVESTMENTS IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(b) Loans to subsidiaries

Loans to subsidiaries forms a part of the Company's net investment in foreign subsidiaries.

The loans to Jinxi Limited amounting to approximately US$106.7 million (RMB833.2 million equivalent), are unsecured, interest-free and with a repayment term of 20 years.

Except for the loans to Jinxi Limited as disclosed above, the loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

11. INVESTMENTS IN AN ASSOCIATE — GROUP

	2006	2005
Beginning of the year	**8,881**	12,474
Share of loss *(Note 32)*	**(984)**	(2,319)
Dividends	**—**	(4,074)
Capital injection to the associate	**—**	2,800
End of the year	**7,897**	8,881

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)	36,083	13,885	64,272	(2,810)

12. INVENTORIES — GROUP

	2006	2005
Raw materials and materials in-transit	**1,048,220**	894,832
Work-in-progress	**193,053**	122,459
Finished goods	**166,625**	86,083
	1,407,898	1,103,374

As at 31 December 2006, the net book value of inventories pledged as security for the Group's notes payable and current borrowings amounted to approximately RMB69 million *(Note 19 and 21)*.

(All amounts in RMB thousands unless otherwise stated)

12. INVENTORIES — GROUP *(Continued)*

As at 31 December 2005, the net book value of inventories pledged as security for the Group's notes payable amounted to approximately RMB32 million *(Note 19)*.

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB7,312 million and 6 million respectively (2005: RMB7,069 million and 7 million respectively) *(Note 25)*.

13. TRADE RECEIVABLES — GROUP

	2006	2005
Accounts receivable	**34,795**	23,369
Notes receivable *(a)*	**964,033**	690,815
	998,828	714,184

(a) As at 31 December 2006 and 2005, notes receivable were all bank acceptance notes, approximately of which:

(i) RMB10 million was pledged as security for issuing notes payable (2005: RMB67 million) *(Note 19)*;

(ii) RMB51 million was pledged as security in favour of a third party for issuing letters of credit (2005: RMB248 million) *(Note 33)*;

(iii) RMB29 million was pledged as security for the Group's current borrowings (2005: nil) *(Note 21)*;

(iv) RMB135 million was pledged as security for issuing letters of credit (2005: nil).

As at 31 December 2006 and 2005, the carrying amount of the Group's trade receivables approximated their fair value.

As at 31 December 2006 and 2005, the ageing analysis of trade receivables was as follows:

	2006	2005
Within 3 months	**998,828**	714,184

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

(All amounts in RMB thousands unless otherwise stated)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP AND COMPANY

	2006	2005
Liquid Reserve Fund — Euro, quoted	**130**	52,479
Liquid Reserve Fund — US dollars, quoted	**5**	12,154
	135	64,633

The above financial assets were acquired principally for the purpose of selling in the short term.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	2006	2005
Prepayments	**441,044**	107,899
Deposits and other receivables	**40,690**	77,656
	481,734	185,555

The Company

	2006	2005
Prepayments	**310**	801
Deposits and other receivables	**1,327**	4,339
	1,637	5,140

16. BANK AND CASH BALANCES AND RESTRICTED BANK BALANCES

The Group

	2006	2005
Bank and cash balances	**434,905**	709,870
Restricted bank balances	**95,262**	1,015,416
	530,167	1,725,286

As at 31 December 2006, the restricted bank balances were composed of the following items:

(a) The restricted bank balances amounting to approximately RMB41 million were pledged as security for issuing notes payable of the Group (2005: RMB128 million) *(Note 19)*.

(b) The restricted bank balances of a subsidiary amounting to approximately RMB6 million were pledged as security for issuing notes payable to a fellow subsidiary (2005: nil).

(c) The restricted bank balances amounting to approximately US$6 million (RMB48 million equivalent) were pledged as security for issuing letters of credit (2005: nil).

As at 31 December 2005, restricted bank balances, amounting to approximately US$110 million (RMB888 million equivalent) were pledged as security for current borrowings of the Group *(Note 21)*.

(All amounts in RMB thousands unless otherwise stated)

16. BANK AND CASH BALANCES AND RESTRICTED BANK BALANCES *(Continued)*

The Group *(Continued)*

The carrying amounts of the bank and cash balances and restricted bank balances are denominated in the following currencies:

	2006	2005
RMB	**402,482**	499,004
US dollar	**125,778**	1,224,787
Hong Kong dollar	**1,900**	1,493
Euro	**7**	2
	530,167	1,725,286

The Company

	2006	2005
Bank and cash balances	**73,666**	53,724
Restricted bank balances	**47,962**	887,722
	121,628	941,446

As at 31 December 2006, restricted bank balances amounting to approximately US$6 million (RMB48 million equivalent) (2005: nil) were pledged as security for issuing letters of credit.

As at 31 December 2005, restricted bank balances amounting to approximately US$110 million (RMB888 million equivalent) were pledged as security for current borrowings of the Group *(Note 21)*.

The carrying amounts of the bank and cash balances and restricted bank balances are denominated in the following currencies:

	2006	2005
US dollar	**118,975**	935,129
Hong Kong dollar	**1,881**	1,474
RMB	**768**	4,843
Euro	**4**	—
	121,628	941,446

17. SHARE CAPITAL — GROUP AND COMPANY

	Number of shares (thousands)	Amount		
		Ordinary shares	Share premium	Total
At 1 January 2005	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
At 31 December 2006	2,905,000	309,340	2,151,035	2,460,375

As at 31 December 2006 and 2005, 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 2006 and 2005, the number of issued and fully paid ordinary shares is 2,905,000,000 shares.

18. OTHER RESERVES — GROUP

	Merger reserve *(a)*	Capital surplus	Statutory reserve *(b)*	Hedging Reserve *(c)*	Options *(d)*	Total
Balance at 1 January 2005	(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
Employee share options scheme:						
— Value of employee services *(Note 32)*	—	—	—	—	16,745	16,745
Profit appropriation	—	—	230,276	—	—	230,276
Others	—	1,950	—	—	—	1,950
Balance at 31 December 2006	(599)	19,144	949,006	—	16,745	984,296

18. OTHER RESERVES — GROUP *(Continued)*

(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.

(b) Statutory reserve

(i) Statutory surplus reserves

In accordance with the PRC regulations and the Articles of the Association of the subsidiaries registered in PRC ("PRC subsidiaries"), before distributing the net profit of each year, the PRC subsidiaries are required to set aside 10% of their 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 the 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.

(ii) Discretionary reserves

The appropriation of discretionary reserve fund is proposed by board of directors of the PRC subsidiaries, and approved by the shareholder's meeting. The discretionary reserve fund can be utilised to offset prior years' losses or increase share capital.

(iii) Statutory public welfare

During the year ended 31 December 2005, the PRC subsidiaries are required to set aside 5% to 10% of their 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 expense. These capital items belong to the PRC subsidiaries.

Pursuant to the relevant regulation issued by the Ministry of Finance of the PRC in the year 2006, the PRC subsidiaries do not set aside their statutory net profit to the statutory public welfare fund from 1 January 2006 onwards. The balance of such fund as at 31 December 2005 has been transferred to and used as statutory surplus reserve fund accordingly.

(c) Hedging reserve

The hedging reserve represents the gain or loss of the hedging instrument that are determined to be 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.

18. OTHER RESERVES — GROUP *(Continued)*

(d) Employee share option scheme

As approved by the Board of Directors and Shareholders' meeting, the share options were granted to the directors and an employee on 30 June 2006 ("Date of Grant"), in an aggregate to 24,200,000 shares. The options are exercisable at any time during the period no later than ten years from the Date of Grant with the exercise price of HK$1.76 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	31 December 2006	
	Average exercise price in HK$ per share	**Options (thousands)**
At 1 January	—	—
Granted	1.76	24,200
At 31 December	1.76	24,200

Share options outstanding at 31 December 2006 will expire on 30 June 2016.

The fair value of options granted during the period, determined by using the Binomial valuation model, was HK$16.267 million (approximately to RMB16.745 million). The significant inputs into the model were share price of HK$1.76, at the grant date, exercise price shown above, volatility of 43.0%, expected dividends paid out rate of 3.68% and annual risk-free interest rate of 4.84%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years.

19. TRADE PAYABLES — GROUP

	2006	2005
Accounts payable	**425,268**	430,159
Notes payable *(a)*	**91,100**	202,280
	516,368	632,439

(All amounts in RMB thousands unless otherwise stated)

19. TRADE PAYABLES — GROUP *(Continued)*

(a) As at 31 December 2006, the notes payable represented bank acceptance notes, RMB32.1 million of which were secured by certain notes receivable *(Note 13)*, certain restricted bank balances *(Note 16)*, and bank acceptance notes issued by a subsidiary amounting to RMB8 million approximately, and RMB59 million of which were secured by certain inventories *(Note 12)*, certain restricted bank balances *(Note 16)* and guaranteed by Jinxi Limited.

As at 31 December 2005, the notes payable represented bank acceptance notes secured by certain inventories *(Note 12)*, certain notes receivable *(Note 13)* and certain restricted bank balances *(Note 16)*.

As at 31 December 2006 and 2005, the ageing analysis of the trade payables was as follows:

	2006	2005
Within 3 months	**478,916**	546,684
4-6 months	**30,703**	82,623
7-9 months	**2,795**	640
10-12 months	**219**	815
Above 1 year	**3,735**	1,677
	516,368	632,439

20. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES — GROUP

	2006	2005
Accruals	**9,356**	10,108
Advances from customers	**387,518**	275,835
Value-added tax payable	**58,431**	55,838
Other taxes payables	**2,553**	1,883
Other payables *(a)*	**540,378**	671,244
	998,236	1,014,908

(a) The breakdown of other payables as at 31 December 2006 and 2005 were as follows:

	2006	2005
Pension payables and other social welfare payables	**104,424**	99,431
Payables for purchase of property, plant and equipment	**278,549**	418,555
Customer deposits	**91,671**	76,920
Employee deposits	**15,716**	15,308
Salary payables	**19,972**	15,513
Others	**30,046**	45,517
	540,378	671,244

(All amounts in RMB thousands unless otherwise stated)

21. BORROWINGS — GROUP

	2006	2005
Non-current		
Bank borrowings, secured *(i)*	**215,770**	149,230
Other borrowings, unsecured *(iii)*	**145,000**	145,000
	360,770	294,230
Current		
Bank borrowings—		
Secured *(i)*	**573,230**	1,205,900
Guaranteed *(ii)*	**—**	130,000
	573,230	1,335,900
Total borrowings	**934,000**	1,630,130

(i) As at 31 December 2006, secured borrowings amounting to RMB630 million, out of total secured borrowings amounting to RMB789 million, were secured by certain bank acceptance notes issued by third parties (Note 13), certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) of the Group and certain bank acceptance notes issued by a subsidiary, amounting to approximately RMB7 million.

As at 31 December 2006, secured borrowings amounting to RMB9 million were secured by certain inventories (Note 12) and guaranteed by Jinxi Limited.

As at 31 December 2006, except for the secured borrowings disclosed above, current secured borrowings amounting to RMB150 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and guaranteed by the Company and Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") (a shareholder of Foshan Jinxi) collectively pursuant to the below agreement.

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.

As at 31 December 2005, secured borrowings were secured by certain restricted bank balances (Note 16) certain property, plant and equipment (Note 7) and certain 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.

(All amounts in RMB thousands unless otherwise stated)

21. BORROWINGS — GROUP *(Continued)*

(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.

As at 31 December 2006 and 2005, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2006	2005	**2006**	2005
Within 1 year	**573,230**	1,335,900	**—**	—
Between 1 and 2 years	**—**	149,230	**20,000**	—
Between 2 and 5 years	**215,770**	—	**60,000**	60,000
Over 5 years	**—**	—	**65,000**	85,000
	789,000	1,485,130	**145,000**	145,000

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

	2006	2005
Bank borrowings	**5.58%-7.15%**	5.02%-7.15%
Other borrowings	**2.52%**	2.25%

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

	Carrying amounts		Fair value	
	2006	2005	**2006**	2005
Bank borrowings	**215,770**	149,230	**215,770**	149,230
Other borrowings	**145,000**	145,000	**123,476**	119,309
	360,770	294,230	**339,246**	268,539

The carrying amounts of short-term borrowings approximated their fair value.

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

(All amounts in RMB thousands unless otherwise stated)

21. BORROWINGS — GROUP *(Continued)*

Interest rates of the bank borrowings denominated in RMB are rest periodically according to the primary rate announced by the People's Bank of China. The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2006	2005
6 months or less	**393,230**	1,152,130
6-12 months	**395,770**	333,000
	789,000	1,485,130

22. DEFERRED INCOME TAX — GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
Deferred tax assets:		
— Deferred tax asset to be recovered within 12 months	**—**	2,327
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	**(290)**	—
	(290)	2,327

The gross movement on the deferred income tax account is as follows:

	2006	2005
Beginning balance of the year	**2,327**	—
(Charged)/credited to consolidated income statement *(Note 28 (a))*	**(2,617)**	2,327
Ending balance of the year	**(290)**	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 2006.

(All amounts in RMB thousands unless otherwise stated)

22. DEFERRED INCOME TAX — GROUP *(Continued)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred tax liabilities:

	Unrealised losses on inventories
At 1 January 2005	—
At 31 December 2005	—
Charged to consolidated income statement	(290)
At 31 December 2006	(290)

Deferred tax assets:

	Losses on disposal of property, plant and equipment	Others	Total
At 1 January 2005	—	—	—
Credited to consolidated income statement	1,877	450	2,327
At 31 December 2005	1,877	450	2,327
Charged to consolidated income statement	(1,877)	(450)	(2,327)
At 31 December 2006	—	—	—

The amount of unused tax losses for which no deferred tax asset recognised in the balance sheet approximately amounted to RMB95.2 million (2005: RMB53.3 million). In accordance with the relevant tax laws and regulations in the PRC, the loss can be carried forward for 5 years since the year the loss was generated.

(All amounts in RMB thousands unless otherwise stated)

23. OTHER GAINS/(LOSSES) — NET — GROUP

	2006	2005
Other gains/(losses) — net:		
Sales of raw materials and by-products	**37,423**	27,267
Gain on disposal of intangible assets *(Note 32)*	**85**	—
Loss on disposal of property, plant and equipment *(Note 32)*	**(7,329)**	(36,490)
Foreign exchange loss, net *(Note 32)*	**(2,979)**	(44,858)
Others	**4,239**	6,332
Total	**31,439**	(47,749)

24. OTHER INCOME — GROUP

	2006	2005
Subsidy income	**—**	345
Dividend income on financial assets at fair value through profit or loss *(Note 32)*	**1,061**	3,728
Rental income arising from investment properties *(Note 8)*	**1,261**	141
Others	**1,827**	72
Total	**4,149**	4,286

25. EXPENSES BY NATURE — GROUP

	2006	2005
Employee benefit expense *(Note 26)*	**243,483**	168,608
Costs of inventories *(Note 12)*	**7,318,352**	7,076,396
Amortisation of leasehold land and land use rights *(Note 6, 32)*	**1,477**	1,314
Depreciation of property, plant and equipment *(Note 7, 32)*	**326,691**	207,734
Amortisation of intangible assets *(Note 9, 32)*	**3,582**	682
Impairment of property, plant and equipment *(Note 7, 32)*	**41,859**	—
Depreciation of investment properties *(Note 8, 32)*	**1,112**	445
Operating lease rental in respect of land use rights	**4,503**	3,368
Reversal of impairment provision for receivables *(Note 7, 32)*	**(600)**	—
(Reversal of)/provision for write-down of inventories *(Note 32)*	**(10,754)**	12,632
Auditors' remuneration	**3,300**	3,000

(All amounts in RMB thousands unless otherwise stated)

26. EMPLOYEE BENEFIT EXPENSE — GROUP

	2006	2005
Staff costs (including directors' emoluments)		
— Salaries and welfare	203,184	144,062
— Pension costs — defined contribution plans *(a)*	23,554	24,546
— Share options granted to directors and an employee	16,745	—
	243,483	168,608

(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 2006 and 2005, 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 the above note.

(b) **Directors' and senior management's emoluments**

The emoluments of every director for the year ended 31 December 2006 and 2005, on a named basis, are set out as below:

Name of Director	Fees	Salaries and allowances	Bonus	Fair value of employee share options granted	Pension costs — defined contribution plans	Total
2006						
Mr. Han Jingyuan	638	3,948	—	1,936	12	6,534
Mr. Zhu Jun	306	520	480	1,661	20	2,987
Mr. Liu Lei	376	596	—	1,661	12	2,645
Mr. Shen Xiaoling	306	322	278	1,661	20	2,587
Ms. Chen Ningning	256	—	—	1,799	12	2,067
Mr. Yu Tung Ho	307	—	—	1,661	—	1,968
Mr. Tang Chi Fai	256	—	—	1,661	12	1,929
Mr. Wong Man Chung, Francis	256	—	—	1,661	—	1,917
Mr. Gao Qingju	256	—	—	1,661	—	1,917
	2,957	5,386	758	15,362	88	24,551

(All amounts in RMB thousands unless otherwise stated)

26. EMPLOYEE BENEFIT EXPENSE — GROUP *(Continued)*

(b) Directors' and senior management's emoluments *(Continued)*

Name of Director	Fees	Salaries and allowances	Bonus	Fair value of employee share options granted	Pension costs — defined contribution plans	Total
2005						
Mr. Han Jingyuan	246	1,393	105	—	5	1,749
Mr. Zhu Jun	164	1,050	—	—	15	1,229
Mr. Shen Xiaoling	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

None of the directors waived or agreed to waive any remuneration during the years 2006 and 2005. The emoluments of the independent non-executive directors during the year are RMB5.8 million approximately (2005: RMB0.64 million).

(c) Five highest paid individuals

The five highest paid individuals consisted of:

	2006	2005
Number of directors	**4**	4
Number of employees	**1**	1
	5	5

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: one) individuals during the year are as follows:

	2006	2005
Salaries and allowances	**716**	737
Bonuses	**—**	58
Fair value of employee share options granted	**1,383**	—
Pension costs-defined contribution plans	**12**	13
	2,111	808

(All amounts in RMB thousands unless otherwise stated)

26. EMPLOYEE BENEFIT EXPENSE — GROUP *(Continued)*

(c) Five highest paid individuals *(Continued)*

During the years ended 31 December 2006 and 2005, 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 2006 and 2005 fell within the following bands:

	Number of individuals	
	2006	2005
Nil to RMB1,000,000 (approximately to HK$1,000,000)	**—**	3
RMB1,000,001 to RMB2,000,000 (approximately HK$1,000,001 to HK$2,000,000)	**—**	2
RMB2,000,001 to RMB3,000,000 (approximately HK$2,000,001 to HK$3,000,000)	**4**	—
RMB6,000,001 to RMB7,000,000 (approximately HK$6,000,001 to HK$7,000,000)	**1**	—

27. FINANCE INCOME AND COSTS — GROUP

	2006	2005
Interest expenses		
— borrowings	**(48,615)**	(70,071)
— amount due to related parties *(Note 35 (b)(ii))*	**(1,633)**	(2,764)
— discount of notes receivable	**(139)**	(1,354)
Finance costs *(Note 32)*	**(50,387)**	(74,189)
Finance income		
— interest income on bank deposits *(Note 32)*	**18,930**	62,596
Finance costs, net	**(31,457)**	(11,593)

(All amounts in RMB thousands unless otherwise stated)

28. TAXATION — GROUP

(a) Taxation represents:

	2006	2005
Current income tax		
— PRC enterprise income tax (the "EIT")	**208,269**	159,408
Deferred income tax *(Note 22)*	**2,617**	(2,327)
	210,886	157,081

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 2006 (2005: 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.

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 2006 (2005: 15%).

28. TAXATION — GROUP *(Continued)*

(a) Taxation represents *(Continued)*:

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 2006, Foshan Jinxi was in a cumulative tax loss position. Accordingly, the effective tax rate is nil (2005: nil).

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weight average tax rate of 35.29% (2005: 33%) to profits of the consolidated entities for the years ended 31 December 2006 and 2005 as follows:

	2006	2005
Profit before taxation	**1,233,236**	1,004,196
Taxation calculated at statutory tax rate	**435,181**	331,385
Effect of tax exemption of Jinxi Limited	**(251,861)**	(196,590)
Tax losses for which no deferred income tax asset was recognised	**25,977**	21,015
Effect of other non-taxable income	**(9)**	(988)
Effect of non-deductible expenses	**1,598**	2,259
	210,886	157,081

29. 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 RMB134.45 million (2005: RMB124.79 million).

30. 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.

	2006	2005
Profit attributable to equity holders of the Company	**1,032,754**	846,585
Weighted average number of ordinary shares in issue (thousands)	**2,905,000**	2,905,000
Basic earnings per share (RMB per share)	**0.36**	0.29

(All amounts in RMB thousands unless otherwise stated)

30. EARNINGS PER SHARE *(Continued)*

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) during the period based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The average market price of ordinary shares during the year ended 31 December 2006 did not exceed the exercise price, HK$1.76 per share. The share options are antidilutive and are ignored in the calculation of the diluted earnings per share.

31. DIVIDENDS

	2006	2005
Interim, paid *(a)*	**29,730**	—
Final, proposed *(b, c)*	**132,149**	136,044
	161,879	136,044

(a) At a meeting held on 30 August 2006, the directors declared an interim dividends of HK$29.05 million (approximately RMB29.73 million), representing HK$ 0.01 per share, for the year ended 31 December 2006.

(b) 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$130.73 million (approximately RMB136.04 million), representing HK$0.045 per ordinary share. The Annual General Meeting held on 17 May 2006 approved the directors' dividends proposal.

(c) At a meeting held on 3 April 2007, the directors proposed a final dividend in respect of the year ended 31 December 2006 of HK$133.63 million (approximately RMB132.15 million), representing HK$0.046 per ordinary share. This proposed dividend is not reflected as a dividends payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

(All amounts in RMB thousands unless otherwise stated)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006	2005
Profit before income tax	**1,233,236**	1,004,196
Reversal of impairment provision for receivables *(Note 25)*	**(600)**	—
Depreciation of property, plant and equipment *(Note 7,25)*	**326,691**	207,734
Depreciation of investment properties *(Note 8,25)*	**1,112**	445
Amortisation of leasehold land and land use rights *(Note 6,25)*	**1,477**	1,314
Amortisation of intangible assets *(Note 9,25)*	**3,582**	682
(Reversal of)/write-down inventories to their net realisable value *(Note 25)*	**(10,754)**	12,632
Impairment provision for property, plant and equipment *(Note 7,25)*	**41,859**	—
Share of losses of an associate company (Note 11)	**984**	2,319
Loss on disposal of property, plant and equipment, net *(Note 23)*	**7,329**	36,490
Gain on disposal of intangible assets, net *(Note 23)*	**(85)**	—
Exchange loss *(Note 23)*	**2,979**	44,858
Interest income *(Note 27)*	**(18,930)**	(62,596)
Dividend income on financial assets at fair value through profit or loss *(Note 24)*	**(1,061)**	(3,728)
Interest expenses *(Note 27)*	**50,387**	74,189
Employee share option scheme *(Note 18)*	**16,745**	—
Operating profit before working capital changes	**1,654,951**	1,318,535
Decrease/(Increase) in financial assets at fair value through profit or loss	**64,498**	(64,633)
Increase in inventories	**(293,770)**	(215,799)
Decrease in restricted bank balances	**32,432**	221,254
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	**(940,355)**	(574,438)
Decrease in long-term advances to suppliers	**—**	50,000
(Decrease)/Increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities	**(11,965)**	90,466
Decrease in long-term advances from customers	**(25,000)**	—
Decrease in amount due to related parties	**(221)**	(200,905)
Cash generated from operations	**480,570**	624,480

(All amounts in RMB thousands unless otherwise stated)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(ii) Major non-cash transactions:

During the year ended 31 December 2006, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately RMB324 million (2005: approximately RMB801 million).

(iii) In the cash flow statement, proceeds from sales of property, plant and equipment comprise:

	2006	2005
Net book amount *(Note 7)*	**15,398**	40,503
Loss on disposals of property, plant and equipment *(Note 23)*	**(7,329)**	(36,490)
Proceeds from disposal of property, plant and equipment	**8,069**	4,013

33. CONTINGENT EVENTS

The Group

Guarantee for third parties

	2006	2005
Guarantee for bank borrowings of third parties *(i)*	**18,900**	28,986
Guarantee for letter of credit issued by a third party *(ii)*	**50,520**	248,429
	69,420	277,415

(i) As at 31 December 2006, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB18.9 million (2005: approximately RMB28.99 million).

(ii) During the year ended 31 December 2006, 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 RMB51 million *(Note 13)* as collaterals (2005: approximately RMB248 million).

The Directors of the Company believe that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

(All amounts in RMB thousands unless otherwise stated)

33. CONTINGENT EVENTS *(Continued)*

The Company

	2006	2005
Guarantee for bank borrowings of subsidiaries	**90,000**	872,900

In January 2006, the Company and Foshan Jin Lan collectively granted a guarantee in favour of Foshan Jinxi for current bank 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.

As at 31 December 2006, pursuant to the aforementioned agreement, current secured borrowings of Foshan Jinxi amounting to RMB150 million were guaranteed by the Company and Foshan Jin Lan collectively.

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

The Directors of the Company believe that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

34. COMMITMENTS — GROUP

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	2005
To acquire the minority interest in Jinxing Charging	**8,900**	—
To acquire interests in certain mining enterprises	**83,421**	—
	92,321	—
Purchase of property, plant and equipment		
— Contracted but not provided for	**6,599**	256,266
— Authorised but not contracted for	**1,971,348**	—
	1,977,947	256,266

(All amounts in RMB thousands unless otherwise stated)

34. 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:

	2006	2005
Not later than one year	**5,723**	4,629
Later than one year and not later than five years	**17,086**	13,404
Later than five years	**93,571**	65,969
	116,380	84,002

35. 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 2006 and 2005, 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

(All amounts in RMB thousands unless otherwise stated)

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) During the year 2006 and 2005, the directors are of the view that the following companies and persons are related parties of the Group *(Continued)*:

Name	Relationship with the Group
Beijing PMC New Century Technology Co., Ltd. ("Beijing PMC")	Subsidiary of PMC
Foshan Jin Lan	Substantial shareholder of Foshan Jinxi
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 2006 and 2005, 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

	2006	2005
Purchase of property, plant and equipment — Foshan Jin Lan	—	25,785
Purchases of inventories: — Zhongxing Iron Mine	—	28,383

(ii) Loan received

Tangshan Jinxi Group provided a loan to Foshan Jinxi, amounting to RMB30 million. The loan are unsecured, bore interest at a rate of 5.58% per annum and repayable within one year. For the year ended 31 December 2006, interest expense of approximately RMB1.2 million was incurred.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Save as disclosed elsewhere in these consolidated financial statements, during the year 2006 and 2005, 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 *(Continued)*:

(ii) Loan received *(Continued)*

Foshan Jin Lan entered into an agreement with Foshan Jinxi and Accordpower in January 2006. Pursuant to the agreement:

(1) Foshan Jin Lan provided a loan amounting to RMB11.86 million, approximated to US$1.5 million, to Foshan Jinxi in the form of (a) lending of RMB1 million in cash, (b) repayment the borrowings to a third party on behalf of Foshan Jinxi of RMB10 million, (c) postponement of interest collection by RMB0.86 million approximately, on condition that Accordpower provided a loan to Foshan Jinxi of US$2.25 million.

(2) Foshan Jin Lan designated the existing receivable from Foshan Jinxi amounting to RMB44.67 million as interest-free, on the condition that Accordpower additionally provided another loan to Foshan Jinxi of US$9.03 million. Interest expense of approximately RMB0.44 million was incurred before Accordpower provided the loan to Foshan Jinxi *(Note 21)*.

During the year 2006, Foshan Jinxi has paid certain expenses on behalf of Foshan Jin Lan amounting to approximately RMB0.99 million, which was deducted from the loans provided by Foshan Jin Lan.

All the above loans granted by Foshan Jin Lan in accordance with the agreement are unsecured, interest-free and repayable only after five years.

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.

(iii) 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.

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

Subject to certain agreements entered into December 2003, the payables amounting 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)

35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) As at 31 December 2006 and 2005, the directors were of the view that the following related party balances were attributed to the aforementioned related party transactions, amounts paid on behalf of the Group, dividends appropriation during the years.

	2006	2005
Borrowings from related parties:		
Non-current		
— Foshan Jin Lan *(Note 35 (b)(ii))*	**55,529**	—
Current		
— Tangshan Jinxi Group *(Note 35 (b)(ii))*	**31,194**	—
— Foshan Jin Lan *(Note 35 (b)(ii))*	**—**	45,082
— Ms. Fu Ruiyun	**16,783**	16,783
	103,506	61,865
Dividends payable due to		
— Tangshan Jinxi Group	**5,391**	—
— Zhongxing Iron Mine	**2,535**	2,535
	7,926	2,535
Others:		
— Mr. Han Jinyuan	**771**	—
	112,203	64,400

Except for the loan provided by Foshan Jin Lan and Tangshan Jinxi Group as disclosed in Note 35 (b)(ii), the related party balances were all unsecured, interest free and had no fixed term of repayment.

36. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in this announcement, the significant subsequent events of the Group were as follows:

(i) Jinxi Limited entered into an agreement with Ms. Fu Ruiyun on 23 December 2006 to acquire 38% equity interests of Jinxing Charging held by Ms. Fu Ruiyun. The total consideration was RMB8.9 million in the form of cash. All of the cash consideration was paid in January 2007. Consequently, in accordance with the aforementioned agreement, Jinxing Charging become a wholly owned subsidiary of Jinxi Limited.

36. SUBSEQUENT EVENTS *(Continued)*

(ii) On 30 March 2007, the directors of Jinxi Limited proposed a final dividend of RMB181 million in respect of the year ended 31 December 2006.

(iii) Change of mainland China enterprise income tax law

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as at 1 January 2008, and the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax" both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT but is not yet in a position to state the accurate impact on the Group's results of operations and financial position in the future.

37. APPROVAL OF ACCOUNTS

These consolidated financial statements were approved by the board of directors on 3 April 2007.