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**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)**

**DISCLOSEABLE TRANSACTION**

**FORMATION OF H-SECTION STEEL JOINT VENTURE**

The Board is pleased to announce that Jinxi Iron and Steel, a non wholly-owned subsidiary of the Company, has set up a H-section steel Joint Venture in the PRC on 5 May 2008. The Joint Venture has been set up with a registered capital of RMB350 million and total investment of RMB1,200 million. The registered capital of the Joint Venture will be contributed by Jinxi Iron and Steel and Hui Yin in the proportion of 80% and 20% respectively. The principal activity of the Joint Venture will be the production and sale of small to medium sized H-section steel products. The term of the Joint Venture will be 20 years.

The Group aims at increasing H-section steel production capacity. Following the formation of the Joint Venture and the thereto investments, two new H-section steel production lines with a total of 1,200,000 tonnes production capacity will be built. The Group's total production capacities of H-section steel will reach 2,500,000 tonnes per annum, which is almost double more than the current capacity. It is expected that the Group's mainstream product, H-section steel, will account for over 50% of its revenue by 2009.

As some of the percentage ratios in respect of the formation of the Joint Venture are more than 5% but less than 25%, the transaction constitutes a discloseable transaction for the Company under the Listing Rules. A circular, containing among other things, further information in relation to the formation of the Joint Venture, will be sent to the Shareholders as soon as practicable.

The Board is pleased to announce that Jinxi Iron and Steel, a non wholly-owned subsidiary of the Company, has set up a H-section steel Joint Venture in the PRC on 5 May 2008 with the following details:

## HEBEI JINXI SECTION STEEL COMPANY LIMITED

Date: 5 May 2008

Registered capital: RMB350 million

Shareholders:	Jinxi Iron and Steel	Hui Yin
Proposed total investment:	RMB960 million	RMB240 million
Capital contribution:	RMB280 million	RMB70 million
Equity interest ratio:	80%	20%
Profit and loss sharing ratio:	80%	20%

The Joint Venture has been set up with a registered capital of RMB350 million and total investment of RMB1,200 million. The registered capital of the Joint Venture will be contributed by Jinxi Iron and Steel and Hui Yin in the proportion of 80% and 20% respectively. Jinxi Iron and Steel's contribution of capital will be satisfied by cash amounting approximately to RMB35 million, equipment and machinery at book value amounting approximately to RMB245 million. Hui Yin's contribution will be satisfied by cash only. The additional investments required by the Joint Venture, namely total investment less capital contribution i.e. RMB850 million, will be contributed by Jinxi Iron and Steel and Hui Yin in proportion to their respective equity interests in the Joint Venture. Jinxi Iron and Steel's additional contribution of capital will be satisfied by cash and assets (which may include land use right, buildings, plants, stock equipment and machinery). Hui Yin's additional contribution will be satisfied by cash only. The principal activity of the Joint Venture will be the production and sale of small to medium sized H-section steel products. The term of the Joint Venture will be 20 years.

Jinxi Iron and Steel's share of the capital commitment of the Joint Venture, amounting to RMB960 million, is expected to be financed by internal cash, assets which may include land use right, buildings, plants, stock equipment and machinery at book value) of the Group and bank borrowings. As at the date of this announcement, the proportion between the internal cash and assets of the Group and the bank borrowings cannot be determined.

The Joint Venture, Jinxi Section Steel, will become the subsidiary of the Company and the accounts of which will be consolidated into the consolidated accounts of the Group.

### INFORMATION OF THE PARTIES

Jinxi Iron and Steel, incorporated in the PRC, is an indirect non wholly-owned subsidiary of the Company. The principal activity is manufacture and sale of iron and steel products.

Hui Yin, incorporated in the PRC on 13 April 2007, was previously a wholly-owned subsidiary of Jinxi Iron & Steel and a special purpose vehicle for the investment holding of the newly-formed Joint Venture. Shareholders of Hui Yin were Mr. Han, Mr. Zhu and Mr. Shen (collectively, the "Named Shareholders") holding 76.78%, 2.82% and 20.40% of the equity interests respectively.

The Named Shareholders held 100% interest in Hui Yin on behalf of Jinxi Iron and Steel for the purpose of formation of the Joint Venture (the “**Trust Arrangement**”). On 10 May 2007, a joint venture agreement was signed between the Group’s two subsidiaries, Jinxi Iron and Steel and Hui Yin, to facilitate the application for the H-section steel sino-foreign Joint Venture.

As the Group encourages the employees to invest in the Joint Venture, Jinxi Iron and Steel and the Name Shareholders cancelled the Trust Arrangement of Hui Yin on 5 May 2008. Jinxi Iron and Steel no longer holds any interest in Hui Yin. Hui Yin did not have any assets and liabilities as at the date of cancellation of the Trust Arrangement and the deemed disposal of Hui Yin’s interest has no profit and loss effect on the Group. On the same date, after the cancellation of the Trust Arrangement and formation of the Joint Venture, Mr. Han, Mr. Zhu and Mr. Shen beneficially owned 8.22%, 4.58% and 4.42% equity interests in Hui Yin. As for the remaining shareholding of Hui Yin i.e. 82.78%, the shareholders were 3,785 staff of the Group (collectively, the “**Remaining Shareholders**”). Both the Named Shareholders and the Remaining Shareholders had contributed investment funds in proportion to their equity interests.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquires, the Remaining Shareholders, Hui Yin and their ultimate beneficial owners (except for the Named Shareholders) are third parties independent of the Company and its connected persons.

There is not any prior transaction among the Group, the Remaining Shareholders, Hui Yin and their ultimate beneficial owners which required aggregation with the transaction under Rules 14.22 of the Listing Rules.

## **REASONS FOR THE FORMATION OF THE JOINT VENTURE**

The Group aims at increasing H-section steel production capacity. Following the formation of the Joint Venture and the thereto investments, two new H-section steel production lines with a total of 1,200,000 tonnes production capacity will be built. The Group’s total production capacities of H-section steel will reach 2,500,000 tonnes per annum, which is almost double more than the current capacity. It is expected that the Group’s mainstream product, H-section steel, will account for over 50% of its revenue by 2009.

The formation of the sino-foreign Joint Venture can enjoy the PRC profits tax relief “two-year free and three-year half” (兩免三減半).

By allowing the staff of the Group to invest in the Joint Venture, the Group can have additional funding of RMB240 million for the operation of the new H-steel production lines. Concurrently, it can help boost the sense of belonging of the employees of the Group.

The Directors, including the independent non-executive Directors, consider that the transaction and the terms thereof are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

## GENERAL INFORMATION

As some of the percentage ratios in respect of the formation of the Joint Venture are more than 5% but less than 25%, the transaction constitutes a discloseable transaction for the Company under the Listing Rules.

A circular, containing among other things, further information in relation to the formation of the Joint Venture, will be sent to the Shareholders as soon as practicable.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Board”	the board of Directors of the Company
“Company”	China Oriental Group Company Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange. Its principal activity is holding investments in iron and steel manufacturing companies in the PRC
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hui Yin”	遷西縣滙銀工貿有限公司 (Qianxi County Hui Yin Trading Company Limited*), a company incorporated in the PRC with limited liability
“Jinxi Iron and Steel”	河北津西鋼鐵股份有限公司 (Hebei Jinxi Iron and Steel Company Limited*), an indirect non-wholly owned subsidiary of the Company
“Joint Venture” or “Jinxi Section Steel”	河北津西型鋼有限公司(Hebei Jinxi Section Steel Company Limited*), a company to be incorporated in the PRC with limited liability
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Han”	Mr. Han Jingyuan, the Chairman of the Board, the Chief Executive Officer and the controlling shareholder of the Company. He is also the Chairman of Jinxi Iron and Steel
“Mr. Shen”	Mr. Shen Xiaoling, the Executive Director of the Company and the director of Jinxi Iron and Steel and Hui Yin

“Mr. Zhu”	Mr. Zhu Jun, the Executive Director of the Company and the director of Jinxi Iron and Steel
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 5 May 2008

*As at the date of this announcement, the Executive Directors are Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Liu Lei, Mr. Shen Xiaoling, Mr. Yu Jianshui and Mr. Zhu Hao and the Independent Non-executive Directors are Mr. Yu Tung Ho, Mr. Gao Qingju and Mr. Wong Man Chung, Francis*

*This announcement is published on the websites of the Company ([www.chinaorientalgroup.com](http://www.chinaorientalgroup.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk))*

*\* For identification purposes only*