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Date: 12 December 2005

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CHINA ORIENTAL OFFERED USD18.5M SHAREHOLDER'S ADVANCES FOR THE DEVELOPMENT OF ITS COLD ROLLED SHEETS AND GALVANISED SHEETS OPERATIONS

The cold rolled sheets and galvanised sheets plant ("the Plant") of Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jin Xi Jin Lan"), a subsidiary in which China Oriental Group Company Limited ("China Oriental" or "the Group", stock code: 0581) owns a 60 per cent equity interest will commence commercial production shortly. The development signifies a milestone of the Group's expansion to the manufacture of downstream products. To fuel the development of Jin Xi Jin Lan's operation, China Oriental will offer shareholder's advances of USD18.5 million.

Located in Foshan of Guangdong, the Plant has commenced trial run in May this year. The plant's annual rated capacity of cold rolled sheets is between approximately 250,000 tonnes and 400,000 tonnes (depending on the specifications of the product produced) while that of galvanised sheets will be between approximately 150,000 tonnes and 180,000 tonnes (depending on the specifications of the product produced).

The investment in Jin Xi Jin Lan represented a major step of the Group's expansion to the downstream product market, which yields a higher gross profit margin. The inauguration of the Plant not only enhances the diversification of the Group's product lines, but also helps to widen the scope of revenue sources to include the downstream product market.

The total gross floor area of the Plant amounts to approximately 65,000 square metres. Jin Xi Jin Lan has been granted a banking facility of RMB150 million from a PRC-based financial institution, and China Oriental and Foshan Jin Lan Aluminium Co., Ltd. ("Foshan Jin Lan") will issue guarantees to secure the loan obligation of Jin Xi Jin Lan on a several basis and in proportion to their equity interests (i.e., 60 per cent and 40 per cent respectively) in Jin Xi Jin Lan. Accordingly, China Oriental will provide a guarantee with the liability of RMB90 million to the facility granting institution.

In addition, China Oriental will offer Jin Xi Jin Lan shareholder's advances of USD18.5 million, out of which approximately USD11.3 million will be non-interest bearing and the remaining approximately USD7.2 million interest bearing. The interest rate will be calculated with reference to the market rate of the PRC financial institution. China Oriental's shareholder's advances will be financed by the working capital and the listing proceeds of the Group.

In light of the severe competition in PRC's iron and steel industry, the Group will pursue its strategy of fine-tuning its product mix and emphasising the development of high value-added products. The Group's provision of financial assistance to Jin Xi Jin Lan was a reflection of its confidence in the future market potential for cold rolled sheets and galvanised sheets. The move will enable the Group to earn interest income, at a rate higher than that from bank deposit, from the interest bearing part of the shareholder's advances. The financial arrangement will not only enable Jin Xi Jin Lan to continue its business development but will also contribute to the broadening of the Group's earning sources in the future.

About China Oriental

Listed on 2 March 2004, China Oriental is one of PRC's largest suppliers of steel billets. The Group is also one of PRC's most efficient iron and steel producers. China Oriental's plant is located in one of the richest iron ores in Hebei Province with proximity to deep-water ports and railways. Such quality geographical location ensures the reliability and stability of access to raw materials as well as the supply and transportation of products. The Group's products are mainly sold in the PRC to downstream iron and steel manufacturers, who are all located in northern China and further process billets and strips into downstream steel products primarily used in the construction and machinery manufacturing industries. In addition, China Oriental is developing other high value-added products such as H-section steel, cold rolled sheets and galvanised sheets as a way to diversify the iron and steel product mix and achieve business integration.

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Issued by: China Oriental Group Company Limited
Through: CorporateLink Limited