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### **OPTIMISED PRODUCT MIX REFLECTED IN SATISFACTORY RESULTS CHINA ORIENTAL 2006 ANNUAL NET PROFIT INCREASED BY 22% TO APPROXIMATELY RMB1,033 MILLION**

China Oriental Group Company Limited ("China Oriental" or the "Group", stock code: 581) today announced that its audited consolidated revenue for the year ended 31 December 2006 was RMB9,782 million, representing an increase of 6.5 per cent when compared with that of the previous year. The Group's profit attributable to equity holders during the year amounted to approximately RMB1,033 million, representing an increase of 22 per cent when compared with that of the previous year. Basic earnings per share were RMB0.36, representing an increase of 24.1 per cent when compared with that in the previous year. Gross profit increased by 16.4 per cent from 2005 to RMB1,424 million.

China Oriental's board of directors recommended a final dividend of HK\$0.046 per share for the year ended 2006 (2005: HK\$0.045). For the six months ended 30 June 2006, China Oriental's board of directors has declared an interim dividend of 1 HK cents (Corresponding period of 2005: Nil).

During the year, China Oriental successfully enhanced its profitability through continued fine-tuning its product mix. The sales volume from strips and strip-related products with relatively higher profit margin accounted for nearly 60 per cent of the Group's total sales volume, and therefore became the Group's principal product. In addition, the production line of H-section steel commenced trial production in May 2006 and commercial production in late August 2006, which not only further enhanced the Group's product mix, but also provided a positive contribution to the Group's annual results in 2006. As such, the Group was able to further increase its profitability, while achieving satisfactory results.

"During the year, although an intensified market competition and a growing supply in the overall iron and steel industry reined in the growth in the price of iron and steel, the Group continued to monitor the market and insisted on actively implementing a product mix optimising strategy. As a result, the Group not only successfully further raised the sales proportion of strips and strip-related products, but also successfully launched H-section steel products, leading to satisfactory results. In addition, the further enhancement in the product mix also lays a solid foundation for the Group's future development," said Mr Han Jingyuan, Chairman and Chief Executive Officer of China Oriental.

In 2006, the Group sold approximately 2,202,000 tonnes of strips and strip-related products and approximately 1,173,000 tonnes of billets. Sales revenue from strips and strip-related products and billets amounted to RMB5,723 million and RMB2,753 million respectively. The sales volume from strips and strip-related products accounted for 58.8 per cent of total sales volume, and the sales revenue from strips and strip-related products accounted for 58.5 per cent of total sales revenue. During the year, the Group's production line of H-section steel commenced trial production in May 2006 and commercial production in late August 2006. During the year, the Group produced approximately 473,200 tonnes of H-section steel, with a sales volume of approximately 250,000 tonnes and a sales revenue of approximately RMB729 million, accounting for 6.6 per cent and 7.45 per cent of the total sales volume and total sales revenue respectively.

For the year 2006, the Group's average selling prices (excluding value-added tax) of billets and strips and strip-related products were RMB2,347 per tonne and RMB2,600 per tonne respectively, representing decreases of 5.8 per cent and 10.9 per cent when compared with those in 2005. The average selling price (excluding value-added tax) of H-section steel was RMB2,917 per tonne. In February 2007, the unaudited average selling prices (excluding value-added tax) of billets and strips and strip-related products as well as H-section steel were RMB2,505 per tonne, RMB2,750 per tonne and RMB3,195 per tonne respectively.

During the year, the Group's gross profit of billets and strips and strip-related products were RMB384 per tonne and RMB445 per tonne respectively (2005: RMB227 per tonne and RMB481 per tonne respectively). Gross profit of H-section steel was RMB288 per tonne.

For the year 2006, the Group's investment – Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jin Xi Jin Lan") – sold approximately 44,800 tonnes of cold rolled sheets and approximately 76,900 tonnes of galvanised sheets, accounting for 1.2 per cent and 2.1 per cent of total sales volume respectively. In 2006, the average selling prices (excluding value-added tax) of the Group's cold rolled sheets and galvanised sheets were RMB3,578 per tonne and RMB4,959 per tonne respectively. In February 2007, the unaudited average selling prices (excluding value-added tax) of the Group's cold rolled sheets and galvanised sheets were RMB3,807 per tonne and RMB5,134 per tonne respectively.

With regard to raw material, the increase in production capacity in the iron and steel industry will drive the demand for both domestic and imported iron powder in the PRC. As such, it is expected that the price of iron powder will continue to fluctuate at a high level. In early March 2007, the purchasing price (including value-added tax) of domestic iron powder was approximately RMB780 per tonne.

On the front of coke, owing to the frequent accidents in coal mines, rise in coal price and strained railway transportation, the coke price will also fluctuate at a high level. In early March 2007, the purchasing price (including value-added tax) of coke was approximately RMB1,250 per tonne.

"Looking ahead, with favourable factors including continuous economic growth in the PRC and the government's continued elimination of backward capacity of iron and steel, the domestic price of iron and steel will continue to be supported by the relatively higher prices of iron and steel in overseas markets and surging raw material prices. On the other hand, intensifying market competition, growing supply in the entire iron and steel industry as well as relevant macroeconomic austerity measures taken by the government will rein in the rise in the price of iron and steel. The Group will continue to monitor the market and improve its product mix and enhance its production efficiency. Following the commercial production of the H-section steel rolling line and the strip production line with an annual production capacity of 600,000 tonnes in late August 2006, the Group will be able to further fine-tune its product mix," said Mr Han.

### **About China Oriental**

Listed on 2 March 2004, the Group is one of China's most efficient iron and steel producers. China Oriental'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, China Oriental 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 the China Oriental's audited consolidated income statement for the year ended 31 December 2006)**

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

**Audited Consolidated Income Statement**

**For the Year Ended 31 December 2006**

|  | <b>Audited</b>                        |                       |
|--|---------------------------------------|-----------------------|
|  | <b>For the year ended 31 December</b> |                       |
|  | <b>2006</b>                           | <b>2005</b>           |
|  | <b>(RMB '000)</b>                     | <b>(RMB '000)</b>     |
| Revenue  | 9,782,116                             | 9,182,693             |
| Cost of sales  | <u>(8,357,880)</u>                    | <u>(7,958,870)</u>    |
| <b>Gross profit</b>  | <b>1,424,236</b>                      | <b>1,223,823</b>      |
| Other income   | 4,149                                 | 4,286                 |
| Distribution costs   | (13,084)                              | (6,954)               |
| Administrative expenses  | (170,443)                             | (152,036)             |
| Other expenses   | (10,620)                              | (3,262)               |
| Other gains/ (losses) - net  | <u>31,439</u>                         | <u>(47,749)</u>       |
| <b>Operating profit</b>  | <b>1,265,677</b>                      | <b>1,018,108</b>      |
| Finance income   | 18,930                                | 62,596                |
| Finance costs  | <u>(50,387)</u>                       | <u>(74,189)</u>       |
| Finance costs - net  | (31,457)                              | (11,593)              |
| Share of loss of an associate  | <u>(984)</u>                          | <u>(2,319)</u>        |
| <b>Profit before income tax</b>  | <b>1,233,236</b>                      | <b>1,004,196</b>      |
| Income tax expense   | <u>(210,886)</u>                      | <u>(157,081)</u>      |
| <b>Profit for the year</b>   | <b><u>1,022,350</u></b>               | <b><u>847,115</u></b> |
| <b>Attributable to:</b>  |                                       |                       |
| Equity holders of the Company  | 1,032,754                             | 846,585               |
| Minority interest  | <u>(10,404)</u>                       | <u>530</u>            |
|  | <b><u>1,022,350</u></b>               | <b><u>847,115</u></b> |
| <b>Earnings per share for profit attributable to equity holders of the Company during the year</b> |                                       |                       |
| - basic  | <u>RMB 0.36</u>                       | <u>RMB 0.29</u>       |
| - diluted  | <u>RMB 0.36</u>                       | <u>Not applicable</u> |