



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

(Incorporated in Bermuda with limited liability)
(在百慕達註冊成立的有限公司)

04 | ANNUAL REPORT
年報



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Financial Highlights

| | For the year ended 31 December | | |
|--|--------------------------------|-------|--------------------------------------|
| | 2004 | 2003 | Percentage of increase/(decrease) |
| Consolidated | | | |
| Sales volume (<i>thousand tonnes</i>) | | | |
| Billets | 2,006 | 1,714 | 17.0% |
| Strips | 1,379 | 707 | 95.0% |
| Average selling price (net of value-added tax) per tonne (<i>RMB</i>) | | | |
| Billets | 2,599 | 2,109 | 23.2% |
| Strips | 2,808 | 2,316 | 21.2% |
| Turnover (<i>RMB million</i>) | 9,119 | 5,278 | 72.8% |
| Profit attributable to shareholders (<i>RMB million</i>) | 1,177 | 1,076 | 9.4% |
| Basic earnings per share (<i>RMB</i>) | 0.42 | 0.51 | (17.6)% |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Han Jingyuan
(Chairman and Chief Executive Officer)
Ms. Chen Ningning *(Vice Chairman)*
Mr. Zhu Jun
Mr. Tang Chi Fai
Mr. Liu Lei

Independent Non-executive Directors

Mr. Gao Qingju
Mr. Yu Tung Ho
Mr. Wong Man Chung, Francis

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

COMPANY'S WEBSITE

www.chinaorientalgroup.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 901-2 & 10
9th Floor, Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

LEGAL ADVISER TO THE COMPANY

As to Hong Kong law
Anthony Chiang & Partners

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKER

China Construction Bank

A professional portrait of a middle-aged man with dark hair, wearing a dark blue pinstriped suit jacket, a white dress shirt, and a red and white striped tie. He is seated with his hands clasped in front of him, looking directly at the camera with a slight smile. The background is a plain, light-colored wall.

CHAIRMAN'S STATEMENT

Chairman's Statement



Hebei Jinxi Iron and Steel Company Limited



Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited

The Board is pleased to announce that the audited consolidated turnover of the Group for the year 2004 was RMB9,119 million, representing an increase of 72.8% as compared to that of 2003, while audited profit attributable to shareholders was RMB1,177 million, representing a growth of 9.4% when compared to that of 2003. Audited basic earnings per share for the year 2004 was RMB0.42, which represented a decrease of 17.6% from that of 2003.

BUSINESS REVIEW

Despite substantial fluctuations in the market prices of steel and raw materials in the first half of 2004 and the impact of the PRC's austerity measures, the overall performance in 2004 still improved from that of 2003 due to the reason that the steel market rebounded in the second half of 2004, the price of iron powder fell from that of the first half of 2004, as well as the change of the product mix of the Group and the staff's dedicated efforts.

In 2004, the Group sold approximately 2,006,000 tonnes of billets and 1,379,000 tonnes of strips, representing increases of 17.0% and 95.0% from approximately 1,714,000 tonnes of billets and 707,000 tonnes of strips in 2003 respectively. The average selling prices of billets and strips (net of value-added tax) were RMB2,599 per tonne and RMB2,808 per tonne respectively, representing increases of 23.2% and 21.2% from RMB2,109 per tonne and RMB2,316 per tonne in 2003 respectively.

Due to increases in the prices of iron powder and coke, the average cost of sales of the Group's billets and strips in 2004 were RMB2,270 per tonne and RMB2,341 per tonne respectively, representing increases of 37.2% and 37.9% when compared with RMB1,654 per tonne and RMB1,698 per tonne in 2003 respectively.

In 2004, gross profit of billets and strips were reduced to RMB329 per tonne and RMB467 per tonne respectively (2003: RMB455 per tonne and RMB618 per tonne respectively). The gross profit in 2004 increased by 6.4% to RMB1,311 million when compared to that of 2003 (2003: RMB1,232 million).

Awards to the Company and the Management

Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), a subsidiary of the Group, was named as the "Enterprise with Greatest Growth Potential" and as one of the "Top 500 Chinese Enterprises" by the China Enterprise Confederation and the China Enterprise Directors Association in January 2005 and August 2004 respectively. Jinxi Limited was also named as the "Large-Scale Industrial Enterprise in China" by the National Bureau of Statistics of China in August 2004.

Chairman's Statement

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

Human Resources and Remuneration Policies

As at 31 December 2004, the Group had a workforce of 4,617 (31 December 2003: 4,462); and temporary staff of 1,792 (31 December 2003: 1,134). Staff cost of the Group for the year approximated to RMB146 million (2003: RMB106 million), representing an increase of 37.7%. The cost included basic salaries and benefits, as well as other staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan and maternity insurance plan. The Group's remuneration policies are designed to tie its employees' income to their production and/or sales volume, as well as to the extent that they meet the Group's quality control and cost control targets. In order to improve the Group's productivity and further enhance the quality of its workforce, the Group implemented continuing education and training programmes for both the management staff and factory workers.

Production Capacity

The annual production capacity of the Group is as follows:

| | 31 December 2004 | 31 December 2003 |
|---------------------|-------------------------|------------------|
| | <i>Tonnes</i> | <i>Tonnes</i> |
| Billets | 3,500,000 | 3,100,000 |
| Narrow-width strips | 800,000 | 730,000 |
| Mid-width strips | 1,000,000 | — |

H-section Steel Rolling Line

As at 31 December 2004, the Group has entered into equipment and projects contracts amounting to approximately RMB765.2 million. Site construction had already commenced. Production of the entire project will commence in the second quarter of 2006. The project is expected to have an annual production capacity of 1 million tonnes of H-section steel.

Investment in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd.

The Group owns 60% of the equity interests in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. (the "Joint Venture") following its entering into an equity transfer and capital increase agreement with the original investors on 28 December 2004. From January to February 2005, the Group has already injected US\$17.88 million as registered capital into the Joint Venture. In March 2005, the Company provided US\$10 million as security deposit for bank loans granted to the Joint Venture for the purpose of providing financial support to its full-scale operation.

The Joint Venture, with annual production capacity of 400,000 tonnes of cold rolled sheets and 180,000 tonnes of galvanized sheets, is expected to commence production in April 2005.

Chairman's Statement

Dividend Policy

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

Capital Structure

After taking into account the proceeds from the listing of the Group, the cash and bank balances of the Group as at 31 December 2004 substantially increased to RMB2,926 million (31 December 2003: RMB189 million).

The current ratio had improved significantly from 0.96 at the end of 2003 to 1.69 as at 31 December 2004.

As at 31 December 2004, the Group's loans repayable within one year and loans repayable after one year amounted to RMB1,458 million and RMB459 million respectively (31 December 2003: RMB322 million and RMB683 million respectively). The major reason for the increase in bank loans was that the Company used part of the proceeds from the listing as security for the bank loans of RMB1,200 million granted to Jinxi Limited. That banking facility will be utilised to finance/re-finance the capital expenditure and for general corporate purposes of the Group.

The consolidated interest expenses in 2004 amounted to RMB64.27 million (2003: RMB30.796 million). The interest coverage was 19.3 times (2003: 38.1 times), which remained at a healthy level.

As at 31 December 2004, the ratio between total liabilities and total assets of the Group was 46.5%, representing an improvement on the same ratio of 75.0% as at 31 December 2003.

To conclude, the financial position of the Group was further strengthened when compared to that of 2003.

Use of Proceeds from Global Offering

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

Chairman's Statement

During the period from the date of listing to 31 December 2004, the use of net proceeds from the listing as stated in the Prospectus was as follows:

| | <i>RMB million</i> |
|---|--------------------|
| Construction of mid-width strip rolling line | 86.1 |
| Coal powder blowing technique | 2.0 |
| Energy recycling for power generation | 8.1 |
| Construction of the H-section steel rolling line | 122.8 |
| Demolition of three 120 m ³ blast furnaces to construct a 530 m ³ blast furnace (<i>note 1</i>) | 8.7 |
| General corporate purposes (Including working capital and repayment of loans) | 351.8 |
| | <hr/> 579.5 |

Note 1: To enhance production efficiency, the plan to expand to a 450 m³ blast furnace as disclosed in the Prospectus had been changed to the construction of a 530 m³ blast furnace.

As at 31 December 2004, the proceeds not yet utilised were placed in banks as short-term deposits, of which US\$164 million (approximate RMB1,359 million) was placed in commercial banks as deposits or security deposits as collateral for newly-added banking facilities granted to Jinxi Limited.

The above-mentioned three projects including mid-width strip rolling line, coal powder blowing technique and energy recycling for power generation were completed during the year of 2004. As at 31 December 2004, the total expenditures of these three projects were approximately RMB431.6 million, which were mostly financed by the Group's internal resources.

The expected utilisation of the listing proceeds in three completed projects as disclosed in the Prospectus was RMB280 million. After the deduction of approximately RMB96.2 million of actual utilisation during 2004 and approximately RMB21.8 million of the estimated payment in 2005 of the outstanding construction fees of the projects from the above-mentioned expected utilisation of the listing proceeds, the remaining balance will be approximately RMB162 million. In order to achieve higher efficiency of the listing proceeds, the remaining balance will be reallocated to the expected utilisation of the listing proceeds for the construction of the H-section steel rolling line as disclosed in the Prospectus, which will be increased from RMB800 million to RMB962 million.

Capital Commitments

As at 31 December 2004, the Group had capital commitments amounting to RMB1,445 million (31 December 2003: RMB820 million) which mainly consisted of the construction of the H-section steel rolling line. Such capital commitments will be financed by the listing proceeds and the Group's internal resources.

Guarantees and Contingent Liabilities

As at 31 December 2004, the Group's contingent liabilities amounted to RMB395.88 million (31 December 2003: RMB27 million), which mainly consisted of the guarantees for the letter of credit issued by an agent (appointed by the Group to import machinery and equipment on behalf of the Group) to the supplier.

Chairman's Statement

Pledge of Assets

As at 31 December 2004, the net book value of the Group's buildings and machinery pledged as security for the Group's bank loans amounted to approximately RMB494 million (31 December 2003: RMB212 million).

Exchange Risks

As at 31 December 2004, Renminbi, US dollar and HK dollar accounted for 26.3%, 73.3% and 0.4% of the Group's total bank balance respectively (31 December 2003: 97.4%, 0% and 2.6% respectively).

As majority of the sales, purchases of raw materials and bank loans committed by the Group were mainly in Renminbi in 2004 and 2003, and the exchange rates of Renminbi to HK dollar and US dollar were relatively stable, the Group's exposure to foreign exchange risk remained relatively low. In light of the construction of H-section steel rolling line, the Group had entered into project and equipment contracts of Euro 44.19 million approximately. Hence, in March 2005, the Group has already entered into future forward contract for Euro to hedge partial exchange rate risk exposure and is actively exploring ways to hedge its exchange rate risk exposure to Euro.

Interest Rate Risks

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

Prospects

Although the steel market will face the increase in the production capacity of the steel industry, the uncertainties over whether the austerity measures will further deepen and whether the interest rate will rise in the PRC in 2005, the continuous economic growth in the PRC will mitigate, to a certain extent, the adverse impact of the above-mentioned factors.

With respect to the major raw materials, it is expected that the price of iron powder will remain hovering at high levels as a result of the rise in the price of iron ore in the international market. As the proportion of the imported iron ore used by the Group was approximately 15% to 20%, the impact of rising price of imported iron ore on the Group will be limited. On the coke front, it is estimated that the supply of coke will be greater than its demand in the domestic market and competition amongst the coke enterprises will be intensified. As such, the price of coke is expected to basically remain at similar levels as the previous year or sustain a slight increase.

In view of growing competition in the steel industry, the Group will continue to optimise its product mix and put more efforts in new product development. In terms of capacity, strips will account for 51% of the total steel production volume in 2005. In addition, the production of cold rolled steel sheets will commence in April 2005, which is expected to make contribution to the Group.

On Behalf of the Board

CHINA ORIENTAL GROUP COMPANY LIMITED

Han Jingyuan

Chairman and Chief Executive Officer

Hong Kong, 31 March 2005

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Han Jingyuan, 48, is the Chairman and Chief Executive Officer of the Company, and also serves as chairman of the board of Jinxi Limited. Mr. Han graduated from the People's University in 1994 with a degree in management. His experience in the steel industry began in 1984 when he was employed as a sub-division head of Han'erzhuang Iron Mine. In 1992, Mr. Han, then head of Han'erzhuang Iron Mine, joined Jinxi Iron Factory and served as a deputy head until 1997. In 1997, Mr. Han joined Tangshan Jinxi Group where he served as chairman of the board and general manager until 1999. Since Jinxi Limited was incorporated in December 1999, Mr. Han has been serving as the chairman of the board and general manager. In order to concentrate his effort on the future strategic development of the Group, Mr. Han resigned as general manager of Jinxi Limited in September 2004. Mr. Han has in-depth industry knowledge and 19 years of extensive operational and managerial experience in the iron and steel industry. In December 2003, Mr. Han was awarded the honorary title of "Top Ten Celebrities for China's Reform Programme in the New Century" (新世紀中國改革十大新聞人物) for 2003 by the Organising Committee for Nomination of Celebrities for China's Reform Programme (中國改革人物征評活動組委會). Mr. Han is the director and the controlling shareholder of Wellbeing Holdings Limited, the controlling shareholder of the Group.

Chen Ningning, 34, our Vice Chairman, obtained a master of business administration in management from New York Institute of Technology in 1994. Before returning to Asia to work for Pioneer Metals Company Limited ("PMC"), Ms. Chen worked as a fund manager with a US financial group in New York. Since 1995, Ms. Chen has worked for PMC first as deputy general manager, then as general manager and in 1997 became chairman of the board of PMC. Ms. Chen has extensive experience and strong relationships with many key players in the Chinese steel industry through her tenure at PMC, which supplies raw materials to Chinese steel companies. Besides her role in our Group, Ms. Chen currently serves as a non-executive director and vice-chairman of Inner Mongolia Baotou Rare Earth Hi-Technology Company Limited, a Shanghai-listed mining company. Ms. Chen is also a non-executive director in Jinxi Limited and serves in a non-executive capacity as director of a number of Chinese logistics and trading companies. Ms. Chen is the director and the controlling shareholder of Smart Triumph Corporation, a substantial shareholder of the Group.

Zhu Jun, 41, is an executive Director and also serves as an executive director of the board and the general manager of Jinxi Limited. Mr. Zhu graduated in 2001 from a graduate programme of the Communist Party School in Hebei Province with a diploma in management. Prior to working in the steel industry, Mr. Zhu worked for 10 years as deputy director of Qianxi County Chemical Fertilizer Factory which was based in Qianxi County. Mr. Zhu joined Jinxi Iron Factory in 1992 and later served as deputy director. Mr. Zhu has had 10 years of working experience in the iron and steel industry. He has served as Jinxi Limited's deputy general manager since December 1999 and as general manager since September 2004. Mr. Zhu was appointed to Jinxi Limited's board of directors in June 2000.

Biographical Details of Directors and Senior Management

Tang Chi Fai, 39, is an executive Director. Mr. Tang graduated from Hong Kong Polytechnic with a diploma in accounting. Mr. Tang is also a fellow member of the Chartered Association of Certified Accountants and Hong Kong Institute of Certified Public Accountants. Previously, Mr. Tang worked as audit manager in the Hong Kong office of an international accounting firm for nearly 6 years and as financial controller for a red chip company listed in Hong Kong for over 7 years. Mr. Tang joined PMC in September 2003 as chief financial officer. Mr. Tang has over 10 years of experience on corporate finance, accounting and auditing in both Hong Kong and the PRC.

Liu Lei, 49, is an executive Director and the deputy general manager of the Company. Mr. Liu has over 18 years of experience in management and industrial fields. Mr. Liu graduated in the area of Industrial Electrical Automation of Electrical Engineering Faculty of 河北工學院 (Hebei Industrial Academy) in July 1978. Mr. Liu was awarded the title of 河北省有突出貢獻的中青年專業技術人才 (Professional Technological Talent With Outstanding Contribution in Hebei Province) by Government of Hebei Province in April 1987. Mr. Liu was also granted the qualification of research fellow by 河北省自然研究高級評委會 (Senior Appraisal Committee of Zi Ran Yan Jiu of Hebei Province) in December 2000. Before joining the Group in June 2004, Mr. Liu was the Vice Chancellor of 河北省科學院 (Science Bureau of Hebei Province) from October 1999 to June 2004.

Independent non-executive Directors

Gao Qingju, 68, is an independent non-executive Director. Mr. Gao, a senior engineer, has been employed by Beijing Lianxingfa Industrial & Technical Co., Ltd. since 2000 and currently serves as both its general manager and director of the board. After completing his study in metallurgical machinery and equipment at the Beijing College of Iron & Steel (北京鋼鐵工業學校) in 1958, Mr. Gao joined the Ministry of Metallurgical Industry and worked there for nearly 40 years, during which he was once appointed as the head of a sub-division of the ministry's production department. During his tenure with this ministry, Mr. Gao worked as a researcher on high-temperature alloys at a research institution in Beijing and completed an economics training programme at the Beijing Communist Party School in 1988. Before taking his current position with Beijing Lianxingfa Industrial & Technical Co., Ltd., Mr. Gao became the secretary-general of the Association of National Local Steel Enterprises, and continues to hold this position.

Yu Tung Ho, 58, is an independent non-executive Director. Mr. Yu, who currently serves as both a director of the board and head of operations for Asia Television Co.,Ltd., has been in broadcasting for more than 30 years. His experience includes acting as executive vice president of Phoenix Satellite Television in Hong Kong and serving as chairman of the 12th and 13th Hong Kong Advertising Industry Association. Mr. Yu has also served as the deputy general manager of China Broadcasting Television International Economic and Technology Company. In his 30 years of experience, Mr. Yu has also served as chief of the Guangdong Province Broadcasting Station.

Biographical Details of Directors and Senior Management

Wong Man Chung, Francis, 40, is an independent non-executive Director. Mr. Wong is a Certified Public Accountant (Practising) and has over 18 years of experience in accounting and auditing fields. Mr. Wong is currently an independent non-executive director of Yardway Group Limited and Wai Kee Holdings Limited whose shares are listed on the Main Board of the Stock Exchange as well as Sys Solutions Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wong is the managing director of Francis Wong C.P.A. Co. Limited and director of Union Alpha C.P.A. Limited. Previously, Mr. Wong worked for an international accounting firm for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong and Association of Chartered Certified Accountant of the United Kingdom. Mr. Wong is also an associate member of Institute of Chartered Accountants in England and Wales and a member of the Society of Chinese Accountants & Auditors, Hong Kong.

SENIOR MANAGEMENT

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

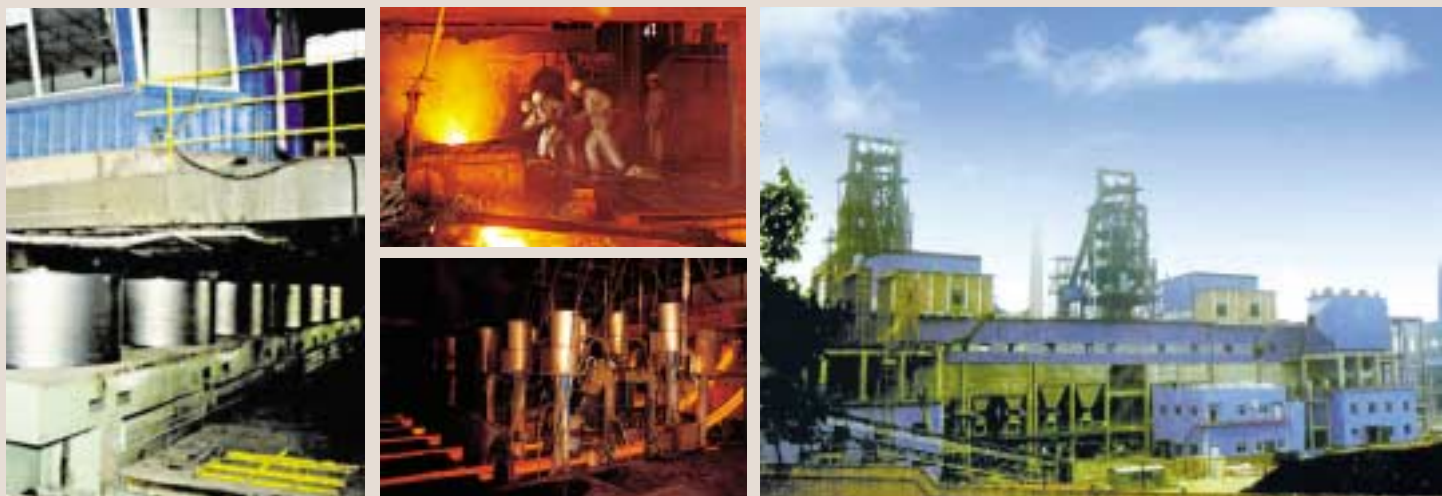
COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lai Po Sing, 38, is the Financial Controller and Company Secretary of the Group. Mr. Lai graduated from the Chinese University of Hong Kong with a Bachelor Degree in Business Administration. He is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of both Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 13 years' experience in internal auditing, external auditing and accounting.



DIRECTORS' REPORT

Directors' Report



The directors herein present their annual report and the audited financial statements of China Oriental Group Company Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PRESENTATION

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

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

PRINCIPAL ACTIVITIES

As at 31 December 2004, the Company's principal activity is investment holding. The principal activity of the Group is the production and sales of iron and steel products. The nature of the principal activity has not changed during the year.

SEGMENT INFORMATION

Over 90% of the Group's consolidated turnover and contribution to results are derived from the PRC and mainly from the production and sales of iron and steel products for the year ended 31 December 2004 and are set out in note 3 to the accounts.

Directors' Report



RESULTS AND DIVIDENDS

The Group's consolidated profit and loss account for the year ended 31 December 2004 and its consolidated balance sheet as at that date, together with the balance sheet of the Company as at 31 December 2004, are set out in the financial statements on pages 23 to 25 and 26.

An interim dividend of HK\$87,150,000 (approximately RMB92,789,000), representing HK3 cents per ordinary share was paid to the shareholders during the year.

At a meeting held on 31 March 2005, the directors proposed a final dividend of HK\$133,630,000 (approximately RMB142,142,000), representing HK4.6 cents per ordinary share to the shareholders of the Company whose names appear on the register of members of the Company on 19 May 2005. Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 19 May 2005, the final dividend will be paid on 9 June 2005.

SUMMARY FINANCIAL INFORMATION

A summary of the consolidated financial results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 69.

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in the Company's issued share capital during the year are set out in note 25 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 26 to accounts.

Directors' Report

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution amounted to RMB9,422,000 (2003: NIL).

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

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

Executive directors

Mr. Han Jingyuan

Ms. Chen Ningning

Mr. Zhu Jun

Mr. Zhu Zijiu (resigned on 29 September 2004)

Mr. Tang Chi Fai (appointed on 23 December 2003)

Mr. Liu Lei (appointed on 29 September 2004)

Independent non-executive directors

Mr. Gao Qingju (appointed on 23 December 2003)

Mr. Yu Tung Ho

Mr. Wong Man Chung, Francis (appointed on 25 August 2004)

In accordance with Bye-law 87(1) of the Company, Mr. Tang Chi Fai and Mr. Gao Qingju will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with Bye-law 86(2) of the Company, Mr. Liu Lei and Mr. Wong Man Chung, Francis, the newly appointed Directors, also retire at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

Directors' Report

Pursuant to 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules"), the annual fee specified in each of Mr. Tang Chi Fai and Mr. Gao Qingju's existing service contracts are RMB100,000; Mr. Liu Lei and Mr. Wong Man Chung, Francis's existing service contracts are HK\$100,000 and HK\$200,000 respectively. The basis of determining the director's fee was based on the mutual negotiation between the Directors with reference to the range of prevailing directors' fee for directors of listed companies in Hong Kong. Save as disclosed in this annual report, Mr. Tang Chi Fai, Mr. Gao Qingju, Mr. Liu Lei and Mr. Wong Man Chung, Francis do not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the transactions inherited to the Group Reorganisation as disclosed in the Prospectus and in note 25 and the transactions as disclosed in note 29 to the accounts, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 10 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Two of the executive directors have service contracts with the Company for a fixed term of three years commencing from 13 November 2003. One executive director has service contract with the Company for a fixed term of three years commencing from 23 December 2003. Mr. Tang Chi Fai and Mr. Liu Lei have service contracts with the Company for a fixed term of one year commencing from 23 December 2004 and a fixed term of two years commencing from 29 September 2004 respectively. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Two of the independent non-executive directors (including Mr. Gao Qingju) have service contracts for a period of one year commencing from 23 December 2004. The third independent non-executive director, Mr. Wong Man Chung, Francis has service contract for a period of one year commencing from 25 August 2004.

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

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

At 31 December 2004, the interests and short positions of the Directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies, were as follows:

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

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

Notes :

1. At 31 December 2004, Mr. Han Jingyuan beneficially owns 60.69% of the issued share capital of Wellbeing Holdings Limited ("Wellbeing Holdings") and holds 16.09% of the issued share capital of Wellbeing Holdings on trust for the benefit of certain employees of the subsidiary of the Company. Wellbeing Holdings directly owned 1,230,728,124 shares or 42.37% of the issued shares of the Company. He is also the beneficial owner of 100% of the issued share capital of Chingford Holdings Limited which directly owned 51,752,725 shares or 1.78% of the issued shares of the Company at 31 December 2004.
2. At 31 December 2004, Ms. Chen Ningning owned 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at 31 December 2004, none of the Directors and chief executives and their associates had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the transactions related to the Group Reorganisation as disclosed in the Prospectus and as set out in note 25 to the accounts, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holdings companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

CONTRACTS OF SIGNIFICANCE

Save as the transactions inherited to the Group Reorganisation as disclosed in the Prospectus and in note 25 and the transactions as disclosed in note 29 to the accounts, no controlling shareholder or any of its subsidiaries have any contract of significance with the Company or its subsidiary during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

| Name | Number of shares held | Percentage of the Company's issued share capital | Long/short Position |
|--------------------|-----------------------|--|---------------------|
| Wellbeing Holdings | 1,230,728,124 | 42.37% | Long |
| Smart Triumph | 817,519,151 | 28.14% (note1) | Long |
| Ms. Lu Hui | 817,519,151 | 28.14% (note1) | Long |

Note 1: At 31 December 2004, the interests of Smart Triumph Corporation in the shares of the Company were also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owned 50% of the issued share capital of Smart Triumph.

Save as disclosed above, at 31 December 2004, no person, other than a director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company required to be kept in the register by the Company under Section 336 of the SFO.

Directors' Report

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of significant related party and connected transactions of the Group under the Listing Rules are set out in note 29 to the accounts.

With respect to the purchases of raw material by the Group from Pioneer Metals Company Limited ("PMC") as set out in item 8 of note 29 to the accounts, had the Company been listed in the year of 2003, such transactions would have constituted continuing connected transactions under the Listing Rules. The Stock Exchange has granted a waiver for a period of three financial years ending 31 December 2006 from strict compliance with the connected transaction requirements as set out in the Listing Rules in respect of such transactions. In the opinion of the independent non-executive directors of the Company, the purchases of raw material by the Group from PMC for the year ended 31 December 2003 were:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) not conducted if PMC's offer price is higher than those of other bidders, or if the terms of sales PMC offers are otherwise less favourable to the Group;
- (iii) entered into in accordance with the relevant agreement governing such transactions;
- (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (v) within the relevant annual cap amounts as agreed by the Stock Exchange.

Save as transactions inherited to the Group Reorganisation and as disclosed in items 1, 2, 3 and 8 of note 29 to the accounts, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

SUBSEQUENT EVENTS

Details of the significant post balance sheet events are set out in note 31 to the accounts.

Directors' Report

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1 January 2005, throughout the period from the listing of the Company's shares on the Stock Exchange on 2 March 2004 to 31 December 2004.

AUDIT COMMITTEE

The Company has set up an audit committee and the terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants was adopted as the terms of reference of the audit committee.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. The audit committee comprises all of the three independent non-executive directors of the Company.

AUDITORS

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

On Behalf of the Board

CHINA ORIENTAL GROUP COMPANY LIMITED

Han Jingyuan

Chairman and Chief Executive Officer

Hong Kong, 31 March 2005



羅兵咸永道會計師事務所

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

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA ORIENTAL GROUP COMPANY LIMITED**
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 23 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

(All amounts in Renminbi ("RMB") thousands, except for earnings per share)

| | Note | 2004 | 2003 |
|--|------|-----------------------|----------------|
| Turnover | 3 | 9,118,875 | 5,277,874 |
| Cost of sales | | (7,808,104) | (4,046,082) |
| Gross profit | | 1,310,771 | 1,231,792 |
| Other revenues | 3 | 73,267 | 23,860 |
| Selling and administrative expenses | | (124,318) | (78,498) |
| Other operating expenses | | (30,926) | (10,364) |
| Operating profit | 4 | 1,228,794 | 1,166,790 |
| Finance costs | 5 | (64,270) | (30,796) |
| Share of profit of an associated company | | 10,313 | 6,672 |
| Profit before taxation | | 1,174,837 | 1,142,666 |
| Taxation | 6 | 30,283 | (40,018) |
| Profit after taxation | | 1,205,120 | 1,102,648 |
| Minority interests | | (28,512) | (26,358) |
| Profit attributable to shareholders | | 1,176,608 | 1,076,290 |
| Dividends | 8 | 625,381 | 468,669 |
| Basic earnings per share | 9 | RMB0.42 | RMB0.51 |
| Diluted earnings per share | 9 | Not applicable | Not applicable |

Consolidated Balance Sheet

As at 31 December 2004

(All amounts in RMB thousands)

| | Note | 2004 | 2003 |
|--|-------|------------------|-----------|
| Non-current assets | | | |
| Fixed assets | 12 | 2,404,307 | 1,990,327 |
| Interests in an associated company | 13 | 12,474 | 5,565 |
| Long-term advances to suppliers | 15 | — | 50,000 |
| Deferred tax assets | 27 | — | 208 |
| | | 2,416,781 | 2,046,100 |
| Current assets | | | |
| Inventories | 16 | 900,207 | 691,185 |
| Trade receivables | 17 | 827,894 | 266,573 |
| Prepayments, deposits and other receivables | 18 | 308,769 | 563,710 |
| Amounts due from related parties | 29(c) | — | 68,366 |
| Bank and cash balances | 19 | 1,218,056 | 152,746 |
| Restricted bank balances | 19 | 1,707,949 | 36,519 |
| Current portion of long-term advances to suppliers | 15 | 50,000 | 50,000 |
| Loans receivables | | 50,000 | — |
| Other current assets | | 2,236 | 1,415 |
| | | 5,065,111 | 1,830,514 |
| Current liabilities | | | |
| Trade payables | 20 | 417,730 | 293,183 |
| Accruals, advances from customers and other current liabilities | 21 | 734,742 | 1,087,552 |
| Amounts due to related parties | 29(c) | 33,722 | 6,975 |
| Current portion of long-term due to related parties | 29(c) | 214,122 | — |
| Taxation payable | | 138,253 | 192,660 |
| Dividend payable | | 229 | 3,329 |
| Current portion of long-term loans | 23 | 38,000 | 162,230 |
| Short-term bank loans | 22 | 1,420,000 | 160,000 |
| | | 2,996,798 | 1,905,929 |
| Net current assets/(liabilities) | | 2,068,313 | (75,415) |
| Total assets less current liabilities | | 4,485,094 | 1,970,685 |

Consolidated Balance Sheet

As at 31 December 2004

(All amounts in RMB thousands)

| | Note | 2004 | 2003 |
|-----------------------------------|-------|------------------|-----------|
| Non-current liabilities | | | |
| Long-term loans | 23 | 459,230 | 683,000 |
| Long-term advances from customers | 24 | 25,000 | 58,000 |
| Long-term due to related parties | 29(c) | — | 260,651 |
| | | 484,230 | 1,001,651 |
| Minority interests | | 115,524 | 23,168 |
| Net assets | | 3,885,340 | 945,866 |
| Financed by: | | | |
| Share capital | 25 | 309,340 | 223,776 |
| Reserves | 26 | 3,576,000 | 722,090 |
| Shareholders' equity | | 3,885,340 | 945,866 |

Han Jingyuan
Chairman and Chief Executive Officer

Liu Lei
Director

Balance Sheet

As at 31 December 2004
(All amounts in RMB thousands)

| | Note | 2004 | 2003 |
|--|------|------------------|---------|
| Non-current assets | | | |
| Fixed assets | 12 | 1,848 | — |
| Investment in subsidiaries | 14 | 316,480 | — |
| | | 318,328 | — |
| Current assets | | | |
| Prepayments, deposits and other receivables | 18 | 7,174 | — |
| Bank and cash balances | 19 | 791,281 | — |
| Restricted bank balances | 19 | 1,359,001 | — |
| | | 2,157,456 | — |
| Current liabilities | | | |
| Accruals | 21 | 1,414 | 1,279 |
| Dividend payable | | 21 | — |
| | | 1,435 | 1,279 |
| Net current assets/(liabilities) | | 2,156,021 | (1,279) |
| Total assets less current liabilities | | 2,474,349 | (1,279) |
| Net assets/(liabilities) | | 2,474,349 | (1,279) |
| Financed by: | | | |
| Share capital | 25 | 309,340 | — |
| Reserves | 26 | 2,165,009 | (1,279) |
| Shareholders' equity/(deficit) | | 2,474,349 | (1,279) |

Han Jingyuan

Chairman and Chief Executive Officer

Liu Lei

Director

Consolidated Cash Flow Statement

For the year ended 31 December 2004

(All amounts in RMB thousands)

| | Note | 2004 | 2003 |
|---|-------|--------------------|-----------|
| Operating activities | | | |
| Net cash inflow generated from operations | 28(a) | 393,216 | 342,512 |
| Interest received | | 23,214 | 1,426 |
| Interest paid | | (45,177) | (22,837) |
| PRC income tax paid | | (20,513) | (30,854) |
| Net cash inflow from operating activities | | 350,740 | 290,247 |
| Investing activities | | | |
| Purchase of fixed assets | | (401,286) | (429,461) |
| Proceeds from disposal of fixed assets | | — | 821 |
| Purchase of a subsidiary, net of cash acquired | 28(c) | 850 | — |
| Increase in loan receivables | | (50,000) | — |
| Net cash outflow from investing activities | | (450,436) | (428,640) |
| Net cash outflow before financing activities | | (99,696) | (138,393) |
| Financing activities | | | |
| New short-term loans | 28(b) | 1,570,646 | 236,767 |
| Repayment of short-term loans | 28(b) | (380,646) | (145,401) |
| New long-term loans | 28(b) | 149,230 | 1,003,000 |
| Repayment of long-term loans | 28(b) | (642,230) | (441,490) |
| Dividends paid | | (407,394) | (480,000) |
| Capital injection by minority shareholders | | 540 | — |
| Increase in restricted bank balances pledged as security for short-term bank loans | | (1,359,001) | — |
| Issue of ordinary shares, gross proceeds | | 2,350,222 | — |
| Share issue expenses | | (113,623) | — |
| Net cash inflow from financing activities | | 1,167,744 | 172,876 |
| Increase in cash and cash equivalents | | 1,068,048 | 34,483 |
| Effect of foreign exchange rate changes | | (2,738) | — |
| Cash and cash equivalents, beginning of year | | 152,746 | 118,263 |
| Cash and cash equivalents, end of year | | 1,218,056 | 152,746 |

Consolidated Statements of Changes in Shareholders' Equity

For the year ended 31 December 2004

(All amounts in RMB thousands)

| | Note | 2004 | 2003 |
|---|------|------------------|-----------|
| Total equity as at 1 January | | 945,866 | 338,218 |
| Issue of ordinary shares | | 2,350,222 | — |
| Share issue expenses | 26 | (113,623) | — |
| Profit attributable to shareholders | 26 | 1,176,608 | 1,076,290 |
| Exchange differences arising on translation of the accounts of the Company and its subsidiaries not recognised in the consolidated profit and loss account | 26 | 4,398 | — |
| Dividends declared | 26 | (483,239) | (468,669) |
| Others | 26 | 5,108 | 27 |
| Total equity as at 31 December | | 3,885,340 | 945,866 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

1. GROUP REORGANISATION

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

The shareholders of the Company collectively held 97.6% interest in Hebei Jinxi Iron and Steel Co., Ltd. (the "Jinxi Limited") at the time of the Reorganisation.

Pursuant to the Reorganisation that was completed on 20 January 2004, the Company issued a total 2,099,000,000 shares to the then shareholders of Jinxi Limited and the Company became the holding company of the then subsidiaries.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

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

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated accounts are set out below:

(a) Basis of preparation of consolidated accounts

The Group resulting from the Reorganisation referred to in Note 1 above is regarded as a continuing entity. Accordingly, the accounts have been prepared on the merger basis in accordance with SSAP 27 as if the group structure upon the Reorganisation had been in existence from the beginning of the year ended 31 December 2003.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation of consolidated accounts *(continued)*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December 2004.

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Except for those companies comprising the Group upon the Reorganisation, which have been accounted for on the merger basis, as described in Note 2(a) above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill on acquisition.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

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

(c) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheet of the Company, subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

(f) Fixed assets and depreciation

(i) Fixed assets and depreciation

Fixed assets, comprising buildings, machinery, furniture and fixtures, leasehold improvements and vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses and estimated residual value over their estimated useful lives on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Estimated useful life

| | |
|------------------------|----------|
| Land use rights | 50 years |
| Buildings | 20 years |
| Machinery | 10 years |
| Furniture and fixtures | 5 years |
| Vehicles | 5 years |
| Leasehold improvements | 2 years |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and amortised over their expected useful lives.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Fixed assets and depreciation *(continued)*

(i) Fixed assets and depreciation *(continued)*

At each balance sheet date, the useful lives of fixed assets are reviewed and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods is adjusted.

The gain or loss on disposals of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(ii) Construction in progress (the "CIP")

CIP includes buildings and plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as fixed assets. They are carried at costs which include cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less any accumulated impairment losses. No depreciation is provided for CIP until the construction and installation work is completed. On completion, the relevant assets are transferred to fixed assets at cost less accumulated impairment losses.

(iii) Land use rights

Land use rights represent premium paid for lease of land for self-use purpose and are stated at cost less accumulated depreciation and accumulated impairment losses. Land use right is depreciated on a straight-line basis over the lease periods.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

(h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods. They are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average method, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Trade and other receivables

Provisions are made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provisions.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks.

(k) Provisions

Provisions 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) 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 10. 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 profit and loss account as incurred.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Deferred taxation

Deferred taxation 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 accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition

Revenue from the sale of goods, raw materials and by-products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an 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 profit and loss account in the year in which they are incurred.

(q) Segment reporting

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

Segment assets consist of fixed assets, inventories, receivables and other operating assets. Segment liabilities consist of operating liabilities and exclude taxation. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, turnover and segments results are determined based on the destination of shipment/delivery of goods. Total assets, liabilities, capital expenditures and depreciation and amortisation are based on where the assets and liabilities are located.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

3. TURNOVER AND REVENUES

(a) Turnover and revenues

The Group is principally engaged in the manufacture and sales of iron and steel products. Revenues recognised for the years ended 31 December 2004 and 2003 are as follows:

| | 2004 | 2003 |
|---|------------------|-----------|
| Turnover: | | |
| Gross sales, less discounts and returns | | |
| — billets | 5,214,573 | 3,615,035 |
| — strips | 3,871,053 | 1,636,100 |
| — others | 33,249 | 26,778 |
| | 9,118,875 | 5,277,913 |
| Less: Taxes | — | (39) |
| | 9,118,875 | 5,277,874 |
| Other revenues: | | |
| Interest income | 32,940 | 3,701 |
| Sales of raw materials and by-products | 33,310 | 13,971 |
| Others | 7,017 | 6,188 |
| | 73,267 | 23,860 |
| Total revenues | 9,192,142 | 5,301,734 |

(b) Segment information

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

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

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

| | 2004 | 2003 |
|--|----------------|---------|
| Staff costs (including directors' emoluments) | | |
| — Salaries and wages | 91,491 | 70,271 |
| — Pension costs-defined contribution plan (Note 10) | 22,739 | 17,847 |
| — Other welfare expenses | 31,589 | 17,539 |
| | 145,819 | 105,657 |
| Depreciation of fixed assets | 149,621 | 96,648 |
| Operating lease rental in respect of land use rights | 2,123 | 2,882 |
| Loss on disposal of fixed assets, net | 9 | 555 |
| Net exchange losses | 7,139 | — |
| Reversal of provision for doubtful receivables | (6,347) | (5,356) |
| Auditors' remuneration | 2,555 | 2,131 |

5. FINANCE COSTS

| | 2004 | 2003 |
|---|---------------|--------|
| Interest expenses | | |
| — bank and other loans | | |
| Wholly repayable within five years | 60,608 | 27,523 |
| — others | 4,995 | 3,273 |
| | 65,603 | 30,796 |
| Less: amount capitalised in CIP (Note 12) | (1,333) | — |
| | 64,270 | 30,796 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

6. TAXATION

(a) Taxation represents:

| | 2004 | 2003 |
|---|-----------------|--------|
| Current income tax | | |
| — PRC enterprise income tax (the "EIT") | (33,894) | 33,894 |
| Deferred taxation (<i>Note 27 (a)</i>) | 208 | 3,922 |
| Share of taxation of PRC EIT of an associated company | 3,403 | 2,202 |
| | (30,283) | 40,018 |

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year ended 31 December 2004 (2003: 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 its 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 is entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT. Accordingly, the effective tax rate for Jinxi Limited was 3% for the year ended 31 December 2003.

Approved by local tax authority at 22 July 2004, Jinxi Limited is 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 is nil for the year ended 31 December 2004, and relevant local income tax accrued for the year ended 31 December 2003 of approximately RMB34 million was reversed in current year.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

6. TAXATION (continued)

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 33% for the years ended 31 December 2004 and 2003 is as follows:

| | 2004 | 2003 |
|---|------------------|-----------|
| Profit before taxation | 1,174,837 | 1,142,666 |
| Taxation calculated at statutory tax rate | 387,696 | 377,080 |
| Effect of tax exemption of Jinxi Limited | (384,086) | (343,191) |
| Effect of reversal of prior year local income tax | (33,894) | — |
| Effect of non-taxable income of the Company | (3,619) | — |
| Effect of tax loss of the Company | — | 421 |
| Effect of tax loss of direct subsidiaries | 9 | 9 |
| Effect of different tax rate of the associated company | 3,403 | 2,002 |
| Effect of change of tax rate when assessing deferred tax assets | 208 | 3,755 |
| Others | — | (58) |
| | (30,283) | 40,018 |

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB103,490,000 (2003: Loss of RMB1,279,000).

8. DIVIDENDS

| | 2004 | 2003 |
|----------------------------|----------------|---------|
| Special dividend, paid (a) | 390,450 | — |
| Interim, paid (b) | 92,789 | — |
| Final, proposed (c) | 142,142 | 468,669 |
| | 625,381 | 468,669 |

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

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

8. DIVIDENDS *(continued)*

- (b) At a meeting held on 17 September 2004, the directors proposed an interim dividend of HK\$87,150,000 (approximately RMB92,789,000), representing HK 3 cents per ordinary share.

- (c) At a meeting held on 31 March 2005, the directors proposed a final dividend of HK\$133,630,000 (approximately RMB142,142,000), representing HK 4.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

9. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB1,176,608,000 and weighted average of 2,769,506,849 shares in issue during the year.

The comparative basic earnings per share is calculated based on the profit attributable to shareholders of RMB1,076,290,000 and on an aggregate of 2,100,000,000 shares, comprising 1,000,000 shares issued immediately after incorporation of the Company and 2,099,000,000 shares issued upon the Reorganisation, which were deemed to have been in issue since 1 January 2003.

The diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2004 (2003: Nil).

10. DEFINED CONTRIBUTION RETIREMENT BENEFIT PLAN

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 under which the Group is required to make monthly defined contributions to these plans at rates of 28% for the year ended 31 December 2004 and 27% for the year ended 31 December 2003 respectively on the employees' total salary, subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in Note 4.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

| | 2004 | 2003 |
|---|--------------|-------|
| Fees | — | — |
| Salaries and allowances | 1,534 | 110 |
| Bonuses | 1,909 | 1,420 |
| Pension costs-defined contribution plan | 582 | 413 |
| | 4,025 | 1,943 |

The remuneration of the directors during the years ended 31 December 2004 and 2003 fell within the following bands:

| | Number of directors | |
|---|---------------------|------|
| | 2004 | 2003 |
| Nil to RMB1,060,000 (approximately to HK\$1,000,000) | 7 | 3 |
| RMB1,060,001 to RMB1,600,000 (approximately to HK\$1,000,001 to HK\$1,500,000) | 1 | — |

None of the directors waived or agreed to waive any remuneration during the years ended 2004 and 2003. The emoluments of the independent non-executive directors during the year are RMB451,000 approximately (2003: nil).

(b) Five highest paid individuals

The five highest paid individuals consisted of:

| | 2004 | 2003 |
|---------------------|----------|------|
| Number of directors | 2 | 2 |
| Number of employees | 3 | 3 |
| | 5 | 5 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals *(continued)*

The details of emoluments paid to the five highest paid individuals who were the directors of the Company during the years are included in Note 11 (a) above. Details of emoluments paid to the five highest paid individuals, who were not directors of the Company, are as follows:

| | 2004 | 2003 |
|---|--------------|--------------|
| Salaries and allowances | 110 | 104 |
| Bonuses | 1,650 | 1,500 |
| Pension costs-defined contribution plan | 493 | 433 |
| | 2,253 | 2,037 |

During the years ended 31 December 2004 and 2003, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of office.

The remuneration of the five highest paid individuals during the years ended 31 December 2004 and 2003 fell within the following bands:

| | Number of individuals | |
|---|-----------------------|------|
| | 2004 | 2003 |
| Nil to RMB1,060,000 (approximately to HK\$1,000,000) | 4 | 5 |
| RMB1,060,001 to RMB1,600,000 (approximately to HK\$1,000,001 to HK\$1,500,000) | 1 | — |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

12. FIXED ASSETS

The Group

| | Land use rights (a) | Buildings | Machinery | Furniture and fixtures | Vehicles | Leasehold improve- ments | Construc- tion in progress | Total |
|--|---------------------------|----------------|------------------|------------------------------|---------------|--------------------------------|----------------------------------|------------------|
| Cost | | | | | | | | |
| At 1 January 2004 | 43,387 | 310,406 | 1,377,489 | 7,577 | 21,237 | — | 490,478 | 2,250,574 |
| Additions | — | 66 | 36,236 | 2,015 | 14,494 | 577 | 342,982 | 396,370 |
| Acquisition of a subsidiary (Note 28 (c)) | — | — | — | 58 | — | — | 167,736 | 167,794 |
| Transfers | — | 439,482 | 141,836 | 4,052 | 115 | — | (585,485) | — |
| Disposals | — | (698) | — | — | (340) | — | — | (1,038) |
| At 31 December 2004 | 43,387 | 749,256 | 1,555,561 | 13,702 | 35,506 | 577 | 415,711 | 2,813,700 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2004 | 281 | 59,721 | 190,063 | 3,184 | 6,998 | — | — | 260,247 |
| Charge for the year | 867 | 31,704 | 110,744 | 1,575 | 4,470 | 261 | — | 149,621 |
| Disposals | — | (145) | — | — | (330) | — | — | (475) |
| At 31 December 2004 | 1,148 | 91,280 | 300,807 | 4,759 | 11,138 | 261 | — | 409,393 |
| Net book value | | | | | | | | |
| At 31 December 2004 | 42,239 | 657,976 | 1,254,754 | 8,943 | 24,368 | 316 | 415,711 | 2,404,307 |
| At 31 December 2003 | 43,106 | 250,685 | 1,187,426 | 4,393 | 14,239 | — | 490,478 | 1,990,327 |

(a) Land use rights represented the premium paid in July 2003 for the parcel of land where Jinxi Limited's premise is located. The cost is amortised over the life of the medium-term lease of 50 years.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

12. FIXED ASSETS (continued)

As at 31 December 2004, the net book value of buildings and machinery pledged as security for the Group's short-term and long-term loans amounting to approximately RMB494 million (2003: RMB212 million) (Note 22, 23).

During the year ended 31 December 2004, borrowing costs amount to RMB1,333,281 were capitalised into fixed assets (2003: nil) (Note 5).

The Company

| | Furniture and fixtures | Vehicles | Leasehold improvements | Total |
|---------------------------------|---------------------------|--------------|---------------------------|--------------|
| Cost | | | | |
| At 1 January 2004 | — | — | — | — |
| Additions | 374 | 1,468 | 577 | 2,419 |
| Disposals | — | — | — | — |
| At 31 December 2004 | 374 | 1,468 | 577 | 2,419 |
| Accumulated depreciation | | | | |
| At 1 January 2004 | — | — | — | — |
| Charge for the year | 65 | 245 | 261 | 571 |
| Disposals | — | — | — | — |
| At 31 December 2004 | 65 | 245 | 261 | 571 |
| Net book value | | | | |
| At 31 December 2004 | 309 | 1,223 | 316 | 1,848 |
| At 31 December 2003 | — | — | — | — |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

13. INTERESTS IN AN ASSOCIATED COMPANY

The Group

| | 2004 | 2003 |
|---------------------|---------------|-------|
| Share of net assets | 12,474 | 5,565 |

The information of the associated company is as following:

| Name | Place and date of incorporation | Legal status | Percentage of equity interest attributable to the Group | Issued and fully paid registered capital | Principal activities |
|--|---------------------------------|---------------------------|---|--|--------------------------------|
| Qianxi County Zhongxing Iron Mine Co., Ltd. (the "Zhongxing Iron Mine") | PRC 21 May 2002 | Limited liability company | 35% (indirectly held) | RMB2,000,000 | Mining and sale of iron powder |

14. INVESTMENTS IN SUBSIDIARIES

The Company

| | 2004 | 2003 |
|-------------------------------|----------------|------|
| Unlisted investments, at cost | 224,017 | — |
| Amount due from subsidiaries | 92,463 | — |
| | 316,480 | — |

Amount due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the significant subsidiaries at 31 December 2004 and 2003:

| 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 (the "Gold Genesis") | British Virgin Islands (the "BVI") 21 February 2003 | Limited liability company | 100% (Directly held) | USD1 | USD50,000 | Investment holding |
| Good Lucky Enterprises Limited (the "Good Lucky") | BVI 21 February 2003 | Limited liability company | 100% (Directly held) | USD1 | USD50,000 | Investment holding |
| First Glory Services Limited (the "First Glory") | BVI 16 October 2003 | Limited liability company | 100% (Directly held) | USD1 | USD50,000 | Investment holding |
| Accordpower Investments Limited (the "Accordpower") | BVI 30 November 2004 | Limited liability company | 100% (Directly held) | USD2 | USD50,000 | Investment holding |
| Jinxi Limited | PRC 24 December 1999 | Joint stock company with limited liability | 97.6% (Indirectly held) | RMB 228,635,573 | RMB 228,635,573 | Manufacture and sales of iron and steel products |
| Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited (the "Foshan Jinxi") (a) | PRC 26 December 2003 | Limited liability company | 60% (Indirectly held) | RMB 75,000,000 (USD equivalent 9,068,000) | USD 29,800,000 | Manufacture and sales of steel products |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES (continued)

- (a) On 28 December 2004, Accordpower has entered into the Equity Transfer And Capital Increase Agreement (the "Agreement") with Foshan Jin Lan Aluminium (International) Company Limited (the "Vendor"), and Foshan Jin Lan Aluminium Company Limited (the "Foshan Jin Lan"). Pursuant to the Agreement, the Vendor agreed to sell the entire 40% equity interest of Foshan Jinxi owned by the Vendor at a total consideration of HK\$1 (Note 28(c)). In connection with the Agreement, Accordpower has entered into the New Joint Venture Agreement with the Foshan Jin Lan at 28 December 2004. Pursuant to the New Joint Venture Agreement, the registered capital of Foshan Jinxi will be increased from USD10,000,000 to USD29,800,000, which will be contributed by Accordpower and Foshan Jin Lan in the proportion of 60% and 40% respectively. As a result of the capital contribution, the Accordpower and Foshan Jin Lan will be interested in 60% and 40% of the amended registered capital of Foshan Jinxi respectively. The Agreement and the New Joint Venture Agreement were effective on 28 December 2004, upon approved by Guangdong Provincial Government and thereafter, Accordpower began to cast majority of votes at the meeting of the board of directors of Foshan Jinxi.

Foshan Jinxi was still in pre-operating period and did not contribute to the Group's profit attributable to shareholders.

On 7 January 2005, 31 January 2005 and 1 February 2005, Accordpower has injected its proportion of the registered capital of Foshan Jinxi amounting to USD12,000,000, USD1,500,000 and USD4,380,000 respectively, representing its entire proportion of the registered capital of Foshan Jinxi.

15. LONG-TERM ADVANCES TO SUPPLIERS

The Group

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

| | 2004 | 2003 |
|--|-----------------|----------|
| Within 1 year | 50,000 | 50,000 |
| 1-2 years | — | 50,000 |
| | 50,000 | 100,000 |
| Less: Current portion included in current assets | (50,000) | (50,000) |
| | — | 50,000 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

16. INVENTORIES

The Group

| | 2004 | 2003 |
|--|----------------|---------|
| Raw materials and materials-in-transit | 822,871 | 652,826 |
| Work-in-progress | 60,382 | 21,594 |
| Finished goods | 16,954 | 16,765 |
| | 900,207 | 691,185 |

All inventories were stated at cost.

17. TRADE RECEIVABLES

The Group

| | 2004 | 2003 |
|-----------------------|----------------|---------|
| Accounts receivables | 227 | 37,681 |
| Notes receivables (a) | 827,667 | 228,892 |
| | 827,894 | 266,573 |

(a) As at 31 December 2004 and 2003, notes receivables were all bank acceptance notes.

As at 31 December 2004, notes receivables that were pledged as security for issuing notes payables and letters of credit amounting to approximately RMB79 million (2003: RMB83 million).

As at 31 December 2004, notes receivables that were pledged as security in favour of a third party for issuing letters of credit amounting to approximately RMB111 million (2003: nil) (Note 32).

As at 31 December 2004 and 2003, the ageing analysis of trade receivables is as follows:

| | 2004 | 2003 |
|-----------------|---------|---------|
| Within 3 months | 827,894 | 266,573 |

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

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

| | 2004 | 2003 |
|--------------------------------|----------------|---------|
| Prepayments | 217,552 | 533,461 |
| Deposits and other receivables | 91,217 | 30,249 |
| | 308,769 | 563,710 |

The Company

| | 2004 | 2003 |
|--------------------------------|--------------|------|
| Prepayments | 818 | — |
| Deposits and other receivables | 6,356 | — |
| | 7,174 | — |

19. BANK AND CASH BALANCES

The Group

| | 2004 | 2003 |
|------------------------------|------------------|---------|
| Bank and cash balances | 1,218,056 | 152,746 |
| Restricted bank balances (a) | 1,707,949 | 36,519 |
| | 2,926,005 | 189,265 |

(a) As at 31 December 2004, the restricted bank balances were pledged as security for issuing notes payables and letters of credit amounting to RMB94 million (2003: RMB37 million) approximately.

As at 31 December 2004, the restricted bank balances were pledged as security in favour of a third party for issuing letters of credit amounting to RMB255 million (2003: nil) approximately (Note 32).

As at 31 December 2004, the restricted bank balances were pledged as security for short-term loan amounting to RMB1,359 million (2003: nil) approximately (Note 22).

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

19. BANK AND CASH BALANCES (continued)

The Company

| | 2004 | 2003 |
|------------------------------|------------------|------|
| Bank and cash balances | 791,281 | — |
| Restricted bank balances (a) | 1,359,001 | — |
| | 2,150,282 | — |

(a) As at 31 December 2004, the restricted bank balances were pledged as security for short-term loan borrowed by Jinxi Limited amount to RMB1,359 million (2003: nil) approximately.

20. TRADE PAYABLES

The Group

| | 2004 | 2003 |
|-------------------|----------------|---------|
| Accounts payables | 254,530 | 159,183 |
| Notes payables | 163,200 | 134,000 |
| | 417,730 | 293,183 |

As at 31 December 2004 and 2003, the ageing analysis of the trade payables is as follows:

| | 2004 | 2003 |
|-----------------|----------------|---------|
| Within 3 months | 333,165 | 129,417 |
| 4 — 6 months | 76,605 | 154,213 |
| 7 — 9 months | 2,867 | 4,183 |
| 10 — 12 months | 1,294 | 2,381 |
| Above 1 year | 3,799 | 2,989 |
| | 417,730 | 293,183 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

The Group

| | 2004 | 2003 |
|-------------------------|----------------|-----------|
| Accruals | 35,816 | 13,089 |
| Advances from customers | 425,087 | 468,667 |
| VAT payable | 11,721 | 152,234 |
| Other taxes payable | 15,195 | 14,907 |
| Other payables (a) | 246,923 | 438,655 |
| | 734,742 | 1,087,552 |

(a) The breakdown of other payables is as follows:

| | 2004 | 2003 |
|---------------------------------------|----------------|---------|
| Pension payables | 81,716 | 63,594 |
| Payables for purchase of fixed assets | 58,311 | 273,021 |
| Customer deposits | 47,660 | 45,395 |
| Welfare payable | 16,753 | 12,561 |
| Employee deposits | 14,023 | 16,153 |
| Salaries and wages payable | 7,064 | 6,943 |
| Others | 21,396 | 20,988 |
| | 246,923 | 438,655 |

The Company

| | 2004 | 2003 |
|----------|--------------|-------|
| Accruals | 1,414 | 1,279 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

22. SHORT-TERM LOANS

The Group

| | 2004 | 2003 |
|----------------|------------------|---------|
| Bank loans — | | |
| Secured (a) | 1,350,000 | — |
| Guaranteed (b) | 70,000 | 160,000 |
| | 1,420,000 | 160,000 |

(a) As at 31 December 2004, secured short-term bank loans were secured by the certain restricted bank balances (Note 19) and certain fixed assets (Note 12) of the Group.

(b) As at 31 December 2004, guaranteed short-term bank loans were guaranteed by Foshan Jin Lan (the shareholder of Foshan Jinxi). As at 31 December 2003, guaranteed short-term bank loans were guaranteed by a third party.

23. LONG-TERM LOANS

The Group

| | 2004 | 2003 |
|--|----------------|---------|
| Bank loans, wholly repayable within five years — | | |
| Secured (a) | 222,230 | 222,230 |
| Guaranteed (b) | 130,000 | 130,000 |
| Unsecured | — | 480,000 |
| | 352,230 | 832,230 |
| Other loans, Unsecured (c) | | |
| Wholly repayable within five years | — | 13,000 |
| Not wholly repayable within five years | 145,000 | — |
| | 145,000 | 13,000 |
| | 497,230 | 845,230 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

23. LONG-TERM LOANS (continued)

The maturity profile of the long-term loans is as follows:

| | 2004 | 2003 |
|---|-----------------|-----------|
| Within 1 year | 38,000 | 162,230 |
| 1 — 2 years | 165,000 | 518,000 |
| 2 — 5 years | 189,230 | 165,000 |
| Above 5 years | 105,000 | — |
| | 497,230 | 845,230 |
| Less: Current portion included in current liabilities | (38,000) | (162,230) |
| | 459,230 | 683,000 |

- (a) As at 31 December 2004 and 2003, these long-term bank loans were secured by certain fixed assets of the Group (Note 12).
- (b) As at 31 December 2004 and 2003, these long-term bank loans were guaranteed by two third parties amounting to RMB100 million and RMB30 million respectively.
- (c) As at 31 December 2004, other unsecured loan represented a borrowing from local county government which was repayable by instalment from year 2008 to year 2015. Interest is charged on the outstanding balances at 1.98% per annum. As at 31 December 2003, other unsecured loan represented a borrowing from local county government which was interest free and repaid in the year.

24. LONG-TERM ADVANCES FROM CUSTOMERS

The Group

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

| | 2004 | 2003 |
|---------------|---------------|--------|
| Within 1 year | — | — |
| 1 — 2 years | 10,000 | — |
| 2 — 5 years | 15,000 | 58,000 |
| | 25,000 | 58,000 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

25. SHARE CAPITAL

| | Number of Shares of HK\$0.1 each | Amount |
|---|-------------------------------------|----------------|
| Authorised | | |
| On incorporation at 3 November 2003 (a) | 1,000,000 | — |
| Increase in authorised share capital on 23 December 2003 (b) | 4,999,000,000 | — |
| At 31 December 2004 and 2003 | 5,000,000,000 | — |
| Issued and fully paid | | |
| Share issued and allotted on 13 November 2003 (c) | 1,000,000 | — |
| At 31 December 2003 | 1,000,000 | — |
| Share issued and allotted on 20 January 2004 to acquire subsidiaries (d) | 2,099,000,000 | 223,776 |
| New issue of shares (e) | 700,000,000 | 74,417 |
| Over-allotment of shares (e) | 105,000,000 | 11,147 |
| At 31 December 2004 | 2,905,000,000 | 309,340 |

(a) The Company was incorporated in Bermuda on 3 November 2003 with an authorised 1,000,000 shares with par value of HK\$0.1 each.

(b) Pursuant to a written resolution of the shareholders passed on 23 December 2003, the authorised number of shares was increased from 1,000,000 to 5,000,000,000 by the creation of an additional 4,999,000,000 new shares.

(c) On 13 November 2003, 586,000 shares were issued and allotted to Wellbeing Holdings Limited (the "Wellbeing"), 389,000 shares were issued and allotted to Smart Triumph Corporation (the "Smart Triumph") and 25,000 shares were issued and allotted to Chingford Holdings Limited (the "Chingford"), all for nil paid.

Notes to the Accounts

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(All amounts in RMB thousands unless otherwise stated)

25. SHARE CAPITAL *(continued)*

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

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

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

26. RESERVES

The Group

| | Merger reserve (a) | Share premium | Capital reserve | Statutory reserves (b) | Exchange translation reserve | Retained earnings | Total Reserves |
|---|--------------------------|------------------|--------------------|------------------------------|------------------------------------|----------------------|-------------------|
| 1 January 2003 | (599) | — | 8,001 | 107,040 | — | — | 114,442 |
| Profit attributable to shareholders | — | — | — | — | — | 1,076,290 | 1,076,290 |
| Profit appropriation | — | — | — | 215,520 | — | (215,520) | — |
| Release of statutory reserves upon liquidation of Huineng Limited | — | — | — | (8,788) | — | 8,788 | — |
| Dividends declared | — | — | — | — | — | (468,669) | (468,669) |
| Others | — | — | 27 | — | — | — | 27 |
| 31 December 2003 | (599) | — | 8,028 | 313,772 | — | 400,889 | 722,090 |
| Profit attributable to shareholders | — | — | — | — | — | 1,176,608 | 1,176,608 |
| Profit appropriation | — | — | — | 232,874 | — | (232,874) | — |
| Issue of shares of the Company | — | 2,264,658 | — | — | — | — | 2,264,658 |
| Share issue expense | — | (113,623) | — | — | — | — | (113,623) |
| Exchange translation differences | — | — | — | — | 4,398 | — | 4,398 |
| Dividends declared | — | — | — | — | — | (483,239) | (483,239) |
| Others | — | — | 5,108 | — | — | — | 5,108 |
| 31 December 2004 | (599) | 2,151,035 | 13,136 | 546,646 | 4,398 | 861,384 | 3,576,000 |

(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.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

26. RESERVES (continued)

The Group (continued)

(b) Statutory reserves

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

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

The Company

| | Share premium | Exchange translation reserve | Retained earnings | Total Reserves |
|-------------------------------------|------------------|------------------------------|-------------------|------------------|
| 1 January 2003 | — | — | — | — |
| Loss for the year | — | — | (1,279) | (1,279) |
| 31 December 2003 | — | — | (1,279) | (1,279) |
| Profit attributable to shareholders | — | — | 103,490 | 103,490 |
| Issue of shares of the Company | 2,264,658 | — | — | 2,264,658 |
| Share issue expense | (113,623) | — | — | (113,623) |
| Exchange translation differences | — | 4,552 | — | 4,552 |
| Dividends declared | — | — | (92,789) | (92,789) |
| 31 December 2004 | 2,151,035 | 4,552 | 9,422 | 2,165,009 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

27. DEFERRED TAX ASSETS

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

| | 2004 | 2003 |
|---|-------|---------|
| Beginning balance of the year | 208 | 4,130 |
| Charged to consolidated profit and loss account (Note 6 (a)) | (208) | (3,922) |
| Ending balance of the year | — | 208 |

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 3% for the year ended 31 December 2003.

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

| | 2004 | 2003 |
|-------------------------------------|------|------|
| Provisions for doubtful receivables | — | 208 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

| | 2004 | 2003 |
|--|------------------|-----------|
| Profit before taxation | 1,174,837 | 1,142,666 |
| Reversal of provision for doubtful receivables | (6,347) | (5,356) |
| Depreciation of fixed assets | 149,621 | 96,648 |
| Share of profit of an associated company | (10,313) | (6,672) |
| Loss on disposal of fixed assets, net | 9 | 555 |
| Exchange loss | 7,139 | — |
| Interest income | (32,940) | (3,701) |
| Interest expenses | 64,270 | 30,796 |
| Operating profit before working capital changes | 1,346,276 | 1,254,936 |
| Increase in inventories | (209,022) | (449,650) |
| (Increase)/Decrease in restricted bank balances | (294,069) | 12,001 |
| Increase in trade receivables, prepayments, deposits and other receivables and other current assets | (466,614) | (498,354) |
| Decrease/(increase) in long-term advances to suppliers | 50,000 | (94,800) |
| Decrease/(increase) in amount due from related parties | 68,366 | (49,754) |
| (Decrease)/increase in trade payables, taxation payable, accruals, advances from customers and other current liabilities | (64,925) | 298,147 |
| (Decrease)/increase in long-term advances from customers | (33,000) | 42,000 |
| Decrease in amount due to related parties | (3,796) | (172,014) |
| Net cash inflow generated from operations | 393,216 | 342,512 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing

| | Short-term loans | Long-term loans |
|---|---------------------|--------------------|
| 1 January 2003 | 68,634 | 283,720 |
| Cash inflows from new loans | 236,767 | 1,003,000 |
| Cash outflows for repayments | (145,401) | (441,490) |
| 31 December 2003 | 160,000 | 845,230 |
| Increase in notes receivables from new loans | — | 145,000 |
| Acquisition of a subsidiary <i>(Note 28(c))</i> | 70,000 | — |
| Cash inflows from new loans | 1,570,646 | 149,230 |
| Cash outflows for repayments | (380,646) | (642,230) |
| 31 December 2004 | 1,420,000 | 497,230 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchase of a subsidiary

During the year ended 31 December 2004, the related net cash outflows were as follows:

| | |
|--|-----------|
| Net assets acquired | |
| Fixed assets <i>(Note 12)</i> | 167,794 |
| Trade receivables, prepayments, deposits and other receivables | 21,711 |
| Restricted bank balances | 18,360 |
| Bank and cash balances | 850 |
| | |
| Short-term loans <i>(Note 28(b))</i> | (70,000) |
| Trade payables, taxation payable, accruals, advances from customers and other current liabilities | (37,769) |
| Amount due to related parties | (100,946) |
| | <hr/> |
| | — |
| | |
| Addition of negative goodwill, net | — |
| | <hr/> |
| Total acquisition consideration <i>(Note 14(a))</i> | — |

Analysis of the net cash inflows in respect of purchase of a subsidiary was as follows:

| | |
|---|-------|
| Cash consideration | — |
| Bank and cash balances acquired | 850 |
| | <hr/> |
| Net cash inflows in respect of purchase of a subsidiary | 850 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

29. RELATED PARTY TRANSACTIONS AND BALANCES

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 or common significant influence.

- (a) During the years ended 31 December 2004 and 2003, save as disclosed in Note 13 and Note 14, the directors are of the view that the following companies and person are also related parties of the Group:

| Name | Relationship with the Group |
|--|--|
| Wellbeing | Controlling shareholder of the Company |
| Smart Triumph | Substantial shareholder of the Company |
| Qianxi County Qianxi Heli and Trade Co., Ltd. (the "Qianxi Heli") | Former shareholder of Jinxi Limited and its controlling shareholder is Mr. Han Jingyuan, a director of the Company |
| Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd. (the "Qianxi Fuqin") | Former shareholder of Jinxi Limited and controlled by the same management and same ultimate controlling shareholder of the Company |
| Pioneer Metals Co., Ltd. (the "PMC") | Former shareholder of Jinxi Limited and controlled by Ms. Chen Ningning, a director of the Company |
| Tianjin Jinying Corporation (the "Tianjin Jinying") | Former shareholder of Jinxi Limited |
| Tangshan City Jinxi Iron and Steel Group Co., Ltd. (the "Tangshan Jinxi Group") | Shareholder of Jinxi Limited and its legal representative is Mr. Han Jingyuan, a director of the Company |
| Beijing PMC New Century Technology Co., Ltd. (the "Beijing PMC") | Subsidiary of PMC |
| Foshan Jin Lan | Substantial shareholder of Foshan Jinxi |
| Mr. Han Jingyuan | Chairman and Chief Executive Officer of the Company |
| Mr. Zhou Weijie | Director of Foshan Jinxi |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

29. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

- (b) During the years ended 31 December 2004 and 2003, 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:

| Name of the related parties | Nature of transactions | 2004 | 2003 |
|-----------------------------|--|----------------|---------|
| Qianxi Heli | 1. Transfer notes receivables <i>(i)</i> | 597,404 | — |
| | 2. Transfer bank balances <i>(ii)</i> | 700,000 | — |
| Tangshan Jinxi Group | 3. Transfer notes receivables <i>(i)</i> | 334,325 | — |
| | 4. Purchase of fixed assets | — | 20,834 |
| Tianjin Jinying | 5. Purchase of raw materials | — | 1,434 |
| Zhongxing Iron Mine | 6. Purchase of raw materials | 95,866 | 62,445 |
| PMC | 7. Sales of finished goods | — | 11,131 |
| | 8. Purchase of raw materials | — | 128,288 |
| Beijing PMC | 9. Sales of finished goods | — | 854 |
| Foshan Jin Lan | 10. Guarantee for short-term loan | 70,000 | — |

Sales and purchase prices were determined with reference to the prevailing market prices and the prices charged to or by third parties.

- (i) The Group transferred certain bank acceptance notes to Qianxi Heli and Tangshan Jinxi Group at the consideration equivalent to the par value of those notes receivables.
- (ii) The Group transferred bank balances of RMB700 million to Qianxi Heli. As at 31 December 2004, the bank balances of RMB700 million was transferred back by Qianxi Heli. In addition, an amount equivalent to the bank deposit interest at the rate of 0.72% per annum earned by Qianxi Heli was paid to the Group.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

29. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

- (c) As at 31 December 2004 and 2003, the directors were of the view that the following related party balances were attributed to the above-mentioned related party transactions, dividend appropriation during the years and other ordinary business transactions.

Except certain agreements arrived in December 2003 in which Jinxi Limited agreed with PMC and Qianxi Heli that an aggregate amount at approximately RMB261 million owing to them will only be due after 30 June 2005, the related party balances are all unsecured, interest-free and have no fixed term of repayment.

| | 2004 | 2003 |
|--|------------------|-----------|
| Amount due from related parties | | |
| — Tangshan Jinxi Group | — | 62,310 |
| — Qianxi Fuqin | — | 6,056 |
| | — | 68,366 |
| Amount due to related parties | | |
| — PMC (i) | 100,023 | 146,552 |
| — Qianxi Heli | 116,666 | 114,099 |
| — Mr. Zhou Weijie | 25,083 | — |
| — Zhongxing Iron Mine | 2,535 | 2,065 |
| — Tangshan Jinxi Group | 2,063 | — |
| — Foshan Jin Lan | 1,463 | — |
| — Mr. Han Jingyuan | 11 | 4,910 |
| | 247,844 | 267,626 |
| Less: Long-term due to related parties | (214,122) | (260,651) |
| Amount due to related parties | 33,722 | 6,975 |

- (i) As announced by the Company on 5 November 2004, the Company early repaid the balance due to PMC amounting to RMB46,529,400 approximately which would be due after 30 June 2005.

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

30. COMMITMENTS

The Group

(a) Capital commitments

| | 2004 | 2003 |
|---------------------------------------|-----------|---------|
| Investment commitment in Foshan Jinxi | 147,984 | — |
| Purchase of fixed assets | | |
| — Contracted but not provided for | 757,304 | — |
| — Authorised but not contracted for | 539,590 | 820,000 |
| | 1,296,894 | 820,000 |

(b) Operating lease commitments

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

| | 2004 | 2003 |
|---|--------|--------|
| Not later than one year | 2,746 | 1,311 |
| Later than one year and not later than five years | 7,497 | 6,328 |
| Later than five years | 40,460 | 31,045 |
| | 50,703 | 38,684 |

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

31. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in the accounts, the significant subsequent events of the Group are as follows:

- (a) The directors of Jinxi Limited proposed a final dividend of RMB148,000,000 at 11 March 2005.
- (b) The Company pledged bank deposits amounting to USD10 million approximately as collaterals for bank loans in favour of Foshan Jinxi.

32. CONTINGENT LIABILITIES

The Group

| | 2004 | 2003 |
|---|----------------|--------|
| Guarantees for bank loans of third parties (a) | 29,880 | 27,000 |
| Guarantees for letter of credit issued by a third party (b) | 366,000 | — |
| | 395,880 | 27,000 |

- (a) As at 31 December 2004, Jinxi Limited provided guarantee for bank loans in favour of third parties amounting to RMB29,880,000 approximately (2003: RMB27 million).
- (b) As at 31 December 2004, a third party act as an agent and issued letter of credit to import fixed assets for Jinxi Limited. Accordingly, Jinxi Limited pledged bank deposits and notes receivables amounting to RMB255 million (Note 19) and RMB111 million (Note 17) respectively as collaterals.

The Company

| | 2004 | 2003 |
|---|-----------|------|
| Guarantees for bank loans of a subsidiary | 1,200,000 | — |

As at 31 December 2004, the Company pledged bank deposits amounting to RMB1,359 million approximately as collaterals for short-term bank loans in favour of Jinxi Limited (2003: nil).

Notes to the Accounts

For the year ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

32. CONTINGENT LIABILITIES *(continued)*

Management anticipated that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

33. ULTIMATE HOLDING COMPANY

The directors regard Wellbeing, a company incorporated in the British Virgin Islands, as the ultimate holding company of the Company.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of directors on 31 March 2005.

Summary Financial Information

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Year ended 31 December | | | | |
|-------------------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|
| | Audited | | Proforma | | |
| | 2004 RMB'000 | 2003 RMB'000 | 2002 RMB'000 | 2001 RMB'000 | 2000 RMB'000 |
| Turnover | 9,118,875 | 5,277,874 | 2,571,304 | 1,490,332 | 871,260 |
| Profit before taxation | 1,174,837 | 1,142,666 | 586,361 | 228,945 | 167,119 |
| Taxation | 30,283 | (40,018) | (188,850) | (70,890) | (51,642) |
| Profit after taxation | 1,205,120 | 1,102,648 | 397,511 | 158,055 | 115,477 |
| Minority interests | (28,512) | (26,358) | (9,491) | (3,774) | (2,757) |
| Profit attributable to shareholders | 1,176,608 | 1,076,290 | 388,020 | 154,281 | 112,720 |

CONSOLIDATED ASSETS, LIABILITIES AND MINORITY INTERESTS

| | Audited | | Proforma | | |
|--------------------|--------------------|------------------|-----------------|-----------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 | 2002 RMB'000 | 2001 RMB'000 | 2000 RMB'000 |
| | TOTAL ASSETS | 7,481,892 | 3,876,614 | 2,214,756 | 1,075,671 |
| TOTAL LIABILITIES | (3,481,028) | (2,907,580) | (1,868,265) | (820,881) | (506,705) |
| MINORITY INTERESTS | (115,524) | (23,168) | (8,273) | (6,083) | (6,696) |
| | 3,885,340 | 945,866 | 338,218 | 248,707 | 273,754 |

Notes:

1. The summary of the proforma consolidated results of the Group for the three years ended 31 December 2002 was extracted from the Company's prospectus dated 18 February 2004 (the "Prospectus"). Such summary was prepared as if the group structure as at 20 January 2004 had been in existence throughout these financial years. The audited consolidated profit and loss account of the Group for the two years ended 31 December 2004 are those set out on page 23 of this annual report.
2. The summary of the proforma consolidated assets, liabilities and minority interests as at 31 December 2002, 2001 and 2000 was extracted from the Prospectus. Such summary was prepared on the same basis as detailed in note 1 above. The audited consolidated assets, liabilities and minority interests as at 31 December 2004 and 2003 are those set out on page 24 and 25 of this annual report.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Oriental Group Company Limited will be held at Fung Shui Room, 6/F., The Marco Polo Hongkong Hotel, 3 Canton Road, Tsim Sha Tsui, Kowloon on Thursday, 19 May 2005 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements of the Group, the audited Financial Statements of the Company, the Reports of the Directors and the Auditors for the year ended 31 December 2004.
2. To declare a final dividend of HK 4.6 cents per share for the year ended 31 December 2004.
3. To re-elect the Directors (Mr. Tang Chi Fai, Mr. Gao Qingju, Mr. Liu Lei and Mr. Wong Man Chung, Francis) and to authorize the Directors to fix their remuneration.
4. To re-appoint PricewaterhouseCoopers as Auditors and to authorize the Directors to fix their remuneration.
5. To approve and ratify the ordinary remuneration of the Directors for the Board of the Company be fixed at the sum of RMB1,170,000 for each financial year commencing from 1 January 2004 onwards until the Company in general meeting otherwise determines.

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

ORDINARY RESOLUTIONS

6A. "THAT:

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

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

- (i) the conclusion of the next annual general meeting of the Company; or

Notice of Annual General Meeting

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

6B. **“THAT:**

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

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

 - (i) the conclusion of the next annual general meeting of the Company; or
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or Bermuda Companies Act or the existing bye-laws of the Company to be held; or

Notice of Annual General Meeting

- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

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

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

By Order of the Board
China Oriental Group Company Limited
Lai Po Sing
Company Secretary

Hong Kong, 31 March 2005

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company. In order to be valid, the completed proxy form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's Branch Share Registrar, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or adjourned meeting (as the case may be).
2. With regard to Resolutions 6A, 6B and 6C above, the Directors do not have immediate plans to issue any new shares or repurchase any existing shares. Approval is being sought from members of the Company for general mandates pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
3. A circular containing further information concerning Resolutions 6A, 6B and 6C will be sent to shareholders together with the Company's Annual Report for 2004.



CHINA ORIENTAL GROUP COMPANY LIMITED

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