



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)



ANNUAL REPORT 2003 年報

中國東方

Contents

	<i>Page</i>
Financial Highlights	2
Corporate Information	3
Chairman's Statement	6
Biographical Details of Directors and Senior Management	12
Directors' Report	15
Auditors' Report to the shareholders of the Company	23
Company:	
Profit and Loss Account	24
Balance Sheet	25
Cash Flow Statement	26
Statement of Changes in Shareholders' Equity	27
Notes to the Accounts	28
Auditors' Report to the Directors of the Company	32
Consolidated:	
Proforma Consolidated Profit and Loss Account	33
Proforma Consolidated Balance Sheet	34
Proforma Consolidated Cash Flow Statement	36
Proforma Consolidated Statement of Changes in Shareholders' Equity	37
Notes to the Proforma Accounts	38
Summary Financial Information	67
Notice of Annual General Meeting	68

Financial Highlights

For the year ended 31 December
Proforma Consolidated

	2003	2002	Percentage of increase
Sales volume (<i>thousand tonnes</i>)			
Billets	1,714	954	79.7%
Strips	707	566	24.9%
Average selling price per tonne (<i>RMB</i>)			
Billets	2,109	1,625	29.8%
Strips	2,316	1,807	28.2%
Turnover (<i>RMB millions</i>)	5,278	2,571	105.3%
Profit attributable to shareholders (<i>RMB millions</i>)	1,076	388	177.4%
Basic earnings per share (<i>RMB</i>)	0.51	0.18	177.4%

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Han Jingyuan

(Chairman and Chief Executive Officer)

Ms. Chen Ningning *(Vice Chairman)*

Mr. Zhu Jun

Mr. Zhu Zijiu

Mr. Tang Chi Fai

Independent non-executive Directors

Mr. Gao Qingju

Mr. Yu Tung Ho

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lai Po Sing, FCCA, FHKSA, CPA

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

Freshfields Bruckhaus Deringer

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKER

China Construction Bank

One of China's Largest Suppliers of

STEEL BILLETS

and Most Successful Private Enterprises



A LEADING
ENTERPRISE
IN CHINA'S
FAST-GROWING
STEEL INDUSTRY



The Board is pleased to announce that the proforma consolidated turnover of the Group for the year 2003 was RMB5,278 million, representing an increase of 105.3% as compared to that of 2002; while proforma profit attributable to shareholders was RMB1,076 million, representing a remarkable growth of 177.4% compared to 2002. Proforma basic earnings per share increased by 177.4% from 2002 to RMB0.51.

BUSINESS REVIEW

Demand for steel remained on the growth trend in 2003, against the backdrop of continued swift growth in the PRC's economy. The Group expanded its production capacity to capitalize on market opportunities and, as a result, we were able to achieve continued growth of both turnover and profit.

In 2003, the Group's sale of billets and strips amounted to approximately 1.714 million tonnes and 0.707 million tonnes respectively, representing a growth of 79.7% and 24.9% respectively when compared to the sale of 0.954 million tonnes of billets and 0.566 million tonnes of strips in 2002. The average prices of billets and strips were RMB2,109 per tonne and RMB2,316 per tonne respectively, representing an increase of 29.8% and 28.2% on the 2002 prices, RMB1,625 and RMB1,807 per tonne.

With the commencement of operation of the Group's new blast furnaces and converter furnace, the annual production capacity as at 31 December 2003 reached 3.10 million tonnes of billets (31 December 2002: 2.10 million tonnes).

CHAIRMAN'S STATEMENT



Although gross profit margin in 2003 was depressed by the increase in the prices of raw materials and dropped slightly to 23.3% (2002: 26.4%), gross profit in 2003 recorded significant growth of 81.6% to RMB1,232 million (2002: RMB678 million) as compared to 2002, benefiting from the increases in sales volume and average sales prices during the same year.

Successful Listing

The Group successfully listed on the Main Board of The Stock of Exchange of Hong Kong Limited on 2 March 2004, and raised approximately HK\$ 2,095 million of development fund. This further marks the recognition and support of the Group by the public, and the growth in the Group's business is projected to be accelerated by its listing.

Human Resources and Remuneration Policies

As at 31 December 2003, the Group had a workforce of 4,462 (31 December 2002: 3,961). Staff cost of the Group approximated RMB106 million (2002: RMB100 million) for the year, representing an increase of 6.0%. The cost included basic salary and benefits, as well as other staff benefits such as discretionary bonus, medical and insurance plans, pension schemes, unemployment insurance plans and maternity insurance plans. We design our remuneration policies to tie our employees' income to their production and/or sales volume, as well as to the extent they meet our quality control and cost

control targets. In order to improve our productivity and further enhance the quality of our workforce, we have implemented continuing education and training programmes for both the management staff and factory workers.

Dividend Policy

The Company intends to distribute not less than 20% of the Group's distributable profit as dividend for the period 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 our future operation and earnings, capital demand 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 profits should not be higher than its net profit after allocations made to the statutory reserve and welfare funds as determined by PRC GAAP.

Capital Structure

The cash and bank balances of the Group at the end of the year amounted to RMB189 million (31 December 2002: RMB167 million), representing an increase of 13.2% over the previous year.

The current ratio has improved from 0.78 at the end of 2002 to 0.96 at the end of 2003. The current ratio will be improved significantly after taking into account the proceeds of the Listing.

As at 31 December 2003, the Group had the loans repayable within one year and loans repayable after one year amounting to RMB322 million and RMB683 million respectively (31 December 2002: RMB190 million and RMB162 million). The increase in net loan was mainly utilised in financing the addition of fixed assets and distributions to shareholders of subsidiaries.

The proforma consolidated interest expenses in 2003 amounted to RMB30.796 million (2002: RMB18.376 million). The interest coverage was 38.1 (2002: 32.9) which is at a healthy level.

As at 31 December 2003, the ratio between total liabilities and total assets of the Group was 75.0%, representing an improvement on the same number at 31 December 2002 of 84.4%.

In summary, the financial status of the Group was further strengthened when compared to 2002.



Use of Proceeds of Global Offering

In March 2004, the Company issued 805,000,000 shares of HK\$ 2.75 per share by way of global offering and over-allotment. The net proceeds after deducting the relevant expenses was approximately HK\$ 2,095 million.

Although certain plans have already entered the implementation phase, the Group has not utilised the proceeds yet. The proceeds are placed in banks as short-term deposits.



Capital Commitments

As at 31 December 2003, the Group had capital commitments in respect of authorised but not yet contracted capital commitment for the production of H-section steel, which amounted to RMB820 million (31 December 2002: RMB255 million). Such capital commitments will be financed by the funds raised by the listing.

Guarantees and Contingent Liabilities

As at 31 December 2003, the Group had contingent liabilities in respect of guarantees provided for the grant of bank loan to third parties amounting to RMB27.0 million (31 December 2002: RMB17.0 million).

Pledge of Assets

As at 31 December 2003, the net book value of buildings and machinery pledged as security for the Group's long-term loans amounted to approximately RMB212 million (31 December 2002: RMB347 million).

Exchange Risks

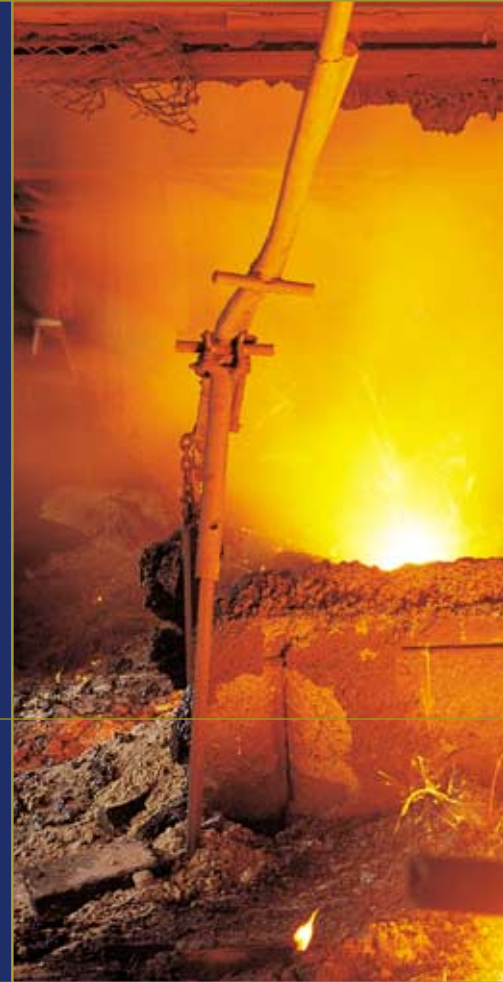
As most of the sale of products, the purchase of raw materials and bank loan committed by the Group were mainly in Renminbi in 2003 and 2002, our exposure to the foreign exchange risk remains fairly limited.

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. Currently, the Group has not used any derivatives to hedge its interest rate risks.



EXPANDING CAPACITY TO MEET MARKET DEMAND

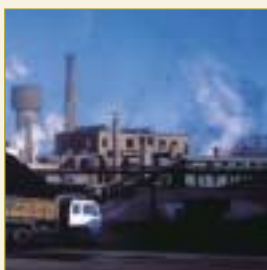


Prospects

In the coming year, demand for steel is expected to remain strong given the continued growth in the PRC's economy. The management of Group will strive to further improve its product mix, expand its production capacity and reduce costs, with the aim of consolidating its competitiveness and seeking better returns for its shareholders. Accordingly, the management has set the following goals:

1. Improve product mix by introducing new steel products

Currently, our principal products are billets and strips. In order to generate higher profit margins, we plan to diversify our product base and improve our product mix by manufacturing and selling higher-margin, higher value-added steel products, such as mid-width strips and H-section steel, that are subject to less competition and offer greater versatility. We are constructing a new steel rolling line to produce mid-width strips. We estimate that the production capacity of this new line, which we expect to commence operation in the second quarter of 2004, will be approximately 0.80 million tonnes of mid-width strips per year. We also plan to construct a new steel rolling line to manufacture H-section steel with an annual production capacity of approximately one million tonnes.



2. Expand our production capacity to achieve greater economies of scale

We plan to expand our annual production capacity from approximately 3.1 million tonnes of steel products to approximately 4.0 million tonnes by undertaking certain expansion, major upgrades and technical renovation of our production facilities.

3. Enhance production efficiency and lower production cost

Apply coal powder blowing technique in iron smelting to reduce coke consumption, thereby improving our coking ratio and lowering our raw material costs. We expect to complete this technical renovation programme in the second half of 2004; and

Recycling energy generated in the production process. In this regard, in the first half of 2004, we expect to commence operation of a new 25,000kW gas-fired power generator.

On Behalf of the Board
China Oriental Group Company Limited

Han Jingyuan
Chairman and Chief Executive Officer

Hong Kong, 23 April 2004

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Han Jingyuan, 47, is the Chairman and Chief Executive Officer of the Company, and also serves as chairman of the board and general manager 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. As general manager of Jinxi Limited, Mr. Han bears overall responsibility for its management and operations, with all deputy general managers and other management personnel reporting to Mr. Han. 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 of Wellbeing Holdings Limited, the controlling shareholder of the Group.

Chen Ningning, 33, 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 of Smart Triumph Corporation, a substantial shareholder of the Group.

Zhu Jun, 40, is an executive Director and also serves as an executive director of the board and a deputy 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. He 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 primarily bearing responsibility for the strategic planning of Jinxi Limited which encompassed detailed planning for our various technical requirements. He has been in charge of the study, testing and implementation of the various development projects carried out by Jinxi Limited, which included new production facilities which have significantly increased our production volume and product mix. He has also been the key person in initiating various technical upgrades and was primarily in charge of the testing and implementation of many of our important production facilities currently in place. He was appointed to Jinxi Limited's board of directors in June 2000.

Zhu Zijiu, 56, is an executive Director and also serves as an executive director of the board with primary responsibility for personnel matters, a communist party secretary and the head of corporate administration of Jinxi Limited. Mr. Zhu is also the leader of a sub-committee of Jinxi Limited responsible for the review and approval of tenders for all purchases by Jinxi Limited with a value in excess of RMB50,000. As head of corporate administration of Jinxi Limited, he is mainly responsible for human resources, cadre training, trade union and logistics services. Prior to joining Jinxi Limited, Mr. Zhu served for 3 years as factory deputy director of Qianxi Sintering Factory which was based in Qianxi County. Mr. Zhu also worked for Jinxi Iron Factory for 10 years until 1999, first serving as vice general secretary and then as general secretary of the communist party committee. Mr. Zhu has accumulated 13 years of working experience in the iron and steel industry. He served on Jinxi Limited's board of directors between January 2000 and December 2002, before serving as Jinxi Limited's chairman of the supervisory committee. Since 30 October 2003, Mr. Zhu has again served on the board of directors of Jinxi Limited.

Tang Chi Fai, 38, 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 The Hong Kong Society of Accountants. Previously, Mr. Tang worked as audit manager in the Hong Kong office of an international accounting firm for nearly six years and as financial controller for a red chip company listed in Hong Kong for over seven years. Mr. Tang joined PMC in September 2003 as chief financial officer. Mr. Tang has over ten years of experience on corporate financial, accounting and auditing in both Hong Kong and the PRC.

Independent non-executive Directors

Gao Qingju, 67, 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, 57, 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.

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, aged 37, 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 in Hong Kong and a fellow member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. He has over 13 years' experience in internal auditing, external auditing and accounting.

Directors' Report

The directors herein present their first annual report and the audited financial statements of China Oriental Group Company Limited ("the Company") for the period from 3 November 2003 (date of incorporation) to 31 December 2003 and the proforma financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") (legally created on 20 January 2004) for the year ended 31 December 2003.

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 other companies now 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 proforma financial statements are set out in notes 1, 2, 23 and 30 to the proforma 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.

In order to apprise the Company's shareholders of the proforma consolidated financial results and position of the Group, as if the Group had been in existence throughout the year ended 31 December 2003, the proforma financial statements are included in this annual report. The basis of preparing the aforesaid proforma financial information, which is detailed in note 1 and 2 to the proforma accounts, is consistently applied for presenting information relating to the Group in this directors' report.

PRINCIPAL ACTIVITIES

As at 31 December 2003, the Company's principal activity is investment holding. Had the Group Reorganisation been completed on 31 December 2003, the principal activity of the Company's principal operating subsidiary would have been the production and sales of iron and steel products. The nature of the principal activity has not changed during the year.

SEGMENT INFORMATION

All the Group's proforma consolidated turnover and contribution to results are derived from PRC and mainly from the production and sales of iron and steel products for the two years ended 31 December 2003 and are set out in note 3 to the proforma accounts.



RESULTS AND DIVIDENDS

The Group's proforma consolidated profit and loss account for the year ended 31 December 2003 and its proforma consolidated balance sheet as at that date, together with the balance sheet of the Company as at 31 December 2003, are set out in the financial statements on pages 33 to 34 and 25.

Prior to the Group Reorganisation and the global offer, the Company did not have any distributable reserves at the balance sheet date.

As the Company was recently listed on the Stock Exchange and the Group was not legally formed on 20 January 2004, the Board of Directors does not recommend the payment of dividend for the period from 3 November 2003 (date of incorporation) to 31 December 2003.

SUMMARY FINANCIAL INFORMATION

A summary of the proforma financial results and assets, liabilities and minority interests of the Group for the last four financial years, is set out on page 67.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 11 to the proforma accounts.

The fair market value of the parcel of land, various buildings and structures located at the east of Santunying Town, Qianxi County, Hebei Province, PRC at 31 December 2003, was RMB518,382,000, details of which are disclosed in the property valuation report of the Prospectus.

SHARE CAPITAL

Details of the movements in the Company's issued share capital since its incorporation on 3 November 2003, together with the reasons therefor, are set out in note 8 and 12 to the accounts.

RESERVES

The Group did not exist as at 31 December 2003. Details of the movements in the reserves of the Group on proforma basis and the Company during the year are set out in note 23 to the proforma accounts and note 9 to accounts, respectively.



DISTRIBUTABLE RESERVES

At 31 December 2003, the Company did not have any distributable reserves.

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 Group did not exist at 31 December 2003. Had the Group Reorganisation been completed, the largest customer of the Group by itself and taken together with the next four largest customers accounted for 7.9% and 30.1% respectively of the Group's proforma 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 proforma consolidated purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company for the period from 3 November 2003 (date of incorporation) to the date of this report were as follows:

Executive directors

Mr. Han Jingyuan	(appointed on 13 November 2003)
Ms. Chen Ningning	(appointed on 13 November 2003)
Mr. Zhu Jun	(appointed on 23 December 2003)
Mr. Zhu Zijiu	(appointed on 23 December 2003)
Mr. Tang Chi Fai	(appointed on 23 December 2003)

Independent non-executive directors

Mr. Gao Qingju	(appointed on 23 December 2003)
Mr. Yu Tung Ho	(appointed on 23 December 2003)

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

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 Ms. Chen Ningning and Mr. Zhu Jun's existing service contracts are RMB100,000. The basis of determining the director's fee is based on mutual negotiation between the Directors. Save as disclosed in this annual report, Ms. Chen Ningning and Mr. Zhu Jun do not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group has purchased raw materials from Pioneer Metals Company Limited ("PMC"), a company in which Ms. Chen Ningning, is interested so as to control the exercise of 50% of the voting power at general meeting of PMC. Further details of the transactions undertaken in connection therewith are included in note 26 to the proforma accounts.

Save as the transactions inherited to the Group Reorganisation as disclosed in the Prospectus and in note 23 and 26 to the proforma 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 12 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Two of the executive directors (including Ms. Chen Ningning) have service contracts with the Company for a fixed term of three years commencing from 13 November 2003, whilst the other three executive directors (including Mr. Zhu Jun) have service contracts with the Company for a fixed term of three years commencing from 23 December 2003. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

The independent non-executive directors are appointed for a period of one year commencing from 23 December 2003 in accordance with their service contracts.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

Subsequent to the balance sheet date, on 2 March 2004, the Company was listed on the Stock Exchange. Accordingly, at the date of this report, 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	Total interests	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

Note 1: At the date of this report, 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 owns 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 owns 51,752,725 shares or 1.78% of the issued shares of the Company.

Note2: At the date of this report, Ms. Chen Ningning owns 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owns 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at the date of this report, none of the Directors and chief executives and their associates has 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' 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 23 to the proforma accounts, at no time since the Company's incorporation 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 23 to the proforma account, 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 the date of this report, 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

Note1: At the report date, the interests of Smart Triumph Corporation in the shares of the Company are also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owns 50% of the issued share capital of Smart Triumph.

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

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of significant related party and connected transactions of the Group under the Listing Rules are set out in note 26 to the proforma accounts.

With respect to the purchases of raw material by the Group from PMC as set out in note 26 to the proforma 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 note 26 to the proforma 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 the date of this report, 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 28 to the proforma accounts and note 12 to the accounts.

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, throughout the accounting period covered by the annual report, except that the audit committee was set up on 23 December 2003.

AUDIT COMMITTEE

The Company has set up an audit committee on 23 December 2003 and the terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Society of Accountants was adopted as the terms of reference of the audit committee with the exception that the audit committee may have a minimum of two members.

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 two independent non-executive directors of the Company.

AUDITORS

PricewaterhouseCoopers were appointed as the first auditors of the Company for the period ended 31 December 2003.

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

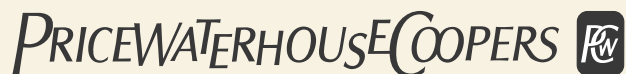
CHINA ORIENTAL GROUP COMPANY LIMITED

Han Jingyuan

Chairman and Chief Executive Officer

Hong Kong, 23 April 2004

Auditors' Report to the shareholders of the Company



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, 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 24 to 31 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 Society of 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, 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 as at 31 December 2003 and of its loss and cash flows for the period from 3 November 2003 (date of incorporation) to 31 December 2003 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 April 2004

Profit and Loss Account

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in Renminbi ("RMB") thousands)

	<i>Note</i>	
Turnover	3	—
Administrative expenses		<u>(1,279)</u>
Loss for the period	4	<u>(1,279)</u>

Balance Sheet

As at 31 December 2003
(All amounts in RMB thousands)

	<i>Note</i>	
Current liabilities		
Other payables		1,279
Net current liabilities		<u>1,279</u>
Represented by:		
Share capital	8	—
Reserves	9	(1,279)
Shareholders' deficit		<u>(1,279)</u>

Approved by the Board of Directors on 23 April 2004

Han Jingyuan
Chairman and Chief Executive Officer

Chen Ningning
Vice Chairman

Cash Flow Statement

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands)

	<i>Note</i>
Loss for the period	1,279
Increase of other payable	<u>(1,279)</u>
Net cash inflow from operating activities	11 <u>—</u>
Increase in cash and cash equivalents during the period	—
Cash and cash equivalents as at 31 December 2003	<u>—</u>

Statement of Changes in Shareholders' Equity

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands)

Total equity as at the date of incorporation	—
Issue of ordinary shares	—
Loss for the period	(1,279)
	<hr/>
Total equity as at 31 December 2003	(1,279)
	<hr/>

Notes to the Accounts

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

1. COMPANY BACKGROUND

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 on 20 January 2004 as detailed in section headed "Corporate Structure" of its global offering prospectus dated 18 February 2004.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of presentation

The accounts have been prepared on a going concern basis, notwithstanding that the Company has incurred a loss since incorporation and had shareholders' deficit of approximately RMB 1.3 million and net current liabilities with same amount at 31 December 2003, on the basis that the Company has raised gross proceeds from the global offering of the Company's shares of approximately RMB 2.2 billion subsequent to the balance sheet date. The Directors are satisfied that the Company will be able to meet in full its financial obligations when they fall due for the foreseeable future and to continue its business as a going concern.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

(b) 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 profit and loss account.

(c) Retirement benefit costs

The Company operates defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the Company in independently administered funds. Monthly contributions made by the Company are calculated based on certain percentages of the applicable payroll costs or a fixed sum as stipulated under the relevant requirements, whichever is lower. Contributions under the defined contribution scheme are charged to the profit and loss account as incurred.

Notes to the Accounts

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

3. TURNOVER

The Company is principally engaged in investment holding. It did not derive any income during the period from 3 November 2003 (the date of incorporation) to 31 December 2003 (the "Period").

4. LOSS FOR THE PERIOD

Loss for the Period is stated after charging:

Auditors' remuneration	1,279
------------------------	-------

5. TAXATION

No provision for taxation has been made in the accounts as the Company had no estimated assessable income for the Period.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

During the Period, no emoluments were paid to the Directors or senior management.

7. DIVIDENDS

The Directors of the Company do not recommend the payment of a dividend for the Period.

8. SHARE CAPITAL

	Number of Shares of HK\$0.1 each	Amount
--	-------------------------------------	--------

Authorised

Upon Incorporation on 3 November 2003 (a)	1,000,000	—
Increase in authorised share on 23 December 2003 (b)	4,999,000,000	—

31 December 2003	5,000,000,000	—
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Issued

Share allotted and issued nil paid on 13 November 2003 (c)	1,000,000	—
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31 December 2003	1,000,000	—
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(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.

Notes to the Accounts

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

8. SHARE CAPITAL *(continued)*

- (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 was allotted and issued to Wellbeing Holdings Limited (the "Wellbeing"), 389,000 shares was allotted and issued to Smart Triumph Corporation (the "Smart Triumph") and 25,000 shares was allotted and issued to Chingford Holdings Limited (the "Chingford"), all for nil paid.

9. RESERVE

Accumulated losses

Loss for the Period	1,279
31 December 2003	1,279

The Company has no distributable reserve available to shareholders as at 31 December 2003.

10. CONTINGENT LIABILITY

As at 31 December 2003, the Company has no material contingent liability.

11. COMMITMENT

As at 31 December 2003, the Company has no material commitment.

12. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2003:

- (a) 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 Development Limited, Good Lucky Enterprises Limited and First Glory Services Limited (which collectively held 97.6% of the issued share capital of Hebei Jinxi Iron and Steel Company 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.
- (b) On 12 March 2004, the Company completed its global offering of 805,000,000 shares. 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.

Notes to the Accounts

For the period from 3 November 2003 (the date of incorporation) to 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

13. ULTIMATE HOLDING COMPANY

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

14. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 April 2004.

Auditors' Report to the Directors of the Company



羅兵咸永道會計師事務所

PricewaterhouseCoopers

22nd Floor, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE DIRECTORS OF CHINA ORIENTAL GROUP COMPANY LIMITED

(incorporated in Bermuda with limited liability)

We have audited the proforma accounts on pages 33 to 66 which have been prepared in accordance with accounting policies set out in note 2 to the proforma accounts which comply with accounting principles generally accepted in Hong Kong, except that the effects of the group reorganisation entered into after balance sheet date have been accounted for using merger accounting which is not in accordance with the requirements of Statement of Standard Accounting Practice 2.127 "Accounting for group reconstructions" (the "SSAP 27") issued by the Hong Kong Society of Accountants. Although the group reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that accounts should not incorporate a combination which occurs after the date of the most recent balance sheet included in the accounts.

Respective responsibilities of Directors and Auditors

The Directors of China Oriental Group Company Limited (the "Company") are responsible for the preparation of proforma accounts which are properly prepared in accordance with the accounting policies set out in note 2 to the proforma accounts. In preparing such proforma accounts 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 proforma accounts and to report our opinion solely to you, as a body, 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 Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the proforma accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the proforma 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 proforma accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the proforma accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the proforma accounts for the year ended 31 December 2003 have been properly prepared in accordance with the accounting policies set out in note 2 to the proforma accounts and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 April 2004

Proforma Consolidated Profit and Loss Account

For the year ended 31 December 2003
(All amounts in Renminbi ("RMB") thousands, except for earnings per share)

	<i>Note</i>	2003	2002
Turnover	3	5,277,874	2,571,304
Cost of sales		(4,046,082)	(1,892,917)
Gross profit		1,231,792	678,387
Other revenues	3	23,860	21,059
Selling and administrative expenses		(78,498)	(77,629)
Other operating expenses		(10,364)	(17,668)
Operating profit	4	1,166,790	604,149
Finance costs	5	(30,796)	(18,376)
Share of profit of an associated company		6,672	588
Profit before taxation		1,142,666	586,361
Taxation	6	(40,018)	(188,850)
Profit after taxation		1,102,648	397,511
Minority interests		(26,358)	(9,491)
Profit attributable to shareholders		1,076,290	388,020
Dividends	9	468,669	369,863
Basic earnings per share	10	RMB 0.51	RMB 0.18
Diluted earnings per share	10	Not applicable	Not applicable

Proforma Consolidated Balance Sheet

As at 31 December 2003

(All amounts in RMB thousands)

	Note	2003	2002
Non-current assets			
Fixed assets	11	1,990,327	884,818
Interests in an associated company	12	5,565	1,094
Long-term advances to suppliers	13	50,000	2,000
Deferred tax assets	24	208	4,130
		2,046,100	892,042
Current assets			
Inventories	14	691,185	241,535
Trade receivables	15	266,573	624,790
Prepayments, deposits and other receivables	16	563,710	266,635
Amounts due from related parties	26(c)	68,366	18,612
Bank and cash balances	17	152,746	118,263
Restricted bank balances	17	36,519	48,520
Current portion of long-term advances to suppliers	13	50,000	3,200
Other current assets		1,415	1,159
		1,830,514	1,322,714
Current liabilities			
Trade payables	18	293,183	164,734
Accruals, advances from customers and other current liabilities	19	1,087,552	703,004
Amounts due to related parties	26(c)	6,975	440,555
Taxation payable		192,660	189,339
Dividend payable		3,329	2,279
Current portion of long-term loans	21	162,230	121,490
Short-term bank loans	20	160,000	68,634
		1,905,929	1,690,035
Net current liabilities		(75,415)	(367,321)
Total assets less current liabilities		1,970,685	524,721

Proforma Consolidated Balance Sheet (cont'd)

As at 31 December 2003
(All amounts in RMB thousands)

	Note	2003	2002
Non-current liabilities			
Long-term loans	21	683,000	162,230
Long-term advances from customers	22	58,000	16,000
Long-term due to related parties	26(c)	260,651	—
		1,001,651	178,230
Minority interests			
		23,168	8,273
Net assets			
		945,866	338,218
Represented by:			
Share capital			
	23	223,776	223,776
Reserves			
	23	722,090	114,442
Shareholders' equity			
		945,866	338,218

Approved by the Board of Directors on 23 April 2004

Han Jingyuan

Chairman and Chief Executive Officer

Chen Ningning

Vice Chairman

Proforma Consolidated Cash Flow Statement

For the year ended 31 December 2003
(All amounts in RMB thousands)

	Note	2003	2002
Operating activities			
Net cash inflow generated from operations	25(a)	342,512	168,883
Interest received		1,426	620
Interest paid		(22,837)	(18,039)
PRC income tax paid		(30,854)	(55,321)
Net cash inflow from operating activities		290,247	96,143
Investing activities			
Purchase of fixed assets		(429,461)	(180,691)
Proceeds from disposal of fixed assets		821	6,552
Acquisition of interests in an associated company		—	(700)
Net cash outflow from in investing activities		(428,640)	(174,839)
Net cash outflow before financing activities		(138,393)	(78,696)
Financing activities			
New short-term bank loans	25(b)	236,767	68,634
Repayment of short-term bank loans	25(b)	(145,401)	(6,630)
New long-term loans	25(b)	1,003,000	—
Repayment of long-term loans	25(b)	(441,490)	—
Dividend paid		(480,000)	—
Issue of ordinary shares		—	70,615
Net cash inflow from financing activities		172,876	132,619
Increase in cash and cash equivalents		34,483	53,923
Cash and cash equivalents, beginning of year		118,263	64,340
Cash and cash equivalents, end of year	17	152,746	118,263

Proforma Consolidated Statements of Changes in Shareholders' Equity

For the year ended 31 December 2003 (All amounts in RMB thousands)

	<i>Note</i>	2003	2002
Total equity as at 1 January		338,218	248,707
Issue of ordinary shares		–	68,929
Profit attributable to shareholders	23	1,076,290	388,020
Dividends declared	23	(468,669)	(369,863)
Others	23	27	2,425
Total equity as at 31 December		945,866	338,218

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(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 “Prospects”).

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 subsidiaries set out in note 30 thereafter.

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 proforma accounts are set out below:

(a) Basis of preparation of proforma accounts

Although the current group structure resulting from the group Reorganisation, as referred to in note 1 to the proforma accounts, did not legally exist until 20 January 2004, the Directors consider that meaningful information is provided by treating the Group as a continuing entity as if the group structure as at 20 January 2004 had been in existence from the beginning of the year ended 31 December 2002.

The proforma 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 Society of Accountants except for the adoption of merger accounting which is not in compliance with SSAP 27 as described in note 2(b) below. The proforma accounts have been prepared under the historical cost convention.

As at 31 December 2002, Jinxi Limited had a wholly owned subsidiary named Tangshan Huineng Electricity Generating Company (the “Huineng Limited”), which was previously engaged in electricity generation for Jinxi Limited. On 28 February 2003, Huineng Limited was liquidated and its assets and liabilities were transferred to Jinxi Limited. The results of Huineng Limited from the beginning of the 2002 to the date of the liquidation are included in the proforma accounts of the Group.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation

The proforma consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December 2003.

The proforma consolidated accounts incorporate the effects of the group Reorganisation completed on 20 January 2004 (as described in note 1 above). For the purpose of the proforma accounts presentation, the Reorganisation has been accounted for on the basis of merger accounting. This treatment is not in accordance with SSAP 27 because, although the Reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that accounts should not incorporate a combination which occurs after the date of the most recent balance sheet included in the accounts.

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.

The results of subsidiaries acquired or disposed of during the year are included in the proforma 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.

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 proforma consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the proforma 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.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Associated companies *(continued)*

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of 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 proforma consolidated profit and loss account.

(e) Fixed assets and depreciation

(i) *Fixed assets and depreciation*

Fixed assets, comprising buildings, machinery, furniture and fixtures 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

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

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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

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 proforma consolidated profit and loss account.

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 proforma 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 cost 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, which is amortised on a straight-line basis over the lease periods.

(f) 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 proforma consolidated profit and loss account on a straight-line basis over the lease periods.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) 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 weight 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.

(h) 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.

(i) Cash and cash equivalents

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

(j) 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.

(k) Pension obligations

The Company and its subsidiaries that are incorporated in the British Virgin Islands (the "BVI") operate defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the Company and its subsidiaries that are incorporated in the BVI in independently administered funds. Monthly contributions made by the Company and its subsidiaries that are incorporated in the BVI are calculated based on certain percentages of the applicable payroll costs or a fixed sum as stipulated under the relevant requirements, whichever is lower.

In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries that are incorporated in the PRC participate in a defined contribution retirement benefit plan organised by Hebei provincial government. The Hebei provincial government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to this plan are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Pension obligations *(continued)*

The Group's contributions to the defined contribution retirement benefit plan are charged to the proforma consolidated profit and loss account as incurred.

(l) 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 proforma 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.

(m) 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 proforma 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 proforma accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) 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.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition *(continued)*

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

(o) 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 proforma consolidated profit and loss account in the year in which they are incurred.

(p) 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 Proforma Accounts

For The Year Ended 31 December 2003
(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 2003 and 2002 are as follows:

	2003	2002
Turnover:		
Gross sales, less discounts and returns		
– billets	3,615,035	1,550,755
– strips	1,636,100	1,023,678
– others	26,778	13,121
	5,277,913	2,587,554
Less: Taxes (note)	(39)	(16,250)
	5,277,874	2,571,304
Other revenues:		
Interest income	3,701	3,346
Sales of raw materials and by-products	13,971	14,997
Others	6,188	2,716
	23,860	21,059
Total revenues	5,301,734	2,592,363

(note) The Group's PRC subsidiaries are subject to the following taxes, which are recorded as deductions from gross sales:

- City Development Tax, levied at 5 per cent. of net value-added tax (the "VAT") payable, and
- Education Supplementary Tax, levied at 3.5 per cent. of net VAT payable.

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 PRC, Jinxi Limited is entitled to exemption of above taxes thereafter.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

3. TURNOVER AND REVENUES

(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 all of the Group's turnover and operating profit are earned within the PRC and all operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

4. OPERATING PROFIT

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

	2003	2002
Staff costs (including directors' emoluments)		
– Salaries and wages	70,271	69,645
– Pension costs-defined contribution plan (<i>Note 7</i>)	17,847	17,667
– Other welfare expenses	17,539	12,414
	105,657	99,726
Depreciation of fixed assets	96,648	70,995
Operating lease rental in respect of land use rights	2,882	800
Loss on disposal of fixed assets, net	555	2,003
(Reversal of provision)/provision for doubtful receivables	(5,356)	6,734
Auditors' remuneration	2,131	–

5. FINANCE COSTS

	2003	2002
Interest expenses		
– bank and other loans wholly repayable within five years	27,523	18,039
– others	3,273	337
	30,796	18,376

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

6. TAXATION

(a) Taxation represents:

	2003	2002
Current income tax		
— PRC enterprise income tax (the “EIT”)	33,894	172,021
Deferred taxation (<i>Note 24 (a)</i>)	3,922	16,635
Share of taxation of PRC EIT of an associated company	2,202	194
	40,018	188,850

Hong Kong profits tax has not been provided for, as the Group has not carried out any operations in Hong Kong during the years ended 31 December 2003 and 2002.

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.

For the year ended 31 December 2002, the PRC state EIT rate of the indirect subsidiary of the Company, Jinxi Limited is 30% and the local 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 is 3% for the year ended 31 December 2003.

For the year ended 31 December 2002 and the period ended 28 February 2003, the aggregate PRC EIT rate of the subsidiary of Jinxi Limited, Huineng Limited should also be 33%. On 28 February 2003, Huineng Limited was liquidated and its assets and liabilities were transferred to Jinxi Limited. However, in accordance with related PRC tax regulation and approval from local tax bureau, the subsidiary was entitled as a resource-synthetically-using enterprise. It was therefore exempted from the PRC EIT for the year ended 31 December 2002.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(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 2003 and 2002 as follows:

	2003	2002
Profit before taxation	1,142,666	586,361
Taxation calculated at statutory tax rate	377,080	193,499
Effect of tax exemption of Jinxi Limited	(343,191)	—
Effect of tax exemption of Huineng Limited	—	(4,649)
Effect of tax loss of the Company	421	—
Effect of tax loss of direct subsidiaries	9	—
Effect of different tax rate of the associated company	2,002	—
Effect of change of tax rate when assessing deferred tax assets	3,755	—
Others	(58)	—
	40,018	188,850

7. 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 27% for the year ended 31 December 2003 and 26% for the year ended 31 December 2002 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.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2003	2002
Fees	—	—
Salaries and allowances	110	98
Bonuses	1,420	1,100
Pension costs-defined contribution plan	413	291
	1,943	1,489

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

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

(a) Directors' emoluments *(continued)*

The remuneration of the directors during the years ended 31 December 2003 and 2002 fell within the following bands:

	2003	2002
Nil to RMB 1,060,000 (approximately to HK\$1,000,000)	3	3

None of the directors waived or agreed to waive any remuneration during the years ended 2003 and 2002. No emoluments were paid to independent non-executive directors during the years ended 2003 and 2002.

(b) Five highest paid individuals

The five highest paid individuals consisted of:

	2003	2002
Number of directors	2	3
Number of employees	3	2
	5	5

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 8 (a) above. Details of emoluments paid to the highest paid individuals, who were not directors of the Company, are as follows:

	2003	2002
Salaries and allowances	104	60
Bonuses	1,500	580
Pension costs-defined contribution plan	433	166
	2,037	806

During the years ended 31 December 2003 and 2002, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of office.

All remuneration of the five highest paid individuals for the years ended 31 December 2003 and 2002 fell within the range of nil to RMB 1,060,000 (approximate to HK\$ 1,000,000).

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

9. DIVIDENDS

The Company was incorporated on 3 November 2003. The Directors of the Company do not recommend the declaration of a dividend for the period from 3 November 2003 (date of incorporation) to 31 December 2003.

Dividends declared by Jinxi Limited to the then shareholders including minority interests during the years ended 31 December 2003 and the 2002 were approximate to RMB 480 million and RMB 379 million respectively.

10. PROFORMA EARNINGS PER SHARE

The basic proforma earnings per share is calculated based on the proforma profit attributable to shareholders of RMB 1,076,290,000 (2002: RMB 388,020,000) and 2,100,000,000 (2002: 2,100,000,000) proforma shares in issue during the year, and on the assumption that the Reorganisation and the issue of 2,099,000,000 shares of the Company had been effective on 1 January 2002 (note 23).

The diluted proforma earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2003 (2002: Nil).

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

11. FIXED ASSETS

	Land use rights (a)	Buildings	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
Cost							
At 1 January 2003	—	285,689	634,541	7,902	9,988	112,169	1,050,289
Additions	43,387	962	12,916	640	11,756	1,134,349	1,204,010
Transfers	—	25,365	730,675	—	—	(756,040)	—
Disposals	—	(1,610)	(643)	(965)	(507)	—	(3,725)
At 31 December 2003	43,387	310,406	1,377,489	7,577	21,237	490,478	2,250,574
Accumulated depreciation							
At 1 January 2003	—	47,118	111,173	2,182	4,998	—	165,471
Charge for the year	281	12,893	79,483	1,504	2,487	—	96,648
Disposals	—	(290)	(593)	(502)	(487)	—	(1,872)
At 31 December 2003	281	59,721	190,063	3,184	6,998	—	260,247
Net book value							
At 31 December 2003	43,106	250,685	1,187,426	4,393	14,239	490,478	1,990,327
At 31 December 2002	—	238,571	523,368	5,720	4,990	112,169	884,818

(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.

As at 31 December 2003, the net book value of buildings and machinery pledged as security for the Group's long-term loans amounted to approximately RMB 212 million (2002: RMB 347 million) (Note 21).

As at 31 December 2003, the fair market value of Jinxi Limited's parcel of land, buildings and structures included in fixed assets was approximately RMB 518.4 million, details of which were disclosed in the property valuation report of the Prospectus.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

11. FIXED ASSETS (continued)

Pursuant to a circular issued by the General Office of the State Council of PRC (the "GESC") in January 2000 as detailed in section headed "Risk Factors" of the Prospectus (國務院辦公廳轉發國家經貿委關於清理整頓小鋼鐵廠意見的通知), all small steel product lines should be shutdown before the end of 2002. Thereafter, Jinxi Limited provided an accelerated depreciation to fully depreciate the related building and machinery by the end of 2002 to meet the criteria set by GESC. For the year ended 31 December 2002, the impact of such change in remaining useful lives of such building and machinery resulted an additional depreciation charge on the proforma consolidated profit and loss account of approximately RMB 12 million.

During the years ended 31 December 2003 and 2002, there were no borrowing costs capitalised into fixed assets.

12. INTERESTS IN AN ASSOCIATED COMPANY

	2003	2002
Share of net assets	5,565	1,094

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)	RMB 2,000,000	Mining and sale of iron powder

13. LONG-TERM ADVANCES TO SUPPLIERS

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

	2003	2002
Within 1 year	50,000	3,200
1-2 years	50,000	2,000
	100,000	5,200
Less: Current portion included in current assets	(50,000)	(3,200)
	50,000	2,000

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

14. INVENTORIES

	2003	2002
Raw materials and materials-in-transit	652,826	207,285
Work-in-progress	21,594	30,422
Finished goods	16,765	3,828
	691,185	241,535

All inventories were stated at cost.

15. TRADE RECEIVABLES

	2003	2002
Accounts receivables	37,681	46,632
Notes receivables (a)	228,892	578,158
	266,573	624,790

(a) As at 31 December 2003 and 2002, notes receivables were all bank acceptance notes.

As at 31 December 2003, notes receivables that were pledged as security for issuing notes payables and letters of credit amounted to approximately RMB 83 million (2002: nil).

As at 31 December 2003 and 2002, the ageing analysis of trade receivables is as follows:

	2003	2002
Within 3 months	266,573	624,790

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.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2003	2002
Prepayments	533,461	241,490
Deposits and other receivables	30,249	25,145
	563,710	266,635

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

17. BANK AND CASH BALANCES

	2003	2002
Bank and cash balances	152,746	118,263
Restricted bank balances (a)	36,519	48,520
	189,265	166,783

(a) The restricted bank balances were pledged as security for issuing notes payables and letters of credit.

18. TRADE PAYABLES

	2003	2002
Accounts payables	159,183	114,584
Notes payables	134,000	50,150
	293,183	164,734

As at 31 December 2003 and 2002, the ageing analysis of the trade payables is as follows:

	2003	2002
Within 3 months	129,417	123,361
4-6 months	154,213	34,749
7-9 months	4,183	2,521
10-12 months	2,381	684
1-2 years	2,989	3,419
	293,183	164,734

19. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

	2003	2002
Accruals	13,089	1,404
Advances from customers	468,667	359,527
VAT payable	152,234	157,374
Other taxes payable	14,907	14,679
Other payables (a)	438,655	170,020
	1,087,552	703,004

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

19. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES *(continued)*

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

	2003	2002
Payables for purchase of fixed assets	273,021	63,613
Pension payables	63,594	47,903
Customer deposits	45,395	—
Employee deposits	16,153	14,502
Welfare payable	12,561	11,736
Salaries and wages payable	6,943	6,531
Others	20,988	25,735
	438,655	170,020

20. SHORT-TERM BANK LOANS

	2003	2002
Bank loans -		
Secured	—	61,004
Guaranteed (a)	160,000	3,630
Unsecured	—	4,000
	160,000	68,634

(a) As at 31 December 2003, guaranteed short-term bank loans were guaranteed by a supplier. As at 31 December 2002, guaranteed short-term bank loans were guaranteed by a third party.

21. LONG-TERM LOANS

	2003	2002
Bank loans, wholly repayable within five years —		
Secured (a)	222,230	266,920
Guaranteed (b)	130,000	3,800
Unsecured	480,000	—
	832,230	270,720
Other loans, wholly repayable within five years —		
Unsecured (c)	13,000	13,000
	845,230	283,720

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

21. LONG-TERM LOANS (continued)

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

	2003	2002
Within 1 year	162,230	121,490
1-2 years	518,000	162,230
2-5 years	165,000	—
	845,230	283,720
Less: Current portion included in current liabilities	(162,230)	(121,490)
	683,000	162,230

- (a) As at 31 December 2003 and 2002, these long-term bank loans were secured by certain fixed assets of the Group (Note 11).
- (b) As at 31 December 2003, these long-term bank loans were guaranteed by two suppliers amounting to RMB 100 million and RMB 30 million respectively. As at 31 December 2002, these long-term bank loans were guaranteed by a third party.
- (c) Other unsecured loan represented a borrowing from local county government which was interest free and repayable in December 2004.

22. LONG-TERM ADVANCES FROM CUSTOMERS

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

	2003	2002
Within 1 year	—	—
1-2 years	—	—
2-5 years	58,000	16,000
	58,000	16,000

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

23. SHAREHOLDERS' EQUITY

	Reserves					Total Reserves	Total equity
	Share capital (a)	Merger reserve (b)	Capital reserve	Statutory reserves (c)	Retained earnings		
1 January 2003	223,776	(599)	8,001	107,040	—	114,442	338,218
Profit attributable to shareholders	—	—	—	—	1,076,290	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)	(468,669)
Others	—	—	27	—	—	27	27
31 December 2003	223,776	(599)	8,028	313,772	400,889	722,090	945,866

	Reserves					Total Reserves	Total equity
	Share capital (a)	Merger reserve (b)	Capital reserve	Statutory reserves (c)	Retained earnings		
1 January 2002	223,776	(63,952)	—	46,088	42,795	24,931	248,707
Profit attributable to shareholders	—	—	—	—	388,020	388,020	388,020
Profit appropriation	—	—	—	60,952	(60,952)	—	—
Issue of shares of Jinxi Limited	—	63,353	5,576	—	—	68,929	68,929
Dividends declared	—	—	—	—	(369,863)	(369,863)	(369,863)
Others	—	—	2,425	—	—	2,425	2,425
31 December 2002	223,776	(599)	8,001	107,040	—	114,442	338,218

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

23. SHAREHOLDERS' EQUITY (continued)

(a) Share capital

For the purpose of the presentation of the proforma accounts, the balance of the share capital shown in the proforma consolidated balance sheet as at 31 December 2003 and 2002 respectively represented the proforma share capital of the Company as if the Reorganisation had been completed on those dates.

Movements during the year ended 31 December 2003 and up to the completion date of the global offering on 12 March 2004 were:

	Number of Shares of HK\$0.1 each	Amount
Authorised		
On incorporation at 3 November 2003 (i)	1,000,000	—
Increase in authorised share on 23 December 2003 (ii)	4,999,000,000	—
31 December 2003	5,000,000,000	—
Issued		
Share allotted and issued on 13 November 2003 (iii)	1,000,000	—
Share allotted and issued on 20 January 2004 to acquire subsidiaries (iv)	2,099,000,000	223,776
Proforma share capital of the Company at 31 December 2003 and 2002	2,100,000,000	223,776
New issue of shares (v)	700,000,000	74,410
At 2 March 2004, date of the listing	2,800,000,000	298,186
Over-allotment of shares (v)	105,000,000	11,147
At 12 March 2004, completion date of the global offering	2,905,000,000	309,333
(i) 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.		
(ii) 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.		

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

23. SHAREHOLDERS' EQUITY *(continued)*

(a) Share capital *(continued)*

- (iii) On 13 November 2003, 586,000 shares were allotted and issued to Wellbeing Holdings Limited (the "Wellbeing"), 389,000 shares were allotted and issued to Smart Triumph Corporation (the "Smart Triumph") and 25,000 shares were allotted and issued to Chingford Holdings Limited (the "Chingford"), all for nil paid.
- (iv) 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 Development Limited (the "Gold Genesis"), Good Lucky Enterprises Limited (the "Good Lucky") and First Glory Services Limited (the "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.
- (v) On 12 March 2004, the Company completed its global offering of 805,000,000 shares. 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.

(b) 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.

(c) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the 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.

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

24. DEFERRED TAX ASSETS

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

	2003	2002
Beginning balance of the year	4,130	20,765
Transfer to proforma consolidated profit and loss account (<i>Note 6 (a)</i>)	(3,922)	(16,635)
Ending balance of the year	<u>208</u>	<u>4,130</u>

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 and 33% for the year ended 31 December 2002.

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

	2003	2002
Provisions for doubtful receivables	<u>208</u>	<u>4,130</u>

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

25. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

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

	2003	2002
Profit before taxation	1,142,666	586,361
(Reversal of provision)/provision for doubtful receivables	(5,356)	6,734
Depreciation of fixed assets	96,648	70,995
Share of profit of an associated company	(6,672)	(588)
Loss on disposal of fixed assets, net	555	2,003
Interest income	(3,701)	(3,346)
Interest expenses	30,796	18,376
Operating profit before working capital changes	1,254,936	680,535
Increase in inventories	(449,650)	(83,993)
Decrease/(increase) in restricted bank balances	12,001	(47,238)
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	(498,354)	(899,068)
(Increase)/decrease in long-term advances to suppliers	(94,800)	6,400
(Increase)/decrease in amount due from related parties	(49,754)	59,872
Increase in trade payables, taxation payable, accruals, advances from customers and other current liabilities	298,147	465,306
Increase in long-term advances from customers	42,000	16,000
Decrease in amount due to related parties	(172,014)	(28,931)
Net cash inflow generated from operations	342,512	168,883

(b) Analysis of changes in financing

	Short-term bank loans	Long-term loans
1 January 2002	6,630	283,720
New loans	68,634	—
Repayments	(6,630)	—
31 December 2002	68,634	283,720
New loans	236,767	1,003,000
Repayments	(145,401)	(441,490)
31 December 2003	160,000	845,230

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

26. 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 2003 and 2002, the directors are of the view that the following companies and person are related parties of the Group:

Name	Relationship with the Group
Qianxi County Qianxi Heli and Trade Co., Ltd. (the "Qianxi Heli")	Former shareholder of Jinxi Limited and controlled by the same management and same ultimate controlling shareholder 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
Tianjin Jinying Corporation (the "Tianjin Jinying")	Former shareholder of Jinxi Limited
Zhongxing Iron Mine	Former shareholder of Jinxi Limited and associated company of Jinxi Limited
Tangshan City Jinxi Iron and Steel Group Co., Ltd. (the "Tangshan Jinxi Group")	Shareholder of Jinxi Limited
Beijing PMC New Century Technology Co., Ltd. (the "Beijing PMC")	Subsidiary of PMC
Mr. Han Jiingyuan	Chairman and Chief Executive Officer of the Company

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

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

- (b) During the years ended 31 December 2003 and 2002, 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	2003	2002
Tangshan Jinxi Group	Purchase of fixed assets	20,834	—
Tianjin Jinying	Purchase of raw materials	1,434	—
Zhongxing Iron Mine	Purchase of raw materials	62,445	20,221
PMC	Sales of finished goods	11,131	—
	Purchase of raw materials	128,288	11,406
Beijing PMC	Sales of finished goods	854	—

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

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

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

- (c) As at 31 December 2003 and 2002, 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 RMB 261 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.

	2003	2002
Amount due from related parties		
— Tangshan Jinxi Group	62,310	18,612
— Qianxi Fuqin	6,056	—
	68,366	18,612
Amount due to related parties		
— PMC	146,552	—
— Qianxi Heli	114,099	212,367
— Mr. Han Jingyuan	4,910	—
— Zhongxing Iron Mine	2,065	1,237
— Tianjin Jinying	—	189,431
— Beijing PMC	—	37,520
	267,626	440,555
Less: Current portion of amount due to related parties	(6,975)	(440,555)
Long-term due to related parties	260,651	—

27. COMMITMENTS

(a) Capital commitments

	2003	2002
Purchase of fixed assets		
— Contracted but not provided for	—	255,000
— Authorised but not contracted for	820,000	—
	820,000	255,000

Notes to the Proforma Accounts

For The Year Ended 31 December 2003
(All amounts in RMB thousands unless otherwise stated)

27. COMMITMENTS (continued)

(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:

	2003	2002
Not later than one year	1,311	400
Later than one year and not later than five years	6,328	—
Later than five years	31,045	—
	38,684	400

28. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in the proforma accounts, Jinxi Limited declared a special dividend in the amount of RMB 400 million in January 2004.

29. CONTINGENT LIABILITIES

As at 31 December 2003, Jinxi Limited provided guarantee for bank loans in favour of third parties amounting to RMB 27 million (2002: RMB 17 million).

30. PARTICULARS OF SUBSIDIARIES

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Registered/ Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis	BVI 21 February 2003	Limited liability company	100% (Directly held)	USD 1	USD 50,000	Investment holding
Good Lucky	BVI 21 February 2003	Limited liability company	100% (Directly held)	USD 1	USD 50,000	Investment holding
First Glory	BVI 16 October 2003	Limited liability company	100% (Directly held)	USD 1	USD 50,000	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

Notes to the Proforma Accounts

For The Year Ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

31. ULTIMATE HOLDING COMPANY

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

32. APPROVAL OF ACCOUNTS

The proforma accounts were approved by the Board of Directors on 23 April 2004.

Summary Financial Information

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

PROFORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31 December			
	2003	2002	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	5,277,874	2,571,304	1,490,332	871,260
Profit before taxation	1,142,666	586,361	228,945	167,119
Taxation	(40,018)	(188,850)	(70,890)	(51,642)
Profit after taxation	1,102,648	397,511	158,055	115,477
Minority interests	(26,358)	(9,491)	(3,774)	(2,757)
Profit attributable to shareholders	1,076,290	388,020	154,281	112,720

PROFORMA CONSOLIDATED ASSETS, LIABILITIES AND MINORITY INTERESTS

	2003	2002	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS	3,876,614	2,214,756	1,075,671	787,155
TOTAL LIABILITIES	(2,907,580)	(1,868,265)	(820,881)	(506,705)
MINORITY INTERESTS	(23,168)	(8,273)	(6,083)	(6,696)
	945,866	338,218	248,707	273,754

Notes:

1. The summary of the proforma consolidated results of the Group for the two years ended 31 December 2001 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 proforma consolidated profit and loss account of the Group for the two years ended 31 December 2003 are those set out on page 33 of this annual report.
2. The summary of the proforma consolidated assets, liabilities and minority interests as at 31 December 2001 and 2000 was extracted from the Prospectus. Such summary was prepared on the same basis as detailed in note 1 above. The proforma consolidated assets, liabilities and minority interests as at 31 December 2003 and 2002 are those set out on page 34 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 Concord Room 2-3, 8/F, Renaissance Harbour View Hotel, Hong Kong, No. 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 25 May 2004 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited Proforma Financial Statements of the Group, the audited Financial Statements of the Company, the Reports of the Directors and of the Auditors for the year/period ended 31 December 2003.
2. To re-elect the Directors (Ms. Chen Ningning and Mr. Zhu Jun) and to authorize the Directors to fix their remuneration.
3. To re-appoint PricewaterhouseCoopers as Auditors and to authorize the Directors to fix their remuneration.

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

ORDINARY RESOLUTIONS

4A. "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

- (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.”

4B. **“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 4A; and
- (d) for the purpose of this Resolution:

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

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

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

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members on a fixed record date in proportion to their then holdings of such shares of the Company (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of, any 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.”

- 4C. **“THAT** subject to the passing of Resolutions 4A and 4B above, the authority of the Directors pursuant to Resolution 4B 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 4A.”
5. To approve and ratify the Directors fees for the Board be fixed at the sum of RMB920,000 for each financial year commencing from 13 November 2003 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 resolution as a **special resolution**:

6. **“THAT**, in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended, the Bye-laws of the Company be and are hereby amended in the following manner:

(a) as to existing Bye-law 1

by inserting the definition of “associate” immediately after the definition of “Act” as follows:

“associate” the meaning attributed to it in the rules of the Designated Stock Exchange.

(b) as to existing Bye-law 76

by re-numbering it as Bye-law 76.(1) and inserting a new Bye-law 76.(2) immediately after the new Bye-law 76.(1) as follows:

76.(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

(c) as to existing Bye-law 88

by deleting it in its entirety and substituting therefor a new Bye-law 88 as follows:

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

(d) as to existing Bye-law 103

by deleting it in its entirety and substituting therefor a new Bye-law 103 as follows:

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:
- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s), (either directly or indirectly) is/are the holder(s) of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) hold(s) five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

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

Hong Kong, 23 April 2004

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 4A, 4B and 4C 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 4A, 4B and 4C will be sent to shareholders together with the Company's Annual Report for 2003.