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Date: 30 March 2006
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CHINA ORIENTAL 2005 ANNUAL NET PROFIT REACHED RMB850 MILLION REFINED PRODUCT MIX TO COUNTERACT DECLINE IN PRICE

China Oriental Group Company Limited (“COGCL” or the “Group”, stock code: 581) announced that its audited consolidated sales for the year ended 31 December 2005 was approximately RMB9,183 million, representing an increase of 0.7 per cent when compared with that of the previous year. The Group’s profit attributable to equity holders for the year amounted to RMB847 million (2004: approximately RMB1,181 million). Basic earnings per share were approximately RMB0.29 (2004: RMB 0.43).

COGCL’s board of directors recommended a final dividend of HK\$0.045 per share for the financial year ended 2005 (2004 full year: HK\$0.076).

Under the year under review, China Oriental strove to enhance its profitability through fine-tuning its product mix. During the year, the sales volume and sales revenue from strips and strip-related products with relatively higher profit margin accounted for more than 50 per cent of the Group’s total sales volume and total sales. In addition, the cold rolled sheets plant invested by the Group in Foshan, Guangdong Province commenced production during the year under review. The newly established H-section steel rolling line is expected to commence production in the middle of 2006. It is expected that the profitability of China Oriental will be further enhanced in the following financial year when these new products with high profit margin are launched to the market.

“The adjustment in the Group’s results for the year was mainly due to the change in the overall iron and steel market in China. On the one hand, certain austerity measures including the abolition of export tax rebates on billets and measures focusing on the regulation of an overheating real estate industry were implemented in April and May 2005. On the other hand, there were excessive production capacities in the overall iron and steel market. As a result, the market price of iron and steel had declined substantially since May. In the face of the market conditions, the Group continued to optimise its sales mix and strove to increase the sales volume of high value-added strips and strip-related products. All these efforts achieved satisfactory results, and enabled the Group to effectively mitigate the adverse impact of the market conditions,” said Mr Han Jingyuan, Chairman and Chief Executive Officer of COGCL.

In 2005, China Oriental made significant achievement in optimising its product mix. The Group sold approximately 1,458,000 tonnes of billets and approximately 1,848,000 tonnes of strips and strip-related products. The sales of billets and strips and strip-related products amounted to RMB3,632 million and RMB5,389 million respectively. The sales volume from strips and strip-related products accounted for 55.3 per cent of total sales volume, and the sales revenue from strips and strip-related products accounted for 58.7 per cent of total sales, representing increases of 14.6 percentage points and 16.2 percentage points respectively when compared with those in 2004.

In 2005, the Group's average selling prices of billets and strips and strip-related products (excluding value-added tax) were RMB2,491 per tonne and RMB2,917 per tonne respectively, representing a decrease of 4.2 per cent and an increase of 3.9 per cent when compared with those in 2004.

In 2005, gross profits of billets and strips and strip-related products were RMB228 per tonne and RMB481 per tonne respectively, representing a decrease of approximately 30.7 per cent and an increase of approximately 3 per cent when compared with those in 2004.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jin Xi Jin Lan"), 60 per cent equity interests of which are held by China Oriental, is principally engaged in the manufacturing of cold rolled sheets and galvanized sheets. Trial production commenced in May 2005. It sold 31,000 tonnes of cold rolled sheets for the full year and realised a sales revenue of RMB117 million. The annual production capacity of cold rolled sheets was approximately 250,000 tonnes to 400,000 tonnes (depends on the product specification of the product produced), while that of galvanized sheets was approximately 150,000 tonnes to 180,000 tonnes (depends on the product specification of the product produced). During 2005, Jin Xi Jin Lan's production and market expansion was in the initial development stage, and therefore its contribution to the Group's sales in 2005 was not significant. The Group believes that its economic benefits can be reflected in the Group's future results when the production operation of Jin Xi Jin Lan reaches maturity.

In addition, the Group announced the investment in the new, large-scale H-section steel rolling line with an annual production capacity of approximately 1 million tonnes at the end of August 2004. The production line is expected to commence operation in June 2006. The Group also plans to establish an additional strip production line of 500,000 tonnes in 2006.

With regard to raw material, the supply and demand of domestic iron powder and coke remains basically balanced and their prices are expected to experience minor adjustments only. There is a rising trend for the prices of imported iron powder.

"Looking ahead, the Chinese economy's continuous development, consolidation of the iron and steel industry, and the Chinese government policy to eliminate obsolete production capacities in the iron and steel industry will facilitate continuous healthy development of the iron and steel industry in China. In 2006, oversupply will continue in the overall iron and steel market. However, since the prices of steel products have dropped substantially in the second half of 2005 and based on the expectation of a continued stable development of the Chinese economy, it is expected that the prices of steel products will not experience drastic fluctuations. With profit contribution from high value-added products such as H-section steel, cold rolled sheets and galvanized sheets to the Group in 2006, the Group believes it could generate higher returns for its shareholders," said Mr Han.

About COGCL

Listed on 2 March 2004, COGCL is one of 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

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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 2004 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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Issued by: China Oriental Group Company Limited
Through: CorporateLink Limited

(Attached the COGCL's Audited Consolidated Income Statement for the year ended 31 December 2005)

China Oriental Group Company Limited
(Stock Code: 581)

Audited Consolidated Income Statement
For the year ended 31 December 2005

	Year ended 31 December (RMB '000)	
	2005	2004 Restated
Sales	9,182,693	9,118,875
Cost of goods sold	<u>(7,958,870)</u>	<u>(7,808,104)</u>
Gross profit	1,223,823	1,310,771
Other gains – net	15,871	46,739
Selling and marketing costs	<u>(6,954)</u>	<u>(7,373)</u>
Administrative expenses	<u>(152,036)</u>	<u>(116,945)</u>
Operating profit	1,080,704	1,233,192
Finance costs	<u>(74,189)</u>	<u>(64,270)</u>
Share of (losses)/ profit of an associate	<u>(2,319)</u>	<u>6,910</u>
Profit before income tax	1,004,196	1,175,832
Income tax expense	<u>(157,081)</u>	<u>33,686</u>
Profit for the year	<u>847,115</u>	<u>1,209,518</u>
Attributable to:		
Equity holders of the Company	846,585	1,181,006
Minority interests	<u>530</u>	<u>28,512</u>
	<u>847,115</u>	<u>1,209,518</u>
Earnings per share for profit attributable to the equity holders of the Company during the year		
- basic	<u>RMB 0.29</u>	<u>RMB 0.43</u>
- diluted	<u>Not applicable</u>	<u>Not applicable</u>