

The Directors herein present their annual report and the audited financial statements of China Oriental Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

Reorganisation, Subsidiaries and Basis of Preparation

The Company was incorporated as an exempted company with limited liability on 3 November 2003 under the Companies Act 1981 of Bermuda. Pursuant to the reorganisation (the "Reorganisation"), as disclosed in the prospectus of the Company dated 18 February 2004 (the "Prospectus"), to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the then companies comprising the Group on 20 January 2004. Further details of the Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of preparation of the audited financial statements are set out in Notes 1 and 2 to the consolidated financial statements.

Following completion of the Reorganisation and the global offerings, the Company's shares were listed on the Stock Exchange on 2 March 2004.

Principal Activities

As at 31 December 2005, the Company's principal activity is investment holding. The principal activity of the Group is the manufacture and sales of iron and steel products. The nature of the principal activity has not changed during the year.

Segment Information

Over 90% of the Group's consolidated sales and contribution to results are derived from the PRC and mainly from the production and sales of iron and steel products for the year ended 31 December 2005 and are set out in Note 5 to the consolidated financial statements.

Results and Dividends

The Group's consolidated income statement for the year ended 31 December 2005 and its consolidated balance sheet as at that date, together with the balance sheet of the Company as at 31 December 2005, are set out in the financial statements on pages 28 to 31.

At a meeting held on 30 March 2006, the Directors proposed a final dividend of HK\$130,725,000 (approximately RMB136,044,000), representing HK4.5 cents per ordinary share to the shareholders of the Company whose names appear on the register of members of the Company on 17 May 2006. Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 17 May 2006, the final dividend will be paid on 7 June 2006.

Summary of Financial Information

A summary of the consolidated financial results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 89.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 7 to the consolidated financial statements.

Share Capital

Details of the movements in the Company's issued share capital during the year are set out in Note 18 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Group during the year are set out in Note 19 to consolidated financial statements.

Distributable Reserves

At 31 December 2005, the Company's (deficit)/reserves available for distribution amounted to RMB(8,319,000) (2004: RMB13,974,000).

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Major Customers and Suppliers

The sales attributable to the five largest customers of the Group accounted for less than 30% of the total Group's consolidated sales for the year.

The purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the total Group's consolidated purchases for the year.

Directors

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Mr. Han Jingyuan

Ms. Chen Ningning

Mr. Zhu Jun

Mr. Tang Chi Fai

Mr. Liu Lei

Mr. Shen Xiaoling (appointed on 1 July 2005)

Directors (Continued)

Independent non-executive Directors

Mr. Gao Qingju

Mr. Yu Tung Ho

Mr. Wong Man Chung, Francis

In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules"), Mr. Han Jingyuan, the Chairman of the Board will retire at the Annual General Meeting, who, being eligible, offers himself for re-election.

In accordance with Bye-law 87(1) of the Company, Ms. Chen Ningning and Mr. Yu Tung Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with Bye-law 86(2) of the Company, Mr. Shen Xiaoling, the newly appointed Director, also retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

Pursuant to 13.51(2) of the Listing Rules, the annual fee specified in each of Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Yu Tung Ho and Mr. Shen Xiaoling's existing service contracts are HK\$300,000, HK\$200,000, HK\$250,000 and HK\$200,000 respectively. The basis of determining the Directors' fee was based on the mutual negotiation between the Directors with reference to the range of prevailing directors' fee for directors of listed companies in Hong Kong. Save as disclosed in this annual report, Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Yu Tung Ho, and Mr. Shen Xiaoling do not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Directors' Interests in Contracts

Save as the transactions as disclosed in Note 34 to the consolidated financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management of the Company are set out on pages 17 to 19 of the annual report.

Directors' Service Contracts

Two of the executive Directors (Mr. Han Jingyuan and Ms. Chen Ningning) have service contracts with the Company for a fixed term of three years commencing from 13 November 2003. One executive Director has service contract with the Company for a fixed term of three years commencing from 23 December 2003. Mr. Shen Xiaoling has service contract with the Company for a fixed term of two years commencing from 1 July 2005. The remaining two executive Directors have service contracts with the Company for a fixed term of one year commencing from 23 December 2005 and a fixed term of two years commencing from 29 September 2004, respectively. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Two of the independent non-executive Directors (including Mr. Yu Tung Ho) have service contracts for a period of one year commencing from 23 December 2005. The remaining independent non-executive Director has service contract for a period of one year commencing from 25 August 2005.

Mr. Han Jingyuan, Mr. Zhu Jun and Mr. Shen Xiaoling (executive Directors of the Company and its subsidiary) have service contracts with the Company's subsidiary on 9 June 2003 for a fixed term of five years commencing from 9 June 2003 which are exempted under the Listing Rules. Actual amount of salary was not specified in the service contracts other than the clause which stated that after probation, the employees will be paid according to the salary of the post. The service contracts may be terminated by the Company's subsidiary by paying compensation equivalent to the unfulfilled contract's salary and one month's salary for each year of service completed.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests and Short Positions in Securities

At 31 December 2005, the interests and short positions of the Directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies, were as follows:

Number of shares held and nature of interest in the Company:

	Corporate Interest	Percentage of the Company's issued share capital	Long/Short Position
Mr. Han Jingyuan	1,282,480,849 (Note 1)	44.15%	Long
Ms. Chen Ningning	817,519,151 (Note 2)	28.14%	Long

Directors' Interests and Short Positions in Securities (Continued)

Notes :

- At 31 December 2005, Mr. Han Jingyuan beneficially owns 60.69% of the issued share capital of Wellbeing Holdings Limited ("Wellbeing Holdings") and holds 16.09% of the issued share capital of Wellbeing Holdings on trust for the benefit of certain employees of the subsidiary of the Company. Wellbeing Holdings beneficially owned 1,230,728,124 shares or 42.37% of the issued shares of the Company. He is also the beneficial owner of 100% of the issued share capital of Chingford Holdings Limited which beneficially owned 51,752,725 shares or 1.78% of the issued shares of the Company at 31 December 2005.
- At 31 December 2005, Ms. Chen Ningning owned 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at 31 December 2005, none of the Directors and chief executives and their associates had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of SFO as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or were the Company or any of its holdings companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouses or children under 18 years of age to acquire such rights in any other body corporate.

Contracts of Significance

Save as the transactions as disclosed in Note 34 to the consolidated financial statements, no controlling shareholder or any of its subsidiaries have any contract of significance with the Company or its subsidiary during the year.

Substantial Shareholders

At 31 December 2005, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Number of shares held	Percentage of the Company's issued share capital	Long/Short Position
Wellbeing Holdings	1,230,728,124	42.37%	Long
Smart Triumph	817,519,151	28.14% (Note 1)	Long
Ms. Lu Hui	817,519,151	28.14% (Note 1)	Long

Substantial Shareholders (Continued)

Note 1: At 31 December 2005, the interests of Smart Triumph in the shares of the Company were also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owned 50% of the issued share capital of Smart Triumph.

Save as disclosed above, at 31 December 2005, no person, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company required to be kept in the register by the Company under Section 336 of the SFO.

Related Party and Connected Transactions

Details of significant related party and connected transactions of the Group under the Listing Rules are set out as below and in Note 34 to the consolidated financial statements.

The purchases of raw material by Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Foshan Jinxi"), an indirect non-wholly owned subsidiary of the Company from Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), an indirect non-wholly owned subsidiary of the Company have constituted continuing connected transactions under the Listing Rules. The shareholders of the Company have approved the above continuing connected transactions and the related annual cap for a period of three years ending 31 December 2007 on 4 February 2005. During the year ended 31 December 2005, the purchase of raw material (excluding value-added tax) by Foshan Jinxi from Jinxi Limited amounted to approximately RMB59.1 million.

In the opinion of the independent non-executive Directors of the Company, the purchases of raw material by Foshan Jinxi from Jinxi Limited for the year ended 31 December 2005 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant annual cap amounts as approved by the shareholders of the Company on 4 February 2005.

On 23 March 2005, the Company announced that the Company has utilised US\$10 million as deposits in a commercial bank to apply for the issuance of a standby letter of credit (effective up to 16 April 2006) which is pledged against the banking facility of approximately RMB100 million with a duration of 1 year of Foshan Jinxi.

Mr. Zhou Weijie, is a director of Foshan Jinxi and Foshan Jin Lan Aluminium Co., Ltd. (a company which is controlled by Mr. Zhou Weijie) has 40% of the equity interest in Foshan Jinxi. Therefore, Foshan Jinxi is a connected person of the Group in accordance with the Listing Rules.

Related Party and Connected Transactions *(Continued)*

Save as transactions inherited to the Reorganisation and as disclosed above and in item iv of Note 34 to the consolidated financial statements, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

Purchase, Redemption or Sale of Listed Securities of The Company

Pursuant to the over-allotment option referred to in the Prospectus, 105,000,000 shares were issued at the offer price of HK\$2.75 per share on 12 March 2004.

Save as disclosed above, since the listing of the Company's shares on the Stock Exchange on 2 March 2004 and up to 31 December 2005, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

Subsequent Events

Details of the significant post balance sheet events are set out in Note 37 to the consolidated financial statements.

Auditors

PricewaterhouseCoopers retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

China Oriental Group Company Limited

Han Jingyuan

Chairman and Chief Executive Officer

Hong Kong, 30 March 2006