CHINA ORIENTAL GROUP COMPANY LIMITED
中國東方集團控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 581)

ANNOUNCEMENT OF 2007 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

	2007	2006	Change
	RMB	*RMB*	
Sales volume (tonnes)	**4.1 million**	3.7 million	+10%
Gross profit per tonne	**464 yuan**	380 yuan	+22%
Revenue	**13.5 billion**	9.8 billion	+38%
Gross profit	**1,917 million**	1,424 million	+35%
Profit before tax and share option fair value	**1,610 million**	1,250 million	+29%
Profit attributable to equity holders of the Company	**1,160 million**	1,033 million	+12%
Net cash inflow generated from operating activities	**1,074 million**	240 million	+348%
Basic EPS	**0.40 yuan**	0.36 yuan	+11%
NAV per share	**2.24 yuan**	1.89 yuan	+19%
Annual dividends per share	**11.7 HKcents**	5.6 HKcents	+109%

* *For identification purpose only*

The Board of Directors (the "Board") of China Oriental Group Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with the comparative amounts for the previous year. The annual results have been reviewed by the audit committee of the Company:

CONSOLIDATED INCOME STATEMENT

For the years ended 31 December

	Note	**Audited 2007** ***RMB'000***	Audited 2006 *RMB'000*
Revenue	*3*	**13,498,555**	9,782,116
Cost of sales	*4*	**(11,581,115)**	(8,357,880)
Gross profit		**1,917,440**	1,424,236
Other income	*5*	**2,116**	4,149
Distribution costs	*4*	**(46,689)**	(13,084)
Administrative expenses	*4*	**(373,452)**	(170,443)
Other expenses	*4*	**(5,324)**	(10,620)
Other gains – net	*6*	**12,730**	31,439
Operating profit		**1,506,821**	1,265,677
Finance income	*7*	**12,118**	18,930
Finance costs	*7*	**(68,810)**	(50,387)
Finance costs – net		**(56,692)**	(31,457)
Share of profit/(loss) of an associate		**225**	(984)
Profit before income tax		**1,450,354**	1,233,236
Income tax expense	*8*	**(256,617)**	(210,886)
Profit for the year		**1,193,737**	1,022,350
Attributable to:			
Equity holders of the Company		**1,159,657**	1,032,754
Minority interest		**34,080**	(10,404)
		1,193,737	1,022,350
Earnings per share for profit attributable to equity holders of the Company during the year			
– basic	*9*	**RMB0.40**	RMB0.36
– diluted	*9*	**RMB0.40**	RMB0.36
Dividends	*10*	**319,225**	161,879

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	Audited 2007 RMB'000	Audited 2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**6,405,538**	4,675,308
Leasehold land and land use rights		**76,441**	78,092
Investment properties		**19,328**	20,428
Intangible assets		**–**	18,289
Investments in an associate		**8,122**	7,897
Deferred income tax assets		**3,194**	–
		6,512,623	4,800,014
Current assets			
Inventories		**1,836,997**	1,407,898
Trade receivables	*11*	**488,825**	998,828
Other current assets		**4,037**	2,591
Prepayments, deposits and other receivables		**447,156**	481,734
Financial assets at fair value through profit or loss		**146**	135
Amounts due from related parties		**11,055**	–
Restricted bank balances		**171,690**	95,262
Cash and cash equivalents		**689,591**	434,905
		3,649,497	3,421,353
Total assets		**10,162,120**	8,221,367
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares		**311,444**	309,340
Share premium		**2,185,964**	2,151,035
Other reserves		**1,144,182**	984,296
Retained earnings		**2,907,100**	2,034,456
		6,548,690	5,479,127
Minority interest in equity		**147,414**	122,322
Total equity		**6,696,104**	5,601,449

CONSOLIDATED BALANCE SHEET *(Continued)*

As at 31 December

	Note	**Audited 2007** *RMB'000*	Audited 2006 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**765,000**	360,770
Deferred income tax liabilities		**–**	290
Amount due to a related party		**55,733**	55,529
		820,733	416,589
Current liabilities			
Trade payables	*12*	**715,535**	516,368
Accruals, advances from customers and other current liabilities		**1,371,328**	998,236
Amounts due to related parties		**8,571**	56,674
Current income tax liabilities		**88,382**	58,225
Borrowings		**460,000**	573,230
Dividends payable		**1,467**	596
		2,645,283	2,203,329
Total liabilities		**3,466,016**	2,619,918
Total equity and liabilities		**10,162,120**	8,221,367
Net current assets		**1,004,214**	1,218,024
Total assets less current liabilities		**7,516,837**	6,018,038

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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").

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Following the completion of the global offering, the Company's shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of iron and steel products. The Group has manufacturing plants in Hebei Province and Guangdong Province of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

These consolidated financial statements are presented in thousands of units of RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 27 March 2008.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Standards, amendments and interpretations to standards effective in 2007

HKFRS 7	Financial instruments: Disclosure
HKAS 1	Presentation to financial statement – Capital disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2, Share-base payment
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment

(b) ***Interpretations to standards effective in 2007 but not relevant***

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies.

(c) ***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group***

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

HKAS 23 (Amendment)	Borrowing costs (effective from 1 January 2009)
HKFRS 8	Operating segments (effective from 1 January 2009)
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions (effective for annual period beginning on or after 1 March 2007)

(d) ***Interpretations to existing standards that are not yet effective and not relevant for the Group's operations***

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

HK(IFRIC) – Int 12	Service concession arrangements (effective from 1 January 2008)
HK(IFRIC) – Int 13	Customer loyalty programmes (effective from 1 July 2008)
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

3. Sales and segment information

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
	RMB'000	*RMB'000*
Sales:		
Gross sales, less discounts and returns		
– billets	**896,776**	2,752,589
– strips and strip products	**7,441,792**	5,723,391
– H section steel products	**4,330,279**	728,933
– galvanised sheets	**682,118**	381,209
– cold rolled sheets	**158,044**	160,332
– others	**22,844**	35,662
	13,531,853	9,782,116
Less: Taxes	**(33,298)**	–
	13,498,555	9,782,116

(b) Segment information

No business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of iron and steel products, which is considered as one business segment with similar risks and returns.

No geographical segment information is presented as over 90% of the Group's sales and operating profits are derived 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.

4. Expenses by nature

	2007	2006
	RMB'000	*RMB'000*
Employee benefit expense	**433,720**	243,483
Costs of inventories	**10,342,384**	7,318,352
Amortisation of leasehold land and land use rights	**1,651**	1,477
Depreciation of property, plant and equipment	**438,566**	326,691
Amortisation of intangible assets	**3,806**	3,582
(Reversal of)/impairment of property, plant and equipment	**(16,980)**	41,859
Depreciation of investment properties	**1,100**	1,112
Operating lease expenses in respect of land use rights	**3,631**	4,503
Reversal of impairment provision for receivables	**–**	(600)
Reversal of provision for write-down of inventories	**(1,879)**	(10,754)
Auditors' remuneration	**6,200**	3,300

5. Other income

	2007	2006
	RMB'000	*RMB'000*
Dividend income on financial assets at fair value through profit or loss	**2**	1,061
Rental income arising from investment properties	**1,924**	1,261
Others	**190**	1,827
Total	**2,116**	4,149

6. Other gains – net

	2007	2006
	RMB'000	*RMB'000*
Other gains – net:		
Sales of raw materials and by-products	**32,639**	37,423
Gain on disposal of intangible assets	**6,325**	85
Loss on disposal of property, plant and equipment	**(6,196)**	(7,329)
Foreign exchange loss, net	**(19,187)**	(2,979)
Loss on liquidation of a subsidiary	**(9,605)**	–
Others	**8,754**	4,239
Total	**12,730**	31,439

7. Finance income and costs

	2007	2006
	RMB'000	*RMB'000*
Interest expenses		
– borrowings	**(68,287)**	(48,615)
– amounts due to related parties	**(523)**	(1,633)
– discount of notes receivable	**–**	(139)
Finance costs	**(68,810)**	(50,387)
Finance income		
– interest income on bank deposits	**12,118**	18,930
Finance costs, net	**(56,692)**	(31,457)

8. Income tax expense

(a) Income tax expense represents:

	2007	2006
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax (the "EIT")	**260,101**	208,269
Deferred income tax	**(3,484)**	2,617
	256,617	210,886

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and, accordingly, is exempted from payment of Bermuda income tax.

The subsidiaries directly held by the Company were incorporated in BVI with limited liability under the International Business Companies Act Chapter 291 and, accordingly, are exempted from payment of BVI income tax.

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year ended 31 December 2007 (2006: 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, Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), is 30% and the local income tax rate is 3%. Therefore, an aggregate tax rate of 33% was applicable for 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 was entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT.

Approved by local tax authority on 22 July 2004, Jinxi Limited was 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 was 15% for the year ended 31 December 2007 (2006: 15%).

Foshan Jinxi Jin Lan Cold Rolled Sheet Company Limited ("Foshan Jinxi") qualified as a foreign investment production enterprise and was established in a coastal economic development zone. Accordingly, the applicable enterprise income tax rate is 24% and the local tax rate is 3%, resulting in an aggregate tax rate of 27%. As at 31 December 2007, Foshan Jinxi was in a cumulative tax loss position. Accordingly, the effective tax rate is nil (2006: nil).

Approved by local tax authority on 14 December 2007, Foshan Jinxi was entitled to a two-year full exemption followed by a three-year 50% tax deduction, commencing from the first cumulative profit-making year net of losses carried forward.

Effective from 1 January 2008, the subsidiaries incorporated in PRC shall determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new EIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the Corporate Income Tax Law (the "DIR") as approved by the State Council on 6 December 2007. In accordance with the new EIT Law and DIR, the EIT rate applicable to the subsidiaries incorporated in PRC will be 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weight average tax rate of 31.10% (2006: 31.47%) to respective profits of the consolidated entities for the years ended 31 December 2007 and 2006 as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**1,450,354**	1,233,236
Taxation calculated at statutory tax rate	**483,290**	416,863
Effect of tax exemption of Jinxi Limited	**(310,835)**	(251,861)
Effect of non-deductible net tax loss of the Company	**32,858**	18,318
Tax losses for which no deferred income tax asset was recognised	**375**	25,977
Utilisation of previously unrecognised tax losses	**(4,881)**	(9)
Effect of change of tax rate upon assessing deferred tax assets	**1,022**	–
Effect of other non-taxable income	**(35)**	–
Effect of non-deductible expenses	**54,823**	1,598
	256,617	210,886

9. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,159,657**	1,032,754
Weighted average number of ordinary shares in issue *(thousands)*	**2,910,759**	2,905,000
Basic earnings per share *(RMB per share)*	**0.40**	0.36

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) during the period based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,159,657**	1,032,754
Weighted average number of ordinary shares in issue used in calculating basic earnings per share *(thousands)*	**2,910,759**	2,905,000
Adjustments for options *(thousands)*	**13,051**	–
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share *(thousands)*	**2,923,810**	2,905,000
Diluted earnings per share *(RMB per share)*	**0.40**	0.36

10. Dividends

	2007	2006
	RMB'000	*RMB'000*
Interim, paid *(a, b)*	**154,864**	29,730
Final, proposed *(c, d)*	**164,361**	132,149
	319,225	161,879

(a) At a meeting held on 30 August 2006, the Board proposed an interim dividend of HK$29.05 million (approximately RMB29.73 million), representing HK$0.01 per ordinary share.

(b) At a meeting held on 30 August 2007, the Board proposed an interim dividend of HK$159.94 million (approximately RMB154.86 million), representing HK$0.055 per share, for the year ended 31 December 2007. Such interim dividend was paid for the year ended 31 December 2007.

(c) At a meeting held on 3 April 2007, the Board proposed a final dividend in respect of the year ended 31 December 2006 of HK$133.63 million (approximately RMB132.15 million), representing HK$0.046 per ordinary share. The Annual General Meeting held on 22 May 2007 approved the Board's dividend proposal. Such final dividend was paid for the year ended 31 December 2007.

(d) At a meeting held on 27 March 2008, the Board proposed a final dividend in respect of the year ended 31 December 2007 of HK$181.61 million (approximately RMB164.36 million), representing HK$0.062 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

11. Trade receivables

	2007	2006
	RMB'000	*RMB'000*
Accounts receivable	**117,378**	34,795
Notes receivable *(a)*	**371,447**	964,033
	488,825	998,828

(a) As at 31 December 2007 and 2006, notes receivable were all bank acceptance notes, approximately of which:

(i) RMB92 million was pledged as security for issuing notes payable (2006: RMB10 million).

(ii) RMB66 million was pledged as security for issuing letters of credit (2006: RMB135 million).

As at 31 December 2006, RMB51 million was pledged as security in favour of a third party for issuing letters of credit.

As at 31 December 2006, RMB29 million was pledged as security for the Group's current borrowings.

As at 31 December 2007 and 2006, the carrying amount of the Group's trade receivables approximated their fair value.

The credit policy usually adopted by the Group for the sales of products to customers is to deliver goods either upon receipt in cash or upon receipt of bank acceptance notes with maturity dates within six months.

As at 31 December 2007 and 2006, the ageing analysis of trade receivables was as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**431,248**	998,828
4-6 months	**57,577**	–
	488,825	998,828

As at 31 December 2007, accounts receivable pledged by letter of credit issued by the third parties amounted to approximately RMB90 million (2006: approximately RMB28 million).

As at 31 December 2007, trade receivables of RMB27 million (2006: RMB7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than three months pass due are not impaired. The ageing analysis of these trade receivables was as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**26,855**	6,812

The carrying amounts of the Group's trade receivables are dominated in the following currencies:

	2007	2006
	RMB'000	*RMB'000*
RMB	**398,302**	970,845
US dollar	**90,523**	27,983
	488,825	998,828

12. Trade payables

	2007	2006
	RMB'000	*RMB'000*
Accounts payable	**545,335**	425,268
Notes payable *(a)*	**170,200**	91,100
	715,535	516,368

(a) As at 31 December 2007, the notes payable represented bank acceptance notes, RMB91 million of which were secured by certain notes receivable, and RMB79.2 million of which were secured by certain inventories and certain restricted bank balances.

As at 31 December 2006, the notes payable represented bank acceptance notes, RMB32.1 million of which were secured by certain notes receivable, certain restricted bank balances, and bank acceptance notes issued by a subsidiary amounting to RMB8 million approximately, and RMB59 million of which were secured by certain inventories, certain restricted bank balances and guaranteed by Jinxi Limited.

As at 31 December 2007 and 2006, the ageing analysis of the trade payables was as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**655,308**	478,916
4-6 months	**49,100**	30,703
7-9 months	**3,690**	2,795
10-12 months	**2,226**	219
Above 1 year	**5,211**	3,735
	715,535	516,368

13. Contingent events

The Group

Guarantee for third parties

	2007	2006
	RMB'000	*RMB'000*
Guarantee for bank borrowings of third parties *(i)*	**30,900**	18,900
Guarantee for letter of credit issued by a third party *(ii)*	**–**	50,520
	30,900	69,420

(i) As at 31 December 2007, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB30.9 million (2006: approximately RMB18.9 million).

(ii) For the year ended 31 December 2006, a third party acted as an agent and issued letter of credit to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB51 million as collaterals.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

The Company

	2007	2006
	RMB'000	*RMB'000*
Guarantee for bank borrowings of a subsidiary	**90,000**	90,000

In January 2006, the Company and Foshan Jin Lan Aluminium Company Limited ("Foshan Jin Lan") collectively granted a guarantee in favour of Foshan Jinxi for current bank facilities amounting to RMB150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively.

As at 31 December 2007 and 2006, pursuant to the aforementioned agreement, current secured borrowings of Foshan Jinxi amounting to RMB150 million were guaranteed by the Company and Foshan Jin Lan collectively.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

14. Commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2007	2006
	RMB'000	*RMB'000*
To acquire the minority interest in		
Jinxing Charging Company Limited ("Jinxing Charging")	**–**	8,900
To acquire interests in certain mining enterprises	**–**	83,421
	–	92,321
Purchase of property, plant and equipment		
– Contracted but not provided for	**884,748**	6,599
– Authorised but not contracted for	**276,472**	1,971,348
	1,161,220	1,977,947

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of land use rights and building under non-cancellable operating leases are payable as follows:

	2007	2006
	RMB'000	*RMB'000*
No later than one year	**9,440**	5,723
Later than one year and no later than five years	**26,394**	17,086
Later than five years	**121,314**	93,571
	157,148	116,380

15. Subsequent events

Saved as disclosed elsewhere in these consolidated financial statements, the significant subsequent events of the Group were as follows:

(i) On 26 March 2008, the directors of Jinxi Limited proposed a final dividend of RMB295 million in respect of the year ended 31 December 2007.

(ii) On 18 February 2008, Jinxi Limited entered into an agreement with Foshan Jin Lan and Accordpower Investments Limited ("Accordpower") to acquire 21.50% and 13.21% equity interests of Foshan Jinxi held by these two parties respectively. The total consideration was US$4.69 million (approximately RMB33.78 million equivalent) and US$2.88 million (approximately RMB20.75 million equivalent) in the form of cash respectively.

On 20 February 2008, Accordpower, Jinxi Limited and Foshan Jin Lan had entered into a capital injection agreement to increase the share capital of Foshan Jinxi by US$25.35 million.

(iii) On 14 January 2008, Mittal Steel Holdings AG ("Mittal AG") made an unconditional mandatory cash offer to acquire all the disinterested shares. A comparable offer were also made and extended to option holders for the cancellation of all share options which are outstanding.

The unconditional mandatory offering was closed on 4 February 2008. The offeror has received valid acceptances in respect of (a) 557,372,740 shares under the share offer, representing approximately 19.0% of the total issued share capital of the Company; and (b) 89,700,000 share options under the Option Offer, representing approximately 100% of the total outstanding share options at the commencement of the Offer.

After the completion of unconditional mandatory offering, all the employees who owned the share option granted on 26 October 2007 have accepted Mittal AG's unconditional mandatory offering with the total consideration of HK$1.115 per share. All the 89,700,000 outstanding options at 14 January 2008 have been cancelled.

MANAGEMENT DISCUSSION AND ANALYSIS

2007 China Oriental Group Company Limited ("China Oriental", or the "Company", together with its subsidiaries the "Group")'s entering new era of its corporate development. The Group recorded continuing favorable growth in capacity, sales volume, revenue and profit attributable to equity holders of the Company. In addition, during the year, we successfully brought in the world's largest steel conglomerate (ArcelorMittal S.A.) as our strategic partner and substantial shareholder.

The Group's stable development had been recognised by, and supported by the markets at home and abroad. The Group stood out from over 600 privately-owned listed enterprises and ranked 10th of the "100 privately-owned listed companies in 2007" and ranked 34th in "Forbes 2007 Top Chinese enterprises".

For the shareholders, 2007 was a fruitful year. The Company offered its shareholders approximately 2.6 times capital return, being the sum of increase in share price and the dividends payout during the year.

Dividend

The board of directors recommended a final dividend of 6.2 HK cents per share for the year ended 31 December 2007. The Group distributed a total dividend of 11.7 HK cents (2006: 5.6 HK cents) per share for 2007, which was 1.1 times more than that of the previous year.

Business Review

Results

During the year under review, revenue of the Group recorded a strong growth and had exceeded RMB10 billion. Apart from the overall surge of market prices in the iron and steel industry, the Company's increased sales volume resulted from enhanced capacity also contributed to a higher revenue. The audited consolidated revenue of the Group for the year 2007 was appropriately RMB13,499 million (2006: RMB9,782 million), representing an increase of 38% as compared to that of 2006.

Despite a significant surge in raw material cost, higher margin through continuation of our operation strategy of fine-tuning its product mix, increasing the proportion of H-section steel sales volume, we successfully transferred the majority of the cost pressure to consumers. The Group still maintained a high gross profit margin, the same level as 2006. Total gross profit for the year under review increased 35% to RMB1,917 million (2006: RMB1,424 million).

The audited profit attributable to equity holders of the Company for the year 2007 was RMB1,160 million (2006: RMB1,033 million) representing an increase of 12% from that of 2006. Growth of the Group's profit for the year was lower than that of the revenue percentage increase. This was mainly due to the 89,700,000 share options granted to qualified staff in 2007 in recognition of their contribution to the Group's development. The granting of share options incurred a non-cash expense of RMB160 million. Without the impact of the non-cash expense, profit attributable to the equity holders of the Company would be RMB1,313 million, representing an increase of 25%.

The audited basic and diluted earnings per share for the year 2007 was RMB0.40, representing an increase of 11% (2006: RMB0.36).

During the year under review, the Group was financially strong in terms of consolidated cash flows. The net cash inflows generated from operating activities for 2007 was RMB1,074 million (2006: RMB240 million), 3.5 times higher than that of 2006.

Sales Volume

In 2007, the Group's total sales volume was 4,128,000 tonnes (2006: 3,746,000 tonnes), representing an increase of 10%.

The Group's sales volume breakdown was as follows:

	2007		**2006**		
	Sales volume *('000 tonnes)*		**Sales volume** *('000 tonnes)*		**Changes in sales volume**
Billets	299	7.2%	1,173	31.3%	(75%)
Strips and strip products	2,451	59.4%	2,202	58.8%	11%
H-section steel	1,205	29.2%	250	6.7%	382%
Cold rolled sheets and galvanized sheets	173	4.2%	121	3.2%	43%
Total	4,128	100.0%	3,746	100.0%	10%

During the year, the Group further optimize the product mix, with sales volume of H-section steel and strip products, which offered a higher gross profit, represented 88.6% (2006: 65.5%) of the Group's total sales volume. Sales volume of H-section steel amounted to 1,205,000 tonnes, significantly increased by 3.8 times when compared to that of last year. Other than production of H-section steel which only commenced operation in the second half of 2006, the massive infrastructure development and urbanization in North China had led to surge in demand for the new steel products. In addition, the Group exported 182,000 tonnes of H-section steel to overseas market, accounted for 15% of the Groups H-section steel sales volume.

Sales volume of billets declined, since the product had been used as raw material to produce, the Groups H-section steel and strip products, which offered a higher gross profit.

Revenue

Revenue of the Group in 2007 was RMB13,499 million (2006: RMB9,782 million), representing an increase of 38%.

The Group's sales breakdown and average selling price by product (excluding value added tax) were as follows:

	2007		**2006**		**Changes**	
RMB	**Revenue**	**Average selling price**	**Revenue**	**Average selling price**	**Revenue**	**Average selling price**
	(million)	*(RMB/tonne)*	*(million)*	*(RMB/tonne)*		
Billets	897	2,999	2,753	2,347	(67%)	28%
Strips and strip products	7,441	3,036	5,723	2,600	30%	17%
H-section steel	4,298	3,566	729	2,917	490%	22%
Cold rolled sheets and galvanized sheets	840	4,870	542	4,450	55%	9%
Others	23	–	35	–	(34%)	–
Total	13,499	3,265	9,782	2,602	38%	25%

During the year under review, in the international market, the growth in infrastructure development and GDP, particularly in emerging market had led to market demand, while the domestic iron and steel market maintained its healthy growth momentum. The imbalance in demand and supply along with surge in raw material prices resulted in significant fluctuation in iron and steel market prices.

Excluding the price impact, the growth in sales volume accounted for more than one quarter of the Group's revenue of the year.

Cost of Sales and Gross Profit

The audited consolidated gross profit of the Company in 2007 was RMB1,917 million (2006: RMB1,424 million), representing an increase of 35%. Gross profit margin was 14.2% (2006: 14.6%).

Average cost per tonne and gross profit during the year were as follows:

	2007			**2006**		
	Average unit cost *(RMB/tonne)*	**Gross profit per tonne** *(RMB)*	**Gross profit margin**	**Average unit cost** *(RMB/tonne)*	**Gross profit per tonne** *(RMB)*	**Gross profit margin**
Billets	2,718	281	9.4%	1,963	384	16.4%
Strips and strip products	2,632	404	13.3%	2,155	445	17.1%
H-section steel	2,898	668	18.7%	2,629	288	9.9%
Cold rolled sheets and galvanized sheets	4,672	198	4.1%	5,130	(680)	(15.3%)
Total	2,801	464	14.2%	2,222	380	14.6%

Although there was a significant surge in raw material cost, the Group continued its operation strategy of fine-tuning its product mix, maintaining an increasing proportion of sales volume in higher gross margin H-section steel, which have relatively higher gross profit. The Group successfully transferred the majority of costs pressure to the consumers. The Group's gross profit margin maintained in the same level as that of the previous year. Gross profit per tonne increased by 22%, from last year's RMB380 to current year's RMB464.

The main reason for the increase in unit cost was mainly due to upsurge in costs of global resources which led to increase in prices of major raw materials, such as iron ore and coking coal. The cost increase also led to decline in gross margin of certain steel products such as billets and strip products.

Newly advanced technological steel products such as H-section steel and cold rolled sheets and galvanized sheets produced by Foshan Jinxi Jinlan Cold Rolled Sheet Co., Ltd. ("Jinxi Jinlan") began to enjoy economies of scale with lowered share of fixed costs per tonne. This enabled the Group to enhance overall profit and gross margin. The Group exported a small proportion of steel products to overseas market. Profit margin of export was similar to that of domestic sales.

Increase shareholding of Foshan Jinxi Jinlan Cold Rolled Sheet Co., Ltd.

The Group increases its equity interest in Jinxi Jinlan from 60% to 81.5%. Jinxi Jinlan is engaged in purchase of billets for processing of cold rolled sheets or galvanized sheets.

Following the completion of the acquisition, the registered capital of Jinxi Jinlan has been increased from USD29,800,000 (equivalent to approximately RMB246,446,000) to USD55,152,400 (equivalent to approximately RMB428,983,000). Shareholders of Jinxi Jinlan agreed to increase their investment according to the proportion of their shareholding. The acquisition and the subsequent capital injection which have been completed in February 2008, have provided Jinxi Jinlan with sufficient financial support to continue its development and expand its production scale and to increase the management control of the Group in Jinxi Jinlan.

The world's largest steel conglomerate becoming a strategic shareholder

ArcelorMittal, acquired approximately 28% equity interest in the Company from Smart Triumph Corporation and Ms. Chen Ningning in November 2007, and became China Oriental's second largest shareholder. Later on, ArcelorMittal then entered into a Shareholders' Agreement (the "Shareholders' Agreement") with the Controlling Shareholders (the "Controlling Shareholders") of the Company. The Shareholders' Agreement will enable ArcelorMittal to become the majority shareholder of the Company by purchasing the Controlling Shareholders' existing 45% stake in the Company within an agreed period of time.

In addition, the Group has entered into a Business Cooperation Agreement (the "Business Cooperation Agreement") with ArcelorMittal. According to the Business Cooperation Agreement, ArcelorMittal will share its technology, technical expertise and know-how with the aim of transforming the Group into a leading producer of heavy sections in China. ArcelorMittal will also assist the Group in sourcing of iron ore and coking coal.

ArcelorMittal's becoming the Company's second largest shareholder and the signing of the Business Cooperation Agreement well reflect its confidence in the potentiality of China Oriental's operations, as well as in the iron and steel market of Mainland China. We are delighted to have the world's leading steel giant as our strategic partner and substantial shareholder. We believe with ArcelorMittal's support in steel production technology as well as its network of worldwide raw materials sourcing and management expertise, China Oriental can expedite its development and the realization of its plan to become a world-class leading H-section steel production base in the PRC.

Prospects

It is estimated that the demand of steel market in 2008 will remain stable, with a slowdown in its growth rate. Prices will fluctuate at a high level. Differentiation among enterprises will become obvious as enterprise with reliable resources, advanced facilities and rational product structure are expected to enhance their profitability.

The supply iron ore and coking coal is expected to remain tight and prices of these raw materials will continue to stay at a relatively high level. With the support of ArcelorMittal, the Group will be able to secure the supply of its key raw materials, thus ensuring its smooth production and future capacity expansion.

With the development in recent years, in particular the optimisation of its product mix, the Group has significantly improved its competitiveness and profitability. The Group will emphasise on strengthening Jinxi Iron and Steel's fundamentals to actively participate in the consolidation of iron and steel industry, enabling it to substantially increase steel processing capacity, through its organic growth and merger and acquisition.

The Group will also focus on fine-tuning its product mix, with an aim to increasing H-section steel capacity, and to enhancing its product average added-value. The Group's plan to construct two additional H-section steel production lines with a total annual production capacity of 1,200,000 tonnes in Jinxi has obtained approval from the regulatory authority. Initial preparation works for the project has commenced. Upon completion and inauguration of the production lines, which is expected to be in the second half of year 2008, the Group's total production capacities of H-section steel will reach 2,500,000 tonnes. It is expected, by 2009, the Group's mainstream product H-section steel will account for over 50% of its revenue.

With the completion of capital injection into Jinxi Jinlan, the plant can expand its capacity and further enjoy economies of scale. We expect the operating results of Jinxi Jinlan will turnaround in the coming year, and will achieve favorable business expansion.

The State has placed substantial emphasis on the development of the steel industry. Being one of the major iron and steel enterprises in Hebei, the Group's business development has long been supported and encouraged by the relevant government authorities. With ArcelorMittal, becoming its strategic partner and a substantial shareholder, the Group will be able to expedite its expansion in scale of operation and acceleration of its production technology.

Accreditation for the Company and its Management

The Group ranked the 10th position of the "Top100 privately-owned listed companies in 2007" in the forth privately-owned enterprises development forum and the selection of the top 100 privately-owned listed companies, and ranked 34th in "Forbes 2007 Top Chinese Enterprises".

The ranking of Hebei Jinxi Iron and Steel Company Limited ("Jinxi Iron and Steel"), a major subsidiary of the Group, had been risen to 69th in terms of crude steel processing capacity, among steel enterprises of the world in 2006, prepared by the Metal Bulletin of the UK. According to the first 11 months of 2007 financial and operating index of medium to large-sized steel enterprises in the PRC, Jinxi Iron and Steel ranked the 15th in terms of profit before tax and ranked 3rd in terms of revenue ratio.

The Group's brandname, Jinxi Pai, was accredited "China's Well-Known Trademark" by China Trademark Certification Centre and Evaluation Committee of China's Household Brands. The Group's core product, "Jinxi Pai H-section steel", was also awarded by Market Daily of People's Daily and China International Brand Society and etc as "Top brand in user satisfaction in China H-section steel industry" and "Top ten outstanding brands in China's iron and steel industry". It was also accredited by the China Marketing Research and Development Centre as "5-star brand in user satisfaction and quality" as "Top ten iron and steel industry well known brands" and "Top ten user satisfaction products in iron and steel market in China".

Mr. Han Jingyuan, the Chairman and Chief Executive Officer of the Company, had been named the "Top ten outstanding people in Hebei Province metallurgy industry in 2006" by Metallurgy Policy Research Committee of Hebei Province. He was also named the "Top ten outstanding people in brand building" by Market Daily of People's Daily, the China International Brand Society and etc.

Human Resources and Remuneration Policies

As at 31 December 2007, the Group had a workforce of 7,200 and temporary staff of 2,600. The staff cost included basic salaries and benefits. Staff cost included discretionary bonus, medical insurance plans, pension scheme, unemployment insurance plan, maternity insurance plan and the fair value of the share options, etc. According to the Group's remuneration policy, employees' package is based on productivity and/or sales performance, and is consistent to the Company's quality control and cost control targets.

The Group has been emphasizing on the importance of providing continuing education and training programmes to both the management staff and factory workers in order to improve the Group's productivity and further enhance the quality of its workforce. Jinxi Iron and Steel was awarded as "2006 continuing education and training programme leading unit" by Tangshan City government departments in April 2007.

Dividend Policy

The Company plans to distribute not less than 20% of the Group's distributable profit as dividend after its listing. However the actual amount of dividend and its percentage to the profit will be at the discretion of the Board and will depend upon the Company's future operation and earnings, capital requirement and surplus, general financial condition, contractual restrictions, and other factors that the Board find relevant. In addition, pursuant to the relevant PRC law, Jinxi Iron and Steel's distributable profit should not be higher than its net profit, after appropriation to the statutory reserve as determined by the generally accepted accounting principles in the PRC.

Financial Review

Capital Structure

The free cash and bank balances of the Group as at 31 December 2007 was RMB690 million (2006: RMB435 million). After taking out the free cash and bank balances, net borrowings was RMB535 million (2006: RMB499 million), accounting for 8% (2006: 9%) of the Group's consolidated net assets after deducting minority interest, of RMB 6,549 million (2006: RMB 5,479 million).

The current ratio (current assets divided by current liabilities) was 1.4 as at 31 December 2007 (2006: 1.6). As at 31 December 2007, the ratio between total liabilities and total assets of the Group was 34% (2006: 32%).

The audited net asset value per share of the Group as at 31 December 2007 was RMB2.24 (2006: RMB1.89), representing an increase of 19%.

The consolidated interest expenses in 2007 amounted to RMB68,810,000 (2006: RMB50,387,000). The interest coverage (divide earnings before interests and taxes by total interest expenses) was 22.1 times (2006: 25.5 times).

The financial position of the Group was in very healthy condition.

Capital Commitments

As at 31 December 2007, the Group had capital commitments amounted to RMB1,161 million (2006: RMB2,070 million), which mainly consisted of the capital commitments to the construction of the H-section steel rolling line with annual productivity capacity of 1,200,000 tonnes and other ancillary projects. It is estimated the capital commitments will be financed by the Group's internal resources and bank borrowings.

Guarantees and Contingent Liabilities

As at 31 December 2007, the Group's contingent liabilities amounted to RMB31 million (2006: RMB19 million) which was the provision of guarantee for certain bank borrowings in favor of third parties. As at 31 December 2007, the Group did not provide guarantees for the letter of credit issued by agent appointed by the Group to import machinery and equipment on behalf of the Group (2006: RMB50 million).

Pledge of Assets

As at 31 December 2007, the net book value of the Group's property, plant and equipment amounting to approximately RMB1,396 million (2006: RMB1,088 million), land use right amounting to approximately RMB24 million (2006: RMB65 million), inventories amounting to approximately RMB57 million (2006: RMB69 million), notes receivable amounting to approximately RMB158 million (2006: RMB174 million) and restricted bank balances amounting to approximately RMB172 million (2006: RMB95 million) had been pledged as security for the Group's banking facilities.

As at 31 December 2006, Jinxi Iron and Steel pledged approximately RMB51 million of its notes receivable as security for providing guarantees so as to facilitate the issuing of letter of credit by a third party acting as its agent to import plant and equipment for Jinxi Iron and Steel.

Exchange Risks

As at 31 December 2007, Renminbi, US dollar, HK dollar and Euro accounted for 82.2%, 15.4%, 2.4% and 0.001% of the Group's total bank balances (including restricted bank balances) respectively (31 December 2006: 75.9%, 23.7%,0.4% and 0.001% respectively).

Interest Rate Risk

The interest rates of the Group's certain borrowings are subject to the variations. The risk of increasing interest rate will increase the interest costs of both new borrowings and existing borrowings. At present, the Group does not use any derivations to hedge its interest rate risk exposure.

Post Balance Sheet Events

Saved as disclosed in the announcement of the Group, there are no events to cause material impact on the Group from the balance sheet date to the date of this announcement.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year with the deviations explained below.

The roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan. The Board believes that there is no need to segregate the roles of the Chairman and the Chief Executive Officer of the Company because the role of the chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons and apart from acting as the listing vehicle of the Group, the Company has no real operating activities or business.

Depending on the future development of the operating activities or business of the Company, eventually the Board will actively consider the issue of replacing Mr. Han Jingyuan by an appropriate candidate as the Chief Executive Officer of the Company.

Pursuant to the Bye-Laws of the Company, the Chairman and/or the Managing Director of the Company shall not, whilst holding such office, be subject to the retirement by rotation or be taken into account in determining the number of the Directors to retire in each year. The Board will consider amending the Bye-laws to comply with the principle of Code Provision A.4 in the future.

Under Code Provision A.1.3, notice of at least 14 days should be given. During 2007, not less than 4 days notices is given. The Board will ensures sufficient notice to be given for the forthcoming board meeting.

During 2006, Jinxi Limited signed a guarantee as security to its fellow subsidiary, Foshan Jinxi which was a connected party to the Company at that time. The provision of the guarantee was not reported to the Stock Exchange in time and constituted a breach to the Listing Rules. The Company has engaged an independent third party to review its internal control system, report of which was approved by the Audit Committee and the Board on 19 March 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 9 May 2008 to Thursday, 15 May 2008, all days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and be eligible to attend and vote at the Annual General Meeting to be held on Thursday, 15 May 2008, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 8 May 2008.

APPRECIATION

The Board would like to extend its gratitude to the staff for their dedication and contribution to the Group, and to thank our shareholders for their support and trust in the Company. We will continue to join hands with our shareholders and staff to realise shareholders' value and enable everyone of us to share our growth prospects.

On behalf of the Board
China Oriental Group Company Limited
Han Jingyuan
Chairman and Chief Executive Officer

Hong Kong, 27 March 2008

At the date of this announcement, the executive directors of the board of directors are Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Liu Lei, Mr. Shen Xiaoling, Mr. Yu Jianshui and Mr. Zhu Hao. The independent non-executive directors are Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis.

This announcement is published on the websites of the Company (www.chinaorientalgroup.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).