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 2008 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

	2008 *RMB*	2007 *RMB*	Change
Sales volume (tonnes)	**4.5 million**	4.1 million	+10%
Gross profit per tonne	**114 yuan**	464 yuan	-75%
Revenue	**19.4 billion**	13.5 billion	+44%
Gross profit	**517 million**	1,917 million	-73%
Profit before tax and share option fair value	**114 million**	1,610 million	-93%
Profit attributable to equity holders of the Company	**44 million**	1,160 million	-96%
Net cash inflow generated from operating activities	**148 million**	1,074 million	-86%
Basic EPS	**0.02 yuan**	0.40 yuan	-95%
NAV per share	**2.14 yuan**	2.24 yuan	-4%
Annual dividends per share	**6.5 HKcents**	11.7 HKcents	-44%

* *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 2008 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 2008 *RMB'000***	Audited 2007 *RMB'000*
Revenue	*3*	**19,388,183**	13,498,555
Cost of sales	*4*	**(18,870,988)**	(11,581,115)
Gross profit		**517,195**	1,917,440
Other income	*5*	**35,639**	2,116
Distribution costs	*4*	**(80,319)**	(46,689)
Administrative expenses	*4*	**(281,942)**	(373,452)
Other expenses	*4*	**(10,228)**	(5,324)
Other (losses)/gains – net	*6*	**(1,364)**	12,730
Operating profit		**178,981**	1,506,821
Finance income	*7*	**24,249**	12,118
Finance costs	*7*	**(91,627)**	(68,810)
Finance costs – net		**(67,378)**	(56,692)
Share of profit of an associate		**1,998**	225
Profit before income tax		**113,601**	1,450,354
Income tax expense	*8*	**(70,643)**	(256,617)
Profit for the year		**42,958**	1,193,737
Attributable to:			
Equity holders of the Company		**44,032**	1,159,657
Minority interest		**(1,074)**	34,080
		42,958	1,193,737
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	*9*	**RMB 0.02**	RMB 0.40
– diluted	*9*	**RMB 0.02**	RMB 0.40
Dividends	*10*	**167,088**	319,225

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	Audited 2008 RMB'000	Audited 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**8,286,788**	6,405,538
Leasehold land and land use rights		**74,790**	76,441
Investment properties		**18,400**	19,328
Intangible assets		**7,667**	–
Investment in an associate		**10,120**	8,122
Loan receivable		**130,000**	–
Available-for-sale financial assets		**188,100**	–
Deferred income tax assets		**7,461**	3,194
		8,723,326	6,512,623
Current assets			
Inventories		**1,567,437**	1,836,997
Trade receivables	*11*	**1,733,991**	488,825
Other current assets		**9,894**	4,037
Prepayments, deposits and other receivables		**731,570**	447,156
Financial assets at fair value through profit or loss		**140**	146
Amounts due from related parties		**14,620**	11,055
Prepaid current income tax		**264,555**	–
Restricted bank balances		**361,698**	171,690
Cash and cash equivalents		**728,826**	689,591
		5,412,731	3,649,497
Total assets		**14,136,057**	10,162,120
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**311,669**	311,444
Share premium		**2,189,695**	2,185,964
Other reserves		**1,144,963**	1,144,182
Retained earnings		**2,618,902**	2,907,100
		6,265,229	6,548,690
Minority interest in equity		**224,711**	147,414
Total equity		**6,489,940**	6,696,104

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December

	Note	Audited 2008 RMB'000	Audited 2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**489,230**	765,000
Other long term payables		**847,934**	–
Deferred revenue		**62,756**	–
Amounts due to related parties		**65,055**	55,733
		1,464,975	820,733
Current liabilities			
Trade payables	*12*	**2,219,395**	715,535
Accruals, advances from customers and other current liabilities		**2,034,745**	1,371,328
Amounts due to related parties		**207,013**	8,571
Other long term payables - current portion		**19,888**	–
Current income tax liabilities		**–**	88,382
Borrowings		**1,697,230**	460,000
Dividends payable		**2,871**	1,467
		6,181,142	2,645,283
Total liabilities		**7,646,117**	3,466,016
Total equity and liabilities		**14,136,057**	10,162,120
Net current (liabilities)/assets		**(768,411)**	1,004,214
Total assets less current liabilities		**7,954,915**	7,516,837

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.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (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.

As at 31 December 2008, the Group's current liabilities exceeded its current assets by approximately RMB 768 million. In the opinion of the directors, considering the impact of the macro-economics stimulation plan adopted by the PRC government on iron and steel industry, the operating cash flows of the Group in the year 2009 will be better than that of year 2008. As at 31 December 2008, the Group had undrawn bank facilities of approximately RMB 812 million and the Group is currently negotiating with certain major banks to obtain additional bank facility or renew short-term bank borrowings. As at the date of the financial statements were approved, the Group obtained a letter of intention from a major bank who would additionally grant bank facilities to the Group amounting to RMB 750 million. Short-term bank borrowings of approximately RMB 180 million were renewed and will fall due after 31 December 2009. Based on the aforementioned considerations, in the opinion of the directors, the consolidated financial statements are prepared on a going concern basis.

(a) Amendments and interpretation to standards effective in 2008

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 – Financial Instruments: *Recognition and Measurement* and HKFRS 7 – Financial Instruments: *Disclosures*
HK(IFRIC) – Int 11	HKFRS 2 – *Group and Treasury Share Transactions*

The amendments and interpretation to standards do not have any significant impact on the Group's financial statements.

(b) Interpretations to standards effective in 2008 but not relevant

HK(IFRIC) – Int 12	*Service Concession Arrangements*
HK(IFRIC) – Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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 2008 and 2007 are as follows:

	2008 *RMB'000*	2007 *RMB'000*
Sales:		
Gross sales, less discounts and returns		
– billets	**3,990,747**	896,776
– strips and strip products	**8,574,492**	7,441,792
– H section steel products	**5,672,508**	4,330,279
– galvanised sheets	**708,746**	682,118
– cold rolled sheets	**612,100**	158,044
– others	**14,633**	22,844
	19,573,226	13,531,853
Less: Sales taxes	**(185,043)**	(33,298)
	19,388,183	13,498,555

(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

	2008	2007
	RMB'000	*RMB'000*
Employee benefit expense	**340,299**	433,720
Costs of inventories	**17,353,385**	10,342,384
Amortisation of leasehold land and land use rights	**1,651**	1,651
Depreciation of property, plant and equipment	**570,936**	438,566
Amortisation of intangible assets	**–**	3,806
Reversal of impairment of property, plant and equipment	**–**	(16,980)
Depreciation of investment properties	**928**	1,100
Operating lease expenses in respect of land use rights	**9,178**	3,631
Provision for/(reversal of) write-down of inventories	**45,511**	(1,879)
Auditors' remuneration	**5,800**	6,200

5. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Dividend income on financial assets at fair value through profit or loss	**11**	2
Rental income arising from investment properties	**1,775**	1,924
Income from operating leases	**31,300**	–
Others	**2,553**	190
Total	**35,639**	2,116

6. OTHER (LOSSES)/GAINS – NET

	2008	2007
	RMB'000	*RMB'000*
Other (losses)/gains – net:		
Sales of raw materials and by-products	**20,439**	32,639
Gain on disposal of intangible assets	**–**	6,325
Loss on disposal of property, plant and equipment	**(276)**	(6,196)
Foreign exchange loss, net	**(17,297)**	(19,187)
Loss on liquidation of a subsidiary	**–**	(9,605)
Charity donation	**(5,114)**	–
Others	**884**	8,754
Total	**(1,364)**	12,730

7. FINANCE INCOME AND COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest expenses		
– borrowings	**(61,822)**	(68,287)
– amounts due to related parties	**–**	(523)
– discount of notes receivable	**(463)**	–
– finance lease liabilities	**(30,101)**	–
Net foreign exchange gains on borrowings	**759**	–
Finance costs	**(91,627)**	(68,810)
Interest income on bank deposits	**15,519**	12,118
Income from loan receivable	**8,730**	–
Finance income	**24,249**	12,118
Finance costs, net	**(67,378)**	(56,692)

8. INCOME TAX EXPENSE

(a) Income tax expense represents:

	2008	2007
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax (the "EIT")	**74,910**	260,101
Deferred income tax	**(4,267)**	(3,484)
	70,643	256,617

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 except a Hong Kong subsidiary 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 2008 (2007: 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.

Effective from 1 January 2008, the subsidiaries incorporated in the PRC are required to 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 Implementation 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 the 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%. The preferential policy of exemption or deduction shall be effective from 1 January 2008, even if the subsidiaries were still in a cumulative tax loss position.

Effective from 25 December 2002, Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited") was approved to be a foreign-invested joint stock company. The effective tax rate is 25% for the year ended 31 December 2008 according to the new EIT law, and 15% for the year ended 31 December 2007 as it was entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT and a five-year full exemption followed by a five-year 50% deduction from the local income tax started from 1 January 2003.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited ("Jinxi Jinlan") qualified as a foreign investment production enterprise and was established in a coastal economic development zone. Approved by local tax authority on 14 December 2007, Jinxi Jinlan 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. As at 31 December 2008, the effective rate of Jinxi Jinlan was nil (2007: nil).

Oriental Fullhero Leasing Co., Ltd ("Shenzhen Leasing") qualified as a service industry enterprise and was established in a special economic zone. Approved by local tax authority on 14 September 2008, Shenzhen Leasing was entitled to a one-year full exemption followed by a two-year 50% tax deduction effective from 1 January 2008. Accordingly, the effective tax rate was nil (2007: nil).

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate of 22.39% (2007: 31.10%) to respective profits of the consolidated entities for the years ended 31 December 2008 and 2007 as follows:

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**113,601**	1,450,354
Taxation calculated at statutory tax rate	**23,651**	483,290
Effect of tax exemption of subsidiaries	**(2,577)**	(310,835)
Tax losses for which no deferred income tax asset was recognised	**8,251**	375
Utilisation of previously unrecognised tax losses	**(1,686)**	(4,881)
Effect of change of tax rate upon assessing deferred tax assets	**–**	1,022
Effect of other non-taxable income	**(499)**	(35)
Effect of non-deductible expenses	**43,503**	87,681
	70,643	256,617

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.

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**44,032**	1,159,657
Weighted average number of ordinary shares in issue *(thousands)*	**2,929,187**	2,910,759
Basic earnings per share *(RMB per share)*	**0.02**	0.40

Diluted

Diluted earnings per share is the same as basic earnings per share, as the Company has no dilutive potential ordinary shares as at 31 December 2008 (2007: RMB 0.40 per share).

10. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Interim, paid *(a, b)*	**167,088**	154,864
Final, proposed *(c, d)*	**–**	164,361
	167,088	319,225

(a) At a meeting held on 30 August 2007, the Board proposed an interim dividend of HK$ 159.94 million (approximately RMB 154.86 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.

(b) At a meeting held on 18 August 2008, the Board proposed an interim dividend of HK$ 190.14 million (approximately RMB 167.09 million), representing HK$ 0.065 per ordinary share, for the six months ended 30 June 2008. Such interim dividend was paid for the year ended 31 December 2008.

(c) 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 RMB 164.36 million), representing HK$ 0.062 per ordinary share. The Annual General Meeting held on 15 May 2008 approved the Board's dividend proposal. Such final dividend was paid for the year ended 31 December 2008.

(d) The Board does not recommend the payment of final dividend for the year ended 31 December 2008.

11. TRADE RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**29,897**	117,378
Notes receivable (a)	**1,704,094**	371,447
	1,733,991	488,825

(a) As at 31 December 2008 and 2007, notes receivable were all bank acceptance notes, of which approximately:

(i) RMB 10 million was pledged as security for issuing notes payable (2007: RMB 92 million).

(ii) RMB 241 million was pledged as security for the Group's borrowings (2007: nil).

As at 31 December 2007, RMB 66 million was pledged as security for issuing letters of credit.

As at 31 December 2008 and 2007, 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 2008 and 2007, the ageing analysis of trade receivables was as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**1,517,847**	431,248
4-6 months	**216,144**	57,577
	1,733,991	488,825

As at 31 December 2008, accounts receivable pledged by letter of credit issued by the third parties amounted to approximately RMB 0.3 million (2007: RMB 90 million).

As at 31 December 2008, trade receivables of RMB 30 million (2007: RMB 27 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 past due are not impaired. The ageing analysis of these trade receivables was as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**29,618**	26,855

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

	2008	2007
	RMB'000	*RMB'000*
RMB	**1,733,712**	398,302
US$	**279**	90,523
	1,733,991	488,825

12. TRADE PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Accounts payable	**1,936,407**	545,335
Notes payable (a)	**282,988**	170,200
	2,219,395	715,535

(a) As at 31 December 2008, the notes payable represented bank acceptance notes, RMB 10 million (2007: RMB 91 million) of which were secured by certain notes receivable, and RMB 203 million (2007: nil) of which were secured by certain restricted bank balances, and RMB 70 million (2007: RMB 79 million) of which were secured by certain inventories and certain restricted bank balances.

As at 31 December 2008 and 2007, the ageing analysis of the trade payables was as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**1,596,939**	655,308
4-6 months	**586,530**	49,100
7-9 months	**22,951**	3,690
10-12months	**2,473**	2,226
Above 1 year	**10,502**	5,211
	2,219,395	715,535

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

	2008	2007
	RMB'000	*RMB'000*
RMB	**2,153,086**	709,061
US$	**66,309**	6,474
	2,219,395	715,535

13. FINANCIAL GUARANTEE CONTRACTS

The Group

Guarantee for third parties

	2008	2007
	RMB'000	*RMB'000*
Guarantee for bank borrowings of third parties	**60,900**	30,900

As at 31 December 2008, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB 60.9 million (2007: approximately RMB 30.9 million). The fair values of these financial guarantee contracts are not significant.

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

	2008	2007
	RMB'000	*RMB'000*
Guarantee of bank borrowings of a subsidiary	**–**	90,000

In January 2006, the Company and Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") collectively granted a guarantee in favour of Jinxi Jinlan for current bank facilities amounting to RMB 150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively, effective from 14 September 2005 to 13 September 2008.

As at 31 December 2007, pursuant to the aforementioned agreement, current secured borrowings of Jinxi Jinlan amounting to RMB 150 million were guaranteed by the Company and Foshan Jin Lan collectively.

14. COMMITMENTS

(A) CAPITAL COMMITMENTS

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

	2008	2007
	RMB'000	*RMB'000*
Purchase of intangible assets		
– Contracted but not provided for	**2,000**	–
Purchase of property, plant and equipment		
– Contracted but not provided for	**2,088,203**	884,748
– Authorised but not contracted for	**1,209,707**	276,472
	3,297,910	1,161,220

(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:

	2008	2007
	RMB'000	*RMB'000*
No later than one year	**77,458**	9,440
Later than one year and no later than five years	**28,144**	26,394
Later than five years	**142,777**	121,314
	248,379	157,148

15. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in this announcement, the significant subsequent events of the Group were as follows:

(i) Pursuant to a share transfer agreement dated 4 August 2008, Jinxi Limited acquired 71% share capital and shareholders' loan (the "Acquisition") of Tangshan Fengrun Hengfeng Iron and Steel Company Limited (formerly known as Tangshan Baotai Iron and Steel Group Xinyi Iron and Steel Co., Ltd.) ("Hengfeng Iron and Steel") from its original third party shareholders (the "Vendors"), for a cash consideration of RMB 237 million and RMB 295 million respectively. The details of the acquisition are set in the announcement published on 12 August 2008. Accordingly, Jinxi Limited has paid a substantial portion of the consideration being RMB 400 million (the "Paid Consideration") to the Vendors.

On 30 December 2008, Jinxi Limited entered into a termination agreement (the "Termination Agreement") with Hengfeng Iron and Steel and the Vendors. Pursuant to the Termination Agreement, Jinxi Limited and the Vendors have unconditionally and irrevocably agreed to abort the Acquisition and have entered into the Termination Agreement to terminate the Acquisition. Accordingly, Jinxi Limited and the Vendors will not proceed with the Acquisition. The Vendors unconditionally and irrevocably agreed to refund the Paid Consideration to Jinxi Limited within 10 days from the date of the Termination Agreement which was due on 9 January 2009. The details of the termination are set in the announcement published on 31 December 2008.

Pursuant to a settlement agreement dated 11 January 2009, the Vendors agreed to repay RMB 200 million before 31 March 2009 and the remaining balance of RMB 200 million before 31 December 2009. Besides, both parties entered into an unconditional and irrevocable deed of mortgages on 10 January 2009 to secure that the Vendors have pledged its fixed assets of Hengfeng Iron and Steel as security of settlement of the Paid Consideration. The details of the repayment schedule are set in the announcement published on 20 February 2009.

Pursuant to an assets acquisition agreement dated 24 March 2009, Tangshan Fengrun Qu Zhengda Iron and Steel Co., Ltd. ("Zhengda Iron and Steel") acquired the assets relating to the iron and steel production from Hengfeng Iron and Steel at an aggregate amount of approximately RMB 396 million.

In March 2009, Jinxi Limited, Zhengda Iron and Steel and Hengfeng Iron and Steel entered into a tri-party agreement. Pursuant to the tri-party agreement, Zhengda Iron and Steel was granted a right to remit RMB 200 million directly (a partial payment of the consideration for the acquisition of the assets) to Jinxi Limited as refund of portion of the Paid Consideration. The details of the assets acquisition and repayment of Paid Consideration are set in the announcement published on 25 March 2009.

(ii) In January 2009, Jinxi Limited granted a guarantee in favour of a third party for bank facility amounting to RMB 80 million.

(iii) As approved by the Board and Shareholders' meeting, the share options were granted to the directors and employees on 24 February 2009, in an aggregate to 21,200,000 shares at an exercise price of HK$ 1.39 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) up to 50% of the options on or after 24 February 2009;

(ii) up to further 75% of the options on or after 24 February 2010;

(iii) all the remaining options on or after 24 February 2011.

and in each case, not later than 23 February 2019.

On 27 February 2009, all the directors and employees have accepted the share options.

MANAGEMENT DISCUSSION AND ANALYSIS

2008 is a year that marks tremendous changes in the global economy. The economic downturn caused by the financial crisis has affected a wide spectrum of industries, including the steel industry, of various degrees.

The Group's operations still maintained relatively satisfactory growth in the first half of the year. However, in the second half of the year, especially in the fourth quarter, demand for various types of commodities slackened as the economy got worse. The sluggish demand led to a decline in the prices of a number of commodities, including metals. This, together with the Group's purchase of excessive raw materials before the Olympic Games at a higher cost and the consumption of these expensive raw materials for production and sales in the second half of the year, further dragged down tremendously the profit margin of the Group for year of 2008.

In the face of a severe operating environment, China Oriental Group Company Limited ("China Oriental" or the "Company", together with its subsidiaries, the "Group") achieved proactive response. The Group had made timely adjustment to its production schedule and expansion plan according to market changes and adopted a variety of cost-reduction measures. However, it takes time for the results of the various measures to be fully reflected. As such, the operating results of 2008 experienced significant decline as compared with the year of 2007.

The effect of the series of cost-reduction measures taken by the Group in the second half of 2008 is expected to fully realise in 2009, which will help the Group to maintain its competitive advantage and to continue to consolidate its market position amid a relatively volatile market environment.

ArcelorMittal, the world's largest steel corporation, has become the Group's second largest shareholder during the year under review. Both parties have since maintained a close cooperative relationship. During the year under review, ArcelorMittal actively participated in the operations of the Company, and appointed senior management executives to the Board of the Company, which bring the Company's corporate governance more in line with international standards. The two parties also stepped up collaboration on procurement of raw material, enhancement of technology, expansion of overseas markets, etc.

Dividend

The board of directors did not recommend a final dividend for the year ended 31 December 2008. The Company distributed a total dividend of 6.5 HK cents (2007: 11.7 HK cents) per share for 2008, which was 44% less than that of the previous year.

Business Review

During the year under review, the revenue of the Group was RMB 19,388 million (2007: RMB 13,499 million), representing an increase of 44% as compared with that of 2007. The growth in revenue was mainly due to the relative large increase in total sales volume from approximately 4.1 million tonnes in the year of 2007 to 4.5 million tonnes in the year of 2008. Besides, the increase in average selling price by 31% from RMB 3,265 per tonne in 2007 to RMB 4,273 per tonne in 2008 also attributed to the growth in revenue.

During the year under review, the production costs had been pushed up by raw materials and coke purchased at higher prices during the previous periods. Moreover, the sales volume of strips and strip-related products, which offered a higher gross profit, had been decreased by 16% when compared with that of the previous year, while the sales volume of billets, with a relatively lower margin, was 2.4 times higher than that of 2007. As a result, the Group's gross profit for the year decreased to RMB 517 million from RMB 1,917 million in 2007. The gross profit of the Group's steel products for 2008 was RMB 114 per tonne, representing an downward adjustment of RMB 350 per tonne or 75% from RMB 464 in 2007.

The audited profit before tax and profit attributable to equity holders of the Company for 2008 were RMB 114 million and RMB 44 million respectively, representing decreases of 93% and 96% respectively.

During the year under review, the Group had a net cash inflow generated from operating activities of RMB 148 million (2007: RMB 1,074 million) for its consolidated cash flows.

Due to a significant slowdown in the market demand in the second half of the year, the average utilisation rate of the Group's production lines was approximately 90% for the full year. To maintain the Company's profitability, the Group took aggressive responsive measures during the second half of the year. With respect to production costs, the Group strove to minimise consumption during the manufacturing process and strictly control the cost incurred in every aspect of the production process. To effectively lower fixed costs, the Group implemented streamlined management measures in the fourth quarter by cutting about 1,000 non-technology-based low-level positions.

The Group's overall annual production capacity of crude steel reached 6,000,000 tonnes during the year. With the full commencement of the operation of the new H-section steel production facilities, the production capacity of H-section steel reached 2,200,000 tonnes, further consolidating the Group as one of the largest H-section steel production centres in China. In addition, the Group successfully increased its shareholding in Foshan Jinxi Jinlan Cold Rolled Sheet Co., Ltd ("Jinxi Jinlan") to 81.5% at the beginning of 2008 and made a further capital injection to Jinxi Jinlan, which provided sufficient financial resources to Jinxi Jinlan for its business development, while strengthening the Group's management control over Jinxi Jinlan.

In response to market changes, Jinxi Jinlan adjusted its production facilities during the year, modifying one of the production lines to produce extremely thin steel strip, which is supplied to high-end electronic consumer products manufacturers and thus has a higher competitive edge in the market.

During the year, in order to further control costs and raw material supply, the Group announced several plans for extending its operations to upstream activities during the first half of the year. The plans included investment in the construction of a coking plant with an annual production capacity of 2.2 million tonnes of coke; in August 2008, the Group announced the acquisition of a 71% equity interest and a 71% shareholders' loan in Tangshan Baotai Iron and Steel Group Xinyi Iron and Steel Company Limited (now known as Tangshan Fengrun Hengfeng Iron and Steel Company Limited) ("Xinyi Iron and Steel" or "Hengfeng Iron and Steel") for a total cash consideration of RMB 532 million. Xinyi Iron and Steel is a sizable domestic steel mill. It has integrated production equipment with steel production capacity of 1,000,000 tonnes per annum.

In the second half of 2008, the global financial crisis deepened. Pursuant to prudent financial management and strengthened risk management, the Group had postponed the plan for the development of the coking plant. Moreover, the Group had also terminated the acquisition of the 71% equity interest and 71% shareholders' loan in Xinyi Iron and Steel. The vendors of the Xinyi Iron and Steel's equity interests had refunded RMB 200 million of the part of consideration paid up front by the Group before 31 March 2009, and the remaining balance of RMB 200 million will be refunded to the Group before 31 December 2009.

On 24 March 2009, the Group acquired the assets relating to the iron and steel production from Hengfeng Iron and Steel at an aggregate amount of approximately RMB 396 million. Following the acquisition of assets, the Group's annual production capacity of steel products will be approximately 7 million tonnes.

Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), the principal subsidiary of the Group, collaborated with The College of Metallurgy and Energy of Hebei Polytechnic University to establish Jinxi Iron and Steel Research Institute, for product development, technology upgrade and staff training.

Stable strategic cooperation with ArcelorMittal

During the year, ArcelorMittal became the Company's second largest shareholder and began collaboration with the Group. ArcelorMittal, as the world's largest steel company, will support the Group through providing raw material and technology. Moreover, it will also appoint staff to participate in the Group's management and decision making, in order to help the Group to move closer towards reaching the international levels of production efficiency and management quality.

ArcelorMittal is a global leader in technology producing H-section steel and the Company is one of the largest producers of H-section steel in mainland, China. The cooperation between the two companies will be advantageous for the Group to consolidate its leadership in China's H-section steel market, while providing a solid foundation for the Group's future expansion in overseas markets.

Under the iron ore and coke long-term supply agreement, the Group can ensure reliable supply of raw material for production, and effectively lower the risk of fluctuations in the price of raw material.

On 30 December 2008, the Group appointed Mr. Muktesh Mukherjee, who is the senior management of ArcelorMittal, as the Company's executive director, and two other senior management staff of ArcelorMittal as the Company's non-executive directors. Their presence on the Board marks further cooperation between the Company and ArcelorMittal, and their experience in the global steel and financial markets will benefit the Company's business development. ArcelorMittal's worldwide business exposure will help the Company to broaden its international perspectives, and enhance its corporate development capability. The three newly appointed directors possess expertise and extensive experience in the development of steel business worldwide, which will facilitate cultivation and development of the Company's steel business at home and abroad. All this will further strengthen the ties between ArcelorMittal and the Company.

Business Operation

Sales Volume

In 2008, the Group's total sales volume was 4,534,000 tonnes (2007: 4,128,000 tonnes), representing an increase of approximately 10%.

The Group's sales volume breakdown was as follows:

	2008 Sales volume		**2007 Sales volume**		**Changes in**
	('000 tonnes)		*('000 tonnes)*		**Sales volume**
Billets	**1,007**	**22.2%**	299	7.2%	237%
Strips and strip products	**2,061**	**45.5%**	2,451	59.4%	(16%)
H-section steel	**1,225**	**27.0%**	1,205	29.2%	2%
Cold rolled sheets and galvanised sheets	**241**	**5.3%**	173	4.2%	39%
Total	**4,534**	**100.0%**	4,128	100.0%	10%

During the year, the Group experienced substantial drop in the gross profit. This was mainly attributable to the decrease in sales volume of strips and strip products, which offered a higher gross profit, by 16% compared with the previous year. Besides, sales volume of billets products, which generated very slim gross profit, was 2.4 times higher than that of 2007.

Revenue

Revenue of the Group in 2008 was RMB 19,388 million (2007: RMB 13,499 million), representing an increase of 44%.

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

RMB	**2008** revenue *(million)*	**2008** Average selling price *(RMB/tonne)*	2007 revenue *(million)*	2007 Average selling price *(RMB/tonne)*	Changes revenue	Changes Average selling price
Billets	**3,919**	**3,891**	897	2,999	337%	30%
Strips and strip products	**8,574**	**4,159**	7,441	3,036	15%	37%
H-section steel	**5,562**	**4,538**	4,298	3,566	29%	27%
Cold rolled sheets and galvanised sheets	**1,319**	**5,489**	840	4,870	57%	13%
Others	**14**	**–**	23	–	(39%)	–
Total	**19,388**	**4,273**	13,499	3,265	44%	31%

Cost of Sales and Gross Profit

The audited consolidated gross profit of the Company in 2008 was RMB 517 million (2007: RMB 1,917 million), representing a decrease of 73%. Gross profit margin was 2.7% (2007: 14.2%).

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

	2008 Average unit cost *(RMB/tonne)*	**2008** Gross profit/(loss) per tonne *(RMB)*	**2008** Gross profit/(loss) margin	2007 Average unit cost *(RMB/tonne)*	2007 Gross profit per tonne *(RMB)*	2007 Gross profit margin
Billets	**3,901**	**(10)**	**(0.3%)**	2,718	281	9.4%
Strips and strip products	**4,060**	**99**	**2.4%**	2,632	404	13.3%
H-section steel	**4,286**	**252**	**5.6%**	2,898	668	18.7%
Cold rolled sheets and galvanised sheets	**5,440**	**49**	**0.9%**	4,672	198	4.1%
Total	**4,159**	**114**	**2.7%**	2,801	464	14.2%

Future Prospects

The global economic recession, triggered by the financial crisis, has now spread to Asia. In China, the government's austerity measures implemented at the beginning of last year have affected the property market, and given an uncertain outlook, the construction projects in the private sector will also slow down. All this will affect the demand for H-section steel, which is the principal construction material.

The Group expected that in the first half of 2009, the demand for steel will remain weak and steel prices will be at low levels. However, coke and coal prices dropped in the first quarter, which will ease the pressure on production cost. The positive effects will gradually be realised in 2009.

In addition, the results of the cost reduction measures taken by the Group in the second half of 2008 will be reflected in the current year. This will help improve the Group's competitiveness amid a severe operating environment.

The PRC government has already announced its RMB 4 trillion stimulus plan to boost internal demand. Most of the fund will be used in infrastructure construction and improvement of rural areas. It is expected that the gradual implementation of these construction plans will stimulate the demand for construction materials, including steel products. As it takes time for the implementation of large-scale construction projects, the positive impact will not be felt until late this year or early next year.

The Central Government has issued a detailed policy paper to direct the development of the iron and steel industry in China by late March 2009. The Board of Directors are mindful of the short-term and long-term impacts of the said policy paper on the Company; and have already instructed the senior management team to formulate the appropriate work plans both at the high level and the working level so as to take advantage of the same.

In the face of market challenges, the Group will prudently carry out its operations, lower costs and control capital expenditure, while maintaining sufficient cash flow.

At the same time, the Group will continue to enhance its competitiveness. By seizing the opportunities arising from market consolidation, the Group will consolidate its market leadership.

The Group will continue deepen cooperation with ArcelorMittal on the aspects of corporate management, production technology, raw material supply, and overseas sales, in an attempt to improve the Group's operation efficiency and management.

Accreditation for the Company and its Management

The Group's H-section steel product brandname, Jinxi Pai, was accredited "Consumers Satisfactory Products in Hebei Province" by China quality and Assurance Committee. Besides, Hebei Jinxi Iron and Steel Company Limited, a major subsidiary of the Group was accredited the award of "The Best Corporate Culture in 2008" by China Entrepreneur Committee.

Mr. Han Jingyuan, the Chairman and Chief Executive Officer of the Company, had been named the "Outstanding entrepreneur in Science Development in Tangshan City" by Tangshan local government. Besides, he was granted a golden award for his charity donation from the years 2006 to 2007 by the Hebei charity organisation.

Human Resources and Remuneration Policies

As at 31 December 2008, the Group had a workforce of 9,400 and temporary staff of 640. 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. Effective from July 2008, the Group implemented a worker's injury insurance scheme and contributed approximately RMB 4 million to the Social Insurance Bureau. The amount of contribution was calculated at 1.5% based on the workers' wages. According to the Group's remuneration policy, employees' package is based on productivity and/or sales performance, and is consistent with the Company's quality control and cost control targets.

Financial Review

Capital Structure

The cash and cash equivalents of the Group as at 31 December 2008 was RMB 729 million (2007: RMB 690 million). After deducting the cash and cash equivalents and the relevant restricted bank balances, net borrowings was RMB 1,257 million (2007: RMB 535 million), accounting for 20% (2007: 8%) of the Group's consolidated net assets after deducting minority interests, of RMB 6,265 million (2007: RMB 6,549 million).

The current ratio (current assets divided by current liabilities) was 0.88 as at 31 December 2008 (2007: 1.4). As at 31 December 2008, the ratio between total liabilities and total assets of the Group was 54% (2007: 34%).

The net asset value per share of the Group as at 31 December 2008 was RMB 2.14 (2007: RMB 2.24), representing a decrease of 4%.

The consolidated interest expenses and capitalised interest in 2008 amounted to RMB 155 million (2007: RMB 69 million). The interest coverage (divide earnings before interests and taxes by total interest expenses) was 1.3 times (2007: 22.1 times).

Capital Commitments

As at 31 December 2008, the Group had capital commitments of RMB 3,300 million (2007: RMB 1,161 million), which mainly consisted of the capital commitments to the construction of coking coal project and rolled sheets project 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 2008, the Group's contingent liabilities amounted to RMB 61 million (2007: RMB 31 million) which was the provision of guarantee for bank borrowings in favour of third parties.

Pledge of Assets

As at 31 December 2008, the net book value of the Group's property, plant and equipment amounting to approximately RMB 1,406 million (2007: approximately RMB 1,396 million), land use rights amounting to approximately RMB 62 million (2007: approximately RMB 24 million), inventories amounting to approximately RMB 390 million (2007: approximately RMB 57 million), notes receivable amounting to approximately RMB 251 million (2007: approximately RMB 158 million) and restricted bank balances amounting to approximately RMB 362 million (2007: approximately RMB 172 million) had been pledged as security for the Group's bank facilities.

Exchange Risks

As at 31 December 2008, Renminbi, US dollar, HK dollar and Euro accounted for 93.8%, 5.7%, 0.2% and 0.3% of the Group's total bank balances (including restricted bank balances) respectively (31 December 2007: 82.2%, 15.4%, 2.4% and 0.001% respectively). As the majority of the sales, purchases of raw materials and bank borrowings committed by the Group were in Renminbi in 2008 and 2007, the Group's exposure to foreign exchange risk remained relatively low.

Interest Rates Risk

The interest rates of the Group's certain borrowings are subject to variation. 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 derivatives to hedge its interest rate risk exposure.

Post Balance Sheet Events

Saved as disclosed in this 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 By-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 By-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 2008, not less than 4 days notice is given. The Board will ensure sufficient notice to be given for the forthcoming board meeting.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company (the "Audit Committee"), which comprises three Independent Non-Executive Directors, has discussed and reviewed the consolidated financial statements for the year ended 31 December 2008 with the management.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the shareholders of the Company will be held at Suites 901-2 & 10, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on 15 May 2009 at 10:00 a.m. Notice of the annual general meeting of the Company will be published and despatched to the shareholders of the Company shortly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 April 2009 to Thursday, 30 April 2009, both days inclusive, during which period no transfer of shares may be registered.

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, 3 April 2009

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Liu Lei, Mr. Shen Xiaoling, Mr. Zhu Hao and Mr. Muktesh Mukherjee being the Executive Directors, Mr. Ondra Otradovec and Mr. Jean-Paul Georges Schuler being the Non-Executive Directors and Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis being the Independent Non-Executive Directors.

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