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CHINA ORIENTAL'S 2006 INTERIM NET PROFIT REACHED RMB580 MILLION SURGED BY 1.6 TIMES FROM THAT OF SECOND HALF OF 2005

China Oriental Group Company Limited ("COGCL" or the "Group", stock code: 0581) today announced its unaudited consolidated interim results for the six months ended 30 June 2006. Sales of the Group during the period amounted to RMB4,774 million (corresponding period of 2005: RMB4,726 million). Profit attributable to equity holders of the Group and basic earnings per share amounted to RMB585 million and RMB0.20 respectively (corresponding period of 2005: RMB624 million and RMB0.21 respectively).

COGCL's board of directors resolved to declare an interim dividend of 1 HK cents for the year 2006. (corresponding period of 2005: Nil).

Although the general market was affected by intensified macroeconomic austerity measures and oversupply of goods, the Group's increased sales volume and reduction in the purchasing price of coke and iron powder, when compared with the second half of 2005, resulted in significant results improvement, with sales and profit attributable to equity holders of the Group surging by 7.1 per cent and 1.6 times respectively. The average gross profit per tonne of various products improved, including billets, strips and mid-width strips, which surged by 1.5 times, 41.5 per cent and 94 per cent respectively when compared to the second half of 2005.

During the period under review, the average price (excluding value-added tax) of the Group's strips and strip-related products was RMB2,552 per tonne, representing a decrease of 21.2 per cent from that of the same period last year, while that of billets (excluding value-added tax) declined by 13.3 per cent to RMB2,331 per tonne. Owing to the fall in the purchasing price of iron powder and coke, the Group was able to lower its average cost of sales for strips and strip-related products and billets to RMB2,068 per tonne and RMB1,957 per tonne respectively, representing decreases of 19.2 per cent and 17.5 per cent respectively when compared to the corresponding period of 2005. In the first half of 2006, gross profit of strips and strip-related products and billets of the Group were RMB484 per tonne and RMB374 per tonne respectively.

Despite decline in the selling price of the products, China Oriental's increased sales volume and lowered average cost of sales enabled it to realise a gross profit of RMB797 million, which was only 3.5 per cent lower than that of the same period last year. When compared with the second half of 2005, the Group's gross profit for the period had doubled.

During the period, the Group sold approximately 1,010,000 tonnes of strips and strip-related products and 853,000 tonnes of billets, representing increases of 11.6 per cent and 28.3 per cent respectively when compared to the corresponding period of 2005. For the period under review, strips and strip-related products accounted for 53 per cent (corresponding period of 2005: 58 per cent) of the Group's total sales volume, while billets accounted for 45 per cent of total sales volume (corresponding period of 2005: 42 per cent).

“We have enriched our portfolio with more high value-added products. The effect of such measure is expected to be reflected in the second half of the year. In addition, we expect that the commercial production of H-section steel will help generate higher returns and enhance our market competitiveness,” said Mr Han Jingyuan, Chairman and Chief Executive Officer of COGCL.

The Group’s H-section steel rolling line with an annual production capacity of 1 million tonnes commenced trial production in May 2006 and is expected to commence commercial production in September 2006. In addition, trial production of the strip production line with an annual capacity of 500,000 tonnes commenced at the end of July 2006, with the commercial production scheduled in September 2006.

With regard to raw material, the supply and demand of domestic iron powder and coke remain basically in balance and their prices are expected to experience only minor adjustments.

“Looking ahead, the market conditions will continue to be challenging, marked by intensified competition, oversupply of goods and tightened macroeconomic austerity measures. However, the Group believes all these will help facilitate industry consolidation, which in turn provides opportunities for the Group to take advantage of its large-scale production, quality products and diversified product mix to boost its overall profitability, in particular with the overall commencement of production of H-section steel and expanded strip production capacity” 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 iron and steel producers. COGCL’s plant is located in one of the richest iron ores in Hebei Province with proximity to deep-water ports and railways. Such quality geographical location ensures the reliability and stability of access to raw materials as well as the supply and transportation of products. The Group’s products are mainly sold in China to downstream iron and steel manufacturers, who are all located in northern China and further process billets and strips into downstream steel products primarily used in the construction and machinery manufacturing industries. In addition, COGCL is also engaged in the production of other downstream products, namely cold rolled sheets and galvanised sheets and H-section steel, as a way to diversify the iron and steel product mix and achieve business integration.

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(Attached is the COGCL’s Unaudited Condensed Consolidated Income Statement for the Six Months Ended 30 June 2006)

China Oriental Group Company Limited

(Stock Code: 0581)

Unaudited Condensed Consolidated Income Statement

For the Six Months Ended 30 June 2006

	Unaudited	
	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
		Restated
Sales	4,773,687	4,726,083
Cost of goods sold	(3,976,717)	(3,899,927)
Gross profit	796,970	826,156
Other gains - net	21,896	36,911
Selling and marketing costs	(5,208)	(4,388)
Administrative expenses	(87,840)	(72,346)
Operating profit	725,818	786,333
Finance costs	(23,169)	(44,300)
Share of (loss)/profit of an associate	(2,368)	104
Profit before income tax	700,281	742,137
Income tax expense	(110,759)	(108,862)
Profit for the period	589,522	633,275
Attributable to:		
Equity holders of the Company	584,665	623,635
Minority interests	4,857	9,640
	589,522	633,275
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in Renminbi ("RMB") per share)		
- basic	0.20	0.21
- diluted	0.20	Not applicable