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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)**

**CONNECTED TRANSACTION**

The Board announces that Jinxi Ltd., an indirect non wholly-owned subsidiary of the Company, has signed the Guarantee to provide financial assistance in the form of a guarantee to its fellow subsidiary, Jin Xi Jin Lan, which is a connected person (as defined in the Listing Rules) of the Group.

As at the date of the Announcement, the maximum liability under the Guarantee of Jinxi Ltd. is RMB150 million plus the related outstanding interest and expenses (if any). As at 28 February 2007, an amount of RMB71,000,000 in the form of bank acceptance notes, have been drawn down under the Master Bank Facility by Jin Xi Jin Lan.

An independent financial adviser will be engaged to advise the independent board committee as soon as practicable and the independent financial adviser's opinion will be disclosed in the circular to be dispatched to the shareholders of the Company within 21 days after the publication of this Announcement. The independent financial adviser will advise the independent board committee as to whether the Connected Transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company (after taking into account of the Guarantee Fee) and its shareholders as a whole.

Due to an oversight and inadvertent misunderstanding of the Listing Rules by some of the management of the Group involved in the issuance of the Guarantee, Jinxi Ltd.'s entry into the Guarantee and the provisions of the Guarantee was not reported to the Company and the Directors (other than the two Executive Directors (being Mr. Han and Mr. Shen) involved in issuing the Guarantee) were not aware of Jinxi Ltd. entering into the Guarantee. As a result, the failures by the Company to notify the Stock Exchange and announce Jinxi Ltd.'s entry into the Guarantee and the provisions of the Guarantee and to seek the approval of the shareholders of the Company as required under Chapter 14A of the Listing Rules constitutes a breach of Rule 14A.63 of the Listing Rules. This breach of the Listing Rules was discovered sometime towards the end of January 2007.

Since the Connected Transaction exceeds 2.5% of the relevant percentage ratios (as defined in the Listing Rules) and the total consideration is more than HK\$10,000,000, it constitutes a non-exempt connected transaction of the Company and is therefore subject to the reporting, announcement and the independent shareholders' approval requirements (to be taken by way of poll) under Rule 14A.63 of the Listing Rules.

A circular containing, amongst other things, further details of the Connected Transaction, the advice from the independent board committee and the advice from the independent financial adviser to the independent board committee and the independent shareholders of the Company and a notice for convening a special general meeting of the Company to approve the Connected Transaction will be dispatched to the shareholders of the Company within 21 days after the publication of this Announcement.

The Board announces that Jinxi Ltd. has signed the Guarantee to provide financial assistance in the form of guarantee to its fellow subsidiary, Jin Xi Jin Lan, which is a connected person (as defined in the Listing Rules) of the Group:

## **GUARANTEE**

Jinxi Ltd. has issued the Guarantee in favour of a PRC bank to secure the Master Bank Facility. Provision of assets of Jin Xi Jin Lan and guarantee issued by Jinxi Ltd. as security are required by the PRC bank. The term of the Master Bank Facility is between 30 May 2006 and 30 May 2007 during which individual facilities could be drawn down from the Master Bank Facility. The first individual facility was drawn down under the Master Bank Facility on 30 May 2006.

The Guarantee was entered into in April 2006. No specific date in April 2006 is set out in the Guarantee when it was signed but as at the date of this Announcement, the Guarantee remains legally enforceable against the parties therein.

The term of the Guarantee (and the obligations of Jinxi Ltd. therein) began in April 2006 when the Guarantee was signed. The term of the Guarantee depends on the expiry date of each individual facilities granted under the Master Bank Facility. The obligations of Jinxi Ltd. under the Guarantee in respect of each individual facility granted under the Master Bank Facility will expire two years after the expiry date of each individual facility granted under the Master Bank Facility. The expiry date of each individual facility granted under the Master Bank Facility will vary.

As at the date of the Announcement, the maximum liability of Jinxi Ltd. under the Guarantee is RMB150 million plus the related outstanding interest and expenses (if any). As at 28 February 2007, an amount of RMB71,000,000, in the form of bank acceptance notes, have been drawn down under the Master Bank Facility by Jin Xi Jin Lan.

## **CONNECTED TRANSACTION**

Mr. Zhou, the controlling shareholder of Foshan Jin Lan, is a director of Jin Xi Jin Lan and Foshan Jin Lan is a substantial shareholder (as defined in the Listing Rules) of Jin Xi Jin Lan. The remaining interest of Foshan Jin Lan is held by Mr. Zhou's relative. Therefore, Jin Xi Jin Lan is an associate of Mr. Zhou and is therefore a connected person of the Group.

Due to an oversight and inadvertent misunderstanding of the Listing Rules by some of the management of the Group involved in the issuance of the Guarantee, Jinxi Ltd.'s entry into the Guarantee and the provisions of Guarantee was not reported to the Company and the Directors (other than the two Executive Directors involved in issuing the Guarantee, being Mr. Han and Mr. Shen) were not aware of Jinxi Ltd. entering into the Guarantee. As a result, the failures by the Company to notify the Stock Exchange and announce the Jinxi Ltd.'s entry into the Guarantee and the provisions of the Guarantee and to seek approval of the Company's shareholders as required under Chapter 14A of the Listing Rules constitutes a breach of Rule 14A.63 of the Listing Rules. This breach of the Listing Rules was discovered sometime towards the end of January 2007.

This Announcement is made two months after discovering the breach because the Connected Transaction was entered into almost a year ago and as a result, extensive investigation with the various parties involved in the Connected Transaction had to be made by the management of the Company (including reviewing all relevant documents and discussions with the PRC bank to determine all facts in respect of the Connected Transaction) to ascertain whether there is a breach of the Listing Rules and if there is, the exact nature and extent of such breach.

Further, after discovering the grant of the Guarantee by Jinxi Ltd. to Jin Xi Jin Lan, the management of the Company immediately held discussions with each other, Mr. Zhou and with the PRC bank to whom the Guarantee was granted in order to determine the type of remedies which would be available to Jinxi Ltd. in respect of this Guarantee to ensure that the Connected Transaction is fair and reasonable and in the interests of the shareholders of the Company as a whole. The discovery of the grant of the Guarantee by Jinxi Ltd. also coincided with the Chinese New Year holidays in the PRC as a result, the PRC bank was not available during this holiday period to conduct the relevant discussions. These factors contributed to the delay in notifying the Stock Exchange and making the relevant announcement in respect of the Guarantee. Following such discussions, the Group has adopted and/or proposed the following measures to remedy the grant of the Guarantee by Jinxi Ltd. which is not in proportion to the Group's equity interest in Jin Xi Jin Lan:

1. In order to compensate Jinxi Ltd. for providing the Guarantee to the bank solely, Jin Xi Jin Lan will pay to Jinxi Ltd. a guarantee fee of RMB900,000 for the year ended 30 May 2007 (plus any accrued interest), which is equivalent to 0.6% of the amount under the Guarantee.
2. As the Master Bank Facility will expire on 30 May 2007 and individual facilities could no longer be drawn down from the Master Bank Facility thereafter, Jin Xi Jin Lan has urged the PRC bank to consider whether it could grant a new master bank facility or renew the Master Bank Facility (in the amount of RMB150 million or less as the case may be and if granted) without any guarantee from the Group. As at the date of this Announcement, the Group has received the bank's oral indication that the new master bank facility or a renewal of the Master Bank Facility will be granted without a guarantee from the Group. In the event that the new master bank facility or a renewal of the Master Bank Facility constitutes a connected transaction, the Listing Rules will be complied with and the appropriate disclosure made.

Since the Connected Transaction exceeds 2.5% of the relevant percentage ratios (as defined in the Listing Rules) and the total consideration is more than HK\$10,000,000, it constitutes a non-exempt connected transaction of the Company and is therefore subject to the reporting, announcement and the independent shareholders' approval requirements (to be taken by way of poll) under Rule 14A.63 of the Listing Rules.

According to the Listing Rules, a circular containing, amongst other things, further details of the Connected Transaction, the advice from the independent board committee and the advice from the independent financial adviser to the independent board committee and the independent shareholders of the Company and a notice for convening a special general meeting of the Company to approve the Connected Transaction will be dispatched to the shareholders of the Company within 21 days after the publication of this Announcement.

Each of the Directors is aware and understands that each has undertaken to the Stock Exchange that in exercising each of their powers and duties as a director, each of them would comply to the best of his or her ability (and to procure the Company to comply) with the Listing Rules. However, in view of the facts surrounding the Connection Transaction and in particular, the fact the Directors (other than the two Executive Directors involved in issuing the Guarantee, being Mr. Han and Mr. Shen) were not

aware of Jinxi Ltd. entering into the Guarantee, after discussion amongst the members of the Board, the Board considers that Mr. Han and Mr. Shen, as Executive Directors of the Company and also more importantly as the directors and in respect of Mr. Shen only, deputy general manager of Jinxi Ltd. are mainly accountable for this breach of the Listing Rules.

## **REASONS FOR PROVIDING FINANCIAL ASSISTANCE**

As Jin Xi Jin Lan's cashflow is tight due to the depletion of the working capital by the unaudited accumulated losses at the date of this Announcement (including audited accumulated losses of RMB51,613,393 as at 31 December 2005), financial assistance in the form of guarantee was granted by Jinxi Ltd.

The Directors have, on 9 April 2007, held a board meeting to ratify Jinxi Ltd.'s entry into the Guarantee. During the board meeting, the Directors considered (i) whether or not the directors consider the Connected Transaction to be on normal commercial terms; (ii) the views of the independent non-Executive Directors; and (iii) whether any Directors have a material interest in the Connected Transaction and have abstained from voting at this board meeting. At this board meeting, the Directors resolved that, taking into account the Guarantee Fee, they consider and believe that the terms of the Connected Transaction to be fair and reasonable, are on normal commercial terms and in the interest of the shareholders as a whole.

An independent financial adviser will be engaged to advise the independent board committee on the fairness and reasonableness of the term of the Connected Transaction (after taking into account of the guarantee fee) as soon as practicable and the independent financial adviser's opinion will be disclosed in the circular to the shareholders of the Company within 21 days after the publication of this Announcement. The independent financial adviser will advise the independent board committee as to whether the Connected Transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company (after taking into account of the Guarantee Fee) and its shareholders as a whole.

## **GENERAL**

In order to minimize the chance of breaching the Listing Rules by the Group in the future, the Company has adopted the following measures:

1. As preventive control, a letter has been issued by the Company to the general manager, deputy general manager and financial controller of subsidiaries of the Group to remind them to consult the financial controller and company secretary of the Company directly/indirectly for any possible transactions which may constitute notifiable transactions, connected transaction and/or other disclosures under the Listing Rules. In addition, they are urged to study the previous training materials of the Listing Rules again and to pay attention to the previous faxes/correspondence issued by the Company regarding compliance with the Listing Rules. Re-training of the Listing Rules will be given to the management who was involved in the granting of the existing guarantee so as to refresh their memory in due course.
2. In addition, the Board will, as soon as practicable and following further investigation and consideration of the Group's internal control needs, engage an appropriately experienced professional company to review and suggest ways to enhance the Group's overall internal control system. The Board has not yet appointed any professional company to review its internal control needs but it expects that such appointment will be made within two month after this Announcement.

3. As detection control, all subsidiaries of the Group are required to copy signed bank facilities agreement, guarantee agreement and asset pledge agreement to the Company for record unless waived by the Company.

Further steps or measures (if any) as the Board may decide upon will be disclosed in the circular to be dispatched to the shareholders of the Company within 21 days after the publication of this Announcement.

At the date of this Announcement, the executive Directors are Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Zhu Jun, Mr. Tang Chi Fai, Mr. Liu Lei and Mr. Shen Xiaoling. The independent non-executive Directors are Mr. Yu Tung Ho, Mr. Gao Qingju and Mr. Wong Man Chung, Francis.

## DEFINITIONS

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

“Accordpower”	Accordpower Investments Limited, a company incorporated in British Virgin Islands with limited liability and is wholly-owned by the Company. Its principal activity is investment holding in Jin Xi Jin Lan
“Announcement”	means this announcement
“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
“Connected Transaction”	The provision of the Guarantee by Jinxi Ltd. to its fellow subsidiary, Jin Xi Jin Lan
“Directors”	the directors of the Company
“Foshan Jin Lan”	佛山金蘭鋁廠有限公司 (Foshan Jin Lan Aluminium Co., Ltd.), a company incorporated in the PRC with limited liability. Its principal activities are sub-contracting, manufacturing and sale of aluminium and steel products
“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee dated April 2006 signed by Jinxi Ltd. to provide financial assistance in the form of a guarantee to its fellow subsidiary, Jin Xi Jin Lan
“Guarantee Fee”	RMB900,000 for the year ended 30 May 2007 (plus accrued interest), which is equivalent to 0.6% of the amount under the Guarantee
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Jinxi Ltd.”	河北津西鋼鐵股份有限公司 (Hebei Jinxi Iron and Steel Company Limited), a joint stock limited company incorporated in the PRC, which is an indirect non wholly-owned subsidiary of the Company. Its principal activity is the production and sales of iron and steel products. The Company indirectly holds 97.6% of the equity interest of Jinxi Ltd.
“Jin Xi Jin Lan”	Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. (佛山津西金蘭冷軋板有限公司), a sino-foreign equity joint venture established in the PRC. Accordpower and Foshan Jin Lan is interested in 60% and 40%, respectively, of the registered capital of Jin Xi Jin Lan. Jin Xi Jin Lan’s principal activity is the production and sale of cold rolled steel sheet and galvanized steel sheet
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Master Bank Facility”	The master bank facility dated 30 May 2006 for an amount of RMB150 million pursuant to which Jin Xi Jin Lan is the borrower
“Mr. Han”	Mr. Han Jingyuan, an Executive Director of the Company
“Mr. Shen”	Mr., Shen Xiaoling, an Executive Director of the Company
“Mr. Zhou”	Mr. Zhou Wei Jie, the director of Jin Xi Jin Lan and the controlling shareholder of Foshan Jin Lan
“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**  
**Han Jingyuan**  
*Chairman and Chief Executive Officer*

Hong Kong, 11 April 2007

\* *For identification purpose only*

Please also refer to the published version of this announcement in The Standard.