



**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)

Stock Code 股份代號: 581

Interim Report  
**2006**  
中期報告

\* For identification purposes only  
僅供識別



# Financial Highlights

	For the six months ended 30 June		
	Unaudited Consolidated		
	2006	2005 Restated	Percentage of increase/ (decrease)
Sales volume ( <i>thousand tonnes</i> )			
Billets	853	665	28.3%
Strips and strip products	1,010	905	11.6%
Average selling price (net of value-added tax) per tonne ( <i>RMB</i> )			
Billets	2,331	2,689	(13.3%)
Strips and strip products	2,552	3,237	(21.2%)
Sales ( <i>RMB million</i> )	4,774	4,726	1.0%
Profit attributable to equity holders of the Company ( <i>RMB million</i> )	585	624	(6.3%)
Basic earnings per share ( <i>RMB</i> )	0.20	0.21	(4.8%)

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 2006 together with the comparative amounts for the corresponding period. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 have been reviewed by the Company's Audit Committee.

# Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited 30 June 2006	Audited 31 December 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	4,622,911	4,236,071
Leasehold land and land use rights	5	78,874	79,569
Investment properties	5	20,977	20,911
Intangible assets	5	32,664	9,547
Interest in an associate		6,513	8,881
Deferred income tax assets		5,733	2,327
		<u>4,767,672</u>	<u>4,357,306</u>
<b>Current assets</b>			
Inventories		917,059	1,103,374
Trade receivables	6	1,384,807	714,184
Other current assets		6,653	2,524
Prepayments, deposits and other receivables	7	350,263	185,555
Financial assets at fair value through profit or loss	8	57,667	64,633
Restricted bank balances		64,459	1,015,416
Bank and cash balances		242,271	709,870
		<u>3,023,179</u>	<u>3,795,556</u>
<b>Total assets</b>		<u><b>7,790,851</b></u>	<u><b>8,152,862</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	2,460,375	2,460,375
Other reserves	10	752,070	735,325
Retained earnings		1,846,373	1,397,752
		<u>5,058,818</u>	<u>4,593,452</u>
<b>Minority interests</b>		<u>139,919</u>	<u>138,643</u>
<b>Total equity</b>		<u><b>5,198,737</b></u>	<u><b>4,732,095</b></u>

# Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	13	245,000	294,230
Long-term advances from customers		—	15,000
Amount due to a related party	22	56,521	—
		<u>301,521</u>	<u>309,230</u>
<b>Current liabilities</b>			
Trade payables	11	526,480	632,439
Accruals, advances from customers and other current liabilities	12	1,016,537	1,014,908
Amounts due to related parties	22	52,902	64,400
Current income tax liabilities		96,016	53,862
Current portion of long-term advances from customers		—	10,000
Borrowings	13	598,230	1,335,900
Dividend payable		428	28
		<u>2,290,593</u>	<u>3,111,537</u>
<b>Total liabilities</b>		<u>2,592,114</u>	<u>3,420,767</u>
<b>Total equity and liabilities</b>		<u>7,790,851</u>	<u>8,152,862</u>
<b>Net current assets</b>		<u>732,586</u>	<u>684,019</u>
<b>Total assets less current liabilities</b>		<u>5,500,258</u>	<u>5,041,325</u>

The notes on page 7 to 28 form an integral part of this condensed interim financial information.

# Condensed Consolidated Interim Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2006	2005 Restated
Sales	4	4,773,687	4,726,083
Cost of goods sold	14	(3,976,717)	(3,899,927)
<b>Gross profit</b>		<b>796,970</b>	826,156
Other gains — net	14	21,896	36,911
Selling and marketing costs	14	(5,208)	(4,388)
Administrative expenses	14	(87,840)	(72,346)
<b>Operating profit</b>		<b>725,818</b>	786,333
Finance costs	15	(23,169)	(44,300)
Share of (loss)/profit of an associate		(2,368)	104
<b>Profit before income tax</b>		<b>700,281</b>	742,137
Income tax expense	16	(110,759)	(108,862)
<b>Profit for the period</b>		<b>589,522</b>	633,275
<b>Attributable to:</b>			
Equity holders of the Company		584,665	623,635
Minority interests		4,857	9,640
		<b>589,522</b>	633,275
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in Renminbi (“RMB”) per share)			
— basic	17	0.20	0.21
— diluted	17	0.20	Not applicable
<b>Dividends relating to six months ended 30 June</b>	18	<b>29,730</b>	—

The notes on page 7 to 28 form an integral part of this condensed interim financial information.

# Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited			Minority Interests	Total
		Attributable to equity holders of the Company				
		Share capital	Other reserves	Retained earnings		
<b>Balance at 1 January 2005</b>		2,460,375	559,183	865,782	115,524	4,000,864
Cash flow hedges, net of tax		—	(2,375)	—	—	(2,375)
Profit for the period		—	—	623,635	9,640	633,275
Total recognised income for the period		—	(2,375)	623,635	9,640	630,900
Dividend relating to 2004		—	—	(142,531)	(3,534)	(146,065)
Minority shareholder's injection		—	—	—	25,478	25,478
Others		—	2,598	—	1,110	3,708
		—	2,598	(142,531)	23,054	(116,879)
<b>Balance at 30 June 2005</b>		<u>2,460,375</u>	<u>559,406</u>	<u>1,346,886</u>	<u>148,218</u>	<u>4,514,885</u>
<b>Balance at 1 January 2006</b>		2,460,375	735,325	1,397,752	138,643	4,732,095
Profit for the period		—	—	584,665	4,857	589,522
Employee share options scheme: — value of employee services		—	16,745	—	—	16,745
Dividend relating to 2005	18	—	—	(136,044)	(3,581)	(139,625)
		—	16,745	448,621	1,276	466,642
Balance at 30 June 2006		<u>2,460,375</u>	<u>752,070</u>	<u>1,846,373</u>	<u>139,919</u>	<u>5,198,737</u>

The notes on page 7 to 28 form an integral part of this condensed interim financial information.

# Condensed Consolidated Interim Cash Flow Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June	
		2006	2005
Net cash used in operating activities	19	(123,082)	(142,608)
Net cash used in investing activities		(348,179)	(258,363)
Net cash generated from/(used in) financing activities		5,850	(39,473)
<b>Net decrease in cash and cash equivalents</b>		<b>(465,411)</b>	<b>(440,444)</b>
Cash and cash equivalents at 1 January		709,870	1,218,056
Exchange (losses)/gains on cash		(2,188)	1,718
<b>Cash and cash equivalents at 30 June</b>		<b>242,271</b>	<b>779,330</b>

The notes on page 7 to 28 form an integral part of this condensed interim financial information.

# Selected notes to the condensed consolidated interim financial information

*(All amounts in Renminbi thousands unless otherwise stated)*

## 1. General information

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 address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

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

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of iron and steel products. The Group has manufacturing plants in Hebei Province and Guangdong Province of the People’s Republic of China (the “PRC”) and sells mainly to customers located in the PRC.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with HKAS 34, “Interim financial reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

### 2.2 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. These accounting policies are described in the annual financial statements for the year ended 31 December 2005, except for the following accounting policies, as the Group had no related transaction until 1 January 2006.



# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Basis of preparation and accounting policies (Con't)

### 2.2 Accounting policies (Con't)

- **Share-Based payments**

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

- **Intangible assets**

Intangible assets should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It should be recognised in profit or loss when the asset is derecognised.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss;

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Basis of preparation and accounting policies (Con't)

### 2.2 Accounting policies (Con't)

- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006.

The amendment relates to intragroup loans that fund foreign operations, addressing concerns raised by constituents that the definition of a net investment was too restrictive and unclear in the previous version of the standards.

When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity.

- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006.

HKFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specific consideration certain requirements of HKAS 8. The Group has reviewed related operation and identified no material exploration and evaluation assets.

- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts and recognised no such arrangements with leases contained.
- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Basis of preparation and accounting policies (Con't)

### 2.2 Accounting policies (Con't)

- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market — waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1 March 2006. Management is currently assessing the impact of HK(IFRIC)-Int 7 on the Group's operations;
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;
- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess whether embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 3. Principal subsidiaries of the Group

The significant subsidiaries at 30 June 2006 and 31 December 2005 are as follows:

Name	Place and date of incorporation	Legal status	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Authorised capital	Principal activities
Gold Genesis Development Limited ("Gold Genesis")	British Virgin Islands ("BVI") 21 February 2003	Limited liability company	100% (Directly held)	US\$ 1	US\$ 50,000	Investment holding
Good Lucky Enterprises Limited ("Good Lucky")	BVI 21 February 2003	Limited liability company	100% (Directly held)	US\$ 1	US\$ 50,000	Investment holding
First Glory Services Limited ("First Glory")	BVI 16 October 2003	Limited liability company	100% (Directly held)	US\$ 2	US\$ 50,000	Investment holding
Accordpower Investments Limited ("Accordpower")	BVI 30 November 2004	Limited liability company	100% (Directly held)	US\$ 2	US\$ 50,000	Investment holding
Fullhero Investments Limited ("Fullhero")	BVI 3 May 2005	Limited liability company	100% (Directly held)	US\$ 2	US\$ 50,000	Investment holding
Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited")	PRC 24 December 1999	Joint stock company with limited liability	97.6% (Indirectly held)	RMB 228,635,573	RMB 228,635,573	Manufacture and sales of iron and steel products
Foshan Jin Xi Jin Lan Cold Rolled Sheet Company Limited ("Foshan Jinxi")	PRC 26 December 2003	Limited liability company	60% (Indirectly held)	US\$ 29,800,000	US\$ 29,800,000	Manufacture and sales of steel products
Jinxing Charging Company Limited ("Jinxing Charging")	PRC 2 August 2005	Limited liability company	62% (Indirectly held)	RMB 5,000,000	RMB 5,000,000	Manufacture and sales of lime products
Oriental Fullhero Leasing (Shenzhen) Company Limited ("Shenzhen Leasing")	PRC 23 September 2005	Limited liability company	100% (Indirectly held)	US\$ 65,000,000	US\$ 65,000,000	Leasing and financial leasing

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 4. Sales

### (a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the six months ended 30 June 2006 and 2005 were as follows:

	For the six months ended 30 June	
	2006	2005
Sales:		
Gross sales, less discounts and returns		
— billets	1,987,305	1,787,782
— strips and strip products	2,577,932	2,929,967
— cold rolled sheets	132,610	6,132
— galvanised sheets	64,047	—
— others	11,793	2,202
	<u>4,773,687</u>	<u>4,726,083</u>

### (b) Segment information

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

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 5. Capital expenditure

	Property, plant and equipment	Leasehold land and land use rights	Investment properties (a)	Intangible assets — Iron ore mining licenses
<b>Six months ended 30 June 2005</b>				
<b>Opening carrying amount</b>				
as at 1 January 2005	2,349,068	55,239	—	—
Additions	760,001	25,644	21,498	—
Disposals	(10,558)	—	—	—
Depreciation and amortisation (Note 14)	(95,554)	(459)	—	—
<b>Closing carrying amount</b>	<b>3,002,957</b>	<b>80,424</b>	<b>21,498</b>	<b>—</b>
<b>Six months ended 30 June 2006</b>				
<b>Opening carrying amount</b>				
as at 1 January 2006	4,236,071	79,569	20,911	9,547
Additions	536,800	—	629	33,163
Disposals	(16,265)	—	—	(8,498)
Depreciation and amortisation (Note 14)	(133,695)	(695)	(563)	(1,548)
<b>Closing carrying amount</b>	<b>4,622,911</b>	<b>78,874</b>	<b>20,977</b>	<b>32,664</b>

- (a) As at 30 June 2006, the directors of the Company assessed the fair value of the investment properties to be approximately RMB23.6 million based on the prices in an active market (31 December 2005: RMB22.5 million).

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 6. Trade receivables

	As at	
	30 June 2006	31 December 2005
Accounts receivables	19,302	23,369
Notes receivables (a)	1,365,505	690,815
	<u>1,384,807</u>	<u>714,184</u>

(a) As at 30 June 2006 and 31 December 2005, notes receivables were all bank acceptance notes.

As at 30 June 2006, notes receivables that were pledged as security for issuing notes payables amounted to approximately RMB42 million (31 December 2005: RMB67 million) (Note 11).

As at 30 June 2006, notes receivables that were pledged as security for issuing letters of credit amounted to approximately RMB38 million (31 December 2005: nil). As at 31 December 2005, notes receivables that were pledged as security in favour of a third party for issuing letters of credit amounted to approximately RMB248 million (Note 21).

As at 30 June 2006 and 31 December 2005, the ageing analysis of trade receivables was as follows:

	As at	
	30 June 2006	31 December 2005
Within 3 months	<u>1,384,807</u>	<u>714,184</u>

The credit policy usually adopted by the Group for the sales of products to customers is to deliver goods either upon receipt in cash or upon receipt of bank acceptance notes with maturity dates within six months.

The fair value of the trade receivables approximated to their carrying amounts.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 7. Prepayments, deposits and other receivables

	As at	
	30 June 2006	31 December 2005
Prepayments	306,065	107,899
Deposits and other receivables	44,198	77,656
	<u>350,263</u>	<u>185,555</u>

## 8. Financial assets at fair value through profit or loss

	As at	
	30 June 2006	31 December 2005
Liquid Reserve Fund — Euro, quoted	56,596	52,479
Liquid Reserve Fund — US dollars, quoted	1,071	12,154
	<u>57,667</u>	<u>64,633</u>

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

## 9. Share capital

	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 30 June 2005	<u>2,905,000</u>	<u>309,340</u>	<u>2,151,035</u>	<u>2,460,375</u>
At 31 December 2005	<u>2,905,000</u>	<u>309,340</u>	<u>2,151,035</u>	<u>2,460,375</u>
At 30 June 2006	<u>2,905,000</u>	<u>309,340</u>	<u>2,151,035</u>	<u>2,460,375</u>



# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 9. Share capital (Con't)

As at 30 June 2006 and 31 December 2005, the total number of authorised ordinary shares is 5,000,000,000 shares with a par value of HK\$0.1 per share.

As at 30 June 2006 and 31 December 2005, the number of issued and fully paid ordinary shares is 2,905,000,000 shares.

## 10. Other reserves

	Merger reserve (a)	Capital surplus	Hedging reserve (b)	Statutory reserve	Options	Total
<b>Balance at 1 January 2005</b>	(599)	13,136	—	546,646	—	559,183
Cash flow hedges:						
— Fair value loss in the period	—	—	(3,405)	—	—	(3,405)
— Transfer to property, plant and equipment	—	—	1,030	—	—	1,030
Others	—	2,598	—	—	—	2,598
<b>Balance at 30 June 2005</b>	(599)	15,734	(2,375)	546,646	—	559,406
Cash flow hedges:						
— Fair value gain in the period	—	—	35	—	—	35
— Transfer to property, plant and equipment	—	—	2,340	—	—	2,340
Profit appropriation	—	—	—	172,084	—	172,084
Others	—	1,460	—	—	—	1,460
<b>Balance at 31 December 2005</b>	(599)	17,194	—	718,730	—	735,325
Employee share options scheme:						
— value of employee services (c)	—	—	—	—	16,745	16,745
<b>Balance at 30 June 2006</b>	(599)	17,194	—	718,730	16,745	752,070

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 10. Other reserves (Con't)

### (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 gain or loss of the hedging instruments that are determined to be effective hedge.

The hedging reserve was removed from equity and 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 firm commitment subsequently resulted in the recognition of a non-financial asset or a non-financial liability.

### (c) Employee share option scheme

As approved by the Board of Directors and Shareholders' meeting, the share options were granted to the director and employee on 30 June 2006 ("Date of Grant"), in an aggregate to 24,200,000 shares. The options are exercisable at any time during the period no later than ten years from the Date of Grant with the exercise price of HK\$1.76 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	For the six months ended			
	30 June 2006		30 June 2005	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	—	—	—	—
Granted	1.76	24,200	—	—
At 30 June	1.76	24,200	—	—

Share options outstanding at 30 June 2006 will be expired on 30 June 2016.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 10. Other reserves (Con't)

### (c) Employee share option scheme (Con't)

The fair value of options granted during the period determined by using the Binomial valuation model was HK\$16,266,974 (approximately RMB16,745,223). The significant inputs into the model were share price of HK\$1.76, at the grant date, exercise price shown above, volatility of 43.0%, expected dividend paid out rate of 3.68% and annual risk-free interest rate of 4.84%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years.

## 11. Trade payables

	As at	
	30 June 2006	31 December 2005
Accounts payables	431,930	430,159
Notes payables (a)	94,550	202,280
	<u>526,480</u>	<u>632,439</u>

- (a) As at 30 June 2006, the notes payables represented bank acceptance notes secured by notes receivables and the restricted bank balances, amounting to approximately RMB42 million (Note 6) and RMB52 million respectively. As at 31 December 2005, the notes payables represented bank acceptance notes secured by inventories, notes receivables and the restricted bank balances, amounting to approximately RMB32 million, RMB67 million and RMB128 million respectively.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 11. Trade payables (Con't)

As at 30 June 2006 and 31 December 2005, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2006	31 December 2005
Within 3 months	516,709	546,684
4 — 6 months	5,949	82,623
7 — 9 months	1,778	640
10 — 12 months	151	815
Above 1 year	1,893	1,677
	<b>526,480</b>	<b>632,439</b>

The fair value of the trade payables approximated to their carrying amounts.

## 12. Accruals, advances from customers and other current liabilities

	As at	
	30 June 2006	31 December 2005
Accruals	14,138	10,108
Advances from customers	378,002	275,835
Value-added tax payable	25,090	55,838
Other taxes payables	1,048	1,883
Other payables (a)	598,259	671,244
	<b>1,016,537</b>	<b>1,014,908</b>

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 12. Accruals, advances from customers and other current liabilities (Con't)

(a) The breakdown of other payables as at 30 June 2006 and 31 December 2005 was as follows:

	As at	
	30 June 2006	31 December 2005
Pension payables and other social welfare payables	100,359	99,431
Payables for purchase of property, plant and equipment	351,142	418,555
Customer deposits	77,690	76,920
Employee deposits	15,387	15,308
Salary payables	17,739	15,513
Others	35,942	45,517
	<b>598,259</b>	<b>671,244</b>

## 13. Borrowings

	As at	
	30 June 2006	31 December 2005
<b>Non-current</b>		
Bank borrowings, secured (i)	100,000	149,230
Other borrowings, unsecured (iii)	145,000	145,000
	<b>245,000</b>	<b>294,230</b>
<b>Current</b>		
Bank borrowings-		
Secured (i)	498,230	1,205,900
Guaranteed (ii)	100,000	130,000
	<b>598,230</b>	<b>1,335,900</b>
Total borrowings	<b>843,230</b>	<b>1,630,130</b>

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 13. Borrowings (Con't)

- (i) As at 30 June 2006, secured borrowings were secured by certain inventories, property, plant and equipment and land use rights, whose carrying amount was approximately RMB41 million, RMB 491 million and RMB66 million respectively. As at 31 December 2005, secured borrowings were secured by certain restricted bank balances, property, plant and equipment and land use rights, whose carrying amount was approximately US\$110 million (RMB888 million equivalent) RMB568 million, and RMB67 million respectively.

In January 2006, the Company and Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") (a shareholder of Foshan Jinxi) granted a guarantee in favor of Foshan Jinxi for bank borrowing facilities amounting to RMB150 million. In accordance with the guarantee contract, the Company and Foshan Jin Lan shall bear 60% and 40% of the guarantee obligation respectively.

As at 30 June 2006, pursuant to the above-mentioned agreement, current secured borrowings amounting to RMB140 million were also guaranteed by Foshan Jin Lan.

- (ii) As at 30 June 2006, the guaranteed current borrowing was guaranteed by a third party amounting to RMB100 million. As at 31 December 2005, the guaranteed current borrowings were guaranteed by two third parties amounting to RMB30 million and RMB100 million respectively.
- (iii) Other unsecured borrowing represented a borrowing from the local county government amounting to RMB145 million which will be repaid from 1 January 2008 onwards at an amount of RMB20 million per annum. Interest is charged at the RMB bank deposit rate for 1 year fixed deposit.

The maturity of borrowings as at 30 June 2006 and 31 December 2005 is as follows:

	As at	
	30 June 2006	31 December 2005
Within 1 year	598,230	1,335,900
Between 1 and 2 years	120,000	149,230
Between 2 and 5 years	60,000	60,000
Over 5 years	65,000	85,000
	<u>843,230</u>	<u>1,630,130</u>

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 13. Borrowings (Con't)

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

	As at	
	30 June 2006 RMB	31 December 2005 RMB
Bank borrowings	5.18%-7.15%	5.02%-7.15%
Other borrowings	2.25%	2.25%

The carrying amounts of the current borrowings approximated to their fair value, while the carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair value	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
Bank borrowings	100,000	149,230	100,000	149,230
Other borrowings	145,000	145,000	120,869	119,309
	<u>245,000</u>	<u>294,230</u>	<u>220,869</u>	<u>268,539</u>

The carrying amounts of the borrowings are all denominated in RMB.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 14. Operating profit

The following items have been credited/(charged) to the operating profit during the six months ended 30 June 2006 and 2005:

	For the six months ended 30 June	
	2006	2005
Share options granted to directors and an employee (Note 10)	(16,745)	—
Interest income	12,767	34,147
Loss on disposal of property, plant and equipment	(8,023)	(10,342)
Gain on disposal of intangible assets	500	—
Amortisation of leasehold land and land use rights (Note 5)	(695)	(459)
Depreciation of property, plant and equipment (Note 5)	(133,695)	(95,554)
Amortisation of intangible assets (Note 5)	(1,548)	—
Depreciation of investment properties (Note 5)	(563)	—
Foreign exchange (loss)/gain, net	(2,188)	1,718
Provision for doubtful receivables	(990)	—
Reversal/(write-down) of inventories	11,403	(1,609)
	<u>11,403</u>	<u>(1,609)</u>

## 15. Finance costs

	For the six months ended 30 June	
	2006	2005
Interest expenses:		
— borrowings	22,648	42,591
— amount due to a related party (Note 22(b))	439	1,137
— discount of notes receivables	82	572
	<u>23,169</u>	<u>44,300</u>



# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 16. Income tax expense

	For the six months ended 30 June	
	2006	2005
Current income tax — PRC enterprise income tax	114,165	112,008
Deferred taxation	(3,406)	(3,146)
	<u>110,759</u>	<u>108,862</u>

## 17. 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.

	For the six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company	584,665	623,635
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	2,905,000	2,905,000
Basic earnings per share ( <i>RMB per share</i> )	<u>0.20</u>	<u>0.21</u>

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) during the period based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 17. Earnings per share (Con't)

### Diluted (Con't)

The average market price of ordinary shares during the six months ended 30 June 2006 did not exceed the exercise price, HK\$1.76 per share plus the fair value of the share options issued by the Company as at 30 June 2006 (HK\$0.6722 per share option). The share options are antidilutive and are ignored in the calculation of the diluted earnings per share.

## 18. Dividends

- (a) At a meeting held on 30 March 2006, the directors proposed a final dividend in respect of the year ended 31 December 2005 of HK\$130,725,000 (approximately RMB136,044,000), representing HK0.045 per ordinary share. The Annual General Meeting held on 17 May 2006 approved the directors' dividend proposal.
- (b) At a meeting held on 30 August 2006, the directors declared an interim dividend of HK\$29,050,000 (approximately RMB29,730,000), representing HK\$0.01 per share, for the year ending 31 December 2006. 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 2006. The interim dividend will be paid on 27 October 2006.

## 19. Notes to the condensed consolidated interim cash flow statement

### Major non-cash transactions

During the six months ended 30 June 2006, the Group endorsed bank acceptance notes to the suppliers to purchase of property, plant and equipment amounting to approximately RMB220 million (30 June 2005: approximately RMB421 million).

## 20. Capital commitments

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

	As at	
	30 June 2006	31 December 2005
Property, plant and equipment Contracted but not provided for	143,252	1,112,271
Authorised but not contracted for	—	169,367
	<u>143,252</u>	<u>1,281,638</u>

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 21. Contingent events

As at 30 June 2006, Jinxi Limited provided guarantee for bank borrowings in favour of third parties amounting to approximately RMB28,986,000 (31 December 2005: approximately RMB28,986,000).

During the year ended 31 December 2005, a third party acted as an agent and issued letter of credits to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB248 million (Note 6) as collaterals.

## 22. 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.

- (a) During the six months ended 30 June 2006 and 2005, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Wellbeing Holdings Limited ("Wellbeing Holdings")	Substantial shareholder of the Company
Smart Triumph Corporation ("Smart Triumph")	Substantial shareholder of the Company
Qianxi County Heli Industry and Trade Co., Ltd. ("Qianxi Heli") (i)	The controlling shareholder was Mr. Han Jingyuan, a director of the Company
Tangshan Qianxi County Fuqin Industrial and Trade Co., Ltd.	The controlling shareholder is Mr. Han Jingyuan, a director of the Company
Pioneer Metals Co., Ltd.	The controlling shareholder is Ms. Chen Ningning, a director of the Company
Tangshan City Jinxi Iron and Steel Group Co., Ltd. ("Tangshan Jinxi Group")	Shareholder of Jinxi Limited and its legal representative is Mr. Han Jingyuan, a director of the Company
Foshan Jin Lan	Substantial shareholder of Foshan Jinxi
Qianxi County Zhongxing Iron Mine Co., Ltd. ("Zhongxing 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 Jinxing Charging

- (i) Qianxi Heli was deregistered in March 2005 and ceased to be the Group's related party from then on.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 22. Related party transactions (Con't)

(b) Save as disclosed elsewhere in these condensed consolidated interim financial information, during the six months ended 30 June 2006 and 2005, 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

	For the six months ended	
	30 June 2006	30 June 2005
Purchases of property, plant and equipment:		
— Foshan Jin Lan	—	23,176
Purchases of goods:		
— Zhongxing Iron Mine	—	13,709
	<u>          </u>	<u>          </u>

### (ii) Loan received

Tangshan Jinxi Group provided one-year loan to Foshan Jinxi, amounting to RMB30 million. The loan was unsecured, bore interest at a rate of 5.58% per annum.

Foshan Jin Lan entered into an agreement with Foshan Jinxi and Accordpower in January 2006. Pursuant to the agreement:

- (1) Foshan Jin Lan provided a loan amounting to RMB11,856,000, approximated to USD 1.5 million, to Foshan Jinxi in the form of (a) lending of RMB1 million in cash, (b) repayment the borrowings to a third party on behalf of Foshan Jinxi of RMB10 million, (c) postponement of interest collection by RMB856,000 approximately, on condition that Accordpower provided a loan to Foshan Jinxi of US\$2.25 million.
- (2) Foshan Jin Lan designated the existing receivable from Foshan Jinxi amounting to RMB44,665,000 as interest-free, on the condition that Accordpower additionally provided another loan to Foshan Jinxi of US\$9.03 million. Interest expense of approximately RMB439,000 occurred before Accordpower provided the loan to Foshan Jinxi (Note 15).

All the above loans granted in accordance with the agreement are unsecured, interest-free and repayable only after five years.

# Selected notes to the condensed consolidated interim financial information

(All amounts in Renminbi thousands unless otherwise stated)

## 22. Related party transactions (Con't)

(c) As at 30 June 2006 and 31 December 2005, the directors were of the view that the following related party balances were attributed to the above-mentioned related party transactions, amounts paid on behalf of the Group and dividend appropriation during the years and other ordinary business transactions.

	As at	
	30 June 2006	31 December 2005
<b>Payables to related parties</b>		
<b>Non-current</b>		
— Foshan Jin Lan (Note 22(b)(ii))	56,521	—
<b>Current</b>		
— Foshan Jin Lan (Note 22(b)(ii))	—	45,082
— Tangshan Jinxi Group	33,254	—
— Ms. Fu Ruiyun	16,783	16,783
— Zhongxing Iron Mine	2,535	2,535
— Mr. Han Jingyuan	330	—
	<u>52,902</u>	<u>64,400</u>

## 23. Subsequent events

At a meeting held on 30 August 2006, the directors declared an interim dividend of HK\$29,050,000 (approximately RMB29,730,000), representing HK\$0.01 per share, for the year ending 31 December 2006. 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 2006.

## 24. Approval on the condensed consolidated interim financial information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the Board of Directors on 29 August 2006 and 30 August 2006 respectively.

# Management Discussion And Analysis



## Business Review

The Board is pleased to announce that the unaudited consolidated sales of the Group for the first half of 2006 was RMB4,774 million, representing an increase of 1.0% as compared with that of the corresponding period of 2005. Unaudited profit attributable to the equity holders of the Company for the first half of 2006 was RMB585 million, representing a decrease of 6.3% from RMB624 million of the corresponding period of 2005. Unaudited basic earnings per share for the first half of 2006 dropped by RMB0.01 to RMB0.20 when compared with that of the corresponding period of 2005.

In the first half of 2006, the Group sold approximately 853,000 tonnes of billets, 1,010,000 tonnes of strips & strip-related products, 49,000 tonnes of cold rolled sheets and galvanised sheets (2005 corresponding period: approximately 665,000 tonnes, 905,000 tonnes and 1,000 tonnes respectively). The sales volume of strips & strip-related products accounted for 52.8% of the total sales volume (2005 corresponding period: 57.6%).

The average prices (excluding value-added tax) of the Group's billets and strips & strip-related products in the first half of 2006 were RMB2,331 per tonne and RMB2,552 per tonne respectively, representing decreases of 13.3% and 21.2% when compared with RMB2,689 per tonne and RMB3,237 per tonne respectively for the corresponding period of 2005.

In the first half of 2006, the Group's average cost of sales of billets and strips & strip-related products were RMB1,957 per tonne and RMB2,068 per tonne respectively, representing decreases of 17.5% and 19.2% from RMB2,371 per tonne and RMB2,558 per tonne respectively for the corresponding period of 2005. The major reason for the decrease in the cost per tonne was mainly due to the fall in the average purchasing prices of iron powder and coke in the first half of 2006 when compared with those of the corresponding period of 2005.

# Management Discussion And Analysis

In the first half of 2006, gross profit of billets and strips & strip-related products were RMB374 per tonne and RMB484 per tonne respectively (2005 corresponding period: RMB318 per tonne and RMB679 per tonne respectively).

Although the average price per tonne of billets and strips & strip-related products in the first half of 2006 declined from that of the same period last year, the negative impact of such decline on gross profit was mitigated by the reduction in average cost of sales per tonne and rise in sales volume when compared with those of the same period last year. Therefore, the gross profit for the first half of 2006 slightly dropped by 3.5% to RMB797 million when compared with the corresponding period of 2005 (2005 corresponding period: RMB826 million).

## Awards to the Company and the Management

Jinxi Limited, a subsidiary of the Group, and Mr. Han Jingyuan, the Chairman and the Chief Executive Officer of the Company, were named as the “Top Ten Most Influential Brands in China” and “Top Ten Outstanding Entrepreneurs in Brand Building” respectively by the China Enterprise Culture Improvement Association, China Industrial Design Association and Market Daily of the People’s Daily and Brand Magazine in January 2006.

In addition, Mr. Han Jingyuan was also named as “The Best Entrepreneurs in China (the Fifth Series)” by China Enterprise Confederation, China Enterprise Directors Association and other organisations in April 2006.

## Human Resources and Remuneration Policies

At 30 June 2006, the Group had a workforce of 5,643 (30 June 2005: 5,111); and temporary staff of 2,232 (30 June 2005: 2,014). Staff cost of the Group for the first half of 2006 approximated to RMB121,825,000 (2005 corresponding period: RMB72,157,000), representing an increase of 68.8%. The cost included basic salaries and benefits; staff benefits included discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, maternity insurance plan and the value of share option etc. The Group’s remuneration policies are designed to tie its employees’ income to their productivity and/or sales volume, as well as to the extent that they meet the Company’s quality control and cost control targets. To enable the directors and employees of any of the Group’s subsidiary or invested entity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, the Company adopted a share option scheme on 23 June 2006. In order to improve the Group’s productivity and further enhance the quality of its workforce, the Group provided continuing education and training programmes to both the management staff and factory workers.

# Management Discussion And Analysis

## Production Capacity

The annual production capacity of the Group is as follows:

	At 30 June 2006 Tonnes	At 31 December 2005 Tonnes
Billets	4,000,000	4,000,000
Strips	800,000	800,000
Mid-width strips	1,000,000	1,000,000
Cold rolled sheets	250,000 — 400,000	250,000 — 400,000

## H-section Steel Rolling Line

H-section steel rolling line commenced trial production in May 2006 and expected to commence commercial production in September 2006. The annual production capacity of H-section steel is expected to reach 1 million tonnes.

## Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd.

Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. continues to optimise its production process, improve its production efficiency, and actively expand its market coverage. As such, its current contribution to the Group's sales is small.

## 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 cash and bank balances (including restricted bank balances) of the Group as at 30 June 2006 were RMB307 million (31 December 2005: RMB1,725 million). Reduction in cash and bank balances was due to the payment of fixed assets expenditure and repayment of bank borrowings.

The current ratio was 1.32 as at 30 June 2006, improve slightly from the current ratio of 1.22 at the end of 2005.



# Management Discussion And Analysis

As at 30 June 2006, the Group's borrowings repayable within one year and borrowings repayable after one year amounted to RMB598 million and RMB245 million respectively (31 December 2005: RMB1,336 million and RMB294 million respectively).

The consolidated interest expenses (including capitalised interest) in the first half of 2006 amounted to RMB29,000,000 (2005 corresponding period: RMB50,502,000). The interest coverage was 24.9 times (2005 corresponding period: 15.6 times), with a substantial improvement when compared with that of the same period last year.

As at 30 June 2006, the total liabilities to total assets ratio of the Group was 33.3% (31 December 2005: 42.0%).

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

## Capital Commitments

As at 30 June 2006, the Group's capital commitments amounted to RMB143 million (31 December 2005: RMB256 million). Such capital commitments will be financed by the Group's internal resources.

## Guarantees and Contingent Liabilities

As at 30 June 2006, the Group's contingent liabilities amounted to RMB28,986,000 (31 December 2005: RMB277,415,000).

## Pledge of Assets

As at 30 June 2006, the carrying amount of the Group's property, plant and equipment amounting to approximately RMB491,412,000 (31 December 2005: RMB568,667,000), land use rights amounting to approximately RMB65,887,000 (31 December 2005: RMB66,569,000), inventories amounting to approximately RMB40,775,000 (31 December 2005: RMB31,694,000), notes receivables amounting to approximately RMB79,760,000 (31 December 2005: RMB67,260,000) and restricted bank balances amounting to approximately RMB64,459,000 (31 December 2005: RMB1,015,416,000) had been pledged as security for the Group's banking facilities.

As at 30 June 2006, Jinxi Limited did not pledged any of its notes receivables as security for providing guarantees so as to facilitate the issuing of letter of credit by a third party acting as its agent to import plant and equipment (31 December 2005: RMB248,429,000).

## Exchange Risks

As at 30 June 2006, Renminbi, US dollar and HK dollar accounted for 69.6%, 29.9% and 0.5% of the Group's total bank balance respectively (31 December 2005: 28.9%, 71.0% and 0.1% respectively).

# Management Discussion And Analysis

As a majority of the sales, purchases of raw materials and bank borrowings committed by the Group were mainly in Renminbi in the first half of 2006 and the corresponding period of 2005, the Group's exposure to foreign exchange risk remained relatively low.

## Interest Rate Risks

The interest rates of the Group's borrowings are subject to variation. The risk of increasing interest rate will increase the interest costs of both new borrowings and existing borrowings. 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.

## Prospects

Looking ahead to the coming year, despite the continuous growth in the PRC's economy, the macroeconomic austerity measures have been tightened and the oversupply condition will continue in the iron and steel market in general. Competition in the iron and steel market will therefore be further intensified. On the other hand, the relatively higher international steel price will support the domestic steel price to some extent.

In the face of a more severe market competition and the situation where the fittest survives, the Group will continue to be highly alert to market changes, make swift response and improve its product mix and enhance its production efficiency.

Given that the trial production of the H-section steel rolling line commenced in May 2006 and its commercial production is scheduled in September 2006, and that the trial production of the strip production line with annual capacity of 500,000 tonnes commenced at the end of July 2006 and its commercial production is scheduled in September 2006, the Group will be able to further fine-tune its product mix.

With regard to raw materials, the domestic supply of iron powder basically meets the demand in the market. As such, it is expected that the price of domestic iron powder will remain stable. The tight supply of imported iron powder will be eased with the increase in the production volume from overseas mining companies, which is expected to lead to the stabilisation in the price of imported iron powder.

On the front of coke, the oversupply condition will change, as a result of the intensified macroeconomic austerity measures, tightened safety measures of coal mines in Shanxi Province and the tight capacity for railway transportation. It is therefore expected that the fluctuation in coke price will not be material in the following year.

## Other Information

### Directors' Interests and Short Positions in Securities

At 30 June 2006, 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 2006, Mr. Han Jingyuan beneficially owned 60.69% of the issued share capital of Wellbeing Holdings and held 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 beneficially 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 beneficially owned 51,752,725 shares or 1.78% of the issued shares of the Company at 30 June 2006.
2. At 30 June 2006, Ms. Chen Ningning beneficially owned 100% of the issued capital of Pioneer Iron & Steel Group Company Limited which in turn owned 100 % of the issued share capital of Smart Triumph. Smart Triumph owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above and in the section of "Equity-settled share option scheme" below, at 30 June 2006, 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 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

### Equity-settled share option scheme

The Company has a share option scheme for all directors and any employees of any company in the Group or any entity in which any member of the Group holds an equity interest. The option period is to be determined and notified by the board of directors of the Company (the "Board") to each grantee at the time of making an offer which shall not expire later than ten years from the date of grant. There are no minimum periods for which an option granted must be held and/or minimum performance targets that must be reached before the option can be exercised in whole or in part, unless the Board otherwise determines.

The subscription price shall be such price determined by the directors of the Company at its absolute discretion and shall be no less than the highest of: (a) the closing price of the shares of the Company on the date of grant; (b) the average closing price of the shares of the Company for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share on the date of grant.

Details of the share options outstanding during the current period were as follows:

	No. of options outstanding at 1 January 2006	No. of options granted during the current period	Date of grant	Exercisable period	No. of options		Closing price per share	
					exercised/ cancelled/ lapsed during the current period	No. of options outstanding at 30 June 2006	Exercise price per share HK\$	per share immediately before the date of grant HK\$
Mr. Han Jingyuan	—	2,800,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,800,000	1.76	1.74
Ms. Chen Ningning	—	2,600,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,600,000	1.76	1.74
Mr. Zhu Jun	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Mr. Tang Chi Fai	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Mr. Liu Lei	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74

## Other Information

### Equity-settled share option scheme (Con't)

	No. of options outstanding at 1 January 2006	No. of options granted during the current period	Date of grant	Exercisable period	No. of options exercised/ cancelled/ lapsed during the current period	No. of options outstanding at 30 June 2006	Exercise price per share HK\$	Closing price per share immediately before the date of grant HK\$
Mr. Shen Xiaoling	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Mr. Yu Tung Ho	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Mr. Gao Qingju	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Mr. Wong Man Chung, Francis	—	2,400,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,400,000	1.76	1.74
Employee	—	2,000,000	30 June 2006	30 June 2006 to 29 June 2016	—	2,000,000	1.76	1.74

Note 1: All the above directors' interests in share options are personal and in long position.

Note 2: All of the above share options granted on 30 June 2006 can be exercised immediately upon acceptance of the offer by the grantee and there were no vesting conditions/period.

## Other Information

### Equity-settled share option scheme (Con't)

The fair value of share options granted on 30 June 2006 was HK\$16,266,974 (approximately RMB16,745,223) which was calculated by using the Binomial option pricing model. The Group recognized the above fair value as expenses during the current period. The model inputs were the share price at grant date of HK\$1.76, exercise price of HK\$1.76, expected volatility of 43.0%, expected dividend yield of 3.68%, contractual life of 10 years, and an annual risk-free interest rate of 4.84%. To allow for the effects of early exercise, it was assumed that the grantee would exercise the share options when the share price of the Company was twice the exercise price (the "Early Exercise Multiple"). The expected volatility was determined by using the annualized standard deviation of the historical share price of the Company since its listing on 2 March 2004 and other comparable listed companies for the last five years. To consider the expected life of expiration, the Company made reference to both the employee turnover rate and the early exercise multiple. The employee turnover rate is based on the historical turnover record of directors and senior management of the Company. As the Company's share listed on the Stock Exchange in Hong Kong since 2004, the Company cannot solely rely on the historical employee turnover rate due to its short track record period. Alternatively, the Company determined the expected life of expiration by applying the Early Exercise Multiple.

As the Binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

The accounting policy for equity-settled share options is stated in note 2.2 to the condensed consolidated interim financial information.

### Directors' Rights to Acquire Shares or Debentures

Save as disclosed 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 spouses or children under 18 years of age, or were any such rights exercised by them; or were 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.

## Other Information

### Substantial Shareholders

At 30 June 2006, 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:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of the Company's issued share capital</b>	<b>Long/Short position</b>
Wellbeing Holdings	1,230,728,124	42.37%	Long
Pioneer Iron & Steel Group Company Limited	817,519,151	28.14% (Note 1)	Long
Smart Triumph	817,519,151	28.14% (Note 1)	Long

Notes:

1. At 30 June 2006, Ms. Chen Ningning beneficially owned 100% of the issued capital of Pioneer Iron & Steel Group Company Limited which in turn owned 100% of the issued share capital of Smart Triumph. Smart Triumph owned 817,519,151 shares or 28.14% of the issued shares of the Company.

Save as disclosed above, at 30 June 2006, 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 period, the Company has adopted a code of conduct regarding directors of the Company's securities transactions on terms no less exacting than the required standard set out in the Model Code of Appendix 10 of the Listing Rules (the "Model Code").

The Company has made specific enquiry of all directors and all directors have confirmed with the Company that they have complied with the required standard set out in the Model Code during the period 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, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the 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 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.

### Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 27 September 2006 to Friday, 29 September 2006, all 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 26 September 2006.



## Other Information

### 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 2006



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

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\* For identification purposes only  
僅供識別