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 2012 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2012	2011	Change
Sales volume *(tonnes)*			
– Self-manufactured steel products	**9.42 million**	9.34 million	+0.8%
– Trading of steel products	**1.08 million**	0.22 million	+391%
	10.50 million	9.56 million	+9.8%
Revenue (RMB)			
– Sale of self-manufactured steel products	**31.4 billion**	37.6 billion	-16.6%
– Trading of steel products	**3.5 billion**	0.8 billion	+337.5%
– Sale of properties	**0.3 billion**	–	N/A
– Others	**0.9 billion**	0.2 billion	+350%
	36.1 billion	38.6 billion	-6.5%
Gross profit (RMB)			
– Sale of self-manufactured steel products	**933 million**	2,491 million	-62.5%
– Trading of steel products	**59 million**	9 million	+556%
– Sale of properties	**99 million**	–	N/A
– Others	**73 million**	102 million	-28.4%
	1,164 million	2,602 million	-55.3%
Gross profit per tonne (RMB)			
– Sale of self-manufactured steel products	**99 yuan**	267 yuan	-62.9%

* *For identification purpose only*

	Year ended 31 December		
	2012	2011	Change
EBITDA[1] (RMB)	**1,595 million**	3,294 million	-51.6%
EBITDA margin	**4.4%**	8.5%	N/A
EBIT[2] (RMB)	**647 million**	2,398 million	-73.0%
EBIT margin	**1.8%**	6.2%	N/A
Profit before income tax (RMB)	**326 million**	1,932 million	-83.1%
Profit for the year (RMB)	**146 million**	1,418 million	-89.7%
Profit attributable to owners of the Company (RMB)	**126 million**	1,242 million	-89.9%
Basic earnings per share (RMB)	**0.04 yuan**	0.42 yuan	-90.5%
Return on equity[3]	**1.4%**	14.7%	N/A
Debt-to-capital ratio [4]	**63.2%**	55.8%	N/A
	As at 31 December		
	2012	2011	Change
Total assets (RMB)	**24.75 billion**	22.93 billion	+7.9%
Net assets value per share (exclude non-controlling interests) (RMB)	**3.09 yuan**	3.03 yuan	+2.0%

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 2012 included RMB 108 million as reversal of written-down of inventories to net realisable value made in 2011 and RMB 3.6 million as impairment of property, plant and equipment.

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 2012 included RMB 108 million as reversal of written-down of inventories to net realisable value made in 2011 and RMB 3.6 million as impairment of property, plant and equipment.

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

4 Debt-to-capital 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. Total capital includes the non-current borrowings, non-current portion of finance lease obligations and borrowings from related parties and its equity attributable to owners of the Company.

The board of directors of the Company (the "Board") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2012 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**36,122,358**	38,596,633
Cost of sales	*4*	**(34,958,840)**	(35,995,031)
Gross profit		**1,163,518**	2,601,602
Other income	*5*	**35,958**	26,718
Distribution costs	*4*	**(97,583)**	(98,338)
Administrative expenses	*4*	**(525,680)**	(390,321)
Other expenses	*4*	**(47,615)**	(35,643)
Other gains/(losses) – net	*6*	**164,149**	(80,444)
Operating profit		**692,747**	2,023,574
Finance income	*7*	**145,179**	96,898
Finance costs	*7*	**(499,173)**	(190,800)
Share of result of an associate		**(12,697)**	2,140
Profit before income tax		**326,056**	1,931,812
Income tax expense	*8*	**(179,579)**	(514,023)
Profit for the year		**146,477**	1,417,789
Profit attributable to:			
Owners of the Company		**126,062**	1,241,893
Non-controlling interests		**20,415**	175,896
		146,477	1,417,789
Earnings per share for profit attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic earnings per share	*9*	**RMB 0.04**	RMB 0.42
– Diluted earnings per share	*9*	**RMB 0.04**	RMB 0.42
		RMB'000	*RMB'000*
Dividends	*10*	**–**	241,351

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Profit for the year		**146,477**	1,417,789
Other comprehensive income:			
Fair value (losses)/gains on available-for-sale financial assets		**(10,696)**	6,804
Total comprehensive income for the year		**135,781**	1,424,593
Attributable to:			
Owners of the Company		**115,366**	1,248,697
Non-controlling interests		**20,415**	175,896
		135,781	1,424,593

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights	*11*	**133,723**	137,128
Property, plant and equipment	*11*	**9,039,970**	8,395,398
Investment properties	*11*	**15,178**	15,984
Intangible assets	*11*	**8,629**	8,530
Investment in an associate		**–**	12,697
Available-for-sale financial assets		**157,280**	167,976
Trade receivables	*16*	**576,155**	–
Prepayments, deposits and other receivables	*12*	**456,058**	539,647
Loan receivable	*13*	**300,000**	300,000
Deferred income tax assets		**201,090**	192,694
Total non-current assets		**10,888,083**	9,770,054
Current assets			
Properties under development and held for sale	*14*	**388,013**	368,857
Inventories	*15*	**3,192,558**	4,615,903
Trade receivables	*16*	**547,758**	396,181
Prepayments, deposits and other receivables	*12*	**1,787,922**	2,006,031
Amounts due from related parties		**90,107**	65,831
Prepaid current income tax		**86,307**	–
Loan receivables	*13*	**79,700**	20,000
Notes receivable – bank acceptance notes	*16*	**5,702,736**	3,830,658
Restricted bank balances		**1,109,794**	891,396
Cash and cash equivalents		**879,005**	965,082
Total current assets		**13,863,900**	13,159,939
Total assets		**24,751,983**	22,929,993
EQUITY			
Equity attributable to owners of the Company			
Ordinary shares		**311,772**	311,715
Share premium		**2,191,087**	2,190,291
Other reserves		**1,493,880**	1,370,287
Retained earnings		**5,045,030**	4,991,327
		9,041,769	8,863,620
Non-controlling interests		**513,247**	647,730
Total equity		**9,555,016**	9,511,350

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December **2012** *RMB'000*	2011 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**4,501,105**	5,360,962
Other long-term payables		**26,129**	133,517
Deferred revenue		**47,293**	38,020
Amounts due to related parties		**89,263**	17,304
Total non-current liabilities		**4,663,790**	5,549,803
Current liabilities			
Trade payables	*17*	**3,678,585**	2,106,100
Accruals, advances and other current liabilities		**2,773,751**	3,087,962
Amounts due to related parties		**54,046**	101,147
Current income tax liabilities		**53,314**	193,072
Other long-term payables – current portion		**115,007**	223,546
Borrowings		**3,853,899**	2,152,422
Dividends payable		**4,575**	4,591
Total current liabilities		**10,533,177**	7,868,840
Total liabilities		**15,196,967**	13,418,643
Total equity and liabilities		**24,751,983**	22,929,993
Net current assets		**3,330,723**	5,291,099
Total assets less current liabilities		**14,218,806**	15,061,153

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 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 and real estate business. 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. The Group engages in real estate business 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 the revaluation of available-for-sale financial assets.

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 standard adopted by the Group

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant or do not have material impact to the Group (although they may affect the accounting for future transactions and events):

- Amendment to HKFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets.

- Amendment to HKFRS 1, 'First time adoption', on hyperinflation and fixed dates.

- Amendment to HKAS 12, 'Income taxes', on deferred tax.

(b) New standard and interpretation not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income, effective for annual periods beginning on or after 1 July 2012.
- HKFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015.
- HKFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 12, 'Disclosures of interests in other entities', effective for annual periods 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 and real estate business. Sales recognised for the years ended 31 December 2012 and 2011 were as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Sales:		
Gross sales less discounts, returns and sales taxes		
– Strips and strip products	**12,266,457**	14,209,704
– H-section steel products	**11,554,233**	13,732,962
– Billets	**6,170,019**	6,175,963
– Cold rolled sheets and galvanised sheets	**2,352,008**	2,305,504
– Rebar	**2,521,714**	1,959,769
– Real estate	**322,919**	–
– Others	**935,008**	212,731
	36,122,358	38,596,633

(b) Segment information

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

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

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

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

The chief 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.

The segment information provided to the chief decision-maker for the reportable segments for the year was as follows:

	Year ended 31 December 2012		
	Iron and steel	**Real estate**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**35,799,439**	**322,919**	**36,122,358**
Segment operating profit	**619,928**	**72,819**	**692,747**
Finance (costs)/income – net	**(354,692)**	**698**	**(353,994)**
Share of result of an associate	**(12,697)**	**–**	**(12,697)**
Profit before income tax			**326,056**
Income tax expense			**(179,579)**
Profit for the year			**146,477**
Other income statement items			
Depreciation and amortization	**947,369**	**576**	**947,945**
Capital expenditure	**1,630,169**	**279**	**1,630,448**

	Year ended 31 December 2011		
	Iron and steel	Real estate	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	38,596,633	–	38,596,633
Segment operating profit	2,052,640	(29,066)	2,023,574
Finance (costs)/income – net	(95,204)	1,302	(93,902)
Share of result of an associate	2,140	–	2,140
Profit before income tax			1,931,812
Income tax expense			(514,023)
Profit for the year			1,417,789
Other income statement items			
Depreciation and amortization	895,889	432	896,321
Capital expenditure	1,469,268	707	1,469,975

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, 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. Segment liabilities consist of primarily of other long-term payables, deferred revenue, amounts due to related parties, trade payables and accruals, advances and other current liabilities.

The segment assets and liabilities as at 31 December 2012 were as follows:

	Iron and steel *RMB'000*	Real estate *RMB'000*	Total *RMB'000*
Total assets	**23,395,618**	**531,988**	**23,927,606**
Segment assets for reportable segments			**23,927,606**
Unallocated:			
Deferred income tax assets			**201,090**
Available-for-sale financial assets			**157,280**
Loan receivables			**379,700**
Prepaid current income tax			**86,307**
Total assets per balance sheet			**24,751,983**
Total liabilities	**6,518,649**	**265,425**	**6,784,074**
Segment liabilities for reportable segments			**6,784,074**
Unallocated:			
Current income tax liabilities			**53,314**
Current borrowings			**3,853,899**
Non-current borrowings			**4,501,105**
Dividends payable			**4,575**
Total liabilities per balance sheet			**15,196,967**

The segment assets and liabilities as at 31 December 2011 were 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
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 2012 *RMB'000*	2011 *RMB'000*
Employee benefit expense	**1,039,827**	782,087
Changes in inventories of finished goods and work in progress	**(20,924)**	(229,620)
Raw materials used	**31,167,528**	32,619,567
Cost of properties sold	**162,062**	–
Utilities	**1,733,981**	1,763,708
Amortisation of leasehold land and land use rights *(Note 11)*	**3,405**	3,405
Depreciation of property, plant and equipment *(Note 11)*	**943,709**	892,093
Amortisation of intangible assets *(Note 11)*	**25**	18
Depreciation of investment properties *(Note 11)*	**806**	805
Operating lease expenses in respect of land use rights	**3,640**	3,267
(Reversal of)/provision for impairment of trade receivables *(Note 16)*	**(538)**	3,607
Impairment provision of prepayments, deposits and other receivables *(Note 12)*	**138,841**	–
Impairment provision of loan receivables *(Note 13)*	**300**	–
(Reversal of)/provision for write-down of inventories to net realisable value *(Note 15)*	**(108,439)**	108,439
Auditors' remuneration	**5,922**	5,700
Rental fee	**264,546**	244,000
Others	**295,027**	322,257
Total	**35,629,718**	36,519,333

5. OTHER INCOME

	Year ended 31 December 2012 *RMB'000*	2011 *RMB'000*
Rental income arising from investment properties	**2,903**	1,748
Income from other operating leases	**20,033**	18,790
Others	**13,022**	6,180
Total	**35,958**	26,718

6. OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Other gains/(losses) – net:		
Sales of raw materials and by-products	**67,476**	119,624
Government grants	**19,205**	20,000
Impairment of property, plant and equipment *(Note 11)*	**(3,600)**	(161,270)
Provision for legal claims	**(22,754)**	–
Gain on disposal of property, plant and equipment	**2,434**	5,362
Gain on disposal of a subsidiary	**–**	3,780
Loss on receivables for operating lease	**–**	(49,104)
Charitable donation	**(741)**	(10,200)
Foreign exchange gain/(loss) – net	**969**	(11,188)
Gain on repurchase of senior notes	**76,561**	–
Gain on written-off of long aging payables	**21,398**	–
Others	**3,201**	2,552
Total	**164,149**	(80,444)

7. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Interest expenses		
– borrowings	**(517,481)**	(509,702)
– discount of notes receivable	**(16,112)**	(499)
– finance lease liabilities	**(37,697)**	(35,847)
Net foreign exchange gains on borrowings	**7,264**	319,780
Finance costs	**(564,026)**	(226,268)
Less: amounts capitalised on qualifying assets	**64,853**	35,468
Total finance costs	**(499,173)**	(190,800)
Interest income on bank deposits	**35,828**	16,505
Interest from other receivables	**66,157**	59,755
Income from loan receivables	**43,194**	20,638
Finance income	**145,179**	96,898
Finance costs – net	**(353,994)**	(93,902)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Income tax expense represents:		
Current income tax		
– PRC enterprise income tax (the "EIT")	**182,220**	606,950
– Singapore profit tax	**5,755**	4,906
	187,975	611,856
Deferred income tax	**(8,396)**	(97,833)
	179,579	514,023

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.

No Hong Kong profits tax has been provided since the subsidiaries incorporated or traded in Hong Kong do not have assessable profits during the year (2011: 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 the 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 Sheet 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 2012 was 12.5% (2011: 12.5%).

Other than above-mentioned entities, all other subsidiaries of the Group incorporated in PRC are subject to the tax rate of 25% in year 2012 (2011: 25%).

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 25.51% (2011: 24.27%) to respective profits of the consolidated entities for the years ended 31 December 2012 and 2011 as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**326,056**	1,931,812
Taxation calculated at statutory tax rate	**83,178**	468,856
Effect of preferential tax rate of subsidiaries	**–**	(203)
Tax losses for which no deferred income tax asset was recognised	**53,349**	18,294
Utilisation of previously unrecognised tax losses	**–**	(4,634)
Withholding tax of interest income	**15,096**	–
Effect of non-deductible expenses	**27,956**	31,710
	179,579	514,023

9. EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**126,062**	1,241,893
Weighted average number of ordinary shares in issue *(thousands)*	**2,930,194**	2,929,725
Basic earnings per share *(RMB per share)*	**0.04**	0.42

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	
	2012	2011
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**126,062**	1,241,893
Weighted average number of ordinary shares in issue used in calculating basic earnings per share *(thousands)*	**2,930,194**	2,929,725
Adjustments for options *(thousands)*	**6,730**	25,024
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share *(thousands)*	**2,936,924**	2,954,749
Diluted earnings per share *(RMB per share)*	**0.04**	0.42

10. DIVIDENDS

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Interim, paid	**–**	241,351

At a meeting held on 23 August 2012, the Board did not recommend the payment of any interim dividend in respect of the six months ended 30 June 2012 (for the six months ended 30 June 2011: HK$ 292.97 million (approximately RMB 241.35 million), representing HK$ 0.1 per ordinary share. The dividends were paid in October 2011.)

At a meeting held on 21 March 2013, the Board did not recommend the payment of any final dividend in respect of the year ended 31 December 2012 (2011: nil).

11. CAPITAL EXPENDITURE

	Property, plant and equipment *RMB'000*	Leasehold land and land use rights *RMB'000*	Investment properties *RMB'000*	Intangible assets *RMB'000*
Year ended 31 December 2012				
Opening carrying amount as at 1 January 2012	**8,395,398**	**137,128**	**15,984**	**8,530**
Additions	**1,630,324**	**–**	**–**	**124**
Disposals	**(38,443)**	**–**	**–**	**–**
Depreciation and amortisation *(Note 4)*	**(943,709)**	**(3,405)**	**(806)**	**(25)**
Impairment *(Note 6)*	**(3,600)**	**–**	**–**	**–**
Closing carrying amount as at 31 December 2012	**9,039,970**	**133,723**	**15,178**	**8,629**
Year ended 31 December 2011				
Opening carrying amount as at 1 January 2011	7,946,548	116,949	16,789	36
Additions	1,461,463	–	–	8,512
Acquisition of a subsidiary	76,727	–	–	–
Transfer to leasehold land and land use rights	(23,584)	23,584	–	–
Disposals	(12,393)	–	–	–
Depreciation and amortisation *(Note 4)*	(892,093)	(3,405)	(805)	(18)
Impairment *(Note 6)*	(161,270)	–	–	–
Closing carrying amount as at 31 December 2011	8,395,398	137,128	15,984	8,530

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2012 *RMB'000*	2011 *RMB'000*
Non-current		
Prepayments for purchase of property, plant and equipment	**456,058**	436,818
Receivables from operating lease	**77,533**	102,829
Less: impairment provision of prepayments, deposits and other receivables *(Note 4)*	**(77,533)**	–
	456,058	539,647
Current		
Prepayments for purchase of inventories	**1,208,632**	1,076,465
Deposits and other receivables	**605,665**	907,876
Receivables from operating lease, current portion	**32,617**	32,617
Prepaid expenses	**23,621**	10,378
Less: impairment provision of prepayments, deposits and other receivables *(Note 4)*	**(82,613)**	(21,305)
	1,787,922	2,006,031
	2,243,980	2,545,678

As at 31 December 2012 and 2011, the carrying amounts of the Group's deposits and other receivables approximated their fair values.

13. LOAN RECEIVABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Non-current		
Loan receivable (i)	**300,000**	300,000
Current		
Loan receivables (ii)	**80,000**	20,000
Less: impairment provision *(Note 4)*	**(300)**	–
	79,700	20,000
Total loan receivables	**379,700**	320,000

(i) The entrusted non-current loan receivable of RMB 300 million is secured by a pledge of certain property, plant and equipment of the borrower, bears interest at a rate of 12% per annum and will be repaid in full in July 2014.

(ii) The current loan receivables comprised RMB 50 million (2011: nil) entrusted loan receivable which is secured by a pledge of certain property, plant and equipment of the borrower and bears interest at a rate of 20% per annum; RMB 10 million (2011: nil) loan receivable which is guaranteed by a third party and bears interest at a rate of 16.8% per annum; and RMB 20 million (2011: RMB 20 million) loan receivable which is unsecured and bears interest at a rate of 20% per annum. The loans receivables will be repaid within one year.

As at December 2012 and 2011, the carrying amounts of loan receivables approximated their fair values.

14. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Properties under development comprise:		
– Construction costs	**140,828**	170,780
– Land use rights	**136,268**	193,440
– Interests capitalised	**5,847**	4,637
	282,943	368,857
Completed properties held for sale	**105,070**	–
	388,013	368,857

The properties under development and held for sale 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	
	2012	2011
	RMB'000	*RMB'000*
Raw materials and materials in-transit	**2,239,405**	3,690,877
Work-in-progress	**259,445**	394,369
Finished goods	**693,708**	530,657
	3,192,558	4,615,903

As at 31 December 2012, inventories with a net book value of RMB 122 million (2011: RMB 61 million) were pledged as security for the Group's notes payable (Note 17).

The cost of inventories recognised in cost of sales amounted to RMB 34,720 million (2011: RMB 35,995 million).

A loss of RMB 108 million in respect of the written-down of inventories to their net realisable values in 2011 was written back for the year ended 31 December 2012. These amounts have been included in "cost of sales" in the income statement.

16. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Non-current		
Trade receivables *(a)*	**576,155**	–
Current		
Trade receivables	**550,827**	399,788
Less: impairment provision for trade receivables *(Note 4)*	**(3,069)**	(3,607)
Trade receivables – net	**547,758**	396,181
Notes receivable *(b)*	**5,702,736**	3,830,658
	6,250,494	4,226,839
Total of trade and notes receivables, net of provision	**6,826,649**	4,226,839

(a) The non-current trade receivables represented the receivables due from a third party for the provision of construction services. The trade receivables are repayable within two years and bear interest at a rate of 6.3% per annum.

(b) As at 31 December 2012, notes receivables were all bank acceptance notes, of which approximately RMB 853 million (2011: RMB 147 million) and RMB 1,347 million (2011: RMB 14 million) were pledged as security for the Group's notes payable (Note 17) and borrowings, respectively.

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

As at 31 December 2012 and 2011, the carrying amount of the Group's trade and notes receivables approximated their fair values.

Except for the non-current trade receivables as mentioned above, 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 2012 and 2011, the ageing analysis of the gross amount of trade and notes receivables was as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**3,538,113**	2,293,212
4-6 months	**3,254,352**	1,900,654
7-12 months	**37,253**	36,580
	6,829,718	4,230,446

As at 31 December 2012, trade receivables amounted to RMB 214 million (2011: RMB 40 million) were secured by letters of credit issued by third party customers and those trade receivables amounted to RMB 576 million (2011: nil) were secured by the pledge of property, plant and equipment of a third-party customer of RMB 912 million.

As at 31 December 2012, trade receivables of RMB 222 million (2011: RMB 345 million) were past due but not impaired. These receivables 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	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**211,914**	344,578

17. TRADE PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Accounts payables	**2,235,577**	1,734,258
Notes payable	**1,443,008**	371,842
	3,678,585	2,106,100

As at 31 December 2012, all notes payable represented bank acceptance notes, of which RMB 747 million (2011: RMB 147 million) were secured by certain notes receivable (Note 16), RMB 557 million (2011: RMB 195 million) were secured by certain restricted bank balances, and RMB 139 million (2011: RMB 30 million) were secured by certain inventories (Note 15) and certain restricted bank balances.

As at 31 December 2012 and 2011, the ageing analysis of the trade payables was as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**2,380,585**	1,783,488
4-6 months	**1,230,563**	245,285
7-9 months	**15,545**	17,620
10-12months	**11,584**	10,465
Over 1 year	**40,308**	49,242
	3,678,585	2,106,100

18. FINANCIAL GUARANTEE CONTRACTS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Guarantee for bank borrowings of third parties	**30,019**	30,000

As at 31 December 2012, Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited") provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB 30 million (2011: 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.

19. COMMITMENTS

(a) Capital and Properties Under Development Commitments

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not provided for	**205,865**	486,448
– Authorised but not contracted for	**65,729**	18,998
	271,594	505,446
Purchase of properties under development	**291,418**	–
	563,012	505,446

(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	
	2012	2011
	RMB'000	*RMB'000*
No later than one year	**188,355**	308,360
Later than one year and no later than five years	**33,321**	33,346
Later than five years	**153,934**	162,053
	375,610	503,759

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 2012 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 2012. 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

2012 has been a year full of both challenges and opportunities for the Group.

Since there was a slowdown of the investment in steel related industries and the imbalance between the demand and supply of the steel production capacity in Mainland China and the prices of various raw materials for the production of steel including iron ore and coking coal remained at a high level, the Group experienced a significant year-on-year decrease in revenue and profit in the first half of 2012. In the third quarter of 2012, due to the substantial decrease in the selling price of steel products and the significant decrease in prices of raw material which led to a significant decrease in the gross profit of the selling of steel products and impairment loss for raw material inventories, the Group recorded a loss for the third quarter of 2012. Through improvement in its production efficiency, adjustments in its steel product mix, reduction of other production costs and improvement in the market environment, the performance of the Group in the fourth quarter of 2012 had improved slightly. Despite of the above difficulties faced by the Group in 2012, the Group can still manage to maintain a profit attributable to owners of the Company of approximately RMB 126.1 million in 2012 by implementing strict cost control and optimizing its sales products.

With respect to the steel business, our core business at present, the Group has been actively taking measures to enhance our competitiveness in this sector. We have made substantial investment in various projects on harnessing power generated and emission reductions in the production bases of the Group. 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 also substantially reduce pollutant emission during the production process, leading to an improved community environment in the proximity of the plants.

Located in Qianxi County, Tangshan City, Hebei Province, the PRC, Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited") is the Group's main production base. Jinxi Limited and its subsidiary, Hebei Jinxi Section Steel Company Limited, sold 3.29 million tonnes of H-section steels products in 2012 and continued to be a market leader in the PRC for H-section steels.

During the year of 2012, Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Company Limited ("Zhengda Iron and Steel") continued to work on upgrading its production facilities with the target to reduce energy consumption and emissions which will increase the operating efficiencies of Zhengda Iron and Steel in the future.

Due to inappropriate operating decision made and poor risk management by the senior management of Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited ("Jinxi Jinlan"), Jinxi Jinlan incurred substantial loss in 2012. Certain members of the senior management of Jinxi Jinlan had been replaced and dismissed by the Group and the Group had also appointed and organized new senior management team and finance officer to operate Jinxi Jinlan. The Board is confident that the new senior management team can complete the operating targets of 2013 assigned by the Board.

In view of the low rate of return on the investment made in the steel making industry and the increasing cost of fund, the Group considers that cautious involvement in other industries will support the return to the shareholders. Therefore, the Group started to explore other potential business opportunities while ensuring the risk control in order to promote the long-term growth of the Group's results.

The Group started to engage in trading of steel products which is not manufactured by the Group in 2011. During the year ended 31 December 2012, the sales volume arising from trading of steel products amounted to approximately 1.08 million tonnes (2011: approximately 0.22 million tonnes). The revenue and gross profit attributable to trading of steel products were approximately RMB 3,535 million (2011: approximately RMB 804 million) and approximately RMB 59 million (2011: approximately RMB 9 million) respectively.

For the year ended 31 December 2012, the Group had completed the first phase of the property development project namely Donghu Bay which is located in Tangshan City, Hebei Province, the PRC and recorded revenue from real estate business of approximately RMB 323 million and operating profit from real estate business of approximately RMB 73 million. The second phase of the project is in progress and expected to be completed by early 2014, which will provide substantial revenue and profit for the Group. In addition, the Group successfully bid for two parcels of land located in Suzhou City, the PRC for a consideration of RMB 314 million in December 2012, which is a good investment opportunity for the Group to increase its land reserves prudently for its future business development. The two pieces of land are located at Tayuan Lu Xi, Heshan Lu North, Fengqiao Jie Dao, Gaoxin District, Suzhou City, the PRC where an area of approximately 16,857.6 square meters with plot ratio not exceeding 1.6 is for residential purpose and an area of approximately 14,881.9 square meters with plot ratio not exceeding 3.3 is for wholesale and retail business and commercial and finance business purposes.

The Group also engages in financing industry through its subsidiaries, Oriental Evertrust Finance Leasing Co., Ltd. ("Oriental Evertrust") and Tianjin Oriental Huitong Microcredit Company Limited ("Oriental Huitong"). As at 31 December 2012, Oriental Evertrust and Oriental Huitong provided loans amounting RMB 380 million to independent third parties at interest rates ranged from 12% to 20% per annum.

In order to promote the Chinese culture, improve the corporate image and perform its corporate social responsibility, the Group established a non-wholly-owned subsidiary, Beijing Jinxi Longxiang Culture Development Company Limited ("Jinxi Longxiang") and published "Meng Xue Shi San Jing"* (蒙學十三經) in 2012.

Since the Group introduced the world's largest steel corporation ArcelorMittal as its strategic shareholder in 2008, collaboration between the Group and ArcelorMittal has grown considerably. ArcelorMittal appointed experienced executives to the Board of the Group to participate in decision making for the Group's business development. Technicians and management staff from ArcelorMittal was 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.

We believe our course of development is currently moving in the right direction, and we are on the verge of achieving satisfactory returns very soon.

Business review

Sales analysis from sale of self-manufactured steel products

Sales Volume

In 2012, the total sales volume was 9,418,000 tonnes (2011: 9,344,000 tonnes), representing an increase of approximately 0.8%.

The sales volume breakdown during the year was as follows:

	2012 Sales volume *('000 tonnes)*		2011 Sales volume *('000 tonnes)*		Changes in Sales volume *Increase/ (Decrease)*
H-section steel products	**3,288**	**35.0%**	3,336	35.7%	(1.4%)
Strips and strip products	**3,800**	**40.3%**	3,627	38.8%	4.8%
Billets	**1,424**	**15.1%**	1,482	15.9%	(3.9%)
Cold rolled sheets and galvanised sheets	**484**	**5.1%**	477	5.1%	1.5%
Rebar	**422**	**4.5%**	422	4.5%	–
Total	**9,418**	**100%**	9,344	100%	0.8%

During the year of 2012, the Group's production capacity is 11 million tonnes per annum.

Revenue

Revenue in 2012 was RMB 31,330 million (2011: RMB 37,580 million), representing a decrease of approximately 16.6%.

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

	2012		2011		Changes	
	Revenue	**Average selling Price**	Revenue	Average selling price	Revenue	Average selling price
	(RMB million)	***(RMB/tonne)***	*(RMB million)*	*(RMB/tonne)*	*Increase/(Decrease)*	
H-section steel products	**11,404**	**3,469**	13,682	4,101	(16.6%)	(15.4%)
Strips and strip products	**12,233**	**3,219**	14,210	3,917	(13.9%)	(17.8%)
Billets	**4,236**	**2,974**	5,629	3,799	(24.7%)	(21.7%)
Cold rolled sheets and galvanised sheets	**2,069**	**4,275**	2,305	4,838	(10.2%)	(11.6%)
Rebar	**1,388**	**3,290**	1,754	4,154	(20.9%)	(20.8%)
Total/combined	**31,330**	**3,327**	37,580	4,022	(16.6%)	(17.3%)

The decrease in revenue was mainly due to the slowdown of the investment in steel related industries and the imbalance between the demand and the supply of the steel production capacity in Mainland China which led to a decrease in the Group's average selling price by 17.3% to RMB 3,327 per tonne in 2012 from RMB 4,022 per tonne in 2011.

Cost of Sales and Gross Profit

The consolidated gross profit in 2012 was RMB 933 million (2011: RMB 2,491 million), representing a decrease of 62.5%.

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

	2012			2011		
	Average unit cost *(RMB/tonne)*	**Gross profit/(loss) per tonne** *(RMB)*	**Gross profit/(loss) margin**	Average unit cost *(RMB/tonne)*	Gross profit per tonne *(RMB)*	Gross profit margin
H-section steel products	**3,298**	**170**	**4.9%**	3,715	386	9.4%
Strips and strip products	**3,107**	**113**	**3.5%**	3,684	233	5.9%
Billets	**2,990**	**(16)**	**(0.5%)**	3,679	119	3.1%
Cold rolled sheets and galvanised sheets	**4,413**	**(138)**	**(3.2%)**	4,659	179	3.7%
Rebar	**3,209**	**81**	**2.5%**	3,922	232	5.6%
Total	**3,228**	**99**	**3.0%**	3,755	267	6.6%

The gross profit per tonne in 2012 was RMB 99, representing a decrease of approximately 62.9% compared to the gross profit of RMB 267 per tonne in 2011. Gross profit margin decreased to 3.0% in 2012 from 6.6% in 2011. Decrease in gross profit margin was primarily due to the magnitude of decrease in the selling price of the steel products of the Group was much larger than the magnitude of decrease in raw material prices due to the weaker market demand in 2012 than that 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 2012, the Group had unutilised banking facilities of approximately RMB 10.5 billion (2011: RMB 4.6 billion).

As at 31 December 2012, the current ratio of the Group, representing current assets divided by current liabilities, was 1.3 (2011: 1.7) and the gearing ratio, representing total liabilities divided by total assets, was 61.4% (2011: 58.5%).

As at 31 December 2012, the cash and cash equivalents of the Group amounted to approximately RMB 879 million (2011: approximately RMB 965 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

In November 2012, the Company repurchased a total of principal amount of US$ 87,240,000 and US$ 59,817,000 of the 2017 Senior Notes and the 2015 Senior Notes respectively. Following the completion of the repurchase, the outstanding aggregate principal amount of the 2017 Senior Notes and the 2015 Senior Notes was US$ 212,760,000 and US$ 490,183,000 respectively.

As at 31 December 2012, borrowings of RMB 6,696 million of the Group bore fixed interest rates ranged from 1.52% to 8.00% per annum and borrowings of RMB 1,659 million of the Group bore floating rates ranged from 1.81% to 7.38% per annum. The Group's exposure to changes in market interest rates was considered to be limited. The Group did not use any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2012 and 2011.

Moreover, most of the borrowings of the Group as at 31 December 2012 were non-current with maturity over two 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 Company as its total capital. As at 31 December 2012, the debt-to-capital ratio of the Group was 63.2% (2011: 55.8%).

The consolidated interest expenses and capitalised interest in 2012 amounted to RMB 571 million (2011: RMB 546 million). The interest coverage (divide earnings before finance cost – net and taxes by total interest expenses) was 1.2 times (2011: 3.7 times).

Capital Commitments

As at 31 December 2012, the Group had capital commitments of RMB 563 million (2011: RMB 505 million). It is estimated the capital commitments will be financed by the Group's internal resources, senior notes and unutilised banking facilities.

Guarantee and Contingent Liabilities

As at 31 December 2012, the Group's contingent liabilities amounted to approximately RMB 30 million (2011: RMB 30 million), which was the provision of guarantee for bank borrowings in favor of a third party.

Pledge of Assets

As at 31 December 2012, the net book value of the Group's property, plant and equipment amounting to nil (2011: approximately RMB 41 million), inventories amounting to approximately RMB 122 million (2011: approximately RMB 61 million), notes receivable amounting to approximately RMB 2,200 million (2011: approximately RMB 161 million) and restricted bank balances amounting to approximately RMB 1,110 million (2011: approximately RMB 891 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 notes, 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 years ended 31 December 2012 and 2011.

Final Dividend

The Board did not recommend the payment of any final dividend for the year ended 31 December 2012.

Post Balance Sheet Events

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

Accreditation for the Company and its Management

During 2012, Oriental Green Energy-Saving Environmental Protection Engineering Co., Ltd., a subsidiary of the Group, won the accolades of "Enterprise of 10 Most Influential Brands in Energy-saving Service Industry of China", "Most Innovative Brand in Environmental Sector of China", and "Top Ten Creditable Green and Low Carbon Enterprises in the Environmental Sector of China"; while Hebei Jinxi Iron and Steel Group Dafang Heavy Industry Science and Technology Co., Limited, another subsidiary of the Group, was successfully assessed as a National Hi-tech Enterprise, signifying the enhancing technological innovation ability and competitiveness of the company.

Human Resources and Remuneration Policies

As at 31 December 2012, the Group had a workforce of approximately 14,000 and temporary staff of approximately 4,000. 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

Looking forward to the 2013 global economy, although the economic outlook of Europe is still facing many uncertainties, the economy of China is expected to achieve a certain degree of recovery in 2013 under the execution of "stable growth" economic policy by the central government. Steel demand is expected to be fueled by the commencement of the "Twelfth Five-year Plan" of the PRC government, the demand from urbanisation, and 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.

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.

During 2012, the Group continued to strategically expand the development of new businesses which laid a solid foundation for our long-term development. It is expected the newly developed businesses will contribute more sustainable revenue and profit for the Group.

Since its listing in 2004, the Group has continued to expand its business, diversify its steel product categories and business portfolio. During the last nine 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, cold rolled sheets and galvanized sheets and rebar. Moreover, the H-section steel products 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 SECURITIES OF THE COMPANY

Apart from the repurchase of a total of principal amount of US$ 87,240,000 and US$ 59,817,000 of the 2017 Senior Notes and the 2015 Senior Notes respectively, 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 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices and believes that it is essential to the development of the Group and to safeguard the interests of the equity holders. The Directors are of the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012, save for the following deviations:

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.

Under the Code Provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to other commitments, the Chairman of the Board was not in a position to attend the annual general meeting of the Company held on 24 May 2012.

Under the Code Provision A.6.7 of the CG Code, the independent non-executive directors and the non-executive directors should also attend the general meetings. Due to other commitments, two independent non-executive directors and three non-executive directors were not in a position to attend the annual general meeting and the special general meeting of the Company held on 24 May 2012 and 30 May 2012 respectively.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors and all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2012.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2012 and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the consolidated financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the annual report.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Suites 901-2 & 10, 9/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Wednesday, 15 May 2013 at 9:30 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 Monday, 13 May 2013 to Wednesday, 15 May 2013 (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 15 May 2013. 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 Friday, 10 May 2013.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2012

The annual results announcement of the Company for the year ended 31 December 2012 is published on both the websites of the Company (www.chinaorientalgroup.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2012 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt gratitude to all of our staff for their hard work and dedication, to our clients for their continued trust, and to you, our shareholders, for your continuous support. The Group will continue to pursue steady and sustainable growth in year of 2013, have advancement with its staff, and share fruitful return with its shareholders.

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

Hong Kong, 21 March 2013

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 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, Mr. Wang Tianyi and Mr. Zhou Guoping being the Independent Non-Executive Directors.