



**CHINA ORIENTAL GROUP COMPANY LIMITED**  
**中國東方集團控股有限公司**

(Incorporated in Bermuda with limited liability)

(在百慕達註冊成立的有限公司)

(Stock Code : 581)

(股份代號 : 581)



ANNUAL REPORT  
年報 **2005**

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## For the year ended 31 December

	2005	2004 Restated	Percentage of increase/ (decrease)
Sales volume ( <i>thousand tonnes</i> )			
Billets	<b>1,458</b>	2,006	(27.3%)
Strips and strip products	<b>1,848</b>	1,379	34.0%
Average selling price (net of value-added tax) per tonne ( <i>RMB</i> )			
Billets	<b>2,491</b>	2,599	(4.2%)
Strips and strip products	<b>2,917</b>	2,808	3.9%
Sales ( <i>RMB million</i> )	<b>9,183</b>	9,119	0.7%
Profit attributable to equity holders of the Company ( <i>RMB million</i> )	<b>847</b>	1,181	(28.3%)
Basic earnings per share ( <i>RMB</i> )	<b>0.29</b>	0.43	(32.6%)

**Board of Directors****Executive Directors**

Mr. Han Jingyuan  
(Chairman and Chief Executive Officer)

Ms. Chen Ningning  
(Vice Chairman)

Mr. Zhu Jun

Mr. Tang Chi Fai

Mr. Liu Lei

Mr. Shen Xiaoling

**Independent Non-executive Directors**

Mr. Gao Qingju

Mr. Yu Tung Ho

Mr. Wong Man Chung, Francis

**Company Secretary and Qualified Accountant**

Mr. Lai Po Sing, FCCA, FCPA (Practising)

**Company's Website**

[www.chinaorientalgroup.com](http://www.chinaorientalgroup.com)

**Registered Office**

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Hamilton HM 11  
Bermuda

**Principal Place of Business in Hong Kong**

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9th Floor, Great Eagle Centre  
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Wanchai, Hong Kong

**Bermuda Principal Share Registrar and Transfer Office**

Butterfield Fund Services (Bermuda) Limited

**Hong Kong Branch Share Registrar and Transfer Office**

Tricor Investor Services Limited

**Legal Adviser to the Company****As to Hong Kong law**

Freshfields Bruckhaus Deringer

**Auditors**

PricewaterhouseCoopers

**Principal Banker**

China Construction Bank



# CHAIRMAN'S STATEMENT

The audited consolidated sales of the Group for the year 2005 was RMB9,183 million, representing an increase of 0.7% as compared with that of 2004, while audited profit attributable to equity holders of the Company was RMB847 million, representing a decline of 28.3% when compared with that of 2004. The audited basic earnings per share for the year 2005 was RMB0.29, which represented a decrease of 32.6% from that of 2004.

## Business Review

In 2005, the iron and steel market in the PRC in general witnessed a relatively significant change in the price, which began to decrease since May 2005. The decline in price was substantial when compared with the relatively high levels reached in the first quarter of 2005. The price fall was mainly attributable to the PRC government's implementation of certain austerity measures including the abolition of export tax rebates on billets and measures focusing on the regulation of an overheating real estate industry in April and May 2005. Moreover, there were excessive production capacities in the overall iron and steel market. Due to the aforesaid market conditions, the Group's average selling prices of billets and strips & strip-related products (excluding value-added tax) in the second half of 2005 dropped

by 13-23% when compared with those in the first half of 2005.

In 2005, the Group sold approximately 1,458,000 tonnes of billets, 1,848,000 tonnes of strips & strip-related products and 31,000 tonnes cold rolled sheets (2004: approximately 2,006,000 tonnes of billets and 1,379,000 tonnes of strips & strip-related products). Strips & strip-related products accounted for 55.3% of the Group's total sales volume (2004: 40.7%), showing further fine-tuning in product mix of the Group. The Group's average selling prices of billets and strips & strip-related products (excluding value-added tax) were RMB2,491 per tonne and RMB2,917 per tonne respectively in 2005, representing a decrease of 4.2% and an increase of 3.9% when compared with RMB2,599 per tonne and RMB2,808 per tonne in 2004 respectively.

The average cost of sales of the Group's billets and strips & strip-related products in 2005 were RMB2,264 per tonne and RMB2,436 per tonne respectively, representing a decrease of 0.3% and an increase of 4.1% when compared with RMB2,270 per tonne and RMB2,341 per tonne in 2004 respectively.



In 2005, gross profit of billets and strips & strip-related products were RMB227 per tonne and RMB481 per tonne respectively (2004: RMB329 per tonne and RMB467 per tonne respectively). The gross profit in 2005 decreased by 6.6% to RMB1,224 million when compared with that of 2004 (2004: RMB1,311 million).

#### **Awards to the Company and the Management**

Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), a subsidiary of the Group, was named as the "Enterprise with Greatest Growth Potential" by the China Enterprise Confederation and the China Enterprise Directors Association in January 2005. Jinxi Limited was named a "Chinese Enterprise with an AAA credit rating in 2005" by the China Institute of Credit Evaluation and the China Quality Standard Research Center in August 2005.

In addition, Mr. Han Jingyuan, the Chairman and the Chief Executive Officer of the Company, was named as "The Most Attention-grabbing Chinese Entrepreneur in 2004" by the China Enterprise Confederation and the China Enterprise Directors Association in January 2005.

#### **Human Resource and Remuneration Policies**

As at 31 December 2005, the Group had a workforce of 5,224 (31 December 2004: 4,617) and temporary staff of 1,906 (31 December 2004: 1,792). Staff cost of the Group for the year 2005 approximated to RMB169 million (2004: RMB146 million), representing an increase of 15.6%. The cost included basic salaries and benefits, as well as other staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan and maternity insurance plan. The Group's remuneration policies are designed to tie its employees' income to their production and/ or sales volume, as well as to the extent that they meet the Group's quality control and cost control targets. In order to improve the Group's productivity and further enhance the quality of its workforce, the Group implemented continuing education and training programmes for the management staff and factory workers.



### Production Capacity

The annual production capacity of the Group is as follows:

	<b>31 December 2005</b>	31 December 2004
	<i>(in tonnes)</i>	<i>(in tonnes)</i>
Billets	<b>4,000,000</b>	3,500,000
Strips	<b>800,000</b>	800,000
Mid-width strips	<b>1,000,000</b>	1,000,000
Cold rolled sheets	<b>250,000-400,000</b>	—

### H-section Steel Rolling Line

Production of the entire project is expected to commence in June 2006. The project is expected to have an annual production capacity of 1 million tonnes of H-section steel.

### Investment in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Foshan Jinxi")

Foshan Jinxi commenced trial production in May 2005. As at 31 December 2005, the annual production capacity (depends on the product specification of the product produced) of cold rolled sheets was approximately 250,000 tonnes to 400,000 tonnes while that of galvanized sheets was approximately 150,000 tonnes to 180,000 tonnes.

During the year ended 31 December 2005, Foshan Jinxi was mainly in the trial production and initial market development stage, and therefore its contribution to the Group's sales during 2005 was insignificant.

### Dividend Policy

The Company intends to distribute not less than 20% of the Group's distributable profit as dividend for the periods subsequent to its listing, but the actual amount of dividend and its percentage to the profit will be at the discretion of the Board and will depend upon the Company's future operation and earnings, capital requirement and surplus, general financial condition, contractual restrictions and other factors that the Board deem relevant. In addition, pursuant to relevant PRC law, Jinxi Limited's distributable profit should not be higher than its net profit after allocations made to the statutory reserve and welfare funds as determined by the generally accepted accounting principles in the PRC.

**Capital Structure**

The cash and bank balances (including restricted bank balances) of the Group as at 31 December 2005 was RMB1,725 million (31 December 2004: RMB2,926 million).

The current ratio was 1.22 as at the end of 2005 (31 December 2004: 1.69).

As at 31 December 2005, the Group's borrowings repayable within one year and borrowings repayable after one year amounted to RMB1,336 million and RMB294 million respectively (31 December 2004: RMB1,458 million and RMB459 million respectively).

The consolidated interest expenses in 2005 amounted to RMB74,189,000 (2004: RMB64,270,000). The interest coverage was 14.5 times (2004: 19.3 times).

As at 31 December 2005, the ratio between total liabilities and total assets of the Group was 42.0% (31 December 2004: 46.5%).

To conclude, the financial position of the Group was healthy.



### Use of Proceeds from Global Offering

In March 2004, the Company issued 805,000,000 shares at HK\$2.75 per share by way of global offering and over-allotment. The net proceeds after deducting the relevant expenses were approximately HK\$2,107 million.

During the period from the date of listing to 31 December 2005, the use of net proceeds from the listing as stated in the Prospectus was as follows:

	<i>RMB million</i>
Construction of mid-width strip rolling line	103.7
Coal powder blowing technique	3.2
Energy recycling for power generation	9.5
Construction of the H-section steel rolling line	1,005.7
Construction of a 530m <sup>3</sup> blast furnace	133.2
Construction of two 50 tonnes converter furnaces	86.8
General corporate purposes (including working capital, repayment of borrowings and investment in the authorized capital of Foshan Jinxi)	891.3
	<hr style="width: 100%; border: 0.5px solid black;"/>
	<u>2,233.4</u>

As at 31 December 2005, the Group had utilised all the proceeds from the global offering on the aforesaid construction projects and for general corporate purpose.

### Capital Commitments

As at 31 December 2005, the Group had capital commitments amounted to RMB256 million (31 December 2004: RMB1,445 million), which mainly consisted of the capital commitments of the construction of the H-section steel rolling line and other projects. Such capital commitments will be financed by the Group's internal resources and/ or bank borrowings.

### Guarantees and Contingent Liabilities

As at 31 December 2005, the Group's contingent liabilities amounted to RMB277 million (31 December 2004: RMB396 million), which mainly consisted of the guarantees for the letter of credit issued by an agent that appointed by the Group to import machinery and equipment on behalf of the Group.

### Pledge of Assets

As at 31 December 2005, the net book value of the Group's land use rights, buildings and machinery pledged as the Group's bank borrowings amounted to approximately RMB635 million (31 December 2004: RMB494 million).

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

Save as disclosed in this report, there are no other pledged assets.

### Exchange Risks

As at 31 December 2005, Renminbi, US dollar and HK dollar accounted for 28.9%, 71.0% and 0.1% of the Group's total bank balance respectively (31 December 2004: 26.3%, 73.3% and 0.4% respectively).

As majority of the sales, purchases of raw materials and bank borrowings committed by the Group were mainly in Renminbi in 2005 and 2004, the Group's exposure to foreign exchange risk remained relatively low. In light of the construction of H-section steel rolling line, the Group had entered into project and equipment contracts of approximately Euro 42.9 million. In 2005, the Group has entered into Euro Dollar forward contract to hedge against partial exchange rate risk exposure.

**Interest Rate Risks**

The interest rates of the Group's certain borrowings are subject to variations. The risk of increasing interest rate will increase the interest costs of both new borrowings and existing borrowings. At present, the Group does not use any derivatives to hedge its interest rate risk exposure.

**Post Balance Sheet Events**

Saved as disclosed in this report of the Group, there are no events to cause material impact on the Group from the balance sheet date to the date of this report.

**Prospects**

Looking into 2006, oversupply will continue in the overall iron and steel market, it is expected that the prices of steel products will experience minor rather than drastic fluctuations due to the following expectation. Firstly, the prices of steel products in the iron and steel industry have already dropped significantly in the second half of 2005. Secondly, relatively stringent macroeconomic austerity measures are not expected to be introduced. Thirdly, the PRC economy is expected to continue with stable development. In the long run, the iron and steel industry in the PRC will sustain a healthy development, with the continuous growth in the PRC economy, consolidation of the iron and steel industry, and the PRC Government's policy to eliminate obsolete production capacities in the iron and steel industry.

With regard to the raw materials, the supply and demand of domestic coke and iron powder remains basically balanced and their prices are expected to experience minor adjustments only. On the other hand, there is a rising trend for the price of imported iron powder.

The Group's product mix will further be improved after the expected commencement of the production of the H-section steel rolling line in June 2006 and the expected addition of a strip production line of 500,000 tonnes in 2006.

On Behalf of the Board

**China Oriental Group Company Limited**

**Han Jingyuan**

*Chairman and Chief Executive Officer*

Hong Kong, 30 March 2006

### (A) Corporate Governance Practices

The Company and the Board of Directors of the Company (the “Board”) have applied the principles in the provisions of the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Ltd. (the “Stock Exchange”) by adopting the Code by way of Board resolutions.

During the year, the Board has adopted and complied with the Code with the exception that the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan.

The Board believes that there is no need to segregate the roles of the Chairman and the Chief Executive Officer of the Company because the role of the chief executive officer/general manager of the Company’s major operating subsidiaries are performed by other persons and apart from acting as the listing vehicle of the Group, the Company has no real operating activities or business.

Depending on the future development of the operating activities or business of the Company, eventually the Board will actively consider the issue of replacing Mr. Han Jingyuan by an appropriate candidate as the Chief Executive Officer of the Company.

### (B) Directors’ Securities Transactions

The Company has adopted a code of conduct regarding Directors of the Company’s (the “Directors”) securities transactions on terms no less exacting than the required standard set out in the Model Code of Appendix 10 of the Listing Rules (the “Model Code”).

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors’ securities transactions during the year.

### (C) Board Of Directors

The directors of the Company during the year were as follows:

#### **Executive directors**

Mr. Han Jingyuan (*Chairman and Chief Executive Officer*)

Ms. Chen Ningning (*Vice Chairman*)

Mr. Zhu Jun

Mr. Tang Chi Fai

Mr. Liu Lei

Mr. Shen Xiaoling (appointed on 1 July 2005)

**(C) Board Of Directors (Continued)****Independent non-executive directors**

Mr. Yu Tung Ho

Mr. Gao Qingju

Mr. Wong Man Chung, Francis

(with professional qualification in accordance with the Listing Rules)

A total of 13 Board meetings were held during the year. The individual attendance of each Director was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	13
Ms. Chen Ningning	1
Mr. Zhu Jun	12
Mr. Tang Chi Fai	11
Mr. Liu Lei	13
Mr. Shen Xiaoling ( <i>Note 1</i> )	6
Mr. Yu Tung Ho	11
Mr. Gao Qingju	13
Mr. Wong Man Chung, Francis	13

*Note 1:* Mr. Shen Xiaoling was appointed as Executive Director on 1 July 2005 and hence his attendance of the Board meetings after his appointment was 100% during the year.

The Board operates and exercises its power in accordance with the Bye-laws of the Company. In addition, the Board has also specifically resolved that all transactions/contracts/other matters of the Group that are subject to the disclosure requirement in accordance with the Listing Rules should be approved by the Board in advance.

The Board considers all the independent non-executive Directors are independent during the year.

Save as disclosed in the section of "Biographical Details of Directors and Senior Management" in the annual report of the Company, there are no relationships (including financial, business, family or other material/relevant relationships) among members of the Board.

**(D) Chairman and Chief Executive Officer**

During the year, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan.

**(E) Independent Non-executive Directors**

Mr. Gao Qingju and Mr. Yu Tung Ho have service contracts for a period of one year commencing from 23 December 2005. Mr. Wong Man Chung, Francis has service contract for a period of one year commencing from 25 August 2005.

The annual fee specified in each of Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis's existing service contracts are HK\$200,000, HK\$250,000 and HK\$200,000 respectively.

**(F) Remuneration of Directors**

The role and function of the remuneration committee of the Company (the "Remuneration Committee") are as follows:

- (a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (f) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

**(F) Remuneration of Directors** *(Continued)*

The basis of the emolument payable to the Directors is determined with reference to the range of prevailing directors' fee for Directors of listed companies in Hong Kong and is subject to the approval of the Remuneration Committee. The Remuneration Committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The Chairman of the Remuneration Committee is Mr. Han Jingyuan. The remaining members are the three independent non-executive Directors, Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis.

A total of 5 Remuneration Committee meetings were held during the year to discuss remuneration related matters. The individual attendance of each member was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	5
Mr. Gao Qingju	5
Mr. Yu Tung Ho	5
Mr. Wong Man Chung, Francis	5

During the year, the work performed by the Remuneration Committee was as follows:

- assessed and approved the terms of reference of the Remuneration Committee;
- reviewed and updated the existing Directors' fee;
- reviewed and approved the fee of the newly appointed executive Director; and
- reviewed and approved the Directors and senior management's remuneration in a subsidiary of the Company.

**(G) Nomination of Directors**

The Company did not have a nomination committee. The candidates for directorship during the year were selected by the senior management of the Company subject to the review and approval of the Board in accordance with the Bye-laws of the Company. The criteria adopted by the Board in selecting and approving candidates for directorship are based on whether the candidates are appropriate in term of experience and the potential contribution to the Group associated with the candidates' appointment.

During the year, the Board has appointed Mr. Shen Xiaoling as the executive Director.

**(G) Nomination of Directors** *(Continued)*

A total of 1 Board meeting was held during the year in relation to the appointment of Directors. The individual attendance of each Director was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	1
Ms. Chen Ningning	0
Mr. Zhu Jun	1
Mr. Tang Chi Fai	1
Mr. Liu Lei	1
Mr. Yu Tung Ho	1
Mr. Gao Qingju	1
Mr. Wong Man Chung, Francis	1

**(H) Auditors' Remuneration**

The audit fee of the Group for 2005 was approximately RMB3 million.

During the year, there were no significant non-audit service assignments being performed by the auditors of the Group.

**(I) Audit Committee**

The Company has set up an audit committee and the terms of reference adopted complied with the requirement of the Listing Rules.

The audit committee comprises all of the three independent non-executive Directors of the Company, Mr. Yu Tung Ho, Mr. Gao Qingju and Mr. Wong Man Chung, Francis. The chairman of the audit committee was elected by the members each time when it was held during the year.

The role and function of the audit committee are as follows:

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

**(I) Audit Committee** *(Continued)*

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The audit committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
- (e) members of the committee must liaise with the Board, senior management and the qualified accountant and the committee must meet, at least once a year, with the Company's auditors and the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;
- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in the above role and function; and
- (n) to consider other topics, as defined by the Board.

**(I) Audit Committee (Continued)**

A total of 2 audit committee meetings were held during the year. The individual attendance of each member was as follows:

	<b>Number of Attendance</b>	<b>Number of acting as chairman</b>
Mr. Gao Qingju	2	1
Mr. Yu Tung Ho	2	—
Mr. Wong Man Chung, Francis	2	1

During the year, the work performed by the audit committee was mainly as follows:

- discussed and reviewed the interim and annual financial statements and internal control matters of the Group with senior management of the Company and the external auditors;
- communicated with the external auditors concerning the auditing procedures of the Group; and
- made recommendation to the Board on the reappointment of the external auditor, and to review and approve the remuneration and terms of engagement of the external auditor.

**(J) Directors' Responsibility in Preparing the Accounts**

The Directors acknowledge that they are responsible for the preparation of accounts which give a true and fair view of the Company and the Group.

**(K) Annual Review of the Effectiveness of the Internal Control of the Group**

The Directors have conducted a review of the effectiveness of the system of internal control of the Group during the year and have resolved that the system of internal control of the Group was effective during the year.

On Behalf of the Board

**China Oriental Group Company Limited**

**Han Jingyuan**

*Chairman and Chief Executive Officer*

Hong Kong, 30 March 2006

## Directors

### Executive Directors

**Han Jingyuan**, 49, is the Chairman and Chief Executive Officer of the Company, and also serves as chairman of the board of Jinxi Limited and Foshan Jinxi. Mr. Han graduated from the People's University in 1994 with a degree in management. His experience in the steel industry began in 1984 when he was employed as a sub-division head of Han'erzhuang Iron Mine. In 1992, Mr. Han, then head of Han'erzhuang Iron Mine, joined Jinxi Iron Factory and served as a deputy head until 1997. In 1997, Mr. Han joined Tangshan Jinxi Group where he served as chairman of the board and general manager until 1999. Since Jinxi Limited was incorporated in December 1999, Mr. Han has been serving as the chairman of the board and general manager. In order to concentrate his effort on the future strategic development of the Group, Mr. Han resigned as general manager of Jinxi Limited in September 2004. Mr. Han has in-depth industry knowledge and 20 years of extensive operational and managerial experience in the iron and steel industry. In December 2003, Mr. Han was awarded the honorary title of "Top Ten Celebrities for China's Reform Programme in the New Century" (新世紀中國改革十大新聞人物) for 2003 by the Organising Committee for Nomination of Celebrities for China's Reform Programme (中國改革人物征評活動組委會). Mr. Han is the director and the controlling shareholder of Wellbeing Holdings Limited, the controlling shareholder of the Group.

**Chen Ningning**, 35, the Vice Chairman of the Company, obtained a master of business administration in management from New York Institute of Technology in 1994. Before returning to Asia to work for Pioneer Metals Company Limited ("PMC"), Ms. Chen worked as a fund manager with a US financial group in New York. Since 1995, Ms. Chen has worked for PMC first as deputy general manager, then as general manager and in 1997 became chairman of the board of PMC. Ms. Chen has extensive experience and strong relationships with many key players in the Chinese steel industry through her tenure at PMC, which supplies raw materials to Chinese steel companies. Besides her role in our Group, Ms. Chen currently serves as a non-executive director and vice-chairman of Inner Mongolia Baotou Rare Earth Hi-Technology Company Limited, a Shanghai-listed mining company. Ms. Chen is also a director in Jinxi Limited and serves in a non-executive capacity as director of a number of Chinese logistics and trading companies. Ms. Chen is the director and the controlling shareholder of Smart Triumph Corporation, a substantial shareholder of the Group.

**Zhu Jun**, 42, is an executive Director of the Company and also serves as an executive director of the board and the general manager of Jinxi Limited. Mr. Zhu graduated in 2001 from a graduate programme of the Communist Party School in Hebei Province with a diploma in management. Prior to working in the steel industry, Mr. Zhu worked for 10 years as deputy director of Qianxi County Chemical Fertilizer Factory which was based in Qianxi County. Mr. Zhu joined Jinxi Iron Factory in 1992 and later served as deputy director. Mr. Zhu has had 11 years of working experience in the iron and steel industry. He has served as Jinxi Limited's deputy general manager since December 1999 and as general manager since September 2004. Mr. Zhu was appointed to Jinxi Limited's board of directors in June 2000.

**Directors** *(Continued)*

**Tang Chi Fai**, 40, is an executive Director of the Company and a director in Jinxi Limited. Mr. Tang graduated from Hong Kong Polytechnic with a diploma in accounting. Mr. Tang is also a fellow member of the Chartered Association of Certified Accountants and Hong Kong Institute of Certified Public Accountants. Previously, Mr. Tang worked as audit manager in the Hong Kong office of an international accounting firm for nearly 6 years and as financial controller for a red chip company listed in Hong Kong for over 7 years. Mr. Tang joined PMC in September 2003 as chief financial officer. Mr. Tang has over 11 years of experience on corporate finance, accounting and auditing in both Hong Kong and the PRC.

**Liu Lei**, 50, is an executive Director and the deputy general manager of the Company and a director of Foshan Jinxi. Mr. Liu has over 18 years of experience in management and industrial fields. Mr. Liu graduated in the area of Industrial Electrical Automation of Electrical Engineering Faculty of 河北工學院 (Hebei Industrial Academy) in July 1978. Mr. Liu was awarded the title of 河北省有突出貢獻的中青年專業技術人才 (Professional Technological Talent With Outstanding Contribution in Hebei Province) by Government of Hebei Province in April 1987. Mr. Liu was also granted the qualification of research fellow by 河北省自然研究高級評委會 (Senior Appraisal Committee of Zi Ran Yan Jiu of Hebei Province) in December 2000. Before joining the Group in June 2004, Mr. Liu was the Vice Chancellor of 河北省科學院 (Science Bureau of Hebei Province) from October 1999 to June 2004.

**Shen Xiaoling**, 45, is an executive Director of the Company and also serves as an executive director and deputy general manager of Jinxi Limited. He obtained a diploma in management from the Hebei Provincial Communist Party School in 2001. Before joining the Group, Mr. Shen was head of China Construction Bank Luanxian Sub-branch. Mr. Shen also had 5 years of experience acting as head of China Construction Bank Qianxi Sub-branch and more than 6 years of experience as the deputy head of Bank of China Qianxi Sub-branch. Mr. Shen has been deputy general manager of Jinxi Limited since January 2002.

**Independent non-executive Directors**

**Gao Qingju**, 69, is an independent non-executive Director. Mr. Gao, a senior engineer, has been employed by Beijing Lianxingfa Industrial & Technical Co., Ltd. since 2000 and currently serves as both its general manager and director of the board. After completing his study in metallurgical machinery and equipment at the Beijing College of Iron & Steel (北京鋼鐵工業學校) in 1958, Mr. Gao joined the Ministry of Metallurgical Industry and worked there for nearly 40 years, during which he was once appointed as the head of a sub-division of the ministry's production department. During his tenure with this ministry, Mr. Gao worked as a researcher on high-temperature alloys at a research institution in Beijing and completed an economics training programme at the Beijing Communist Party School in 1988. Before taking his current position with Beijing Lianxingfa Industrial & Technical Co., Ltd., Mr. Gao became the secretary-general of the Association of National Local Steel Enterprises, and continues to hold this position.

### Directors (Continued)

**Yu Tung Ho**, 59, is an independent non-executive Director. Mr. Yu, who currently serves as both a director of the board and head of operations for Asia Television Co., Ltd., has been in broadcasting for more than 30 years. His experience includes acting as executive vice president of Phoenix Satellite Television in Hong Kong and serving as chairman of the 12th and 13th Hong Kong Advertising Industry Association. Mr. Yu has also served as the deputy general manager of China Broadcasting Television International Economic and Technology Company. In his 30 years of experience, Mr. Yu has also served as chief of the Guangdong Province Broadcasting Station.

**Wong Man Chung, Francis**, 41, is an independent non-executive Director. Mr. Wong is a Certified Public Accountant (Practising) and has over 18 years of experience in auditing, taxation, management and financial advisory. Mr. Wong is currently an independent non-executive director of Yardway Group Limited and Wai Kee Holdings Limited whose shares are listed on the Main Board of the Stock Exchange. He was once the independent non-executive director of Sys Solutions Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wong is a director of Union Alpha C.P.A. Limited (which incorporated Francis Wong C.P.A. Co. Limited). Previously, Mr. Wong worked for an international accounting firm for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong and Association of Chartered Certified Accountant of the United Kingdom. Mr. Wong is also an associate member of Institute of Chartered Accountants in England and Wales and a member of the Society of Chinese Accountants & Auditors, Hong Kong. Mr. Wong holds a Master Degree in Management conferred by Guangzhou Jinan University.

### Senior Management

During the year, the executive Directors of the Company are the senior management of the Group.

#### Zhu Jun (as disclosed above)

**Jin Xiaochun**, 50, is the general manager of Foshan Jinxi. Mr. Jin graduated in the discipline of industrial electrical automation in the Department of Electrical Engineering of Shanxi Polytechnic University (Originally known as Tai Yuan Industrial Academy) in 1979. Since 1994, Mr. Jin was the head of Foreign Economic and Trade Bureau in Qianxi County of Hebei Province. Before transferring to Foshan Jinxi, he had been served as an assistant to general manager/a deputy general manager in Jinxi Limited since 2003. Mr. Jin has over 20 years' experience in management of industrial enterprise and administration.

### Company Secretary and Qualified Accountant

**Lai Po Sing**, 39, is the Financial Controller and Company Secretary of the Group. Mr. Lai graduated from the Chinese University of Hong Kong with a Bachelor Degree in Business Administration. He is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of both Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 15 years' experience in internal auditing, external auditing and accounting.

The Directors herein present their annual report and the audited financial statements of China Oriental Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

### **Reorganisation, Subsidiaries and Basis of Preparation**

The Company was incorporated as an exempted company with limited liability on 3 November 2003 under the Companies Act 1981 of Bermuda. Pursuant to the reorganisation (the "Reorganisation"), as disclosed in the prospectus of the Company dated 18 February 2004 (the "Prospectus"), to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the then companies comprising the Group on 20 January 2004. Further details of the Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of preparation of the audited financial statements are set out in Notes 1 and 2 to the consolidated financial statements.

Following completion of the Reorganisation and the global offerings, the Company's shares were listed on the Stock Exchange on 2 March 2004.

### **Principal Activities**

As at 31 December 2005, the Company's principal activity is investment holding. The principal activity of the Group is the manufacture and sales of iron and steel products. The nature of the principal activity has not changed during the year.

### **Segment Information**

Over 90% of the Group's consolidated sales and contribution to results are derived from the PRC and mainly from the production and sales of iron and steel products for the year ended 31 December 2005 and are set out in Note 5 to the consolidated financial statements.

### **Results and Dividends**

The Group's consolidated income statement for the year ended 31 December 2005 and its consolidated balance sheet as at that date, together with the balance sheet of the Company as at 31 December 2005, are set out in the financial statements on pages 28 to 31.

At a meeting held on 30 March 2006, the Directors proposed a final dividend of HK\$130,725,000 (approximately RMB136,044,000), representing HK4.5 cents per ordinary share to the shareholders of the Company whose names appear on the register of members of the Company on 17 May 2006. Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 17 May 2006, the final dividend will be paid on 7 June 2006.

### Summary of Financial Information

A summary of the consolidated financial results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 89.

### Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 7 to the consolidated financial statements.

### Share Capital

Details of the movements in the Company's issued share capital during the year are set out in Note 18 to the consolidated financial statements.

### Reserves

Details of the movements in the reserves of the Group during the year are set out in Note 19 to consolidated financial statements.

### Distributable Reserves

At 31 December 2005, the Company's (deficit)/reserves available for distribution amounted to RMB(8,319,000) (2004: RMB13,974,000).

### Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### Major Customers and Suppliers

The sales attributable to the five largest customers of the Group accounted for less than 30% of the total Group's consolidated sales for the year.

The purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the total Group's consolidated purchases for the year.

### Directors

The Directors of the Company during the year and up to the date of this report were as follows:

#### Executive Directors

Mr. Han Jingyuan

Ms. Chen Ningning

Mr. Zhu Jun

Mr. Tang Chi Fai

Mr. Liu Lei

Mr. Shen Xiaoling (appointed on 1 July 2005)

## Directors (Continued)

### Independent non-executive Directors

Mr. Gao Qingju

Mr. Yu Tung Ho

Mr. Wong Man Chung, Francis

In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules"), Mr. Han Jingyuan, the Chairman of the Board will retire at the Annual General Meeting, who, being eligible, offers himself for re-election.

In accordance with Bye-law 87(1) of the Company, Ms. Chen Ningning and Mr. Yu Tung Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with Bye-law 86(2) of the Company, Mr. Shen Xiaoling, the newly appointed Director, also retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

Pursuant to 13.51(2) of the Listing Rules, the annual fee specified in each of Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Yu Tung Ho and Mr. Shen Xiaoling's existing service contracts are HK\$300,000, HK\$200,000, HK\$250,000 and HK\$200,000 respectively. The basis of determining the Directors' fee was based on the mutual negotiation between the Directors with reference to the range of prevailing directors' fee for directors of listed companies in Hong Kong. Save as disclosed in this annual report, Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Yu Tung Ho, and Mr. Shen Xiaoling do not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

### Directors' Interests in Contracts

Save as the transactions as disclosed in Note 34 to the consolidated financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management of the Company are set out on pages 17 to 19 of the annual report.

### Directors' Service Contracts

Two of the executive Directors (Mr. Han Jingyuan and Ms. Chen Ningning) have service contracts with the Company for a fixed term of three years commencing from 13 November 2003. One executive Director has service contract with the Company for a fixed term of three years commencing from 23 December 2003. Mr. Shen Xiaoling has service contract with the Company for a fixed term of two years commencing from 1 July 2005. The remaining two executive Directors have service contracts with the Company for a fixed term of one year commencing from 23 December 2005 and a fixed term of two years commencing from 29 September 2004, respectively. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Two of the independent non-executive Directors (including Mr. Yu Tung Ho) have service contracts for a period of one year commencing from 23 December 2005. The remaining independent non-executive Director has service contract for a period of one year commencing from 25 August 2005.

Mr. Han Jingyuan, Mr. Zhu Jun and Mr. Shen Xiaoling (executive Directors of the Company and its subsidiary) have service contracts with the Company's subsidiary on 9 June 2003 for a fixed term of five years commencing from 9 June 2003 which are exempted under the Listing Rules. Actual amount of salary was not specified in the service contracts other than the clause which stated that after probation, the employees will be paid according to the salary of the post. The service contracts may be terminated by the Company's subsidiary by paying compensation equivalent to the unfulfilled contract's salary and one month's salary for each year of service completed.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' Interests and Short Positions in Securities

At 31 December 2005, the interests and short positions of the Directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies, were as follows:

Number of shares held and nature of interest in the Company:

	Corporate Interest	Percentage of the Company's issued share capital	Long/Short Position
Mr. Han Jingyuan	1,282,480,849 (Note 1)	44.15%	Long
Ms. Chen Ningning	817,519,151 (Note 2)	28.14%	Long

## Directors' Interests and Short Positions in Securities (Continued)

Notes :

- At 31 December 2005, Mr. Han Jingyuan beneficially owns 60.69% of the issued share capital of Wellbeing Holdings Limited ("Wellbeing Holdings") and holds 16.09% of the issued share capital of Wellbeing Holdings on trust for the benefit of certain employees of the subsidiary of the Company. Wellbeing Holdings beneficially owned 1,230,728,124 shares or 42.37% of the issued shares of the Company. He is also the beneficial owner of 100% of the issued share capital of Chingford Holdings Limited which beneficially owned 51,752,725 shares or 1.78% of the issued shares of the Company at 31 December 2005.
- At 31 December 2005, Ms. Chen Ningning owned 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at 31 December 2005, none of the Directors and chief executives and their associates had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of SFO as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies.

## Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or were the Company or any of its holdings companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouses or children under 18 years of age to acquire such rights in any other body corporate.

## Contracts of Significance

Save as the transactions as disclosed in Note 34 to the consolidated financial statements, no controlling shareholder or any of its subsidiaries have any contract of significance with the Company or its subsidiary during the year.

## Substantial Shareholders

At 31 December 2005, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Number of shares held	Percentage of the Company's issued share capital	Long/Short Position
Wellbeing Holdings	1,230,728,124	42.37%	Long
Smart Triumph	817,519,151	28.14% (Note 1)	Long
Ms. Lu Hui	817,519,151	28.14% (Note 1)	Long

### Substantial Shareholders (Continued)

Note 1: At 31 December 2005, the interests of Smart Triumph in the shares of the Company were also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owned 50% of the issued share capital of Smart Triumph.

Save as disclosed above, at 31 December 2005, no person, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company required to be kept in the register by the Company under Section 336 of the SFO.

### Related Party and Connected Transactions

Details of significant related party and connected transactions of the Group under the Listing Rules are set out as below and in Note 34 to the consolidated financial statements.

The purchases of raw material by Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Foshan Jinxi"), an indirect non-wholly owned subsidiary of the Company from Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), an indirect non-wholly owned subsidiary of the Company have constituted continuing connected transactions under the Listing Rules. The shareholders of the Company have approved the above continuing connected transactions and the related annual cap for a period of three years ending 31 December 2007 on 4 February 2005. During the year ended 31 December 2005, the purchase of raw material (excluding value-added tax) by Foshan Jinxi from Jinxi Limited amounted to approximately RMB59.1 million.

In the opinion of the independent non-executive Directors of the Company, the purchases of raw material by Foshan Jinxi from Jinxi Limited for the year ended 31 December 2005 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant annual cap amounts as approved by the shareholders of the Company on 4 February 2005.

On 23 March 2005, the Company announced that the Company has utilised US\$10 million as deposits in a commercial bank to apply for the issuance of a standby letter of credit (effective up to 16 April 2006) which is pledged against the banking facility of approximately RMB100 million with a duration of 1 year of Foshan Jinxi.

Mr. Zhou Weijie, is a director of Foshan Jinxi and Foshan Jin Lan Aluminium Co., Ltd. (a company which is controlled by Mr. Zhou Weijie) has 40% of the equity interest in Foshan Jinxi. Therefore, Foshan Jinxi is a connected person of the Group in accordance with the Listing Rules.

### **Related Party and Connected Transactions** *(Continued)*

Save as transactions inherited to the Reorganisation and as disclosed above and in item iv of Note 34 to the consolidated financial statements, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

### **Sufficiency of Public Float**

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

### **Purchase, Redemption or Sale of Listed Securities of The Company**

Pursuant to the over-allotment option referred to in the Prospectus, 105,000,000 shares were issued at the offer price of HK\$2.75 per share on 12 March 2004.

Save as disclosed above, since the listing of the Company's shares on the Stock Exchange on 2 March 2004 and up to 31 December 2005, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

### **Subsequent Events**

Details of the significant post balance sheet events are set out in Note 37 to the consolidated financial statements.

### **Auditors**

PricewaterhouseCoopers retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**China Oriental Group Company Limited**

**Han Jingyuan**

*Chairman and Chief Executive Officer*

Hong Kong, 30 March 2006



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22/F, Prince's Building  
Central, Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA ORIENTAL GROUP COMPANY LIMITED**

*(Incorporated in Bermuda with Limited Liability)*

We have audited the accounts on pages 28 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The directors of China Oriental Group Company Limited (the "Company") are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and its subsidiaries (the "Group"), consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 30 March 2006

## CONSOLIDATED BALANCE SHEET

As at 31 December 2005  
(All amounts in (Renminbi "RMB") thousands unless otherwise stated)

ASSETS	Note	As at 31 December	
		2005	2004 Restated
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>4,236,071</b>	2,349,068
Leasehold land and land use rights	6	<b>79,569</b>	55,239
Investment properties	8	<b>20,911</b>	—
Intangible assets	9	<b>9,547</b>	—
Interest in an associate	11	<b>8,881</b>	12,474
Deferred income tax assets	24	<b>2,327</b>	—
		<b>4,357,306</b>	2,416,781
<b>Current assets</b>			
Inventories	13	<b>1,103,374</b>	900,207
Trade receivables	14	<b>714,184</b>	827,894
Other current assets		<b>2,524</b>	2,236
Prepayments, deposits and other receivables	16	<b>185,555</b>	308,769
Loans receivables		—	50,000
Financial assets at fair value through profit or loss	15	<b>64,633</b>	—
Current portion of long-term advances to suppliers	12	—	50,000
Restricted bank balances	17	<b>1,015,416</b>	1,707,949
Bank and cash balances	17	<b>709,870</b>	1,218,056
		<b>3,795,556</b>	5,065,111
<b>Total assets</b>		<b>8,152,862</b>	7,481,892

# CONSOLIDATED BALANCE SHEET

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As at 31 December 2005  
(All amounts in (Renminbi "RMB") thousands unless otherwise stated)

EQUITY	Note	As at 31 December	
		2005	2004 Restated
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	18	2,460,375	2,460,375
Other reserves	19	735,325	559,183
Retained earnings		1,397,752	865,782
		<b>4,593,452</b>	3,885,340
<b>Minority interests</b>		<b>138,643</b>	115,524
<b>Total equity</b>		<b>4,732,095</b>	4,000,864
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	22	294,230	459,230
Long-term advances from customers	23	15,000	25,000
		<b>309,230</b>	484,230
<b>Current liabilities</b>			
Trade payables	20	632,439	417,730
Accruals, advances from customers and other current liabilities	21	1,014,908	734,742
Amounts due to related parties	34(c)	64,400	247,844
Current income tax liabilities		53,862	138,253
Current portion of long-term advances from customers	23	10,000	—
Borrowings	22	1,335,900	1,458,000
Dividend payable		28	229
		<b>3,111,537</b>	2,996,798
<b>Total liabilities</b>		<b>3,420,767</b>	3,481,028
<b>Total equity and liabilities</b>		<b>8,152,862</b>	7,481,892
<b>Net current assets</b>		<b>684,019</b>	2,068,313
<b>Total assets less current liabilities</b>		<b>5,041,325</b>	4,485,094

The notes on pages 34 to 88 are an integral part of these consolidated financial statements.

**Han Jingyuan**  
Chairman and Chief Executive Officer

**Liu Lei**  
Director

## BALANCE SHEET

As at 31 December 2005  
(All amounts in RMB thousands unless otherwise stated)

ASSETS	Note	As at 31 December 2005	2004 Restated
<b>Non-current assets</b>			
Property, plant and equipment	7	15,458	1,848
Investments in subsidiaries	10(a)	224,017	224,017
Loans to subsidiaries	10(b)	1,181,917	92,463
Investment properties	8	20,911	—
		<b>1,442,303</b>	318,328
<b>Current assets</b>			
Prepayments, deposits and other receivables	16	5,140	7,174
Financial assets at fair value through profit or loss	15	64,633	—
Restricted bank balances	17	887,722	1,359,001
Bank and cash balances	17	53,724	791,281
		<b>1,011,219</b>	2,157,456
<b>Total assets</b>		<b>2,453,522</b>	2,475,784
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	18	2,460,375	2,460,375
(Accumulated losses)/Retained earnings		(8,319)	13,974
<b>Total equity</b>		<b>2,452,056</b>	2,474,349
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other current liabilities		1,438	1,414
Dividend payable		28	21
<b>Total liabilities</b>		<b>1,466</b>	1,435
<b>Total equity and liabilities</b>		<b>2,453,522</b>	2,475,784
<b>Net current assets</b>		<b>1,009,753</b>	2,156,021
<b>Total assets less current liabilities</b>		<b>2,452,056</b>	2,474,349

The notes on pages 34 to 88 are an integral part of this financial statement.

**Han Jingyuan**  
Chairman and Chief Executive Officer

**Liu Lei**  
Director

# CONSOLIDATED INCOME STATEMENT

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

	Note	Year ended 31 December	
		2005	2004 Restated
Sales	5	<b>9,182,693</b>	9,118,875
Cost of goods sold	26	<b>(7,958,870)</b>	(7,808,104)
<b>Gross profit</b>		<b>1,223,823</b>	1,310,771
Other gains — net	25	<b>15,871</b>	46,739
Selling and marketing costs	26	<b>(6,954)</b>	(7,373)
Administrative expenses	26	<b>(152,036)</b>	(116,945)
<b>Operating profit</b>		<b>1,080,704</b>	1,233,192
Finance costs	28	<b>(74,189)</b>	(64,270)
Share of (losses)/profit of an associate	11	<b>(2,319)</b>	6,910
<b>Profit before income tax</b>		<b>1,004,196</b>	1,175,832
Income tax expense	29	<b>(157,081)</b>	33,686
<b>Profit for the year</b>		<b>847,115</b>	1,209,518
<b>Attributable to:</b>			
Equity holders of the Company		<b>846,585</b>	1,181,006
Minority interests		<b>530</b>	28,512
		<b>847,115</b>	1,209,518
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b> (expressed in RMB per share)			
— basic	32	<b>RMB 0.29</b>	RMB 0.43
— diluted	32	<b>Not applicable</b>	Not applicable
<b>Dividends</b>	31	<b>136,044</b>	625,381

The notes on pages 34 to 88 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Attributable to equity holders of the Company			Minority Interests	Total
		Share capital	Other reserves	Retained earnings		
<b>Balance at 1 January 2004,</b> as previously reported as equity		223,776	321,201	400,889	—	945,866
<b>Balance at 1 January 2004,</b> as previously separately reported as minority interests		—	—	—	23,168	23,168
<b>Balance at 1 January 2004,</b> as restated		223,776	321,201	400,889	23,168	969,034
Profit for the year		—	—	1,181,006	28,512	1,209,518
Profit appropriation	19	—	232,874	(232,874)	—	—
Issue of shares of the Company	18	2,350,222	—	—	—	2,350,222
Share issue expenses	18	(113,623)	—	—	—	(113,623)
Special dividends	31	—	—	(390,450)	(9,550)	(400,000)
Dividends relating to 2004		—	—	(92,789)	(2,271)	(95,060)
Minority shareholder's injection		—	—	—	75,540	75,540
Others	19	—	5,108	—	125	5,233
		<u>2,236,599</u>	<u>237,982</u>	<u>464,893</u>	<u>92,356</u>	<u>3,031,830</u>
<b>Balance at 31 December 2004,</b> as restated		<u>2,460,375</u>	<u>559,183</u>	<u>865,782</u>	<u>115,524</u>	<u>4,000,864</u>
<b>Balance at 1 January 2005,</b> as per previously reported as equity		2,460,375	563,581	861,384	—	3,885,340
<b>Balance at 1 January 2005,</b> as previously separately reported as minority interests		—	—	—	115,524	115,524
Opening adjustment for the adoption of HKAS 21	2.1, 19	—	(4,398)	4,398	—	—
<b>Balance at 1 January 2005,</b> as restated		2,460,375	559,183	865,782	115,524	4,000,864
Profit for the year		—	—	846,585	530	847,115
Profit appropriation	19	—	172,084	(172,084)	—	—
Cash flow hedges:						
— Fair value loss in the year	19	—	(3,370)	—	—	(3,370)
— Transfer to property, plant and equipment	19	—	3,370	—	—	3,370
Dividends relating to 2004		—	—	(142,531)	(3,534)	(146,065)
Minority shareholder's injection		—	—	—	25,478	25,478
Liquidation of a subsidiary		—	—	—	(500)	(500)
Others	19	—	4,058	—	1,145	5,203
		<u>—</u>	<u>176,142</u>	<u>531,970</u>	<u>23,119</u>	<u>731,231</u>
<b>Balance at 31 December 2005</b>		<u>2,460,375</u>	<u>735,325</u>	<u>1,397,752</u>	<u>138,643</u>	<u>4,732,095</u>

The notes on pages 34 to 88 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

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

		Year ended 31 December	
	Note	2005	2004
<b>Operating activities</b>			
Cash generated from operations	33	<b>624,480</b>	393,216
Interest received		<b>64,027</b>	23,214
Interest paid		<b>(119,085)</b>	(45,177)
Income tax paid		<b>(243,799)</b>	(20,513)
Net cash generated from operating activities		<b>325,623</b>	350,740
<b>Investing activities</b>			
Purchase of property, plant and equipment	33	<b>(853,939)</b>	(401,286)
Proceeds from disposal of property, plant and equipment		<b>4,013</b>	—
Purchase of a subsidiary, net of cash acquired		<b>—</b>	850
Decrease/(Increase) in loan receivables		<b>50,000</b>	(50,000)
Purchase of investment properties		<b>(21,356)</b>	—
Dividend received		<b>3,522</b>	—
Increase in investment in an associate		<b>(2,800)</b>	—
Net cash used in investing activities		<b>(820,560)</b>	(450,436)
Net cash used before financing activities		<b>(494,937)</b>	(99,696)
<b>Financing activities</b>			
Proceeds from borrowings		<b>1,651,718</b>	1,570,646
Proceeds from borrowings from related parties		<b>13,000</b>	—
Repayment of current borrowings		<b>(1,900,818)</b>	(380,646)
Repayment of borrowings from related parties		<b>(20,704)</b>	—
Proceeds from non-current borrowings		<b>—</b>	149,230
Repayment of non-current borrowings		<b>(38,000)</b>	(642,230)
Dividends paid		<b>(146,266)</b>	(407,394)
Capital injection by minority shareholders		<b>1,900</b>	540
Liquidation of a subsidiary		<b>(500)</b>	—
Decrease/(Increase) in restricted bank balances pledged as security for current bank borrowings		<b>471,279</b>	(1,359,001)
Issue of ordinary shares, gross proceeds		<b>—</b>	2,350,222
Share issue expenses		<b>—</b>	(113,623)
Net cash generated from financing activities		<b>31,609</b>	1,167,744
Net (decrease)/increase in cash and cash equivalents		<b>(463,328)</b>	1,068,048
Effect of foreign exchange rate changes		<b>(44,858)</b>	(2,738)
Cash and cash equivalents, beginning of the year		<b>1,218,056</b>	152,746
Cash and cash equivalents, end of the year	17	<b>709,870</b>	1,218,056

The notes on pages 34 to 88 are an integral part of these consolidated financial statements.

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

## 1. General information

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

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

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

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

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

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

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

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

### 2.1 Basis of preparation (Continued)

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

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

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

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

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

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

### 2.1 Basis of preparation *(Continued)*

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

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

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

- HKAS 39                      — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the prior years’ comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.
- HKAS-Int 15                — does not require the recognition of incentives for leases beginning before 1 January 2005.
- HKFRS 3                     — prospectively after 1 January 2005.

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

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

### 2.1 Basis of preparation (Continued)

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

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

The adoption of revised HKAS 21 resulted in:

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

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

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

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

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

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

### 2.1 Basis of preparation *(Continued)*

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

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

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

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

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

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

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

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

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

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

### 2.1 Basis of preparation (Continued)

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

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

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

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

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

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

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

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

### 2.1 Basis of preparation *(Continued)*

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

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

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

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

### 2.2 Consolidation

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

#### (a) *Subsidiaries*

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

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

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

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

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

### 2.2 Consolidation (Continued)

#### (a) Subsidiaries (Continued)

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

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

#### (b) Transactions with minority interests

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

#### (c) Associates

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

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

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

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

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

### 2.2 Consolidation *(Continued)*

#### (c) **Associates** *(Continued)*

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

### 2.3 Segment reporting

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

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

### 2.4 Translation of foreign currencies

#### (a) **Functional and presentation currency**

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

#### (b) **Transactions and balances**

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

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

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

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

### 2.4 Translation of foreign currencies *(Continued)*

#### (c) *Group companies*

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

### 2.5 Property, plant and equipment

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

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

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

### 2.5 Property, plant and equipment *(Continued)*

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

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

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

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

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

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

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

### 2.6 Leasehold land and land use rights

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

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

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

### 2.7 Investment properties

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

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

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

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

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

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

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

### 2.8 Intangible assets

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

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

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

### 2.9 Impairment of non-financial assets

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

### 2.10 Financial assets

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

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

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

#### (b) *Loans and receivables*

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

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

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

### 2.10 Financial assets (Continued)

#### (c) **Held-to-maturity investments**

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

#### (d) **Available-for-sale financial assets**

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

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

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

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

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

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

### 2.10 Financial assets *(Continued)*

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

### 2.11 Accounting for derivative financial instruments and hedging activities

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

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

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

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

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

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

#### **(a) Fair value hedge**

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

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

#### **(b) Cash flow hedge**

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

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

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

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

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

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

#### (c) *Net investment hedge*

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

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

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

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

### 2.12 Inventories

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

### 2.13 Trade and other receivables

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

### 2.14 Cash and cash equivalents

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

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

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

### 2.15 Share capital

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

### 2.16 Borrowings

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

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

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

### 2.17 Deferred income tax

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

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

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

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

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

### 2.18 Borrowing costs

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

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

### 2.19 Pension obligations

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

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

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

### 2.20 Provisions

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

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

### 2.21 Government grants

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

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

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

### 2.21 Government grants *(Continued)*

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

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

### 2.22 Revenue recognition

#### (a) Sales

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

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

#### (b) Other gains

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

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

### 2.23 Operating leases

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

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

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

### 2.24 Contingent liabilities and contingent assets

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

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

### 2.25 Dividend distribution

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

### 2.26 Insurance contract

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

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

### 2.27 Comparative

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

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

### 3. Financial risk management

#### 3.1 Financial risk factors

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

##### (a) *Interest rate risk*

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

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

##### (b) *Credit risk*

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

##### (c) *Liquidity risk*

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

##### (d) *Foreign exchange risk*

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

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

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

### 3. Financial risk management *(Continued)*

#### 3.2 Fair value estimation

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

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

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

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

### 4. Critical accounting estimates and judgements

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

#### 4.1 Critical accounting estimates and assumptions

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

##### **(a) Net realisable value of inventories**

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

For the year ended 31 December 2005  
(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**

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

### 4.2 Critical judgements in applying the entity's accounting policies

#### **(a) Borrowing costs eligible for capitalisation**

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

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

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

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

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

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

## 5. Sales and segment information — Group

### (a) Sales

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

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

### (b) Segment information

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

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

## 6. Leasehold land and land use rights — Group

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

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

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

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

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

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

## 7. Property, plant and equipment

### The Group

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

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

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

### The Group (Continued)

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

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

### The Company

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

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

## 8. Investment properties — Group and Company

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

### Cost

At 31 December 2004	—
Additions	21,356
	<hr/>
At 31 December 2005	21,356
	<hr/> <hr/>

### Accumulated depreciation

At 31 December 2004	—
Charge for the year	445
	<hr/>
At 31 December 2005	445
	<hr/> <hr/>

### Net book value

At 31 December 2005	20,911
	<hr/> <hr/>
At 31 December 2004	—
	<hr/> <hr/>

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

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

## 9. Intangible assets — Group

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

## 10. Investments in and loans to subsidiaries — Company

### (a) Investments in subsidiaries

	2005	2004
Unlisted investments, at cost	<u><u>224,017</u></u>	<u><u>224,017</u></u>

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

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

### (a) Investments in subsidiaries (Continued)

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

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

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

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

### (b) Loans to subsidiaries

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

## 11. Interests in an associate — Group

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

The information of the unlisted associated company is as follows:

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

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(All amounts in RMB thousands unless otherwise stated)

## 12. Long-term advances to suppliers — Group

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

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

## 13. Inventories — Group

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

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

## 14. Trade receivables — Group

	2005	2004
Accounts receivable	<b>23,369</b>	227
Notes receivable (a)	<b>690,815</b>	827,667
	<u><b>714,184</b></u>	<u>827,894</u>

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

#### 14. Trade receivables — Group (Continued)

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

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

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

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

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

	2005	2004
Within 3 months	<u>714,184</u>	<u>827,894</u>

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

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

	2005	2004
Liquid Reserve Fund — Euro, quoted	52,479	—
Liquid Reserve Fund — US dollars, quoted	12,154	—
	<u>64,633</u>	<u>—</u>

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

#### 16. Prepayments, deposits and other receivables

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

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

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

The Company	2005	2004
Prepayments	801	818
Deposits and other receivables	4,339	6,356
	<u>5,140</u>	<u>7,174</u>

## 17. Bank and cash balances and Restricted bank balances

The Group	2005	2004
Bank and cash balances	709,870	1,218,056
Restricted bank balances (a)	1,015,416	1,707,949
	<u>1,725,286</u>	<u>2,926,005</u>

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

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

### The Company

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

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

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

## 18. Share capital — Group and Company

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

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

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

- (i) On 20 January 2004, the Company entered into an agreement with Wellbeing Holdings Limited (“Wellbeing”), Chingford Holdings Limited (“Chingford”) and Smart Triumph Corporation (“Smart Triumph”), pursuant to which the Company purchased the entire issued share capital of Gold Genesis, Good Lucky and First Glory (which collectively held 97.6% of the issued share capital of Jinxi Limited) in consideration of the Company (a) issuing 2,099,000,000 shares, credited as fully paid to Wellbeing (as to 1,230,142,124 shares), Chingford (as to 51,727,725 shares) and Smart Triumph (as to 817,130,151 shares) and (b) credited as fully paid at par the 1,000,000 shares issued nil paid by the Company on 13 November 2003.
- (ii) On 12 March 2004, the Company completed its global offering of 805,000,000 shares at HK\$2.75 per share for cash. 700,000,000 shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004 and the over-allotment of 105,000,000 shares was completed on 12 March 2004. The excess over the par value of the shares was credited to the share premium account.

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

## 19. Other reserves — Group

	Merger reserve (a)	Capital surplus	Statutory reserve (b)	Hedging Reserve (c)	Translation	Total
<b>Balance at</b>						
1 January 2004	(599)	8,028	313,772	—	—	321,201
Profit appropriation	—	—	232,874	—	—	232,874
Others	—	5,108	—	—	—	5,108
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at</b>						
31 December 2004	(599)	13,136	546,646	—	—	559,183
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at</b>						
1 January 2005,						
as previously reported	(599)	13,136	546,646	—	4,398	563,581
Opening adjustment for the adoption of HKAS 21 (Note 2.1)	—	—	—	—	(4,398)	(4,398)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at</b>						
1 January 2005, as restated	(599)	13,136	546,646	—	—	559,183
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
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
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance at</b>						
31 December 2005	(599)	17,194	718,730	—	—	735,325
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### (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.

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

## 19. Other reserves — Group (Continued)

### (b) Statutory reserve

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

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

### (c) Hedging reserve

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

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

## 20. Trade payables — Group

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

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

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

## 20. Trade payables — Group (Continued)

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

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

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

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

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

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

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

## 22. Borrowings — Group

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

- (i) As at 31 December 2005 and 2004, secured borrowings were secured by certain restricted bank balances (*Note 17*), certain property, plant and equipment (*Note 7*) and leasehold land and land use rights (*Note 6*) of the Group.
- (ii) As at 31 December 2005, the guaranteed current borrowings were guaranteed by two third parties amounting to RMB30 million and RMB100 million respectively. As at 31 December 2004, the guaranteed current and non-current borrowings were guaranteed by two third parties and Foshan Jin Lan Aluminium Company Limited (“Foshan Jin Lan”) (the shareholder of Foshan Jinxi) amounting to RMB130 million and RMB70 million respectively.
- (iii) Other unsecured borrowing represented a borrowing from the local county government amounting to RMB145 million which will be repaid from 1 January 2008 onwards at an amount of RMB20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit.

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

**22. Borrowings — Group (Continued)**

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

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

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

	2005	2004
Bank borrowings	<b>5.02%-7.15%</b>	4.78%-5.90%
Other borrowings	<b>2.25%</b>	1.98%

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

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

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

**23. Long-term advances from customers — Group**

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

	2005	2004
Within 1 year	<b>10,000</b>	—
1-2 years	<b>15,000</b>	10,000
2-5 years	<b>—</b>	15,000
	<b>25,000</b>	25,000

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

## 24. Deferred income tax — Group

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

	2005	2004
Beginning balance of the year	—	208
Credited to consolidated income statement ( <i>Note 29 (a)</i> )	<u>2,327</u>	<u>(208)</u>
Ending balance of the year	<u><u>2,327</u></u>	<u><u>—</u></u>

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

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

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

## 25. Other gains — net — Group

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

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(All amounts in RMB thousands unless otherwise stated)

## 26. Expenses by nature — Group

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

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

## 27. Employee benefit expense

### (a) Pensions — defined contribution plans

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

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

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(All amounts in RMB thousands unless otherwise stated)

## 27. Employee benefit expense (Continued)

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

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

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

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

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

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

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(All amounts in RMB thousands unless otherwise stated)

**27. Employee benefit expense** (Continued)

**(c) Five highest paid individuals**

The five highest paid individuals consisted of:

	2005	2004
Number of directors	4	2
Number of employees	1	3
	<u>5</u>	<u>5</u>

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

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

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

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

	Number of individuals	
	2005	2004
Nil to RMB1,040,000 (approximately to HK\$1,000,000)	3	4
RMB1,040,001 to RMB2,080,000 (approximately HK\$1,000,001 to HK\$2,000,000)	<u>2</u>	<u>1</u>

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(All amounts in RMB thousands unless otherwise stated)

## 28. Finance costs — Group

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

## 29. Taxation — Group

(a) Taxation represents:

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

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

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

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

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

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

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

## 29. Taxation — Group (Continued)

(a) Taxation represents (Continued):

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

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

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

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

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

## 30. Profit attributable to the equity holders of the Company

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

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

### 31. Dividends

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

- (a) In connection with the Reorganisation, at a meeting held on 5 January 2004, the directors of Jinxi Limited proposed a special dividend of RMB400 million to the then shareholders.
- (b) At a meeting held on 31 March 2005, the directors proposed a final dividend in respect of the year ended 31 December 2004 of HK\$133,630,000 (approximately RMB142,142,000), representing HK\$0.046 per ordinary share. The Annual General Meeting held on 19 May 2005 approved the directors' dividend proposal.

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

### 32. Earnings per share

#### Basic

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

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

#### Diluted

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

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

### 33. Notes to the consolidated cash flow statement

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

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

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

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

#### (ii) Major non-cash transactions:

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

### 34. Related party transactions

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

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

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

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

**34. Related party transactions** (Continued)

(a) (Continued)

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

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

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

**(i) Purchases**

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

**(ii) Contribution**

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

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

### 34. Related party transactions (Continued)

(b) (Continued)

#### (iii) Loan received

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

#### (iv) Transfer notes receivables and bank balances

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

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

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

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

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

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

**34. Related party transactions** (Continued)

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

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

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

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

**35. Commitments- Group**

(a) **Capital commitments**

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

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

### 35. Commitments- Group (Continued)

#### (b) Operating lease commitments

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

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

### 36. Contingent events

#### The Group

#### Guarantee for third parties

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

- (i) As at 31 December 2005, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB28,986,000 (2004: approximately RMB29,880,000). The directors considered that no material liabilities will arise from the guarantee.
- (ii) During the year ended 31 December 2005, a third party acted as an agent and issued letter of credit to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB248 million (*Note 14*) as collaterals (2004: bank deposits of RMB255 million and notes receivable of RMB111 million respectively).

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

### 36. Contingent events (Continued)

#### The Company

	2005	2004
Guarantee for bank borrowings of subsidiaries	<u>872,900</u>	<u>1,200,000</u>

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

### 37. Subsequent events

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

- (a) On 29 March 2006, the directors of Jinxi Limited proposed a final dividend of RMB150,000,000 in respect of the year ended 31 December 2005.
- (b) The Company provided an interest-free shareholder's loan, amounting to US\$56.7 million (equivalent to approximately RMB458 million), to Jinxi Limited in January 2006, with a repayment term of 20 years.
- (c) Accordpower entered into an agreement with Foshan Jinxi and Foshan Jin Lan in January 2006. In accordance with the agreement:
  - (i) Foshan Jin Lan shall additionally provide a loan to Foshan Jinxi, amounting to US\$1.5 million (equivalent to approximately RMB12 million), on the condition that Accordpower provided a new loan to Foshan Jinxi, amounting to US\$2.25 million (equivalent to approximately RMB18 million).
  - (ii) Foshan Jin Lan will designate the existing receivable from Foshan Jinxi (including in the payables to Foshan Jin Lan of RMB45 million as described in Note 34 (c)) amounting to approximately RMB44.7 million as interest-free, on the condition that Accordpower additionally will provide another loan to Foshan Jinxi, amounting to US\$9.03 million (equivalent to approximately RMB73 million).
  - (iii) On the condition that (i) and (ii) as above are met, all of above loans and payables due to Accordpower and Foshan Jin Lan by Foshan Jinxi would be interest-free and repayable only after five years.

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

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

### **37. Subsequent events** *(Continued)*

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

### **38. Approval of accounts**

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

A summary of the consolidated income statement and of the consolidated assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis as hereunder stated is as set out below:

### Consolidated Income Statement

	Year ended 31 December				
	2005 RMB'000	Audited		Proforma	
		Restated 2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Sales	<b>9,182,693</b>	9,118,875	5,277,874	2,571,304	1,490,332
Profit before income tax	<b>1,004,196</b>	1,175,832	1,142,666	586,361	228,945
Income tax expense	<b>(157,081)</b>	33,686	(40,018)	(188,850)	(70,890)
Profit after income tax	<b>847,115</b>	1,209,518	1,102,648	397,511	158,055
Minority interests	<b>(530)</b>	(28,512)	(26,358)	(9,491)	(3,774)
Profit attributable to equity holders of the Company	<b>846,585</b>	1,181,006	1,076,290	388,020	154,281

### Consolidated Assets, Liabilities and Minority Interests

	Year ended 31 December				
	2005 RMB'000	Audited		Proforma	
		Restated 2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
TOTAL ASSETS	<b>8,152,862</b>	7,481,892	3,876,614	2,214,756	1,075,671
TOTAL LIABILITIES	<b>(3,420,767)</b>	(3,481,028)	(2,907,580)	(1,868,265)	(820,881)
MINORITY INTERESTS	<b>(138,643)</b>	(115,524)	(23,168)	(8,273)	(6,083)
	<b>4,593,452</b>	3,885,340	945,866	338,218	248,707

#### Notes:

- The summary of the proforma consolidated results of the Group for the two years ended 31 December 2002 was extracted from the Company's prospectus dated 18 February 2004 (the "Prospectus"). Such summary was prepared as if the group structure as at 20 January 2004 had been in existence throughout these financial years. The audited consolidated income statement of the Group for the year ended 31 December 2003 was extracted from the Company's annual report of 2004. The audited consolidated income statement of the Group for the two years ended 31 December 2005 are those set out on page 31 of this annual report.
- The summary of the proforma consolidated assets, liabilities and minority interests as at 31 December 2002 and 2001 was extracted from the Prospectus. Such summary was prepared on the same basis as detailed in Note 1 above. The audited consolidated assets, liabilities and minority interests as at 31 December 2003 was extracted from the Company's annual report of 2004. The audited consolidated assets, liabilities and minority interests as at 31 December 2005 and 2004 are those set out on page 28 and 29 of this annual report.

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of China Oriental Group Company Limited will be held at Lotus Room, 6/F., The Marco Polo Hongkong Hotel, 3 Canton Road, Tsim Sha Tsui, Kowloon on Wednesday, 17 May 2006 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Group, the audited balance sheet of the Company, the reports of the Directors and the Auditors for the year ended 31 December 2005.
2. To declare a final dividend of HK4.5 cents per share for the year ended 31 December 2005.
3. To re-elect the Directors (Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Shen Xiaoling and Mr. Yu Tung Ho) and to authorise the Directors to fix their remuneration.
4. To re-appoint PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration.
5. To approve and ratify the ordinary remuneration of the Directors for the Board of the Company be fixed at the sum of HK\$2,010,000 for each financial year commencing from 1 January 2005 onwards until the Company in general meeting otherwise determines.

To consider as **Special Business** and, if thought fit, pass with or without amendments, the following resolutions as **ordinary resolutions**:

6A. **"THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase shares in the capital of the Company on The Stock Exchange of Hong Kong Limited or on any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited in accordance with any applicable law or Bermuda law and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the share capital to be repurchased by the Directors pursuant to the approval in paragraph (a) shall not exceed 10% of the aggregate nominal amount of the shares of the Company in issue on the date of the passing of this Resolution; and

- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or Bermuda Companies Act or the existing bye-laws of the Company to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.”

6B. **“THAT:**

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with any unissued shares in the capital of the Company and to make or grant offers, agreement and options which would or might require such shares to be allotted and issued be and is hereby generally and unconditionally approved;
- (b) the Directors be authorised to make or grant offers, agreement and options during the Relevant Period which would or might require shares in the capital of the Company to be allotted and issued either during or after the end of the Relevant Period pursuant to (a) above;
- (c) the aggregate nominal value of the share capital of the Company allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the respective approval and authorisation referred to in sub-paragraphs (a) and (b) above, otherwise than pursuant to (i) a Rights Issue, (ii) any scrip dividend or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of a dividend on shares in accordance with the bye-laws of the Company or (iii) any adjustment of rights to subscribe for shares under options and warrants or a specific authority granted by the shareholders, shall not exceed the aggregate of (i) 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and (ii) the aggregate nominal amount of the share capital of the Company that may have been repurchased pursuant to the repurchase mandate referred to in resolution 6A; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or Bermuda Companies Act or the existing bye-laws of the Company to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members on a fixed record date in proportion to their then holdings of such shares of the Company (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company) and an offer, allotment or issue of shares of the Company by way of rights shall be construed accordingly.”

6C. “**THAT** subject to the passing of Resolutions 6A and 6B above, the authority of the Directors pursuant to Resolution 6B be and is hereby approved to extend to cover such amount representing the aggregate nominal amount of the shares in the capital of the Company repurchased pursuant to the authority granted pursuant to Resolution 6A.”

To consider as **Special Business** and, if thought fit, pass with or without amendments, the following resolution as a **special resolution**:

7. “**THAT** the Bye-laws of the Company be and are hereby amended in the following manner:

By replacing the word “special” by the word “ordinary” immediately after the words “Subject to any provision to the contrary in these Bye-laws the Members may, at any general meeting convened and held in accordance with these Bye-laws, by” in Bye-law 86(4).”

8. To consider as **Special Business** and, if thought fit, pass with or without amendments, the following resolution as an **ordinary resolution**:

**“THAT**

- (a) the share option scheme (“Share Option Scheme”) of the Company (a copy of which has been submitted to the meeting and signed by the Chairman of the meeting for the purpose of identification) be and is hereby approved and adopted as the share option scheme of the Company subject to and conditional upon The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the shares of the Company representing 10% of the issued share capital of the Company as at the date of the passing of this resolution, to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and the directors of the Company (“Directors”) be and are hereby authorised to take all such steps as they may deem necessary, desirable or expedient to carry into effect, administer and alter the Share Option Scheme subject to the terms thereof, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time; and
- (b) the Directors be and are hereby authorised to grant options under the Share Option Scheme and to allot and issue shares of the Company pursuant to the exercise of options which may be granted under the Share Option Scheme, provided that the aggregate amount of shares which may be issued shall be limited to 10% of the issued share capital of the Company as at the date of the passing of this resolution.”

By Order of the Board  
**China Oriental Group Company Limited**  
**Han Jingyuan**  
*Chairman and Chief Executive Officer*

Hong Kong, 24 April 2006

*Notes:*

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company. In order to be valid, the completed proxy form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or adjourned meeting (as the case may be).
2. With regard to Resolutions 6A, 6B and 6C above, the Directors do not have immediate plans to issue any new shares or repurchase any existing shares. Approval is being sought from members of the Company for general mandates pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
3. A circular containing further information concerning Resolutions 3, 6A, 6B, 6C and 8 will be sent to shareholders together with the Company's Annual Report for 2005.
4. The register of members of the Company will be closed from Monday, 15 May 2006 to Wednesday, 17 May 2006, all days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and be eligible to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 12 May 2006.
5. The purpose of the proposed amendments to the existing Bye-laws of the Company is to ensure that the Bye-laws of the Company comply with recent changes in the Listing Rules.



**CHINA ORIENTAL GROUP COMPANY LIMITED**  
中國東方集團控股有限公司

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