Notes to the Financial Statements

31 December 2004

1. CORPORATION INFORMATION

The Company was incorporated in the Cayman Islands on 9 October 2003 as an exempt company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and trading of steel pipes, steel sheets and other products made of steel.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

(a) Group Reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation") 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 companies now comprising the Group since 12 December 2003. This was accomplished by the Company acquiring the entire issued share capital of Bamian Investments Pte Ltd. ("Bamian"), the then holding company of the other subsidiaries of the Group, in consideration for the allotment and issue of the Company's share, credited as fully paid, to the former shareholders of Bamian. Further details of the Group Reorganisation are set out in the Company's prospectus dated 10 June 2004. The shares of the Company were listed on the Stock Exchange on 21 June 2004.

(b) Basis of presentation

The comparative financial statements had been prepared using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Reconstruction" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as a result of the Group Reorganisation as referred to (a) above. Under the basis, the Company has been treated as the holding company of its subsidiaries for the comparative financial periods presented, rather than from date of its acquisition of the subsidiaries. Accordingly, the comparative results of the Group for the comparative financial year ended 31 December 2003 included the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. All material intra group transactions and balances for the comparative financial year had been eliminated on combination.

3. SIGNIFICANT ACCOUNTING POLICIES

Impact of recently issued Hong Kong Financial Reporting Standards ("HKFRSs")

HKICPA has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced 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.

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by HKICPA. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the years are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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.

(b) Interests in subsidiaries

Interests in subsidiaries are stated in the Company's balance sheet at cost less any identified impairment loss.

(c) Revenue

(i) Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

(ii) Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and at the interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

	Depreciation rates	Residual value
Building and factory premises in the Mainland China (the "PRC")	5%	10%
Leasehold improvements	20%	10%
Furniture, fixtures and office equipment	20%	10%
Plant and machinery	10%–33$^1/_3$%	10%
Motor vehicles	20%	10%

No depreciation is provided to write off the cost of construction in progress until the assets are brought into use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

(e) Land use rights

Land use rights are recognised as an asset and stated at cost less amortisation over the term of the lease, and any identified impairment loss.

(f) Club debentures

Club debentures are stated at cost and less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value and are calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Related parties

Two 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.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) 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 financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Deferred taxation *(Continued)*

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, except when 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.

(l) Operating leases

Leases when substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the lease terms.

(m) Translation of foreign currencies

Translation in currencies other than RMB are translated at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB at the balance sheet date are translated to RMB at the rates prevailing at the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at average rates for the year. Exchange differences arising on consolidation are dealt with as a movement in reserves. Such translation differences are recognised as income or expenses in the year in which the operation is disposed of.

(n) Retirement benefit costs

The contributions to defined contribution retirement schemes are charged to the consolidated income statement as they become payable in accordance with the rules of the schemes.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Provisions and contingent liabilities

Provisions are recognised liabilities for uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is probable that an outflow of economics benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economics benefits is remote.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

4. TURNOVER AND OTHER REVENUE

Turnover represents the net amounts received and receivable for sale of goods by the Group to outside customers.

An analysis of the Group's turnover and other revenue is as follows:

	2004	2003
	RMB'000	*RMB'000*
Turnover		
Sale of goods	**941,577**	654,273
Other revenue		
Interest income	**288**	201
	941,865	654,474

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Analysis of turnover and contribution to operating results and assets and liabilities by business segment has not been prepared as the Group has only one business segment which is the manufacturing and trading of steel pipes, steel sheets and other products made of steel.

As the Group's turnover for the year ended 31 December 2004 are substantially made to customers based in the PRC and the operations, assets and liabilities of the Group are substantially located in the PRC, no separate analysis for the geographical segment information is presented accordingly.

6. OTHER INCOME

	2004	2003
	RMB'000	*RMB'000*
Scrap sales	**6,366**	3,891
Exchange gains, net	**1,388**	397
Sundry income	**115**	79
	7,869	4,367

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2004	2003
	RMB'000	*RMB'000*
Auditors' remuneration	**373**	93
Cost of inventories recognised as expenses	**827,767**	575,017
Depreciation and amortisation	**8,159**	8,492
Loss on disposal of property, plant and equipment	**142**	214
Operating leases in respect of		
– rented premises	**239**	168
– motor vehicles	**660**	805
Provision for doubtful debts	**200**	671
Contribution to defined contribution retirement schemes	**1,397**	436
Staff costs (including directors' remuneration)	**17,731**	7,820

8. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**5,375**	3,272

9. TAXATION

The charge comprises:

	2004 RMB'000	2003 RMB'000
PRC enterprise income tax		
Current year	**5,019**	3,065
Overprovision of prior years	–	(203)
Deferred taxation *(note 19)*	–	(29)
	5,019	2,833

Pursuant to the relevant laws and regulations in the PRC, Guangzhou Mayer Corporation Limited ("Guangzhou Mayer") is entitled to exemption from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation in 2000 and thereafter, it will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 7.5%. The charge of PRC enterprise income tax for the year has been provided for after taking these tax incentives into account.

Income tax of the other companies comprising the Group is calculated at tax rates applicable to the jurisdictions in which they are incorporated/registered.

9. TAXATION *(Continued)*

The charge for the year can be reconciled to the profit before taxation as follows:

	2004	2003
	RMB'000	*RMB'000*
Profit before taxation	**60,160**	40,830
Tax at PRC enterprise income tax at 15% (2003: 15%)	**9,024**	6,125
Tax effect of tax exemption	**(5,017)**	(3,160)
Tax effect of utilisation of deferred assets	**–**	(31)
Tax effect on non-deductible expenses	**588**	219
Tax effect on non-taxable income	**(25)**	–
Overprovision in respect of prior years	**–**	(203)
Others	**449**	(117)
	5,019	2,833

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of approximately RMB3,125,000 (2003: Nil) which has been dealt with in the financial statements of the Company for the year ended 31 December 2004.

11. DIVIDENDS

The directors propose the payment of final dividend of RMB 3 cents per share totaling RMB12,000,000 in respect of the year ended 31 December 2004.

During the year ended 31 December 2003, Bamian Investments Pte Ltd, the Company's subsidiary, declared and paid a dividend of RMB31,500,000 to its then shareholders prior to the Group Reorganisation in preparation for the listing of the Company's shares as referred to the Company's Prospectus dated 10 June 2004.

12. EARNINGS PER SHARE

The calculations of the basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately RMB41,229,000 (2003: RMB29,444,000) and the weighted average of 353,150,685 (2003: 300,000,000) shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2003 included the pro forma issued share capital of the Company, comprising one share issued at par upon incorporation of the Company, one share issued for the acquisition of the entire issued share capital of Bamian Investments Pte Ltd. and the capitalisation issue of 299,999,998 shares of the Company.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2004 also includes additional 100,000,000 shares issued up the listing of the shares of the Company on 21 June 2004.

There were no potential dilutive shares in existence for the year ended 31 December 2004 and 2003, and accordingly, no diluted earnings per share amount has been presented.

13. DIRECTORS' REMUNERATION

	2004	2003
	RMB'000	*RMB'000*
Fees:		
– Executive directors	**2,616**	400
– Non-executive directors	**112**	–
– Independent non-executive directors	**162**	–
	2,890	400
Directors:		
– Salaries and other benefits	**1,506**	400
– Bonus	**1,384**	–
– Retirement benefits scheme contributions	**–**	–
Total remuneration	**2,890**	400

During the year, no remunerations were paid by the Group to any directors or any five highest paid individuals (note 14) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during the year.

13. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the directors was within the following bands:

	2004 Number of Directors	2003 Number of Directors
Nil to RMB1,064,900 (HK$1,000,000)	**10**	10
RMB1,064,901 (HK$1,000,001) to RMB2,129,800 (HK$2,000,000)	**1**	–
	11	10

14. FIVE HIGHEST PAID EMPLOYEES

During the year, the five highest paid individuals in the Group included two (2003: two) directors, details of those emolument are set out in note 13 above. The emoluments of the remaining three (2003: three) individuals for the year ended 31 December 2004 were as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	**884**	416
Bonus	**1,172**	–
Retirement benefits scheme contributions	**–**	–
	2,056	416

The remuneration of the individuals was within the following band:

	2004 Number of employees	2003 Number of employees
Nil to RMB1,064,900 (HK$1,000,000)	**3**	3

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Building and factory premises in the PRC	Construction in progress	Leasehold improvements	Furniture, fixtures and office equipment	Plant and machinery	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2004	33,331	1,331	8,034	3,184	62,076	967	108,923
Additions	1,053	15,122	180	403	5,780	–	22,538
Transfers	8,011	(8,593)	–	204	378	–	–
Disposals	(144)	–	(8,034)	(468)	(1)	–	(8,647)
At 31 December 2004	42,251	7,860	180	3,323	68,233	967	122,814
Depreciation							
At 1 January 2004	8,802	–	4,401	1,809	26,380	377	41,769
Provided for the year	1,606	–	25	330	5,802	174	7,937
Eliminated on disposals	(45)	–	(4,401)	(420)	(1)	–	(4,867)
At 31 December 2004	10,363	–	25	1,719	32,181	551	44,839
Net book value							
At 31 December 2004	31,888	7,860	155	1,604	36,052	416	77,975
At 31 December 2003	24,529	1,331	3,633	1,375	35,696	590	67,154

The building and factory premises are situated in the PRC and are held under medium term lease.

At 31 December 2004, the Group's property, plant and equipment with carrying value of RMB60,567,000 (2003: RMB38,358,000) were pledged to certain banks for banking facilities granted to the Group (note 30).

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements *RMB'000*	Furniture and fixtures *RMB'000*	Total *RMB'000*
Cost			
Additions and at 31 December 2004	180	120	300
Depreciation			
Provided for the year and at 31 December 2004	25	16	41
Net book value			
At 31 December 2004	155	104	259

16. LAND USE RIGHTS

	2004 ***RMB'000***	2003 *RMB'000*
Cost		
At beginning and end of the year	**11,098**	11,098
Amortisation		
At beginning of the year	**1,794**	1,572
Amortised for the year	**222**	222
At end of the year	**2,016**	1,794
Net book values		
At end of the year	**9,082**	9,304

The land use rights owned by the Group is held under medium term lease for a term of 50 years commencing from 23 December 1995.

As at 31 December 2004, the land use rights with carrying value of RMB9,082,000 (2003: RMB9,304,000) were pledged to a bank to secure the banking facilities granted to the Group (note 30).

17. CLUB DEBENTURES

	2004 RMB'000	2003 RMB'000
Cost	**1,294**	1,294
Less: Impairment loss recognised	**(574)**	(574)
	720	720

18. INTERESTS IN SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	**141,211**	141,211

Details of the Company's subsidiaries as at 31 December 2004 are as follows:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of interest held		Principal activities
			Direct	Indirect	
Bamian Investments Pte Ltd.	Singapore	US$10,100,875	100%	–	Investment holding
Guangzhou Mayer Corp., Ltd. ("Guangzhou Mayer")	PRC	RMB127,500,000	–	77.52%	Manufacture and trading of steel pipes, steel sheets and other products made of steel

Note: Guangzhou Mayer is a joint stock limited liability company established under the laws of the PRC.

19. DEFERRED TAX ASSETS

The followings are the major deferred tax assets recognised by the Group and movements thereon during the year:

	2004 RMB'000	2003 RMB'000
At beginning of the year	**268**	239
Credit for the year *(note 9)*	**–**	29
At end of the year	**268**	268

	Deferred assets RMB'000	Impairment loss on club debentures and property, plant and equipment RMB'000	Allowance for doubtful debts RMB'000	Total RMB'000
At 1 January 2003	11	64	164	239
(Charge)/credit for the year	(11)	(21)	61	29
At 31 December 2003	–	43	225	268
(Charge)/credit for the year	–	(11)	11	–
At 31 December 2004	–	32	236	268

20. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	**84,604**	58,041
Finished goods	**28,774**	18,992
	113,378	77,033

All the inventories are stated at cost at both balance sheet dates.

21. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 40-100 days to its trade customers and may be extended to selected customers depending on their trade volume and settlement with the Group.

An ageing analysis of trade receivables is as follows:

	2004	2003
	RMB'000	*RMB'000*
1 – 30 days	**96,092**	59,717
31 – 60 days	**75,258**	62,753
61 – 90 days	**37,143**	40,936
91 – 180 days	**17,005**	24,033
Over 180 days	**577**	–
Trade receivables	**226,075**	187,439

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, interest free and repayable on demand.

23. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	2004	2003
	RMB'000	*RMB'000*
1 – 30 days	**15,776**	4,011
31 – 60 days	**1,000**	655
61 – 90 days	**1,076**	–
91 – 180 days	**21**	27
Over 180 days	**7**	142
Trade payables	**17,880**	4,835

24. BORROWINGS

The borrowings are repayable within one year and are analysed as follows:

	2004	2003
	RMB'000	*RMB'000*
Bank loans, secured	**168,744**	57,865
Bank loans, unsecured	**62,063**	129,618
	230,807	187,483

25. ISSUED CAPITAL

	Note	**Number of authorised shares**	**Number of shares issued**	**Nominal value of shares issued**
				RMB'000
On 9 October 2003, one subscriber share was issued and fully paid	*(a), (b)*	1,000,000	1	–
At 31 December 2003		1,000,000	1	–
Shares issued as consideration for the acquisition of the entire issued share capital of Bamian Investments Pte Ltd.	*(c)*	–	1	–
Increased in authorised share capital	*(d)*	999,000,000	–	–
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares	*(e)*	–	299,999,998	31,860
New Issue on public listing	*(f)*	–	100,000,000	10,620
At 31 December 2004		**1,000,000,000**	**400,000,000**	**42,480**

25. ISSUED CAPITAL *(Continued)*

Notes:

(a) Upon incorporation on 9 October 2003, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.1 each;

(b) On 9 October 2003, one subscriber share of HK$0.1 was allotted at par and issued fully paid;

(c) On 12 December 2003, as part of the Group Reorganisation as set out in note 2(a) to the financial statements, 1 share of the Company was allotted at par and issued, credited as fully paid, to Bamian Investments Pte Ltd as consideration for the acquisition by the Company;

(d) On 24 May 2004, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of a further 999,000,000 shares of HK$0.1 each, ranking pari passu in all respects with the existing shares of the Company;

(e) Pursuant to the written resolutions of the sole shareholder of the Company passed on 24 May 2004, conditional on the share premium account of the Company being credited as a result of the Share Offer, the directors were authorised to capitalise the amount of HK$29,999,999.80 from the amount standing to the credit of the share premium account of the Company as a result of the Company's initial public offering on 21 June 2004 and to appropriate such amount as paid up in full at par 299,999,998 shares for allotment and issue to the person whose names appear on the register of members of the Company at the close of business on 24 May 2004, in proportion to its/their then existing shareholdings in the Company; and

(f) In connection of the Company's initial public offering on 21 June 2004, 100,000,000 shares of HK$0.1 each (the "Offer Shares"), were issued at HK$0.55 each for a total consideration, before expenses, of HK$55,000,000. The excess of the proceeds over the par value of the shares issued was credited to the share premium account.

26. SHARE OPTION SCHEME

The Share Option Scheme was adopted on 24 May 2004 for the primary purpose of providing incentives and to recognise the contribution of the eligible participants to the growth of the Group and will expire on 24 May 2014. Under the Share Option Scheme, the Board may grant options to eligible full time employees, including any executive, non-executive and independent non-executive directors, and consultants or advisers of the Company and/or any of its subsidiaries.

Up to 31 December 2004, no options have been granted since the adoption of the Share Option Scheme. The total number of shares in respect of which options may be granted under the Share Option Scheme and any other option schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any year is not permitted to exceed 1% of the issued share capital of the Company, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant to the 10 years of the date of grant. No minimum period for which an option must be held is required. The exercise price, which is determined by the Board is the highest of: (i) the closing price per share on the date of grant; (ii) the average closing price per share for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

27. RESERVES

Company

	Special reserve	Share premium	Retained profits	Proposed final dividend	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2003 and 1 January 2004	141,211	–	–	–	141,211
Capitalisation issue of shares	–	(31,860)	–	–	(31,860)
New issue on public listing	–	47,790	–	–	47,790
Share issue expenses	–	(11,854)	–	–	(11,854)
Profit for the year	–	–	3,125	–	3,125
Proposed final dividend	(12,000)	–	–	12,000	–
At 31 December 2004	**129,211**	**4,076**	**3,125**	**12,000**	**148,412**

27. RESERVES *(Continued)*

Company *(Continued)*

The special reserve represented the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group Reorganisation on 12 December 2003.

Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the share premium and special reserve are distributable to the shareholders of the Company.

Movements of the Group's reserves are set out in the consolidated statement of changes in equity on page 22.

28. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of motor vehicles and rented premises which fall due as follows:

	2004	2003
	RMB'000	*RMB'000*
Motor vehicles		
Within one year	**133**	330
Rented premises		
Within one year	**397**	168
In the second to fifth years inclusive	**553**	336
	950	504

Leases are negotiated for term of one to four years with fixed monthly rentals over the term of the leases.

29. OTHER COMMITMENTS

	2004	2003
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment	**10,649**	3,401
Foreign currency contracts	**130,905**	–

The Company did not have any significant capital commitments at both balance sheet dates.

30. PLEDGE OF ASSETS

At 31 December 2004, the Group pledged the land use rights with a carrying value of RMB9,082,000 (2003: RMB9,304,000), and property, plant and equipment with a carrying value of RMB60,567,000 (2003: RMB38,358,000) to banks to secure banking facilities to the extent of RMB54,738,000 (2003: Nil) granted to the Group.

31. CONTINGENT LIABILITIES

At 31 December 2004, the Company has given corporate guarantees in favour certain banks to secure banking facilities of RMB173,808,000 (US$21,000,000) (2003: Nil) granted to Guangzhou Mayer, a subsidiary. Out of these banking facilities, RMB104,320,000 (US$12,604,200) was utilised by Guangzhou Mayer as at 31 December 2004 (2003: Nil).

Apart from the above, the Company and the Group have no other material contingent liabilities at both balance sheet dates.

32. EMPLOYEE RETIREMENT BENEFITS

The Company and its subsidiaries participate in defined contribution retirement schemes governed by the relevant local government authorities in which they operated.

The Company operates a Mandatory Provident Fund Scheme (the “Scheme”) for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Company contributes 5% of the relevant payroll to the Scheme, which contribution is matched by employees. The Company’s employer contribution vest fully with the employees when contributed into the scheme.

The Company’s subsidiary in the PRC is required to make monthly contributions to the retirement schemes up to the time of retirement of the eligible employees, at a rate of 12% of the local standard basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As of 31 December 2004, the Group had no obligation apart from the contributions as stated above. There were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes.

33. RELATED PARTY TRANSACTIONS

The Group had the following related party transaction which was conducted in the ordinary course of the Group's business:

Name	Capacity	Nature of transaction	2004	2003
			RMB'000	*RMB'000*
Lo Haw and his spouse	Director of the Company	Rental paid *(Note)*	**120**	168

Note: The rental, which was paid for premises owned by Mr. Lo Haw and his spouse was determined with reference to the prevailing market rental.

34. ULTIMATE HOLDING COMPANY

The directors regard Mayer Steel Pipe Corporation, a company incorporated in the Republic of China, as being the ultimate holding company.