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 profroma 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.

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.

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.

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.

(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 *(Note 7)*	**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

(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 *(Note 24 (a))*	**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

(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).

(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

(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

(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

(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					
	Share capital *(a)*	Merger reserve *(b)*	Capital reserve	Statutory reserves *(c)*	Retained earnings	Total Reserves	Total equity
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					
	Share capital *(a)*	Merger reserve *(b)*	Capital reserve	Statutory reserves *(c)*	Retained earnings	Total Reserves	Total equity
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

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For The Year Ended 31 December 2003
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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.

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.

(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 *(Note 6 (a))*	**(3,922)**	(16,635)
Ending balance of the year	**208**	4,130

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	**208**	4,130

(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

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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

(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.

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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

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(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

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(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.