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Date: 16 August 2007

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CHINA ORIENTAL'S SHAREHOLDERS ARE STRONGLY ADVISED TO REJECT THE "UNFAIR" SMART TRIUMPH OFFERS

China Oriental Group Company Limited ("China Oriental", or "the Company", Stock Code: 581) cited the voluntary conditional offer made by Smart Triumph Corporation (the "offeror") for all the shares of China Oriental (the "offer") was unfair. The board of China Oriental strongly advises its shareholders to reject the offer as there is no future with Smart Triumph.

According to China Oriental's response document dated today, Smart Triumph's share offer consideration of HK\$2.9 per share (based on valuation of the independent financial adviser of the independent board committee of China Oriental) failed to reflect the underlying value of the Company. The share offer consideration comprises HK\$2 in cash, with HK\$0.9 to be settled by exchangeable bonds, which are junk bonds involving significant risk to China Oriental shareholders as they are unrated, unlisted, illiquid, non-transferable, unsecured and are deeply subordinated.

Wellbeing Holdings Limited and Chingford Holdings Limited, which are majority controlled by Mr. Han Jingyuan, Chairman of China Oriental, and the directors (together with any concert parties acting with them) of the board of China Oriental (excluding Chen Ningning) together hold approximately 44.81 per cent of the issued share and 69.8 per cent of the outstanding share options of China Oriental, and have expressed their intention to reject the Smart Triumph offers. The response document noted there is little prospect of Smart Triumph offers becoming successful, as it would require the acceptance of 80 per cent of the independent shareholders.

According to Smart Triumph's offer document, the offeror and its controlling shareholder, Pioneer Iron and Steel Company Limited ("PGS") intended to inject Zhuhai Yueyufeng Co. Ltd ("YYF") into China Oriental. The board of China Oriental believes there may be significant risks and uncertainties involved in the offeror's injection plan, as the offer document does not provide any financial information on nor any information of other equity holders of YYF, and there is no information on the price China Oriental will have to pay for YYF, thus China Oriental shareholders may be worse off.

According to the offer document of Smart Triumph, YYF produces low margin billets, which is not inline with China Oriental's strategic plans. YYF is not a member of the China Iron and Steel Association (中國鋼鐵工業協會), and thus the board of China Oriental believes YYF is not a key player in China's iron and steel industry.

"Since 2003, China Oriental has significantly increased its steel production capacity by 29 per cent. It has also lifted its turnover by 85 per cent. China Oriental understands that in order to maintain its competitive edge, it must improve its product mix and enhance its production efficiency. Hence, in the past few years China Oriental has continued to expand its production scale and upgrade its product mix to emphasise on the production of higher margin H-section steel. In the iron and steel industry, it is not just the capacity, but more importantly the product mix that determines an enterprise's competitiveness. The Company has been focusing on enhancing its product quality, as well as quantity in the past years," said Mr Han Jingyuan, Chairman of China Oriental.

The response document of China Oriental pointed out neither the offeror nor Pioneer is a listed company. Therefore the board of China Oriental seriously doubts whether the offeror has sufficient experience or understanding of the Listing Rules, any rules of the stock exchanges or any other Hong Kong laws or regulations. Ms Chen Ningning personally rarely attended any China Oriental Board meetings. She had only personally attended two out of the 19 board meetings of China Oriental. Her poor attendance clearly indicated her lack of commitment to good corporate governance.

Based on the independent financial adviser of China Oriental opinion, China Oriental's independent board committee recommends the independent shareholders of the Company to reject the Smart Triumph offers.

According to Smart Triumph's offer document, Ms Chen will seek to exit her investment in China Oriental if the Smart Triumph offers fail. The board of China Oriental feels it is unfortunate and unfair that Ms Chen has resorted to holding shareholders at ransom by declaring her exit. The board strongly believes in China Oriental and its unique strategic position in the iron and steel manufacturing market in China, and has every confidence that upon Ms. Chen and Pioneer's exit there will be no difficulties in securing a long-term strategic partner whose interest align with that of China Oriental.

Hebei Jinxi Iron and Steel Company Limited Labour Union ("Jinxi Labour Union"), a body representing a large proportion of the employees of Hebei Jinxi Iron and Steel Company Limited ("Hebei Jinxi"), the major operating subsidiary of China Oriental has stated that they have no confidence in the offeror, Pioneer or Ms Chen in running the Company.

"The Smart Triumph offers are unsolicited and are not supported by China Oriental board of directors, not supported by the controlling shareholder of the Company, and also without the support of Jinxi Labour Union which represents a majority of the Company's employees," added Mr. Han Jingyuan

About China Oriental

Listed on 2 March 2004, the Group is one of China'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 China to downstream iron and steel manufacturers, who are all located in northern China and further process the Group's billets and strips into downstream steel products primarily used in the construction and machinery manufacturing industries. To

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diversify the iron and steel product mix and achieve business integration, China Oriental is also engaged in the production of other downstream products such as cold rolled sheets, galvanised sheets and H-section steel.

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Issued by: China Oriental Group Company Limited

Through: CorporateLink Limited