Interim Report
中期報告
2007

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: 581)
(股份代號：581)

*For identification purposes only
僅供識別

Financial Highlights

	For the six months ended 30 June Unaudited Consolidated		
	2007	2006	Percentage of increase/ (decrease)
Sales volume *(thousand tonnes)*			
Billets	**113**	853	(86.8%)
Strips and strip products	**1,373**	1,010	35.9%
H section steel products	**633**	N/A	N/A
Average selling price (net of value-added tax) per tonne *(RMB)*			
Billets	**2,519**	2,331	8.1%
Strips and strip products	**2,825**	2,552	10.7%
H section steel products	**3,325**	N/A	N/A
Revenue *(RMB million)*	**6,648**	4,774	39.3%
Profit attributable to equity holders of the Company *(RMB million)*	**769**	585	31.5%
Basic earnings per share *(RMB)*	**0.26**	0.20	30%

The Board of Directors (the "Board") of China Oriental Group Company Limited (the "Company") is pleased to announce the unaudited consolidated condensed interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the comparative amounts for the corresponding period. The unaudited consolidated condensed interim financial information for the six months ended 30 June 2007 have been reviewed by the Company's Audit Committee. The Company's auditors, PricewaterhouseCoopers has reviewed the unaudited consolidated condensed interim financial information for the six months ended 30 June 2007 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Consolidated Condensed Interim Balance Sheet

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

		As at	
		30 June	31 December
		2007	2006
	Note	**Unaudited**	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	**5,111,492**	4,675,308
Leasehold land and land use rights	*5*	**77,266**	78,092
Investment properties	*5*	**19,878**	20,428
Intangible assets	*5*	**16,047**	18,289
Investments in an associate		**7,272**	7,897
Deferred income tax assets		**643**	–
		5,232,598	4,800,014
Current assets			
Inventories		**1,011,191**	1,407,898
Trade receivables	*6*	**2,371,943**	998,828
Other current assets		**11,305**	2,591
Prepayments, deposits and other receivables	7	**228,924**	481,734
Amounts due from a related party	*20(c)*	**1,160**	–
Financial assets at fair value through profit or loss		**138**	135
Restricted bank balances		**79,127**	95,262
Cash and cash equivalents		**369,821**	434,905
		4,073,609	3,421,353
Total assets		**9,306,207**	8,221,367
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	*8*	**309,630**	309,340
Share premium	*8*	**2,155,859**	2,151,035
Other reserves	*9*	**984,296**	984,296
Retained earnings		**2,671,188**	2,034,456
		6,120,973	5,479,127
Minority interest		**138,035**	122,322
Total equity		**6,259,008**	5,601,449

Consolidated Condensed Interim Balance Sheet

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

		As at	
	Note	**30 June 2007 Unaudited**	31 December 2006 Audited
LIABILITIES			
Non-current liabilities			
Borrowings	*12*	**625,000**	360,770
Deferred income tax liabilities		**–**	290
Amounts due to a related party	*20(c)*	**55,733**	55,529
		680,733	416,589
Current liabilities			
Trade payables	*10*	**423,042**	516,368
Accruals, advances from customers and other current liabilities	*11*	**1,218,379**	998,236
Amounts due to related parties	*20(c)*	**17,698**	56,674
Current income tax liabilities		**106,293**	58,225
Borrowings	*12*	**600,000**	573,230
Dividends payable		**1,054**	596
		2,366,466	2,203,329
Total liabilities		**3,047,199**	2,619,918
Total equity and liabilities		**9,306,207**	8,221,367
Net current assets		**1,707,143**	1,218,024
Total assets less current liabilities		**6,939,741**	6,018,038

The notes on pages 7 to 29 form an integral part of this consolidated condensed interim financial information.

Consolidated Condensed Interim Statement of Income

(All amounts in RMB thousands unless otherwise stated)

	Note	Six months ended 30 June 2007 Unaudited	2006 Unaudited
Revenue	4	**6,648,045**	4,773,687
Cost of sales		**(5,558,614)**	(3,976,717)
Gross profit		**1,089,431**	796,970
Other income		**1,040**	1,219
Distribution costs		**(27,890)**	(5,208)
Administrative expenses		**(85,727)**	(87,840)
Other expenses		**(3,401)**	(3,089)
Other (losses)/gains – net		**(10,773)**	10,999
Operating profit	13	**962,680**	713,051
Finance income		**5,293**	12,767
Finance costs		**(30,664)**	(23,169)
Finance costs – net		**(25,371)**	(10,402)
Share of loss of an associate		**(625)**	(2,368)
Profit before income tax		**936,684**	700,281
Income tax expense	14	**(148,472)**	(110,759)
Profit for the period		**788,212**	589,522
Attributable to:			
Equity holders of the Company		**768,881**	584,665
Minority interest		**19,331**	4,857
		788,212	589,522
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
– basic	15	**0.26**	0.20
– diluted	15	**0.26**	0.20
Dividends	16	**154,864**	29,730

The notes on pages 7 to 29 form an integral part of this consolidated condensed interim financial information.

Consolidated Condensed Interim Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

		Attributable to equity holders of the Company					
	Note	**Share capital**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2006		2,460,375	735,325	1,397,752	4,593,452	138,643	4,732,095
Profit for the period		–	–	584,665	584,665	4,857	589,522
Employee share options scheme: – value of employee services	*9*	–	16,745	–	16,745	–	16,745
Dividends relating to 2005		–	–	(136,044)	(136,044)	(3,581)	(139,625)
		–	16,745	448,621	465,366	1,276	466,642
Balance at 30 June 2006 (unaudited)		2,460,375	752,070	1,846,373	5,058,818	139,919	5,198,737
Balance at 1 January 2007		2,460,375	984,296	2,034,456	5,479,127	122,322	5,601,449
Profit for the period		–	–	768,881	768,881	19,331	788,212
Employee share options scheme: – proceeds from exercising share option	*8*	5,114	–	–	5,114	–	5,114
Acquisition from a minority shareholder		–	–	–	–	704	704
Dividends relating to 2006	*16*	–	–	(132,149)	(132,149)	(4,322)	(136,471)
		5,114	–	636,732	641,846	15,713	657,559
Balance at 30 June 2007 (unaudited)		2,465,489	984,296	2,671,188	6,120,973	138,035	6,259,008

The notes on pages 7 to 29 form an integral part of this consolidated condensed interim financial information.

Consolidated Condensed Interim Statement of Cash Flows

(All amounts in RMB thousands unless otherwise stated)

		Six months ended 30 June	
		2007	2006
	Note	**Unaudited**	Unaudited
Net cash used in operating activities	*17*	**(4,001)**	(123,082)
Net cash used in investing activities		**(217,698)**	(348,179)
Net cash generated from financing activities		**164,023**	5,850
Net decrease in cash and cash equivalents		**(57,676)**	(465,411)
Cash and cash equivalents at 1 January		**434,905**	709,870
Exchange losses on cash		**(7,408)**	(2,188)
Cash and cash equivalents at 30 June		**369,821**	242,271

The notes on pages 7 to 29 form an integral part of this consolidated condensed interim financial information.

Selected Notes to the Consolidated Condensed Interim Financial Information

(All amounts in RMB 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").

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.

This consolidated condensed interim financial information was approved for issue on 30 August 2007.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

This consolidated condensed interim financial information for the six months ended 30 June 2007 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. This consolidated condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2.2 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006, which has been approved by the Board of Directors (the "Board") on 3 April 2007.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007.

2. Basis of preparation and accounting policies *(continued)*

2.2 Accounting policies *(continued)*

- HKFRS 7, "Financial instruments: Disclosure", 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.

  HKFRS 7 and the amendment to HKAS 1 introduce new disclosures relating to financial instruments. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures is the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The full disclosures as required by HKFRS 7 and the amendment to HKAS 1 will be disclosed in the annual financial statement for the year ending 31 December 2007.

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies", effective for annual periods beginning on or after 1 March 2006. This interpretation is not relevant to the Group.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2, Share-base payment", effective for annual periods beginning on or after 1 May 2006.

  HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. This interpretation has no significant impact on the Group's consolidated condensed interim financial information.

- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives", effective for annual periods beginning on or after 1 June 2006.

  HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. This interpretation does not have any significant impact on the reassessment of embedded derivatives as the Group has already assessed whether embedded derivative should be separated using the principles that are consistent with HK(IFRIC)-Int 9; and

2. Basis of preparation and accounting policies *(continued)*

2.2 Accounting policies *(continued)*

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006.

  HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated condensed interim financial information.

The following new standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. This standard supersedes HKAS 14 Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. Management is currently assessing the impact of HKFRS 8 on the Group's operations. The Group will apply HKFRS 8 with effect from 1 January 2009.

- HK(IFRIC)-Int 11, "HKFRS 2 – Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. It clarifies the application of share-based payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008.

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. This interpretation is not relevant to the Group.

- HKAS 23 (Revised), "Borrowing Cost", effective for annual periods beginning on or after 1 January 2009. The revised HKAS 23 removes the option of immediately recognising the borrowing costs as an expense, and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that assets. The revised HKAS 23 only applies to qualifying assets measured at cost and excludes inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis. Management is currently assessing the impact of the revised HKAS 23 on the Group's operations. The Group will apply the revised HKAS 23 from 1 January 2009.

(All amounts in RMB thousands unless otherwise stated)

3. Principal subsidiaries of the Group

The significant subsidiaries at 30 June 2007 and 31 December 2006 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") (i)	PRC 2 August 2005	Limited liability company	100% (Indirectly held)	RMB 5,000,000	RMB 5,000,000	Manufacture and sales of lime products
Oriental Fullhero Leasing Co., Ltd ("Shenzhen Leasing")	PRC 23 September 2005	Limited liability company	100% (Indirectly held)	US$ 65,000,000	US$ 65,000,000	Leasing and financial leasing
Tangshan Jinxi Mining Company Limited ("Jinxi Mining") (ii)	PRC 20 December 2004	Limited liability company	100% (Indirectly held)	RMB 2,000,000	RMB 2,000,000	Management service for mining rights

(All amounts in RMB thousands unless otherwise stated)

3. Principal subsidiaries of the Group *(continued)*

(i) Jinxi Limited entered into an agreement with Ms. Fu Ruiyun on 23 December 2006 to acquire 38% equity interests of Jinxing Charging held by Ms. Fu Ruiyun. The total consideration was RMB8.9 million in the form of cash. With the completion of the transaction in January 2007, Jinxing Charging became a wholly owned subsidiary of Jinxi Limited.

In June 2007, Jinxing Charging was deregistered and ceased to be the Group's subsidiary thereafter. The assets, liabilities and operations were taken up by Jinxi Limited.

(ii) Jinxi Limited entered into an equity acquisition agreement with Mr. Wang Shujun on 5 September 2006 to acquire 2% equity interests of Jinxi Mining held by Mr. Wang Shujun. The total consideration is RMB0.04 million in the form of cash. Thereafter, Jinxi Mining became a wholly owned subsidiary of Jinxi Limited.

4. Sales and segment information

(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 2007 and 2006 were as follows:

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Sales:		
Gross sales, less discounts and returns		
– billets	**284,141**	1,987,305
– strips and strip products	**3,878,161**	2,577,932
– H section steel products	**2,103,336**	–
– cold rolled sheets	**28,650**	132,610
– galvanised sheets	**341,708**	64,047
– others	**12,049**	11,793
	6,648,045	4,773,687

(b) Segment information

No business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of iron and steel products, which is considered as one business segment with similar risks and returns.

No geographical segment information is presented as over 90% of the Group's sales and operating profits are derived 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.

(All amounts in RMB thousands unless otherwise stated)

5. Capital expenditure

	Property, plant and equipment *(a)*	Leasehold land and land use rights	Investment properties	Intangible assets – Iron ore mining licenses
		Unaudited		
Six months ended 30 June 2006				
Opening carrying amount 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 13)*	(133,695)	(695)	(563)	(1,548)
Closing carrying amount as at 30 June 2006	4,622,911	78,874	20,977	32,664
Six months ended 30 June 2007				
Opening carrying amount as at 1 January 2007	4,675,308	78,092	20,428	18,289
Additions	656,955	–	–	–
Disposals	(4,343)	–	–	–
Depreciation and amortisation *(Note 13)*	(216,428)	(826)	(550)	(2,242)
Closing carrying amount as at 30 June 2007	5,111,492	77,266	19,878	16,047

(a) During the six months ended 30 June 2007, the Group started to construct an H-section steel rolling production line with an annual production capacity of 1.2 million tonnes of H-section steel. Details of the H-section steel rolling line were set out in the Company's announcement dated 7 May 2007 and circular dated 29 May 2007.

As at 30 June 2007, capital expenditure amounting to approximately RMB564 million for this H-section production line was accounted for as property, plant and equipment of the Group.

As at 30 June 2007, the application process for the final approval by the relevant state government authorities was still in progress. The management of the Company are of the view that the application process for the final approval is expected to be successfully completed before the formal commencement of operation of this H-section steel rolling production line.

(All amounts in RMB thousands unless otherwise stated)

6. Trade receivables

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Accounts receivable	**174,660**	34,795
Notes receivable *(a)*	**2,197,283**	964,033
	2,371,943	998,828

(a) As at 30 June 2007, notes receivable were all bank acceptance notes, of which approximately RMB41 million was pledged as security for issuing letters of credit.

As at 31 December 2006, notes receivable amounting to approximately RMB135 million, RMB10 million, RMB29 million and RMB51 million were pledged as security for issuing letters of credit, issuing notes payable (Note 10), the Group's current borrowings (Note 12) and in favour of a third party for issuing letters of credit (Note 19) respectively.

As at 30 June 2007, accounts receivable pledged by letters of credit issued by third parties amounted to approximately RMB155 million (31 December 2006: approximately RMB28 million).

As at 30 June 2007 and 31 December 2006, the carrying amount of the Group's trade receivables approximated their fair value.

As at 30 June 2007 and 31 December 2006, the ageing analysis of trade receivables was as follows:

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Within 3 months	**1,871,007**	998,828
4 – 6 months	**500,936**	–
	2,371,943	998,828

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.

7. Prepayments, deposits and other receivables

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Prepayments for inventories	**184,929**	441,044
Deposits and other receivables	**43,995**	40,690
	228,924	481,734

8. Share capital

	Number of shares (thousands)	Amount		
		Ordinary shares	**Share premium**	**Total**
At 1 January 2006	2,905,000	309,340	2,151,035	2,460,375
At 30 June 2006 (unaudited)	2,905,000	309,340	2,151,035	2,460,375
At 31 December 2006	2,905,000	309,340	2,151,035	2,460,375
Employee share option scheme: – proceeds from exercising share option *(Note 9(b))*	2,982	290	4,824	5,114
At 30 June 2007 (unaudited)	2,907,982	309,630	2,155,859	2,465,489

As at 30 June 2007 and 31 December 2006, 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 2007, the number of issued and fully paid ordinary shares is 2,907,982,000 shares (31 December 2006: 2,905,000,000 shares).

(All amounts in RMB thousands unless otherwise stated)

9. Other reserves

	Merger reserve *(a)*	Capital surplus	Statutory reserve	Options *(b)*	Total
Balance at 1 January 2006	(599)	17,194	718,730	–	735,325
Employee share options scheme:					
– value of employee services (b)	–	–	–	16,745	16,745
Balance at 30 June 2006 (unaudited)	(599)	17,194	718,730	16,745	752,070
Profit appropriation	–	–	230,276	–	230,276
Others	–	1,950	–	–	1,950
Balance at 31 December 2006	(599)	19,144	949,006	16,745	984,296
Balance at 30 June 2007 (unaudited)	(599)	19,144	949,006	16,745	984,296

(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) Employee share option scheme

As approved by the Board and Shareholders' meeting, the share options were granted to the directors of the Company and an 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 at 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.

9. Other reserves *(continued)*

(b) Employee share option scheme *(continued)*

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

	For the six months ended (unaudited)			
	30 June 2007		30 June 2006	
	Average exercise price in HK$ per share	**Number of options (thousands)**	Average exercise price in HK$ per share	Number of options (thousands)
At 1 January	**1.76**	**24,200**	–	–
Granted	**–**	**–**	1.76	24,200
Exercised	**1.76**	**(2,982)**	–	–
At 30 June	**1.76**	**21,218**	1.76	24,200

Out of the 21,218,000 outstanding options at 30 June 2007 (30 June 2006: 24,200,000 options), 18,818,000 options (30 June 2006: 24,200,000 options) were exercisable. Options exercised during the six months ended 30 June 2007 resulted in 2,982,000 shares being issued at HK$1.76 each. The related weighted average share price at the time of exercise was HK$2.96 per share.

As restricted by the resolution of the Board dated 13 April 2007, 2,400,000 options that were granted to one director who has resigned on 13 April 2007 were not exercisable for the time being, pending further resolution by the Board.

Share options outstanding at 30 June 2007 and 30 June 2006 will be expired on 30 June 2016.

The fair value of options granted at the Date of Grant, determined by using the Binomial valuation model, was HK$16.267 million (approximately to RMB16.745 million). 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.

(All amounts in RMB thousands unless otherwise stated)

10. Trade payables

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Accounts payable	**380,042**	425,268
Notes payable (a)	**43,000**	91,100
	423,042	516,368

(a) As at 30 June 2007, the notes payable represented bank acceptance notes issued to third parties. The upfront notes payable together with notes payable issued to a fellow subsidiary with the amount of RMB40 million were secured by inventories and restricted bank balances, amounting to RMB71 million and RMB30 million respectively. Notes payable of approximately RMB23 million were additionally guaranteed by Jinxi Limited.

As at 31 December 2006, the notes payable represented bank acceptance notes, RMB32.1 million of which were secured by notes receivable (Note 6), restricted bank balances, and bank acceptance notes issued by a subsidiary amounting to approximately RMB10 million, RMB20 million and RMB8 million respectively, and RMB59 million of which were secured by certain inventories (Note 12), restricted bank balances amounting to approximately RMB21 million and guaranteed by Jinxi Limited.

As at 30 June 2007 and 31 December 2006, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Within 3 months	**388,187**	478,916
4 – 6 months	**27,273**	30,703
7 – 9 months	**2,177**	2,795
10 – 12 months	**2,022**	219
Above 1 year	**3,383**	3,735
	423,042	516,368

(All amounts in RMB thousands unless otherwise stated)

11. Accruals, advances from customers and other current liabilities

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Accruals	**17,752**	9,356
Advances from customers	**552,555**	387,518
Value-added tax payable	**107,844**	58,431
Other taxes payables	**1,111**	2,553
Other payables (a)	**539,117**	540,378
	1,218,379	998,236

(a) The breakdown of other payables as at 30 June 2007 and 31 December 2006 were as follows:

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Pension payables and other social welfare payables	**105,476**	104,424
Payables for purchase of property, plant and equipment	**252,170**	278,549
Customer deposits	**109,041**	91,671
Salary payables	**19,907**	19,972
Employee deposits	**17,570**	15,716
Others	**34,953**	30,046
	539,117	540,378

(All amounts in RMB thousands unless otherwise stated)

12. Borrowings

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Non-current		
Bank borrowings, secured (i)	**500,000**	215,770
Other borrowings, unsecured (ii)	**125,000**	145,000
	625,000	360,770
Current		
Bank borrowings, secured (i)	**480,000**	573,230
Bank borrowings, unsecured	**100,000**	–
Other borrowings, unsecured (ii)	**20,000**	–
	600,000	573,230
Total borrowings	**1,225,000**	934,000

(i) As at 30 June 2007, secured borrowings amounting to RMB830 million, out of the total secured borrowings of RMB980 million, were secured by certain property, plant and equipment and certain leasehold land and land use rights of the Group, whose carrying amount were approximately RMB1,346 million and RMB40 million respectively.

As at 31 December 2006, secured borrowings amounting to RMB630 million, out of the total secured borrowings of RMB789 million, were secured by certain bank acceptance notes issued by third parties (Note 6), certain property, plant and equipment and certain leasehold land and land use rights of the Group, and certain bank acceptance notes issued by a subsidiary, amounting to approximately RMB29 million, RMB895 million, RMB40 million and RMB7 million respectively.

As at 31 December 2006, secured borrowings amounting to RMB9 million were secured by certain inventories of the Group and guaranteed by Jinxi Limited. The net book value of inventories pledged as security for the Group's notes payable (Note 10) and current borrowings amounted to approximately RMB69 million.

As at 30 June 2007 and 31 December 2006, except for the secured borrowings described above, current secured borrowings amounting to RMB150 million were secured by certain property, plant and equipment and certain leasehold land and land use rights, whose carrying amount was approximately RMB192 million and RMB24 million respectively (31 December 2006: RMB193 million and RMB25 million respectively), and guaranteed by the Company and Foshan Jin Lan Aluminum Company Limited ("Foshan Jin Lan") (a shareholder of Foshan Jinxi) collectively pursuant to the below agreement.

(All amounts in RMB thousands unless otherwise stated)

12. Borrowings *(continued)*

(i) *(continued)*

In January 2006, the Company and Foshan Jin Lan granted a guarantee in favour 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.

(ii) 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.

Movements in borrowings is analysed as follow:

Six months ended 30 June 2006	
Opening amount as at 1 January 2006	1,630,130
Proceeds from borrowings	326,000
Repayments of borrowings	(1,112,900)
Closing amount as at 30 June 2006 (unaudited)	843,230
Six months ended 30 June 2007	
Opening amount as at 1 January 2007	934,000
Proceeds from borrowings	754,230
Repayments of borrowings	(463,230)
Closing amount as at 30 June 2007 (unaudited)	1,225,000

As at 30 June 2007 and 31 December 2006, the Group's borrowings were repayable as follows:

	Bank borrowings		**Other borrowings**	
	30 June 2007 Unaudited	31 December 2006 Audited	**30 June 2007 Unaudited**	31 December 2006 Audited
Within 1 year	**580,000**	573,230	**20,000**	–
Between 1 and 2 years	**–**	–	**20,000**	20,000
Between 2 and 5 years	**500,000**	215,770	**60,000**	60,000
Over 5 years	**–**	–	**45,000**	65,000
	1,080,000	789,000	**145,000**	145,000

(All amounts in RMB thousands unless otherwise stated)

12. Borrowings *(continued)*

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Bank borrowings	**5.75%-7.15%**	5.58%-7.15%
Other borrowings	**3.06%**	2.52%

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

	Carrying amounts		Fair value	
	30 June 2007 Unaudited	31 December 2006 Audited	**30 June 2007 Unaudited**	31 December 2006 Audited
Bank borrowings	**500,000**	215,770	**500,000**	215,770
Other borrowings	**145,000**	145,000	**125,192**	123,476
	645,000	360,770	**625,192**	339,246

The carrying amounts of the current bank borrowings approximated their fair value.

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

13. Operating profit

The following items have been credited/(charged) to the operating profit during the six months ended 30 June 2007 and 2006:

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Share options granted to directors and an employee *(Note 9 (b))*	**–**	(16,745)
Loss on disposal of property, plant and equipment	**(4,273)**	(8,023)
Gain on disposal of intangible assets	**–**	500
Amortisation of leasehold land and land use rights *(Note 5)*	**(826)**	(695)
Depreciation of property, plant and equipment *(Note 5)*	**(216,428)**	(133,695)
Amortisation of intangible assets *(Note 5)*	**(2,242)**	(1,548)
Depreciation of investment properties *(Note 5)*	**(550)**	(563)
Foreign exchange loss, net	**(7,408)**	(2,188)
Impairment provision for receivables	**–**	(990)

14. Income tax expense

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Current income tax		
– PRC enterprise income tax	**149,404**	114,165
Deferred income tax	**(932)**	(3,406)
	148,472	110,759

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for foreign invested enterprises from the current applicable tax rate to 25% with effect from 1 January 2008. The directors consider that no material impact of deferred tax assets will arise from the change of tax rate since most of the deferred tax assets will be recovered within the year ending 31 December 2007.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

15. 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 2007 Unaudited	30 June 2006 Unaudited
Profit attributable to equity holders of the Company	**768,881**	584,665
Weighted average number of ordinary shares in issue *(thousands)*	**2,905,566**	2,905,000
Basic earnings per share *(RMB per share)*	**0.26**	0.20

15. Earnings per share *(continued)*

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.

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Profit attributable to equity holders of the Company	**768,881**	584,665
Weighted average number of ordinary shares in issue *(thousands)*	**2,905,566**	2,905,000
Adjustments for – share options *(thousands)*	**6,904**	–
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**2,912,470**	2,905,000
Diluted earnings per share *(RMB per share)*	**0.26**	0.20

16. Dividends

(a) At a meeting held on 30 August 2006, the Board proposed an interim dividend of HK$29.05 million (approximately RMB29.73 million), representing HK$0.01 per ordinary share.

(b) At a meeting held on 3 April 2007, the Board proposed a final dividend in respect of the year ended 31 December 2006 of HK$133.65 million (approximately RMB132.15 million), representing HK$0.046 per ordinary share. The Annual General Meeting held on 22 May 2007 approved the Board's dividend proposal. Such final dividend was paid during the six months ended 30 June 2007.

(All amounts in RMB thousands unless otherwise stated)

16. Dividends *(continued)*

(c) At a meeting held on 30 August 2007, the Board has resolved, among others, to impose a condition on the resolution regarding the declaration of the interim dividend, which is subject to obtaining a ruling from the Executive of the Securities and Futures Commission (the "Executive") that the interim dividend will not constitute a frustrating action under Rule 4 of the Takeovers Code, the directors (excluding Ms. Chen Ningning) of the Company has resolved to declare an interim dividend of HK$159.94 million (approximately RMB154.86 million), representing HK$0.055 per ordinary share. This proposed dividend is not reflected as a dividend payable in this consolidated condensed interim financial information, but will be reflected as an appropriation of the retained earnings for the year ending 31 December 2007. The directors (excluding Ms. Chen Ningning) of the Company advise that the interim dividend will be paid on 26 October 2007. The Company is seeking a ruling from the Executive in relation to the proposed interim dividend under Rule 4 of the Takeovers Code and will as soon as practicable issue an announcement to notify shareholders about the proposed interim dividend upon obtaining a ruling from the Executive.

17. Notes to the consolidated condensed interim statement of cash flows

Major non-cash transactions

During the six months ended 30 June 2007, the Group endorsed bank acceptance notes to the suppliers to purchase of property, plant and equipment amounting to approximately RMB448 million (30 June 2006: approximately RMB220 million).

18. Capital commitments

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
To acquire the minority interest in Jinxing Charging	–	8,900
To acquire interests in certain mining enterprises	–	83,421
	–	92,321
Purchase of property, plant and equipment		
Contracted but not provided for	**1,244,616**	6,599
Authorised but not contracted for	**274,369**	1,971,348
	1,518,985	1,977,947

(All amounts in RMB thousands unless otherwise stated)

19. Contingent events

As at 30 June 2007, Jinxi Limited provided guarantee for certain bank borrowings in favour of third parties amounting to approximately RMB34.9 million (31 December 2006: approximately RMB18.9 million).

During the year ended 31 December 2006, a third party acted as an agent and issued letter of credit to import property, plant and equipment for Jinxi Limited. Accordingly, Jinxi Limited pledged notes receivable amounting to RMB51 million (Note 6) as collaterals. Such collaterals were released during the six months ended 30 June 2007.

The directors of the Company are of the view that to settle the obligation will not probably cause an outflow of resources embodying economic benefits.

20. 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 2007 and 2006, the following companies and persons were related parties of the Group:

Name	Relationship with the Group
Wellbeing Holdings Limited	Substantial shareholder of the Company
Smart Triumph Corporation	Substantial shareholder 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 representive 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
Foshan Jin Lan Import and Export Co., Ltd ("Jin Lan Import and Export")	Controlled by the family members of Mr. Zhou Weijie, a director of Foshan Jinxi
Foshan Jin Lan Nonferrous Metals Product Co., Ltd. ("Jin Lan Nonferrous Metals")	Foshan Jin Lan's subsidiary
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

(All amounts in RMB thousands unless otherwise stated)

20. Related party transactions *(continued)*

(b) Save as disclosed elsewhere in these consolidated condensed interim financial information, during the six months ended 30 June 2007 and 2006, the following significant related party transactions were carried out:

(i) Sales

(I) Sales of goods

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Jin Lan Import and Export	**7,576**	–

(II) Sales of utilities

	For the six months ended	
	30 June 2007 Unaudited	30 June 2006 Unaudited
Jin Lan Nonferrous Metals	**1,562**	–

(ii) Loan received and repayment of loan

(I) Transaction with Tangshan Jinxi Group

Tangshan Jinxi Group provided a loan to Foshan Jinxi, amounting to RMB30 million during the six months ended 30 June 2006. During the six months ended 30 June 2007, part of the borrowings from Tangshan Jinxi Group amounting to RMB23 million have been repaid.

The loan are unsecured, bore interest at a rate of 5.85% per annum and repayable within one year. During the six months ended 30 June 2007, interest expense of approximately RMB0.5 million was incurred.

20. Related party transactions *(continued)*

(b) *(continued)*

(ii) Loan received and repayment of loan *(continued)*

(II) Transaction with Foshan Jin Lan

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 RMB11.86 million, approximated to US$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 RMB0.86 million 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 RMB44.67 million as interest-free, on the condition that Accordpower additionally provided another loan to Foshan Jinxi of US$9.03 million. Interest expense of approximately RMB0.44 million was incurred before Accordpower provided the loan to Foshan Jinxi.

During the six months ended 30 June 2007, Foshan Jin Lan has paid certain expenses on behalf of Foshan Jinxi amounting to approximately RMB0.2 million.

During the year ended 31 December 2006, Foshan Jinxi has paid certain expenses on behalf of Foshan Jin Lan amounting to approximately RMB0.99 million, which was deducted from the loans provided by Foshan Jin Lan.

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

(All amounts in RMB thousands unless otherwise stated)

20. Related party transactions *(continued)*

(c) As at 30 June 2007 and 31 December 2006, the following related party balances were attributed to the aforementioned related party transactions, amounts paid on behalf of the Group and dividends appropriation during the period/year and other ordinary business transactions.

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Amounts due from a related party		
– Jin Lan Import and Export	**1,160**	–
Amounts due to related parties		
Non-current		
Borrowings from related parties:		
– Foshan Jin Lan *(Note 20(b)(ii))*	**55,733**	55,529
Current		
Borrowings from related parties:		
– Tangshan Jinxi Group *(Note 20(b)(ii))*	**8,737**	31,194
– Ms. Fu Ruiyun	**–**	16,783
	8,737	47,977
Dividends payable due to		
– Tangshan Jinxi Group	**6,063**	5,391
– Zhongxing Iron Mine	**2,535**	2,535
	8,598	7,926
Others:		
– Mr. Han Jinyuan	**363**	771
	17,698	56,674

Except for the loan provided by Foshan Jin Lan and Tangshan Jinxi Group as disclosed in Note 20(b)(ii), the related party balances were all unsecured, interest free and had no fixed term of repayment.

21. Subsequent events

At a meeting held on 30 August 2007, the Board has resolved, among others, to impose a condition on the resolution regarding the declaration of the interim dividend, which is subject to obtaining a ruling from the Executive that the interim dividend will not constitute a frustrating action under Rule 4 of the Takeovers Code, the directors (excluding Ms. Chen Ningning) of the Company has resolved to declare an interim dividend of HK$159.94 million (approximately RMB154.86 million), representing HK$0.055 per ordinary share. This proposed dividend is not reflected as a dividend payable in this consolidated condensed interim financial information, but will be reflected as an appropriation of the retained earnings for the year ending 31 December 2007. The directors (excluding Ms. Chen Ningning) of the Company advise that the interim dividend will be paid on 26 October 2007. The Company is seeking a ruling from the Executive in relation to the proposed interim dividend under Rule 4 of the Takeovers Code and will as soon as practicable issue an announcement to notify shareholders about the proposed interim dividend upon obtaining a ruling from the Executive.

22. Approval on the consolidated condensed interim financial information

The consolidated condensed interim financial information was reviewed by the audit committee of the Company and approved by the Board on 29 August 2007 and 30 August 2007 respectively.

Report on Review of Interim Financial Information

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

TO THE BOARD OF DIRECTORS OF
CHINA ORIENTAL GROUP COMPANY LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 29, which comprises the consolidated condensed balance sheet of China Oriental Group Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related consolidated condensed statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Although the interim financial information for the six months ended 30 June 2006 was also presented, we have not conducted a review on such financial information.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2007

The Board is pleased to announce that the unaudited consolidated profit attributable to equity holders of the Company for the first half of 2007 was RMB769 million, representing an increase of 31.5% as compared with that of the corresponding period of 2006

Business Review

The Board is pleased to announce that the unaudited consolidated revenue of the Group for the first half of 2007 amounted to RMB6,648 million, representing an increase of 39.3% when compared with that of the corresponding period of 2006. Unaudited consolidated profit attributable to the equity holders of the Company for the first half of 2007 was RMB769 million, representing an increase of 31.5% from RMB585 million of the corresponding period of 2006. Unaudited basic earnings per share for the first half of 2007 was RMB0.26, increased by RMB0.06 or 30% from that of the corresponding period of 2006.

During the first half of 2007, the Group's total sales volume has increased by 14.6% to 2,191,533 tonnes (2006 corresponding period: 1,912,134 tonnes). The sales volume of billets, strips and strip-related products, H-section steel, cold rolled sheets and galvanised sheets accounted for 5.1%, 62.6%, 28.9%, 0.3% and 3.1% of the Group's total sales volume respectively (2006 corresponding period: 44.6%, 52.8%, N/A, 1.9% and 0.7% respectively), reflecting the Group's further fine-tuning of its sales product mix.

The Group's steel output for the first half of 2007 was 2,109,515 tonnes (2006 corresponding period: 1,904,995 tonnes), represented an increase of 10.7%.

The average selling prices (excluding value-added tax) of the Group's billets, strips and strip-related products and H-section steel in the first half of 2007 were RMB2,519 per tonne, RMB2,825 per tonne and RMB3,325 per tonne respectively, representing increases of 8.1%, 10.7% and N/A when compared with RMB2,331 per tonne, RMB2,552 per tonne and N/A for the corresponding period of 2006. In July 2007, the unaudited average selling prices (excluding value-added tax) of billets, strips and strip-related products and H-section steel were RMB2,383 per tonne, RMB2,951 per tonne and RMB3,517 per tonne respectively.

In the first half of 2007, the average cost of sales of billets, strips and strip-related products and H-section steel were RMB2,219 per tonne, RMB2,395 per tonne and RMB2,601 per tonne respectively. The figures represented increase of 13.4%, 15.8% and N/A respectively when compared with RMB1,957 per tonne, RMB2,068 per tonne and N/A for the corresponding period of 2006. The major reason for the increase in the cost of sales per tonne was upsurge in the average purchasing prices of iron powder and coke.

In the first half of 2007, gross profit of billets, strips and strip-related products and H-section steel were RMB300 per tonne, RMB430 per tonne and RMB724 per tonne respectively (2006 corresponding period: RMB374 per tonne, RMB484 per tonne and N/A respectively).

As a result of the sales of H-section steel with a higher gross profit margin and the increase in the overall sales volume during the first half of 2007, the Group's gross profit increased by 36.7% to RMB1,089 million for the first half of 2007 (2006 corresponding period: RMB797 million).

Accreditation for the Company and its Management

Hebei Jinxi Iron and Steel Company Limited ("Jinxi Limited"), a subsidiary of the Group, had been ranked 69th in terms of crude steel capacity, among steel enterprises of the world, in 2006 by the Metal Bulletin of the UK. It had also been named the "Key Construction Work Advanced Unit for 2006" by the Municipal Government.

Mr. Han Jingyuan, the Chairman and Chief Executive Officer of the Company, had been named the "Top ten Outstanding People in Hebei Province metallurgy industry in 2006" by Metallurgy Policy Research Committee of Hebei Province. He was also named the "Top Ten Outstanding People in Brand Building" by Market Daily of the People's Daily, the Institute of China International Brand Name and etc.

Human Resources and Remuneration Policies

As at 30 June 2007, the Group had a workforce of 6,156 (30 June 2006: 5,643); and temporary staff of 2,042 (30 June 2006: 2,232). Staff cost of the Group for the first half of 2007 was approximately RMB140,981,000 (2006 corresponding period : RMB121,825,000), representing an increase of 15.7%. The staff cost included basic salaries and benefits. Staff benefits included discretionary bonus, medical insurance plans, pension scheme, unemployment insurance plan, maternity insurance plan and the fair value of share option etc. The Group's remuneration policies are tying its employees' income to their productivity and/or sales volume, as well as to the extent 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 equity interest 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.

Production Capacity

The annual production capacity of the Group as at the following dates was:

	30 June 2007 Tonnes	31 December 2006 Tonnes
Billets	**4,300,000**	4,000,000
Strips	**1,600,000**	1,600,000
Mid-width strips	**1,200,000**	1,200,000
H-section steel	**1,300,000**	1,000,000
Cold rolled sheets and galvanised sheets	**450,000**	250,000 – 400,000

H-section Steel Rolling Line

H-section steel rolling line commenced commercial production at the end of August 2006. The annual production capacity of H-section steel has exceeded 1.3 million tonnes.

During the first half of 2007, the Company sold 632,665 tonnes of H-section steel (2006 corresponding period: N/A), of which export volume accounted for 18.5% of total H-section steel sales volume.

Investment in Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Foshan Jinxi")

In the first half of 2007, the Group sold 6,273 tonnes of cold rolled sheets and 66,835 tonnes of galvanised sheets (2006 corresponding period: 36,901 tonnes and 12,557 tonnes respectively). During the first half of 2007, approximately 30,852 tonnes of cold rolled sheets were produced before some of the rolling machines completed their trial run. In accordance with relevant accounting standards, the relevant revenue and cost of sales have been transferred to cost of property, plant and equipment.

Unaudited loss of Foshan Jinxi for the first half of 2007 was approximately RMB1,050,000 (2006 corresponding period: loss of approximately RMB18,646,000).

Foshan Jinxi will continue to fine-tune its production process, improve its production efficiency, product mix and actively expand its market coverage.

Dividend Policy

The Company has been strictly complying with its undertaking in the prospectus of distributing 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 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 deem relevant. As the Company gradually transforming from a developing entity to a mature enterprise, its dividend policy shall be improved gradually to reward its shareholders. In addition, pursuant to the relevant PRC law, Jinxi Limited's distributable profit should not be higher than its net profit, after appropriation 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 2007 were RMB449 million (31 December 2006: RMB530 million).

The Group's current ratio was 1.72 as at 30 June 2007 (31 December 2006: 1.55).

As at 30 June 2007, the Group's borrowings repayable within one year and borrowings repayable after one year amounted to RMB600 million and RMB625 million respectively (31 December 2006: RMB573 million and RMB361 million respectively).

The consolidated interest expenses (including capitalised interest) in the first half of 2007 amounted to RMB30,664,000 (2006 corresponding period: RMB29,000,000). The interest coverage was 31.5 times (2006 corresponding period: 24.9 times).

As at 30 June 2007, the total liabilities to total assets ratio of the Group was 32.7% (31 December 2006: 31.9%).

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

Capital Commitments

As at 30 June 2007, the Group's capital commitments amounted to RMB1,519 million (31 December 2006: RMB2,070 million), which mainly consisted of the capital commitments to the construction of the H-section steel rolling line with an annual production capacity of 1.2 million tonnes and other ancillary projects. Based on preliminary assessment, such capital commitments will be financed by the Group's internal resources and/or bank borrowings.

Guarantees and Contingent Liabilities

As at 30 June 2007, the Group's contingent liabilities amounted to RMB34.9 million (31 December 2006: RMB18.9 million) which was the provision of guarantee for certain bank borrowings in favour of third parties. As at 30 June 2007, the Group did not provide guarantees for the letter of credit issued by agent appointed by the Group to import machinery and equipment on behalf of the Group (31 December 2006: RMB51.0 million).

Pledge of Assets

As at 30 June 2007, the carrying amount of the Group's property, plant and equipment amounting to approximately RMB1,538 million (31 December 2006: approximately RMB1,088 million), land use rights amounting to approximately RMB64 million (31 December 2006: approximately RMB65 million), inventories amounting to approximately RMB71 million (31 December 2006: approximately RMB69 million), notes receivable amounting to approximately RMB41 million (31 December 2006: approximately RMB174 million) and restricted bank balances amounting to approximately RMB79 million (31 December 2006: approximately RMB95 million) had been pledged as security for the Group's banking facilities.

As at 30 June 2007, Jinxi Limited has not pledged any of its notes receivable as security for providing guarantees for facilitating the issuing of letter of credit by a third party acting as its agent to import plant and equipment for Jinxi Limited (31 December 2006: approximately RMB51 million).

Exchange Risks

As at 30 June 2007, Renminbi, US dollar and HK dollar accounted for 64.6%, 34.1% and 1.3% of the Group's total bank balances (including restricted bank balances) respectively (31 December 2006: 75.9%, 23.7% and 0.4%).

As the majority of the sales, purchases of raw materials and bank borrowings committed by the Group were in Renminbi in the first half of 2007 and the corresponding period for 2006, the Group's exposure to foreign exchange risk remained relatively low.

Interest Rate Risks

The interest rates of the Group's certain borrowings are subject to variations. The risk of increasing interest rate will increase the interest costs of both new borrowings and existing borrowings. At present, the Group does not use any derivatives to hedge its interest rate risk exposure.

Post Balance Sheet Events

Saved as disclosed in this report of the Group, there are no events to cause material impact on the Group from the balance sheet date to 30 August 2007 (the date of the approval of the consolidated condensed interim financial information by the Board).

Review of the Past and Looking Forward to the Future

Since the listing of China Oriental, the Group, under existing management team, has successfully accomplished all of the plans stated in its prospectus and annual reports, including but not limited to the enhancement of its capacity and introduction of the H-section steel production, to fine-tune China Oriental's product mix.

Since 2003, the Group has not only increased its steel production capacity by 38.7%, from 3.1 million tonnes at the end of 2003 to 4.3 million tonnes by 30 June 2007, it has also increased its revenue by 85%, from RMB5,278 million in 2003 to RMB9,782 million in 2006. In addition, with the commencement of the mid-width strip production in May 2004 and the commencement of H-section steel production in August 2006, the proportion of billets sold to total sales volume has improved from 73.4% in the first half of 2004 to only 5.1% in the first half of 2007. As a result, it improved the Group's profitability substantially.

The Group ranked the 168th in terms of revenue out of 500 biggest manufacturers by National Bureau of Statistics of China in August 2006. The Group ranked 87th out of 500 largest foreign invested enterprises by Ministry of Commerce of China in the year of 2005/2006 (and ranked the second out of the 14 enterprises from Hebei Provinces on the list). According to the financial and operating index of medium to large sized steel enterprises in the PRC compiled by China Iron and Steel Association for the first half of 2007, Jinxi Limited ranked the third in term of profit before tax to revenue ratio.

The Group's continued capacity expansion and optimization of the product mix laid a solid foundation to support its future development.

The Group's overall business objective is to achieve a sustainable growth and maximize shareholders' value. To meet these objectives the Group will pursue the following strategic approaches:

- Expand capacity to optimistic economies of scale

  The Group aims to achieve an overall steel production capacity of over 10 million tonnes by 2010, through organic expansion, merger and acquisition. With the development in recent years, in particular the optimism of its product mix, Jinxi Limited's competitiveness and profitability have been substantially enhanced. It is supported by internal and external factors for a rapid development. The Group will emphases on strengthening Jinxi Limited's fundamentals to actively participate in the consolidation of iron and steel industry, enabling it to achieve an overall capacity of over 10 million tonnes of steel in 2010, through expansion, merger and acquisition.

- Strive to become one of the largest H-section steel producers in China with international standard

  The Group not only emphases on the enhancement of its profitability through capacity expansion. It also pays attention and targeting to fine-tune its product mix, enhance its value-added per unit by developing H-section steel as a mainstream product so as to achieve the product restructuring. By 2010, the Group's mainstream product H-section steel will account for over 51 percent of its revenue. It is committed to become a world-class leading H-section steel production base in terms of product quality, variety of product and product quantity.

- Grasp the present value and to share growth prospects

  While the Group is implementing prudent operating policy, it will also increase its dividend payout ratio gradually. Accompanying with the Group's momentum in growth, Jinxi Limited has more or less completed its fundamental restructuring of its product mix. It also transformed from a growth enterprise to a mature one. In future, the Company will gradually increase its dividend payout ratio so as to enable the shareholders to share the fruit of growth.

Looking forward to the coming year, with continued economic growth in the PRC, the government's continued elimination of obsolete capacity of iron and steel and domestic prices of iron and steel being supported by surging raw material prices, the operating environment will remain positive. On the other hand, the increase in iron and steel supply within the industry, the abolishment of steel export tax rebate by the PRC government, and the exertion of export tariff will contain the steel price growth. We, therefore, expect the steel market will possibly remain stable in the future.

With regard to raw material, the increase in production capacity in the iron and steel industry will drive the demand for both domestic and imported iron powder in the PRC. As such, it is expected that the price of iron powder will possibly continue to fluctuate at a high level.

On the front of coke, owing to the PRC's intensified measures on closing down and regulating of small coalmines, increase in the capacity of the iron and steel industry and the pressure from railway transportation, the coke price will also possibly fluctuate at a high level.

To recap for the work done in the first half of 2007, the Group has increased its production volume, revenue, income and especially for the gross profit. The Group's profitability has improved substantially due to the fine-tuning of the product mix (in particular the H-section steel products). For the next half of the year, we shall overcome all the difficulties and resistance with the support of the shareholders as a whole so as to improve the performance for 2007 substantially and to lay a solid foundation for the realisation of steel production capacity of over 10 million tonnes as early as possible.

The Board would like to extend its gratitude to the staff for their dedication and contribution to the Group, and to thank our shareholders for their support to and faith in the Company. We will continue to join hands with our shareholders and staff, to realise shareholders' value and enable every one of us to share our growth prospects.

Other Information

Directors' Interests and Short Positions in Securities

At 30 June 2007, 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	1,297,050,849 *(Note 1)*	44.60%	Long
Ms. Chen Ningning	817,519,151 *(Note 2)*	28.11%	Long

Notes:

1. At 30 June 2007, Mr. Han Jingyuan beneficially owned 60.69% of the issued share capital of Wellbeing Holdings Limited ("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 1,243,269,124 shares or 42.75% 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 53,781,725 shares or 1.85% of the issued shares of the Company at 30 June 2007.

2. At 30 June 2007, 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 Corporation ("Smart Triumph"). Smart Triumph owned 817,519,151 shares or 28.11% 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 2007, 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.

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 2007	No. of options granted during the current period	Date of grant	Exercisable period	No. of options exercised during the current period	No. of options cancelled/ lapsed during the current period	No. of options outstanding at 30 June 2007	Exercise price per share *HK$*	Closing price per share immediately before the date of grant *HK$*	Weighted average closing price per share immediately before the dates of exercise of options *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	–
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	2.98
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	582,000	–	1,418,000	1.76	1.74	3.02

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

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

Note 3: Following the resignation of Mr. Tang Chi Fai from the Board on 13 April 2007 as announced by the Company on 18 April 2007, the Board passed a resolution, in accordance with the share option scheme, to restrict the exercise of Mr. Tang Chi Fai's share options, pending further decision of the Board.

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 previous 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.

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.

Substantial Shareholders

At 30 June 2007, 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	1,243,269,124	42.75%	Long
Pioneer Iron & Steel Group Company Limited	817,519,151	28.11% *(Note 1)*	Long
Smart Triumph	817,519,151	28.11% *(Note 1)*	Long

Other Information

Note:

1. At 30 June 2007, 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 28.11% of the issued shares of the Company.

Save as disclosed above, at 30 June 2007, 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.

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.

Other Information

Closure of Register of Members

The Company is seeking a ruling from the Executive in relation to the proposed interim dividend under Rule 4 of the Takeovers Code and will as soon as practicable issue an announcement to notify shareholders about the proposed interim dividend upon obtaining a ruling from the Executive. If the proposed interim dividend is to be distributed, the register of members of the Company will be closed from Wednesday, 3 October 2007 to Friday, 5 October 2007, all days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend (subject to the consent of the Securities and Futures Commission), 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, 2 October 2007.

List of Directors

At the date of this report, the executive directors of the Board are Mr. Han Jingyuan, Ms. Chen Ningning, Mr. Zhu Jun, Mr. Liu Lei, Mr. Shen Xiaoling and Mr. Yu Jianshui. The independent non-executive directors are Mr. Yu Tung Ho, Mr. Gao Qingju 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 2007

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中國東方集團控股有限公司*

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