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Date: 6 April 2009

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### **CHINA ORIENTAL'S REVENUE ROSE BY 44% TO RMB19.4 BILLION WITH A NET PROFIT OF RMB44 MILLION**

China Oriental Group Company Limited ("China Oriental" or the "Group", stock code: 581) today announced its audited results for the year ended 31 December 2008. Despite the global economic downturn, the Group's revenue for 2008 surged by 44 per cent to RMB19.4 billion when compared with that of 2007 (2007:RMB13.5 billion). However, profit attributable to equity holders of the Company during the year was adjusted to RMB44 million (2007: RMB1.16 billion), mainly due to the relatively high prices of raw material purchased during the previous periods. Basic earnings per share were RMB0.02 (2007: RMB0.4).

The board of directors did not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: 6.2 HK cents per share).

The growth in revenue was mainly due to the relative large increase in total sales volume from approximately 4.1 million tonnes in the year of 2007 to 4.5 million tonnes in the year of 2008. Besides, the increase in average selling price by 31% from RMB3,265 per tonnes in 2007 to RMB4,273 per tonnes in 2008 also attributed to the growth in revenue. However, the production costs had been pushed up by raw material purchased before the Olympic Games at higher prices and consumed for production and sales in the second half of 2008. Moreover, the sales volume of strips and strip-related products, which offered a higher gross profit, had been decreased by 16 per cent when compared with that of the previous year, while the sales volume of billets, with a relatively lower margin, was 2.4 times higher than that of 2007. As a result, the Group's gross profit for the year decreased to RMB517 million from RMB1,917 million in 2007.

To mitigate the impact on its net profit, the Group adopted various cost-reduction measures, and managed to reduce its administrative expenses by RMB91.51 million. However, considerable retreat in gross profit and rise in other operating expenses, which was in line with the increased sales volume, led to a drop in profit attributable to equity holders of the Company to RMB44 million for 2008.

"In the face of a severe operating environment, China Oriental had achieved proactive response. However, it takes time for the results of the various measures to be fully reflected. The effect of the series of cost-reduction measures taken by the Group in the second half of 2008 is expected to fully realise in 2009, which will help the Group to maintain its competitive advantage and to continue to consolidate its market position amid a relatively volatile market environment," said Mr Han Jingyuan, Chairman and Chief Executive Officer of China Oriental.

In 2008, the Group sold approximately 2,061,000 tonnes of strips and strip-related products and 1,007,000 tonnes of billets. Sales revenue from strips and strip-related products and billets amounted to RMB8,574 million and RMB3,919 million respectively, representing increases of 15.2 per cent and 3.4 times when compared with those of the previous year respectively, and accounting for approximately 44.22 per cent and 20.2 per cent of the total sales revenue respectively.

With the full commencement of the operation of the new H-section steel production facilities, the production capacity of H-section steel reached 2.20 million tonnes, further consolidating the Group as one of the largest H-section steel production centres in China. For the year ended 31 December 2008, the Group sold 1,225,000 tonnes of H-section steel, with a sales revenue of approximately RMB5,562 million, representing increases of 1.7 per cent and 29.4 per cent when compared with that of the previous year respectively, and accounting for 27.02 per cent and 28.69 per cent of its total sales volume and total sales revenue respectively.

The total sales volume and sales revenue of cold rolled sheets and galvanised sheets for 2008 rose by 39 per cent and 57 per cent to 241,000 tonnes and RMB1,319 million when compared with those of 2007 respectively. Cold rolled sheets and galvanised sheets accounted for 5.3 per cent and 6.8 per cent of the Group's total sales volume and sales revenue respectively.

The average selling price (excluding value-added tax) of billets, strips and strip-related products, H-section steel, cold rolled sheets and galvanised sheets for year 2008 was RMB3,891 per tonne, RMB4,159 per tonne, RMB4,538 per tonne and RMB5,489 per tonne respectively, representing increases of 30 per cent, 37 per cent, 27 per cent and 13 per cent respectively. However, due to substantial increase in average unit cost, the gross profit of billets, strips and strip-related products, H-section steel, cold rolled sheets and galvanised sheets dropped to -RMB10 per tonne, RMB99 per tonne, RMB252 per tonne and RMB49 per tonne.

During the year, ArcelorMittal became the Company's second largest shareholder and began collaboration with the Group. At the beginning of the year, the Group and ArcelorMittal entered into a technology transfer agreement regarding the introduction of steel sheet pile production technology and the continued upgrading of H-section steel technology. In addition, the Group has also entered into an iron ore and coke long-term supply agreement with ArcelorMittal. Implementation of the agreements began during the year. Under the iron ore and coke long-term supply agreement, the Group can ensure reliable supply of raw material for production, and effectively lower the risk of fluctuations in the price of raw material.

On 30 December 2008, the Group announced to appoint Mr Muktesh Mukherjee, who is the senior management of ArcelorMittal, as the Company's executive director, and two other senior management staff of ArcelorMittal as the Company's non-executive directors. The three newly appointed directors possess expertise and extensive experience in the

development of steel business worldwide, which will facilitate cultivation and development of the Company's steel business at home and abroad.

"ArcelorMittal, as the world's largest steel company, will support the Group through providing raw material and technology. Moreover, it has also appointed staff to participate in the Group's management and decision making, in order to help the Group to move closer towards reaching the international levels of production efficiency and management quality. ArcelorMittal has the world's cutting edge technology of H-section steel, and the Group is leading the China's H-section steel market in terms of production scale. The cooperation between the two companies will be advantageous for the Group to consolidate its leadership in China's H-section steel market, while providing a solid foundation for the Group's future expansion in overseas markets," said Mr Han.

The Group successfully increased its shareholding in Foshan Jinxi Jinlan Cold Rolled Sheet Co., Ltd ("Jinxi Jinlan") to 81.5 per cent at the beginning of 2008 and made a further capital injection to Jinxi Jinlan, which provided sufficient financial resources to Jinxi Jinlan for its business development, while strengthening the Group's management control over Jinxi Jinlan. In response to market changes, Jinxi Jinlan adjusted its production facilities during the year, modifying one of the production lines to produce extremely thin steel plate, which is supplied to high-end electronic consumer products manufacturers and thus has a higher competitive edge in the market.

In the second half of 2008, the global financial crisis deepened. Pursuant to prudent financial management and strengthened risk management, the Group had postponed the plan for the development of the coking plant, which was proposed in the first half of the year. Moreover, the Group had also terminated the acquisition of the 71 per cent equity interest (including 71% of the shareholders' loan owed by) in Tangshan Baotai Iron and Steel Group Xinyi Iron and Steel Company Limited (now known as Tangshan Fengrun Hengfeng Iron and Steel Company Limited) ("Hengfeng Iron and Steel"), and entered into an assets acquisition agreement with Hengfeng Iron and Steel in March 2009, to acquire assets including a 650 mm hot strip rolling line with annual rolling capacity of 1,000,000 tonnes for an aggregate amount of approximately of RMB396 million.

"The Group expected that in the first half of 2009, the demand for steel will remain weak and steel prices will be at low levels. However, coke and coal prices dropped in the first quarter, which will ease the pressure on production cost. The positive effects will gradually be realised in 2009. In the face of market challenges, the Group will prudently carry out its operations, lower costs and control capital expenditure, while maintaining sufficient cash flow. At the same time, the Group will continue to enhance its competitiveness. By seizing the opportunities arising from market consolidation, the Group will solidify its market leadership," Mr Han added.

### About China Oriental

Listed on the main board of the Hong Kong Stock Exchange 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 the 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 recognized 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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Issued by: China Oriental Group Company Limited  
Through: CorporateLink Limited

**(Attached China Oriental's audited consolidated income statement for the year ended 31 December 2008)**

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

**Audited Consolidated Income Statement**  
**For the Year Ended 31 December 2008**

	<b>Audited</b>	
	<b>For the year ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>(RMB '000)</b>	<b>(RMB '000)</b>
Revenue	<b>19,388,183</b>	13,498,555
Cost of sales	<b>(18,870,988)</b>	(11,581,115)
<b>Gross profit</b>	<b>517,195</b>	1,917,440
Other income	<b>35,639</b>	2,116
Distribution costs	<b>(80,319)</b>	(46,689)
Administrative expenses	<b>(281,942)</b>	(373,452)
Other expenses	<b>(10,228)</b>	(5,324)
Other (losses)/gains - net	<b>(1,364)</b>	12,730
<b>Operating profit</b>	<b>178,981</b>	1,506,821
Finance income	<b>24,249</b>	12,118
Finance costs	<b>(91,627)</b>	(68,810)
Finance costs - net	<b>(67,378)</b>	(56,692)
Share of profit of an associate	<b>1,998</b>	225
<b>Profit before income tax</b>	<b>113,601</b>	1,450,354
Income tax expense	<b>(70,643)</b>	(256,617)
<b>Profit for the year</b>	<b>42,958</b>	1,193,737
<b>Attributable to:</b>		
Equity holders of the Company	<b>44,032</b>	1,159,657
Minority interest	<b>(1,074)</b>	34,080
	<b>42,958</b>	1,193,737
<b>Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)</b>		
-basic	<b>RMB0.02</b>	RMB0.40
-diluted	<b>RMB0.02</b>	RMB0.40
<b>Dividends</b>	<b>167,088</b>	319,225