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 2011 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2011	2010	Change
Sales volume *(tonnes)*	**9.56 million**	8.63 million	+10.8%
Revenue (RMB)	**38.6 billion**	30.1 billion	+28.2%
Gross profit (RMB)	**2,602 million**	2,055 million	+26.6%
Gross profit per tonne (RMB)	**272 yuan**	239 yuan	+13.8%
EBITDA[1] (RMB)	**3,294 million**	2,714 million	+21.4%
EBITDA margin	**8.5%**	9.0%	N/A
EBIT[2] (RMB)	**2,398 million**	1,820 million	+31.8%
EBIT margin	**6.2%**	6.0%	N/A
Profit before income tax (RMB)	**1,932 million**	1,613 million	+19.8%
Profit for the year (RMB)	**1,418 million**	1,185 million	+19.7%
Profit attributable to equity holders of the Company (RMB)	**1,242 million**	1,063 million	+16.8%
Basic earnings per share (RMB)	**0.42 yuan**	0.36 yuan	+16.7%
Annual dividends per share	**10.0 HK cents**	10.7 HK cents	-6.5%
Return on equity[3]	**14.7%**	13.9%	N/A
Weighted average applicable tax rate	**24.27%**	25.35%	N/A
	As at 31 December		
	2011	2010	Change
Total assets (RMB)	**22.93 billion**	20.74 billion	+10.6%
Net assets value per share (exclude non-controlling interests) (RMB)	**3.03 yuan**	2.75 yuan	+10.2%

* *For identification purpose only*

Despite a turbulent second half in 2011, the balance sheet of China Oriental Group Company Limited (the "Company") remains resilient and the Company has adequate availability of cash as well as undrawn credit lines in order to continue its day to day operations and fund all its future capex, expansion and growth plans.

At the end of 2011, the Company and its subsidiaries (the "Group") had RMB 965 million in cash and cash equivalents. On top of it, another RMB 891 million of cash was being used as guarantee for trade financing and bank loan financing facilities were made available to the Group by different financial institutions. Further, the Group has more than RMB 3.8 billion of bank acceptance notes that can be discounted for cash by paying discount interest, if necessary. The Group also has access to RMB 4.6 billion in undrawn credit lines.

[1] The Company defines EBITDA as profit for the year before finance costs-net, amortisation of intangible assets, amortisation of leasehold land and land use rights, income tax expense, depreciation, non-recurring items and share-based payments. Non-recurring items for the year ended 31 December 2011 included RMB 108.4 million as write-down of inventories to net realisable value, RMB 161.3 million as impairment provision for property, plant and equipment and RMB 49.1 million as loss on receivables for operating lease.

[2] The Company defines EBIT as profit for the year before finance costs-net, income tax expense, non-recurring items and share-based payments. Non-recurring items for the year ended 31 December 2011 included RMB 108.4 million as write-down of inventories to net realisable value, RMB 161.3 million as impairment provision for property, plant and equipment and RMB 49.1 million as loss on receivables for operating lease.

[3] Return on equity is calculated as profit attributable to equity holders of the Company divided by the average of the beginning and ending balances of the equity attributable to owners of the parent for that year.

The board of directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2011 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	3	**38,596,633**	30,135,718
Cost of sales	4	**(35,995,031)**	(28,080,858)
Gross profit		**2,601,602**	2,054,860
Other income	5	**26,718**	63,783
Distribution costs	4	**(98,338)**	(65,673)
Administrative expenses	4	**(390,321)**	(301,407)
Other expenses	4	**(35,643)**	(25,076)
Other (losses)/gains – net	6	**(80,444)**	25,409
Operating profit		**2,023,574**	1,751,896
Finance income	7	**96,898**	57,049
Finance costs	7	**(190,800)**	(195,655)
Share of profit of an associate		**2,140**	191
Profit before income tax		**1,931,812**	1,613,481
Income tax expense	8	**(514,023)**	(428,030)
Profit for the year		**1,417,789**	1,185,451
Profit attributable to:			
Equity holders of the Company		**1,241,893**	1,062,838
Non-controlling interests		**175,896**	122,613
		1,417,789	1,185,451
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic earnings per share	9	**RMB 0.42**	RMB 0.36
– Diluted earnings per share	9	**RMB 0.42**	RMB 0.36
		RMB'000	*RMB'000*
Dividends	10	**241,351**	266,750

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Profit for the year		**1,417,789**	1,185,451
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets		**6,804**	(8,453)
Total comprehensive income for the year		**1,424,593**	1,176,998
Attributable to:			
Equity holders of the Company		**1,248,697**	1,054,385
Non-controlling interests		**175,896**	122,613
		1,424,593	1,176,998

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2011** *RMB'000*	2010 *RMB'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**137,128**	116,949
Property, plant and equipment	*11*	**8,395,398**	7,946,548
Investment properties		**15,984**	16,789
Intangible assets		**8,530**	36
Investment in an associate		**12,697**	10,557
Available-for-sale financial assets		**167,976**	116,172
Prepayments, deposits and other receivables	*12*	**539,647**	264,663
Loan receivable	*13*	**300,000**	–
Deferred income tax assets		**192,694**	102,018
Total non-current assets		**9,770,054**	8,573,732
Current assets			
Properties under development	*14*	**368,857**	246,700
Inventories	*15*	**4,615,903**	4,085,745
Trade receivables	*16*	**396,181**	76,882
Other current assets		**10,378**	10,594
Prepayments, deposits and other receivables	*12*	**1,995,653**	897,972
Financial assets at fair value through profit or loss		**–**	131
Amounts due from related parties		**65,831**	999,590
Loan receivable	*13*	**20,000**	20,000
Notes receivable – bank acceptance notes	*16*	**3,830,658**	3,447,559
Restricted bank balances	*17*	**891,396**	159,945
Cash and cash equivalents	*17*	**965,082**	2,223,245
Total current assets		**13,159,939**	12,168,363
Total assets		**22,929,993**	20,742,095
EQUITY			
Equity attributable to owners of the parent			
Ordinary shares		**311,715**	311,715
Share premium		**2,190,291**	2,190,291
Other reserves		**1,370,287**	1,278,429
Retained earnings		**4,991,327**	4,289,327
		8,863,620	8,069,762
Non-controlling interests		**647,730**	450,012
Total equity		**9,511,350**	8,519,774

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*18*	**5,360,962**	5,791,030
Other long term payables		**133,517**	344,836
Deferred revenue		**38,020**	27,010
Amounts due to related parties		**17,304**	–
Total non-current liabilities		**5,549,803**	6,162,876
Current liabilities			
Trade payables	*19*	**2,106,100**	1,682,730
Accruals, advances from customers and other current liabilities	*20*	**3,087,962**	3,037,452
Amounts due to related parties		**101,147**	267,436
Current income tax liabilities		**193,072**	179,033
Other long term payables – current portion		**223,546**	209,150
Borrowings	*18*	**2,152,422**	680,249
Dividends payable		**4,591**	3,395
Total current liabilities		**7,868,840**	6,059,445
Total liabilities		**13,418,643**	12,222,321
Total equity and liabilities		**22,929,993**	20,742,095
Net current assets		**5,291,099**	6,108,918
Total assets less current liabilities		**15,061,153**	14,682,650

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Net cash used in operating activities	**(62,547)**	(1,718,222)
Net cash used in investing activities	**(1,175,815)**	(455,241)
Net cash generated from financing activities	**15,118**	3,880,088
Net (decrease)/increase in cash and cash equivalents	**(1,223,244)**	1,706,625
Cash and cash equivalents, beginning of year	**2,223,245**	644,030
Effect of foreign exchange rate changes	**(34,919)**	(127,410)
Cash and cash equivalents, end of year	**965,082**	2,223,245

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 principally 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 ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of consolidated 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) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HKAS 32 (Amendment), 'Classification of rights issues'.
- HK(IFRIC) – Int 19 'Extinguishing financial liabilities with equity instruments'.
- Amendment to HKFRS 1, 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters'.
- HKAS 24 (Revised), 'Related Party Disclosures'.
- Amendment to HK(IFRIC) Int – 14, 'Prepayments of a minimum funding requirement'.
- Third annual improvements project (2010) published in May 2010 by the HKICPA.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

The Group's assessment of the impact of these new and amended standards is set out below.

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 2011 and 2010 are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Sales:		
Gross sales, less discounts and returns		
– Strips and strip products	**14,246,276**	12,392,818
– H-section steel products	**13,768,307**	9,105,151
– Billets	**6,191,858**	6,607,863
– Cold rolled sheets and galvanised sheets	**2,311,437**	2,047,781
– Rebar	**1,964,813**	–
– Others	**213,279**	–
	38,695,970	30,153,613
Less: Sales taxes	**(99,337)**	(17,895)
	38,596,633	30,135,718

(b) Segment information

The chief decision-maker has been identified as the management committee, which comprises all executive directors and top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker considers the business from a business perspective. From a business perspective, the decision-maker assesses the performance of iron and steel and real estate.

(i) Iron and steel – Manufacture and sale of iron and steel products; and

(ii) Real estate – Development and sale of properties.

The decision-maker assesses the performance of the operating segments based on a measure of revenue and operating profit. This measurement is consistent with that in the annual financial statements.

For the year ended 31 December 2011 and 2010, the properties of the real estate segment were still under development, and no sales revenue was recognised. All the revenue and most of the operating profit of the Group are from Iron and Steel Segment.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that is reported as direct offsets in the balance sheet. Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, investment properties, intangible assets, investment in an associate, inventories, trade receivables, notes receivable, prepayments, deposits and other receivables, other current assets, amounts due from related parties, restricted bank balances and cash and cash equivalents.

Segment liabilities are those operating liabilities that result from the operating activities of a segment.

The segment assets and liabilities as at 31 December 2011 are as follows:

	Iron and steel	**Real estate**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	21,720,916	528,407	22,249,323
Total assets include:			
Investment in an associate	12,697	–	12,697
Segment assets for reportable segments			22,249,323
Unallocated:			
Deferred income tax assets			192,694
Available-for-sale financial assets			167,976
Loan receivables			320,000
Total assets per balance sheet			22,929,993

	Iron and steel	**Real estate**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	5,395,652	311,944	5,707,596
Segment liabilities for reportable segments			5,707,596
Unallocated:			
Current income tax liabilities			193,072
Current borrowings			2,152,422
Non-current borrowings			5,360,962
Dividends payable			4,591
Total liabilities per balance sheet			13,418,643

4. EXPENSES BY NATURE

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Employee benefit expense	**782,087**	592,253
Changes in inventories of finished goods and work in progress	**(229,620)**	(2,860)
Raw materials used	**32,619,567**	25,124,376
Utilities	**1,763,708**	1,550,434
Amortisation of leasehold land and land use rights	**3,405**	1,797
Depreciation of property, plant and equipment *(Note 11)*	**892,093**	892,035
Amortisation of intangible assets	**18**	13
Depreciation of investment properties	**805**	806
Operating lease expenses in respect of land use rights	**3,267**	9,890
Impairment provision for accounts receivable *(Note 16)*	**3,607**	–
Write-down of inventories to net realisable value *(Note 15)*	**108,439**	–
Auditors' remuneration	**4,900**	5,600
Rental Fee	**244,000**	65,500
Others	**323,057**	233,170
Total	**36,519,333**	28,473,014

5. OTHER INCOME

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Rental income arising from investment properties	**1,748**	1,309
Income from other operating leases	**18,790**	56,825
Others	**6,180**	5,649
Total	**26,718**	63,783

6. OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Other (losses)/gains – net:		
Sales of raw materials and by-products	**119,624**	82,716
Government grants	**20,000**	–
Impairment provision for property, plant and equipment *(Note 11)*	**(161,270)**	–
Gain/(Loss) on disposal of property, plant and equipment	**5,362**	(4,358)
Gain on disposal of a subsidiary	**3,780**	–
Loss on receivables for operating lease *(Note 12(a))*	**(49,104)**	–
Charitable donation	**(10,200)**	(2,025)
Impairment provision for available-for-sale financial asset	**–**	(36,128)
Foreign exchange loss	**(11,189)**	(16,795)
Others	**2,553**	1,999
Total	**(80,444)**	25,409

7. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Interest expenses		
– borrowings	**(509,702)**	(247,091)
– discount of notes receivable	**(499)**	(7,886)
– finance lease liabilities	**(35,847)**	(52,881)
Net foreign exchange gains on borrowings	**319,780**	97,624
Finance costs	**(226,268)**	(210,234)
Less: amounts capitalised on qualifying assets	**35,468**	14,579
Total finance costs	**(190,800)**	(195,655)
Interest income on bank deposits	**16,505**	18,396
Interest from other receivables	**59,755**	34,145
Income from loan receivables	**20,638**	4,508
Finance income	**96,898**	57,049
Finance costs, net	**(93,902)**	(138,606)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
(a) Income tax expense represents:		
Current income tax		
– PRC enterprise income tax (the "EIT")	**606,950**	449,041
– Singapore profit tax	**4,906**	–
	611,856	449,041
Deferred income tax	**(97,833)**	(21,011)
	514,023	428,030

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 British Virgin Islands ("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 been provided based on the statutory profit of subsidiaries incorporated or traded in Hong Kong in accordance with the Hong Kong tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for profit tax purposes (2011 and 2010: nil).

China Oriental Singapore Pte. Ltd ("China Oriental Singapore") has been awarded the "Global Trader Programme" ("GTP") status for 2 years 9 months with effect from 1 April 2011. Income from qualifying transactions will be taxed at the concessionary corporate tax rate of 10%, subject to China Oriental Singapore meeting certain terms and conditions as stated in the letter issued by International Enterprise Singapore.

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 PRC (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.

Foshan Jin Xi Jin Lan Cold Rolled Sheets Company Limited ("Jinxi Jinlan") was 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 1 January 2008. The effective rate of Jinxi Jinlan for the year ended 31 December 2011 was 12.5% (2010: 12.5%).

Oriental Fullhero Leasing Company Limited ("Shenzhen Leasing") was 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 for the year ended 31 December 2011 was 24% (2010: 11%).

Other than above-mentioned entities, all other subsidiaries of the Group incorporated in PRC are subject to the tax rate of 25% in year 2011 (2010: 25%).

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average applicable tax rate of 24.27% (2010: 25.35%) to respective profits of the consolidated entities for the years ended 31 December 2011 and 2010 as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**1,931,812**	1,613,481
Taxation calculated at statutory tax rate	**468,856**	408,946
Effect of preferential tax rate of subsidiaries	**(203)**	(5,507)
Tax losses for which no deferred income tax asset was recognised	**18,294**	17,070
Utilisation of previously unrecognised tax losses	**(4,634)**	(8,286)
Effect of non-deductible expenses	**31,710**	15,807
	514,023	428,030

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.

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,241,893**	1,062,838
Weighted average number of ordinary shares in issue *(thousands)*	**2,929,725**	2,929,663
Basic earnings per share *(RMB per share)*	**0.42**	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) 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.

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,241,893**	1,062,838
Weighted average number of ordinary shares in issue used in calculating basic earnings per share *(thousands)*	**2,929,725**	2,929,663
Adjustments for options *(thousands)*	**25,024**	7,052
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share *(thousands)*	**2,954,749**	2,936,715
Diluted earnings per share *(RMB per share)*	**0.42**	0.36

10. DIVIDENDS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Interim, paid *(a)*	**241,351**	–
Final, proposed *(b)*	**–**	266,750

(a) At a meeting held on 9 August 2011, the Board proposed an interim dividend in respect of the period ended 30 June 2011 of HK$ 292.97 million (approximately RMB 241.35 million), representing HK$ 0.1 per ordinary share.

(b) At a meeting held on 18 March, 2011, the Board proposed a final dividend in respect of the year ended 31 December 2010 of HK$ 313.48 million (approximately RMB 266.75 million), representing HK$ 0.107 per ordinary share.

At a meeting held on 23 March 2012, the Board did not recommend the payment of any final dividend in respect of the year ended 31 December 2011.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Furniture and fixtures	Vehicles	Leasehold improve-ments	Construction-in-progress ("CIP")	Finance leased machinery	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010								
Cost	2,691,122	7,040,908	83,754	110,323	1,337	503,000	800,000	11,230,444
Accumulated depreciation	(434,844)	(1,869,679)	(29,164)	(52,708)	(965)	–	(127,832)	(2,515,192)
Impairment	(20,545)	(68,146)	(891)	(85)	–	–	–	(89,667)
Net book amount	2,235,733	5,103,083	53,699	57,530	372	503,000	672,168	8,625,585
Year ended 31 December 2010								
Opening net book amount	2,235,733	5,103,083	53,699	57,530	372	503,000	672,168	8,625,585
Additions	99	7,468	2,807	10,055	–	330,041	–	350,470
Transfer from CIP	53,089	203,150	9,170	11,073	–	(276,482)	–	–
Disposals	(536)	(27,881)	(217)	(3,417)	–	(113,300)	–	(145,351)
Transfer to CIP	(7,325)	–	–	–	–	7,325	–	–
Depreciation *(Note 4)*	(125,580)	(644,067)	(13,441)	(18,616)	(55)	–	(90,276)	(892,035)
Impairment	–	7,879	–	–	–	–	–	7,879
Closing net book amount	2,155,480	4,649,632	52,018	56,625	317	450,584	581,892	7,946,548
At 31 December 2010								
Cost	2,736,110	7,201,385	95,301	123,840	1,337	450,584	800,000	11,408,557
Accumulated depreciation	(560,085)	(2,491,486)	(42,392)	(67,130)	(1,020)	–	(218,108)	(3,380,221)
Impairment	(20,545)	(60,267)	(891)	(85)	–	–	–	(81,788)
Net book amount	2,155,480	4,649,632	52,018	56,625	317	450,584	581,892	7,946,548
Year ended 31 December 2011								
Opening net book amount	**2,155,480**	**4,649,632**	**52,018**	**56,625**	**317**	**450,584**	**581,892**	**7,946,548**
Acquisition of subsidiary	**32,339**	**41,160**	**1,057**	**1,914**	**–**	**257**	**–**	**76,727**
Additions	**2,369**	**33,277**	**3,244**	**10,869**	**–**	**1,411,704**	**–**	**1,461,463**
Transfer from CIP	**62,192**	**252,741**	**1,123**	**7,845**	**–**	**(323,901)**	**–**	**–**
Disposals	**(1,089)**	**(5,690)**	**(90)**	**(5,524)**	**–**	**–**	**–**	**(12,393)**
Transfer to leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**(23,584)**	**–**	**(23,584)**
Depreciation *(Note 4)*	**(127,597)**	**(646,387)**	**(13,046)**	**(18,470)**	**(55)**	**–**	**(86,538)**	**(892,093)**
Impairment *(Note 6)*	**–**	**–**	**–**	**–**	**–**	**(161,270)**	**–**	**(161,270)**
Closing net book amount	**2,123,694**	**4,324,733**	**44,306**	**53,259**	**262**	**1,353,790**	**495,354**	**8,395,398**
At 31 December 2011								
Cost	**2,834,624**	**7,527,023**	**101,048**	**120,788**	**1,337**	**1,515,060**	**800,000**	**12,899,880**
Accumulated depreciation	**(690,385)**	**(3,142,023)**	**(55,851)**	**(67,444)**	**(1,075)**	**–**	**(304,646)**	**(4,261,424)**
Impairment	**(20,545)**	**(60,267)**	**(891)**	**(85)**	**–**	**(161,270)**	**–**	**(243,058)**
Net book amount	**2,123,694**	**4,324,733**	**44,306**	**53,259**	**262**	**1,353,790**	**495,354**	**8,395,398**

Depreciation expenses have been charged to the consolidated income statements as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Cost of sales	**865,237**	867,791
Administrative expenses	**26,856**	24,244
	892,093	892,035

As at 31 December 2011, the net book value of buildings and machinery of approximately RMB 41 million (2010: RMB 175 million) is pledged as security for the Group's borrowings (Note 18).

For the year ended 31 December 2011, borrowing costs amounting to approximately RMB 35 million (2010: RMB 15 million) were capitalised into the cost of property, plant and equipment at an average capitalisation rate of 6.38% (2010: 6.22%) approximately.

As at 31 December 2011 and 2010, the Directors noted indications that certain property, plant and equipment, including CIP were subject to impairment. During the year ended 31 December 2011, the Group recognised impairment losses of RMB 161 million for its CIP under Iron and Steel segment. These CIP were mainly related to the production of coke and rolled sheet. Due to the change of market environment, the Group decided not to continue the construction and will abandon these CIP.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Non-current		
Prepayments for purchase of property, plant and equipment	**436,818**	264,663
Receivables for operating lease (a)	**102,829**	–
	539,647	264,663
Current		
Prepayments for purchase of inventories	**1,076,465**	665,415
Deposits and other receivables (b)	**907,876**	253,862
Receivables for operating lease, current portion (a)	**32,617**	–
Less: Impairment provision of deposits and other receivables	**(21,305)**	(21,305)
	1,995,653	897,972
	2,535,300	1,162,635

As at 31 December 2011 and 2010, the carrying amount of the Group's deposits and other receivables approximated their fair value.

Impairment provision of deposits and other receivable represented a full provision of RMB 21 million for certain advance payments for mining rights of iron ore. As at 31 December 2011, the Directors concluded that there was significant uncertainty of obtaining the mining rights or recovering the advance payments.

(a) Pursuant to certain agreements entered into in 2011, Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited") paid the consideration of approximately RMB 228 million to have a 51% equity interest of Tangshan Fei Cheng Kuang Ye Limited, Qianxi County Xin Ye Machinery Casting Limited, Qianxi County Hong Yuan Trading Limited, Qianxi County Fu Cheng Trading Limited and Qianxi County Xin Cheng Trading Limited (the "Five Companies") and the mining rights of Qianxi Gaojiadian Iron Mine (the "Gao Jia Dian Mine").

    In January 2011, Jinxi Limited entered into a cooperation agreement with Mr. Wei, a third-party individual. Pursuant to the cooperation agreement, from 1 March 2011 to 28 February 2017 (the "Grant Period"), Jinxi Limited conveyed to Mr. Wei, all the voting rights relating to the financial and operating policies of the Five Companies, Tangshan Jinxi Mining Company Limited ("Jinxi Mining"), a former subsidiary of Jinxi Limited, as well as the mining rights of Gao Jia Dian Mine.

    Mr. Wei is exclusively entitled to the profit and net assets accumulated by the Five Companies, Jinxi Mining and the mining rights of Gao Jia Dian Mine during the Grant Period. As a return, Mr. Wei pays cash consideration of RMB 33 million annually during the Grant Period and a deposit of RMB 10 million, which will offset the last payment in 2017.

    In the opinion of the Directors, the Group disposes its equity interest of Five Companies and mining rights of Gao Jia Dian Mine return of a long term receivable from Mr. Wei, which is recognised at the present value of total cash consideration amounting to approximately RMB 179 million as at 31 December 2011. The difference between the aforementioned payment and present value of total cash consideration is recognised as loss in "other (losses)/gains – net" in the consolidated income statement.

    As at 31 December 2011, the Group has received first payment of RMB 33 million and deposit of RMB 10 million from Mr. Wei and offset the carrying value of receivable for operating lease.

(b) Pursuant to an agreement entered into in July 2011, Tangshan Jinxi Iron and Steel Group ("Tangshan Jinxi Group") transferred 100% shares of Qianxi County Jinxi Wan Tong Ductile Iron Pipes Co., Ltd. ("Jinxi Wantong") to Qianxi County Xin Dingda Commercial Co., Ltd. ("Qianxi Xin Dingda"), owned by a third-party ("Mr. Zhang"). The transfer was completed by 29 July 2011, since when Jinxi Wantong is not the Group's related party.

    As at 31 December 2011, the receivables from Jinxi Wantong totalled to RMB 486 million are secured by pledge of the assets of Jinxi Wantong amounting to RMB 1,072 million, bore interest at a rate of 6.56% per annum and repayable within one year.

13. LOAN RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Non-current		
Loan receivable (i)	**300,000**	–
Current		
Loan receivable (ii)	**20,000**	20,000
Total Loan receivables	**320,000**	20,000

(i) The loan receivable of RMB 300 million is secured by pledge of certain property, plant and equipment, with interest at a rate of 12% per annum and will be fully collected in July 2014.

(ii) The loan receivable of RMB 20 million is unsecured, with interest at a rate of 12% per annum and will be fully collected within one year.

As at December 2011 and 2010, the carrying amount of loan receivables approximated their fair value.

14. PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Properties under development comprise:		
– Construction costs	**175,417**	111,195
– Land use rights	**193,440**	135,505
	368,857	246,700

The properties under development are all located in the PRC. The related land use rights are on leases of 40 to 70 years.

15. INVENTORIES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Raw materials and materials in-transit	**3,690,877**	3,383,136
Work-in-progress	**394,369**	418,821
Finished goods	**530,657**	283,788
	4,615,903	4,085,745

As at 31 December 2011, the net book value of inventories of RMB 61 million (2010: RMB 89 million) were pledged as security for the Group's notes payable and current borrowings (Notes 19 and 18).

The cost of inventories recognised as expense amounted to RMB 35,995 million (2010: RMB 28,081 million).

The Group recognised a loss of RMB 108 million (2010: nil) (Note 4) for the year ended 31 December 2011, in respect of the write-down of inventories to their net realisable values. These amounts have been included in "cost of sales" in the income statement.

16. TRADE RECEIVABLES AND NOTES RECEIVABLE

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Accounts receivable	**399,788**	76,882
Less: impairment provision for accounts receivable	**(3,607)**	–
Accounts receivable – net	**396,181**	76,882
Notes receivable *(a)*	**3,830,658**	3,447,559
	4,226,839	3,524,441

(a) As at 31 December 2011, the notes receivable were all bank acceptance notes, of which approximately RMB 147 million (2010: RMB 55 million) were pledged as security for issuing notes payable (Note 19).

As at 31 December 2011, notes receivable of RMB 14 million were pledged as security for the Group's borrowings (2010: nil) (Note 18).

The settlement of the notes receivables were guaranteed by banks with maturity dates within six months and the credit risks in respect of the notes receivables are considered to be low.

As at 31 December 2011 and 2010, the carrying amount of the Group's trade and notes receivables approximated their fair value due to their short maturity.

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 the maturity dates within six months.

As at 31 December 2011 and 2010, the ageing analysis of the gross amount of trade and notes receivables was as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**2,293,212**	3,167,223
4-6 months	**1,900,654**	357,218
7-12 months	**36,580**	–
	4,230,446	3,524,441

As at 31 December 2011, accounts receivable pledged by letters of credit issued by the third parties was RMB 40 million (2010: nil).

As at 31 December 2011, trade receivables of RMB 345 million (2010: RMB 77 million) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The Directors considered that trade receivables which are past due within three months are not impaired. The ageing analysis of these trade receivables was as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**344,578**	76,882

The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
RMB	**3,992,912**	3,523,412
US$	**237,534**	1,029
	4,230,446	3,524,441

17. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Cash and cash equivalents	**965,082**	2,223,245
Restricted bank balances	**891,396**	159,945
	1,856,478	2,383,190

As at 31 December 2011, restricted bank balances were composed of the following items:

(a) Restricted bank balances amounting to approximately RMB 164.5 million were pledged as security for issuing notes payable of the Group (2010: RMB 117.4 million) (Note 19).

(b) Restricted bank balances amounting to approximately US$ 19.76 million (RMB 124.4 million equivalent) and RMB 1.7 million were pledged as security for issuing letters of credit (2010: US$ 4.2 million (RMB 27.6 million equivalent)).

(c) Restricted bank balances amounting to approximately RMB 600.8 million were pledged as security for current borrowings of the Group (2010: RMB 14.9 million) (Note 18).

The carrying amounts of the cash and cash equivalents and restricted bank balances are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
RMB	**1,420,848**	1,336,132
US$	**433,355**	1,043,143
HK$	**2,275**	3,915
	1,856,478	2,383,190

18. BORROWINGS

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Non-current		
Bank borrowings –		
Secured (i)	**–**	38,000
Unsecured	**65,000**	144,000
	65,000	182,000
Other borrowings, unsecured (ii)	**–**	65,000
Senior Notes (iii)	**5,295,962**	5,544,030
	5,360,962	5,791,030
Current		
Bank borrowings –		
Secured (i)	**651,134**	128,261
Unsecured	**1,436,288**	551,988
	2,087,422	680,249
Other borrowings, unsecured (ii)	**65,000**	–
	2,152,422	680,249
Total borrowings	**7,513,384**	6,471,279

(i) As at 31 December 2011, secured borrowings amounting to RMB 38 million, out of total secured borrowings amounting to RMB 651 million, were secured by certain property, plant and equipment (Note 11) of the Group.

As at 31 December 2011, secured borrowings amounting to RMB 567 million, out of the total secured borrowings of RMB 651 million, were secured by certain restricted bank balances (Note 17) of the Group.

As at 31 December 2011, secured borrowings amounting to RMB 19 million, out of the total secured borrowings of RMB 651 million, were secured by certain inventories (Note 15) of the Group.

As at 31 December 2011, secured borrowings amounting to RMB 27 million, out of the total secured borrowings of RMB 651 million, were secured by certain restricted bank balances (Note 17) and notes receivable (Note 16) of the Group.

As at 31 December 2010, secured borrowings amounting to RMB 38 million, out of total secured borrowings amounting to RMB 166 million, were secured by certain property, plant and equipment (Note 11) of the Group.

As at 31 December 2010, secured borrowings amounting to RMB 9 million, out of the total secured borrowings of RMB 166 million, were secured by certain restricted bank balances (Note 17) of the Group.

As at 31 December 2010, secured borrowings amounting to RMB 19 million, out of the total secured borrowings of RMB 166 million, were secured by certain inventories (Note 15) of the Group.

As at 31 December 2010, other than the secured borrowings described above, current secured borrowings amounting to RMB 100 million were secured by certain property, plant and equipment (Note 11), certain leasehold land and land use rights and a guarantee by Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") pursuant to an agreement dated 12 September 2008. In accordance with the guarantee contract, Foshan Jin Lan granted a guarantee in favour of Jinxi Jinlan for bank borrowing facilities amounting to RMB 150 million.

(ii) Other unsecured borrowing represented a borrowing from a local county government amounting to RMB 65 million which has no fixed term of repayment. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit.

(iii) On 18 August 2010, the Group issued US$ 550 million Senior Notes, which bears interest at 8% per annum and payable semi-annually, to finance its potential acquisitions and investments, capital expenditure projects and working capital requirements. The principal of these Senior Notes are wholly repayable on 18 August 2015.

On 17 November 2010, the Group issued US$ 300 million Senior Notes, which bears interest at 7% per annum and payable semi-annually, to refinance its outstanding short-term debts. The principal of these Senior Notes are wholly repayable on 17 November 2017.

On 12 August 2010, Eastland International Trading Limited ("Eastland"), a company incorporated in BVI and is wholly owned by Mr. Han Jingyuan, the Chairman and the Chief Executive Officer of the Company, subscribed for US$ 21 million of the Senior Notes from the Initial Purchases through Credit Suisse Group AG. Subsequently Eastland sold US$ 10 million of the Senior Notes on 15 October 2010 and on 8 July 2011 transferred US$ 6.5 million of the Senior Notes to Wellbeing Holdings Limited ("Wellbeing"), which Mr. Han Jingyuan beneficially owned 63.15% of its issued capital. As a result, as at 31 December 2011, Eastland held US$ 4.5 million of the Senior Notes.

Wellbeing acquired US$ 6.5 million of the Senior Notes from Eastland on 11 July 2011 and further acquired US$ 2 million and US$ 6 million of the Senior Notes on 22 September 2011 and 15 November 2011 respectively. As a result, as at 31 December 2011, Wellbeing held US$ 14.5 million of the Senior Notes.

On 22 September 2011 and 3 November 2011, Mr. Han Jingyuan personally acquired US$ 2 million and US$ 5 million of the Senior Notes respectively. As a result, as at 31 December 2011, Mr. Han Jingyuan personally held US$ 7 million of the Senior Notes.

As at 31 December 2011 and 2010, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings and Senior Notes	
	As at 31 December			
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**2,087,422**	680,249	**65,000**	–
Between 1 and 2 years	**65,000**	182,000	**–**	20,000
Between 2 and 5 years	**–**	–	**3,421,795**	3,623,745
Over 5 years	**–**	–	**1,874,167**	1,965,285
	2,152,422	862,249	**5,360,962**	5,609,030

The effective interest rates at the balance sheet date were as follows:

	As at 31 December					
	2011			2010		
	RMB	*HK$*	*US$*	*RMB*	*HK$*	*US$*
Bank borrowings	5.99-8.56%	2.18%	1.71-4.85%	4.86-12.00%	–	–
Other borrowings	3.50%	–	–	2.25%	–	–
Senior Notes	–	–	7.00-8.00%	–	–	7.00-8.00%

The carrying amounts of current borrowings approximate their fair values.

The carrying amounts and fair value of the non-current bank borrowings, other borrowings and Senior Notes are as follows:

	Carrying amounts		Fair value	
	As at 31 December			
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**65,000**	182,000	**57,719**	179,568
Other borrowings	**–**	65,000	**–**	59,721
Senior Notes	**5,295,962**	5,544,030	**4,465,161**	5,544,030
	5,360,962	5,791,030	**4,522,880**	5,783,319

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of non-current bank borrowings, other borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of Senior Notes are based on quoted market price.

As at 31 December 2011, the carrying amount of the borrowings amounting to RMB 6,751 million and RMB 251 million are denominated in US$ and HK$ respectively, the remaining are denominated in RMB.

As at 31 December 2010, the carrying amount of the borrowings amounting to RMB 5,544 million is denominated in US$, the remaining are denominated in RMB.

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates are as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
6 months or less	**1,477,082**	670,949
6-12 months	**675,340**	191,300
	2,152,422	862,249

19. TRADE PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Accounts payable	**1,734,258**	1,433,538
Notes payable *(a)*	**371,842**	249,192
	2,106,100	1,682,730

(a) As at 31 December 2011, all notes payable represented bank acceptance notes, of which RMB 147 million (2010: RMB 45 million) were secured by certain notes receivable (Note 16), RMB 195 million (2010: RMB 145 million) were secured by certain restricted bank balances (Note 17), and RMB 30 million (2010: RMB 59 million) were secured by certain inventories (Note 15) and certain restricted bank balances (Note 17).

As at 31 December 2011 and 2010, the ageing analysis of the trade payables was as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**1,783,488**	1,171,324
4-6 months	**245,285**	447,400
7-9 months	**17,620**	33,400
10-12months	**10,465**	5,893
Over 1 year	**49,242**	24,713
	2,106,100	1,682,730

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
RMB	**1,982,992**	1,487,562
US$	**123,108**	195,168
	2,106,100	1,682,730

20. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Accruals	**377,287**	396,961
Advances from customers	**1,971,855**	1,914,673
Value-added tax payable	**116,876**	84,739
Other taxes payables	**41,725**	13,546
Other payables (a)	**580,219**	627,533
	3,087,962	3,037,452

(a) The breakdown of other payables as at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Pension payables and other social welfare payables	**55,048**	57,785
Payables for purchase of property, plant and equipment	**161,235**	268,155
Customer deposits	**186,677**	175,116
Employee deposits	**20,521**	29,480
Salary payables	**67,741**	37,679
Others	**88,997**	59,318
	580,219	627,533

21. FINANCIAL GUARANTEE CONTRACTS

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Guarantee for bank borrowings of a third party	**30,000**	30,000

As at 31 December 2011, Jinxi Limited provided guarantee for bank borrowings in favour of a third party amounting to RMB 30 million (2010: RMB 30 million). The fair values of these financial guarantee contracts are not significant.

The Directors are of the view that such obligation will not cause an outflow of resources embodying economic benefits.

22. COMMITMENTS

(a) Capital Commitments

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not provided for	**486,448**	1,846,386
– Authorised but not contracted for	**18,998**	131,977
	505,446	1,978,363

(b) Operating Lease Commitments

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
No later than one year	**308,360**	184,549
Later than one year and no later than five years	**33,346**	53,176
Later than five years	**162,053**	170,383
	503,759	408,108

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2011. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year 2011, conditions in the steel industry remained volatile and led to an obvious difference in the performance in the first half and second half of the year under review. Strong economic growth in China helped steel prices move up and this trend continued through most of first half of Year 2011 with a brief softening happening in March 2011. Entering into the second half of the Year, steel demand was significantly affected by the slowdown in the PRC economy and the Euro zone crisis which in turn adversely affected sales prices.

During the year ended 31 December 2011, the iron ore and coking coal markets continued to be volatile. Iron ore prices remained at a high level all year having peaked in the third quarter. However iron ore prices trend turned down and dropped in November 2011 on account of weakening demand globally. The management of the Group will closely monitor the market situation, strictly control the Group's inventory level and adjust the purchasing strategy as and when needed.

The Group continues to make investments which can improve production efficiencies, eliminate inefficient production capacity and improve energy efficiency. The Group has also implemented different policies to control costs and improve employee motivation.

The Group continued to be a market leader in the PRC for H-section steels. During the year ended 31 December 2011, the Group sold 3.35 million tonnes of H-section steels.

The Group sold of 3,347,000 tonnes H-section steel products in the year ended 31 December 2011. The Group also focused on developing high-end products through improved research and development efforts, focused on H-section steel.

The property development project, namely Donghu Bay, located in Tangshan City, Hebei Province, the PRC fulfilled the pre-sale condition in April 2011. The construction on the main parts of phase one was completed during the year and pre-sales of some of the units built also commenced.

The Group continue to finetune the strategies related to receiving bank acceptance notes from customers for increasing gross profit and minimizing cash outflow. The settlement of the notes receivables were guaranteed by banks with maturity dates within six months and the credit risks in respect of the notes receivables are considered to be low. The Group also uses foreign trade payable finance as a means to reduce the finance costs and gain from the potential Renminbi appreciation against USD.

For the year ended 31 December 2011, the Group recorded revenues of RMB 38,597 million, representing an increase of 28.2% as compared with that of the corresponding period in prior year. Given the increase in revenues and its effective cost control measures, the Group sustained growth in its operating profit in Year 2011 when compared with prior year. During the year under review, the operating profit and profit for the year attributable to equity holders of the Company has increased by 15.5% and 16.8%, respectively, as compared with last year.

Since the Group introduced the world's largest steel corporation ArcelorMittal as its strategic shareholder in Year 2008, collaboration between the Group and ArcelorMittal has grown considerably. ArcelorMittal appointed experienced executives to the Board to participate in decision making for the Group's business development. Technic and management staff from ArcelorMittal were sent to our production sites on a regular basis to inspect their operations and provide professional advice. Close collaboration is maintained for improving product quality.

Business review

During the year of 2011, the sales volume of H-section steel products, strips and strip products, billets, cold rolled sheets and galvanized sheets, and rebar reached 3,347,000 tonnes, 3,627,000 tonnes, 1,633,000 tonnes, 477,000 tonnes and 471,000 tonnes respectively.

During the year of 2011, in response to the rising costs of raw material, the Group took proactive measures to control and reduce costs, and also enhanced operational efficiency. This enabled the Group to maintain a gross profit margin of 6.7%.

The audited profit before tax and profit attributable to equity holders of the Company for 2011 were RMB1,932 million and RMB1,242 million respectively, representing increase of 19.8% and 16.8% respectively when compared with those of the previous year.

Located in Qianxi, Tangshan City, Hebei Province, the PRC, Hebei Jinxin Iron and Steel Group Company Limited ("Jinxi Limited") is the Group's main production base. Jinxi Limited continued to make investments for improving the production efficiencies and products' qualities. During the year of 2011, the sales volume of H-section steel products of Jinxi Limited was 1,440,000 tonnes.

During the year of 2011, Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Company Limited ("Zhengda Iron and Steel") worked on upgrading its production facilities with the target to reduce energy consumption and emissions. The project started in second half of 2011 and will increase the operating efficiencies of Zhengda Iron and Steel in 2012.

During the year of 2011, Foshan Jin Xi Jin Lan Cold Rolled sheet Company Limited ("Jinxi Jinlan") proactively controlled its costs, broadened its product variety, strengthened the communication with customers, and obtained more timely information of its competitors. The annual sales volume of Jinxi Jinlan was 477,000 tonnes.

The construction on the main parts of phase one of the property development project, named Donghu Bay, was completed in the year of 2011.

During the year of 2011, the Group actively explored new businesses to broaden its sources of revenue, including the development of a scrap recycling business and this new business has obtained preliminary government approval. Moreover Hebei Jinxi Iron and Steel Group Dafang Heavy Industry Science and Technology Company Limited also developed several new projects during the year focusing on supplying equipment to the steel industry.

Business Operation

Sales Volume

In 2011, the Group's total sales volume was 9,555,000 tonnes (2010: 8,628,000 tonnes), representing an increase of approximately 10.8%.

The Group's sales volume breakdown during the year was as follows:

	2011 Sales volume		2010 Sales volume		Changes in Sales volume
	('000 tonnes)		*('000 tonnes)*		
H-section steel products	**3,347**	**35.0%**	2,595	30.1%	29.0%
Strips and strip products	**3,627**	**38.0%**	3,580	41.5%	1.31%
Billets	**1,633**	**17.1%**	2,001	23.2%	(18.4%)
Cold rolled sheets and galvanised sheets	**477**	**5.0%**	452	5.2%	5.5%
Rebar	**471**	**4.9%**	–	–	–
Total	**9,555**	**100%**	8,628	100%	10.8%

During the year of 2011, the Group's production capacity is 11 million tonnes per annum.

Revenue

Revenue of the Group in 2011 was RMB 38,597 million (2010: RMB 30,136 million), representing an increase of approximately 28.2%.

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

	2011		2010		Changes	
	Revenue *(RMB million)*	**Average selling Price** *(RMB/tonne)*	**Revenue** *(RMB million)*	Average selling price *(RMB/tonne)*	Revenue	Average selling price
H-section steel products	**13,733**	**4,103**	**9,100**	3,507	50.9%	17.0%
Strips and strip products	**14,210**	**3,917**	**12,385**	3,459	14.7%	13.2%
Billets	**6,176**	**3,783**	**6,604**	3,301	(6.5%)	14.6%
Cold rolled sheets and galvanised sheets	**2,305**	**4,838**	**2,047**	4,521	12.6%	7.0%
Rebar	**1,960**	**4,161**	**–**	–	–	–
Others	**213**	**–**	**–**	–	–	–
Total/combined	**38,597**	**4,039**	**30,136**	3,493	28.2%	15.6%

The increase in revenue was primarily due to an increase in the sales volume of the Group's products and an increase in its average selling price by 15.6% to RMB 4,039 per tonne in 2011 from RMB 3,493 per tonne in 2010. Increase in the sales volume and average selling price of the Group's products was mainly attributable to rising demand driven by the continued improvement in economic conditions in the PRC in 2011 as compared to 2010.

Cost of Sales and Gross Profit

The audited consolidated gross profit of the Group in 2011 was RMB 2,602 million (2010: RMB 2,055 million), representing an increase of 26.6%. Gross profit margin was approximately 6.7% (2010: 6.8%).

Average cost per tonne, gross profit per tonne and gross profit margin of the Group during the year were as follows:

	2011			2010		
	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
H-section steel products	**3,718**	**385**	**9.4%**	3,242	265	7.5%
Strips and strip products	**3,684**	**233**	**5.9%**	3,204	255	7.4%
Billets	**3,669**	**114**	**3.0%**	3,119	182	5.4%
Cold rolled sheets and galvanised sheets	**4,659**	**179**	**3.7%**	4,326	195	4.3%
Rebar	**3,952**	**209**	**5.0%**	–	–	–
Total	**3,767**	**272**	**6.7%**	3,254	239	6.8%

The gross profit per tonne of the Group's products in 2011 was RMB 272, representing an increase of approximately 13.8% compared to the gross profit per tonne in 2010. Gross profit margin decreased to 6.7% in 2011 from 6.8% in 2010. Decrease in gross profit margin was primarily due to the increment in raw material price increases in proportionate more than the increment in selling prices on account of weaker market demand in the second half of 2011.

Financial Review

Liquidity and Financial Resources

In order to sustain a stable financial status, the Group closely monitors its liquidity and financial resources.

As at 31 December 2011, the Group had unutilised banking facilities of approximately RMB 4.6 billion (2010: RMB 4.8 billion).

As at 31 December 2011, the current ratio of the Group, representing current assets divided by current liabilities, was 1.7 (2010: 2.0) and the gearing ratio, representing total liabilities divided by total assets, was 58.5% (2010: 58.9%).

As at 31 December 2011, the cash and cash equivalents of the Group amounted to RMB 965 million (2010: RMB 2,223 million).

After considering its cash and cash equivalents as well as the banking facilities currently available to the Group, it is believed that the Group has sufficient capital to fund its future operations and for general business expansion and development.

Capital Structure

As at 31 December 2011, most of the borrowings of the Group bore fixed interest rates and the Group's exposure to changes in market interest rates was limited. The Group did not use any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2011 and 2010.

Moreover, most of the borrowings of the Group as at 31 December 2011 were non-current with maturity over three years.

The Group monitors its capital on the basis of the debt-to-capital ratio. This ratio is calculated as total debt divided by total capital. Total debt includes current and non-current borrowings, finance lease obligations and borrowings from related parties. The Group regards its non-current borrowings, non-current portion of its finance lease obligations and borrowings from related parties and its equity attributable to owners of the parent as its total capital. As at 31 December 2011, the debt-to-capital ratio of the Group was 55.8% (2010: 51.2%).

The consolidated interest expenses and capitalised interest in 2011 amounted to RMB 546 million (2010: RMB 308 million). The interest coverage (divide earnings before interest and taxes by total interest expenses) was 3.7 times (2010: 5.7 times).

Capital Commitments

As at 31 December 2011, the Group had capital commitments of RMB 505 million (2010: RMB 1.98 billion). It is estimated the capital commitments will be financed by the Group's internal resources, senior notes and unutilised banking facilities.

Guarantees and Contingent Liabilities

As at 31 December 2011, the Group's contingent liabilities amounted to RMB 30 million (2010: RMB 30 million), which was the provision of guarantee for bank borrowings in favour of a third party.

Pledge of Assets

As at 31 December 2011, the net book value of the Group's property, plant and equipment amounting to approximately RMB 41 million (2010: approximately RMB 175 million), land use rights amounting to nil (2010: approximately RMB 23 million), inventories amounting to approximately RMB 61 million (2010: approximately RMB 89 million), notes receivable amounting to approximately RMB 161 million (2010: approximately RMB 55 million) and restricted bank balances amounting to approximately RMB 891 million (2010: approximately RMB 160 million) had been pledged as security for issuing notes payable of the Group and the Group's banking facilities.

Exchange Risks

Foreign exchange risk is the risk to the Group's financial conditions and results of operations arising from movements of foreign exchange rates. The Group mainly operates in the Mainland China with most of the transactions denominated and settled in RMB. The Group's foreign exchange risk primarily arises from the procurement of iron ores and the relevant products from overseas suppliers and the Group's Senior Note, which is denominated and settled in USD. Foreign exchange rates fluctuates in reaction to the macro-economic performance of different countries and fund flows between countries arising from trade or capital commitments. The Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2011 and 2010.

Final Dividend

The Board did not recommend the payment of any final dividend for the year ended 31 December 2011.

Post Balance Sheet Events

As announced by the Company on 7 March 2012, Jinxi Limited entered into an equity transfer agreement with Qianxi County Hui Yin Trading Company Limited ("Hui Yin") pursuant to which, Jinxi Limited has conditionally agreed to acquire 20% equity interest in the Hebei Jinxi Section Steel Company Limited ("Jinxi Section") from Hui Yin. Upon completion of the acquisition, Jinxi Limited will increase its equity interests in Jinxi Section from 80% to 100% and Jinxi Section will become a wholly owned subsidiary of Jinxi Limited.

Accreditation for the Company and its Management

The Group was awarded the "Top 100 Outstanding Entrepreneur of Hebei Province" in 2011 and "AA Trustworthy Enterprise" by China Enterprise Confederation in April 2011. Mr. Han Jingyuan, the Chairman of the Company, had been named "Outstanding Entrepreneur of Hebei Province" and "2010 The Best Trustworthy Entrepreneur of China" by China Cooperative Trade Enterprises Association.

Human Resources and Remuneration Policies

As at 31 December 2011, the Group had a workforce of approximately 13,000 and temporary staff of approximately 2,000. The staff cost included basic salaries and benefits. Staff benefits 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 workers' injury insurance scheme and contributed 1.5% of the workers' wages to the Social Insurance Bureau. According to the Group's remuneration policy, employees' package is based on productivity and/or sales performance, and is consistent with the Group's quality control and cost control targets.

Future Prospects

Steel demand is expected to be fueled by the commencement of the Twelfth Five-year Plan of the PRC government, the development of Northwest China and the revitalization of Northeast China's traditional industrial base. In addition, the escalated development of alternative sources of energy, cutting-edge industrial machinery/equipment, low cost housing projects, Euro3 standard compliant automobiles as well as a renewed focus on environmental protection and energy saving measures by the State will increase steel consumption.

The economic environment in 2012 will remain complicated and volatile. Driven by a comparative shortage of resources supply, the prices of various raw materials including iron ore, coke and coal are expected to remain high. The management of the Group will closely control the inventory level and adjust purchasing strategy for raw materials when needed.

In addition, various projects on harnessing power generated and emission reductions internally from the equipments (Blast Furnace, Sinter Plant etc) in the production bases of the Group will be gradually started or completed on or after 2012. The completion of these facilities will significantly reduce energy consumption and mitigate the upward pressure on raw materials and energy costs. Apart from effective energy cost control, these facilities can substantially reduce pollutant emission during the production process, leading to an improved community environment in proximity of the plants.

The State has imposed strict regulations on the expansion of steel production capacities and implemented measures to speed up the elimination of backward production capacities, with a goal of accelerating consolidation in the steel industry.

The Group will continue to explore opportunities to expand its business portfolio and broaden its source of revenue generation through enlarging its scope of business.

Since its listing in 2004, the Group has continued to expand its business, diversify its product categories and business portfolio. During the last seven years (since being listed), the Group's overall crude steel production capacity has reached 11.0 million tonnes per annum from 3.1 million tonnes per annum at the time of the listing. Its product portfolio has grown from billets to a variety of steel product series – each in a comprehensive range of products and is available in different specifications. These product series include. H-section steel products, strips and strip products, billets and cold rolled sheets and galvanized sheets. Moreover, the H-section steel of the Group commands a leading position in China. The Group has been gradually diversifying its business. In addition to expanding its supply chain through upstream and downstream integration, the Group has also expanded horizontally by tapping into other business sectors. The Group will strive to take full advantage of the current solid financial condition and efficient management to intensify the continuous development of the Group and to maximize the shareholders' value.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the Directors during the year.

AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has established an audit committee (the "Audit Committee") comprised all three independent non-executive Directors, namely Mr. Yu Tung Ho, Mr. Wong Man Chung, Francis and Mr. Wang Tianyi with written terms of reference in compliance with the requirements of the Listing Rules. The Audit Committee of the Company has reviewed and discussed the consolidated financial statements for the year ended 31 December 2011 with the management of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, throughout the year except the following deviation:

Under Code Provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Han Jingyuan serves as the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that there is no immediate need to segregate the roles of Chairman and the Chief Executive Officer of the Company because the role of chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons.

The Board will consider the segregation of the roles of the Chairman and the Chief Executive Officer of the Company in light of the future development of the operating activities or businesses of the Group.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Suites 901-2 & 10, 9/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Thursday, 24 May 2012 at 9:00 a.m. Notice of the Annual General Meeting will be published and dispatched to the shareholders of the Company as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 May 2012 to Thrusday, 24 May 2012 (both dates inclusive), during which period no transfer of shares of the Company may be registered, for the purposes of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. The record date for the annual general meeting shall be 24 May 2012. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents 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 Monday, 21 May 2012.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2011

The annual results announcement of the Company for the year ended 31 December 2011 is published on both the websites of the Company (www.chinaorientalgroup.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2011 will be dispatched to shareholders of the Company (the "Shareholders") and published on the aforesaid websites in due course.

APPRECIATION

The Group's encouraging results in Year 2011 were attributable to support from its staff and Shareholders. The Board would like to take this opportunity to extend its deepest gratitude to its staff and Shareholders. The Group will continue to pursue steady and sustainable growth in Year 2012, with the support of its staff and resulting in further value creation for its Shareholders.

By order of the Board
China Oriental Group Company Limited
Han Jingyuan
Chairman and Chief Executive Officer

Hong Kong, 23 March 2012

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Shen Xiaoling, Mr. Zhu Hao, Mr. Muktesh Mukherjee and Mr. Han Li being the Executive Directors, Mr. Ondra Otradovec, Mr. Vijay Kumar Bhatnagar and Mr. Liu Lei being the Non-Executive Directors and Mr. Yu Tung Ho, Mr. Wong Man Chung, Francis and Mr. Wang Tianyi being the Independent Non-Executive Directors.