China Oriental Group Company, Inc.

Rating Change **NEUTRAL**

Equity | China | Steels
02 August 2007

Merrill Lynch

Downgrade to Neutral

Alexander Latzer >> +852 2536 3453
Research Analyst
Merrill Lynch (Hong Kong)
a_latzer@ml.com

Irene Ye >>>
Research Analyst
Irene_Ye@ml.com

Time to switch to sector leaders

The stock has reached our PO of RMB3.75/shr recently and we think it's time to switch to sector leaders. We are concerned about negative effect on operating performance from the ongoing takeover, and communication with the company management is limited during the takeover period, which makes it hard to track the company's fundamentals.

Offer price HK$3.0 per share from 2nd largest shareholder

The second-largest shareholder is willing to pay HK$2.0 and exchangeable bond valued at HK$1.0 for per share outstanding shares. Since the announcement of the offer, the stock price has been trading far above the offer price, suggesting that the market is unlikely to accept this offer. Therefore, we believe Smart Triumph may have to hike its offer to accomplish the deal.

1H earnings growth not as strong as peer group

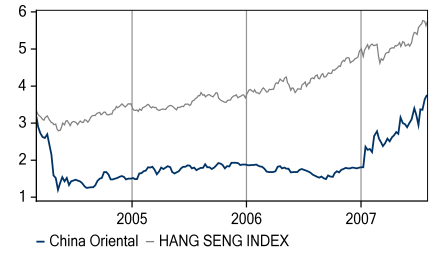
The company may earn RMB0.24/shr in 1H07, 18% up YoY. The growth rate is the lowest among the steel companies under our coverage. It is because the company's product mix is low-end and its JV in Foshan may still suffer from marginal loss due to dependency on outsourced HRC, small scale and start-up period.

New H beam line under construction

The company announced in early May that a new H beam line is to be built at a total capex of RMB760mn and capacity of 1.2mn tonnes. We expect the construction to be completed in 2009. By then, we estimate the company won't sell any more semi steel products.

Stock Data

Price	HK$3.76
Investment Opinion	C-1-7 to C-2-7
Volatility Risk	HIGH
52-Week Range	HK$1.47-HK$3.97
Mrkt Val / Shares Out (mn)	US$1,396 / 2,905.0
Average Daily Volume	4,198,737
ML Symbol / Exchange	CUGCF / HKG
Bloomberg / Reuters	581 HK / 0581.HK
ROE (2007E)	21.9%
Net Dbt to Eqty (Dec-2006A)	8.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	24.2%



Estimates (Dec)

(CNY)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	847	1,033	1,325	1,465	1,796
EPS	0.291	0.356	0.456	0.504	0.618
EPS Change (YoY)	-31.7%	22.0%	28.3%	10.6%	22.6%
Dividend / Share	0.047	0.056	0.068	0.076	0.091
Free Cash Flow / Share	(0.182)	(0.119)	0.008	0.200	0.342

Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	13.59x	10.85x	7.98x	7.22x	5.88x
Dividend Yield	1.18%	1.44%	1.88%	2.08%	2.50%
EV / EBITDA*	9.16x	7.43x	5.88x	4.75x	4.06x
Free Cash Flow Yield*	-5.00%	-3.28%	0.213%	5.48%	9.40%

* For full definitions of *iQmethod* SM measures, see page 6.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

>>> Licensed by The Securities and Futures Commission of Hong Kong and not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to important disclosures on page 7 to 8. Analyst Certification on page 6.

iQprofile SM China Oriental Group Company, Inc.

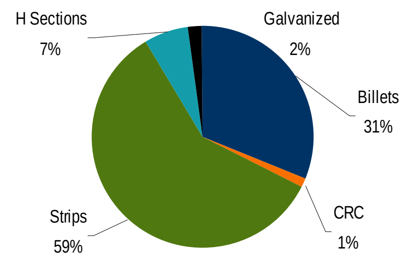
Key Income Statement Data (Dec)	2005A	2006A	2007E	2008E	2009E
(CNY Millions)					
Sales	9,183	9,782	12,465	13,515	15,698
Gross Profit	1,224	1,424	1,870	2,302	2,716
Sell General & Admin Expense	(159)	(184)	(237)	(257)	(298)
Operating Profit	1,065	1,241	1,633	2,046	2,418
Net Interest & Other Income	(61)	(7)	(58)	(58)	(7)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,004	1,233	1,576	1,988	2,411
Tax (expense) / Benefit	(157)	(211)	(269)	(497)	(594)
Net Income (Adjusted)	847	1,033	1,325	1,465	1,796
Average Fully Diluted Shares Outstanding	2,905	2,905	2,905	2,905	2,905
Key Cash Flow Statement Data					
Net Income (Reported)	847	1,033	1,325	1,465	1,796
Depreciation & Amortization	208	327	347	405	450
Change in Working Capital	(694)	(1,174)	(329)	(146)	(254)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(35)	55	(15)	26	(15)
Cash Flow from Operations	326	240	1,327	1,750	1,977
Capital Expenditure	(854)	(587)	(1,305)	(1,170)	(984)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	33	8	0	0	0
Cash Flow from Investing	(821)	(578)	(1,305)	(1,170)	(984)
Shares Issue / (Repurchase)	2	0	0	0	0
Cost of Dividends Paid	(146)	(166)	(199)	(220)	(264)
Cash Flow from Financing	32	67	(199)	(220)	(264)
Free Cash Flow	(528)	(347)	22	580	993
Net Debt	930	499	675	315	(414)
Change in Net Debt	213	(380)	176	(360)	(729)
Key Balance Sheet Data					
Property, Plant & Equipment	4,236	4,675	5,633	6,401	6,939
Other Non-Current Assets	121	125	121	118	114
Trade Receivables	714	999	1,259	1,369	1,571
Cash & Equivalents	710	435	259	619	1,348
Other Current Assets	2,372	1,988	2,471	2,635	3,030
Total Assets	8,153	8,221	9,743	11,142	13,002
Long-Term Debt	294	361	361	361	361
Other Non-Current Liabilities	15	56	56	56	56
Short-Term Debt	1,346	573	573	573	573
Other Current Liabilities	1,766	1,630	2,044	2,172	2,515
Total Liabilities	3,421	2,620	3,034	3,162	3,505
Total Equity	4,732	5,601	6,709	7,980	9,497
Total Equity & Liabilities	8,153	8,221	9,743	11,142	13,002
iQmethod SM **- Bus Performance***					
Return On Capital Employed	15.4%	16.1%	19.1%	18.5%	19.0%
Return On Equity	20.0%	20.5%	21.9%	20.3%	20.9%
Operating Margin	11.6%	12.7%	13.1%	15.1%	15.4%
EBITDA Margin	13.9%	16.0%	15.9%	18.1%	18.3%
iQmethod SM **- Quality of Earnings***					
Cash Realization Ratio	0.4x	0.2x	1.0x	1.2x	1.1x
Asset Replacement Ratio	4.1x	1.8x	3.8x	2.9x	2.2x
Tax Rate (Reported)	15.6%	17.1%	17.1%	25.0%	24.6%
Net Debt-to-Equity Ratio	19.7%	8.9%	10.1%	4.0%	-4.4%
Interest Cover	14.4x	24.6x	22.3x	28.0x	NM
Key Metrics					

* For full definitions of *iQmethod* SM measures, see page 6.

Company Description

China Oriental Group Co. Ltd. (COGCL) was incorporated in Nov. 2003 and listed on the Hong Kong stock market in March 2004. Its major operating asset is its 97.6% interest in Hebei Jinxi Steel. Jinxi Steel produces billets, hot-rolled strips and H beam, and total crude capacity is 4mn tonnes. Besides, it has a JV in Foshan, producing CRC and galvanized steel. The company is going to build one more H beam line in Jinxi.

Chart 1: Sales volume breakdown in 2006 (total: 3.7mn tonnes)



Source: Company, Merrill Lynch

Stock Data

Price to Book Value	1.6x

Downgrading to Neutral

The stock has reached our target price of HK$3.75 recently and we think it's time to switch to market leaders. We are concerned that the hostile takeover may indirectly hurt the company's normal operating performance. Mr. Han, Chairman and CEO of the company, has to spare time and energy to fight the takeover and settle other issues with the second largest shareholder. Also, due to lack of communication with company management during the takeover period, we find it a bit difficult to track the company's fundamentals adequately to make us comfortable with a buy rating.

The stock is now trading at 7.2x 2008E EPS, which looks fairly valued, given the company's small scale and low-end product mix, as well as based on the information currently available to us from the company.

Current offer below market price

The second largest shareholder of China Oriental (Smart Triumph Corp, holding a 28.1% stake) raised its takeover offer on 20 June. The offer price was at a discount to the stock's price.

Smart Triumph plans to pay HK$18 of cash plus two units of exchangeable bonds with face value of HK$4.5 for every 9 shares. A rough calculation indicates that every share equals HK$3.0, not considering the bond risks and time value.

The offer implies an enterprise value (EV) of about HK$9.2bn and EV per tonne steel capacity (excluding the CRC capacity in JV) is about US$300. Compared with recent steel acquisition deals, we think the offer is not really attractive.

Table 1: Global M&A cases for reference
Cost per tonne of capacity - recent steel industry acquisitions - most important deals

Time	Acquirer	Target	Cost/tonne (US$)
2007-1-31	Tata Steel	Corus	698
2006-6-25	Mittal Steel	Arcelor	830
2006-1-16	Arcelor	Dofasco	1075
2005-5-18	Techint	Hylsamex	885
2005-2-9	Severstal	Lucchini	458
2004-10-25	Mittal Steel	ISG	232
Other M&A deals			
2006-11-20	Evraz	Oregon Steel	1408
2006-7-17	Esmark	WPSC	301
2005-12-15	Tata Steel	Millennium Steel	253
2005-10-24	Mittal Steel	Kryvorizhstal	474
2005-10-5	Oyak	Erdemir	930
2004-5-18	ISG	Weirton	68
2004-1-30	SeverStal	Rouge	84
2003-5-20	U.S. Steel	National Steel	140
2003-5-8	ISG	Bethlehem Steel	117
2002-12-9	Nucor	Birmingham Steel	267
2002-10-10	ISG	Acme Steel	75
2002-4-12	ISG	LTV Steel	30

Source: Capital IQ and Miller Mathis research

Since the largest shareholder owns about 42.4% of the total shares and has declined to transfer the shares to Smart Triumph, we think collecting about 22% of the shares from the remaining 29.5% of shares is not an easy mission.

As only two-thirds of the offer will be paid in cash, Smart Triumph actually intends to borrow money from the current shareholders to accomplish the takeover. We question why the current shareholders should take the risk to do so?

Therefore, we think there's a high possibility that Smart Triumph would have to revise up its offer if it is keen to get the controlling rights as it claims. Otherwise, we don't see any incentive for the current shareholders to sell.

What if the takeover fails?

Smart Triumph has expressed its intention of selling down the shares if the takeover cannot be accomplished, which it pointed out may have a material impact on the stock price. From our point of view, a sell-down might be a good opportunity for some other investors to buy into the stock if the stock price corrects significantly.

If Smart Triumph is phased out from the board after the stock sell-down, we may see fewer internal conflicts and smoother decision-making and management procedures.

We expect 1H earnings to be up by 18%

With the favorable steel market conditions in 1H07, we estimate China Oriental to earn RMB0.24/sh, up about 18% YoY. Among our covered stocks, the company's 1H earnings growth might be the lowest, because its product mix is low-end and its JV in Foshan, producing CRC, may still suffer from marginal loss given its dependency on outsourced HRC, small scale and startup period.

New H beam line under construction

The company announced in early May that a new H beam line is to be built at a total capex of RMB760mn and capacity of 1.2mn tonnes. We expect the construction to be completed in 2009. By then, we estimate the company won't sell any more semi steel products.

Lowest net debt ratio among peers

The company's net debt ratio was only 9% by the end of 2006, lowest in our China steel universe. Looking forward, we expect the company to maintain it at a low level, because the company has no big capex except for the above H beam line construction. In our estimates, the company's operating cash flow is enough to pay for the investment.

Key company-specific risks

- **Limited corporate access during takeover period.** Since mid-February, we are not allowed to talk with the management without the presence of a financial advisor, according to the takeover code. We tried to set up company visit and meetings with the company but failed. We expect this situation to last until the takeover period is over, as earliest as in September.

- **Disputes between the large shareholders.** For example, the largest shareholder alleged fake signatures on an iron ore agency agreement. In our point of view, the chairman has to sacrifice his time and effort to deal with all the disputes, instead of dedicating to the company's normal operation.

- **Most sensitive to iron ore price change.** This is due to its relatively low-end product mix and no guaranteed source.

Table 2: Global Steel Companies Valuation

Global Steel Universe	ML ticker	Blmg ticker	Company Name	Rating	Mkt Cap (mn US$)	Price Curncy	Last Price	PE (x) 07e	PE (x) 08e	PE (x) 09e	PB (x) 07e	PB (x) 08e	PB (x) 09e	Dividend yield (%) 07e	Dividend yield (%) 08e	Dividend yield (%) 09e	ROE (%) 07e	ROE (%) 08e	ROE (%) 09e	EV/EBITDA (x) 07e	EV/EBITDA (x) 08e	EV/EBITDA (x) 09e	EPS growth (%) 07e	EPS growth (%) 08e	EPS growth (%) 09e
China																									
	ANGGF	347 HK	Angang	NEUTRAL	17,713	HKD	21.00	13.8	11.9	9.6	2.0	1.8	1.6	3.6	4.2	5.2	21.4	19.8	21.7	6.2	5.3	4.4	23.4	15.7	23.6
	BAOSF	600019 CH	Baosteel	BUY	30,503	CNY	13.19	14.2	11.2	10.1	2.4	2.1	1.8	3.2	4.0	4.5	18.1	19.6	19.4	6.1	5.2	4.9	29.2	26.0	11.6
	CUGCF	581 HK	China Oriental	NEUTRAL	1,397	HKD	3.76	8.0	7.2	5.9	1.6	1.3	1.1	1.9	2.1	2.5	21.9	20.3	20.9	5.8	4.7	4.0	28.3	10.6	22.6
	MISCF	323 HK	Maanshan I & S-H	BUY	6,413	HKD	6.53	13.9	10.0	9.4	1.8	1.5	1.3	2.8	3.6	3.7	15.4	17.6	16.0	8.0	5.9	5.3	22.9	39.8	6.0
	WHNIF	600005 CH	Wuhan Steel	NEUTRAL	12,918	CNY	12.48	16.1	12.0	10.4	3.8	3.2	2.7	3.8	5.2	5.8	27.4	31.7	31.1	8.4	6.9	5.8	56.4	33.9	15.5
North America																									
	ATI	ATI US	Allegheny Tech	BUY	10,719	USD	104.93	13.0	11.5		4.7	3.4		0.5	0.5		44.1	34.7		8.0	7.1		44.0	13.0	
	TX	TX US	Ternium SA-ADR	BUY	6,189	USD	30.87	7.8	7.3	8.6	1.5	1.3	1.2				20.1	19.2	14.4	4.2	4.1	4.9	-2.9	7.1	-15.4
	NUE	NUE US	Nucor Corp.	NEUTRAL	15,146	USD	50.20	10.0	9.8		2.8	2.4		4.8	4.9		29.1	25.8		5.1	5.0		-12.0	2.0	
	X	X US	U.S. Steel Corp.	NEUTRAL	11,619	USD	98.29	9.2	9.3		2.1	1.7		0.8	0.8		26.3	21.4		6.8	6.3		-8.2	-0.9	
	STLD	STLD US	Steel Dynamics	NEUTRAL	3,962	USD	41.93	10.0	11.3		2.7	2.1		1.4	1.4		30.3	22.0		5.5	6.1		11.4	-11.9	
	GNA	GNA US	Gerdau Ameri	NEUTRAL	4,016	USD	13.14	9.1	10.1		1.8	1.6		2.7	0.6		21.9	16.8		5.1	5.5		9.8	-10.3	
	AKS	AKS US	AK Steel	NEUTRAL	4,449	USD	39.97	11.8	10.2		5.5	3.6		-	-		61.9	42.6		8.9	8.1		198.2	14.7	
South America																									
	SIDHF	CSNA3 BZ	CSN	BUY	15,711	BRL	108.00	10.6	9.6	7.6	3.2	2.7	2.2	2.8	4.8	4.4	35.5	30.5	31.7	5.8	5.2	4.5	124.4	9.8	25.9
	GGBUF	GGBR4 BZ	Gerdau S. A.	NEUTRAL	15,941	BRL	47.40	9.9	9.9	11.3	2.6	2.2	1.9	3.0	3.0	2.6	28.9	24.4	18.3	6.6	6.4	6.9	9.8	0.7	-13.0
Europe and Africa																									
	MTTFF	MT NA	Arcelor Mittal	NEUTRAL	89,547	EUR	45.74	9.4	9.2	9.7	1.5	1.4	1.2	2.1	2.1	2.1	17.2	15.5	13.3	6.0	5.9	6.3	15.3	1.9	-4.8
	MTLSF	MLA SJ	Mittal Steel	NEUTRAL	80	ZAR	124.50	9.4	10.0	9.7	2.1	1.8	1.6	3.5	3.3	3.4	23.6	19.3	17.6	5.7	5.9	5.7	26.6	-5.5	3.2
	TYEKF	TKA GR	ThyssenKrupp AG	NEUTRAL	28,614	EUR	41.05	10.2	11.1	10.1	2.2	1.9	1.7	2.9	3.1	3.2	22.3	18.5	18.0	7.4	7.6	7.1	24.5	-7.8	9.4
	OUTKF	OUT1V FH	Outokumpu	SELL	5,619	EUR	23.00	5.7	8.1	8.5	1.2	1.1	1.0	4.8	4.8	4.8	22.1	13.7	12.1	4.2	5.5	5.7	-23.8	-30.1	-4.8
	EREGF	EREGL TI	Erdemir	NEUTRAL	6,177	TRY	9.50	9.1	8.0	6.2	1.3	1.1	1.0	2.1	2.5	6.4	15.2	15.2	17.0	6.5	5.5	4.4	28.4	14.2	28.3
Japan																									
	NISTF	5401 JP	Nippon Steel	BUY	50,367	JPY	881	17.8	16.3	15.1	3.0	2.9	2.4	1.1	1.2	1.4	19.7	20.1	19.3	10.4	8.9	8.7	-0.9	8.8	7.8
	SMMLF	5405 JP	Sumitomo Metal	BUY	27,246	JPY	675	14.4	14.7	12.8	3.6	3.2	2.8	1.0	1.0	1.2	28.3	23.4	23.1	10.8	9.3	8.5	4.0	-1.8	14.6
	JFEEF	5411 JP	JFE Holdings	BUY	41,902	JPY	8,140	16.7	15.2	13.5	3.2	2.9	2.5	1.5	1.7	2.0	21.3	20.8	20.5	9.1	7.8	7.1	-6.7	9.9	12.7
	KBSTF	5406 JP	Kobe Steel	BUY	11,878	JPY	454	13.2	15.1	12.9	2.4	2.1	1.9	1.5	1.5	1.8	19.5	15.2	15.8	7.5	7.0	6.6	29.7	-12.5	17.0
Taiwan, India, Korea																									
	SLAUF	SAIL IN	Steel Authority	BUY	14,754	INR	144.25	10.4	9.1	8.6	3.7	2.8	2.2	2.0	2.3	2.4	40.4	34.7	28.7	6.0	5.3	5.0	47.5	14.5	5.5
	TAELF	TATA IN	Tata Steel	BUY	9,386	INR	622.40	9.0	7.0	7.1	3.8	2.0	1.6	2.5	2.0	1.9	34.0	37.4	24.7	7.7	3.2	3.2	6.7	30.9	-2.3
	GLMTF	5009 TT	Gloria Material	BUY	510	TWD	57.70	13.1	10.4		3.0	2.6		4.5	5.2		24.1	26.8		10.8	8.4		39.3	26.6	
	PKXFF	005490 KS	POSCO	BUY	48,369	KRW	510,000	11.5	9.8	8.8	1.6	1.5	1.3	2	2		14.9	15.4	15.2	6.5	6.0	5.4	5.1	17.0	
Australia																									
	OSTLF	OST AU	OneSteel	BUY	3,241	AUD	6.57	20.3	14.5	12.2	2.5	2.2	2.0	2.4	3.6	4.3	12.6	16.2	17.6	10.6	7.7	6.8	9.2	40.0	18.9
	SMUPF	SGM AU	Sims Group	NEUTRAL	2,875	AUD	26.61	13.4	13.4	13.1	2.5	2.2	2.0	5.3	4.9	5.0	20.0	18.2	16.8	7.9	7.9	7.7	18.5	0.0	2.0
	SRGNF	SSX AU	Smorgon Steel	NO RATINC	2,052	AUD	2.65	18.1	17.7	13.9	2.4	2.3	2.1	3.8	3.4	4.9	13.9	13.4	16.1	10.4	10.1	8.5	-0.9	2.3	27.0
	BLSFF	BSL AU	BlueScope Steel	NEUTRAL	6,495	AUD	10.33	10.8	10.9	10.6	2.2	2.0	1.8	4.1	4.4	4.4	21.9	19.4	18.1	6.3	6.2	5.8	56.9	-0.2	2.8
Russia																									
	XVCHF	CHMF RU	SeverStal	BUY	17,232	USD	17.45	9.9	8.5	9.5	1.5	1.3	1.2	2.5	2.9	2.6	15.5	16.5	13.2	5.3	4.7	4.9	52.9	16.6	-10.1
	XNVLF	NLMK RU	NLMK	BUY	18,699	USD	3.13	8.6	7.8	8.7	2.2	1.8	1.6	3.5	3.8	3.4	28.1	25.2	19.5	5.4	4.9	5.4	27.5	10.3	-9.7
	XMGGF	MAGN RU	MMK	BUY	12,840	USD	1.10	7.8	6.4	7.7	2.0	1.6	1.4	3.2	3.9	3.2	31.4	27.4	19.2	5.5	4.6	5.4	4.1	21.1	-16.8
Global average								11.7	10.7	10.1	2.5	2.1	1.7	2.6	2.9	3.5	24.9	22.3	19.2	7.1	6.3	5.9	26.4	9.0	6.8
Asia Pacific (ex. Japan) average								13.3	11.2	10.0	2.6	2.1	1.8	3.2	3.6	4.1	22.0	22.3	20.5	7.7	6.4	5.6	26.3	19.8	12.1
Japan average								15.5	15.3	13.6	3.1	2.8	2.4	1.3	1.4	1.6	22.2	19.9	19.7	9.4	8.3	7.8	6.5	1.1	13.0
China average								12.7	9.7	8.6	2.4	2.0	1.7	2.8	3.6	4.0	21.6	23.2	22.6	7.4	5.8	5.0	35.8	28.1	14.7

Source: Merrill Lynch estimates

Analyst Certification

I, Alexander Latzer, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

iQmethod SM Measures Definitions

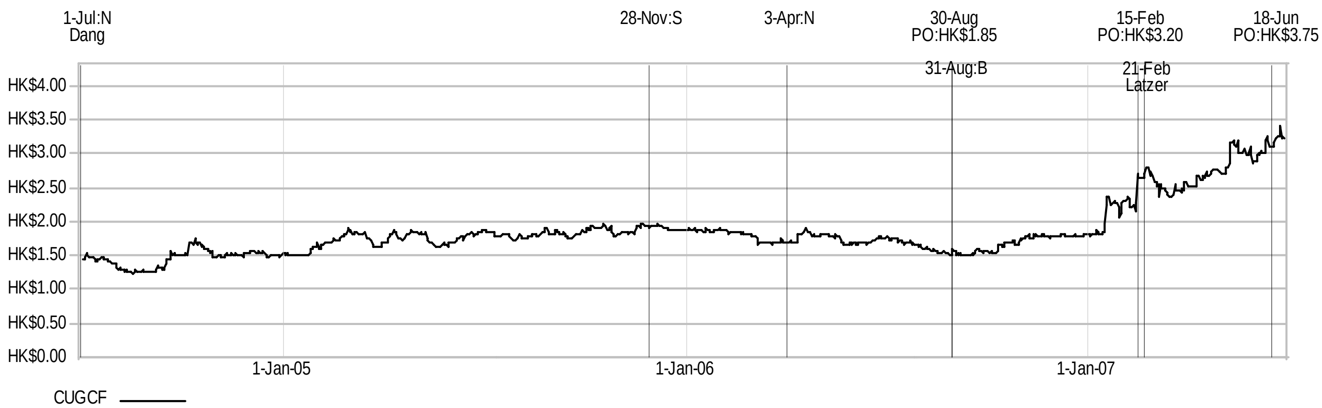
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

Important Disclosures

CUGCF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of June 30, 2007 or such later date as indicated.

Investment Rating Distribution: Steel Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	22	51.16%	Buy	0	0.00%
Neutral	20	46.51%	Neutral	4	22.22%
Sell	1	2.33%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1675	47.16%	Buy	435	29.21%
Neutral	1633	45.97%	Neutral	438	29.67%
Sell	244	6.87%	Sell	47	21.66%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: China Oriental.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.