

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.

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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
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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
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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.

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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.

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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.