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）

05 INTERIM REPORT
中期報告

* For identification purposes only
僅供識別

Financial Highlights

	For the six months ended 30 June Unaudited Consolidated		
	2005	2004	Percentage of increase/(decrease)
Sales volume *(thousand tonnes)*			
Billets	**665**	1,153	(42.3%)
Strips and strip products	**905**	417	117.0%
Average selling price per tonne *(RMB)*			
Billets	**2,689**	2,578	4.3%
Strips and strip products	**3,237**	2,672	21.1%
Sales *(RMB millions)*	**4,726**	4,094	15.4%
Profit attributable to equity holders of the Company *(RMB millions)*	**613**	441	39.0%
Basic earnings per share *(RMB)*	**0.21**	0.17	23.5%

Condensed Consolidated Balance Sheet

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 2005 together with the comparative amounts for the corresponding period. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 have been reviewed by the Company's Audit Committee.

	Note	**Unaudited 30 June 2005 RMB'000**	Restated 31 December 2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**3,002,957**	2,349,068
Investment properties	5	**21,498**	—
Leasehold land and land use rights	5	**80,424**	55,239
Interest in associates		**13,068**	12,474
Deferred income tax assets		**3,146**	—
		3,121,093	2,416,781
Current assets			
Inventories		**668,649**	900,207
Trade receivables	7	**1,454,095**	827,894
Prepayments, deposits and other receivables	8	**273,414**	308,769
Held-to-maturity investments	10	**8,100**	—
Amount due from a related party	25	**6,495**	—
Loans receivables		**50,000**	50,000
Other financial assets at fair value through profit or loss	9	**23,390**	—
Current portion of long-term advances to suppliers		**—**	50,000
Restricted bank balances		**1,572,491**	1,707,949
Bank and cash balances		**779,330**	1,218,056
Other current assets		**5,883**	2,236
		4,841,847	5,065,111
Total assets		**7,962,940**	7,481,892

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2005 RMB'000	Restated 31 December 2004 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	**2,460,375**	2,460,375
Other reserves	12	**574,450**	563,581
Retained earnings		**1,331,842**	861,384
		4,366,667	3,885,340
Minority interests		**148,218**	115,524
Total equity		**4,514,885**	4,000,864
LIABILITIES			
Non-current liabilities			
Borrowings	16	**429,230**	459,230
Long-term advances from customers	14	**19,000**	25,000
		448,230	484,230
Current liabilities			
Trade payables	13	**462,137**	417,730
Accruals, advances from customers and other current liabilities	15	**616,049**	734,742
Amount due to related parties	25	**280,252**	247,844
Current income tax liabilities		**81,887**	138,253
Current portion of long-term advances from customers	14	**6,000**	—
Borrowings	16	**1,550,488**	1,458,000
Dividends payable		**637**	229
Derivative financial instruments	6	**2,375**	—
		2,999,825	2,996,798
Total liabilities		**3,448,055**	3,481,028
Total equity and liabilities		**7,962,940**	7,481,892
Net current assets		**1,842,022**	2,068,313
Total assets less current liabilities		**4,963,115**	4,485,094

Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Sales	4	**4,726,083**	4,093,974
Cost of goods sold		**(3,899,927)**	(3,608,542)
Gross profit		**826,156**	485,432
Other gains — net	17	**35,793**	19,156
Selling and marketing costs	18	**(4,388)**	(3,006)
Administrative expenses	18	**(72,346)**	(54,956)
Operating profit		**785,215**	446,626
Finance costs	19	**(53,828)**	(32,211)
Share of profit of associates		**104**	3,889
Profit before income tax		**731,491**	418,304
Income tax expense	20	**(108,862)**	33,686
Profit for the period		**622,629**	451,990
Attributable to:			
Equity holders of the Company		**612,989**	441,262
Minority interests		**9,640**	10,728
		622,629	451,990
Earnings per share for profit attributable to the equity holders of the Company during the period			
— basic	21	**RMB0.21**	RMB0.17
— diluted	21	**Not applicable**	Not applicable
Dividends	22	**142,531**	482,907

Condensed Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
		Unaudited Attributable to equity holders of the Company				
Balance at 1 January 2004		223,776	321,201	400,889	23,168	969,034
Profit for the period		—	—	441,262	10,728	451,990
Issue of share capital		2,350,222	—	—	—	2,350,222
Share issue expense		(113,623)	—	—	—	(113,623)
Special dividend paid		—	—	(390,450)	(9,550)	(400,000)
Minority shareholder's injection		—	—	—	500	500
Exchange translation difference		—	(1,580)	—	—	(1,580)
Others		—	557	—	13	570
		2,236,599	(1,023)	(390,450)	(9,037)	1,836,089
Balance at 30 June 2004		2,460,375	320,178	451,701	24,859	3,257,113
Balance at 1 January 2005		2,460,375	563,581	861,384	115,524	4,000,864
Cash flow hedges, net of tax	*6*	—	(2,375)	—	—	(2,375)
Profit for the period		—	—	612,989	9,640	622,629
Total recognised income for the period		—	(2,375)	612,989	9,640	620,254
Dividend relating to 2004	*22*	—	—	(142,531)	(3,534)	(146,065)
Exchange translation difference		—	10,646	—	—	10,646
Minority shareholder's injection		—	—	—	25,478	25,478
Others		—	2,598	—	1,110	3,708
		—	13,244	(142,531)	23,054	(106,233)
Balance at 30 June 2005		**2,460,375**	**574,450**	**1,331,842**	**148,218**	**4,514,885**

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(142,608)**	631,090
Net cash used in investing activities	**(258,363)**	(152,553)
Net cash (used in)/generated from financing activities	**(39,473)**	1,654,099
Net (decrease)/increase in cash and cash equivalents	**(440,444)**	2,132,636
Cash and cash equivalent at 1 January	**1,218,056**	152,746
Exchange gains/(losses) on cash	**1,718**	(1,788)
Cash and cash equivalents at 30 June	**779,330**	2,283,594

Notes to the Condensed Consolidated Financial Information

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 section headed "Corporate Structure" of the global offering prospectus dated 18 February 2004 (the "Prospectus").

The shareholders of the Company collectively held 97.6% interests in Hebei Jinxi Iron and Steel Co., Ltd. (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 then 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (August 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36, 38, 40 and HKAS-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36, 38, 40 and HKFRS 3 had no material effect on the Group's policies.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 and HKAS-Int 15 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of revised HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and held-to-maturity investments. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKFRS 3 — prospectively after the adoption date.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

The adoption of revised HKAS 17 and HKAS-Int 15 has no impact on the opening reserves at 1 January 2004.

	As at	
	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**(80,424)**	(55,239)
Increase in leasehold land and land use rights	**80,424**	55,239

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

3.1 Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, in respective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the major operating entities within the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.2 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.3 Property, plant and equipment

Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

3.4 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.4 Investment properties *(Continued)*

After initial recognition, investment property is carried at depreciated cost less accumulated impairment. Fair value is determined and disclosed based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are not recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed. The transfer does not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.6 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.6 Investments (Continued)

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the period, the Group did not hold any financial assets in this category.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.6 Investments *(Continued)*

(d) Available-for-sale financial assets (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.7 Inventories

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

3.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.9 Share capital

Ordinary shares are classified as equity.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

3.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings at nil or low interest rates from government are regarded as government assistance and recognised initially at the cost of consideration received.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.11 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost — recovery basis as conditions warrant.

3.12 Comparatives

The Group previously disclosed share premium as other reserves. Management believes that their inclusion in share capital is a fairer representation of the Group's activities.

4. SALES

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Revenues recognised for the six months ended 30 June 2005 and 2004 were as follows:

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Sales:		
Gross sales, less discounts and returns		
— billets	**1,787,782**	2,971,624
— strips and strip products	**2,929,967**	1,113,983
— others	**8,334**	8,367
	4,726,083	4,093,974

(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.

5. CAPITAL EXPENDITURE

	Investment properties RMB'000	Property, plant and equipment RMB'000	Leasehold land and land use rights RMB'000 Note 3 (a)
Opening net book amount as at 1 January 2005	—	2,349,068	55,239
Additions	21,498	760,001	25,644
Disposals	—	(10,558)	—
Depreciation/Amortisation charge *(Note 18)*	—	(95,554)	(459)
Closing net book amount as at 30 June 2005	**21,498**	**3,002,957**	**80,424**
Opening net book amount as at 1 January 2004	—	1,947,221	43,106
Additions	—	102,828	13,000
Disposals	—	(553)	—
Depreciation/Amortisation charge *(Note 18)*	—	(71,042)	(433)
Closing net book amount as at 30 June 2004	**—**	**1,978,454**	**55,673**
Additions	—	448,337	—
Disposals	—	(10)	—
Depreciation/Amortisation charge	—	(77,713)	(434)
Closing net book amount as at 31 December 2004	**—**	**2,349,068**	**55,239**

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2005	
	Assets *RMB'000*	**Liabilities** *RMB'000*
Forward foreign exchange contract — cash flow hedges	**—**	**2,375**

Part of the highly possible future transactions denominated in Euro dollars were designated as hedged items. The loss in equity on forward foreign exchange contracts as of 30 June 2005 will be released to the cost of hedged items at various dates between six months to one year from the balance sheet date.

7. TRADE RECEIVABLES

	Unaudited 30 June 2005 RMB'000	Restated 31 December 2004 RMB'000
Accounts receivables	10,359	227
Notes receivables	1,443,736	827,667
	1,454,095	827,894

As at 30 June 2005 and 31 December 2004, notes receivables were all bank acceptance notes.

As at 30 June 2005, notes receivables that were pledged as security in favour of a third party for issuing letters of credit amounting to approximately RMB473 million (31 December 2004: RMB111 million).

As at 30 June 2005 and 31 December 2004, the carrying amount of the Group's trade receivables approximated their fair value.

As at 30 June 2005 and 31 December 2004, the ageing analysis of trade receivables were as follows:

	Unaudited 30 June 2005 RMB'000	Restated 31 December 2004 RMB'000
Within 3 months	1,454,095	827,894

The credit policy usually adopted by the Group 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.

8. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Unaudited 30 June 2005 RMB'000	Restated 31 December 2004 RMB'000
Other receivables	78,283	91,765
Less: provision for impairment	(600)	(600)
Other receivables — net	77,683	91,165
Prepayments	195,731	217,604
	273,414	308,769

9. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2005 RMB'000
Money market fund	23,390

The carrying amounts of the above financial assets are designated at fair value through profit or loss on initial recognition.

10. HELD-TO-MATURITY INVESTMENTS

	Unaudited 30 June 2005 RMB'000
Investments in bond	8,100

The bond is denominated in US dollars ("USD") and will mature on 2 November 2005 with a repayment of USD1,000,000.

11. SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares	Share premium	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	1,000	—	—	—
Share issued and allotted on 20 January 2004 to acquire subsidiaries *(i)*	2,099,000	223,776	—	223,776
New issue of shares *(ii)*	700,000	74,417	1,969,268	2,043,685
Over-allotment of shares *(ii)*	105,000	11,147	295,390	306,537
Share issue expense *(ii)*	—	—	(113,623)	(113,623)
At 30 June 2004	2,905,000	309,340	2,151,035	2,460,375
At 31 December 2004	2,905,000	309,340	2,151,035	2,460,375
At 30 June 2005	2,905,000	309,340	2,151,035	2,460,375

As at 30 June 2005 and 31 December 2004, the total authorised number of ordinary shares is 5,000,000,000 shares with par value of HK$0.1 per share.

As at 30 June 2005 and 31 December 2004, the number of issued and fully paid ordinary shares is 2,905,000,000 shares.

(i) 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.

(ii) 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.

12. OTHER RESERVES

	Merger reserve RMB'000 (a)	Capital surplus RMB'000	Hedging reserve RMB'000 (b)	Statutory reserve RMB'000	Translation RMB'000	Total RMB'000
Balance at 1 January 2004	(599)	8,028	—	313,772	—	321,201
Exchange translation difference	—	—	—	—	(1,580)	(1,580)
Others	—	557	—	—	—	557
Balance at 30 June 2004	(599)	8,585	—	313,772	(1,580)	320,178
Profit appropriation	—	—	—	232,874	—	232,874
Exchange translation difference	—	—	—	—	5,978	5,978
Others	—	4,551	—	—	—	4,551
Balance at 31 December 2004	(599)	13,136	—	546,646	4,398	563,581
Cash flow hedges:						
— Fair value loss in the period	—	—	(3,405)	—	—	(3,405)
— Transfer to property, plant and equipment	—	—	1,030	—	—	1,030
Exchange translation difference	—	—	—	—	10,646	10,646
Others	—	2,598	—	—	—	2,598
Balance at 30 June 2005	(599)	15,734	(2,375)	546,646	15,044	574,450

12. OTHER RESERVES *(Continued)*

(a) 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.

(b) Hedging reserve

The hedging reserve represents the unrealised gain or loss of the hedging instrument that is determined to be an effective hedge.

The hedging reserve will be removed from equity and be included in the initial cost or other carrying amount of the asset or liability which was designated as hedged items when the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability.

13. TRADE PAYABLES

	Unaudited 30 June 2005	Restated 31 December 2004
	RMB'000	*RMB'000*
Accounts payables	**343,084**	254,530
Notes payables	**119,053**	163,200
	462,137	417,730

As at 30 June 2005 and 31 December 2004, the ageing analysis of the trade payables were as follows:

	Unaudited 30 June 2005	Restated 31 December 2004
	RMB'000	*RMB'000*
Within 3 months	**450,230**	333,165
4 — 6 months	**3,191**	76,605
7 — 9 months	**5,569**	2,867
10 — 12 months	**3,087**	1,294
Above 1 year	**60**	3,799
	462,137	417,730

14. LONG-TERM ADVANCES FROM CUSTOMERS

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

	Unaudited 30 June 2005 ***RMB'000***	Restated 31 December 2004 *RMB'000*
Within 1 year	**6,000**	—
1-2 years	**4,000**	10,000
2-5 years	**15,000**	15,000
	25,000	25,000
Less: Current portion included in current liabilities	**(6,000)**	—
	19,000	25,000

15. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

	Unaudited 30 June 2005 ***RMB'000***	Restated 31 December 2004 *RMB'000*
Welfare payables	**19,701**	16,753
Accrued expenses	**15,075**	35,816
Advances from customers	**290,694**	425,087
Payroll payables	**10,177**	7,064
Tax payables	**11,444**	26,916
Other levies payables	**4,097**	6,661
Other payables	**264,861**	216,445
	616,049	734,742

16. BORROWINGS

	Unaudited 30 June 2005 RMB'000	Restated 31 December 2004 RMB'000
Non-current		
Bank borrowings:		
Secured	**184,230**	184,230
Guaranteed	**100,000**	130,000
	284,230	314,230
Other loans, unsecured *(i)*	**145,000**	145,000
	429,230	459,230
Current		
Bank borrowings:		
Secured	**1,520,488**	1,388,000
Guaranteed	**30,000**	70,000
	1,550,488	1,458,000
Total borrowings	**1,979,718**	1,917,230

(i) Other unsecured loan represented a borrowing from the local county government at the interest rate of yearly bank deposit rate amounting to RMB145 million which will be repaid from 1 January 2008 onwards with the amount of RMB20 million per annum.

16. BORROWINGS *(Continued)*

The maturity of bank borrowings is as follows:

	Unaudited 30 June 2005	Restated 31 December 2004
	RMB'000	*RMB'000*
Within 1 year	**1,550,488**	1,458,000
Between 1 and 2 years	**184,230**	165,000
Between 2 and 5 years	**100,000**	149,230
Wholly repayable within 5 years	**1,834,718**	1,772,230

The effective interest rates at the balance sheet date were as follows:

	Unaudited 30 June 2005	Restated 31 December 2004
	RMB'000	*RMB'000*
Bank borrowings	**4.94%-5.90%**	4.78%-5.90%
Other loans	**1.98%**	1.98%

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	30 June 2005	31 December 2004	**30 June 2005**	31 December 2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**284,230**	314,230	**284,230**	314,230
Other loans	**145,000**	145,000	**115,205**	113,178
	429,230	459,230	**399,435**	427,408

The carrying amounts of the borrowings are denominated in RMB.

17. OTHER GAINS — NET

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Interest income	**34,147**	9,735
Subsidy income	**302**	—
Sales of raw materials and by-products	**11,231**	8,688
Loss on derecognition of property, plant and equipment	**(10,342)**	—
Others	**455**	733
	35,793	19,156

18. EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments)		
— Salaries, wages and welfare	**61,901**	48,671
— Pension costs-defined contribution plan	**10,256**	8,566
	72,157	57,237
Amortisation of leasehold land and land use rights *(Note 5)*	**459**	433
Depreciation of fixed assets *(Note 5)*	**95,554**	71,042
Operating lease rental in respect of land use rights	**3,123**	1,357
Reversal of provision for doubtful receivables	**—**	(10)
Auditors' remuneration	**1,400**	1,272
Inventory provision	**1,609**	—

19. FINANCE COSTS

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Interest expense:		
— borrowings	**(42,591)**	(27,019)
— related party interest expense	**(1,137)**	—
— bank charges	**(599)**	(424)
— discount of notes receivables	**(572)**	(4,560)
	(44,899)	(32,003)
Net foreign exchange transaction loss	**(8,929)**	(208)
	(53,828)	(32,211)

20. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Current income tax		
— PRC enterprise income tax (the "PRC EIT")	**112,008**	(33,894)
Deferred income tax	**(3,146)**	208
	108,862	(33,686)

21. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**612,989**	441,262
Weighted average number of ordinary shares in issue *(thousands)*	**2,905,000**	2,633,269
Basic earnings per share *(RMB per share)*	**0.21**	0.17

Diluted

The diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 30 June 2005 (30 June 2004: nil).

22. DIVIDENDS

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Paid during this interim period	**142,531**	390,450
Interim dividends proposed after balance sheet date	**—**	92,457
	142,531	482,907

(a) At a meeting held on 31 March 2005, the directors proposed a final dividend of HK$133,630,000 (approximately RMB142,531,000), representing HK4.6 cents per ordinary share. The Annual General Meeting held on 19 May 2005 approved the directors' dividend proposal.

(b) The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

23. CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred was as follows:

	Unaudited 30 June 2005 *RMB'000*	Unaudited 30 June 2004 *RMB'000*
Property, plant and equipment		
Contracted but not provided for	**1,112,271**	29,885
Authorised but not contracted for	**169,367**	804,950
	1,281,638	834,835

24. CONTINGENT LIABILITIES

As at 30 June 2005, Jinxi Limited provided guarantee for bank loans in favour of third parties amounting to RMB23 million approximately (31 December 2004: RMB30 million approximately).

As at 30 June 2005, a third party acted as an agent and issued letter of credit to import fixed assets for Jinxi Limited. Accordingly, Jinxi Limited pledged bank deposits and notes receivables amounting to RMB5 million and RMB473 million *(Note 7)* respectively as collaterals (31 December 2004: RMB255 million and RMB111 million respectively).

25. RELATED-PARTY TRANSACTIONS

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 2005 and 2004, the directors are of the view that the following companies and person are related parties of the Group:

Name	Relationship with the Group
Wellbeing	Controlling shareholder of the Company
Smart Triumph	Substantial shareholder of the Company
Qianxi County Qianxi Heli and Trade Co., Ltd. (the "Qianxi Heli")	Former shareholder of Jinxi Limited and its controlling shareholder is Mr. Han Jingyuan, a director of the Company
Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd. (the "Qianxi Fuqin")	Former shareholder of Jinxi Limited and its controlling shareholder is Mr. Han Jingyuan, a director 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
Tangshan City Jinxi Iron and Steel Group Co., Ltd. (the "Tangshan Jinxi Group")	Shareholder of Jinxi Limited and its legal representative is Mr. Han Jingyuan, a director of the Company
Beijing PMC New Century Technology Co., Ltd. (the "Beijing PMC")	Subsidiary of PMC
Foshan Jin Lan Aluminium Company Limited (the "Foshan Jin Lan")	Substantial shareholder of Foshan Jinxi Jinlan Cold Rolled Sheet Company Limited (the "Foshan Jinxi")

25. RELATED-PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Name	Relationship with the Group
Qianxi County Zhongxing Iron Mine Co., Ltd. (the "Zhongxing Iron Mine")	Jinxi Limited's associated company
Jinyuan Iron Mine Co., Ltd. (the "Jinyuan Iron Mine")	Jinxi Limited's associated company
Mr. Han Jingyuan	Chairman and Chief Executive Officer of the Company
Mr. Zhou Weijie	Director of Foshan Jinxi
Ms. Fu Ruiyun	The shareholder of Tangshan Jinxing Lu Liao Co., Ltd. (the "Jinxing Lu Liao")

(b) During the six months ended 30 June 2005 and 2004, 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:

(i) Purchases

	Unaudited	
	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Foshan Jin Lan	**23,176**	—
Purchases of goods:		
— Zhongxing Iron Mine	**13,709**	45,516

25. RELATED-PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

(ii) Loan received

Mr. Zhou Weijie lent loans, amounting to RMB12 million to Foshan Jinxi in January 2005. According to the agreement between Mr. Zhou Weijie, Foshan Jin Lan and Foshan Jinxi, Foshan Jinxi should repay the amount owing Mr. Zhou Weijie to Foshan Jin Lan.

The balance due to Foshan Jin Lan, amounting to RMB3,149,513, was unsecured, interest free and had no fixed term of repayment. The remaining part, approximately amounting to RMB39,623,000, will bear interest at rate of 7.15% per annum and was unsecured with no fixed term of repayment. As at 30 June 2005, the interest expense amounting to RMB1.1 million incurred (30 June 2004: nil).

Ms. Fu Ruiyun lent loans, amounting to RMB13 million to Jinxing Lu Liao. The loan was unsecured, interest free and had no fixed term of repayment.

25. RELATED-PARTY TRANSACTIONS *(Continued)*

(c) As at 30 June 2005 and 31 December 2004, 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.

Save as disclosed in Note 25 (b) (ii) and except certain agreements arrived 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.

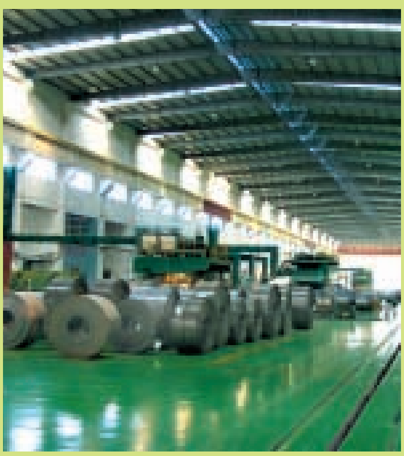
	Unaudited 30 June 2005 ***RMB'000***	Restated 31 December 2004 *RMB'000*
Amount due from a related party		
— Jinyuan Iron Mine	**6,495**	—
	6,495	—
Amount due to related parties		
— PMC	**100,023**	100,023
— Qianxi Heli	**116,666**	116,666
— Mr. Han Jingyuan	**—**	11
— Tangshan Jinxi Group	**5,273**	2,063
— Foshan Jin Lan	**42,773**	1,463
— Ms. Fu Ruiyun	**12,983**	—
— Mr. Zhou Weijie	**—**	25,083
— Zhongxing Iron Mine	**2,534**	2,535
	280,252	247,844

26. SUBSEQUENT EVENTS

(1) Foshan Jinxi pledged buildings and land use rights, amounting to approximately RMB57.8 million as security for bank loans in July 2005.

(2) On 22 July 2005, the People's Bank of China announced a new series of exchange rates of RMB to the USD and HK$, strengthening the RMB by about 2 percent. As at 30 June 2005, the Group had bank balance denominated in USD and HK$ amounting to 218 million and 5.3 million respectively.

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 2005 was RMB4,726 million, representing an increase of 15.4% as compared to that of the corresponding period of 2004. Unaudited profit attributable to equity holders of the Company was RMB613 million, representing an increase of 39.0% when compared to that of the corresponding period of 2004. Unaudited basic earnings per share for the first half of 2005 increased by RMB0.04 to RMB0.21 when compared to that of the corresponding period of 2004.

The Group's sales of billets and strips & strip products in the first half of 2005 amounted to approximately 665,000 tonnes and 905,000 tonnes respectively (2004 corresponding period: approximately 1,153,000 tonnes and 417,000 tonnes respectively). The sales volume of strips & strip products accounted for 57.6% (2004 corresponding period: 26.6%) of the total sales volume, indicating further optimisation of the Group's sales mix. The average prices of billets and strips & strip products (excluding value added tax) were RMB2,689 per tonne and RMB3,237 per tonne respectively, representing increases of 4.3% and 21.1% when compared with RMB2,578 per tonne and RMB2,672 per tonne respectively for the corresponding period of 2004.

In the first half of 2005, the Group's average costs of sales of billets and strips & strip products were RMB2,371 per tonne and RMB2,558 per tonne respectively, representing increases of 4.4% and 8.4% respectively when compared with RMB2,271 per tonne and RMB2,360 per tonne respectively for the corresponding period of 2004.

The gross profits of billets and strips & strip products increased to RMB318 per tonne and RMB679 per tonne respectively in the first half of 2005 (2004 corresponding period: RMB307 per tonne and RMB312 per tonne respectively). Benefited from the ideal increase in the strip and strip products selling price during January to April 2005, the gross profit for the first half of 2005 increased by 70.3% to RMB826 million when compared to that of the corresponding period of 2004 (2004 corresponding period: RMB485 million).

Management Discussion and Analysis

Awards to the Company and the Management

Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), a subsidiary of the Group, was named as the "Enterprise with Greatest Growth Potential" by the China Enterprise Confederation and the China Enterprise Directors Association in January 2005.

In addition, Mr. Han Jingyuan, the Chairman and the Chief Executive Officer of the Company, was named as "The Most Attention-grabbing Chinese Entrepreneur in 2004" by the China Enterprise Confederation and the China Enterprise Directors Association in January 2005.

Human Resources and Remuneration Policies

At 30 June 2005, the Group had a workforce of 5,111 (30 June 2004: 4,441); and temporary staff of 2,014 (30 June 2004: 1,600). Staff cost of the Group for the first half of 2005 approximated RMB72,157,000 (2004 corresponding period: RMB57,237,000), representing an increase of 26.1%. The cost included basic salaries and benefits, as well as other staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan and maternity insurance plan. The Group's remuneration policies are designed to tie its employee's income to their production and/or sales volume, as well as to the extent that they meet the Group's quality control and cost control targets. In order to improve the Group's productivity and further enhance the quality of its workforce, the Group implemented continuing education and training programmes for both the management staff and factory workers.

Production Capacity

The annual production capacity of the Group is as follows:

	At 30 June 2005 *Tonnes*	At 31 December 2004 *Tonnes*
Billets	**3,500,000**	3,500,000
Strips	**800,000**	800,000
Mid-width strips	**1,000,000**	1,000,000
Cold rolled sheets	**250,000 — 400,000**	—

H-section Steel Rolling Line

Up to 30 June 2005, the Group had entered into equipment and projects contracts amounting to over RMB1 billion. Excavation of machinery foundation had already been commenced whereas the major plant had been under construction. Production of the entire project will commence in the second quarter of 2006. The project is expected to have an annual production capacity of 1 million tonnes of H-section steel.

Management Discussion and Analysis

Investment in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jin Xi Jin Lan") commenced trial production in May 2005. After the operation of the production process matures, the annual production capacity (depends on the product specification of the product produced) of cold rolled sheets will reach approximately 250,000 tonnes to 400,000 tonnes. The annual production capacity (depends on the specification of the product produced) of galvanised sheets will reach approximately 150,000 tonnes to 180,000 tonnes.

Jin Xi Jin Lan is still in the trial production and initial market development stage, and therefore its contribution to the Group's turnover was minimal.

Dividend Policy

The Company intends to distribute not less than 20% of the Group's distributable profit as dividend for the periods subsequent to its listing, but the actual amount of dividend and its percentage to the profit will be at the discretion of the board of directors and will depend upon the Company's future operation and earnings, capital requirement and surplus, general financial condition, contractual restrictions, and other factors that the board of directors deem relevant. In addition, pursuant to the relevant PRC law, Jinxi Limited's distributable profit should not be higher than its net profit after allocations made to the statutory reserve and welfare funds as determined by the generally accepted accounting principles in the PRC.

Capital Structure

The aggregate amount of cash and bank of the Group as at 30 June 2005 was RMB2,352 million (31 December 2004: RMB2,926 million).

The current ratio was 1.61 at 30 June 2005, similar to the current ratio of 1.69 at the end of 2004.

At 30 June 2005, the Group's loans repayable within one year and loans repayable after one year amounted to RMB1,550 million and RMB429 million respectively (31 December 2004: RMB1,458 million and RMB459 million respectively).

The consolidated interest expenses in the first half of 2005 amounted to RMB53,828,000 (2004 corresponding period: RMB32,211,000). The interest coverage was 14.4 times (2004 corresponding period: 13.7 times), similar to that of the same period last year.

At 30 June 2005, the total liabilities to total assets ratio of the Group was 43.3%, similar to the ratio of 46.5% at 31 December 2004.

To conclude, the financial position of the Group was healthy.

Management Discussion and Analysis

Use of Proceeds from Global Offering

In March 2004, the Company issued 805,000,000 shares at HK$2.75 per share by way of global offering and over-allotment. The net proceeds after deducting the relevant expenses were approximately HK$2,107 million.

During the period from the date of listing to 30 June 2005, the use of net proceeds from the listing as stated in the Prospectus was as follows:

	RMB million
Construction of mid-width strip rolling line	99.2
Coal powder blowing technique	3.2
Energy recycling for power generation	9.5
Construction of the H-section steel rolling line	383.5
Construction of a 530m^3 blast furnace	56.3
Construction of two 50 tonnes converter furnaces *(Note 1)*	5.3
General corporate purposes (including working capital, repayment of loans and investment in the authorised capital of Jin Xi Jin Lan)	643.1
	1,200.1

Note 1: To enhance production efficiency, the plan to expand two 20 tonnes converter furnaces to a 60 tonnes converter furnace as disclosed in the Prospectus had been changed to the construction of two 50 tonnes converter furnaces.

At 30 June 2005, the proceeds not yet utilised were placed in banks as short-term deposits and money market instruments, of which approximately USD174 million (approximately RMB1,442 million) was placed in commercial banks as deposits or security deposits to serve as collateral for banking facilities granted to Jinxi Limited and Jin Xi Jin Lan.

Capital Commitments

At 30 June 2005, the Group had capital commitments amounted to RMB1,282 million (31 December 2004: RMB1,445 million), which mainly consisted of the capital commitments of the construction of the H-section steel rolling line. Such capital commitments will be financed by the listing proceeds and the Group's internal resources.

Guarantees and Contingent Liabilities

At 30 June 2005, the Group's contingent liabilities amounted to RMB501 million (31 December 2004: RMB396 million), which mainly consisted of the guarantees for the letter of credit issued by an agent (appointed by the Group to import machinery and equipment on behalf of the Group) to the supplier.

Pledge of Assets

The net book values of the Group's buildings and machinery, inventory, notes receivables and restricted bank balances pledged as security for the Group's banking facilities amounted to approximately RMB552 million, RMB61 million, nil and RMB1,567 million respectively at 30 June 2005 (31 December 2004: RMB494 million, nil, RMB79 million and RMB1,453 million respectively).

Exchange Risks

At 30 June 2005, Renminbi, US dollar and HK dollar accounted for 22.9%, 76.9% and 0.2% of the Group's total bank balance respectively (31 December 2004: 26.3%, 73.3% and 0.4% respectively).

As majority of the sales, purchases of raw materials and bank loans committed by the Group were mainly in Renminbi in the first half of 2005 and the corresponding period of 2004, and the exchange rates of Renminbi to HK dollar and US dollar were relatively stable, the Group's exposure to foreign exchange risk remained relatively low.

In light of the construction of H-section steel rolling line, the Group had entered into project and equipment contracts of approximately Euro42.9 million. The Group has, during the current period, entered into Euro Dollar forward contract to hedge against partial exchange rate risk exposure, and will continue to explore ways to hedge against exchange rate risk exposure of Euro Dollar.

Interest Rate Risks

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

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.

Management Discussion and Analysis

Prospects

Although oversupply will continue in the overall iron and steel market, it is expected that the prices of steel products will experience minor rather than drastic fluctuations due to the following expectation. Firstly, the prices of steel products has already dropped significantly in the second quarter of 2005. Secondly, relatively stringent macroeconomic austerity measures are not expected to be introduced by the PRC government in the second half of this year. Thirdly, the PRC economy is expected to continue with stable development.

With regard to the raw materials, the supply and demand of coke and iron powder remains basically balanced and their prices are expected to experience minor adjustments only.

The Group will continue to optimise its product mix and intensify the development of new kinds of products to ride out the increasingly fierce competition in the iron and steel market.

Other Information

Directors' Interests and Short Positions in Securities

At 30 June 2005, 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	**Percentage of the Company's issued share capital**	**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:

1. At 30 June 2005, 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 owned 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 owned 51,752,725 shares or 1.78% of the issued shares of the Company at 30 June 2005.

2. At 30 June 2005, Ms. Chen Ningning owned 50% of the issued share capital of Smart Triumph Corporation ("Smart Triumph") which directly owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at 30 June 2005, none of the Directors and chief executives and their associates had 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.

Other Information

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 11 above, at no time during the period were 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 were 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

At 30 June 2005, 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% *(Note 1)*	Long
Ms. Lu Hui	817,519,151	28.14% *(Note 1)*	Long

Note 1: At 30 June 2005, the interests of Smart Triumph Corporation in the shares of the Company were also attributed to Ms. Lu Hui on the basis that Ms. Lu Hui owned 50% of the issued share capital of Smart Triumph.

Save as disclosed above, at 30 June 2005, 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

During the current period, 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.

During the current period, 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.

Other Information

Audit Committee and Independent Non-Executive Directors

The Company has set up an audit committee and the terms of reference adopted complied with the requirement of the Listing Rules.

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

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 on Corporate Governance Practices

In the opinion of the directors, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, throughout the current period with the exception that the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan.

The Board believes that there is no need to segregate the roles of the Chairman and the Chief Executive Officer of the Company because the role of the chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons and apart from acting as the listing vehicle of the Group, the Company has no real operating activities or business.

Depending on the future development of the operating activities or business of the Company, eventually the Board will actively consider the issue of replacing Mr. Han Jingyuan by an appropriate candidate as the Chief Executive Officer of the Company.

List of Directors

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. Tang Chi Fai, Mr. Liu Lei and Mr. Shen Xiaoling. 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
30 August 2005

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* For identification purposes only
僅供識別