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

*(incorporated in Bermuda with limited liability)*
**(Stock Code: 581)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

## FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2015** | 2014 | Changes |
| **Sales volume** ***(tonnes)*** | | | |
| – Self-manufactured steel products | **5.04 million** | 4.73 million | +6.6% |
| – Trading of steel products | **0.06 million** | 0.19 million | -68.4% |
| | **5.10 million** | 4.92 million | +3.7% |
| **Revenue** ***(RMB)*** | | | |
| – Sale of self-manufactured steel products | **10.28 billion** | 13.19 billion | -22.1% |
| – Trading of steel products | **0.13 billion** | 0.56 billion | -76.8% |
| – Trading of iron ore | **0.45 billion** | 1.78 billion | -74.8% |
| – Sale of properties | **0.05 billion** | 0.04 billion | +46.4% |
| – Others | **0.09 billion** | 0.13 billion | -31.1% |
| | **11.00 billion** | 15.70 billion | -29.9% |
| **Gross profit/(loss)** ***(RMB)*** | | | |
| – Sale of self-manufactured steel products | **279 million** | 602 million | -53.7% |
| – Trading of steel products | **(2) million** | 13 million | -115.4% |
| – Trading of iron ore | **24 million** | 72 million | -66.7% |
| – Sale of properties | **5 million** | 9 million | -44.4% |
| – Others | **1 million** | 9 million | -88.9% |
| | **307 million** | 705 million | -56.4% |
| **Gross profit per tonne** ***(RMB)*** | | | |
| – Sale of self-manufactured steel products | **55 yuan** | 127 yuan | -56.7% |
| **EBITDA[1]** ***(RMB)*** | **717 million** | 850 million | -15.6% |
| **EBITDA[1] margin** | **6.5%** | 5.4% | N/A |
| EBIT[2] *(RMB)* | **172 million** | 314 million | -45.2% |
| EBIT[2] margin | **1.6%** | 2.0% | N/A |

* *For identification purpose only*

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2015** | 2014 | Changes |
| Profit before income tax *(RMB)* | **37 million** | 134 million | -72.7% |
| **Profit for the period *(RMB)*** | **63 million** | 34 million | +82.3% |
| Profit for the period attributable to owners of the Company *(RMB)* | **74 million** | 37 million | +97.4% |
| Basic earnings per share *(RMB)* | **0.025 yuan** | 0.013 yuan | +92.3% |
| Return on equity[3] | **0.8%** | 0.4% | N/A |
| | **As at** | | |
| | **30 June 2015** | 31 December 2014 | |
| Total assets *(RMB)* | **22.36 billion** | 23.74 billion | -5.8% |
| Net assets value per share (exclude non-controlling interests) *(RMB)* | **3.19 yuan** | 3.16 yuan | +0.9% |
| Debt-to-capital ratio[4] | **64.7%** | 77.3% | N/A |

1 China Oriental Group Company Limited (the "Company") defines EBITDA as profit for the period before finance costs-net, income tax expense, amortisation of intangible assets, amortisation of leasehold land and land use rights, depreciation and share-based payments.

2 The Company defines EBIT as profit for the period before finance costs-net, income tax expense and share-based payments.

3 Return on equity is calculated as profit attributable to owners of the Company divided by the average of the beginning and ending balances of the equity attributable to owners of the Company for that period.

4 Debt-to-capital ratio is calculated as total debt divided by total capital. Total debt includes current and non-current borrowings and borrowings from related parties. Total capital includes non-current borrowings, non-current portion of borrowings from related parties and equity attributable to owners of the Company.

The board of directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014. PricewaterhouseCoopers, the Company’s auditor, has conducted its review on the unaudited condensed consolidated interim financial information for the six months ended 30 June 2015 in accordance with the 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.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note* | ***RMB’000*** | *RMB’000* |
| | | **Unaudited** | |
| Revenue | *4* | **10,996,232** | 15,695,251 |
| Cost of sales | | **(10,689,284)** | (14,990,522) |
| **Gross profit** | | **306,948** | 704,729 |
| Other income | | **9,013** | 24,863 |
| Distribution costs | | **(51,405)** | (52,144) |
| Administrative expenses | | **(194,316)** | (222,273) |
| Other expenses | | **(9,962)** | (26,742) |
| Other gains/(losses) – net | | **111,991** | (119,993) |
| **Operating profit** | *5* | **172,269** | 308,440 |
| Finance income | *6* | **65,379** | 81,284 |
| Finance costs | *6* | **(200,992)** | (255,387) |
| **Profit before income tax** | | **36,656** | 134,337 |
| Income tax credit/(expense) | *7* | **25,873** | (100,046) |
| **Profit for the period** | | **62,529** | 34,291 |
| **Other comprehensive income:** | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | |
| Fair value gains on available-for-sale financial assets | | **3,979** | 1,817 |
| Transfer of fair value gains previously credited to reserve to income statement upon disposal of available-for-sale financial assets | | **(8,754)** | – |
| **Total comprehensive income for the period** | | **57,754** | 36,108 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(continued)*

| | Note | Six months ended 30 June **2015** *RMB'000* | 2014 *RMB'000* |
|---|---|---|---|
| | | **Unaudited** | |
| **Profit/(loss) for the period attributable to:** | | | |
| – owners of the Company | | **73,723** | 37,354 |
| – non-controlling interests | | **(11,194)** | (3,063) |
| | | **62,529** | 34,291 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| – owners of the Company | | **68,948** | 39,171 |
| – non-controlling interests | | **(11,194)** | (3,063) |
| | | **57,754** | 36,108 |
| **Earnings per share for profit attributable to owners of the Company for the period** *(express in RMB per share)* | | | |
| – basic and diluted | *8* | **0.025** | 0.013 |
| **Dividends** | *9* | **–** | – |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land and land use rights | *10* | **134,588** | 136,386 |
| Property, plant and equipment | *10* | **8,847,940** | 8,820,830 |
| Investment properties | *10* | **7,210** | 7,431 |
| Intangible assets | *10* | **84,330** | 8,673 |
| Available-for-sale financial assets | | **109,605** | 121,243 |
| Prepayments, deposits and other receivables | *14* | **33,000** | 33,000 |
| Amounts due from a related party | | **–** | 171,749 |
| Deferred income tax assets | | **439,135** | 342,238 |
| **Total non-current assets** | | **9,655,808** | 9,641,550 |
| **Current assets** | | | |
| Properties under development and held for sale | *11* | **1,434,006** | 1,317,963 |
| Inventories | *12* | **2,675,503** | 3,169,253 |
| Trade receivables | *13* | **1,136,695** | 961,342 |
| Prepayments, deposits and other receivables | *14* | **1,566,656** | 1,914,820 |
| Financial assets at fair value through profit or loss | | **50,120** | – |
| Amounts due from related parties | | **13,030** | 6,994 |
| Prepaid current income tax | | **9,081** | 4,099 |
| Loan receivables | | **290,000** | 290,000 |
| Notes receivable – bank acceptance notes | *15* | **2,065,024** | 3,909,346 |
| Long-term bank deposits due within one year | | **–** | 52,000 |
| Restricted bank balances | | **2,192,886** | 1,626,978 |
| Cash and cash equivalents | | **1,270,037** | 849,063 |
| **Total current assets** | | **12,703,038** | 14,101,858 |
| **Total assets** | | **22,358,846** | 23,743,408 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **311,853** | 311,853 |
| Share premium | | **2,192,131** | 2,192,131 |
| Other reserves | | **1,653,880** | 1,630,006 |
| Retained earnings | | **5,196,790** | 5,123,067 |
| | | **9,354,654** | 9,257,057 |
| **Non-controlling interests** | | **555,554** | 514,789 |
| **Total equity** | | **9,910,208** | 9,771,846 |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

| | Note | 30 June 2015 RMB'000 Unaudited | 31 December 2014 RMB'000 Audited |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **1,021,564** | 1,510,519 |
| Other long-term payables | | **26,129** | 26,129 |
| Deferred revenue | | **56,480** | 59,284 |
| Amounts due to related parties | | **51,859** | 247,119 |
| **Total non-current liabilities** | | **1,156,032** | 1,843,051 |
| **Current liabilities** | | | |
| Trade payables | *16* | **3,366,225** | 2,719,253 |
| Accruals, advances and other current liabilities | | **2,120,692** | 2,466,507 |
| Amounts due to related parties | | **78,624** | 104,596 |
| Current income tax liabilities | | **122,956** | 170,142 |
| Derivative financial instruments | | **–** | 4,689 |
| Borrowings | | **5,599,537** | 6,658,752 |
| Dividends payable | | **4,572** | 4,572 |
| **Total current liabilities** | | **11,292,606** | 12,128,511 |
| **Total liabilities** | | **12,448,638** | 13,971,562 |
| **Total equity and liabilities** | | **22,358,846** | 23,743,408 |
| **Net current assets** | | **1,410,432** | 1,973,347 |
| **Total assets less current liabilities** | | **11,066,240** | 11,614,897 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | |
| Net cash generated from operating activities | **2,434,064** | 38,321 |
| Net cash used in investing activities | **(69,415)** | (132,230) |
| Net cash (used in)/generated from financing activities | **(1,943,122)** | 120,977 |
| **Net increase in cash and cash equivalents** | **421,527** | 27,068 |
| Effect of foreign exchange rate changes | **(553)** | 3,729 |
| Cash and cash equivalents, beginning of period | **849,063** | 968,132 |
| **Cash and cash equivalents, end of period** | **1,270,037** | 998,929 |

# SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 2 March 2004. As announced by the Company, trading in the shares of the Company had been suspended from 29 April 2014 when the public float of the Company fell below 25%.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is principally engaged in the manufacture and sale of iron and steel products, trading of steel products and iron ore and real estate business. 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. The Group also engages in real estate business in the PRC.

This condensed consolidated interim financial information was presented in RMB thousand, unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 28 August 2015.

This condensed consolidated interim financial information has been reviewed, not audited.

**2. Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

**3. Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Technical know-how is recognised initially at fair value and subsequently amortised using the straight-line method over its estimated useful life of 8 years.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

*(a) New and amended standard adopted by the Group*

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2015:

HKFRS 2 (Amendment) "Share-based payment" is effective for annual periods beginning on or after 1 July 2014. This amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

HKFRS 3 (Amendment) "Business combinations" and consequential amendments to HKFRS 9 "Financial instruments", HKAS 37 "Provisions, contingent liabilities and contingent assets" and HKAS 39 "Financial instruments – Recognition and measurement" are effective for annual periods beginning on or after 1 July 2014. This standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in HKAS 32 "Financial instruments: Presentation". All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

HKFRS 8 (Amendment) "Operating segments" is effective for annual periods beginning on or after 1 July 2014. This standard is amended to require disclosure of the judgments made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported.

HKAS 24 (Amendment) "Related Party Disclosures" is effective for annual periods beginning on or after 1 July 2014. This standard is amended to address that the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

*(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group*

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKAS 19 (Amendment) | Defined benefit plans | 1 July 2014 |
| HKFRS 13 | Fair value measurement | 1 July 2014 |
| HKAS 40 | Investment property | 1 July 2014 |
| HKFRS 16 (Amendment) | Property, plant and equipment | 1 July 2014 |
| HKAS 38 (Amendment) | Intangible assets | 1 July 2014 |

(c) ***The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 January 2015 and have not been early adopted:***

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 14 | Regulatory deferral accounts | 1 January 2016 |
| HKFRS 11 (Amendments) | Accounting for acquisitions of interests in joint operation | 1 January 2016 |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: Bearer plants | 1 January 2016 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 |
| HKAS 27 (Amendment) | Equity method in separate financial statements | 1 January 2016 |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendments) | Investment entities: Applying the consolidation exception | 1 January 2016 |
| HKAS 1 (Amendments) | Disclosure initiative | 1 January 2016 |
| HKFRS 5 (Amendment) | Non-current assets held for sale and discontinued operations | 1 January 2016 |
| HKFRS 7 (Amendments) | Financial instruments: Disclosures | 1 January 2016 |
| HKAS 19 (Amendment) | Employee benefits | 1 January 2016 |
| HKAS 34 (Amendment) | Interim financial reporting | 1 January 2016 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2017 |
| HKFRS 9 | Financial instruments | 1 January 2018 |

## 4. Sales and segment information

### (a) Sales

The Group is principally engaged in the manufacture and sale of iron and steel products, trading of steel products and iron ore and real estate business. Sales recognised for the six months ended 30 June 2015 and 2014 were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Gross sales less discounts, returns and sales taxes | | |
| – H-section steel products | **3,819,567** | 4,841,837 |
| – Strips and strip products | **3,430,304** | 5,299,852 |
| – Rebar | **1,373,697** | 1,651,973 |
| – Billets | **904,354** | 1,007,557 |
| – Cold rolled sheets and galvanised sheets | **672,124** | 909,499 |
| – Iron ore | **446,995** | 1,775,690 |
| – Steel pile sheet | **208,201** | 44,628 |
| – Real estate | **52,565** | 35,907 |
| – Others | **88,425** | 128,308 |
| | **10,996,232** | 15,695,251 |

### (b) Segment information

The chief decision-maker has been identified as the management committee, which comprises all executive directors and top management. The chief decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the chief decision-maker considers the business from a business perspective. From a business perspective, the chief decision-maker assesses the performance of the iron and steel and the real estate segments.

(i) Iron and steel – Manufacture and sale of iron and steel products, and trading of steel products and iron ore; and

(ii) Real estate – Development and sale of properties.

The chief decision-maker assesses the performance of the operating segments based on a measure of revenue and operating profit. This measurement is consistent with that in the consolidated financial statements for the year ended 31 December 2014.

The segment information provided to the chief decision-maker for the reportable segments for the period was as follows:

| | **Six months ended 30 June 2015** | | |
|---|---|---|---|
| | **Iron and steel** | **Real estate** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| | | **Unaudited** | |
| **Segment revenue** | **10,943,667** | **52,565** | **10,996,232** |
| **Segment operating profit/(loss)** | **175,399** | **(3,130)** | **172,269** |
| Finance costs – net | **(135,498)** | **(115)** | **(135,613)** |
| Profit before income tax | | | **36,656** |
| Income tax credit | | | **25,873** |
| **Profit for the period** | | | **62,529** |
| **Other income statement items** | | | |
| Depreciation and amortisation | **543,357** | **1,132** | **544,489** |
| **Capital expenditure** | **564,734** | **60** | **564,794** |

| | Six months ended 30 June 2014 | | |
|---|---|---|---|
| | Iron and steel | Real estate | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | Unaudited | |
| **Segment revenue** | 15,659,344 | 35,907 | 15,695,251 |
| **Segment operating profit** | 307,625 | 815 | 308,440 |
| Finance costs – net | (171,096) | (3,007) | (174,103) |
| Profit before income tax | | | 134,337 |
| Income tax expense | | | (100,046) |
| **Profit for the period** | | | 34,291 |
| **Other income statement items** | | | |
| Depreciation and amortisation | 535,735 | 260 | 535,995 |
| **Capital expenditure** | 332,475 | 129 | 332,604 |

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that is reported as direct offsets in the balance sheet. Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, investment properties, intangible assets, long-term bank deposits due within one year, properties under development and held for sale, inventories, trade receivables, prepayments, deposits and other receivables, amounts due from related parties, notes receivable, restricted bank balances and cash and cash equivalents.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities consist primarily of other long-term payables, deferred revenue, amounts due to related parties, trade payables and accruals, advances and other current liabilities.

The segment assets and liabilities as at 30 June 2015 were as follows:

| | Iron and steel | Real estate | Elimination | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | Unaudited | | |
| **Total assets** | **20,418,584** | **1,649,084** | **(606,763)** | **21,460,905** |
| Segment assets for reportable segments | | | | **21,460,905** |
| **Unallocated:** | | | | |
| Deferred income tax assets | | | | **439,135** |
| Available-for-sale financial assets | | | | **109,605** |
| Financial assets at fair value through profit or loss | | | | **50,120** |
| Loan receivables | | | | **290,000** |
| Prepaid current income tax | | | | **9,081** |
| Total assets per balance sheet | | | | **22,358,846** |
| **Total liabilities** | **4,880,196** | **1,426,576** | **(606,763)** | **5,700,009** |
| Segment liabilities for reportable segments | | | | **5,700,009** |
| **Unallocated:** | | | | |
| Current income tax liabilities | | | | **122,956** |
| Current borrowings | | | | **5,599,537** |
| Non-current borrowings | | | | **1,021,564** |
| Dividends payable | | | | **4,572** |
| Total liabilities per balance sheet | | | | **12,448,638** |

The segment assets and liabilities as at 31 December 2014 were as follows:

| | Iron and steel | Real estate | Elimination | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | Audited | | |
| **Total assets** | 21,891,949 | 1,546,903 | (453,024) | 22,985,828 |
| Segment assets for reportable segments | | | | 22,985,828 |
| **Unallocated:** | | | | |
| Deferred income tax assets | | | | 342,238 |
| Available-for-sale financial assets | | | | 121,243 |
| Loan receivables | | | | 290,000 |
| Prepaid current income tax | | | | 4,099 |
| Total assets per balance sheet | | | | 23,743,408 |
| **Total liabilities** | 4,759,438 | 1,316,474 | (453,024) | 5,622,888 |
| Segment liabilities for reportable segments | | | | 5,622,888 |
| **Unallocated:** | | | | |
| Current income tax liabilities | | | | 170,142 |
| Current borrowings | | | | 6,658,752 |
| Non-current borrowings | | | | 1,510,519 |
| Derivative financial instruments | | | | 4,689 |
| Dividends payable | | | | 4,572 |
| Total liabilities per balance sheet | | | | 13,971,562 |

5. **Operating profit**

An analysis of the amounts presented as operating items in the financial information is given below.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Depreciation of property, plant and equipment *(Note 10)* | **(537,306)** | (534,120) |
| Rental fee | **(102,000)** | (73,877) |
| (Provision for)/reversal of write-down of inventories to net realisable value *(Note 12)* | **(62,781)** | 17,938 |
| Provision for impairment of deposits and other receivables | **(10,949)** | (15,500) |
| Investment loss from derivative instruments | **(6,697)** | (152,297) |
| Amortisation of intangible assets *(Note 10)* | **(5,164)** | (53) |
| Amortisation of leasehold land and land use rights *(Note 10)* | **(1,798)** | (1,702) |
| Provision for impairment of trade receivables *(Note 13)* | **(1,095)** | (7,781) |
| Depreciation of investment properties *(Note 10)* | **(221)** | (120) |
| Loss on disposal of property, plant and equipment | **(92)** | (2,587) |
| Impairment provision for loan receivables | **–** | (7,000) |
| Share options granted to directors, employees and other participants | **–** | (5,389) |
| Investment income from trading fund | **120** | – |
| Reversal of/(provision for) legal claims | **5,105** | (7,171) |
| Income from other operating leases | **6,650** | 22,250 |
| Gain on disposal of available-for-sale financial assets | **8,754** | – |
| Government grants | **26,781** | 8,961 |
| Gain on repurchase of Senior Notes | **97,430** | – |

6. **Finance income and costs**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Interest expenses | **(238,231)** | (235,624) |
| Net foreign exchange losses on borrowings | **(2,424)** | (54,285) |
| Total finance costs | **(240,655)** | (289,909) |
| Less: amounts capitalised on qualifying assets | **39,663** | 34,522 |
| Finance costs | **(200,992)** | (255,387) |
| Finance income | **65,379** | 81,284 |
| Finance costs – net | **(135,613)** | (174,103) |

For the six months ended 30 June 2015, a capitalisation rate of 7.61% (2014: 7.61%) was used, representing the average borrowing cost of the loans relating to financing the construction of property, plant and equipment and properties under development.

## 7. Income tax (credit)/expense

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Current income tax | | |
| – PRC enterprise income tax | **71,023** | 111,833 |
| – Singapore profit tax | **–** | 2,840 |
| | **71,023** | 114,673 |
| Deferred income tax | | |
| – PRC enterprise income tax | **(111,042)** | 4,362 |
| – Singapore profit tax | **14,146** | (18,989) |
| | **(96,896)** | (14,627) |
| | **(25,873)** | 100,046 |

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and, accordingly, is exempted from payment of Bermuda income tax.

The subsidiaries directly held by the Company were incorporated in British Virgin Islands ("BVI") with limited liability under the International Business Companies Act Chapter 291 and, accordingly, are exempted from payment of BVI income tax.

No Hong Kong profits tax has been provided since the Company and the subsidiaries traded or incorporated in Hong Kong do not have assessable taxable profits during the six months ended 30 June 2015 after utilising accumulated tax losses (six months ended 30 June 2014: nil). The Directors are of opinion that the accumulated tax losses of the Company and the subsidiaries are unlikely to be utilised in the future. No deferred tax assets were recognised.

China Oriental Singapore Pte. Ltd ("China Oriental Singapore") has been awarded the "Global Trader Programme" ("GTP") status for 2 years 9 months with effect from 1 April 2011 and continued to be awarded from 1 January 2014 for 5 years. Income from qualifying transactions will be taxed at the concessionary corporate tax rate of 10%, subject to China Oriental Singapore meeting certain terms and conditions as stated in the letter issued by International Enterprise Singapore.

No profits tax has been provided for XTAL Inc. ("XTAL") in United States since it did not have assessable profits during the six months ended 30 June 2015 and 2014.

The PRC Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year, the standard tax rate of the Group incorporated in PRC remains unchanged as 25% during the six months ended 30 June 2015 and 2014.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average applicable tax rate of -49.28% (2014: 45.94%) to respective profits of the consolidated entities for the six months ended 30 June 2015 and 2014 as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Profit before taxation | **36,656** | 134,337 |
| Taxation calculated at statutory tax rate | **(18,065)** | 61,712 |
| Utilise tax losses for which no deferred income tax asset was recognised before | **(30,401)** | – |
| Tax losses for which no deferred income tax assets was recognised | **9,073** | 28,334 |
| Withholding tax of intra-group interest income | **3,379** | 1,344 |
| Effect of non-deductible expenses | **10,141** | 8,656 |
| | **(25,873)** | 100,046 |

## 8. Earnings per share

### Basic

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

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Profit attributable to owners of the Company | **73,723** | 37,354 |
| Weighted average number of ordinary shares in issue *(thousands)* | **2,931,425** | 2,931,425 |
| Basic earnings per share *(RMB per share)* | **0.025** | 0.013 |

### 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.

As at 30 June 2015, the Company has one category of dilutive potential ordinary shares: share options.

The diluted earnings per shares is the same as the basic earnings per shares since the employee share options outstanding as at 30 June 2015 would have an anti-dilutive effect on the earnings per share.

## 9. Dividends

At a meeting held on 28 August 2015, the Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (2014: Nil).

At a meeting held on 19 March 2015, the Board did not recommend the payment of any final dividend for the year ended 31 December 2014.

## 10. Capital expenditure

| | Property, plant and equipment *RMB'000* | Leasehold land and land use rights *RMB'000* | Investment properties *RMB'000* | Intangible assets *RMB'000* |
|---|---|---|---|---|
| | | Unaudited | | |
| **Six months ended 30 June 2015** | | | | |
| **Opening carrying amount as at 1 January 2015** | **8,820,830** | **136,386** | **7,431** | **8,673** |
| Additions | **564,581** | **–** | **–** | **80,821** |
| Disposals | **(165)** | **–** | **–** | **–** |
| Depreciation and amortisation *(Note 5)* | **(537,306)** | **(1,798)** | **(221)** | **(5,164)** |
| **Closing carrying amount as at 30 June 2015** | **8,847,940** | **134,588** | **7,210** | **84,330** |
| **Six months ended 30 June 2014** | | | | |
| **Opening carrying amount as at 1 January 2014** | 9,160,405 | 130,318 | 14,372 | 8,760 |
| Additions | 332,583 | – | – | 21 |
| Disposals | (5,478) | – | – | – |
| Reclassification | 10,101 | – | (10,101) | – |
| Depreciation and amortisation *(Note 5)* | (534,120) | (1,702) | (120) | (53) |
| **Closing carrying amount as at 30 June 2014** | 8,963,491 | 128,616 | 4,151 | 8,728 |

## 11. Properties under development and held for sale

| | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|
| Properties under development comprise: | | |
| – Construction costs | **491,779** | 454,356 |
| – Land use rights | **608,864** | 656,869 |
| – Interests capitalised | **87,571** | 72,108 |
| | **1,188,214** | 1,183,333 |
| Completed properties held for sale | **245,792** | 134,630 |
| | **1,434,006** | 1,317,963 |

As at 30 June 2015, land use rights with the carrying amount of approximately RMB367 million (31 December 2014: RMB314 million) and construction costs with the carrying amount of approximately RMB47 million (31 December 2014: nil) were pledged as security for the Group's bank borrowings.

## 12. Inventories

| | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|
| Raw materials and materials in-transit | **1,683,641** | 1,975,497 |
| Work-in-progress | **239,552** | 251,923 |
| Finished goods | **752,310** | 941,833 |
| | **2,675,503** | 3,169,253 |

For the six months ended 30 June 2015, the Group recognised a loss of approximately RMB63 million in respect of the write-down of inventories to their net realisable values (six months ended 30 June 2014: a gain of approximately RMB18 million for reversal of the write-down of inventories to their net realisable values). These changes in provision have been included in "cost of sales" in the interim condensed consolidated statement of comprehensive income.

As at 30 June 2015, inventories with a net book value of approximately RMB16 million (31 December 2014: RMB17 million) were withheld by and in custody of a court.

## 13. Trade receivables

| | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|
| Short-term trade receivables | **751,323** | 574,875 |
| Long-term trade receivables – current portion | **400,000** | 400,000 |
| Less: impairment provision for trade receivables | **(14,628)** | (13,533) |
| Trade receivables – net | **1,136,695** | 961,342 |

The long-term trade receivables – current portion represents the receivables for the provision of construction services in the previous years, and bear interest at a rate of 6.3% per annum. As at 30 June 2015 and 31 December 2014, the receivables were overdue but not impaired since they were fully secured by the pledge of property, plant and equipment of the customer.

As at 30 June 2015 and 31 December 2014, the carrying amount of the Group's trade receivables approximated their fair values.

Except for the long-term trade receivables – current portion as mentioned above, 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 the maturity dates within six months.

As at 30 June 2015 and 31 December 2014, the ageing of trade receivables was as follows:

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Within 3 months | **572,544** | 483,344 |
| 4-6 months | **35,886** | 50,558 |
| 7-12 months | **115,917** | 27,440 |
| Over 1 year | **426,976** | 413,533 |
| | **1,151,323** | 974,875 |

As at 30 June 2015, trade receivables amounting to approximately RMB170 million (31 December 2014: RMB151 million) were guaranteed by customers' letters of credit.

## 14. Prepayments, deposits and other receivables

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| **Non-current** | | |
| Prepayments for purchase of property, plant and equipment | **234,235** | 234,235 |
| Deposits and other receivables | **33,000** | 33,000 |
| Less: impairment provision | **(234,235)** | (234,235) |
| | **33,000** | 33,000 |
| **Current** | | |
| Prepayments for purchase of inventories | **744,506** | 1,058,033 |
| Deposits and other receivables | **743,682** | 697,731 |
| Prepaid expenses | **146,427** | 216,066 |
| Less: impairment provision | **(67,959)** | (57,010) |
| | **1,566,656** | 1,914,820 |
| | **1,599,656** | 1,947,820 |

## 15. Notes receivable – bank acceptance notes

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Notes receivable – bank acceptance notes | **2,065,024** | 3,909,346 |

As at 30 June 2015, notes receivable of approximately RMB48 million (31 December 2014: RMB5 million) were pledged as security for issuing notes payable (Note 16). In addition, notes receivable of approximately RMB288 million (31 December 2014: RMB799 million) were pledged as collateral for the Group's borrowings.

The settlement of the notes receivable were guaranteed by banks with maturity dates within six months. The notes receivable can be convertible into cash and cash equivalent by paying discounting interests and the credit risks in respect of the notes receivable are considered to be low.

As at 30 June 2015 and 31 December 2014, the ageing analysis of notes receivable was as follows:

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Within 3 months | **1,468,177** | 2,867,223 |
| 4-6 months | **536,606** | 1,015,704 |
| 7-12 months | **60,241** | 26,419 |
| | **2,065,024** | 3,909,346 |

## 16. Trade payables

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Account payables | **2,251,564** | 1,916,982 |
| Notes payable | **1,114,661** | 802,271 |
| | **3,366,225** | 2,719,253 |

As at 30 June 2015, all notes payable represented bank acceptance notes, of which RMB47 million (31 December 2014: RMB5 million) were secured by certain notes receivable (Note 15), RMB940 million (31 December 2014: RMB628 million) were secured by restricted bank balances amounting to approximately RMB486 million (31 December 2014: RMB298 million), and RMB128 million (31 December 2014: RMB169 million) were secured by inventories and restricted bank balances amounting to approximately RMB102 million (31 December 2014: RMB112 million) and RMB52 million (31 December 2014: RMB78 million) respectively.

As at 30 June 2015 and 31 December 2014, the ageing analysis of the account and notes payables were as follows:

| | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|
| Within 3 months | **2,126,914** | 1,877,319 |
| 4-6 months | **663,335** | 480,793 |
| 7-9 months | **166,229** | 90,585 |
| 10-12 months | **245,916** | 55,223 |
| Over 1 year | **163,831** | 215,333 |
| | **3,366,225** | 2,719,253 |

## 17. Capital commitments

| | **30 June 2015** *RMB'000* **Unaudited** | 31 December 2014 *RMB'000* Audited |
|---|---|---|
| Purchase of property, plant and equipment | | |
| – Contracted but not provided for | **361,927** | 412,844 |
| – Authorised but not contracted for | **213,982** | 171,123 |
| | **575,909** | 583,967 |
| Purchase of properties under development | **345,811** | 352,042 |
| | **921,720** | 936,009 |

## 18. Financial guarantee contracts

As at 30 June 2015, Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited") provided guarantee for bank borrowings in favor of third parties amounted to approximately RMB11 million (2014: RMB13 million). The fair values of these financial guarantee contracts are not significant. The Directors of the Company are of the view that such obligations will not cause an outflow of resources embodying economic benefits.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2015, due to the slow down in the growth of domestic economy and the impact of real estate regulation and control in the Mainland China, the demand for steel products remained weak. With the over-capacity problem which led to the continuous drop in the steel price and the domestic pressure on environmental protection, the steel companies in the Mainland China experienced a tough situation for the six months ended 30 June 2015. This has created a price competition among the steel companies in the Mainland China. In addition, the protectionist trade policy of various countries also imposed great pressure to the steel companies on export business. As a result, the average selling price of self-manufactured steel products and the revenue of the Group decreased significantly by approximately 26.9% and 22.1% respectively for the six months ended 30 June 2015 as compared with those of the corresponding period in prior year.

Despite the difficult operation conditions in the steel industry, through developing and optimizing products, adjusting product mix, production costs control and repurchasing of Senior Notes, the Group recorded net profit and profit attributable to owners of the Company of approximately RMB63 million and RMB74 million, representing an increase of approximately 82.3% and 97.4% respectively as compared to the same period last year.

With respect to the steel business, the Group continued to invest substantially to and endeavored to enhance the competitiveness and economic efficiency of its products. These efforts include improving production facilities to enhance efficiency, expanding sales channels, developing diverse and high-end products, increasing the share of products with high additional value and reducing emission. Apart from developing and optimizing the new categories of the existing products such as strips and section steel, the Group has also developed products to suit for other countries such as the American standards and the British standards so as to facilitate the penetration into international market. The Group has also been investing in its production facilities as well in order to reduce energy consumption in the steel production process and satisfy emission requirements. The self-generated electricity of the Group has increased to approximately 50% in the first half of 2015 from approximately 40% in 2014. In the first half of 2015, the Group sold approximately 1.8 million tonnes of self-produced H-section steel products and continued to secure its leading position in the H-section steel market of Mainland China.

With respect to the real estate business, the Group was dedicated in promoting green structural development construction besides developing traditional real estate projects. The second phase of the Donghu Bay project in Tangshan City, Hebei Province of the Group was almost completed in 2014. The third phase of Donghu Bay project and the Xintiandi project in Suzhou are expected to be completed in 2017 and 2016, respectively. Moreover, the Meishu Hall project located at Huashan Road of Suzhou is undergoing main structural construction, which is expected to be completed in 2016. The sale of the third phase of the Donghu Bay project and the Meishu Hall project commenced in July 2015, which facilitated the stable development of the real estate business of the Group and brought sustainable income. For the six months ended 30 June 2015, the Group recorded revenue and operating loss from real estate business of approximately RMB53 million and RMB3 million respectively.

During the six months ended 30 June 2015, the revenue and gross profit arising from trading of steel products and iron ore were approximately RMB571 million (six months ended 30 June 2014: approximately RMB2,338 million) and RMB22 million (six months ended 30 June 2014: approximately RMB85 million) respectively.

The Group also engages in financing industry through its subsidiaries, Oriental Fullhero Leasing Company Limited ("Fullhero Leasing"), Oriental Evertrust Finance Leasing Co., Ltd. ("Oriental Evertrust") and Tianjin Oriental Huitong Microcredit Company Limited ("Oriental Huitong"). The Group will conduct post-loan inspection to each existing project in order to reduce risks. As at 30 June 2015, Fullhero Leasing, Oriental Evertrust and Oriental Huitong provided loans, net of provision, amounting to RMB290 million to independent third parties at interest rates ranged from 12.0% to 24.0% per annum.

In order to diversify its business, the Group has also set up Oriental Jingyuan Science Technology (Beijing) Co., Ltd. and XTAL Inc. which are non-wholly owned subsidiaries of the Company to develop core technologies for semiconductor chip design and manufacturing process optimization/equipment. This will bring a great potential development for the Group.

Since the Group introduced the world's largest steel corporation ArcelorMittal as its strategic shareholder in 2008, collaboration between the Group and ArcelorMittal has continued to work closely. ArcelorMittal has appointed experienced executives to the Board of the Group to participate in decision making for the Group's business development and provide technology and professional advice.

On 6 November 2013, the Company was informed by Wellbeing Holdings Limited, Chingford Holdings Limited and Mr. Han Jingyuan (together, the "Plaintiffs") that a Writ of Summons has been issued by the Plaintiffs against ArcelorMittal, pursuant to which, the Plaintiffs sought an order that ArcelorMittal procure that ArcelorMittal Holdings AG (formerly known as Mittal Steel Holdings AG) ("AM Holdings AG") sell a sufficient number of shares of the Company such that the Company's 25% minimum public float requirement pursuant to Rule 8.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") is restored.

The Company was informed that the Plantiffs and AM Holdings AG had reached an out of court settlement and the above Writ of Summons have been formally dismissed on 15 July 2015.

## BUSINESS REVIEW

### Sales Analysis from Sale of Self-manufactured Steel Products

#### Sales volume

For the six months ended 30 June 2015, the Group's total sales volume was 5.04 million tonnes (2014 corresponding period: 4.73 million tonnes), representing an increase of approximately 6.6%.

The sales volume breakdown during the period was as follows:

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2015** | | 2014 | | Increase/ |
| | **Sales volume** | | Sales volume | | (Decrease) in |
| | ***('000 tonnes)*** | | *('000 tonnes)* | | Sales volume |
| H-section steel products | **1,814** | **35.9%** | 1,573 | 33.2% | 15.3% |
| Strips and strip products | **1,800** | **35.7%** | 1,973 | 41.7% | (8.8%) |
| Cold rolled sheets and galvanised sheets | **218** | **4.3%** | 237 | 5.0% | (8.0%) |
| Billets | **492** | **9.8%** | 362 | 7.7% | 35.9% |
| Rebar | **652** | **12.9%** | 575 | 12.2% | 13.4% |
| Steel pile sheet | **70** | **1.4%** | 12 | 0.2% | 483.3% |
| Total | **5,046** | **100%** | 4,732 | 100% | 6.6% |

**Revenue**

Revenue for the six months ended 30 June 2015 was RMB10,284 million (2014 corresponding period: RMB13,193 million), representing a decrease of approximately 22.1%.

The breakdown of revenue and average selling price by product (excluding value added tax) during the periods were as follows:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | Increase/(Decrease) in | |
| | **Revenue** | **Average selling price** | Revenue | Average Selling price | Revenue | Average selling price |
| | ***(RMBmillion)*** | ***(RMB/tonne)*** | *(RMB million)* | *(RMB/tonne)* | | |
| H-section steel products | **3,803** | **2,097** | 4,478 | 2,846 | (15.1%) | (26.3%) |
| Strips and strip products | **3,430** | **1,906** | 5,299 | 2,686 | (35.3%) | (29.0%) |
| Cold rolled sheets and galvanised sheets | **672** | **3,078** | 909 | 3,842 | (26.1%) | (19.9%) |
| Billets | **884** | **1,794** | 915 | 2,530 | (3.4%) | (29.1%) |
| Rebar | **1,287** | **1,973** | 1,547 | 2,690 | (16.8%) | (26.7%) |
| Steel pile sheet | **208** | **2,994** | 45 | 3,773 | 362.2% | (20.6%) |
| Total | **10,284** | **2,038** | 13,193 | 2,788 | (22.1%) | (26.9%) |

The decrease in revenue from self-manufactured steel products was primarily due to a significant decrease in the average selling price of the Group's products by 26.9% to RMB2,038 per tonne for the six months ended 30 June 2015 from RMB2,788 per tonne for the corresponding period in 2014 offset by an increase in the sale volume of the Group's products. The significant decrease in average selling price of the Group's products were mainly due to the continued over-capacity problems in the steel industry in the PRC during the first half of 2015.

**Cost of Sales and Gross Profit**

The gross profit for the six months ended 30 June 2015 was RMB279 million (2014 corresponding period: RMB602 million), representing a decrease of 53.7%. Gross profit margin was 2.7% (2014 corresponding period: 4.6%).

Average unit cost and gross profit per tonne during the periods were as follows:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | | 2014 | | |
| | **Average unit cost** ***(RMB)*** | **Gross profit/(loss) per tonne** ***(RMB)*** | **Gross profit/(loss) margin** | Average unit cost *(RMB)* | Gross profit/(loss) per tonne *(RMB)* | Gross profit/(loss) margin |
| H-section steel products | **2,012** | **85** | **4.0%** | 2,687 | 159 | 5.6% |
| Strips and strip products | **1,821** | **85** | **4.5%** | 2,514 | 172 | 6.4% |
| Cold rolled sheets and galvanised sheets | **3,307** | **(229)** | **(7.4%)** | 4,008 | (166) | (4.3%) |
| Billets | **1,825** | **(31)** | **(1.7%)** | 2,446 | 84 | 3.3% |
| Rebar | **1,930** | **43** | **2.2%** | 2,652 | 38 | 1.4% |
| Steel pile sheet | **2,858** | **136** | **4.5%** | 3,561 | 212 | 5.6% |
| Total | **1,983** | **55** | **2.7%** | 2,661 | 127 | 4.6% |

Gross profit per tonne of the Group's products decreased to RMB55 for the six months ended 30 June 2015 from RMB127 for the corresponding period in 2014, reflecting a substantial decrease of 56.7%. Gross profit margin decreased to 2.7% for the six months ended 30 June 2015 from 4.6% for the corresponding period in 2014. The decrease in gross profit margin was primarily due to the significant decrease in the average selling price of the steel products of the Group during the six months ended 30 June 2015.

**Property Development**

For the six months ended 30 June 2015, the revenue from real estate business of the Group amounted to approximately RMB53 million. The GFA of properties delivered was 13,268 $m^2$. The average selling price of properties delivered was approximately RMB3,962 per $m^2$.

As at 30 June 2015, the Group had the following projects under construction with a GFA of approximately 251,200 $m^2$:

| No. | City | Property project | Phase of project | GFA under Construction *($m^2$)* | Estimate time of completion |
|---|---|---|---|---|---|
| 1 | Tangshan | Donghu Bay | Phase 3 | 85,250 | March 2017 |
| 2 | Suzhou | Xintiandi | Residential and basement | 39,691 | December 2015 |
| 3 | Suzhou | Xintiandi | Commercial and office | 65,670 | December 2016 |
| 4 | Suzhou | Meishu Hall | Main structural construction | 60,589 | December 2016 |

The above projects are expected to be completed from 2015 to 2017 and will contribute stable revenue and profits to our Group.

## HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2015, the Group had a workforce of approximately 13,200 and temporary staff of approximately 3,600. 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 the share options, etc. According to the Group's remuneration policy, employees' package is based on productivity and/or sales performance, and is consistent with the Group's quality control and cost control targets.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

In order to sustain a stable financial status, the Group closely monitors its liquidity and financial resources.

As at 30 June 2015, the Group had unutilised banking facilities of approximately RMB6.4 billion (31 December 2014: RMB7.3 billion).

As at 30 June 2015, the current ratio of the Group, representing current assets divided by current liabilities, was 1.1 times (31 December 2014: 1.2 times) and the gearing ratio, representing total liabilities divided by total assets, was 55.7% (31 December 2014: 58.8%).

As at 30 June 2015, the cash and cash equivalents of the Group amounted to approximately RMB1,270 million (31 December 2014: RMB849 million).

After considering its cash and cash equivalents as well as the banking facilities currently available to the Group, it is believed that the Group has sufficient capital to fund its future operations and for general business expansion and development.

### Capital Structures

During the six months ended 30 June 2015, the Company repurchased a total of US$158,520,000 and US$68,317,000 in principal amount of the 2015 Senior Notes and 2017 Senior Notes respectively. As at 30 June 2015, the outstanding principal amount of the 2015 Senior Notes and the 2017 Senior Notes was US$331,663,000 and US$139,268,000 respectively.

As at 30 June 2015, borrowings of RMB4,816 million of the Group bore fixed interest rates ranged from 2.7% to 9.6% per annum and borrowings of RMB1,805 million of the Group bore floating rates ranged from 1.3% to 6.6% per annum. The Group's exposure to changes in market interest rates was considered to be limited. The Group did not use any derivatives to hedge its exposure to interest rate risk for the six months ended 30 June 2015 and year ended 31 December 2014.

The Group monitors its capital on the basis of the debt-to-capital ratio. This ratio is calculated as total debt divided by total capital. Total debt includes current and non-current borrowings and borrowings from related parties. The Group regards its non-current borrowings, non-current portion of borrowings from related parties and its equity attributable to owners of the Company as its total capital. As at 30 June 2015, the debt-to-capital ratio of the Group was 64.7% (31 December 2014: 77.3%).

The consolidated interest expenses and capitalised interest for the six months ended 30 June 2015 amounted to RMB238 million (2014 corresponding period: RMB236 million). The interest coverage (divide earnings before finance costs – net and income tax expense by total interest expenses) was 0.7 times (2014 corresponding period: 1.3 times).

**Capital commitments**

As at 30 June 2015, the Group had capital commitments of approximately RMB922 million (31 December 2014: RMB936 million). It is estimated that the capital commitments will be financed by the Group's internal resources and unutilised banking facilities.

**Guarantees and Contingent Liabilities**

As at 30 June 2015, the Group's contingent liabilities amounted to approximately RMB11 million (31 December 2014: RMB13 million), which was the provision of guarantee for bank borrowings in favour of a third party.

**Pledge of Assets**

As at 30 June 2015, the carrying amount of the Group's properties under development amounting to approximately RMB414 million (31 December 2014: approximately RMB314 million), the net book value of the Group's inventories amounting to approximately RMB102 million (31 December 2014: approximately RMB112 million), notes receivable amounting to approximately RMB336 million (31 December 2014: approximately RMB804 million) and restricted bank balances amounting to approximately RMB2,193 million (31 December 2014: approximately RMB1,625 million) had been pledged as security for the Group's notes payable issuing, banking borrowings and letter of credit issuing.

As at 30 June 2015, the net book value of the Group's inventories amounting to RMB16 million (31 December 2014: approximately RMB17 million), notes receivable amounting to approximately RMB5 million (31 December 2014: approximately RMB10 million) and restricted bank balances amounting to nil (31 December 2014: approximately RMB2 million) were withheld by and in custody of the courts.

**Exchange Risks**

Foreign exchange risk is the risk to the Group's financial conditions and results of operations arising from movements of foreign exchange rates. The Group mainly operates in the Mainland China with most of the transactions denominated and settled in RMB. The Group's foreign exchange risk primarily arises from the procurement of iron ores and the relevant products from overseas suppliers and the Group's senior notes, which is denominated and settled in USD. Foreign exchange rates fluctuate in reaction to the macro-economic performance of different countries and fund flows between countries arising from trade or capital commitments. The Group has not used any derivatives to hedge its exposure to foreign exchange risk for the six months ended 30 June 2015 and for the year ended 31 December 2014.

**Iron Ore Swaps**

In view of the significant fluctuation of iron ore price during the six months ended 30 June 2015, the Group has entered into iron ore swap contracts so as to reduce the impact of the volatility of the iron ore price on the Group. The Group uses a combination of iron ore derivatives to achieve the above purpose.

**Dividend**

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (2014 corresponding period: nil).

**Post Balance Sheet Events**

Except for the redemption of all its outstanding 2015 Senior Notes on 18 August 2015, there have been no events to cause material impact on the Group from the balance sheet date to the date of this announcement that should be disclosed.

## FUTURE PROSPECTS

It is expected that in the second half of 2015, there will be no material change in the market and business environment of steel industry in the Mainland China. The steel industry will still face a challenging condition. Under such backdrop, the Group intends to maintain its competitiveness by continuous improvement in production efficiency, increasing the number of high value-added products, reducing production cost, cutting down inventory, expanding market share and changing distribution channel.

In 2015, the Group will continue to focus on the development of certain high-end steel products including steel pile sheet, to develop products to suit for the standard of other countries, to improve the quality of steel pile sheet and support steel for overhead lines of railway electrification system and to increase the market share of high value-added products, this will enhance the core competitiveness of the Group. In addition, the Group will adopt a new distribution model by increasing the proportion of direct sales to 20%, setting up more direct sales office for section steel and developing international market with electronic commercial platform to construct an international sales network. Also, the Group will set up a project for the development of remote central control and quantifying system to realise the internal logistics control and internal corporate information management in for the purpose of cutting down manpower and increasing efficiency. The Group will continue to keep an eye on state projects which will consume large volume of steel, collect more information about market shortages and product information to guide its new product development. In addition, it will strengthen the control of operating risks and production procedure to enhance the function of risk control department, to improve the general risk resistance capacity of the Group and to maintain a stable operation.

Since its listing in 2004, the Group has continued to expand its business, diversify its steel product categories and business portfolio.

During the last eleven years (since being listed), the Group's overall crude steel production capacity has reached 11.0 million tonnes per annum from 3.1 million tonnes per annum at the time of the listing. Steel product series include H-section steel products, steel pile sheet products, strips and strip products, billets, cold rolled sheets and galvanized sheets and rebar. The Group keeps developing different series product with different specification to cater the market demand. Moreover, the H-section steel products of the Group commands a leading position in China. The Group has been gradually diversifying its business. In addition to expanding its supply chain through upstream and downstream integration, the Group has also tapped into real estate business and other business sectors. The Group will strive to take full advantage of the current solid financial condition and efficient management to intensify the continuous development of the Group and to maximise the Shareholders' value.

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Apart from the repurchase of a total of principal amount of US$158,520,000 and US$68,317,000 of the 2015 Senior Notes and the 2017 Senior Notes respectively, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices and believes that it is essential to the development of the Group and to safeguard the interests of the equity holders. The Directors are of the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2015, save for the following deviation:

Under Code Provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Han Jingyuan serves as the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that there is no immediate need to segregate the roles of Chairman and the Chief Executive Officer of the Company because the role of chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons. The Board will consider the segregation of the roles of the Chairman and the Chief Executive Officer of the Company in light of the future development of the operating activities or businesses of the Group.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors and all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2015.

## AUDIT COMMITTEE

During the six months ended 30 June 2015, the audit committee of the Company ("Audit Committee") comprised three Independent Non-executive Directors namely Mr. Wong Man Chung, Francis as the Chairman of the Audit Committee and Mr. Wang Tianyi and Mr. Zhou Guoping as the members of the Audit Committee.

The Audit Committee has reviewed the Group's condensed consolidated financial information for the six months ended 30 June 2015 and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the condensed consolidated financial information have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

The interim results announcement of the Company for the six months ended 30 June 2015 is published on both the websites of the Company (www.chinaorientalgroup.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2015 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

## PUBLIC FLOAT

Trading in the shares of the Company had been suspended from 29 April 2014 when the public float of the Company fell below 25%. The Stock Exchange of Hong Kong Limited indicated that the Company is required to suspend trading in the shares of the Company until the minimum public float is restored.

Please refer to the Company's announcements dated 30 December 2013, 11 April 2014, 5 May 2014, 30 May 2014, 6 July 2014, 20 August 2014, 26 August 2014, 5 September 2014, 16 October 2014, 21 November 2014, 16 December 2014, 13 February 2015, 18 March 2015, 16 April 2015, 15 May 2015, 15 June 2015, 17 July 2015 and 14 August 2015 for details.

The Company will make further announcement to inform its Shareholders and potential investors for the development as and when appropriate pursuant to the Listing Rules and/or the Securities and Futures Ordinance.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## APPRECIATION

The Board would like to take this opportunity to extend its deepest gratitude to its staff for their hard work and dedication to the Group, and to our shareholders for their continuous support and trust in the Company.

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

Hong Kong, 28 August 2015

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Shen Xiaoling, Mr. Zhu Hao and Mr. Han Li being the Executive Directors, Mr. Ondra Otradovec being the Non-executive Director and Mr. Wong Man Chung, Francis, Mr. Wang Tianyi and Mr. Zhou Guoping being the Independent Non-executive Directors.*