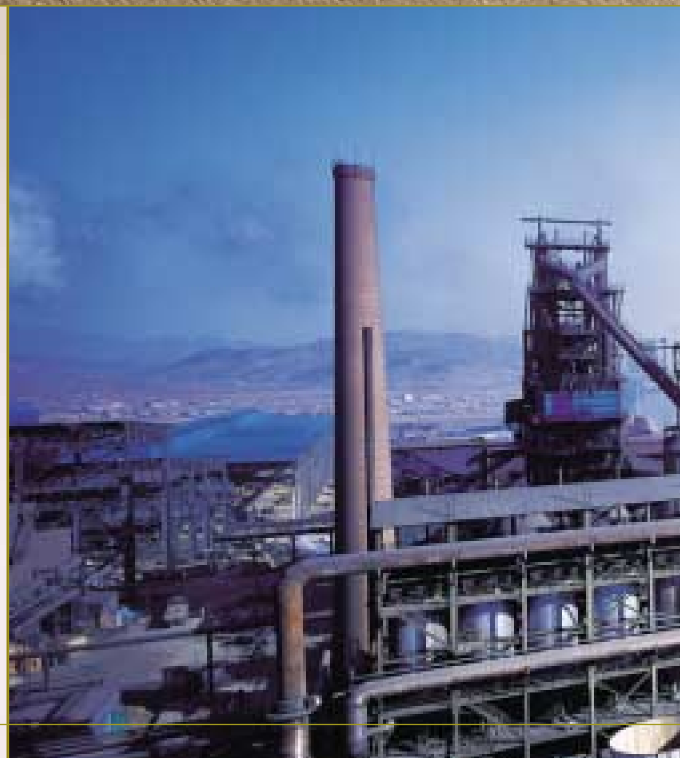


The Board is pleased to announce that the proforma consolidated turnover of the Group for the year 2003 was RMB5,278 million, representing an increase of 105.3% as compared to that of 2002; while proforma profit attributable to shareholders was RMB1,076 million, representing a remarkable growth of 177.4% 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).

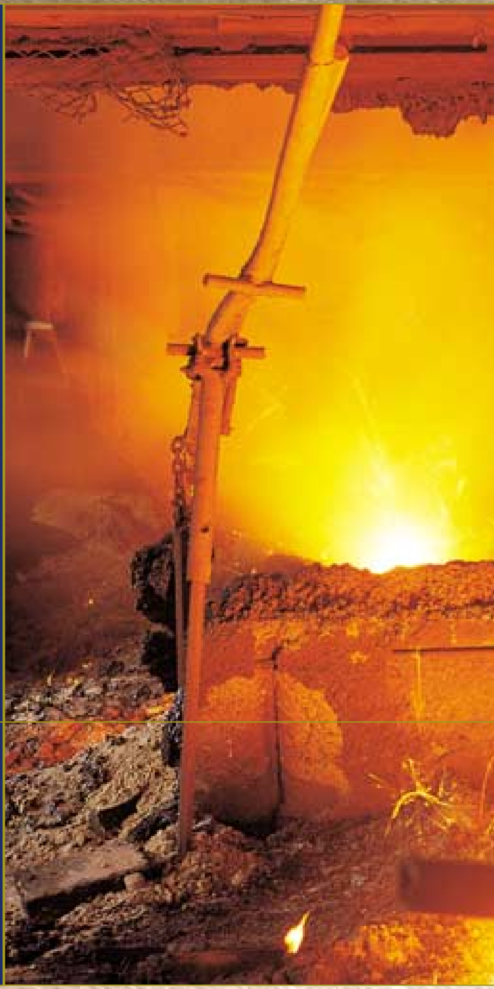
### Exchange Risks

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

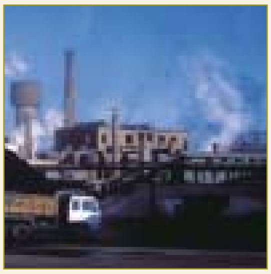


## Prospects

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