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CHINA ORIENTAL'S 2010 PROFIT ROSE BY 21.9% TO RMB1.19 BILLION ASSISTED BY ITS FLEXIBLE MARKET-BASED STRATEGY AND SUSTAINABLE EXPANSION

China Oriental Group Company Limited ("China Oriental" or the "Company", stock code: 581) together with its subsidiaries (the "Group") reported that the revenue and profit for the year ended 31 December 2010 ("the Year") amounted to approximately RMB30,136 million and RMB1,185 million respectively, representing increases of 46.4 per cent and 21.9 per cent respectively from those of the previous year. Basic earnings per share were RMB0.36 (2009: RMB0.30). The Group ranked first in China in terms of production and sales volume and export volume of H-section steel products in 2010 for the second consecutive year. During the year of 2010, the sales volume of H-section steel products of the Group was 2,595,000 tonnes.

The board of directors proposed a final dividend of 10.7 HK cents per share for the year ended 31 December 2010 (2009: 8.6 HK cents).

The increase in revenue was primarily due to an increase in the sales volume of the Group's products and its average selling price, which were in turn attributable to rising demand driven by the continued improvement in economic conditions in the PRC in 2010. During the Year, the Group's total sales volume increased by 24.2 per cent from 6,948,000 tonnes in 2009 to 8,628,000 tonnes. The average selling price rose by 17.9 per cent to RMB3,493 per tonne in 2010 from RMB2,962 per tonne in 2009.

The gross profit of the Group in 2010 was RMB2,055 million (2009: RMB2,006 million). In response to the rising costs of raw material, the Group exercised stringent cost control and enhanced operational efficiency. This enabled the Group to maintain a gross profit margin of 6.8 per cent (2009: 9.7 per cent).

During the Year, the sales volume of H-section steel products, which have the highest gross profit margin of the Group, reached 2,595,500 tonnes, accounting for 30.1 per cent of total sales volume. The sales volume of strips and strip products and billets were 3,580,000 tonnes and 2,001,000 tonnes respectively, accounting for 41.5 per cent and 23.2 per cent of total sales volume respectively. About 5.2 per cent of the total sales volume was contributed by the sales of cold rolled sheets and galvanised sheets, which increased by 58.0 per cent year on year to 452,000 tonnes.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jinxi Jinlan"), which primarily engages in the production of cold rolled sheets and galvanised sheets, proactively enhanced its overall product quality, broadened its product variety and market share, improved its management and enhanced its operational efficiency during the Year, which resulted in a resumption of profitability in 2010. Jinxi Jinlan continued to focus on research and development in order to produce value added premium steel products that have wide applications in the home appliance markets. These products will help Jinxi Jinlan further enhance its presence in the Pearl River Delta Region and ensure economic benefits.

During the Year, the Group's production capacity steadily increased to 11 million tonnes per annum through fully leveraging existing and leasing production facilities from external parties in order to cater to the market's growing demand for its products.

To broaden its scope of business and diversify its existing product portfolio, the Group invested in a parcel of land for industrial purpose with an area of approximately 200,000 sq m in Caofeidian Industrial Zone for the potential development of a scrap recycling business, with the aim to achieve vertical integration in iron and steel production. The proposed scrap recycling business will create synergistic benefits for the Group.

Although affected by the State's introduction of energy saving and emission reduction measures in the fourth quarter of 2010, the Group's overall operating results and profitability for the full year of 2010 improved from those of 2009. "Against such a backdrop, the Group timely adjusted its product mix to maintain its overall operational efficiency, and overhauled part of the production facilities and the H-section steel production lines. Such arrangements had enabled the Group to attain an optimal balance between production efficiency and energy saving. The State's measures had only a minor impact on the Group's production," said Mr Han Jingyuan, the Chairman and Chief Executive Officer of China Oriental.

Such restrictions ended at the end of 2010, and all the production lines of the Group resumed full operations in early 2011.

During the Year, the Group acquired equity interests in Tangshan Caofeidian Mining Port Limited. The acquisition will provide a logistics channel for the importation of iron ore to and transportation of the Group, which will reduce the Group's transportation and depot costs and further enhance its competitiveness in China's iron and steel market.

China Oriental diversified its business and investment through participating in a property development project in Tangshan city during the Year. The Group invested in a property development project named "Donghu Bay", with a gross floor area of 310,000 sq m, located in Tangshan city, Hebei Province. The Group began phase one construction of the project with construction area at commencement of 114,000 sq m during the year of 2010.

In 2010, the Group issued 8% senior notes in an aggregate principal amount of US\$550 million and 7% senior notes in the aggregate principal amount of US\$300 million respectively. The proceeds will be used for potential acquisitions of steel mills in China, continuous improvement capital expenditure projects at the Group's current production facilities, potential investments in iron ore assets, general corporate purposes and refinancing the outstanding short-term debts in the PRC. The issue of the senior notes increased the Group's flexibility in deploying its capital for further development.

During the Year, ArcelorMittal, the Group's second largest shareholder, continued to render support to the Group with respect to production technology and professional management. Technicians from ArcelorMittal visited China Oriental's production facilities on a regular basis to offer professional advice and technical support regarding production management and quality enhancement of the Group's products.

"Steel demand will be fuelled by the commencement of the State's Twelfth Five-year Plan. In addition, the escalated development of alternative sources of energy, as well as a renewed focus on environmental protection and energy saving measures by the State will increase steel consumption. Moreover, the accelerated construction of high-speed railway will bring business opportunities for the Group's H-section steel which commands a leading position in China and is used in steel poles supporting overhead contact wires for high speed railway lines," said Mr Han, commenting on the outlook.

The various projects on harnessing residue heat power generated from sintering operations and emission reduction in the production bases of the Group will be gradually completed in or after 2011. The completion of these facilities will help significantly reduce energy consumption and effectively control energy costs, as well as substantially reduce pollutant emission during the production process, leading to an improved community environment within the precincts of the plant.

“In addition to expanding its supply chain through upstream and downstream integration, the Group has also expanded horizontally by tapping into other business sectors, so as to intensify the continuous development of the Group and broaden its sources of revenue,” said Mr Han.

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 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. China Oriental is an integrated iron and steel conglomerate. 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.

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(Attached China Oriental’s audited consolidated income statement for the year ended 31 December 2010)

CHINA ORIENTAL GROUP COMPANY LIMITED

(Stock Code: 581)

Audited Consolidated Income Statement

For the Year Ended 31 December 2010

	Audited	
	For the year ended 31 December	
	2010	2009
	(RMB'000)	(RMB'000)
Revenues	30,135,718	20,589,138
Cost of sales	<u>(28,080,858)</u>	<u>(18,582,768)</u>
Gross profit	2,054,860	2,006,370
Other income	63,783	36,817
Distribution costs	(65,673)	(56,997)
Administrative expenses	(301,407)	(283,534)
Other expenses	(25,076)	(206,823)
Other gains/(losses) - net	<u>25,409</u>	<u>(80,545)</u>
Operating profit	1,751,896	1,415,288
Finance income	57,049	35,414
Finance costs	(195,655)	(137,145)
Share of results of associates	<u>191</u>	<u>177</u>
Profit before income tax	1,613,481	1,313,734
Income tax expense	<u>(428,030)</u>	<u>(341,293)</u>
Profit for the year	<u>1,185,451</u>	<u>972,441</u>
Profit attributable to:		
Equity holders of the Company	1,062,838	884,323
Non-controlling interests	<u>122,613</u>	<u>88,118</u>
	<u>1,185,451</u>	<u>972,441</u>
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)		
-basic earnings per share	<u>RMB0.36</u>	<u>RMB 0.30</u>
-diluted earnings per share	<u>RMB0.36</u>	<u>RMB 0.30</u>
Dividends	<u>RMB'000</u>	<u>RMB'000</u>
	<u>266,750</u>	<u>221,834</u>