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CHINA ORIENTAL'S FIRST HALF NET PROFIT LEAPS 7 TIMES FROM THE FULL YEAR OF 2008 TO RMB358 MILLION

China Oriental Group Company Limited ("China Oriental" or the "Group", stock code: 581) saw a turnaround in its results for the first half of 2009 as compared to that of the second half of last year, with net profit leaping by 714 per cent from that of the full year of 2008 to RMB358 million. The upsurge in net profit was mainly attributable to the rebound in steel price since April 2009 and the Group's effective cost control measures, which led to an improvement in gross margin when compared with that of the whole of last year.

The Group's gross margin recovered substantially from that of the second half of 2008 to approximately 8 per cent during the period under review. Entering the second quarter, the market situation improved and demand for the Group's various products increased steadily. The Group's capacity utilization rate in the second quarter reached 100 per cent, while the overall sales volume in the first half of 2009 increased by approximately 26 per cent as compared with the corresponding period last year to 3.19 million tonnes. However, as the steel prices during the same period last year were at a record high, the revenue dropped by 21 per cent from that of the same period last year to RMB9.17 billion.

China Oriental's board of directors did not recommend an interim dividend for the six months ended 30 June 2009 (same period 2008: 6.5 HK cents per share).

Commenting on the Company's satisfactory results, Mr Han Jingyuan, Chairman and Chief Executive Officer of China Oriental said, "In response to significant decline in product prices and high costs of raw material, which was purchased at a relatively high price in previous periods, the Group had adopted a series of decisive cost-reduction measures to enhance profitability. To overcome the severe market challenges, the Group introduced at the end of last year a stringent cost control mechanism, including control of construction investment and production through strengthening audit of individual projects, as well as the costs of capital and procurement. In addition, during the period under review, the Group rationalised its corporate structure and downsized workforce so as to meet the target of 10 per cent reduction in staff. The above-mentioned measures effectively enhanced the operation efficiency, which contributed to the Group's return to black."

In the first half of 2009, the Group sold approximately 1,261,000 tonnes of strips and strip products and 743,000 tonnes of billets. Sales volume of billets, with a higher gross margin, increased by 61.5 per cent when compared with that of the same period last year, while the sales volume of strips and strip products remained at the same level as the corresponding period of last year. Sales revenue from strips and strip products and billets amounted to RMB3,593 million and RMB1,950 million respectively, and accounting for approximately 39.2 per cent and 21.3 per cent of the total sales revenue respectively..

In the first half of 2009, the Group's production capacity of H-section steel reached 2.5 million tonnes, making the Group the largest section steel production centre in China. For the six

months ended 30 June 2009, the Group sold 1,103,000 tonnes of H-section steel, with a sales revenue of RMB3,281 million, representing increases of 65.1 per cent and 1.2 per cent when compared with that of the same period last year, and accounting for 34.5 per cent and 35.8 per cent of its total sales volume and total sales revenue respectively.

In the first half of 2009, the sales volume and sales revenue of cold rolled sheets and galvanised sheets decreased by 31.0 per cent and 52.4 per cent, respectively, to 87,000 tonnes and RMB344 million, respectively, when compared with those of the same period last year. Cold rolled sheets and galvanised sheets accounted for 2.7 per cent and 3.7 per cent of the Group's total sales volume and total sales revenue respectively.

The average selling price (excluding value-added tax) of billets, strips and strip products, H-section steel, cold rolled sheets and galvanised sheets for the first half of 2009 was RMB2,624 per tonne, RMB2,850 per tonne, RMB2,974 per tonne and RMB3,952 per tonne, respectively. Benefiting from the Group's cost control measures and decline in the price of coke, which is used as fuel for production, the gross profit of billets, strips and strip products, H-section steel, cold rolled sheets and galvanised sheets increased from those of 2008 to RMB317 per tonne, RMB308 per tonne, RMB129 per tonne and RMB-173 per tonne.

The subsidiary of the Group, Tangshan Fengrun Qu Zhengda Iron and Steel Company Limited ("Zhengda Iron and Steel"), successfully completed the acquisition of a portion of plants, equipments and factory of Tangshan Fengrun Qu Hengfeng Iron and Steel Company Limited ("Hengfeng Iron and Steel") to produce steel products and leased the remaining portion of the production facilities. As the annual production capacity of all plants and equipments is approximately 1,000,000 tonnes, thus increasing the Group's overall capacity to 7,000,000 tonnes. The major products of Zhengda are billets. This year, after the recovery of the market, the demand for crude steel from the rolled iron factories neighbouring Zhengda Iron and Steel has been robust. The facilities therefore achieved satisfactory sales. The production line had started to provide profit contribution to the Group for the first half of 2009.

Driven by the central government's active economic stimulus policy, the downstream sectors of the iron and steel industry have recovered earlier and quicker than expected. Increase in construction in progress in the real estate industry and the successive commencement of large infrastructure projects will spur demand for iron and steel to further growth. Owing to these factors, the Group are optimistic about the prospects of iron and steel industry for the second half of the year.

In the face of a changing market environment, the Group will maintain a prudent operational strategy and stringent cost control policy. With respect to product mix, the Group will leverage the opportunities arising from the recovery of the construction and manufacturing industries to increase the sales proportion of billets with higher gross margin.

The Group's second largest shareholder, ArcelorMittal, is the world's largest steel corporation. Last year, ArcelorMittal appointed certain senior management executives to the Board of the Company, to actively participate in decision making in the Group's operations. The Group is currently exploring the possibilities of business cooperation with ArcelorMittal in China.

"The Group will continue to implement the vertical integration and operation efficiency

enhancement strategies. In the near future, the Group will continue to work on further vertical integration to enhance its operational efficiency. The Group will actively look for suitable projects for merger and acquisition, which is in line with China's policy on consolidating the industry and to increase its annual capacity to 10 million tonnes in 2010. Meanwhile, the Group continues to explore the development of high value added downstream products, such as sheet piles, rails and special sections, in order to further achieve its goal of being the largest section steel centre in the PRC," Mr Han remarked.

About China Oriental

Listed on the main board of The Stock Exchange of Hong Kong Limited on 2 March 2004, the Company is one of the PRC's most efficient iron and steel producers. ArcelorMittal, the world's largest steel giant, became the strategic partner and substantial shareholder of the Company in 2007. 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. In addition, China Oriental also produces downstream products including H-section steel, which has a leading position in the industry, and other downstream products such as cold rolled sheets and galvanised sheets. China Oriental is an integrated iron and steel conglomerate.

The Group's stable development had been recognised by, and supported by the markets at home and abroad. The Group stood out from over 600 privately-owned listed enterprises and ranked 10th of the "100 privately-owned listed companies in 2007" and ranked 34th in "Forbes 2007 Top Chinese enterprises".

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(Attached China Oriental's unaudited condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2009)

China Oriental Group Company Limited
 (Stock Code: 581)

Condensed Consolidated Interim Statement Of Comprehensive Income
For the Six Months Ended 30 June 2009

	Unaudited	
	For the six months ended 30 June	
	2009	2008
	(RMB '000)	(RMB '000)
Revenue	9,174,977	11,649,520
Cost of goods sold	<u>(8,420,775)</u>	<u>(10,298,601)</u>
Gross profit	754,202	1,350,919
Other income	21,780	6,553
Distribution costs	(17,661)	(44,231)
Administrative expenses	(130,954)	(120,980)
Other expenses	(9,716)	(5,391)
Other losses – net	<u>(20,548)</u>	<u>(6,431)</u>
Operating profit	597,103	1,180,439
Finance income	17,349	7,594
Finance costs	(72,411)	(17,588)
Share of (loss)/profit of an associate	<u>(2,207)</u>	<u>818</u>
Profit before income tax	539,834	1,171,263
Income tax expense	<u>(145,463)</u>	<u>(305,008)</u>
Profit for the period	<u>394,371</u>	<u>866,255</u>
Other comprehensive income	-	-
Total comprehensive income for the period	<u>394,371</u>	<u>866,255</u>
Profit for the period attributable to:		
- equity holders of the Company	358,231	835,440
- minority interest	<u>36,140</u>	<u>30,815</u>
	<u>394,371</u>	<u>866,255</u>
Total comprehensive income attributable to:		
- equity holders of the Company	358,231	835,440
- minority interest	<u>36,140</u>	<u>30,815</u>
	<u>394,371</u>	<u>866,255</u>
Earnings per share for profit attributable to equity holders of the Company during the period (express in RMB per share)		
- basic	<u>0.12</u>	<u>0.29</u>
- diluted	<u>0.12</u>	<u>0.29</u>
Dividends	<u>-</u>	<u>167,088</u>