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## **China Oriental's Interim Net Profit Increased by 123% YoY to RMB798 million**

Despite the relatively volatile steel market in the first half of 2010 in the PRC, China Oriental Group Company Limited ("China Oriental" or the "Group", stock code: 581) achieved profit for the period attributable to equity holders of the Company of RMB798 million for the first half of 2010 ("period under review"), representing an increase of 123% as compared with that of the corresponding period last year.

During the period under review, with the full operation of both the production assets acquired from Tangshan Fengrun Qu Hengfeng Iron and Steel Company Limited and the production facilities leased from Qianxi County Jinxi Wan Tong Ductile Iron Pipe Co., Ltd. in the prior year, the Group's overall production capacity of crude steel is currently at 11 million tonnes per annum. Driven by the increased capacity, both sales volume and revenue rose to 4.47 million tonnes and RMB15.35 billion, representing increases of approximately 40% and 67% respectively as compared with those of the corresponding period in the previous year.

Benefiting from an increase in the gross profit margins of H-section steel and cold rolled sheets and galvanised sheets in the first half of 2010, the Group's gross profit margin slightly increased to 9.1% as compared with that of the same period last year (2009 corresponding period: 8.2%).

Commenting on the satisfactory performance of the Group during the period under review, Mr Han Jingyuan, the Chairman and Chief Executive Officer of China Oriental, said: "During the period under review, management of the Group has paid close attention to the iron ore and coke market and has closely monitored the inventory level of the Group by having regular meetings with the production and purchase departments in order to adopt flexible operational strategies to cope with the changes in the iron ore and coke market. In addition, we have also continued to implement various cost control measures to reduce production and operating costs, which included energy saving measures and consumption reduction targets in many aspects of the production process and controlling our expenditure budget strictly, thereby raising our overall operation efficiencies."

In the first half of 2010, the sales volume and revenue of H-section steel, which have the highest gross profit margin among the Group's products, amounted to 1.481 million tonnes and RMB 5.228 billion, accounting for 33.1% and 34.1% of the total sales volume and total revenue respectively and representing increases of 34.3% and 59.3% as compared with those of the same period of the previous year respectively. The Group continues to be a market leader in the PRC for H-section steel and is capable of producing a wide range of H-section steel.

Revenue of the Group's strips and strip products as well as billets amounted to RMB5.894 billion and RMB3.330 billion, accounting for 38.4% and 21.7% of the total revenue respectively and representing increases of 64.0% and 70.8% as compared to those of the corresponding period of the previous year respectively. The sales volume of strips and strip products as well as billets reached 1.772 million tonnes and 1.015 million tonnes respectively, accounting for 39.7% and 22.7% of the total sales volume respectively and representing increases of 40.5% and 36.6% as compared to those of the corresponding period last year respectively.

In addition, there has been significant growth in the sales volume and revenue of the Group's cold rolled sheets and galvanised sheets. The sales volume and revenue of cold rolled sheets and galvanised sheets amounted to 202,000 tonnes and RMB898 million, representing increases of 132.2% and 161.0% respectively as compared to those of the same period last year and accounting for approximately 4.5% and 5.9% of the total sales volume and total revenue respectively.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jinxi Jinlan"), principally engaged in the production of cold rolled sheets and galvanised sheets, has returned to profitability during the period under review, driven by a market oriented product mix, better management and enhanced operational efficiencies.

In light of the continuing volatile market environment in the second half of the year, Mr Han said: "We will continue to adopt a prudent management approach in the second half of the year. The Group will continue to make timely adjustment to its product mix according to market demand, while actively engaging in developing new types of steel products. The Group will enhance its profitability by offering products with greater market demand and lower competition. In addition, we will continue to strengthen our cost control by further enhancing internal operational management and production efficiency, as well as saving consumption of raw materials and energy," Mr Han said.

"In order to sustain long-term development and minimise the impact of fluctuations in the price of a single product series, we will intend to continue to explore new businesses to broaden our source of revenue. The Group invested in a property development project in Tangshan city for RMB193 million in the first half of 2010," Mr Han added.

ArcelorMittal, the Group's second largest shareholder, is the world's largest steel corporation. It possesses a complete supply chain and extensive experience in transnational businesses and is regarded as a leader in steel technologies. The Group is now exploring opportunities for collaboration with ArcelorMittal on upstream steel projects.

### **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 conglomerate, 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.

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**(Attached China Oriental's unaudited condensed consolidated statement of comprehensive income for the six months ended 30 June 2010)**

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

**Condensed Consolidated Statement Of Comprehensive Income**  
**For the Six Months Ended 30 June 2010**

	Six months ended 30 June	
	2010	2009
	(RMB '000)	(RMB '000)
	Unaudited	
Revenue	15,349,900	9,174,977
Cost of goods sold	<u>(13,953,481)</u>	<u>(8,420,775)</u>
<b>Gross profit</b>	<b>1,396,419</b>	<b>754,202</b>
Other income	34,122	21,780
Distribution costs	(52,678)	(17,661)
Administrative expenses	(148,297)	(130,954)
Other expenses	(18,783)	(9,716)
Other gains/(losses) – net	<u>16,595</u>	<u>(20,548)</u>
<b>Operating profit</b>	<b>1,227,378</b>	<b>597,103</b>
Finance income	14,447	17,349
Finance costs	(82,738)	(72,411)
Share of results of associates	(1,510)	(2,207)
<b>Profit before income tax</b>	<b>1,157,577</b>	<b>539,834</b>
Income tax expense	<u>(285,813)</u>	<u>(145,463)</u>
<b>Profit for the period</b>	<b><u>871,764</u></b>	<b><u>394,371</u></b>
<b>Other comprehensive income:</b>		
Fair value losses on available-for-sale financial assets	<u>(23,915)</u>	<u>-</u>
<b>Total comprehensive income for the period</b>	<b><u>847,849</u></b>	<b><u>394,371</u></b>
<b>Profit for the period attributable to:</b>		
- equity holders of the Company	797,994	358,231
- non-controlling interests	73,770	36,140
	<u>871,764</u>	<u>394,371</u>
<b>Total comprehensive income attributable to:</b>		
- equity holders of the Company	774,079	358,231
- non-controlling interests	73,770	36,140
	<u>847,849</u>	<u>394,371</u>
<b>Earnings per share for profit attributable to equity holders of the Company during the period</b> (express in RMB per share)		
- basic	<u>0.27</u>	<u>0.12</u>
- diluted	<u>0.27</u>	<u>0.12</u>