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CHINA ORIENTAL INTERIM TURNOVER DOUBLES TO OVER RMB4 BILLION DUE TO STRONG DEMAND FOR STEEL PRODUCTS IN THE PRC

China Oriental Group Company Limited (“COGCL” or the “Group”, stock code: 581) announced its unaudited consolidated turnover for the six months ended 30 June 2004 was approximately RMB4,094 million, representing an increase of approximately 101.2 per cent when compared with that of the same period of last year. The Group’s net profit attributable to shareholders during the period amounted to approximately RMB441 million (2003 same period: RMB590 million) and basic earnings per share were approximately RMB0.17 (2003 same period: RMB 0.28).

COGCL’s board of directors resolved to declare an interim dividend of 3 HK cents for the year 2004.

“The first half of 2004 had been a challenging period for those engaged in the steel industry in the PRC. The sharp fluctuations in the market price of steel products and raw materials as well as the austerity macroeconomic measures have affected our profit margin. Having said that, our timely capturing of the strong demand for steel products enabled us to double our turnover and mitigate the adverse impact from the severe conditions during the period under review,” said Mr Han Jingyuan, Chairman and Chief Executive Officer of COGCL.

During the period, the average selling price of billets (excluding VAT) of the Group amounted to RMB2,578 per tonne and that of strips (excluding VAT) amounted to RMB2,672 per tonne, representing increases of 35.8 per cent and 25.8 per cent respectively when compared with those of the same period of last year. With respect to cost of sales, the average costs of sales of billets and strips were RMB2,271 per tonne and RMB2,360 per tonne respectively, representing increases of 73.8 per cent and 66.7 per cent respectively when compared with those of last year.

Due to the fact that the upsurge in the cost of sales was greater than that of the selling price, there had been an adjustment in the gross profit of products. In the first half of 2004, the gross profits of the Group’s billets and strips reduced to RMB307 per tonne and RMB312 per tonne respectively.

Despite the implementation of austerity macroeconomic measures in the PRC during the first

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half of 2004, local demand for steel products continued to rise. During the period under review, the Group sold 1,153,000 tonnes and 417,000 tonnes of billets and strips respectively, representing increases of 66.4 per cent and 25.2 per cent from those of the same period last year.

“In the first half of the year, the price of raw materials increased significantly due to strong demand in Mainland China. The State’s introduction of measures to regulate the steel industry will help curb excessive investment in the industry and lead to healthy market development. In the long run, these measures will help stabilise the prices of raw materials and steel products. We will strive to enhance profitability through fine-tuning our product mix and tightening our cost control,” added Mr Han.

In addition, the Group announced at the end of August this year, a RMB1.3 billion investment for the construction of a large-scale H-section steel production line with an annual production capacity of approximately 1 million tonnes. H-section steel is expected to have higher profit margin and face less market competition. Through the introduction of high value-added products, the Group intends to upgrade its product portfolio.

About COGCL

China Oriental Group Company Limited is one of the PRC’s largest suppliers of steel billets. Listed on the Stock Exchange of Hong Kong Limited on 2 March 2004, the Group is principally engaged in the manufacture and sale of billets and strips. The Group is one of the PRC’s most efficient steel producers. Strategically located in one of Hebei Province’s richest iron ore mining areas, the Group enjoys easy and reliable access to raw materials and proximity to railways and ports. The Group’s products are mainly sold domestically, with its major customers based in Northern China. Customers of the Group are downstream steel manufacturers who further process billets and strips into downstream steel products, which are used mainly in the construction industry and for the manufacture of machinery.

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(Attached the COGCL’s Unaudited Consolidated Profit and Loss Account for the six months ended 30 June 2004)

China Oriental Group Company Limited
(Stock Code: 581)

Unaudited Consolidated Profit and Loss Account
For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 RMB '000	2003 RMB '000
TURNOVER	4,093,974	2,034,629
Cost of sales	<u>(3,608,542)</u>	<u>(1,381,813)</u>
Gross profit	485,432	652,816
Other revenues	26,430	12,824
Selling and administrative expenses	(57,962)	(23,740)
Other operating expenses	<u>(7,274)</u>	<u>(6,733)</u>
OPERATING PROFIT	446,626	635,167
Finance costs	(32,211)	(9,290)
Share of profit of associated company	<u>5,805</u>	<u>1,128</u>
PROFIT BEFORE TAXATION	420,220	627,005
Taxation	<u>31,770</u>	<u>(22,846)</u>
PROFIT AFTER TAXATION	451,990	604,159
Minority interests	<u>(10,728)</u>	<u>(14,425)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>441,262</u>	<u>589,734</u>
Basic earnings per share	<u>RMB 0.17</u>	<u>RMB 0.28</u>
Diluted earnings per share	<u>N/A</u>	<u>N/A</u>