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### **CHINA ORIENTAL 2004 ANNUAL TURNOVER SURGED 73% TO OVER RMB9.1 BILLION**

China Oriental Group Company Limited ("COGCL" or the "Group", stock code: 581) announced that its audited consolidated turnover for the year ended 31 December 2004 was approximately RMB9,119 million, representing a significant increase of approximately 72.8 per cent when compared with that of the previous year. The Group's net profit attributable to shareholders during the year amounted to RMB1,177 million, representing an increase of 9.4 per cent from that of the previous year. Basic earnings per share were approximately RMB0.42 (2003: RMB 0.51).

COGCL's board of directors recommended a final dividend of HK\$0.046 per share for the financial year ended 2004. Together with an interim dividend of HK\$0.03 per share, the total dividend for the year will amount to HK\$0.076 per share.

"In 2004, the Group faced with various challenges including intensified macroeconomic austerity measures, increase in cost as a result of rising prices of raw materials for steel, and growing market competition. Yet, the Group's annual results for 2004 sustained healthy growth owing to the Group's efforts in improving its product mix and expanding production, as well as rebound in the steel market," said Mr Han Jingyuan, Chairman and Chief Executive Officer of COGCL.

During the year, the average cost of sales per tonne of the Group's billets and strips increased approximately 40 per cent respectively due to increases in the prices of iron powder and coke, which in turn led to a decrease in the overall gross profit margin. Yet, the overall gross profit of the Group increased by 6.4 per cent to RMB1,310 million as a result of substantial rise in sales volume and increases of over 20 per cent in the average selling price per tonne of billets and strips (excluding value-added tax) respectively. During the year, the Group sold approximately 2,006,000 tonnes of billets and 1,379,000 tonnes of strips, representing increases of 17 per cent and 95 per cent from those of previous year respectively.

In addition, the commission of the Group's mid-width strip rolling line, with an annual capacity of 1 million tonnes, led to a greater proportion of strips sold by the Group. The annual production capacity of billets of the Group increased from 3.1 million tonnes in 2003 to 3.5 million tonnes. With the expanded production capacity and continuous improvement in the product mix, the Group achieved greater economies of scale. During 2004, the Group also completed the coal powder blowing technique and energy recycling for power generation projects, which enabled the Group to increase its production efficiency and lower production cost.

At the end of August 2004, the Group announced its investment in the construction of a new, large-scale H-section steel rolling line with an annual production capacity of approximately 1 million tonnes. The H-section line is expected to commence production in the second quarter of 2006. The Group also announced investment in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. at the end

of December 2004 for the production of cold rolled sheets and galvanized sheets. The project with an annual production capacity of 400,000 tonnes of cold rolled sheets and 180,000 tonnes of galvanized sheets is expected to commence production in April 2005.

“Looking ahead, the overall steel market in 2005 is expected to be affected by certain factors including the continued increase in the production capacity of the steel industry, macroeconomic austerity policy and changes in the interest rate in the PRC. However, the continuous economic growth in the PRC will mitigate, to a certain extent, the adverse impact of the above-mentioned factors,” said Mr Han.

On the front of principal raw materials, as the proportion of imported iron ore used by the Group was approximately 15 per cent to 20 per cent, the impact of rising international iron ore price on the Group will be limited. It is estimated that the supply of coke, the other principal raw material used by the Group, will be greater than demand, and therefore the price of coke is expected to basically remain at similar levels as 2004 or sustain a slight increase.

“In view of growing competition in the steel industry, the Group will continue to optimise its product mix and put more efforts in new product development. In terms of capacity, strips will account for 51 per cent of the total steel production volume in 2005. In addition, the commission of the cold rolled steel sheet project in April 2005 is expected to generate returns to the Group,” added Mr Han.

### **About COGCL**

Listed on 2 March 2004, COGCL is one of the China’s largest suppliers of steel billets. The Group is also one of China’s most efficient steel producers, backed by its strategic location in one of Hebei Province’s richest iron ore mining areas and the plant’s proximity to railways and ports, which ensure easy and reliable access to raw materials. The Group’s products are mainly sold domestically, and major customers are based in Northern China. Customers are downstream steel manufacturers that further process billets and strips into downstream steel products, which are used mainly in the construction industry and for the manufacturing of machinery. In addition, with the aim to broaden its product range to achieve vertical integration, the Group announced at the end of August an investment in the construction of a large-scale H-section steel rolling line with an annual production capacity of approximately 1 million tonnes, and announced in December 2004 an investment in a joint venture company located in Foshan to expand its business scope to the production of cold rolled steel sheets and galvanized steel sheets.

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**(Attached the COGCL’s Audited Consolidated Profit and Loss Account for the year ended 31 December 2004)**

**China Oriental Group Company Limited**  
(Stock Code: 581)

**Audited Consolidated Profit and Loss Account**  
**For the year ended 31 December 2004**

	2004	2003
	RMB '000	RMB '000
TURNOVER	9,118,875	5,277,874
Cost of sales	<u>(7,808,104)</u>	<u>(4,046,082)</u>
Gross profit	1,310,771	1,231,792
Other revenues	73,267	23,860
Selling and administrative expenses	(124,318)	(78,498)
Other operating expenses	<u>(30,926)</u>	<u>(10,364)</u>
OPERATING PROFIT	1,228,794	1,166,790
Finance costs	(64,270)	(30,796)
Share of profit of associated company	<u>10,313</u>	<u>6,672</u>
PROFIT BEFORE TAXATION	1,174,837	1,142,666
Taxation	<u>30,283</u>	<u>(40,018)</u>
PROFIT AFTER TAXATION	1,205,120	1,102,648
Minority interests	<u>(28,512)</u>	<u>(26,358)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u><u>1,176,608</u></u>	<u><u>1,076,290</u></u>
Basic earnings per share	<u><u>RMB 0.42</u></u>	<u><u>RMB0.51</u></u>