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CHINA ORIENTAL GROUP COMPANY LIMITED

中國東方集團控股有限公司*

（於百慕達註冊成立的有限公司）

（股份編號：581）

建議發行
優先票據
以及公司及財務資料摘錄

本公司現擬在全球向若干合資格機構投資者進行優先票據發售。有關這次發售，本公司將向該等合資格的機構投資者提供本集團的公司及財務資料，包括但不限於風險因素、管理層討論及財務狀況分析及經營業績、關連方交易及債務資料。該等資料的摘錄隨附於後並將可在本公司網頁 www.chinaorientalgroup.com 查閱。建議發行票據是否完成須視乎市況及投資者興趣而定。

由於截至本公告日期尚未就建議發行票據訂立任何具約束力的協議，故建議發行票據不一定會實現。本公司投資者及股東於買賣本公司證券時務須審慎行事。倘就建議發行票據訂立具約束力的協議，本公司應就建議發行票據另行刊發公告。

建議發行票據

緒言

本公司現擬在全球向若干合資格機構投資者進行優先票據發售。有關這次發售，本公司將向該等合資格的機構投資者提供本集團的公司及財務資料，包括但不限於風險因素、管理層討論及財務狀況分析及經營業績、關連方交易及債務資料。該等資料的摘錄隨附於後並將可在本公司網頁 www.chinaorientalgroup.com 查閱。建議發行票據是否完成須視乎市況及投資者興趣而定。

票據將僅會(i)於美國境內根據美國證券法項下第144A條例所提供的註冊豁免或在不受證券法之註冊規定所限之交易中，透過彼等各自之美國經紀商聯屬公司向合資格機構買家以要約形式發售，及(ii)根據證券法項下S規例於美國境外以要約形式發售。票據概不會向香港公眾人士發售。

一般事項

由於截至本公告日期尚未就建議發行票據訂立任何具約束力的協議，故建議發行票據不一定會實現。本公司投資者及股東於買賣本公司證券時務須審慎行事。

倘就建議發行票據訂立具約束力的協議，本公司應就建議發行票據另行刊發公告。

釋義

於本公告內，除文義另有所指外，下列詞彙具備以下涵義：

「董事局」	指	董事局
「本公司」	指	中國東方集團控股有限公司，於百慕達註冊成立的有限公司，其已發行股份在聯交所主板上市
「董事」	指	本公司董事
「本集團」	指	本公司及其不時之附屬公司的統稱
「票據」	指	將由本公司發行的優先票據

「建議發行票據」	指	本公司建議的票據發行
「證券法」	指	一九三三年美國證券法(經修訂)
「股份」	指	本公司股本中每股面值0.10港元的普通股
「股東」	指	股份持有人
「聯交所」	指	香港聯合交易所有限公司

於本公告日期，本公司的董事局包括執行董事韓敬遠先生、朱軍先生、劉磊先生、沈曉玲先生、朱浩先生及 Muktesh Mukherjee 先生，非執行董事 Ondra Otradovec 先生及 Jean-Paul Georges Schuler 先生，獨立非執行董事高清舉先生、余統浩先生及黃文宗先生。

承董事局命
中國東方集團控股有限公司*
韓敬遠
主席兼首席執行官

香港，二零一零年十一月十日

* *僅供識別*

TABLE OF CONTENTS

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

The Company has prepared this document using a number of conventions, which investors should consider when reading the information contained herein. In this document, the term "Company" refers to China Oriental Group Company Limited itself and "Group" refers to China Oriental Group Company Limited and its subsidiaries, as the context requires.

All references to the Chinese name of the Company, 中國東方集團控股有限公司, in this document are for identification purposes only. The Chinese name does not form part of the name of the Company registered with the Registrar of Companies in Bermuda.

All references in this document to "U.S. dollars" and "US$" are to United States dollars; all references to "HK dollars" and "HK$" are to Hong Kong dollars; all references to S$ are to Singapore dollars; and all references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China, or the PRC.

This document contains translations of certain Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations from Renminbi into U.S. dollars in this document were made at the rate of RMB6.7815 to US$1.00 on June 30, 2010, as set forth in the H.10 statistical release of the Federal Reserve Board. On October 29, 2010, such exchange rate was RMB6.6705 to US$1.00. See "Exchange Rates." No representation is made that the Renminbi or U.S. dollar amounts referred to in this document could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all.

References in this document to accounting periods are based on the Company's fiscal year, which ends on December 31.

References to "PRC" and "China" for purposes of this document, do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan.

"PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

In this document, a tonne means a metric ton, which is equal to 1,000 kilograms.

This document refers generally to "land use rights" for convenience. The actual rights are subject to various distinctions under PRC law, depending on the classifications of land and other factors, and may not correspond to actual "land use rights" as a technical term under PRC law. The Group's audited consolidated financial statements and unaudited condensed consolidated interim financial information included in this document refer to "land use rights" as a technical term under PRC law.

In this document, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

DEFINITIONS

"Accordpower" means Accordpower Investments Limited

"Asia Energy Logistics" means Asia Energy Logistics Group Limited, a company listed on the Hong Kong Stock Exchange

"Boyuan Real Estate" means Hebei Jinxi Boyuan Real PRC Limited Liability

"BVI" means British Virgin Islands

"Company" means China Oriental Group Company Limited

"Directors" means the directors of the Company

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended

"Existing Indenture" means an indenture dated August 18, 2010, as supplemented by a supplemental indenture dated September 20, 2010, among the Company, the Subsidiary Guarantors named therein, and Deutsche Bank Trust Company Americas, as Trustee, Paying Agent, Transfer Agent and Registrar, governing the Existing Senior Notes

"Existing Senior Notes" means the US$550,000,000 8% Senior Notes due 2015 issued by the Company on August 18, 2010

"Group" means China Oriental Group Company Limited and its subsidiaries

"Hong Kong Stock Exchange" means The Stock Exchange of Hong Kong Limited

"Hui Yin" means Qianxi County Hui Yin Trading Company Limited

"Hunan Valin Steel" means Hunan Valin Iron & Steel Co., Ltd.

"Investment Reforming Policy" means Decision of the State Council on Reforming the Investment System

"Jinjin Mine" means Qianxi County Jinjin Mine Company Limited

"Jinlan Production Site" means the production site at Foshan City, Guangdong Province

"Jinxi Jinlan" means Foshan Jinxi Jinlan Cold-Rolled Sheet Company Limited

"Jinxi Limited" means Hebei Jinxi Iron and Steel Group Company Limited (formerly known as Hebei Jinxi Iron and Steel Company Limited)

"Jinxi Mining" means Tangshan Jinxi Iron Mining Co., Ltd.

"Jinxi Section Steel" means Hebei Jinxi Section Steel Company Limited

"Jinxi Production Site" means the production site at Qianxi County, Tangshan City, Hebei Province

"Jinxi-Wantong" means Qianxi County Jinxi Wantong Ductile Iron Pipe Limited

"Longba Charging" means Qianxi County Longba Charging Company Limited

"MEP" means PRC Ministry of Environmental Protection

"Mittal Steel" means ArcelorMittal Holdings AG, a subsidiary of ArcelorMittal

"NDRC" means PRC National Development and Reform Commission

"PRC government" means the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof

"Shenzhen Leasing" means Oriental Fullhero Leasing Company Limited

"Tangshan Jinxi Group" means Tangshan City Jinxi Iron and Steel Group Co., Ltd.

"Wantong Production Site" means the production site at Jinxi County, Tangshan City, Hebei Province

"Zhengda Iron and Steel" means Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Co., Ltd.

"Zhengda Production Site" means the production site at Fengrun District, Tangshan City, Hebei Province

"Zhongxing Mine" means Qianxi County Zhongxing Iron Mine Co., Ltd.

FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements." All statements other than statements of historical fact contained in this document, including, without limitation, those regarding the Group's strategies, plans, objectives, goals and targets, future developments in the markets where the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group's control, which may cause the Group's actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- changes in general economic, social and political conditions in the PRC;
- demand for steel products and competition in the steel industry;
- changes in policies, laws and regulations that are applicable to the steel industry and the Group;
- the Group's access to reliable sources of raw materials;
- the Group's ability to successfully implement its strategies;
- the Group's ability to expand its production capacity;
- the Group's ability to improve its product mix;
- the Group's relationships with its suppliers, customers and strategic shareholders;
- restrictions on foreign currency convertibility and remittance abroad; and
- exchange rate fluctuations and developing legal system, in each case pertaining to the PRC.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this document. The Group cautions you not to place undue reliance on these forward-looking statements which reflect the view of the Group's management only as of the date of this document. The Group undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur.

The summary below is intended only to provide a limited overview of information described in more detail elsewhere in this document. As it is a summary, it does not contain all of the information that may be important to investors. Prospective investors should therefore read this document in its entirety. Terms defined elsewhere in this document shall have the same meanings when used in this summary.

Overview

The Group is an integrated iron and steel manufacturer in the PRC principally engaged in the production of H-section steel products, strips and strip products, cold-rolled sheets and galvanized sheets, and billets.

As of the date of this document, the Group has a total production capacity of 11.0 million tonnes of crude steel per annum, including approximately 2.0 million tonnes per annum from facilities leased from Jinxi-Wantong. Utilizing its crude steel production facilities, as of the date of this document, the Group has the capacity to produce 3.0 million tonnes per annum of H-section steel products, 3.5 million tonnes per annum of strips and strip products and 500,000 tonnes per annum of cold-rolled sheets and galvanized sheets. The Group also has the capacity to produce 800,000 tonnes per annum of steel bar products from facilities leased from Jinxi-Wantong as of the date of this document.

The Group is a market leader in China for H-section steel products with a market share of 28.5% in 2009 based on the Group's domestic sales volume and China's total apparent consumption of H-section steel products according to data published by Steelwin.com. The Group plans to expand its production capacity of H-section steel products and further strengthen its market leadership in this sector.

The Group is one of the most efficient and profitable steel manufacturers in China. According to statistics published by the China Iron and Steel Association, Jinxi Limited, the main operating subsidiary of the Company, ranked 7th and 6th in terms of profit after tax for the year 2009 and the six months ended June 30, 2010, respectively, among the large and medium-sized steel companies that are China Iron and Steel Association members. Further, for the six months ended June 30, 2010, Jinxi Limited's annualized steel productivity per employee was 906 tonnes, which was the highest among these companies, and its annualized return on equity ratio was 23.4%, which was the third highest among these companies.

For the year ended December 31, 2009 and the six months ended June 30, 2010, the Group's revenue was RMB20.6 billion and RMB15.4 billion, respectively, and profit after taxation was RMB972.4 million and RMB871.8 million, respectively. In 2009, the Group sold approximately 2.5 million tonnes of H-section steel products, 2.9 million tonnes of strips and strip products, 0.3 million tonnes of cold-rolled sheets and galvanized sheets and 1.3 million tonnes of billets. For the six months ended June 30, 2010, the Group sold approximately 1.5 million tonnes of H-section steel products, 1.8 million tonnes of strips and strip products, 0.2 million tonnes of cold-rolled sheets and galvanized sheets and 1.0 million tonnes of billets. More than 90% of the Group's revenue was generated from products sold in the domestic market in both 2009 and the six months ended June 30, 2010.

The Group enjoys strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company. As of June 30, 2010, ArcelorMittal held a 29.6% equity interest in the Company and is the Company's second largest shareholder. Through the Group's cooperation with ArcelorMittal as a strategic shareholder, the Group has benefited and expects to continue to benefit from ArcelorMittal's advanced steel production technologies, management expertise, and global distribution and sourcing networks. For information on the Group's cooperation with ArcelorMittal, please refer to "Business — Competitive Strengths — The Group enjoys strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company."

The Group believes it is well positioned strategically. China is the world's largest and fastest growing steel consumer and producer, and the Group expects China's demand for steel products to remain strong in the coming years as its urbanization and industrialization continue. The Chinese steel industry, though highly fragmented at present, is undergoing a period of consolidation as encouraged by the PRC government's policies. Through its rapid development in the past decade, the Group has established itself as one of the most efficient and profitable steel producers in China and the third largest steel producer in terms of production volume in the six months ended June 30, 2010 in Hebei Province, which is the largest iron ore and steel producing province in China. The Group believes that its strengths in terms of scale, efficiency and profitability position it well to participate actively in industry consolidation.

Moreover, the Group believes the highly fragmented steel sector in Hebei Province with many privately owned small-scale players will provide attractive acquisition opportunities. The management of the Group is experienced in the acquisition and integration of steel businesses as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations. Leveraging its strengths and experience, the Group is committed to achieving greater market share, higher production efficiency and thereby improving economies of scale in the consolidation process.

Recent Developments

Recent trends and outlook

During the third quarter of 2010, the Group and the Chinese steel industry generally were impacted by certain industry trends affecting steel companies, including, among others, an increase in prices of imported iron ore, a decrease in the average selling prices of steel products and the PRC government's policy to restrict energy consumption in certain regions and for certain industries. As a result, the Group estimates that its results of operations during the third quarter in 2010 showed a slight downward trend compared to its results for the first half of 2010 (on a straight line basis) and its results for the same period in 2009. However, the Group estimates that its overall results for the first nine months of 2010 were better than its results for the same period in 2009.

Issuance of the Existing Senior Notes

On August 18, 2010, the Company issued its US$550,000,000 8% Senior Notes due 2015. The Existing Senior Notes are guaranteed by the Subsidiary Guarantors on a senior unsubordinated basis and are secured by a pledge of the Collateral. The Company intends to use the proceeds from the issuance and sale of the Existing Senior Notes for potential acquisitions of steel mills in China (primarily in Hebei Province); continuous improvement capital expenditure projects at the Group's current production facilities; potential investments in iron ore assets, which may be in the Restricted Subsidiaries (as defined in the Existing Indenture) or may be minority investments; and general corporate purposes, including for funding working capital requirements. As of the date of this document, the Company has used a portion of the net proceeds of the offering of the Existing Senior Notes for working capital requirements, with the balance invested in short term deposits or money market instruments pending application in the manner described above.

Acquisition of equity interest in Caofeidian Port Company

On October 21, 2010, Hebei Jinxi Iron and Steel Group and Foshan Nanhai Leju Trading Transportation Limited, a company established in the PRC ("**Foshan Transportation**"), entered into a sale and purchase agreement dated October 21, 2010. Pursuant to this sale and purchase agreement, Hebei Jinxi Iron and Steel Group has agreed to acquire a 10% equity interest in Tangshan Caofeidian Mining Port Limited ("**Caofeidian Port Company**") from Foshan Transportation. Caofeidian Port Company is a company established in the PRC whose principal activities are depot and transportation. A port in Caofeidian is currently being constructed by Caofeidian Port Company. The registered capital of Caofeidian Port Company is RMB950,000,000 and as of November 5, 2010, RMB500,000,000 has been paid up by the shareholders of Caofeidian Port Company. Thus, the Group expects that after the acquisition pursuant to this sale and purchase agreement, Hebei Jinxi Iron and Steel Group will further invest a sum of RMB45,000,000, being pro rata to its holding of a 10% equity interest in Caofeidian Port Company in due course. Caofeidian is a rapidly developing designated industrial zone in mainland China and Caofeidian Port is one of the ports in mainland

China which can cater for vessels over 300,000 tonnes. The Group believes that the execution of this sale and purchase agreement and the investment in Caofeidian Port Company, which are in line with the Group's development strategy, furthers the goal of the Group to have a steady logistics means for the importation and transportation of iron ore to Group facility and it furthers the Group's goal of investing in the Caofeidian zone. Further, in the future the Group believes that the port being constructed by Caofeidian Port Company will help the Group mitigate its transportation and depot costs through use of the port by the Group. The consideration was determined after arm's length negotiation between Hebei Jinxi Iron and Steel Group and Foshan Transportation.

Notices relating to restrictions on energy consumption and control of production of steel products

On September 3, 2010, the Tangshan Municipal People's Government issued notices to certain subsidiaries of the Company imposing restrictions on energy consumption by such subsidiaries and control of the production of steel products. In response to these restrictions, the Group took steps to optimize its product mix in order to attain what it believes to be the optimal balance between production efficiency and energy savings during the restriction period. After taking into account various factors, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wan Tong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. The Group plans to partially operate its H-section steel production lines in November 2010 with a target to produce approximately 60,000 tonnes to 80,000 tonnes of H-section steel products in November 2010. As a result, the Company expects that during the fourth quarter of 2010, strips and strip products will constitute a relatively higher proportion of the Group's overall production volume. As the relative margins of steel products fluctuate according to market conditions, the Group intends to continue to monitor the market and adjust its product mix in order to optimize its profitability.

Cooperation Agreement with Caofeidian Industrial Management Committee

On September 16, 2010, the Company and the Caofeidian Industrial Management Committee entered into a cooperation agreement, pursuant to which the Company has agreed to invest in the Caofeidian Industrial Zone in Tangshan City, Hebei Province, China to develop a scrap recycling business involving the use of scrap metal and other materials for the manufacturing of steel products. The expected total investment by the Company under the cooperation agreement will be approximately US$100 million. The project is currently in a preliminary planning stage and is subject to the receipt by the Group of the relevant government permits and licenses, among other things.

Competitive Strengths

The Group believes that its historical results and future prospects are directly linked to the following competitive strengths:

- a leading market position in China for H-section steel production and an established and well-recognized brand name;
- high operating efficiencies;
- ability to optimize its product mix by focusing on products with higher profit margins and well positioned to benefit from favorable market conditions in China;
- strategically located production sites;
- a committed and experienced management team; and
- strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company.

Business Strategy

The Group's overall business objective is to achieve sustainable growth and profitability. To accomplish this, the Group is pursuing a business strategy that has the following principal components:

- enhancing economies of scale by further expanding production capacity;
- continuing to optimize product mix to achieve higher profit margins;
- strengthening strategic cooperation with ArcelorMittal;
- continuing to expand vertically upstream to ensure a stable supply of raw materials; and
- continuing prudent financial policies and investment practices.

General Information

The Company was incorporated in Bermuda on November 3, 2003 as an exempted company with limited liability. The Company's principal place of business in China is located at Suites 2901-3, 29th Floor, Full Tower, 9 Dongsanhuan Middle Road, Chaoyang District, Beijing, China. The Company's place of business in Hong Kong is located at Suites 901-2 & 10, 9th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's registered office is located at Clarendon House 2 Church Street Hamilton HM11, Bermuda. The Company's website is www.chinaorientalgroup.com. Information contained on the Company's website does not constitute part of this document.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial data as of and for each of the years ended December 31, 2007, 2008 and 2009 were derived from the Group's consolidated financial statements that have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. The selected consolidated financial data for the six months ended June 30, 2009 and 2010 and as of June 30, 2010 were derived from the Group's condensed consolidated interim financial information for the six months ended June 30, 2009 and 2010, which has been reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, the condensed consolidated interim financial information and the notes thereto included elsewhere in this document.

The Group's consolidated financial statements were prepared and presented in accordance with HKFRS. HKFRS differs in certain material respects from U.S. GAAP. For a discussion of the differences between HKFRS and U.S. GAAP, see "Summary of Certain Differences Between HKFRS and U.S. GAAP."

Consolidated Income Statement Data

	Year ended December 31,				Six months ended June 30,		
	2007	2008	2009		2009	2010	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
						(unaudited)	
Revenue	13,498.6	19,388.2	20,589.1	3,036.1	9,175.0	15,350.0	2,263.5
Cost of sales	(11,581.1)	(18,871.0)	(18,582.8)	(2,740.2)	(8,420.8)	(13,953.5)	(2,057.6)
Gross profit	1,917.5	517.2	2,006.3	295.8	754.2	1,396.5	205.9
Other income	2.1	35.6	36.8	5.4	21.8	34.1	5.0
Distribution costs	(46.7)	(80.3)	(57.0)	(8.4)	(17.7)	(52.7)	(7.8)
Administrative expenses	(373.5)	(281.9)	(283.6)	(41.8)	(131.0)	(148.3)	(21.9)
Other expenses	(5.3)	(10.2)	(206.8)	(30.5)	(9.7)	(18.8)	(2.8)
Other gains/(losses) — net	12.7	(1.4)	(80.5)	(11.9)	(20.5)	16.6	2.4
Operating profit	1,506.8	179.0	1,415.2	208.7	597.1	1,227.4	181.0
Finance income	12.1	24.2	35.4	5.2	17.3	14.4	2.1
Finance costs	(68.8)	(91.6)	(137.1)	(20.2)	(72.4)	(82.7)	(12.2)
Finance costs — net	(56.7)	(67.4)	(101.7)	(15.0)	(55.1)	(68.3)	(10.1)
Share of results of associates	0.2	2.0	0.2	—	(2.2)	(1.5)	(0.2)
Profit before income tax	1,450.3	113.6	1,313.7	193.7	539.8	1,157.6	170.7
Income tax expense	(256.6)	(70.6)	(341.3)	(50.3)	(145.5)	(285.8)	(42.1)
Profit for the year/period	1,193.7	43.0	972.4	143.4	394.3	871.8	128.6

	Year ended December 31,				Six months ended June 30,		
	2007	2008	2009		2009	2010	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions, except per share data)						
					(unaudited)		
Profit attributable to:							
Equity holders of the Company	1,159.6	44.1	884.3	130.4	358.2	798.0	117.7
Non-controlling interests	34.1	(1.1)	88.1	13.0	36.1	73.8	10.9
	1,193.7	43.0	972.4	143.4	394.3	871.8	128.6
Earnings per share for profit attributable to equity holders of the Company during the year/ period (expressed in RMB per share)							
— basic	0.40	0.02	0.30	0.04	0.12	0.27	0.04
— diluted	0.40	0.02	0.30	0.04	0.12	0.27	0.04
Dividends	319.2	167.1	221.8	32.7	—	—	—

Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2007	2008	2009		2010	
	RMB	RMB	RMB	US$	RMB	US$
			(in millions)			
					(unaudited)	
ASSETS						
Non-current assets						
Property, plant and equipment	6,405.5	8,286.8	8,625.6	1,271.9	8,229.7	1,213.6
Leasehold land and land use rights	76.5	74.8	73.1	10.8	72.3	10.7
Investment properties	19.3	18.4	17.6	2.6	17.2	2.5
Intangible assets	—	7.7	—	—	0.1	—
Investment in associates	8.1	10.1	10.3	1.5	23.5	3.5
Loan receivable	—	130.0	—	—	—	—
Available-for-sale financial assets	—	188.1	—	—	—	—
Deferred income tax assets	3.2	7.4	81.0	11.9	85.3	12.6
Total non-current assets	6,512.6	8,723.3	8,807.6	1,298.8	8,428.1	1,242.8
Current assets						
Available-for-sale financial assets	—	—	96.2	14.2	72.2	10.6
Properties under development	—	—	—	—	195.7	28.9
Inventories	1,837.0	1,567.4	2,598.0	383.1	3,175.9	468.3
Trade receivables	488.8	1,734.1	1,197.1	176.5	1,738.4	256.3
Other current assets	4.0	9.9	14.2	2.1	18.8	2.8
Prepayments, deposits and other receivables	447.2	731.6	1,125.2	165.9	845.8	124.7
Loan receivable	—	—	—	—	20.0	2.9
Financial assets at fair value through profit or loss	0.1	0.1	0.1	—	0.1	—
Amounts due from related parties	11.1	14.6	364.2	53.7	777.0	114.6
Prepaid current income tax	—	264.6	—	—	—	—
Restricted bank balances	171.7	361.7	342.5	50.5	706.4	104.2
Cash and cash equivalents	689.6	728.8	644.0	95.0	813.4	119.9
Total current assets	3,649.5	5,412.8	6,381.5	941.0	8,363.7	1,233.3
Total assets	10,162.1	14,136.1	15,189.1	2,239.8	16,791.8	2,476.1
EQUITY						
Equity attributable to equity holders of the Company						
Ordinary shares	311.4	311.7	311.7	46.0	311.7	46.0
Share premium	2,186.0	2,189.7	2,189.7	322.9	2,190.3	323.0
Other reserves	1,144.2	1,144.9	1,192.2	175.8	1,205.5	177.8
Retained earnings	2,907.1	2,618.9	3,475.2	512.5	4,045.0	596.5
	6,548.7	6,265.2	7,168.8	1,057.1	7,752.5	1,143.2
Non-controlling interests	147.4	224.7	292.0	43.1	401.2	59.2
Total equity	6,696.1	6,489.9	7,460.8	1,100.2	8,153.7	1,202.3
LIABILITIES						
Non-current liabilities						
Borrowings	765.0	489.2	758.9	111.9	646.8	95.4
Other long term payables	—	847.9	570.2	84.1	470.7	69.4
Deferred revenue	—	62.8	41.1	6.1	26.3	3.9
Amounts due to related parties	55.7	65.1	37.4	5.5	—	—
Total non-current liabilities	820.7	1,465.0	1,407.6	207.6	1,143.8	168.7

	As of December 31,				As of June 30,	
	2007	2008	2009		2010	
	RMB	RMB	RMB	US$	RMB	US$
	(in millions)					
					(unaudited)	
Current liabilities						
Trade payables	715.5	2,219.4	1,725.8	254.5	2,125.3	313.4
Accruals, advances from customers and other current liabilities.	1,371.3	2,034.8	2,255.4	332.6	2,561.3	377.7
Amounts due to related parties . .	8.6	207.0	269.2	39.7	346.9	51.2
Current income tax liabilities . . .	88.4	—	136.5	20.1	153.1	22.6
Other long term payables — current portion	—	19.9	134.4	19.8	175.7	25.9
Borrowings	460.0	1,697.2	1,796.5	264.9	2,063.2	304.2
Dividends payable	1.5	2.9	2.9	0.4	68.8	10.1
Total current liabilities	2,645.3	6,181.2	6,320.7	932.1	7,494.3	1,105.1
Total liabilities	3,466.0	7,646.2	7,728.3	1,139.6	8,638.1	1,273.8
Total equity and liabilities	10,162.1	14,136.1	15,189.1	2,239.8	16,791.8	2,476.1
Net current assets/(liabilities). . .	1,004.2	(768.4)	60.8	9.0	869.4	128.2
Total assets less current liabilities	7,516.8	7,954.9	8,868.4	1,307.7	9,297.4	1,371.0

Other Unaudited Financial Data

	As of and for the year ended December 31,			As of and for the six months ended June 30,	
	2007	2008	2009	2009	2010
EBITDA[1] (in RMB millions)	1,952.2	754.6	2,263.0	996.1	1,667.8
EBITDA[1] (in US$ millions)	287.9	111.3	333.7	146.9	245.9
EBITDA margin[2]	14.5%	3.9%	11.0%	10.9%	10.9%
EBITDA/Gross interest expense[3] . .	28.6x	6.0x	20.0x	—	—
Total debt/EBITDA[1]	0.7x	4.2x	1.5x	—	—

(1) EBITDA for any period consists of profit for the year/period before finance costs-net, amortization of intangible assets, amortization of leasehold land and land use rights, income tax expense and depreciation. EBITDA for the twelve months ended June 30, 2010 is calculated by adding EBITDA for the six months ended June 30, 2010 to EBITDA for the year ended December 31, 2009 and subtracting EBITDA for the six months ended June 30, 2009. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Group believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. You should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of the Group's profit for the year/period under HKFRS to its definition of EBITDA.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

(3) Gross interest expense includes interest expense capitalized in property, plant and equipment. Gross interest expense for the twelve months ended June 30, 2010 is calculated by adding gross interest expense for the six months ended June 30, 2010 to gross interest expense for the year ended December 31, 2009 and subtracting gross interest expense for the six months ended June 30, 2009 and excludes interest expense from the offering of the Existing Senior Notes.

Consolidated Cash Flow Statement Data

	Year ended December 31,				Six months ended June 30,		
	2007	2008	2009		2009	2010	
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(in millions)				
						(unaudited)	
Net cash generated from/(used in) operating activities	1,074.3	147.9	251.6	37.1	(9.4)	619.0	91.3
Net cash used in investing activities	(828.3)	(1,510.4)	(674.8)	(99.5)	(261.5)	(172.2)	(25.4)
Net cash (used in)/ generated from financing activities	27.9	1,409.7	338.8	50.0	163.8	(275.8)	(40.7)
Net increase/(decrease) in cash and cash equivalents	273.9	47.2	(84.4)	(12.4)	(107.1)	171.0	25.2
Effect of foreign exchange rate changes	(19.2)	(8.0)	(0.4)	(0.1)	(0.1)	(1.6)	(0.2)
Cash and cash equivalents, beginning of the period	434.9	689.6	728.8	107.5	728.8	644.0	95.0
Cash and cash equivalents, end of the period	689.6	728.8	644.0	95.0	621.6	813.4	119.9

You should carefully consider the risks described below, in addition to the other information contained in this document, including the Group's consolidated financial statements and related notes, before making an investment decision.

Risks Relating to the Group's Business and the Industry

Market demand for and prices of the Group's products may fluctuate due to the cyclical nature of the steel industry.

The global steel industry is cyclical in nature. During the global financial crisis that began in 2008, prices of steel products decreased significantly and then began to stabilize and recover in 2009. During the first half of 2010, an increase in iron ore prices caused steel prices to increase significantly, reaching a high point in April 2010 before decreasing again in the second and third quarters of 2010, in part as a result of the introduction of measures by the PRC government to tighten its monetary policies and to cool down the growth of the real estate industry, as well as the European debt crisis. Steel prices for certain products showed signs of stabilization and in some cases, increased during the beginning of the second half of 2010. The Group cannot predict the future trends of steel prices and cannot assure you that international market prices for steel products will not decline significantly in the future. In light of the cyclical nature of the steel industry, the Group's products are subject to substantial price volatility which could have a material adverse effect on the Group's business, financial condition or results of operations.

The PRC steel industry is cyclical. Domestic demand for steel products in the PRC is primarily affected by domestic economic conditions as well as the PRC government's monetary and fiscal policies. The Group's customers are primarily engaged in trading or manufacturing downstream steel products for industries that are also cyclical in nature, including the machinery manufacturing industry, the construction industry and the electronic appliance industry. As a result, the state of the PRC economy has a significant impact on the Group's performance, operational results and profitability. The Group has entered into one-year sales framework contracts with most of its principal customers that are renewable on an annual basis subject to mutual agreement between the customer and the Group. However, these framework contracts do not provide a fixed price. Pursuant to these framework contracts, the Group enters into separate agreements each month with these customers to confirm the prices, which depend on the prevailing market price and negotiations with customers. Accordingly, these framework contracts do not protect the Group against the effects of price declines in steel products. The Group has so far not engaged in, and does not currently plan to engage in, any derivatives or futures trading activities that could help hedge against any risks of steel price declines.

To the extent that fluctuations in the prices of the Group's steel products do not correspond to the fluctuations in production costs, including raw material prices, the Group's business, financial condition or results of operations could be materially and adversely affected. We cannot assure you that fluctuations in market demand for, and prices of, the Group's products will not occur in the future, and if demand for and prices of some or all of the Group's products decline but prices of raw materials do not decline to the same extent or at all, it could have a material adverse effect on the Group's business, financial condition and results of operations. See "— Risks Relating to the PRC — A slowdown of the Chinese economy could materially and adversely affect the Group's business and growth prospects" below.

The Group's profit margins and results of operations could be materially and adversely affected by increases in the prices of raw materials, costs of transportation or any shortage of raw material supplies.

The Group depends upon reliable sources of large quantities of raw materials. The Group uses primarily iron ore and coke (produced from coking coal) for its production process, and expenditures on iron ore and coke accounted for 56.9%, 68.0%, 63.9% and 65.8% of its total production cost for the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. A shortage of any raw materials could result in the Group's inability to operate its production facilities at full capacity or at all, thereby resulting in reduced or no production output and sales revenue. While the Group has not experienced any significant supply interruptions or shortages of raw materials, the Group cannot guarantee that supply interruptions or shortages will not occur in the future.

The prices of raw materials fluctuate significantly as a result of the changing supply and demand in the market. For example, the average cost per tonne of iron ore purchased domestically by Jinxi Limited, the main operating subsidiary of the Company, decreased significantly from approximately RMB1,326 per tonne for the year ended December 31, 2008 to approximately RMB679 per tonne for the year ended December 31, 2009, and then increased to RMB974 per tonne for the six months ended June 30, 2010. The average cost per tonne of coke decreased from approximately RMB2,089 per tonne for the year ended December 31, 2008 to approximately RMB1,633 per tonne for the year ended December 31, 2009, and then increased to RMB1,842 per tonne for the six months ended June 30, 2010.

The Group also enters into long-term contracts with terms ranging from three to ten years with certain of its iron ore suppliers outside of the PRC. Under a majority of these contracts, agreed prices are subject to annual or quarterly review. Accordingly, the price of iron ore for each of the orders under the Group's supply contracts will fluctuate according to the prevailing market price of iron ore and negotiations with the Group's suppliers. The Group enters into one-year supply framework contracts renewable on an annual basis with certain local iron ore suppliers in the Beijing-Tianjin-Tangshan Area in China specifying the minimum quantity of iron ore guaranteed by the relevant supplier. However, these contracts are framework contracts which do not provide a fixed purchase price. The Group enters into a separate agreement each month with the Group's suppliers pursuant to these framework contracts to confirm the applicable prices, which depend on the prevailing market price and negotiation with the Group's suppliers. The Group seeks to manage fluctuations in raw material prices by passing through cost increases of raw materials based on prevailing market conditions to the Group's customers. No assurance can be given that fluctuations in prices will not occur in future periods or that the Group will be able to pass through any cost increase to the Group's customers. Increases in the Group's raw material costs, to the extent they cannot be passed through to the Group's customers, could have a material adverse effect on the Group's profit margins and results of operations.

In addition, in anticipation of the fluctuation of raw material prices, the Group may, from time to time, assess the price trends of certain raw materials and take action based on this assessment. For instance, if the Group anticipates that prices of iron ore are likely to increase, it may increase its inventory of iron ore. If, however, iron ore prices and market prices of the Group's products do not increase as anticipated or decrease, the Group may not be able to sell its products at an acceptable profit margin, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Furthermore, costs of the Group's raw materials also include freight and insurance in addition to raw material costs, and, therefore, are also affected by fluctuations in transportation costs. These costs have increased in recent years. Delays in transportation may also affect the Group's production schedule and its ability to deliver products to its customers on time.

Assistance from and strategic cooperation with ArcelorMittal may cease at anytime, which in turn could have a material adverse effect on the Group's business, financial condition or results of operations.

As of the date of this document, ArcelorMittal holds a 29.6% equity interest in the Company. ArcelorMittal previously entered into a shareholders' agreement with the controlling shareholders of the Company and a business co-operation agreement and technology cooperation framework agreement with the Company. These agreements ceased to have any effect as of May 9, 2008, as they were conditional upon ArcelorMittal obtaining the requisite antitrust clearance from the Ministry of Commerce and the State Administration of Industry and Commerce of the PRC, which was not obtained within the specified period of time. ArcelorMittal is not legally obligated to assist or cooperate with the Group, as these agreements are no longer in effect. ArcelorMittal provides management expertise, technology and operational efficiencies know-how and collaborates with the Group on production facilities development. If ArcelorMittal ceases to assist or cooperate with the Group, the operations, development of the Group's steel sheet piling facility and other product development initiatives could be materially and adversely affected.

The Group relies on one principal production site, namely Jinxi Production Site, and any interruptions in the operations of its plants situated on this site would significantly affect the Group's production and results of operations.

For the year ended December 31, 2009 and the six months ended June 30, 2010, the revenue from Jinxi Limited and Jinxi Section Steel, which operate the Group's principal production site located in Qianxi County, Tangshan City, Hebei Province, accounted for 79.2% and 80.1%, respectively, of the Group's revenue.

As the Group relies on Jinxi Production Site for most of its production activities, any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of the production facilities at the Jinxi Production Site, or the closure of the Jinxi Production Site, could significantly impact the Group's production activities. The Jinxi Production Site is subject to the risk of operational breakdowns or disruptions, which may result from external factors beyond the control of the Group, including natural disasters, terrorist attacks and labor disputes. Operational breakdowns or disruptions may also result from industrial accidents occurring during the operating process, such as due to faulty construction, technical failures and operator mistakes, which may lead to fire, explosions or the release of toxic or harmful substances.

In addition, government policies could also have an impact on the production activities at the Group's production sites, including the Jinxi Production Site. On September 3, 2010, the Tangshan Municipal People's Government issued notices to certain subsidiaries of the Group imposing certain restrictions on energy consumption by such subsidiaries and control over the production of steel products. The restriction on energy consumption was imposed as part of the implementation by the local government of Tangshan City of the PRC State Council's *Working Plan for Energy Conservation and Emission Reduction*, published on June 3, 2007, which provides that by the end of the "Eleventh Five-Year Plan (2006 – 2010)," the level of total energy consumption in terms of gross domestic production shall be reduced by 20%, and the total emission of major pollutants shall be reduced by 10%. In response to these restrictions, the Group has taken steps to optimize its product mix in order to attain what it believes to be the optimal balance between production efficiency and energy savings during the restriction period. After taking into account various factors, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wantong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. The Group plans to partially operate its H-section steel production lines in November 2010 with a target to produce approximately 60,000 tonnes to 80,000 tonnes of H-section steel products in November 2010. As a result, the Company expects that during the fourth quarter of 2010, strips and strip products will constitute a relatively higher proportion of the Group's overall production volume. If such restrictions remain in place, they will continue to have an adverse impact on the Group's production activities and results of operations. For further details, see "Business — Raw Materials, Energy and Utilities — Energy and Utilities."

Any interruptions in the operations of the Jinxi Production Site may prevent the Group from producing its products for its principal customers, which may, in turn, result in breach of contract, loss of revenues, or expose the Group to liability, lawsuits and damage to its reputation, any of which could have a material adverse affect on the Group's business, financial condition or results of operations.

The Group relies significantly on business in provinces and major cities adjacent to its production sites.

The Group's production sites are generally in close proximity to its customers. For example, customers of steel products manufactured by Jinxi Production Site, Zhengda Production Site and Wantong Production Site are primarily based in Hebei Province and adjacent provinces and major cities. Similarly, customers of steel products manufactured by Jinlan Production Site are primarily based in Guangdong Province and adjacent provinces and major cities.

Due to the weight and bulk of steel products, delivery costs are a major consideration for domestic customers. Most of the Group's sales are made in the provinces and major cities adjacent to its production sites, such as Hebei Province and Guangdong Province, as transportation costs are lower due to the short distance from the production sites. Although the Group is building relationships with customers in other regions, such as those in central, eastern and southern China, the Group anticipates that its customer base in Hebei Province and Guangdong Province and the adjacent provinces and major cities will continue to generate a major portion of the Group's sales in the near future.

As such, the economic conditions of Hebei Province, Guangdong Province and the adjacent provinces and major cities, in particular the growth of the local downstream steel product industries and the general consumption of steel in these areas, have had and will continue to have a significant impact on the Group's sales and business. Any economic downturn in the local downstream steel product industry could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group relies on the continued patronage of its major customers for sales, the loss of any of which could materially and adversely affect the Group's business, financial condition and results of operations.

The top ten customers of the Group accounted for 26.6%, 19.3% and 20.2% of its total revenue in 2008, 2009 and the six months ended June 30, 2010, respectively. Failure to secure continued patronage of the Group's principal customers in the future could have a material adverse effect on the Group's business, financial condition and results of operations.

The growth, capacity expansion and roll-out of new products in recent years require the Group to secure new customers to absorb the increased output. The ability and willingness of the Group's customers to purchase its products may depend on these customers' own results of operations, which are beyond the Group's control. Many of the Group's customers are in the steel manufacturing businesses and offer similar products. Any restructuring or change in the regulatory environment, whether as a result of PRC government action or otherwise, affecting the steel industry could affect the operations of most or all of the Group's principal customers. If the Group is unable to secure new customers to absorb its increased output, or to maintain its established business relationships with a significant number of its new customers or, if a number of customers were to encounter difficulties in their operations, as a result of unfavorable market conditions, any restructuring of their industry sector pursuant to government policies or otherwise, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group has entered into one-year framework sales contracts with most of its principal customers. However, the term of these contracts is one year and renewal upon expiration of the term is not automatic but subject to mutual agreement between the customer and the Group. Therefore, the Group may not be able to maintain its sales contracts with its major customers on terms commercially acceptable to the Group or at all and the Group's business, financial condition and results of operations may be adversely affected.

The Group has not obtained certain regulatory licenses, approvals and permits which are material to its current operations.

The Group's current operations require a number of regulatory licenses, approvals and permits. It has however not received several significant licenses, approvals or permits related to certain operations. For example, pursuant to the *Decision of the State Council on Reforming the Investment System* (the "Investment Reforming Policy") which came into effect as of July 16, 2004 and the corresponding rules issued by the Ministry of Environmental Protection (the "MEP") later in the same year, projects of iron-smelting, steel-making and steel rolling with newly added production capacity require prior approval by the PRC National Development and Reform Commission (the "NDRC") and an environmental impact assessment report is required to be submitted to the MEP. These requirements were reiterated in the *Policies on Development of the Steel and Iron Industry* promulgated in July 2005. The Investment Reforming Policy does not explicitly exempt projects involving only technological improvements from these requirements. For some of the Group's projects commenced subsequent to July 2004, prior approval has not been obtained from the NDRC, and the Group has not submitted an environmental impact assessment report for these projects as required by the regulations. The management believes that most of these projects are technological improvements to existing projects rather than new projects and are therefore not subject to the above-mentioned rules, and some are auxiliary facilities of an existing project and therefore do not need to be approved on a stand-alone basis. However, there is no assurance that the relevant authorities would share the same view as the Group's management, and such authorities may require the Group to obtain the relevant approvals or penalize the Group for its failure to obtain the approvals. In addition, Jinxi Limited granted its mining rights to certain companies and individuals and also granted the management and operating rights over certain mining assets to Jinxi Mining, and Jinxi Mining sub-granted such rights to one individual. See "Related Party Transactions." Pursuant to the *Provisional Regulations on Disposal and Transfer of Mining Rights*, and the *Administrative Rules on Transfer of Exploration and Mining Rights*, the granting and sub-granting of such rights should satisfy certain requirements, including being approved by the relevant authorities. The granting of such rights has not fully satisfied these requirements, and as a result, Jinxi Limited may be subject to penalties, including rectification orders, confiscation of illegal income, fines of up to RMB100,000 and revocation of mining permits. Furthermore, Jinjin Mine did not subject itself to the annual inspection conducted by the local branch of the State Administration for Industry and Commerce, or the SAIC, for 2008 and 2009. As a result, Jinjin Mine may be subject to a fine of up to RMB100,000. Jinjin Mine is in the process of applying to the local branch of the SAIC for an inspection as a rectification measure. Furthermore, Qianxi County Jinjin Mine Co., Ltd. has not obtained permits for its mining business, and granted its mining related assets to Jinxin Mine Co., Ltd. In addition, the Group has not received certain licenses and permits, for example, licences for production of metallurgy minerals, safe production license relating to mining businesses, permits for discharge of pollution and water drawing for the production lines of certain subsidiaries of the Group. Failure to obtain applicable approvals from the NDRC, the MEP and other PRC regulatory authorities may subject us and the relevant PRC subsidiaries to penalties such as fines or being ordered to cease the relevant projects.

The Group cannot assure you that it will be able to obtain licenses, approvals or permits necessary for its operations, that upon the expiration for its existing licenses, approvals or permits, it will be able to successfully renew them or that the above-mentioned individuals and/or companies can operate such sub-granted and/or granted rights and/or assets in accordance with PRC laws and regulations. In addition, if the relevant authorities enact new regulations, the Group cannot assure you that it will be able to successfully meet such requirements. If the Group fails to obtain or renew the necessary regulatory licenses, approvals and permits, it may have to cease construction or operation of the relevant projects, be subject to fines, or face other penalties, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Intensified competition among domestic and foreign steel makers may saturate the market, result in lower prices and reduce the Group's market share and profitability.

China is the world's largest producer and consumer of steel. The Chinese steel sector is highly fragmented, consisting of approximately 8,000 producers, many of which are small-scale and facing intense competition as a result of outdated equipment and competition for raw materials. In 2009, according to Mysteel.com, 11 steel producers in China had an annual output of crude steel of 10.0 million tonnes or more and the aggregate output of these 11 companies was approximately 257.0 million tonnes, or 45.3% of China's total crude steel production.

On March 20, 2009, the General Office of the State Council issued the *Blueprint for the Adjustment and Revitalization of the Iron and Steel Industry*, which sets forth the PRC government's objectives of, among other things, preventing over-capacity and encouraging consolidation in the steel industry. As a result, the Group expects that the number of steel manufacturers will decrease with the emergence of larger steel companies formed by strategic alliances and mergers and acquisitions. These larger companies may rapidly acquire significant market shares, resulting in increased consolidation in the industry. The Group also expects to face increased competition from larger-scale steel manufacturers, which may have been in business longer than the Group and may have the advantage of economies of scale and substantially greater financial, research, development and other resources than the Group. For a more detailed description of the relevant PRC laws and regulations, see "Summary of Relevant PRC Laws and Regulations."

China also imports steel from other countries and regions such as Japan, South Korea, Taiwan and Russia. Competition from steel producers that export to China could have an adverse effect on Chinese steel makers such as the Group.

Furthermore, the Group cannot assure you that its current or potential competitors will not offer products comparable or superior to the Group's products or adapt more quickly than the Group does to evolving industry trends or changing market requirements. The Group cannot assure you that other competitors in the steel industry will not enter the Group's product markets and compete directly with the Group.

The Group could be adversely affected by the departure of any of its senior management members (in particular, the Chairman and Chief Executive Officer, Mr. Han Jingyuan) or other key senior officers.

The Group depends on its senior management (in particular, its Chairman and Chief Executive Officer, Mr. Han Jingyuan) for setting its strategic direction and managing its business, which are crucial to its success. If the Group loses the services of any of its senior management members or other key senior officers, it could be very difficult to recruit and integrate any replacement personnel. Any disruption to the Group's existing management team could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to grow at a rate comparable to its growth rate in the past and may have difficulty managing its future growth.

The Group has been expanding its business through increasing its production capacity and expanding its product portfolio. Part of the Group's business strategy is to continue this expansion in accordance with applicable PRC laws and regulations. This expansion and the related need to integrate new operations may place a significant strain on the Group's managerial, operational and financial resources. The Group will need to manage its growth effectively, which may entail managing costs and implementing adequate control, accounting and reporting systems in an effective and timely manner. Failure to manage growth or integrate any new operations with existing operations could adversely affect the Group's ability to implement its business strategies and its results of operations.

Although the Group plans to continue to grow its business through production capacity expansion, technological upgrades and product enhancements, it may not be able to grow at a rate comparable to its growth rate in the past, either in terms of revenue or profit.

The Group may be unable to expand its production capabilities and businesses successfully and is subject to various risks in relation to upgrading its existing facilities and constructing new facilities.

The Group is currently planning a number of capacity expansion projects. The upgrade or construction of any production facilities may be adversely affected by delays and cost overruns. Factors which may contribute to delays and cost overruns include shortages and price changes of key equipment or materials, increasing cost of or inability to secure financing, risks relating to construction, changes in safety and/or environmental requirements, delay or failure in obtaining necessary government approvals, changes in general economic conditions in the PRC, adverse weather conditions, natural disasters, accidents, unanticipated changes in government policies and other unforeseen circumstances and problems. A significant delay in the completion of these projects or a material increase in the costs of these projects could adversely affect the competitive advantage that the Group hopes to achieve by undertaking such projects. The Group may also suffer losses on financing or equipment purchases. In addition, such delay could also divert the Group's resources away from its business operations.

In accordance with applicable PRC laws and regulations, the Group is required to obtain approvals from relevant government authorities to construct new production facilities or to upgrade or expand existing production facilities. If the Group fails to obtain the required approvals, it may be subject to sanctions, such as fines, or be required to shut down the relevant facility.

Moreover, if demand for the Group's products decreases, the Group's expanded capacity may not be utilized or may be under-utilized and costs incurred in the expansion may not be recovered at an economical rate or at all. Any of the foregoing factors could have a material adverse effect on the Group's business, financial position and results of operations.

The Group may not be able to extend the lease for Jinxi-Wantong's production facilities and is subject to various counterparty risks in relation to the lease with Jinxi-Wantong.

The Group currently leases Jinxi-Wantong's production facilities at Jinxi County, Hebei Province. If the Group is unable to extend its lease agreement with Jinxi-Wantong when it expires on December 4, 2010, or do so on acceptable terms, this could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, if Jinxi-Wantong terminates the lease prior to the expiration of the lease or sells the leased production facilities to a third party in breach of the lease agreement, it will reduce the Group's production capacity and could have a material adverse effect on the Group's business, financial condition and results of operations.

Further, if the Group fails to pay rental fees for production facilities according to the terms of the lease agreement, Jinxi-Wantong may terminate the lease which may significantly reduce the Group's production capacity.

The Group has undertaken and may continue to undertake strategic acquisitions or investments, which may be difficult to integrate and manage or may not be successful, or such acquired companies may have hidden, unforeseen or potential liabilities and operational, legal and financial risks.

The Group has in the past few years made, and intends to continue to make, strategic acquisitions of other steel mills and companies and investments in iron ore assets that are complementary to the Group's business operations. The Group may also expand its operations into different geographical regions or different products. The Group may also establish new upstream production facilities such as coking plants. The Group may not be able to identify suitable acquisition or investment targets and may not be able to consummate the related transactions on terms commercially acceptable to the Group or at all. The Group may not be successful in its establishment of new upstream production facilities. As a result, the Group's competitiveness or growth prospects could be materially and adversely affected.

The Group could also face difficulty in integrating the acquired operations. In addition, the key personnel of the acquired company may decide not to work for the Group. These difficulties could disrupt the Group's ongoing business, distract the Group's management and employees and increase the Group's expenses. There can be no assurance that the Group will be able to achieve the strategic purpose of such acquisitions or investments or the Group's targeted return on investment.

Companies acquired by the Group may also have hidden, unforeseen or potential liabilities and operational, legal and financial risks. Any of these liabilities or risks could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group requires substantial capital to expand its business and any failure to obtain sufficient capital it requires on acceptable terms, or at all, may materially and adversely affect its expansion plans and growth prospects.

The steel manufacturing industry is capital intensive. Steel manufacturers require significant capital to build their production and operation facilities, to purchase production equipment, to develop new products and to develop and implement new technologies. Moreover, steel manufacturers typically incur a substantial portion of their capital expenditures in advance of any revenue to be generated by new or upgraded production facilities or technology.

The Group may not be able to obtain financing on commercially acceptable terms or at all for its capital expenditures, which in turn could hinder its growth. In the past, the Group has funded its working capital and capital expenditure needs through a combination of sources, including cash flow from operations, bank borrowings and other financing. To the extent that the Group's funding requirements exceed its financial resources, the Group will be required to seek additional financing. The Group's ability to obtain additional financing will depend on a number of factors, including its financial condition, results of operations, cash flows and business reputation, global and in particular China's general economic condition, costs of financing including changes in interest rates, prevailing conditions in capital markets and regulatory requirements. Since 2005, steel manufacturers in China have been required to contribute at least 40% of the total investment amount of their projects with internally generated funds. No more than 60% of the total funding requirements of their projects may be met through financing. This requirement further limits the Group's ability to obtain bank borrowings to finance its projects. If the Group is unable to obtain financing in a timely manner, at a reasonable cost and on reasonable terms, its expansion plans may be delayed, and its growth, competitive position, financial condition and results of operations could be materially and adversely affected.

The PRC government's regulation of the PRC steel industry could restrict or disrupt the Group's business.

The PRC steel industry is heavily regulated by the PRC government. PRC steel manufacturers must comply with various requirements mandated by applicable laws and regulations, including the policies and guidelines established by local authorities designed for the implementation of such laws and regulations. The PRC government closely monitors the development of the steel industry and may from time to time exercise control over such development by issuing and implementing new policies or procedures, the effects of which are often difficult to predict. For further information on the relevant PRC laws and regulations, see "Summary of Relevant PRC Laws and Regulations."

In order to produce new products or to expand production capacity, steel manufacturers in China must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the production or expansion process, including planning permits, construction permits, and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. In particular, according to regulations promulgated by the State Council in 2004, steel manufacturers that intend to expand production capacity of their iron-smelting, steel-smelting and steel rolling plants must seek prior approval from the NDRC before commencement of a new construction project. In addition, the PRC government has imposed requirements for project undertakings involving capital investments. The Group may need to obtain approvals from various government entities pursuant to these regulations for future projects that the Group intends to undertake, including those as disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures and Investment." The Group cannot assure you that it will not encounter difficulties in obtaining such government approvals or in fulfilling the related conditions, or that the Group will be able to fully comply with new laws, regulations or policies that may come into effect from time to time with respect to the steel industry or the particular approval processes. If the Group fails to obtain relevant approvals or fulfill the conditions of those approvals, the Group may be subject to fines, penalties or be required to shut down all or part of the relevant operations and, therefore, the Group may not be able to successfully implement its business strategies, and the Group's business, financial condition and results of operations could be materially and adversely affected.

In an effort to slow economic growth to a more manageable level, the PRC government has taken various measures including, among others, restrictions on bank loans in certain sectors and the increase of interest rates. In particular, since 2005, steel manufacturers in China have been required to contribute at least 40% of the total investment amount of their projects with internally generated funds, compared with the previous requirement of 25%, restricting access to bank borrowings by steel manufacturers. Moreover, commercial banks in China have also tightened their general lending policy with respect to, among others, steel manufacturers.

On March 20, 2009, the General Office of the State Council issued the *Blueprint for the Adjustment and Revitalisation of the Iron and Steel Industry*, which set forth the objectives for the PRC steel industry from 2009 to 2011. To achieve the objectives set out therein, certain measures will be taken which may have an adverse effect on the PRC steel industry, such as the adjustment of import and export tax rates of certain products, implementation of a fair trading policy and improved mechanism in relation to the replacement of obsolete capacity amongst others. This was followed shortly thereafter by the *Emergency Notice on Curbing the Excessive Production Growth of the Steel Industry* by the Ministry of Industry and Information Technology issued on April 24, 2009 in which the Ministry stated its decision to curb the excessive growth of output, adjust product composition, speed up the elimination of outdated capacity and strictly prohibit unapproved expansion projects. As a result, it may be expected that the number of PRC steel manufacturers will decrease with the emergence of larger steel companies formed by strategic alliances and mergers and acquisitions. These larger companies may rapidly acquire significant market share, resulting in increased consolidation in the industry. In addition, according to the *Notice on Cancellation of Tax Rebate of Certain Exporting Products* (Cai Shui [2010] No. 57) jointly issued by the Ministry of Finance and the State Administration of Taxation on June 22, 2010, the export tax refund for certain types of steel products has been discontinued with effect from July 15, 2010, which may have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, pursuant to the *Notice of Implementating and Carrying Out Opinions on Further Increasing Energy Conservation and Emission Reduction and Acceleration Steel Industrial Structural Adjustment by the General Office of The State Council* issued by the Ministry of Industry and Information Technology on August 9, 2010, all of the existing steel enterprises in the PRC shall be regulated by Production and Operation Standardization in Steel Industry ("Standardization") and relevant local administration authorities are required to arrange for standardization and administration of steel enterprises under their jurisdiction. Steel enterprises which do not comply with the Standardization will be required to rectify their related problems and enterprises with gross pollution, low equipment levels and production quality will be required to terminate their business in the steel industry gradually.

There can be no assurance that the PRC government will not in the future introduce policies or changes to the regulation of the steel industry that may cause delay in the distribution of the Group's current or future products, its planned expansion projects or its business in general. If the PRC government introduces or implements any such policy or guidelines, the Group's business, financial condition or results of operations could be materially and adversely affected.

The Group faces risks related to natural disasters, health epidemics and other outbreaks.

The Group's business is subject to general and social conditions. Natural disasters, epidemics, acts of God and other events and disasters that are beyond the Group's control could materially and adversely affect the economy, infrastructure and livelihoods of the people in the PRC and in particular the regions or cities where the Group operates, such as Hebei Province or Guangdong Province. Certain areas of the PRC have experienced epidemics such as type A H1N1 influenza. There is no assurance that such epidemics will not intensify or that other similar outbreaks or epidemics, such as severe acute respiratory syndrome or avian influenza, will not occur in the PRC or other parts of Asia. The Group's operations may be disrupted and materially and adversely affected if such natural disasters or epidemics occur. Any natural disasters or epidemics occurring in areas in which the Group operates, or even in areas in which it does not operate, could have a material adverse effect on the Group's business, financial condition and results of operations.

In particular, Tangshan City, where three of the Group's four production sites are located, may be affected by natural disasters. In July 1976, an earthquake registering 7.8 on the Richter scale occurred in Tangshan City, killing approximately 255,000 people according to the official statistics of the PRC government. The Group cannot assure you that the regions where its production facilities are located will not be affected by similar natural disasters in the future.

Laws and regulations relating to environmental protection in the PRC could impose significant costs on and require significant efforts from the Group.

The PRC government has adopted extensive environmental laws and regulations with national and local standards in relation to emission control, discharge of waste water and storage, transportation, treatment and disposal of waste materials. Compliance with environmental laws and regulations which apply to the Group and the steel industry may be difficult or impose significant costs. If the Group is unable to comply with existing and future environmental laws and regulations or has to incur significant costs in complying with them, it could have a material adverse effect on the Group's business, financial condition and results of operations.

In particular, according to the Notice of the Ministry of Environmental Protection of the PRC on the *Implementation of Limitation of Excessive Production Capacity and Development in certain Industries and their Healthy Development* (Huan Fa [2009] No. 127) issued on October 31, 2009, projects which have yet to commence the preparation of environmental impact assessment reports, or which have such reports still pending approval or substantially revised will no longer be accepted and approved. This could have an adverse impact on the Group's business, financial condition and results of operations if the Group is unable to implement its expansion or development projects in the future. For further information on the relevant PRC laws and regulations relating to environmental protection, see "Summary of Relevant PRC Laws and Regulations."

Failure to secure the Group's requirements for essential utilities such as power and water at their current costs would increase the Group's cost of production, and any interruptions in, or shortages of, the supply of these utilities may prevent the Group from operating its production facilities.

The production of steel requires a stable supply of electricity and water in large quantities. Currently, the Group is able to obtain electricity and water it requires at a relatively low cost. The electrical power industry remains regulated in China, and the price of electricity has generally remained stable, rising only slightly over the past few years. The water industry is regulated by relevant governmental authorities at national and provincial levels in China, and the price of water for industrial use has also remained stable over the past few years with only a slight rise.

For the past several years, the Group has not experienced any interruptions of electricity or water supply that significantly affected its operations. Some parts of China, however, face electricity and water shortages from time to time, which could potentially drive up the cost of these utilities. The change of regulations or policies relating to the PRC's electricity and water industry, including the price determination mechanism may result in a significant increase in the Group's utility costs. Furthermore, government policies restricting the use of energy in the regions where the Group operates could also interrupt its production activities and have an adverse impact on its results of operations. For example, on September 3, 2010, the Tangshan Municipal People's Government issued notices to certain subsidiaries of the Company imposing restrictions on energy consumption by such subsidiaries and control of the production of steel products. In response to these restrictions, and after taking into account various factors, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wantong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. For further details, see "Business — Raw Materials, Energy and Utilities — Energy and Utilities." In addition, the Group's expansion plans will significantly increase its requirements for electricity and water. Moreover, the Group does not have back-up power generation capability, as the electricity generated from the Group's on-site power generators is fed directly into the local power grid and is not used directly to supply power to its production facilities. Any significant increase in the cost of utilities or any significant interruptions in or shortages of the supply of utilities would increase the Group's costs of production and may even prevent the Group from operating its production facilities, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group relies on trucks, railway and ships to transport raw materials to its production sites and products to its customers, and any event that leads to suspension of transportation could cause disruptions to its production schedule and timely delivery to customers.

The Group's raw materials and products are currently transported to and from its production sites by trucks and rail, or by ships for imported raw materials. There is currently no direct railway link to the Group's production facilities in Qianxi County, and therefore the timely delivery of raw materials to, and products from, the Group's Qianxi County facilities depends on an effective road network connecting these facilities to railway links and ports. In November 2009, the Group entered into a co-operative framework agreement with Asia Energy Logistics pursuant to which Asia Energy Logistics agreed to assist the Group in constructing a cargo site at the Santunying Station of Zunxiao Railway and providing railway logistics and transportation services to the Group. Upon completion, the cargo site is expected to provide a direct rail link to the Group's production facilities in Qianxi County and may lower the Group's transportation cost and increase efficiency by shortening the transportation distance and enhancing transportation capacity. However, the Group cannot provide assurance that the cargo site construction will be successfully completed or that it will achieve the expected level of transportation efficiency.

The Group has to date not experienced any significant disruptions to the delivery of its raw materials and products. However, there can be no assurance that significant disruptions will not occur in future periods. Delivery disruptions may occur for various reasons, many of which are beyond the Group's control, including accidents, strikes, transportation bottlenecks and natural disasters. Any significant disruptions to the timely delivery of raw materials may disrupt the Group's production schedule. If the Group's products are not delivered to its customers on time, the Group may be required to compensate its affected customers and arrange alternative transportation which, even if available, would increase its cost of transportation. If any transportation disruptions are not resolved promptly, the Group could lose the business of its customers and its reputation could be harmed, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

Any failure to maintain an effective quality control system at the Group's manufacturing facilities and any significant product liability claims against the Group, whether successful or not, could have a material adverse effect on its reputation, business, financial condition and results of operations.

The performance, quality and safety of the Group's products depend on the effectiveness of the Group's quality control system, which, in turn, depends on a number of factors, including the design of the system, the quality training program and the Group's ability to ensure that its employees adhere to its quality control policies and guidelines. Any significant failure or deterioration of the Group's quality control system could damage its reputation and result in liability, which, in turn, could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

The Group also offers quality warranties for its products. During the warranty periods, the Group's customers may raise complaints relating to the quality of the products. Any dispute over the quality of the Group's products may give rise to claims against the Group for losses and/or damages. Any such claims, regardless of whether they are ultimately successful, could cause the Group to incur significant costs, harm its business reputation and cause significant disruptions to its operations. Furthermore, there can be no assurance that the Group will be able to successfully defend itself against such claims. If any of these claims proves ultimately successful, the Group may be required to pay substantial damages, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to safety and health laws and regulations in the PRC and its operations entail significant risks of workplace injury or death.

The Group is required to comply with the applicable PRC national or local laws and regulations in relation to the maintenance of workplace safety and its production processes. The Group's production facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC. Furthermore, under the PRC Labor Law and the PRC Law on the Prevention and Treatment of Occupational Diseases, the Group must ensure that its facilities comply with state standards and requirements on occupational safety and health conditions of employees.

The Group is also required to provide its employees with safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards. Failure to meet the relevant legal requirements on production safety and labor safety could subject the Group to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and fines of up to RMB500,000, and fines imposed on the Group could be RMB5 million where an extraordinary production safety accident takes place and the Group is liable for such an accident. The Group may also be required to temporarily suspend its production or permanently cease its operations for significant non-compliance.

The steel making process by its nature presents inherent dangers of workplace injury or death in spite of safety precautions, training and compliance with state and local safety and health laws and regulations. The Group has in place and intends to continuously maintain policies and procedures to minimize these risks. However, there can be no assurance that the Group will not incur any or avoid material liabilities for workplace injuries or deaths, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group also engages in mining operations and may decide to increase their scope. The Group's mining operations are subject to a variety of production hazards normally associated with the exploration, development and production of natural resources, including, among others, flooding, cave-ins and landslides, sinkhole formation and ground subsidence, production disruptions due to weather, hazards associated with the disposal of mineralized waste water, discharges of gases and toxic chemicals, fires and explosions. The occurrence of any of these hazards could result in property damage and workplace injury or death, interrupt the Group's mining operations and damage its reputation.

The Group faces significant costs to comply with relevant environmental protection laws and regulations, and failure to comply with such laws and regulations could subject it to fines, rectification orders, suspension or cessation of production.

The Group's production activities are subject to environmental protection laws and regulations in China, concerning, among other things, the discharge of waste products in relation to the Group's steel production. These laws and regulations establish quotas for the discharge of waste products, permit the levy of fines and payments for damages for serious environmental offences, and permit the state or local authorities, at their discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage. Waste products generated from steel production such as dust, sulphur dioxide and waste water are hazardous to the environment and must be properly disposed of under applicable environmental laws.

The Group has not fully complied with all environmental protection laws and regulations. For example, it has not obtained MEP approval for the environmental assessment reports for its small H-section steel project in accordance with the relevant environmental protection laws and regulations. The environmental assessment reports were approved only by the local or provincial government. Failures to comply with environmental protection laws and regulations may subject the relevant subsidiaries to fines, rectification orders, suspension or cessation of production, and the business reputation of the Group and the relevant subsidiaries therefore may be materially and adversely affected.

The environmental laws and regulations in China are constantly evolving and becoming increasingly stringent. As some of these environmental protection laws and regulations have not yet been promulgated or are undergoing revision, the Group is not always able to quantify the cost of complying with these laws and regulations. For example, the State Council published on June 3, 2007 a *Working Plan for Energy Conservation and Emission Reduction* (the "Working Plan"), which provides that by the end of the "Eleventh Five-Year Plan (2006-2010)," the level of total energy consumption in terms of gross domestic production shall be reduced by 20%, and the total emission of major pollutants shall be reduced by 10%. For more details regarding the Working Plan, see "Summary of Relevant PRC Laws and Regulations." To implement the Working Plan, new policies and regulations have been promulgated, imposing additional or more stringent requirements in relation to environmental protection. For example, on September 3, 2010, the Tangshan Municipal People's Government issued notices imposing restrictions on electricity consumption and production activities for companies with high energy consumption and high pollution rates that are located in Tangshan City. Such restrictions were imposed in line with the implementation of the Working Plan. In response to these restrictions, and after taking into account various factors, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wan Tong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. For further details, see "Business – Raw Materials, Energy and Utilities – Energy and Utilities." As a result of these and other newly promulgated policies and regulations, the Group may incur additional costs of compliance, which may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group cannot provide assurance that the state or local authorities will not enact additional environmental protection laws or regulations or enforce in a more rigorous manner current or new environmental protection laws or regulations. In 2007, 2008, 2009 and as of the date of this document, the Group has not been subject to any fines exceeding RMB100,000 for any violation of environmental protection laws. However, there can be no assurance that the Group will not incur substantially more capital and operating costs for its business as a result of any future changes to environmental protection laws or regulations.

The Group may not maintain sufficient insurance coverage for the risks associated with the operations of its business.

Risks associated with steel production include damage to equipment and facilities, environmental pollution, transportation damage and delays, and risks posed by natural disasters, all of which may result in losses to the Group. As of June 30, 2010, Jinxi Limited maintained insurance coverage with China Pacific Property Insurance Co., Ltd., Tangshan Branch, with an aggregate insured amount of RMB8,987.8 million to cover its main fixed assets and equipment. As of June 30, 2010, Jinxi Jinlan maintained insurance coverage with Ping An Property and Casualty Company Limited, Foshan Branch and Huatai Property Insurance Company of China Limited, Foshan Branch with an aggregate insured amount of RMB235.2 million to cover its main fixed assets and property. As of June 30, 2010, Zhengda Iron and Steel maintained insurance coverage with China Pacific Property Insurance Co., Ltd., with an aggregate insured amount of RMB526.8 million for its fixed assets. There is no assurance that the insurance coverage as maintained will be sufficient to cover risks that may materialize.

Furthermore, the Group does not maintain any insurance coverage for third party liability, business interruption or environmental damage arising from accidents on its property or relating to its operations. Moreover, it does not maintain insurance policies covering risks associated with certain natural disasters such as earthquakes. If the Group incurs any loss which is not covered by its insurance policies or if the amount of such loss exceeds the aggregate amount of its insurance coverage, the Group's business, financial condition and results of operations could be adversely affected.

The Group may not be able to continue developing its production technology or acquire new production technology, or protect its know-how.

The steel industry is competitive and production technology and processes underlying the industry are evolving. Responding and adapting to technological developments and changes in the steel industry, and the integration of new technologies or industry standards, may require a substantial investment of resources. There can be no assurance that the Group will be able to anticipate changes in production technology and processes or develop or acquire competitive technology in a timely manner. If the Group is unable to respond successfully to technological and industry developments, the Group's business, financial condition, results of operations and competitiveness could be materially and adversely affected.

Moreover, the Group focuses its operations on high quality and technologically more advanced products. For example, the Group is one of a few companies in the PRC that are capable of producing H-section steel, a finished steel product which requires a more sophisticated production process and is widely used in large scale construction projects. The Group believes that its technological know-how in relation to H-section steel cannot be easily adopted or developed by its competitors. However, such technological know-how is not registered intellectual property. There can be no assurance that any of the Group's know-how will not be misappropriated by or disclosed to third parties, or that the Group's competitors will not be able to independently develop alternative technologies that are equivalent or superior to the Group's technologies. If any of the above occurs, the Group's business, financial condition and results of operations could be adversely affected.

The Company may be unable to satisfy the public float requirements under the Listing Rules of the Hong Kong Stock Exchange as a result of the exercise of certain options in respect of its shares, which could have a material adverse effect on the Group's business, financial condition and results of operations.

According to an announcement made by Mittal Steel, a subsidiary of ArcelorMittal, Mittal Steel announced an unconditional mandatory cash offer on December 13, 2007 to acquire all the outstanding shares of the Company and cancel all outstanding share options (other than those held by Mittal Steel and parties acting in concert with it in connection with the offer). Upon the close of the offer on February 4, 2008, Mittal Steel, Wellbeing Holdings and Chingford Holdings held in the aggregate approximately 92.1% of the total issued share capital of the Company. In addition, certain directors of the Company held approximately 0.3% of the total issued share capital of the Company. As a result, approximately 7.6% of the issued share capital of the Company remained in public hands. Accordingly, the minimum 25% public float requirement under Rule 8.08 of the Listing Rules was not satisfied. Mittal Steel undertook to the Hong Kong Stock Exchange that it would take appropriate steps to meet the minimum public float requirement no later than May 2, 2008. The Hong Kong Stock Exchange granted a waiver from strict compliance with Rule 8.08 of the Listing Rules for the period from February 4, 2008 to May 2, 2008.

On April 30, 2008, Mittal Steel entered into sale and purchase agreements with ING Bank N.V. and Deutsche Bank, respectively, pursuant to which Mittal Steel sold an aggregate of approximately 17.4% of the issued share capital of the Company to ING Bank N.V. and Deutsche Bank in order to restore the public float of the Company. On the same date, Mittal Steel also entered into put option agreements with ING Bank N.V. and Deutsche Bank in respect of shares representing approximately 9.9% and 7.5% respectively of the issued shares of the Company. Pursuant to these agreements, ING Bank N.V. and Deutsche Bank were granted put options to sell all the shares they acquired pursuant to the sale and purchase agreements to Mittal Steel, exercisable on April 30, 2011, or at any time before April 30, 2011 upon the occurrence of certain extraordinary events, including, among others, a merger, general offer made by ArcelorMittal in respect of the Company's shares, delisting or a change in any applicable law.

Neither ING Bank N.V. nor Deutsche Bank has exercised the put options granted pursuant to the put option agreements. According to the announcement made by Mittal Steel to the Hong Kong Stock Exchange on April 30, 2008, in the event that the Company is unable to satisfy the public float requirements as a result of the exercise of the options by ING Bank N.V. and/or Deutsche Bank, ArcelorMittal will take appropriate steps to restore the public float so as to comply with the applicable requirements under the Listing Rules. However, there cannot be any assurance that ArcelorMittal will take such steps or that the Company will be able to satisfy the public float requirements in such event. If the Company is unable to satisfy the public float requirements as a result of the exercise of the options by either or both of ING Bank N.V. and Deutsche Bank and the failure by ArcelorMittal to take appropriate steps to restore the public float, the listing of the Company's shares may be suspended or the Company may be required by the Hong Kong Stock Exchange to be delisted. A prolonged suspension of listing or a delisting of the Company's shares could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may face numerous protective trade restrictions, including anti-dumping laws, countervailing duties and tariffs, the imposition of which could adversely affect the Group's business, financial condition and results of operations.

In 2009 and the six months ended June 30, 2010, the Group derived 4.1% and 8.0%, respectively, of its revenue from exports to other countries and regions. Protectionist measures, including anti-dumping laws, countervailing duties and tariffs, adopted by governments in some of the Group's export markets could adversely affect the Group's sales. For example, in April 2010, the U.S. government imposed anti-dumping tariffs of up to 99% on imports of Chinese OCTG (Oil Country Tubular Goods), which are steel and pipe products used in the oil and gas industry. Other countries may also impose quota systems or anti-dumping duties from time to time. Tariffs are often driven by local political pressure in a particular country and region and therefore there can be no assurance that the United States or other countries and regions will not impose other quotas or tariffs on imports of steel products in the future. The Group currently exports steel products to South Korea, Taiwan, Vietnam, Japan, South East Asia and other countries and regions. In the event that these countries impose protective trade restrictions, the Group's exports could decline, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Popularity of materials other than steel for specific applications could reduce the demand for the Group's products.

Steel competes with other basic materials, such as aluminum, cement, composites, fiber glass, plastic and wood in many applications. The availability of substitutes for steel products for specific applications could reduce market demand for and adversely affect the prices of the Group's steel products which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

Jinxi Limited entered into a share entrustment agreement with Yu Lifeng, a PRC individual to hold equity interests in Pingquan County Jinyin Charging Co. Ltd. ("Jinyin Charging") on behalf of Jinxi Limited. If Jinxi Limited is not able to effectively exercise its control over this company, pursuant to this share entrustment agreement, the Group's business, financial condition and results of operations could be adversely affected.

In June 2008, Jinxi Limited entered into a share entrustment agreement with Yu Lifeng, a PRC individual, pursuant to which Jinxi Limited entrusted Yu Lifeng to hold equity interests in Jinyin Charging on trust on behalf of Jinxi Limited. Jinyin Charging engages in the sale of limestone, ironstone, fluorite and others. According to King & Wood, the Company's PRC legal advisers, under PRC laws and regulations, Jinxi Limited is not considered a shareholder and therefore may not exercise a shareholder's rights with respect to the equity interest in Jinyin Charging held by Yu Lifeng on trust for Jinxi Limited. As a result, Jinxi Limited has to rely on Yu Lifeng to exercise its control over this PRC company pursuant to the share entrustment arrangement. Furthermore, in April 2010, Jinyin Charging entered into a management contract with Du Chun, who holds a 40% equity interest in Jinyin Charging, pursuant to which the day-to-day operational and production management of Jinyin Charging was transferred to Du Chun for three years. There is no assurance that Yu Lifeng will fully comply with the share entrustment agreement, or that Jinxi Limited will be able to exercise effective control over this company under the share entrustment agreement. There is also no assurance that Du Chun will fully comply with the terms of the management contract with Jinyin Charging, or that Jinyin Charging will be able to effectively monitor the actions taken and decisions made by Du Chun. If Jinxi Limited is not able to effectively exercise its control over Jinyin Charging or if Jinyin Charging is not able to effectively monitor the managerial actions by Du Chun, the Group's business, financial condition and results of operations could be adversely affected.

The Group has been found to be not in compliance with the Listing Rules in the past and may be subject to sanctions for future non-compliance.

In the past, due to incorrect interpretations of the Listing Rules by members of the senior management of the Company in charge of compliance related matters, the Company has failed to report certain transactions on a timely basis, which constituted non-compliance with the provisions of Chapter 14A and Chapter 14 of the Listing Rules. In each case, such non-compliance with the Listing Rules has been subsequently rectified by the Company. However, there is no assurance that the Company will not be, or will not be found to be, in breach of the Listing Rules or any other relevant laws, rules or regulations in Hong Kong or elsewhere in the future, which may in turn expose the Group to possible sanctions or penalties by the relevant regulatory bodies as well as costs in connection with rectifying such breach or non-compliance.

Risks Relating to the PRC

Political and economic policies of the PRC government could affect the Group's business, financial condition and results of operations.

Substantially all of the Group's business assets and operations are located in the PRC. As a result, its businesses, financial condition and results of operations are subject to the political, economic and social conditions, laws, regulations and policies in the PRC. The economy of the PRC differs from the economies of most developed countries in a number of respects, including:

- the structure;
- the level of government involvement;
- the level of development;
- the level of capital reinvestment;
- the control of capital reinvestment;
- the control of foreign exchange; and
- allocation of resources.

While the PRC economy has generally experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect the Group's operations. In addition, the PRC economy may not be able to sustain its current growth rate. For example, during the global financial crisis that began in 2008, the growth of the PRC's GDP slowed down. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the Group's business, financial condition and results of operations could be materially and adversely affected.

The PRC economy has been transitioning from a planned economy to a market oriented economy. For the past three decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although the Group believes these reforms will have a positive effect on its overall and long-term development, it cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on its current or future business, results of operations or financial condition.

A slowdown of the Chinese economy could materially and adversely affect the Group's business and growth prospects.

As a substantial portion of the Group's business and customers are in the PRC, its continued growth and success depend on market and economic conditions in the PRC. Further as the Group's steel products are used by downstream customers to produce finished steel products, the general well being of the global economy will also affect the Group's business and performance. There is no assurance that the PRC economy will continue to grow or that its growth will be steady or occur in the geographical regions or economic sectors from which the Group benefits. In addition, sales to customers based in the PRC will continue to represent a substantial proportion of the Group's revenue. Any slowdown in the PRC's economic growth or a decline in the general economic environment could adversely affect the Group's customers and downstream customers of finished steel products and hence their demand for the Group's steel products, and this could have a material adverse effect on the Group's business, financial position and results of operations.

The legal system in the PRC is less developed than in certain other countries and laws may not be interpreted and enforced in a consistent manner.

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations governing economic matters in general such as foreign investment, corporate organization and governance, commerce, taxation and trade. Although legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular, these laws, regulations and legal requirements are relatively new and continue to evolve and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve greater uncertainties than those in jurisdictions under common law systems. These uncertainties could limit the legal protections available to you and can adversely affect the value of your investment. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of any violation by it of these policies or rules until some time after such violation. In addition, litigation in China may be protracted and may result in substantial costs and diversion of resources and management attention. The Group cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the foreign currency available for conversion may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy their foreign currency denominated obligations. Under the existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect the Group's PRC subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from the Group. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

PRC regulation of investments and loans by offshore holding companies to PRC entities may delay or prevent the Company or other offshore members of the Group from making additional capital contributions or loans to the Company's PRC subsidiaries.

Any capital contributions or loans the Company or other offshore members of the Group makes to the Company's PRC subsidiaries which are enterprises with direct foreign investments are subject to PRC regulations. For example, the total amount of any offshore loans to the Company's PRC subsidiaries which are enterprises with direct foreign investments may not exceed the difference between the registered capital and total investment of the relevant PRC subsidiary, and such loans must be registered with SAFE or its authorized organization. As of June 30, 2010, there were three existing offshore shareholders loans to the Company's PRC subsidiaries which are enterprises with foreign investments:

- a loan in the amount of US$56.7 million made by the Company to Jinxi Limited for a term of 20 years pursuant to a loan agreement dated as of December 20, 2005, which is interest free;

- a loan in the amount of US$50.0 million made by the Company to Jinxi Limited for a term of 20 years pursuant to a loan agreement dated as of April 1, 2006, which is interest free; and

- a loan in the amount of US$11.28 million made by Accordpower to Jinxi Jinlan for a term of five years commencing January 2006, which is interest free. In March 2008, US$1.76 million of this loan was converted into equity investments. Therefore, approximately US$9.52 million remains outstanding.

As a result, with respect to Jinxi Limited, Jinxi Jinlan and Shenzhen Leasing, being the three PRC subsidiaries with direct foreign investments, the Company may not make any more loans to Jinxi Limited and may not make loans exceeding US$60.3 million and US$130.0 million to Jinxi Jinlan and Shenzhen Leasing, respectively.

In addition, the Company's capital contributions to the Company's certain PRC subsidiaries (where applicable) must be approved by the competent authority of the Ministry of Commerce of the PRC and the NDRC or the local branches of the NDRC. For example, the capital increases of Jinxi Jinlan in 2004 and 2008 required the approval by the local authority of Ministry of Commerce. The Company cannot assure you that it can obtain these approvals on a timely basis, or at all. If the Company fails to obtain such approvals, the Company's ability to capitalize the relevant PRC subsidiary or fund its operations may be adversely affected, which could have a material adverse effect on the liquidity of the relevant PRC subsidiary, as well as on the Group's business, financial condition and results of operations.

Most of the Group's revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility, and the Group may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly U.S. dollars.

A substantial majority of the Group's revenues, capital expenditures and operating expenses are denominated in Renminbi. The Group's purchases of raw materials from outside of China are generally denominated in currencies other than Renminbi and as a result the Group is exposed to foreign exchange risk with regard to these purchases. The Group may purchase more raw materials and manufacturing equipment from outside of China and incur additional foreign-currency denominated obligations. Any future exchange rate volatility relating to the Renminbi may give rise to uncertainties in the value of the Group's net assets, earnings and dividends.

Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates were allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar since then. On May 18, 2007, and effective on May 21, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. In August 2008, China announced a further change in its exchange rate regime based on market supply and demand. On June 20, 2010, the PBOC announced that it intends to further reform the RMB exchange rate regime by allowing greater flexibility in the RMB exchange rate. The central parity rate of the Renminbi rose to RMB6.7909 to US$1.00 on June 30, 2010, bringing the currency's total appreciation to approximately 21.9% since reform of the exchange rate system began in July 2005. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. Any significant revaluation of the Renminbi may materially and adversely affect the Group's cash flows, revenue, earnings and financial position, and the value of any dividends payable to the Group by its PRC subsidiaries.

There are limited hedging instruments available in China to reduce the Group's exposure to exchange rate fluctuations between the Renminbi and other currencies.

PRC regulations relating to investments in offshore special purpose companies by PRC residents may subject the Group's shareholders that are PRC residents to personal liability, limit the Group's ability to contribute capital into or provide loans to its PRC subsidiaries, limit its subsidiaries' ability to increase their registered capital, pay dividends or distribute profits to the Group, or otherwise adversely affect the Group.

SAFE has promulgated several regulations, including the *Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles*, or Circular No. 75, issued on October 21, 2005, and its implementation rules, or SAFE Circular No. 106, issued in May 2007, which require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies are required to register those investments with the local branch of SAFE. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update its previously filed registration with the local branch of SAFE, to reflect any material change involving that offshore company's round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, and the PRC subsidiaries of the relevant offshore company are required to urge the PRC resident shareholders to do so. If any PRC shareholder fails to make the required initial SAFE registration or update the previously filed registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries.

The failure or inability of the Group's PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and other legal sanctions and may also limit the Group's ability to contribute additional capital into or provide loans to its PRC subsidiaries, limit its PRC subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to the Group, or otherwise adversely affect the Group.

Any loss of or significant reduction in the preferential tax treatment the Group currently enjoys could increase its income tax expenses.

Pursuant to applicable PRC tax laws in effect before January 1, 2008, foreign-invested enterprises established in China were generally subject to national and local foreign-invested enterprise income tax at statutory rates of 30% and 3% respectively. Domestic enterprises in China were subject to enterprise income tax at the statutory rate of 33%. However, PRC national and local tax regulations provided for a number of preferential tax schemes applicable to various enterprises, industries and locations.

In the year ended December 31, 2007, as a foreign-invested manufacturing business, Jinxi Limited, the Group's operating subsidiary located in Qianxi County, Hebei Province, enjoyed certain favorable tax treatments under PRC law that were generally not available to domestically invested enterprises. Instead of being subject to the then-effective standard 30% PRC national enterprise income tax, Jinxi Limited was entitled to full exemption for two years followed by a 50% reduction in the national enterprise income tax for three years. As approved by the local tax authority, Jinxi Limited was also entitled to a five-year full exemption of local income tax starting from January 1, 2003. However, both of these exemptions expired on December 31, 2007 in accordance with the new *Enterprise Income Tax Law* (the "EIT Law") which came into force on January 1, 2008.

On March 16, 2007, the National People's Congress of the PRC enacted the EIT Law, which became effective on January 1, 2008. In December 2007, the State Counsel issued the *Implementation Rules for the EIT Law* (the "Implementation Rules") and the *Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law*, which also became effective on January 1, 2008. According to the EIT Law and the Implementation Rules, foreign-invested enterprises and domestic companies will be subject to enterprise income tax at a uniform rate of 25%. The EIT Law also revoked tax exemptions, reductions and other preferential treatments previously applicable to foreign-invested enterprises. However, there was a transition period for enterprises, whether foreign-invested or domestic, that were receiving preferential tax treatments granted by relevant tax authorities as of January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after January 1, 2008. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until such fixed term expires. However, the two-year exemption from enterprise income tax applicable to foreign-invested enterprises would begin from January 1, 2008 instead of from when such enterprise first becomes profitable, if such enterprise had not enjoyed preferential tax treatment as of January 1, 2008.

In accordance with the EIT Law, Jinxi Limited became subject to the uniform enterprise income tax rate of 25% starting from January 1, 2008. As approved by the local tax authority on December 14, 2007, Jinxi Jinlan, the Group's operating subsidiary located in Foshan City, Guangdong Province, was entitled to a two-year full exemption starting from January 1, 2008, followed by a three-year 50% reduction in its enterprise income tax starting from January 1, 2010. Shenzhen Leasing was entitled to a one-year full exemption in 2008, followed by a two-year 50% tax deduction starting from January 1, 2009.

Accordingly, the preferential tax treatment Jinxi Jinlan and Shenzhen Leasing currently enjoy will expire after 2012 and 2010, respectively. This and any other loss of or significant reduction in the preferential tax treatment the Group currently enjoys, or an increase in the enterprise income tax rate and any related tax penalties, whether for historical periods or future periods, could increase the Group's income tax expenses and materially and adversely affect the Group's business, financial condition and results of operations.

Non-compliance with PRC laws and regulations relating to housing fund contributions or social security fund contributions could have a material adverse effect on the Group's business, financial condition and results of operations.

Under the relevant PRC laws and regulations, business enterprises in China are required to make contributions to a government-administered housing fund at a rate of not less than 5% of each employee's salary on a monthly basis and must register the housing fund payment information with the relevant government housing fund management centers. An employer who fails to make such mandatory contributions on behalf of its employees may be ordered by the local housing fund management center to make up such contribution within a stipulated time frame. According to the *Regulation on the Administration of Housing Funds*, if an entity fails to duly pay the housing fund or register the housing fund payment information for its employees, it will be ordered by the housing fund management center to remedy this within a specified time limit; if it fails to remedy this within the time limit, it shall be subject to a fine of up to RMB50,000.

Certain subsidiaries of the Group have not made any contributions to the housing fund as required by PRC law. If the Group is deemed by the relevant government authorities to have breached the relevant housing fund regulations and rules, it may be required to make housing fund contributions for its employees retroactively. If the Group fails to remedy this within the time limit, it may also be subject to fines and other penalties. If the Group is required to make retroactive payment, together with fines, its financial condition may be materially and adversely affected.

Certain subsidiaries of the Group have not fully paid social insurance for their employees according to applicable PRC laws and regulations. Pursuant to the *Provisional Regulations on Collection and Payment of Social Insurance Premiums*, if an employer fails to pay its own social insurance premiums or fails to withhold and pay the social insurance premiums of its staff and workers according to applicable provisions, the administrative department of labor security or tax authority may order it to pay within a prescribed time limit, failing which it may be liable to a late fine of 0.2% of the overdue amount per day in addition to the overdue amount.

PRC regulations relating to acquisitions of PRC companies by foreign entities and foreign investment in the steel and iron industry may limit the Group's ability to acquire PRC companies and adversely affect the implementation of the Group's strategy as well as the Group's business and prospects.

The *Provisions on the Acquisition of Domestic Enterprises by Foreign Investors* (the "M&A Provisions") issued by six PRC ministries including the Ministry of Commerce, effective from September 8, 2006 and amended on July 23, 2009, provide the rules with which foreign investors must comply should they seek to purchase the equities of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, thereby changing the domestic non-foreign-funded enterprise into a foreign-funded enterprise. The M&A Provisions stipulate that the business scope upon acquisition of domestic enterprises must conform to the *Foreign Investment Industrial Guidance Catalogue* issued by the NDRC and the Ministry of Commerce, which restricts the scope of permitted foreign investment. The M&A Provisions also provide the takeover procedures for PRC persons and enterprises to acquire equity interests in domestic companies.

Separately, the *Policies on Development of the Steel and Iron Industry* (the "New Policy") promulgated by the NDRC in July 2005 provides that foreign investors are generally not allowed to acquire controlling interests in domestic iron and steel enterprises. However, the newly issued *New Guidance on Foreign Industrial Investment* (amended in 2007) (the "New Guidance") does not restrict foreign investors' shareholdings in PRC iron and steel companies and foreign investments in the PRC iron and steel industry are generally permitted under the New Guidance. There are no clear guidelines or further interpretations from competent regulatory authorities on how to reconcile the above differences between the New Policy and the New Guidance. It is unclear whether the acquisition by Jinxi Limited, a foreign-invested subsidiary, of a 71% equity interest in Zhengda Iron and Steel and an 80% equity interest in Jinxi Section Steel, would be found to be in compliance with the New Policy.

The Group's PRC legal advisers, King & Wood, have advised it that there are uncertainties as to how to interpret or implement the M&A Provisions and the potentially conflicting New Policy and New Guidance. If the Group decides to acquire a PRC company, it cannot assure you that it or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Provisions or it will meet all the shareholding and other requirements on foreign investment in the PRC iron and steel industry under applicable laws and regulations in the PRC. This may restrict the Group's ability to implement its expansion and acquisition strategy and materially and adversely affect the Group's business, financial condition and results of operations.

The Group is subject to uncertainties relating to the implementation of the new PRC Anti-monopoly Law.

The PRC Anti-monopoly Law came into effect on August 1, 2008. This law prohibits anti-competitive activities, including businesses with competitive relationships reaching anti-competitive agreements as to the prices of goods. However, the wording of the provisions of the law is broad, and detailed implementing regulations have not yet been promulgated. Accordingly, there is a significant degree of uncertainty as to the interpretation and implementation of the law, its specific requirements and consequences of breach.

Currently, the Group, like other steel manufacturers in China, sets the prices for its steel products with reference to the prices of its competitors in China and exchanges information with its competitors relating to the market condition and their potential impact on the pricing of steel products. According to the Group's PRC legal advisers, King & Wood, related rules and regulations in the PRC, including the new PRC *Anti-monopoly Law and Administrative Penalty for Illegal Pricing Conduct Provisions* promulgated by the State Council do not expressly prohibit these practices. However, should these practices be deemed a breach of the PRC Anti-monopoly Law by the relevant authorities, the Group may be subject to legal sanctions including fines and confiscation of proceeds that are deemed illegal, and may be required to stop these practices, which could have a material adverse effect on the Group's business, financial condition and results of operations.

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. On June 20, 2010, the PBOC announced that it intends to further reform the RMB exchange rate regime by allowing greater flexibility in the RMB exchange rate. The PRC government in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

On May 18, 2007, the PBOC announced that floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar will be expanded from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in the Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods prior to January 1, 2009 and, for the periods after January 1, 2009, exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board:

	Noon Buying Rate			
Period	**Low**	**Average[(1)]**	**High**	**Period End**
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.7800	6.9477	7.2946	6.8225
2009	6.8176	6.8307	6.8470	6.8259
2010				
January	6.8258	6.8269	6.8295	6.8268
February	6.8258	6.8285	6.8330	6.8258
March	6.8254	6.8262	6.8270	6.8269
April	6.8247	6.8256	6.8266	6.8247
May	6.8245	6.8275	6.8310	6.8245
June	6.7815	6.8184	6.8323	6.7815
July	6.7709	6.7762	6.7807	6.7735
August	6.7670	6.7873	6.8069	6.8069
September	6.6869	6.7396	6.8102	6.6905
October (through October 29, 2010)	6.6397	6.6675	6.6912	6.6705

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the figures in 2010, which are determined by averaging the daily rates during the relevant period.

On October 29, 2010, the U.S. dollar/Renminbi exchange rate was US$1.00 to RMB6.6705, as set forth in the H.10 statistical release of the Federal Reserve Board.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated short-term borrowings, long-term borrowings and capitalization of the Group as of June 30, 2010. This table should be read in conjunction with the selected consolidated financial data and the consolidated financial statements and related notes included elsewhere in this document.

	As of June 30, 2010	
	(RMB millions)	(US$ millions[1])
	(unaudited)	
Current liabilities:		
Short-term borrowings[2]	2,063.2	304.2
Non-current liabilities:		
Borrowings[3]	646.8	95.4
Existing Senior Notes[4]	—	—
Total long-term borrowings	646.8	95.4
Total capital and reserves	7,752.5	1,143.2
Total capitalization[5]	8,399.3	1,238.6

(1) For convenience, the RMB amounts are expressed in U.S. dollars at the rate of RMB6.7815 to US$1.00. This translation should not be construed as a representation that the RMB amounts have been or could be converted to U.S. dollars at that rate or any other rate.

(2) Short-term borrowings of RMB1,441.5 million (US$212.6 million) were incurred by the Company's subsidiaries and RMB621.7 million (US$91.7 million) were incurred by the Company. As of June 30, 2010, short-term borrowings of RMB1,099.4 million (US$162.1 million) were secured by property, plant and equipment, leasehold land and land use rights, restricted cash balances, inventories of the Group and guarantees provided by the Company and Jinxi Jinlan.

(3) All of the Group's borrowings included in non-current liabilities were incurred by the Company's subsidiaries. As of June 30, 2010, RMB215.8 million (US$31.8 million) was secured by property, plant and equipment of Jinxi Limited.

(4) On August 18, 2010, the Company issued its 8% Senior Notes due 2015 in the aggregate principal amount of US$550,000,000.

(5) Total capitalization consists of total long-term borrowings and total capital and reserves.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data for the Group. This table should be read in conjunction with the consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this document.

The selected consolidated financial data as of and for each of the years ended December 31, 2007, 2008 and 2009 were derived from the Group's consolidated financial statements that have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. The selected consolidated financial data for the six months ended June 30, 2009 and 2010 and as of June 30, 2010 were derived from the Group's condensed consolidated interim financial information for the six months ended June 30, 2009 and 2010, which has been reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, the condensed consolidated interim financial information and the notes thereto included elsewhere in this document.

The Group's consolidated financial statements were prepared and presented in accordance with HKFRS. HKFRS differs in certain material respects from U.S. GAAP. For a discussion of the differences between HKFRS and U.S. GAAP, see "Summary of Certain Differences Between HKFRS and U.S. GAAP."

Consolidated Income Statement Data

	Year ended December 31,				Six months ended June 30,		
	2007	2008	2009		2009	2010	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions, except per share data)						
					(unaudited)		
Revenue	13,498.6	19,388.2	20,589.1	3,036.1	9,175.0	15,350.0	2,263.5
Cost of sales	(11,581.1)	(18,871.0)	(18,582.8)	(2,740.2)	(8,420.8)	(13,953.5)	(2,057.6)
Gross profit	1,917.5	517.2	2,006.3	295.8	754.2	1,396.5	205.9
Other income	2.1	35.6	36.8	5.4	21.8	34.1	5.0
Distribution costs	(46.7)	(80.3)	(57.0)	(8.4)	(17.7)	(52.7)	(7.8)
Administrative expenses	(373.5)	(281.9)	(283.6)	(41.8)	(131.0)	(148.3)	(21.9)
Other expenses	(5.3)	(10.2)	(206.8)	(30.5)	(9.7)	(18.8)	(2.8)
Other gains/(losses) — net	12.7	(1.4)	(80.5)	(11.9)	(20.5)	16.6	2.4
Operating profit	1,506.8	179.0	1,415.2	208.7	597.1	1,227.4	181.0
Finance income	12.1	24.2	35.4	5.2	17.3	14.4	2.1
Finance costs	(68.8)	(91.6)	(137.1)	(20.2)	(72.4)	(82.7)	(12.2)
Finance costs — net	(56.7)	(67.4)	(101.7)	(15.0)	(55.1)	(68.3)	(10.1)
Share of results of associates	0.2	2.0	0.2	—	(2.2)	(1.5)	(0.2)
Profit before income tax	1,450.3	113.6	1,313.7	193.7	539.8	1,157.6	170.7
Income tax expense	(256.6)	(70.6)	(341.3)	(50.3)	(145.5)	(285.8)	(42.1)
Profit for the year/period	1,193.7	43.0	972.4	143.4	394.3	871.8	128.6
Profit attributable to:							
Equity holders of the Company	1,159.6	44.1	884.3	130.4	358.2	798.0	117.7
Non-controlling interests	34.1	(1.1)	88.1	13.0	36.1	73.8	10.9
	1,193.7	43.0	972.4	143.4	394.3	871.8	128.6
Earnings per share for profit attributable to equity holders of the Company during the year/period (expressed in RMB per share)							
— basic	0.40	0.02	0.30	0.04	0.12	0.27	0.04
— diluted	0.40	0.02	0.30	0.04	0.12	0.27	0.04
Dividends	319.2	167.1	221.8	32.7	—	—	—

Consolidated Balance Sheet Data

	As of December 31,				As of June 30,	
	2007	2008	2009		2010	
	RMB	RMB	RMB	US$	RMB	US$
			(in millions)			
					(unaudited)	
ASSETS						
Non-current assets						
Property, plant and equipment	6,405.5	8,286.8	8,625.6	1,271.9	8,229.7	1,213.6
Leasehold land and land use rights	76.5	74.8	73.1	10.8	72.3	10.7
Investment properties	19.3	18.4	17.6	2.6	17.2	2.5
Intangible assets	—	7.7	—	—	0.1	—
Investment in associates	8.1	10.1	10.3	1.5	23.5	3.5
Loan receivable	—	130.0	—	—	—	—
Available-for-sale financial assets	—	188.1	—	—	—	—
Deferred income tax assets	3.2	7.4	81.0	11.9	85.3	12.6
Total non-current assets	6,512.6	8,723.3	8,807.6	1,298.8	8,428.1	1,242.8
Current assets						
Available-for-sale financial assets	—	—	96.2	14.2	72.2	10.6
Properties under development	—	—	—	—	195.7	28.9
Inventories	1,837.0	1,567.4	2,598.0	383.1	3,175.9	468.3
Trade receivables	488.8	1,734.1	1,197.1	176.5	1,738.4	256.3
Other current assets	4.0	9.9	14.2	2.1	18.8	2.8
Prepayments, deposits and other receivables	447.2	731.6	1,125.2	165.9	845.8	124.7
Loan receivable	—	—	—	—	20.0	2.9
Financial assets at fair value through profit or loss	0.1	0.1	0.1	—	0.1	—
Amounts due from related parties	11.1	14.6	364.2	53.7	777.0	114.6
Prepaid current income tax	—	264.6	—	—	—	—
Restricted bank balances	171.7	361.7	342.5	50.5	706.4	104.2
Cash and cash equivalents	689.6	728.8	644.0	95.0	813.4	119.9
Total current assets	3,649.5	5,412.8	6,381.5	941.0	8,363.7	1,233.3
Total assets	10,162.1	14,136.1	15,189.1	2,239.8	16,791.8	2,476.1
EQUITY						
Equity attributable to equity holders of the Company						
Ordinary shares	311.4	311.7	311.7	46.0	311.7	46.0
Share premium	2,186.0	2,189.7	2,189.7	322.9	2,190.3	323.0
Other reserves	1,144.2	1,144.9	1,192.2	175.8	1,205.5	177.8
Retained earnings	2,907.1	2,618.9	3,475.2	512.5	4,045.0	596.5
	6,548.7	6,265.2	7,168.8	1,057.1	7,752.5	1,143.2
Non-controlling interests	147.4	224.7	292.0	43.1	401.2	59.2
Total equity	6,696.1	6,489.9	7,460.8	1,100.2	8,153.7	1,202.3

	As of December 31,				As of June 30,	
	2007	2008	2009		2010	
	RMB	RMB	RMB	US$	RMB	US$
			(in millions)			
					(unaudited)	
LIABILITIES						
Non-current liabilities						
Borrowings	765.0	489.2	758.9	111.9	646.8	95.4
Other long term payables	—	847.9	570.2	84.1	470.7	69.4
Deferred revenue	—	62.8	41.1	6.1	26.3	3.9
Amounts due to related parties	55.7	65.1	37.4	5.5	—	—
Total non-current liabilities	820.7	1,465.0	1,407.6	207.6	1,143.8	168.7
Current liabilities						
Trade payables	715.5	2,219.4	1,725.8	254.5	2,125.3	313.4
Accruals, advances from customers and other current liabilities	1,371.3	2,034.8	2,255.4	332.6	2,561.3	377.7
Amounts due to related parties	8.6	207.0	269.2	39.7	346.9	51.2
Current income tax liabilities	88.4	—	136.5	20.1	153.1	22.6
Other long term payables — current portion	—	19.9	134.4	19.8	175.7	25.9
Borrowings	460.0	1,697.2	1,796.5	264.9	2,063.2	304.2
Dividends payable	1.5	2.9	2.9	0.4	68.8	10.1
Total current liabilities	2,645.3	6,181.2	6,320.7	932.1	7,494.3	1,105.1
Total liabilities	3,466.0	7,646.2	7,728.3	1,139.6	8,638.1	1,273.8
Total equity and liabilities	10,162.1	14,136.1	15,189.1	2,239.8	16,791.8	2,476.1
Net current assets/ (liabilities)	1,004.2	(768.4)	60.8	9.0	869.4	128.2
Total assets less current liabilities	7,516.8	7,954.9	8,868.4	1,307.7	9,297.4	1,371.0

Other Unaudited Financial Data

	As of and for the year ended December 31,			As of and for the six months ended June 30,	
	2007	2008	2009	2009	2010
EBITDA[1] (in RMB millions)	1,952.2	754.6	2,263.0	996.1	1,667.8
EBITDA[1] (in US$ millions)	287.9	111.3	333.7	146.9	245.9
EBITDA margin[2]	14.5%	3.9%	11.0%	10.9%	10.9%
EBITDA[1]/Gross interest expense[3]	28.6x	6.0x	20.0x	—	—
Total debt/EBITDA[1]	0.7x	4.2x	1.5x	—	—

(1) EBITDA for any period consists of profit for the year/period before finance costs-net, amortization of intangible assets, amortization of leasehold land and land use rights, income tax expense and depreciation. EBITDA for the twelve months ended June 30, 2010 is calculated by adding EBITDA for the six months ended June 30, 2010 to EBITDA for the year ended December 31, 2009 and subtracting EBITDA for the six months ended June 30, 2009. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Group believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. You should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of the Group's profit for the year/period under HKFRS to its definition of EBITDA.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

(3) Gross interest expense includes interest expense capitalized in property, plant and equipment. Gross interest expense for the twelve months ended June 30, 2010 is calculated by adding gross interest expense for the six months ended June 30, 2010 to gross interest expense for the year ended December 31, 2009 and subtracting gross interest expense for the six months ended June 30, 2009 and excludes interest expense from the offering of the Existing Senior Notes.

Consolidated Cash Flow Statement Data

	Year ended December 31,				Six months ended June 30,		
	2007	2008	2009		2009	2010	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in millions)			
						(unaudited)	
Net cash generated from/(used in) operating activities	1,074.3	147.9	251.6	37.1	(9.4)	619.0	91.3
Net cash used in investing activities	(828.3)	(1,510.4)	(674.8)	(99.5)	(261.5)	(172.2)	(25.4)
Net cash (used in)/ generated from financing activities	27.9	1,409.7	338.8	50.0	163.8	(275.8)	(40.7)
Net increase/(decrease) in cash and cash equivalents	273.9	47.2	(84.4)	(12.4)	(107.1)	171.0	25.2
Effect of foreign exchange rate changes	(19.2)	(8.0)	(0.4)	(0.1)	(0.1)	(1.6)	(0.2)
Cash and cash equivalents, beginning of year/period	434.9	689.6	728.8	107.5	728.8	644.0	95.0
Cash and cash equivalents, end of year/period	689.6	728.8	644.0	95.0	621.6	813.4	119.9

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Consolidated Financial Data" and the Group's consolidated financial statements, condensed consolidated interim financial information and the related notes included elsewhere in this document. The Group's consolidated financial statements have been prepared in accordance with HKFRS. HKFRS differ in certain material respects from U.S. GAAP. For a summary of certain differences between HKFRS and U.S. GAAP, see "Summary of Certain Differences Between HKFRS and U.S. GAAP." The discussion in this section contains forward-looking statements that involve risks and uncertainties. The Group's actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth under "Risk Factors" and elsewhere in this document.

Overview

The Group is an integrated iron and steel manufacturer in the PRC principally engaged in the production of H-section steel products, strips and strip products, cold-rolled sheets and galvanized sheets, and billets. As of the date of this document, the Group has a total production capacity of 11.0 million tonnes of crude steel per annum, including approximately 2.0 million tonnes per annum from facilities leased from Jinxi-Wantong.

For the year ended December 31, 2009, the Group's revenue and profit after taxation were RMB20.6 billion and RMB972.4 million, respectively. For the six months ended June 30, 2010, the Group's revenue and profit after taxation were RMB15.4 billion and RMB871.8 million, respectively. In 2009, the Group sold approximately 2.5 million tonnes of H-section steel products, 2.9 million tonnes of strips and strip products, 0.3 million tonnes of cold-rolled sheets and galvanized sheets, and 1.3 million tonnes of billets. For the six months ended June 30, 2010, the Group sold approximately 1.5 million tonnes of H-section steel products, 1.8 million tonnes of strips and strip products, 0.2 million tonnes of cold-rolled sheets and galvanized sheets and 1.0 million tonnes of billets. More than 90% of the Group's revenue was generated from products sold in the Chinese domestic market in both 2009 and the six months ended June 30, 2010.

Recent Developments

Recent trends and outlook

During the third quarter of 2010, the Group and the Chinese steel industry generally were impacted by certain industry trends affecting steel companies, including, among others, an increase in prices of imported iron ore, a decrease in the average selling prices of steel products and the PRC government's policy to restrict energy consumption in certain regions and for certain industries (as further described below in the section "— Recent Developments — Notices relating to restrictions on energy consumption and control of production of steel products"). As a result, the Group estimates that its results of operations during the third quarter in 2010 showed a slight downward trend compared to its results for the first half of 2010 (on a straight line basis) and its results for the same period in 2009. However, the Group estimates that its overall results for the first nine months of 2010 were better than its results for the same period in 2009.

Issuance of the Existing Senior Notes

On August 18, 2010, the Company issued its US$550,000,000 8% Senior Notes due 2015. The Existing Senior Notes are guaranteed by the Subsidiary Guarantors on a senior unsubordinated basis and are secured by a pledge of the Collateral. The Company intends to use the proceeds from the issuance and sale of the Existing Senior Notes for potential acquisitions of steel mills in China (primarily in Hebei Province); continuous improvement capital expenditure projects at the Group's current production facilities; potential investments in iron ore assets, which may be in the Restricted Subsidiaries or may be minority investments; and general corporate purposes, including for funding working capital requirements. As of the date of this document, the Company has used a portion of the net proceeds of the offering of the Existing Senior Notes for working capital requirements, with the balance invested in short term deposits or money market instruments pending application in the manner described above. For further details, see "Description of Other Material Indebtedness — The Existing Senior Notes."

Acquisition of equity interest in Caofeidian Port Company

On October 21, 2010, Hebei Jinxi Iron and Steel Group and Foshan Transportation entered into a sale and purchase agreement dated October 21, 2010. Pursuant to this sale and purchase agreement, Hebei Jinxi Iron and Steel Group has agreed to acquire a 10% equity interest in Caofeidian Port Company from Foshan Transportation. Caofeidian Port Company is a company established in the PRC whose principal activities are depot and transportation. A port in Caofeidian is currently being constructed by Caofeidian Port Company. The registered capital of Caofeidian Port Company is RMB950,000,000 and as of November 5, 2010, RMB500,000,000 has been paid up by the shareholders of Caofeidian Port Company. Thus, the Group expects that after the acquisition pursuant to this sale and purchase agreement, Hebei Jinxi Iron and Steel Group will further invest a sum of RMB45,000,000, being pro rata to its holding of a 10% equity interest in Caofeidian Port Company in due course. Caofeidian is a rapidly developing designated industrial zone in mainland China and Caofeidian Port is one of the ports in mainland China which can cater for vessels over 300,000 tonnes. The Group believes that the execution of this sale and purchase agreement and the investment in Caofeidian Port Company, which are in line with the Group's development strategy, furthers the goal of the Group to have a steady logistics means for the importation and transportation of iron ore to Group facility and it furthers the Group's goal of investing in the Caofeidian zone. Further, in the future the Group believes that the port being constructed by Caofeidian Port Company will help the Group mitigate its transportation and depot costs through use of the port by the Group. The consideration was determined after arm's length negotiation between Hebei Jinxi Iron and Steel Group and Foshan Transportation.

Notices relating to restrictions on energy consumption and control of production of steel products

On September 3, 2010, the Tangshan Municipal People's Government issued notices to certain subsidiaries of the Company imposing restrictions on energy consumption by such subsidiaries and control of the production of steel products. In response to these restrictions, the Group took steps to optimize its product mix in order to attain what it believes to be the optimal balance between production efficiency and energy savings during the restriction period. After taking into account various factors, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wantong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. The Group plans to partially operate its H-section steel production lines in November 2010 with a target to produce approximately 60,000 tonnes to 80,000 tonnes of H-section steel products in November 2010. As a result, the Company expects that during the fourth quarter of 2010, strips and strip products will constitute a relatively higher proportion of the Group's overall production volume. Although there is no assurance, the Group does not expect the restrictions on energy consumption to continue after the end of 2010. Therefore, the Directors believe that such restrictions will only have a temporary adverse impact on the Group's production activities and results of operations for the remaining two months ending December 31, 2010, and will only have limited impact on the Group's overall production volume for the year ending December 31, 2010. As the relative margins of steel products fluctuate according to market conditions, the Group intends to continue to monitor the market and adjust its product mix in order to optimize its profitability. For further details, see "Business – Raw Material, Energy and Utilities – Energy and Utilities."

Cooperation Agreement with Caofeidian Industrial Management Committee

On September 16, 2010, the Company and the Caofeidian Industrial Management Committee entered into a cooperation agreement, pursuant to which the Company will invest in the Caofeidian Industrial Zone in Tangshan City, Hebei Province, China to develop a scrap recycling business involving the use of scrap metal and other materials for the manufacturing of steel products. The expected total investment by the Company under the cooperation agreement will be approximately US$100 million. The project is currently in a preliminary planning stage and is subject to the receipt by the Group of the relevant government permits and licenses, among other things. For further details, see "Business — Scrap Recycling."

Factors Affecting Results of Operations and Financial Condition

The Group's results of operations and financial condition have been and will continue to be affected by a number of factors, including:

Sales volume

The Group's results of operations are directly affected by its sales volume, which in turn is a function of market demand and the Group's production capacity.

Market demand

During the period from January 1, 2007 to June 30, 2010, more than 90% of the Group's revenue was derived from sales made in China. Domestic demand for steel products in the PRC is primarily affected by domestic economic conditions, changes in PRC government policies that are applicable to the steel industry and the development of industries that consume large amounts of steel. Such industries include the construction, shipbuilding, machinery and other downstream steel industries.

During the period from January 1, 2007 to June 30, 2010, China's economic growth, significant infrastructure development and increasing urbanization have generally led to increasing demand for steel products. While the global financial crisis that began in 2008 adversely affected global and domestic demand for steel products from the third quarter of 2008 through the first several months of 2009, the PRC economy showed signs of recovery after the announcement and implementation of the PRC government's RMB4 trillion economic stimulus plan in response to the crisis. Many large-scale construction projects successfully commenced in 2009 and resulted in an increased demand for steel. This trend continued through the first half of 2010.

The Group sells its H-section steel products to third-party customers. H-section steel products are used in large-scale construction projects principally as structural supports, for example in skyscrapers, airport terminals, offshore oil platforms and other infrastructure and buildings. A portion of the Group's mid-width strips and strip products are consumed by the Group to produce cold-rolled sheets and galvanized sheets. Strips and strip products that are not consumed by the Group are sold to downstream steel manufacturers. The Group sells cold-rolled sheets and galvanized sheets to customers such as color coating manufacturers, pipe manufacturers, furniture manufacturers and household electrical appliances manufacturers and other distributors in the PRC and elsewhere. For each of the three years ended December 31, 2009 and the six months ended June 30, 2010, the Group used more than 75% of the billets it produced for its own production of other steel products, with the excess sold to other steel manufacturers. The Group intends to improve its downstream product portfolio to include steel bar products and high speed wire rods, which will lead to the gradual phasing out of external billets sales.

The following table sets forth the sales volume of the Group's steel products for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(Thousand tonnes)				
H-section steel products	1,205	1,225	2,460	1,103	1,481
Strips and strip products	2,451	2,061	2,861	1,261	1,772
Cold-rolled sheets and galvanized sheets	173	241	286	87	202
Billets	299	1,007	1,341	743	1,015
Total	4,128	4,534	6,948	3,194	4,470

Production capacity

As of the date of this document, the Group had the capacity to produce 11.0 million tonnes of crude steel per annum, representing an increase of 4.0 million tonnes of crude steel per annum from its capacity as of December 31, 2009. The increase in production capacity was primarily a result of (i) an upgrade of production facilities and debottlenecking in the Group's production process which together resulted in an additional production capacity of approximately 2.0 million tonnes of crude steel per annum and (ii) the leasing of production facilities by Jinxi Limited, a subsidiary of the Company, from Jinxi-Wantong, which further increased the Group's production capacity by approximately 2.0 million tonnes of crude steel per annum. Utilizing its crude steel production, as of the date of this document, the Group has the capacity to produce 3.0 million tonnes per annum of H-section steel products, 3.5 million tonnes per annum of strips and strip products and 500,000 tonnes per annum of cold-rolled sheets and galvanized sheets. The Group also has the capacity to produce 800,000 tonnes per annum of steel bar products from facilities leased from Jinxi-Wantong. See "Business — Production Facilities" for further information on the Group's production capacity. The Group also seeks to maintain a high capacity utilization rate at its facilities. The Group's production capacity, along with the Group's rate of utilization of such capacity, will continue to have a significant impact on the Group's results of operations.

Product mix

Product mix has an impact on the Group's operating results, as different products have different gross profit margins.

The following table sets forth the revenue (excluding value added tax) and gross profit/(loss) margins of the Group's products for the years indicated.

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	Gross profit margin	Revenue	Gross profit/(loss) margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin
	(RMB millions)	(%)	(RMB millions)	(%)	(RMB millions)	(%)	(RMB millions)	(%)	(RMB millions)	(%)
H-section steel products	4,298	18.7	5,562	5.6	7,405	9.5	3,281	4.3	5,228	11.8
Strips and strip products	7,441	13.3	8,574	2.4	8,406	11.6	3,593	10.8	5,894	9.1
Cold-rolled sheets and galvanized sheets . .	840	4.1	1,319	0.9	1,142	0.1	344	(4.4)	898	5.1
Billets	897	9.4	3,919	(0.3)	3,624	9.0	1,950	12.1	3,330	6.0
Others[1]	23	11.5	14	10.7	12	25.6	7	—	—	—
Total/Combined	13,499	14.2	19,388	2.7	20,589	9.7	9,175	8.2	15,350	9.1

[1] Represents the income of the Group from processing products for third parties.

The Group strives to optimize its product mix by adjusting the proportion of production and sales volume of different products according to market conditions, including the profitability of each such product from time to time. For example, H-section steel products have a relatively more stable gross profit margin as compared to the Group's other products, and sales volume of H-section steel products increased significantly in the three years ended December 31, 2009 and the six months ended June 30, 2010. The Group's strips and strip products also enjoyed relatively high margins and experienced significant growth in both production and sales volume in the same period. The Group will continue to concentrate on products with high profit margins, while gradually phasing out products facing increasing competition and having lower profit margins. The Group also seeks to improve its product mix by introducing new products. For example, in 2009, the Group developed a type of H-section steel product which is used for steel poles supporting overhead contact wires for electric railways. This product increased the Group's profitability as the price for this product is higher than other H-section steel products. The Group also developed high value-added ultra thin steel sheets in 2008 for which the target customers are primarily electronic consumer product manufacturers. Furthermore, the Group began trial production of steel bar products in June 2010. The Group's main steel bar products include round and deformed steel bars which are mainly used in construction, roads and bridges, machinery processing, water utilities infrastructure and in the petroleum industry.

The Group intends to further expand its product portfolio and improve its ability to optimize its product mix. Planned new products include steel sheet piles and high speed wire rods. Steel sheet piles are used in sheet piling which consists of a series of panels with interlocking connections that are driven into the ground to form an impenetrable barrier. Sheet piling is a proven technology within the construction industry and is used in the construction of quays, harbors and flood prevention infrastructures. The Group believes that demand for steel sheet piles in China will increase significantly as a result of increasing construction. Substantially all domestic demand for steel sheet piles is currently met by imports due to a lack of domestic production. The Company and ArcelorMittal are currently in discussions regarding a potential joint venture for the manufacturing and sale of steel sheet piles in which the Group would be a majority shareholder. The joint venture may or may not proceed, as details of the joint venture, including its timing, size and structure, are currently being negotiated and an agreement may or may not ultimately be reached. High speed wire rods are a type of steel rod widely used in reinforced concrete or welded structures in construction. High speed wire rods can be processed into various types of wire products, bolts and screws and other machinery spare parts or tools.

China is the world's largest steel market and accounted for approximately 47.7% of the world's total apparent consumption of finished steel products in 2009 according to The World Steel Association. The rapid urbanization process in China has led to a significant increase in the demand for steel. Urbanization and its related infrastructure development will remain an important source of steel demand, as evident in a number of recent PRC government initiatives to stimulate domestic demand and promote infrastructure development across all regions. Furthermore, various natural disasters that have struck China in recent years have highlighted an increased concern for structural safety, strength and quality. As a result, there has been a shift in preference from other construction materials to steel in infrastructure, industrial, commercial and residential construction projects. A majority of the increased demand has been met by domestic steel manufacturers. As the Group continues to optimize its product mix in line with evolving market trends, the Group believes that it is well positioned to capture market opportunities and benefit from the economic growth in China.

Pricing of products

Forces of supply and demand in the national and regional markets, rather than state-prescribed or state-guided prices, determine the pricing of the Group's products. As is typical of commodity prices, prices of steel products fluctuate materially over time.

During the period from January 1, 2007 to June 30, 2010, China's economic growth, significant infrastructure development and increasing urbanization have led to an increase in demand for steel products. In addition, the various natural disasters that have struck China in recent years, such as the earthquakes in Sichuan Province in May 2008 and in Qinghai Province in April 2010, have increased demand for steel products for reconstruction work. These natural disasters have also heightened concerns for structural safety, strength and quality, and as a result, there has been a shift in preference away from other construction materials to steel in infrastructure, industrial, commercial and residential construction projects. Global demand for steel products also affects the prices of steel products in China, which generally follow international market prices. During the global financial crisis that began in 2008, prices of steel products decreased significantly and then began to stabilize and recover in 2009. During the first half of 2010, an increase in iron ore prices caused steel prices to increase significantly, reaching a high point in April 2010 before decreasing again in the second and third quarters of 2010, in part as a result of the introduction of measures by the PRC government to tighten its monetary policies and to cool down the growth of the real estate industry, as well as the European debt crisis. Steel prices for certain products showed signs of stabilization and in some cases, increased during the beginning of the second half of 2010.

More than 90% of the Group's revenue was generated from products sold in China in 2009 and for the six months ended June 30, 2010. The Group has entered into one-year framework sales contracts with most of its principal customers which are renewable on an annual basis subject to mutual agreement between the customer and the Group. Pursuant to these framework contracts, customers enter into a separate agreement with the Group each month during the term of these framework sales contracts to confirm the price of their orders. While the framework contracts typically specify the annual minimal total quantity, the price fluctuates according to the prevailing market price at the time of entering into such separate agreement and negotiations with the customers. Under these framework sales contracts, if a customer orders less than 60% of the stipulated monthly amount for three consecutive months, the Group is entitled to terminate the sales contract and take for itself the related security deposit. If a customer orders less than 80% of the stipulated total annual minimum amount, the Group is entitled to refuse to renew the sales contract and take for itself the security deposit. The Group also exports some of its products, in particular its H-section steel products, to South Korea, Taiwan, Vietnam, Japan, South East Asia and other countries and regions.

The following table sets forth the average selling prices of the Group's products for the periods indicated, which are calculated by dividing total revenue by sales volume of each category of products for the relevant period.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(RMB per tonne)				
Average selling price					
H-section steel products	3,566	4,538	3,011	2,974	3,530
Strips and strip products	3,036	4,159	2,938	2,850	3,326
Cold-rolled sheets and galvanized sheets	4,870	5,489	3,990	3,952	4,446
Billets	2,999	3,891	2,703	2,624	3,281
Combined	3,265	4,273	2,962	2,870	3,434

Production costs

Production costs principally comprise raw material costs, auxiliary material costs, energy and utilities costs, depreciation expenses, staff costs and repair and maintenance charges. Production costs, adjusted by movements in finished goods, comprise the Group's cost of sales.

The Group's total production costs increased by 64.9% from 2007 to 2008, primarily due to the increase in sales volume, the increase in raw material prices and cost of utilities, higher depreciation expenses resulting from significant investments in fixed assets, increasing expenditure on environmental protection technologies and safety production measures, and the increase in staff costs as a result of rising wages of employees in the face of increasing competition for talents.

The Group's total production costs decreased slightly from 2008 to 2009 despite an increase in sales volume, depreciation and energy and utilities expenses, primarily due to a decrease in raw material prices, in particular, iron ore, coupled with the implementation by the Group of certain cost control measures.

The Group's total production costs increased by 66.5% for the six months ended June 30, 2010 from the corresponding period in 2009 primarily due to increases in sales volume and an increase in the purchase price of raw materials, such as iron ore and coke, for the six months ended June 30, 2010.

The table below sets forth a breakdown of the total production costs of the Group for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%
Total production costs										
Raw materials and auxiliary materials	9,424	81.9	16,059	84.7	14,896	79.5	6,754	80.2	11,550	82.3
Energy and utilities	593	5.2	727	3.8	1,222	6.5	564	6.7	802	5.7
Depreciation	431	3.7	538	2.8	819	4.4	382	4.5	450	3.2
Staff costs	190	1.7	221	1.2	341	1.8	145	1.7	228	1.6
Repair and maintenance	120	1.0	149	0.8	65	0.3	17	0.2	36	0.3
Others	740	6.5	1,265	6.7	1,392	7.5	561	6.7	962	6.9
Total(1)	11,498	100.0	18,959	100.0	18,735	100.0	8,423	100.0	14,028	100.0

(1) The amount of total production costs set forth above does not take into account the movement in finished goods and therefore differs from the amount of cost of sales set out in the consolidated financial statements included elsewhere in this document.

Raw materials and auxiliary materials

Raw materials mainly consist of iron ore, coke (produced from coking coal) and other steel and iron materials. Auxiliary materials used in the Group's production include limestone, powdered high-magnesium dolomite, bentonite and various alloys.

In the year ended December 31, 2009, iron ore and coke accounted for 35.9% and 28.0%, respectively, of the Group's total production costs. For the six months ended June 30, 2010, iron ore and coke accounted for 39.9% and 25.9%, respectively, of the Group's total production costs. The Group has been able to meet its iron ore requirements by sourcing iron ore from domestic and foreign iron ore suppliers. In 2009 and for the six months ended June 30, 2010, the Group imported approximately 72.6% and 58.6%, respectively, of its total volume of iron ore requirements, mainly from Brazil, Australia and India, and obtained 27.4% and 41.4%, respectively, of its total volume of iron ore requirements domestically. The Group has three categories of iron ore supply sources: (i) iron ore purchased from domestic suppliers, (ii) iron ore purchased pursuant to long-term contracts with overseas suppliers and (iii) iron ore purchased on the spot market from overseas suppliers. The Group adjusts the proportion of its iron ore purchased among the three categories according to market conditions to minimize costs and risks. The Group has entered into long-term framework contracts with some of its overseas iron ore suppliers with terms ranging from three years to ten years. Under a majority of these contracts, both quantities and prices are fixed, with prices subject to annual or quarterly review. The Group has also entered into one-year supply framework contracts with certain domestic iron ore suppliers, including the Group's five largest domestic iron ore suppliers. While each of these supply contracts specifies the minimum quantity of iron ore guaranteed by the relevant supplier, the price is determined at the time of placing each purchase order under the supply contracts according to the then prevailing market price. The Group generally keeps 30 to 60 days inventory of iron ore.

The Group sources coke (produced from coking coal) from suppliers within China. In 2009, the Group sourced 43% of its production needs for coke from Hebei Province, 15% from Inner Mongolia Autonomous Region, 7% from Shandong Province, 25% from Shanxi Province and 10% from Shaanxi Province. For the six months ended June 30, 2010, the Group sourced 50% of its production needs for coke from Hebei Province, 22% from Inner Mongolia Autonomous Region, 11% from

Shandong Province, 8% from Shanxi Province and 9% from Shaanxi Province. The Group purchased approximately 3.38 million tonnes of coke in 2009 and 2.20 million tonnes of coke for the six months ended June 30, 2010. The Group generally keeps approximately 10 to 15 days inventory of coke.

Until the global financial crisis which began in the third quarter of 2008, market prices of the key raw materials such as iron ore and coke had been increasing in the preceding several years, primarily because of a global shortage of these key raw materials. As a result of the global financial crisis, prices of raw materials such as iron ore and coke decreased significantly at the end of 2008 and, despite a slight rebound, remained at a relatively low level throughout 2009. As economic conditions continued to improve in the PRC during the first half of 2010, prices for raw materials such as iron ore and coke also increased accordingly. Fluctuations in raw material prices have affected and are expected to continue to affect the Group's results of operations.

Energy and utilities

The Group purchases most of the electricity it requires for production from the local power grid. Under an agreement with the local power supplier, the Group feeds the electricity it generates internally into the local power grid, and in return it is entitled to draw and use an equivalent amount of electricity from the local power grid free of charge. The price of electricity has generally remained stable, rising only slightly over the past few years. The electrical power industry is regulated in China and the PRC government sets the selling price of electricity, which reflects only in part the market forces of supply and demand. See "Summary of Relevant PRC Laws and Regulations — Laws and Regulations Relating to Energy Conservation and Emission Reduction."

The Group sourced its water supply from the local Daheiting Reservoir with no prescribed limit, at an annual fee of RMB1.6 million payable to the Qianxi County Water Bureau for each of the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010.

For further details, see "Business — Raw Materials, Energy and Utilities — Energy and utilities."

Depreciation

Depreciation expenses comprise a comparatively small portion of the Group's total production costs. As the Group has expanded its production capacity, the Group has made significant investments and installed additional production facilities in the past several years, resulting in an increase in the Group's depreciation expenses. For further details of such increased production capacity, see "Business — Production Facilities — Existing facilities." The Group believes that its cost-focused approach towards procurement of equipment for its new production facilities has enabled it to operate efficiently with a relatively low asset base. While the absolute value of the Group's depreciation expenses is expected to increase in the future, the Group expects that depreciation expenses will continue to comprise a comparatively small portion of the Group's total production costs.

Staff costs

Staff costs have been increasing over the past several years, primarily due to the increase in headcount as a result of the expansion of the Group's operations. For each of the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010, the Group incurred costs of RMB190 million, RMB221 million, RMB341 million, RMB145 million and RMB228 million, respectively, in respect of staff involved in production. This increase also reflects, to a lesser extent, a rise in employees, wages in response to increasing competition from the Group's competitors.

PRC government regulations

The PRC steel industry is heavily regulated by the PRC government. The Group must comply with various requirements mandated by applicable laws and regulations, including the policies and guidelines established by local authorities designed for the implementation of such laws and regulations. The PRC government closely monitors the development of the steel industry and may from time to time exercise control over such development by issuing and implementing new policies or procedures, the effects of which are often difficult to predict and could have an adverse impact on the Group's business or results of operations. For further information on the relevant PRC laws and regulations, see "Summary of Relevant PRC Laws and Regulations."

In recent years, the PRC government has imposed additional measures to regulate the steel industry, including strict regulation regarding the expansion of steel production capacities and the abolition of the export tax refund on steel products, with a goal of accelerating consolidation in the steel industry. The PRC government's introduction of measures to cool down the growth in the property industry in 2010 affected prices for steel products. In addition, government policies restricting or controlling the production activities for the steel industries could also interrupt the Group's production activities and have an adverse impact on its results of operations. For example, on September 3, 2010, certain subsidiaries of the Group received notices from the Tangshan Municipal People's Government imposing certain restrictions on electricity consumption by such subsidiaries and control over the production of steel products. For further details, see "Business — Raw Material, Energy and Utilities — Energy and Utilities." Furthermore, the PRC government has taken various measures to prevent the economy from overheating including, among others, restrictions on bank loans in certain sectors and the increase of interest rates. In particular, since 2005, steel manufacturers in China have been required to contribute at least 40% of the total investment amount of their projects with internally generated funds, compared with the previous requirement of 25%, restricting access to bank borrowings by steel manufacturers. Moreover, commercial banks in China have also tightened their general lending policies with respect to, among others, steel manufacturers. As a result, the Group's business and results of operations during the past few years have been, and will continue to be, affected by PRC government regulations.

Taxes

Prior to 2008, as a foreign-invested manufacturing business, Jinxi Limited benefited from certain preferential tax treatments under PRC laws that were generally not available to domestically invested enterprises.

On March 16, 2007, the National People's Congress of the PRC promulgated and adopted the Enterprise Income Tax Law, which imposed a uniform income tax rate of 25% on all domestic and foreign-invested enterprises in the PRC. It came into effect on January 1, 2008. The new Enterprise Income Tax Law also revoked the tax exemptions, reductions and other preferential treatments previously applicable to foreign-invested enterprises. However, there would be a transition period for enterprises, whether foreign-invested or domestic, that were receiving preferential tax treatments granted by relevant tax authorities as of January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after January 1, 2008. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. However, the two-year exemption from enterprise income tax applicable to foreign-invested enterprises would begin from January 1, 2008 instead of when such enterprise first becomes profitable, if such enterprise had not enjoyed preferential tax treatments as of January 1, 2008.

As a result of the enactment of the Enterprise Income Tax Law, Jinxi Limited became subject to the uniform enterprise income tax rate of 25% starting from January 1, 2008. As approved by the local tax authority on December 14, 2007, Jinxi Jinlan was entitled to a two-year full exemption starting from January 1, 2008, followed by a three-year 50% reduction in its enterprise income tax starting from January 1, 2010. Approved by local tax authority on September 16, 2008, Shenzhen

Leasing, the Group's subsidiary located in Shenzhen Special Economic Zone, was entitled to a one-year full exemption starting from January 1, 2008, followed by a two-year 50% tax deduction starting from January 1, 2009.

In addition, in accordance with relevant PRC laws, as foreign-invested enterprises, Jinxi Limited, Jinxi Jinlan, Oriental Evertrust Finance Leasing Co. Ltd. and Shenzhen Leasing are exempted from Urban Maintenance and Construction Tax and Education Supplementary Tax. However, such tax preferential policy will be terminated as of December 1, 2010.

The effective income tax rate (calculated as income tax expense divided by profit before income tax) of the Group was 17.7%, 62.2% and 26.0% for the years ended December 31, 2007, 2008 and 2009, respectively. The effective income tax rate of the Group was 27.0% and 24.7% for the six months ended June 30, 2009 and 2010, respectively.

The effective tax rate for the Group in 2008 was significantly higher than in 2007 as losses incurred by certain members of the Group could not to be used to offset the profits from the profitable entities, primarily Jinxi Limited, due to PRC tax laws which prohibited the Company and its subsidiaries from consolidating their tax positions. The effective tax rate in 2009 was lower than in 2008 primarily due to (i) an increase in the proportion of profits attributable to Jinxi Limited in 2009 and (ii) certain other members of the Group carrying forward their losses from 2008 as they became profitable in 2009. The effective income tax rate of the Group for the six months ended June 30, 2010 was lower compared to the same period in 2009, primarily because profits contributed by Jinxi Jinlan for the six months ended June 30, 2010 were exempt from income tax, as such profits were offset by tax losses carried forward from the previous year.

Critical Accounting Policies

The following discussion and analysis is based on the Group's consolidated financial statements, which have been prepared in accordance with HKFRS. HKFRS differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between HKFRS and U.S. GAAP."

The preparation of consolidated financial statements in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of each reporting period and revenues and expenses during each reporting period. The Company has based its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The Company's management evaluates these estimates on an ongoing basis. Actual results may differ from those estimates under different assumptions and conditions. The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the Company's business activities. To aid in that understanding, the management has identified "critical accounting policies." These policies have the potential to have a significant impact on the Group's consolidated financial statements, either because of the significance of the consolidated financial statement item to which they relate or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

These critical accounting policies include:

Useful lives of property, plant and equipment

The Group recognizes depreciation of property, plant and equipment using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows.

Buildings	10-20 years
Machinery	5-10 years
Furniture and fixtures	3-10 years

Vehicles	4-10 years
Leasehold improvements	2-5 years

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

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

(i) expected usage of the asset;

(ii) expected physical wear and tear;

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

(iii) legal or similar limits on the use of the asset.

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

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.

Financial assets

Classification

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

Financial assets at fair value through profit or loss

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

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. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

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 the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized 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 recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Available-for-sale assets of the Group include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less provision for impairment, if any.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other losses — net," in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss. The translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Impairment of investment in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Net realizable value of inventories

Net realizable 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 of the balance sheet date and the historical experience of manufacturing and selling products of similar nature.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

Borrowing costs

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.

Share-based compensation

The Group operates a number of equity-settled, sharebased compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Where options are granted to employees of subsidiaries within the Group, in the consolidated financial statements, such share-based arrangement is accounted for as equity-settled. The fair value are accounted for as contributions and recognized as part of the cost of investment in the Company's standalone financial statements.

Fair value estimation

Effective January 1, 2009, the Group adopted the amendment to IFRS/HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Results of Operations

The following table sets forth, for the periods indicated, the percentage of revenue that certain income and expense items in the Group's consolidated financial statements account for:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
			(%)		
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	(85.8)	(97.3)	(90.2)	(91.8)	(90.9)
Gross profit	14.2	2.7	9.8	8.2	9.1
Other income	0.0	0.2	0.2	0.2	0.2
Distribution costs	(0.3)	(0.4)	(0.3)	(0.2)	(0.3)
Administrative expenses	(2.8)	(1.5)	(1.4)	(1.4)	(1.0)
Other expenses	(0.0)	(0.1)	(1.0)	(0.1)	(0.1)
Other gains/(losses) — net	0.1	(0.0)	(0.4)	(0.2)	0.1
Operating profit	11.2	0.9	6.9	6.5	8.0
Finance income	0.1	0.1	0.2	0.2	0.1
Finance costs	(0.6)	(0.4)	(0.7)	(0.8)	(0.5)
Finance costs — net	(0.5)	(0.3)	(0.5)	(0.6)	(0.4)
Share of results of associates	0.0	0.0	0.0	(0.0)	(0.0)
Profit before income tax	10.7	0.6	6.4	5.9	7.6
Income tax expense	(1.9)	(0.4)	(1.7)	(1.6)	(1.9)
Profit for the year/period	8.8	0.2	4.7	4.3	5.7
Profits attributable to:					
Equity holders of the Company	8.5	0.2	4.3	3.9	5.2
Non-controlling interests	0.3	0.0	0.4	0.4	0.5

Revenue. Revenue consists of proceeds from the sale of steel products including H-section steel products, strips and strip products, cold-rolled sheets and galvanized sheets and billets. The Group's revenue is net of surtaxes and value-added tax payable. Revenue is recognized upon transfer of ownership which typically occurs at the time of delivery of products to customers.

Cost of sales. Cost of sales mainly comprised of raw material costs, auxiliary material costs, energy and utilities, depreciation expenses, staff costs and repair and maintenance charges. Cost of raw materials and auxiliary materials utilized in production over any accounting period is accounted for on a weighted average basis. Energy and utilities relate primarily to power, water and industrial gases consumed by the furnaces and other production facilities. Depreciation expenses relates primarily to property, plant and equipment owned by the Group and are calculated on a straight-line basis. Staff costs include wages and bonuses for employees involved in production. Repairs and maintenance charges consist of expenses relating to the maintenance and repairs of plant and equipment, recorded upon receipt of the related services.

Other income. Other income primarily comprises rental income, income from operating leases, investment income and subsidy income, reimbursement from third parties for electricity expenses that the Group paid for, dividend income on financial assets at fair value and income generated from manufacturing services that the Group, through Jinxi Jinlan, provides to third parties using raw materials provided by such third parties from time to time when the Group has sufficient production capacity to do so.

Distribution costs. Distribution costs include (i) staff costs comprising salaries for employees involved in selling and marketing activities; (ii) transportation costs for delivery of products to customers; (iii) commission paid to sales personnel and (iv) other expenses including export taxes, travel expenses and advertising expenses, among others.

Administrative expenses. Administrative expenses include primarily (i) staff costs comprising of salaries for employees involved in administration and management activities, and pension benefits for all employees of the Group; (ii) depreciation on property, plant and equipment for administrative usage; (iii) insurance expenses of the Group; (iv) discharge fees; (v) property tax and stamp duty; (vi) entertainment expenses; and (vii) employee stock option expenses.

Other expenses. Other expenses include professional fees and expenses incurred in generating other income, amortization of mining rights, other financial costs and others.

Other gains/(losses) — net. Other gains/(losses) — net include primarily (i) net gains on sales of excess raw materials, by-products and wastage; (ii) foreign exchange gains and losses; (iii) net gains/(losses) on disposal of fixed assets and intangible assets; (iv) insurance compensations, deductions and penalties; (v) loss on disposal of investment in subsidiary and (vi) charity donation.

Finance income. Finance income represents the Group's interest income from bank deposits and loans to third parties.

Finance costs. Finance costs represent the Group's interest expense comprising mainly interest charges for bank loans, other short-term and long-term indebtedness, interest charged for discounting notes receivables and finance lease liabilities.

Share of results of associates. The Group's share of results of associates refers to the Company's share of net profit or loss of Zhongxing Mine and Longba Charging, in which the Company indirectly holds through Jinxi Limited a 35% and 45% equity interest, respectively.

Non-controlling interests. Non-controlling interests represent the interests of the non-controlling shareholders in respect of non-wholly owned subsidiaries for the respective period.

Review of Historical Operating Results

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenue. The Group's revenue for the six months ended June 30, 2010 increased by 67.3% to RMB15.4 billion from RMB9.2 billion for the corresponding period in 2009. This increase was primarily due to an increase in the sales volume of the Group's products and an increase in the Group's average selling price. During the six months ended June 30, 2010, total sales volume increased by 39.9%, or approximately 1.3 million tonnes, compared to the corresponding period in 2009. Between the same periods, average selling price increased by 19.7% to RMB3,434 per tonne for the six months ended June 30, 2010 from RMB2,870 per tonne for the corresponding period in 2009. Increases in the sales volume and the average selling price of the Group's products were mainly driven by increased demand during the first half of 2010, as the general economic conditions in the PRC continued to improve compared to the corresponding period in 2009. In addition, the increase in sales volume was driven by an increase in the Group's production capacity during the first half of 2010, which allowed the Group to meet its customers' increasing demands.

The following table sets forth the sales volumes of each of the Group's products for the periods indicated:

	Six months ended June 30,				Period-on-period change in sales volume
	2009		2010		
	Sales volume		Sales volume		
	(thousand tonnes)	(% of total)	(thousand tonnes)	(% of total)	(%)
H-section steel products	1,103	34.0	1,481	33.1	34.3
Strips and strip products	1,261	39.8	1,772	39.7	40.5
Cold-rolled sheets and galvanized sheets	87	2.7	202	4.5	132.2
Billets	743	22.9	1,015	22.7	36.6
Total/Combined	3,194	100.0	4,470	100.0	39.9

The following table sets forth the breakdown of the Group's revenue by product and the average selling price of the Group's products (excluding value added tax) for the periods indicated:

	Six months ended June 30,				Changes in	
	2009		2010			
	Revenue	Average selling price	Revenue	Average selling price	Revenue	Average selling price
	(RMB millions)	(RMB/tonne)	(RMB millions)	(RMB/tonne)	(%)	(%)
H-section steel products	3,281	2,974	5,228	3,530	59.3	18.7
Strips and strip products	3,593	2,850	5,894	3,326	64.0	16.7
Cold-rolled sheets and galvanized sheets	344	3,952	898	4,446	161.0	12.5
Billets	1,950	2,624	3,330	3,281	70.8	25.0
Others	7	N/A	—	—	N/A	N/A
Total/Combined	9,175	2,870	15,350	3,434	67.3	19.7

Cost of sales. The Group's cost of sales for the six months ended June 30, 2010 increased by 65.7% to RMB14.0 billion from RMB8.4 billion for the corresponding period in 2009. This increase was primarily attributable to the corresponding increase in sales volume for the six months ended June 30, 2010 and an increase in the price of raw materials, primarily iron ore and coke, during the same period. The cost of raw materials and auxiliary materials increased by 71.0% for the six months ended June 30, 2010 compared to the corresponding period in 2009, primarily due to increased demand for production materials, reflecting a general improvement in economic conditions in the PRC during the first half of 2010 compared to the corresponding period in 2009.

Gross profit. As a result of the above, the Group's gross profit increased 85.2% to RMB1,396.4 million for the six months ended June 30, 2010 from RMB754.2 million for the corresponding period in 2009. Gross profit per tonne of the Group's products increased to RMB313 for the six months ended June 30, 2010 from RMB235 for the corresponding period in 2009, reflecting a 33.2% increase. Gross profit margin increased to 9.1% for the six months ended June 30, 2010 from 8.2% for the corresponding period in 2009. The increase in gross profit margin was primarily due to a significant increase in the gross profit margins of H-section steel products and cold-rolled sheets and galvanized sheets, which were 11.8% and 5.1%, respectively, for the first half of 2010, compared to 4.3% and a gross loss margin of 4.4%, respectively, for the corresponding period in 2009. Gross profit margins for H-section steel products and cold-rolled sheets and galvanized sheets increased primarily due to an increase in the average selling price of these products driven by increased demand in the first half of 2010 and a proportionally smaller increase in the Group's production costs as a result of the Group's continued efforts to strengthen its cost control measures.

The following table sets forth the average unit cost, gross profit per tonne and gross profit margin of the Group's products for the periods indicated:

	Six months ended June 30,					
	2009			2010		
	Average unit cost per tonne	Gross profit/(loss) per tonne	Gross profit/(loss) margin	Average unit cost per tonne	Gross profit per tonne	Gross profit margin
	(RMB)	(RMB)	(%)	(RMB)	(RMB)	(%)
H-section steel products	2,845	129	4.3	3,113	417	11.8
Strips and strip products	2,542	308	10.8	3,025	301	9.1
Cold-rolled sheets and galvanized sheets . . .	4,125	(173)	(4.4)	4,218	228	5.1
Billets	2,307	317	12.1	3,084	197	6.0
Combined	2,635	235	8.2	3,121	313	9.1

Other income. For the six months ended June 30, 2010, other income increased by 56.4% to RMB34.1 million from RMB21.8 million for the corresponding period in 2009. Other income increased for the six months ended June 30, 2010 primarily due to income generated from manufacturing services the Group provided to third parities through Jinxi Jinlan.

Distribution costs. For the six months ended June 30, 2010, distribution costs increased by 197.7% to RMB52.7 million from RMB17.7 million for the corresponding period in 2009. This increase was primarily due to an increase in export sales.

Administrative expenses. For the six months ended June 30, 2010, administrative expenses increased by 13.2% to RMB148.3 million from RMB131.0 million for the corresponding period in 2009. This increase was primarily due to an increase in operating activities during the period.

Other expenses. Other expenses increased to RMB18.8 million for the six months ended June 30, 2010 from RMB9.7 million for the corresponding period in 2009, primarily due to expenses incurred relating to manufacturing services the Group provided to third parties through Jinxi Jinlan and an increase in processing fees relating to the Group's financing arrangements.

Other gains/(losses) — net. Other gains/(losses) — net for the six months ended June 30, 2010 was a gain of RMB16.6 million compared to a loss of RMB20.5 million for the corresponding period in 2009. Other net gains for the six months ended June 30, 2010 primarily included net gains on sales of excess raw materials, by-products and wastage, which increased as our production increased. Other net losses for the six months ended June 30, 2009 primarily reflected tax expenses of RMB25.6 million relating to the inter-company sale of assets between Jinxi Limited and Jinxi Section Steel.

Finance income. For the six months ended June 30, 2010, finance income decreased by 16.8% to RMB14.4 million from RMB17.3 million for the corresponding period in 2009. The decrease was primarily due to a decrease in interest income as a result of the repayment in the second half of 2009 of a loan to a third party, Qianxi Jin Xin Mine Co., Ltd., provided by Jinxi Limited, which bore interest at 3% per month. The decrease was offset in part by an increase in interest income as a result of a loan provided by Jinxi Limited to Tangshan Jinxi Group in an aggregate amount of RMB767.5 million.

Finance costs. For the six months ended June 30, 2010, finance costs increased by 14.3% to RMB82.7 million from RMB72.4 million for the corresponding period in 2009. This increase was primarily due to an increase in the Group's overall bank borrowings mainly to fund its working capital needs.

Share of results of associates. For the six months ended June 30, 2010, the Group's share of results of associates was a loss of RMB1.5 million, compared to a loss of RMB2.2 million for the corresponding period in 2009. Such amounts represented the Group's share of net loss of Zhongxing Mine, in which the Company holds an indirect interest of 35% through Jinxi Limited.

Income tax expense. For the six months ended June 30, 2010, income tax expense increased by 96.4% to RMB285.8 million from RMB145.5 million for the corresponding period in 2009. This increase was mainly attributable to an increase in the Group's profit before taxation. The Group's effective income tax rate was 24.7% for the six months ended June 30, 2010, compared to 27.0% for the corresponding period in 2009.

Non-controlling interests. For the six months ended June 30, 2010, profit attributable to non-controlling interests was RMB73.8 million compared to RMB36.1 million for the corresponding period in 2009 primarily due to an increase in profit attributable to Jinxi Limited, Zhengda Iron and Steel and Jinxi Section Steel.

Profit attributable to equity holders of the Company. For the six months ended June 30, 2010, profit attributable to equity holders of the Company increased to RMB798.0 million from RMB358.2 million for the corresponding period in 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue. The Group's revenue in 2009 increased by 6.2% to RMB20.6 billion from RMB19.4 billion in 2008. This increase was primarily due to the increase in total sales volume from approximately 4.5 million tonnes in 2008 to 6.9 million tonnes in 2009, primarily driven by increased market demand for the Group's products, partially offset by a decrease in the average selling price of the Group's products in the second half of 2008 primarily as a result of a decrease in the price of steel products as a result of the global financial crisis from the third quarter of 2008 through to the first several months of 2009.

The following table sets forth the changes in sales volume of each of the Group's products for the years indicated.

	Year ended December 31,				Year-on-year change in sales volume
	2008		2009		
	Sales volume		Sales volume		
	(thousand tonnes)	(% of total)	(thousand tonnes)	(% of total)	(%)
H-section steel products	1,225	27.0	2,460	35.4	100.8
Strips and strip products	2,061	45.5	2,861	41.2	38.8
Cold-rolled sheets and galvanized sheets	241	5.3	286	4.1	18.7
Billets	1,007	22.2	1,341	19.3	33.2
Total/Combined	4,534	100.0	6,948	100.0	53.2

The following table sets forth the breakdown of the Group's revenue by product and the average selling price of the Group's products (excluding value added tax) for the years indicated:

	Year ended December 31,					
	2008		2009		Changes in	
	Revenue	Average selling price	Revenue	Average selling price	Revenue	Average selling price
	(RMB millions)	(RMB/tonne)	(RMB millions)	(RMB/tonne)	(%)	(%)
H-section steel products	5,562	4,538	7,405	3,011	33.1	(33.6)
Strips and strip products	8,574	4,159	8,406	2,938	(2.0)	(29.4)
Cold-rolled sheets and galvanized sheets . . .	1,319	5,489	1,142	3,990	(13.4)	(27.3)
Billets	3,919	3,891	3,624	2,703	(7.5)	(30.5)
Others	14	—	12	—	(14.3)	—
Total/Combined	19,388	4,273	20,589	2,962	6.2	(30.7)

Cost of sales. The Group's cost of sales decreased in 2009 by 1.6% to RMB18.6 billion from RMB18.9 billion in 2008. This decrease was primarily attributable to a decrease in raw material costs and the Group's continued efforts to strengthen its cost control measures. The cost of raw materials and auxiliary materials decreased by 7.2% compared to 2008 primarily as a result of the global financial crisis from the third quarter of 2008 through the first several months of 2009. Although prices of raw materials such as iron ore and coke have rebounded slightly, they remained at a relatively low level throughout 2009.

Gross profit. As a result of the above, the Group's gross profit increased 287.9% to RMB2,006.3 million in 2009 from RMB517.2 million in 2008. Gross profit per tonne of the Group's products increased to RMB289 in 2009 from RMB114 in 2008, reflecting a 153.5% increase. Gross profit margin increased to 9.7% in 2009 from 2.7% in 2008. The increase in gross profit margin was primarily due to a decrease in average unit costs in 2009 which was offset in part by a proportionally smaller decrease in average selling prices of the Group's products, coupled with the increase in sales volume of strips and strip products and H-section steel products, which offered a higher gross profit margin of 11.6% and 9.5%, respectively.

The following table sets forth the average unit cost, gross profit per tonne and gross profit margin of the Group's products for 2008 and 2009.

	Year ended December 31,					
	2008			2009		
	Average unit cost per tonne	Gross profit/(loss) per tonne	Gross profit/(loss) margin	Average unit cost per tonne	Gross profit per tonne	Gross profit margin
	(RMB)	(RMB)	(%)	(RMB)	(RMB)	(%)
H-section steel products	4,286	252	5.6	2,726	285	9.5
Strips and strip products	4,060	99	2.4	2,596	342	11.6
Cold-rolled sheets and galvanized sheets . . .	5,440	49	0.9	3,988	2	0.1
Billets	3,901	(10)	(0.3)	2,461	242	9.0
Combined	4,159	114	2.7	2,673	289	9.7

Other income. In 2009, other income increased by 3.4% to RMB36.8 million from RMB35.6 million in 2008. Other income increased in 2009 primarily due to an increase in income from operating leases, mainly pursuant to the cooperation agreement with an Executive Director, Mr. Shen Xiaoling, with respect to Jinxi Mining. See "Related Party Transactions — Cooperation Agreement with Mr. Shen Xiaoling" for further details.

Distribution costs. In 2009, distribution costs decreased by 29.0% to RMB57.0 million from RMB80.3 million in 2008. This decrease was primarily due to a decrease in transportation expenses, as a result of an increasing number of freight on board (FOB) contracts.

Administrative expenses. In 2009, administrative expenses increased by 0.6% to RMB283.6 million from RMB281.9 million in 2008. This increase resulted principally from expenses incurred with respect to share options granted to eligible employees in 2009 amounting to RMB10.8 million.

Other expenses. Other expenses increased to RMB206.8 million in 2009 from RMB10.2 million in 2008, primarily due to a provision made in 2009 with respect to the Group's available-for-sale financial assets, namely its RMB188.1 million investments in Jinjin Mine. Such provision was made because the Group believes that no value of the financial assets could be recovered in the foreseeable future. For further details, see note 15 to the Group's consolidated financial statements for the year ended December 31, 2009 on page F-86.

Other losses — net. Other losses — net in 2009 increased to RMB80.5 million from RMB1.4 million in 2008. This increase was primarily due to (i) tax expenses of RMB25.6 million relating to the inter-company sale of assets between Jinxi Limited and Jinxi Section Steel; and (ii) provisions made in the amount of RMB64.8 million with respect to certain assets of Jinxi Jinlan, which incurred losses for the period.

Finance income. In 2009, finance income increased by 46.3% to RMB35.4 million from RMB24.2 million in 2008. The increase was primarily due to interest income from a loan to a third party, Qianxi Jin Xin Mine Co., Ltd. provided by Jinxi Limited, which bore interest at 3% per month and which has been repaid in full in 2009.

Finance costs. In 2009, finance costs increased by 49.7% to RMB137.1 million from RMB91.6 million in 2008. This increase was primarily due to an increase in the Group's overall borrowings and finance lease liabilities. The Group increased its borrowing in 2009 primarily to fund its working capital needs in order to increase its production activities. Finance lease liabilities increased in 2009 primarily due to the full year effect of the finance lease liabilities.

Share of results of associates. In 2009, the Group's share of results of associates was RMB0.2 million, compared to RMB2.0 million in 2008. Such amounts represented the Group's share of net profit of Zhongxing Mine, in which the Company indirectly through Jinxi Limited holds a 35% interest.

Income tax expense. In 2009, income tax expense increased by 383.4% to RMB341.3 million from RMB70.6 million in 2008. This increase was mainly attributable to an increase in the Group's profit before taxation. The Group's effective income tax rate was 26.0% in 2009, compared to 62.2% in 2008.

Non-controlling interests. In 2009, profit attributable to non-controlling interests was RMB88.1 million compared to a loss of RMB1.1 million in 2008 primarily due to the fact that profit attributable to Jinxi Limited decreased in 2009, coupled with significant increases in profit attributable to Zhengda Iron and Steel and Jinxi Section Steel in 2009 and that 2008 saw a loss of profit at Jinxi Jinlan.

Profit attributable to equity holders of the Company. In 2009, profit attributable to equity holders of the Company increased to RMB884.3 million from RMB44.0 million in 2008.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue. The Group's revenue increased by 43.7% to RMB19.4 billion in 2008 from RMB13.5 billion in 2007. This increase was primarily due to an increase in the total sales volume, to approximately 4.5 million tonnes in 2008 from 4.1 million tonnes in 2007, coupled with an increase in average selling prices in 2008 by 30.9% to RMB4,273 per tonne from RMB3,265 per tonne in 2007.

Despite a drop in market demand for steel products at the end of 2008 as a result of the global financial crisis, for most of 2008, China's economic growth, significant infrastructure development and increasing urbanization continued to increase market demand for steel products. The increase in demand along with an increase in raw material prices led to a rise in market prices of steel products, as a result of which the average selling price of all types of the Group's products increased in 2008.

The following table sets forth the changes in sales volume of each of the Group's products for the years indicated.

	Year ended December 31,				
	2007		2008		Changes in sales volume
	Sales volume		Sales volume		
	(thousand tonnes)	(% of total)	(thousand tonnes)	(% of total)	(%)
Billets	299	7.2	1,007	22.2	236.8
Strips and strip products	2,451	59.4	2,061	45.5	(15.9)
H-section steel products	1,205	29.2	1,225	27.0	1.7
Cold-rolled sheets and galvanized sheets	173	4.2	241	5.3	39.3
Total/Combined	4,128	100.0	4,534	100.0	9.8

The following table sets forth breakdown of the Group's revenue by product and the average selling price of the Group's products (excluding value added tax) for the years indicated:

	Year ended December 31,					
	2007		2008		Changes in	
	Revenue	Average selling price	Revenue	Average selling price	Revenue	Average selling price
	(RMB million)	(RMB/tonne)	(RMB million)	(RMB/tonne)	(%)	(%)
H-section steel products	4,298	3,566	5,562	4,538	29.4	27.3
Strips and strip products	7,441	3,036	8,574	4,159	15.2	37.0
Cold-rolled sheets and galvanized sheets	840	4,870	1,319	5,489	57.0	12.7
Billets	897	2,999	3,919	3,891	336.9	29.7
Others	23	—	14	—	(39.1)	—
Total/Combined	13,499	3,265	19,388	4,273	43.6	30.9

Cost of sales. In 2008, cost of sales increased by 62.9% to RMB18.9 billion from RMB11.6 billion in 2007. This increase was primarily attributable to the corresponding increase in sales volume in 2008 and an increase in the price of raw materials, namely iron ore and coke, during the first nine months of 2008. Despite a decrease in price of raw materials towards the end of 2008 as a result of the global financial crisis, the Group was not able to fully capitalize on such decrease because the Group had procured most of its raw materials during the first part of 2008 in anticipation of the Beijing Olympics held in August 2008.

Gross profit. As a result of the above, gross profit decreased by 73.0% to RMB517.2 million from RMB1,917.5 million in 2007. Gross profit margin was 2.7% in 2008, compared to 14.2% in 2007. The decrease in gross profit margin was primarily due to an increase in production costs as a result of increases in the price of raw materials in 2008 compared to 2007. It was also partially due to a decrease in the proportion of the Group's sales attributable to strips and strip products, which had a relatively higher profit margin, and an increase in the proportion of the Group's sales attributable to billets, which had a relatively lower profit margin.

The following table sets forth the average unit cost, gross profit per tonne and gross profit margin of the Group's products for 2008 and 2007.

	Year ended December 31,					
	2007			2008		
	Average unit cost per tonne	Gross profit per tonne	Gross profit margin	Average unit cost per tonne	Gross (loss)/profit per tonne	Gross (loss)/profit margin
	(RMB)	(RMB)	(%)	(RMB)	(RMB)	(%)
Billets	2,718	281	9.4	3,901	(10)	(0.3)
Strips and strip products	2,632	404	13.3	4,060	99	2.4
H-section steel products	2,898	668	18.7	4,286	252	5.6
Cold-rolled sheets and galvanized sheets	4,672	198	4.1	5,440	49	0.9
Combined	2,801	464	14.2	4,159	114	2.7

Other income. In 2008, other income increased to RMB35.6 million from RMB2.1 million in 2007. Other income in 2008 increased primarily due to income from operating leases, mainly pursuant to the cooperation agreement, dated June 5, 2008, with an Executive Director, Mr. Shen Xiaoling, with respect to Jinxi Mining. See "Related Party Transactions — Cooperation Agreement with Mr. Shen Xiaoling" for further details.

Distribution costs. In 2008, distribution costs increased by 71.9% to RMB80.3 million from RMB46.7 million in 2007. This increase resulted principally from the corresponding increase in sales volume in 2008, particularly in export sales, which in turn increased transportation expenses, storage expenses and port charges.

Administrative expenses. In 2008, administrative expenses decreased by 24.5% to RMB281.9 million from RMB373.5 million in 2007. This decrease resulted principally from expenses incurred in 2007 in the amount of RMB159.9 million in connection with share options granted to eligible employees under the Group's employee share option scheme whereas no share options were granted in 2008.

Other expenses. Other expenses increased by 92.5% to RMB10.2 million in 2008 from RMB5.3 million in 2007, primarily due to an increase in professional fees, including legal and audit fees, paid in 2008 relating to a proposed securities offering transaction by the Company.

Other (losses)/gains — net. In 2008, the Group had other net losses of RMB1.4 million, compared to other net gains of RMB12.7 million in 2007. The decrease was primarily due to a decrease in 2008 in gains from sales of raw materials and by-products compared to 2007, coupled with the Group's charity donation in the amount of RMB5.1 million made in 2008 primarily in connection with the Sichuan earthquake in May 2008.

Finance income. In 2008, finance income increased by 100.0% to RMB24.2 million from RMB12.1 million in 2007, primarily because of an increase in interest income on bank deposits and from a loan receivable in connection with the entrusted loan from Shenzhen Leasing.

Finance costs. In 2008, finance costs increased by 33.1% to RMB91.6 million from RMB68.8 million in 2007. This increase was primarily due to an incurrence of finance lease liabilities during 2008.

Share of results of associates. In 2008, the Group's share of results of associates was RMB2.0 million compared to RMB0.2 million in 2007. Such amounts represented the Group's share of net profit of Zhongxing Mine, in which the Company holds indirectly through Jinxi Limited a 35% equity interest.

Income tax expense. In 2008, income tax expenses decreased by 72.5% to RMB70.6 million from RMB256.6 million in 2007. This decrease was mainly attributable to a decrease in the Group's profit before taxation. The Group's effective income tax rate was 62.2% in 2008, compared to 17.7% in 2007.

Non-controlling interests. In 2008, loss attributable to non-controlling interests was RMB1.1 million, compared to profit attributable to minority interests of RMB34.1 million in 2007. The loss attributable to non-controlling interests in 2008 was primarily due to losses incurred by Jinxi Jinlan in 2008.

Profit attributable to equity holders of the Company. In 2008, profit attributable to equity holders of the Company decreased by 96.2% to RMB44.1 million from RMB1,159.6 million in 2007.

Liquidity and Capital Resources

The Group has historically met its working capital and other capital requirements principally from cash generated by operations, and has funded the remainder of its requirements primarily through long-term and short-term debt. The Group also utilizes advances received from customers to finance in part its working capital requirements. These advances amounted to RMB1,554.6 million as of June 30, 2010. On the other hand, the Group makes prepayments for purchases of inventories which form part of its working capital requirements. Such prepayments amounted to RMB479.4 million as of June 30, 2010.

As of June 30, 2010, the Group had net current assets of RMB869.4 million. The Group's current assets as of June 30, 2010 were RMB8,363.7 million, comprising primarily RMB3,175.9 million of inventories, RMB1,738.4 million of trade receivables, RMB845.8 million of prepayments, deposits and other receivables, RMB813.4 million of cash and cash equivalents, RMB777.0 million of amounts due from related parties and RMB706.4 million of restricted bank balances. As of the same date, the Group's current liabilities were RMB7,494.3 million, comprising primarily RMB2,561.3 million of accruals, advances from customers and other current liabilities, RMB2,125.3 million of trade payables, and RMB2,063.2 million of current borrowings. As of June 30, 2010, the Group's debt ratio, calculated by dividing the Group's total liabilities by total assets, was 51.4%.

The following table summarizes the Group's cash flows for each of the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
			(RMB millions)		
				(unaudited)	
Net cash generated from/(used in) operating activities	1,074.3	147.9	251.6	(9.4)	619.0
Net cash used in investing activities	(828.3)	(1,510.4)	(674.8)	(261.5)	(172.2)
Net cash (used in)/generated from financing activities	27.9	1,409.7	338.8	163.8	(275.8)
Net increase/(decrease) in cash and cash equivalents	273.9	47.2	(84.4)	(107.1)	171.0
Effect of foreign exchange rate changes	(19.2)	(8.0)	(0.4)	(0.1)	(1.6)
Cash and cash equivalents, beginning of the period	434.9	689.6	728.8	728.8	644.0
Cash and cash equivalents, end of the period	689.6	728.8	644.0	621.6	813.4

Operating Activities

Cash generated from operations for the six months ended June 30, 2010 was RMB961.5 million and profit before taxation for the same period was RMB1,157.6 million. Cash generated from operating activities before changes in working capital was RMB1,708.4 million. Changes in working capital balances resulted in RMB746.9 million negative adjustment of cashflow primarily attributable to (i) an increase in trade receivables, properties under development and other current assets of RMB741.6 million; and (ii) an increase in inventories of RMB577.9 million, partially offset by (iii) an increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities of RMB722.0 million. Interest paid of RMB85.1 million and income tax paid of RMB271.6 million also contributed to cash outflow for the six months ended June 30, 2010.

Cash generated from operations in 2009 was RMB374.0 million and profit before taxation for the same period was RMB1,313.7 million. Cash generated from operating activities before changes in working capital was RMB2,514.7 million. Changes in working capital balances resulted in RMB2,140.7 million negative adjustment of cashflow primarily attributable to (i) an increase in inventories of RMB985.1 million; (ii) a decrease in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities of RMB488.7 million; (iii) an increase in trade receivables, prepayments, deposits and other receivables and other current assets of RMB435.9 million; and (iv) an increase in the amount due from related parties of RMB219.6 million. Interest received of RMB28.3 million and refund of prior year prepaid income tax of RMB161.6 million contributed to cash inflow for the year ended December 31, 2009. Interest paid of RMB134.8 million and income tax paid of RMB177.6 million also contributed to cash outflow for the year ended December 31, 2009.

Cash generated from operations in 2008 amounted to RMB626.2 million and profit before taxation for the same period was RMB113.6 million. Cash generated from operating activities before changes in working capital was RMB815.6 million. Changes in working capital balances resulted in a RMB189.4 million negative adjustment of cashflow primarily attributable to an increase in trade receivables, prepayments, deposits and other receivables and other current assets of RMB2,181.4 million, partially offset in part by (i) an increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities of RMB1,674.2 million; and (ii) a decrease in inventories of RMB224.0 million. Interest paid of RMB65.9 million and income tax paid of RMB433.7 million also contributed to cash outflow for the year ended December 31, 2008.

Cash generated from operations in 2007 was RMB1,363.9 million and profit before taxation for the same period was RMB1,450.3 million. Cash generated from operating activities before changes in working capital was RMB2,121.6 million. Changes in working capital balances resulted in RMB757.7 million negative adjustment of cashflow primarily attributable to (i) an increase in trade receivables, prepayments, deposits and other receivables and other current assets of RMB588.8 million; and (ii) an increase in inventories of RMB454.3 million, partially offset by an increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities of RMB374.0 million. Interest paid of RMB70.7 million and income tax paid of RMB229.9 million also contributed to cash outflow for the year ended December 31, 2007.

Investing Activities

Net cash used in investing activities primarily consists of cash used for the acquisition of property, plant and equipment. The Group's net cash used in investing activities was RMB828.3 million, RMB1,510.4 million, RMB674.8 million, RMB261.5 million and RMB172.2 million for each of the years ended December 31, 2007, 2008 and 2009, and for the six months ended June 30, 2009 and 2010, respectively.

Financing Activities

For information on the Group's indebtedness position as of June 30, 2010, see "— Indebtedness."

Net cash used in financing activities was RMB275.8 million for the six months ended June 30, 2010, primarily comprising RMB1,869.1 million repayment of borrowings, RMB235.0 million increases in restricted bank balances pledged as security for current bank borrowings and RMB85.7 million cash paid relating to sale and leaseback transactions, partially offset by RMB2,027.7 million proceeds from borrowings.

Net cash generated from financing activities was RMB338.8 million in 2009, primarily comprising RMB3,118.5 million proceeds from borrowings and RMB10.6 million decreases in restricted bank balances pledged as security for current bank borrowings, partially offset by RMB2,769.4 million repayment of borrowings and RMB33.2 million cash paid relating to sale and leaseback transactions.

Net cash generated from financing activities was RMB1,409.7 million in 2008, primarily comprising RMB1,608.8 million proceeds from borrowings and RMB800.0 million proceeds from sales and leaseback transaction, partially offset by RMB626.6 million repayment of borrowings, RMB331.5 million dividends paid, RMB200.0 million increase in restricted bank balances pledged as security for current bank borrowings and RMB100.3 million cash paid relating to sales and leaseback transaction.

Net cash generated from financing activities was RMB27.9 million in 2007, primarily comprising RMB550.0 million proceeds from current borrowings, RMB424.2 million proceeds from non-current borrowings and RMB37.0 million proceeds from issuance of ordinary shares to the eligible employees upon their exercise of share options under the Company's employee share option scheme, partially offset by RMB534.0 million repayment of current borrowings, RMB293.1 million dividends paid, RMB149.2 million repayment of non-current borrowings, and RMB7.0 million repayment of borrowings from related parties.

Capital Commitments and Expenditures

As of June 30, 2010, the Group's capital commitments mainly consisted of capital commitments for the construction of a coking plant and other ancillary projects.

Capital commitments as of June 30, 2010 but not yet incurred were as follows:

	As of June 30, 2010
	(RMB millions)
	(unaudited)
Purchase of property, plant and equipment	
— Contracted but not provided for	1,602.8
— Authorized but not contracted for	78.4
Total	1,681.2

The following table sets forth the Group's capital expenditures for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**	
	2007	**2008**	**2009**	**2009**	**2010**
			(RMB millions)		
Property, plant and equipment	2,158.3	2,452.5	1,259.2	942.6	59.6
Intangible assets	—	7.7	—	—	0.1
Total	2,158.3	2,460.2	1,259.2	942.6	59.7

The Group plans to incur capital expenditure of approximately RMB1.4 billion for the year ending December 31, 2010, which includes expenditure on developing production facilities for new products and upgrading existing production facilities. The Group provided a loan to Tangshan Jinxi Group to facilitate Jinxi-Wantong's purchase of production facilities and equipment to expand its production capacity, which facilities are leased to the Group. As of June 30, 2010, the aggregate amount outstanding under this loan was RMB767.5 million. See "Related Party Transactions — Loan Agreement and Lease Agreement" for further details.

In the five years from 2010 to 2015, the Group plans to invest in the following types of projects:

- acquisition of steel mills in China;
- expansion of its production capacity for H-section steel products;
- development of production facilities to produce new products, such as steel sheet piles and high speed wire rods;
- continuous improvement capital expenditure projects at the Group's current production facilities;
- construction of new coking plants; and
- investment in iron ore assets.

The Group expects to fund the remainder of its capital commitments described in this document principally through, among other things, internal cash and bank borrowings.

The Group's capital expenditure plans are subject to changes based upon the execution of its business plan, the progress of its capital projects, its financial performance, market conditions, its outlook for future business conditions, and relevant governmental approvals needed. To the extent that the Group does not generate sufficient cash flows from its operations to meet its working capital needs and to execute its capital expenditure plans, or to the extent certain governmental approvals may not be obtained in a timely manner or at all, the Group may revise its capital expenditure plans or seek additional debt or equity financing. The Group cannot assure you that it will be able to raise additional capital on acceptable terms or at all.

Indebtedness

As of June 30, 2010, the Group had the following indebtedness:

	As of June 30, 2010
	(RMB millions)
	(unaudited)
Non-current	
Bank borrowings	581.8
Other borrowings	65.0
Finance lease obligations	470.7
Total non-current indebtedness	1,117.5
Current	
Bank borrowings	2,053.1
Other borrowings	10.0
Loans from related parties	276.9
Finance lease obligations — current portion	175.7
Total current indebtedness	2,515.7
Total indebtedness	3,633.2

As of June 30, 2010, a total of RMB1,315.2 million of bank borrowings were secured, among which:

- RMB355.8 million was secured by property, plant and equipment with a carrying value of approximately RMB558.3 million;

- RMB100.0 million was secured by leasehold land and land use rights of the Group with a carrying value of RMB38.5 million;

- RMB690.4 million was secured by restricted bank balances of the Group with a carrying value of approximately RMB424.0 million;

- RMB19.0 million was secured by inventories of the Group with a carrying value of RMB90.8 million; and

- RMB150.0 million was secured by property, plant and equipment with a carrying value of RMB98.3 million, and leasehold land and land use rights with a carrying value of RMB23.2 million. The same portion was also 100% guaranteed by the minority shareholder in Foshan Jinlan.

Other borrowings represented a borrowing from the local county government amounting to RMB145.0 million, which is being repaid at an amount of RMB20.0 million per annum. Interest is charged at the RMB bank deposit rate as announced by the PBOC for one year fixed deposits.

The figures above do not reflect the Company's issuance, on August 18, 2010, of the Existing Senior Notes in the principal amount of US$550,000,000, with respect to which each Subsidiary Guarantor provided a subsidiary guarantee.

Contingencies and Guarantees

As of June 30, 2010, guarantees provided by Jinxi Limited for certain bank borrowings in favor of third parties (including the Qianxi County People's Hospital, Qianxi County Water Company Qianxi County Road Development Company) amounted to approximately RMB30.0 million in the aggregate.

Except as described above, as of June 30, 2010, the Group did not have any outstanding loan capital (issued or agreed to be issued), bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

Market Risks

The Group is exposed to various types of market risks, including changes in commodities prices, foreign exchange rates, interest rates, and inflation in the normal course of business.

Commodities price risk

The Group is exposed to fluctuations in the prices of steel products that it sells and of the raw materials it requires for the production of steel products, mainly iron ore and coke. The Group's steel products are sold and raw materials are purchased at market prices. Therefore, fluctuations in the prices of both its steel products and raw materials have had and will continue to have a significant effect on the Group's results of operations.

Foreign exchange rate risk

The Group conducts its business primarily in China whose official currency is Renminbi, but also imports a certain amount of iron ore and conducts some export sales. It also pays dividends in foreign currencies, and will need to pay interests on the Existing Senior Notes. As a result, the Group has certain exposure to foreign exchange fluctuations.

The Renminbi is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Any future exchange rate volatility relating to the Renminbi may give rise to uncertainties in the value of the Group's net assets, earnings and dividends. Any appreciation of the Renminbi may subject the Group to increased competition from imported steel products. It may also make any new Renminbi-denominated investments or expenditures more costly to the Group, to the extent that the Group needs to convert U.S. dollars into Renminbi for such purposes. Further, any devaluation of the Renminbi may adversely affect the value of the Group's net assets, earnings and dividends in foreign currency terms and will increase the amount of Renminbi the Group needs to service its U.S. dollar obligations, such as the Existing Senior Notes.

As of June 30, 2010, Renminbi, U.S. dollars and Hong Kong dollars accounted for 77.9%, 17.6% and 4.5% of the Group's total bank balances (including restricted bank balances), respectively. As the majority of the sales, purchases of raw materials and bank borrowings of the Group were in Renminbi, the Group's exposure to foreign exchange rate risks remained relatively low.

See "Risk Factors — Risks Relating to the PRC — Most of the Group's revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility, and the Group may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly U.S. dollars."

Interest rate risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rates on its debt. The Group's debt consists of variable rate debt obligations with original maturities ranging from one to five years. The Group undertakes debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of its debt obligations. The Group does not currently use any derivative instruments to modify the nature of its debt so as to manage its interest rate risk.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 4.8%, 5.9%, -0.7% and 2.6% for the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The Group has not been materially affected by inflation and deflation in the last three years.

Non-GAAP Financial Measures

The Group uses EBITDA to provide additional information about its operating performance. EBITDA refers to the Group's profit for the year before the following items:

- finance costs-net;
- amortization of intangible assets;
- amortization of leasehold land and land use rights;
- income tax expense; and

- depreciation.

EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. As the steel production business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit of companies with similar operating results. Therefore, the Group believes that the investor community commonly uses this type of financial measure to assess the operating performance of companies in its market sector.

As a measure of its operating performance, the Group believes that the most directly comparable HKFRS measure to EBITDA is profit for the year. The Group uses EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as income tax expenses, amortization of intangible assets, interest expense and share of results from associates, EBITDA provides further information about the Group's operating performance and an additional measure for comparing its operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles the Group's profit for the year/period under HKFRS to the Group's definition of EBITDA for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
			(RMB millions)		
				(unaudited)	
Profit for the year/period	**1,193.7**	**43.0**	**972.4**	**394.3**	**871.8**
Adjustments:					
Finance costs — net[1] . . .	56.7	67.4	101.7	55.1	68.3
Amortization of intangible assets	3.8	—	—	—	0.1
Amortization of leasehold land and land use rights	1.7	1.7	1.7	0.8	0.8
Income tax expense	256.6	70.6	341.3	145.5	285.8
Depreciation[2]	439.7	571.9	845.9	400.4	441.0
EBITDA	1,952.2	754.6	2,263.0	996.1	1,667.8

(1) Finance costs-net represents interest expenses less interest capitalized, interest income and net foreign exchange gains on financing activities.

(2) Depreciation represents depreciation expense in production cost, distribution costs and administrative expenses.

EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. The Group has included EBITDA because it believes it is a useful supplement to cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies.

Introduction

Steel is an alloy mostly made up of iron with less than 2% of carbon content, 1% of manganese and small amounts of silicon, phosphorus, sulphur and oxygen. It is an important basic raw material widely used in infrastructure development, construction and other industries, such as automotive, shipbuilding, railway, machinery and household appliances. Because of its wide applications, growth in steel demand has generally been linked to an increase in the level of economic activity.

Steel Making Process

Conventionally, the production of steel starts with the reduction of iron ore in a blast furnace. The main fuel and reducing agent is metallurgical coke. The metal from the blast furnace is further processed in a basic oxygen furnace to reduce its carbon content by blowing oxygen into molten iron. The metallurgical coke used in these two processes is produced from low ash-content coking coal. This is referred to as the "BF-BOF process." According to the World Steel Association, in 2008, approximately 73.6% of steel was produced using the BF-BOF process.

An alternative steel reducing process, using an electric arc furnace, was developed in response to inadequate supplies of coking coal in some parts of the world. In this process, steel scrap or directly reduced iron is charged in an electric arc furnace and melted using graphite electrodes that are charged with electricity produced by natural gas. This is referred to as the "EAF-DRI process."

The Group produces all its steel using the BF-BOF process. Sintered ore, pellets, iron ore, coke and limestone are fed into a blast furnace to produce molten iron. The molten iron undergoes further processing in a basic oxygen furnace converter where it is oxidized to remove impurities. Alloys are added to help achieve certain desired steel properties, and molten steel is produced. The molten steel is then cast into billets using a continuous casting machine. The billets are then sold directly to customers, cast to produce H-section steel products or undergo further processing in a rolling mill to produce strips and strip products. See "Business — Production Process" for a diagram of the entire process.

Types of Steel Products

Steel products are usually divided into three categories: long products (merchant and reinforcing bars, structural and wire rods and wire products), flat products (plates, strips and sheets) and pipes and tubes.

Long products

Long products come off the mill as long bars of steel. These products come in a wide range of different shapes and sizes. These types of steel "section" can have cross-sections in the shape of an "H" or "I" (commonly referred to as joists, beams and columns), a "U" (commonly referred to as channels) or a "T". Some long products are in the form of bars and have cross-sections in the shape of squares, rectangles, circles, hexagons or angles. "Special sections" are long products produced to a customer's individual specifications. Other long products are in the form of rods which are coiled up after use. Rods can be drawn into wires or used to reinforce concrete buildings. Other types of long products include railway rails and pilings. Long products are primarily used in the construction industry but also have applications in the manufacturing sector.

Flat products

Flat products are made by rolling steel through sets of rollers to produce a flat shape of a certain thickness. There are two types of flat steel products: plate products and strip products. Plate products vary in thickness from 10 millimeters to 200 millimeters. Plate products are used for shipbuilding, construction, large diameter welded pipes and boiler applications. Strip products can be hot- or cold-rolled and vary in thickness from 1 millimeter to 10 millimeters. Thin flat products are used in automotive body panels, domestic white goods, such as refrigerators and washing machines, steel cans and a number of other products from office furniture to heart pacemakers. The most widely used steel product is hot-rolled sheets, from which many other downstream products, such as cold-rolled sheets and galvanized steel sheets, can be produced. Cold-rolled sheets are produced by further rolling of hot-rolled sheets to reduce thickness and improve surface quality, while galvanized sheets are produced by coating steel strips or sheets with a thin zinc layer to prevent corrosion.

Pipes and tubes

Steel pipes and tubes are both hollow steel products. However, steel tubes are used mainly in structural applications and are typically measured by their outer diameter, while pipes are often used to transfer fluids and are typically measured by their inner diameter.

Global Steel Industry

Global Steel Demand Landscape

Global steel product consumption volumes have shown solid growth since the beginning of the 2000s. According to the World Steel Association, approximately 1,104 million tonnes of finished steel products are expected to be consumed in 2009 compared to 707 million tonnes in 1999, representing a CAGR of 4.6% for the ten-year period. Following the global financial crisis that began in 2008, the last quarter of 2008 and the first half of 2009 were characterized by a significant decline in steel demand as end-user industries suffered, and were further exacerbated by a period of considerable de-stocking throughout the steel supply chain. However, with inventory reduction mostly complete by the end of the first half of 2009, and as global economies have now formally emerged from recession, manufacturing again is showing signs of growth, and the World Steel Association expects global apparent steel demand in 2010 to increase to 2008 levels.

The table below shows the annual apparent consumption of finished steel products for the major geographical regions of the world for the period from 1999 to 2009. As shown in the table, steel product consumption in Asia accounted for over 57.1% of global apparent finished steel consumption in 2008, due partly to stagnant demand in advanced nations and an exceptionally strong growth in steel demand in China.

Annual Apparent Consumption of Finished Steel Products by Region

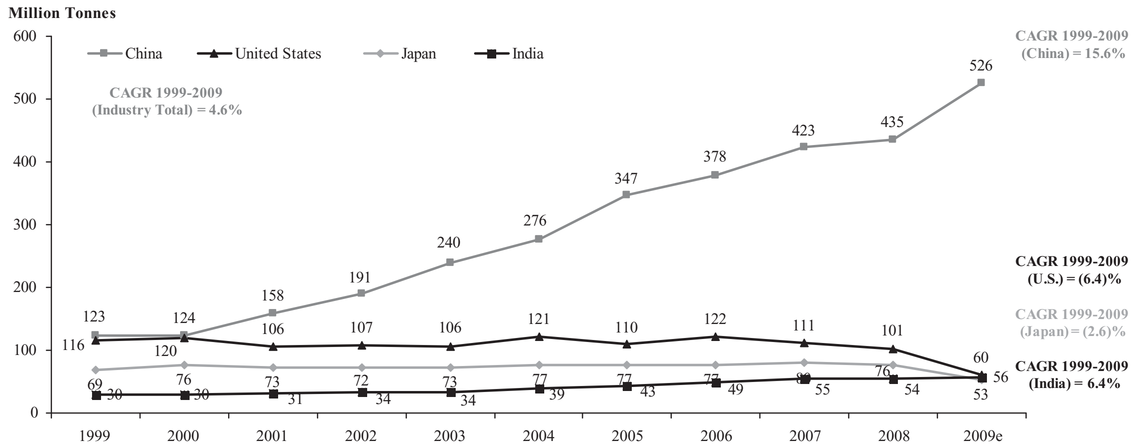
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2008 percentage of the world
							(million tonnes)					(%)
European Union (27)	157	168	164	162	164	173	166	189	199	182	n.a.	15.1
Other Europe	15	18	16	17	20	22	23	26	28	25	n.a.	2.1
North America	148	155	137	140	138	157	145	160	146	134	n.a.	11.1
South America	23	25	27	25	25	31	30	34	39	41	n.a.	3.4
Asia	303	321	353	399	454	503	579	615	680	689	n.a.	57.1
Others	61	74	82	85	92	95	105	115	127	134	n.a.	11.1
Total	707	761	778	829	894	981	1,048	1,140	1,219	1,207	1,104	100.0

Source: *Steel Statistical Yearbook 2009 and Apparent Steel Use (ASU) Autumn 2009 Update, World Steel Association*
Note: *European Union (27) consists of the following members: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom*

China is the largest steel consumer in the world, driven by rapid urbanization and many large-scale infrastructure projects as the economy expands. In 1999, China's annual share of finished steel products apparent consumption stood at 17.4%, and in the subsequent ten years since then China's share is expected to be more than quadruple to 526 million tonnes in 2009, representing 47.7% of the world's total apparent consumption of finished steel products. In the medium to long term, it is expected that developing countries such as China will remain the key driver of global steel demand necessary to support their urbanization and industrialization plans. Ranked behind China were the United States, India and Japan, with an apparent consumption of 60 million tonnes, 56 million tonnes and 53 million tonnes in 2009, respectively, according to the World Steel Association.

The chart below shows the trend of annual apparent consumption of finished steel products for the four major countries for the period from 1999 to 2009.

Trend of Annual Apparent Consumption of Finished Steel Products of Top Four Countries



Source: Steel Statistical Yearbook 2009 and Apparent Steel Use (ASU) Autumn 2009 Update, World Steel Association

Global Steel Supply Landscape

Since the significant decline of steel demand after the global financial crisis that began in September 2008, steel producers have sought to rebalance supply with demand by rapidly cutting production. According to the World Steel Association, annualized world crude steel production, which peaked in June 2008 at over 1,400 million tonnes, fell sharply during the remainder of 2008, falling below 1,000 million tonnes in December 2008. Steel production remained very weak in the first half of 2009 at 549 million tonnes, 21% lower as compared to the 698 million tonnes produced in the first half of 2008.

The decline in output was particularly sharp in developed rather than emerging economies. By contrast, China's steel production in particular responded rapidly to increased domestic demand following the implementation of the Chinese government's economic stimulus initiatives. As such, a larger proportion of global steel production shifted from the developed world to the rapidly growing developing economies. In a report published by World Steel Association in January 2010, world crude steel production in 2009 has shown a decline in nearly all major steel producing countries and regions including the European Union, North America, South America and the Commonwealth of Independent States, while Asia, in particular China and India, and the Middle East showed positive growth.

With steel demand and prices picking up in the second half of 2009, steel producers are resuming idled facilities. In a report released by World Steel Association in March 2010, the world crude steel capacity utilization ratio for the 66 countries reporting to the World Steel Association in

February 2010 was 79.8%, a 15-month high since September 2008. The table below shows the annual production of crude steel for the major geographical regions for the period from 1999 to June 30, 2010.

Annual Production of Crude Steel by Region

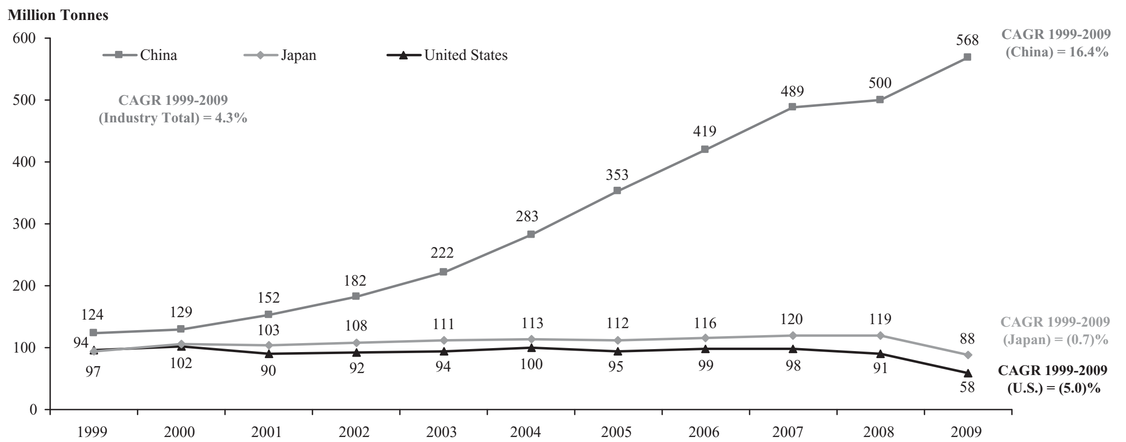
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1H 2010	2009 % of the world
						(million tonnes)							
European Union (27)	182	193	187	188	193	202	196	207	210	198	139	90	11%
Other Europe	16	17	18	19	21	24	25	28	31	32	29	16	2%
North America	130	135	120	123	126	134	128	132	133	124	82	57	7%
South America	35	39	37	41	43	46	45	45	48	47	38	22	3%
Asia	309	333	355	395	442	513	596	672	757	771	776	449	64%
Others	117	131	134	138	145	153	155	163	168	157	155	75	13%
Total	789	849	851	904	972	1,072	1,144	1,247	1,346	1,329	1,220	708	100%

Source: *Steel Statistical Yearbook 2009 and monthly statistics, June 2010, World Steel Association*
Note: *European Union (27) consists of the following members: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom*

China, as the world's largest steel consumer, has also been expanding domestic production capacities. According to the World Steel Association, the country's crude steel production reached 568 million tonnes in 2009. China's share of world steel production continued to grow in 2009, representing 47.2% of crude steel produced globally. Ranked behind China were Japan and the United States, which produced 88 million tonnes and 58 million tonnes of crude steel in 2009, respectively, according to the World Steel Association.

The chart below shows the trend of annual crude steel production for the three major countries for the period from 1999 to 2009.

Trend of Annual Production of Crude Steel of Top Three Countries



Source: Steel Statistical Yearbook 2009 and monthly statistics, June 2010, World Steel Association

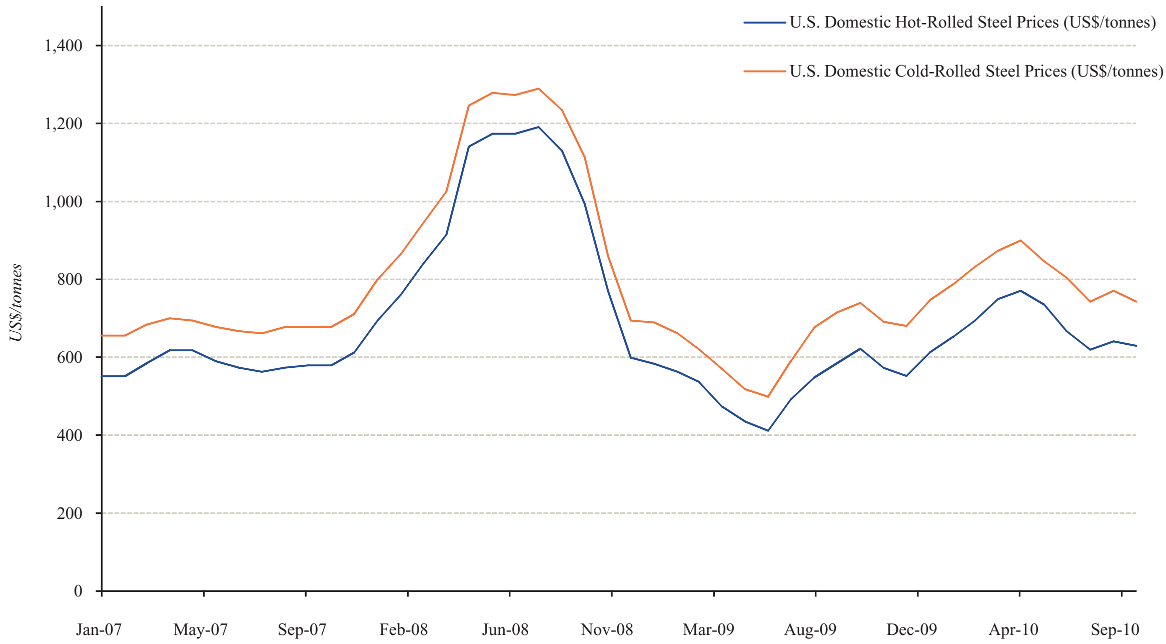
Recent Trends in Steel Prices

Prices of steel products, in general, are sensitive to changes in worldwide and local demand, which, in turn, are affected by worldwide and country-specific economic conditions, available production capacity, fluctuations in steel imports and exports and tariffs. Unlike other commodities, steel is not completely fungible, due to wide differences in shape, chemical composition, quality, specifications and application, all of which impact sales prices. Accordingly, there is very limited exchange trading of steel or uniform pricing. Commodity spot prices may vary, and therefore sales prices from exports fluctuate as a function of the worldwide balance of supply and demand at the time sales are made. In addition, given the time lag between upticks in demand and increased capacities to meet these needs and the high fixed costs involved, prices of steel have historically been cyclical and volatile in nature.

The steel industry enjoyed a period of continuous growth between 2004 and 2008, and steel prices were on a steady upward trajectory due to high raw material costs, high apparent demand and tight supply. Despite a looming financial crisis in the second half of 2008, prices of steel and associated raw materials rose into the third quarter of 2008 as speculative behavior in many markets masked an underlying weakening in demand for steel. Then, as the global financial crisis worsened in September 2008, steel prices decreased significantly as a result of a contraction in end demand in developed countries and slower growth in emerging countries. The price decline accelerated into 2009, reaching a bottom in the second quarter of 2009, below cost levels for many producers.

Toward the end of the second quarter of 2009, improvement in business confidence, better activity levels and falling inventories spurred the rebound in steel demand. However, average steel selling prices, while gradually increasing, remained low as compared to the second half of 2008 due to the gradual and uncertain nature of the economic recovery, high selling prices that had prevailed through the third quarter of 2008 and a time lag effect resulting from pricing terms in sales contracts entered into while steel prices were still depressed. Steel prices rebounded further from January 2010 through May 2010, but then started to fall again in June 2010, before showing some signs of stabilization in September 2010.

U.S. Domestic Hot-and Cold-Rolled Steel Prices



Source: Bloomberg Finance L.P.

Raw Materials and Pricing

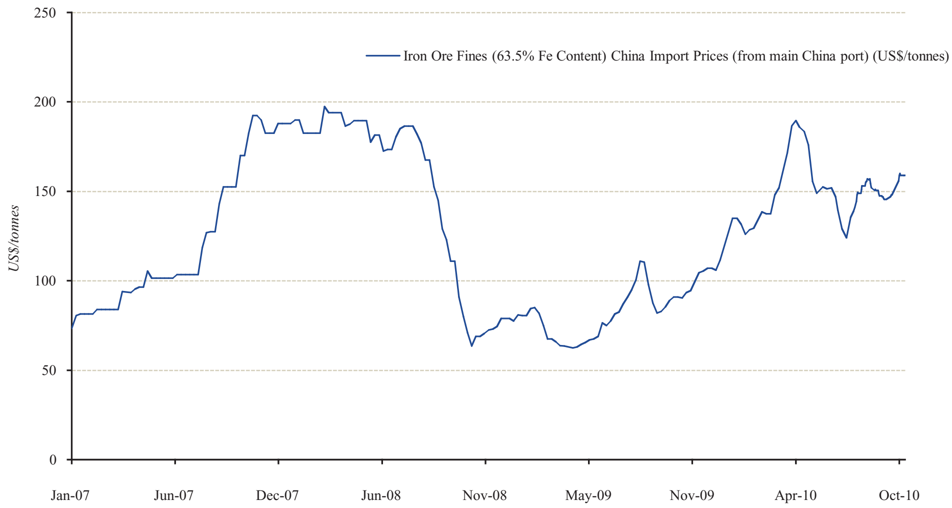
Key raw materials for steel production include iron ore, coke (produced through a sintering process from coking coal), limestone and scrap metal. The demand for raw materials correlates closely with the steel market, with prices fluctuating according to supply and demand dynamics. As such, the spot market prices for most raw materials used in the production of steel saw their lows in the first quarter of 2009 but have since recovered to more stable levels during the second quarter of 2009. The main driver for the stability of input prices has been the demand from China, which continued to produce steel at relatively unchanged levels during the first half of 2009. In addition, the economic stimulus packages implemented by various governments and renewed stability in the financial system have stabilized economic forecasts.

The most important raw material for making steel is iron ore. In recent years, supply growth from the major seaborne supplies has not managed to match the demand growth for iron ore originating within China. This trend is particularly evident in the market share figures (with regards to imports into China) of Australia, Brazil and India — the major exporters of iron ore into China. According to the U.S. Geological Survey, Mineral Commodity Summaries, January 2010 report, China, Brazil and Australia are the three largest producers of iron ore (in descending order) in the world, and together accounted for 71.7% of global iron ore production in 2009. China is also the single largest importer of iron ore, having imported 628 million tonnes of iron ore in 2009 according to Mysteel.com.

The iron ore market was severely affected by the global downturn in steel production since the third quarter of 2008, but saw demand from customers recover progressively in late 2009 and early 2010. However, due to long stoppages and reduction of extraction activity at some mines, production remained below 2008 levels during this period. With China's increased market presence and with revived demand, supply pressures emerged and led to progressive increases of spot market prices from as low as US$60 per tonne CFR China in April 2009, up to US$125 per tonne CFR China by the end of 2009 and a peak of US$185 per tonne CFR China in April 2010. Furthermore, the iron ore industry is highly concentrated, with the Brazilian company Vale and the Anglo-Australian companies BHP Billiton and Rio Tinto Group accounting for 68.5% of the global seaborne iron ore trade market in 2008, according to the World Steel Association. Robust demand recovery has given strong negotiating power to the three major mining operators who are now calling for a shift from annual contract-based to quarterly-based transactions. This new pricing power was demonstrated when Vale, the largest supplier of iron ore, set a precedent by moving from the decades-old benchmark annual pricing system to a new quarterly system based on the CFR China spot prices, as described above, in February and March 2010. The move was soon followed by BHP Billiton and Rio Tinto Group. This led to a significant increase of iron ore (fines) prices in the second quarter of 2010 compared to the annual benchmark price for the contract year 2009. Iron ore prices then fell sharply towards the end of the second quarter and beginning of the third quarter of 2010, and have since then stabilized to a certain extent, but remained at levels that were still significantly higher than prices in 2009.

Although steel prices typically follow trends in raw material prices, the percentage changes may not be proportional and price increases in steel may lag behind price increases in production costs.

China Import Iron Ore Fines (63.5% Fe Content) Prices



Source: Bloomberg Finance L.P.

Major Steel Producers and Consolidation in the Steel Industry

The steel industry has experienced a consolidation trend in recent years, which continued in 2007 but slowed during 2008 with the onset of the credit crisis and global economic downturn. In 2006, the merger of Arcelor and Mittal Steel, two leading steel producers, formed the largest steel maker globally and the first with an annual production exceeding 100 million tonnes. The other notable merger of 2007 was that of Tata Steel and Corus. Such consolidation has primarily been driven by the aim of steel producers to reduce the excessive cyclicality typically associated with the sector by integrating and taking control of the value chain. In particular, steel companies have been seeking to reduce the pricing power of raw materials suppliers, especially iron ore suppliers.

However, despite the trend towards consolidation, the global steel industry is still relatively fragmented, due to the rapid growth of small and medium-sized steel producers in China and other emerging markets. According to Steel Business Briefing's annual compilation of crude steel production statistics for 2009, nine Chinese steel companies were in the top 20 in 2009 — up from seven in 2008 — and five of these are in the top ten. All but one of the Chinese companies moved up in the rankings, in some cases because of mergers and acquisitions. The year 2009 saw the continual progression of China's stronghold in world steelmaking and Steel Business Briefing expects to see similar results in 2010. The top ten steel manufacturers worldwide accounted for approximately 28.2% of total crude steel production in 2009 as detailed in the table below.

Top 10 Largest Steel Producing Companies in 2009

Rank	Company	Country of domicile	Volume	Percentage of industry total
			(million tonnes)	(%)
1	ArcelorMittal	Luxembourg	73.2	6.1
2	Hebei Iron and Steel Group	China	40.2	3.3
3	Shanghai Baosteel Group	China	38.9	3.2
4	Pohang Iron and Steel Company	South Korea	31.1	2.6
5	Wuhan Iron and Steel Group	China	30.3	2.5
6	Anben Iron and Steel Group	China	29.2	2.4
7	Jiangsu Shagang Group	China	26.4	2.2
8	Nippon Steel Corporation	Japan	24.3	2.0
9	JFE Steel Corporation	Japan	23.5	2.0
10	Tata Steel	India	21.9	1.8
	Subtotal		339.1	28.2
	World Total		1,203.3	100.0

Source: "Top Steelmakers of 2009: Chinese mills continue to dominate rankings", March 2010, Steel Business Briefing

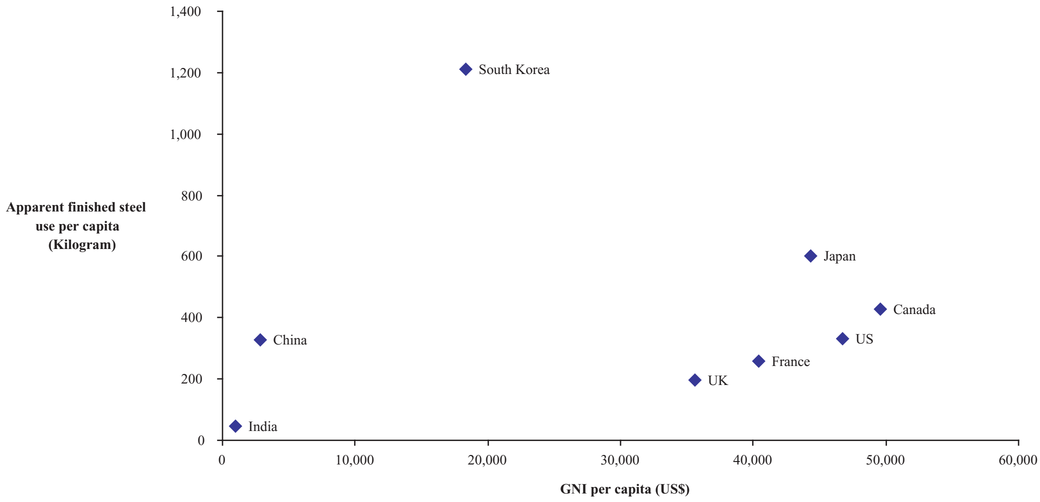
China's Steel Industry

China's Economic Growth and Steel Consumption

The Chinese economy has been expanding rapidly over the past ten years. According to China Economic Information Network, China's real GDP grew at a CAGR of 9.8% between 1998 and 2008, and is one of the fastest growing nations in the world. Although the nation's economy experienced a slowdown during the global financial crisis that began in 2008, China was able to recover remarkably well, fueled by the RMB 4 trillion economic stimulus package aimed at stimulating domestic demand and securing employment through infrastructure projects. China's continuing urbanization and related infrastructure investments also contribute to its economic recovery. In the World Economic Outlook report published by the International Monetary Fund, the major Asian economies are forecast to expand further in 2010, supported by strong macroeconomic policy support and improving global trade and financial conditions. As such, it is expected the steel industry in China will continue to be underpinned by infrastructure spending in 2010.

For the period from 1999 to 2009, China's consumption of finished steel products is estimated to have grown at a CAGR of 15.6%, from 123 million tonnes in 1999 to 526 million tonnes in 2009, compared to 4.6% for the overall global market. Despite being the world's largest steel-consuming nation, China's per capita finished steel products consumption is significantly lower than developed countries such as South Korea, Japan, Canada and the United States. In 2008, China's per capita consumption of finished steel products was 327 kilograms, while Japan's apparent consumption of finished steel products per capita was 600 kilograms — indicating huge potential for further growth in the steel industry for China, amongst other emerging nations. The chart below shows the per capita finished steel consumption and the gross national income ("GNI") per capita of a number of countries or regions around the world.

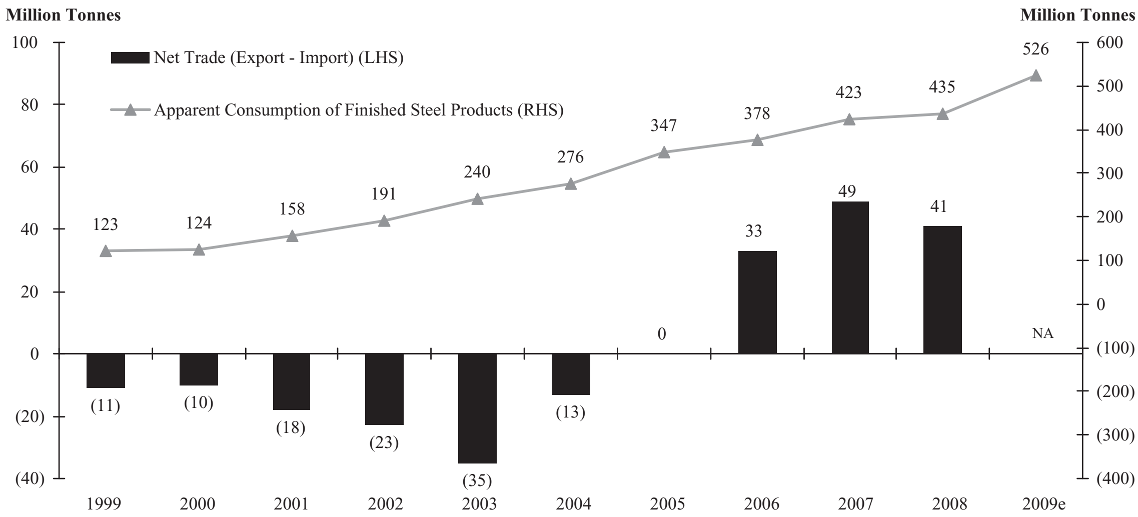
Apparent Consumption of Finished Steel Products per Capita versus GNI per Capita in 2008



Source: World Steel in Figures 2009, the World Steel Association and World Bank

China is currently the world's largest steel consumer, driven by rapid urbanization and industrialization and many large-scale infrastructure projects as the nation experienced strong economic growth. In the medium to long term, it is expected that developing countries such as China will remain the key driver of global steel demand.

Trend of Apparent Consumption and Net Trade of Finished Steel Products of China



Source: Steel Statistical Yearbook 2009 and Apparent Steel Use (ASU) Autumn 2009 Update, World Steel Association

The building and construction sector is the largest steel consuming sector in China. Construction-related activities arising out of the 2008 Beijing Olympics have contributed to growth in the steel sector. Other sectors such as machinery, automobile and electronic appliances also increased steel consumption in China. Natural disasters in China such as the earthquakes in Sichuan Province in May 2008 and in Qinghai Province in April 2010 have also increased the demand for steel due to the reconstruction work and by heightening awareness of the need for more secure buildings and structures.

China has undergone fast-paced urbanization and industrialization over the past three decades. According to data published on the official website of the PRC central government, China's urbanization rate increased to 45.7% in 2008 from 17.9% in 1978. Urbanization and industrialization have driven investments in infrastructure, housing, factories and industrial structures and led to a significant increase in the demand for steel. However, compared with world average urbanization rates, China's urbanization process still lags behind, which leaves room for further development. Continued urbanization and related infrastructure development will play an important role in driving the demand for steel, especially from China's western region where economic development trails coastal regions. In July 2010, following total investments of RMB2.2 trillion over the past decade, the PRC government announced its 2010 investment plan of RMB682 billion in 23 key infrastructure construction projects in China's western region as part of the second ten-year development plan under the Western China Development Program. Separately, the PRC government has announced ambitious plans for nationwide railway development. According to the Mid to Long-term Railway Network Plan approved by the State Council (as amended in 2008), the PRC government will commit significant investments to increasing China's total railway in operation to 120,000 kilometers, and providing high-speed railway access to more than 90% of China's total population by 2020.

China's Steel Production

China, as the world's largest steel consumer, has also been expanding domestic production capacities and is now the world's largest steel producer.

Raw material supply

China has an indigenous supply of key raw materials used in steel production, such as iron ore, coking coal and limestone. Driven by the strong demand, domestic iron ore output maintained high growth in the first half of 2008 with growth rates of over 22%, according to the China Steel Development Research Institute. Though demand decreased in the second half of 2008, the total output of iron ore for full year 2008 was 824 million tonnes, an increase of 20.7% from the previous year. Even as the last quarter of 2008 and the first half of 2009 were characterized by a significant decline in steel demand, domestic demand for steel and iron ore remained relatively strong. As such, a 6.8% increase in iron ore production was observed in 2009. According to Mysteel.com, Hebei Province remained the largest iron ore producing region in China. The table below shows the iron ore output of major provinces in 2009.

Iron Ore Production by Province in 2009

Rank	Province	Volume	Percentage of industry total
		(million tonnes)	(%)
1	Hebei	357.9	40.7
2	Liaoning	130.8	14.9
3	Sichuan	83.4	9.5
4	Inner Mongolia	73.5	8.3
5	Shanxi	32.9	3.7
6	Anhui	25.9	2.9
7	Beijing	19.6	2.2
8	Shandong	19.1	2.2
9	Yunnan	18.1	2.1
10	Xinjiang	16.7	1.9
	Subtotal	777.8	88.4
	China Total	880.2	100.0

Source: Mysteel.com

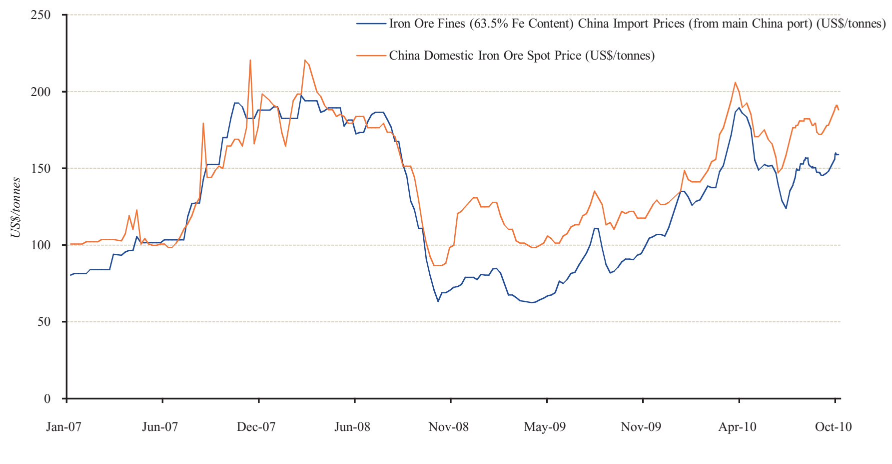
Although China holds large reserves of iron ore, the cost of domestic iron ore is higher than that of imported iron ore due to the comparatively lower metal content of domestic iron ore (an average content of 33% compared to more than 60% for other countries). In order to increase the iron content to approximately 65% before it can become useable, the production of iron ore in China usually includes a beneficiation process, which entails higher production costs. As a result, China has become increasingly dependent on imported iron ore. According to Mysteel.com, China's iron ore imports were 628 million tonnes in 2009, an increase of 41.5% from a year ago. This was the tenth consecutive year of growth even though it slowed in the second half of 2008 due to the global financial crisis. As the stimulus package of the Chinese government spurred demand for steel for the construction and auto sectors in China, the drop in ocean freight and iron ore coal prices led Chinese steel mills to import more raw materials rather than use relatively expensive domestic iron ore. This resulted in increased iron ore imports from Brazil, Australia and India into China in 2009. However, as shown in the chart "China Import and Domestic Iron Ore Prices" below, China's domestic iron ore prices have been following global price trends for imported iron ore in recent years, and the cost differences between domestic and imported iron ore are narrowing, in part due to the tightening of global iron ore supplies and an increase in domestic iron ore production.

China's Annual Production and Apparent Consumption of Iron Ore

	2005	2006	2007	2008	2009	CAGR (2005-2009)
			(million tonnes)			(%)
Production	426	588	707	824	880	19.9%
Import	275	326	383	444	628	22.9%
Export	—	—	—	—	—	n.a.
Apparent Consumption	701	914	1,090	1,267	1,508	21.1%

Source: Mysteel.com

China Import and Domestic Iron Ore Prices (US$/tonnes)



Note: Iron ore spot price from Tangshan, Hebei Province used as benchmark for China domestic price
Source: Bloomberg Finance, L.P.

China's crude steel production by province

According to Mysteel.com, 73.2% of China's production of crude steel products was derived from ten provinces or municipalities in 2009. Hebei Province has the highest production of crude steel in China, primarily because it has convenient access to raw materials, particularly iron ore. In 2009, it accounted for 23.8% of China's total crude steel production and 40.7% of China's total iron ore production.

Crude Steel Production by Province in 2009

Rank	Province	Volume	Percentage of industry total
		(million tonnes)	(%)
1	Hebei	135.4	23.8
2	Jiangsu	54.9	9.7
3	Shandong	48.6	8.6
4	Liaoning	47.8	8.4
5	Shanxi	26.5	4.7
6	Henan	23.3	4.1
7	Tianjin	21.2	3.7
8	Shanghai	20.3	3.6
9	Hubei	19.9	3.5
10	Anhui	17.6	3.1
	Subtotal	415.5	73.2
	China Total	567.8	100.0

Source: Mysteel.com and monthly statistics, March 2010, World Steel Association

Key steel producers in China

The Chinese steel sector is highly fragmented, consisting of approximately 8,012 producers, many of which are small-scale and face intense competition as a result of outdated equipment and competition for raw materials. In 2009 and for the six months ended June 30, 2010, the top 20 steel producers in China had an aggregate crude steel output of approximately 329.5 and 186.9 million tonnes, or 58.0% and 57.8% of China's total crude steel production, respectively, as detailed in the table below. By contrast, the level of industry concentration in Japan and the U.S., the other two of the top three steel producing countries, is much higher than that of China. In 2009, the combined production volume of the top two steel producers in Japan (Nippon Steel Corporation and JFE Steel Corporation) and the U.S. (ArcelorMittal's U.S. operation and U.S. Steel) accounted for approximately 55% of Japan's total steel production and approximately 64% of U.S.'s total production, respectively.

China's Major Steel Producers

Company	1H 2010 Rank	1H 2010 Volume (mn tonnes)	1H 2010 % of industry total	2009 Rank	2009 Volume (mn tonnes)	2009 % of industry total
Hebei Iron and Steel Group[1]	1	23.7	7.3%	1	40.2	7.1%
Shanghai Baosteel Group	2	22.6	7.0%	2	38.9	6.8%
Wuhan Iron and Steel Group	3	17.6	5.5%	3	30.3	5.3%
Anben Iron and Steel Group	4	15.5	4.8%	4	29.2	5.1%
Jiangsu Shagang Group	5	14.5	4.5%	5	26.4	4.6%
Shougang Group	6	12.3	3.8%	7	17.3	3.0%
Shandong Iron and Steel Group	7	11.6	3.6%	6	21.3	3.8%
Hebei Xinwuan Iron and Steel Group[1]	8	8.4	2.6%	8	16.7	2.9%
Magang Group	9	7.7	2.4%	9	14.8	2.6%
Hunan Valin Iron and Steel Group	10	7.1	2.2%	10	11.8	2.1%
Rizhao Steel Group	11	5.7	1.8%	12	9.9	1.7%
Taiyuan Iron and Steel Group	12	5.0	1.5%	13	9.5	1.7%
Baotou Iron and Steel Group	13	4.9	1.5%	11	10.1	1.8%
Anyang Iron and Steel Group	14	4.6	1.4%	14	8.5	1.5%
Beijing Jianlong Heavy Industry Group	15	4.4	1.4%	15	8.4	1.5%
Xinyu Iron and Steel Group	16	4.4	1.4%	22	6.7	1.2%
Hebei Jinxi Iron and Steel Group[1][2]	17	4.4	1.3%	20	6.8	1.2%
Pangang Group Company	18	4.2	1.3%	16	8.2	1.4%
Jiuquan Iron and Steel Group	19	4.1	1.3%	17	7.6	1.3%
Beitai Iron and Steel Group	20	4.0	1.2%	19	6.9	1.2%
Subtotal		186.9	57.8%		329.5	58.0%
China total		323.2	100.0%		567.8	100.0%

(1) *Steel producers based in Hebei Province*
(2) *Hebei Jinxi Iron and Steel Group, or "Jinxi Limited", is the main operating subsidiary of the Group.*

Source: Mysteel.com

The Chinese steel industry policy has called for merger activities to continue. The Chinese government has publicly stated that it expects the top ten Chinese steel producers will account for 50% of national production by 2010 and more than 70% by 2020. The Chinese government has also announced the rationalization of steel production using obsolete technology such as open-hearth furnaces. The China Iron & Steel Association has indicated that it will continue encouraging cross-regional and cross-provincial mergers and acquisitions and that it will allow larger enterprises to play a predominant role in the future of the industry. Substantial consolidation of the Chinese steel industry will position China better for negotiating prices for raw materials as well as providing the financial strength for acquisitions.

For further information on the laws and regulations relating to the Chinese steel industry and how they benefit the larger steel companies, see "Summary of Relevant PRC Laws and Regulations — Laws and Regulations Relating to the Steel Business."

Key steel producers in Hebei Province

According to Mysteel.com, Hebei has been China's largest steel producing province since 2001, and accounted for 23.8% of China's total steel production in 2009, thanks to its large iron ore reserves, well developed infrastructure and convenient access to railway, road and port facilities. As with the Chinese steel sector in general, the steel industry in Hebei is also highly fragmented. The majority of steel producers in Hebei are privately owned, not state-owned, and many of them have inefficient, small scale operations with outdated equipment. Three Hebei based steel producers were ranked in the top 20 in China in terms of production volume in the six months ended June 30, 2010, namely Hebei Iron and Steel Group, Hebei Xinwuan Iron and Steel Group, and Hebei Jinxi Iron and Steel Group, the main operating subsidiary of the Group.

In recent years, the Hebei steel sector has seen a wave of industry consolidation. For example, Heibei Iron and Steel Group was established in June 2008 through the merger of Tangshan Iron and Steel Company Ltd. and Handan Iron and Steel Company Ltd., both state owned, and has subsequently completed a series of acquisitions of steel producers in Hebei Province. Similarly, Hebei Xinwuan Iron and Steel Group was established in January 2006 through the consolidation of 12 private steel producers in Handan area. Hebei Jinxi Iron and Steel Group, the main operating subsidiary of the Group, has acquired Jinxi Jinlan and Zhengda Iron and Steel, and leased production facilities with capacity of approximately 2.0 million tonnes per annum from Jinxi-Wantong. Under the PRC government's policy of encouraging greater resource efficiency and economies of scale in steel production, the process of consolidation in the Hebei steel sector is expected to continue in the coming years.

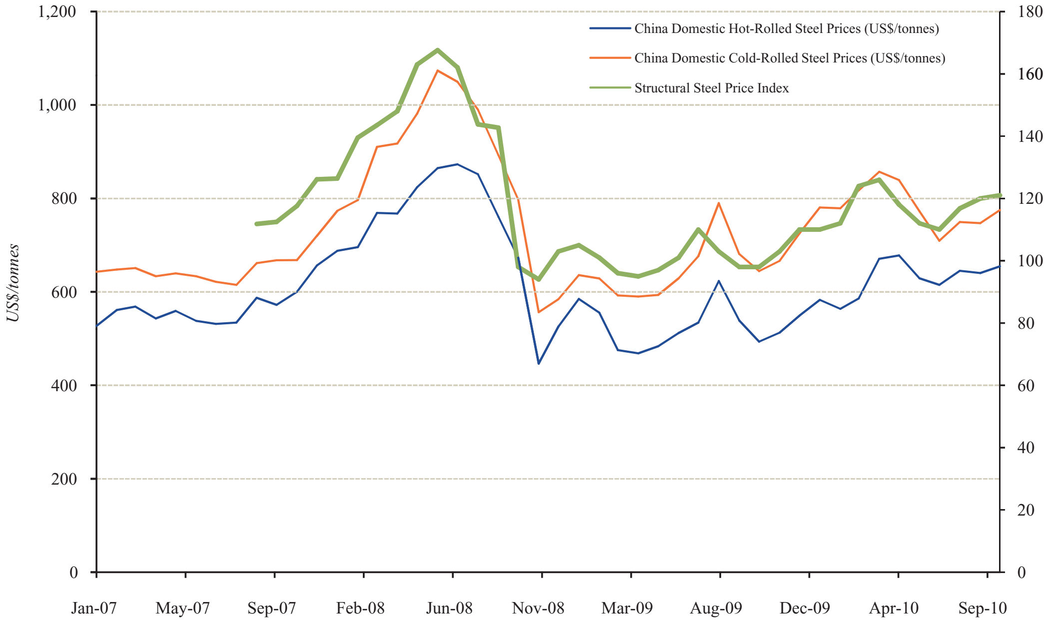
China's Steel Pricing

Since 1993, the PRC government has ceased to set or regulate prices for steel. Since then, steel prices have largely been driven by supply and demand in the national and regional markets, with reference to international pricing trends. As is typical of commodity products, steel prices fluctuate materially according to supply and demand dynamics as well as the cost of raw materials, particularly iron ore and coke. Steel prices are also subject to seasonal fluctuations, with winter weather conditions limiting construction activities which have a negative effect on steel prices.

In the development of the domestic steel market, wire rods and deformed steel bars futures are being traded on Shanghai Futures Exchange to provide more market transparency.

As the global financial crisis began in September 2008, steel prices declined significantly as a result of a weaker demand in steel. However, the global economy showed signs of stability as the stimulus packages rolled out by various governments began to take effect. China was one of the first countries to emerge from the recession, and towards the end of the second quarter of 2009, steel prices in China rose steadily from historical lows. As selling prices have yet to fully recover and as global economic recovery encourages further steel demand, it is expected that steel prices will continue on an upward trajectory. Furthermore, greater output discipline by steel millers and industry consolidation should continue to support steel prices over the longer term.

China Domestic Hot-and Cold-Rolled Steel Prices and Structural Steel Price Index



Source: Bloomberg Finance L.P. and Datastream

Markets for Selected Steel Products in China

Structurals

Driven by increasing demand, production of structurals in China has grown substantially from 26.4 million tonnes in 2005 to 50.7 million tonnes in 2009 at a CAGR of 17.7%, according to Mysteel.com.

China's Annual Production and Apparent Consumption of Structurals

	2005	2006	2007	2008	2009	CAGR (2005-2009)
			(million tonnes)			(%)
Production	26.4	31.8	38.5	39.8	50.7	17.7
Export	0.9	2.7	5.5	3.6	1.2	8.0
Import	0.6	0.3	0.3	0.3	0.4	(11.7)
Apparent Consumption	26.1	29.5	33.3	36.6	49.9	17.6

Source: Mysteel.com

H-section steel, a subset of structurals, can be divided into two categories: hot-rolled H-section steel and welded H-section steel. H-section steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. According to Mysteel.com, H-section steel is one of the most widely used steel products in developed countries, making up 3% to 5% of the total consumption of steel products. However, consumption of H-section steel in China only makes up 1% of total steel consumption in China. According to Steelwin.com, production of H-section steel increased from 7.0 million tonnes in 2007 to 8.3 million tonnes in 2009, representing a CAGR of 11.8%. Apparent consumption of H-section grew by 24.6% in the same period, where total apparent consumption in 2009 was 7.8 million tonnes.

Steel sheet piles are used in sheet piling. Sheet piling consists of a series of panels with interlocking connections that are driven into the ground to form an impermeable barrier. Sheet piling has been a proven technology within the construction industry and is used in the construction of quays, harbors and flood prevention infrastructures. Demand for steel sheet piles in China is expected to increase significantly as a result of increasing construction work. However, currently, all domestic demand for hot-rolled steel sheet piles are being met by imports.

Steel strips

Steel strips are flat steel produced by hot-rolling slabs to a thickness ranging from 1.0 millimeter to 3.5 millimeters. Gauge, width, flatness and finish rolling temperature control the quality and properties of hot-rolled strips. Hot-rolled strips can be produced in as-rolled condition covered with a thin layer of scale, or a range of alternatives such as pickled and oiled without scale, in coils, in slit strip coils or cut to specified length in sheets.

Hot-rolled strips are the starting material for production of cold-rolled strip, roll-formed sections and spiral or longitudinally welded tubes. Production of steel strips in China has grown substantially from 90.0 million tonnes in 2005 to 188.5 million tonnes in 2009 at a CAGR of 20.3%.

China's Annual Production and Apparent Consumption of Steel Strips

	2005	2006	2007	2008	2009	CAGR (2005-2009)
			(million tonnes)			(%)
Production	90.0	110.7	140.6	158.8	188.5	20.3
Export	5.3	10.7	12.6	13.1	4.7	(3.0)
Import	13.0	7.9	6.3	5.3	8.8	(9.2)
Apparent Consumption	97.7	107.8	134.3	150.9	192.7	18.5

Source: Mysteel.com

Cold-rolled sheets

Cold-rolled sheets are produced by further rolling steel strips to reduce thickness and improve strength and surface quality. Cold-rolled sheets are used in the production of high quality products such as automobiles and household appliances.

Apparent consumption for cold-rolled sheets increased at a CAGR of 14.3% from 2005 to 2009 and production increased significantly from 8.6 million tonnes in 2005 to 16.4 million tonnes in 2009. China continues to be a net importer of cold-rolled sheets and the increased demand for cold-rolled sheets in China is consistent with the country's ongoing economic development and consumers' preference for higher value-added products.

China's Annual Production and Apparent Consumption of Cold-Rolled Sheets

	2005	2006	2007	2008	2009	CAGR (2005-2009)
			(million tonnes)			(%)
Production	8.6	12.5	15.6	13.6	16.4	17.6
Export	0.2	0.5	0.5	0.4	0.2	6.7
Import	1.4	0.7	0.7	0.5	0.5	(20.8)
Apparent consumption	9.8	12.7	15.8	13.8	16.7	14.3

Source: Mysteel.com

Galvanized sheets

Galvanized sheets are produced by passing steel sheets through a bath of molten zinc to coat the steel sheets with a thin layer of zinc. Pure zinc reacts by forming a protective coating that stops further corrosion when exposed to the atmosphere, thus protecting the steel below. Due to its anti-corrosive properties, galvanized sheets are widely used in roofing and walling, safety barriers, handrails, consumer appliances and automotive body parts. The production of clad sheet, which mainly consists of galvanized sheets, has increased from 9.7 million tonnes in 2005 to 20.1 million tonnes in 2009, at a CAGR of 19.9%.

China's Annual Production and Apparent Consumption of Galvanized Sheets

	2005	2006	2007	2008	2009	CAGR (2005-2009)
	(million tonnes)					(%)
Production	9.7	12.7	17.5	17.7	20.1	19.9
Export	0.9	3.2	4.3	3.7	2.2	24.0
Import	5.2	4.6	4.3	4.1	3.3	(10.8)
Apparent consumption	14.0	14.1	17.5	18.1	21.3	11.0

Source: Mysteel.com

Wire rods

Wire rod is a type of steel wire widely used in reinforced concrete or welded structures in construction. High speed wire can be processed into various types of wire products, bolts and screws and other machinery spare parts or tools. The production of wire rod has increased from 60.5 million tonnes in 2005 to 95.9 million tonnes in 2009, at a CAGR of 12.2%.

China's Annual Production and Apparent Consumption of Wire Rod

	2005	2006	2007	2008	2009	CAGR (2005-2009)
	(million tonnes)					(%)
Production	60.5	70.6	80.4	79.3	95.9	12.2
Export	3.2	5.6	6.2	5.1	1.1	(23.8)
Import	0.7	0.7	0.6	0.5	0.5	(7.0)
Apparent consumption	57.9	65.8	74.8	74.8	95.3	13.2

Source: Mysteel.com

Steel bars and rebars

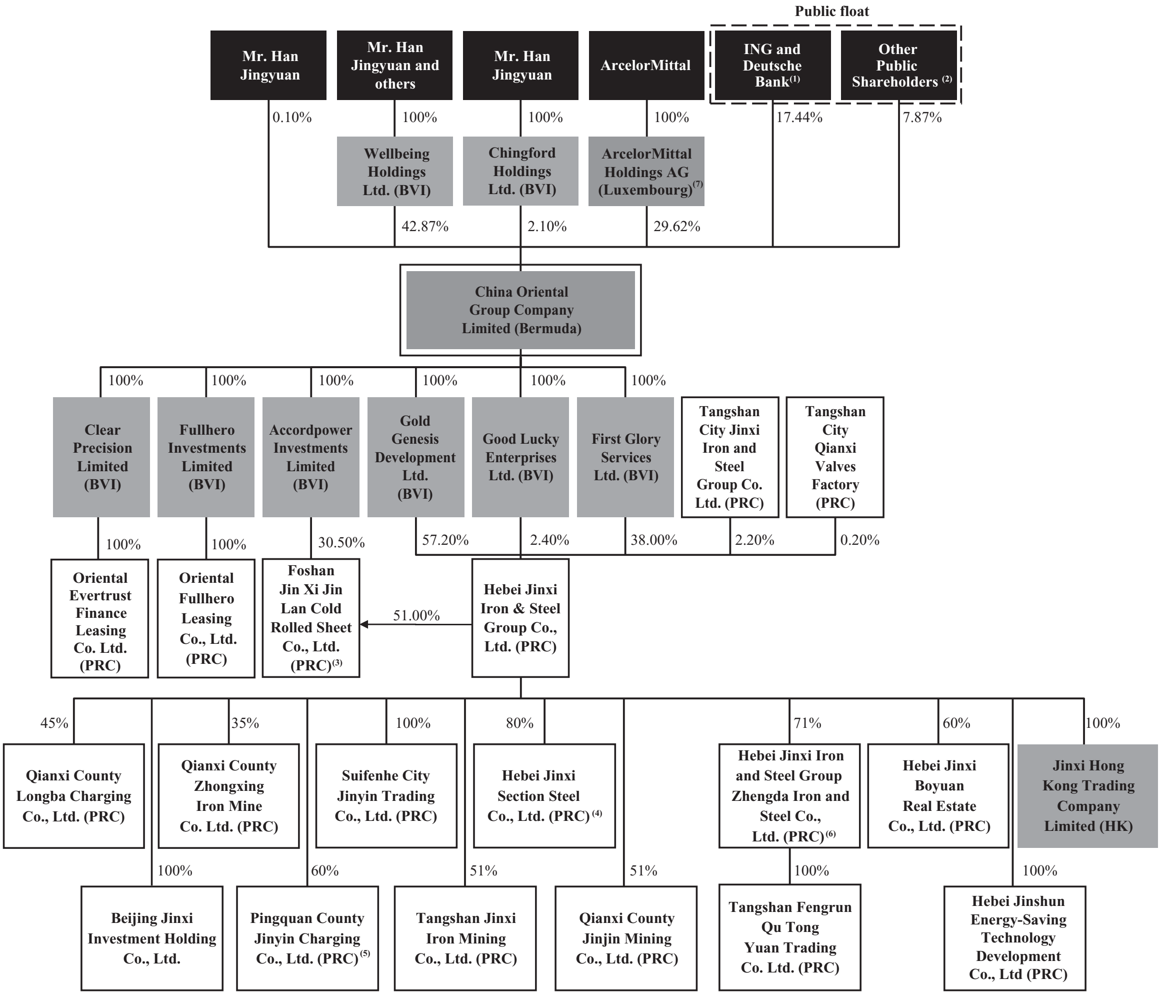
Steel bar products include round and deformed steel bars with diameters of 12 to 50 millimeters and length of 6 to 12 meters, which are mainly used in construction, road and bridges, machinery processing, water utilities infrastructure and in the petroleum industry. The production of steel bar has increased from 29.8 million tonnes in 2005 to 55.7 million tonnes in 2009, at a CAGR of 16.9%.

China's Annual Production and Apparent Consumption of Steel Bars and Rebars

	2005	2006	2007	2008	2009	CAGR (2005-2009)
			(million tonnes)			(%)
Production	101.0	124.2	147.2	143.3	177.2	15.1
Export	4.9	5.5	10.0	7.6	1.4	(27.2)
Import	0.4	0.4	0.4	0.4	0.4	(3.4)
Apparent consumption	96.5	119.1	137.7	136.2	176.1	16.2

Source: Mysteel.com

The following chart shows the simplified corporate structure of the Group as of the date of this document:



Notes:

(1) Deutsche Bank and ING Bank N.V. hold put options with respect to the shares they hold in the Company. See "— ArcelorMittal — the world's largest steel company becoming the second largest shareholder" for further information.

(2) Directors (other than Mr. Han Jingyuan) hold an aggregate of 0.3% equity interest in the Company.

(3) The remaining 18.5% equity interest is held by Foshan Jin Lan Aluminium Company Limited, 100% equity interest of which is held by Mr. Zhou Weijie and his relative beneficially.

(4) Qianxi County Hui Yin Trading Company Limited holds 20% equity interest in Hebei Jinxi Section Steel Company Limited. Mr. Han Jingyuan, Mr. Zhu Jun and Mr. Shen Xiaoling beneficially owned 8.22%, 4.58% and 4.42% equity interests in Qianxi County Hui Yin Trading Company Limited, respectively, with the remaining equity interest of 82.78% held by 3,785 employees of the Group.

(5) The 60% equity interest of Pingquan County Jinyin Charging Co., Ltd. is held by Yu Lifeng, a PRC individual on trust for Jinxi Limited pursuant to a share entrustment agreement between Yu Lifeng and Jinxi Limited.

(6) Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Co., Ltd. was formerly known as Tangshan Fengrun Qu Zhengda Iron and Steel Co., Ltd.

(7) ArcelorMittal Holdings AG was formerly known as Mittal Steel Holdings AG.

History

Jinxi Limited, previously the Jinxi Iron Factory and now one of the principal operating subsidiaries of the Company, was incorporated as a joint stock limited company in the PRC in December 1999 and was then owned by two State-owned enterprises, namely Tangshan City Jinxi Iron and Steel Group Co., Ltd. ("Tangshan Jinxi Group") (as to 49.4%) and Tianjin Jinying Corporation ("Tianjin Jinying") (as to 41.9%), as well as Tangshan City Jinxi Iron and Steel Group Co., Ltd. Labor Union (Employee's Shareholding Committee) ("Jinxi Labor Union"), a society established as a legal person under PRC laws and which comprised employees of Jinxi Limited.

Management Buyout

In January 2000, Tangshan Jinxi Group with a shareholding interest of 49.4% in Jinxi Limited, delegated the management rights in respect of its shareholding interest in Jinxi Limited (including the right to exercise the voting powers associated with such shares) to Jinxi Labor Union under the leadership of Mr. Han Jingyuan, then Jinxi Limited's Chairman, and now the Chairman of the Company. In August 2001, Tangshan Jinxi Group and Jinxi Labor Union entered into an agreement whereby Tangshan Jinxi Group formally entrusted to the Jinxi Labor Union 75.9 million shares, representing then 46.4% of the share capital of Jinxi Limited. The Jinxi Labor Union was thereby entitled to exercise all shareholder rights of Tangshan Jinxi Group in respect of the 75.9 million shares, except for the right to receive dividends declared and the right to dispose of the entrusted shares. As consideration for the entrustment, the Jinxi Labor Union was entitled to receive an entrustment consideration equal to 95% of the dividends declared or benefits attributable to the entrusted shares. This entrustment was expressed to be valid until such entrusted shares were transferred to Jinxi Labor Union. The terms of such entrustment arrangement were confirmed by the Bureau of Finance of Hebei Province in its approval document (Ji Cai Qi [2003] No. 107), dated August 15, 2003. Accordingly, pursuant to such entrustment arrangement, and in addition to the 8.1% shares in Jinxi Limited originally held by the Jinxi Labor Union, beneficial ownership and control of 54.5% of the outstanding shares of Jinxi Limited had vested in the Jinxi Labor Union. This delegation marked the commencement of a management buyout by Jinxi Limited's employees.

In November 2002, in preparation for Jinxi Limited's conversion to a foreign-invested enterprise, the Jinxi Labor Union was transformed into Qianxi County Heli Industrial and Trade Co., Ltd. ("Qianxi Heli"), a limited liability company incorporated in the PRC. Under the PRC Company Law then in effect, as Qianxi Heli is a limited liability company, it was not allowed to have more than 50 shareholders. Accordingly, the shares in Qianxi Heli, instead of being held individually by the 1,826 employees, were held by 11 shareholders, all of whom were involved in the operations of Jinxi Limited, and the employees who had interest in Jinxi Limited but were not shareholders of Qianxi Heli held their interest through two of the 11 shareholders of Qianxi Heli.

On March 17, 2003, Qianxi Heli increased its shareholding in Jinxi Limited to 66.8% by purchasing shares from the two state-owned enterprises and became a majority shareholder, thereby completing the management buyout.

Notwithstanding the management buyout, Jinxi Limited's operation has, since 1999, been managed by the same group of people led by Mr. Han Jingyuan, the chairman of Jinxi Limited.

Mr. Han Jingyuan has not, during the time he served as chairman of Jinxi Limited, been involved in any business other than the operations of Jinxi Limited.

Pioneer Metals Company Limited

In December 2002, Pioneer Metals Company Limited ("PMC"), a Hong Kong company controlled by Ms. Chen Ningning, the then Vice-Chairwoman of the Company until October 29, 2007, invested approximately RMB70.6 million in Jinxi Limited in return for an issuance of 64.9 million new shares in Jinxi Limited, thereby becoming a 28.4% shareholder.

In July 2003, PMC acquired an additional 21.9 million shares in Jinxi Limited from Qianxi Heli, thereby increasing its shareholding interest in Jinxi Limited from 28.4% to 38.0%. Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd. ("Qianxi Fuqin") (which is 100% beneficially owned by Mr. Han Jingyuan) acquired 5,500,000 shares in Jinxi Limited from Tianjin Jinying and another shareholder, thereby becoming a 2.4% shareholder in Jinxi Limited.

Reorganization and Listing on The Stock Exchange of Hong Kong Limited

In preparation for the Company's application for listing on the Main Board of The Stock Exchange of Hong Kong Limited, a reorganization was completed on January 20, 2004. As part of the reorganization, the Company was established under the laws of Bermuda as the holding company of Jinxi Limited on November 3, 2003 as an exempted company with limited liability. Three former shareholders of Jinxi Limited, namely Qianxi Heli, Qianxi Fuqin and PMC, exchanged their shares in Jinxi Limited in return for their respective affiliates or associates holding shares in the Company. The shareholders of Qianxi Heli, Qianxi Fuqin and PMC then held their investments in the Company indirectly through their respective affiliates or associates, namely Wellbeing Holdings, Chingford Holdings and Smart Triumph.

As Tangshan Jinxi Group and another state-owned enterprise continued to hold in aggregate a 2.4% shareholding interest in Jinxi Limited upon completion of the reorganization, such shareholding interest was transferred to Qianxi Heli, Qianxi Fuqin and PMC. Qianxi Heli's, Qianxi Fuqin's and PMC's respective shareholding interests of 57.2%, 2.4% and 38.0% in Jinxi Limited prior to the reorganization were proportionately increased after the reorganization to become 58.6%, 2.5% and 38.9%, respectively, in the Company.

As part of the reorganization, the previous trust arrangement through which the employees of Jinxi Limited held shares in Jinxi Limited was replicated in the ownership of Wellbeing Holdings. Mr. Han Jingyuan (the Company's Chairman and Chief Executive Officer) and Mr. Huo Hongxiang (an assistant manager of Jinxi Limited), being shareholders of Wellbeing Holdings, each executed a declaration of trust ("Declaration of Trust") whereby each of them respectively declared that he shall hold a certain number of shares in Wellbeing Holdings on trust for, and on behalf of, the employees as specified in the Declaration of Trust. As of June 30, 2010, Mr. Han Jingyuan beneficially owned 63.15% of the issued share capital of Wellbeing Holdings and held 16.09% of the issued share capital of Wellbeing Holdings in trust for the benefit of certain employees of the subsidiary of the Company.

On March 2, 2004, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Company issued 805,000,000 shares at HK$2.75 per share by way of global offering and over-allotment and received proceeds of approximately HK$2,107 million.

On March 7, 2010, the Company announced that it has been selected as a constituent of the Hang Seng Composite Index ("HSCI") series, effective March 8, 2010. The Company joined the Hang Seng Composite Index, the Hang Seng Composite Industry Index — Materials and the Hang Seng Composite SmallCap Index.

Voluntary Conditional Offer by Smart Triumph

In June 2007, the board of directors of the Company received a letter from the financial adviser to Smart Triumph, then a substantial shareholder of the Company and ultimately wholly owned by Ms. Chen Ningning, initiating a voluntary conditional offer to acquire all the outstanding ordinary shares of the Company (other than those shares already owned by Smart Triumph and parties acting in concert with it), together with any shares issued pursuant to exercise of share options of the Company. The offer, however, did not become unconditional because of insufficient valid acceptance of the offer and therefore lapsed in October 2007.

ArcelorMittal — the world's largest steel company becoming the second largest shareholder

In November 2007, ArcelorMittal acquired approximately a 28% equity interest in the Company from Smart Triumph and Ms. Chen Ningning and became the Company's second largest shareholder. As a result, Smart Triumph and Ms. Chen Ningning no longer held any equity interest in the Company. Currently, ArcelorMittal has appointed one Executive Director, Mr. Muktesh Mukherjee, and two Non-Executive Directors, Mr. Ondra Otradovec and Mr. Jean-Paul Georges Schuler, to the board of directors of the Company. Mr. Mukherjee is also Deputy General Manager of the Company. Upon the closing of an unconditional mandatory cash offer made by Mittal Steel on February 4, 2008, Mittal Steel's equity interest in the Company increased to approximately 47%. On April 30, 2008, Mittal Steel's equity interest in the Company decreased to 29.6% pursuant to transfers of shares representing 9.9% and 7.5% of the issued shares to ING Bank N.V. and Deutsche Bank, respectively. See "— Put Options of ING and Deutsche Bank."

ArcelorMittal had entered into a shareholders' agreement with the controlling shareholders of the Company, a business co-operation agreement and a technology cooperation framework agreement with the Company. These agreements ceased to have any effect as of May 9, 2008 as they were conditional upon ArcelorMittal obtaining the requisite antitrust clearance from the Ministry of Commerce and the State Administration of Industry and Commence of the PRC which were not eventually obtained within the specified period. Furthermore, ArcelorMittal is not legally obliged to assist the Group in any strategy alliance or cooperation.

Put Options of ING and Deutsche Bank

Mittal Steel originally acquired 47.0% of the issued share capital in the Company as of February 4, 2008. In order for the Company to satisfy the minimum public float requirement of the Hong Kong Stock Exchange, Mittal Steel transferred shares representing 9.9% and 7.5% of the Company's issued share capital to ING Bank N.V. and Deutsche Bank, respectively, pursuant to two agreements dated April 30, 2008. The consideration payable by ING Bank N.V. and Deutsche Bank for the transfers were deposited with ING Bank N.V. and Deutsche Bank, respectively, as credit support for Mittal Steel's obligations under the put options that it granted to ING Bank N.V. and Deutsche Bank, as described below.

On April 30, 2008, Mittal Steel entered into two option agreements with ING Bank N.V. and Deutsche Bank whereby Mittal Steel granted the put options to ING Bank N.V. and Deutsche Bank to sell all of the shares that they hold in the Company to Mittal Steel on the expiry date of the options (which is 36 months from April 30, 2008) or upon the occurrence of certain extraordinary events, at the strike price as defined in the put option agreements, which is an amount equal to an initial reference per share price of HK$5.7938 (subject to adjustments), plus interest, minus any net dividends actually received by ING Bank N.V. and Deutsche Bank.

Mittal Steel and the Company believe that ING Bank N.V. and Deutsche Bank will renew the put option agreements on their expiry.

In an announcement made by Mittal Steel on the Hong Kong Stock Exchange on April 30, 2008, Mittal Steel stated that in the event that the Company is unable to satisfy the public float requirements as a result of the exercise of the options by ING Bank N.V. and/or Deutsche Bank, Mittal Steel will take appropriate steps to restore the public float so as to comply with the applicable requirements under the Listing Rules.

Overview

The Group is an integrated iron and steel manufacturer in the PRC principally engaged in the production of H-section steel products, strips and strip products, cold-rolled sheets and galvanized sheets, and billets.

As of the date of this document, the Group has a total production capacity of 11.0 million tonnes of crude steel per annum, including approximately 2.0 million tonnes per annum from facilities leased from Jinxi-Wantong. Utilizing its crude steel production facilities, as of the date of this document, the Group has the capacity to produce 3.0 million tonnes per annum of H-section steel products, 3.5 million tonnes per annum of strips and strip products and 500,000 tonnes per annum of cold-rolled sheets and galvanized sheets. The Group also has the capacity to produce 800,000 tonnes per annum of steel bar products from facilities leased from Jinxi-Wantong as of the date of this document.

The Group is a market leader in China for H-section steel products with a market share of 28.5% in 2009 based on the Group's domestic sales volume and China's total apparent consumption of H-section steel products according to data published by Steelwin.com. The Group plans to expand its production capacity of H-section steel products and further strengthen its market leadership in this sector.

The Group is one of the most efficient and profitable steel manufacturers in China. According to statistics published by the China Iron and Steel Association, Jinxi Limited, the main operating subsidiary of the Company, ranked 7th and 6th in terms of profit after tax for the year 2009 and the six months ended June 30, 2010, respectively, among the large and medium-sized steel companies that are China Iron and Steel Association members. The table below shows that Jinxi Limited has a leading position in terms of steel productivity per employee and return on equity ratio among these companies:

	1H 2010			2009		
	Jinxi Limited	**Industry average(1)**	**Ranking out of 70(1)**	**Jinxi Limited**	**Industry average(1)**	**Ranking out of 66(1)**
Steel productivity per employee (tonnes/year)	906	315	1	736	270	2
Return on equity ratio (% per year)	23.4%	5.6%	3	17.9%	3.0%	9

(1) "Industry average" refers to the average among the large and medium-sized steel companies that are China Iron and Steel Association members. The China Iron and Steel Association had 66 and 70 large and medium-sized member companies as at December 31, 2009 and June 30, 2010, respectively. "Ranking" refers to the ranking of Jinxi Limited for the respective metric among these companies. Steel productivity and return on equity ratio for the first half of 2010 have been annualized.

For the year ended December 31, 2009 and the six months ended June 30, 2010, the Group's revenue was RMB20.6 billion and RMB15.4 billion, respectively, and profit after taxation was RMB972.4 million and RMB871.8 million, respectively. In 2009, the Group sold approximately 2.5 million tonnes of H-section steel products, 2.9 million tonnes of strips and strip products, 0.3 million tonnes of cold-rolled sheets and galvanized sheets and 1.3 million tonnes of billets. For the six months ended June 30, 2010, the Group sold approximately 1.5 million tonnes of H-section steel products, 1.8 million tonnes of strips and strip products, 0.2 million tonnes of cold-rolled sheets and galvanized sheets and 1.0 million tonnes of billets. More than 90% of the Group's revenue was generated from products sold in the domestic market in both 2009 and the six months ended June 30, 2010.

The Group enjoys strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company. As of June 30, 2010, ArcelorMittal held a 29.6% equity interest in the Company and is the Group's second largest shareholder. The Group has benefited from its cooperation with ArcelorMittal as a strategic shareholder, and expects to continue to benefit from ArcelorMittal's advanced steel production technologies, management expertise, and global distribution and sourcing networks. For information on the Company's cooperation with ArcelorMittal, see "— Competitive Strengths — The Group enjoys strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company."

The Group believes it is well positioned strategically. China is the world's largest and fastest growing steel consumer and producer, and the Group expects China's demand for steel products to remain strong in the coming years as its urbanization and industrialization continue. The Chinese steel industry, though highly fragmented at present, is undergoing a period of consolidation as encouraged by the PRC government's policies. Through its rapid development in the past decade, the Group has established itself as one of the most efficient and profitable steel producers in China and the third largest steel producer in terms of production volume in the six months ended June 30, 2010 in Hebei Province, which is the largest iron ore and steel producing province in China. The Group believes its strengths in terms of scale, efficiency and profitability position it well to participate actively in industry consolidation.

Moreover, the Group believes the highly fragmented steel sector in Hebei Province with many privately owned small-scale players will provide attractive acquisition opportunities. The management of the Group is experienced in the acquisition and integration of steel businesses as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations. Leveraging its strengths and experience, the Group is committed to achieving greater market share, higher production efficiency and thereby improving economies of scale in the consolidation process.

Competitive Strengths

The Group believes that its historical results and future prospects are directly linked to the following competitive strengths.

The Group enjoys a leading market position in China for H-section steel products and has an established and well-recognized brand name

Demand for H-section steel products in China has increased due to the rising use of H-section steel products in large-scale construction projects. The Group is a market leader in China for H-section steel products with a market share of 28.5% in 2009 based on the Group's domestic sales volumes and China's total apparent consumption of H-section steel products according to data published by Steelwin.com.

The Group has a total H-section steel production capacity of 3.0 million tonnes per annum as of the date of this document, comprising a production capacity of 1.0 million tonnes per annum of large-sized H-section steel products and a production capacity of 2.0 million tonnes per annum of medium and small-sized H-section steel products. Currently, only a few companies in the PRC are able to produce large-sized H-section steel products. H-section steel products are widely used in large-scale construction projects principally as structural supports, for example, in skyscrapers, airport terminals and offshore oil platforms. The Group's H-section steel products are mainly for use in infrastructure and non-residential construction. The Group believes that low reliance on demand from the real estate sector for its H-section steel products makes its performance less prone to fluctuations in the Chinese property market.

The Group's H-section steel products have been accredited for their quality and have won recognition for their brand names, which the Group believes complements its leading market position in H-section steel products and will be conducive to the Group's future expansion into other product categories. Awards and accreditations that the Group received in the three years ended December 31, 2009 and the six months ended June 30, 2010 include:

Brand recognition

- "Jinxi H-section Steel," one of the Group's core brands, was recognized as "Top brand in user satisfaction in China H-section steel industry" (April 2007) and one of the "Top ten iron and steel industry well-known brands" (April 2007) by Market Daily of the People's Daily and other institutions and one of the "Top ten products in user satisfaction in iron and steel market in China" (September 2007) by China Market Research Center; and

- "Jinxi" H-section steel was recognized as one of the "Consumer Satisfactory Products in Hebei Province" (November 2007) by the Customers Association in Hebei Province.

Quality accreditation for H-section steel products

- BC1:2008 (Building and Construction Authority (Singapore));

- JZSG3101 (Japanese Industrial Standardization Law);

- 89/106/EEC (Construction Products Directive EC Europe); and

- KS D 3503 (Korean Industrial Standardization Act).

The Group believes that it will continue to benefit from the increased demand for H-section steel products and the Group's leading market position and brand recognition for these products. The Group believes that its integrated production processes together with economies of scale provide cost advantages over competitors and enable the Group to offer its customers more stable supply commitments.

The Group enjoys high operating efficiencies

The Group is one of the most efficient and profitable steel manufacturers in China. According to statistics published by the China Iron and Steel Association, Jinxi Limited, the main operating subsidiary of the Company, ranked 7th and 6th in terms of profit after tax for the year 2009 and the six months ended June 30, 2010, respectively, among the large and medium-sized steel companies that are China Iron and Steel Association members. The table below shows that Jinxi Limited has a leading position in terms of steel productivity per employee and return on equity ratio among these companies:

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The Group's high operating efficiency is primarily attributable to its focus on unit cost minimization in all aspects of its business:

- *Management efficiency.* The Group enjoys a streamlined and efficient management structure, which allows the Group to respond quickly to the market.

- *Operating efficiency.* Steel production is a high fixed-cost industry in which utilization rates have a direct impact on unit costs. The Group has maintained a high utilization rate for its facilities. For example, the Group has generally been able to operate its blast furnaces at close to full capacity. It also continually seeks to minimize wastage. For example, the Group currently uses two 3,000 kilowatts gas-fired power generators and two 25,000 kilowatts gas-fired power generators, all of which are designed to recycle and utilize the recycled gases generated during the steel-making process. In addition, the Group uses six top pressure recovery turbine electric power generators with capacity ranging from 4500 kilowatts to 8000 kilowatts, each of which recycles and utilizes the pressure produced during the steel-making process to generate power. All such generators are designed to reduce wastage and utilities costs. The Group is also committed to improving its production efficiency and minimizing bottlenecks in the production process through technological upgrades, process optimization and streamlining and raw material mix improvement.

- *Capital efficiency.* The Group has been able to achieve capital efficiency through combining the use of domestic and imported steel-making equipment in a cost-efficient manner, while taking into consideration the specifications and technical reliability of the relevant equipment. In addition, the Group has adopted a disciplined approach in capital expenditure investments by focusing on cost-efficient investments.

- *Logistical efficiency.* The strategic location of the Group's production sites gives the Group strong logistical advantages. As Jinxi Production Site, Zhengda Production Site and Wantong Production Site are located in Tangshan City, Hebei Province, they are in close proximity to iron ore suppliers, port facilities and railroad facilities. All four production sites, namely the three aforementioned sites in Hebei Province and Jinlan Production Site in Foshan City, Guangdong Province are adjacent to cities and provinces which, as a result of the industries located in such cities and provinces, require steel products of the type produced at the Group's production sites. As a result, the Group has been able and expects to continue to benefit from transportation efficiency and low-cost delivery of products to its customers. In November 2009, the Group entered into a cooperative framework agreement with Asia Energy Logistics pursuant to which Asia Energy Logistics agreed to assist the Group in constructing a cargo site at Santunying Station of the Zunxiao Railway and providing railway logistics and transportation services to Jinxi Production Site. This is expected to lower the Group's transportation costs and increase efficiency by shortening the transported distance and enhancing transportation capacity.

- *Labor efficiency.* The Group offers competitive wages and has been able to maintain high labor productivity. Under the Group's compensation policy, employees' remuneration are based on their productivity and/or sales performance, as well as their ability to meet the Group's quality control and cost control targets. As a result, the Group has been able to achieve a high steel productivity per employee ratio.

The Group has been able to optimize its product mix by focusing on products with higher profit margins and is well positioned to benefit from favorable market conditions in China

The Group strives to optimize its product mix by adjusting production and sales volume of different products according to the market conditions, including taking into account the profitability of each such product from time to time. For example, H-section steel products have relatively more stable gross profit margins as compared to the Group's other products, and their sales volume increased significantly in the three years ended December 31, 2009 and the six months ended June 30, 2010. The Group's strips and strip products also enjoyed relatively high margins, and experienced significant growth in both production and sales volume in the same period. The Group will continue to concentrate on products with high profit margins, while gradually phasing out products facing increasing competition and having lower profit margins.

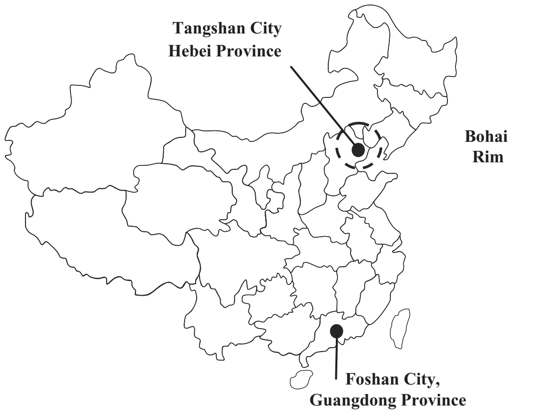
The Group also seeks to improve its product mix by introducing new products with high profit margins. In 2009, the Group developed a type of H-section steel product which is used for steel pole supporting overhead contact wires for electric railways. This product increased the Group's profitability as pricing for this product is higher than other H-section steel products. The Group also developed high value-added ultra thin steel sheets in 2008 for which the target customers are primarily electronic consumer products manufacturers. Furthermore, the Group began trial production of steel bar products in June 2010. The Group's main steel bar products include round and deformed steel bars which are mainly used in construction, roads and bridges, machinery processing, water utilities infrastructure and in the petroleum industry.

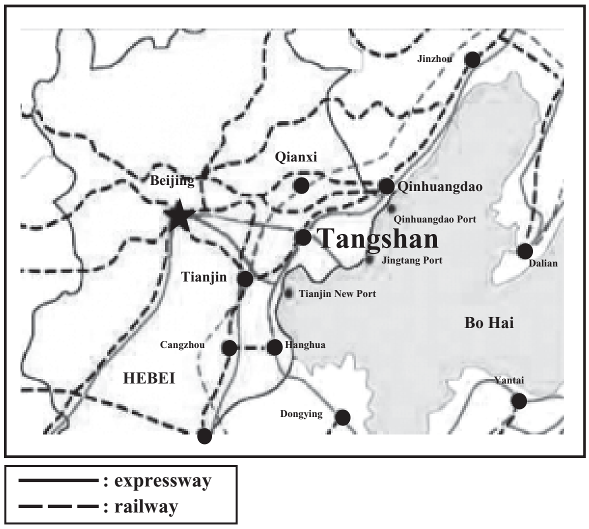
The Group intends to expand its product portfolio and improve its ability to optimize its product mix. Planned new products include steel sheet piles and high speed wire rods. Steel sheet piles are used in sheet piling, which consists of a series of panels with interlocking connections that are driven into the ground to form an impenetrable barrier. Sheet piling is a proven technology within the construction industry and is used in the construction of quays, harbors and flood prevention infrastructures. The Group believes that demand for steel sheet piles in China will increase significantly as a result of increasing construction. Substantially all domestic demand for steel sheet piles is currently met by imports due to a lack of domestic production. High speed wire rods are a type of steel rods widely used in reinforced concrete or welded structures in construction. High speed wire rods can be processed into various types of wire products, bolts and screws and other machinery spare parts or tools.

China is the world's largest steel market and accounted for approximately 47.7% of the world's total apparent consumption of finished steel products in 2009 according to The World Steel Association. The rapid urbanization process in China has led to a significant increase in the demand for steel. Urbanization and its related infrastructure development will remain an important source of steel demand, as evident in a number of recent PRC government initiatives to stimulate domestic demand and promote infrastructure development across all regions. Furthermore, various natural disasters that struck China in recent years have highlighted an increasing concern for structural safety, strength and quality. As a result, there has been a shift in preference from other construction materials to steel in infrastructure, industrial, commercial and residential construction projects. A majority of the increased demand has been met by domestic steel manufacturers. As the Group continues to optimize its product mix in line with evolving market trends, the Group is well positioned to benefit from favorable market conditions in China.

The Group's production sites are strategically located

Two of the production sites of the Group, namely Jinxi Production Site and Wantong Production Site are located in Qianxi County, Tangshan City, Hebei Province. Zhengda Production Site is located in Fengrun District, Tangshan City, Hebei Province. The Group's Jinlan Production Site is located in Foshan City, Guangdong Province. Below is a map showing the locations of Tangshan City and Foshan City.





Strategic location in Hebei Province

Jinxi Production Site, Wantong Production Site and Zhengda Production Site are close to the Group's customers, a significant majority of which are concentrated in Northern China, including the Beijing-Tianjin-Tangshan Area, North-east Area and Bohai Rim. This proximity to customers contributes to short delivery time and low transportation costs.

In addition, the location of Jinxi Production Site, Wantong Production Site and Zhengda Production Site in Tangshan City, Hebei Province provides the Group with logistical advantages. Tangshan City is in the Beijing-Tianjin-Tangshan Area, which refers to the areas under the administration of Beijing Municipality, Tianjin Municipality and Tangshan City, Hebei Province. The Beijing-Tianjin-Tangshan Area enjoys easy access to port facilities, including Tianjin New Port, Jingtang Port, Qinhuangdao Port and Caofeidian Port, to railways including the Datong-Qinhuangdao Railway and the Beijing-Shenyang Railway and to an expressway network.

The Group's production sites in Tangshan City, Hebei Province are in close proximity to a large number of domestic iron ore mines. According to the China Iron and Steel Association, Hebei Province is the largest iron ore producing province in China, accounting for approximately 40.7% of China's iron ore output in 2009, and Qianxi County, where Jinxi Production Site (the principal production site of the Group) and Wantong Production Site are located, is one of the key mining areas within Hebei Province. Iron ore is the most important raw material for steel production and accounts for a significant part of the Group's total production costs. Reliable and easy access to local iron ore supplies in addition to overseas supplies is important to the Group's business operations. The Group has entered into one-year framework supply contracts with a number of local iron ore mines in Qianxi County. The Group also holds significant stakes in associate mine companies. The Group holds a 51% interest in each of Jinxi Mining and Jinjin Mine and a 35% interest in Zhongxing Mine. See "— Raw Materials, Energy and Utilities."

The Chinese steel industry, though highly fragmented at present, is undergoing a period of consolidation as encouraged by the PRC government's policies. Through its rapid development in the past decade, the Group has established itself as one of the most efficient and profitable steel producers in China, and the third largest steel producer in Hebei Province in terms of production volume in the six months ended June 30, 2010. The Group believes the highly fragmented steel sector in Hebei Province with many privately owned small-scale players will provide attractive acquisition opportunities. The management of the Group is experienced in the acquisition and integration of steel businesses as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations. Leveraging its strengths and experience, the Group is committed to achieving improved market share, production efficiency and economies of scale in the consolidation process, which will in turn improve the Group's overall competitiveness.

Strategic location in Foshan City, Guangdong Province

Jinxi Jinlan is located in Foshan City, Guangdong Province which has the advantage of being close to its customers. Jinxi Jinlan's main products are cold-rolled sheets and galvanized sheets. The main customers of Jinxi Jinlan are color-coated manufacturers, pipe manufacturers, household electrical appliance manufacturers and companies in the furniture industry, many of which are located in Guangdong Province. As a result, Jinxi Jinlan is able to deliver its products promptly to its customers while incurring low transportation costs.

The Group is managed by a committed and experienced management team

The Group's management team comprises members who have substantial industry experience. In particular, members of the senior management team have an average of over ten years of experience in this industry. The Company's Chairman and Chief Executive Officer, Mr. Han Jingyuan, has over 26 years of extensive operational and managerial experience in the iron and steel industry. He had been named one of the "Top Ten Outstanding People in Hebei Province Metallurgy Industry in 2006" by Metallurgy Policy Research Committee of Hebei Province. He was also named one of the "Top Ten Outstanding People in Brand Building" by Market Daily of the People's Daily and other institutions in January 2007. Mr. Han is also the Vice Chairman of the Metallurgy Chamber of All-China Federation of Industry and Commerce. Mr. Han Jingyuan was named on the list of "The Third Annual Top 10 People for Enterprise Management Innovation" by the State-owned Assets Supervision and Administration Commission and "Enterprise Management" magazine in January 2009. He was also named as one of the "60 Outstanding Entrepreneurs in the 60 Year History of New China" at the celebration of the 60th anniversary of the People's Republic of China jointly hosted by the China Enterprise Newspaper and the research centre of the State-owned Assets Supervision and Administration Commission under the State Council in December 2009. Mr. Zhu, an Executive Director, Executive Deputy General Manager and Chief Operating Officer of the Company, has over 17 years of experience in the iron and steel industry. Mr. Zhu Jun was named as the "Model Worker of the National Steel Industry" by the China Iron and Steel Association and the Ministry of Human Resources and Social Security of the PRC in February 2009.

The management team has a track record of successfully achieving economies of scale, efficiency and profitability as well as successful acquisitions and integrations. Following the incorporation of Jinxi Limited in December 1999, the Group expanded its production capacity from 1.8 million tonnes per annum in 2000 to 11.0 million tonnes as of the date of this document. During its rapid expansion, the Group has effectively managed its inventory, debt levels and profitability. In response to the falling demand for various types of commodities including steel, due to the global financial crisis from the third quarter of 2008 through early 2009, the Group's management made timely adjustments to its production schedule and expansion plans and adopted a variety of cost-reduction measures. The pro-active approach adopted by the Group's management in the day-to-day management of the Group's production facilities in the face of challenging market conditions during the global financial crisis has improved the Group's operational efficiencies. The Group's management is experienced at acquisitions and integration of steel businesses, as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations.

As of June 30, 2010, the Group's management together with approximately 1,800 of the Group's employees owned an aggregate of 45.4% of the Company's outstanding shares, and the management together with over 3,700 employees of Jinxi Section Steel owned an aggregate of 20% of Jinxi Section Steel's outstanding shares. As a result, the Group believes that the interests of the management are aligned with those of the Company's other stakeholders. The Group believes that the current management and shareholding structure provides the necessary incentives to the management.

The Group enjoys strong support from its strategic shareholder, ArcelorMittal, the world's largest steel company

ArcelorMittal is the world's largest steel company, with a total crude steel production of 73.2 million tonnes in 2009, representing approximately 6.1% of the world's steel output in that year. As of the date of this document, ArcelorMittal holds a 29.6% equity interest in the Company and is the Company's second largest shareholder.

Through the Group's cooperation with ArcelorMittal, the Group has benefited and expects to continue to benefit from ArcelorMittal's management expertise, advanced steel production technologies and global distribution and sourcing capabilities. ArcelorMittal has appointed one Executive Director, Mr. Muktesh Mukherjee, and two Non-Executive Directors, Mr. Ondra Otradovec and Mr. Jean-Paul Georges Schuler, to the board of the Company. Mr. Mukherjee is also Deputy General Manager of the Company and a member of the Company's management committee and participates in the day-to-day operations at top management level. ArcelorMittal, through Mr. Muktesh Mukherjee, Mr. Ondra Otradovec and Mr. Jean-Paul Georges Schuler, also provides guidance to the Company on the management of the Company's investor relationships and works with the Group to further strengthen the Group's corporate governance standards.

ArcelorMittal provides technology support and management expertise to enhance the Group's operational efficiencies. ArcelorMittal has deployed two teams of its engineers to work on-site at Jinxi Production Site and Jinlan Production Site to share best practices on production processes and quality control. With respect to H-section steel production, ArcelorMittal is assisting the Group by transferring know-how from ArcelorMittal's mills in an effort to enhance operational efficiency and cut down on maintenance expenses.

Through ArcelorMittal's global sales network, ArcelorMittal is assisting the Company in exploring opportunities for export sales.

For information on the Group's plans to continue its cooperation with ArcelorMittal, see "— Business Strategy — Strengthen strategic cooperation with ArcelorMittal."

Business Strategy

The Group's overall business objective is to achieve sustainable growth and profitability. To accomplish this, it is pursuing a business strategy that has the following principal components:

Enhance economies of scale by further expanding production capacity

The Group aims to increase its overall steel production capacity through organic expansion and strategic acquisitions.

As part of the efforts by the PRC government to enhance corporate restructuring and sector concentration, it promulgated the *Blueprint for the Adjustment and Revitalization Planning of the Iron and Steel Industry* as the guidance for China's steel sector for 2009 to 2011. As a result of this policy promulgation, the Group expects the number of steel manufacturers to decrease with the emergence of larger steel companies formed by strategic alliances and acquisitions.

The steel sector is highly fragmented in the PRC, particularly in Hebei Province, presenting opportunities for industry consolidation. The Group intends to pursue selective acquisition opportunities in the PRC and particularly Hebei Province and actively participate in the consolidation of the PRC iron and steel industry. The management of the Group is experienced in the acquisition and integration of steel businesses, as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations. Therefore, the Group believes that it is well positioned to take advantage of the trend of consolidation in the PRC steel manufacturing industry and is committed to achieving improved market share, production efficiency and economies of scale in the consolidation process.

The Group also plans to increase internal production efficiency to further reduce production costs and strengthen its cost competitiveness by focusing on cost reduction, maintaining its lean management team, and exercising strict cost controls over its operations and capital expenditures.

Continue to optimize product mix to achieve higher profit margins

The Group will continue to concentrate on products with high profit margins, while gradually phasing out products facing increasing competition and lower profit margins. The Group plans to expand its production capacity of H-section steel products and further strengthen its market leadership in this sector.

The Group also plans to develop production facilities for new products such as steel sheet piles and high speed wire rods. Steel sheet piles are used in sheet piling, which consists of a series of panels with interlocking connections that are driven into the ground to form an impenetrable barrier. Sheet piling is a proven technology within the construction industry and is used in the construction of quays, harbors and flood prevention infrastructures. The Group believes that demand for steel sheet piles in China will increase significantly as a result of increasing construction. Substantially all domestic demand for steel sheet piles is currently met by imports due to a lack of domestic production. High speed wire rods are a type of steel rods widely used in reinforced concrete or welded structures in construction. High speed wire rods can be processed into various types of wire products, bolts and screws and other machinery spare parts or tools.

Strengthen strategic cooperation with ArcelorMittal

The Group plans to continue its cooperation with ArcelorMittal, the Group's second largest shareholder and the world's largest steel company.

ArcelorMittal and the Group will continue to share technology to further expand the Group's product portfolio, optimize the Group's product mix and enhance operational efficiencies. The Group will also continue to seek to adopt ArcelorMittal's best practices in production process and corporate governance.

ArcelorMittal is a global leader in steel piling technology and cooperates with the Group on future production plans including using the state-of-the-art technology to establish a dedicated hot-rolled steel sheet pile line.

ArcelorMittal and the Group also plan to establish a research and development center in collaboration with a university in the Tangshan City, Hebei Province area to further develop technologies used in the production of H-section steel products.

Continue to expand vertically upstream to ensure a stable supply of raw materials

The Group aims to ensure a stable supply of raw materials that it requires for its production of steel products. The Group regularly monitors the market and intends to take necessary measures to secure supplies of raw materials, and in particular, iron ore and coke. Such measures include, among other things, investments in iron ore assets and the establishment of new coking plants. The Group believes that these measures will assist the Group in creating a vertically integrated production platform.

Continue prudent financial policies and investment practices

The Group has adopted prudent financial policies and investment practices which it believes will help it weather future industry downturns. The Group plans to continue to improve its financial practices and further strengthen its financial profile through careful management of capital expenditures, cash flows, leverage and coverage ratios.

The Group is committed to maintaining a reasonable capital structure that is in line with industry practice in China. It also plans to actively manage its accounts receivable and inventory positions to enhance liquidity, maintain a reasonable current assets to liabilities ratio, reduce debt levels and improve profitability.

The Group will continually review its financial profile to maintain a balance between financial prudence and operational expansion.

The Group will also continue to maintain and improve its operating efficiency and continue to focus on reducing unit cost in all aspects of its business.

Products

The Group conducts its operations primarily through four production sites, namely Jinxi Production Site, Zhengda Production Site, Jinlan Production Site and Wantong Production Site. The Group currently leases the production facilities at the Wantong Production Site. The main products produced at each production site are as follows:

- Jinxi Production Site's main products are H-section steel products, strips and strip products and billets.

- Jinlan Production Site's main products are cold-rolled sheets and galvanized sheets.

- Zhengda Production Site's main products are billets and strips and strip products.

- Wantong Production Site's main products are billets and steel bar products.

To the extent that the Group does not internally consume the billets it produces, it sells such excess billets to third parties. The chemical composition of the Group's products conforms to the applicable national and international standards. All of the Group's products are manufactured in various sizes and other specifications in accordance with customer requirements.

The tables below set forth the Group's revenue, sales volume, average selling price, gross profit/(loss) and gross profit/(loss) margin with respect to H-section steel products, strips and strip products, cold-rolled sheets and galvanized sheets, and billets for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(RMB millions)	% of total	(RMB millions)	% of total	(RMB millions)	% of total	(RMB millions)	% of total	(RMB millions)	% of total
Revenue										
H-section steel products	4,298	31.8	5,562	28.7	7,405	36.0	3,281	35.8	5,228	34.1
Strips and strip products	7,441	55.1	8,574	44.2	8,406	40.8	3,593	39.2	5,894	38.4
Cold-rolled sheets and galvanized sheets	840	6.2	1,319	6.8	1,142	5.5	344	3.7	898	5.8
Billets	897	6.7	3,919	20.2	3,624	17.6	1,950	21.2	3,330	21.7
Others(1)	23	0.2	14	0.1	12	0.1	7	0.1	0	—
Total	13,499	100.0	19,388	100.0	20,589	100.0	9,175	100.0	15,350	100.0

(1) Revenue from processing steel products for third parties

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(thousand tonnes)	% of total	(thousand tonnes)	% of total	(thousand tonnes)	% of total	(thousand tonnes)	% of total	(thousand tonnes)	% of total
Sales volume										
H-section steel products	1,205	29.2	1,225	27.0	2,460	35.4	1,103	34.5	1,481	33.1
Strips and strip products	2,451	59.4	2,061	45.5	2,861	41.2	1,261	39.5	1,772	39.7
Cold-rolled sheets and galvanized sheets	173	4.2	241	5.3	286	4.1	87	2.7	202	4.5
Billets	299	7.2	1,007	22.2	1,341	19.3	743	23.3	1,015	22.7
Total	4,128	100.0	4,534	100.0	6,948	100.0	3,194	100.0	4,470	100.0

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)
Average selling price					
H-section steel products	3,566	4,538	3,011	2,974	3,530
Strips and strip products	3,036	4,159	2,938	2,850	3,326
Cold-rolled sheets and galvanized sheets	4,870	5,489	3,990	3,952	4,446
Billets	2,999	3,891	2,703	2,624	3,281

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)	(RMB per tonne)
Gross profit/(loss)					
H-section steel products	668	252	285	129	417
Strips and strip products	404	99	342	308	301
Cold-rolled sheets and galvanized sheets	198	49	2	(173)	228
Billets	281	(10)	242	317	197

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(%)	(%)	(%)	(%)	(%)
Gross profit/(loss) margin					
H-section steel products	18.7	5.6	9.5	4.3	11.8
Strips and strip products	13.3	2.4	11.6	10.8	9.1
Cold-rolled sheets and galvanized sheets	4.1	0.9	0.1	(4.4)	5.1
Billets	9.4	(0.3)	9.0	12.1	6.0

H-section steel products

The Group, through Jinxi Limited at the Jinxi Production Site, currently operates three steel rolling lines to manufacture H-section steel products. The Group currently has an aggregate H-section steel production capacity of approximately 3.0 million tonnes per annum. The Group's first H-section steel production line commenced trial production in May 2006 and commercial production in late August 2006, providing a production capacity of 1.0 million tonnes per annum of large-sized H-section steel products. Two additional H-section steel production lines commenced operation in July 2008, together providing a production capacity of 2.0 million tonnes of medium and small-sized H-section steel products per annum.

H-section steel products are finished steel products which involve sophisticated production processes. H-section steel products are widely used in large-scale construction projects principally as structural supports, for example in skyscrapers, airport terminals and offshore oil platforms and other non-residential construction projects. The Group's H-section steel products are mainly for use in infrastructure. A type of H-section steel product produced by the Group is used for steel pole supporting overhead contact wires for electric railways. The Group believes that low reliance on demand from the real estate sector for its H-section steel products makes its performance less prone to fluctuations in the Chinese property market.

Jinxi Production Site currently produces both large-sized H-section steel products and medium and small-sized H-section steel products with cross-sectional dimensions ranging from 100x100 millimeters to 900x300 millimeters.

Strips and strip products

The Group, through Jinxi Limited at the Jinxi Production Site, currently operates three production lines for strips and strip products, two for narrow strips and one for mid-width strips. In addition, the Group, through Zhengda Iron and Steel at the Zhengda Production Site, operates one production line for narrow strips. As of the date of this document, the Group has an aggregate strips and strip products production capacity of 3.5 million tonnes per annum.

Most of the Group's strips and strip products are sold to downstream steel manufacturers who further process them into other steel products, such as welded steel pipes. After being cold-rolled, strips can also be further processed into a variety of products that meet different engineering or end-product specifications, including outer shell or components of electrical appliances and furniture, billets for cold pressed section steel, bicycle frames, rims, hoops, gaskets, spring leaf, sawblades and blades. The Group also processes some of its strips and strip products into cold-rolled sheets and galvanized sheets through its Jinlan Production Site in Foshan City, Guangdong Province.

The Group's strips and strip products have a thickness ranging from 2.0 to 4.0 millimeters and a width ranging from 145 to 735 millimeters.

Cold-rolled sheets and galvanized sheets

The Group, through Jinxi Jinlan at the Jinlan Production Site, operates one steel rolling line to produce galvanized sheets and two steel rolling lines to produce cold-rolled sheets. The Group produces both wide cold-rolled sheets and medium and wide cold-rolled sheets. The Group currently has an aggregate production capacity of 500,000 tonnes per annum for galvanized sheets and cold-rolled sheets.

Galvanized sheets are mainly used in construction, manufacturing and electrical household appliances. Cold-rolled sheets are mainly used in pipe manufacturing, electrical household appliances, hardware, security doors, fans and furniture.

The Group's galvanized sheets have a thickness ranging from 0.23 to 1.20 millimeters, and a width ranging from 600 to 1,250 millimeters. The Group's medium and wide cold-rolled sheets have a thickness ranging from 0.14 to 2.10 millimeters and a width ranging between 610 and 700 millimeters. The Group's wide cold-rolled sheets have a thickness ranging from 0.25 to 2.00 millimeters and a width ranging from 1,000 to 1,250 millimeters.

Steel bar products

Steel bar products include round and deformed steel bars with a diameter of 12 to 50 millimeters and length of 6 to 12 meters, which are mainly used in construction, roads and bridges, machinery processing, water utilities infrastructure and in the petroleum industry.

The Group, through production facilities leased from Jinxi-Wantong, operates one steel bar rolling machine to produce steel bar products. The Group currently has a production capacity of 800,000 tonnes per annum for steel bar products.

Billets

Billets are one of the preliminary steel products produced from iron in the steel manufacturing process. Billets are produced at the Jinxi Production Site, the Zhengda Production Site and the Wantong Production Site. In each of the three years ended December 31, 2009 and the six months ended June 30, 2010, the Group used more than 75% of the billets it produced for its own production of other steel products, with the excess sold to other steel companies who further process them into products such as rebars, wire rods, strips and angles. Structural steel products made from billets have various industrial applications and are used in the construction of buildings and structures and the manufacturing of heavy machinery components.

Billets that the Group produces and sells externally are of square or rectangular cross-sectional shapes, with cross-sectional lengths and widths ranging from 120 to 225 millimeters.

New products to be launched

The Company expects to develop and launch the following new products:

Steel sheet piles

Steel sheet piles are used in sheet piling. Sheet piling consists of a series of panels with interlocking connections that are driven into the ground to form an impermeable barrier. Sheet piling is a proven technology within the construction industry and is used in the construction of quays, harbors and flood prevention infrastructure. The Group believes that demand for steel sheet piles in China will increase significantly as a result of increasing construction work. Substantially all domestic demand for steel sheet piles are currently met by imports due to a lack of domestic production. The Company and ArcelorMittal are currently in discussions regarding a potential joint venture for the manufacturing and sale of steel sheet piles in which the Group would be a majority shareholder. The joint venture may or may not proceed, as details of the joint venture, including its timing, size and structure, are currently being negotiated and an agreement may or may not ultimately be reached.

High speed wire rods

High speed wire rods are a type of steel rods widely used in reinforced concrete or welded structures in construction. High speed wire rods can be processed into various types of wire products, bolts and screws and other machinery spare parts or tools.

Sales and Marketing

Overview

More than 90% of the Group's revenue was generated from products sold in the domestic market in both 2009 and the six months ended June 30, 2010. The Group also exported some of its products to South Korea, Taiwan, Vietnam, Japan, South East Asia and other countries and regions, including approximately 10.2% and 17.6% of H-section steel products and approximately 6.6% and 15.0% of galvanized sheets and cold-rolled sheets produced in 2009 and the six months ended June 30, 2010, respectively. Northern and eastern China are the primary markets for the Group's H-section steel products, strips and strip products and billets.

Customers

The Group has different customers for its different types of products:

- *H-section steel products:* The Group sells most of its H-section steel products through distributors to end users which include fabricators and other steel processing and consuming companies. These steel processing and consuming companies further process H-section steel products for use in the construction of skyscrapers and in the infrastructure of other structures such as factory buildings and oil platforms. The Group has established direct sales channels with domestic customers for its railway track H-section steel products and a number of overseas customers for its products generally. For example, on June 9, 2010, Jinxi Limited entered into a five-year strategic cooperation agreement with China Railway Materials Commercial Corporation, pursuant to which China Railway Materials Commercial Corporation has agreed to purchase from Jinxi Limited steel products in a total amount of 1.356 million tonnes in 2010, with future amounts to be negotiated. The types and amounts of specific steel products will be determined under separate annual sales contracts.

- *Strips and strip products:* The Group sells its strips and strip products directly to customers. These customers are mainly cold-rolling steel sheets manufacturers located in Northern China. The Group customizes strips and strip products with various thickness and widths for its customers.

- *Cold-rolled sheets and galvanized sheets:* The Group sells cold-rolled sheets and galvanized sheets to customers such as color-coating manufacturers, pipe manufacturers, household electrical appliance manufacturers, companies in the furniture industry and distributors in the PRC and elsewhere. The Group produces cold-rolled sheets and galvanized sheets at the Jinlan Production Site in Foshan City, Guangdong Province. This production site is in close proximity to many of its customers.

- *Billets:* In each of the three years ended December 31, 2009 and the six months ended June 30, 2010, the Group used more than 75% of the billets it produced for its own production of other steel products, with the excess sold to downstream steel companies who further process them into products such as rebars, wire rods, strips and angles.

The Group's business is not dependent upon any single customer. In the year ended December 31, 2009, the Group's ten and five largest customers accounted for 19.3% and 13.0%, respectively, of the Group's total revenue. In the six months ended June 30, 2010, the Group's ten and five largest customers accounted for 20.2% and 11.7%, respectively, of the Group's total revenue. The Group's largest customer accounted for 4.0% and 2.8% of the Group's total revenue in 2009 and the six months ended June 30, 2010, respectively.

Sales contracts

Consistent with industry practice, the Group has entered into one-year framework sales contracts with most of its principal customers that are renewable on an annual basis subject to mutual agreement between the customer and the Group.

Pursuant to these framework contracts, customers enter into a separate agreement with us each month during the term of these framework sales contracts to confirm the price of their orders. While the framework sales contracts specify the annual minimum total quantity, the price fluctuates according to the prevailing market price at the time of entering into such separate agreement and negotiations with the customers. Some of these one-year framework sales contracts require the customer to pay a nominal amount as a security deposit. Under such framework sales contracts, if a customer orders less than 60% of the stipulated monthly amount for three consecutive months, the Group is entitled to terminate the sales contract and take for itself the related security deposit. If a customer orders less than 80% of the stipulated total annual minimum amount, the Group is entitled to refuse to renew the sales contract and take for itself the security deposit.

The Group's distribution costs have not been significant in the past several years primarily because many of its customers are long-term customers. In the year ended December 31, 2009 and the six months ended June 30, 2010, distribution costs accounted for approximately 0.3% and 0.3%, respectively, of the Group's total revenue.

Payment terms

The Group collects payments from most of its customers three times a month. Prior to its delivery of products, the Group generally requires all customers (including those who have paid security deposits) to advance the full purchase price of the products, in the form of cash or bank acceptance notes (a form of bank guarantee in the PRC) issued by reputable banks in China with maturity periods of up to 180 days. The Group believes that the full advance payment of purchase price and payment of customer security deposits are not uncommon practices in China's steel market.

As of June 30, 2010, the aggregate amount of the Group's customers' advances (including security deposits) was approximately RMB1,554.6 million. None of these advances was interest — bearing or secured by any customer.

Pricing policy

Since 1993, pricing for most steel products in China has been market-driven and has not been regulated by the government authorities. In setting the prices of the products, the Group takes into account supply and demand in the national and global markets, current market trends and conditions, prices set by its primary competitors and its costs, including raw materials and manufacturing costs.

Delivery

The Group currently delivers the majority of its products to its customers at the expense of the customers. As Jinxi Production Site, Zhengda Production Site and Wantong Production Site are located in Tangshan City, Hebei Province, they are in close proximity to iron ore suppliers, port facilities and railroad facilities. All four production sites (the three aforementioned sites in Hebei Province and Jinlan Production Site in Foshan City, Guangdong Province) are adjacent to cities and provinces which, as a result of the industries located in such cities and provinces, require steel products of the type produced at the Group's production sites. As a result, the Group has been able and expects to continue to benefit from transportation efficiency and low-cost delivery of products to its customers. In November 2009, the Group entered into a cooperative framework agreement with Asia Energy Logistics pursuant to which Asia Energy Logistics agreed to assist the Group in constructing a cargo site at Santunying Station of the Zunxiao Railway and providing railway logistics and transportation services to Jinxi Production Site. This agreement is expected to lower the Group's overall transportation costs and increase efficiency by shortening transport distances and enhancing transportation capacity.

Raw Materials, Energy and Utilities

Raw materials

The principal raw materials used in the Group's production are iron ore, coke (produced from coking coal) and other steel and iron materials. Auxiliary materials used in the Group's production include limestone, powdered high-magnesium dolomite, bentonite and various alloys. Historically, the Group has been able to obtain an adequate supply of raw materials to meet its rapidly expanding production requirements.

In the year ended December 31, 2009, iron ore and coke accounted for 35.9% and 28.0%, respectively, of the Group's total production costs. In the six months ended June 30, 2010, iron ore and coke accounted for 39.9% and 25.9%, respectively, of the Group's total production costs.

Iron ore

The Group has three categories of iron ore supply source, namely: (i) iron ore purchased from domestic suppliers; (ii) iron ore purchased pursuant to long-term contracts with overseas suppliers and (iii) iron ore purchased on the spot market from overseas suppliers. The Group adjusts the proportion of its iron ore purchased among the three categories according to market conditions to minimize costs and risks. The Group generally keeps 30 to 60 days inventory of iron ore.

Imported iron ore

In 2009 and the six months ended June 30, 2010, the Group imported approximately 72.6% and 58.6%, respectively, of its total iron ore requirements, mainly from Brazil, Australia and India. The Group has entered into long-term framework contracts with some of its iron ore suppliers outside the PRC, ranging from three years to ten years. Under a majority of these contracts, both quantities and prices are fixed, with prices subject to annual or quarterly review. The Group also enters into spot contracts from time to time.

Suppliers are paid primarily with letters of credit with a maturity period of generally three months to six months issued by the Group to the suppliers at the time of loading of the iron ore onto the vessel shipping the iron ore.

Domestic iron ore

In 2009 and the six months ended June 30, 2010, iron ore purchased by the Group from domestic iron ore suppliers accounted for approximately 27.4% and 41.4%, respectively, of its total iron ore requirements.

The Group's five largest iron ore suppliers in China are iron ore mine operators located in Qianxi County, Hebei Province. The Group has entered into one-year framework supply contracts with most of these domestic iron ore suppliers that are renewable annually subject to mutual agreement between the suppliers and the Group. None of these framework supply contracts requires security deposits from the Group. While each of these framework supply contracts specifies the minimum quantity of iron ore guaranteed by the relevant supplier, the price is determined at the time of placing each purchase order under the agreement entered into pursuant to these framework supply contract according to the prevailing market price.

Suppliers are paid primarily with bank acceptance notes (a form of bank guarantee in the PRC) issued by reputable banks in China with maturity periods of up to 180 days.

The Group holds significant stakes in associate mine companies. The Group holds a 51% interest in each of Jinxi Mining and Jinjin Mine and a 35% interest in Zhongxing Mine.

Coke

The Group sources coke (produced from coking coal) from suppliers within China. In 2009, the Group sourced 43% of its production needs for coke from Hebei Province, 15% from Inner Mongolia Autonomous Region, 7% from Shandong Province, 25% from Shanxi Province and 10% from Shaanxi Province. For the six months ended June 30, 2010, the Group sourced 50% of its production needs for coke from Hebei Province, 22% from Inner Mongolia Autonomous Region, 11% from Shandong Province, 8% from Shanxi Province and 9% from Shaanxi Province. The Group purchased approximately 3.38 million tonnes and 2.20 million tonnes of coke in 2009 and the six months ended June 30, 2010, respectively. The Group generally keeps 10 to 15 days inventory of coke.

The Group has entered into one-year contracts with a majority of its local coke suppliers. Generally, the Group advances the full purchase price of its coke purchases upon receiving confirmation of shipment from the Group's suppliers. The Group pays the suppliers in the form of cash or bank acceptance notes (a form of bank guarantee in the PRC) issued by reputable banks in China with maturity periods of up to 180 days.

Other materials

From time to time, the Group purchases other steel and iron materials such as scraps from the market.

Energy and utilities

The Group's production facilities have not experienced any material shortages of electricity to date.

The Group currently has four gas-fired electric power generators and six blast-furnace top pressure recovery turbine electric power generators, with a total electric power generation capacity of approximately 380 million kilowatt-hours. Under an arrangement with the local power supplier, the Group feeds the electricity it generates internally into the local power grid, and in return, is entitled to draw and use an equivalent amount of electricity from the local power grid without charge. In 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, the Group incurred electricity costs of RMB592.7 million, RMB726.8 million, RMB1,221.7 million and RMB801.8 million, respectively.

On September 3, 2010, the Tangshan Municipal People's Government issued notices to certain subsidiaries of the Company imposing restrictions on energy consumption by such subsidiaries and control of the production of steel products. The restrictions on energy consumption were imposed as part of the implementation by the local government of Tangshan City of the PRC State Council's *Working Plan for Energy Conservation and Emission Reduction*, published on June 3, 2007, which provides that by the end of the "Eleventh Five-Year Plan (2006 – 2010)," the level of total energy consumption in terms of gross domestic production shall be reduced by 20%, and the total emission of major pollutants shall be reduced by 10%.

In response to these restrictions, the Group took steps to optimize its product mix in order to attain what it believes to be the optimal balance between production efficiency and energy savings during the restriction period. After taking into account various factors, including the then relatively lower profit margins of H-section steel products as compared with those for strips and strip products and the fact that the production lines for H-section steel products consume more electricity on a per unit basis than the other production lines, the Group has suspended its production facilities partially and its H-section steel production lines since October 16, 2010 and has further suspended all production related operations at Jinxi Wan Tong since October 29, 2010 for repair and maintenance so as to meet the requirements of energy consumption restriction as imposed by the local government. The Group plans to partially operate its H-section steel production lines in November 2010 with a target to produce approximately 60,000 tonnes to 80,000 tonnes of H-section steel products in November 2010. As a result, the Company expects that during the fourth quarter of 2010, strips and strip products will constitute a relatively higher proportion of the Group's overall production volume.

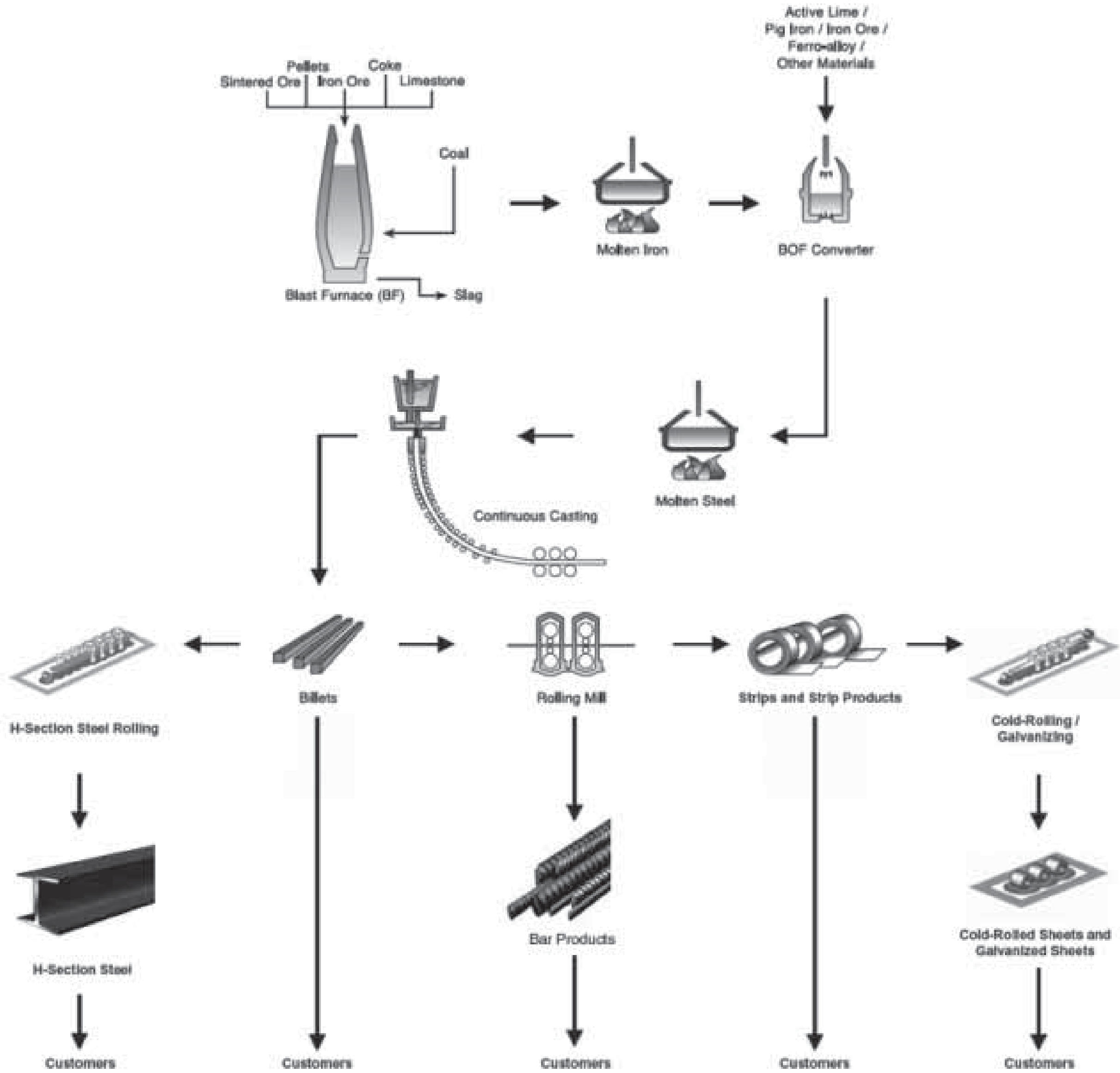
Depending on market conditions and the relative profitability of the products, the Group has the flexibility to choose and operate different production lines, after completing the relevant repair and maintenance work, in order to ensure that it meets its contractual obligations to its customers. Although there is no assurance, the Group does not expect the restrictions on energy consumption to continue after the end of 2010. Therefore, the Directors believe that such restrictions will only have a temporary adverse impact on the Group's production activities and results of operations for the remaining two months ending December 31, 2010, and will only have limited impact on the Group's overall production volume for the year ending December 31, 2010. As the relative margins of steel products fluctuate according to market conditions, the Group intends to continue to monitor the market and adjust its product mix in order to optimize its profitability.

Other resources used in the Group's steel-making process include water for industrial use, recycled water, argon, nitrogen and oxygen. In each of 2007, 2008 and 2009, the Group sourced its water supply from the local Daheiting Reservoir with no prescribed limit, at an annual fee of

RMB1.6 million payable to the Qianxi County Water Bureau. This arrangement has not changed in the six months ended June 30, 2010. Other resources such as argon, oxygen and nitrogen are produced or extracted internally at the Group's own production facilities.

Production Process

The Group's production facilities process iron ore and other raw materials into steel products. The Group has a production capacity of approximately 11.0 million tonnes of crude steel per annum as of the date of this document. The diagram below illustrates the production process and the types of products manufactured.



The Group's steel making process can be broadly broken down into four stages, namely, sintering and pelletizing, iron smelting, steel casting and rolling.

Sintering and pelletizing

To prepare for sintering, the Group pre-processes and blends the raw materials (such as grounded coking coal, limestone and iron-bearing materials) in a blender. The iron-bearing materials are then fed into the sintering machines and ignited at high temperatures to form sintered ore. After cooling down, the sintered ore is broken into pieces which are sieved to ensure that only those of suitable size go into the blast furnace as raw materials for iron smelting. Pieces that are not of suitable size are fed back to the blender for re-sintering.

Pelletizing involves forming pellets from iron ore, followed by hardening the pellets by heating. Solid fuel may be combined with the concentrate to promote the heating necessary to harden the pellet. Common binders added to strengthen the pellets include limestone, dolomite, soda ash, bentonite and organic compounds. After the pellets are sized, the remaining materials are recycled back through the sintering process.

Iron smelting

Molten iron is produced from a mixture of balanced quantities of sintered ore, coke, pellets and other auxiliary materials being introduced in a controlled, chemical reaction process taking place in a blast furnace aided by heat and pressure.

Steel making

During steel smelting, molten iron is refined into molten steel through the removal of impurities in an oxidation process. Alloys are added to help achieve certain desired steel properties. In addition, different desired steel properties may be obtained by regulating the chemical content. Like the majority of steel manufacturers in the PRC, the steel produced by the Group is smelted in a converter furnace. In converter furnace smelting, oxygen is blown at high pressure. This process is relatively quick and inexpensive and is capable of producing a number of different kinds of steel.

Steel casting and rolling

H-section steel products — irregularly-shaped and regularly-shaped continuous casting and rolling

Irregularly-shaped continuous casting is a process whereby molten steel is cast into billets using an irregularly-shaped continuous casting machine to produce irregularly-shaped continuous casting billets, which are then used for the production of large-sized H-section steel products. For medium and small-sized H-section steel products, regularly-shaped continuous casting billets produced by regularly-shaped continuous casting machine are used. Compared with the alternative method of ingot casting, continuous castings improve the yield rate by eliminating wastage inherent in ingot casting. Continuous castings also entail a shorter production time and help produce better quality products by imparting a consistent structure to the steel. Billets cast in these ways are then processed through preliminary rolling, precision rolling, flat rolling and cutting to produce large, medium and small-sized H-section steel products.

Strips and strip sheets — normal casting and rolling

For production of steel products other than H-section steel products, molten steel is cast into billets by ingot casting. Billets are then transferred to a rolling mill where they are reheated, passed through roughing rollers and finishing rollers to produce strips and strip products with various thicknesses and widths. Strips emerging from the rolling plant are then uniformly cooled on a cooling bed and coiled by coiling equipment before they are neatly bundled for delivery to the Group's customers. The Group also processes some of its strips and strip products into cold-rolled sheets and galvanized sheets through its Jinlan Production Site in Foshan City, Guangdong Province.

Steel bar products — rolling

Steel bar products are manufactured from billets. First, billets are reheated in a furnace to the initial rolling temperature (+/- 1200^{o}C) and then rolled through several stands (a continuous process). After each pass, the cross-section of a stock is reduced and the shape of the stock becomes closer to the shape of a final product. Steel bar products are rolled in mills similar to the first sections of the high speed wire rod rolling mills. After passing through roughing, intermediate and finishing trains, the rolled metal is conveyed to a cooling bed and then is cut to length. Steel bar products are used in the construction industry to strengthen the concrete inside building structures.

High speed wire rod manufacturing — rolling

High speed wire rod is manufactured from billets. First, billets are reheated in a furnace to an initial rolling temperature (+/- 1150^{o}C), and then the layer of scale is removed by a high-pressure water descaler.

High speed wire rod rolling is performed in a continuous mill with four trains: a roughing train, two intermediate trains and a finishing train, with crop shears installed in between (used for cropping deformed ends). Before the second intermediate train, there is a looper that should assure tensionless rolling. The finishing train is composed of a eight to ten-stands block mill, water cooling zones and a two to four-stands finishing block. Rolling stands are located in a horizontal-vertical alternating arrangement to prevent twisting issues. Final rolling temperature is controlled by water cooling zones, in order to normalize and produce thermo-mechanical treatment effects. After sizing, the high speed wire rod is wound into loops by means of a laying head and then is subjected to controlled cooling, to achieve the desired microstructure for further processing.

High speed wire rod can be used to produce wire, wire ropes, springs, bolts, nuts, nails, screws, bearings and tire cords.

Production Facilities

Existing facilities

The Group's steel production facilities are organized according to the steel production process. These facilities include sintering facilities, pelletizing facilities, iron smelting facilities, steel making facilities, strip rolling facilities, H-section steel rolling facilities, cold and galvanized sheet rolling facilities and steel bar rolling facilities. The Group also has other facilities such as a power plant, an oxygen generation plant and a utilities distribution unit.

Jinxi Limited provided a loan to Tangshan Jinxi Group to enable it to carry out its acquisition of Jinxi-Wantong and to facilitate Jinxi-Wantong's purchase of production facilities and equipment to expand its production capacity. Meanwhile, Jinxi Limited also entered into agreements with Jinxi-Wantong to lease production facilities. For more details, see "Related Party Transactions — Loan Agreement and Lease Agreement."

The following table sets forth a list of the Group's key facilities involved in the steel production process, their respective total annual production capacities and their respective year of commencement of operations:

Production process	**Total annual production capacity**	**Facilities**	**Number of facilities**	**Year of commencement of operations**
Sintering	approximately 10.8 million tonnes	$200m^2$ straight sintering machine	1△	2003
		$265m^2$ straight sintering machine	1△	2005
		$72m^2$ straight sintering machine	1*	2006
		$72m^2$ straight sintering machine	1*	2007
		$265m^2$ straight sintering machine	1△	2008
		$195m^2$ straight sintering machine	1△	2009
		$96m^2$ straight sintering machine	1#	2009
		$96m^2$ straight sintering machine	1#	2010
Pelletizing	approximately 4.7 million tonnes	$10m^2$ pelletizing machine	1△	1991
		$10m^2$ pelletizing machine	1△	2002
		$10m^2$ pelletizing machine	1△	2005
		$10m^2$ pelletizing machine	1*	2007
		$10m^2$ pelletizing machine	2△	2008
		$10m^2$ pelletizing machine	1△	2009
		$10m^2$ pelletizing machine	1#	2009
Iron smelting	approximately 10.4 million tonnes	$450m^3$ blast furnace	1△	2000
		$450m^3$ blast furnace	2△	2002
		$450m^3$ blast furnace	2△	2003
		$530m^3$ blast furnace	1△	2005
		$450m^3$ blast furnace	1*	2006
		$450m^3$ blast furnace	1*	2007
		$1280m^3$ blast furnace	2△	2008
		$1280m^3$ blast furnace	1△	2009
		$450m^3$ blast furnace	1#	2009
		$530m^3$ blast furnace	1#	2009
Steel making	approximately 11.0 million tonnes	40-tonne converter furnace	1△	2000
		40-tonne converter furnace	1△	2002
		100-tonne converter furnace	1△	2003
		50-tonne converter furnace	2△	2006
		45-tonne converter furnace	1*	2006
		60-tonne converter furnace	1*	2007
		100-tonne converter furnace	1△	2008
		50-tonne converter furnace	2#	2010
Strip rolling	approximately 3.5 million tonnes	650mm steel rolling machine	1△	2001
		850mm steel rolling machine	1△	2004
		550mm steel rolling machine	1△	2006
		650mm steel rolling machine	1*	2007
H-section rolling	approximately 1.0 million tonnes	Large H-section rolling machine	1△	2006
	approximately 2.0 million tonnes	Medium and small-sized H-section rolling machine	2△	2008
Cold sheet rolling and Galvanizing	approximately 0.5 million tonnes	1200 millimetres -1480 millimetres steel rolling machine	3†	2005
		850 millimetres steel rolling machine	8†	2006
		610 millimetres -1300 galvanizing machine	1†	2006
Steel bar rolling	approximately 0.8 million tonnes	steel bar rolling machine	1#	2010

△ Jinxi Production Site

* Zhengda Production Site

Wantong Production Site

† Jinlan Production Site

Maintenance

The Group has implemented an efficient and effective maintenance system for its equipment and facilities, which generally enables the Group to run its production facilities at close to full capacity. The Group has not experienced any material or prolonged stoppages of its facilities due to equipment or facility failure.

The Group's blast furnaces run for a period of seven to eight years between major overhauls. A major overhaul of a blast furnace requires approximately one month. Major overhauls of the Group's converter furnaces occur every ten months to two years, depending largely on the length of service time. A major overhaul of a converter furnace requires approximately 15 to 25 days. In an effort to minimize interruptions to operations, major overhauls of the Group's blast furnaces and converter furnaces are generally staggered to avoid the simultaneous shutdown of two or more furnaces.

Quality Control

The ability to deliver steel products of a consistently high quality to its customers is critical to the success of the Group's business. The Group aims to achieve this by implementing quality control over both its purchased raw materials and its products.

The Group has instituted quality control measures to ensure that the quality of the purchased raw materials will allow it to meet the specifications of its different products.

With respect to its products, the Group has in place a quality control system to ensure that its products meet the applicable national or international standards, including those governing the chemical compositions of its products. At the end of the production process, physical, chemical and metallographic analyses are conducted on the steel products on a sample of the steel products to ensure that their mechanical and dimensional properties, strength and chemical composition meet applicable national or international standards prior to delivery to the Group's customers.

The Group has been accredited with ISO9001:2008 for its quality management system production process and product quality control in general. The Group has received a number of quality control standard credentials for its H-section products quality:

- BC1:2008 (Building and Construction Authority (Singapore));
- JZSG3101 (Japanese Industrial Standardization Law);
- 89/106/EEC (Construction Products Directive EC Europe); and
- KS D 3503 (Korean Industrial Standardization Act).

Competition

In China's fragmented steel industry, there are a large number of steel manufacturers although there is a trend of industry consolidation. See "Industry Overview — China's Steel Industry — China's Steel Production — Key steel producers in China" and "Industry Overview — China's Steel Industry — China's Steel Production — Key steel producers in Hebei Province." The Group and its competitors compete primarily on price, quality of products and delivery performance.

There are only a few companies in China which can produce H-section steel products, and among them, the Group is a market leader in China for H-section steel products with a market share of 28.5% in 2009 based on the Group's domestic sales volume and China's total apparent consumption of H-section steel products according to data published by Steelwin.com. volume and China's apparent consumption and export of H-section steel products. In addition, market demand for H-section steel products has been growing primarily due to its increasing use in infrastructure projects. As a result, competition from these major competitors has not materially affected the profit margins of the Group's H-section steel products.

However, the Group faces intense competition in billets, cold-rolled sheets, galvanized sheets and steel bar products, partly due to the relatively low value-adding process involved in the production of these products and the relatively large number of suppliers in the market. The Group strives to optimize its product mix by adjusting production and sales volume of different products according to market conditions, including taking into account the profitability of each such product from time to time. For example, H-section steel products have a relatively more stable gross profit margin as compared to the Group's other products, and the sales volume of H-section steel products increased significantly in the past three years ended December 31, 2009 and the six months ended June 30, 2010. The Group's strips and strip products also enjoy relatively high margins and have experienced significant growth in both production and sales volume. The Group will continue to concentrate on products with high profit margins while gradually phasing out products facing increasing competition and having lower profit margins. Competition also comes from overseas steel manufacturers who supply the Chinese market, in particular, steel producers in Japan, South Korea, Taiwan and Russia.

The Chinese steel industry, though highly fragmented at present, is undergoing a period of consolidation as encouraged by the PRC government's policies. Through its rapid development in the past decade, the Group has established itself as one of the most efficient and profitable steel producers in China, and the third largest steel producer in terms of production volume in the six months ended June 30, 2010 in Hebei Province, which is the largest iron ore and steel producing province in China. The Group believes its strengths in terms of scale, efficiency and profitability position it well to participate actively in industry consolidation. Moreover, the Group believes the highly fragmented steel sector in Hebei Province with many small-scale players will provide attractive acquisition opportunities. The management of the Group is experienced in the acquisition and integration of steel businesses as demonstrated by the successful integration of Jinxi Jinlan and Zhengda Iron and Steel into the Group's existing operations. Leveraging its strengths and experience, the Group is committed to achieving improved market share, production efficiency and economies of scale in the consolidation process, which will in turn improve the Group's overall competitiveness.

Research and Development

The Group's research and development activities primarily focus on the following three areas:

- research and development of new products, such as new H-section steel products, steel sheet piles and high speed wire rods and steel bar products;

- research on process and equipment improvements, such as optimizing the sintering process, improving the production efficiency of blast furnaces and improving the quality of existing products by improving processes and equipment; and

- market and industry research, such as research on market demand, investment opportunities, product trends and information on the competitors' products, prices and sales.

The Group's research and development laboratory works closely with the Global Research & Development Center of ArcelorMittal on the improvement of H-section steel production technology and the introduction of steel sheet pile production technology.

The Group collaborates with universities in the PRC on research and development. Jinxi Limited and College of Metallurgy and Energy of Hebei Polytechnic University jointly established Jinxi Iron and Steel Institution to work on product development, technology development and employee training. The School of Metallurgy and Resources of Anhui University of Technology and the School of Materials Science and Engineering of University of Science and Technology of Beijing also collaborates with the Group on a variety of research and development initiatives.

Employees and Employee Benefits

As of December 31, 2007, the Group had a total of 7,200 employees and temporary staff of 2,600 and as of December 31, 2008, the Group had a total of 9,400 employees and temporary staff of 640. As at December 31, 2009, the Group had a total of 13,167 employees and temporary staff of 2,187. As of June 30, 2010 the Group had a total of 13,095 employees and temporary staff of 3,146, approximately 1% of whom were engineers and technicians who had either a college degree or have completed technical school. In order to improve its productivity and further enhance the quality of its workforce, the Group has implemented continuing education and training programs for both the management staff and factory workers.

The table below sets forth the number of the Group's employees (excluding temporary staff) by function as of June 30, 2010:

Functions	Total
Management and administration	929
Production	11,018
Sales and marketing	191
Research and development and quality control	957
Total	13,095

In 2007, 2008, 2009 and the six months ended June 30, 2010, the Group incurred total staff costs of RMB433.7 million, RMB340.3 million, RMB471.8 million and RMB269.5 million, respectively.

The compensation packages of the Group's senior and mid-level managers generally consists of a basic salary and a performance-based bonus. The compensation structure is generally designed to tie the employees' compensation package to their productivity and/or sales performance, as well as their ability to meet the Group's quality control and cost control targets. The Group enters into individual employment contracts with its employees.

The Group has a share option scheme for its directors and eligible employees. The Group may grant options in the future in accordance with the terms of the scheme.

In accordance with the applicable PRC regulations relating to social insurance, the Group participates in a pension contribution plan, an unemployment insurance plan, and a medical insurance and maternity insurance plan for its employees. Jinxi Limited currently contributes amounts equal to 10-20%, 1-2% and 5-6.5% and 1% of its employees' aggregate salaries, respectively, to the pension contribution plan, the unemployment insurance plan, and the medical insurance and maternity insurance plan as required, and Jinxi Jinlan contributes amounts equal to 10%, 0.5%, 6.0% and 0.5% of its employees' aggregate salaries to each of these plans as required, respectively. In addition, Jinxi Jinlan also contributes amounts equal to 1.5% of its employees' aggregate salaries to a worker's injury insurance scheme.

The Group is also required by applicable regulations to contribute to a housing fund for its employees. The Group has not made any contributions to the housing fund. As a result, the Group may be liable for any shortfalls with respect to housing fund contributions and may be subject to fines and other penalties.

The Group has a trade union, which is a member of the All China General Trade Union. The Group has not experienced any strikes, major labor disputes or stoppages. In accordance with applicable regulations, the Group is required to set aside an amount equal to 2% of its employees' aggregate salaries for a union fund.

In accordance with the applicable regulations, the Group is required to set aside an amount equal to 1.5% of its employees' aggregate salaries for a training fund.

For a summary of the relevant PRC rules and regulations on employee benefits, see "Summary of Relevant PRC Laws and Regulations — Laws and Regulations Relating to Employee Benefits."

Safety and Environmental Protection

The Group has a safety and environmental protection department, which oversees the Group's safety and environmental protection compliance. This department is responsible for supervising labor, hygiene and safety conditions and ensuring compliance with national and local safety and environmental protection laws and regulations, including pollution treatment and recycling of waste materials. The Group has implemented necessary safety and environmental protection measures and also conducts regular internal safety and environmental inspections to minimize the occurrence of work-related accidents, diseases and environmental contamination.

Workplace safety

The Group follows government regulations in adopting its safety rules and requires that all employees follow these safety rules. Safety-related education is also provided to employees and safety standards are established in connection with matters such as purchasing new equipment, constructing new facilities and improving existing facilities. The Group also maintains worker's injury insurance coverage for its employees. See "— Insurance." However, the nature of its business is such that inherent risk of injury to employees in the production process is relatively high. The Group has not had any work-related fatalities or serious injuries at its production facilities since the beginning of 2000. For a summary of the relevant PRC Work Safety Laws and regulations, see "Summary of Relevant PRC Laws and Regulations — Laws and Regulations Relating to Safety."

Environmental protection

The business of producing steel products necessarily involves the discharge of pollutants, including waste water and waste emission of gases and dust. The Group's steel production activities are subject to China's national environmental protection laws and regulations as well as local environmental protection regulations of Hebei Province, Guangdong Province, Tangshan City and Foshan City. These include, among others, regulations on waste discharge, land repair and emissions disposal. For example, the maximum amount of pollutants that the Group may release is subject to applicable national or local discharge limits. For a summary of the relevant PRC environment laws and regulations, see "Summary of Relevant PRC Laws and Regulations — Laws and Regulations Relating to Environmental Protection."

The Group does not meet all the environmental protection requirements. See "Risk Factors — Risks Relating to the Group's Business and the Industry — The Group faces significant costs to comply with relevant environmental protection laws and regulations, and failure to comply with such laws and regulations could subject it to fines, rectification orders, suspension or cessation of production." In 2007, 2008 and 2009 and as of the date of this document, the Group was not and has not been subject to any fine exceeding RMB100,000 for any violation of environmental protection laws and regulations.

The Group incurs ongoing costs in order to comply with current standards under the national and local environmental protection laws and regulations, such as the cost of installing on-site waste treatment facilities.

Insurance

As of June 30, 2010, Jinxi Limited maintained insurance coverage with China Pacific Property Insurance Co., Ltd., Tangshan Branch, with an aggregate insured amount of RMB8,987.8 million to cover its main fixed assets and equipment. As of June 30, 2010, Jinxi Jinlan maintained insurance coverage with Ping An Property and Casualty Company Limited, Foshan Branch and Huatai Property Insurance Company of China Limited, Foshan Branch with an aggregate insured amount of RMB235.2 million to cover its main fixed assets and property. As of June 30, 2010, Zhengda Iron and Steel maintained insurance coverage with China Pacific Property Insurance Co., Ltd., with an aggregate insured amount of RMB526.8 million for its fixed assets.

Consistent with what the Group believes to be standard practice in its industry in China, it does not currently maintain insurance coverage for third party liability, business interruptions or environmental damage arising from accidents on its property or relating to its operations. It also does not maintain any insurance coverage against certain natural disasters, such as earthquakes. See "Risk Factors — Risks Relating to the Group's Business and the Industry — The Group may not maintain sufficient insurance coverage for the risks associated with the operations of its business."

Real Property

Jinxi Limited owns a parcel of land with 28 completed buildings and various ancillary structures that support its steel production activities, located in Qianxi County, Hebei Province, China. All of Jinxi Limited's production facilities are on this parcel of land, except for the medium and small-sized H-section steel production line and the large-sized H-section production line, each of which is located on another parcel of land. The total area of this parcel of land is 766,670 square meters, and the total gross floor area of the 28 buildings and structures is 154,919.09 square meters. Pursuant to a State-owned Land Use Rights Certificate, Qian Guo Yong (2003) Zi Di no. 573 dated August 11, 2003, Jinxi Limited has obtained granted land use rights for the above land for a term of 50 years commencing from August 11, 2003 for industrial use. The two parcels of land on which the medium and small-sized and the large-sized H-section steel production lines are located have a total site area of approximately 540,312 square meters and Jinxi Limited is still in the process of obtaining land use right certificates. Jinxi Limited is also in the process of obtaining land use right certificates for the land owned by Jinxi Limited with a total site area of approximately 17,800 square meters for its employees' dormitory. In addition, the Group owns ten units in one floor of an office building in Beijing, with a total gross floor area of approximately 1,736 square meters.

Jinxi Jinlan owns two parcels of land with 14 completed buildings and various ancillary structures that support its steel production activities, located in Foshan City, Guangdong Province, China. All of Jinxi Jinlan's production facilities are located on these two parcels of land. The total area of the two parcels of land is 284,923 square meters and the total gross floor area of the 14 buildings and structures is 95,135 square meters. Pursuant to a State-owned Land Use Rights Certificate, Ming Guo Yong (2005) Di no. 219 dated January 24, 2005 and a State-owned Land Use Rights Certificate, Ming Guo Yong (2005) Di no. 222 dated January 24, 2005, Jinxi Jinlan has obtained granted land use rights for both parcels of land each of which has a term of 50 years commencing on January 21, 2005 for industrial use. Shenzhen Leasing is in the process of obtaining land use right certificates for the land owned by Shenzhen Leasing with a total area of approximately 121.9 square meters for its employees' dormitory.

Boyuan Real Estate was incorporated on December 17, 2009. Pursuant to a land use right transfer agreement dated as of January 5, 2010, Boyuan Real Estate acquired a land use right in Qianxi County, Hebei Province, China, from the local Bureau of Land and Resources, at a total cash consideration of approximately RMB193 million. The useful life of the land use right is 40 to 70 years, depending on the future usage of the land. The construction area is 310,000 sq.m. and development planning for the site has begun. The project will be developed over three phases as a residential community targeting relatively high-income families in the area. The entire project is expected to be completed in four years.

Zhengda Iron and Steel leased a parcel of land with an area of 1,333,340 square meters from Hengfeng Iron and Steel. However, Hengfeng Iron and Steel has not obtained the land use right for such land.

Scrap Recycling

On September 16, 2010, the Company and the Caofeidian Industrial Management Committee, a local government committee, entered into a cooperation agreement, pursuant to which the Company has agreed to invest in the Caofeidian Industrial Zone in Tangshan City, Hebei Province, China, to develop a scrap recycling business involving the use of scrap metal and other materials for the manufacturing of steel products. Under the cooperation agreement, which is legally binding, the Caofeidian Industrial Management Committee has agreed to grant the Company a parcel of land located in the Caofeidiain Industrial Zone at a consideration of approximately RMB150 per sq.m for a land use right of up to 50 years. The land is to be used for industrial purposes and has a site area of approximately 200,000 sq. m. The expected total investment by the Company under the cooperation agreement will be approximately US$100 million. By entering into the scrap recycling business, the Group believes that the scrap recycling business will be in line with the environmental policies that are being promoted by the PRC government and that it will further diversify the Group's existing product portfolio. The project is currently in a preliminary planning stage and is subject to the receipt by the Group of the relevant government permits and licenses, among other things.

Intellectual Property Rights

The Group uses a number of trademarks and trade names in connection with its business. The Group has registered the following three trademarks in the PRC:

“ ”, “ ” and “ ”

The Group also has three patents for its proprietary technologies, including (1) a gas purifier with cleaning and drying functions, (2) liquid steel purification in tundish, and (3) an effective horizontal cyclone displacement separator.

Legal Proceedings

The Group may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of its business.

The Group believes that these legal proceedings will not have a material adverse effect on its business, financial condition or results of operations. As of the date of this document, the Group is not, to the best of its knowledge, aware of any litigation, arbitration or administrative proceedings pending or threatened against it or any of the Company's directors which could have a material adverse effect on its business, financial condition or results of operations.

Consolidated Subsidiaries

Please refer to the relevant notes to the consolidated financial statements included elsewhere in this document.

Laws and Regulations Relating to the Steel Business

The PRC government formulates policies for the iron and steel industry from time to time, and the NDRC is responsible for examining and approving investment projects in the steel and iron industry.

On February 25, 1994, the General Office of the State Council promulgated the *Notice of Opinion Concerning the Promotion of Sustainable Growth of the Iron and Steel Industry* jointly issued by the State Economic and Trade Commission and Ministry of Metallurgy (Guo Ban Fa [1994] No. 55), which stressed the need to facilitate the acceleration of key technology reform by existing enterprises, promote the optimization of the structure of the iron and steel industry and support the reform and development of the mining industry and mining enterprises. The notice also prescribed that a new mechanism to introduce new technology and equipment should be put into place under which an integrated department would be established to oversee the adoption, development and promotion of such new technology and equipment.

To prevent over-capacity in the industry, on November 19, 2003, the NDRC, the Ministry of Land and Resources, the Ministry of Commerce, MEP and the China Banking Regulatory Commission ("CBRC") jointly promulgated *Several Opinions Concerning the Prohibition of Irrational Investment in the Iron and Steel Industry* (the "Irrational Investment Opinions"). The Irrational Investment Opinions have increased the minimum requirements for construction of iron and steel production facilities and imposed more restrictive criteria on iron and steel manufacturers in matters concerning production capacity, land use, environmental protection measures, credit management and manufacturing technology.

On April 26, 2004, the State Council promulgated the *Circular on the Adjustment of the Proportion of Capital Funds for Fixed Asset Investment Projects of Certain Industries*, raising the proportion of internally generated funds required to invest in iron and steel projects from 25% to 40%.

To regulate investment activities in the industry, on April 30, 2004, the NDRC, PBOC and CBRC jointly promulgated the *Notice of Relevant Issues for Further Strengthening the Coordination of Industry Policy and Credit Policy to Control Credit Risk* (the "Strengthening Notice") and the *Catalogue on Refraining Overlapped and Low-level Repeated Construction in Several Industries* (the "Refraining Catalogue"). The Refraining Catalogue has classified some investment projects as "prohibited" and some others as "restricted." Under the Strengthening Notice, operators of prohibited projects must cease construction work immediately, close down their existing operations and may not borrow additional bank loans in connection with such projects. Operators of restricted projects must withdraw their application for examination and approval of such projects and cease construction work immediately.

Pursuant to the Decisions of the State Council on the Reform of Investment System dated July 16, 2004 and the *Catalogue of Investment Project Requiring Approval by the Government* (2004), iron ore exploitation projects with a proved industry reserve of 50 million tonnes or more, and any steel manufacturers seeking to increase the production capacities of their iron-smelting, steel-smelting and steel rolling plants must obtain prior approval from the NDRC.

On October 9, 2004, the NDRC promulgated the *Interim Measures for the Administration of Examining and Approving Foreign Investment Projects*, pursuant to which:

- Projects in the encouraged or permitted industries as classified in the *Catalogue of Industries for Guiding Foreign Investment* with total investment less than US$100 million, or projects in the restricted industries with a total investment less than US$50 million, are subject to the examination and approval of a Development and Reform Commission at the provincial level.

- Projects in the encouraged or permitted industries with a total investment of US$100 million or above, or projects in the restricted industries with a total investment of US$50 million or above, are subject to the examination and approval of the NDRC.

- Projects in the encouraged or permitted industries with a total investment of US$500 million or above, or projects in the restricted industries with a total investment of US$100 million or above, are subject to the examination of the NDRC and approval of the State Council.

To offer guidance on the long-term development of the domestic iron and steel industry, the *Policies on Development of the Steel and Iron Industry* (the "New Policies") were promulgated in July 2005 by the NDRC with the authorization of the State Council. As China becomes a major steel and iron producer, the New Policies seek to encourage the growth of the industry and to increase the industry's competitiveness in the global market. Under the New Policies:

- Steel manufacturers shall contribute at least 40% of the total investment of their projects with funds generated internally.

- Any adjustments in the geographical distribution of iron and steel manufacturers shall take various factors into account, such as the availability of mineral, energy and water resources, communications and transportation infrastructure, environmental issues, market demand and dependence on foreign resources. Large steel and iron enterprises are expected to concentrate in coastal regions.

- Existing manufacturers are required to comply with specified standards regarding production equipment quality and process efficiency through technological improvements and replacement of outdated production equipment.

- Manufacturers are required, subject to changes in the industry cycles, to improve their manufacturing processes in order to use energy resources more efficiently, recycle materials, where applicable, and minimize pollution.

- Strategic alliances by means of collaboration between entities, mergers, restructurings and reciprocal shareholdings are encouraged in order to enhance the overall structure of the industry and to facilitate technological upgrade within enterprises. The emergence of conglomerates following this policy is expected to result in a decrease in the number of iron and steel enterprises and an increase in the concentration of the industry, thus optimizing the structure of the iron and steel industry and benefiting companies by raising standards.

- Investment in any iron and steel project shall be subject to the examination and approval or verification of the NDRC in accordance with relevant provisions.

- Foreign investors are generally not allowed to acquire controlling interests in domestic iron and steel enterprises. Foreign investment in the iron and steel industry shall be integrated with the reform or relocation of the existing iron and steel enterprises, and no new foreign-invested enterprises ("FIEs") in the iron and steel industry shall be established. Foreign iron and steel enterprises investing in the iron and steel industry in China shall have their own intellectual property rights with regard to iron and steel-making techniques, and their volume of production in the previous year shall have reached certain quantitative criteria (for ordinary steel, 10 million tonnes per year, and for special alloy steel, 1 million tonnes per year). Non-iron and steel enterprises of foreign countries investing in the iron and steel industry in China shall have sufficient funds and a good credit ranking.

To guide industrial investment, on December 2, 2005, the NDRC promulgated the *Guidance Catalogue of the Adjustment of Industrial Structure (2005)* (the "Adjustment Catalogue"), and the State Council promulgated the *Tentative Rules on the Promotion of Adjustment of Industrial Structure* (the "Tentative Rules"). The Adjustment Catalogue classified a broad range of industrial activities into "encouraged," "restricted" and "eliminated" categories. The Tentative Rules prohibit new investments in industrial activities in either the "restricted" or "eliminated" categories, and businesses operating in the "eliminated" industrial activities are required to cease operation immediately or within a stipulated period.

Foreign investments in the PRC iron and steel industry are generally permitted. However, under the *New Guidance on Foreign Industrial Investment* (amended in 2004), promulgated by the Ministry of Commerce and the NDRC on November 30, 2004, some foreign investment projects, such as the production of heavy and medium plates and the processing of galvanized steel plates and steel scrap, have been moved from the "encouraged" class into the "permitted" class. The provision was abolished on December 1, 2007.

On March 12, 2006, the State Council promulgated the *Notice on Accelerating Structural Adjustment on Industries with Excessive Production Capacity* (Guo Fa [2006] No. 11), which stipulates that due to the apparent excess production capacity prevailing in the iron and steel, coking and other industries, actions shall be taken to strictly control the roll out of new projects, eliminate outdated production capacity and encourage merger and acquisition activities within the relevant industries so as to promote the creation of several iron and steel groups with an annual production capacity of more than 30 million tonnes.

On April 29, 2007, the NDRC promulgated the Emergency *Notice Concerning Accelerating Structural Adjustment of Industries in order to Curb Further Blind Expansion of High Energy Consumption Industries*, which provides that investment in new projects or renovation of existing projects which have high energy consumption and are in violation of the industrial policies of the State and the conditions for market entry, or which are unsustainable in terms of energy or resources or environmentally unfriendly, is strictly prohibited. Under such notice, tax reductions and exemptions, together with other preferential treatment, are strictly prohibited as a means to attract investment and commence new projects. The ultimate goals are to further increase the threshold for market entry and eliminate enterprises with outdated production capacity which have high energy consumption levels and are heavily polluting.

On June 14, 2006, the NDRC, the Ministry of Commerce, Ministry of Land and Resources, MEP, the General Administration of Customs, the General Administration of Quality Supervision, Inspection and Quarantine, CBRC and China Securities Regulatory Commission ("CSRC") jointly published the *Notice on Total Output Control, Outdatedness Elimination and Structure Adjustment Acceleration of the Iron and Steel Industry*. This notice emphasizes the importance of stable development of the industry without drastic fluctuations and provides a full range of administrative measures to improve the control of iron and steel output, reduce outdated production capacity and accelerate structural adjustment of the industry. It sets the target of reducing about 100 million tonnes of outdated iron production capacity during the period of the Eleventh Five-Year Plan (2006-2010), and 55 million tonnes of outdated steel production capacity before 2007. In particular, blast furnaces below the capacity of 200m3 and converters/electric furnaces below the capacity of 20 tonnes shall be eliminated by 2007, while blast furnaces below the capacity of 300m3 shall be eliminated by 2010. This notice also encourages technological improvement and innovation by iron and steel manufacturers, as well as investments and acquisitions among large iron and steel manufacturers to achieve a higher concentration of the iron and steel industry.

The issuance of licenses to steel manufacturers is governed by the *PRC Regulations on the Administration of Production Licenses for Industrial Products* and its detailed implementation rules, which were promulgated by the State Council and the General Administration of Quality Supervision, Inspection and Quarantine in July 2005 and September 2005, respectively. Such measures prescribe a national licensing system for the manufacturing of important industrial products with emphasis on homeland security, health and safety of the public and animals and environmental protection. In connection with such measures, the central government has compiled and published the *Catalogue of Products Subject to Manufacturing License for Industrial Products* (the "Catalogue"), and a manufacturer of products listed in the Catalogue is required to comply with the measures. For example, such manufacturer is required to obtain from the General Administration of Quality Supervision, Inspection and Quarantine a manufacturing license, and the products must comply with the labelling requirements.

To minimize harm to the environment and ensure public safety, operations specified in the *Notice of Relevant Issues regarding Further Cooperation on Industry Policy and Credit Policy and Control of Credit Risk*, which was jointly published by the NDRC, PBOC and CBRC on April 30, 2004, and the *Catalogue on Refraining Overlapped and Low-level Construction in Several Industries* are prohibited. Such prohibited operations include projects that seriously endanger production safety, cause serious environmental pollution, manufacture products below the relevant national standards, result in excessive raw material or energy consumption, or involve items that are prohibited under this catalogue or other applicable laws. Iron and steel manufacturers engaged in such projects are required to close down the related operations and are not permitted to apply for bank loans in connection with such operations.

On March 6, 2008, the General Office of the Ministry of Commerce promulgated the *Guidance Opinion on the National Tasks for Absorbing Foreign Investment for 2008* (Shang Zi Zi [2008] No.7), which specifies that the State will continue to strengthen its control over foreign investment in the iron and steel as well as cement sectors and to impose stringent measures to restrict enterprises with high energy consumption and emission levels from entering the PRC market.

On March 29, 2008, the State Council promulgated the *Notice Concerning the Publication of the Key Tasks for 2008* (Guo Fa [2008] No. 15), which requires that more efforts should be made in respect of energy saving, emission reduction and environmental protection. The notice stipulates that input should be given to strengthen and modernize the production capacity of enterprises in the electricity, iron and steel, cement, coal, pulp and paper and other industries by implementing plans to exclude companies with outdated production capacity in those industries, establishing a mechanism to rule out companies with outdated production capacity as well as perfecting and implementing the ancillary policies in connection with the closure of such companies.

On March 20, 2009, the General Office of the State Council issued the *Blueprint for the Adjustment and Revitalization of the Iron and Steel Industry*, which sets forth the objectives for development of the PRC steel industry from 2009 to 2011. According to this blueprint, it is the PRC government's intention for the PRC steel industry to change significantly by 2011, with enhanced technology, innovation and competitiveness, as well as serve as a pillar industry in the PRC. These objectives include, among others, (1) significant improvement of the industry's energy conservation and emission reduction efforts; (2) replacement of obsolete capacity; (3) enhancement of technological innovations; (4) enhancement of products innovations; (5) stabilization of total production volume. The PRC government will also focus on these areas, among others: (1) maintaining stability of domestic market and improving the export environment; (2) promoting corporate restructuring to consolidate the industry; (3) strengthening and promoting technological innovation; (4) adjusting the composition of steel products to enhance their quality; and (5) sourcing from both domestic and overseas markets to ensure product safety. To achieve the above objectives, the PRC government plans to take measures such as: (1) adjusting import and export taxation rate for certain products; (2) implementation of a fair trading policy; (3) further increase investment in technology; (4) further improvement of the corporate restructuring policy; (5) improvement of the standard of construction steel; and (6) implementing a financing policy on a case-by-case basis, for example, to provide support to those companies that are required to comply with environmental, land and investment rules in connection with bank loans, debt securities and IPO, among others.

On April 24, 2009, the Ministry of Industry and Information Technology issued *Emergency Notice on Curbing the Excessive Production Growth of the Steel Industry* (Gong Xin Bu Yuan [2009] No. 191), which stated the contradictions and problems of the steel industry: severely excessive production of steel, particularly in steel sheet; high proportion of obsolete capacity and hasty expansion of production; and excessive growth of iron ore imports which may lead to operational risks. The Ministry of Industry and Information Technology decided to curb the excessive growth of output, proactively adjust product composition, accelerate the elimination of outdated capacity and strictly prohibit unapproved expansion projects. The Ministry of Industry and Information Technology also strengthened technology transformation and corporate management as well as regulating steel trading and iron ore imports.

On September 26, 2009, *Notice of the State Council on Ratifying and Forwarding Several Opinions of the National Development and Reform Commission and Other Authorities on Curbing Excess Capacity and Redundant Construction in Some Industries and Guiding the Sound Development of Industries* (Guo Fa [2009] No. 38) was promulgated, which provides that "Iron and steel projects purely for new construction or capacity expansion purposes will no longer be approved or supported." Throughout China, it is strictly forbidden to construct iron and steel projects in the name of equivalent elimination of outdated production capacity so as to circumvent the regulation and approval by the competent authorities in charge of environmental, land and investment matters. Environmental impact assessment documents for high energy consumption and high pollution level projects (such as iron and steel projects) should only be accepted and approved upon passing the industry planning and environment evaluation. For projects not conforming to the industry policies and land use policies, or not meeting the requirements of the current *Control Indices in respect of Land Used for Construction Purpose in Industrial Projects* or other indices in respect of land used for the relevant engineering and construction projects, the use of land must not be approved. For projects which have not completed the appropriate approval or verification procedures as required, no land shall be supplied. For projects which have neither met the requirements of key industrial adjustment and revitalization plans or the related industry policies, nor completed the appropriate approval or verification procedures as required, no financial institution is allowed to grant loans for such projects, and loans already granted must be rectified in a proper manner. Competent authorities in charge of investment at all levels shall further strengthen the administration of approval of projects of industries experiencing excess production capacity (such as iron and steel projects). In principle, no capacity expansion projects shall be approved, and no approval authority shall be delegated to subordinate departments. During the approval procedure, separating the entire project into various parts in order to avoid certain approval requirement, as well as other irregular practices, are strictly prohibited.

On October 15, 2009, *Notice of the Ministry of Land and Resources on Thorough Implementation of the Notice of the State Council on Ratifying and Forwarding Several Opinions of the National Development and Reform Commission and Other Authorities on Curbing Excess Capacity and Redundant Construction in Some Industries and Guiding the Sound Development of Industries* was promulgated (Guo Tu Zi Fa [2009] No. 139), which provides that "Land used for new and/or expansion projects involving excess capacity and redundant construction in violation of the State's macro-economic control policy shall in no event be accepted for registration."

On December 22, 2009, *Guiding Opinions of the People's Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission on Further Improving Financial Services to Support Key Industrial Adjustment and Revitalization and to Restrain Excess Capacity in Certain Industries* was promulgated (Yin Fa [2009] No. 386), which provides that "No credit support shall be granted to any project which is in violation of the industry policies, market entry threshold, technology specification or is in lack of the required capital. For projects carried out by industries experiencing excess capacity, stringent loan review and approval procedure shall be applied."

On June 4, 2010, in order to finalize the *Blueprint for the Adjustment and Revitalization of the Steel Industry* (鋼鐵產業調整和振興規劃), realize the energy conservation and emission reduction targets promulgated by the central government in its "Eleventh Five-year" plan, and accelerate the restructuring of the steel industry, General Office of the State Council issued Guo Ban Fa No. [2010]

34 "*A number of Opinions on further enlarging energy conservation and emission reduction and accelerating steel industrial structural adjustment*(關於進一步加大節能減排力度加快鋼鐵工業結構調整的若干意見)", providing relevant opinions on energy conservation and emissions reduction and restructuring of the steel industry, including (1) effectively inhibiting excessive investment and redundant construction; (2) strictly implementing the approval and review procedures for steel projects; (3) perfecting the withdrawal mechanism of outdated industrial capacity; (4) strengthening the implementation of the elimination of obsolete industrial capacity; (5) promoting energy conservation and emissions reduction in the steel industry; (6) adjusting the import and export structure of steel products; (7) clarifying the target of mergers and restructuring for steel enterprises; (8) duly optimizing and finalizing the measures for promoting mergers and restructuring of steel enterprises; (9) actively supporting the technology innovation for steel industry; (10) giving more support for technology upgrades of steel corporations; (11) strengthening the self-discipline, standardizing the process of iron ore imports; (12) establishing long term stable import channels for iron ore; (13) promoting the exploration and development of domestic iron ore resources; (14) further promoting the "going out" strategy, supporting the steel enterprises to fully utilize the two markets and two resources, strengthen foreign investment and transnational business, deepen economic and technological cooperation; (15) strengthening the organization and coordination of all relevant authorities, paying close attention to all fields of works.

In order to strengthen steel industry management and to regulate production and operational order in current steel enterprises, Ministry of Industry and Information Technology promulgated *Production and Operation Standardization in Steel Industry*(鋼鐵行業生產經營規範條件)according to Opinions on further enlarging energy conservation and emission reduction and accelerating steel industrial structural adjustment by General Office of The State Council(國務院辦公廳關於進一步加大節能減排力度加快鋼鐵工業結構調整的若干意見)and requirements of relevant laws, regulations and policies on June 21, 2010, which provide for standardized management to current steel industry enterprises with regard to product quality, environment production, energy consumption and integrated utilization of resources, process and equipment, production scale and safety and hygiene and social responsibility as a basis for the project to approval or record, resource allocation, issuing construction steel production licenses, regulating iron ore operation order, promoting elimination of outmoded steel production capacity and so on by relevant competent departments. For those enterprises which do not meet the conditions above, reforms must be conducted, and for those enterprises which do not satisfy the requirements after reform, each department and relevant authority will set restrictions on issuing construction steel production licenses, credit aid, use of iron ore, approval or recording project, mine resources and land allocation, and gradually withdrawal from steel production.

Pursuant to the *Notice of Implementating and Carrying Out Opinions on Further Increasing Energy Conservation and Emission Reduction and Acceleration Steel Industrial Structural Adjustment the by General Office of The State Council* issued by the Ministry of Industry and Information Technology on August 9, 2010《工業和信息化部關於貫徹落實<國務院辦公廳關於進一步加大節能減排力度加快鋼鐵工業結構調整的若干意見>有關工作的通知》, all of the existing steel enterprises in the PRC shall be regulated by Production and Operation Standardization in Steel Industry (《鋼鐵行業生產經營規範條件》) and relevant local administration authorities are required to arrange for standardization and administration of steel enterprises under their jurisdiction. Steel enterprises which do not comply with the Standardization will be required to rectify their related problems and enterprises with gross pollution, low equipment levels and production quality will be required to terminate their business in the steel industry gradually.

Laws and Regulations Relating to the Coking Business

On May 27, 2004, the NDRC, Ministry of Finance, the Ministry of Commerce, Ministry of Land and Recourses, SAIC, State Administration of Taxation, MEP, CBRC and State Electricity Regulatory Commission jointly promulgated *Several Opinions on Screening and Rectification of the Coking Industry* (the "Rectification Opinions") to reduce heavy pollution in the coking industry. The Rectification Opinions require environmental protection authorities to collect pollutant discharge fees, postpone approvals for environmental impact assessments and postpone the issuance of pollutant discharge permits. Authorities in charge of investment at all levels are required to suspend issuance of approvals for new project proposals, except for coking projects which relate to the construction of ancillary facilities by key major iron and steel enterprises of the State and those required for the provision of gas supply for urban citizens. Land authorities are required to suspend review of land use right applications from coking enterprises, and administrations for industry and commerce are required to refuse the registration of coking companies. The Rectification Opinions expressly provide for the conditions of market entry applicable to coking investment and construction projects.

On December 16, 2004, the NDRC issued the *Conditions of Market Entry for the Coking Industry*, which specified the conditions for market access to the coking industry and required a public announcement of all enterprises meeting the market entry conditions. On June 17, 2005, the NDRC issued the *Notice on Strengthening the Administration of Market Entry of Coking Production Enterprises* ("Strengthening Notice") and the interim implementation procedure for the public announcement of the qualified coking enterprises ("Interim Procedure").

Pursuant to the *Strengthening Notice and Interim Procedure*, any enterprise engaging in the coking business is subject to approval by the NDRC upon satisfaction of certain qualification preconditions. Such qualification preconditions include, among other things, having independent legal status, complying with regulatory requirements on technical equipment, energy saving and environmental protection, comprehensive utilization of resources and product quality, complying with coking industrial plans of the province in which the coking enterprise is located, complying with approval, verification or filing requirements with respect to commencement of project, land use, environmental impact assessment and construction and complying with applicable laws and regulations.

To implement the State Council's Circular on Acceleration of Structure Adjustment of Industries Over Capacity, the NDRC promulgated the *Notice on the Guiding Opinions on the Acceleration of Structure Adjustment of the Coking Industry* (the "Acceleration Notice") on March 22, 2006. Under the Acceleration Notice:

- In order to control the production capacity of the coking industry and meet market demand, administrative authorities shall strictly examine and approve any project proposal, land use right application, environmental impact assessment and power supply proposal for new coke production projects in accordance with the *Conditions of Market Entry for the Coking Industry*.

- To eliminate outmoded production facilities, coke ovens with a carbonizing room below 4.3m shall be eliminated by 2007, except for those in western China which shall be eliminated by 2009.

- The NDRC shall periodically publish the enterprises which meet the requirements of the *Conditions of Market Entry for the Coking Industry*.

- Proper measures shall be adopted to regulate prospecting of coal mines for coke production.

- Companies in the coking industry shall meet the applicable emission standards.

On December 19, 2008, the Ministry of Industry and Information Technology issued the *Conditions for Accessing the Coking Industry (revised 2008)*, which further increased the entry barriers to the coking industry.

On April 24, 2009, the Ministry of Industry and Information Technology issued the *Notice of Problems Relating to the Further Improvement of the Announcement Management on Accessing the Coking Industry* (Gong Xin Ting Chan Ye [2009] No. 79), which made provisions for matters on announcement management relating to the transition from the previous *Conditions for Accessing the Coking Industry* (NDRC Notice in 2004, No. 76) to improve the coking industry's structural adjustment and industrial upgrade.

According to the *Admittance Conditions of Coke Production Industry* (Chan Ye [2008] No. 15) issued by the Ministry of Industry and Information Technology of the PRC on December 19, 2008, minimum height and volume of new carbonization chamber of coke ovens are 6.0 meters and 38.5 cubic meters respectively; minimum height of new carbonization chamber of stamping coke ovens is 5.5 metres; minimum volume of stamping coke cake is 35 cubic metres; minimum annual production capacity of the relevant producer is one million tonnes. Minimum unit annual production capacity of new vertical carbonized oven is 75,000 tonnes; minimum unit annual production capacity is 300,000 tonnes; minimum annual production capacity of the relevant producer is 600,000 tonnes. Producers with annual production capacities of over 400,000 tonnes are not allowed to install new heat-recovery coke ovens. New coal tar processing plant shall have a minimum unit annual processing capacity of 150,000 tonnes anhydrous coal tar. New crude benzene processing plant shall use advanced technology such as benzene hydrogenation with a minimum unit annual capacity of 50,000 tonnes. Existing coal tar processing plants and acid-washing of crude benzene plants with unit annual processing capacities of 100,000 tonnes and below shall be phased out. New methanol production from coke oven gas shall have a minimum unit annual capacity of 100,000 tonnes. Coke production projects shall meet the resources and power consumption, by-product utilization and environmental protection standards stated in the admittance conditions within six months from the commencement of production. Projects fail to meet the standards within the prescribed period are liable to fines. In accordance with the relevant laws and regulations, environmental protect authority may demand the relevant entities to take remedial actions within a specified period or suspend operation.

The *Notice on the Admittance Conditions of Coke Production Industry by the Ministry of Industry and Information Technology* (Gong Xin Ting Chan Ye [2009] No. 79) issued on April 24, 2009 sets out the implementation rules of the Admittance Conditions Notice.

Laws and Regulations Relating to Environmental Protection

China has adopted extensive environmental laws and regulations with national and local standards for emissions control, discharge of waste water and storage and transportation, treatment and disposal of waste materials. At the national level, the relevant environmental protection laws and regulations include the *Environmental Protection Law, Law on the Prevention and Control of Air Pollution, Law on the Prevention and Control of Water Pollution, Law on the Promotion of Clean Production, Law on the Prevention and Control of Noise Pollution, Law on the Prevention and Control of Solid Waste Pollution, the Administrative Regulations on the Levy and Use of Discharge Fees and the Measures for the Administration of the Charging Rates for Pollutant Discharge Fees.*

Pursuant to the Environmental Protection Law, MEP is empowered to formulate national environmental protection standards and monitor China's environmental protection system at the national level. Local environmental protection authorities may set local standards stricter than national standards, and enterprises must comply with the stricter of the two sets of standards. Pursuant to the newly revised *Measures for the Archival Administration of Local Standards for Environmental Quality and Pollutant Discharge* (Ministry of Environmental Protection Order No.9) issued by the Ministry of Environmental Protection on January 28, 2010, governments in all provinces, autonomous regions and municipalities or their delegated administrative departments on environmental protection should file a record with the Ministry of Environmental Protection within 45 days of the date of releasing local standards for environmental quality and pollutant discharge.

The Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazards to establish an environmental protection responsibility system and adopt environmental protection measures in the course of its operations to control the disposal of waste materials. Any entity operating a facility that discharges pollutants, whether in the form of emissions, water, noise or other materials, must submit a pollutant discharge declaration statement setting out details of the treatment of such pollutants, upon which the local environmental protection bureau issues a pollutant discharge license to the entity specifying its permitted discharge amount subject to the payment of discharge fees. If an entity discharges more than the amount permitted under the pollutant discharge license, it shall pay a fee for the excessive discharge and shall assume responsibility for eliminating and controlling the pollution it caused. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a specified period of time, a fine may be imposed, and the enterprise may be ordered to suspend or close down its operations.

According to the Environmental Impact Assessment Law, enterprises are required to register or file an environmental impact assessment with the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. A new, expanded or renovated facility will not be permitted to commence operation unless the local environmental protection bureau has inspected and determined to its satisfaction that the requisite environmental protection equipment has been properly installed at the facility.

According to the *Notice of the Ministry of Environmental Protection of the PRC on Reinforcing the Examination of Clean Production of Key Enterprises* (Huan Fa [2008] No. 60) issued on July 1, 2008, for entities which have passed the examination and assessment of clean production, the relevant examination and assessment results shall form the basis of their discharge standards and shall be stated in their discharge permits. Entities failing to achieve their discharge reduction targets shall be subject to mandatory clean production examination to ensure the fulfilment of discharge reduction target.

According to the *Classification of Approval of Environmental Impact Assessment Report of Construction Project* (Huan Jing Bao Hu Bu Ling No. 5) issued on January 16, 2009, environmental impact assessment reports of construction projects approved by the State Council, projects approved by relevant departments under the State Council and projects of special nature registered with the relevant departments under the State Council shall be approved by the Ministry of Environmental Protection. Environmental impact assessment reports of other construction projects such as non-ferrous metal smelters, non-ferrous metals mining, steel processing, carbide, iron alloy and coke, which may have material environmental impacts, shall be approved by provincial environmental protection departments.

According to the *Notice of February 20, 2009 regarding the "List of Construction Projects with Environmental Impact Assessment Report Directly Approved by the Ministry of Environmental Protection and the List of Construction Projects with Environmental Impact Assessment Report Approved by Provincial Environmental Protection Departments under the Ministry of Environmental Protection,"* environmental impact assessment reports of iron mine projects with proven industrial reserves of over 50 million tonnes, new construction (including relocation) and expansion (including increase in production capacity resulting from technology improvement) of iron-making (including sintering, pelletizing, coking, direct reduction and smelting reduction) and steel-making projects, mining projects with total investments of over RMB500 million and projects with daily ore production of over 500 tonnes shall be directly approved by the Ministry of Environmental Protection. Environmental impact assessment reports of steel-rolling projects shall be approved by provincial environmental protection departments under the Ministry of Environmental Protection.

According to the *Notice of the Ministry of Environmental Protection of the PRC on the Implementation of Limitation of Excessive Production Capacity and Development in Certain Industries and their Healthy Development* (Huan Fa [2009] No. 127) issued on October 31, 2009, projects with respect to which the environmental impact assessment report has yet to start, is still pending approval or has been substantially revised shall not be accepted or approved. In principle, environmental impact assessment reports of expansion projects in industries with excessive production capacity, such as steel the industry, shall not be accepted and approved. Environmental impact assessment reports of construction projects essential for the phase-out of obsolete facilities and energy-saving and discharge reduction completed before the publication of the list of investment projects approved by the State shall be submitted to the Ministry of Environmental Protection for approval.

Laws and Regulations Relating to Energy Conservation and Emission Reduction

On August 6, 2006, the State Council issued a *Decision of Strengthening the Energy Conservation*, which requires the iron and steel industry, a key energy consuming industry, to accelerate the technological reform of energy conservation and reduce energy consumption. Pursuant to this decision of the State Council, the NDRC issued the *Notice on Strengthening the Energy Conservation Assessment and its Examination and Approval for Fixed-Assets Investment Projects* (the "Fixed-Assets Notice") on December 12, 2006. The Fixed-Assets Notice requires any feasibility study report of fixed-assets investment projects submitted to the NDRC to include an energy conservation analysis and the report prepared by assessment institutions to include an energy conservation assessment. On January 5, 2007, the NDRC further issued a *Guideline on the Energy Conservation Assessment and Examination for Fixed-assets Investment Projects* (2006) clarifying the relevant laws, administrative regulations and industrial standards applicable to the Fixed-Assets Notice.

On May 23, 2007, the State Council published *a Working Plan for Energy Conservation and Emission Reduction* (the "Working Plan"), which states that by the end of the "Eleventh Five-Year Plan (2006-2010)", the level of total energy consumption in terms of gross domestic production shall be reduced by 20%, and the total emission of major pollutants shall be reduced by 10%. Key sectors including the iron and steel industry shall try to achieve the above target by eliminating outmoded production facilities, encouraging the reuse of waste heat or pressure and developing recycling systems and clean production processes. The Working Plan also requires the governmental authorities to strictly regulate the construction of projects which have high energy consumption and are heavily polluting. All construction projects are subject to compliance with industrial policies, the conditions of market entry, completion of verification procedure, land planning, environmental impact assessment, energy conservation assessment and the examination of loan and credit conditions, public security and city planning.

To implement the Working Plan, on August 28, 2007, MEP and the NDRC jointly issued a *Notice on Accelerating the Examination and Approval of Environmental Impact Assessment for Investment Projects of Energy Conservation and Emission Reduction,* setting out policies for accelerating the examination and approval of environmental impact assessment for key energy conservation and emission reduction projects, ranging from water conservation industrial projects, projects of integrated utilization of resources and waste water treatment. On October 28, 2007, the Standing Committee of the National People's Congress adopted the revised Energy Conservation Law to implement an energy conservation evaluation and review system on all fixed asset investment projects. Under the revised Energy Conservation Law, governmental authorities should not approve the construction of any projects that are inconsistent with mandatory energy conservation standards, while fully constructed projects that fail to meet mandatory energy conservation standards are prohibited from commencing operation or production. Outmoded production facilities, equipment and production techniques which exceed mandatory energy consumption levels should be prohibited and eliminated. In addition, manufacturers which have a high energy consuming production process are subject to an energy conservation quota. On November 17, 2007, the State Council approved and forwarded the *Notice on the Implementing Proposals and Measures on the Compilation, Testing and Verification of Statistical Data Relating to Energy Saving and Emission Reduction* (Guo Fa [2007] No. 36), which specifies that comprehensive and standardized systems shall be set up to compile, test and verify statistics relating to energy saving and emission reduction in a scientific manner (the "Three Systems"). It stipulates that the incorporation of the progress of reducing energy consumption and eliminating pollution and emission into the integrated economic and social development assessment system of various regions is an assurance of the fulfillment of the energy saving and emission reduction objectives under the Eleventh Five-Year Plan. Specific proposals and measures have also been provided for in the notice in connection with unit's GDP and total amount of key major pollutants for the Three Systems. On November 27, 2007, the NDRC issued the *Notice on Energy Conservation and Emission Reduction for Small to Medium Sized Enterprises*. On November 23, 2007, CBRC issued the *Guiding Opinions on the Credit Work for Energy Conservation and Emission Reduction*, which requires banking institutions to cease all credit support for all construction projects that fall within the restricted or eliminated categories under the State industrial policies, except that entities in the restricted category which have been authorized by the State to upgrade production facilities may continue to receive credit support.

On August 29, 2008, *Circular Economy Promotion Law of the People's Republic of China* was published which came into effect from January 1, 2009. It regulated and encouraged the reduction, reuse and recycling in the process of production, circulation and consumption to promote circular economic development. The law required that a supervision management system should be implemented for key enterprises from the steel, nonferrous metal, coal, electricity, petroleum processing, chemical, building materials, construction, paper production, printing and dyeing industries with annual energy consumption and water consumption exceeding the prescribed national level.

On July 19, 2009, the State Council issued the *Notice on the Arrangement of Energy-saving and Emission-reduction Work in 2009* (Guobanfa [2009] No. 48), which required a stringent control of blind expansion of high energy-consuming and high emission industries and a strict implementation of national industry policy and project review regulations in the restructuring and revitalization planning of major industries such as steel, automobile, shipbuilding, petrochemical, light industry, textiles, nonferrous metals, equipment manufacturing, electronic information and logistics. It also strengthened reviews and assessments on land use, energy-saving and environmental impact to strictly control blind expansion of high energy-consuming and high emission industries. The law intensified efforts in eliminating obsolete capacity and announced the list of companies phasing out outdated capacity. It also promoted the merger and restructuring of outmoded corporations by large-scale enterprises, implemented electricity incentive policies and policies for relocating staff from eliminated capacity, issued guidance for energy-saving equipments and a list of eliminated high energy-consuming equipments to promote its replacement and develop circular economy.

According to the *Notice of the Ministry of Industry and Information Technology of the PRC on Reinforcing the Energy-saving Assessment and Review of Industrial Fixed Asset Investment Projects* (Gong Xin Bu Jie [2010] No. 135) effective on March 23, 2010, construction entities shall submit an independent energy-saving assessment report prepared by an energy-saving assessment firm to competent provincial department for endorsement before submitting feasibility study report of industrial fixed asset investment projects, application for approval or registration of projects. Energy — saving review endorsement is one of the requisite conditions for the approval, verification and filing of projects and its commencement.

In order to achieve the "eleventh five-year" goal of reducing unit GDP energy consumption rate by 20%, the *State Council issued the Circular on Further Strengthening Work to Ensure Realization of the "Eleventh Five-year" Goal of Energy Saving and Carbon Emission Reduction* (關於進一步加大工作力度確保實現"十一五"節能減排目標的通知) (2010 No. 12) on May 4, 2010. The Circular requires that (1) strengthen the use of energy management; (2) deepen the management of key energy conservation units; (3) promote energy conservation and emission reduction in key areas; (4) promote energy conservation technology and products vigorously; (5) perfect the economic policy of energy-saving and emission reduction; (6) accelerate the improvement of regulations and standards, and establish methods of energy conservation assess and review management for fixed assets investment products as soon as possible; (7) intensify inspection and supervision; (8) carry out the national activities of energy conservation and emission reduction; and (9) implement early warning control on the energy conservation and emission reduction.

Laws and Regulations Relating to Safety

According to the Safe Production Law that took effect on November 1, 2002, the State Administration of Safe Production of the PRC is charged with the nationwide administration of production safety. The Safe Production Law provides that manufacturers must satisfy the standards imposed by the State or the relevant industry. Manufacturers that do not meet the safe production conditions may not engage in production activities. Manufacturers shall provide education and training for their employees on safe production rules and regulations and safety procedures, and help employees to acquire the safety operational skills required for their work. Prior to the adoption of any new process or technology, the use of any new facilities or the upgrade and expansion of existing facilities, manufacturers and operators must have a full understanding of the features of the relevant technology and adopt effective safety and precaution measures. They should also educate and provide special training for their workers on safe production.

The Law on Mine Safety, effective May 1, 1993, provides that mining enterprises must possess facilities that ensure safety in production, establish and perfect safety management systems, adopt effective measures to improve working conditions and strengthen safety control in mines in order to ensure safe production. Specific provisions are as follows:

(1) The safety facilities of the mine construction projects must be designed, constructed and come into operation at the same time as the principal parts of the projects;

(2) Mining activities must satisfy the relevant protection and safety production conditions, and various mining safety rules and industry technical standards applicable to different types of mines should also be implemented during the mining process;

(3) Mining enterprises must establish and perfect the safety production accountability system under which the mining supervisor shall be responsible for the safety production matters of the company;

(4) Mining safety inspectors of the competent labor administration authority shall have the right to access a mining enterprise to conduct safety checks of the enterprise on the spot. Such inspectors shall demand the mining enterprise to promptly deal with any emergency event threatening the safety of the staff and workers if discovered; and

(5) In the event of any mining accident, the mining enterprise concerned must arrange for the rescue work immediately so as to prevent the spreading of the accident and to minimize casualties and property loss. Such enterprise must also immediately submit a factual report of any accident involving casualties to the competent labor administration authority and the authorities in charge of mining enterprises.

The *Provisional Rules on the Investigation and Handling of Safety Production Accidents (Order No. 16 of the State Administration of Safe Production of the PRC)*, effective February 1, 2008, provides that all manufacturers and operators shall establish a comprehensive system for the investigation and handling of any safety production accident and a comprehensive system for reporting and granting awards for lodging reports on safety production accidents. It is prescribed in the provisional rules that such manufacturers and operators shall individually compile statistics of their safety production accidents every quarter and at the end of every year. After analyzing those statistics and the handling of the safety production accidents, the manufacturers and operators shall submit their individual written statistics and analytical report no later than fifteen days before the following quarter and before January 31 of the following year to the safety administration and supervision authority as well as other relevant departments. The manufacturers and operators are also required to strengthen their preventive measures against natural disasters.

On September 8, 2009, the State Administration of Work Safety issued the *Regulation on the Supervision of the Production Safety of Metallurgical Enterprise*, which came into effect on November 1, 2009 and is applicable to the process of iron and steel making, steel rolling, ferroalloy manufacturing and the auxiliary production process supporting the main production in a steel manufacturing company. Pursuant to the regulation, metallurgical enterprises should comply with the laws, regulations, rules, national standards or industrial standards relevant to production safety. Metallurgical enterprises should establish a sound responsibility system and a management system for production safety, thus improving the safety of technical operation in various positions. Metallurgical enterprises with more than 300 employees should establish a management team for production safety comprising full-time management staff for safety production constituting not less than 3% of total employees. Metallurgical enterprises with fewer than 300 employees should employ full-time or part-time management staff for production safety. The safety and hazard prevention measures and facilities in newly constructed, reconstructed and expanded projects of metallurgical enterprises should be in compliance with the laws, rules, regulations, national standards or industry standards relating to production safety, and should be designed, constructed and put into operation simultaneously with the main project.

In accordance with relevant national laws and regulations, including the Labor Law and the Law on the Prevention and Treatment of Occupational Diseases, employers must ensure that their employees' working environment complies with State standards and requirements on occupational safety and health conditions of the employees. Employers should also provide employees with labor safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards.

The Labor Contract Law, which took effect on January 1, 2008, provides that an employing unit shall consult with the labor union or the employee-representatives on an equal basis before making any decision on matters relating to the safety and health of employees.

The *Safe Production of Metallurgy Enterprises*, published on September 8, 2009 is applicable to the supervision of the safe production of enterprises engaging in the iron-making, steel-making, steel-rolling and iron alloy production activities and steel enterprises with ancillary processing activities. Entities producing dangerous chemicals such as coke, oxygen and other gases, coal gas (excluding coal gas recycling) shall obtain safe production permits in accordance with national requirements. Special equipment operators must obtain special equipment operation qualification certificates and receive special safety training in accordance with national requirements. Safety and protection facilities against occupational hazards in respect of new construction, reconstruction and expansion of metallurgical projects (hereinafter referred to as "construction projects") shall comply with relevant safe production laws, rules and regulations and requirements of national standards or industry standards and shall be designed, implemented and put into production and operation simultaneously with major construction. Upon completion of safety facilities of construction projects, an external expertise with relevant qualifications shall be commissioned to conduct safety examination and assessments. Safety facilities of construction projects shall only commence production and operation upon passing examination. Preliminary operation safety assessment reports, safety reports, safety examination and assessment reports shall be filed to work safety departments. Radioactive material permit must be obtained for radioactive materials used in examination in accordance with relevant requirements. Staff of metallurgy entities shall be recruited through legal employment agencies. The employment agencies shall provide standard safe production education and training for labors in accordance with the contracts entered with the relevant metallurgy entities.

Laws and Regulations Relating to Foreign Investment

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce and CSRC, promulgated the *Rules on Acquisition of Domestic Enterprises by Foreign Investors* (the "M&A Rules"), a new regulation with respect to the investments and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus change the domestic company into a foreign-funded enterprise.

Foreign investment in the PRC iron and steel industry is generally permitted under the newly revised version of the *Foreign Investment Industrial Guidance Catalogue* (Amended 2007) (the "Guidance Catalogue"), which was jointly issued on October 31, 2007 by the NDRC and the Ministry of Commerce. However, under the New Policies, foreign investors are generally not allowed to acquire controlling interests in domestic iron and steel enterprises. Foreign enterprises should make investments in existing iron and steel enterprises that are in line with such existing enterprises' implementation program of reform and relocation, and no new FIEs in the iron and steel industry shall be established. Foreign iron and steel enterprises investing in the iron and steel industry in China shall have their own intellectual property rights on their iron and steel techniques, and their production capacities in the previous year must reach the State's requirements, such as 10 million tonnes per year for ordinary steel and 1 million tonnes per year for special alloy steel. Non-iron and steel foreign enterprises seeking to invest in the iron and steel industry in China must have sufficient funds and good credit ratings.

On March 6, 2008, the General Office of the Ministry of Commerce promulgated the *Guidance Opinion on the National Tasks for Absorbing Foreign Investment for 2008* (Shang Zi Zi [2008] No.7), which emphasizes the implementation of the newly amended Foreign Investment Industrial Guidance Catalogue and encourages foreign investment in the equipment manufacturing, new material manufacturing and other high and new technology industries in the PRC. It is also provided for in the guidance opinion also provides that measures shall be adopted to proactively work in line with the macroeconomic control policy of the State and to continuously enhance the management over foreign investment in iron and steel, cement, aluminum electrode and real estate sectors in order to restrict enterprises with high energy consumption and emission levels from entering into the PRC market.

Since 2007, the Ministry of Commerce has successively published *"Changing Issues on Entrusting to Approve Certain Foreign-invested Enterprises"* (No. 11 Announcement of the Ministry of Commerce in 2007), "Notice on the Decentralization of Foreign Invested Stock Company, Corporate Change and Approval issued by the Ministry of Commerce" (Shangzihan [2008] No. 50), "Notice on Further Simplifying and Standardizing the Administrative License of Foreign Investment Issued by the Ministry of Commerce" (Shangzihan [2008] No. 21), *"Notice on Further Improving the Approval of Foreign Investment Issued by the Ministry of Commerce"* (Shangzihan [2009] No. 7), and *"Notice of Issues on Auditing and Managing Certain Foreign Investment of Service Industry by Provincial Commerce Department and National Economic and Technological Development Zone Issued by the Ministry of Commerce"* (Shangzihan No. [2009] No. 6), pursuant to which it further decentralized the authority in approval by decentralizing the approving authority of certain issues of foreign investment to provincial commerce department.

April 6, 2010, the State Council issued the *Several Opinions on Further Utilization of Foreign Investment* (Guo Fa [2010] No.9). The opinions state that China will continue to open the door for foreign investment for areas of high and new technology industry, service industry and new energy and environment friendly sector; strictly control the foreign investment in the sector of "two high one resource" (high pollution, high energy-consumption and resource-intensive) and overcapacity expansion projects; encourage foreign companies to set up regional headquarter, research and development center, procurement center, finance management center, settlement center, and cost and profit accounting center; encourage foreign capital equity participation and mergers and acquisitions to involve domestic enterprises' restructuring and support domestic and foreign strategic investors to invest in the companies listed in domestic stock market. In addition, these opinions further reform foreign investment approval process under which the approval of the foreign investment project with total investment of below US$300 million in the "Encouragement and Allowed" category will go to the provincial government for approval.

According to the *Guidelines for Foreign Investment* (2008 Edition) published on December 18, 2008, foreign investment projects in respect of new construction or expansion of production capacities of iron-making, steel-making and steel-rolling shall be approved by relevant development and reform departments and shall complete all necessary land use applications and environmental assessments.

On May 4, 2010, the NDRC issued *Notice of the National Development and Reform Commission on Delegating Powers on Approval of Foreign Investment Projects to Authorities at lower Levels*（關於做好外商投資項目下放核準權限工作的通知）(Fa Gai Wai Zi [2010] No.914). Pursuant to the notice, projects that are categorized as encouraged or permitted in the Industry Catalog for Guiding Foreign Investment with a total investment of (including capital increase) no more than US$300 million, which are previously subject to the approval by the National Development and Reform Commission, are now subject to the approval by the provincial development and reform commission, unless otherwise provided by the Catalog of Investment Projects subject to Government Approval that they are subject to the approval of the relevant departments of the State Council. Foreign investors are encouraged to invest in high-end manufacturing industries, new and high technology industries, modern service industries, as well as energy and energy efficient and environmental protection industries, to use new technologies, techniques, materials and equipment, and to renovate and promote traditional industries. Projects that are "high-polluting, high-energy-consuming and resource-dependent" or projects with poor and excessive production capacity shall be strictly restricted.

On June 10, 2010, the Ministry of Commerce issued *Notice Relating to Further Delegation of Approval Authority for Foreign Investment* (Shang Zi Fa [2010] No. 209), pursuant to which the establishment and its alteration of foreign-investment enterprise with a total investment of US$300 million falling within the encouraged category or permitted category and with a total investment of US$50 million falling within restricted category (the "Thresholds") in the Catalogue for the Guidance of Foreign Investment Industries shall be subject to the approval and management of the provincial MOC. The establishment and its alteration of a foreign investment enterprise with a total investment amount above the relevant threshold falling within encouraged category shall be subject to the approval and management of the local MOC. The establishment and its alteration of a foreign investment enterprise with registered capital below US$300 million, and of foreign-invested venture investment and management enterprises with total registered capital below US$300 million, shall be subject to the approval and management of the local approval authorities. Save as approval by the Ministry of Commerce that explicitly regulated in the laws and regulations, the establishment and its alteration (including above norm and capital increment) of foreign-invested enterprises in service industry shall be subject to the approval and management of the local approval authorities in accordance with the relevant provisions. The alteration of foreign-invested enterprises established under the approval of the relevant authorities of the Ministry of Commerce, previous MOFTEC and the State Council (excluding single capital increment amounts to or exceeds the limit and associates with matters regulated in this notice as respect to foreign-invested enterprises in service industry) shall be subject to the approval and management of the local approval authorities.

Laws and Regulations Relating to Taxation

In accordance with the PRC's Foreign Investment Enterprise and Foreign Enterprise Income Tax Law ("FEIT Law") and the related implementation rules, FIEs were generally subject to Enterprise Income Tax at a state tax rate of 30% plus a local tax rate of 3% on PRC taxable income. Under the FEIT Law, foreign-invested manufacturing enterprises that were scheduled to operate for at least ten years were entitled to a two-year exemption and a three-year 50% rate reduction from the first profit making year after absorbing all prior year tax losses, subject to approval from local taxation authorities. This regulation was abolished on January 1, 2008.

On March 16, 2007, the EIT Law was announced. On December 6, 2007 the Implementation Rules were published. The EIT Law and Implementation Rules came into effect on January 1, 2008. Under the EIT Law, in general, foreign-invested enterprises and domestic companies are subject to a uniform tax rate of 25%. In addition, the EIT Law provides a five-year transition period starting from January 1, 2008 to FIEs which were established and registered in the competent Administration of Industry and Commerce prior to the promulgation date of the law, during which they are permitted to continue to enjoy their existing preferential income tax treatment until such treatment expires in accordance with its current terms. In December 2007, the State Council promulgated the Transition Period Implementation Rules, pursuant to which, FIEs having received their FIE approval certificate before the promulgation of EIT Law may still enjoy their fixed period tax exemption and reduction preferential treatment after the date of effectiveness of the EIT Law. Such fixed term of tax exemption and reduction of preferential treatment for FIEs which have not yet made a profit began on January 1, 2008.

Under the EIT Law and the Implementation Rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business).

According to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management" located within the PRC, such enterprise may be treated as a PRC tax resident enterprise and be subject to enterprise income tax at the rate of 25%. According to the EIT Law and the Implementation Rules, the dividends received by a qualified PRC tax resident from its direct investment in another PRC tax resident are exempted from enterprise income tax. Such dividends do not include the investment proceeds from stock publicly issued and traded on a stock exchange which is held by a resident enterprise for not more than 12 consecutive months.

On April 22, 2009, State Administration of Taxation issued the *Notice Regarding Matters on Determination of Chinese-controlled Enterprises Registered Abroad as Resident Enterprises under the Standards of the Effective Management Authority* (Guoshuifa [2009] No. 82), which stipulates that overseas Chinese-funded enterprises shall be deemed to be domestic resident enterprises and shall pay Enterprise Income Tax on their domestic and overseas income, if the following four conditions are fulfilled: (1) the premises in which the senior management personnel and senior management departments of the enterprise conduct daily production and operation management are located within China; (2) the enterprise's financial decisions (such as borrowings, loans, financing and financial risk management) and human resources decisions (such as appointment, dismissal and remuneration) are made by institutions or staff located within China, or are required to obtain approval from institutions or staff located within China; (3) the enterprise's main property, accounting books, company seals and the documents, such as minutes of board meetings and general meetings, are located or maintained within China, and (4) over one half of the enterprise's directors or senior management personnel with voting rights reside within China on a frequent basis. An overseas Chinese-funded enterprise for these purposes is an enterprise which is incorporated outside China in accordance with the laws of a foreign country and has enterprises or enterprise groups within China as its major controlling investors.

In accordance with the *Notice of the State Administration of Taxation on Issues Concerning the Adjustment of the Scope of Collection and Management of Income Taxes on Newly-established Enterprises* (Guoshuifa [2008] No. 120) and *the Supplementary Notice of the State Administration of Taxation on Clarifying the Scope of Collection and Management of Enterprise Income Tax on Non-resident Enterprises* (Guo Shui Han [2009] No. 50), the Enterprise Income Tax affairs of foreign-invested enterprises, representative offices of foreign enterprises and other non-resident enterprises with offices and premises located within China is managed by the State Administration of Taxation; however, if a domestic unit or an individual makes payments to non-resident enterprises which do not establish offices or premises within China or to non-resident enterprises with established offices and premises within China but the payments are not related to such offices and premises, the collection and management of the Enterprise Income Tax on such payments shall be conducted by the State Administration of Taxation or local taxation bureau in which such domestic unit and individual are located, respectively.

The State Administration Taxation issued the *Notice of the State Administration of Taxation on Further Strengthening the Management of Taxation on Non-residents* (Guoshuifa [2009] No. 32), required that the income tax management of non-residents be strengthened and the taxation collection and management of non-resident enterprises be enhanced in terms of eight aspects including: timely performing the reporting and settlement of income tax by non-resident enterprises, strengthening management of non-residents in respect of contracted construction and provision of taxable labor work, enhancing the withholding on income tax sources of non-resident enterprises as well as the management of duty-paid proof for foreign parties, and that the tax collection from non-resident enterprises shall be enhanced.

According to the *Interim Measures on Source-based Withholding of Income Tax of Non-resident Enterprises* (Guo Shui Fa [2009] No. 3) published on January 9, 2009 with retrospective effect on January 1, 2009, a non-resident enterprise (which is established under foreign laws without its *de facto* management body, establishment or premise in the PRC but that receives income derived from the PRC, or which, though having an establishment or premise in the PRC, receives income which is not related to such establishment or premise in the PRC) shall be subject to withholding tax on its interest and investment income, such as dividends, bonus, rentals, concession fees, income from the disposal of assets and other incomes subject to enterprise income tax. Relevant tax will be withheld from the entity or individual with direct payment obligations in respect of the non-resident enterprise as stipulated in relevant requirement of the laws or contracts.

The Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Certain Issues regarding the Enterprise Income Tax Treatment of Corporate Reorganisation* (Cai Shui [2009] No. 59) on April 30, 2009 with retrospective effect on January 1, 2008. This Notice is applicable to the tax treatment of transactions involving a material change to the legal structure or economic structure of an enterprise outside daily operation activities, including change in the legal form, debt restructure, equity acquisition, asset acquisition, merger and split.

On December 10, 2009, the State Administration of Taxation issued *Notice on Strengthening the Management of Enterprise Income Tax Collection of Proceeds from Equity Transfers by Non-resident Enterprises*(關於加強非居民企業股權轉讓所得企業所得稅管理的通知)(Guo Shui Han [2009] No. 698), pursuant to which the non-resident enterprise shall pay the enterprise income tax in connection with proceeds from the alienation of the equity interests in Chinese resident enterprises (excluding the purchase and sale of the stock of Chinese resident enterprises on public securities markets) by non-resident enterprises. Where the withholding agent fails or is unable to fulfill its withholding obligations, nonresident enterprises shall file and pay the enterprise income tax to the competent tax authority supervising the Chinese resident enterprises whose equity interests are transferred (i.e., the tax authority in charge of collecting enterprise income tax of such resident enterprise) within seven days after the equity transfer date as agreed in the contracts or agreements (or after the date when the proceeds are actually obtained, if the transferors receive the proceeds of equity transfers in advance). The tax authority can adjust the taxable income using reasonable methods, provided that the income is reduced as a result of an equity transfer of Chinese resident enterprise by a non-resident enterprise to its related parties not applying the arm's length principle. If the offshore investor (actual controlling party) indirectly transfers the equity interests in a Chinese resident enterprise via abuse of organization forms and certain enterprise income tax obligations are avoided without a reasonable business purpose, after being reported to higher authorities and reviewed by the State Administration of Taxation, the supervising tax authority can decide the nature of the transaction of such equity transfer according to its business substance and deny the existence of the offshore holding company which is used for tax planning purposes.

On May 6, 2010, the State Administration of Taxation issued *Notice on further Improving Taxes to Promote Energy Conservation and Emission Reduction*(關於進一步做好稅收促進節能減排工作的通知)(Guo Shui Han [2010] No. 180). The notice requires strengthening tax administration for the high pollution and high energy-consumption industry ("2 high") and the industries and enterprises with excess capacity. Tax authorities at all levels shall closely monitor tax affairs of the related industries and enterprises, and consider "2 high" and the industries and enterprises with excess capacity as the focus for determining tax special inspection item themselves and carry out inspections carefully. During the process of carrying out tax inspections and cases investigation, illegal activities such as making false declarations for defrauding export refund (exemption) and tax evasion shall be imposed serious investigation and punishment.

On June 22, 2010, the Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Cancellation of Tax Rebate of Certain Exporting Products*(關於取消部分商品出口退稅的通知)(Cai Shui [2010] No. 57), cancel export rebates of the following merchandise: (1) parts of steel materials; (2) parts of colored metal machining materials; (3) silver powder; (4) alcohol and cornstarch; (5) parts of pesticides, pharmaceuticals and chemical products; (6) parts of plastics and plastics products, rubber and rubber products and glass and glass products.

Pursuant to the *Notice regarding Unification of the Urban Maintenance and Construction Tax and Education Supplementary Tax among the Domestic and Foreign Invested Enterprises and Individuals* issued by the State Council on October 18, 2010《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》, foreign invested enterprises will be subject to the Provisional Regulations of the People's Republic of China on Urban Maintenance and Construction Tax and the Interim Provisions on the Collection of Education Supplementary Tax from December 1, 2010. The Urban Maintenance and Construction Tax shall be collected on the basis of value-added taxes, business taxes and consumption taxes actually paid by taxpayers, and shall be paid simultaneously with the value-added taxes, business taxes and consumption taxes. The rates for Urban Maintenance and Construction Tax are as follows: For taxpayers located in urban areas, the rate is 7%; for taxpayers located in counties or townships, the rate is 5%; for taxpayers located in areas other than urban area, counties and townships, the rate is 1%. The Education Supplementary Tax shall be collected on the basis of value-added taxes, business taxes and consumption taxes that are actually paid by each entity or individual at the rate of 3%, and shall be paid simultaneously with the value-added taxes, business taxes and consumption taxes.

Laws and Regulations Relating to Foreign Exchange

Pursuant to the Circular of SAFE on *Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Companies* promulgated by SAFE on October 21, 2005 and effective as of November 1, 2005 and the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on Printing and Distributing the Operating Rules* for the Notice of the State Administration of Foreign Exchange on the Relevant Issues about Foreign Exchange Control over the Financing and Return Investment of Domestic Residents through Overseas Special Purpose Companies promulgated by SAFE on May 29, 2007 and effective as of the same day, PRC residents are required to register with the local branch of SAFE before establishing or controlling any company, referred to in the notice as a "special purpose offshore company", outside the PRC for the purpose of capital financing, and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC, which is referred to herein as a round-trip investment. Also, any change of shareholding or any other material capital alteration in such special purpose offshore company involving no round-trip investment shall be filed within 30 days starting from the date of shareholding transfer or capital alteration.

In accordance with the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises* (Huizongha [2008] No. 42) and the *Approval from the General Affairs Department of the State Administration of Foreign Exchange for the Relevant Issues Concerning Domestic Equity Investment through Settlement of Capital by Foreign-invested Venture Capital Investment Enterprises* (Huizongfu [2008] No. 125) issued by the State Administration of Foreign Exchange on August 19, 2008 and November 14, 2008, respectively, RMB funds obtained by foreign-invested enterprises through foreign exchange settlement shall be used within the scope of operation approved by government authorities. Except for the foreign-invested venture capital investment enterprises which are approved by the Ministry of Commerce to make domestic equity investment using RMB funds obtained through foreign exchange within the scope of operation, the RMB funds obtained through foreign exchange settlement shall not be used for domestic equity investment. Except for foreign-invested real estate enterprises, the foreign-invested enterprises shall not purchase domestic properties (except for their own use) using RMB funds obtained through foreign exchange settlement.

On May 6, 2009, the State Administration of Foreign Exchange issued the *Notice on Adjusting the Approval Authority for Certain Foreign Exchange Businesses under Capital Items* to decentralize the authority of approval of foreign exchange capital items by decentralizing the authority of approval of certain foreign exchange business of capital items to local foreign exchange bureau for approval.

On October 12, 2009, the State Administration of Foreign Exchange issued the *Provisions on the Centralized Operation and Management of Foreign Exchange Funds by Domestic Enterprise's Internal Members* (Huifa [2009] No. 49), pursuant to which, internal members of the joint unit of corporate legal persons (exclusive of any financial institution) formed by the parent company, subsidiaries and other member enterprises or institutions, which are legally registered within the People's Republic of China with capital as a link, is allowed to utilize domestic self-owned foreign exchange funds through lending foreign-exchange funds to each other, implementing management of foreign currency funds pooling, developing the business of current settlement and sale of foreign exchange funds by internal finance companies.

According to the revised Foreign Exchange Administrative Regulations of the PRC issued and implemented on August 5, 2008, foreign currencies are prohibited from circulation and shall not be used for settlement in the PRC, unless otherwise allowed by the State. Overseas direct investments or overseas issuances or transactions of securities or derivatives by domestic entities or individuals shall be registered in accordance with the provisions of the foreign exchange administration department of the State Council. Where prior approval or filing is required, the approval or filing procedures shall be completed prior to the registration of the foreign exchange.

According to the *Notice of the SAFE Concerning Further Streamlining Administration of the Foreign Exchange Capital Payment and Settlement* (Hui Zong Fa [2008] No. 142), renminbi capital contribution of foreign-invested enterprises converted from foreign currency shall be used in operations approved by government department, and shall not be used for investment in equity of domestic companies, unless otherwise allowed. Foreign-invested enterprises shall not use their renminbi capital contribution to purchase properties in the PRC the properties are purchased for its own use.

On June 23, 2010, the State Administration of Foreign Exchange issued *Notice on Adjusting the Examination and Approval Power for Some Foreign Exchange Businesses under Capital Accounts* (關於調整部分資本項目外匯業務審批權限的通知), pursuant to which the SAFE decided to adjust the examination and approval power for some foreign exchange businesses under capital accounts. For the individual case that complied with the principles of capital project management regulated by the existing law but not clearly defined in the relevant documents and operating procedures, the power to process in accordance with the advice of collective review conference shall remain with the SAFE branch where the enterprise is located, and the relevant approval documents shall be submitted to Capital Project Management Division of the SAFE; for domestic enterprise with payment of foreign loans and the repatriation of funds accounted for, the SAFE branch shall, under specific circumstances, grant the appropriate authority to the branch offices within its jurisdiction.

Laws and Regulations Relating to Employee Benefits

In accordance with relevant PRC national laws and regulations, including the Provisional Rules on Social Welfare Collection and Contribution, the Decision of the State Council on the Establishment of a Basic Medical Insurance System for Urban Staff and Workers, the Decision of State Council on the Establishment of a Unified Basic Old Age Pension Insurance System for Enterprise Staff and Workers, the Decision of the State Council on improving the Basic Old Age Pension Insurance System for Enterprise Staff and Workers, the Regulations on the Work-related Injury Insurance, the Regulations on Unemployment Insurance, the Interim Rules on Maternity Insurance for Enterprise Staff and Workers and the Regulations on the Housing Funds Management (Revised), PRC companies are required to contribute to a number of compulsory employee welfare schemes in respect of their employees. Such schemes include basic pension insurance, basic medical insurance, unemployment insurance, job-related injury insurance, maternity insurance and housing fund contributions.

MANAGEMENT

Directors and Senior Management

The following table provides information about the Company's board of directors.

Name	Age	Position
Han Jingyuan	54	Chairman and Chief Executive Officer
Zhu Jun	47	Executive Director
Liu Lei	55	Executive Director
Shen Xiaoling	50	Executive Director
Zhu Hao	44	Executive Director
Muktesh Mukherjee	38	Executive Director
Ondra Otradovec	42	Non-Executive Director
Jean-Paul Georges Schuler	54	Non-Executive Director
Gao Qingju	74	Independent Non-Executive Director
Yu Tung Ho	64	Independent Non-Executive Director
Wong Man Chung, Francis	45	Independent Non-Executive Director

The board of directors has the ultimate responsibility for the administration of the Company's affairs. The Company's memorandum of association and bye-laws as currently in effect provide for a board comprised of not less than two directors. If a director is appointed by the board, such director holds office until the next annual meeting of shareholders at which time such director is eligible for re-election. The board presently consists of 11 directors, three of whom are independent non-executive directors.

Under Bermuda law, the directors have a duty of loyalty and must act honestly, in good faith and in the Company's best interests. The directors also have a duty of care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to the Company, the directors must ensure compliance with the Company's memorandum of association and bye-laws. A shareholder may in certain circumstances have the right to seek damages on behalf of the Company if a duty owed by the directors is breached.

Directors

Executive Directors

Han Jingyuan, aged 54, is the Chairman and Chief Executive Officer of the Company. He also serves as the chairman of the board of Jinxi Limited, Zhengda Iron and Steel and Jinxi Jinlan. Mr. Han has 26 years of extensive operations and management experience in the iron and steel industry. Mr. Han is responsible for overall management and operations of the Group. Mr. Han graduated from the People's University in 1994 with a degree in management. Mr. Han's experience in the iron and steel industry began in 1984 when he was employed as a deputy mine manager 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 the chairman of the board and general manager until 1999. Since Jinxi Limited's incorporation in December 1999, Mr. Han has been serving as the chairman of the board and general manager of Jinxi Limited. Mr. Han has been awarded honorary titles such as one of the "Top Ten Men of Honesty and Credibility in China" by All-China Federation of Industry & Commerce and China Business Time in 2006, "Best Founding Entrepreneurs in China" by China Enterprise Confederation, China Enterprise Directors Association in 2006, one of the "Outstanding Entrepreneurs of Privately-owned Enterprises in Hebei Province" by Hebei Enterprise Confederation in 2006, one of the "Outstanding Entrepreneurs of Hebei Province" by Hebei Enterprise Directors Association in 2004, one of "The Most Attention-grabbing Chinese Entrepreneurs" by China Enterprise Confederation, China Enterprise Directors Association in 2004, and "Top Ten Outstanding Persons in China's Reform in the New Century" by China Enterprise Confederation, China Enterprise Directors Association in 2003. Mr. Han is the Vice Chairman of the Metallurgy Chamber of All-China Federation of Industry and Commerce. Mr. Han is the director and the controlling shareholder of

Wellbeing Holdings, and the controlling shareholder of the Group. As of June 30, 2010, Mr. Han held beneficially 1,317,502,849 shares in the Company via his shareholding interests in Wellbeing Holdings and Chingford Holdings, personally held 2,800,000 shares in the Company, and held options to acquire 2,900,000 shares in the Company. As of the date of this document, Mr. Han held US$11 million of the Existing Senior Notes. See "Substantial Shareholders' and Directors' Interests."

Zhu Jun, aged 47, is an Executive Director, Executive Deputy General Manager and Chief Operating Officer of the Company. He also serves as executive director of Jinxi Limited. Mr. Zhu joined the Group in 1992 and has 17 years of working experience in the iron and steel industry. He became a deputy general manager of Jinxi Limited in December 1999, primarily responsible for strategic planning. Mr. Zhu has been in charge of Jinxi Limited's various projects involving expansion of new production facilities. Mr. Zhu has also been instrumental in initiating various technical upgrades at Jinxi Limited. He was appointed to Jinxi Limited's board of directors in June 2000. Prior to joining the Group, Mr. Zhu had 10 years of experience in the chemical fertilizer industry, serving as deputy director of Qianxi County Chemical Fertilizer Factory. Mr. Zhu graduated in 2001 from a graduate program of the Communist Party School in Hebei Province with a diploma in management. As of June 30, 2010, Mr. Zhu personally held 2,400,000 shares in the Company and held options to acquire 2,600,000 shares in the Company.

Liu Lei, aged 55, is an Executive Director and Deputy General Manager of the Company. He is also a director of Jinxi Jinlan. Mr. Liu has over 23 years of experience in management and industrial fields. Before joining the Group in June 2004, Mr. Liu served as the Vice Chancellor of the Hebei Academy of Sciences from October 1999 to June 2004. Mr. Liu was recognized as one of the "Middle-aged and Young Professional Technological Talents with Outstanding Contribution in Hebei Province" by the Hebei Provincial Government in April 1987. Mr. Liu was also recognized as a qualified research fellow by the Senior Appraisal Committee of Research on Natural Sciences of Hebei Province in December 2000. Mr. Liu graduated in July 1978 from the Electrical Engineering Faculty of Hebei Industrial Academy majoring in the area of industrial electrical automation. As of June 30, 2010, Mr. Liu personally held 2,400,000 shares in the Company and held options to acquire 2,600,000 shares in the Company.

Shen Xiaoling, aged 50, is an Executive Director, Deputy General Manager and Chief Financial Officer of the Company. He also serves as an executive director and general manager of Jinxi Limited and is in charge of Jinxi Limited's Finance Department and Enterprise Audit Department. Prior to joining Jinxi Limited in January 2002, Mr. Shen had 21 years of experience in the banking industry, serving successively as head of China Construction Bank Luanxian Sub-branch, head of China Construction Bank Qianxi Sub-branch and deputy head of Bank of China Qianxi Sub-branch. Mr. Shen obtained a diploma in management from the Hebei Provincial Communist Party School in 2001. As of June 30, 2010, Mr. Shen personally held 2,400,000 shares in the Company and held options to acquire 2,600,000 shares in the Company.

Zhu Hao, aged 44, is an Executive Director of the Company. Mr. Zhu joined the Group in December 2002 and served as a non-executive director of Jinxi Limited from December 2002 to early 2004. Mr. Zhu was appointed as an Executive Director of the Company in November 2007. Mr. Zhu graduated in 1989 from Tianjin's Nankai University with a bachelor's degree in Economics (Finance) and obtained his Masters Degree in accounting from the University of New South Wales in Australia in 2001. Mr. Zhu holds the title of senior economist in China. As at June 30, 2010, Mr. Zhu held options to acquire 2,600,000 shares in the Company.

Muktesh Mukherjee, aged 38, is an Executive Director and Deputy General Manager of the Company. Mr. Mukherjee was appointed as an Executive Director of the Company in January 2, 2009. In 1998, Mr. Mukherjee joined Ispat Sidbec, Montreal, Canada as a financial analyst. In 2001, Mr. Mukherjee joined Mittal Canada as Marketing Manager and subsequently moved on to be the Director, Sales and Marketing, Long Products and Plate for ArcelorMittal International in Chicago, USA. Currently, Mr. Mukherjee is the General Manager of ArcelorMittal China with responsibility for overseeing the relationship with the Company on behalf of ArcelorMittal. He is also a member of the board of directors of Hunan Valin Steel, a company listed on the Shenzhen Stock Exchange. Mr.

Mukherjee graduated from McGill University in Montreal, Quebec, Canada in 1998 with a Master of Business Administration degree. As of June 30, 2010, Mr. Mukherjee held options to acquire 2,600,000 shares in the Company.

Non-Executive Directors

Ondra Otradovec, aged 42, has been a Non-Executive Director of the Company since January 2, 2009. Previously, he worked at HSBC, and was responsible for financing, initial public offerings, privatization in the Central and Eastern European markets. During this period, he provided advisory service for the acquisition of Nova Hut in Czech Republic and other steel companies. Since 2003, Mr. Otradovec is responsible for mergers and acquisitions activities at ArcelorMittal. He is now Vice President of Global Merger & Acquisition at ArcelorMittal. Mr. Otradovec previously served as a Director of Hunan Valin Steel since November 18, 2005. Mr. Otradovec graduated from Stony Brook State University of New York with a Bachelor of Finance degree. As of June 30, 2010, Mr. Otradovec held options to acquire 2,000,000 shares in the Company.

Jean-Paul Georges Schuler, aged 54, has been a Non-Executive Director of the Company since January 2, 2009. Mr. Schuler started his professional career at ArcelorMittal Dudelange (formerly known as Galvalange-Luxembourg) where he held different positions from 1983 to 1988 and was appointed Chief Operating Officer from 1989 to 1996. At the end of 1996, Mr. Schuler jointed TradeARBED and was appointed General Manager of Flat Products Sales in Export Markets, responsible for the development of Eastern European and African Markets. From 2000 to 2005, Mr. Schuler was Managing Director of the Arcelor Regional Sales Organization in Istanbul, Turkey. Mr. Schuler was appointed Senior Vice President, Arcelor Long Carbon Sector in 2006 and participated in the Laigang/Arcelor project in Laiwu, China. In 2007, Mr. Schuler was nominated Vice President ArcelorMittal and Head of Operational Excellence Department — AAMS, a position he occupied until May 31, 2008. From June 1, 2008, Mr. Schuler is the chief representative officer of ArcelorMittal at Hunan Valin Steel. Mr. Schuler was also appointed Deputy General Manager and a Director of Hunan Valin Steel in July 2008. Mr. Schuler graduated from University of Karlsruhe, Germany and holds a Master of Science in Mechanical Engineering. He was assistant at the University of Karlsruhe — Metallurgical Institute. As of June 30, 2010, Mr. Schuler held options to acquire 2,000,000 shares in the Company.

Independent Non-Executive Directors

Gao Qingju, aged 74, has been an Independent Non-Executive Director of the Company since 2003. Mr. Gao is a senior engineer and currently serves as general manager and managing director of Beijing Lianxingfa Industrial & Technical Co., Ltd. Mr. Gao joined the Beijing Iron and Steel Research Institute in 1958. In 1965, Mr. Gao was transferred to the Ministry of Metallurgical Industry where he was involved in research work and worked in the department for Small and Medium Manufacture Enterprises, until he retired. Mr. Gao was the vice president and permanent secretary of the Regional Iron and Steel Enterprises Association during his career and for a period of time after retirement. Mr. Gao graduated in 1958 from the Beijing College of Iron & Steel majoring in metallurgical machinery and equipment. Mr. Gao also completed a training course in professional economics management at the Beijing Communist Party School in 1988. As of June 30, 2010, Mr. Gao personally held 1,686,000 shares in the Company and held options to acquire 2,000,000 shares in the Company.

Yu Tung Ho, aged 64, has been an Independent Non-Executive Director of the Company since 2003. Mr. Yu currently serves as Senior Vice President of Phoenix Satellite Television Company Limited. Mr. Yu is an experienced and influential media professional in Hong Kong and China and has been in the broadcasting industry for more than 39 years. Mr. Yu was previously served as a director and chief operation officer of Asia Television Limited, executive vice president of Phoenix Satellite Television Company Limited in Hong Kong and as chairman of the 12th and 13th Hong Kong Advertising Industry Association. Mr. Yu previously served as the deputy general manager of China Radio & TV Corporation for International Techno-Economic Cooperation, the chief of Radio Guangdong and an independent non-executive director of Gome Electrical Appliances Holdings Limited. As of June 30, 2010, Mr. Yu held options to acquire 2,000,000 shares in the Company.

Wong Man Chung, Francis, aged 45, has been an Independent Non-Executive Director of the Company since 2004. Mr. Wong is a Certified Public Accountant (Practicing) and has over 21 years of experience in auditing, taxation, management and financial advisory services. Mr. Wong is a director of Union Alpha C.P.A. Limited, and Union Alpha CAAP Certified Public Accountants Limited, both professional accounting firms, and a founding director and member of Francis M.C. Wong Charitable Foundation Limited, a charitable institution. Previously, Mr. Wong worked for KPMG, an international accounting firm for six years and the Hong Kong Securities Clearing Company Limited for two years. Mr. Wong is currently an independent non-executive director of Digital China Holdings Limited, eForce Holdings Limited and Wai Kee Holdings Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. He previously served as the independent non-executive director of Lightscape Technologies Inc., a company with its shares listed and traded in the OTC Bulletin Board of the United States of America, the independent non-executive director of Sys Solutions Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the independent non-executive director of Yardway Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. 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 Masters Degree in management from Guangzhou Jinan University. As of June 30, 2010, Mr. Wong held options to acquire 2,000,000 shares in the Company.

Other Senior Management

Au Yeung Siu Kei, aged 34, is the Financial Controller and the Company Secretary of the Company. Mr. Au Yeung is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Au Yeung holds a Bachelor Degree in professional accounting from the Chinese University of Hong Kong. Prior to joining the Company, Mr. Au Yeung has worked for an international accounting firm for over 9 years.

Audit Committee

The Company set up an audit committee in 2005. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control system. All members of the audit committee are appointed by the board. The audit committee presently comprises all three of the Independent Non-Executive Directors of the Company, with Mr. Wong Man Chung, Francis acting as the chairman. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

Directors' Compensation

The aggregate amount of fees, salaries, bonuses, pension scheme contributions, other allowances and benefits-in-kind paid by the Group to the directors during each of the three years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 was approximately RMB17.4 million, RMB10.9 million, RMB25.5 million and RMB6.3 million, respectively.

Legal Representative

Pursuant to the bye-laws of the Company, the Chairman and Chief Executive Officer are the only person(s) authorized to represent the Company and sign contracts on its behalf. However, the board of directors and Chairman and Chief Executive Officer may also from time to time specifically authorize any other director or person to represent the Company and sign contracts on its behalf.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As of June 30, 2010, the interests and short positions of every person, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

Name	Number of shares held	Percentage of the Company's issued share capital	Long/Short Position
Wellbeing Holdings	1,255,849,124	42.87%	Long
ArcelorMittal Holdings AG (Formerly known as "Mittal Steel Holdings AG")	867,711,151	29.62%	Long
("Mittal Steel")[(1)]	509,780,740	17.40%	Long
ING Bank N.V.[(2)]	289,990,800	9.90%	Long
	289,990,800	9.90%	Short
Deutsche Bank Aktiengesellschaft[(3)]	220,934,306	7.54%	Long
	219,801,940	7.50%	Short

(1) As of June 30, 2010, Mr. Lakshmi Niwas Mittal and Mrs. Usha Mittal directly owned 40.84% and indirectly owned 40.84% of the issued share capital of ArcelorMittal which indirectly holds the entire equity interest in Mittal Steel, which beneficially owns 867,711,151 shares of the Company, representing approximately 29.62% of the issued share capital of the Company.

On April 30, 2008, Mittal Steel entered into a put option agreement with ING Bank N.V. and Deutsche Bank Aktiengesellschaft, pursuant to which Mittal Steel granted options to ING Bank N.V. and Deutsche Bank Aktiengesellschaft over an aggregate of 509,780,740 shares of the Company, representing 17.40% of the issued share capital of the Company.

(2) On April 30, 2008, Mittal Steel and ING Bank N.V. entered into a put option agreement, pursuant to which Mittal Steel granted an option to ING Bank N.V. to sell 289,990,800 shares of the Company. As of June 30, 2010, ING Bank N.V. owned 289,990,800 shares of the Company representing 9.90% of the issued share capital of the Company.

(3) On April 30, 2008, Mittal Steel and Deutsche Bank Aktiengesellschaft entered into a put option agreement in which Mittal Steel granted an option to Deutsche Bank Aktiengesellschaft to sell 219,789,940 shares of the Company. As of June 30, 2010, Deutsche Bank Aktiengesellschaft owned 220,934,306 shares of the Company, representing 7.54% of the issued share capital of the Company.

Directors' Interests

As of the date of this document, the long and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Listing Rules, were as follows:

(i) Interests in the ordinary shares of the Company

	Corporate Interest (number of share)	Personal Interest (number of share)	Percentage of the Company's issued share capital	Long/Short Position
Mr. Han Jingyuan(1) . . .	1,317,502,849	—	44.97%	Long
	—	2,800,000	0.10%	Long
Mr. Zhu Jun	—	2,400,000	0.08%	Long
Mr. Liu Lei	—	2,400,000	0.08%	Long
Mr. Shen Xiaoling	—	2,400,000	0.08%	Long
Mr. Gao Qingju	—	1,686,000	0.06%	Long

(1) As of the date of this document, Mr. Han Jingyuan beneficially owned 63.15% of the issued share capital of Wellbeing Holdings and held 16.09% of the issued share capital of Wellbeing Holdings in trust for the benefit of certain employees of the subsidiary of the Company. Wellbeing Holdings beneficially owned 1,255,849,124 shares of the Company representing approximately 42.87% of the issued share capital of the Company, Mr. Han is also the beneficial owner of 100% of the issued share capital of Chingford Holdings, which beneficially owned 61,653,725 shares of the Company representing approximately 2.10% of the issued share capital of the Company at the date of this document.

As of the date of this document, Mr. Han Jingyuan personally held 2,800,000 shares representing approximately 0.10% of the issued share capital of the Company.

(ii) Interests in the ordinary shares of the Company's associated corporations

	Name of associated corporation	Nature of Interest	Paid-in capital	Approximate percentage of shareholding
			(RMB'000)	
Mr. Han Jingyuan	Hebei Jinxi Section Steel Company Limited	Interests in Hebei Jinxi Section Steel Company Limited through Qianxi County Hui Yin Trading Company Limited[(1)]	350,000	1.64%
Mr. Zhu Jun . . .	Hebei Jinxi Section Steel Company Limited	Interests in Hebei Jinxi Section Steel Company Limited through Qianxi County Hui Yin Trading Company Limited[(1)]	350,000	0.92%
Mr. Shen Xiaoling	Hebei Jinxi Section Steel Company Limited	Interests in Hebei Jinxi Section Steel Company Limited through Qianxi County Hui Yin Trading Company Limited[(1)]	350,000	0.88%

(1) Mr. Han Jingyuan, Mr. Zhu Jun and Mr. Shen Xiaoling beneficially owned 8.22%, 4.58% and 4.42% equity interests in Qianxi County Hui Yin Trading Company Limited which holds 20% equity interests in Hebei Jinxi Section Steel Company Limited.

(iii) Interests in the debentures of the Company

	Corporate Interest	Personal Interest	Amount of debenture
Mr. Han Jingyuan[(1)]	US$11,000,000	—	US$11,000,000

(1) As of the date of this document, Mr. Han Jingyuan beneficially owned 100% of the issued share capital of Eastland International Trading Limited, which beneficially owned US$11,000,000 of the debenture of the Company.

RELATED PARTY TRANSACTIONS

The Company and its subsidiaries from time to time engage in transactions with affiliates of the Company in the ordinary course of its business. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis. The transactions described below have been entered into on normal commercial terms and on an arm's-length basis. The following discussion describes certain material related party transactions.

Subscription of Existing Senior Notes by Mr. Han Jingyuan

As part of the offering of the Existing Senior Notes, on August 12, 2010, Mr. Han Jingyuan, the Company's Chairman and Chief Executive Officer, subscribed for approximately US$21 million of the Existing Senior Notes through his wholly-owned company Eastland International Trading Limited. Credit Suisse Group AG acted as an agent of Eastland International Trading Limited and subscribed for the US$21 million of the Existing Senior Notes from the initial purchasers of the offering. The subscription by Mr. Han Jingyuan of the Existing Senior Notes is considered a shareholder's loan to the Company and is deemed as financial assistance to the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

As of the date of this document, Mr. Han held US$11 million of the Existing Senior Notes.

Other Related Party Transactions

The following table summarizes the Group's certain other material related party transactions for the periods indicated:

(i) Sales

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(RMB millions)				
				(unaudited)	
(I) *Sales of goods*					
— Foshan Jin Lan Import and Export Co., Ltd. ("Jin Lan Import and Export")	20.8	76.0	59.8	23.3	40.0
— Foshan Jin Lan Group Co., Ltd. ("Jin Lan Group")	—	—	32.1	9.5	7.3
— Jinxi-Wantong	—	—	19.6	—	46.5
— Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	—	—	4.7	—	3.8
— Longba Charging	—	—	4.2	1.4	0.1
	20.8	76.0	120.4	34.2	97.7
(II) *Sales of utilities*					
— Jin Lan Nonferrous Metals	3.5	4.1	4.8	2.2	3.2

(ii) Purchase

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(RMB millions)				
				(unaudited)	
(I) *Purchase of raw materials*					
— Arcelor Mittal Sourcing SA ("AM Sourcing")	—	49.9	—	—	—
— Longba Charging	—	17.6	69.9	29.1	40.8
— Zhongxing Iron Mine	—	14.3	88.2	36.2	39.6
— Qianxi County Han'erzhuang Village Wang Zhihong Iron Ore Mill ("Qianxi Iron Ore Mill")	—	—	—	—	29.6
— Ping Quan County Jinyin Charging Co., Ltd. ("Jinyin Charging")	—	—	—	—	4.1
	—	81.8	158.1	65.3	114.1
(II) *Purchase of property, plant and equipment*					
— Longba Quarrying	—	2	—	—	—

(iii) Financing

(I) *Transaction with Wellbeing Holdings*

In 2009, Wellbeing Holdings provided a loan to the Company in the amount of HK$ 34 million. The loan is unsecured, bears interest at a rate of 3.25% per annum and due in October 2010. As of the date of this document, the full amount of the loan has been repaid.

(II) *Transaction with Hui Yin*

In 2008, Hui Yin provided a loan to Jinxi Section Steel in the amount of RMB170 million. The loan is unsecured and interest-free. As of June 30, 2010, the full amount of the loan remained outstanding.

(III) *Transaction with Hebei Province Jing Yuan Education Foundation ("Jing Yuan Foundation")*

For the year ended December 31, 2008, Jing Yuan Foundation provided an entrustment loan to Jinxi Limited through a financial institution, amounting to RMB3.3 million. The loan was unsecured, bears interest at a rate of 12% per annum and repayable within one year.

For the six months ended June 30, 2010, the loan was renewed with other terms unchanged.

(IV) *Guarantee*

In June 2007, Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for entrusted lending from Shenzhen Leasing, amounting to RMB30 million.

(V) *Cooperation Agreement with Mr. Shen Xiaoling*

On June 5, 2008, Jinxi Limited entered into a cooperation agreement (the "Cooperation Agreement") with Mr. Shen Xiaoling, an Executive Director of the Company. Pursuant to the Cooperation Agreement, from the date of the Cooperation Agreement to December 31, 2010 (the "Grant Period"), Jinxi Limited conveyed to Jinxi Mining, a former subsidiary of Jinxi Limited, the management and operating rights to use the iron mine assets which comprise mining licenses of 18 iron mines, leasing interests of Gao Jia Dian Mine and associated mines and equity interests of Tangshan Fei Cheng Kuang Ye Limited, Qianxi County Xin Ye Machinery Casting Limited, Qianxi County Hong Yuan Trading Limited, Qianxi County Fu Cheng Trading Limited and Qianxi County Xin Cheng Trading Limited.

In addition, Jinxi Limited transferred 49% equity interests of Jinxi Mining to Mr. Shen and conveyed to Mr. Shen the voting rights on the financial and operating policies of Jinxi Mining during the Grant Period. Mr. Shen is exclusively entitled to the profit and net assets accumulated by Jinxi Mining during the Grant Period. Mr. Shen paid a total cash consideration of RMB 80 million as a return for the operating lease, and a deposit of RMB 10 million refundable on December 31, 2010.

(VI) *Transaction with Wang Zhihong*

Wang Zhihong provided a loan to Boyuan Real Estate, amounting to RMB39.8 million for six months ended June 30, 2010. The loan is unsecured, bears interest at a rate of 5.31% per annum and repayable within six months. As of June 30, 2010, the full amount of the loan remained outstanding.

The following table sets forth the related party balances as of December 31, 2007, 2008 and 2009 and as of June 30, 2010:

	As of December 31,			As of June 30,
	2007	**2008**	**2009**	**2010**
		(RMB millions)		
				(unaudited)
Amounts due from related parties				
Tangshan Jinxi Group	—	—	361.5	767.5
Jin Lan Import and Export . . .	1.3	1.8	1.4	4.9
Jinyin Charging	—	—	—	3.7
Jin Lan Nonferrous Metals . . .	—	—	0.6	0.9
Longba Charging	—	—	0.7	—
Zhongxing Iron Mine	9.8	9.8	—	—
Longba Quarrying	—	3.0	—	—
	11.1	14.6	364.2	777.0
Amounts due to related parties				
Non-current				
Borrowings from a related party				
Foshan Jin Lan	55.7	55.1	37.4	—
Deposit from a related party . . .				
Mr. Shen Xiaoling	—	10.0	—	—
	55.7	65.1	37.4	—

	As of December 31,			As of June 30,
	2007	2008	2009	2010
		(RMB millions)		
				(unaudited)
Current				
Borrowings from related parties				
— Hui Yin	—	170.0	170.0	170.0
— Wellbeing Holdings	—	—	29.9	29.7
— Wang Zhihong	—	—	—	39.8
— Foshan Jin Lan	—	—	—	37.4
Deposit from a related party				
— Mr. Shen Xiaoling	—	—	10.0	10.0
Trade payables				
— Longba Charging	—	11.6	10.5	27.3
— Zhongxing Iron Mine	—	1.6	0.2	3.6
— Qianxi Iron Ore Mill	—	—	—	3.3
— Jinyin Charging	—	—	—	0.6
	—	183.2	220.6	321.7
Dividends payable due to				
— Tangshan Jinxi Group	5.0	18.1	18.1	12.1
— Zhongxing Iron Mine	2.5	2.5	2.5	—
— Hui Yin	—	—	20.9	—
	7.5	20.6	41.5	12.1
Others				
— Mr. Du Chun	—	2.8	3.6	—
— Foshan Jin Lan	0.4	0.4	0.4	0.4
— Longba Quarrying	—	—	1.8	—
— Jinxi Wan Tong	—	—	1.3	12.7
— Mr. Han Jingyuan	0.7	—	—	—
	1.1	3.2	7.1	13.1
	8.6	207.0	269.2	346.9

Terms of certain material related party transactions are further described below:

Cooperation Agreement with Mr. Shen Xiaoling

A subsidiary of the Group, Jinxi Limited, had a 100% controlling interest in Jinxi Mining, a former subsidiary of Jinxi Limited. On June 5, 2008, Jinxi Limited entered into a cooperation agreement with Mr. Shen Xiaoling, an Executive Director of the Company, and several entrustment of management agreements with Jinxi Mining pursuant to which, for a total cash consideration of RMB80 million payable by Mr. Shen Xiaoling, Jinxi Limited granted to Jinxi Mining for the term between the date of the agreement to December 31, 2010:

- the mining rights or exploration rights in respect to Jinxi Limited's 18 iron mines;
- leasing rights of 51% assets of Gao Jia Dian Mine and associated mines, and new assets of Gao Jia Dian Mine and associated mines; and
- operating and management rights of 51% equity interest of Tangshan Fei Cheng Kuang Ye Limited, Qianxi County Xin Ye Machinery Casting Limited, Qianxi County Hong Yuan Trading Limited, Qianxi County Fu Cheng Trading Limited and Qianxi County Xin Cheng Trading Limited.

From the date of the cooperation agreement to December 31, 2010, the amount of iron ore exploited and sold per annum by Jinxi Mining shall not exceed 2 million tonnes. Quantity of iron ore exploited and sold after December 31, 2010 shall be further negotiated by both parties.

Mr. Shen Xiaoling also paid a deposit of RMB10 million which is to be refunded after December 31, 2010, provided that all terms and conditions of the cooperation agreement are fulfilled. In addition, pursuant to the cooperation agreement Jinxi Limited transferred to Mr. Shen 49% of equity interest in Jinxi Mining for no consideration.

The mining rights or exploration rights in respect to Jinxi Limited's 18 iron mines are to expire between 2010 and 2011. Upon successful renewal, Jinxi Limited agreed to transfer the title of these rights to Jinxi Mining.

Due to various regulatory and other restrictions, Jinxi Limited was unable to exercise the various rights that were being granted under the cooperation agreement. Entering into the cooperation agreement and granting the management and operating rights to Jinxi Mining will facilitate the Group to exercise management and operating rights with the assistance of Mr. Shen Xiaoling and enable the Group to gain a RMB80 million consideration. The Group believes that the valid exercise of the management and operating rights of the above iron mine assets and the commencement of the exploitation by Jinxi Mining will allow the Group to exercise control over exploration of iron mines and control over the sale of iron ore so that more iron ore will be available for the steel production of Jinxi Limited. The transaction with Mr. Shen Xiaoling is a related party transaction, and as of June 30, 2010, Mr. Shen paid a deposit of RMB10 million which was recorded as a deposit from a related party in the table above.

Steel Product Sale and Purchase Agreement

On October 9, 2007, Jinxi Jinlan entered into a framework agreement with Jin Lan Imports and Exports, a company controlled by a substantial shareholder and director of Jinxi Jinlan, pursuant to which Jinxi Jinlan agreed to sell and Jin Lan Imports and Exports agreed to purchase, steel products of Jinxi Jinlan, with a term of three years. Unit price for the sale and purchase will not be lower than market price or the price that Jinxi Jinlan sells to other customers.

On June 18, 2010, Jinxi Limited entered into a framework agreement with Jin Lan Group, a company controlled by a substantial shareholder and director of Jinxi Jinlan, pursuant to which Jin Lan Group agreed to purchase and Jinxi Limited agreed to sell, steel products of Jinxi Limited, with a term of three years. Unit price for the sale and purchase will not be lower than market price or the price that Jinxi Limited sells to other customers.

On the same date, Jinxi Section Steel entered into a framework agreement with Jin Lan Group, a company controlled by a substantial shareholder and director of Jinxi Jinlan, pursuant to which Jin Lan Group agreed to purchase and Jinxi Section Steel agreed to sell, steel products of Jinxi Section Steel, with a term of three years. Unit price for the sale and purchase will not be lower than market price or the price that Jinxi Section Steel sells to other customers.

Iron Ore Supply Agreement

On June 18, 2010, Jinxi Limited entered into a framework agreement with Qianxi Wang Zhihong's Iron Ore Mill (遷西縣漢兒莊鄉王志紅鐵選廠), a company controlled by a substantial shareholder of Boyuan Real Estate, pursuant to which Jinxi Limited agreed to purchase and Qianxi Wang Zhihong's Iron Ore Mill agreed to supply, iron ore to the Group, with a term of three years. The prices will be made reference to the prevailing market prices of the products at the relevant time and on normal commercial terms.

Equity Transfer Agreements

On December 23, 2006, Jinxi Limited and Ms. Fu Ruiyun, as the existing shareholders of Jinxing Charging Company Limited interested in 62% and 38% of its equity interest respectively, entered into an equity transfer agreement, pursuant to which Jinxi Limited agreed to purchase from Ms. Fu Ruiyun her entire 38% equity interest of Jinxing Charging Company Limited at a total cash consideration of RMB8,900,000. Jinxing Charging Company Limited was subsequently dissolved.

On February 18, 2008, Accordpower Investments Limited and Jinxi Limited entered into a share transfer agreement with Foshan Jin Lan Aluminium Co., Ltd. ("Foshan Jin Lan"), a minority shareholder of Jinxi Jinlan. Foshan Jin Lan and Accordpower Investments Limited agreed to sell and Jinxi Limited agreed to purchase their respective equity interests of 21.50% and 13.21% in Jinxi Jinlan at a consideration of US$4,691,200 and US$2,882,400, respectively.

Loan Agreement and Lease Agreement

On November 11, 2009, Jinxi Limited, a 97.6% owned indirect subsidiary of the Company, and Tangshan Jinxi Group, the owner of 2.2% of Jinxi Limited, entered into a loan agreement pursuant to which Jinxi Limited agreed to make available a loan in the maximum amount of RMB480 million to Tangshan Jinxi Group for a period of three months at an interest rate to be determined with reference to the interest rate charged by the People's Bank of China for loans of a similar duration. This loan was intended primarily to enable Tangshan Jinxi Group to carry out its acquisition of Jinxi-Wantong and to facilitate Jinxi-Wantong's purchase of production facilities and equipment to expand its production capacity. The loan became due on February 10, 2010, and the parties entered into a supplemental loan agreement to extend the loan period and increase the loan amount with all other main terms and conditions unchanged. The maximum aggregate amount of the loan under the supplemental agreement is RMB1,100 million and the maturity date is December 31, 2010. As of June 30, 2010, the amount owed by Tangshan Jinxi Group to Jinxi Limited under the supplemental loan agreement is RMB767.5 million in total.

In addition, Jinxi Limited has agreed to lease production facilities from Jinxi-Wantong for a period of one year commencing on December 5, 2009. The lease agreement is renewable by the Company at its sole discretion annually on the same terms. The agreement also provides that the Company has the option (but not the obligation) to acquire Jinxi-Wantong at the end of each lease term. The annual rent payable is RMB36 million, payable in quarterly installments of RMB9 million.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing the Group's material indebtedness and its subsidiaries' material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the notes to the Group's consolidated financial statements for additional information about its indebtedness.

The Existing Senior Notes

The US$550,000,000 8% Senior Notes due 2015 (the "Existing Senior Notes") were issued by the Company on August 18, 2010, pursuant to an indenture dated August 18, 2010, as supplemented by a supplemental indenture dated September 20, 2010, among the Company, the subsidiary guarantors named therein and Deutsche Bank Trust Company Americas, as Trustee, Paying Agent, Transfer Agent and Registrar. The Existing Senior Notes are guaranteed by the Subsidiary Guarantors on a senior unsubordinated basis and are secured by a pledge of the Collateral. The Company intends to use the proceeds from the issuance and sale of the Existing Senior Notes for potential acquisitions of steel mills in China (primarily in Hebei Province); continuous improvement capital expenditure projects at the Group's current production facilities; potential investments in iron ore assets, which may be in the Restricted Subsidiaries or may be minority investments; and general corporate purposes, including for funding working capital requirements. As of the date of this document, the Company has used a portion of the net proceeds of the offering of the Existing Senior Notes for working capital requirements, with the balance invested in short term deposits or money market instruments pending application in the manner described above. The Existing Senior Notes bear interest at a rate of 8% per annum, payable semi-annually in arrears. The Senior Notes will mature on August 18, 2015.

The covenants in the Existing Senior Notes set forth in the Existing Indenture limit, among other things, the ability of the Group and the Restricted Subsidiaries to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem their stock;
- make investments or other restricted payments;
- create liens;
- enter into certain transactions with affiliates;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends; and
- consolidate, merge or sell all or substantially all of the Group's assets.

The Existing Senior Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Existing Senior Notes to become or to be declared due and payable.

The Company may at its option redeem the Existing Senior Notes, in whole but not in part, at any time at a redemption price equal to 100% of the principal amount of the Existing Senior Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to, the redemption date. At any time and from time to time prior to August 18, 2013, the Company may at its option redeem up to 35% of the aggregate principal amount of the Existing Senior Notes at a redemption price of 108% of their principal amount, plus accrued and unpaid interest, if any, using proceeds from sales of its capital stock.

Upon the occurrence of a Change of Control, as defined in the Existing Indenture, the Company must make an offer to repurchase all Existing Senior Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

Banking Facilities

To fund the Group's working capital, trade credits and dividend payment requirements, the Group has entered into various loan and facilities agreements with various financial institutions. As at June 30, 2010, the consolidated total borrowings of the Group were approximately RMB3,633.2 million (US$535.8 million). As of June 30, 2010, the average effective interest rate (including capitalised interest) on the aggregate outstanding amount of the Group's indebtedness was 5.41% per annum. Set forth below is a summary of the material terms and conditions of certain of these loans and other indebtedness.

Working Capital Facilities

Certain PRC subsidiaries of the Company have entered into banking facilities agreements with various PRC banks, primarily China Construction Bank, Agricultural Bank of China, China Minsheng Banking Corp., Ltd., Shenzhen Development Bank, China Merchant Bank and Bank of China. These banking facilities typically are used to fund the Group's working capital. As of June 30, 2010, the Company's PRC subsidiaries had total indebtedness of approximately RMB2,981.9 million (US$439.7 million).

Interest

The principal amounts outstanding under the working capital facilities bear interest either at a fixed rate or at a floating rate calculated by reference to the relevant interbank offered rate. Floating interest rates generally are subject to review by the banks annually. Interest payments are generally payable either monthly or quarterly and must be made on each payment date as provided in the particular facilities agreement.

Covenants and undertakings

Under these working capital facilities, the relevant PRC subsidiaries (each in the capacity of borrower) have agreed, among other things, to:

- use the proceeds from the borrowings as designated;
- give notice to the lenders with respect to the change to the borrower's name, legal representative, address, telephone number, business scope, and others;
- provide financial information to the lenders;
- give prior notice to and/or seek consent from the lender when providing security to others; or not to provide securities to others in excess of a certain threshold;
- give prior notice to and/or seek consent from the lenders on any restructuring, change of control, changes to operation model or corporate governance structure, contracting of operation, joint venture, merger and acquisitions, spin-off, disposal of any substantial assets or equity interest, modifications to any material investment, application for liquidation, bankruptcy, and other similar events that would have a material impact on the borrowers' capability of repayment of the relevant loans;

- notify the lenders of important events such as suspension of operation, suspension of license or registration, illegal conducts of legal representatives, material litigation, deterioration of financial condition, application for bankruptcy declaration and others which may significantly affect the borrower's ability to make repayment under the loan contract;

- notify the lenders after entering into a connected transaction with a value representing 10% or more of the borrower's net assets;

- give prior notice to and/or seek consent from the lender on any events that could result in material adverse impact on the borrower's ability to repay the loan;

- not to pay dividends (1) if the borrower has no after-tax profit, or such profit is not adequate to make up for the accumulative loss from previous years; or (2) before principal or interest due in the same financial year has not been paid to the lender; or (3) if the after-tax profit is not adequate for the next installment of repayment of principal, interest and expenses to the lender;

- not to dispose of assets if it will impact adversely its ability to make payment under the loan contract; and

- not to subordinate the loan to new indebtedness or to shareholders' loans.

Events of default

The working capital facilities contain certain customary events of default, including insolvency and breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

Security

The working capital facilities were usually secured in the form of mortgage or pledge over property, plant, equipment, land use rights, inventories, notes receivables and restricted bank balances.

Guarantee

As at June 30, 2010, Jinxi Limited had entered into a guarantee agreement with Qianxi County Branch of China Construction Bank to guarantee People's Hospital of Qianxi County's RMB 30 million indebtedness and this agreement will expire on April 25, 2016.

Trade Credit Facilities

The Company has entered into banking facilities agreements with DBS Bank (Hong Kong) Limited ("DBS"), China Merchants Bank Co., Ltd., Hong Kong Branch ("CMB Hong Kong"), China Construction Bank Corporation, Hong Kong Branch ("CCB Hong Kong"), Nanyang Commercial Bank, Ltd. ("NCB"), Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") and The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in respect of trade credit facilities. The maximum amount of facilities available under these agreements in aggregate is US$336 million. These trade credit facilities are uncommitted and the lenders have the discretion to cancel or suspend, or determine whether or not to permit drawings in relation to, these facilities. The banks are entitled to open commissions calculated at fixed rates or interest at floating rate calculated by reference to the relevant interbank offered rate. These facilities are generally secured by charges on cash deposits or by a deed of assignment of proceeds of export letters of credit.

Covenants

Pursuant to the DBS facility, the Company has agreed to, among other things:

- to maintain a tangible net worth of not less than RMB5 million at all times;
- to maintain a consolidated interest bearing debt to consolidated tangible net worth not greater than 1.0x; and
- to maintain a consolidated EBIT (as defined in the facility agreement) over interest expenses of not less than 5.0x.

Pursuant to the CCB Hong Kong facility, the Company has agreed, among other things:

- to maintain a consolidated tangible net worth of not less than RMB5 billion at all times;
- to maintain a consolidated total liabilities to consolidated tangible net worth not greater than 1.5x;
- to maintain a consolidated net borrowings to consolidated tangible net worth not greater than 0.5x; and
- to maintain a consolidated EBITDA (as defined in the facility agreement) over interest expenses of not less than 5.0x.

Pursuant to the NCB facility, the Company has agreed, among other things:

- to maintain a tangible net worth of not less than RMB6 billion at all times; and
- to maintain a consolidated net borrowings to consolidated tangible net worth not greater than 0.5x.

Pursuant to the HSBC facility, the Company has agreed, among other things:

- to maintain an external gearing (ratio of total interest bearing debt to tangible net worth plus non-redeemable preference shares and minority interests) of not greater than 1.25 at all times;
- to maintain a consolidated EBITDA (as defined in the facility agreement) over interest expenses of not less than 5.0x;
- that the pledged assets under the Group will not exceed 50% of its consolidated tangible net worth; and
- to maintain a consolidated tangible net worth of not less than RMB5 billion at all times.

The CMB Hong Kong and ICBC (Asia) facilities do not contain any restrictive covenants.

Other Banking Facilities

The Company entered into a facility letter as borrower with ICBC (Asia) as lender, dated May 29, 2008 and as revised on November 25, 2008, December 9, 2009 and June 8, 2010, in connection with (i) a HK$181.6 million secured banking facility ("First Facility") and (ii) a HK$252.0 million secured banking security ("Second Facility"). On June 10, 2008, the Company drew down the full amount of HK$181.6 million under the First Facility in order to fund a dividend payment. On June 22, 2010, the Company drew down the full amount of HK$252.0 million under the Second Facility in order to fund a dividend payment. As of the date of this document, the full aggregate amount of HK$433.6 million has been repaid.

Loans with Related Parties

The Company has entered into various loan arrangements with certain related parties. As of June 30, 2010, the total loan amount due to related parties was RMB276.9 million. See "Related Party Transactions" in this document for further information.

INDEPENDENT AUDITORS

The consolidated financial statements as of and for each of the years ended December 31, 2007, 2008 and 2009 have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in their reports appearing in this document. The condensed consolidated interim financial information as of and for the six months ended June 30, 2009 and 2010 was reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. With respect to the unaudited financial information for the six months ended June 30, 2010, included in this document, PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 9, 2010 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND U.S. GAAP

The audited consolidated financial statements included in this document have been prepared and presented in accordance with HKFRS issued by the HKICPA. Certain differences exist between HKFRS and U.S. GAAP which may be material to the financial information herein.

The matters described below summarize certain differences between HKFRS and U.S. GAAP that may be material. The Company is responsible for preparing the summary below. Such summary should not be construed to be exhaustive. The Company has not prepared a complete reconciliation of the consolidated financial information and related footnote disclosures between HKFRS and U.S. GAAP and has not quantified the differences between HKFRS and U.S. GAAP. Accordingly, no assurance is provided that the following summary of certain differences between HKFRS and U.S. GAAP is complete. Had the Company undertaken any such quantification or reconciliation, other potential significant accounting and disclosure differences may have come to the Group's attention which are not identified below.

Furthermore, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in the audited consolidated financial information, unaudited condensed consolidated financial information or footnotes thereto. Additionally, no attempt has been made to identify future differences between HKFRS and U.S. GAAP that may affect the financial information as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate HKFRS and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between HKFRS and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future.

Primary financial statements

The Group's consolidated financial statements for the years ended December 31, 2007 and 2008 include the Group's consolidated balance sheets, consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements. The Group's consolidated financial statements for the year ended December 31, 2009 include the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement.

U.S. GAAP requires the reporting of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. Comprehensive income other than net income reported in the income statement is known as other comprehensive income ("OCI"), such items should be classified separately in OCI based on their nature. Items reported should be accumulated in a separate accumulated OCI component of shareholders' equity. Accumulated OCI are comprised of foreign currency adjustment, unrealized gains or losses on available-for-sale investment securities, pension liability adjustment and income tax related to other OCI items.

Consolidation

The consolidated financial statements include all enterprises that the Company controls, as defined by HKFRS 3 "Business Combination" ("HKFRS 3"). Under HKFRS 3, control is presumed to exist when a company owns, directly or indirectly, more than one half of the voting power of an enterprise.

Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is (a) power over more than one half of the voting rights by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the enterprises under a statute or an agreement; (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the enterprise; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Under Interpretation HKAS Int-12 "Consolidation — Special Purpose Entities," which was further amended in February 2005, special purpose entities ("SPEs") are consolidated where the substance of the relationship indicates control. Indicators of control arise where the SPE conducts its activities on behalf of the entity; the entity has the decision-making power to obtain the majority of the benefits of the SPE; the entity has other rights to obtain the majority of the benefits of the SPE; or the entity has the majority of the residual or ownership risks of the SPE or its assets.

Under U.S. GAAP, unless it is determined that the entity is a variable interest entity ("VIE"), entities are consolidated when there is a "controlling financial interest." The usual condition for a controlling financial interest is ownership of a majority voting interest. U.S. accounting practice in the preparation of consolidated financial statements, as interpreted by rules and regulations of the U.S. Securities Exchange Commission, has evolved with an emphasis on (a) legal form, (b) ownership criterion and (c) contractual arrangements rather than on a broader definition of control. Accordingly, entities that are consolidated under HKFRS may not necessarily be consolidated under U.S. GAAP. U.S. GAAP provides a framework for identifying VIEs and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of VIEs in its consolidated financial statements of the primary beneficiary of the entity. The primary beneficiary is generally defined as having the majority of the risks of loss from the VIEs' activities or entitled to receive a majority of the entity's residual returns, or both. For VIEs in which a significant (but not majority) variable interest is held, certain disclosures are required.

Common Control Transactions

Under HKFRS, when the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory, merger accounting treats two or more parties as combining on an equal footing. It is normally applied without any restatement of net assets to fair value, and includes the results of each for the whole of the accounting period. Correspondingly, it does not reflect the issue of shares as an application of resources at fair value. The difference that arises on consolidation does not represent goodwill but is deducted from, or added to, reserves.

Under U.S. GAAP, merger of companies under common control requires the adding together of the historical financial statements of the combining companies as if they had always been combined. When accounting for a transfer of assets or exchange of shares between entities under common control, the company that receives the net assets or the equity interests should initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity on the date of transfer. However, the purchase method of accounting should be applied if the effect of the transfer or exchange is acquisition of a part of the noncontrolling equity interests in a subsidiary.

Borrowing Costs

Under HKFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

Under U.S. GAAP, borrowing costs capitalized are limited to the lower of actual borrowing costs incurred or avoidable borrowing costs. Avoidable borrowing cost is the amount that could have been avoided if expenditures for the qualifying assets had not been made, when qualifying expenditures have occurred and activities necessary to prepare the assets have begun.

The periodic depreciation expense under HKFRS and U.S. GAAP differs as a result of the difference in the amount of interest capitalized under the two accounting standards.

Goodwill and negative goodwill

Under HKFRS, goodwill on acquisition is included in intangible assets. Goodwill is not amortized but reviewed for impairment annually, and when indicators of impairment arise, at the cash generating unit (CGU) level, or group of CGUs, as applicable. A CGU is typically at a lower level than a reporting unit, as defined under HKFRS. A one step impairment test is used when comparing the carrying amount to recoverable amount. Goodwill is carried at cost less accumulated impairment losses.

Under U.S. GAAP, intangible assets are amortized over their useful lives unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are not amortized but instead are subject to annual impairment reviews or whenever there are events or changes in circumstances that would indicate that their carrying values may not be recoverable. Goodwill is assessed at the reporting unit level using a prescribed two-step process. The first step identifies potential goodwill impairment by comparing the fair value and the carrying value of the reporting unit, while the second step measures the amount of goodwill impairment, if any, by comparing the implied fair value of goodwill to its carrying value. Indefinite-lived intangibles are generally assessed on an asset basis using a one-step process whereby the carrying value of the asset is compared to its fair value.

Impairment of Assets

Under HKFRS, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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). Reversals of previous provision of impairment are allowed when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

U.S. GAAP requires an impairment loss to be recognized for long-lived assets, including property, plant and equipment and certain identifiable intangibles where a triggering event occurs and the carrying amount of the asset may not be recoverable. An estimate of the future undiscounted cash flows expected to result from use and eventual disposal of such assets, or the group of assets, is compared to the carrying value to determine whether impairment exists. If it is determined that the asset is impaired, the impairment loss recognized is the difference between the carrying amount of the asset and its fair value. Once such impairments have been recorded, subsequent reversal of impairment charges is not allowed.

Deferred Income Taxes

Under HKFRS, 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. 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 realized or the deferred income tax liability is settled. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized or the deferred tax liability is settled.

Under U.S. GAAP, deferred tax assets and liabilities are recognized for the tax consequences of carry forward of unused tax losses and temporary differences by applying enacted statutory rates to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A valuation allowance is provided to reduce the amount of deferred tax assets if, in the opinion of management, it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized in the future.

Accounting for guarantees

Under HKFRS, guarantees of indebtedness of others are treated as insurance contracts. An 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 assesses at each reporting date whether the Group's recognized 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 light of the estimated future cash flows, the entire deficiency is recognized in the consolidated income statement.

Under U.S. GAAP, guarantees include contracts that contingently require the company to make payments to a guaranteed party based on changes in an underlying asset that is related to an asset, liability or equity security of the guaranteed party, performance guarantees, indemnification agreements or indirect guarantees of indebtedness of others. When a company issues a guarantee, the company must recognize an initial liability in its statement of financial position for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements.

Uncertain tax positions

Under HKFRS, there is no specific standard that addresses uncertain tax positions. The general measurement guidance is contained in HKAS 12 which requires current tax liabilities (assets) for the current and prior periods to be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. However, the unit of accounts and measurement method are not specified in HKAS 12, which results in diversity in practice.

U.S. GAAP prescribes the recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained based on technical merits upon examination by tax authorities.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Page references included in the consolidated financial statements for each of the years ended December 31, 2007, 2008 and 2009 and in the condensed consolidated interim financial information for the six months ended June 30, 2010 set forth below refer to pages in such consolidated financial statements as appeared in the Group's annual reports for the years ended December 31, 2007, 2008 and 2009 and in such condensed consolidated interim financial information respectively.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF CHINA ORIENTAL GROUP COMPANY LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 30 to 80, which comprises the condensed consolidated interim balance sheet of China Oriental Group Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of comprehensive income, changes in equity and condensed consolidated cash flow statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 August 2010

CONDENSED CONSOLIDATED BALANCE SHEET
(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited 30 June 2010	Audited 31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	8,229,707	8,625,585
Leasehold land and land use rights	6	72,314	73,139
Investment properties	6	17,193	17,595
Intangible assets	6	33	—
Investment in associates		23,461	10,297
Deferred income tax assets		85,330	81,007
Total non-current assets		8,428,038	8,807,623
Current assets			
Available-for-sale financial assets	7	72,233	96,148
Properties under development	8	195,718	—
Inventories		3,175,855	2,598,021
Trade receivables	9	1,738,423	1,197,067
Other current assets		18,840	14,191
Prepayments, deposits and other receivables	10	845,751	1,125,231
Loan receivable	11	20,000	—
Financial assets at fair value through profit or loss		122	144
Amounts due from related parties	25(c)	777,005	364,196
Restricted bank balances		706,425	342,486
Cash and cash equivalents		813,356	644,030
Total current assets		8,363,728	6,381,514
Total assets		16,791,766	15,189,137
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary shares	12	311,715	311,669
Share premium	12	2,190,291	2,189,695
Other reserves	13	1,205,522	1,192,190
Retained earnings		4,045,029	3,475,204
		7,752,557	7,168,758
Non-controlling interests		401,168	291,992
Total equity		8,153,725	7,460,750

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)
(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited 30 June 2010	Audited 31 December 2009
LIABILITIES			
Non-current liabilities			
Borrowings	16	646,770	758,857
Other long-term payables	17	470,652	570,163
Deferred revenue		26,256	41,256
Amounts due to related parties	25(c)	—	37,404
Total non-current liabilities		1,143,678	1,407,680
Current liabilities			
Trade payables	14	2,125,290	1,725,762
Accruals, advances from customers and other current liabilities	15	2,561,404	2,255,423
Amounts due to related parties	25(c)	346,868	269,218
Current income tax liabilities		153,093	136,532
Other long-term payables — current portion	17	175,736	134,432
Borrowings	16	2,063,179	1,796,481
Dividends payable		68,793	2,859
Total current liabilities		7,494,363	6,320,707
Total liabilities		8,638,041	7,728,387
Total equity and liabilities		16,791,766	15,189,137
Net current assets		869,365	60,807
Total assets less current liabilities		9,297,403	8,868,430

The notes on pages 7 to 33 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2010	2009
Revenue	5	15,349,900	9,174,977
Cost of goods sold		(13,953,481)	(8,420,775)
Gross profit		1,396,419	754,202
Other income		34,122	21,780
Distribution costs		(52,678)	(17,661)
Administrative expenses		(148,297)	(130,954)
Other expenses		(18,783)	(9,716)
Other gains/(losses) — net		16,595	(20,548)
Operating profit	18	1,227,378	597,103
Finance income		14,447	17,349
Finance costs		(82,738)	(72,411)
Share of results of associates		(1,510)	(2,207)
Profit before income tax		1,157,577	539,834
Income tax expense	19	(285,813)	(145,463)
Profit for the period		871,764	394,371
Other comprehensive income:			
Fair value losses on available-for-sale financial assets		(23,915)	—
Total comprehensive income for the period		847,849	394,371
Profit for the period attributable to:			
— equity holders of the Company		797,994	358,231
— non-controlling interests		73,770	36,140
		871,764	394,371
Total comprehensive income attributable to:			
— equity holders of the Company		774,079	358,231
— non-controlling interests		73,770	36,140
		847,849	394,371
Earnings per share for profit attributable to equity holders of the Company during the period (express in RMB per share)			
— basic	20	0.27	0.12
— diluted	20	0.27	0.12

The notes on pages 7 to 33 form an integral part of this condensed consolidated interim financial information.

Dividends	21	—	—

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in RMB thousands unless otherwise stated)

		Unaudited					
		Attributable to equity holders of the Company					
	Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2009		2,501,364	1,144,963	2,618,902	6,265,229	224,711	6,489,940
Comprehensive income							
Profit for the period		—	—	358,231	358,231	36,140	394,371
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		—	—	358,231	358,231	36,140	394,371
Transactions with owners							
Employee share option scheme:							
— Value of employee services	13	—	10,753	—	10,753	—	10,753
Total transactions with owners		—	10,753	—	10,753	—	10,753
Balance at 30 June 2009		2,501,364	1,155,716	2,977,133	6,634,213	260,851	6,895,064
Balance at 1 January 2010		2,501,364	1,192,190	3,475,204	7,168,758	291,992	7,460,750
Comprehensive income							
Profit for the period		—	—	797,994	797,994	73,770	871,764
Other comprehensive income							
Fair value losses on available-for-sale financial assets		—	(23,915)	—	(23,915)	—	(23,915)
Total comprehensive income		—	(23,915)	797,994	774,079	73,770	847,849
Transactions with owners							
Employee share option scheme:							
— Value of employee services	13	—	30,912	—	30,912	—	30,912
— Proceeds from shares issued		642	—	—	642	—	642
Profit appropriation to statutory reserves		—	6,335	(6,335)	—	—	—
Dividends relating to 2009		—	—	(221,834)	(221,834)	(5,731)	(227,565)
Transaction with non-controlling interests		—	—	—	—	41,137	41,137
Total transactions with owners		642	37,247	(228,169)	(190,280)	35,406	(154,874)
Balance at 30 June 2010		2,502,006	1,205,522	4,045,029	7,752,557	401,168	8,153,725

The notes on pages 7 to 33 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
(All amounts in RMB thousands unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	Note	2010	2009
Net cash generated from/(used in) operating activities	22	618,986	(9,360)
Net cash used in investing activities		(172,210)	(261,548)
Net cash (used in)/generated from financing activities		(275,807)	163,838
Net increase/(decrease) in cash and cash equivalents		170,969	(107,070)
Cash and cash equivalents as at 1 January		644,030	728,826
Effect of foreign exchange rate changes		(1,644)	(131)
Cash and cash equivalents as at 30 June		813,356	621,625

The notes on pages 7 to 33 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(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 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.

This condensed consolidated interim financial information was presented in RMB thousand, unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 Accounting policies

Except as described below, the accounting policies applied in this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

3 Accounting policies (Continued)

(a) New and amended standards adopted by the Group (Continued)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This standard does not have any impact on the Group's condensed consolidated interim financial information for the six months ended 30 June 2010, as the Group has not entered into any business combination during the period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered this amendment did not have any impact to the Group as all the leases of land should still be classified as operating lease under the HKAS 17 (amendment).

(b) Standards amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual periods beginning on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging activities.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it does not have such share-based payment transactions, all of its share-based payment transactions are equity-settled.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual periods beginning on or after 1 July 2009.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

3 Accounting policies (Continued)

(b) Standards amendments and interpretations to existing standards effective in 2010 but not relevant to the Group (Continued)

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets.
- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003.
- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities.
- Amendments to HK(IFRIC) — Int 14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'.
- HK(IFRIC) — Int 19, 'Extinguishing financial liabilities with equity instruments'.
- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1).
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

(d) Properties under development

During the six months ended 30 June 2010, the Group entered into a new business segment, which is property development.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties under development are transferred to completed properties held for sale.

(All amounts in RMB thousands unless otherwise stated)

3 Accounting policies (Continued)

(d) Properties under development (Continued)

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

4 Principal subsidiaries of the Group

The principal subsidiaries at 30 June 2010 were as follows:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis Development Limited ("Gold Genesis")	British Virgin Islands ("BVI") 21 February 2003	Limited liability company	100% (Directly held)	US$1	US$50,000	Investment holding
Good Lucky Enterprises Limited ("Good Lucky")	BVI 21 February 2003	Limited liability company	100% (Directly held)	US$1	US$50,000	Investment holding
First Glory Services Limited ("First Glory")	BVI 16 October 2003	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Accordpower Investments Limited ("Accordpower")	BVI 30 November 2004	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Fullhero Investments Limited ("Fullhero")	BVI 3 May 2005	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited")	PRC 24 December 1999	Joint stock company with limited liability	97.6% (Indirectly held)	RMB228.64 million	RMB228.64 million	Manufacture and sales of iron and steel products

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

4 Principal subsidiaries of the Group (Continued)

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
Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited ("Jinxi Jinlan")	PRC 26 December 2003	Limited liability company	81.5% (Indirectly held)	US$55,152,400	US$55,152,400	Manufacture and sales of steel products
Oriental Fullhero Leasing 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
Hebei Jinxi Section Steel Company Limited ("Jinxi Section Steel")	PRC 30 May 2008	Limited liability company	80% (Indirectly held)	RMB350 million	RMB350 million	Manufacture and sales of steel products
Suifenhe City Jinyin Trading Co., Ltd. ("Jinyin Trading")	PRC 24 September 2008	Limited liability company	100% (Indirectly held)	RMB10 million	RMB10 million	Import and export of goods and technology
Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Co., Ltd. ("Zhengda Iron and Steel")	PRC 19 December 2008	Limited liability company	71% (Indirectly held)	RMB50 million	RMB50 million	Manufacture and sales of steel products
Tangshan Fengrun Qu Tong Yuan Trading Company Limited ("Tong Yuan Trading")	PRC 22 May 2009	Limited liability company	71% (Indirectly held)	RMB0.1 million	RMB0.1 million	Purchase and sale of ferrous metal and coke
Hebei Jinxi Boyuan Real Estate Co., Ltd. ("Boyuan Real Estate") (i)	PRC 17 December 2009	Limited liability company	60% (Indirectly held)	RMB100 million	RMB100 million	Development and sales of real estate

(i) On 1 January 2010, Jinxi Limited entered into a share transfer agreement with Mr. Wang Zhihong. Pursuant to the share transfer agreement, Mr. Wang Zhihong acquired a 40% equity interest in Boyuan Real Estate at a consideration of RMB 40 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

4 Principal subsidiaries of the Group (Continued)

(ii) During the six months ended 30 June 2010, Qianxi County Jinxi Yunda Transportation Co., Ltd. ("Yunda Transportation"), a former subsidiary of the Group, ceased operations and has been liquidated.

(iii) On 6 April 2010, Jinxi Limited entered into a cooperation agreement (the "Cooperation Agreement") with Mr. Du Chun, minority shareholder of Ping Quan County Jinyin Charging Co., Ltd ("Jinyin Charging"). Pursuant to the Cooperation Agreement, from the date of the Cooperation Agreement to 5 April 2013 (the "Grant Period"), Jinxi Limited conveyed to Mr Du Chun the management and operating rights of Jinyin Charging.

Pursuant to the Cooperation Agreement, Mr. Du Chun is exclusively entitled to the profit and net assets accumulated by Jinyin Charging during the Grant Period. As a return, Mr. Du Chun pays an annual contracting fee of RMB 2 million, which is to be allocated among Jinyin Charging's shareholders according to their equity percentage.

5 Sales and segment information

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the six months ended 30 June 2010 and 2009 were as follows:

	For the six months ended	
	30 June 2010	**30 June 2009**
	Unaudited	**Unaudited**
Sales:		
Gross sales, less discounts and returns		
— H-section steel	5,229,130	3,281,568
— Strips and strip products	5,896,319	3,592,960
— Cold rolled sheets and galvanised sheets	899,354	344,843
— Billets	3,332,486	1,953,359
— Others	—	7,358
	15,357,289	9,180,088
Less: Taxes	(7,389)	(5,111)
	15,349,900	9,174,977

(b) Segment information

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker considers the business from a business perspective. From a business perspective, the decision maker assesses the performance of iron and steel and real estate.

(i) Iron and steel — Manufacture and sale of iron and steel; and

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

5 Sales and segment information (Continued)

(b) Segment information (Continued)

(ii) Real estate — Development and sale of properties.

The decision-maker assesses the performance of the operating segments based on a measure of revenue and operating profit. This measurement is consistent with that in the annual financial statements.

For the six months ended 30 June 2010, the properties of the real estate segment are still under development, and no sales revenue were recognised.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that is reported as direct offsets in the balance sheet. Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, investment properties, intangible assets, investment in associates, inventories, trade receivables, prepayments, deposits and other receivables, other current assets, amounts due from related parties, restricted bank balances and cash and cash equivalents.

Segment liabilities are those operating liabilities that result from the operating activities of a segment.

The segment assets and liabilities as at 30 June 2010 and 31 December 2009 are as follows:

	Iron and steel	Real estate	Total
		Unaudited	
As at 30 June 2010			
Total segment assets	16,414,669	199,412	16,614,081
Unallocated:			
Deferred income tax assets			85,330
Available-for-sale financial assets			72,233
Financial assets at fair value through profit or loss			122
Loan receivable			20,000
Total assets per balance sheet			16,791,766
Total segment liabilities	5,666,181	40,025	5,706,206
Unallocated:			
Current income tax liabilities			153,093
Current borrowings			2,063,179
Non-current borrowings			646,770
Dividends payable			68,793
Total liabilities per balance sheet			8,638,041

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

5 Sales and segment information (Continued)

(b) Segment information (Continued)

	Iron and steel	Real estate	Total
		Audited	
As at 31 December 2009			
Total segment assets	15,189,137	—	15,189,137
Total segment liabilities	7,728,387	—	7,728,387

6 Capital expenditure

	Property, plant and equipment	Leasehold land and land use rights	Investment properties	Intangible assets
		Unaudited		
Six months ended 30 June 2010				
Opening carrying amount as at 1 January 2010	8,625,585	73,139	17,595	—
Additions	59,620	—	—	40
Disposals	(14,837)	—	—	—
Depreciation and amortisation (Note 18)	(440,661)	(825)	(402)	(7)
Closing carrying amount as at 30 June 2010	8,229,707	72,314	17,193	33
Six months ended 30 June 2009				
Opening carrying amount as at 1 January 2009	8,286,788	74,790	18,400	7,667
Additions	942,564	—	—	—
Disposals	(2,736)	—	—	—
Depreciation and amortisation (Note 18)	(399,961)	(825)	(402)	—
Closing carrying amount as at 30 June 2009	8,826,655	73,965	17,998	7,667

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

7 Available-for-sale financial assets

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Non-current		
Unlisted equity interests (i)	188,100	188,100
Less: provision for impairment	(188,100)	(188,100)
Net	—	—
Current		
Listed equity interests (ii)	72,233	96,148
Total	72,233	96,148

(i) The Group's unlisted equity interests represented the investment in 51% equity interest in Qianxi County Jinjin Mine Co., Ltd. ("Jinjin Mine"), an unlisted company in the PRC.

In December 2008, Jinxi Limited entered into certain cooperation agreements (the "Cooperation Agreements") with the third-party shareholder of Jinjin Mine. Pursuant to the Cooperation Agreements, from the incorporation date of 5 August 2008 to 31 January 2011 (the "Lease Period"), Jinxi Limited conveyed to the third-party shareholder of Jinjin Mine (the "Lessee") all the voting rights on the financial and operating policies of Jinjin Mine.

The Lessee is exclusively entitled to the profit or loss and net assets accumulated during the Lease Period in return for paying leasing fees to Jinxi Limited. The Lessee is also responsible for preserving and increasing the value of the net assets of Jinjin Mine at the end of Lease Period. The leasing fees are determined based on the local iron powder market price and are to be adjusted quarterly.

In the opinion of the Directors of the Company, the Group is not able to exercise any significant influence on Jinjin Mine during the Lease Period and hence the investment in Jinjin Mine was accounted for as available-for-sale financial assets for the six months ended 30 June 2010 and for the year ended 31 December 2009.

The unlisted equity interests offer return through the lease income. As the investment does not have any quoted market price in the active market, the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed, the Directors of the Company are of the opinion that its fair values cannot be reliably measured.

As at 30 June 2010, the Directors of the Company noted that there were impairment indications on the cost of the investment in Jinjin Mine as follows:

a. No lease income was received by the Group from the Lessee for six months ended 30 June 2010 (for the year ended 31 December 2009: none) and it is expected that no lease income would be received by the Group for the rest of the Lease Period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

7 Available-for-sale financial assets (Continued)

b. The recoverability of the payment for mining rights, which accounted for a significant portion of the net assets of Jinjin Mine, was in doubt due to the uncertainty in obtaining the licence of mining rights.

The investment in Jinjin Mine was fully impaired as the Directors of the Company considered that these impairment indications would continue to exist and no value of the financial assets is expected to be recovered in the foreseeable future.

(ii) The Group's listed equity interests represented the investment in 600,000,000 ordinary shares of Asia Energy Logistics Group Limited, a company listed on The Stock Exchange of Hong Kong Limited.

The fair value of the listed equity interests was determined based on their quoted market prices at the balance sheet date.

8 Properties under development

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Properties under development comprise:		
— Construction costs	2,278	—
— Land use rights	193,440	—
	195,718	—

The properties under development are all located in the PRC. The related land use rights are on leases of 40 to 70 years.

9 Trade receivables

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Accounts receivable	152,234	118,105
Notes receivable — bank acceptance notes (i)	1,586,189	1,078,962
	1,738,423	1,197,067

(i) As at 30 June 2010, notes receivable of approximately RMB 110 million (31 December 2009: RMB 102 million) were pledged as security for issuing notes payable (Note 14).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

9 Trade receivables (Continued)

As at 30 June 2010 and 31 December 2009, the ageing analysis of trade receivables was as follows:

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Within 3 months	1,695,018	1,004,990
4 — 6 months	43,405	192,077
	1,738,423	1,197,067

As at 30 June 2010, accounts receivable amounted to approximately RMB 100 million (31 December 2009: approximately RMB 43 million) were letters of credit issued by third parties.

10 Prepayments, deposits and other receivables

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Prepayments for purchase of inventories	479,439	632,228
Deposits and other receivables	387,617	514,308
Less: Impairment provision of deposits	(21,305)	(21,305)
	845,751	1,125,231

11 Loan receivable

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Loan to a third party(i)	20,000	—

(i) The loan was unsecured, bore interest at a rate of 8% per annum and repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

12 Share capital

	Number of shares (thousands)	Amount (unaudited) Ordinary shares	Share premium	Total
As at 1 January 2010	2,929,200	311,669	2,189,695	2,501,364
Employee share option scheme:				
— issuance of shares (Note 13(a))	525	46	596	642
As at 30 June 2010	2,929,725	311,715	2,190,291	2,502,006
As at 1 January 2009 and 30 June 2009	2,929,200	311,669	2,189,695	2,501,364

As at 30 June 2010 and 31 December 2009, 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 30 June 2010, the number of issued and fully paid ordinary shares is 2,929,725,000 shares (31 December 2009: 2,929,200,000 shares).

13 Other reserves

	Merger reserve	Capital surplus	Statutory reserve	Employee Share Options (a)	Available-for-sale financial assets	Total
			Unaudited			
As at 1 January 2010	(599)	19,144	977,808	187,384	8,453	1,192,190
Profit appropriation	—	—	6,335	—	—	6,335
Employee share option scheme:						
— Value of employee services	—	—	—	30,912	—	30,912
Fair value losses on available-for-sale financial assets	—	—	—	—	(23,915)	(23,915)
As at 30 June 2010	(599)	19,144	984,143	218,296	(15,462)	1,205,522
As at 1 January 2009	(599)	19,144	949,787	176,631	—	1,144,963
Employee share option scheme:						
— Value of employee services	—	—	—	10,753	—	10,753
As at 30 June 2009	(599)	19,144	949,787	187,384	—	1,155,716

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

13 Other reserves (Continued)

(a) Employee share option scheme

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

	For the six months ended (unaudited)			
	30 June 2010		30 June 2009	
	Average exercise price in HK$	Number of options (thousands)	Average exercise price in HK$	Number of options (thousands)
At 1 January	2.62	176,580	—	—
Granted	—	—	1.42	27,800
Exercised	1.39	(525)	—	—
Cancelled	—	—	—	—
At 30 June	2.62	176,055	1.42	27,800

Options exercised for the six months ended 30 June 2010 resulted in 525,000 shares being issued at the average price of HK$1.39 each. The related weighted average share price at the time of exercise was HK$2.92 per share.

14 Trade payables

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Accounts payable	1,446,340	1,360,498
Notes payable (i)	678,950	365,264
	2,125,290	1,725,762

(i) As at 30 June 2010, all notes payable represented bank acceptance notes, of which RMB 110 million were secured by certain notes receivable (Note 9), RMB 455 million were secured by restricted bank balances carrying at approximately RMB 172 million, and RMB 114 million were secured by inventories and restricted bank balances carrying at approximately RMB 151 million and RMB 46 million respectively.

As at 31 December 2009, all notes payable represented bank acceptance notes, of which RMB 102 million were secured by certain notes receivable (Note 9), RMB 205 million of which were secured by restricted bank balances carrying at approximately RMB 107 million, and RMB 59 million of which were secured by inventories and restricted bank balances carrying at approximately RMB 67 million and RMB 18 million respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

14 Trade payables (Continued)

As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Within 3 months	1,546,427	1,441,589
4 – 6 months	500,085	202,471
7 – 9 months	62,357	73,028
10 – 12 months	7,800	1,062
Above 1 year	8,621	7,612
	2,125,290	1,725,762

15 Accruals, advances from customers and other current liabilities

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Accruals	247,812	181,716
Advances from customers	1,554,592	1,156,894
Value-added tax payable	10,709	8,103
Other taxes payables	1,953	6,892
Other payables (a)	746,338	901,818
	2,561,404	2,255,423

(a) The breakdowns of other payables as at 30 June 2010 and 31 December 2009 were as follows:

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Payables for purchase of property, plant and equipment	377,087	552,274
Customer deposits	149,110	140,290
Pension payables and other social welfare payables	75,357	79,607
Salary payables	37,872	44,067
Employee deposits	31,328	31,898
Others	75,584	53,682
	746,338	901,818

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

16 Borrowings

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Non-current		
Bank borrowings, secured (i)	215,770	483,857
Bank borrowings, unsecured	366,000	200,000
Other borrowings, unsecured (ii)	65,000	75,000
	646,770	758,857
Current		
Bank borrowings, secured (i)	1,099,436	791,134
Bank borrowings, unsecured	953,743	1,005,347
Other borrowings, unsecured (ii)	10,000	—
	2,063,179	1,796,481
Total borrowings	2,709,949	2,555,338

(i) As at 30 June 2010, the Group had the following secured bank borrowings:

(a) Bank borrowings of approximately RMB 356 million (31 December 2009: RMB 688 million) were pledged by certain property, plant and equipment of the Group with carrying amount of approximately RMB 558 million (31 December 2009: RMB 1,359 million).

(b) Bank borrowings of approximately RMB 100 million (31 December 2009: RMB 130 million) were pledged by certain leasehold land and land use rights of the Group with carrying amount of approximately RMB 38 million (31 December 2009: RMB 38 million).

(c) Bank borrowings of approximately RMB 690 million (31 December 2009: RMB 288 million) were pledged by certain restricted bank balance of the Group with carrying amount of approximately RMB 424 million (31 December 2009: RMB 189 million).

(d) Bank borrowings of approximately RMB 19 million (31 December 2009: RMB 19 million) were pledged by inventory of the Group with carrying amount of approximately RMB 91 million (31 December 2009: RMB 67 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

16 Borrowings (Continued)

(e) Pursuant to an agreement dated 12 September 2008 (the "Guarantee Agreement") entered into between the Group and Foshan Jin Lan Aluminium Company Limited ("Foshan Jin Lan"), Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for bank borrowing facilities amounting to RMB 150 million. In addition to the secured bank borrowings described in (a) to (d) above, current secured bank borrowings of approximately RMB 150 million (31 December 2009: RMB 150 million) were secured by certain property, plant and equipment and leasehold land and land use rights with carrying amounts of approximately RMB 98 million (31 December 2009: RMB 104 million) and RMB 23 million (31 December 2009: RMB 23 million) respectively and guaranteed by Foshan Jin Lan pursuant to the Guarantee Agreement.

(ii) Other unsecured borrowing represented a borrowing from the local county government amounting to RMB 145 million which were repaid from 1 January 2008 onwards at an amount of RMB 20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit. As at 31 December 2008, other borrowings of RMB20 million were past due. The Group repaid RMB70 million, including those were past due, during the year ended 31 December 2009.

Movements in borrowings were analysed as follows:

	Unaudited
Six months ended 30 June 2010	
As at 1 January 2010	2,555,338
Proceeds from borrowings	2,027,688
Repayments of borrowings	(1,869,069)
Foreign exchange gain	(4,008)
As at 30 June 2010	2,709,949
Six months ended 30 June 2009	
As at 1 January 2009	2,186,460
Proceeds from borrowings	1,114,238
Repayments of borrowings	(920,000)
Foreign exchange gain	(103)
As at 30 June 2009	2,380,595

As at 30 June 2010 and 31 December 2009, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	Unaudited	Audited	Unaudited	Audited
Within 1 year	2,053,179	1,796,481	10,000	—
Between 1 and 2 years	344,000	458,826	20,000	10,000
Between 2 and 5 years	237,770	225,031	45,000	60,000
Over 5 years	—	—	—	5,000
	2,634,949	2,480,338	75,000	75,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

16 Borrowings (Continued)

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

	As at			
	30 June 2010		31 December 2009	
	Unaudited		Audited	
	RMB	HK$	RMB	HK$
Bank borrowings	4.78%-12.00%	1.42%-3.25%	4.78%-12.00%	2.13%
Other borrowings	2.25%	—	2.25%	—

Interest expenses on borrowings for the six months ended 30 June 2010 were RMB 68 million (for the six months ended 30 June 2009: RMB 63 million), out of which RMB 7 million (for the six months ended 30 June 2009: 21 million) arising on financing for the construction of plant and equipments were capitalised during the period and were included in "additions" in property, plant and equipment. A capitalisation rate of 6.39% (for the six months ended 30 June 2009: 6.20%) was used, representing the borrowing cost of the loan used to finance the project.

17 Other long-term payables

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Non-current		
Finance lease obligations	470,652	570,163
Current		
Finance lease obligations	175,736	134,432
Total other long-term payables	646,388	704,595

In July 2008, Jinxi Limited entered into an asset sale and leaseback agreements (the "Sale and Lease Agreement") with a financial institution. The sales proceeds of the property, plant and equipment was RMB 800 million. The lease term was 60 months and the lease payments were adjusted annually and reset according to the primary rate announced by the People's Bank of China (the "PBOC"). The purchase option at the end of lease period was RMB 100.

In August 2008, Jinxi Limited entered into a guarantee agreement with another financial institution. Pursuant to the agreement, this financial institution granted a guarantee in favour of Jinxi Limited for the above finance lease amounting to RMB 800 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

17 Other long-term payables (Continued)

As at 30 June 2010, total minimum lease payments under finance lease based on PBOC interest rate as at the balance sheet date and their present values were as follows:

	Unaudited		
	Present value of minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
Within 1 year	175,736	64,038	239,774
Between 1 and 5 years	470,652	41,447	512,099
	646,388	105,485	751,873

For six months ended 30 June 2010 and the year ended 31 December 2009, no contingent-based rents were recognised as expenses.

The effective interest rate of the finance lease obligations of the Group for the six months ended 30 June 2010 was 9.12% per annum (for the year ended 31 December 2009: 9.12% per annum).

18 Operating profit

The following items have been credited/(charged) to the operating profit during the six months ended 30 June 2010 and 2009:

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Share options granted to directors and employees (Note 13)	(30,912)	(10,753)
Gain on disposal of property, plant and equipment	1,760	549
Depreciation of property, plant and equipment (Note 6)	(440,661)	(399,961)
Amortisation of leasehold land and land use rights (Note 6)	(825)	(825)
Depreciation of investment properties (Note 6)	(402)	(402)
Amortisation of intangible assets (Note 6)	(7)	—
Taxation on inter-group transfer of property, plant and equipment	—	(25,613)
Foreign exchange loss, net	(316)	(1,045)

19 Income tax expense

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Current income tax		
— PRC enterprise income tax	290,136	151,572
Deferred income tax	(4,323)	(6,109)
	285,813	145,463

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

20 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 period.

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	797,994	358,231
Weighted average number of ordinary shares in issue (thousands)	2,929,600	2,929,200
Basic earnings per share (RMB per share)	0.27	0.12

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As at 30 June 2010, the Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) during the period based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	797,994	358,231
Weighted average number of ordinary shares in issue used in calculating basic earnings per share (thousands)	2,929,600	2,929,200
Adjustments for options (thousands)	13,853	1,461
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share (thousands)	2,943,453	2,930,661
Diluted earnings per share (RMB per share)	0.27	0.12

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

21 Dividends

(a) At a meeting held on 23 March 2010, the Board proposed a final dividend in respect of the year ended 31 December 2009 of HK$ 251.94 million (approximately RMB 221.83 million), representing HK$ 0.086 per ordinary share. During the six months ended 30 June 2010, dividends of HK$ 176.98 million (approximately RMB 154.39 million) were paid.

(b) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (for the six months ended 30 June 2009: nil).

22 Notes to the Condensed Consolidated interim cash flow statement

Major non-cash transactions:

During the six months ended 30 June 2010, the Group endorsed bank acceptance notes to the suppliers for purchase of property, plant and equipment amounting to approximately RMB 145 million (30 June 2009: approximately RMB 178 million).

23 Capital commitments

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

	As at	
	30 June 2010	**31 December 2009**
	Unaudited	**Audited**
Purchase of property, plant and equipment		
— Contracted but not provided for	1,602,752	1,936,442
— Authorised but not contracted for (a)	78,418	1,013,127
	1,681,170	2,949,569

(a) At a meeting held on 23 March 2010, the directors of Jinxi Limited have resolved to terminate the rolled sheet project, and the capital commitment as at 31 December 2009 of approximately RMB 765 million has been released.

24 Financial guarantee contracts

As at 30 June 2010, Jinxi Limited provided guarantees for certain bank borrowings in favour of third parties amounting to approximately RMB 30 million (31 December 2009: approximately RMB 30 million). The fair values of these financial guarantee contracts are not significant.

The Directors of the Company are of the view that such obligations will not cause an outflow of resources embodying economic benefits.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

25 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 six months ended 30 June 2010 and 2009, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Wellbeing Holdings Limited	Substantial shareholder 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. Guo Feizhi, one of the key executives of Jinxi Limited
Foshan Jin Lan	Substantial shareholder of Jinxi Jinlan
Foshan Jin Lan Import and Export Co., Ltd ("Jin Lan Import and Export")	Controlled by the family members of Mr. Zhou Weijie, a director of Jinxi Jinlan
Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	Foshan Jin Lan's subsidiary
Foshan Jin Lan Group Co., Ltd. ("Jin Lan Group")	Controlled by Mr. Zhou Weijie, a director of Jinxi Jinlan
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing Iron Mine")	Jinxi Limited's associated company
Qianxi County Longba Charging Company Limited ("Longba Charging")	Jinxi Limited's associated company
Qianxi County Hui Yin Trading Company Limited ("Hui Yin")	Substantial shareholder of Jinxi Section Steel
Pingquan County Longba Quarrying Company Limited ("Longba Quarrying")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Qianxi County Jinxi Wan Tong Ductile Iron Pipes Co., Ltd. ("Jinxi Wantong")	Its legal representative is Mr. Shen Xiaoling, a director of the Company
Ping Quan County Jinyin Charging Co., Ltd. ("Jinyin Charging")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Qianxi County Han'erzhuang Village Wang Zhihong Iron Ore Mill ("Qianxi Iron Ore Mill")	Controlled by Mr. Wang Zhihong, substantial shareholder of Boyuan Real Estate
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Mr. Zhou Weijie	Director of Jinxi Jinlan
Mr. Shen Xiaoling	Director of the Company
Mr. Du Chun	Substantial shareholder of Jinyin Charging
Mr. Wang Zhihong	Substantial shareholder of Boyuan Real Estate

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

25 Related party transactions (Continued)

(b) Significant related party transactions:

(i) Sales

(I) Sales of goods

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Jinxi Wantong	46,515	—
Jin Lan Import and Export	40,015	23,257
Jin Lan Group	7,343	9,457
Jin Lan Nonferrous Metals	3,779	—
Longba Charging	71	1,390
	97,723	34,104

(II) Sales of utilities

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Jin Lan Nonferrous Metals	3,230	2,202

(ii) Purchase of raw materials

	For the six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
Longba Charging	40,826	29,136
Zhongxing Iron Mine	39,580	36,218
Qianxi Iron Ore Mill	29,567	—
Jinyin Charging	4,069	—
	114,042	65,354

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

25 Related party transactions (Continued)

(c) Balance with related parties:

	As at	
	30 June 2010	**31 December 2009**
	Unaudited	**Audited**
Amounts due from related parties		
Non-trade balances		
— Tangshan Jinxi Group (i)	767,544	361,512
— Jinyin Charging	3,693	—
	771,237	361,512
Trade balances		
— Jin Lan Import and Export	4,912	1,436
— Jin Lan Nonferrous Metals	856	525
— Longba Quarrying	—	723
	5,768	2,684
	777,005	364,196

(i) Pursuant to a loan agreement entered into between Jinxi Limited and Tangshan Jinxi Group in May 2010, the loans provided by Jinxi Limited to Tangshan Jinxi Group amounted to RMB 767.5 million as at 30 June 2010. These loans were secured by Tangshan Jinxi Group's 100% equity in Jinxi Wan Tong and all of the assets purchased or constructed by using the proceeds of the loans. They bore interest at 5.3% and were repayable within six months.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

25 Related party transactions (Continued)

(c) Balance with related parties (Continued):

	As at	
	30 June 2010	31 December 2009
	Unaudited	Audited
Amounts due to related parties		
Non-current		
Non-trade balances		
Borrowings from a related party		
— Foshan Jin Lan (i)	—	37,404
Current		
Non-trade balances		
Borrowings from related parties		
— Hui Yin (ii)	170,000	170,000
— Wang Zhihong (iii)	39,798	—
— Foshan Jin Lan (i)	37,404	—
— Wellbeing Holdings Limited (iv)	29,661	29,937
	276,863	199,937
Deposit from a related party		
— Mr. Shen Xiaoling (v)	10,000	10,000
Dividends payable due to		
— Tangshan Jinxi Group	12,059	18,130
— Hui Yin	—	20,837
— Zhongxing Iron Mine	—	2,535
	12,059	41,502
Others		
— Jinxi Wan Tong	12,762	1,308
— Foshan Jin Lan	383	383
— Mr. Du Chun	—	3,600
— Longba Quarrying	—	1,815
— Mr. Han Jingyuan	—	45
	13,145	7,151
Trade balances		
Trade Payables		
— Longba Charging	27,322	10,414
— Zhongxing Iron Mine	3,553	214
— Qianxi Iron Ore Mill	3,296	—
— Jinyin Charging	630	—
	34,801	10,628
	346,868	269,218

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)
(All amounts in RMB thousands unless otherwise stated)

25 Related party transactions (Continued)

(c) Balance with related parties (Continued):

(i) Pursuant to certain agreements entered into in January 2006, the payables to Foshan Jin Lan amounting to RMB 37.4 million are unsecured, interest-free and repayable only after 5 years.

(ii) Pursuant to certain agreements, the Group and Hui Yin lent certain loans to Jinxi Section Steel on a proportional basis according to their respective shareholdings percentage in Jinxi Section Steel. These loans are unsecured, interest-free and have no fixed term of repayment.

(iii) Pursuant to certain agreements, the Group and Wang Zhihong lent certain loans to Boyuan Real Estate on a proportional basis according to their respective shareholdings percentage in Boyuan Real Estate. These loans are unsecured, bore interest at a rate of 5.31% per annum and are repayable within one year.

(iv) The loan is unsecured, bore interest at a rate of 3.25% per annum and repayable within six months.

(v) Pursuant to a cooperation agreement entered into between Mr. Shen Xiaoling and the Group in June 2008, the payable to Mr. Shen Xiaoling amounted to RMB 10 million represented a deposit for the cooperation agreement, which is unsecured, interest-free and refundable on 31 December 2010.

Except for the loans provided by Foshan Jin Lan, Wang Zhihong and Wellbeing Holdings Limited as disclosed above and the deposit from Mr. Shen Xiaoling, the related party balances were all unsecured, interest-free and had no fixed term of repayment.

26 Approval on the condensed consolidated interim financial information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the Board on 9 August 2010.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA ORIENTAL GROUP COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Oriental Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 219, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2010

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)
As at 31 December 2009

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	8,625,585	8,286,788
Leasehold land and land use rights	6	73,139	74,790
Investment properties	8	17,595	18,400
Intangible assets	9	—	7,667
Investment in an associate	11	10,297	10,120
Loan receivable	14	—	130,000
Available-for-sale financial assets	15	—	188,100
Deferred income tax assets	28	81,007	7,461
		8,807,623	8,723,326
Current assets			
Available-for-sale financial assets	15	96,148	—
Inventories	16	2,598,021	1,567,437
Trade receivables	17	1,197,067	1,733,991
Other current assets		14,191	9,894
Prepayments, deposits and other receivables	19	1,125,231	731,570
Financial assets at fair value through profit or loss	18	144	140
Amounts due from related parties	42(c)	364,196	14,620
Prepaid current income tax		—	264,555
Restricted bank balances	20	342,486	361,698
Cash and cash equivalents	20	644,030	728,826
		6,381,514	5,412,731
Total assets		15,189,137	14,136,057
EQUITY			
Equity attributable to owners of the parent			
Ordinary shares	21	311,669	311,669
Share premium	21	2,189,695	2,189,695
Other reserves	22	1,192,190	1,144,963
Retained earnings		3,475,204	2,618,902
		7,168,758	6,265,229
Minority interest		291,992	224,711
Total equity		7,460,750	6,489,940

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (Continued)
(All amounts in RMB thousands unless otherwise stated)
As at 31 December 2009

	Note	As at 31 December 2009	As at 31 December 2008
LIABILITIES			
Non-current liabilities			
Borrowings	25	758,857	489,230
Other long term payables	26	570,163	847,934
Deferred revenue	27	41,256	62,756
Amounts due to related parties	42(c)	37,404	65,055
		1,407,680	1,464,975
Current liabilities			
Trade payables	23	1,725,762	2,219,395
Accruals, advances from customers and other current liabilities	24	2,255,423	2,034,745
Amounts due to related parties	42(c)	269,218	207,013
Current income tax liabilities		136,532	—
Other long term payables — current portion	26	134,432	19,888
Borrowings	25	1,796,481	1,697,230
Dividends payable		2,859	2,871
		6,320,707	6,181,142
Total liabilities		7,728,387	7,646,117
Total equity and liabilities		15,189,137	14,136,057
Net current assets/(liabilities)		60,807	(768,411)
Total assets less current liabilities		8,868,430	7,954,915

Han Jingyuan
Chairman and Director

Liu Lei
Director

The notes on pages 70 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

COMPANY BALANCE SHEET
(All amounts in RMB thousands unless otherwise stated)
As at 31 December 2009

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	782	1,037
Investments in subsidiaries	10(a)	382,121	382,121
Loans to subsidiaries	10(b)	2,431,264	2,328,517
		2,814,167	2,711,675
Current assets			
Available-for-sale financial assets	15	96,148	—
Inventories	16	21,288	—
Prepayments, deposits and other receivables	19	1,315	1,403
Financial assets at fair value through profit or loss	18	144	140
Amounts due from related parties		6,592	6,513
Restricted bank balances	20	25,107	—
Cash and cash equivalents	20	124,164	62,238
		274,758	70,294
Total assets		3,088,925	2,781,969
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	311,669	311,669
Share premium	21	2,189,695	2,189,695
Other reserves		195,837	176,631
Retained earnings/(Accumulated losses)		2,702	(73,111)
Total equity		2,699,903	2,604,884
LIABILITIES			
Current liabilities			
Trade payables	23	177,776	4,295
Accruals and other current liabilities		21,315	12,527
Borrowings	25	159,903	160,160
Amounts due to related parties		29,937	—
Dividends payable		91	103
Total liabilities		389,022	177,085
Total equity and liabilities		3,088,925	2,781,969
Net current liabilities		(114,264)	(106,791)
Total assets less current liabilities		2,699,903	2,604,884

Han Jingyuan
Chairman and Director

Liu Lei
Director

The notes on pages 70 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2009

	Note	Year ended 31 December 2009	2008
Revenue	5	20,589,138	19,388,183
Cost of sales	31	(18,582,768)	(18,870,988)
Gross profit		2,006,370	517,195
Other income	30	36,817	35,639
Distribution costs	31	(56,997)	(80,319)
Administrative expenses	31	(283,534)	(281,942)
Other expenses	31	(206,823)	(10,228)
Other losses — net	29	(80,545)	(1,364)
Operating profit		1,415,288	178,981
Finance income	33	35,414	24,249
Finance costs	33	(137,145)	(91,627)
Finance costs — net		(101,731)	(67,378)
Share of profit of an associate	11	177	1,998
Profit before income tax		1,313,734	113,601
Income tax expense	34	(341,293)	(70,643)
Profit for the year		972,441	42,958
Profit attributable to:			
Equity holders of the Company		884,323	44,032
Minority interest		88,118	(1,074)
		972,441	42,958
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
— Basic earnings per share	37	0.30	0.02
— Diluted earnings per share	37	0.30	0.02
Dividends	38	221,834	167,088

The notes on pages 70 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2009

	Note	Year ended 31 December 2009	2008
Profit for the year		972,441	42,958
Other comprehensive income:			
Fair value gains on available-for-sale financial assets	15	8,453	—
Total comprehensive income for the year		980,894	42,958
Attributable to:			
Equity holders of the Company		892,776	44,032
Minority interest		88,118	(1,074)
		980,894	42,958

The notes on pages 70 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2009

		Attributable to equity holders of the Company						
	Note	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008		311,444	2,185,964	1,144,182	2,907,100	6,548,690	147,414	6,696,104
Comprehensive income								
Profit for the year		—	—	—	44,032	44,032	(1,074)	42,958
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income		—	—	—	44,032	44,032	(1,074)	42,958
Transactions with owners								
Employee share options scheme:								
— Proceeds from exercising share options	21	225	3,731	—	—	3,956	—	3,956
Profit appropriation to statutory reserves	22	—	—	781	(781)	—	—	—
Dividends relating to 2007		—	—	—	(164,361)	(164,361)	(7,042)	(171,403)
Dividends relating to 2008	38(a)	—	—	—	(167,088)	(167,088)	(7,546)	(174,634)
Acquisition from a minority shareholder		—	—	—	—	—	(25,655)	(25,655)
Minority shareholder's injection		—	—	—	—	—	118,614	118,614
Total transactions with owners		225	3,731	781	(332,230)	(327,493)	78,371	(249,122)
Balance at 31 December 2008		311,669	2,189,695	1,144,963	2,618,902	6,265,229	224,711	6,489,940
Balance at 1 January 2009		311,669	2,189,695	1,144,963	2,618,902	6,265,229	224,711	6,489,940
Comprehensive income								
Profit for the year		—	—	—	884,323	884,323	88,118	972,441
Other comprehensive income								
Fair value gains on available-for-sale financial assets		—	—	8,453	—	8,453	—	8,453
Total comprehensive income		—	—	8,453	884,323	892,776	88,118	980,894
Transactions with owners								
Employee share options scheme:								
— Value of employee services		—	—	10,753	—	10,753	—	10,753
Profit appropriation to statutory reserves	22	—	—	28,021	(28,021)	—	—	—
Dividends relating to 2009	42(c)	—	—	—	—	—	(20,837)	(20,837)
Total transactions with owners		—	—	38,774	(28,021)	10,753	(20,837)	(10,084)
Balance at 31 December 2009		311,669	2,189,695	1,192,190	3,475,204	7,168,758	291,992	7,460,750

The notes on pages 70 to 219 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2009

	Note	Year ended 31 December 2009	2008
Cash flows from operating activities			
Cash generated from operations	39	374,002	626,172
Interest received		28,276	15,519
Dividends received from financial assets at fair value through profit or loss		1	11
Interest paid		(134,756)	(65,941)
Refund of prior year prepaid income tax		161,630	5,854
Income tax paid		(177,603)	(433,701)
Net cash generated from operating activities		251,550	147,914
Cash flows from investing activities			
Purchase of property, plant and equipment	39	(930,821)	(953,649)
Payment for sale of property, plant and equipment		(29)	—
Investment income on loan receivable		6,400	8,308
Decrease/(Increase) in loan receivable		130,000	(130,000)
Increase in available-for-sale financial assets		(87,696)	(188,100)
Cash received relating to other investing activities		400,000	153,000
Cash paid relating to other investing activities		(192,652)	(400,000)
Net cash used in investing activities		(674,798)	(1,510,441)
Cash flows from financing activities			
Proceeds of borrowings from related parties		29,937	3,956
Repayment of borrowings from related parties		(17,651)	—
Proceeds from borrowings		3,118,524	1,608,836
Repayment of borrowings		(2,769,390)	(626,617)
Dividends paid		—	(331,450)
Capital injection by minority shareholders		—	85,300
Proceeds from borrowings from a minority shareholder		—	170,000
Proceeds from sales and leaseback transaction	27	—	800,000
Cash paid relating to sales and leaseback transaction		(33,227)	(100,280)
Decrease/(Increase) in restricted bank balances pledged as security for current bank borrowings		10,625	(200,000)
Net cash generated from financing activities		338,818	1,409,745
Net (decrease)/increase in cash and cash equivalents		(84,430)	47,218
Effect of foreign exchange rate changes		(365)	(7,983)
Cash and cash equivalents, beginning of the year		728,826	689,591
Cash and cash equivalents, end of the year	20	644,031	728,826

The notes on pages 70 to 219 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2009

1. General information

China Oriental Group Company Limited (the "Company") was incorporated in Bermuda on 3 November 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda as a result of a group reorganisation (the "Reorganisation").

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

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

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

These consolidated financial statements are presented in thousands of units of RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 23 March 2010.

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") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss.

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

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting standards and interpretations

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7, 'Financial Instruments — Disclosures' (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on operating results, financial position or comprehensive income of the Group.

- HKAS 1 (revised), 'Presentation of financial statements' — effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been complied as required by the revised standard retrospectively.

- HKFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and the Company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKAS 23 (revised), 'Borrowing costs' — effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. As the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23, there is no impact on operating results, financial position or comprehensive income of the Group.

(All amounts in RMB thousands unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group (Continued)

- HKFRS 8, 'Operating segments' — effective 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has adopted HKFRS 8 since 1 January 2009, which did not result in any increase in the number of reportable segments. The segments applied in the previous consolidated financial statements were consistent with the internal reporting provided to the chief operating decision-maker.

- The standards, amendments and interpretations noted below had no impact on the Group's operating results, financial position or comprehensive income.

HKFRS 1 and HKAS 27 Amendment	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKAS 32 Amendment and HKAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation
HK (IFRIC) 13	Customer Loyalty Programmes
HK (IFRIC) 15	Agreements for the Construction of Real Estate
HK (IFRIC) 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) 18	Transfers of Assets from Customers (applied for transfers of assets after 1 July 2009)

(All amounts in RMB thousands unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

		Effective date
HKAS 24 Revised	Related Party Disclosures	1 January 2011
HKAS 27 Revised	Consolidated and Separate Financial Statements	1 July 2009
HKAS 32 Amendment	Classification of rights issues	1 February 2010
HKAS 39	Financial Instruments: Recognition and Measurement — Amendments for Eligible hedged items	1 July 2009
HKFRS 1 Amendment	Presentation of Financial Statements	1 January 2010
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions	1 January 2010
HKFRS 3 Revised	Business Combinations	1 July 2009
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2013
HK (IFRIC) 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HK (IFRIC) 17	Distribution of Non-Cash Assets to Owners	1 July 2009
HK (IFRIC) 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

- HKAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

Except for the application of HKAS 27 (revised), amendments and interpretations as mentioned above is not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Improvements to HKFRS

In addition, "Improvements to HKFRS" were issued in October 2008 and May 2009 respectively, containing numerous technical and conforming amendments to HKFRS, which the HKICPA consider non-urgent but necessary. "Improvements to HKFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual HKFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010. No material changes to accounting policies were made in 2009 or are expected in 2010 as a result of these amendments. These amendments that are relevant to the Group include:

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

- HKAS 36, 'Impairment of Assets' (effective from 1 January 2010). The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of HKFRS 8). The amendment will not result in a material impact on the Group's or the Company's financial statements.

- HKAS 38 (amendment), 'Intangible Assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or the Company's financial statements.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation

(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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (Note 2.8).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions with minority interest

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

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

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

2.2 Consolidation (Continued)

(c) Associates (Continued)

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

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other losses-net'.

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

2.4 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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 available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary 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 rate on 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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment, comprising buildings, machinery, furniture and fixtures, leasehold improvements and vehicles are stated at historical 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.

(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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated 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 their costs to their residual values over their estimated useful lives (Note 4.1), as follows:

	Estimated useful life
Buildings	10 — 20 years
Machinery	5 — 10 years
Furniture and fixtures	3 — 10 years
Vehicles	4 — 10 years
Leasehold improvements	2 — 5 years

The residual values and useful lives are reviewed, and adjusted where appropriate at the end of each reporting period.

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 the proceeds with the carrying amount and are recognised within 'Other losses — net', in the consolidated income statement.

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

2.6 Leasehold land and land use rights

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

2.7 Investment properties

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

2. Summary of significant accounting policies (Continued)

2.7 Investment properties (Continued)

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, if necessary, adjusted 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 consolidated 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 consolidated 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. Summary of significant accounting policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. Summary of significant accounting policies (Continued)

2.10 Financial assets

2.10.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.13 and 2.14 respectively).

(c) 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 the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

For the years ended 31 December 2009 and 2008, the Group has no financial assets categorised as held-to-maturity.

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale assets of the Group include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less provision for impairment, if any.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other losses — net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. Summary of significant accounting policies (Continued)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payments;

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is a kind of evidence that the assets 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 profit or loss — is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement.

2. Summary of significant accounting policies (Continued)

2.12 Inventories

Inventories are stated at the lower of cost and the 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 amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.14 Cash and cash equivalents

Cash and cash equivalents includes 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

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

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (Continued)

2.17 Borrowings (Continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings at nil or low interest rates from government are treated as government assistance 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.

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 consolidated income statement in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

2. Summary of significant accounting policies (Continued)

2.18 Current and deferred income tax (Continued)

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

2.19 Employee benefits

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 MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar ("HK$") 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 32. 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 consolidated income statement as incurred.

2.20 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

2. Summary of significant accounting policies (Continued)

2.20 Share-based payments (Continued)

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Where options are granted to employees of subsidiaries within the Group, in the consolidated financial statements, such share-based arrangement is accounted for as equity-settled. The fair value are accounted for as contributions and recognised as part of the cost of investment in the Company's standalone financial statements.

2.21 Provisions

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

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

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

2.22 Government grants

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

Grants relating to income are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that 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 consolidated income statement over the life of a depreciable asset by way of a reduced depreciation charge.

2. Summary of significant accounting policies (Continued)

2.23 Revenue recognition

(a) Sales of goods produced

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

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

(b) Interest income

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

(c) Dividend income

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

(d) Lease income

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

2.24 Lease

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 to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2. Summary of significant accounting policies (Continued)

2.24 Lease (Continued)

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Contingent rents is charged as expenses in the periods in which they are incurred. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

If there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases is depreciated over the useful life of the asset.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.26 Dividends distribution

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

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

2. Summary of significant accounting policies (Continued)

2.27 Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Cash flow and fair value 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. All non-current borrowings bear variable rates and expose the Group to cash flow interest-rate risk. The maximum exposures to the interest rate risk have been disclosed in Note 25.

The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2009 and 2008.

(ii) Foreign exchange risk

The directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2009 and 2008.

The major foreign exchange risk exposure arises from the Group's importing and exporting activities, which are mostly denominated in United States Dollars (the "US$"). The Group also has certain bank deposits, financial assets and financial liabilities that are denominated in foreign currencies, mainly US$, Euros and HK$, which are exposed to foreign currency translation risk. The foreign exchange risk is reduced where the Group is in a position of receiving and paying the same currency.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Foreign exchange risk (Continued)

The directors believe that the Group does not expose to significant foreign exchange risks. The maximum exposures to the foreign exchange risks are disclosed in Notes 17, 20 and 25 respectively.

(iii) Summarised sensitivity analysis

The following table summarised the impact of increases/decreases of the interest rate and the foreign exchange rate on the Group's consolidated financial statements.

The sensitivity analysis for interest rate risk and foreign exchange is based on the assumption that:

(a) Interest rate had been 15% lower/higher from the year end rates with all other variables held constant (for example, 11.5% or 8.5% instead of 10%);

(b) RMB had weakened/strengthened by 10% against US$ and HK$ (pegged with US$) with all other variables held constant.

		Interest rate risk			
		-15%		+15%	
	Carrying amount	Profit	Equity	Profit	Equity
31 December 2009					
Financial assets					
Cash and cash equivalents	644,030	(291)	(291)	291	291
Restricted bank balances	342,486	(145)	(145)	145	145
Financial liabilities					
Borrowings	(2,555,338)	6,903	6,903	(6,903)	(6,903)
Amounts due to related parties	(306,622)	10	10	(10)	(10)
Other long term payables	(704,595)	7,497	7,497	(7,497)	(7,497)
Total increase/(decrease)		13,974	13,974	(13,974)	(13,974)

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Summarised sensitivity analysis (Continued)

		Foreign exchange risk			
		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity
31 December 2009					
Financial assets					
Cash and cash equivalents	644,030	14,432	14,432	(14,432)	(14,432)
Restricted bank balances	342,486	2,762	2,762	(2,762)	(2,762)
Trade receivables	1,197,067	6,023	6,023	(6,023)	(6,023)
Deposits and other receivables (Note 19)	514,308	109	109	(109)	(109)
Financial liabilities					
Trade payables	(1,725,762)	(20,676)	(20,676)	20,676	20,676
Other payables (I)	(724,462)	(583)	(583)	583	583
Borrowings	(2,555,338)	(66,244)	(66,244)	66,244	66,244
Amounts due to related parties	(306,622)	(2,994)	(2,994)	2,994	2,994
Total (decrease)/increase		(67,171)	(67,171)	67,171	67,171

		Interest rate risk			
		-15%		+15%	
	Carrying amount	Profit	Equity	Profit	Equity
31 December 2008					
Financial assets					
Cash and cash equivalents	728,826	(315)	(315)	315	315
Restricted bank balances	361,698	(155)	(155)	155	155
Loan receivable	130,000	(873)	(873)	873	873
Financial liabilities					
Borrowings	(2,186,460)	11,077	11,077	(11,077)	(11,077)
Other long term payables	(867,822)	3,386	4,259	(3,386)	(4,259)
Total increase/(decrease)		13,120	13,993	(13,120)	(13,993)

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Summarised sensitivity analysis (Continued)

		Foreign exchange risk			
		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity
31 December 2008					
Financial assets					
Cash and cash equivalents	728,826	6,640	6,640	(6,640)	(6,640)
Restricted bank balances	361,698	18	18	(18)	(18)
Trade receivables	1,733,991	28	28	(28)	(28)
Deposits and other receivables (Note 19)	497,116	117	117	(117)	(117)
Financial liabilities					
Trade payables	(2,219,395)	(5,081)	(5,081)	5,081	5,081
Other payables (I)	(678,399)	(574)	(574)	574	574
Borrowings	(2,186,460)	(16,016)	(16,016)	16,016	16,016
Total (decrease)/increase		(14,868)	(14,868)	14,868	14,868

(I) Other payables include payables for purchase of property, plant and equipment, customer deposits, employee deposits and other borrowings that were overdue as stated in Note 24.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade receivables, deposits and other receivables, amounts due from related parties represent the Group's maximum exposure to credit risk in relation to financial assets. The Group does not have significant credit risks arising from off-balance sheet items. 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. For bank and financial institutions, the Group has policies that deposits are put in reputable banks. Credit quality of financial assets is further disclosed in Notes 12, 13, 20 and 42(c) respectively.

(c) Liquidity risk

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

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2009					
Borrowings	1,796,481	468,826	285,031	5,000	2,555,338
Interests payments on borrowings (i)	64,104	22,762	7,927	—	94,793
Trade payables	1,725,762	—	—	—	1,725,762
Other payables	724,462	—	—	—	724,462
Amounts due to related parties	269,218	—	37,404	—	306,622
Finance lease liability	134,432	216,883	353,280	—	704,595
Interest payments on finance lease liability (ii)	68,258	41,433	23,260	—	132,951
At 31 December 2008					
Borrowings	1,697,230	404,230	60,000	25,000	2,186,460
Interests payments on borrowings (i)	78,038	14,359	5,589	208	98,194
Trade payables	2,219,395	—	—	—	2,219,395
Other payables	678,399	—	—	—	678,399
Amounts due to related parties	207,013	10,000	55,055	—	272,068
Finance lease liability	19,888	142,639	705,295	—	867,822
Interest payments on finance lease liability (ii)	85,918	73,150	82,502	—	241,570

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2008 and 2009 without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2008 and 2009 respectively.

(ii) The interest on finance lease is calculated based on remaining balance of finance lease liability and the interest rate implicit in the lease as at 31 December 2008 and 2009.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.2 Capital risk management (Continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total borrowings divided by equity attributable to owners of the parent. Total borrowings include current and non-current borrowings as shown in the consolidated balance sheet. The Group regards its borrowings and equity attributable to owners of the parent as its capital.

	2009	2008
Total borrowings	2,555,338	2,186,460
Equity attributable to owners of the parent	7,168,758	6,265,229
Debt-to-equity ratio	35.65%	34.90%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS/HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
— Trading funds (Note 18)	144	—	—	144
Available-for-sale financial assets				
— Equity securities (Note 15)	96,148	—	—	96,148
Total assets	96,292	—	—	96,292

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise liquid reserves fund classified as financial assets at fair value through profit or loss and equity securities classified as available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group has no level 2 financial instrument as at 31 December 2009.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group has no level 3 financial instrument as at 31 December 2009. Certain available-for-sale financial assets measured at cost less accumulated impairment are disclosed in Note 15.

4. Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) Net realisable value of inventories

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

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Impairment of property, plant and equipment

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

The Group determined that there was an impairment indication relating to two production lines of a subsidiary which manufactures galvanised and cold-rolled sheets. The production lines were identified as cash-generating units separately.

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

As at 31 December 2009, the value in use and fair value less costs to sell were as follows:

	Value in use	Fair value less cost to sell
	(RMB million)	
Line 1	153.4	154.4
Line 2	112.7	118.3

The Group considered that the recoverable amount was the higher of value in use and fair value less costs to sell. The recoverable amount of the production line approximated its carrying amount (Note 7).

If the estimated gross margin in all forecast years had been 10% lower or higher than the management's estimates at 31 December 2009 and 2008 (for example, 9% or 11% instead of 10%), the Group would have recognised the impairment as follows:

	2009	
	10% Lower	10% Higher
Impairment of property, plant and equipment		
— Line 1	72,676	—
— Line 2	53,882	14,650

(All amounts in RMB thousands unless otherwise stated)

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Impairment of property, plant and equipment (Continued)

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

	2009	
	10% Lower	10% Higher
Impairment of property, plant and equipment		
— Line 1	4,419	42,832
— Line 2	19,781	46,045

(d) Useful life of the property, plant and equipment

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

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

(i) Expected usage of the asset

(ii) Expected physical wear and tear

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

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

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

(e) Income taxes

The Group is subject to income taxes in a few jurisdictions. Significant judgement is required in determining the regional provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4. Critical accounting estimates and judgements (Continued)

4.2 Critical judgements in applying the entity's accounting policies

(a) Borrowing costs eligible for capitalisation

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

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

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

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

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

(All amounts in RMB thousands unless otherwise stated)

5. Sales and segment information — Group

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the years ended 31 December 2009 and 2008 are as follows:

	2009	2008
Sales:		
Gross sales, less discounts and returns		
— billets	3,629,525	3,990,747
— strips and strip products	8,407,665	8,574,492
— H section steel products	7,408,692	5,672,508
— galvanised sheets	588,052	708,746
— cold-rolled sheets	555,166	612,100
— others	13,080	14,633
	20,602,180	19,573,226
Less: Sales taxes	(13,042)	(185,043)
	20,589,138	19,388,183

(b) Segment information

The chief operating decision-maker of the Company has been identified as the executive committee, which comprises all executive directors and top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker has determined that no business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of iron and steel products, which is considered as one business segment with similar risks and returns.

The decision-maker has also determined that no geographical segment information is presented as over 90% of the Group's sales and operating profits are derived 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 prepayment for the operating lease, the net book value of which is analysed as follows:

	2009	2008
Opening	74,790	76,441
Amortisation of prepaid operating lease payment (Notes 31, 39)	(1,651)	(1,651)
	73,139	74,790

(All amounts in RMB thousands unless otherwise stated)

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

As at 31 December 2009, the net book value of leasehold land and land use rights pledged as security for the Group's borrowings amounted to RMB 61 million (2008: RMB 62 million) (Note 25).

The Group's leasehold land and land use rights are located in the PRC and the remaining lease period is between 43 years to 46 years.

7. Property, plant and equipment

The Group

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	CIP	Finance leased assets	Total
At 1 January 2008								
Cost	1,630,971	3,907,895	32,584	57,139	1,337	2,093,177	—	7,723,103
Accumulated depreciation	(238,160)	(1,014,216)	(10,526)	(28,929)	(855)	—	—	(1,292,686)
Impairment	(3,716)	(20,855)	(223)	(85)	—	—	—	(24,879)
Net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	—	6,405,538
Year ended 31 December 2008								
Opening net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	—	6,405,538
Additions	13,337	22,393	5,059	35,370	—	2,376,303	—	2,452,462
Transfers	752,816	3,035,320	26,759	22	—	(3,814,917)	—	—
Sale and finance lease back (Note 26)	—	(800,000)	—	—	—	—	800,000	—
Disposals (Note 39)	—	(15)	(14)	(247)	—	—	—	(276)
Depreciation (Notes 31, 39)	(95,381)	(418,208)	(5,885)	(13,850)	(55)	—	(37,557)	(570,936)
Closing net book amount	2,059,867	4,712,314	47,754	49,420	427	654,563	762,443	8,286,788
At 31 December 2008								
Cost	2,397,124	6,008,373	64,343	88,078	1,337	654,563	800,000	10,013,818
Accumulated depreciation	(333,541)	(1,275,204)	(16,366)	(38,573)	(910)	—	(37,557)	(1,702,151)
Impairment	(3,716)	(20,855)	(223)	(85)	—	—	—	(24,879)
Net book amount	2,059,867	4,712,314	47,754	49,420	427	654,563	762,443	8,286,788
Year ended 31 December 2009								
Opening net book amount	2,059,867	4,712,314	47,754	49,420	427	654,563	762,443	8,286,788
Additions	213,202	383,971	6,524	18,971	—	636,509	—	1,259,177
Transfer from CIP	113,472	677,659	12,897	8,578	—	(812,606)	—	—
Disposals (Note 39)	(820)	(6,269)	(1)	(3,451)	—	—	—	(10,541)
Transfer to CIP	(20,036)	(4,498)	—	—	—	24,534	—	—
Depreciation (Notes 31, 39)	(113,123)	(612,803)	(12,807)	(15,988)	(55)	—	(90,275)	(845,051)
Impairment (Notes 31, 39)	(16,829)	(47,291)	(668)	—	—	—	—	(64,788)
Closing net book amount	2,235,733	5,103,083	53,699	57,530	372	503,000	672,168	8,625,585
At 31 December 2009								
Cost	2,691,122	7,040,908	83,754	110,323	1,337	503,000	800,000	11,230,444
Accumulated depreciation	(434,844)	(1,869,679)	(29,164)	(52,708)	(965)	—	(127,832)	(2,515,192)
Impairment	(20,545)	(68,146)	(891)	(85)	—	—	—	(89,667)
Net book amount	2,235,733	5,103,083	53,699	57,530	372	503,000	672,168	8,625,585

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Group (Continued)

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

	2009	2008
Cost of sales	817,218	539,515
Administrative expenses	27,833	31,421
	845,051	570,936

(a) As at 31 December 2009, the net book value of buildings and machinery pledged as security for the Group's current and non-current borrowings amounted to approximately RMB 1,463 million (2008: RMB 1,406 million) (Note 25).

For the year ended 31 December 2009, borrowing costs amounting to approximately RMB 39 million were capitalised into the cost of property, plant and equipment (2008: RMB 63 million) at an average capitalisation rate of 6.33% approximately.

(b) The directors noted indications that two production lines (2008: one of the production lines) of a subsidiary engaged in manufacturing galvanised and cold-rolled sheets were subject to the impairment as at 31 December 2009 (Note 4.1).

The recoverable amount of a CGU (cash-generating unit) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the galvanised sheets and cold-rolled sheets business with which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2009	2008
Gross margin	6.06% – 7.28%	6.13%
Growth rate	2.00%	2.00%
Discount rate	15.00%	13.69%

Management determined the budgeted gross margin based on the past performance and their expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in the industry report. The discount rates used are pre-tax and reflect the specific risks in associate with the relevant segments.

The impairment charge arose from the fact that the production line was not fully utilised for year ended 31 December 2009 and 2008. The Directors reassessed the impairment of the relating assets and provided additional provision for impairment for the year ended 31 December 2009.

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Company

	Buildings	Furniture and fixtures	Vehicles	Leasehold improvements	Total
At 1 January 2008					
Cost	12,764	718	1,513	1,337	16,332
Accumulated depreciation	(1,612)	(414)	(1,092)	(855)	(3,973)
Net book amount	11,152	304	421	482	12,359
Year ended 31 December 2008					
Opening net book amount	11,152	304	421	482	12,359
Additions	—	138	690	—	828
Disposal	(10,925)	(11)	(18)	(427)	(11,381)
Depreciation	(227)	(137)	(350)	(55)	(769)
Closing net book amount	—	294	743	—	1,037
At 31 December 2008					
Cost	—	801	2,179	—	2,980
Accumulated depreciation	—	(507)	(1,436)	—	(1,943)
Net book amount	—	294	743	—	1,037
Year ended 31 December 2009					
Opening net book amount	—	294	743	—	1,037
Additions	—	34	—	—	34
Disposal	—	(1)	(12)	—	(13)
Depreciation	—	(97)	(179)	—	(276)
Closing net book amount	—	230	552	—	782
At 31 December 2009					
Cost	—	826	2,165	—	2,991
Accumulated depreciation	—	(596)	(1,613)	—	(2,209)
Net book amount	—	230	552	—	782

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties

The Group

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

At 1 January 2008	
Cost	21,985
Accumulated depreciation	(2,657)
Net book amount	19,328
Year ended 31 December 2008	
Opening net book amount	19,328
Depreciation (Notes 31, 39)	(928)
Closing net book amount	18,400
At 31 December 2008	
Cost	21,985
Accumulated depreciation	(3,585)
Net book amount	18,400
Year ended 31 December 2009	
Opening net book amount	18,400
Depreciation (Notes 31, 39)	(805)
Closing net book amount	17,595
At 31 December 2009	
Cost	21,985
Accumulated depreciation	(4,390)
Net book amount	17,595

For the year ended 31 December 2009, rental income arising from the investment properties amounted to RMB 1.87 million (2008: RMB 1.78 million) (Note 30).

As at 31 December 2009, the Directors of the Company assessed the fair value of the investment properties to be approximately RMB 38.4 million based on the prices in the active market (2008: RMB 32.9 million).

8. Investment properties (Continued)

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties (Continued)

The Company

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

At 1 January 2008	
Cost	21,985
Accumulated depreciation	(2,657)
Net book amount	19,328
Year ended 31 December 2008	
Opening net book amount	19,328
Depreciation	(458)
Transfer to a subsidiary	(18,870)
Closing net book amount	—
At 31 December 2008	
Cost	—
Accumulated depreciation	—
Net book amount	—
Year ended 31 December 2009	
Opening net book amount	—
Depreciation	—
Closing net book amount	—
At 31 December 2009	
Cost	—
Accumulated depreciation	—
Net book amount	—

(All amounts in RMB thousands unless otherwise stated)

9. Intangible assets — Group

	Goodwill
At 1 January 2008	
Cost	—
Accumulated amortisation	—
Net book amount	—
Year ended 31 December 2008	
Opening net book amount	—
Acquisition from a minority shareholder	7,667
Closing net book amount	7,667
At 31 December 2008	
Cost	7,667
Accumulated amortisation	—
Net book amount	7,667
Year ended 31 December 2009	
Opening net book amount	7,667
Impairment (Note 29)	(7,667)
Closing net book amount	—
At 31 December 2009	
Cost	7,667
Accumulated amortisation and impairment	(7,667)
Net book amount	—

Impairment tests for goodwill

The goodwill was allocated to the subsidiary acquired from a minority shareholder during the year ended 31 December 2008, which was identified as the group of cash-generating unit (CGU Group).

The recoverable amount of a CGU Group is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions other than the financial budgets covering a five-year period, use for value-in-use calculations are gross margin, growth rate and discount rate of 6.49%, 2.00% and 15.00% respectively.

Management determined the budgeted gross margin based on past performance and their expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The Directors concluded that the goodwill was fully impaired as at 31 December 2009, based on the impairment test performed.

(All amounts in RMB thousands unless otherwise stated)

10. Investments in and loans to subsidiaries — Company

(a) Investments in subsidiaries

	2009	2008
Unlisted investments, at cost	382,121	382,121

The subsidiaries at 31 December 2009 and 2008 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 Group Company Limited ("Jinxi Limited") (original Hebei Jinxi Iron and Steel Company Limited)	PRC 24 December 1999	Joint stock company with limited liability	97.6% (Indirectly held)	RMB228,640,000	RMB228,640,000	Manufacture and sales of iron and steel products
Foshan Jin Xi Jin Lan Cold-Rolled Sheet Company Limited ("Jinxi Jinlan")	PRC 26 December 2003	Limited liability company	81.5% (Indirectly held)	US$55,150,000	US$55,150,000	Manufacture and sales of steel products
Oriental Fullhero Leasing 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
Hebei Jinxi Section Steel Company Limited ("Jinxi Section Steel")	PRC 30 May 2008	Limited liability company	80% (Indirectly held)	RMB350,000,000	RMB350,000,000	Manufacture and sales of steel products
Jinxi Hong Kong Trading Company Limited ("HK Trading")	Hong Kong 27 October 2008	Limited liability company	97.6% (Indirectly held)	HK$1	US$9,800,000	Import and export of goods
Suifenhe City Jinyin Trading Co., Ltd. ("Jinyin Trading")	PRC 24 September 2008	Limited liability company	100% (Indirectly held)	RMB10,000,000	RMB10,000,000	Import and export of goods and technology
Qianxi County Jinxi Yunda Transportation Co., Ltd. ("Yunda Transportation")	PRC 4 September 2008	Limited liability company	100% (Indirectly held)	RMB500,000	RMB500,000	Transportation service for goods

(All amounts in RMB thousands unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

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
Ping Quan County Jinyin Charging Co., Ltd. ("Jinyin Charging")	PRC 8 July 2008	Limited liability company	60% (Indirectly held)	RMB2,000,000	RMB2,000,000	Manufacture and sales of charging products
Tangshan Fengrun Qu Zhengda Iron and Steel Co., Ltd. ("Zhengda Iron and Steel")	PRC 19 December 2008	Limited liability company	71% (Indirectly held)	RMB50,000,000	RMB50,000,000	Manufacture and sales of steel products
Tangshan Fengrun Qu Tong Yuan Trading Company Limited ("Tong Yuan Trading") (i)	PRC 22 May 2009	Limited liability company	71% (Indirectly held)	RMB100,000	RMB100,000	Purchase and sale of ferrous metal and coke
Hebei Jinxi Boyuan Real Estate Co., Ltd. ("Boyuan Real Estate") (ii)	PRC 17 December 2009	Limited liability company	100% (Indirectly held)	RMB100,000,000	RMB100,000,000	Development and sales of real estate

(i) Tong Yuan Trading was incorporated on 22 May 2009 by Zhengda Iron and Steel solely. The paid-in capital of Tong Yuan Trading is RMB 0.1 million.

(ii) Boyuan Real Estate was incorporated on 17 December 2009 by Jinxi Limited solely. The paid-in capital of Boyuan Real Estate is RMB 100 million. As at 31 December 2009, Boyuan Real Estate had not commenced its operation.

(iii) Qianxi County Jinxi Wan Tong Ductile Iron Pipes Co., Ltd. ("Jinxi Wan Tong") was incorporated on 22 July 2009 in which Jinxi Limited was its sole equity owner. The paid-in capital of Jinxi Wan Tong is RMB 100 million. Pursuant to an equity transfer agreement dated 2 November 2009, Jinxi Limited transferred 100% of its equity in Jinxi Wan Tong to its minority shareholder, Tangshan City Jinxi Iron and Steel Group Co., Ltd. ("Tangshan Jinxi Group"), at a consideration of RMB 100 million. The consideration was not settled at 31 December 2009, but became part of Jinxi Limited's loan to Tangshan Jinxi Group.

Pursuant to certain agreements entered into in November 2009, the loans provided by Jinxi Limited to Tangshan Jinxi Group totalled to RMB 361.5 million as at 31 December 2009 (Note 42(c)). Those loans were secured by Tangshan Jinxi Group's 100% equity in Jinxi Wan Tong and all of the assets purchased or constructed with the loans. They bore interest at 5.3% and were repayable within three months.

(All amounts in RMB thousands unless otherwise stated)

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

(b) Loans to subsidiaries

Loans to subsidiaries form part of the Company's net investment in the PRC subsidiaries.

The loans to Jinxi Limited amounting to approximately US$ 106.7 million (RMB 728.6 million equivalent) are unsecured, interest-free and have a repayment term of 20 years. The Directors have resolved that these loans will not be settled upon maturity and regarded these loans as part of the Company's net investment in Jinxi Limited.

The rest of these loans to subsidiaries amounting to RMB 1,702.4 million are unsecured, interest-free and with no fixed terms of repayment.

11. Investment in an associate — Group

	2009	2008
At 1 January	10,120	8,122
Share of profit (Note 39)	177	1,998
At 31 December	10,297	10,120

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 profit
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing Iron Mine")	PRC 21 May 2002	35% (indirectly held)	80,885	50,640	88,170	504

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category

The Group

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale financial assets	Total
Assets as per consolidated balance sheet				
At as 31 December 2009				
Available-for-sale financial assets (Note 15)	—	—	96,148	96,148
Trade receivables (Note 17)	1,197,067	—	—	1,197,067
Deposits and other receivables (Note 19)	514,308	—	—	514,308
Financial assets at fair value through profit or loss (Note 18)	—	144	—	144
Amounts due from related parties (Note 42(c))	364,196	—	—	364,196
Restricted bank balances (Note 20)	342,486	—	—	342,486
Cash and cash equivalents (Note 20)	644,030	—	—	644,030
Total	3,062,087	144	96,148	3,158,379
At as 31 December 2008				
Loan receivable (Note 14)	130,000	—	—	130,000
Available-for-sale financial assets (Note 15)	—	—	188,100	188,100
Trade receivables (Note 17)	1,733,991	—	—	1,733,991
Deposits and other receivables (Note 19)	497,116	—	—	497,116
Financial assets at fair value through profit or loss (Note 18)	—	140	—	140
Amounts due from related parties (Note 42(c))	14,620	—	—	14,620
Restricted bank balances (Note 20)	361,698	—	—	361,698
Cash and cash equivalents (Note 20)	728,826	—	—	728,826
Total	3,466,251	140	188,100	3,654,491

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Group (Continued)

	Financial liabilities measured at amortised cost
Liabilities as per consolidated balance sheet	
At as 31 December 2009	
Trade payables (Note 23)	1,725,762
Other payables	724,462
Borrowings (Note 25)	2,555,338
Other long-term payables (Note 26)	704,595
Amounts due to related parties (Note 42(c))	306,622
Total	6,016,779
At as 31 December 2008	
Trade payables (Note 23)	2,219,395
Other payables	678,399
Borrowings (Note 25)	2,186,460
Other long-term payables (Note 26)	867,822
Amounts due to related parties (Note 42(c))	272,068
Total	6,224,144

The Company

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale financial assets	Total
Assets as per company balance sheet				
As at 31 December 2009				
Available-for-sale financial assets (Note 15)	—	—	96,148	96,148
Deposits and other receivables (Note 19)	1,094	—	—	1,094
Financial assets at fair value through profit or loss (Note 18)	—	144	—	144
Amounts due from related parties	6,592	—	—	6,592
Restricted bank balances (Note 20)	25,107	—	—	25,107
Cash and cash equivalents (Note 20)	124,164	—	—	124,164
Total	156,957	144	96,148	253,249

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Company (Continued)

	Loans and receivables	Assets at fair value through profit or loss	Total
Assets as per company balance sheet			
As at 31 December 2008			
Deposits and other receivables (Note 19)	1,165	—	1,165
Financial assets at fair value through profit or loss (Note 18)	—	140	140
Amounts due from related parties	6,513	—	6,513
Cash and cash equivalents (Note 20)	62,238	—	62,238
Total	69,916	140	70,056

	Financial liabilities measured at amortised cost
Liabilities as per company balance sheet	
As at 31 December 2009	
Trade payables	177,776
Borrowings (Note 25)	159,903
Amounts due to related parties	29,937
Total	367,616
As at 31 December 2008	
Trade payables	4,295
Borrowings (Note 25)	160,160
Total	164,455

13. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorised the trade receivables, cash in bank and bank deposits as follows:

- Group 1 — Bank acceptance notes
- Group 2 — Trade receivables due from customers with no defaults in the past
- Group 3 — Trade receivables due from customers with some defaults in the past

(All amounts in RMB thousands unless otherwise stated)

13. Credit quality of financial assets (Continued)

Trade receivables

	2009	2008
Group 1	1,078,962	1,704,094
Group 2	118,105	29,897
Group 3	—	—
	1,197,067	1,733,991

The credit quality of "Loan receivable", "Available-for-sale financial assets", "Deposit and other receivable" and "Amounts due from related parties" of the Group is disclosed in Notes 14, 15, 19 and 42 (c) respectively.

The Group categorise the cash in banks as follows:

- Group 1 — Major International banks (the Development Bank of Singapore Limited, the Hongkong and Shanghai Banking Corporation Limited, Hangseng Bank, Standard Chartered Bank and Goldman Sachs)

- Group 2 — Top 4 banks in the mainland PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

- Group 3 — Other large local banks in the mainland PRC

The directors considered the credit risks in respect of cash in bank and bank deposits with financial institution are relatively minimum as each counter party either bears a high credit rating or is State-owned bank and large local banks in the mainland PRC. The directors believe the Chinese government will provide support to the State-owned banks and large local banks as and when necessary to satisfy the creditors' needs.

Cash in bank and bank deposits

	Group		Company	
	2009	2008	2009	2008
Group 1	32,190	61,414	32,350	61,376
Group 2	599,825	660,319	116,194	71
Group 3	353,816	367,974	668	679
	985,831	1,089,707	149,212	62,126

None of the financial assets that are fully performing have been renegotiated in the last financial year.

14. Loan receivable — Group

The loan of RMB 130 million was unsecured, bore interest at a rate of 10% per annum and repaid in July 2009.

As at 31 December 2008, the fair value of such loan receivable approximated RMB 146 million.

(All amounts in RMB thousands unless otherwise stated)

15. Available-for-sale financial assets

The Group

	2009	2008
Unlisted equity interest (i)	188,100	188,100
Less: provision for impairment	(188,100)	—
Net	—	188,100
Listed equity interest (ii)	87,696	—
Add: fair value gains transfer to equity (Note 22)	8,452	—
	96,148	—
Less: current portion	(96,148)	—
Net	—	—
Total	—	188,100

(i) The Group's unlisted equity interest represented an investment amounted to RMB 188.1 million in a 51% equity interest in Qianxi County Jinjin Mine Co., Ltd. ("Jinjin Mine"), an unlisted company in the PRC.

In December 2008, Jinxi Limited entered into certain cooperation agreements (the "Cooperation Agreements") with a third-party shareholder of Jinjin Mine. Pursuant to the Cooperation Agreements, from the incorporation date of 5 August 2008 to 31 January 2011 (the "Lease Period"), Jinxi Limited conveyed to the third-party shareholder of Jinjin Mine (the "Lessee") all the voting rights on the financial and operating policies of Jinjin Mine.

The Lessee is exclusively entitled to the profit or loss and net assets accumulated during the Lease Period in return for of paying a lease expense to Jinxi Limited. The Lessee is also responsible for preserving and increasing the value of the net assets of Jinjin Mine at the end of Lease Period. The lease expenses are determined based on the local iron powder market price and are to be adjusted quarterly.

In the opinion of the Directors of the Company, the Group is not able to exercise any significant influence on Jinjin Mine during the Lease Period and hence the investment in Jinjin Mine was recognised as available-for-sale financial assets for the years ended 31 December 2009 and 2008.

The unlisted equity interest offers return through the lease income. As the investment does not have any quoted market price in the active market, the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed, the Directors of the Company are of the opinion that its fair values cannot be reliably measured.

(All amounts in RMB thousands unless otherwise stated)

15. Available-for-sale financial assets (Continued)

The Group (Continued)

As at 31 December 2009, the directors noted indications that the cost of the investment in Jinjin Mine was impaired:

a. The Group received no lease income from the Lessee for year ended 31 December 2009 (2008: lease income of RMB 14.5 million received) and expected no lease income would be received during the rest of the Lease Period.

b. The recoverability of the payment for mining rights, which accounted for a significant part of Jinjin Mine's net assets, became very uncertain as the licence of mining rights is unlikely to be obtained.

   The available-for-sale financial assets were fully impaired as the directors of the Company believed that these impairment factors would still exist and no value of the financial assets could be recovered in foreseeable future.

(ii) The Group's listed equity interest represented an investment in 600,000,000 ordinary shares, representing approximately 6% shareholding, of Asia Energy Logistics Group Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

The fair value of the listed equity interest was determined on the basis of its quoted market prices at the balance sheet date.

The Company

	2009	2008
Listed equity interest	87,696	—
Add: fair value gains transfer to equity (Note 22)	8,452	—
	96,148	—
Less: current portion	(96,148)	—
	—	—

16. Inventories

The Group

	2009	2008
Raw materials and materials in-transit	1,898,272	1,170,972
Work-in-progress	373,882	223,072
Finished goods	325,867	173,393
	2,598,021	1,567,437

As at 31 December 2009, the net book value of inventories pledged as security for the Group's notes payable and current borrowings amounted to RMB 67 million (Notes 23 and 25).

(All amounts in RMB thousands unless otherwise stated)

16. Inventories (Continued)

The Group (Continued)

As at 31 December 2008, the net book value of inventories pledged as security for the Group's notes payable amounted to RMB 390 million (Note 23).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB 16,109 million and RMB 1 million respectively (2008: RMB 17,344 million and RMB 9 million respectively) (Note 31).

The Company

	2009	2008
Raw materials and materials in-transit	21,288	—

17. Trade receivables — Group

	2009	2008
Accounts receivable	118,105	29,897
Notes receivable(a)	1,078,962	1,704,094
	1,197,067	1,733,991

(a) As at 31 December 2009 and 2008, the notes receivable were all bank acceptance notes, of which approximately RMB 102 million were pledged as security for issuing notes payable (2008: RMB 10 million) (Note 23).

As at 31 December 2008, notes receivable of RMB 241 million were pledged as security for the Group's borrowings (Note 25).

As at 31 December 2009 and 2008, the carrying amount of the Group's trade receivables approximated their fair value.

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

As at 31 December 2009 and 2008, the ageing analysis of trade receivables was as follows:

	2009	2008
Within 3 months	1,004,990	1,517,847
4 – 6 months	192,077	216,144
	1,197,067	1,733,991

As at 31 December 2009, accounts receivable pledged by the letters of credit issued by the third parties amounted to approximately RMB 43 million (2008: RMB 0.3 million).

(All amounts in RMB thousands unless otherwise stated)

17. Trade receivables — Group (Continued)

As at 31 December 2009, trade receivables of RMB 75 million (2008: RMB 30 million) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The directors considered that trade receivables that are less than three months past due are not impaired. The ageing analysis of these trade receivables was as follows:

	2009	2008
Within 3 months	75,050	29,618

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2009	2008
RMB	1,117,898	1,733,712
US$	79,169	279
	1,197,067	1,733,991

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

	2009	2008
Liquid Reserve Fund — Euro, quoted	139	135
Liquid Reserve Fund — US$, quoted	5	5
	144	140

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

19. Prepayments, deposits and other receivables

The Group

	2009	2008
Prepayments for purchase of inventories	632,228	234,454
Deposits and other receivables	514,308	497,116
Less: Impairment provision of deposits and other receivables	(21,305)	—
	1,125,231	731,570

As at 31 December 2009 and 2008, the carrying amount of the Group's deposits and other receivables approximated their fair value.

As at 31 December 2009, other receivable of RMB 180 million represented a deposit paid to the Qianxi County Bureau of Land and Resources for purchase of land use right (Note 43).

Impairment provision of deposits and other receivable represented a full provision of RMB 21 million for certain advance payments for mining rights of iron ore. As at 31 December 2009, the directors concluded that there was significant uncertainty of obtaining the mining rights or recovering the advance payments.

(All amounts in RMB thousands unless otherwise stated)

19. Prepayments, deposits and other receivables (Continued)

The Group (Continued)

As at 31 December 2008, other receivables of RMB 447 million were past due but not impaired. Those receivables were received in the year ended 31 December 2009.

The Company

	2009	2008
Prepayments	221	238
Deposits and other receivables	1,094	1,165
	1,315	1,403

20. Cash and cash equivalents and restricted bank balances

The Group

	2009	2008
Cash and cash equivalents	644,030	728,826
Restricted bank balances	342,486	361,698
	986,516	1,090,524

As at 31 December 2009, restricted bank balances were composed of the following items:

(a) Restricted bank balances amounting to approximately RMB 124.7 million were pledged as security for issuing notes payable of the Group (2008: RMB 126.9 million) (Note 23).

(b) Restricted bank balances amounting to approximately US$ 4.2 million (RMB 28.4 million equivalent) were pledged as security for issuing letters of credit (2008: RMB 35 million and US$ 0.04 million (RMB 0.24 million equivalent)).

(c) Restricted bank balances amounting to approximately RMB 189.4 million were pledged as security for current borrowings of the Group (2008: RMB 200 million) (Note 25).

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

	2009	2008
RMB	806,790	1,023,455
US$	177,226	61,748
HK$	2,499	2,572
Euro	1	2,749
	986,516	1,090,524

20. Cash and cash equivalents and restricted bank balances (Continued)

The Company

	2009	2008
Cash and cash equivalents	124,164	62,238
Restricted bank balances	25,107	—
	149,271	62,238

As at 31 December 2009, restricted bank balances amounting to approximately US$ 3.7 million (RMB 25.1 million equivalent) were pledged as security for issuing letters of credit (2008: nil).

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

	2009	2008
US$	145,930	58,832
HK$	2,478	2,548
RMB	863	858
	149,271	62,238

21. Share capital and premium — Group and Company

		Amount		
	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2008	2,926,800	311,444	2,185,964	2,497,408
Employee share option scheme:				
— issuance of shares (Note 22(c))	2,400	225	3,731	3,956
At 31 December 2008	2,929,200	311,669	2,189,695	2,501,364
At 31 December 2009	**2,929,200**	**311,669**	**2,189,695**	**2,501,364**

As at 31 December 2009 and 2008, 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 2009, the number of issued and fully paid ordinary shares is 2,929,200,000 shares (2008: 2,926,800,000 shares).

(All amounts in RMB thousands unless otherwise stated)

22. Other reserves — Group

	Merger reserve (a)	Capital surplus	Statutory reserve (b)	Options (c)	Available-for-sale financial assets	Total
Balance at 1 January 2008	(599)	19,144	949,006	176,631	—	1,144,182
Profit appropriation	—	—	781	—	—	781
Balance at 31 December 2008	(599)	19,144	949,787	176,631	—	1,144,963
Profit appropriation	—	—	28,021	—	—	28,021
Employee share option scheme — Value of employee service	—	—	—	10,753	—	10,753
Fair value gains on available-for-sale financial assets (Note 15)	—	—	—	—	8,453	8,453
Balance at 31 December 2009	(599)	19,144	977,808	187,384	8,453	1,192,190

(a) Merger reserve

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

(b) Statutory reserve

(i) *Statutory surplus reserves*

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

(ii) *Discretionary reserves*

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

22. Other reserves — Group (Continued)

(b) Statutory reserve (Continued)

(iii) *Reserve Fund, Staff and Workers' Bonus and Welfare Fund and Enterprise Expansion Fund*

In accordance with the PRC regulations and the Articles of the Association of certain subsidiaries registered in the PRC, appropriations from net profit should be made to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund are determined by the Board of Directors of the PRC subsidiaries. The Staff and Workers' Bonus and Welfare Fund is available to fund payments of special bonuses to staff and for collective welfare benefits. Upon approval from the Board of Directors of the PRC subsidiaries, the Reserve Fund can be used to offset accumulated losses or to increase capital; the Enterprise Expansion Fund can be used to expand production or to increase capital.

(c) Employee share option scheme

As approved by the Company's Board and Shareholders' meeting, certain share options were granted to selected directors and employees on 30 June 2006 and 26 October 2007 ("Date of Grant"), in an aggregate of 24,200,000 shares and 89,700,000 shares respectively.

The options are exercisable at any time during the period no later than ten years from the Date of Grant at the exercise prices of HK$ 1.76 and HK$ 5.24 per share respectively. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As approved by the Company's Board and Shareholders' meeting, certain share options were granted to selected directors and employees on 24 February 2009 ("Scheme A"), in an aggregate of 21,200,000 shares at an exercise price of HK$ 1.39 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) up to 50% of the options on or after 24 February 2009;

(ii) up to further 75% of the options on or after 24 February 2010;

(iii) all the remaining options on or after 24 February 2011;

and in each case, not later than 23 February 2019.

In February 2009, all relevant directors and employees have accepted the share options.

22. Other reserves — Group (Continued)

(c) Employee share option scheme (Continued)

As approved by the Company's Board and Shareholders' meeting, certain share options were granted to selected directors on 11 May 2009 ("Scheme B"), in an aggregate of 6,600,000 shares at an exercise price of HK$ 1.50 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) up to 50% of the options on or after 11 May 2009;

(ii) up to further 75% of the options on or after 11 May 2010;

(iii) all the remaining options on or after 11 May 2011;

and in each case, not later than 11 May 2019.

In May 2009, all relevant directors have accepted the share options.

As approved by the Company's Board and Shareholders' meeting, certain share options were granted to selected employees on 29 December 2009 ("Scheme C"), in an aggregate of 148,780,000 shares at an exercise price of HK$ 2.84 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) cannot exercise the option by 28 March 2010;

(ii) up to 10% of the options on or after 29 March 2010;

(iii) up to 25% of the options on or after 29 December 2010;

(iv) up to 40% of the options on or after 29 December 2011;

(v) up to 55% of the options on or after 29 December 2012;

(vi) up to 75% of the options on or after 29 December 2013;

(vii) all the remaining options on or after 29 December 2014;

and in each case, not later than 28 December 2019.

All relevant employees have accepted the share options as at 31 December 2009.

22. Other reserves — Group (Continued)

(c) Employee share option scheme (Continued)

The fair value of options granted were determined by using the Binomial valuation model, and the significant inputs into the model were as follows:

Scheme	A	B	C
Share price at the grant date (HK$)	1.39	1.50	2.84
Volatility	56.880%	57.815%	56.845%
Expected dividends paid out rate	9.66%	4.33%	8.51%
Annual risk-free interest rate	1.608%	2.234%	2.65%
Fair value in HK$ (million)	7.640	4.563	122.031
RMB equivalent (million)	6.736	4.017	107.522

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company and other comparable companies over the last 260 weeks, 271 weeks and 304 weeks respectively. See Note 32 for the total expense recognised in the consolidated income statement for share options granted to the directors and employees.

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

	2009		2008	
	Average exercise price per share in HK$	Number of options (thousands)	Average exercise price per share in HK$	Number of options (thousands)
At 1 January	—	—	5.15	92,100
Granted	2.62	176,580	—	—
Exercised	—	—	1.76	(2,400)
Cancelled	—	—	5.24	(89,700)
At 31 December	2.62	176,580	—	—

Options exercised for the year ended 31 December 2008 resulted in 2,400,000 shares being issued at HK$ 1.76 each. The related weighted average share price at the time of exercise was HK$ 6.42 per share.

22. Other reserves — Group (Continued)

(c) Employee share option scheme (Continued)

Share options outstanding at 31 December 2009 and 2008 have the following expiry date and exercise prices as follows:

Expiry date	Exercise price	Number of options (thousands) 2009	2008
	HK$ per share		
23 February 2019	1.39	21,200	—
10 May 2019	1.50	6,600	—
28 December 2019	2.84	148,780	—
		176,580	—

23. Trade payables

The Group

	2009	2008
Accounts payable	1,360,498	1,936,407
Notes payable (a)	365,264	282,988
	1,725,762	2,219,395

(a) As at 31 December 2009, all notes payable represented bank acceptance notes, of which RMB 102 million (2008: RMB 10 million) were secured by certain notes receivable (Note 17), RMB 205 million (2008: RMB 203 million) were secured by certain restricted bank balances (Note 20), and RMB 59 million (2008: RMB 70 million) were secured by certain inventories (Noted 16) and certain restricted bank balances (Note 20).

As at 31 December 2009 and 2008, the ageing analysis of the trade payables was as follows:

	2009	2008
Within 3 months	1,441,589	1,596,939
4 – 6 months	202,471	586,530
7 – 9 months	73,028	22,951
10 – 12 months	1,062	2,473
Above 1 year	7,612	10,502
	1,725,762	2,219,395

(All amounts in RMB thousands unless otherwise stated)

23. Trade payables (Continued)

The Group (Continued)

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2009	2008
RMB	1,509,337	2,153,086
US$	216,425	66,309
	1,725,762	2,219,395

The Company

	2009	2008
Accounts payable	177,776	4,295

As at 31 December 2009 and 2008, the ageing analysis of the trade payables was as follows:

	2009	2008
Within 3 months	177,776	4,295

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2009	2008
US$	177,776	4,295

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

	2009	2008
Accruals	181,716	73,873
Advances from customers	1,156,894	892,796
Value-added tax payable	8,103	206,307
Other taxes payables	6,892	15,032
Other payables(a)	901,818	846,737
	2,255,423	2,034,745

(All amounts in RMB thousands unless otherwise stated)

24. Accruals, advances from customers and other current liabilities — Group (Continued)

(a) The breakdown of other payables as at 31 December 2009 and 2008 were as follows:

	2009	2008
Pension payables and other social welfare payables	79,607	79,661
Payables for purchase of property, plant and equipment	552,274	541,470
Customer deposits	140,290	86,710
Employee deposits	31,898	30,219
Salary payables	44,067	30,875
Other borrowings that were overdue (Note 25 (ii))	—	20,000
Others	53,682	57,802
	901,818	846,737

25. Borrowings

The Group

	2009	2008
Non-current		
Bank borrowings		
Secured (i)	483,857	384,230
Unsecured	200,000	—
Other borrowings, unsecured (ii)	75,000	105,000
	758,857	489,230
Current		
Bank borrowings		
Secured (i)	791,134	1,190,930
Unsecured	1,005,347	486,300
	1,796,481	1,677,230
Other borrowings, unsecured (ii)	—	20,000
	1,796,481	1,697,230
Total borrowings	2,555,338	2,186,460

(i) As at 31 December 2009, secured borrowings amounting to RMB 688 million, out of total secured borrowings amounting to RMB 1,275 million, were secured by certain property, plant and equipment (Note 7) of the Group.

As at 31 December 2009, secured borrowings amounting to RMB 130 million, out of total secured borrowings amounting to RMB 1,275 million, were secured by certain leasehold land and land use rights (Note 6) of the Group.

25. Borrowings (Continued)

The Group (Continued)

As at 31 December 2009, secured borrowings amounting to RMB 288 million, out of the total secured borrowings of RMB 1,275 million, were secured by certain restricted bank balances (Note 20) of the Group.

As at 31 December 2009, secured borrowings amounting to RMB 19 million, out of the total secured borrowings of RMB 1,275 million, were secured by certain inventories (Note 16) of the Group.

As at 31 December 2009, other than the secured borrowings described above, current secured borrowings amounting to RMB 150 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and a guarantee by Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") pursuant to an agreement dated 12 September 2008. In accordance with the guarantee contract, Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for bank borrowing facilities amounting to RMB 150 million.

As at 31 December 2008, secured borrowings amounting to RMB 687 million, out of total secured borrowings amounting to RMB 1,575 million, were secured by certain property, plant and equipment (Note 7) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB 130 million, out of total secured borrowings amounting to RMB 1,575 million, were secured by certain leasehold land and land use rights (Note 6) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB 160 million, out of the total secured borrowings of RMB 1,575 million, were secured by certain restricted bank balances (Note 20) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB 20 million, out of the total secured borrowings of RMB 1,575 million, were secured by certain inventories (Note 16) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB 200 million, out of the total secured borrowings of RMB 1,575 million, were secured by certain inventories (Note 16) and certain restricted bank balances (Note 20) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB 300 million, out of the total secured borrowings of RMB 1,575 million, were secured by certain inventories (Note 16) and certain notes receivable (Note 17) of the Group.

As at 31 December 2008, other than the secured borrowings described above, current secured borrowings amounting to RMB 78 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and guarantee by Foshan Jin Lan.

(All amounts in RMB thousands unless otherwise stated)

25. Borrowings (Continued)

The Group (Continued)

(ii) Other unsecured borrowing represented a borrowing from a local county government amounting to RMB 145 million which was repayable from 1 January 2008 onwards at an amount of RMB 20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit. As at 31 December 2008, other borrowings of RMB 20 million were past due and reclassified to other payables (Note 24). The Group repaid RMB 70 million, including those were reclassified to other payables, during the year ended 31 December 2009.

As at 31 December 2009 and 2008, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2009	2008	2009	2008
Within 1 year	1,796,481	1,677,230	—	20,000
Between 1 and 2 years	458,826	384,230	10,000	20,000
Between 2 and 5 years	225,031	—	60,000	60,000
Over 5 years	—	—	5,000	25,000
	2,480,338	2,061,460	75,000	125,000

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

	2009			2008	
	RMB	HK$	US$	RMB	HK$
Bank borrowings	4.78% – 12.00%	2.13%	2.26% – 3.00%	5.58% – 12.00%	3.14%
Other borrowings	2.25%	—	—	4.14%	—

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

	Carrying amounts		Fair value	
	2009	2008	2009	2008
Bank borrowings	683,857	384,230	683,857	384,230
Other borrowings	75,000	125,000	66,280	120,938
	758,857	509,230	750,137	505,168

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of non-current bank borrowings and other borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics at the respective balance sheet dates.

As at 31 December 2009, the carrying amount of the borrowings amounting to RMB 160 million and RMB 670 million are denominated in HK$ and US$ respectively, the remaining are denominated in RMB.

As at 31 December 2008, the carrying amount of the borrowings amounting to RMB 160 million is denominated in HK$, the remaining are denominated in RMB.

(All amounts in RMB thousands unless otherwise stated)

25. Borrowings (Continued)

The Group (Continued)

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2009	2008
6 months or less	1,523,278	1,742,390
6 – 12 months	957,060	319,070
	2,480,338	2,061,460

The Company

	2009	2008
Current		
Bank borrowings, secured	159,903	160,160

As at 31 December 2009, secured bank borrowings amounting to RMB 160 million were secured by a subsidiary's restricted bank balances of RMB 180 million. The borrowings were denominated in HK$ and repayable within one year. As at 31 December 2009, the effective interest rate was 2.13%.

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The exposure of the Company's bank borrowings to interest-rate changes and the contractual repricing dates are within 6 months.

26. Other long-term payables — Group

	2009	2008
Non-current		
Finance lease obligations (i)	570,163	717,934
Performance guarantee deposit (ii)	—	130,000
	570,163	847,934
Current		
Finance lease obligations (i)	134,432	19,888
Total other long-term payables	704,595	867,822

(i) In July 2008, Jinxi Limited entered into an asset sale and leaseback agreement (the "Sale and Lease Agreement") with certain financial institutions. The sales proceeds of the relevant property, plant and equipment were RMB 800 million. The lease term was 60 months and the lease payments were adjusted annually and reset according to the benchmark interest rate announced by the People's Bank of China (the "PBOC"). Jinxi Limited was entitled to purchase the related asset at the cost of RMB 100 at the end of the lease.

(All amounts in RMB thousands unless otherwise stated)

26. Other long-term payables — Group (Continued)

In August 2008, Jinxi Limited entered into a guarantee agreement with another financial institution. Pursuant to the agreement, this financial institution granted a guarantee of RMB 800 million in favour of Jinxi Limited for the above finance lease arrangement.

As at 31 December 2009, total minimum lease payments under finance lease based on the PBOC interest rate as at the balance sheet date and their present values were as follows:

	Present value of minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
Within 1 year	134,432	68,258	202,690
Between 1 and 5 years	570,163	64,694	634,857
	704,595	132,952	837,547

As at 31 December 2008, total minimum lease payments under finance lease based on PBOC interest rate as at the balance sheet date and their present values were as follows:

	Present value of minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
Within 1 year	19,888	85,918	105,806
Between 1 and 5 years	717,934	155,652	873,586
	737,822	241,570	979,392

For the year ended 31 December 2009 and 2008, no contingent-based rents were recognised as expenses.

The effective interest rate of the finance lease obligations of the Group is 9.12% (2008: 11.4%) per annum.

As at 31 December 2009, the fair value of the finance lease obligations approximated RMB 754 million (2008: RMB 834 million). The fair values were based on discounted cash flow using average borrowing rates of 6.17% per annum (2008: 6.62%).

(ii) During the year ended 31 December 2008, the Group received certain performance and quality guarantee deposit amounting to RMB 130 million from a supplier, which provided construction services to the Group.

As at 31 December 2008, the performance guarantee deposit was unsecured, bore interest at a rate of 10% per annum and repayable within three years. The fair value of the performance guarantee deposit approximated RMB 146 million.

During the year ended 31 December 2009, the Group repaid the performance guarantee deposit ahead of the maturity date.

(All amounts in RMB thousands unless otherwise stated)

27. Deferred revenue — Group

	Deferred government grant	Operating lease income (i)	Total
At 1 January 2008	—	—	—
Addition	—	80,000	80,000
Credited to the consolidated income statement	—	(17,244)	(17,244)
At 31 December 2008	—	62,756	62,756
Addition	10,500	—	10,500
Credited to the consolidated income statement	—	(32,000)	(32,000)
At 31 December 2009	10,500	30,756	41,256

(i) On 5 June 2008, Jinxi Limited entered into a cooperation agreement (the "Cooperation Agreement") with Mr. Shen Xiaoling, a director of the Company. Pursuant to the Cooperation Agreement, from the date of the Cooperation Agreement to 31 December 2010 (the "Grant Period"), Jinxi Limited conveyed to Tangshan Jinxi Mining Company Limited ("Jinxi Mining"), a former subsidiary of Jinxi Limited, the management and operating rights to use the iron mine assets which comprise mining licenses of 18 iron mines, leasing interests of Gao Jia Dian Mine and associated mines and equity interests of Tangshan Fei Cheng Kuang Ye Limited, Qianxi County Xin Ye Machinery Casting Limited, Qianxi County Hong Yuan Trading Limited, Qianxi County Fu Cheng Trading Limited and Qianxi County Xin Cheng Trading Limited.

In addition, Jinxi Limited transferred 49% equity interests of Jinxi Mining to Mr. Shen and conveyed to Mr. Shen the voting rights on the financial and operating policies of Jinxi Mining during the Grant Period. Mr. Shen is exclusively entitled to the profit and net assets accumulated by Jinxi Mining during the Grant Period. Mr. Shen paid a total cash consideration of RMB 80 million as a return for the operating lease, and a deposit of RMB 10 million (Note 42 (c)) refundable on 31 December 2010.

The Company accounted for the above arrangement as an operating lease. Therefore, the RMB 80 million consideration was recorded as a deferred revenue and recognised as income on a straight-line basis over the 2.5-year Grant Period. Jinxi Mining's accounts will not be included in the consolidated financial statements of the Group during the Grant Period.

(All amounts in RMB thousands unless otherwise stated)

28. Deferred income tax — Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an interaction to settle the balances on a net basis. The offset amounts are as follows:

	2009	2008
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	54,268	—
— Deferred tax asset to be recovered within 12 months	56,972	23,177
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	(30,233)	(15,716)
Deferred tax assets — net	81,007	7,461

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

	2009	2008
At 1 January	7,461	3,194
Credited to the consolidated income statement (Note 34 (a))	73,546	4,267
At 31 December	81,007	7,461

Deferred taxation is calculated on temporary differences under the liability method using the tax rate and the tax base that is consistent with the expected manner of recovery or settlement for the year ended 31 December 2009.

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

Deferred tax assets:

	Losses on disposal of property, plant and equipment	Temporary difference arising from expense recognition	Impairment provision of assets	Unrealised gains on inventories	Total
At 1 January 2008	—	3,623	—	—	3,623
Credited to the consolidated income statement	57	8,851	10,646	—	19,554
At 31 December 2008	57	12,474	10,646	—	23,177
Credited to the consolidated income statement	(57)	33,004	43,622	11,494	88,063
At 31 December 2009	—	45,478	54,268	11,494	111,240

(All amounts in RMB thousands unless otherwise stated)

28. Deferred income tax — Group (Continued)

The directors are of opinion that the accumulated tax losses of RMB 247 million (2008: RMB 151 million) of a subsidiary would not be utilised before the losses expired. No deferred tax assets were recognised.

Deferred tax liabilities:

	Capitalised interest	Unrealised losses on inventories	Total
At 1 January 2008	—	(429)	(429)
(Charged)/credited to the consolidated income statement	(15,716)	429	(15,287)
At 31 December 2008	(15,716)	—	(15,716)
(Charged)/credited to the consolidated income statement	(14,517)	—	(14,517)
At 31 December 2009	(30,233)	—	(30,233)

29. Other losses — net — Group

	2009	2008
Other losses — net:		
Sales of raw materials and by-products	20,046	20,439
Provision for impairment of property, plant and equipment (Notes 7, 39)	(64,788)	—
Provision for impairment of goodwill (Notes 9, 39)	(7,667)	—
Loss on disposal of property, plant and equipment (Note 39)	(820)	(276)
Tax expenses for inter-company transfer of property, plant and equipment	(25,613)	—
Charitable donation	(2,505)	(5,114)
Foreign exchange loss, net (Notes 35, 39)	(3,608)	(17,297)
Others	4,410	884
Total	(80,545)	(1,364)

30. Other income — Group

	2009	2008
Dividend income from financial assets at fair value through profit or loss (Note 39)	1	11
Rental income arising from investment properties (Note 8)	1,865	1,775
Income from operating leases (Notes 15(i), 27)	32,000	31,300
Others	2,951	2,553
Total	36,817	35,639

(All amounts in RMB thousands unless otherwise stated)

31. Expenses by nature — Group

	2009	2008
Employee benefit expense (Note 32)	471,838	340,299
Costs of inventories (Note 16)	16,109,681	17,353,385
Amortisation of leasehold land and land use rights (Notes 6, 39)	1,651	1,651
Depreciation of property, plant and equipment (Notes 7, 39)	845,051	570,936
Depreciation of investment properties (Notes 8, 39)	805	928
Operating lease expenses in respect of land use rights	9,221	9,178
Impairment provision for other receivables (Notes 19, 39)	21,305	—
(Reversal of)/write-down of inventories to their net realisable value (Note 39)	(45,511)	45,511
Provision for impairment of available-for-sale financial assets (Notes 15, 39)	188,100	—
Auditors' remuneration	3,500	5,800

32. Employee benefit expense — Group

	2009	2008
Staff costs (including directors' emoluments)		
— Salaries and welfare	416,045	303,533
— Pension costs — defined contribution plans (a)	45,040	36,766
— Share options granted to directors and employees (Notes 22, 39)	10,753	—
	471,838	340,299

(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 years ended 31 December 2009 and 2008, the Group is required to make monthly defined contributions to these plans at rates from 10% to 20%, with the base of their total salary subject to a certain ceiling.

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

(All amounts in RMB thousands unless otherwise stated)

32. Employee benefit expense — Group (Continued)

(b) Directors' and senior management's emoluments

The emoluments of every director for the years ended 31 December 2009 and 2008, on a named basis, are set out as below:

Name of Director	Fees	Salaries and allowances	Bonus	Fair value of employee share options granted	Pension costs — defined contribution plans	Total
2009						
Mr. Han Jingyuan	452	4,529	2,749	921	11	8,662
Mr. Zhu Jun	344	1,817	132	826	11	3,130
Mr. Liu Lei	264	1,177	340	826	11	2,618
Mr. Shen Xiaoling	314	714	529	826	13	2,396
Mr. Zhu Hao	264	—	—	826	11	1,101
Mr. Wong Man Chung, Francis	264	—	—	635	—	899
Mr. Gao Qingju	264	—	—	635	—	899
Mr. Yu Tung Ho	308	—	—	635	—	943
Mr. Muktesh Mukherjee (i)	264	—	—	1,582	8	1,854
Mr. Ondra Otradovec (i)	264	—	—	1,217	—	1,481
Mr. Jean-Paul Georges Schuler (i)	264	—	—	1,217	—	1,481
	3,266	7,422	4,566	10,146	65	25,464
2008						
Mr. Han Jingyuan	533	4,868	—	—	11	5,412
Mr. Zhu Jun	365	1,587	—	—	11	1,963
Mr. Liu Lei	385	1,190	—	—	11	1,586
Mr. Yu Jianshui	367	110	—	—	11	488
Mr. Shen Xiaoling	267	71	—	—	11	349
Mr. Yu Tung Ho	309	—	—	—	—	309
Mr. Zhu Hao	294	—	—	—	9	303
Mr. Gao Qingju	265	—	—	—	—	265
Mr. Wong Man Chung, Francis	265	—	—	—	—	265
	3,050	7,826	—	—	64	10,940

(i) Appointed on 2 January 2009.

(All amounts in RMB thousands unless otherwise stated)

32. Employee benefit expense — Group (Continued)

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

None of the directors waived or agreed to waive any remuneration during the years 2009 and 2008. The emoluments of the independent non-executive directors during the year are approximately RMB 2.5 million (2008: RMB 0.8 million).

(c) Five highest paid individuals

The five highest paid individuals consisted of:

	2009	2008
Number of directors	5	4
Number of employees	—	1
	5	5

The five individuals whose emoluments were the highest in the Group for the year include five (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2008 during the year are as follows:

	2009	2008
Salaries and allowances	—	694
Bonuses	—	—
Fair value of employee share options granted	—	—
Pension costs — defined contribution plans	—	9
	—	703

For the years ended 31 December 2009 and 2008, 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.

(All amounts in RMB thousands unless otherwise stated)

32. Employee benefit expense — Group (Continued)

(c) Five highest paid individuals (Continued)

The remuneration of the five highest paid individuals for the years ended 31 December 2009 and 2008 fell within the following bands:

	Number of individuals	
	2009	2008
RMB 1 to RMB 1,000,000 (approximately HK$ 1 to HK$ 1,135,744)	—	2
RMB 1,000,001 to RMB 2,000,000 (approximately HK$ 1,135,745 to HK$ 2,271,488)	1	2
RMB 2,000,001 to RMB 3,000,000 (approximately HK$ 2,271,489 to HK$ 3,407,232)	2	—
RMB 3,000,001 to RMB 4,000,000 (approximately HK$ 3,407,233 to HK$ 4,542,977)	1	—
RMB 4,000,001 to RMB 5,000,000 (approximately HK$ 4,542,978 to HK$ 5,678,721)	—	1
RMB 5,000,001 to RMB 6,000,000 (approximately HK$ 5,678,722 to HK$ 6,814,465)	—	—
RMB 6,000,001 to RMB 7,000,000 (approximately HK$ 6,814,466 to HK$ 7,950,209)	—	—
RMB 7,000,001 to RMB 8,000,000 (approximately HK$ 7,950,210 to HK$ 7,937,498)	—	—
RMB 8,000,001 to RMB 9,000,000 (approximately HK$ 9,085,954 to HK$ 10,221,697)	1	—

33. Finance income and costs — Group

	2009	2008
Interest expenses		
— borrowings	(74,038)	(61,822)
— discount of notes receivable	(3,846)	(463)
— finance lease liabilities	(59,517)	(30,101)
Net foreign exchange gains on borrowings (Note 35)	256	759
Finance costs (Note 39)	(137,145)	(91,627)
Interest income on bank deposits	9,800	15,519
Interest from loans to a third party (i)	18,476	—
Income from loan receivable	7,138	8,730
Finance income (Note 39)	35,414	24,249
Finance costs, net	(101,731)	(67,378)

(i) Pursuant to certain cooperation agreements (the “Cooperation Agreements”) with a third-party, Qianxi Jin Xin Mine Co., Ltd. (“Jin Xin Mine”). Jinxi Limited provided a loan to Jin Xin Mine amounting to RMB 47 million for the year ended 31 December 2008. The loan was unsecured, bore interest at a rate of 3% per month and repayable within one year. The principal and related interest was received during the year ended 31 December 2009.

(All amounts in RMB thousands unless otherwise stated)

34. Income tax expense — Group

(a) Income tax expense represents:

	2009	2008
Current income tax		
— PRC enterprise income tax (the "EIT")	414,839	74,910
Deferred income tax (Note 28)	(73,546)	(4,267)
	341,293	70,643

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 except for HK Trading 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 been provided based on the statutory profit of subsidiaries incorporated or traded in Hong Kong in accordance with the HK tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for profit tax purposes (2008: 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.

Effective from 1 January 2008, the subsidiaries incorporated in the PRC are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new EIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementation Regulations of the Corporate Income Tax Law (the "DIR") as approved by the State Council on 6 December 2007. In accordance with the new EIT Law and DIR, the EIT rate applicable to the subsidiaries incorporated in the PRC will be 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%. The preferential policy of exemption or deduction shall be effective from 1 January 2008, even if the subsidiaries were still in a cumulative tax loss position.

Jinxi Jinlan qualified as a foreign investment production enterprise and was established in a coastal economic development zone. Approved by local tax authority on 14 December 2007, Jinxi Jinlan was entitled to a two-year full exemption followed by a three-year 50% tax deduction, commencing from 1 January 2008. As at 31 December 2009, the effective rate of Jinxi Jinlan was nil (2008: nil).

(All amounts in RMB thousands unless otherwise stated)

34. Income tax expense — Group (Continued)

(a) Income tax expense represents: (Continued)

Shenzhen Leasing qualified as a service industry enterprise and was established in a special economic zone. Approved by local tax authority on 14 September 2008, Shenzhen Leasing was entitled to a one-year full exemption followed by a two-year 50% tax deduction effective from 1 January 2008. Accordingly, the effective tax rate for the year ended 31 December 2009 was 10% (2008: nil).

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate of 23.88% (2008: 22.39%) to respective profits of the consolidated entities for the years ended 31 December 2009 and 2008 as follows:

	2009	2008
Profit before taxation	1,313,734	113,601
Taxation calculated at statutory tax rate	322,520	23,651
Effect of tax exemption of subsidiaries	(6,356)	(2,577)
Tax losses for which no deferred income tax asset was recognised	24,680	8,251
Utilisation of previously unrecognised tax losses	(14,936)	(1,686)
Effect of other non-taxable income	(44)	(499)
Effect of non-deductible expenses	15,429	43,503
	341,293	70,643

35. Net foreign exchange losses

The exchange differences (charged)/credited in the consolidated income statement are included as follows:

	2009	2008
Other losses — net (Note 29)	(3,608)	(17,297)
Finance costs — net (Note 33)	256	759
	(3,352)	(16,538)

36. Profit attributable to equity holders of the company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB 75.81 million (2008: RMB 371.62 million).

37. 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.

	2009	2008
Profit attributable to equity holders of the Company	884,323	44,032
Weighted average number of ordinary shares in issue (thousands)	2,929,200	2,929,187
Basic earnings per share (RMB per share)	0.30	0.02

Diluted

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

	2009	2008
Profit attributable to equity holders of the Company	884,323	44,032
Weighted average number of ordinary shares in issue used in calculating basic earnings per share (thousands)	2,929,200	2,929,187
Adjustments for options (thousands)	7,052	—
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share (thousands)	2,936,252	2,929,187
Diluted earnings per share (RMB per share)	0.30	0.02

(All amounts in RMB thousands unless otherwise stated)

38. Dividends

	2009	2008
Interim, paid (a, b)	—	167,088
Final, proposed (c, d)	221,834	—
	221,834	167,088

(a) At a meeting held on 27 March 2008, the Board proposed a final dividend in respect of the year ended 31 December 2007 of HK$ 181.61 million (approximately RMB 164.36 million), representing HK$ 0.062 per ordinary share. The Annual General Meeting held on 15 May 2008 approved the Board's dividend proposal. Such final dividend was paid for the year ended 31 December 2008.

(b) At a meeting held on 18 August 2008, the Board proposed an interim dividend of HK$ 190.14 million (approximately RMB 167.09 million), representing HK$ 0.065 per ordinary share, for the six months ended 30 June 2008. Such interim dividend was paid for the year ended 31 December 2008.

(c) The Board does not recommend the payment of final dividend for the year ended 31 December 2008.

(d) At a meeting held on 23 March 2010, the Board proposed a final dividend in respect of the year ended 31 December 2009 of HK$ 251.94 million (approximately RMB 221.83 million), representing HK$ 0.086 per ordinary share.

(All amounts in RMB thousands unless otherwise stated)

39. Cash generated from operations

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

	2009	2008
Profit before income tax	1,313,734	113,601
Adjustments for:		
Impairment provision for receivables (Notes 19, 31)	21,305	—
Depreciation (Notes 7, 31)	845,051	570,936
Depreciation of investment properties (Notes 8, 31)	805	928
Amortisation of leasehold land and land use rights (Notes 6, 31)	1,651	1,651
Amortisation of long-term deferred assets	363	—
(Reversal of)/write-down of inventories to their net realisable value (Note 31)	(45,511)	45,511
Impairment provision for intangible asset (Notes 9, 29)	7,667	—
Impairment provision for property, plant and equipment (Note 7)	64,788	—
Share of profit of an associate company (Note 11)	(177)	(1,998)
Loss on disposal of property, plant and equipment, net (Note 29)	820	276
Exchange loss (Note 29)	3,608	17,297
Finance income (Note 33)	(35,414)	(24,249)
Dividend income on financial assets at fair value through profit or loss (Note 30)	(1)	(11)
Finance costs (Note 33)	137,145	91,627
Share-based payment (Note 32)	10,753	—
Impairment provision for available-for-sale financial assets (Notes 15, 31)	188,100	—
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
(Increase)/decrease in financial assets at fair value through profit or loss	(4)	6
(Increase)/decrease in inventories	(985,073)	224,049
Decrease in restricted bank balances	8,587	9,992
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	(435,874)	(2,181,436)
Increase in amount due from related parties	(219,579)	(3,565)
(Decrease)/increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities	(488,672)	1,674,220
(Decrease)/increase in deferred revenue	(21,500)	62,756
Increase in amount due to related parties	1,430	24,581
Cash generated from operations	374,002	626,172

(All amounts in RMB thousands unless otherwise stated)

39. Cash generated from operations (Continued)

(ii) Major non-cash transactions:

For the year ended 31 December 2009, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately RMB 315 million (2008: approximately RMB 1,087 million).

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

	2009	**2008**
Net book amount (Note 7)	10,541	276
Loss on disposals of property, plant and equipment (Note 29)	(820)	(276)
Non-cash assets received	(9,750)	
Proceeds from disposal of property, plant and equipment	(29)	—

40. Financial guarantee contracts — Group

	2009	**2008**
Guarantee for bank borrowings of third parties	30,000	60,900

As at 31 December 2009, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to RMB 30.0 million (2008: RMB 60.9 million). The fair values of these financial guarantee contracts are not significant.

The Directors of the Company are of the view that such obligation will not cause an outflow of resources embodying economic benefits.

(All amounts in RMB thousands unless otherwise stated)

41. Commitments — Group

(a) Capital commitments

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

	2009	2008
Purchase of intangible assets		
— Contracted but not provided for	—	2,000
Purchase of property, plant and equipment		
— Contracted but not provided for	1,936,442	2,088,203
— Authorised but not contracted for	1,013,127	1,209,707
	2,949,569	3,297,910

At a meeting held on 23 March 2010, the directors of Jinxi Limited have resolved to terminate the rolled sheet project, and the capital commitment authorised but not contracted of approximately RMB 765 million would be released.

(b) Operating lease commitments

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

	2009	2008
No later than one year	54,612	77,458
Later than one year and no later than five years	179,208	28,144
Later than five years	178,714	142,777
	412,534	248,379

42. 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) For the years 2009 and 2008, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Wellbeing Holdings Limited ("Wellbeing")	Substantial shareholder of the Company
Mittal AG	Substantial shareholder of the Company
Tangshan Jinxi Group	Shareholder of Jinxi Limited and its legal representative is Mr. Guo Feizhi, one of the key executives of Jinxi Limited (2008: Shareholder of Jinxi Limited and its legal representative was Mr. Han Jingyuan, a director of the Company)
Arcelor Mittal Sourcing SA ("AM Sourcing")	Controlled by the same ultimate controlling shareholder of Mittal AG
Foshan Jin Lan Group Co., Ltd. ("Jin Lan Group")	Controlled by Mr. Zhou Weijie, a director of Jinxi Jinlan
Foshan Jin Lan	Substantial shareholder of Jinxi Jinlan
Foshan Jin Lan Import and Export Co., Ltd. ("Jin Lan Import and Export")	Controlled by the family members of Mr. Zhou Weijie, a director of Jinxi Jinlan
Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	Foshan Jin Lan's subsidiary
Zhongxing Iron Mine	Jinxi Limited's associated company
Jinxi Wan Tong	Its legal representative is Mr. Shen Xiaoling, a director of the Company
Qianxi County Hui Yin Trading Company Limited ("Hui Yin")	Substantial shareholder of Jinxi Section Steel
Qianxi County Longba Charging Company Limited ("Longba Charging")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Pingquan County Longba Quarrying Company Limited ("Longba Quarrying")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Hebei Province Jing Yuan Education Foundation ("Jing Yuan Foundation")	Its legal representative 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 Jinxi Jinlan
Mr. Shen Xiaoling	Director, Deputy General Manager and Chief Financial Officer of the Company
Mr. Du Chun	Substantial shareholder of Jinyin Charging

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

(b) Save as disclosed elsewhere in the consolidated financial statements, during the years 2009 and 2008, 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) Sales

	2009	2008
(I) *Sales of goods*		
— Jin Lan Import and Export	59,801	76,039
— Jin Lan Group	32,075	—
— Jinxi Wan Tong	19,589	—
— Jin Lan Nonferrous Metals	4,697	—
— Longba Charging	4,163	—
	120,325	76,039
(II) *Sales of utilities*		
— Jin Lan Nonferrous Metals	4,781	4,061

(ii) Purchase

	2009	2008
(I) *Purchase of raw materials*		
— AM Sourcing	—	49,866
— Longba Charging	69,949	17,576
— Zhongxing Iron Mine	88,170	14,307
	158,119	81,749
(II) *Purchase of property, plant and equipment*		
— Longba Quarrying	—	2,000

42. Related party transactions (Continued)

(b) Save as disclosed elsewhere in the consolidated financial statements, during the years 2009 and 2008, the directors were of the view that the following significant related party transactions were carried out in the normal course of business of the Group: (Continued)

(iii) Financing

- Transaction with Wellbeing

  Wellbeing provided a loan to the Company, amounting to HK$ 34 million for the year ended 31 December 2009. The loan is unsecured, bore interest at a rate of 3.25% per annum and repayable within six months.

- Transaction with Hui Yin

  Hui Yin provided a loan to Jinxi Section Steel, amounting to RMB 170 million for the year ended 31 December 2008. The loan is unsecured and interest-free. As at 31 December 2009, the loan has not been repaid.

- Transaction with Jing Yuan Foundation

  For the year ended 31 December 2008, Jing Yuan Foundation provided an entrustment loan to Jinxi Limited through a financial institution, amounting to RMB 3.3 million. The loan was unsecured, bore interest at a rate of 12% per annum and repayable within one year.

  For the year ended 31 December 2009, the loan was renewed with other terms unchanged.

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

(c) As at 31 December 2009 and 2008, the directors were of the view that the following related party balances were attributable to the aforementioned related party transactions, amounts paid on behalf of the Group and dividends appropriation during the years:

	2009	2008
Amounts due from related parties		
— Tangshan Jinxi Group (Note 10 (a))	361,512	—
— Jin Lan Import and Export (Note 42 (b)(i))	1,436	1,820
— Longba Charging (Note 42 (b)(i))	723	—
— Jin Lan Nonferrous Metals (Note 42 (b)(i))	525	—
— Zhongxing Iron Mine (i)	—	9,800
— Longba Quarrying	—	3,000
	364,196	14,620
Amounts due to related parties		
Non-current		
Borrowing from a related party		
— Foshan Jin Lan (ii)	37,404	55,055
Deposit from a related party		
— Mr. Shen Xiaoling (Note 27)	—	10,000
	37,404	65,055
Current		
Borrowing from a related party		
— Hui Yin (Note 42(b)(iii))	170,000	170,000
Deposit from a related party		
— Mr. Shen Xiaoling (Note 27)	10,000	—
Borrowings from a related party		
— Wellbeing (Note 42(b)(iii))	29,937	—
Trade payables		
— Longba Charging (Note 42(b)(ii))	10,414	11,605
— Zhongxing Iron Mine (Note 42(b)(ii))	214	1,555
	10,628	13,160
Dividends payable due to		
— Tangshan Jinxi Group	18,130	18,130
— Zhongxing Iron Mine	2,535	2,535
— Hui Yin (iii)	20,837	—
	41,502	20,665
Others		
— Mr. Du Chun	3,600	2,800
— Foshan Jin Lan	383	383
— Longba Quarrying	1,815	—
— Jinxi Wan Tong	1,308	—
— Mr. Han Jingyuan	45	5
	7,151	3,188
	269,218	207,013

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

(c) As at 31 December 2009 and 2008, the directors were of the view that the following related party balances were attributable to the aforementioned related party transactions, amounts paid on behalf of the Group and dividends appropriation during the years: (Continued)

(i) Pursuant to certain agreements entered into in November 2007, the loan provided to Zhongxing Iron Mine amounting to RMB 9.8 million was unsecured, interest-free and repayable within thirteen months. The loan was repaid during the year ended 31 December 2009.

(ii) Pursuant to certain agreements entered into in January 2006, the payables owing to Foshan Jin Lan amounting to RMB 55 million was unsecured, interest-free and had a repayable term of 5 years. Part of the loan amounting to RMB 17.7 million was repaid during the year ended 31 December 2009.

(iii) The Board of Jinxi Section Steel proposed a final dividend of RMB 104 million in respect of the year ended 31 December 2009. The dividend was not paid yet during the year ended 31 December 2009, which resulted in a payable of RMB 20.8 million to Hui Yin.

Except for the loans provided by Foshan Jin Lan, Hui Yin and Wellbeing and the loan provided to Zhongxing Iron Mine as disclosed above and deposit from Mr. Shen Xiaoling as disclosed in Note 27, the related party balances were all unsecured, interest-free and had no fixed term of repayment.

The carrying amounts and fair value of the non-current amounts due to related parties are as follows:

	Carrying amounts		Fair value	
	2009	2008	2009	2008
Amounts due to related parties	37,404	65,055	35,178	58,127

The fair values of current amounts due to related parties and amounts due from related parties approximated their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the applicable borrowings rate of 5.40% per annum (2008: 5.40% per annum).

No provision has been required for the years ended 31 December 2009 and 2008 for the loan made to related parties. The related parties have no default history.

43. Subsequent events

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

(i) Pursuant to a land use right transfer agreement dated 5 January 2010, Boyuan Real Estate acquired a land use right in Qianxi County from the local Bureau of Land and Resources, at a cash consideration of approximately RMB 193 million. The useful life of the land use right is 40 to 70 years, depending on the future usage of the land.

(ii) Pursuant to a capital contribution agreement dated 10 March 2010, Jinxi Limited, Hui Yin, Longba Charging's existing shareholders agreed to reorganise Longba Charging into a joint venture company by introducing new capital contribution of RMB 14,673,913 and RMB 2,934,783 from Jinxi Limited and Hui Yin respectively, and further capital contribution of RMB 9,000,000 from Longba Charging's existing shareholders. Upon completion of the capital contribution, Jinxi Limited, Hui Yin and Longba Charging's existing shareholders will respectively own 45%, 9% and 46% Longba Charging.

(iii) The Directors have resolved to recommend a final dividend of HK$ 0.086 per ordinary share for the financial year ended 31 December 2009 to be payable on or around 30 June 2010 to the Company's shareholders whose names appear on the register of members of the Company on 21 April 2010 subject to the approval of the Company's shareholders at the forthcoming annual general meeting on 7 May 2010.

(iv) Settlement of litigations:

Reference is made to the announcement of the Company dated 20 August 2007 (the "Announcement") and the circular of the Company dated 12 October 2007 (the "Circular") related to the following litigations.

(a) On 20 August 2007, the Company and Jinxi Iron and Steel (collectively called the "Plaintiff") filed a Writ of Summons and a statement of claim against Ms. Chen Ningning ("Ms. Chen"), Pioneer Metals Company Limited ("PMC (HK)") and Pioneer Metals Holdings Limited ("PMC (BVI)") (collectively called the "Defendant") in the High Court of Hong Kong for (1) breach of contract by Ms. Chen, PMC (HK) and PMC (BVI); and (2) non-disclosure of Ms. Chen's interest in Long King and breach of fiduciary duties by Ms. Chen; and

(b) On 30 August 2007, Smart Triumph Corporation (the "Plaintiff") served a notice of requisition on the Company, requiring the Company (the "Defendant") to convene a special general meeting to consider, among other things, a motion to remove all the Directors, pursuant to the relevant requirements under the Bermuda Law.

The parties to the above proceedings had reached settlements. On 4 February 2010, the High Court of Hong Kong issued a Consent Orders for the aforesaid litigations. Upon the Plaintiffs and the Defendants agreeing to the terms of the Consent Orders, the High Court ordered that the Plaintiff's action against the Defendants in the aforesaid litigations was wholly discontinued.

44. Approval of accounts

These consolidated financial statements were approved by the Board on 23 March 2010.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA ORIENTAL GROUP COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Oriental Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 219, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 April 2009

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)
As at 31 December 2008

	Note	As at 31 December 2008	As at 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	8,286,788	6,405,538
Leasehold land and land use rights	6	74,790	76,441
Investment properties	8	18,400	19,328
Intangible assets	9	7,667	—
Investment in an associate	11	10,120	8,122
Loan receivable	14	130,000	—
Available-for-sale financial assets	15	188,100	—
Deferred income tax assets	28	7,461	3,194
		8,723,326	6,512,623
Current assets			
Inventories	16	1,567,437	1,836,997
Trade receivables	17	1,733,991	488,825
Other current assets		9,894	4,037
Prepayments, deposits and other receivables	19	731,570	447,156
Financial assets at fair value through profit or loss	18	140	146
Amounts due from related parties	42(c)	14,620	11,055
Prepaid current income tax		264,555	—
Restricted bank balances	20	361,698	171,690
Cash and cash equivalents	20	728,826	689,591
		5,412,731	3,649,497
Total assets		14,136,057	10,162,120
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	21	311,669	311,444
Share premium	21	2,189,695	2,185,964
Other reserves	22	1,144,963	1,144,182
Retained earnings		2,618,902	2,907,100
		6,265,229	6,548,690
Minority interest in equity		224,711	147,414
Total equity		6,489,940	6,696,104

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (Continued)
(All amounts in RMB thousands unless otherwise stated)
As at 31 December 2008

	Note	As at 31 December 2008	2007
LIABILITIES			
Non-current liabilities			
Borrowings	25	489,230	765,000
Other long term payables	26	847,934	—
Deferred revenue	27	62,756	—
Amounts due to related parties	42(c)	65,055	55,733
		1,464,975	820,733
Current liabilities			
Trade payables	23	2,219,395	715,535
Accruals, advances from customers and other current liabilities	24	2,034,745	1,371,328
Amounts due to related parties	42(c)	207,013	8,571
Other long term payables — current portion	26	19,888	—
Current income tax liabilities		—	88,382
Borrowings	25	1,697,230	460,000
Dividends payable		2,871	1,467
		6,181,142	2,645,283
Total liabilities		7,646,117	3,466,016
Total equity and liabilities		14,136,057	10,162,120
Net current (liabilities)/assets		(768,411)	1,004,214
Total assets less current liabilities		7,954,915	7,516,837

Han Jingyuan
Chairman and Director

Liu Lei
Director

The notes on pages 64 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

COMPANY BALANCE SHEET
(All amounts in RMB thousands unless otherwise stated)
As at 31 December 2008

	Note	As at 31 December 2008	As at 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,037	12,359
Investment properties	8	—	19,328
Investments in subsidiaries	10(a)	382,121	382,121
Loans to subsidiaries	10(b)	2,328,517	2,003,039
		2,711,675	2,416,847
Current assets			
Prepayments, deposits and other receivables	19	1,403	1,486
Financial assets at fair value through profit or loss	18	140	146
Amounts due from related parties		6,513	10,883
Restricted bank balances	20	—	47,305
Cash and cash equivalents	20	62,238	95,723
		70,294	155,543
Total assets		2,781,969	2,572,390
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	311,669	311,444
Share premium	21	2,189,695	2,185,964
Other reserves		176,631	176,631
Accumulated losses		(73,111)	(113,285)
Total equity		2,604,884	2,560,754
LIABILITIES			
Current liabilities			
Trade payables		4,295	5,269
Accruals and other current liabilities		12,527	6,205
Borrowings	25	160,160	—
Amounts due to related parties		—	84
Dividends payable		103	78
Total liabilities		177,085	11,636
Total equity and liabilities		2,781,969	2,572,390
Net current (liabilities)/assets		(106,791)	143,907
Total assets less current liabilities		2,604,884	2,560,754

Han Jingyuan
Chairman and Director

Liu Lei
Director

The notes on pages 64 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2008

	Note	Year ended 31 December 2008	2007
Revenue	5	19,388,183	13,498,555
Cost of sales	31	(18,870,988)	(11,581,115)
Gross profit		517,195	1,917,440
Other income	30	35,639	2,116
Distribution costs	31	(80,319)	(46,689)
Administrative expenses	31	(281,942)	(373,452)
Other expenses	31	(10,228)	(5,324)
Other (losses)/gains — net	29	(1,364)	12,730
Operating profit		178,981	1,506,821
Finance income	33	24,249	12,118
Finance costs	33	(91,627)	(68,810)
Finance costs — net		(67,378)	(56,692)
Share of profit of an associate	11	1,998	225
Profit before income tax		113,601	1,450,354
Income tax expense	34	(70,643)	(256,617)
Profit for the year		42,958	1,193,737
Attributable to:			
Equity holders of the Company		44,032	1,159,657
Minority interest		(1,074)	34,080
		42,958	1,193,737
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
— basic	37	RMB 0.02	RMB 0.40
— diluted	37	RMB 0.02	RMB 0.40
Dividends	38	167,088	319,225

The notes on pages 64 to 219 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2008

		Attributable to equity holders of the Company						
	Note	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2007		309,340	2,151,035	984,296	2,034,456	5,479,127	122,322	5,601,449
Profit for the year		—	—	—	1,159,657	1,159,657	34,080	1,193,737
Employee share options scheme:								
— Value of employee services	22	—	—	159,886	—	159,886	—	159,886
— Proceeds from exercising share options	21	2,104	34,929	—	—	37,033	—	37,033
Dividends relating to 2006		—	—	—	(132,149)	(132,149)	(4,322)	(136,471)
Dividends relating to 2007	38(a)	—	—	—	(154,864)	(154,864)	(5,370)	(160,234)
Acquisition from a minority shareholder		—	—	—	—	—	704	704
		2,104	34,929	159,886	872,644	1,069,563	25,092	1,094,655
Balance at 31 December 2007		311,444	2,185,964	1,144,182	2,907,100	6,548,690	147,414	6,696,104
Balance at 1 January 2008		311,444	2,185,964	1,144,182	2,907,100	6,548,690	147,414	6,696,104
Profit for the year		—	—	—	44,032	44,032	(1,074)	42,958
Employee share options scheme:								
— Proceeds from exercising share options	21	225	3,731	—	—	3,956	—	3,956
Profit appropriation to statutory reserves	22	—	—	781	(781)	—	—	—
Dividends relating to 2007	38(c)	—	—	—	(164,361)	(164,361)	(7,042)	(171,403)
Dividends relating to 2008	38(b)	—	—	—	(167,088)	(167,088)	(7,546)	(174,634)
Acquisition from a minority shareholder		—	—	—	—	—	(25,655)	(25,655)
Minority shareholder's injection		—	—	—	—	—	118,614	118,614
		225	3,731	781	(288,198)	(283,461)	77,297	(206,164)
Balance at 31 December 2008		311,669	2,189,695	1,144,963	2,618,902	6,265,229	224,711	6,489,940

The notes on pages 64 to 129 are an integral part of these financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2008

	Note	Year ended 31 December 2008	2007
Cash flows from operating activities			
Cash generated from operations	39	626,172	1,363,930
Interest received		15,519	10,976
Dividends received from financial assets at fair value through profit or loss		11	2
Interest paid		(65,941)	(70,722)
Income tax refund		5,854	—
Income tax paid		(433,701)	(229,944)
Net cash generated from operating activities		147,914	1,074,242
Cash flows from investing activities			
Purchase of property, plant and equipment	39	(953,649)	(833,047)
Proceeds from disposal of property, plant and equipment	39	—	336
Proceeds from disposal of intangible assets		—	4,408
Investment income on loan receivable		8,308	—
Increase in loan receivable		(130,000)	—
Increase in available-for-sale financial assets		(188,100)	—
Cash received relating to other investing activities		153,000	—
Cash paid relating to other investing activities		(400,000)	—
Net cash used in investing activities		(1,510,441)	(828,303)
Net cash (used in)/generated from before financing activities		(1,362,527)	245,939
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		3,956	37,033
Proceeds from current borrowings		1,608,836	550,000
Repayment of current borrowings		(626,617)	(534,000)
Repayment of borrowings from related parties		—	(7,000)
Proceeds from non-current borrowings		—	424,230
Repayment of non-current borrowings		—	(149,230)
Dividends paid		(331,450)	(293,099)
Capital injection by minority shareholders		85,300	—
Proceeds from borrowings from a minority shareholder		170,000	—
Proceeds from sales and leaseback transaction	26	800,000	—
Cash paid relating to sales and leaseback transaction		(100,280)	—
Increase in restricted bank balances pledged as security for current bank borrowings		(200,000)	—
Net cash generated from financing activities		1,409,745	27,934
Net increase in cash and cash equivalents		47,218	273,873
Effect of foreign exchange rate changes		(7,983)	(19,187)
Cash and cash equivalents, beginning of the year		689,591	434,905
Cash and cash equivalents, end of the year	20	728,826	689,591

The notes on pages 64 to 219 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2008

1. General Information

China Oriental Group Company Limited (the "Company") was incorporated in Bermuda on 3 November 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda as a result of a group reorganisation (the "Reorganisation").

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

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

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

These consolidated financial statements are presented in thousands of units of RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 3 April 2009.

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"). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

As at 31 December 2008, the Group's current liabilities exceeded its current assets by approximately RMB 768 million. In the opinion of the directors, considering the impact of the macro-economics stimulation plan adopted by the PRC government on iron and steel industry, the operating cash flows of the Group in the year 2009 will be better than that of year 2008.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

As at 31 December 2008, the Group had undrawn bank facilities of approximately RMB 812 million and the Group is currently negotiating with certain major banks to obtain additional bank facility or renew short-term bank borrowings. As at the date of these financial statements were approved, the Group obtained a letter of intention from a major bank who would additionally grant bank facilities to the Group amounting to RMB 750 million. Short-term bank borrowings of approximately RMB 180 million were renewed and will fall due after 31 December 2009. Based on the aforementioned considerations, in the opinion of the directors, these consolidated financial statements are prepared on a going concern basis.

(a) Amendments and interpretation to standards effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK (IFRIC)-Int 11, 'HKFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any significant impact on the Group's financial statements as the Group has already adopted the principles that are consistent with HK(IFRIC)-Int 11.

(b) Interpretations to standards effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- HK(IFRIC) — Int 12, 'Service concession arrangements'.

- HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. Management is assessing the impact under the revised disclosure requirements of this standard.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009. It does not anticipate any material impact on the Group's accounts as the Group has already followed the principles of capitalising borrowing costs for qualify assets in accordance with existing HKAS 23.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 7 (Amendment), 'Financial instruments: Disclosure' (effective from 1 January 2009). The amended standard introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply the HKFRS 7 (Amendment) from 1 January 2009, but it is not expected to have impact on the Group's consolidated financial statements.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management believes that this standard will result in an increase in number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008

  △ HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  △ HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The Group will apply the HKAS 16 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  △ HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The Group will apply the HKAS 20 (Amendment) prospectively to government loans received in periods beginning on or after 1 January 2009.

  △ HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

  △ HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

— An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

— Where an investment in associate is accounted for in accordance with HKAS 39 Financial instruments: recognition and measurement' only certain rather than all disclosure requirements in HKAS 28 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The Group will apply HKAS 28 (Amendment) from 1 January 2009. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the consolidated financial statements.

△ HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

△ HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).

— A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's financial statements.

— The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The Group will apply HKAS 38 (Amendment) from 1 January 2009. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

△ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

— This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

— The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

— The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

— When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

△ HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The Group will apply the HKAS 40 (Amendment) from 1 January 2009. The amendment will not have an impact on the Group's operations, as investment properties held by the Group are measured by cost model.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

  △ There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue', HKAS 20, 'Accounting for government grants and disclosure of government assistance', HKAS 34, 'Interim financial reporting' and HKAS 40, 'Investment property' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).

- HKAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' — 'Eligible hedged items' (effective from 1 July 2009).

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009).

- HK(IFRIC)-Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).

- HK(IFRIC)-Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

- HK(IFRIC)-Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).

- HK(IFRIC)-Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  △ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- HKICPA's improvements to HKFRS published in October 2008 (Continued)
  - △ HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
  - △ HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
  - △ HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).
  - △ HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
  - △ HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009).
- The minor amendments to HKAS 29, 'Financial reporting in hyperinflationary economies' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2.2 Consolidation

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

(a) Subsidiaries

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

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

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions with minority interest

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

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated 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.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains — net'.

(c) Net investment in foreign operation

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

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(c) Net investment in foreign operation (Continued)

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

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated 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 their costs or revalued amounts to their residual values over their estimated useful lives (Note 4.1), as follows:

	Estimated useful life
Buildings	10 – 20 years
Machinery	5 – 10 years
Furniture and fixtures	3 – 10 years
Vehicles	4 – 10 years
Leasehold improvements	2 – 5 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains-net, in the consolidated income statement.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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

2.6 Leasehold land and land use rights

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

2.7 Investment properties

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

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

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 consolidated 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 consolidated 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. Summary of significant accounting policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill either on acquisition of subsidiaries or on transaction with minority interest is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Iron ore mining licenses

Iron ore mining licenses purchased 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 (5 years).

Iron ore mining licenses should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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. Summary of significant accounting policies (Continued)

2.10 Financial assets

2.10.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Note 2.13 and 2.14).

(c) Held-to-maturity financial assets

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

For the years ended 31 December 2008 and 2007, the Group has no financial assets categorised as held-to-maturity.

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.
Available-for-sale assets of the Group are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less provision for impairment, if any.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within other (losses)/gains — net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.13.

2. Summary of significant accounting policies (Continued)

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or

(3) hedges of net investments in foreign operations (net investment hedge).

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The Group accounts for a hedge of foreign currency risk of a firm commitment as a cash flow hedge on the following basis:

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 consolidated income statement within 'other gains/(losses) — net'.

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

2. Summary of significant accounting policies (Continued)

2.11 Derivative financial instruments and hedging activities (Continued)

(a) Cash flow hedge (Continued)

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 consolidated 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 consolidated income statement within 'other gains/(losses) — net'.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within 'other gains/(losses) — net'.

2.12 Inventories

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

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'distribution costs'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'distribution costs' in the consolidated income statement.

2.14 Cash and cash equivalents

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

2. Summary of significant accounting policies (Continued)

2.15 Share capital

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

2.16 Trade and other payables

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings at nil or low interest rates from government are treated as government assistance 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.

2.18 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 consolidated income statement in the period in which they are incurred.

2. Summary of significant accounting policies (Continued)

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

2.20 Employee benefits

(a) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the MPF 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 32. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

2. Summary of significant accounting policies (Continued)

2.20 Employee benefits (Continued)

(a) Pension obligations (Continued)

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

(b) Share-based compensation

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

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

Where options are granted to employees of subsidiaries within the Group, in the consolidated financial statements, such share-based arrangement is accounted for as equity-settled. The fair value are accounted for as contributions and recognised as part of the cost of investment in the Company's standalone financial statements.

2.21 Provisions

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

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

2. Summary of significant accounting policies (Continued)

2.21 Provisions (Continued)

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

2.22 Government grants

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

Grants relating to income are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that 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 consolidated income statement over the life of a depreciable asset by way of a reduced depreciation charge.

2.23 Revenue recognition

(a) Sales of goods produced

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

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

(b) Interest income

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

(c) Dividend income

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

2. Summary of significant accounting policies (Continued)

2.23 Revenue recognition (Continued)

(d) Lease income

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

2.24 Lease

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), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Contingent rents is charged as expenses in the periods in which they are incurred. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

If there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases is depreciated over the useful life of the asset.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

2.25 Contingent liabilities and contingent assets

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

2. Summary of significant accounting policies (Continued)

2.25 Contingent liabilities and contingent assets (Continued)

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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.26 Dividends distribution

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

2.27 Financial guarantee contracts

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

Financial guarantee contracts are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee contract. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instruments and the payments that would be required without the guarantee or the estimated amount that would be payable to a third party for assuming the obligation. Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and foreign exchange risk), credit risk and liquidity 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.

(a) Market risk

(i) *Cash flow and fair value 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. All non-current borrowings bear variable rates and expose the Group to cash flow interest-rate risk. The maximum exposures to the interest rate risk have been disclosed in Note 25.

The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2008.

(ii) *Foreign exchange risk*

The directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2008.

The major foreign exchange risk exposure arises from its exporting activities and the related trade receivables, which are mostly denominated in United States Dollars (the "US$"). The Group also has certain bank deposits, financial assets and financial liabilities that are denominated in foreign currencies, mainly US$, Euros and Hong Kong Dollars (the "HK$"), which are exposed to foreign currency translation risk. The maximum exposures to the foreign exchange risks are disclosed in Note 17, 20 and 25 respectively.

(iii) *Summarised sensitivity analysis*

The following table summarised the sensitivity of the Group of financial assets and financial liabilities to interest rate risk and foreign exchange risk.

The sensitivity analysis for interest rate risk and foreign exchange is based on the assumption that:

(a) Interest rate had been 15% lower/higher from the year end rates with all other variables held constant (for example, 8.05% or 5.95% instead of 7%);

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) *Summarised sensitivity analysis (Continued)*

(b) RMB had weakened/strengthened by 10% against US$ and HK$ with all other variables held constant.

	Carrying amount	Interest rate risk			
		-15%		+15%	
		Profit	Equity	Profit	Equity
31 December 2008					
Financial assets					
Cash and cash equivalents	728,826	(315)	(315)	315	315
Restricted bank balance	361,698	(155)	(155)	155	155
Loan receivable	130,000	(873)	(873)	873	873
Financial liabilities					
Borrowings	(2,186,460)	11,077	11,077	(11,077)	(11,077)
Other long term payables	(867,822)	3,386	4,259	(3,386)	(4,259)
Total increase/(decrease)		13,120	13,993	(13,120)	(13,993)

	Carrying amount	Foreign exchange risk			
		-10%		+10%	
		Profit	Equity	Profit	Equity
31 December 2008					
Financial assets					
Cash and cash equivalents	728,826	6,640	6,640	(6,640)	(6,640)
Restricted bank balance	361,698	18	18	(18)	(18)
Trade receivables	1,733,991	28	28	(28)	(28)
Deposits and other receivables (Note 19)	497,116	117	117	(117)	(117)
Financial liabilities					
Trade payables	(2,219,395)	(5,081)	(5,081)	5,081	5,081
Other payables (I)	(678,399)	(574)	(574)	574	574
Borrowings	(2,186,460)	(16,016)	(16,016)	16,016	16,016
Total increase/(decrease)		(14,868)	(14,868)	14,868	14,868

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) *Summarised sensitivity analysis (Continued)*

	Carrying amount	Interest rate risk -15% Profit	Interest rate risk -15% Equity	Interest rate risk +15% Profit	Interest rate risk +15% Equity
31 December 2007					
Financial assets					
Cash and cash equivalents	689,591	(667)	(667)	667	667
Restricted bank balance	171,690	(171)	(171)	171	171
Financial liabilities					
Borrowings	(1,225,000)	7,005	7,005	(7,005)	(7,005)
Total increase/(decrease)		6,167	6,167	(6,167)	(6,167)

	Carrying amount	Foreign exchange risk -10% Profit	Foreign exchange risk -10% Equity	Foreign exchange risk +10% Profit	Foreign exchange risk +10% Equity
31 December 2007					
Financial assets					
Cash and cash equivalents	689,591	10,625	10,625	(10,625)	(10,625)
Restricted bank balance	171,690	4,731	4,731	(4,731)	(4,731)
Trade receivables	488,825	7,694	7,694	(7,694)	(7,694)
Financial liabilities					
Trade payables	(715,535)	(629)	(629)	629	629
Total increase/(decrease)		22,421	22,421	(22,421)	(22,421)

(I) Other payables include payables for purchase of property, plant and equipment, customer deposits, employee deposits and other borrowings of overdue as stated in Note 24.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade receivables, deposits and other receivables, amounts due from related parties represent the Group's maximum exposure to credit risk in relation to financial assets. The Group does not have significant credit risks arising from off-balance sheet items. 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. For bank and financial institutions, the Group has policies that deposits are put in reputable banks. Credit quality of financial assets are further disclosed in Note 13, 14, 19 and 42(c) respectively.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Borrowings	1,697,230	404,230	60,000	25,000
Interests payments on borrowings (i)	78,038	14,359	5,589	208
Trade payables	2,219,395	—	—	—
Other payables	678,399	—	—	—
Amounts due to related parties	207,013	10,000	55,055	—
Other long-term payables	19,888	142,639	705,295	—
At 31 December 2007				
Borrowings	460,000	275,770	444,230	45,000
Interests payments on borrowings (i)	61,559	41,716	17,331	756
Trade payables	715,535	—	—	—
Other payables	474,743	—	—	—
Amounts due to related parties	8,571	—	55,733	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2007 and 2008 without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2007 and 2008 respectively.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.2 Capital risk management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total borrowings divided by equity attributable to the Company's equity holders. Total borrowings include current and non-current borrowings as shown in the consolidated balance sheet. The Group regards its borrowings and equity attributable to the Company's equity holders as its capital.

	2008	2007
Total borrowings	2,186,460	1,225,000
Equity attributable to the Company's equity holders	6,265,229	6,548,690
Debt-to-equity ratio	34.90%	18.71%

3.3 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.

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

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

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

As at 31 December 2008, the value in use and fair value less costs to sell approximated RMB 210.8 million and RMB 205.3 million respectively. The Group considered that the recoverable amount was the higher of value in use and fair value less costs to sell. The recoverable amount of the production line approximated its carrying amount (Note 7).

If the estimated gross margin in all forecast years had been 10% lower or higher than the management's estimates at 31 December 2008 (for example, 18% or 22% instead of 20%), the Group would have recognised the impairment as follows:

	2008	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	30,567	—

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

	2008	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	—	14,282

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

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

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

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

(i) Expected usage of the asset

(ii) Expected physical wear and tear

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

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

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

4.2 Critical judgements in applying the entity's accounting policies

(a) Borrowing costs eligible for capitalisation

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

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

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

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

(All amounts in RMB thousands unless otherwise stated)

4. Critical accounting estimates and judgements (Continued)

4.2 Critical judgements in applying the entity's accounting policies (Continued)

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

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.

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 2008 and 2007 are as follows:

	2008	2007
Sales:		
Gross sales, less discounts and returns		
— billets	3,990,747	896,776
— strips and strip products	8,574,492	7,441,792
— H section steel products	5,672,508	4,330,279
— galvanised sheets	708,746	682,118
— cold-rolled sheets	612,100	158,044
— others	14,633	22,844
	19,573,226	13,531,853
Less: Sales taxes	(185,043)	(33,298)
	19,388,183	13,498,555

(b) Segment information

No business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of iron and steel products, which is considered as one business segment with similar risks and returns.

No geographical segment information is presented as over 90% of the Group's sales and operating profits are derived 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.

(All amounts in RMB thousands unless otherwise stated)

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:

	2008	2007
Opening	76,441	78,092
Amortisation of prepaid operating lease payment (Note 31, 39)	(1,651)	(1,651)
	74,790	76,441

As at 31 December 2008, the net book value of leasehold land and land use rights pledged as security for the Group's borrowings amounted to approximately RMB62 million (2007: RMB24 million) (Note 25).

The Group's leasehold land and land use rights are located in the PRC and the remaining lease period is between 44 years to 47 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in RMB thousands unless otherwise stated)
For the year ended 31 December 2008

7. Property, plant and equipment

The Group

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	CIP	Finance leased assets	Total
At 1 January 2007								
Cost	1,346,713	3,924,966	28,063	50,121	1,337	234,277	—	5,585,477
Accumulated depreciation and impairment	(173,877)	(705,156)	(8,212)	(22,141)	(783)	—	—	(910,169)
Net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	—	4,675,308
Year ended 31 December 2007								
Opening net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	—	4,675,308
Additions	8,252	19,257	5,064	9,878	—	2,115,897	—	2,158,348
Transfers	99,514	155,486	1,997	—	—	(256,997)	—	—
Reclassification	182,670	(182,670)	—	—	—	—	—	—
Disposals (Note 39)	(2,541)	(2,859)	(426)	(706)	—	—	—	(6,532)
Depreciation (Note 31, 39)	(76,980)	(347,496)	(4,878)	(9,140)	(72)	—	—	(438,566)
Reversal of impairment (Note 31, 39)	5,344	11,296	227	113	—	—	—	16,980
Closing net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	—	6,405,538
At 31 December 2007								
Cost	1,630,971	3,907,895	32,584	57,139	1,337	2,093,177	—	7,723,103
Accumulated depreciation and impairment	(241,876)	(1,035,071)	(10,749)	(29,014)	(855)	—	—	(1,317,565)
Net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	—	6,405,538
Year ended 31 December 2008								
Opening net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	—	6,405,538
Additions	13,337	22,393	5,059	35,370	—	2,376,303	—	2,452,462
Transfers	752,816	3,035,320	26,759	22	—	(3,814,917)	—	—
Sale and finance leaseback (Note 26)	—	(800,000)	—	—	—	—	800,000	—
Disposals (Note 39)	—	(15)	(14)	(247)	—	—	—	(276)
Depreciation (Note 31, 39)	(95,381)	(418,208)	(5,885)	(13,850)	(55)	—	(37,557)	(570,936)
Closing net book amount	2,059,867	4,712,314	47,754	49,420	427	654,563	762,443	8,286,788
At 31 December 2008								
Cost	2,397,124	6,008,373	64,343	88,078	1,337	654,563	800,000	10,013,818
Accumulated depreciation and impairment	(337,257)	(1,296,059)	(16,589)	(38,658)	(910)	—	(37,557)	(1,727,030)
Net book amount	2,059,867	4,712,314	47,754	49,420	427	654,563	762,443	8,286,788

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Group (Continued)

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

	2008	2007
Cost of sales	539,515	428,958
Administrative expenses	31,421	9,608
	570,936	438,566

(a) As at 31 December 2008, the net book value of buildings and machinery pledged as security for the Group's current and non-current borrowings amounted to approximately RMB1,406 million (2007: RMB1,396 million) (Note 25).

For the year ended 31 December 2008, borrowing costs amounting to approximately RMB63 million were capitalised into the cost of property, plant and equipment (2007: nil) at an average capitalisation rate of 6.59% approximately.

(b) As at 31 December 2008 and 2007, the directors of the Company considered that certain production line in relation to production of galvanised and cold rolled sheets belonging to a subsidiary was carried at more than its recoverable amount (Note 4.1).

The recoverable amount of a CGU (cash-generating unit) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the galvanised and cold rolled sheets business with which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2008	2007
Gross margin	6.13%	6.38%
Growth rate	2.00%	2.00%
Discount rate	13.69%	14.42%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment charge arose from the fact that the production line has not been fully utilised during the market development stage. The Group reassessed the impairment and no additional provision for/reversal of impairment was made for the year ended 31 December 2008.

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Group (Continued)

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

	2008	2007
Cost of sales (Note 31, 39)	—	(16,980)

The Company

	Buildings	Furniture and fixtures	Vehicles	Leasehold improvements	Total
At 1 January 2007					
Cost	12,764	679	1,513	1,337	16,293
Accumulated depreciation	(904)	(286)	(819)	(783)	(2,792)
Net book amount	11,860	393	694	554	13,501
Year ended 31 December 2007					
Opening net book amount	11,860	393	694	554	13,501
Additions	—	39	—	—	39
Depreciation	(708)	(128)	(273)	(72)	(1,181)
Closing net book amount	11,152	304	421	482	12,359
At 31 December 2007					
Cost	12,764	718	1,513	1,337	16,332
Accumulated depreciation	(1,612)	(414)	(1,092)	(855)	(3,973)
Net book amount	11,152	304	421	482	12,359
Year ended 31 December 2008					
Opening net book amount	11,152	304	421	482	12,359
Additions	—	138	690	—	828
Disposal	(10,925)	(11)	(18)	(427)	(11,381)
Depreciation	(227)	(137)	(350)	(55)	(769)
Closing net book amount	—	294	743	—	1,037
At 31 December 2008					
Cost	—	801	2,179	—	2,980
Accumulated depreciation	—	(507)	(1,436)	—	(1,943)
Net book amount	—	294	743	—	1,037

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties

The Group

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

At 1 January 2007	
Cost	21,985
Accumulated depreciation	(1,557)
Net book amount	20,428
Year ended 31 December 2007	
Opening net book amount	20,428
Depreciation (Note 31, 39)	(1,100)
Closing net book amount	19,328
At 31 December 2007	
Cost	21,985
Accumulated depreciation	(2,657)
Net book amount	19,328
Year ended 31 December 2008	
Opening net book amount	19,328
Depreciation (Note 31, 39)	(928)
Closing net book amount	18,400
At 31 December 2008	
Cost	21,985
Accumulated depreciation	(3,585)
Net book amount	18,400

For the year ended 31 December 2008, the rental income arising from investment properties amounted to RMB1.78 million (2007: RMB1.92 million) (Note 30).

As at 31 December 2008, the directors of the Company assessed the fair value of the investment properties to be approximately RMB32.9 million based on prices in an active market (2007: RMB32.1 million).

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties (Continued)

The Company

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

At 1 January 2007	
Cost	21,985
Accumulated depreciation	(1,557)
Net book amount	20,428
Year ended 31 December 2007	
Opening net book amount	20,428
Depreciation	(1,100)
Closing net book amount	19,328
At 31 December 2007	
Cost	21,985
Accumulated depreciation	(2,657)
Net book amount	19,328
Year ended 31 December 2008	
Opening net book amount	19,328
Depreciation	(458)
Transfer to a subsidiary	(18,870)
Closing net book amount	—
At 31 December 2008	
Cost	—
Accumulated depreciation	—
Net book amount	—

(All amounts in RMB thousands unless otherwise stated)

9. Intangible assets — Group

	Goodwill	Iron ore mining licenses
At 1 January 2007		
Cost	—	22,418
Accumulated amortisation	—	(4,129)
Net book amount	—	18,289
Year ended 31 December 2007		
Opening net book amount	—	18,289
Deduction	—	(14,483)
Amortisation charge (Note 31, 39)	—	(3,806)
Closing net book amount	—	—
At 31 December 2007		
Cost	—-	
Accumulated amortisation	—	—
Net book amount	—	—
Year ended 31 December 2008		
Opening net book amount	—	—
Acquisition from a minority shareholder (Note 10 (a)(i))	7,667	—
Closing net book amount	7,667	—
At 31 December 2008		
Cost	7,667	—
Accumulated amortisation and impairment	—	—
Net book amount	7,667	—

Impairment tests for goodwill

Goodwill is allocated to the subsidiary acquired from a minority shareholder during the year, which was identified as the group of cash-generating unit (CGU Group).

The recoverable amount of a CGU Group is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions other than the financial budgets covering a five-year period, use for value-in-use calculations are gross margin, growth rate and discount rate of 6.40%, 2% and 13.69% respectively.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(All amounts in RMB thousands unless otherwise stated)

10. Investments in and loans to subsidiaries — company

(a) Investments in subsidiaries

	2008	2007
Unlisted investments, at cost	382,121	382,121

The particulars of subsidiaries at 31 December 2008 and 2007 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)	RMB228,635,573	RMB228,635,573	Manufacture and sales of iron and steel products
Foshan Jin Xi Jin Lan Cold-Rolled Sheet Company Limited ("Jinxi Jinlan") (i)	PRC 26 December 2003	Limited liability company	81.5% (Indirectly held)	US$55,152,400	US$55,152,400	Manufacture and sales of steel products
Oriental Fullhero Leasing 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
Hebei Jinxi Section Steel Company Limited ("Jinxi Section Steel") (ii)	PRC 30 May 2008	Limited liability company	80% (Indirectly held)	RMB350,000,000	RMB350,000,000	Manufacture and sales of steel products
Tangshan Jinxi Mining Company Limited ("Jinxi Mining") (iii)	PRC 20 December 2004	Limited liability company	51% (Indirectly held)	RMB2,000,000	RMB2,000,000	Management service for mining rights
Jinxi Hong Kong Trading Company Limited ("HK Trading")	Hong Kong 27 October 2008	Limited liability company	100% (Directly held)	HK$1	HK$10,000	Import and export of goods
Suifenhe City Jinyin Trading Co., Ltd. ("Jinyin Trading")	PRC 24 September 2008	Limited liability company	100% (Indirectly held)	RMB10,000,000	RMB10,000,000	Import and export of goods and technology
Qianxi County Jinxi Yunda Transportation Co., Ltd. ("Yunda Transportation")	PRC 4 September 2008	Limited liability company	100% (Indirectly held)	RMB500,000	RMB500,000	Transportation service for goods Ping Quan County
Jinyin Charging Co., Ltd. ("Jinyin Charging")	PRC 8 July 2008	Limited liability company	60% (Indirectly held)	RMB2,000,000	RMB2,000,000	Manufacture and sales of charging products
Tangshan Fengrun Qu Zhengda Iron and Steel Co., Ltd. ("Zhengda Iron and Steel") (iv)	PRC 19 December 2008	Limited liability company	71% (Indirectly held)	RMB50,000,000	RMB50,000,000	Manufacture and sales of steel products

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

(a) Investments in subsidiaries (Continued)

(i) On 18 February 2008, Jinxi Limited entered into an agreement with Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") (the minority shareholder of Jinxi Jinlan) and Accordpower to acquire 21.50% and 13.21% equity interests of Jinxi Jinlan held by these two parties respectively with cash consideration of US$4.69 million (approximately RMB33.31 million equivalent) and US$2.88 million (approximately RMB20.75 million equivalent).

On 20 February 2008, Accordpower, Jinxi Limited and Foshan Jin Lan entered into a capital injection agreement to increase the paid-in capital of Jinxi Jinlan by US$25.35 million.

On 29 April 2008, Jinxi Limited entered into an agreement with Accordpower to acquire 16.29% equity interests of Jinxi Jinlan held by Accordpower with cash consideration of US$8.98 million (approximately RMB62.86 million equivalent).

The share purchase agreements and capital injection agreement were effective upon approved by the relevant state government authorities and thereafter, Jinxi Limited, Accordpower, Foshan Jin Lan's share holding in Jinxi Jinlan was 51%, 30.5% and 18.5% respectively.

(ii) Jinxi Section Steel was incorporated on 30 May 2008 by Jinxi Limited and Qianxi County Hui Yin Trading Company Limited ("Hui Yin"). The paid-in capital of Jinxi Section Steel is RMB350 million and Jinxi Limited held 80% equity interests.

(iii) On 5 June 2008, Jinxi Limited entered into a cooperation agreement (the "Cooperation Agreement") with Mr. Shen Xiaoling, the director of the Company. Pursuant to the Cooperation Agreement, from the date of the Cooperation Agreement to 31 December 2010 (the "Grant Period"), Jinxi Limited conveyed to Jinxi Mining, the management and operating rights to use the iron mine assets which comprise mining licenses of 18 iron mines, leasing interests of Gao Jia Dian Mine and associated mines and equity interests of Tangshan Fei Cheng Kuang Ye Limited, Qianxi County Xin Ye Machinery Casting Limited, Qianxi County Hong Yuan Trading Limited, Qianxi County Fu Cheng Trading Limited and Qianxi County Xin Cheng Trading Limited.

In addition, Jinxi Limited transferred 49% equity interests of Jinxi Mining to Mr. Shen and conveyed to Mr. Shen the voting rights on the financial and operating policies of Jinxi Mining during the Grant Period. Mr. Shen is exclusively entitled to the profit and net assets accumulated by Jinxi Mining during the Grant Period. As a return, Mr. Shen paid a total cash consideration of RMB80 million and a deposit of RMB10 million refundable after 31 December 2010.

(All amounts in RMB thousands unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

The company accounted for the above arrangement as an operating lease. Therefore, the RMB80 million consideration is recorded as deferred revenue and recognised in income on a straight-line basis over the Grant Period. Jinxi Mining's accounts will not be included in the consolidated financial statements of the Group during the Grant Period.

(iv) Zhengda Iron and Steel was incorporated on 19 December 2008 by Jinxi Limited and two third-party individuals. The paid-in capital of Zhengda Iron and Steel was RMB50 million. Jinxi Limited held 71% equity interests.

(b) Loans to subsidiaries

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

The loans to Jinxi Limited amounting to approximately US$106.7 million (RMB729.3 million equivalent) are unsecured, interest-free and with a repayment term of 20 years. The directors have resolved that these loans will not be settled upon maturity and regarded these loans as part of the Company's net investment in Jinxi Limited.

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

11. Investment in an associate — Group

	2008	2007
At 1 January	8,122	7,897
Share of profit (Note 39)	1,998	225
At 31 December	10,120	8,122

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 profit
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing Iron Mine")	PRC 21 May 2002	35% (indirectly held)	84,025	55,475	85,084	5,709

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category

The Group

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale	Total
Assets as per consolidated balance sheet				
31 December 2008				
Loan receivable (Note 14)	130,000	—	—	130,000
Available-for-sale financial assets (Note 15)	—	—	188,100	188,100
Trade receivables (Note 17)	1,733,991	—	—	1,733,991
Deposits and other receivables (Note 19)	497,116	—	—	497,116
Financial assets at fair value through profit or loss (Note 18)	—	140	—	140
Amounts due from related parties (Note 42(c))	14,620	—	—	14,620
Restricted bank balances (Note 20)	361,698	—	—	361,698
Cash and cash equivalents (Note 20)	728,826	—	—	728,826
Total	3,466,251	140	188,100	3,654,491
31 December 2007				
Trade receivables (Note 17)	488,825	—	—	488,825
Deposits and other receivables (Note 19)	47,013	—	—	47,013
Financial assets at fair value through profit or loss (Note 18)	—	146	—	146
Amounts due from related parties (Note 42(c))	11,055	—	—	11,055
Restricted bank balances (Note 20)	171,690	—	—	171,690
Cash and cash equivalents (Note 20)	689,591	—	—	689,591
Total	1,408,174	146	—	1,408,320

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Group (Continued)

	Financial liabilities measured at amortised cost
Liabilities as per consolidated balance sheet	
31 December 2008	
Trade payables (Note 23)	2,219,395
Other payables (Note 24)	678,399
Borrowings (Note 25)	2,186,460
Other long-term payables (Note 26)	867,822
Amounts due to related parties (Note 42(c))	272,068
Total	6,224,144
31 December 2007	
Trade payables (Note 23)	715,535
Other payables (Note 24)	474,743
Borrowings (Note 25)	1,225,000
Amounts due to related parties (Note 42(c))	64,304
Total	2,479,582

The Company

	Loans and receivables	Assets at fair value through profit or loss	Total
Assets as per company balance sheet			
31 December 2008			
Deposits and other receivables (Note 19)	1,165	—	1,165
Financial assets at fair value through profit or loss (Note 18)	—	140	140
Amounts due from related parties	6,513	—	6,513
Cash and cash equivalents (Note 20)	62,238	—	62,238
Total	69,916	140	70,056
31 December 2007			
Deposits and other receivables (Note 19)	1,293	—	1,293
Financial assets at fair value through profit or loss (Note 18)	—	146	146
Amounts due from related parties	10,883	—	10,883
Restricted bank balances (Note 20)	47,305	—	47,305
Cash and cash equivalents (Note 20)	95,723	—	95,723
Total	155,204	146	155,350

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Company (Continued)

	Financial liabilities measured at amortised cost
Liabilities as per company balance sheet	
31 December 2008	
Trade payables	4,295
Borrowings (Note 25)	160,160
Total	164,455
31 December 2007	
Trade payables	5,269
Amounts due to related parties	84
Total	5,353

13. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The group categorise its trade receivables into the following:

- Group 1 — Bank acceptance notes
- Group 2 — Trade receivables due from customers with no defaults in the past
- Group 3 — Trade receivables due from customers with some defaults in the past

Trade receivables

	2008	2007
Group 1	1,704,094	371,447
Group 2	29,897	117,378
Group 3	—	—
	1,733,991	488,825

Credit quality of "Loan receivable", "Deposit and other receivable" and "Amounts due from related parties" of the Group is disclosed in Note 14, 19 and 42 (c) respectively.

(All amounts in RMB thousands unless otherwise stated)

13. Credit quality of financial assets (Continued)

Trade receivables (Continued)

The Group categorise its cash in banks into the following:

- Group 1 — Major International bank (the Development Bank of Singapore Limited, the Hongkong and Shanghai Banking Corporation Limited, Hangseng Bank, Standard Chartered Bank and Goldman Sachs)

- Group 2 — Top 4 banks in mainland PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

- Group 3 — Other large local banks in mainland PRC

The management considered the credit risks in respect of cash and bank deposits with financial institution are relatively minimum as each counter party either bears a high credit rating or is state-owned bank and large local banks in mainland PRC. The management believes the state is able to support the state-owned banks and large local banks in mainland PRC in the event of a crisis.

Cash and bank and bank deposits

	Group		Company	
	2008	2007	2008	2007
Group 1	61,414	119,452	61,376	119,410
Group 2	660,319	597,537	71	1,235
Group 3	367,974	144,101	679	22,375
	1,089,707	861,090	62,126	143,020

None of the financial assets that are fully performing has been renegotiated in the last year.

14. Loan receivable — Group

The loan was unsecured, bore interest at a rate of 10% per annum and repayable within three years.

As at 31 December 2008, the fair value of the loan receivable approximated RMB 146 million.

No provision is required for the year ended 31 December 2008 for the loan receivable. The counter party has no default history.

(All amounts in RMB thousands unless otherwise stated)

15. Available-for-sale financial assets — Group

	2008	2007
Unlisted equity interest	188,100	—

The available-for-sale financial assets represent an investment in a 51% equity interest in Qianxi County Jinjin Mine Co., Ltd. ("Jinjin Mine") of RMB 188.1 million (2007: nil). Assets of Jinjin Mine mainly comprise mining rights of iron ore.

In December 2008, Jinxi Limited entered into certain cooperation agreements (the "Cooperation Agreements") with a third-party shareholder. Pursuant to the Cooperation Agreements, from the incorporation date 5 August 2008 of Jinjin Mine to 31 December 2010 (the "Lease Period"), Jinxi Limited conveyed to the third-party shareholder the voting rights on the financial and operating policies of Jinjin Mine.

Pursuant to the Cooperation Agreements, the operation of Jinjin Mine's mining rights were leased to the third-party shareholder who is exclusively entitled to the profit or loss and net assets accumulated by Jinjin Mine during the Lease Period, and preserve and increase the value of the assets of Jinjin Mine at the end of Lease Period. The lease payments are determined based on the local iron powder market price and are to be adjusted quarterly. During the year ended 31 December 2008, lease payments of approximately RMB14 million have been received by the Group and accounted for as rental income (Note 30).

In the opinion of the directors of the Company, the Group cannot exercise any significant influence on Jinjin Mine during the Lease Period and hence has classified the investment in Jinjin Mine as available-for-sale investments for the year ended 31 December 2008.

This asset represents an investment in an unlisted company in the PRC that offer the Group the opportunity for return through operating lease income. As the investment does not have a quoted market price in an active market, the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed, the directors of the Company are of the opinion that their fair values cannot be reliably measured.

16. Inventories — Group

	2008	2007
Raw materials and materials in-transit	1,170,972	1,463,598
Work-in-progress	223,072	287,613
Finished goods	173,393	85,786
	1,567,437	1,836,997

As at 31 December 2008, the net book value of inventories pledged as security for the Group's notes payable and current borrowings amounted to RMB390 million (Note 23 and 25).

As at 31 December 2007, the net book value of inventories pledged as security for the Group's notes payable amounted to RMB57 million (Note 23).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB17,344 million and RMB9 million respectively (2007: RMB10,337 million and RMB5 million respectively) (Note 31).

(All amounts in RMB thousands unless otherwise stated)

17. Trade receivables — Group

	2008	2007
Accounts receivable	29,897	117,378
Notes receivable(a)	1,704,094	371,447
	1,733,991	488,825

(a) As at 31 December 2008 and 2007, notes receivable were all bank acceptance notes, of which approximately:

(i) RMB10 million was pledged as security for issuing notes payable (2007: RMB92 million) (Note 23).

(ii) RMB241 million was pledged as security for the Group's borrowings (2007: nil) (Note 25).

As at 31 December 2007, RMB 66 million was pledged as security for issuing letters of credit.

As at 31 December 2008 and 2007, the carrying amount of the Group's trade receivables approximated their fair value.

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

As at 31 December 2008 and 2007, the ageing analysis of trade receivables was as follows:

	2008	2007
Within 3 months	1,517,847	431,248
4 – 6 months	216,144	57,577
	1,733,991	488,825

As at 31 December 2008, accounts receivable pledged by letter of credit issued by the third parties amounted to approximately RMB0.3 million (2007: RMB90 million).

As at 31 December 2008, trade receivables of RMB30 million (2007: RMB27 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than three months past due are not impaired. The ageing analysis of these trade receivables was as follows:

	2008	2007
Within 3 months	29,618	26,855

(All amounts in RMB thousands unless otherwise stated)

17. Trade receivables — Group (Continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2008	2007
RMB	1,733,712	398,302
US$	279	90,523
	1,733,991	488,825

18. Financial assets at fair value through profit or loss — Group and company

	2008	2007
Liquid Reserve Fund — Euro, quoted	135	141
Liquid Reserve Fund — US$, quoted	5	5
	140	146

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

19. Prepayments, deposits and other receivables

The Group

	2008	2007
Prepayments for purchase of inventories	234,454	400,143
Deposits and other receivables	497,116	47,013
	731,570	447,156

As at 31 December 2008 and 2007, the carrying amount of the Group's deposits and other receivables approximated their fair value.

As at 31 December 2008, other receivables of RMB447 million (2007: nil) were past due but not impaired. These related to a number of independent counter parties for whom there is no recent history of default. Other receivable of RMB400 million was pledged by certain property, plant and equipment and was renegotiated of its payment schedule in January 2009 (Note 43). The ageing analysis of these deposits and other receivables was as follows:

	2008	2007
Within 3 months	400,000	—
6 – 9 months	47,000	—
	447,000	—

(All amounts in RMB thousands unless otherwise stated)

19. Prepayments, deposits and other receivables (Continued)

The Company

	2008	2007
Prepayments	238	193
Deposits and other receivables	1,165	1,293
	1,403	1,486

20. Cash and cash equivalents and restricted bank balances

The Group

	2008	2007
Cash and cash equivalents	728,826	689,591
Restricted bank balances	361,698	171,690
	1,090,524	861,281

As at 31 December 2008, the restricted bank balances were composed of the following items:

(a) Restricted bank balances amounting to approximately RMB127 million were pledged as security for issuing notes payable of the Group (2007: RMB33 million) (Note 23).

(b) Restricted bank balances amounting to approximately RMB35 million and US$0.04 million (RMB0.24 million equivalent) were pledged as security for issuing letters of credit (2007: RMB92 million and US$6 million (RMB47 million equivalent)).

(c) Restricted bank balances amounting to approximately RMB200 million were pledged as security for current borrowings of the Group (2007: nil) (Note 25).

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

	2008	2007
RMB	1,023,455	707,698
US$	61,748	132,784
HK$	2,572	20,790
Euro	2,749	9
	1,090,524	861,281

The Company

	2008	2007
Cash and cash equivalents	62,238	95,723
Restricted bank balances	—	47,305
	62,238	143,028

20. Cash and cash equivalents and restricted bank balances (Continued)

The Company (Continued)

As at 31 December 2007, restricted bank balances amounting to approximately US$6 million (RMB47 million equivalent) were pledged as security for issuing letters of credit.

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

	2008	2007
US$	58,832	120,967
HK$	2,548	20,771
RMB	858	1,286
Euro	—	4
	62,238	143,028

21. Share capital and premium — Group and company

	Number of shares (thousands)	Amount		
		Ordinary shares	Share premium	Total
At 1 January 2007	2,905,000	309,340	2,151,035	2,460,375
Employee share option scheme:				
— issuance of shares (Note 22(c))	21,800	2,104	34,929	37,033
At 31 December 2007	2,926,800	311,444	2,185,964	2,497,408
Employee share option scheme:				
— issuance of shares (Note 22(c))	2,400	225	3,731	3,956
At 31 December 2008	2,929,200	311,669	2,189,695	2,501,364

As at 31 December 2008 and 2007, 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 2008, the number of issued and fully paid ordinary shares is 2,929,200,000 shares (2007: 2,926,800,000 shares).

22. Other reserves — Group

	Merger reserve	Capital surplus	Statutory reserve	Options	Total
	(a)		(b)	(c)	
Balance at 1 January 2007	(599)	19,144	949,006	16,745	984,296
Employee share options scheme:					
— Value of employee services (Note 32, 39)	—	—	—	159,886	159,886
Balance at 31 December 2007	(599)	19,144	949,006	176,631	1,144,182
Profit appropriation	—	—	781	—	781
Balance at 31 December 2008	(599)	19,144	949,787	176,631	1,144,963

22. Other reserves — Group (Continued)

(a) Merger reserve

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

(b) Statutory reserve

(i) *Statutory surplus reserves*

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

(ii) *Discretionary reserves*

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

(iii) *Reserve Fund, Staff and Workers' Bonus and Welfare Fund and Enterprise Expansion Fund*

In accordance with the PRC regulations and the Articles of the Association of certain subsidiaries registered in the PRC, appropriations from net profit should be made to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund are determined by the Board of Directors of the PRC subsidiaries. The Staff and Workers' Bonus and Welfare Fund is available to fund payments of special bonuses to staff and for collective welfare benefits. Upon approval from the Board of Directors of the PRC subsidiaries, the Reserve Fund can be used to offset accumulated losses or to increase capital; the Enterprise Expansion Fund can be used to expand production or to increase capital.

22. Other reserves — Group (Continued)

(c) Employee share option scheme

As approved by the Board and Shareholders' meeting, the share options were granted to the directors and employees on 30 June 2006 and 26 October 2007 ("Date of Grant"), in an aggregate to 24,200,000 shares and 89,700,000 shares respectively. The options are exercisable at any time during the period no later than ten years from the Date of Grant at the exercise price of HK$1.76 and HK$5.24 per share respectively. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2008		2007	
	Average exercise price per share in HK$	Number of options (thousands)	Average exercise price per share in HK$	Number of options (thousands)
At 1 January	5.15	92,100	1.76	24,200
Granted	—	—	5.24	89,700
Exercised	1.76	(2,400)	1.76	(21,800)
Cancelled	5.24	(89,700)	—	—
At 31 December	—	—	5.15	92,100

Options exercised for the year ended 31 December 2008 resulted in 2,400,000 shares (2007: 21,800,000 shares) being issued at HK$ 1.76 each (2007: HK$ 1.76 each). The related weighted average share price at the time of exercise was HK$ 6.42 per share (2007: HK$4.75 per share).

Share options outstanding at 31 December 2008 and 2007 have the following expiry date and exercise prices:

		Number of options (thousands)	
Expiry date	Exercise price	2008	2007
	HK$ per share		
30 June 2016	1.76	—	2,400
26 October 2017	5.24	—	89,700
		—	92,100

(All amounts in RMB thousands unless otherwise stated)

22. Other reserves — Group (Continued)

(c) Employee share option scheme (Continued)

The fair value of options granted for the year ended 31 December 2007, determined by using the Binomial valuation model, was HK$ 165.900 million (approximately RMB 159.886 million). The significant inputs into the model were share price of HK$5.24, at the grant date, exercise price shown above, volatility of 45.62%, expected dividends paid out rate of 3.11% and annual risk-free interest rate of 3.884%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years. See Note 32 for the total expense recognised in the income statement for share options granted to the directors and employees.

On 14 January 2008, ArcelorMittal Steel Holdings AG ("Mittal AG") made an unconditional mandatory cash offer to acquire all the disinterested shares. A comparable offer was also made and extended to option holders for the cancellation of all share options which were outstanding. Following the closing of the offer, all outstanding share options at the commencement for the offer were accepted and cancelled.

On 24 February 2009, 21.2 million share options were granted to directors and employees with an exercise price of HK$ 1.39 per share (Note 43).

23. Trade payables — Group

	2008	2007
Accounts payable	1,936,407	545,335
Notes payable (a)	282,988	170,200
	2,219,395	715,535

(a) As at 31 December 2008, the notes payable represented bank acceptance notes, RMB10 million (2007: RMB91 million) of which were secured by certain notes receivable (Note 17), and RMB203 million (2007: nil) of which were secured by certain restricted bank balances (Note 20), and RMB70 million (2007: RMB79 million) of which were secured by certain inventories (Noted 16) and certain restricted bank balances (Note 20).

As at 31 December 2008 and 2007, the ageing analysis of the trade payables was as follows:

	2008	2007
Within 3 months	1,596,939	655,308
4 – 6 months	586,530	49,100
7 – 9 months	22,951	3,690
10 – 12 months	2,473	2,226
Above 1 year	10,502	5,211
	2,219,395	715,535

(All amounts in RMB thousands unless otherwise stated)

23. Trade payables — Group (Continued)

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2008	2007
RMB	2,153,086	709,061
US$	66,309	6,474
	2,219,395	715,535

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

	2008	2007
Accruals	73,873	19,996
Advances from customers	892,796	661,116
Value-added tax payable	206,307	42,883
Other taxes payables	15,032	9,058
Other payables (a)	846,737	638,275
	2,034,745	1,371,328

(a) The breakdown of other payables as at 31 December 2008 and 2007 were as follows:

	2008	2007
Pension payables and other social welfare payables	79,661	91,116
Payables for purchase of property, plant and equipment	541,470	349,984
Customer deposits	86,710	102,310
Employee deposits	30,219	22,449
Salary payables	30,875	21,323
Other borrowings of overdue (Note 25 (ii))	20,000	—
Others	57,802	51,093
	846,737	638,275

(All amounts in RMB thousands unless otherwise stated)

25. Borrowings

The Group

	2008	2007
Non-current		
Bank borrowings, secured (i)	384,230	640,000
Other borrowings, unsecured (ii)	105,000	125,000
	489,230	765,000
Current		
Bank borrowings —		
Secured (i)	1,190,930	340,000
Unsecured	486,300	100,000
	1,677,230	440,000
Other borrowings, unsecured (ii)	20,000	20,000
	1,697,230	460,000
Total borrowings	2,186,460	1,225,000

(i) As at 31 December 2008, secured borrowings amounting to RMB687 million, out of total secured borrowings amounting to RMB1,575 million, were secured by certain property, plant and equipment (Note 7) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB130 million, out of total secured borrowings amounting to RMB1,575 million, were secured by certain leasehold land and land use rights (Note 6) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB160 million, out of the total secured borrowings of RMB1,575 million, were secured by certain restricted bank balances (Note 20) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB20 million, out of the total secured borrowings of RMB1,575 million, were secured by certain inventories (Note 16) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB200 million, out of the total secured borrowing, of RMB1,575 million, were secured by certain inventories (Note 16) and certain restricted bank balances (Note 20) of the Group.

As at 31 December 2008, secured borrowings amounting to RMB300 million, out of the total secured borrowings of RMB1,575 million, were secured by certain inventories (Note 16) and certain notes receivable (Note 17) of the Group.

As at 31 December 2008, except for the secured borrowings described above, current secured borrowings amounting to RMB78 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and guaranteed by Foshan Jin Lan pursuant to the agreement achieved on 12 September 2008. In accordance with the guarantee contract, Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for bank borrowing facilities amounting to RMB150 million.

(All amounts in RMB thousands unless otherwise stated)

25. Borrowings (Continued)

The Group (Continued)

As at 31 December 2007, secured borrowings amounting to RMB830 million, out of the total secured borrowings of RMB980 million, were secured by certain property, plant and equipment (Note 7) of the Group.

As at 31 December 2007, except for the secured borrowings described above, current secured borrowings amounting to RMB150 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and guaranteed by the Company and Foshan Jin Lan collectively pursuant to the agreement achieved in January 2006. In accordance with the agreement, the Company and Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for bank borrowing facilities amounting to RMB150 million. The Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively.

(ii) Other unsecured borrowing represented a borrowing from the local county government amounting to RMB145 million which will be repaid from 1 January 2008 onwards at an amount of RMB20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit. As at 31 December 2008, other borrowings of RMB20 million were past due and reclassified to other payables (Note 24).

As at 31 December 2008 and 2007, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2008	**2007**	**2008**	**2007**
Within 1 year	1,677,230	440,000	20,000	20,000
Between 1 and 2 years	384,230	255,770	20,000	20,000
Between 2 and 5 years	—	384,230	60,000	60,000
Over 5 years	—	—	25,000	45,000
	2,061,460	1,080,000	125,000	145,000

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

	2008		2007	
	RMB	**HK$**	**RMB**	**HK$**
Bank borrowings	5.58% – 12.00%	3.14%	6.57% – 7.56%	—
Other borrowings	4.14%	—	2.52%	—

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

	Carrying amounts		Fair value	
	2008	**2007**	**2008**	**2007**
Bank borrowings	384,230	640,000	385,943	640,000
Other borrowings	125,000	145,000	120,938	124,947
	509,230	785,000	506,881	764,947

(All amounts in RMB thousands unless otherwise stated)

25. Borrowings (Continued)

The Group (Continued)

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of non-current bank borrowings and other borrowings are based on discounted cash flows approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics of the respective balance sheet dates.

As at 31 December 2008, the carrying amount of the borrowings amounting to RMB160 million is denominated in HK$, the remainings are denominated in RMB.

As at 31 December 2007, the carrying amounts of the borrowings are all denominated in RMB.

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2008	2007
6 months or less	1,742,390	635,000
6 — 12 months	319,070	445,000
	2,061,460	1,080,000

The Company

	2008	2007
Current		
Bank borrowings, secured	160,160	—

As at 31 December 2008, secured bank borrowings amounting to RMB160 million were secured by restricted bank balances of the Group, carrying at RMB180 million. The borrowings were denominated in HK$ and repayable within one year. As at 31 December 2008, the effective interest rate was 3.14%.

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The exposure of the Company's bank borrowings to interest-rate changes and the contractual repricing dates are within 6 months.

26. Other long-term payables — Group

	2008	2007
Non-current		
Finance lease obligations (i)	717,934	—
Performance guarantee deposit (ii)	130,000	—
	847,934	—
Current		
Finance lease obligations (i)	19,888	—
Total other long-term payables	867,822	—

(All amounts in RMB thousands unless otherwise stated)

26. Other long-term payables — Group (Continued)

(i) In July 2008, Jinxi Limited entered into an asset sale and leaseback agreements (the "Sale and Lease Agreement") with certain financial institution. The sales proceeds of the property, plant and equipment was RMB800 million. The lease term was 60 months and the lease payments were adjusted annually and reset according to the primary rate announced by the People's Bank of China (the "PBOC"). The purchase option at the end of lease period was RMB100.

In August 2008, Jinxi Limited entered into a guarantee agreement with another financial institution. Pursuant to the agreement, this financial institution granted a guarantee in favour of Jinxi Limited for the above finance lease amounting to RMB800 million.

As at 31 December 2008, total minimum lease payments under finance lease based on PBOC interest rate as at the balance sheet date and their present values were as follows:

	Present value of minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
Within 1 year	19,888	85,918	105,806
Between 1 and 5 years	717,934	155,652	873,586
	737,822	241,570	979,392

For the year ended 31 December 2008, no contingent-based rents were recognised as expenses.

The effective interest rate of the finance lease obligations of the Group is 11.40% per annum.

As at 31 December 2008, the fair value of the finance lease obligations approximated RMB834 million. The fair values were based on discounted cashflow using average borrowing rates of 6.62% per annum.

(ii) During the year ended 31 December 2008, the Group has received performance and quality guarantee deposit amounting to RMB130 million from a supplier, who provides construction services to the Group.

As at 31 December 2008, performance guarantee deposit was unsecured, bore interest at a rate of 10% per annum and repayable within three years.

As at 31 December 2008, the fair value of performance guarantee deposit approximated RMB 146 million.

(All amounts in RMB thousands unless otherwise stated)

27. Deferred revenue

	Operating lease income
At 1 January 2008	—
Addition (Note 10 (a)(iii))	80,000
Credited to the consolidated income statement	(17,244)
At 31 December 2008	62,756

28. Deferred income tax — Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an interaction to settle the balances on a net basis. The offset amounts are as follows:

	2008	2007
Deferred tax assets:		
— Deferred tax asset to be recovered within 12 months	23,177	3,623
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	(15,716)	(429)
Deferred tax assets — net	7,461	3,194

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

	2008	2007
At 1 January	3,194	(290)
Credited to the consolidated income statement (Note 34 (a))	4,267	3,484
At 31 December	7,461	3,194

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 2008.

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

Deferred tax liabilities:

	Capitalised interest	Unrealised losses on inventories	Total
At 1 January 2007	—	(290)	(290)
Charged to the consolidated income statement	—	(139)	(139)
At 31 December 2007	—	(429)	(429)
(Charged)/credited to the consolidated income statement	(15,716)	429	(15,287)
At 31 December 2008	(15,716)	—	(15,716)

(All amounts in RMB thousands unless otherwise stated)

28. Deferred income tax — Group (Continued)

Deferred tax assets:

	Losses on disposal of property, plant and equipment	Temporary difference arising from expense recognition	Inventory Provision	Total
At 1 January 2007	—	—	—	—
Credited to the consolidated income statement	—	3,623	—	3,623
At 31 December 2007	—	3,623	—	3,623
Credited to the consolidated income statement	57	8,851	10,646	19,554
At 31 December 2008	57	12,474	10,646	23,177

The Group expected that the unused tax losses for subsidiaries amounting to RMB 151 million (2007: RMB 129 million) will be utilised during the two-year full exemption period in accordance with the relevant tax laws and regulations in the PRC. No deferred tax assets were calculated.

29. Other (losses)/gains — net — Group

	2008	2007
Other (losses)/gains — net:		
Sales of raw materials and by-products	20,439	32,639
Gain on disposal of intangible assets (Note 39)	—	6,325
Loss on disposal of property, plant and equipment (Note 39)	(276)	(6,196)
Foreign exchange loss, net (Note 35, 39)	(17,297)	(19,187)
Loss on liquidation of a subsidiary (Note 39)	—	(9,605)
Charity donation	(5,114)	—
Others	884	8,754
Total	(1,364)	12,730

30. Other income — Group

	2008	2007
Dividend income on financial assets at fair value through profit or loss (Note 39)	11	2
Rental income arising from investment properties (Note 8)	1,775	1,924
Income from operating leases (Note 10 (a)(iii), 15)	31,300	—
Others	2,553	190
Total	35,639	2,116

(All amounts in RMB thousands unless otherwise stated)

31. Expenses by nature — Group

	2008	2007
Employee benefit expense (Note 32)	340,299	433,720
Costs of inventories (Note 16)	17,353,385	10,342,384
Amortisation of leasehold land and land use rights (Note 6, 39)	1,651	1,651
Depreciation of property, plant and equipment (Note 7, 39)	570,936	438,566
Amortisation of intangible assets (Note 9, 39)	—	3,806
Reversal of impairment of property, plant and equipment (Note 7, 39)	—	(16,980)
Depreciation of investment properties (Note 8, 39)	928	1,100
Operating lease expenses in respect of land use rights	9,178	3,631
Provision for/(reversal of) write-down of inventories (Note 39)	45,511	(1,879)
Auditors' remuneration	5,800	6,200

32. Employee benefit expense — Group

	2008	2007
Staff costs (including directors' emoluments)		
— Salaries and welfare	303,533	244,551
— Pension costs — defined contribution plans(a)	36,766	29,283
— Share options granted to directors and employees (Note 39)	—	159,886
	340,299	433,720

(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 years ended 31 December 2008 and 2007, the Group is required to make monthly defined contributions to these plans at rates from 10% to 20%, with the base of their total salary subject to a certain ceiling.

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

(All amounts in RMB thousands unless otherwise stated)

32. Employee benefit expense — Group (Continued)

(b) Directors' and senior management's emoluments

The emoluments of every director for the years ended 31 December 2008 and 2007, on a named basis, are set out as below:

Name of Director	Fees	Salaries and allowances	Bonus	Fair value of employee share options granted	Pension costs — defined contribution plans	Total
2008						
Mr. Han Jingyuan	533	4,868	—	—	11	5,412
Mr. Zhu Jun	365	1,587	—	—	11	1,963
Mr. Liu Lei	385	1,190	—	—	11	1,586
Mr. Yu Jianshui	367	110	—	—	11	488
Mr. Shen Xiaoling	267	71	—	—	11	349
Mr. Yu Tung Ho	309	—	—	—	—	309
Mr. Zhu Hao	294	—	—	—	9	303
Mr. Gao Qingju	265	—	—	—	—	265
Mr. Wong Man Chung, Francis	265	—	—	—	—	265
	3,050	7,826	—	—	64	10,940
2007						
Mr. Han Jingyuan	668	5,357	—	—	12	6,037
Mr. Yu Jianshui (a)	218	500	—	4,278	8	5,004
Mr. Zhu Jun	826	714	480	—	22	2,042
Mr. Liu Lei	411	1,310	—	—	12	1,733
Mr. Shen Xiaoling	632	322	278	—	22	1,254
Mr. Yu Tung Ho	340	—	—	—	—	340
Mr. Wong Man Chung, Francis	291	—	—	—	—	291
Mr. Gao Qingju	291	—	—	—	—	291
Ms. Chen Ningning (b)	242	—	—	—	10	252
Mr. Tang Chi Fai (c)	73	—	—	—	—	73
Mr. Zhu Hao (d)	32	—	—	—	1	33
	4,024	8,203	758	4,278	87	17,350

(a) Appointed on 14 April 2007.

(b) Resigned on 29 October 2007.

(c) Resigned on 13 April 2007.

(d) Appointed on 21 November 2007.

(All amounts in RMB thousands unless otherwise stated)

32. Employee benefit expense — Group (Continued)

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

None of the directors waived or agreed to waive any remuneration during the years 2008 and 2007. The emoluments of the independent non-executive directors during the year are RMB0.8 million approximately (2007: RMB 0.9 million).

(c) Five highest paid individuals

The five highest paid individuals consisted of:

	2008	2007
Number of directors	4	2
Number of employees	1	3
	5	5

The five individuals whose emoluments were the highest in the Group for the year include four (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: three) individuals during the year are as follows:

	2008	2007
Salaries and allowances	694	999
Bonuses	—	868
Fair value of employee share options granted	—	9,269
Pension costs-defined contribution plans	9	30
	703	11,166

For the years ended 31 December 2008 and 2007, 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 for the years ended 31 December 2008 and 2007 fell within the following bands:

	Number of individuals	
	2008	2007
RMB1 to RMB1,000,000 (approximately HK$1 to HK$1,133,928)	2	—
RMB1,000,001 to RMB2,000,000 (approximately HK$1,133,929 to HK$2,267,857)	2	—
RMB3,000,001 to RMB4,000,000 (approximately HK$3,401,786 to HK$4,535,713)	—	2
RMB4,000,001 to RMB5,000,000 (approximately HK$4,535,714 to HK$5,669,641)	—	1
RMB5,000,001 to RMB6,000,000 (approximately HK$5,669,642 to HK$6,803,570)	1	1
RMB6,000,001 to RMB7,000,000 (approximately HK$6,803,571 to HK$7,937,498)	—	1

(All amounts in RMB thousands unless otherwise stated)

33. Finance income and costs — Group

	2008	2007
Interest expenses		
— borrowings	(61,822)	(68,287)
— amounts due to related parties	—	(523)
— discount of notes receivable	(463)	—
— finance lease liabilities (Note 26)	(30,101)	—
Net foreign exchange gains on borrowings (Note 35)	759	—
Finance costs (Note 39)	(91,627)	(68,810)
Interest income on bank deposits	15,519	12,118
Income from loan receivable	8,730	—
Finance income (Note 39)	24,249	12,118
Finance costs, net	(67,378)	(56,692)

34. Income tax expense — Group

(a) Income tax expense represents:

	2008	2007
Current income tax		
— PRC enterprise income tax (the "EIT")	74,910	260,101
Deferred income tax (Note 28)	(4,267)	(3,484)
	70,643	256,617

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 except HK Trading 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 2008 (2007: 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.

34. Income tax expense — Group (Continued)

(a) Income tax expense represents: (Continued)

Effective from 1 January 2008, the subsidiaries incorporated in the PRC are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new EIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementation Regulations of the Corporate Income Tax Law (the "DIR") as approved by the State Council on 6 December 2007. In accordance with the new EIT Law and DIR, the EIT rate applicable to the subsidiaries incorporated in the PRC will be 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%. The preferential policy of exemption or deduction shall be effective from 1 January 2008, even if the subsidiaries were still in a cumulative tax loss position.

Effective from 25 December 2002, Jinxi Limited was approved to be a foreign-invested joint stock company. The effective tax rate is 25% for the year ended 31 December 2008 according to the new EIT law, and 15% for the year ended 31 December 2007 as it was entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT and a five-year full exemption followed by a five-year 50% deduction from the local income tax started from 1 January 2003.

Jinxi Jinlan qualified as a foreign investment production enterprise and was established in a coastal economic development zone. Approved by local tax authority on 14 December 2007, Jinxi Jinlan was entitled to a two-year full exemption followed by a three-year 50% tax deduction, commencing from the first cumulative profit-making year net of losses carried forward. As at 31 December 2008, the effective rate of Jinxi Jinlan was nil (2007: nil).

Shenzhen Leasing qualified as a service industry enterprise and was established in a special economic zone. Approved by local tax authority on 14 September 2008, Shenzhen Leasing was entitled to a one-year full exemption followed by a two-year 50% tax deduction effective from 1 January 2008. Accordingly, the effective tax rate was nil (2007: nil).

34. Income tax expense — Group (Continued)

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate of 22.39% (2007: 31.10%) to respective profits of the consolidated entities for the years ended 31 December 2008 and 2007 as follows:

	2008	2007
Profit before taxation	113,601	1,450,354
Taxation calculated at statutory tax rate	23,651	483,290
Effect of tax exemption of subsidiaries	(2,577)	(310,835)
Tax losses for which no deferred income tax asset was recognised	8,251	375
Utilisation of previously unrecognised tax losses	(1,686)	(4,881)
Effect of change of tax rate upon assessing deferred tax assets	—	1,022
Effect of other non-taxable income	(499)	(35)
Effect of non-deductible expenses	43,503	87,681
	70,643	256,617

35. Net foreign exchange losses

The exchange differences (charged)/credited in the consolidated income statement are included as follows:

	2008	2007
Other losses — net (Note 29)	(17,297)	(19,187)
Finance costs — net (Note 33)	759	—
	(16,538)	(19,187)

36. Profit attributable to equity holders of the company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB 371.62 million (2007: RMB 213.37 million).

37. 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.

	2008	2007
Profit attributable to equity holders of the Company	44,032	1,159,657
Weighted average number of ordinary shares in issue (thousands)	2,929,187	2,910,759
Basic earnings per share (RMB per share)	0.02	0.40

(All amounts in RMB thousands unless otherwise stated)

37. Earnings per share (Continued)

Diluted

Diluted earnings per share is the same as basic earnings per share, as the Company has no dilutive potential ordinary shares as at 31 December 2008 (2007: RMB 0.40 per share).

38. Dividends

	2008	2007
Interim, paid (a, b)	167,088	154,864
Final, proposed (c, d)	—	164,361
	167,088	319,225

(a) At a meeting held on 30 August 2007, the Board proposed an interim dividend of HK$159.94 million (approximately RMB154.86 million), representing HK$0.055 per ordinary share, for the year ended 31 December 2007. Such interim dividend was paid for the year ended 31 December 2007.

(b) At a meeting held on 18 August 2008, the Board proposed an interim dividend of HK$190.14 million (approximately RMB167.09 million), representing HK$0.065 per ordinary share, for the six months ended 30 June 2008. Such interim dividend was paid for the year ended 31 December 2008.

(c) At a meeting held on 27 March 2008, the Board proposed a final dividend in respect of the year ended 31 December 2007 of HK$181.61 million (approximately RMB164.36 million), representing HK$0.062 per ordinary share. The Annual General Meeting held on 15 May 2008 approved the Board's dividend proposal. Such final dividend was paid for the year ended 31 December 2008.

(d) The Board does not recommend the payment of final dividend for the year ended 31 December 2008.

(All amounts in RMB thousands unless otherwise stated)

39. Notes to the consolidated cash flow statement

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

	2008	2007
Profit before income tax	113,601	1,450,354
Depreciation of property, plant and equipment (Note 7, 31)	570,936	438,566
Depreciation of investment properties (Note 8, 31)	928	1,100
Amortisation of leasehold land and land use rights (Note 6, 31)	1,651	1,651
Amortisation of intangible assets (Note 9, 31)	—	3,806
Provision for/(reversal of) write-down of inventories (Note 31)	45,511	(1,879)
Reversal of impairment provision for property, plant and equipment (Note 7, 31)	—	(16,980)
Share of profit of an associate company (Note 11)	(1,998)	(225)
Loss on disposal of property, plant and equipment, net (Note 29)	276	6,196
Gain on disposal of intangible assets, net (Note 29)	—	(6,325)
Exchange loss (Note 29)	17,297	19,187
Finance income (Note 33)	(24,249)	(12,118)
Dividend income on financial assets at fair value through profit or loss (Note 30)	(11)	(2)
Finance costs (Note 33)	91,627	68,810
Loss on liquidation of a subsidiary (Note 29)	—	9,605
Employee share option scheme (Note 32)	—	159,886
Operating profit before working capital changes	815,569	2,121,632
Decrease/(increase) in financial assets at fair value through profit or loss	6	(11)
Decrease/(increase) in inventories	224,049	(454,250)
Decrease/(increase) in restricted bank balances	9,992	(76,428)
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	(2,181,436)	(588,796)
Increase in amount due from related parties	(3,565)	(11,055)
Increase in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities	1,674,220	373,986
Increase in deferred revenue	62,756	—
Increase/(decrease) in amount due to related parties	24,581	(1,148)
Cash generated from operations	626,172	1,363,930

(ii) Major non-cash transactions:

For the year ended 31 December 2008, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately RMB1,087 million (2007: approximately RMB1,121 million).

(All amounts in RMB thousands unless otherwise stated)

39. Notes to the consolidated cash flow statement (Continued)

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

	2008	2007
Net book amount (Note 7)	276	6,532
Loss on disposals of property, plant and equipment (Note 29)	(276)	(6,196)
Proceeds from disposal of property, plant and equipment	—	336

40. Financial guarantee contracts

The Group

Guarantee for third parties

	2008	2007
Guarantee for bank borrowings of third parties	60,900	30,900

As at 31 December 2008, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB60.9 million (2007: approximately RMB30.9 million). The fair values of these financial guarantee contracts are not significant.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

The Company

	2008	2007
Guarantee of bank borrowings of a subsidiary	—	90,000

In January 2006, the Company and Foshan Jin Lan collectively granted a guarantee in favour of Jinxi Jinlan for current bank facilities amounting to RMB150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively, effective from 14 September 2005 to 13 September 2008.

As at 31 December 2007, pursuant to the aforementioned agreement, current secured borrowings of Jinxi Jinlan amounting to RMB150 million were guaranteed by the Company and Foshan Jin Lan collectively.

(All amounts in RMB thousands unless otherwise stated)

41. Commitments — Group

(a) Capital commitments

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

	2008	2007
Purchase of intangible assets		
— Contracted but not provided for	2,000	—
Purchase of property, plant and equipment		
— Contracted but not provided for	2,088,203	884,748
— Authorised but not contracted for	1,209,707	276,472
	3,297,910	1,161,220

(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:

	2008	2007
No later than one year	77,458	9,440
Later than one year and no later than five years	28,144	26,394
Later than five years	142,777	121,314
	248,379	157,148

42. 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) For the years 2008 and 2007, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Wellbeing Holdings Limited	Substantial shareholder of the Company
Mittal AG	Substantial shareholder of the Company
Smart Triumph Corporation	Former substantial shareholder 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
Arcelor Mittal Sourcing SA ("AM Sourcing")	Controlled by the same ultimate controlling shareholder of Mittal AG
Foshan Jin Lan	Substantial shareholder of Jinxi Jinlan
Foshan Jin Lan Import and Export Co., Ltd. ("Jin Lan Import and Export")	Controlled by the family members of Mr. Zhou Weijie, a director of Jinxi Jinlan
Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	Foshan Jin Lan's subsidiary
Zhongxing Iron Mine	Jinxi Limited's associated company
Qianxi County Hui Yin Trading Company Limited ("Hui Yin")	Substantial shareholder of Jinxi Section Steel
Qianxi County Longba Charging Company Limited ("Longba Charging")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Pingquan County Longba Quarrying Company Limited ("Longba Quarrying")	Controlled by Mr. Du Chun, substantial shareholder of Jinyin Charging
Hebei Province Jing Yuan Education Foundation ("Jing Yuan Foundation")	Its legal representative 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 Jinxi Jinlan
Mr. Shen Xiaoling	Director of the Company
Mr. Du Chun	Substantial shareholder of Jinyin Charging

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

(b) Save as disclosed elsewhere in these consolidated financial statements, during the years 2008 and 2007, 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) Sales

	2008	2007
(I) *Sales of goods*		
— Jin Lan Import and Export	76,039	20,803
(II) *Sales of utilities*		
— Jin Lan Nonferrous Metals	4,061	3,509

(ii) Purchase

	2008	2007
(I) *Purchase of raw materials*		
— AM Sourcing	49,866	—
— Longba Charging	17,576	—
— Zhongxing Iron Mine	14,307	—
	81,749	—
(II) *Purchase of property, plant and equipment*		
— Longba Quarrying	2,000	—

(iii) Financing

(I) *Transaction with Hui Yin*

Hui Yin provided a loan to Jinxi Section Steel, amounting to RMB170 million for the year ended 31 December 2008. The loan is unsecured, interest-free and repayable within one year.

(II) *Transaction with Jing Yuan Foundation*

Jing Yuan Foundation provided an entrustment loan to Jinxi Limited through a financial institution, amounting to RMB3.3 million. The loan was unsecured, bore interest at a rate of 12% per annum and repayable within one year. For the year ended 31 December 2008, interest expense of approximately RMB0.2 million was incurred.

(iv) Guarantee

In June 2007, Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for entrusted lending from Shenzhen Leasing, amounting to RMB30 million.

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

(c) As at 31 December 2008 and 2007, the directors were of the view that the following related party balances were attributed to the aforementioned related party transactions, amounts paid on behalf of the Group, dividends appropriation during the years.

	2008	2007
Amounts due from related parties		
— Zhongxing Iron Mine (i)	9,800	9,800
— Longba Quarrying	3,000	—
— Jin Lan Import and Export	1,820	1,255
	14,620	11,055
Amounts due to related parties		
Non-current		
Borrowing from a related party		
— Foshan Jin Lan (ii)	55,055	55,733
Deposit from a related party		
— Mr. Shen Xiaoling (Note 10 (a)(iii))	10,000	—
	65,055	55,733
Current		
Borrowing from a related party		
— Hui Yin (Note 42 (b)(iii))	170,000	—
Trade payables		
— Longba Charging (Note 42 (b)(ii))	11,605	—
— Zhongxing Iron Mine (Note 42 (b)(ii))	1,555	—
	13,160	—
Dividends payable due to		
— Tangshan Jinxi Group	18,130	4,947
— Zhongxing Iron Mine	2,535	2,535
	20,665	7,482
Others		
— Mr. Du Chun	2,800	—
— Foshan Jin Lan	383	383
— Mr. Han Jingyuan	5	706
	3,188	1,089
	207,013	8,571

(i) Subject to certain agreements entered into in November 2007, the loan provided to Zhongxing Iron Mine amounting to RMB9.8 million is unsecured, interest-free and repayable within thirteen months.

(ii) Subject to certain agreements entered into in January 2006, the payables owing to Foshan Jin Lan amounting to RMB55 million is unsecured, interest-free and repayable only after 5 year.

(All amounts in RMB thousands unless otherwise stated)

42. Related party transactions (Continued)

Except for the loan provided by Foshan Jin Lan and Hui Yin and the loan provided to Zhongxing Iron Mine as disclosed above and deposit from Mr. Shen Xiaoling as disclosed in Note 10 (a)(iii), the related party balances were all unsecured, interest-free and had no fixed term of repayment.

The carrying amounts and fair value of the non-current amounts due to related parties are as follows:

	Carrying amounts		Fair value	
	2008	**2007**	**2008**	**2007**
Amounts due to related parties	65,055	55,733	58,127	44,013

The fair values of current amounts due to related parties and amounts due from related parties approximated their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the applicable borrowings rate of 5.40% per annum (2007: 7.74% per annum).

No provision has been required for the years ended 31 December 2008 and 2007 for the loan made to related parties. The related parties have no default history.

43. Subsequent events

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

(i) Pursuant to a share transfer agreement dated 4 August 2008, Jinxi Limited acquired 71% share capital and shareholders' loan (the "Acquisition") of Tangshan Fengrun Hengfeng Iron and Steel Company Limited (formerly known as Tangshan Baotai Iron and Steel Group Xinyi Iron and Steel Co., Ltd.) ("Hengfeng Iron and Steel") from its original third party shareholders (the "Vendors"), for a cash consideration of RMB237 million and RMB295 million respectively. The details of the acquisition are set in the announcement published on 12 August 2008. Accordingly, Jinxi Limited has paid a substantial portion of the consideration being RMB400 million (the "Paid Consideration") to the Vendors.

On 30 December 2008, Jinxi Limited entered into a termination agreement (the "Termination Agreement") with Hengfeng Iron and Steel and the Vendors. Pursuant to the Termination Agreement, Jinxi Limited and the Vendors have unconditionally and irrevocably agreed to abort the Acquisition and have entered into the Termination Agreement to terminate the Acquisition. Accordingly, Jinxi Limited and the Vendors will not proceed with the Acquisition. The Vendors unconditionally and irrevocably agreed to refund the Paid Consideration to Jinxi Limited within 10 days from the date of the Termination Agreement which was due on 9 January 2009. The details of the termination are set in the announcement published on 31 December 2008.

43. Subsequent events (Continued)

Pursuant to a settlement agreement dated 11 January 2009, the Vendors agreed to repay RMB200 million before 31 March 2009 and the remaining balance of RMB200 million before 31 December 2009. Besides, both parties entered into an unconditional and irrevocable deed of mortgages on 10 January 2009 to secure that the Vendors have pledged its fixed assets of Hengfeng Iron and Steel as security of settlement of the Paid Consideration. The details of the repayment schedule are set in the announcement published on 20 February 2009.

Pursuant to an assets acquisition agreement dated 24 March 2009, Zhengda Iron and Steel acquired the assets relating to the iron and steel production from Hengfeng Iron and Steel at an aggregate amount of approximately RMB396 million.

In March 2009, Jinxi Limited, Zhengda Iron and Steel and Hengfeng Iron and Steel entered into a tri-party agreement. Pursuant to the tri-party agreement, Zhengda Iron and Steel was granted a right to remit RMB200 million directly (a partial payment of the consideration for the acquisition of the assets) to Jinxi Limited as refund of portion of the Paid Consideration. The details of the assets acquisition and repayment of Paid Consideration are set in the announcement published on 25 March 2009.

(ii) In January 2009, Jinxi Limited granted a guarantee in favour of a third party for bank facility amounting to RMB80 million.

(iii) As approved by the Board and Shareholders' meeting, the share options were granted to the directors and employees on 24 February 2009, in an aggregate to 21,200,000 shares at an exercise price of HK$1.39 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) up to 50% of the options on or after 24 February 2009;

(ii) up to further 75% of the options on or after 24 February 2010;

(iii) all the remaining options on or after 24 February 2011.

and in each case, not later than 23 February 2019.

On 27 February 2009, all the directors and employees have accepted the share options.

44. Approval of accounts

These consolidated financial statements were approved by the Board on 3 April 2009.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA ORIENTAL GROUP COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Oriental Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 183, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2008

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	7	6,405,538	4,675,308
Leasehold land and land use rights	6	76,441	78,092
Investment properties	8	19,328	20,428
Intangible assets	9	—	18,289
Investments in an associate	11	8,122	7,897
Deferred income tax assets	24	3,194	—
		6,512,623	4,800,014
Current assets			
Inventories	14	1,836,997	1,407,898
Trade receivables	15	488,825	998,828
Other current assets		4,037	2,591
Prepayments, deposits and other receivables	17	447,156	481,734
Financial assets at fair value through profit or loss	16	146	135
Amounts due from related parties	37(c)	11,055	—
Restricted bank balances	18	171,690	95,262
Cash and cash equivalents	18	689,591	434,905
		3,649,497	3,421,353
Total assets		10,162,120	8,221,367
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	19	311,444	309,340
Share premium	19	2,185,964	2,151,035
Other reserves	20	1,144,182	984,296
Retained earnings		2,907,100	2,034,456
		6,548,690	5,479,127
Minority interest in equity		147,414	122,322
Total equity		6,696,104	5,601,449

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (Continued)
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
LIABILITIES			
Non-current liabilities			
Borrowings	23	765,000	360,770
Deferred income tax liabilities	24	—	290
Amount due to a related party	37(c)	55,733	55,529
		820,733	416,589
Current liabilities			
Trade payables	21	715,535	516,368
Accruals, advances from customers and other current liabilities	22	1,371,328	998,236
Amounts due to related parties	37(c)	8,571	56,674
Current income tax liabilities		88,382	58,225
Borrowings	23	460,000	573,230
Dividends payable		1,467	596
		2,645,283	2,203,329
Total liabilities		3,466,016	2,619,918
Total equity and liabilities		10,162,120	8,221,367
Net current assets		1,004,214	1,218,024
Total assets less current liabilities		7,516,837	6,018,038

Han Jingyuan
Chairman and Director

Liu Lei
Director

The notes on pages 63 to 183 are an integral part of these consolidated financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

COMPANY BALANCE SHEET
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	As at 31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	7	12,359	13,501
Investment properties	8	19,328	20,428
Investments in subsidiaries	10(a)	382,121	224,017
Loans to subsidiaries	10(b)	2,003,039	2,050,529
		2,416,847	2,308,475
Current assets			
Prepayments, deposits and other receivables	17	1,486	1,637
Financial assets at fair value through profit or loss	16	146	135
Amounts due from related parties		10,883	7,809
Restricted bank balances	18	47,305	47,962
Cash and cash equivalents	18	95,723	73,666
		155,543	131,209
Total assets		2,572,390	2,439,684
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	2,497,408	2,460,375
Other reserves		176,631	16,745
Accumulated losses		(113,285)	(39,643)
Total equity		2,560,754	2,437,477
LIABILITIES			
Current liabilities			
Trade payables		5,269	—
Accruals and other current liabilities		6,205	1,810
Amounts due to related parties		84	345
Dividends payable		78	52
Total liabilities		11,636	2,207
Total equity and liabilities		2,572,390	2,439,684
Net current assets		143,907	129,002
Total assets less current liabilities		2,560,754	2,437,477

Han Jingyuan	**Liu Lei**
Chairman and Director	*Director*

The notes on pages 63 to 183 are an integral part of this financial statement.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Revenue	5	13,498,555	9,782,116
Cost of sales	27	(11,581,115)	(8,357,880)
Gross profit		1,917,440	1,424,236
Other income	26	2,116	4,149
Distribution costs	27	(46,689)	(13,084)
Administrative expenses	27	(373,452)	(170,443)
Other expenses	27	(5,324)	(10,620)
Other gains — net	25	12,730	31,439
Operating profit		1,506,821	1,265,677
Finance income	29	12,118	18,930
Finance costs	29	(68,810)	(50,387)
Finance costs — net		(56,692)	(31,457)
Share of profit/(loss) of an associate	11	225	(984)
Profit before income tax		1,450,354	1,233,236
Income tax expense	30	(256,617)	(210,886)
Profit for the year		1,193,737	1,022,350
Attributable to:			
Equity holders of the Company		1,159,657	1,032,754
Minority interest		34,080	(10,404)
		1,193,737	1,022,350
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
— basic	32	RMB0.40	RMB0.36
— diluted	32	RMB0.40	RMB0.36
Dividends	33	319,225	161,879

The notes on pages 63 to 183 are an integral part of these consolidated financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company					
	Note	Share capital	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006		2,460,375	735,325	1,397,752	4,593,452	138,643	4,732,095
Profit for the year		—	—	1,032,754	1,032,754	(10,404)	1,022,350
Profit appropriation to statutory reserves	20	—	230,276	(230,276)	—	—	—
Employee share options scheme:							
— Value of employee services	20	—	16,745	—	16,745	—	16,745
Dividends relating to 2005		—	—	(136,044)	(136,044)	(3,581)	(139,625)
Dividends relating to 2006		—	—	(29,730)	(29,730)	(2,353)	(32,083)
Acquisition from a minority shareholder		—	—	—	—	(40)	(40)
Others	20	—	1,950	—	1,950	57	2,007
		—	248,971	636,704	885,675	(16,321)	869,354
Balance at 31 December 2006		2,460,375	984,296	2,034,456	5,479,127	122,322	5,601,449
Balance at 1 January 2007		2,460,375	984,296	2,034,456	5,479,127	122,322	5,601,449
Profit for the year		—	—	1,159,657	1,159,657	34,080	1,193,737
Employee share options scheme:							
— Value of employee services	20	—	159,886	—	159,886	—	159,886
— Proceeds from exercising share options	19	37,033	—	—	37,033	—	37,033
Dividends relating to 2006		—	—	(132,149)	(132,149)	(4,322)	(136,471)
Dividends relating to 2007		—	—	(154,864)	(154,864)	(5,370)	(160,234)
Acquisition from a minority shareholder		—	—	—	—	704	704
		37,033	159,886	872,644	1,069,563	25,092	1,094,655
Balance at 31 December 2007		2,497,408	1,144,182	2,907,100	6,548,690	147,414	6,696,104

The notes on pages 63 to 183 are an integral part of these consolidated financial statements.

CHINA ORIENTAL GROUP COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Cash flows from operating activities			
Cash generated from operations	34	1,363,930	480,570
Interest received		10,976	16,515
Dividends received from financial assets at fair value through profit or loss		2	1,061
Interest paid		(70,722)	(54,585)
Income tax paid		(229,944)	(203,906)
Net cash generated from operating activities		1,074,242	239,655
Cash flows from investing activities			
Purchase of property, plant and equipment	34	(833,047)	(586,511)
Proceeds from disposal of property, plant and equipment	34	336	8,069
Proceeds from disposal of intangible assets		4,408	—
Acquisition of a minority interest		—	(40)
Net cash used in investing activities		(828,303)	(578,482)
Net cash generated from/(used) before financing activities		245,939	(338,827)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		37,033	—
Proceeds from current borrowings		550,000	779,090
Proceeds from borrowings from related parties		—	31,000
Repayment of current borrowings		(534,000)	(1,515,990)
Repayment of borrowings from related parties		(7,000)	—
Proceeds from non-current borrowings		424,230	215,770
Repayment of non-current borrowings		(149,230)	(165,000)
Dividends paid		(293,099)	(165,751)
Decrease in restricted bank balances pledged as security for current bank borrowings		—	887,722
Net cash generated from financing activities		27,934	66,841
Net increase/(decrease) in cash and cash equivalents		273,873	(271,986)
Effect of foreign exchange rate changes		(19,187)	(2,979)
Cash and cash equivalents, beginning of the year		434,905	709,870
Cash and cash equivalents, end of the year	18	689,591	434,905

The notes on pages 63 to 183 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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").

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 (the "Board") on 27 March 2008.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

(a) Standards, amendments and interpretations to standards effective in 2007

- HKFRS 7, "Financial instruments: Disclosure", and the complementary amendments to HKAS 1 "Presentation to financial statement — Capital disclosures", introduce new disclosures relating to financial instruments. This standard does not have any impact and valuation of the Group's financial instruments, but require additional disclosures in relation to the Group's financial instruments. The main additional disclosures include certain quantitative information of the Group's exposure to credit risk, liquidity risk and market risk, as well as qualitative information of the Group's capital risk management.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Standards, amendments and interpretations to standards effective in 2007 (Continued)

- HK(IFRIC) — Int 8, "Scope of HKFRS 2, Share-base payment", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any impact on the Group's consolidated financial statement.

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

- HK(IFRIC) — Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated financial statements.

(b) Interpretations to standards effective in 2007 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

HK(IFRIC)-Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies".

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amendment) from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Amendment), but does not anticipate any material impact on the Group's accounts as the Group has already followed the principles of capitalise borrowing costs for qualify assets in accordance with existing HKAS 23.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impacts is still being assessed in detail by management.

- HK(IFRIC) — Int 11, "HKFRS 2 — Group and treasury share transactions" (effective for annual period beginning on or after 1 March 2007). HK(IFRIC) — Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group will apply HK(IFRIC) - Int 11 from 1 January 2008. Management believes that this interpretation should not have a significant impact on the consolidated financial statements as the Group has already assessed whether options over a parent's shares have been properly recorded in the stand-alone accounts of the parent and group companies using the principles that are consistent with HK(IFRIC) — Int 11.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) — Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) — Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IFRIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) — Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) — Int 14 is not relevant to the Group's operation as the Group do not have any defined benefit plan.

2.2 Consolidation

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

(a) Subsidiaries

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

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

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions with minority interest

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

(c) Associates

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

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

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Net investment in foreign operation

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

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

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives (Note 4.1), as follows:

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(losses) — net, in the income statement.

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

2. Summary of significant accounting policies (Continued)

2.6 Leasehold land and land use rights

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

2.7 Investment properties

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

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

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 (5 years).

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

2. Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

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

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Note 2.13 and 2.14).

(c) Held-to-maturity financial assets

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

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(d) Available-for-sale financial assets

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

For the years ended 31 December 2007 and 2006, the Group has no financial assets categorised as held-to-maturity or available-for-sale financial assets.

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

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other (losses)/gains — net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

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 established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. Impairment testing of trade receivables is described in Note 2.13.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or

(3) hedges of net investments in foreign operations (net investment hedge).

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The Group accounts for a hedge of foreign currency risk of a firm commitment as a cash flow hedge on the following basis:

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

2. Summary of significant accounting policies (Continued)

2.11 Derivative financial instruments and hedging activities (Continued)

(a) Cash flow hedge (Continued)

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

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

(b) Derivatives that do not qualify for hedge accounting

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

2.12 Inventories

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

2. Summary of significant accounting policies (Continued)

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.14 Cash and cash equivalents

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

2.15 Share capital

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

2.16 Trade and other payables

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

2. Summary of significant accounting policies (Continued)

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

2.19 Borrowing costs

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

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

2.20 Employee benefits

(a) Pension obligations

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

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 28. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

2. Summary of significant accounting policies (Continued)

2.20 Employee benefits (Continued)

(a) Pension obligations (Continued)

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

(b) Share-based compensation

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

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

Where options are granted to employees of subsidiaries within the Group, in the consolidated financial statements, such share-based arrangement is accounted for as equity-settled. The fair value are accounted for as contributions and recognised as part of the cost of investment in the Company's standalone financial statements.

2.21 Provisions

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

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

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

2.22 Government grants

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

2. Summary of significant accounting policies (Continued)

2.22 Government grants (Continued)

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

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

2.23 Revenue recognition

(a) Sales of goods produced

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

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

(b) Interest income

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

(c) Dividend income

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

(d) Lease income

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

2.24 Operating leases as a lessee

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

2. Summary of significant accounting policies (Continued)

2.25 Contingent liabilities and contingent assets

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

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

2.26 Dividends distribution

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

2.27 Financial guarantee contracts

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

Financial guarantee contracts are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee contract. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instruments and the payments that would be required without the guarantee or the estimated amount that would be payable to a third party for assuming the obligation. Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

2. Summary of significant accounting policies (Continued)

2.28 Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and foreign exchange risk), credit risk and liquidity 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.

(a) Market risk

(i) *Cash flow and fair value 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. All non-current borrowings bear variable rates and expose the Group to cash flow interest-rate risk. The maximum exposures to the interest rate risk have been disclosed in Note 23.

The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2007.

(ii) *Foreign exchange risk*

The directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2007.

The major foreign exchange risk exposure arises from its exporting activities and the related trade receivables, which are mostly denominated in United States Dollars (the "US$"). The Group also has certain bank deposits and financial assets that are denominated in foreign currencies, mainly US$, Euros and Hong Kong Dollars (the "HK$"), which are exposed to foreign currency translation risk. The maximum exposures to the foreign exchange risks are disclosed in Note 15 and 18 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) *Summarised sensitivity analysis*

The following table summarised the sensitivity of the Group of financial assets and financial liabilities to interest rate risk and foreign exchange risk.

The sensitivity analysis for interest rate risk and foreign exchange is based on the assumption that:

(a) Interest rate had been 15% lower/higher from the year end rates with all other variables held constant (for example, 8.05% or 5.95% instead of 7%);

(b) RMB had weakened/strengthened by 10% against US$ with all other variables held constant.

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

		Interest rate risk				Foreign exchange risk			
		-15%		+15%		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
31 December 2007									
Financial assets									
Cash and cash equivalents	689,591	(667)	(667)	667	667	8,548	8,548	(8,548)	(8,548)
Restricted bank balance	171,690	(171)	(171)	171	171	4,731	4,731	(4,731)	(4,731)
Trade receivables	488,825	—	—	—	—	7,694	7,694	(7,694)	(7,694)
Deposits and other receivables (Note 17)	47,013	—	—	—	—	—	—	—	
Amounts due from related parties	11,055	—	—	—	—	—	—	—	—
Financial liabilities									
Trade payables	(715,535)	—	—	—	—	(629)	(629)	629	629
Other payables (I)	(474,743)	—	—	—	—	—	—	—	—
Borrowings	(1,225,000)	7,005	7,005	(7,005)	(7,005)	—	—	—	—
Amounts due to related parties	(64,304)	—	—	—	—	—	—	—	—
Total increase/ (decrease)		6,167	6,167	(6,167)	(6,167)	20,344	20,344	(20,344)	(20,344)

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) *Summarised sensitivity analysis (Continued)*

		Interest rate risk				Foreign exchange risk			
		-15%		+15%		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
31 December 2006									
Financial assets									
Cash and cash equivalents	434,905	(423)	(423)	423	423	7,782	7,782	(7,782)	(7,782)
Restricted bank balance	95,262	(100)	(100)	100	100	4,796	4,796	(4,796)	(4,796)
Trade receivables	998,828	—	—	—	—	2,379	2,379	(2,379)	(2,379)
Deposits and other receivables (Note 17)	40,690	—	—	—	—	—	—	—	—
Financial liabilities									
Trade payables	(516,368)	—	—	—	—	(298)	(298)	298	298
Other payables (I)	(385,936)	—	—	—	—	—	—	—	—
Borrowings	(934,000)	4,070	4,070	(4,070)	(4,070)	—	—	—	—
Amounts due to related parties	(112,203)	—	—	—	—	—	—	—	—
Total increase/ (decrease)		3,547	3,547	(3,547)	(3,547)	14,659	14,659	(14,659)	(14,659)

(I) Other payables include payables for purchase of property, plant and equipment, customer deposits and employee deposits as stated in Note 22.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, 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. For bank and financial institutions, the Group has policies that deposits are put in reputable banks.

(c) Liquidity risk

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

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007				
Borrowings	460,000	275,770	444,230	45,000
Interests payments on borrowings (i)	61,559	41,716	17,331	756
Trade payables	715,535	—	—	—
Other payables	474,743	—	—	—
Amounts due to related parties	8,571	—	55,733	—
At 31 December 2006				
Borrowings	573,230	20,000	275,770	65,000
Interests payments on borrowings (i)	34,222	16,264	13,862	1,890
Trade payables	516,368	—	—	—
Other payables	385,936	—	—	—
Amounts due to related parties	56,674	—	55,529	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2006 and 2007 without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2006 and 2007 respectively.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.2 Capital risk management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total borrowings divided by equity attributable to the Company's equity holders. Total borrowings include current and non-current borrowings as shown in the consolidated balance sheet. The Group regards its borrowings and equity attributable to the Company's equity holders as its capital.

	2007	2006
Total borrowings	1,225,000	934,000
Equity attributable to the Company's equity holders	6,548,690	5,479,127
Debt-to-equity ratio	18.71%	17.05%

3.3 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 realizable 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.

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

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

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

As at 31 December 2007, the value in use and fair value less costs to sell approximated RMB243.6 million and RMB240.4 million respectively. The Group considered that the recoverable amount was the higher of value in use and fair value less costs to sell. The recoverable amount of the production line was lower than its carrying amount by RMB24.9 million approximately (Note 7).

If the estimated gross margin in all forecast years had been 10% lower or higher than the management's estimates at 31 December 2007 (for example, 18% or 22% instead of 20%), the Group would have recognised the impairment as follows:

	2007	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	62,570	—

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

	2007	
	10% Lower	**10% Higher**
Impairment of property, plant and equipment	—	43,706

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

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

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

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

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

(i) Expected usage of the asset

(ii) Expected physical wear and tear

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

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

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

4.2 Critical judgements in applying the entity's accounting policies

(a) Borrowing costs eligible for capitalisation

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

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

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

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

(All amounts in RMB thousands unless otherwise stated)

4. Critical accounting estimates and judgements (Continued)

4.2 Critical judgements in applying the entity's accounting policies (Continued)

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

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.

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 2007 and 2006 are as follows:

	2007	**2006**
Sales:		
Gross sales, less discounts and returns		
— billets	896,776	2,752,589
— strips and strip products	7,441,792	5,723,391
— H section steel products	4,330,279	728,933
— galvanised sheets	682,118	381,209
— cold-rolled sheets	158,044	160,332
— others	22,844	35,662
	13,531,853	9,782,116
Less: Taxes	(33,298)	—
	13,498,555	9,782,116

(b) Segment information

No business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of iron and steel products, which is considered as one business segment with similar risks and returns.

No geographical segment information is presented as over 90% of the Group's sales and operating profits are derived 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.

(All amounts in RMB thousands unless otherwise stated)

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:

	2007	2006
Opening	78,092	79,569
Amortisation of prepaid operating lease payment (Note 27, 34)	(1,651)	(1,477)
	76,441	78,092

As at 31 December 2007, the net book value of leasehold land and land use rights pledged as security for the Group's borrowings amounted to approximately RMB24 million (2006: RMB65 million) (Note 23).

The Group's leasehold land and land use rights are located in the PRC and the remaining lease period is between 45 years to 48 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment

The Group

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	CIP	Total
At 1 January 2006							
Cost	929,675	2,194,045	22,945	43,460	1,337	1,593,621	4,785,083
Accumulated depreciation	(115,887)	(413,010)	(4,643)	(14,860)	(612)	—	(549,012)
Net book amount	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071
Year ended 31 December 2006							
Opening net book amount	813,788	1,781,035	18,302	28,600	725	1,593,621	4,236,071
Additions	9,543	15,995	2,952	7,308	—	787,387	823,185
Transfers	411,025	1,733,268	2,413	25	—	(2,146,731)	—
Disposals (Note 34)	(2,688)	(12,415)	(209)	(86)	—	—	(15,398)
Depreciation (Note 27, 34)	(49,772)	(265,923)	(3,157)	(7,668)	(171)	—	(326,691)
Impairment (Note 27, 34)	(9,060)	(32,150)	(450)	(199)	—	—	(41,859)
Closing net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	4,675,308
At 31 December 2006							
Cost	1,346,713	3,924,966	28,063	50,121	1,337	234,277	5,585,477
Accumulated depreciation and impairment	(173,877)	(705,156)	(8,212)	(22,141)	(783)	—	(910,169)
Net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	4,675,308
Year ended 31 December 2007							
Opening net book amount	1,172,836	3,219,810	19,851	27,980	554	234,277	4,675,308
Additions	8,252	19,257	5,064	9,878	—	2,115,897	2,158,348
Transfers	99,514	155,486	1,997	—	—	(256,997)	—
Reclassification	182,670	(182,670)	—	—	—	—	—
Disposals (Note 34)	(2,541)	(2,859)	(426)	(706)	—	—	(6,532)
Depreciation (Note 27, 34)	(76,980)	(347,496)	(4,878)	(9,140)	(72)	—	(438,566)
Reversal of impairment (Note 27, 34)	5,344	11,296	227	113	—	—	16,980
Closing net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	6,405,538
At 31 December 2007							
Cost	1,630,971	3,907,895	32,584	57,139	1,337	2,093,177	7,723,103
Accumulated depreciation and impairment	(241,876)	(1,035,071)	(10,749)	(29,014)	(855)	—	(1,317,565)
Net book amount	1,389,095	2,872,824	21,835	28,125	482	2,093,177	6,405,538

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Group (Continued)

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

	2007	2006
Cost of sales	428,958	318,204
Administrative expenses	9,608	8,487
	438,566	326,691

(a) As at 31 December 2007, the net book value of buildings and machinery pledged as security for the Group's current and non-current borrowings amounted to approximately RMB1,396 million (2006: RMB1,088 million) (Note 23).

For the year ended 31 December 2007, no borrowing costs were capitalised into the cost of property, plant and equipment.

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

(b) As at 31 December 2007 and 2006, the directors of the Company considered that certain production line in relation to production of galvanised and cold rolled sheets belonging to a subsidiary was carried at more than its recoverable amount (Note 4.1).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the galvanised and cold rolled sheets business with which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2007	2006
Gross margin	6.38%	7.01%
Growth rate	2.00%	2.00%
Discount rate	14.42%	12.42%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment charge arose from the fact that the production line has not been fully utilised during the market development stage. In line with the achievement made in market development in year 2007, the production of galvanised and cold rolled sheet has been increased with an improved performance compared with previous years. The Group reassessed the impairment and a reversal of impairment loss of RMB17 million was made for the year ended 31 December 2007.

(All amounts in RMB thousands unless otherwise stated)

7. Property, plant and equipment (Continued)

The Group (Continued)

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

	2007	2006
Cost of sales	(16,980)	41,859

The Company

	Buildings	Furniture and fixtures	Vehicles	Leasehold improvements	Total
At 1 January 2006					
Cost	12,399	677	2,657	1,337	17,070
Accumulated depreciation	(258)	(156)	(586)	(612)	(1,612)
Net book amount	12,141	521	2,071	725	15,458
Year ended 31 December 2006					
Opening net book amount	12,141	521	2,071	725	15,458
Additions	365	2	46	—	413
Disposals	—	—	(1,082)	—	(1,082)
Depreciation	(646)	(130)	(341)	(171)	(1,288)
Closing net book amount	11,860	393	694	554	13,501
At 31 December 2006					
Cost	12,764	679	1,513	1,337	16,293
Accumulated depreciation	(904)	(286)	(819)	(783)	(2,792)
Net book amount	11,860	393	694	554	13,501
Year ended 31 December 2007					
Opening net book amount	11,860	393	694	554	13,501
Additions	—	39	—	—	39
Depreciation	(708)	(128)	(273)	(72)	(1,181)
Closing net book amount	11,152	304	421	482	12,359
At 31 December 2007	12,764	718	1,513	1,337	16,332
Cost					
Accumulated depreciation	(1,612)	(414)	(1,092)	(855)	(3,973)
Net book amount	11,152	304	421	482	12,359

(All amounts in RMB thousands unless otherwise stated)

8. Investment properties — Group and company

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

At 1 January 2006	
Cost	21,356
Accumulated depreciation	(445)
Net book amount	20,911
Year ended 31 December 2006	
Opening net book amount	20,911
Additions	629
Depreciation (Note 27, 34)	(1,112)
Closing net book amount	20,428
At 31 December 2006	
Cost	21,985
Accumulated depreciation	(1,557)
Net book amount	20,428
Year ended 31 December 2007	
Opening net book amount	20,428
Depreciation (Note 27, 34)	(1,100)
Closing net book amount	19,328
At 31 December 2007	
Cost	21,985
Accumulated depreciation	(2,657)
Net book amount	19,328

For the year ended 31 December 2007, the rental income arising from investment properties approximately amounted to RMB1.92 million (2006: RMB1.26 million) (Note 26).

As at 31 December 2007, the directors of the Company assessed the fair value of the investment properties to be approximately RMB32.1 million based on prices in an active market (2006: RMB25.8 million).

(All amounts in RMB thousands unless otherwise stated)

9. Intangible assets — Group

	Iron ore mining licenses
At 1 January 2006	
Cost	10,229
Accumulated amortisation	(682)
Net book amount	9,547
Year ended 31 December 2006	
Opening net book amount	9,547
Additions	36,822
Deduction	(24,498)
Amortisation charge (Note 27, 34)	(3,582)
Closing net book amount	18,289
At 31 December 2006	
Cost	22,418
Accumulated amortisation	(4,129)
Net book amount	18,289
Year ended 31 December 2007	
Opening net book amount	18,289
Deduction	(14,483)
Amortisation charge (Note 27, 34)	(3,806)
Closing net book amount	—
At 31 December 2007	
Cost	—
Accumulated amortisation	—
Net book amount	—

10. Investments in and loans to subsidiaries — company

(a) Investments in subsidiaries

	2007	2006
Unlisted investments, at cost	382,121	224,017

(All amounts in RMB thousands unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

The particulars of subsidiaries at 31 December 2007 and 2006 were as follows:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis Development Limited ("Gold Genesis")	British Virgin Islands ("BVI") 21 February 2003	Limited liability company	100% (Directly held)	US$1	US$50,000	Investment holding
Good Lucky Enterprises Limited ("Good Lucky")	BVI 21 February 2003	Limited liability company	100% (Directly held)	US$1	US$50,000	Investment holding
First Glory Services Limited ("First Glory")	BVI 16 October 2003	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Accordpower Investments Limited ("Accordpower")	BVI 30 November 2004	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Fullhero Investments Limited	BVI 3 May 2005	Limited liability company	100% (Directly held)	US$2	US$50,000	Investment holding
Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited")	PRC 24 December 1999	Joint stock company with limited liability	97.6% (Indirectly held)	RMB228,635,573	RMB228,635,573	Manufacture and sales of iron and steel products
Foshan Jin Xi Jin Lan Cold-Rolled Sheet Company Limited ("Jinxi Jinlan")	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") (i)	PRC 2 August 2005	Limited liability company	100% (Indirectly held)	RMB5,000,000	RMB5,000,000	Manufacture and sales of lime products
Oriental Fullhero Leasing Co., Ltd. ("Shenzhen Leasing")	PRC 23 September 2005	Limited liability company	100% (Indirectly held)	US$65,000,000	US$65,000,000	Leasing and financial leasing
Tangshan Jinxi Mining Company Limited ("Jinxi Mining") (ii)	PRC 20 December 2004	Limited liability company	100% (Indirectly held)	RMB2,000,000	RMB2,000,000	Management service for mining rights

(i) Jinxi Limited entered into an agreement with Ms. Fu Ruiyun on 23 December 2006 to acquire 38% equity interests of Jinxing Charging held by Ms. Fu Ruiyun. The total consideration was RMB8.9 million. With the completion of the transaction in January 2007, Jinxing Charging became a wholly owned subsidiary of Jinxi Limited. In June 2007, Jinxing Charging was deregistered and ceased to be the Group's subsidiary thereafter. The assets, liabilities and operations were taken up by Jinxi Limited.

(ii) Jinxi Limited entered into an equity acquisition agreement with Mr. Wang Shujun on 5 September 2006 to acquire 2% equity interests of Jinxi Mining held by Mr. Wang Shujun. The total consideration was RMB0.04 million in the form of cash. Thereafter, Jinxi Mining became a wholly owned subsidiary of Jinxi Limited.

(All amounts in RMB thousands unless otherwise stated)

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

(b) Loans to subsidiaries

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

The loans to Jinxi Limited amounting to approximately US$106.7 million (RMB779.4 million equivalent), are unsecured, interest-free and with a repayment term of 20 years. The directors have resolved that these loans will not be settled upon maturity and regarded these loans as part of the Company's net investment in Jinxi Limited.

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

11. Investments in an associate — Group

	2007	2006
Beginning of the year	7,897	8,881
Share of profit/(loss) (Note 34)	225	(984)
End of the year	8,122	7,897

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 profit
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing Iron Mine")	PRC 21 May 2002	35% (indirectly held)	74,128	51,287	47,362	642

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category

The accounting policies for financial instruments have been applied to the items below:

The Group

	Loans and receivables	Assets at fair value through the profit and loss	Financial assets held to maturity	Available-for-sale	Total
Assets as per consolidated balance sheet					
31 December 2007					
Trade receivables (Note 15)	488,825	—	—	—	488,825
Deposits and other receivables (Note 17)	47,013	—	—	—	47,013
Financial assets at fair value through profit or loss (Note 16)	—	146	—	—	146
Amounts due from related parties (Note 37(c))	11,055	—	—	—	11,055
Restricted bank balances (Note 18)	171,690	—	—	—	171,690
Cash and cash equivalents (Note 18)	689,591	—	—	—	689,591
Total	1,408,174	146	—	—	1,408,320
31 December 2006					
Trade receivables (Note 15)	998,828	—	—	—	998,828
Deposits and other receivables (Note 17)	40,690	—	—	—	40,690
Financial assets at fair value through profit or loss (Note 16)	—	135	—	—	135
Restricted bank balances (Note 18)	95,262	—	—	—	95,262
Cash and cash equivalents (Note 18)	434,905	—	—	—	434,905
Total	1,569,685	135	—	—	1,569,820

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Group (Continued)

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities as per consolidated balance sheet				
31 December 2007				
Trade payables (Note 21)	—	—	715,535	715,535
Other payables (Note 22)	—	—	474,743	474,743
Borrowings (Note 23)	—	—	1,225,000	1,225,000
Amounts due to related parties (Note 37(c))	—	—	64,304	64,304
Total	—	—	2,479,582	2,479,582
31 December 2006				
Trade payables (Note 21)	—	—	516,368	516,368
Other payables (Note 22)	—	—	385,936	385,936
Borrowings (Note 23)	—	—	934,000	934,000
Amounts due to related parties (Note 37(c))	—	—	112,203	112,203
Total	—	—	1,948,507	1,948,507

(All amounts in RMB thousands unless otherwise stated)

12. Financial instruments by category (Continued)

The Company

	Loans and receivables	Assets at fair value through the profit and loss	Financial assets held to maturity	Available-for-sale	Total
Assets as per company balance sheet					
31 December 2007					
Deposits and other receivables (Note 17)	1,293	—	—	—	1,293
Financial assets at fair value through profit or loss (Note 16)	—	146	—	—	146
Amounts due from related parties	10,883	—	—	—	10,883
Restricted bank balances (Note 18)	47,305	—	—	—	47,305
Cash and cash equivalents (Note 18)	95,723	—	—	—	95,723
Total	155,204	146	—	—	155,350
31 December 2006					
Deposits and other receivables (Note 17)	1,327	—	—	—	1,327
Financial assets at fair value through profit or loss (Note 16)	—	135	—	—	135
Amounts due from related parties	7,809	—	—	—	7,809
Restricted bank balances (Note 18)	47,962	—	—	—	47,962
Cash and cash equivalents (Note 18)	73,666	—	—	—	73,666
Total	130,764	135	—	—	130,899

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities as per company balance sheet				
31 December 2007				
Trade payables	—	—	5,269	5,269
Amounts due to related parties	—	—	84	84
Total	—	—	5,353	5,353
31 December 2006				
Amounts due to related parties	—	—	345	345

(All amounts in RMB thousands unless otherwise stated)

13. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The group categorise its trade receivables into the following:

- Group 1 — Bank acceptance notes for which the repayment are guaranteed by large state-owned banks.
- Group 2 — Trade receivables due from customers with no defaults in the past.
- Group 3 — Trade receivables due from customers with some defaults in the past. All defaults were fully recovered.

Trade receivables

	2007	2006
Group 1	371,447	964,033
Group 2	117,378	34,795
Group 3	—	—
	488,825	998,828

Credit quality of "Amounts due from related parties" of the Group is disclosed in Note 37 (c).

The Group categorise its cash in banks into the following:

- Group 1 — Major International bank (Hangseng Bank, Standard Chartered Bank and Goldman Sachs)
- Group 2 — Top 4 banks in mainland PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)
- Group 3 — Other state-owned banks in mainland PRC

The management considered the credit risks in respect of cash and bank deposits with financial institution are relatively minimum as each counter party either bears a high credit rating or is large state-owned PRC bank. The management believes the state is able to support the large state-owned PRC banks in the event of a crisis.

Cash and bank and bank deposits

	Group		Company	
	2007	2006	2007	2006
Group 1	119,452	120,776	119,410	120,504
Group 2	597,537	321,865	1,235	697
Group 3	144,101	87,373	22,375	424
	861,090	530,014	143,020	121,625

None of the financial assets that are fully performing has been renegotiated in the last year.

(All amounts in RMB thousands unless otherwise stated)

14. Inventories — Group

	2007	2006
Raw materials and materials in-transit	1,463,598	1,048,220
Work-in-progress	287,613	193,053
Finished goods	85,786	166,625
	1,836,997	1,407,898

As at 31 December 2007, the net book value of inventories pledged as security for the Group's notes payable amounted to approximately RMB57 million (Note 21).

As at 31 December 2006, the net book value of inventories pledged as security for the Group's notes payable and current borrowings amounted to approximately RMB69 million (Note 21 and 23).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB10,337 million and 5 million respectively (2006: RMB7,312 million and 6 million respectively) (Note 27).

For the year ended 31 December 2007, the Group reversed RMB1.9 million of a previous inventory write-down (Note 27, 34). The Group has sold all the goods that were written down to independent customers. The amount reversed has been included in "cost of sales" in the income statement.

15. Trade receivables — Group

	2007	2006
Accounts receivable	117,378	34,795
Notes receivable (a)	371,447	964,033
	488,825	998,828

(a) As at 31 December 2007 and 2006, notes receivable were all bank acceptance notes, approximately of which:

(i) RMB92 million was pledged as security for issuing notes payable (2006: RMB10 million) (Note 21).

(ii) RMB66 million was pledged as security for issuing letters of credit (2006: RMB135 million).

As at 31 December 2006, RMB51 million was pledged as security in favor of a third party for issuing letters of credit (Note 35).

As at 31 December 2006, RMB29 million was pledged as security for the Group's current borrowings (Note 23).

(All amounts in RMB thousands unless otherwise stated)

15. Trade receivables — Group (Continued)

As at 31 December 2007 and 2006, the carrying amount of the Group's trade receivables approximated their fair value.

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

As at 31 December 2007 and 2006, the ageing analysis of trade receivables was as follows:

	2007	2006
Within 3 months	431,248	998,828
4 – 6 months	57,577	—
	488,825	998,828

As at 31 December 2007, accounts receivable pledged by letter of credit issued by the third parties amounted to approximately RMB90 million (2006: approximately RMB28 million).

As at 31 December 2007, trade receivables of RMB27 million (2006: RMB7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than three months pass due are not impaired. The ageing analysis of these trade receivables was as follows:

	2007	2006
Within 3 months	26,855	6,812

The carrying amounts of the Group's trade receivables are dominated in the following currencies:

	2007	2006
RMB	398,302	970,845
US dollar	90,523	27,983
	488,825	998,828

16. Financial assets at fair value through profit or loss — Group and company

	2007	2006
Liquid Reserve Fund — Euro, quoted	141	130
Liquid Reserve Fund — US dollars, quoted	5	5
	146	135

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

(All amounts in RMB thousands unless otherwise stated)

17. Prepayments, deposits and other receivables

The Group

	2007	2006
Prepayments for purchase of inventories	400,143	441,044
Deposits and other receivables	47,013	40,690
	447,156	481,734

The Company

	2007	2006
Prepayments	193	310
Deposits and other receivables	1,293	1,327
	1,486	1,637

18. Cash and cash equivalents and restricted bank balances

The Group

	2007	2006
Cash and cash equivalents	689,591	434,905
Restricted bank balances	171,690	95,262
	861,281	530,167

As at 31 December 2007, the restricted bank balances were composed of the following items:

(a) Restricted bank balances amounting to approximately RMB33 million were pledged as security for issuing notes payable of the Group (2006: RMB41 million) (Note 21).

(b) Restricted bank balances amounting to approximately RMB92 million and US$6 million (RMB47 million equivalent) were pledged as security for issuing letters of credit (2006: US$6 million (RMB48 million equivalent)).

As at 31 December 2006, restricted bank balances of a subsidiary amounting to approximately RMB6 million were pledged as security for issuing notes payable to a fellow subsidiary.

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

	2007	2006
RMB	707,698	402,482
US dollar	132,784	125,778
Hong Kong dollar	20,790	1,900
Euro	9	7
	861,281	530,167

18. Cash and cash equivalents and restricted bank balances (Continued)

The Company

	2007	2006
Cash and cash equivalents	95,723	73,666
Restricted bank balances	47,305	47,962
	143,028	121,628

As at 31 December 2007, restricted bank balances amounting to approximately US$6 million (RMB47 million equivalent) (2006: US$6 million (RMB48 million equivalent)) were pledged as security for issuing letters of credit.

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

	2007	2006
US dollar	120,967	118,975
Hong Kong dollar	20,771	1,881
RMB	1,286	768
Euro	4	4
	143,028	121,628

19. Share capital — company

	Number of shares (thousands)	Amount		
		Ordinary shares	Share premium	Total
At 1 January 2006	2,905,000	309,340	2,151,035	2,460,375
At 31 December 2006	2,905,000	309,340	2,151,035	2,460,375
Employee share option scheme:				
— issuance of shares (Note 20(c))	21,800	2,104	34,929	37,033
At 31 December 2007	2,926,800	311,444	2,185,964	2,497,408

As at 31 December 2007 and 2006, 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 2007, the number of issued and fully paid ordinary shares is 2,926,800,000 shares (2006: 2,905,000,000 shares).

On 9 November 2007 and 12 December 2007, Wellbeing Holdings Limited ("Wellbeing"), Chingford Holdings Limited ("Chingford") and Mr. Han Jingyuan (hereafter collectively referred to as the "Controlling Shareholders") entered into an agreement and its supplemental agreement with ArcelorMittal. Pursuant to the agreement, Wellbeing, Chingford and Mr. Han Jingyuan agreed to grant to ArcelorMittal a call option to acquire shares which the Controlling Shareholders are currently own within a specific period of time, and ArcelorMittal agreed to grant to the Controlling Shareholders a put option to sell such shares to ArcelorMittal within a specific period of time. The key terms of this agreement are conditional upon satisfaction of certain conditions. Details of the shareholders' agreement were set out in the Company's announcement dated 13 December 2007 and circular dated 14 January 2008, respectively.

(All amounts in RMB thousands unless otherwise stated)

20. Other reserves — Group

	Merger reserve	Capital surplus	Statutory reserve	Options	Total
	(a)		(b)	(c)	
Balance at 1 January 2006	(599)	17,194	718,730	—	735,325
Employee share options scheme:					
— Value of employee services (Note 28, 34)	—	—	—	16,745	16,745
Profit appropriation	—	—	230,276	—	230,276
Others	—	1,950	—	—	1,950
Balance at 31 December 2006	(599)	19,144	949,006	16,745	984,296
Employee share options scheme:					
— Value of employee services (Note 28, 34)	—	—	—	159,886	159,886
Balance at 31 December 2007	(599)	19,144	949,006	176,631	1,144,182

(a) Merger reserve

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

(b) Statutory reserve

(i) *Statutory surplus reserves*

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

(ii) *Discretionary reserves*

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

(c) Employee share option scheme

As approved by the Board and Shareholders' meeting, the share options were granted to the directors and employees on 30 June 2006 and 26 October 2007 ("Date of Grant"), in an aggregate to 24,200,000 shares and 89,700,000 shares respectively. The options are exercisable at any time during the period no later than ten years from the Date of Grant at the exercise price of HK$1.76 and HK$5.24 per share respectively. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

20. Other reserves — Group (Continued)

(c) Employee share option scheme (Continued)

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

	2007		2006	
	Average exercise price per share in HK$	Number of options (thousands)	Average exercise price per share in HK$	Number of options (thousands)
At 1 January	1.76	24,200	—	—
Granted	5.24	89,700	1.76	24,200
Exercised	1.76	(21,800)	—	—
At 31 December	5.15	92,100	1.76	24,200

All the outstanding options at 31 December 2007 and 2006 were exercisable. Options exercised for the year ended 31 December 2007 resulted in 21,800,000 shares being issued at HK$1.76 each. The related weighted average share price at the time of exercise was HK$4.75 per share.

Share options outstanding at 31 December 2007 and 2006 have the following expiry date and exercise prices:

		Number of options (thousands)	
Expiry date	Exercise price	2007	2006
	HK$ per share		
30 June 2016	1.76	2,400	24,200
26 October 2017	5.24	89,700	—
		92,100	24,200

The fair value of options granted for the year ended 31 December 2007, determined by using the Binomial valuation model, was HK$165.900 million (approximately RMB159.886 million). The significant inputs into the model were share price of HK$5.24, at the grant date, exercise price shown above, volatility of 45.62%, expected dividends paid out rate of 3.11% and annual risk-free interest rate of 3.884%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years. See Note 28 for the total expense recognised in the income statement for share options granted to the directors and employee.

21. Trade payables — Group

	2007	2006
Accounts payable	545,335	425,268
Notes payable (a)	170,200	91,100
	715,535	516,368

(All amounts in RMB thousands unless otherwise stated)

21. Trade payables — Group (Continued)

(a) As at 31 December 2007, the notes payable represented bank acceptance notes, RMB91 million of which were secured by certain notes receivable (Note 15), and RMB79.2 million of which were secured by certain inventories (Noted 14) and certain restricted bank balances (Note 18).

As at 31 December 2006, the notes payable represented bank acceptance notes, RMB32.1 million of which were secured by certain notes receivable (Note 15), certain restricted bank balances (Note 18), and bank acceptance notes issued by a subsidiary amounting to RMB8 million approximately, and RMB59 million of which were secured by certain inventories (Note 14), certain restricted bank balances (Note 18) and guaranteed by Jinxi Limited.

As at 31 December 2007 and 2006, the ageing analysis of the trade payables was as follows:

	2007	2006
Within 3 months	655,308	478,916
4 – 6 months	49,100	30,703
7 – 9 months	3,690	2,795
10 – 12 months	2,226	219
Above 1 year	5,211	3,735
	715,535	516,368

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

	2007	2006
Accruals	19,996	9,356
Advances from customers	661,116	387,518
Value-added tax payable	42,883	58,431
Other taxes payables	9,058	2,553
Other payables (a)	638,275	540,378
	1,371,328	998,236

(a) The breakdown of other payables as at 31 December 2007 and 2006 were as follows:

	2007	2006
Pension payables and other social welfare payables	91,116	104,424
Payables for purchase of property, plant and equipment	349,984	278,549
Customer deposits	102,310	91,671
Employee deposits	22,449	15,716
Salary payables	21,323	19,972
Others	51,093	30,046
	638,275	540,378

(All amounts in RMB thousands unless otherwise stated)

23. Borrowings — Group

	2007	2006
Non-current		
Bank borrowings, secured (i)	640,000	215,770
Other borrowings, unsecured (ii)	125,000	145,000
	765,000	360,770
Current		
Bank borrowings —		
Secured (i)	340,000	573,230
Unsecured	100,000	—
	440,000	573,230
Other borrowings, unsecured (ii)	20,000	—
	460,000	573,230
Total borrowings	1,225,000	934,000

(i) As at 31 December 2007, secured borrowings amounting to RMB830 million, out of the total secured borrowings of RMB980 million, were secured by certain property, plant and equipment (Note 7) of the Group.

As at 31 December 2006, secured borrowings amounting to RMB630 million, out of total secured borrowings amounting to RMB789 million, were secured by certain bank acceptance notes issued by third parties (Note 15), certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) of the Group and certain bank acceptance notes issued by a subsidiary, amounting to approximately RMB7 million.

As at 31 December 2006, secured borrowings amounting to RMB9 million were secured by certain inventories (Note 14) and guaranteed by Jinxi Limited.

As at 31 December 2007 and 2006, except for the secured borrowings described above, current secured borrowings amounting to RMB150 million were secured by certain property, plant and equipment (Note 7), certain leasehold land and land use rights (Note 6) and guaranteed by the Company and Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") (a shareholder of Jinxi Jinlan) collectively pursuant to the below agreement.

In January 2006, the Company and Foshan Jin Lan granted a guarantee in favor of Jinxi Jinlan 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.

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

(All amounts in RMB thousands unless otherwise stated)

23. Borrowings — Group (Continued)

As at 31 December 2007 and 2006, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	2007	2006	2007	2006
Within 1 year	440,000	573,230	20,000	—
Between 1 and 2 years	255,770	—	20,000	20,000
Between 2 and 5 years	384,230	215,770	60,000	60,000
Over 5 years	—	—	45,000	65,000
	1,080,000	789,000	145,000	145,000

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

	2007	2006
Bank borrowings	6.57% – 7.56%	5.58% – 7.15%
Other borrowings	2.52%	2.52%

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

	Carrying amounts		Fair value	
	2007	2006	2007	2006
Bank borrowings	640,000	215,770	640,000	215,770
Other borrowings	145,000	145,000	124,947	123,476
	785,000	360,770	764,947	339,246

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of other borrowings are based on cash flows discounted using a rate based on the borrowings rate of 7.06% per annum (2006: 6.37% per annum).

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

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

	2007	2006
6 months or less	635,000	393,230
6 – 12 months	445,000	395,770
	1,080,000	789,000

(All amounts in RMB thousands unless otherwise stated)

24. Deferred income tax — Group

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

	2007	2006
Deferred tax assets:		
— Deferred tax asset to be recovered within 12 months	3,623	—
Deferred tax liabilities:		
— Deferred tax liabilities to be settled within 12 months	(429)	(290)
Deferred tax assets/(liabilities) — net	3,194	(290)

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

	2007	2006
Beginning balance of the year	(290)	2,327
Credited/(charged) to the consolidated income statement (Note 30 (a))	3,484	(2,617)
Ending balance of the year	3,194	(290)

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 2007.

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

Deferred tax liabilities:

	Unrealised losses on inventories
At 1 January 2006	—
Charged to the consolidated income statement	(290)
At 31 December 2006	(290)
Charged to the consolidated income statement	(139)
At 31 December 2007	(429)

(All amounts in RMB thousands unless otherwise stated)

24. Deferred income tax — Group (Continued)

Deferred tax assets:

	Losses on disposal of property, plant and equipment	Timing difference in expense recognition	Total
At 1 January 2006	1,877	450	2,327
Charged to the consolidated income statement	(1,877)	(450)	(2,327)
At 31 December 2006	—	—	—
Credited to the consolidated income statement	—	3,623	3,623
At 31 December 2007	—	3,623	3,623

The Group expected that the unused tax losses for subsidiaries amounting to RMB129 million (2006: RMB151 million) will be utilised during the two-year full exemption period in accordance with the relevant tax laws and regulations in the PRC. No deferred tax assets was calculated.

25. Other gains — net — Group

	2007	2006
Other gains — net:		
Sales of raw materials and by-products	32,639	37,423
Gain on disposal of intangible assets (Note 34)	6,325	85
Loss on disposal of property, plant and equipment (Note 34)	(6,196)	(7,329)
Foreign exchange loss, net (Note 34)	(19,187)	(2,979)
Loss on liquidation of a subsidiary (Note 34)	(9,605)	—
Others	8,754	4,239
Total	12,730	31,439

26. Other income — Group

	2007	2006
Dividend income on financial assets at fair value through profit or loss (Note 34)	2	1,061
Rental income arising from investment properties (Note 8)	1,924	1,261
Others	190	1,827
Total	2,116	4,149

(All amounts in RMB thousands unless otherwise stated)

27. Expenses by nature — Group

	2007	2006
Employee benefit expense (Note 28)	433,720	243,483
Costs of inventories (Note 14)	10,342,384	7,318,352
Amortisation of leasehold land and land use rights (Note 6, 34)	1,651	1,477
Depreciation of property, plant and equipment (Note 7, 34)	438,566	326,691
Amortisation of intangible assets (Note 9, 34)	3,806	3,582
(Reversal of)/impairment of property, plant and equipment (Note 7, 34)	(16,980)	41,859
Depreciation of investment properties (Note 8, 34)	1,100	1,112
Operating lease expenses in respect of land use rights	3,631	4,503
Reversal of impairment provision for receivables (Note 34)	—	(600)
Reversal of provision for write-down of inventories (Note 14, 34)	(1,879)	(10,754)
Auditors' remuneration	6,200	3,300

28. Employee benefit expense — Group

	2007	2006
Staff costs (including directors' emoluments)		
— Salaries and welfare	244,551	203,184
— Pension costs — defined contribution plans (a)	29,283	23,554
— Share options granted to directors and employees (Note 20 (c))	159,886	16,745
	433,720	243,483

(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 years ended 31 December 2007 and 2006, the Group is required to make monthly defined contributions to these plans at rates from 10% to 20%, with the base of their total salary subject to a certain ceiling.

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

(All amounts in RMB thousands unless otherwise stated)

28. Employee benefit expense — Group (Continued)

(b) Directors' and senior management's emoluments

The emoluments of every director for the years ended 31 December 2007 and 2006, on a named basis, are set out as below:

Name of Director	Fees	Salaries and allowances	Bonus	Fair value of employee share options granted	Pension costs — defined contribution plans	Total
2007						
Mr. Han Jingyuan	668	5,357	—	—	12	6,037
Mr. Yu Jianshui (a)	218	500	—	4,278	8	5,004
Mr. Zhu Jun	826	714	480	—	22	2,042
Mr. Liu Lei	411	1,310	—	—	12	1,733
Mr. Shen Xiaoling	632	322	278	—	22	1,254
Mr. Yu Tung Ho	340	—	—	—	—	340
Mr. Wong Man Chung, Francis	291	—	—	—	—	291
Mr. Gao Qingju	291	—	—	—	—	291
Ms. Chen Ningning (b)	242	—	—	—	10	252
Mr. Tang Chi Fai (c)	73	—	—	—	—	73
Mr. Zhu Hao (d)	32	—	—	—	1	33
	4,024	8,203	758	4,278	87	17,350
2006						
Mr. Han Jingyuan	638	3,948	—	1,936	12	6,534
Mr. Zhu Jun	306	520	480	1,661	20	2,987
Mr. Liu Lei	376	596	—	1,661	12	2,645
Mr. Shen Xiaoling	306	322	278	1,661	20	2,587
Ms. Chen Ningning	256	—	—	1,799	12	2,067
Mr. Yu Tung Ho	307	—	—	1,661	—	1,968
Mr. Tang Chi Fai	256	—	—	1,661	12	1,929
Mr. Wong Man Chung, Francis	256	—	—	1,661	—	1,917
Mr. Gao Qingju	256	—	—	1,661	—	1,917
	2,957	5,386	758	15,362	88	24,551

(a) Appointed on 14 April 2007.

(b) Resigned on 29 October 2007.

(c) Resigned on 13 April 2007.

(d) Appointed on 21 November 2007.

(All amounts in RMB thousands unless otherwise stated)

28. Employee benefit expense — Group (Continued)

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

None of the directors waived or agreed to waive any remuneration during the years 2007 and 2006. The emoluments of the independent non-executive directors during the year are RMB0.9 million approximately (2006: RMB5.8 million).

(c) Five highest paid individuals

The five highest paid individuals consisted of:

	2007	2006
Number of directors	2	4
Number of employees	3	1
	5	5

The five individuals whose emoluments were the highest in the Group for the year include two (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: one) individuals during the year are as follows:

	2007	2006
Salaries and allowances	999	716
Bonuses	868	—
Fair value of employee share options granted	9,269	1,383
Pension costs-defined contribution plans	30	12
	11,166	2,111

For the years ended 31 December 2007 and 2006, 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 for the years ended 31 December 2007 and 2006 fell within the following bands:

	Number of individuals	
	2007	2006
RMB2,000,001 to RMB3,000,000 (approximately HK$2,060,001 to HK$3,090,000)	—	4
RMB3,000,001 to RMB4,000,000 (approximately HK$3,090,001 to HK$4,120,000)	2	—
RMB4,000,001 to RMB5,000,000 (approximately HK$4,120,001 to HK$5,150,000)	1	—
RMB5,000,001 to RMB6,000,000 (approximately HK$5,150,001 to HK$6,180,000)	1	—
RMB6,000,001 to RMB7,000,000 (approximately HK$6,180,001 to HK$7,210,000)	1	1

(All amounts in RMB thousands unless otherwise stated)

29. Finance income and costs — Group

	2007	2006
Interest expenses		
— borrowings	(68,287)	(48,615)
— amounts due to related parties (Note 37(b)(ii))	(523)	(1,633)
— discount of notes receivable	—	(139)
Finance costs (Note 34)	(68,810)	(50,387)
Finance income		
— interest income on bank deposits (Note 34)	12,118	18,930
Finance costs, net	(56,692)	(31,457)

30. Income tax expense — Group

(a) Income tax expense represents:

	2007	2006
Current income tax		
— PRC enterprise income tax (the “EIT”)	260,101	208,269
Deferred income tax (Note 24)	(3,484)	2,617
	256,617	210,886

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 2007 (2006: nil).

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

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

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

(All amounts in RMB thousands unless otherwise stated)

30. Income tax expense — Group (Continued)

(a) Income tax expense represents: (Continued)

Approved by local tax authority on 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 2007 (2006: 15%).

Jinxi Jinlan 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 2007, Jinxi Jinlan was in a cumulative tax loss position. Accordingly, the effective tax rate is nil (2006: nil).

Approved by local tax authority on 14 December 2007, Jinxi Jinlan was entitled to a two-year full exemption followed by a three-year 50% tax deduction, commencing from the first cumulative profit-making year net of losses carried forward.

Effective from 1 January 2008, the subsidiaries incorporated in PRC shall determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new EIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the Corporate Income Tax Law (the "DIR") as approved by the State Council on 6 December 2007. In accordance with the new EIT Law and DIR, the EIT rate applicable to the subsidiaries incorporated in PRC will be 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weight average tax rate of 31.10% (2006: 31.47%) to respective profits of the consolidated entities for the years ended 31 December 2007 and 2006 as follows:

	2007	2006
Profit before taxation	1,450,354	1,233,236
Taxation calculated at statutory tax rate	483,290	416,863
Effect of tax exemption of Jinxi Limited	(310,835)	(251,861)
Effect of non-deductible net tax loss of the Company	32,858	18,318
Tax losses for which no deferred income tax asset was recognised	375	25,977
Utilisation of previously unrecognised tax losses	(4,881)	(9)
Effect of change of tax rate upon assessing deferred tax assets	1,022	—
Effect of other non-taxable income	(35)	—
Effect of non-deductible expenses	54,823	1,598
	256,617	210,886

31. Profit attributable to equity holders of the company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB213.37 million (2006: RMB134.45 million).

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.

	2007	2006
Profit attributable to equity holders of the Company	1,159,657	1,032,754
Weighted average number of ordinary shares in issue (thousands)	2,910,759	2,905,000
Basic earnings per share (RMB per share)	0.40	0.36

Diluted

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

	2007	2006
Profit attributable to equity holders of the Company	1,159,657	1,032,754
Weighted average number of ordinary shares in issue used in calculating basic earnings per share (thousands)	2,910,759	2,905,000
Adjustments for options (thousands)	13,051	—
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share (thousands)	2,923,810	2,905,000
Diluted earnings per share (RMB per share)	0.40	0.36

33. Dividends

	2007	2006
Interim, paid (a, b)	154,864	29,730
Final, proposed (c, d)	164,361	132,149
	319,225	161,879

33. Dividends (Continued)

(a) At a meeting held on 30 August 2006, the Board proposed an interim dividend of HK$29.05 million (approximately RMB29.73 million), representing HK$0.01 per ordinary share.

(b) At a meeting held on 30 August 2007, the Board proposed an interim dividend of HK$159.94 million (approximately RMB154.86 million), representing HK$0.055 per share, for the year ended 31 December 2007. Such interim dividend was paid for the year ended 31 December 2007.

(c) At a meeting held on 3 April 2007, the Board proposed a final dividend in respect of the year ended 31 December 2006 of HK$133.65 million (approximately RMB132.15 million), representing HK$0.046 per ordinary share. The Annual General Meeting held on 22 May 2007 approved the Board's dividend proposal. Such final dividend was paid for the year ended 31 December 2007.

(d) At a meeting held on 27 March 2008, the Board proposed a final dividend in respect of the year ended 31 December 2007 of HK$181.61 million (approximately RMB164.36 million), representing HK$0.062 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 2008.

(All amounts in RMB thousands unless otherwise stated)

34. Notes to the consolidated cash flow statement

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

	2007	2006
Profit before income tax	1,450,354	1,233,236
Reversal of impairment provision for receivables (Note 27)	—	(600)
Depreciation of property, plant and equipment (Note 7, 27)	438,566	326,691
Depreciation of investment properties (Note 8, 27)	1,100	1,112
Amortisation of leasehold land and land use rights (Note 6, 27)	1,651	1,477
Amortisation of intangible assets (Note 9, 27)	3,806	3,582
Reversal of write-down inventories to their net realisable value (Note 14, 27)	(1,879)	(10,754)
(Reversal of)/impairment provision for property, plant and equipment (Note 7, 27)	(16,980)	41,859
Share of (profit)/loss of an associate company (Note 11)	(225)	984
Loss on disposal of property, plant and equipment, net (Note 25)	6,196	7,329
Gain on disposal of intangible assets, net (Note 25)	(6,325)	(85)
Exchange loss (Note 25)	19,187	2,979
Interest income (Note 29)	(12,118)	(18,930)
Dividend income on financial assets at fair value through profit or loss (Note 26)	(2)	(1,061)
Interest expenses (Note 29)	68,810	50,387
Loss on liquidation of a subsidiary (Note 25)	9,605	—
Employee share option scheme (Note 20, 28)	159,886	16,745
Operating profit before working capital changes	2,121,632	1,654,951
(Increase)/decrease in financial assets at fair value through profit or loss	(11)	64,498
Increase in inventories	(454,250)	(293,770)
(Increase)/decrease in restricted bank balances	(76,428)	32,432
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	(588,796)	(940,355)
Increase in amount due from related parties	(11,055)	—
Increase/(decrease) in trade payables, current income tax liabilities, accruals, advances from customers and other current liabilities	373,986	(11,965)
Decrease in long-term advances from customers	—	(25,000)
Decrease in amount due to related parties	(1,148)	(221)
Cash generated from operations	1,363,930	480,570

(ii) Major non-cash transactions:

For the year ended 31 December 2007, the Group endorsed bank acceptance notes to the supplier for purchase of property, plant and equipment amounting to approximately RMB1,121 million (2006: approximately RMB324 million).

(All amounts in RMB thousands unless otherwise stated)

34. Notes to the consolidated cash flow statement (Continued)

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

	2007	2006
Net book amount (Note 7)	6,532	15,398
Loss on disposals of property, plant and equipment (Note 25)	(6,196)	(7,329)
Proceeds from disposal of property, plant and equipment	336	8,069

35. Contingent events

The Group

Guarantee for third parties

	2007	2006
Guarantee for bank borrowings of third parties(i)	30,900	18,900
Guarantee for letter of credit issued by a third party(ii)	—	50,520
	30,900	69,420

(i) As at 31 December 2007, Jinxi Limited provided guarantee for bank borrowings in favor of third parties amounting to approximately RMB30.9 million (2006: approximately RMB18.9 million).

(ii) For the year ended 31 December 2006, a third party acted as an agent and issued letter of credit to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB51 million (Note 15) as collaterals.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

The Company

	2007	2006
Guarantee for bank borrowings of a subsidiary	90,000	90,000

In January 2006, the Company and Foshan Jin Lan collectively granted a guarantee in favor of Jinxi Jinlan for current bank facilities amounting to RMB150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively.

(All amounts in RMB thousands unless otherwise stated)

35. Contingent events (Continued)

The Company (Continued)

As at 31 December 2007 and 2006, pursuant to the aforementioned agreement, current secured borrowings of Jinxi Jinlan amounting to RMB150 million were guaranteed by the Company and Foshan Jin Lan collectively.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

36. Commitments — Group

(a) Capital commitments

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

	2007	2006
To acquire the minority interest in Jinxing Charging	—	8,900
To acquire interests in certain mining enterprises	—	83,421
	—	92,321
Purchase of property, plant and equipment		
— Contracted but not provided for	884,748	6,599
— Authorised but not contracted for	276,472	1,971,348
	1,161,220	1,977,947

(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:

	2007	2006
No later than one year	9,440	5,723
Later than one year and no later than five years	26,394	17,086
Later than five years	121,314	93,571
	157,148	116,380

37. 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) For the years 2007 and 2006, 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	Former substantial shareholder 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
Foshan Jin Lan	Substantial shareholder of Jinxi Jinlan
Foshan Jin Lan Import and Export Co., Ltd. ("Jin Lan Import and Export")	Controlled by the family members of Mr. Zhou Weijie, a director of Jinxi Jinlan
Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	Foshan Jin Lan's subsidiary
Zhongxing Iron Mine	Jinxi Limited's associated company
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Mr. Zhou Weijie	Director of Jinxi Jinlan
Ms. Fu Ruiyun	The shareholder of Jinxing Charging

(b) Save as disclosed elsewhere in these consolidated financial statements, during the years 2007 and 2006, 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) Sales

	2007	2006
(I) *Sales of goods*		
— Jin Lan Import and Export	20,803	—
(II) *Sales of utilities*		
— Jin Lan Nonferrous Metals	3,509	—

37. Related party transactions (Continued)

(b) (Continued)

(ii) Loan received and repayment of loan

(I) *Transaction with Tangshan Jinxi Group*

Tangshan Jinxi Group provided a loan to Jinxi Jinlan, amounting to RMB30 million for the year ended 31 December 2006, which was fully repaid to Tangshan Jinxi Group for the year ended 31 December 2007.

The loan are unsecured, bore interest at a rate of 5.85% per annum and repayable within one year. For the year ended 31 December 2007, interest expense of approximately RMB0.5 million was incurred (2006: RMB1.2 million).

(II) *Transaction with Foshan Jin Lan*

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

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

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

During the year 2007, Foshan Jin Lan has paid certain expenses on behalf of Jinxi Jinlan amounting to approximately RMB0.2 million.

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

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

(iii) Loan provided

The Group provided a loan to Zhongxing Iron Mine, amounting to RMB9.8 million in November 2007. The loan is unsecured, interest-free and repayable within thirteen months.

(All amounts in RMB thousands unless otherwise stated)

37. Related party transactions (Continued)

(c) As at 31 December 2007 and 2006, the directors were of the view that the following related party balances were attributed to the aforementioned related party transactions, amounts paid on behalf of the Group, dividends appropriation during the years.

	2007	2006
Amounts due from related parties		
— Zhongxing Iron Mine (Note 37 (b)(iii))	9,800	—
— Jin Lan Import and Export	1,255	—
	11,055	—
Amounts due to related parties		
Non-current		
Borrowings from a related party:		
— Foshan Jin Lan (Note 37 (b)(ii))	55,733	55,529
Current		
Borrowings from related parties:		
— Tangshan Jinxi Group (Note 37 (b)(ii))	—	31,194
— Ms. Fu Ruiyun	—	16,783
	—	47,977
Dividends payable due to		
— Tangshan Jinxi Group	4,947	5,391
— Zhongxing Iron Mine	2,535	2,535
	7,482	7,926
Others:		
— Mr. Han Jingyuan	706	771
— Foshan Jin Lan	383	—
	1,089	771
	8,571	56,674

Except for the loan provided by Foshan Jin Lan and Tangshan Jinxi Group and the loan provided to Zhongxing Iron Mine as disclosed in Note 37 (b)(ii), (iii), the related party balances were all unsecured, interest-free and had no fixed term of repayment.

The carrying amounts and fair value of the non-current amount due to a related party are as follows:

	Carrying amounts		Fair value	
	2007	2006	2007	2006
Amount due to a related party	55,733	55,529	44,013	42,746

The fair values of current amounts due to related parties and amounts due from related parties approximated their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowings rate of 7.74% per annum (2006: 6.48% per annum).

No provision has been required for the years ended 31 December 2007 and 2006 for the loan made to related parties. The related party have no default history.

38. Subsequent events

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

(i) On 26 March 2008, the directors of Jinxi Limited proposed a final dividend of RMB295 million in respect of the year ended 31 December 2007.

(ii) On 18 February 2008, Jinxi Limited entered into an agreement with Foshan Jin Lan and Accordpower to acquire 21.50% and 13.21% equity interests of Jinxi Jinlan held by these two parties respectively. The total consideration was US$4.69 million (approximately RMB33.78 million equivalent) and US$2.88 million (approximately RMB20.75 million equivalent) in the form of cash respectively.

On 20 February 2008, Accordpower, Jinxi Limited and Foshan Jin Lan had entered into a capital injection agreement to increase the share capital of Jinxi Jinlan by US$25.35 million.

(iii) On 14 January 2008, Mittal Steel Holdings AG ("Mittal AG") made an unconditional mandatory cash offer to acquire all the disinterested shares. A comparable offer were also made and extended to option holders for the cancellation of all share options which are outstanding.

The unconditional mandatory offering was closed on 4 February 2008. The offeror has received valid acceptances in respect of (a) 557,372,740 shares under the share offer, representing approximately 19.0% of the total issued share capital of the Company; and (b) 89,700,000 share options under the Option Offer, representing approximately 100% of the total outstanding share options at the commencement of the Offer.

After the completion of unconditional mandatory offering, all the employees who owned the share option granted on 26 October 2007 have accepted Mittal AG's unconditional mandatory offering with the total consideration of HK$1.115 per share. All the 89,700,000 outstanding options at 14 January 2008 have been cancelled.

39. Approval of accounts

These consolidated financial statements were approved by the Board on 27 March 2008.

ANNEX A

GLOSSARY OF CERTAIN INDUSTRY TERMS

This glossary contains definitions of certain technical terms used in this document as they relate to the Group. Some of these definitions may not correspond to standard industry definitions.

"apparent steel consumption"	in relation to a country or economy, the sum of the total steel production volume and the total volume of steel import of such country or economy, minus the total volume of steel export of such country or economy
"billet"	a short bar of iron
"blast furnace"	a vertical furnace with a round cross-section, which is commonly used for smelting iron
"coke"	a solid fuel produced through a series of complex physical and chemical processes including thermal decomposition, solidification and contraction
"cold-rolled"	metal forming process in which a steel ingot (cooled to a temperature at which the metal is no longer pliable or plastic) is forged or rolled into sheets or other shapes
"continuous casting"	a process whereby molten steel is continuously cast into steel of specific cross-sectional shapes and dimensions by a continuous steel casting machine
"converter furnace"	a furnace for smelting steel, utilizing blown oxygen, which is the most common furnace currently used for smelting steel
"crude steel"	steel at its first stage of solidification, i.e. ingots and continuously cast semi-finished products
"galvanized steel sheet"	a sheet of steel that has been galvanized in order to help prevent corrosion
"H-section steel"	a long steel product with a H-shaped cross-section
"high speed wire rod"	a type of steel wire rod widely used in reinforced concrete or welded structures in construction
"hot-rolled"	steel that is formed by hot rolling, as opposed to cold-rolled steel which is shaped while cold
"molten iron"	liquid pig iron
"molten steel"	liquid steel
"open-hearth furnace"	a hearth for smelting steel with a hearth furnace
"pelletizing"	a thermal treatment process of converting or shaping iron ore fines into pellets for the purpose of increasing their strength
"pig iron"	the iron material extracted from the sintered ores in the iron smelting process

"sintering"	a process whereby iron-bearing materials in the form of powder or grains are processed into hard material of uniform size ("sinter") by melting the materials together at high temperature. The sinter so produced is one of the major raw materials used for iron making in a blast furnace
"smelting"	a process whereby the raw materials are processed into molten iron or steel through a series of physical and chemical reactions in a blast furnace, an open-hearth furnace, a converter or an electric furnace
"steel rolling"	a process whereby a rolling mill is used to turn semi-finished products from the steel smelting process (billets or continuously cast billets) into steel products of various kinds
"tundish"	a container used to feed molten metal into an ingot mould so as to avoid splashing
"steel sheet pile"	used in sheet piling which consists of a series of panels with interlocking connections that are driven into the ground to form an impermeable barrier
"utilization rate"	in relation to a blast furnace or a converter furnace, the number of days in one year that such blast furnace or converter furnace is in operation divided by 365 days

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