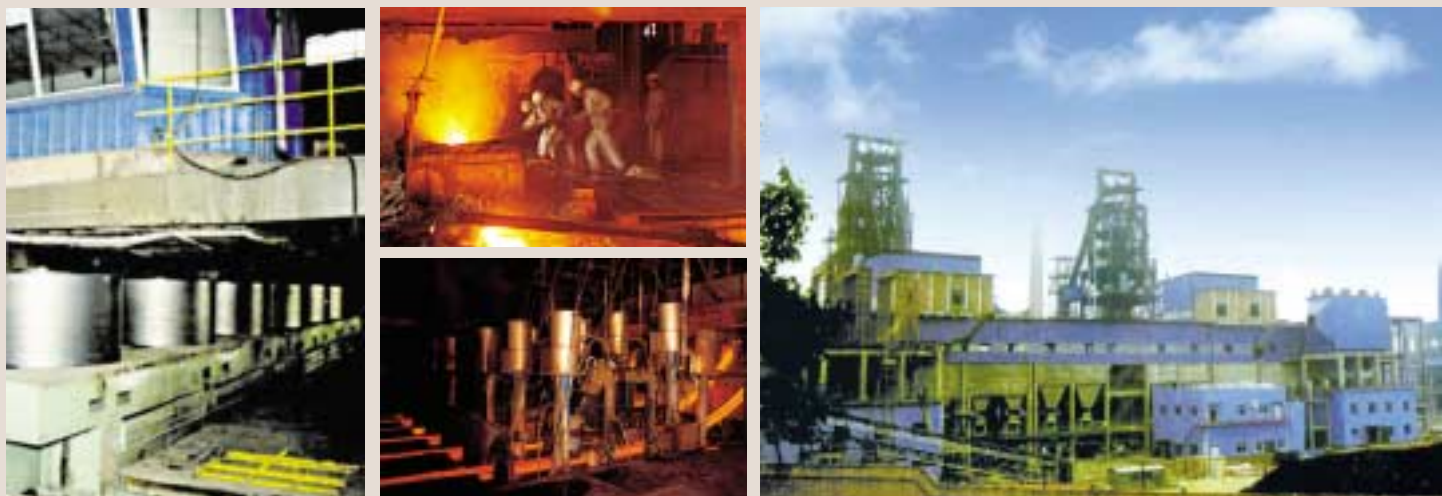




DIRECTORS' REPORT

Directors' Report



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

GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PRESENTATION

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

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

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

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

Directors' Report



RESULTS AND DIVIDENDS

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

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

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

SUMMARY FINANCIAL INFORMATION

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

FIXED ASSETS

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

SHARE CAPITAL

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

RESERVES

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

Directors' Report

DISTRIBUTABLE RESERVES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

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

Executive directors

Mr. Han Jingyuan

Ms. Chen Ningning

Mr. Zhu Jun

Mr. Zhu Zijiu (resigned on 29 September 2004)

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

Mr. Liu Lei (appointed on 29 September 2004)

Independent non-executive directors

Mr. Gao Qingju (appointed on 23 December 2003)

Mr. Yu Tung Ho

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

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

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

Directors' Report

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

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

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

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

Notes :

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

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

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

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

Directors' Report

RELATED PARTY AND CONNECTED TRANSACTIONS

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

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

SUBSEQUENT EVENTS

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

Directors' Report

CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

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

AUDITORS

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

On Behalf of the Board

CHINA ORIENTAL GROUP COMPANY LIMITED

Han Jingyuan

Chairman and Chief Executive Officer

Hong Kong, 31 March 2005