



CHINA ORIENTAL GROUP COMPANY LIMITED

中國東方集團控股有限公司

(incorporated in Bermuda with limited liability)

(在百慕達註冊成立的有限公司)



中國東方

INTERIM REPORT 2004 中期報告



Financial Highlights

	For the six months ended 30 June		
	Unaudited Consolidated		Percentage of
	2004	2003	increase/ (decrease)
Sales volume (thousand tonnes)			
Billets	1,153	693	66.4%
Strips	417	333	25.2%
Average selling price per tonne (RMB)			
Billets	2,578	1,899	35.8%
Strips	2,672	2,124	25.8%
Turnover (RMB millions)	4,094	2,035	101.2%
Profit attributable to shareholders (RMB millions)	441	590	(25.3%)
Basic earnings per share (RMB)	0.17	0.28	(39.3%)

Condensed Consolidated Profit And Loss Account

The Board of Directors of China Oriental Group Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative amounts for the corresponding period. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004 have been reviewed by the Company's Audit Committee.

	Note	Unaudited Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Turnover	3(a)	4,093,974	2,034,629
Cost of sales		(3,608,542)	(1,381,813)
Gross profit		485,432	652,816
Other revenues	3(a)	26,430	12,824
Selling and administrative expenses		(57,962)	(23,740)
Other operating expenses		(7,274)	(6,733)
Operating profit	4	446,626	635,167
Finance costs		(32,211)	(9,290)
Share of profit of associated company		5,805	1,128
Profit before taxation		420,220	627,005
Taxation	5	31,770	(22,846)
Profit after taxation		451,990	604,159
Minority interests		(10,728)	(14,425)
Profit attributable to shareholders		441,262	589,734
Dividends	6	482,907	—
Basic earnings per share	7	RMB 0.17	RMB 0.28
Diluted earnings per share	7	Not applicable	Not applicable

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Non-current assets			
Fixed assets	8	2,034,127	1,990,327
Interests in associated company		9,454	5,565
Long-term advances to suppliers		—	50,000
Deferred tax assets		—	208
		2,043,581	2,046,100
Current assets			
Inventories		653,967	691,185
Trade receivables	9	156,753	266,573
Prepayments, deposits and other receivables		506,606	563,710
Amounts due from related parties	17(c)	72,807	68,366
Bank and cash balances		2,283,594	152,746
Restricted bank balances		1,712	36,519
Current portion of long-term advances to suppliers		50,000	50,000
Other current assets		4,856	1,415
		3,730,295	1,830,514
Current liabilities			
Trade payables	10	392,107	293,183
Accruals, advances from customers and other current liabilities		724,727	1,087,552
Amounts due to related parties	17(c)	263,027	6,975
Taxation payable		148,253	192,660
Dividend payable		2,768	3,329
Current portion of long-term loans	11	113,000	162,230
Short-term bank loans		160,000	160,000
		1,803,882	1,905,929
Net current assets/(liabilities)		1,926,413	(75,415)
Total assets less current liabilities		3,969,994	1,970,685
Non-current liabilities			
Long-term loans	11	397,230	683,000
Long-term advances from customers	12	55,000	58,000
Long-term due to related parties	17(c)	260,651	260,651
		712,881	1,001,651
Minority interests		24,859	23,168
Net assets		3,232,254	945,866
Represented by:			
Share capital	13	309,340	223,776
Reserves	13	2,830,457	722,090
Proposed dividend	13	92,457	—
Shareholders' equity		3,232,254	945,866

Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	631,090	536,058
Net cash outflow from investing activities	(152,553)	(266,531)
Net cash inflow/(outflow) from financing activities	1,654,099	(8,304)
Increase in cash and cash equivalents	2,132,636	261,223
Effect of foreign exchange rate changes	(1,788)	—
Cash and cash equivalents at 1 January	152,746	118,263
Cash and cash equivalents at 30 June	2,283,594	379,486

Condensed Consolidated Statement of Changes in Shareholders' Equity

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Total equity as at 1 January	945,866	338,218
Issue of ordinary shares	2,236,599	—
Exchange differences arising on translation of the accounts of the Company and its subsidiaries not recognised in the consolidated profit and loss account	(1,580)	—
Profit attributable to shareholders	441,262	589,734
Dividends	(390,450)	—
Others	557	—
Total equity as at 30 June	3,232,254	927,952

Notes to the Condensed Accounts

1. Group Reorganisation

China Oriental Group Company Limited (the “Company”) was incorporated in Bermuda on 3 November 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda as a result of a group reorganisation (the “Reorganisation”) as detailed in the section headed “Corporate Structure” of the global offering prospectus dated 18 February 2004 (the “Prospectus”).

The shareholders of the Company collectively held 97.6% interest in Hebei Jinxi Iron and Steel Company Limited (the “Jinxi Limited”) at the time of the Reorganisation.

Pursuant to the Reorganisation that was completed on 20 January 2004, the Company issued a total 2,099,000,000 shares to the then shareholders of Jinxi Limited and the Company became the holding company of the subsidiaries.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

Following completion of the global offering, the Company’s shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004 (the “Listing”).

2. Principal Accounting Policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The Group resulting from the Reorganisation referred to in note 1 above is regarded as a continuing entity. Accordingly, the unaudited condensed consolidated accounts have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group throughout the periods, or from the respective dates of incorporation/establishment or dates of effective acquisition by the Group, where this is a shorter period. In the opinion of the Directors, the unaudited condensed consolidated accounts prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

These unaudited condensed consolidated accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

Notes to the Condensed Accounts

3. Turnover and Revenues

(a) Turnover and revenues

The Group is principally engaged in the manufacture and sales of iron and steel products. Revenues recognised for the six months ended 30 June 2004 and 2003 are as follows:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Turnover:		
Gross sales, less discounts and returns		
– billets	2,971,624	1,315,954
– strips	1,113,983	707,619
– others	8,367	11,095
	4,093,974	2,034,668
Less: Taxes	–	(39)
	4,093,974	2,034,629
Other revenues:		
Interest income	9,735	2,096
Sales of raw materials and by-products	15,215	6,945
Others	1,480	3,783
	26,430	12,824
Total revenues	4,120,404	2,047,453

(b) Segment information

No business segment information is presented as over 90% of the Group's turnover and operating profit are earned from the sales of iron and steel products.

No geographical segment information is presented as over 90% of the Group's turnover and operating profit are earned within the PRC and all operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

Notes to the Condensed Accounts

4. Operating Profit

Operating profit is stated after charging/(crediting) the following items:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Staff costs (including directors' emoluments)		
— Salaries, wages and welfare	48,671	36,196
— Pension costs-defined contribution plan	8,566	9,196
	57,237	45,392
Depreciation of fixed assets	71,475	38,761
Operating lease rental in respect of land use rights	1,357	400
Loss on disposal of fixed assets, net	—	711
Reversal of provision for doubtful receivables	(10)	(7,423)
Auditors' remuneration	1,272	625

5. Taxation

Taxation represents:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax (the "PRC EIT")	(33,894)	18,490
Deferred taxation	208	3,984
Share of taxation of PRC EIT of an associated company	1,916	372
	(31,770)	22,846

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the period (2003: nil).

The PRC EIT is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

Notes to the Condensed Accounts

5. Taxation (Continued)

The PRC state enterprise income tax rate of the indirect subsidiary of the Company, Jinxi Limited is 30% and the local income tax rate is 3%. Therefore, an aggregate tax rate of 33% was applicable for its income tax filing purpose.

Effective from 25 December 2002, Jinxi Limited was approved to be a foreign-invested joint stock company. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 20 January 2003, effective from 1 January 2003, Jinxi Limited is entitled to a two-year full exemption followed by a three-year 50% tax deduction from the PRC state EIT. Accordingly, the effective tax rate for Jinxi Limited is 3% for the six months ended 30 June 2003.

Approved by local tax authority on 22 July 2004, Jinxi Limited is entitled to a five-year full exemption followed by a five-year 50% tax deduction from the local income tax started from 1 January 2003. Accordingly, the effective tax rate of Jinxi Limited is nil for the six months ended 30 June 2004, and relevant local income tax accrued for the year ended 31 December 2003 of approximately RMB34 million was reversed in the current period.

For the period ended 28 February 2003, the aggregate PRC EIT rate of the wholly owned subsidiary of Jinxi Limited, Tangshan Huineng Electricity Generating Company (the "Huineng Limited") was 33%. On 28 February 2003, Huineng Limited was liquidated and its assets and liabilities were transferred to Jinxi Limited.

6. Dividends

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Interim, paid (a)	390,450	—
Interim, proposed (b)	92,457	—
	482,907	—

(a) At a meeting held on 5 January 2004, the directors of Jinxi Limited proposed a special dividend of RMB400,000,000 to the then shareholders.

At a meeting held on 9 January 2004, with reference to the dividend proposed by Jinxi Limited the directors of Gold Genesis Development Limited (the "Gold Genesis"), Good Lucky Enterprises Limited (the "Good Lucky") and First Glory Services Limited (the "First Glory") individually proposed special dividends to their then shareholders respectively, amounted to RMB390,450,000. Pursuant to certain agreements, dividends declared by Gold Genesis and Good Lucky have been received by Qianxi County Qianxi Heli and Trade Co., Ltd. (the former shareholder of Jinxi Limited) on behalf of their then shareholders.

(b) At a meeting held on 17 September 2004, the directors declared an interim dividend of HK\$87,150,000 (approximately RMB92,457,000), representing HK3 cents per share for the year ending 31 December 2004. This proposed dividend is not reflected as a dividend payable in this condensed accounts, but will be reflected as an appropriation of the retained earnings for the year ending 31 December 2004.

Notes to the Condensed Accounts

7. Earnings Per Share

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB441,262,000 and weighted average of 2,633,269,231 shares in issue during the period.

The comparative basic earnings per share is calculated based on the profit attributable to shareholders of RMB589,734,000 and on an aggregate of 2,100,000,000 shares, comprising 1,000,000 shares issued immediately after incorporation of the Company and 2,099,000,000 shares issued upon the Reorganisation, which were deemed to have been in issue since 1 January 2003.

The diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 30 June 2004 (2003: nil).

8. Fixed Assets

	RMB'000
Cost	
At 1 January 2004	2,250,574
Additions	115,828
Transfers	—
Disposals	(710)
At 30 June 2004	<u>2,365,692</u>
Accumulated depreciation	
At 1 January 2004	260,247
Charge for the year	71,475
Disposals	(157)
At 30 June 2004	<u>331,565</u>
Net book value	
At 30 June 2004	<u>2,034,127</u>
At 31 December 2003	<u>1,990,327</u>

Notes to the Condensed Accounts

9. Trade Receivables

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Accounts receivables	55,239	37,681
Notes receivables	101,514	228,892
	156,753	266,573

As at 30 June 2004 and 31 December 2003, notes receivables were all bank acceptance notes.

As at 30 June 2004, notes receivables that were pledged as security for issuing letters of credit amounted to approximately RMB62 million (31 December 2003: RMB83 million).

As at 30 June 2004 and 31 December 2003, the ageing analysis of trade receivables is as follows:

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Within 3 months	156,753	266,573

The credit policy usually adopted by Jinxi Limited for the sales of products to customers is delivery either on cash or upon receipt of bank acceptance notes with maturity dates within six months.

10. Trade Payables

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Accounts payables	392,107	159,183
Notes payables	—	134,000
	392,107	293,183

Notes to the Condensed Accounts

10. Trade Payables (Continued)

As at 30 June 2004 and 31 December 2003, the ageing analysis of the trade payables is as follows:

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Within 3 months	365,482	129,417
4-6 months	17,754	154,213
7-9 months	4,709	4,183
10-12 months	1,273	2,381
1-2 years	2,889	2,989
	392,107	293,183

11. Long-Term Loans

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Bank loans, wholly repayable within five years—		
Secured	222,230	222,230
Guaranteed	130,000	130,000
Unsecured	—	480,000
	352,230	832,230
Other loans—		
Unsecured	158,000	13,000
	510,230	845,230

Notes to the Condensed Accounts

11. Long-Term Loans (Continued)

The maturity profile of the long-term loans is as follows:

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Within 1 year	113,000	162,230
1-2 years	68,000	518,000
2-5 years	224,230	165,000
Over 5 years	105,000	—
	510,230	845,230
Less: Current portion included in current liabilities	(113,000)	(162,230)
	397,230	683,000

Interest rate of the outstanding balances as at 30 June 2004 was from nil to 5.94% per annum (31 December 2003: from nil to 5.94%).

Other unsecured loan represented a borrowing from local county government amounted to RMB13 million which was interest free and repayable in December 2004 and another borrowing from the local county government at the interest rate of yearly bank deposit rate amounted to RMB145 million which will be repaid from 1 January 2008 onwards with the amount of RMB20 million per annum.

12. Long-Term Advances from Customers

The maturity profile of the long-term advances from certain customers of Jinxi Limited is as follows:

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
1-2 years	27,000	—
2-5 years	28,000	58,000
	55,000	58,000

Notes to the Condensed Accounts

13. Shareholders' Equity

RMB'000

	Reserves						Total equity
	Share capital	Merger reserve	Share Premium	Statutory reserves	Retained earnings	Exchange translation reserve	
	(a)	(b)					
1 January 2004	223,776	(599)	8,028	313,772	400,889	—	945,866
Profit attributable to shareholders	—	—	—	—	441,262	—	441,262
Issue of shares of the Company	85,564	—	2,264,658	—	—	—	2,350,222
Share issue expense	—	—	(113,623)	—	—	—	(113,623)
Dividends declared	—	—	—	—	(390,450)	—	(390,450)
Exchange translation differences	—	—	—	—	—	(1,580)	(1,580)
Others	—	—	557	—	—	—	557
30 June 2004	309,340	(599)	2,159,620	313,772	451,701	(1,580)	3,232,254
Representing							
Share capital	309,340	—	—	—	—	—	309,340
Reserves	—	(599)	2,159,620	313,772	359,244	(1,580)	2,830,457
Dividend proposed (Note 6)	—	—	—	—	92,457	—	92,457
	309,340	(599)	2,159,620	313,772	451,701	(1,580)	3,232,254

	Reserves						Total equity
	Share capital	Merger reserve	Capital reserve	Statutory reserves	Retained earnings	Exchange translation reserve	
	(a)	(b)					
1 January 2003	223,776	(599)	8,001	107,040	—	—	338,218
Profit attributable to shareholders	—	—	—	—	589,734	—	589,734
Release of statutory reserves upon liquidation of Huineng Limited	—	—	—	(8,788)	8,788	—	—
30 June 2003	223,776	(599)	8,001	98,252	598,522	—	927,952

Notes to the Condensed Accounts

13. Shareholders' Equity (Continued)

(a) Share capital

	Number of Shares of HK\$0.1 each	Amount RMB'000
Authorised		
On incorporation at 3 November 2003 (i)	1,000,000	—
Increase in authorised share capital on 23 December 2003 (ii)	4,999,000,000	—
	<hr/>	
At 30 June 2004	5,000,000,000	—
Issued and fully paid		
Share issued and allotted on 13 November 2003 (iii)	1,000,000	—
	<hr/>	
At 1 January 2004	1,000,000	—
Share issued and allotted on 20 January 2004 to acquire subsidiaries (iv)	2,099,000,000	223,776
New issue of shares (v)	700,000,000	74,417
Over-allotment of shares (v)	105,000,000	11,147
	<hr/>	
At 30 June 2004	2,905,000,000	309,340

(i) The Company was incorporated in Bermuda on 3 November 2003 with an authorised 1,000,000 shares with par value of HK\$0.1 each.

(ii) Pursuant to a written resolution of the shareholders passed on 23 December 2003, the authorised number of shares was increased from 1,000,000 to 5,000,000,000 by the creation of an additional 4,999,000,000 new shares.

(iii) On 13 November 2003, 586,000 shares were issued and allotted to Wellbeing Holdings Limited (the "Wellbeing"), 389,000 shares were issued and allotted to Smart Triumph Corporation (the "Smart Triumph") and 25,000 shares were issued and allotted to Chingford Holdings Limited (the "Chingford"), all for nil paid.

Notes to the Condensed Accounts

13. Shareholders' Equity (Continued)

(a) Share capital (Continued)

- (iv) On 20 January 2004, the Company entered into an agreement with Wellbeing, Chingford and Smart Triumph, pursuant to which the Company purchased the entire issued share capital of Gold Genesis, Good Lucky and First Glory (which collectively held 97.6% of the issued share capital of Jinxi Limited) in consideration of the Company (i) issuing 2,099,000,000 shares, credited as fully paid to Wellbeing (as to 1,230,142,124 shares), Chingford (as to 51,727,725 shares) and Smart Triumph (as to 817,130,151 shares) and (ii) credited as fully paid at par the 1,000,000 shares issued nil paid by the Company on 13 November 2003.
- (v) On 12 March 2004, the Company completed its global offering of 805,000,000 shares at HK\$2.75 per share for cash. 700,000,000 shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004 and the over-allotment of 105,000,000 shares was completed on 12 March 2004. The excess over the par value of the shares was credited to the share premium account.

(b) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

14. Commitments

Capital commitments

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Purchase of fixed assets		
— Contracted but not provided for	29,885	—
— Authorised but not contracted for	804,950	820,000
	834,835	820,000

15. Contingent Liabilities

As at 30 June 2004, Jinxi Limited provided guarantee for bank loans in favour of third parties amounting to RMB27 million (31 December 2003: RMB27 million).

Notes to the Condensed Accounts

16. Subsequent Events

As approved by the directors, the Company announced on 27 August 2004 that the total capital expenditure under the H-section steel project is expected to be approximately RMB1,300 million, which represents an increase of RMB500 million compared to the original capital expenditure as stated in the Prospectus.

17. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the six months ended 30 June 2004 and 2003, the directors are of the view that the following companies and person are related parties of the Group:

Name	Relationship with the Group
Qianxi County Qianxi Heli and Trade Co., Ltd. (the "Qianxi Heli")	Former shareholder of Jinxi Limited and controlled by the same management and same ultimate controlling shareholder of the Company
Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd. (the "Qianxi Fuqin")	Former shareholder of Jinxi Limited and controlled by the same management and same ultimate controlling shareholder of the Company
Pioneer Metals Co., Ltd. (the "PMC")	Former shareholder of Jinxi Limited and controlled by Ms. Chen Ningning, a director of the Company
Tianjin Jinying Corporation (the "Tianjin Jinying")	Former shareholder of Jinxi Limited
Qianxi County Zhongxing Iron Mine Co., Ltd. (the "Zhongxing Iron Mine")	Former shareholder of Jinxi Limited and associated company of Jinxi Limited
Tangshan City Jinxi Iron and Steel Group Co., Ltd. (the "Tangshan Jinxi Group")	Shareholder of Jinxi Limited and controlled by Mr. Han Jingyuan, a director of the Company
Beijing PMC New Century Technology Co., Ltd. (the "Beijing PMC")	Subsidiary of PMC
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Smart Triumph	Substantial shareholder of the Company

Notes to the Condensed Accounts

17. Related Party Transactions and Balances (Continued)

- (b) During the six months ended 30 June 2004 and 2003, the directors were of the view that the following significant related party transactions were carried out in the normal course of business of the Group:

Name of the related parties	Nature of transactions	Unaudited six months ended 30 June	
		2004	2003
		RMB'000	RMB'000
Zhongxing Iron Mine	Purchase of raw materials	45,516	21,868
PMC	Purchase of raw materials	1,624	—
Beijing PMC	Sales of finished goods	—	854

Sales and purchase prices were determined with reference to the prevailing market prices and the prices charged to or by third parties.

- (c) As at 30 June 2004 and 31 December 2003, the directors were of the view that the following related party balances were attributed to the above-mentioned related party transactions, dividend appropriation during the years and other ordinary business transactions.

Except certain agreements finalised in December 2003 in which Jinxi Limited agreed with PMC and Qianxi Heli that an aggregate amount of approximately RMB261 million owing to them will only be due after 30 June 2005, the related party balances are all unsecured, interest-free and have no fixed term of repayment.

Notes to the Condensed Accounts

17. Related Party Transactions and Balances (Continued)

(c) (Continued)

	Unaudited 30 June 2004	Audited 31 December 2003
	RMB'000	RMB'000
Amount due from related parties		
— Tangshan Jinxi Group	62,310	62,310
— Qianxi Fuqin	6,056	6,056
— Zhongxing Iron Mine	4,441	—
	72,807	68,366
Amount due to related parties		
— Smart Triumph	152,000	—
— PMC	146,552	146,552
— Qianxi Heli	225,114	114,099
— Mr. Han Jingyuan	12	4,910
— Zhongxing Iron Mine	—	2,065
	523,678	267,626
Less: Current portion of amount due to related parties	(263,027)	(6,975)
Long-term due to related parties	260,651	260,651

Management Discussion and Analysis



BUSINESS REVIEW

The Board is pleased to announce that the unaudited consolidated turnover of the Group for the first half of 2004 was RMB4,094 million, representing an increase of 101.2% as compared to the corresponding period of 2003. Unaudited profit attributable to shareholders was RMB441 million, representing a decrease of 25.3% when compared to the corresponding period of 2003. Unaudited basic earnings per share for the first half of 2004 decreased by RMB0.11 to RMB0.17 when compared to that of the corresponding period of 2003.

The Group's sale of billets and strips in the first half of 2004 amounted to approximately 1,153,000 tonnes and 417,000 tonnes respectively, representing a growth of 66.4% and 25.2% respectively when compared to the sale of 693,000 tonnes of billets and 333,000 tonnes of strips in the corresponding period of 2003. The average prices of billets and strips (excluding value added tax) were RMB2,578 per tonne and RMB2,672 per tonne respectively, representing an increase of 35.8% and 25.8% when compared with the prices in the corresponding period of 2003 of RMB1,899 and RMB2,124 per tonne respectively.

In the first half of 2004, the Group's average cost of sales of billets and strips were RMB2,271 and RMB2,360 respectively, representing an increase of 73.8% and 66.7% respectively when compared with RMB1,307 and RMB1,416 respectively in the corresponding period of 2003.

Due to the substantial fluctuation in the prices of steel and raw materials in the first half of 2004 and the impact of the austerity measures of Mainland China, the gross profits of billets and strips were reduced to RMB307 per tonne and RMB312 per tonne respectively (2003 corresponding period: RMB592 and RMB708 per tonne respectively). The gross profit in the first half of 2004 dropped by 25.6% to RMB485 million when compared to the corresponding period of 2003 (2003 corresponding period: RMB653 million).

Human Resources and Remuneration Policies

The Group had a workforce of 4,441 (30 June 2003: 4,256) as at 30 June 2004. Staff cost of the Group was approximately RMB57,237,000 for the period under review (2003 corresponding period: RMB45,392,000), representing an increase of 26.1%. The cost included basic salary and benefits, as well as other staff benefits such as discretionary bonus, medical and insurance plans, pension schemes, unemployment insurance plans and maternity insurance plans. The Group's remuneration policy has been so designed that its employees' incomes were tied with their productivity and sales volume, as well as with the extent they meet its quality and cost control targets. In order to improve productivity and further enhance the quality of the workforce, the Group has implemented continuing education and training programmes for both the management staff and factory workers.



Dividend Policy

The Company plans to distribute not less than 20% of the Group's distributable profit as dividend for the period subsequent to its listing, but the actual amount of dividend and its percentage of the profit will be decided at the discretion of the Board of Directors and will depend upon the Company's future operation and earnings, capital demand and surplus, general financial condition, contractual restrictions, and other factors that the Board of Directors deems relevant. In addition, pursuant to the relevant PRC law, Hebei Jinxi Iron and Steel Company Limited's distributable profits should not be higher than its net profit after allocations made to the statutory reserve and welfare funds as determined by PRC GAAP.

Capital Structure

After taking into account the proceeds of the listing, the cash and bank balances of the Group as at 30 June 2004 amounted to RMB2,285 million (31 December 2003: RMB189 million).

The current ratio has improved significantly and has improved from 0.96 at the end of 2003 to 2.07 as at 30 June 2004.

As at 30 June 2004, the Group had loans repayable within one year and loans repayable after one year amounting to RMB273 million and RMB397 million respectively (31 December 2003: RMB322 million and RMB683 million respectively).

The consolidated interest expense in the first half of 2004 amounted to RMB32.211 million (2003 corresponding period: RMB9.29 million). The interest coverage was 13.7 which is at a healthy level (2003 corresponding period: 66.9).

As at 30 June 2004, the ratio between total liabilities and total assets of the Group was 43.6%, representing an improvement in the same ratio of 75.0% as at 31 December 2003.

In conclusion, the financial status of the Group was further strengthened when compared to 2003.

Use of Proceeds of Global Offering

The Company issued 805 million shares of HK\$2.75 per share by way of global offering and over-allotment in March 2004. The net proceeds after deducting the relevant expenses was approximately HK\$2,107 million.

The above-mentioned proceeds have placed in banks as short-term deposits as at 30 June 2004.



Due to the impact of the austerity measures in PRC, the listing proceeds to be remitted to China for iron and steel projects are subject to the approval of the State Council of PRC. During this transitional period, in order not to delay the implementation and to ensure the timely production of the industrial project, in August 2004, the board of directors of the Company approved to utilize the listing proceeds of US\$164 million as deposits in commercial bank to pledge against the additional banking facility for the Group's subsidiary Hebei Jinxi Iron and Steel Company Limited. The banking facility will be utilized to finance/re-finance the capital expenditure which is to be funded by the listing proceeds as disclosed in the Prospectus.



Capital Commitments

As at 30 June 2004, the Group had capital commitments in respect of authorised but not yet contracted capital commitment for the production line of H-section steel, which amounted to RMB835 million (31 December 2003: RMB820 million). Such capital commitments will be financed by the funds raised by the listing.

Guarantees and Contingent Liabilities

As at 30 June 2004, the Group had contingent liabilities in respect of guarantees provided for the grant of bank loan to third parties amounting to RMB27 million (31 December 2003: RMB27 million).

Pledge of Assets

The net book value of buildings and machinery pledged as security for the Group's loans amounted to approximately RMB498 million as at 30 June 2004 (31 December 2003: RMB212 million).

Exchange Risks

The bank balance of the Group in Renminbi, US dollar and Hong Kong dollar was accounted for 2.2%, 93.1% and 4.7% respectively as at 30 June 2004 (31 December 2003: 97.4%, 0% and 2.6% respectively).

As most of the sales, the purchase of raw materials and bank loans committed by the Group were mainly in Renminbi in the first half of 2004 and in the corresponding period of 2003, coupled with the relative stable exchange rates of Renminbi to Hong Kong dollar and to US dollar, the Group's exposure to the foreign exchange risk remained fairly low.

Interest Rate Risks

The interest rates of the Group's loans are subject to variations. The risk of increasing interest rate will increase the interest costs of both new loans and existing loans. Currently, the Group has not used any derivatives to hedge against its interest rate risks.



Post Balance Sheet Events

Save as disclosed in this report of the Company, there are no events to cause material impact on the Group from the balance sheet date to the date of this report.

Prospects

Following the production of the production line of mid-width strips in May 2004 and the commencement of the project of H-section steel, the product mix of the Group is expected to improve further.



In the coming second half of the year, the Group will continue to strive to meet the targets that optimise its product mix and reduce costs.

Directors' Interests and Short Positions in Securities

As at 30 June 2004, the interests and short positions of the directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies, were as follows:

Number of shares held and nature of interest in the Company:

	Corporate interest	Total interests	Long/Short Position
Mr. Han Jingyuan	1,282,480,849 (note 1)	44.15%	Long
Ms. Chen Ningning	817,519,151 (note 2)	28.14%	Long

Notes:

- As at 30 June 2004, Mr. Han Jingyuan beneficially owns 60.69% of the issued share capital of Wellbeing Holdings Limited ("Wellbeing Holdings") and holds 16.09% of the issued share capital of Wellbeing Holdings on trust for the benefit of certain employees of the subsidiary of the Company. Wellbeing Holdings directly owns 1,230,728,124 shares or 42.37% of the issued shares of the Company. He is also the beneficial owner of 100% of the issued share capital of Chingford Holdings Limited which directly owns 51,752,725 shares or 1.78% of the issued shares of the Company.
- As at 30 June 2004, Ms. Chen Ningning owns 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owns 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, as at 30 June 2004, none of the directors and chief executives and their associates has any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies.

Directors' Rights to Acquire Shares or Debentures

Apart from the transactions related to the Group Reorganisation as disclosed in the Prospectus and as set out in note 13 above, at no time during the period was rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or was any such rights exercised by them; or was the Company or any of its holdings companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

Substantial Shareholders

As at 30 June 2004, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Number of shares held	Percentage of the Company's issued share capital	Long/short Position
Wellbeing Holdings	1,230,728,124	42.37%	Long
Smart Triumph	817,519,151	28.14% (note1)	Long
Ms. Lu Hui	817,519,151	28.14% (note1)	Long

Note:

- As at 30 June 2004, the interests of Smart Triumph Corporation in the shares of the Company are also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owns 50% of the issued share capital of Smart Triumph.

Save as disclosed above, as at 30 June 2004, no person, other than a director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company required to be kept in the register by the Company under Section 336 of the SFO.

Model Code for Securities Transactions by Directors of Listed Issuers

For the period from 2 March 2004 (the date when the Company's shares were listed on the Stock Exchange) to 30 June 2004, the Company has adopted a code of conduct regarding director's securities transactions on terms no less exacting than the required standard set out in the Appendix 10 of the Listing Rules.

For the period from 2 March 2004 (the date when the Company's shares were listed on the Stock Exchange) to 30 June 2004, the directors of the Company have complied with the required standard set out in the Appendix 10 of the Listing Rules and its code of conduct regarding directors' securities transactions.

Audit Committee and Independent Non-Executive Directors

The Company has set up an audit committee and the terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants was adopted as the terms of reference of the audit committee.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. The audit committee comprises all of the three independent non-executive directors of the Company.

Purchase, Redemption or Sale of Listed Securities of the Company

Since the listing of the Company's shares on the Stock Exchange on 2 March 2004 and pursuant to the over-allotment option referred to in the Prospectus, 105,000,000 shares were issued at the offer price of HK\$2.75 per share on 12 March 2004.

Save as disclosed above and in the Prospectus, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the current period.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the current period.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 5 October 2004 to Thursday, 7 October 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 4 October 2004.

List of Directors

As at the date of this report, the executive directors of the board of directors are Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Zhu Jun, Mr. Zhu Zijiu and Mr. Tang Chi Fai. The independent non-executive directors are Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis.

By Order of the Board
China Oriental Group Company Limited
Han Jingyuan
Chairman and Chief Executive Officer

Hong Kong
17 September 2004



CHINA ORIENTAL GROUP COMPANY LIMITED
中國東方集團控股有限公司

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