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 "Prospectus").

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 then subsidiaries.

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 consolidated accounts are set out below:

(a) Basis of preparation of consolidated accounts

The Group resulting from the Reorganisation referred to in Note 1 above is regarded as a continuing entity. Accordingly, the accounts have been prepared on the merger basis in accordance with SSAP 27 as if the group structure upon the Reorganisation had been in existence from the beginning of the year ended 31 December 2003.

The 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 Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation of consolidated accounts *(continued)*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December 2004.

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.

Except for those companies comprising the Group upon the Reorganisation, which have been accounted for on the merger basis, as described in Note 2(a) above, the results of subsidiaries acquired or disposed of during the year are included in the 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

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

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 consolidated profit and loss account.

The balance sheet of the Company, subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

(f) Fixed assets and depreciation

(i) Fixed assets and depreciation

Fixed assets, comprising buildings, machinery, furniture and fixtures, leasehold improvements 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
Leasehold improvements	2 years

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

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 consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

(i) Fixed assets and depreciation (continued)

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 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 costs 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 for self-use purpose and are stated at cost less accumulated depreciation and accumulated impairment losses. Land use right is depreciated on a straight-line basis over the lease periods.

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

(h) 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 weighted 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) 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.

(j) Cash and cash equivalents

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

(k) 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.

(l) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar 1,000 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 10. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) 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 consolidated 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.

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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.

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

Dividend income is recognised when the right to receive payment is established.

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

(q) 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 2004 and 2003 are as follows:

	2004	2003
Turnover:		
Gross sales, less discounts and returns		
— billets	**5,214,573**	3,615,035
— strips	**3,871,053**	1,636,100
— others	**33,249**	26,778
	9,118,875	5,277,913
Less: Taxes	**—**	(39)
	9,118,875	5,277,874
Other revenues:		
Interest income	**32,940**	3,701
Sales of raw materials and by-products	**33,310**	13,971
Others	**7,017**	6,188
	73,267	23,860
Total revenues	**9,192,142**	5,301,734

(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 over 90% of the Group's turnover and operating profit are earned within the PRC and over 90% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

(All amounts in RMB thousands unless otherwise stated)

4. OPERATING PROFIT

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

	2004	2003
Staff costs (including directors' emoluments)		
— Salaries and wages	**91,491**	70,271
— Pension costs-defined contribution plan *(Note 10)*	**22,739**	17,847
— Other welfare expenses	**31,589**	17,539
	145,819	105,657
Depreciation of fixed assets	**149,621**	96,648
Operating lease rental in respect of land use rights	**2,123**	2,882
Loss on disposal of fixed assets, net	**9**	555
Net exchange losses	**7,139**	—
Reversal of provision for doubtful receivables	**(6,347)**	(5,356)
Auditors' remuneration	**2,555**	2,131

5. FINANCE COSTS

	2004	2003
Interest expenses		
— bank and other loans		
Wholly repayable within five years	**60,608**	27,523
— others	**4,995**	3,273
	65,603	30,796
Less: amount capitalised in CIP *(Note 12)*	**(1,333)**	—
	64,270	30,796

(All amounts in RMB thousands unless otherwise stated)

6. TAXATION

(a) Taxation represents:

	2004	2003
Current income tax		
— PRC enterprise income tax (the "EIT")	**(33,894)**	33,894
Deferred taxation *(Note 27 (a))*	**208**	3,922
Share of taxation of PRC EIT of an associated company	**3,403**	2,202
	(30,283)	40,018

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year ended 31 December 2004 (2003: nil).

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.

The PRC state enterprise income tax rate of the indirect subsidiary of the Company, Jinxi Limited is 30% and the local income 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 was 3% for the year ended 31 December 2003.

Approved by local tax authority at 22 July 2004, Jinxi Limited is entitled to a five-year full exemption followed by a five-year 50% tax deduction from the local income tax started from 1 January 2003. Accordingly, the effective tax rate of Jinxi Limited is nil for the year ended 31 December 2004, and relevant local income tax accrued for the year ended 31 December 2003 of approximately RMB34 million was reversed in current year.

(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 2004 and 2003 is as follows:

	2004	2003
Profit before taxation	**1,174,837**	1,142,666
Taxation calculated at statutory tax rate	**387,696**	377,080
Effect of tax exemption of Jinxi Limited	**(384,086)**	(343,191)
Effect of reversal of prior year local income tax	**(33,894)**	—
Effect of non-taxable income of the Company	**(3,619)**	—
Effect of tax loss of the Company	**—**	421
Effect of tax loss of direct subsidiaries	**9**	9
Effect of different tax rate of the associated company	**3,403**	2,002
Effect of change of tax rate when assessing deferred tax assets	**208**	3,755
Others	**—**	(58)
	(30,283)	40,018

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB103,490,000 (2003: Loss of RMB1,279,000).

8. DIVIDENDS

	2004	2003
Special dividend, paid *(a)*	**390,450**	—
Interim, paid *(b)*	**92,789**	—
Final, proposed *(c)*	**142,142**	468,669
	625,381	468,669

(a) In connection with the Reorganisation, at a meeting held on 5 January 2004, the directors of Jinxi Limited proposed a special dividend of RMB400 million to the then shareholders.

8. DIVIDENDS *(continued)*

(b) At a meeting held on 17 September 2004, the directors proposed an interim dividend of HK$87,150,000 (approximately RMB92,789,000), representing HK 3 cents per ordinary share.

(c) At a meeting held on 31 March 2005, the directors proposed a final dividend of HK$133,630,000 (approximately RMB142,142,000), representing HK 4.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

9. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB1,176,608,000 and weighted average of 2,769,506,849 shares in issue during the year.

The comparative basic earnings per share is calculated based on the profit attributable to shareholders of RMB1,076,290,000 and on an aggregate of 2,100,000,000 shares, comprising 1,000,000 shares issued immediately after incorporation of the Company and 2,099,000,000 shares issued upon the Reorganisation, which were deemed to have been in issue since 1 January 2003.

The diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2004 (2003: Nil).

10. 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 28% for the year ended 31 December 2004 and 27% for the year ended 31 December 2003 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.

(All amounts in RMB thousands unless otherwise stated)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2004	2003
Fees	—	—
Salaries and allowances	1,534	110
Bonuses	1,909	1,420
Pension costs-defined contribution plan	582	413
	4,025	1,943

The remuneration of the directors during the years ended 31 December 2004 and 2003 fell within the following bands:

	Number of directors	
	2004	2003
Nil to RMB1,060,000 (approximately to HK$1,000,000)	7	3
RMB1,060,001 to RMB1,600,000 (approximately to HK$1,000,001 to HK$1,500,000)	1	—

None of the directors waived or agreed to waive any remuneration during the years ended 2004 and 2003. The emoluments of the independent non-executive directors during the year are RMB451,000 approximately (2003: nil).

(b) Five highest paid individuals

The five highest paid individuals consisted of:

	2004	2003
Number of directors	2	2
Number of employees	3	3
	5	5

(All amounts in RMB thousands unless otherwise stated)

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

(b) Five highest paid individuals *(continued)*

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

	2004	2003
Salaries and allowances	**110**	104
Bonuses	**1,650**	1,500
Pension costs-defined contribution plan	**493**	433
	2,253	2,037

During the years ended 31 December 2004 and 2003, 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.

The remuneration of the five highest paid individuals during the years ended 31 December 2004 and 2003 fell within the following bands:

	Number of individuals	
	2004	2003
Nil to RMB1,060,000 (approximately to HK$1,000,000)	**4**	5
RMB1,060,001 to RMB1,600,000 (approximately to HK$1,000,001 to HK$1,500,000)	**1**	—

(All amounts in RMB thousands unless otherwise stated)

12. FIXED ASSETS

The Group

	Land use rights (a)	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	Construc-tion in progress	Total
Cost								
At 1 January 2004	43,387	310,406	1,377,489	7,577	21,237	—	490,478	2,250,574
Additions	—	66	36,236	2,015	14,494	577	342,982	396,370
Acquisition of a subsidiary *(Note 28 (c))*	—	—	—	58	—	—	167,736	167,794
Transfers	—	439,482	141,836	4,052	115	—	(585,485)	—
Disposals	—	(698)	—	—	(340)	—	—	(1,038)
At 31 December 2004	**43,387**	**749,256**	**1,555,561**	**13,702**	**35,506**	**577**	**415,711**	**2,813,700**
Accumulated depreciation								
At 1 January 2004	281	59,721	190,063	3,184	6,998	—	—	260,247
Charge for the year	867	31,704	110,744	1,575	4,470	261	—	149,621
Disposals	—	(145)	—	—	(330)	—	—	(475)
At 31 December 2004	**1,148**	**91,280**	**300,807**	**4,759**	**11,138**	**261**	**—**	**409,393**
Net book value								
At 31 December 2004	**42,239**	**657,976**	**1,254,754**	**8,943**	**24,368**	**316**	**415,711**	**2,404,307**
At 31 December 2003	43,106	250,685	1,187,426	4,393	14,239	—	490,478	1,990,327

(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.

(All amounts in RMB thousands unless otherwise stated)

12. FIXED ASSETS *(continued)*

As at 31 December 2004, the net book value of buildings and machinery pledged as security for the Group's short-term and long-term loans amounting to approximately RMB494 million (2003: RMB212 million) (Note 22, 23).

During the year ended 31 December 2004, borrowing costs amount to RMB1,333,281 were capitalised into fixed assets (2003: nil) (Note 5).

The Company

	Furniture and fixtures	**Vehicles**	**Leasehold improvements**	**Total**
Cost				
At 1 January 2004	—	—	—	—
Additions	374	1,468	577	2,419
Disposals	—	—	—	—
At 31 December 2004	**374**	**1,468**	**577**	**2,419**
Accumulated depreciation				
At 1 January 2004	—	—	—	—
Charge for the year	65	245	261	571
Disposals	—	—	—	—
At 31 December 2004	**65**	**245**	**261**	**571**
Net book value				
At 31 December 2004	**309**	**1,223**	**316**	**1,848**
At 31 December 2003	—	—	—	—

(All amounts in RMB thousands unless otherwise stated)

13. INTERESTS IN AN ASSOCIATED COMPANY

The Group

	2004	2003
Share of net assets	**12,474**	5,565

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)	RMB2,000,000	Mining and sale of iron powder

14. INVESTMENTS IN SUBSIDIARIES

The Company

	2004	2003
Unlisted investments, at cost	**224,017**	—
Amount due from subsidiaries	**92,463**	—
	316,480	—

Amount due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(All amounts in RMB thousands unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

The following is a list of the significant subsidiaries at 31 December 2004 and 2003:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis Development Limited (the "Gold Genesis")	British Virgin Islands (the "BVI") 21 February 2003	Limited liability company	100% (Directly held)	USD1	USD50,000	Investment holding
Good Lucky Enterprises Limited (the "Good Lucky")	BVI 21 February 2003	Limited liability company	100% (Directly held)	USD1	USD50,000	Investment holding
First Glory Services Limited (the "First Glory")	BVI 16 October 2003	Limited liability company	100% (Directly held)	USD1	USD50,000	Investment holding
Accordpower Investments Limited (the "Accordpower")	BVI 30 November 2004	Limited liability company	100% (Directly held)	USD2	USD50,000	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
Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited (the "Foshan Jinxi") *(a)*	PRC 26 December 2003	Limited liability company	60% (Indirectly held)	RMB 75,000,000 (USD equivalent 9,068,000)	USD 29,800,000	Manufacture and sales of steel products

(All amounts in RMB thousands unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) On 28 December 2004, Accordpower has entered into the Equity Transfer And Capital Increase Agreement (the "Agreement") with Foshan Jin Lan Aluminium (International) Company Limited (the "Vendor"), and Foshan Jin Lan Aluminium Company Limited (the "Foshan Jin Lan"). Pursuant to the Agreement, the Vendor agreed to sell the entire 40% equity interest of Foshan Jinxi owned by the Vendor at a total consideration of HK$1 (Note 28(c)). In connection with the Agreement, Accordpower has entered into the New Joint Venture Agreement with the Fosha Jin Lan at 28 December 2004. Pursuant to the New Joint Venture Agreement, the registered capital of Foshan Jinxi will be increased from USD10,000,000 to USD29,800,000, which will be contributed by Accordpower and Foshan Jin Lan in the proportion of 60% and 40% respectively. As a result of the capital contribution, the Accordpower and Foshan Jin Lan will be interested in 60% and 40% of the amended registered capital of Foshan Jinxi respectively. The Agreement and the New Joint Venture Agreement were effective on 28 December 2004, upon approved by Guangdong Provincial Government and thereafter, Accordpower began to cast majority of votes at the meeting of the board of directors of Foshan Jinxi.

Foshan Jinxi was still in pre-operating period and did not contribute to the Group's profit attributable to shareholders.

On 7 January 2005, 31 January 2005 and 1 February 2005, Accordpower has injected its proportion of the registered capital of Foshan Jinxi amounting to USD12,000,000, USD1,500,000 and USD4,380,000 respectively, representing its entire proportion of the registered capital of Foshan Jinxi.

15. LONG-TERM ADVANCES TO SUPPLIERS

The Group

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

	2004	2003
Within 1 year	**50,000**	50,000
1-2 years	**—**	50,000
	50,000	100,000
Less: Current portion included in current assets	**(50,000)**	(50,000)
	—	50,000

(All amounts in RMB thousands unless otherwise stated)

16. INVENTORIES

The Group

	2004	2003
Raw materials and materials-in-transit	**822,871**	652,826
Work-in-progress	**60,382**	21,594
Finished goods	**16,954**	16,765
	900,207	691,185

All inventories were stated at cost.

17. TRADE RECEIVABLES

The Group

	2004	2003
Accounts receivables	**227**	37,681
Notes receivables *(a)*	**827,667**	228,892
	827,894	266,573

(a) As at 31 December 2004 and 2003, notes receivables were all bank acceptance notes.

As at 31 December 2004, notes receivables that were pledged as security for issuing notes payables and letters of credit amounting to approximately RMB79 million (2003: RMB83 million).

As at 31 December 2004, notes receivables that were pledged as security in favour of a third party for issuing letters of credit amounting to approximately RMB111 million (2003: nil) (Note 32).

As at 31 December 2004 and 2003, the ageing analysis of trade receivables is as follows:

	2004	2003
Within 3 months	**827,894**	266,573

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.

(All amounts in RMB thousands unless otherwise stated)

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	2004	2003
Prepayments	**217,552**	533,461
Deposits and other receivables	**91,217**	30,249
	308,769	563,710

The Company

	2004	2003
Prepayments	**818**	—
Deposits and other receivables	**6,356**	—
	7,174	—

19. BANK AND CASH BALANCES

The Group

	2004	2003
Bank and cash balances	**1,218,056**	152,746
Restricted bank balances *(a)*	**1,707,949**	36,519
	2,926,005	189,265

(a) As at 31 December 2004, the restricted bank balances were pledged as security for issuing notes payables and letters of credit amounting to RMB94 million (2003: RMB37 million) approximately.

As at 31 December 2004, the restricted bank balances were pledged as security in favour of a third party for issuing letters of credit amounting to RMB255 million (2003: nil) approximately (Note 32).

As at 31 December 2004, the restricted bank balances were pledged as security for short-term loan amounting to RMB1,359 million (2003: nil) approximately (Note 22).

(All amounts in RMB thousands unless otherwise stated)

19. BANK AND CASH BALANCES *(continued)*

The Company

	2004	2003
Bank and cash balances	**791,281**	—
Restricted bank balances *(a)*	**1,359,001**	—
	2,150,282	—

(a) As at 31 December 2004, the restricted bank balances were pledged as security for short-term loan borrowed by Jinxi Limited amount to RMB1,359 million (2003: nil) approximately.

20. TRADE PAYABLES

The Group

	2004	2003
Accounts payables	**254,530**	159,183
Notes payables	**163,200**	134,000
	417,730	293,183

As at 31 December 2004 and 2003, the ageing analysis of the trade payables is as follows:

	2004	2003
Within 3 months	**333,165**	129,417
4 — 6 months	**76,605**	154,213
7 — 9 months	**2,867**	4,183
10 — 12 months	**1,294**	2,381
Above 1 year	**3,799**	2,989
	417,730	293,183

(All amounts in RMB thousands unless otherwise stated)

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

The Group

	2004	2003
Accruals	**35,816**	13,089
Advances from customers	**425,087**	468,667
VAT payable	**11,721**	152,234
Other taxes payable	**15,195**	14,907
Other payables *(a)*	**246,923**	438,655
	734,742	1,087,552

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

	2004	2003
Pension payables	**81,716**	63,594
Payables for purchase of fixed assets	**58,311**	273,021
Customer deposits	**47,660**	45,395
Welfare payable	**16,753**	12,561
Employee deposits	**14,023**	16,153
Salaries and wages payable	**7,064**	6,943
Others	**21,396**	20,988
	246,923	438,655

The Company

	2004	2003
Accruals	**1,414**	1,279

(All amounts in RMB thousands unless otherwise stated)

22. SHORT-TERM LOANS

The Group

	2004	2003
Bank loans —		
Secured *(a)*	**1,350,000**	—
Guaranteed *(b)*	**70,000**	160,000
	1,420,000	160,000

(a) As at 31 December 2004, secured short-term bank loans were secured by the certain restricted bank balances (Note 19) and certain fixed assets (Note 12) of the Group.

(b) As at 31 December 2004, guaranteed short-term bank loans were guaranteed by Foshan Jin Lan (the shareholder of Foshan Jinxi). As at 31 December 2003, guaranteed short-term bank loans were guaranteed by a third party.

23. LONG-TERM LOANS

The Group

	2004	2003
Bank loans, wholly repayable within five years —		
Secured *(a)*	**222,230**	222,230
Guaranteed *(b)*	**130,000**	130,000
Unsecured	**—**	480,000
	352,230	832,230
Other loans, Unsecured *(c)*		
Wholly repayable within five years	**—**	13,000
Not wholly repayable within five years	**145,000**	—
	145,000	13,000
	497,230	845,230

(All amounts in RMB thousands unless otherwise stated)

23. LONG-TERM LOANS *(continued)*

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

	2004	2003
Within 1 year	**38,000**	162,230
1 — 2 years	**165,000**	518,000
2 — 5 years	**189,230**	165,000
Above 5 years	**105,000**	—
	497,230	845,230
Less: Current portion included in current liabilities	**(38,000)**	(162,230)
	459,230	683,000

(a) As at 31 December 2004 and 2003, these long-term bank loans were secured by certain fixed assets of the Group (Note 12).

(b) As at 31 December 2004 and 2003, these long-term bank loans were guaranteed by two third parties amounting to RMB100 million and RMB30 million respectively.

(c) As at 31 December 2004, other unsecured loan represented a borrowing from local county government which was repayable by instalment from year 2008 to year 2015. Interest is charged on the outstanding balances at 1.98% per annum. As at 31 December 2003, other unsecured loan represented a borrowing from local county government which was interest free and repaid in the year.

24. LONG-TERM ADVANCES FROM CUSTOMERS

The Group

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

	2004	2003
Within 1 year	**—**	—
1 — 2 years	**10,000**	—
2 — 5 years	**15,000**	58,000
	25,000	58,000

(All amounts in RMB thousands unless otherwise stated)

25. SHARE CAPITAL

	Number of Shares of HK$0.1 each	Amount
Authorised		
On incorporation at 3 November 2003 *(a)*	1,000,000	—
Increase in authorised share capital on 23 December 2003 *(b)*	4,999,000,000	—
At 31 December 2004 and 2003	5,000,000,000	—
Issued and fully paid		
Share issued and allotted on 13 November 2003 *(c)*	1,000,000	—
At 31 December 2003	1,000,000	—
Share issued and allotted on 20 January 2004 to acquire subsidiaries *(d)*	2,099,000,000	223,776
New issue of shares *(e)*	700,000,000	74,417
Over-allotment of shares *(e)*	105,000,000	11,147
At 31 December 2004	**2,905,000,000**	**309,340**

(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.

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

25. SHARE CAPITAL *(continued)*

(d) 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, Good Lucky and 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.

(e) On 12 March 2004, the Company completed its global offering of 805,000,000 shares at HK$2.75 per share for cash. 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. The excess over the par value of the shares was credited to the share premium account.

(All amounts in RMB thousands unless otherwise stated)

26. RESERVES

The Group

	Merger reserve *(a)*	Share premium	Capital reserve	Statutory reserves *(b)*	Exchange translation reserve	Retained earnings	Total Reserves
1 January 2003	(599)	—	8,001	107,040	—	—	114,442
Profit attributable to shareholders	—	—	—	—	—	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)
Others	—	—	27	—	—	—	27
31 December 2003	(599)	—	8,028	313,772	—	400,889	722,090
Profit attributable to shareholders	—	—	—	—	—	1,176,608	1,176,608
Profit appropriation	—	—	—	232,874	—	(232,874)	—
Issue of shares of the Company	—	2,264,658	—	—	—	—	2,264,658
Share issue expense	—	(113,623)	—	—	—	—	(113,623)
Exchange translation differences	—	—	—	—	4,398	—	4,398
Dividends declared	—	—	—	—	—	(483,239)	(483,239)
Others	—	—	5,108	—	—	—	5,108
31 December 2004	**(599)**	**2,151,035**	**13,136**	**546,646**	**4,398**	**861,384**	**3,576,000**

(a) 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.

(All amounts in RMB thousands unless otherwise stated)

26. RESERVES *(continued)*

The Group *(continued)*

(b) Statutory reserves

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

The Company

	Share premium	Exchange translation reserve	Retained earnings	Total Reserves
1 January 2003	—	—	—	—
Loss for the year	—	—	(1,279)	(1,279)
31 December 2003	—	—	(1,279)	(1,279)
Profit attributable to shareholders	—	—	103,490	103,490
Issue of shares of the Company	2,264,658	—	—	2,264,658
Share issue expense	(113,623)	—	—	(113,623)
Exchange translation differences	—	4,552	—	4,552
Dividends declared	—	—	(92,789)	(92,789)
31 December 2004	**2,151,035**	**4,552**	**9,422**	**2,165,009**

(All amounts in RMB thousands unless otherwise stated)

27. DEFERRED TAX ASSETS

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

	2004	2003
Beginning balance of the year	**208**	4,130
Charged to consolidated profit and loss account *(Note 6 (a))*	**(208)**	(3,922)
Ending balance of the year	**—**	208

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.

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

	2004	2003
Provisions for doubtful receivables	**—**	208

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
Profit before taxation	**1,174,837**	1,142,666
Reversal of provision for doubtful receivables	**(6,347)**	(5,356)
Depreciation of fixed assets	**149,621**	96,648
Share of profit of an associated company	**(10,313)**	(6,672)
Loss on disposal of fixed assets, net	**9**	555
Exchange loss	**7,139**	—
Interest income	**(32,940)**	(3,701)
Interest expenses	**64,270**	30,796
Operating profit before working capital changes	**1,346,276**	1,254,936
Increase in inventories	**(209,022)**	(449,650)
(Increase)/Decrease in restricted bank balances	**(294,069)**	12,001
Increase in trade receivables, prepayments, deposits and other receivables and other current assets	**(466,614)**	(498,354)
Decrease/(increase) in long-term advances to suppliers	**50,000**	(94,800)
Decrease/(increase) in amount due from related parties	**68,366**	(49,754)
(Decrease)/increase in trade payables, taxation payable, accruals, advances from customers and other current liabilities	**(64,925)**	298,147
(Decrease)/increase in long-term advances from customers	**(33,000)**	42,000
Decrease in amount due to related parties	**(3,796)**	(172,014)
Net cash inflow generated from operations	**393,216**	342,512

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing

	Short-term loans	Long-term loans
1 January 2003	68,634	283,720
Cash inflows from new loans	236,767	1,003,000
Cash outflows for repayments	(145,401)	(441,490)
31 December 2003	160,000	845,230
Increase in notes receivables from new loans	—	145,000
Acquisition of a subsidiary *(Note 28(c))*	70,000	—
Cash inflows from new loans	1,570,646	149,230
Cash outflows for repayments	(380,646)	(642,230)
31 December 2004	**1,420,000**	**497,230**

(All amounts in RMB thousands unless otherwise stated)

28. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchase of a subsidiary

During the year ended 31 December 2004, the related net cash outflows were as follows:

Net assets acquired	
Fixed assets *(Note 12)*	167,794
Trade receivables, prepayments, deposits and other receivables	21,711
Restricted bank balances	18,360
Bank and cash balances	850
Short-term loans *(Note 28(b))*	(70,000)
Trade payables, taxation payable, accruals, advances from customers and other current liabilities	(37,769)
Amount due to related parties	(100,946)
	—
Addition of negative goodwill, net	—
Total acquisition consideration *(Note 14(a))*	—

Analysis of the net cash inflows in respect of purchase of a subsidiary was as follows:

Cash consideration	—
Bank and cash balances acquired	850
Net cash inflows in respect of purchase of a subsidiary	850

29. 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 2004 and 2003, save as disclosed in Note 13 and Note 14, the directors are of the view that the following companies and person are also related parties of the Group:

Name	**Relationship with the Group**
Wellbeing	Controlling shareholder of the Company
Smart Triumph	Substantial shareholder of the Company
Qianxi County Qianxi Heli and Trade Co., Ltd. (the "Qianxi Heli")	Former shareholder of Jinxi Limited and its controlling shareholder is Mr. Han Jingyuan, a director 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 and controlled by Ms. Chen Ningning, a director of the Company
Tianjin Jinying Corporation (the "Tianjin Jinying")	Former shareholder of Jinxi Limited
Tangshan City Jinxi Iron and Steel Group Co., Ltd. (the "Tangshan Jinxi Group")	Shareholder of Jinxi Limited and its legal representative is Mr. Han Jingyuan, a director of the Company
Beijing PMC New Century Technology Co., Ltd. (the "Beijing PMC")	Subsidiary of PMC
Foshan Jin Lan	Substantial shareholder of Foshan Jinxi
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Mr. Zhou Weijie	Director of Foshan Jinxi

(All amounts in RMB thousands unless otherwise stated)

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

(b) During the years ended 31 December 2004 and 2003, 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**	**2004**	2003
Qianxi Heli	1. Transfer notes receivables *(i)*	**597,404**	—
	2. Transfer bank balances *(ii)*	**700,000**	—
Tangshan Jinxi Group	3. Transfer notes receivables *(i)*	**334,325**	—
	4. Purchase of fixed assets	**—**	20,834
Tianjin Jinying	5. Purchase of raw materials	**—**	1,434
Zhongxing Iron Mine	6. Purchase of raw materials	**95,866**	62,445
PMC	7. Sales of finished goods	**—**	11,131
	8. Purchase of raw materials	**—**	128,288
Beijing PMC	9. Sales of finished goods	**—**	854
Foshan Jin Lan	10. Guarantee for short-term loan	**70,000**	—

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

(i) The Group transferred certain bank acceptance notes to Qianxi Heli and Tangshan Jinxi Group at the consideration equivalent to the par value of those notes receivables.

(ii) The Group transferred bank balances of RMB700 million to Qianxi Heli. As at 31 December 2004, the bank balances of RMB700 million was transferred back by Qianxi Heli. In addition, an amount equivalent to the bank deposit interest at the rate of 0.72% per annum earned by Qianxi Heli was paid to the Group.

(All amounts in RMB thousands unless otherwise stated)

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

(c) As at 31 December 2004 and 2003, 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 RMB261 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.

	2004	2003
Amount due from related parties		
— Tangshan Jinxi Group	**—**	62,310
— Qianxi Fuqin	**—**	6,056
	—	68,366
Amount due to related parties		
— PMC *(i)*	**100,023**	146,552
— Qianxi Heli	**116,666**	114,099
— Mr. Zhou Weijie	**25,083**	—
— Zhongxing Iron Mine	**2,535**	2,065
— Tangshan Jinxi Group	**2,063**	—
— Foshan Jin Lan	**1,463**	—
— Mr. Han Jingyuan	**11**	4,910
	247,844	267,626
Less: Long-term due to related parties	**(214,122)**	(260,651)
Amount due to related parties	**33,722**	6,975

(i) As announced by the Company on 5 November 2004, the Company early repaid the balance due to PMC amounting to RMB46,529,400 approximately which would be due after 30 June 2005.

(All amounts in RMB thousands unless otherwise stated)

30. COMMITMENTS

The Group

(a) Capital commitments

	2004	2003
Investment commitment in Foshan Jinxi	**147,984**	—
Purchase of fixed assets		
— Contracted but not provided for	**757,304**	—
— Authorised but not contracted for	**539,590**	820,000
	1,296,894	820,000

(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:

	2004	2003
Not later than one year	**2,746**	1,311
Later than one year and not later than five years	**7,497**	6,328
Later than five years	**40,460**	31,045
	50,703	38,684

(All amounts in RMB thousands unless otherwise stated)

31. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in the accounts, the significant subsequent events of the Group are as follows:

(a) The directors of Jinxi Limited proposed a final dividend of RMB148,000,000 at 11 March 2005.

(b) The Company pledged bank deposits amounting to USD10 million approximately as collaterals for bank loans in favour of Foshan Jinxi.

32. CONTINGENT LIABILITIES

The Group

	2004	2003
Guarantees for bank loans of third parties *(a)*	**29,880**	27,000
Guarantees for letter of credit issued by a third party *(b)*	**366,000**	—
	395,880	27,000

(a) As at 31 December 2004, Jinxi Limited provided guarantee for bank loans in favour of third parties amounting to RMB29,880,000 approximately (2003: RMB27 million).

(b) As at 31 December 2004, a third party act as an agent and issued letter of credit to import fixed assets for Jinxi Limited. Accordingly, Jinxi Limited pledged bank deposits and notes receivables amounting to RMB255 million (Note 19) and RMB111 million (Note 17) respectively as collaterals.

The Company

	2004	2003
Guarantees for bank loans of a subsidiary	**1,200,000**	—

As at 31 December 2004, the Company pledged bank deposits amounting to RMB1,359 million approximately as collaterals for short-term bank loans in favour of Jinxi Limited (2003: nil).

32. CONTINGENT LIABILITIES *(continued)*

Management anticipated that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

33. ULTIMATE HOLDING COMPANY

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

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of directors on 31 March 2005.