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 2017

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2017	2016	Changes
Sales volume *(tonnes)*			
– Self-manufactured steel products	**6.157 million**	5.577 million	10.4%
– Trading of steel products	**0.050 million**	0.003 million	1,566.7%
	6.207 million	5.580 million	11.2%
Revenue *(RMB)*			
– Sale of self-manufactured steel products	**17.46 billion**	10.21 billion	70.9%
– Trading of steel products	**0.20 billion**	0.01 billion	1,900.0%
– Trading of iron ore	**1.21 billion**	0.83 billion	44.7%
– Sale of properties	**0.90 billion**	0.06 billion	1,461.1%
– Others	**0.47 billion**	0.34 billion	40.6%
	20.24 billion	11.45 billion	76.8%
Gross profit/(loss) *(RMB)*			
– Sale of self-manufactured steel products	**2,710 million**	1,382 million	96.1%
– Trading of steel products	**(2) million**	1 million	(300.0%)
– Trading of iron ore	**(34) million**	(40) million	15.0%
– Sale of properties	**129 million**	8 million	1,512.5%
– Others	**36 million**	24 million	50.0%
	2,839 million	1,375 million	106.4%
Gross profit per tonne *(RMB)*			
– Sale of self-manufactured steel products	**440 yuan**	248 yuan	77.4%
EBITDA[1] *(RMB)*	**3,092 million**	1,386 million	123.1%
EBITDA[1] margin	**15.3%**	12.1%	N/A
EBIT[2] *(RMB)*	**2,532 million**	841 million	201.1%
EBIT[2] margin	**12.5%**	7.3%	N/A

* *For identification purposes only*

	For the six months ended 30 June		
	2017	2016	Changes
Profit before income tax *(RMB)*	**2,527 million**	804 million	214.5%
Profit for the period *(RMB)*	**1,892 million**	541 million	249.9%
Profit for the period attributable to owners of the Company *(RMB)*	**1,873 million**	528 million	254.4%
Basic earnings per share *(RMB)*	**0.548 yuan**	0.180 yuan	204.4%
Interim dividends per share *(HK$)*	**0.13 dollar**	–	N/A
Return on equity[3]	**18.2%**	6.0%	N/A
	As at		
	30 June 2017	31 December 2016	Changes
Total assets *(RMB)*	**20.84 billion**	21.05 billion	(1.0%)
Net assets value per share (exclude non-controlling interests) *(RMB)*	**3.22 yuan**	3.16 yuan	1.9%
Debt-to-capital ratio[4]	**15.7%**	25.8%	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 non-recurring items. During the period, there are no adjustments of non-recurring items in the calculation.

2 The Company defines EBIT as profit for the period before finance costs-net, income tax expense and non-recurring items. During the period, there are no adjustments of non-recurring items in the calculation.

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, other long-term payables and borrowings from related parties. Total capital includes non-current borrowings, non-current portion of other long-term payables, non-current portion of borrowings from related parties and its 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 2017 together with the comparative figures for the corresponding period in 2016. PricewaterhouseCoopers, the Company's auditor, has conducted its review on the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 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	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		Unaudited	
Revenue	*4*	**20,240,501**	11,451,165
Cost of sales		**(17,401,603)**	(10,075,932)
Gross profit		**2,838,898**	1,375,233
Other income		**7,907**	1,879
Distribution costs		**(60,037)**	(58,664)
Administrative expenses		**(348,242)**	(483,787)
Other expenses		**(24,689)**	(11,797)
Other gains – net		**115,781**	19,070
Operating profit	*6*	**2,529,618**	841,934
Finance income	*7*	**48,975**	48,138
Finance costs	*7*	**(53,347)**	(85,351)
Share of result of associates		**2,016**	(1,208)
Profit before income tax		**2,527,262**	803,513
Income tax expense	*8*	**(635,080)**	(262,810)
Profit for the period		**1,892,182**	540,703
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss			
Fair value (losses)/gains on available-for-sale financial assets		**(4,126)**	1,149
Transfer of fair value gains previously credited to reserve to income statement upon disposal of available-for-sale financial assets		**(131)**	–
Total comprehensive income for the period		**1,887,925**	541,852

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

	Note	Six months ended 30 June 2017 RMB'000 Unaudited	2016 RMB'000
Profit for the period attributable to:			
– owners of the Company		**1,872,710**	528,469
– non-controlling interests		**19,472**	12,234
		1,892,182	540,703
Total comprehensive income attributable to:			
– owners of the Company		**1,868,453**	529,618
– non-controlling interests		**19,472**	12,234
		1,887,925	541,852
Earnings per share for profit attributable to owners of the Company for the period *(express in RMB per share)*			
– basic	*9*	**RMB0.548**	RMB0.180
– diluted	*9*	**RMB0.548**	RMB0.180

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2017** *RMB'000* **Unaudited**	31 December 2016 *RMB'000* Audited
ASSETS			
Non-current assets			
Leasehold land and land use rights	*11*	**190,233**	193,123
Property, plant and equipment	*11*	**7,997,250**	8,038,406
Investment properties	*11*	**9,116**	6,549
Intangible assets	*11*	**89,682**	94,370
Investment in associates		**145,670**	55,632
Available-for-sale financial assets		**464,471**	489,555
Prepayments, deposits and other receivables	*15*	**13,000**	13,000
Deferred income tax assets		**149,070**	155,880
Total non-current assets		**9,058,492**	9,046,515
Current assets			
Properties under development and held for sale	*12*	**729,670**	1,419,113
Inventories	*13*	**2,605,161**	3,334,350
Trade receivables	*14*	**562,537**	482,813
Prepayments, deposits and other receivables	*15*	**1,336,025**	1,405,123
Financial assets at fair value through profit or loss		**307,135**	387,458
Amounts due from related parties		**83,834**	16,671
Prepaid current income tax		**15,477**	28,814
Loan receivables		**401,000**	401,000
Notes receivable – bank acceptance notes	*16*	**3,533,941**	2,339,669
Derivative financial instruments		**2,690**	6,220
Restricted bank balances		**511,178**	890,617
Cash and cash equivalents		**1,692,328**	1,290,199
Total current assets		**11,780,976**	12,002,047
Total assets		**20,839,468**	21,048,562
EQUITY			
Equity attributable to owners of the Company			
Share capital		**364,006**	311,853
Share premium		**2,797,289**	2,192,131
Other reserves		**1,699,051**	1,703,308
Retained earnings		**6,463,095**	5,048,806
		11,323,441	9,256,098
Non-controlling interests		**158,766**	108,443
Total equity		**11,482,207**	9,364,541

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

	Note	**30 June 2017 RMB'000 Unaudited**	31 December 2016 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Borrowings		**239,500**	246,500
Other long-term payables		**360,875**	615,194
Deferred revenue		**114,991**	78,107
Amounts due to a related party		**51,859**	51,859
Deferred income tax liabilities		**39,628**	42,204
Total non-current liabilities		**806,853**	1,033,864
Current liabilities			
Trade payables	*17*	**2,980,475**	5,425,323
Accruals, advances and other current liabilities		**3,859,866**	3,368,510
Amounts due to related parties		**31,149**	27,266
Current income tax liabilities		**436,748**	122,918
Derivative financial instruments		**19,591**	15,669
Other long-term payables – current portion		–	551,392
Borrowings		**1,199,863**	1,134,507
Dividends payable		**22,716**	4,572
Total current liabilities		**8,550,408**	10,650,157
Total liabilities		**9,357,261**	11,684,021
Total equity and liabilities		**20,839,468**	21,048,562

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	
Net cash generated from operating activities	**983,085**	843,219
Net cash used in investing activities	**(78,789)**	(629,493)
Net cash used in financing activities	**(487,344)**	(1,160,563)
Net increase/(decrease) in cash and cash equivalents	**416,952**	(946,837)
Effect of foreign exchange rate changes	**(14,823)**	15,043
Cash and cash equivalents, beginning of period	**1,290,199**	2,337,547
Cash and cash equivalents, end of period	**1,692,328**	1,405,753

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.

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 22 August 2017.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoptions of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) New and amended standard adopted by the Group

The following new standards, amendments to standards and interpretations are mandatory for the Group's financial year beginning 1 January 2017. The adoption of these new standards, amendments to standards and interpretations does not have significant impact to the results or financial position of the Group.

		Effective for annual periods beginning on or after
HKAS 7 (Amendment)	Statement of cash flows	1 January 2017
HKAS 12 (Amendment)	Income taxes	1 January 2017
HKFRS 12 (Amendment)	Disclosure of interest in other entities	1 January 2017

(b) The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 1 (Amendment)	First time adoption of HKFRS	1 January 2018
HKFRS 2 (Amendments)	Share-based payment	1 January 2018
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018
HKFRS 9 *(i)*	Financial instruments	1 January 2018
HKFRS 15 *(ii)*	Revenue from contracts with customers	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
HKFRS 16 *(iii)*	Leases	1 January 2019
HK (IFRIC) 23	Putting some certainty into uncertain tax position	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) HKFRS 9 "Financial instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has undertook a preliminary assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale ("AFS") financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting for these assets. A FVOCI election is available for the equity instruments which are currently classified as AFS under historical cost convention.

For the other financial assets held by the Group, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss which are not relevant to the Group. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any eligible hedge instruments. Therefore, the Group does not expect any impact on the new hedge accounting.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. The Group is still assessing the actual impact affected by the new model, it may result in an earlier recognition of credit losses for trade and other receivables. But according to the preliminary results, the financial impact is expected to be not significant.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

(ii) HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. HKFRS 15 replaces the previous revenue standards: HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related Interpretations on revenue recognition: HK (IFRIC) 13 "Customer Loyalty Programmes", HK (IFRIC) 15 "Agreements for the Construction of Real Estate", HK (IFRIC) 18 "Transfers of Assets from Customers" and HK (SIC) – 31 "Revenue – Barter Transactions Involving Advertising Services". HKFRS 15 is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the revenue from sales of services and revenue from sales of properties that are likely to be affected.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(iii) HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4. 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 2017 and 2016 were as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sales:		
– Strips and strip products	**6,177,850**	3,859,121
– H-section steel products	**4,869,667**	2,989,822
– Rebar	**3,102,441**	1,734,498
– Billets	**2,034,032**	1,025,294
– Iron ore	**1,209,975**	836,462
– Real estate	**901,437**	57,745
– Sheet piling	**820,060**	262,326
– Cold rolled sheets and galvanised sheets	**650,025**	347,942
– Others	**475,014**	337,955
	20,240,501	11,451,165

5. 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 2016.

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

	Six months ended 30 June 2017		
	Iron and steel	**Real estate**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
		Unaudited	
Revenue	**19,339,064**	**901,437**	**20,240,501**
Segment results:			
Operating profit	**2,417,425**	**112,193**	**2,529,618**
Finance (costs)/income – net	**(4,498)**	**126**	**(4,372)**
Share of result of associates			**2,016**
Profit before income tax			**2,527,262**
Income tax expense			**(635,080)**
Profit for the period			**1,892,182**
Other profit or loss items			
Depreciation and amortisation	**559,966**	**788**	**560,754**
Capital expenditure	**518,786**	**19**	**518,805**

	Six months ended 30 June 2016		
	Iron and steel	Real estate	Total
	RMB'000	*RMB'000*	*RMB'000*
		Unaudited	
Revenue	11,393,420	57,745	11,451,165
Segment results:			
Operating profit/(loss)	855,503	(13,569)	841,934
Finance (costs)/income – net	(37,421)	208	(37,213)
Share of result of associates			(1,208)
Profit before income tax			803,513
Income tax expense			(262,810)
Profit for the period			540,703
Other profit or loss items			
Depreciation and amortisation	544,178	893	545,071
Capital expenditure	359,585	9	359,594

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, 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 2017 were as follows:

	Iron and steel *RMB'000*	Real estate *RMB'000* Unaudited	Elimination *RMB'000*	Total *RMB'000*
Segment assets	**18,439,463**	**1,119,906**	**(205,414)**	**19,353,955**
Segment assets for reportable segments				**19,353,955**
Unallocated:				
Investment in associates				**145,670**
Deferred income tax assets				**149,070**
Available-for-sale financial assets				**464,471**
Financial assets at fair value through profit or loss				**307,135**
Derivative financial instruments				**2,690**
Loan receivables				**401,000**
Prepaid current income tax				**15,477**
Total assets per balance sheet				**20,839,468**
Segment liabilities	**6,777,137**	**827,492**	**(205,414)**	**7,399,215**
Segment liabilities for reportable segments				**7,399,215**
Unallocated:				
Current income tax liabilities				**436,748**
Current borrowings				**1,199,863**
Non-current borrowings				**239,500**
Derivative financial instruments				**19,591**
Dividends payable				**22,716**
Deferred income tax liabilities				**39,628**
Total liabilities per balance sheet				**9,357,261**

The segment assets and liabilities as at 31 December 2016 were as follows:

	Iron and steel *RMB'000*	Real estate *RMB'000* Audited	Elimination *RMB'000*	Total *RMB'000*
Segment assets	17,885,863	1,811,238	(173,098)	19,524,003
Segment assets for reportable segments				19,524,003
Unallocated:				
Investment in associates				55,632
Deferred income tax assets				155,880
Available-for-sale financial assets				489,555
Derivative financial instruments				6,220
Financial assets at fair value through profit or loss				387,458
Loan receivables				401,000
Prepaid current income tax				28,814
Total assets per balance sheet				21,048,562
Segment liabilities	8,974,275	1,316,474	(173,098)	10,117,651
Segment liabilities for reportable segments				10,117,651
Unallocated:				
Current income tax liabilities				122,918
Current borrowings				1,134,507
Non-current borrowings				246,500
Derivative financial instruments				15,669
Dividends payable				4,572
Deferred income tax liabilities				42,204
Total liabilities per balance sheet				11,684,021

6. Operating profit

The operating profit of the Group has been credited/(charged) by the following items.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Depreciation of property, plant and equipment *(Note 11)*	**(552,528)**	(537,400)
Rental fee	**(142,383)**	(44,462)
Provision for write-down of inventories to net realisable value	**–**	(6,645)
Provision for impairment of prepayments, deposits and other receivables *(Note 15)*	**(37,777)**	(229,892)
Reversal of impairment of a loan receivable	**–**	10,000
Amortisation of intangible assets *(Note 11)*	**(5,082)**	(5,126)
Amortisation of leasehold land and land use rights *(Note 11)*	**(2,890)**	(2,324)
Provision for impairment of trade receivables *(Note 14)*	**(2,445)**	(15,707)
Provision for impairment of amounts due from a related party	**–**	(19,923)
Depreciation of investment properties *(Note 11)*	**(254)**	(221)
Other gains – net	**115,781**	19,070
– Government grants	**92,813**	21,445
– Gain on disposal of property, plant and equipment	**2,586**	2,129
– Loss on disposal of available-for-sale financial assets	**(506)**	–
– Loss on repurchase of senior notes	**–**	(1,041)
– Gain on disposal of subsidiaries	**–**	11,056
– Others	**20,888**	(14,519)

7. Finance income and costs

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Interest expenses	**(41,175)**	(42,870)
Finance lease liabilities	**(21,628)**	(37,917)
Net foreign exchange gains/(losses) on borrowings	**6,002**	(11,010)
Total finance costs	**(56,801)**	(91,797)
Less: amounts capitalised on qualifying assets	**3,454**	6,446
Finance costs	**(53,347)**	(85,351)
Finance income	**48,975**	48,138
Finance costs – net	**(4,372)**	(37,213)

For the six months ended 30 June 2017, a capitalisation rate of 3.60% (2016: 6.55%) was used, representing the average borrowing cost of the loans relating to financing the construction of property, plant and equipment and properties under development.

8. Income tax expense

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax	**628,756**	56,539
– Singapore profit tax	**2,090**	–
	630,846	56,539
Deferred income tax		
– PRC enterprise income tax	**4,234**	201,094
– Singapore profit tax	**–**	5,177
	4,234	206,271
	635,080	262,810

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 of the Company that were incorporated in British Virgin Islands ("BVI") with limited liability under the International Business Companies Act Chapter 291, 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 2017 after utilising accumulated tax losses (2016: 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.

The PRC Enterprise 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 the PRC remains unchanged as 25% during the six months ended 30 June 2017 and 2016 except for Zhongjin Finance Leasing Co., Ltd. ("Zhongjin Leasing").

Zhongjin Leasing, being qualified as a leasing industry enterprise, was established in a special economic zone. As approved by local tax authority on 10 January 2017, Zhongjin Leasing was entitled to a four-year full exemption of income tax effective from 1 January 2017. Accordingly, the effective tax rate for the period ended 30 June 2017 was 0% (2016: 25%).

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 23.27% (2016: 24.13%) to respective profits of the consolidated entities for the six months ended 30 June 2017 and 2016 as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Profit before taxation	**2,527,262**	803,513
Taxation calculated at statutory tax rate	**588,180**	193,896
Utilisation of previously unrecognised tax losses	**(12,517)**	(3,369)
Temporary difference and tax losses for which no deferred income tax assets was recognised	**29,314**	70,985
Withholding tax of intra-group interest income	**291**	660
Effect of non-deductible expenses	**29,812**	638
	635,080	262,810

9. 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	
	2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Profit attributable to owners of the Company	**1,872,710**	528,469
Weighted average number of ordinary shares in issue *(thousands)*	**3,414,554**	2,931,425
Basic earnings per share *(RMB per share)*	**0.548**	0.180

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 2017, the Company has one category of dilutive potential ordinary shares: share options.

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Profit attributable to owners of the Company	**1,872,710**	528,469
Weighted average number of ordinary shares in issue used in calculating basic earnings per share *(thousands)*	**3,414,554**	2,931,425
Adjustments for options *(thousands)*	**24**	-
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share *(thousands)*	**3,414,578**	2,931,425
Diluted earnings per share *(RMB per share)*	**0.548**	0.180

10. Dividends

At the board meeting held on 22 August 2017, the Board proposed an interim dividend of HK$457.8 million (approximately RMB389.9 million), representing HK$0.13 per ordinary share in respect of the six months ended 30 June 2017 (2016: nil).

At the meeting held on 31 March 2017, the Board proposed a final dividend of HK$175.9 million (approximately RMB157.3 million), representing HK$0.05 per ordinary share and a special dividend of HK$351.8 million (approximately RMB314.7 million), representing HK$0.10 per ordinary share in respect of the year ended 31 December 2016. This proposed dividend was approved by the shareholders of the Company on the Annual General Meeting of the Company dated 31 May 2017 and was paid during the period.

11. 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 2017				
Opening carrying amount as at 1 January 2017	**8,038,406**	**193,123**	**6,549**	**94,370**
Additions	**518,411**	**–**	**–**	**394**
Transfer to investment properties	**(2,821)**	**–**	**2,821**	**–**
Disposals	**(4,218)**	**–**	**–**	**–**
Depreciation and amortisation *(Note 6)*	**(552,528)**	**(2,890)**	**(254)**	**(5,082)**
Closing carrying amount as at 30 June 2017	**7,997,250**	**190,233**	**9,116**	**89,682**
Six months ended 30 June 2016				
Opening carrying amount as at 1 January 2016	8,260,356	140,422	6,990	79,464
Additions	359,594	–	–	–
Additions from acquiring a subsidiary	852,385	58,091	–	25,152
Disposals	(21,377)	–	–	(111)
Depreciation and amortisation *(Note 6)*	(537,400)	(2,324)	(221)	(5,126)
Closing carrying amount as at 30 June 2016	8,913,558	196,189	6,769	99,379

12. Properties under development and held for sale

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Properties under development comprise:		
– Construction costs	**4,615**	156,322
– Land use rights	**5,078**	53,412
– Interests capitalised	**–**	22,059
	9,693	231,793
Completed properties held for sale	**719,977**	1,187,320
	729,670	1,419,113

13. Inventories

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Raw materials and materials in-transit	**1,919,923**	2,595,524
Work-in-progress	**178,804**	252,834
Finished goods	**506,434**	485,992
Inventories – net	**2,605,161**	3,334,350

As at 30 June 2017, inventories with a net book value of RMB61 million (31 December 2016: RMB69 million) were pledged as security for the Group's notes payable (Note 17).

14. Trade receivables

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables	**591,828**	509,659
Less: impairment provision for trade receivables	**(29,291)**	(26,846)
Trade receivables – net	**562,537**	482,813

As at 30 June 2017 and 31 December 2016, the carrying amount of the Group's trade receivables approximated their fair values.

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 2017 and 31 December 2016, the ageing analysis of trade receivables based on invoice date were as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**399,138**	358,394
4-6 months	**50,143**	44,763
7-12 months	**65,312**	45,661
Over 1 year	**77,235**	60,841
	591,828	509,659

As at 30 June 2017, trade receivables amounting to approximately RMB154 million (31 December 2016: RMB58 million) were guaranteed by customers' letters of credit.

15. Prepayments, deposits and other receivables

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current		
Prepayments for purchase of property, plant and equipment	**234,235**	234,235
Less: impairment provision	**(234,235)**	(234,235)
Prepayments for purchase of property, plant and equipment – net	**–**	–
Other receivables	**13,000**	13,000
	13,000	13,000
Current		
Prepayments for purchase of inventories	**795,143**	784,611
Other receivables	**619,318**	549,503
Less: impairment provision	**(353,603)**	(315,826)
Other receivables – net	**265,715**	233,677
Deposits	**151,987**	161,567
Prepaid tax	**107,587**	214,370
Prepaid expenses	**15,593**	10,898
	1,336,025	1,405,123
	1,349,025	1,418,123

16. Notes receivable – bank acceptance notes

	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Notes receivable – bank acceptance notes	**3,533,941**	2,339,669

As at 30 June 2017, notes receivable amounting to RMB5 million (31 December 2016: RMB358 million) was pledged as security for issuing notes payable (Note 17).

The settlement of the notes receivable was 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 2017 and 31 December 2016, the ageing analysis of notes receivable was as follows:

	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Within 3 months	**3,085,599**	1,524,373
4-6 months	**448,342**	815,296
	3,533,941	2,339,669

17. Trade payables

	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Account payables	**2,211,875**	3,146,492
Notes payable	**768,600**	2,278,831
	2,980,475	5,425,323

As at 30 June 2017, all notes payable represented bank acceptance notes, of which RMB4 million (31 December 2016: RMB358 million) was secured by certain notes receivable (Note 16), RMB650 million (31 December 2016: RMB1,828 million) were secured by restricted bank balances amounting to approximately RMB283 million (31 December 2016: RMB831 million) and RMB115 million (31 December 2016: RMB93 million) were secured by inventories (Note 13) and restricted bank balances amounting to approximately RMB61 million (31 December 2016: RMB69 million) and RMB63 million (31 December 2016: RMB52 million) respectively.

As at 30 June 2017 and 31 December 2016, the ageing analysis of the account payables based on invoice date were as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**1,582,425**	2,602,845
4-6 months	**301,178**	182,063
7-9 months	**95,396**	123,111
10-12 months	**73,110**	31,980
Over 1 year	**159,766**	206,493
	2,211,875	3,146,492

As at 30 June 2017 and 31 December 2016, the ageing analysis of the notes payables were as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**630,853**	2,022,906
4-6 months	**137,747**	255,925
	768,600	2,278,831

18. Capital commitments

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Purchase of property, plant and equipment		
– Contracted but not provided for	**888,156**	553,600
– Authorised but not contracted for	**207,211**	750,440
	1,095,367	1,304,040
Purchase of properties under development	**22,761**	106,649
	1,118,128	1,410,689

19. Financial guarantee contracts

As at 30 June 2017, Hebei Jinxi Iron and Steel Group Company Limited provided guarantee for bank borrowings in favor of a third party amounted to approximately RMB11 million (2016: RMB11 million). The fair value of the financial guarantee is not significant. The Directors are of the view that such obligations will not cause an outflow of the Group's resources embodying economic benefits.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2017, it was full of opportunities for the PRC steel industry. The industry continued the recovery of 2016 and was gradually turning to be optimistic. Under the backdrop of Chinese government's "Supply-Side-Reform" Policy and reduction of overcapacity in the steel industry, solid achievement was crystallised and the supply and demand in the steel industry further improved. While the stock level of steel industry remained relatively low, the implementation of the "Supply-Side-Reform" Policy, the complete crackdown of "Illegal Sub-Standard Steel" Policy and the positive sales in the real estate sector have resulted in substantial increase in the activation of construction projects, etc., resulting in structural reform in the steel industry and continuous increase in steel prices. At the same time, the raw materials prices did not follow the steel prices' increase, resulting in substantial improvement in the overall gross profit and net profit in the steel industry.

With this background, the Group continued to strive for improvement and optimisation in production cost, environmental protection and product mix, thereby enhancing the profit margin and sustainability of the operation. In this regard, the Group achieved a very substantial improvement of its results, with a revenue of approximately RMB20.2 billion for the six months ended 30 June 2017, representing an increase of approximately 76.8% as compared with corresponding period in last year. Comparing with corresponding period in last year, the average selling price of self-manufactured steel products increased by approximately 54.8% to RMB2,835 per tonne. The gross profit of the Group increased by approximately 106.4% to approximately RMB2.8 billion. Profit of the Group for the period reached approximately RMB1.89 billion, representing an increase of approximately 249.9% over corresponding period of last year of RMB541 million, which is the highest profit for a half year period since listing of the Company in 2004. EBITDA of the Group, adjusted for non-recurring items, also further improved from RMB1.39 billion of corresponding period of last year to RMB3.09 billion. Basic earnings per share reached RMB0.548 per share (corresponding period in 2016: RMB0.180 per share).

Based on the operating results of the first half of 2017 and the Group's future development requirements, and for sharing the outstanding results of the Group with the shareholders of the Company, the Board proposed the distribution of 2017 interim dividends of HK$0.13 per share.

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 as well as environmental protection. These efforts include improving production facilities to enhance efficiency, developing diverse and high-end products, increasing the share of products with high added-value and reducing emission. Apart from developing and optimising 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, the British standards, the European standards, etc.. The coverage of the American standards and the British standards have been above 85% or more, so as to facilitate the penetration into international markets; at the same time, the Group also developed angles steel products, and through benchmarking analysis with products of overseas corporations, optimised the quality of sheet piling products. In addition, the Group has also been investing in its production facilities in order to reduce energy consumption in the steel production process and satisfy emission requirements. The self-generated electricity ratio of the self-owned manufacturing plants of the Group increased to approximately 63% in the first half of 2017 from approximately 60% in 2016.

On 27 June 2017, in accordance to the opinions and negotiation results with the Government of Tangshan City and the Group, Hebei Jinxi Iron and Steel Group Zhengda Iron and Steel Company Limited ("Zhengda Iron and Steel"), a non-wholly owned subsidiary of the Group, completed the shut down of the remaining production facilities, representing 0.6 million tonnes of the ironmaking and steelmaking production capacities respectively (the "Final Shut Down"). As the Group had made impairment provision of approximately RMB810 million in 2016 primarily for property, plant and equipment which had been or would be shut down due to overcapacity policies, the Final Shut Down did not have material impacts to the results of first half of 2017. Following completion of the Final Shut Down, the Group has fulfilled the resolving assignment regarding the resolving overcapacity policy. The annual steelmaking capacity of the Group is approximately 11 million tonnes. During the first half of 2017, the Group sold approximately 1.70 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. Most of the construction work of Phase 3 of the Donghu Bay project in Tangshan City, Hebei Province, of the Group has been completed during the first half of 2017, and started delivery. The sales and delivery of the Donghu Bay project in Tangshan City, commercial and office projects of Xintiandi and the Meishu Hall project in Suzhou continued in the first half of 2017, recorded a substantial increase in revenue and profit contribution, and facilitated the stable development of the real estate business of the Group and brought sustainable income. For the six months ended 30 June 2017, the Group recorded revenue and operating profit from real estate business of approximately RMB901 million and RMB112 million respectively.

During the six months ended 30 June 2017, the revenue and gross loss arising from trading of steel products and iron ore of the Group were approximately RMB1,405 million (six months ended 30 June 2016: approximately RMB842 million) and approximately RMB36 million (six months ended 30 June 2016: gross loss of approximately RMB39 million) respectively.

The Group also engages in financing industry through its subsidiaries, Oriental Fullhero Leasing Co. Ltd. ("Fullhero Leasing"), Oriental Evertrust Finance Leasing Co. Ltd. ("Oriental Evertrust"), Tianjin Oriental Huitong Microcredit Co. Ltd. ("Oriental Huitong") and Beijing Jinxi Investment Holding Co. Ltd. ("Beijing Jinxi Investment"). The Group will conduct post-loan inspection to each existing project in order to reduce risks. As at 30 June 2017, Fullhero Leasing, Oriental Evertrust, Oriental Huitong and Beijing Jinxi Investment provided loans, net of provision, amounting to RMB401 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 related subsidiaries to develop core technologies for semiconductor chip design and manufacturing process optimisation/equipment. The Group would continue to explore the development potential of this project.

Finally, with the new highs of interim results of the Group, the Board would like to take this opportunity to express the heartfelt gratitude to the shareholders of the Company for the continuous support, as well as appreciation to the staffs for the dedication and contribution. The Company will diligently create greater value for its shareholders.

BUSINESS REVIEW

Sales Analysis on Self-manufactured Steel Products

Sales volume

For the six months ended 30 June 2017, the Group's total sales volume was 6.16 million tonnes (2016 corresponding period: 5.58 million tonnes), representing an increase of approximately 10.4%.

The sales volume breakdown during the period was as follows:

	For the six months ended 30 June				
	2017		2016		Increase in
	Sales volume		Sales volume		Sales volume
	('000 tonnes)		*('000 tonnes)*		
H-section steel products	**1,697**	**27.6%**	1,558	27.9%	8.9%
Strips and strip products	**2,259**	**36.7%**	2,182	39.1%	3.5%
Cold rolled sheets and galvanised sheets	**144**	**2.3%**	122	2.2%	18.0%
Billets	**784**	**12.7%**	653	11.7%	20.1%
Rebar	**1,063**	**17.3%**	962	17.3%	10.5%
Sheet piling	**210**	**3.4%**	100	1.8%	110.0%
Total	**6,157**	**100%**	5,577	100%	10.4%

Revenue

Revenue for the six months ended 30 June 2017 was RMB17,459 million (2016 corresponding period: RMB10,213 million), representing an increase of approximately 70.9%.

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

	For the six months ended 30 June					
	2017		2016		Increase in	
	Revenue	**Average selling price**	Revenue	Average Selling price	Revenue	Average selling price
	(RMB million)	***(RMB/tonne)***	*(RMB million)*	*(RMB/tonne)*		
H-section steel products	**4,810**	**2,834**	2,990	1,918	60.9%	47.8%
Strips and strip products	**6,178**	**2,735**	3,859	1,769	60.1%	54.6%
Cold rolled sheets and galvanised sheets	**564**	**3,910**	348	2,848	62.1%	37.3%
Billets	**2,034**	**2,596**	1,025	1,570	98.4%	65.4%
Rebar	**3,103**	**2,919**	1,729	1,797	79.5%	62.4%
Sheet piling	**770**	**3,658**	262	2,617	193.9%	39.8%
Total/Combined	**17,459**	**2,835**	10,213	1,831	70.9%	54.8%

The increase in revenue from self-manufactured steel products was primarily due to the increase in the average selling price of the Group's products by 54.8% to RMB2,835 per tonne for the six months ended 30 June 2017 from RMB1,831 per tonne for the corresponding period in 2016 and increase in the sales volume of the Group's products. The increase in average selling price and sales volume of the Group's products was mainly due to the improved supply and demand in the PRC steel industry under the situation of reduction of overcapacity during the first half of 2017.

Cost of Sales and Gross Profit

The gross profit for the six months ended 30 June 2017 was RMB2,710 million (2016 corresponding period: RMB1,382 million), representing an increase of 96.1%. Gross profit margin was 15.5% (2016 corresponding period: 13.5%).

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

	For the six months ended 30 June					
	2017			2016		
	Average unit cost *(RMB)*	**Gross profit per tonne** *(RMB)*	**Gross profit margin**	Average unit cost *(RMB)*	Gross profit per tonne *(RMB)*	Gross profit margin
H-section steel products	**2,369**	**465**	**16.4%**	1,678	240	12.5%
Strips and strip products	**2,277**	**458**	**16.7%**	1,457	312	17.6%
Cold rolled sheets and galvanised sheets	**3,860**	**50**	**1.3%**	2,585	263	9.2%
Billets	**2,308**	**288**	**11.1%**	1,452	118	7.5%
Rebar	**2,397**	**522**	**17.9%**	1,601	196	10.9%
Sheet piling	**3,197**	**461**	**12.6%**	2,326	291	11.1%
Combined	**2,395**	**440**	**15.5%**	1,583	248	13.5%

Gross profit per tonne of the Group's products increased to RMB440 for the six months ended 30 June 2017 from RMB248 for the corresponding period in 2016, reflecting a substantial increase of 77.4%. Gross profit margin increased to 15.5% for the six months ended 30 June 2017 from 13.5% for the corresponding period in 2016. The significant increase in gross profit margin was primarily due to the increase in the average selling price greater than the increase in the average unit cost and increase in sales volume of the Group's steel products during the six months ended 30 June 2017.

Property Development

During the six months ended 30 June 2017, the Group had completed Gross Floor ("GFA") of 85,952 m^2. The status of the completed GFA by project is set out as follow:

No.	City	Property project	Phase of project	GFA *(m^2)*
1	Tangshan	Donghu Bay	Phase 3	85,952

For the six months ended 30 June 2017, the revenue from real estate business of the Group amounted to approximately RMB901 million. The GFA of properties delivered was 81,046 m^2. The average selling price of properties delivered was approximately RMB11,100 per m^2.

As at 30 June 2017, the Group had the following project under construction with a GFA of approximately 8,900 m^2:

No.	City	Property project	Phase of project	GFA under Construction *(m^2)*	Estimate time of completion
1	Tangshan	Donghu Bay	Phase 3	8,917	August 2018

The above project is expected to be completed in 2018 and will contribute stable revenue and profits to our Group.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a workforce of approximately 10,600 and temporary staff of approximately 2,200. 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 2017, the Group had unutilised banking facilities of approximately RMB2.6 billion (31 December 2016: RMB1.0 billion).

As at 30 June 2017, the current ratio of the Group, representing current assets divided by current liabilities, was 1.4 times (31 December 2016: 1.1 times) and the gearing ratio, representing total liabilities divided by total assets, was 44.9% (31 December 2016: 55.5%).

As at 30 June 2017, the cash and cash equivalents of the Group amounted to approximately RMB1,692 million (31 December 2016: RMB1,290 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

As at 30 June 2017, borrowings of RMB794 million of the Group bore fixed interest rates ranged from 1.76% to 6.00% per annum and borrowings of RMB645 million of the Group bore floating rates ranged from 4.75% to 4.79% 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 2017 and year ended 31 December 2016.

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, other long-term payables and borrowings from related parties. The Group regards its non-current borrowings, non-current portion of other long-term payables, 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 2017, the debt-to-capital ratio of the Group was 15.7% (31 December 2016: 25.8%).

The consolidated interest expenses and capitalised interest for the six months ended 30 June 2017 amounted to RMB63 million (2016 corresponding period: RMB81 million). The interest coverage ratio (divide earnings before finance costs – net and income tax expense by total interest expenses) was 40.3 times (2016 corresponding period: 10.4 times).

Capital commitments

As at 30 June 2017, the Group had capital commitments of approximately RMB1,118 million (31 December 2016: RMB1,411 million). It is estimated that the capital commitments will be financed by the Group's internal resources and available banking facilities.

Guarantees and Contingent Liabilities

As at 30 June 2017, the Group's contingent liabilities amounted to approximately RMB11 million (31 December 2016: RMB11 million), which was the provision of guarantee for bank borrowings in favour of a third party.

Pledge of Assets

As at 30 June 2017, the net book value of the Group's leasehold land and land use right amounting to RMB55 million (31 December 2016: RMB56 million), property, plant and equipment amounting to RMB890 million (31 December 2016: approximately RMB975 million), inventories amounting to approximately RMB61 million (31 December 2016: approximately RMB69 million), notes receivable amounting to RMB5 million (31 December 2016: approximately RMB358 million) and restricted bank balances amounting to approximately RMB511 million (31 December 2016: approximately RMB891 million) had been pledged as security for the Group's notes payable, bank borrowings and letter of credit issuing.

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, 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. In view of continuous fluctuation of the RMB exchange rate against USD, during the six months ended 30 June 2017, the Group has entered into certain foreign currency forward contracts so as to reduce the impact of the volatility of the RMB exchange rate against USD. The Group also reviewed and rearranged its monetary assets to mitigate the impact from the change of RMB to USD exchange rate.

Iron Ore Swaps

In view of the significant fluctuation of iron ore price during the six months ended 30 June 2017, the Group has been cautious in entering into iron ore swap contracts so as to reduce the potential negative impact of the iron ore swap contracts.

USE OF PROCEEDS FROM SHARES PLACING

On 27 January 2017, the Company completed the placing of 586,284,000 new ordinary shares under general mandate. The net proceeds of the aforesaid placing were approximately RMB653 million (after deducting relevant placing commission, professional fees and all related expenses). As at 30 June 2017, approximately RMB506 million or 77.5% were utilised. Among the net proceeds used, (i) approximately RMB310 million was utilised for capital expenditure; and (ii) approximately RMB196 million was utilised for general working capital of the Group. The purpose of capital utilisation is consistent with the intended use of the placing.

DIVIDEND

The Board proposed an interim dividend of HK$457.8 million (approximately RMB389.9 million), representing HK$0.13 per ordinary share in respect of the six months ended 30 June 2017 to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Monday, 11 September 2017. The interim dividend will be payable on or around Friday, 29 September 2017.

The Board proposed a final dividend of HK$175.9 million (approximately RMB157.3 million), representing HK$0.05 per ordinary share and a special dividend of HK$351.8 million (approximately RMB314.7 million), representing HK$ 0.10 per ordinary share in respect of the year ended 31 December 2016. This proposed dividend was approved by the shareholders of the Company on the Annual General Meeting of the Company dated 31 May 2017 and was paid during the period.

LITIGATION

As disclosed in the announcements of the Company dated 27 January 2017, 19 May 2017 and 29 May 2017, on 19 May 2017, the Company received an originating summons (the "**Summons**") filed by ArcelorMittal and ArcelorMittal Holdings AG as the plaintiffs (collectively, the "**Plaintiffs**") under an action number HCMP 1163 of 2017 in the Court of First Instance of the High Court of Hong Kong Special Administrative Region (the "**Court**") against (i) the Company; (ii) Mr. Han Jingyuan; (iii) Mr. Han Li; (iv) Mr. Zhu Jun; (v) Mr. Shen Xiaoling; (vi) Mr. Zhu Hao; (vii) Mr. Wong Man Chung, Francis; (viii) Mr. Wang Tianyi; and (ix) Mr. Wang Bing as defendants (collectively, the "**Defendants**"). Defendants (ii) – (ix) are directors of the Company. Pursuant to the Summons, the Plaintiffs applied to the Court for an order pursuant to section 740 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) that the Defendants disclose and allow inspection of certain documents relating to the completion of placing of the shares of the Company on 27 January 2017 (the "**Placing**").

The directors of the Company (other than Mr. Ondra Otradovec) (the "**Directors**") would like to emphasise to the shareholders of the Company and investors that the Placing, the restoration of the public float so as to avoid a de-listing of the Company's shares and the resumption of trading of the Company's Shares at 9:00 a.m. on Wednesday, 1 February 2017 was conducted in the best interests of the Company and its shareholders as a whole, and any claim to the contrary is without merit and groundless. The Directors will vigorously defend against any action that is founded on the basis that the Directors did not act properly and in the best interest of the Company and its shareholders as a whole.

FUTURE PROSPECTS

It is expected that in the second half of 2017, the steel prices will continue to fluctuate but overall see an upturn. Based on information published by the National Development and Reform Commission of China ("NDRC"), up to end of May, there were reduction of steelmaking capacity of 42.39 million tonnes, representing completion of 84.8% of the annual target assignment of 50 million tonnes. The crackdown of illegal non-compliance "Sub-Standard Steel" achieved significant results. In the first half of 2017, China cracked down and shut down more than 600 "Sub-Standard Steel" producing entities, involving production capacity of approximately 120 million tonnes. Upon the thorough crackdown of "Sub-Standard Steel" before 30 June 2017, the steel industry's development will be stepping into a new phrase. Under the backdrop of Chinese government's active adjustment policy towards the steel industry, it would bring along continuous fundamental improvements in Mainland China's steel industry and support to the steel prices. The operating environment would be becoming positive.

In addition, regarding the development of the "Xiongan New Area", it is expected for bringing new opportunities to the Group in the medium to long term. The Group believed the overall business environment will improve continuously, bringing stable demands for the Group.

Under such backdrop, the Group plans to maintain its competitiveness and gain a more prominent position in the industry by continuous improvement in production efficiency, developing and increasing the number of high value-added products, reducing production and operating cost, reducing inventory, expanding market share and optimising the utilisation of internal resources.

In the second half of 2017, the Group will continue to focus on the development of certain high-end steel products including high-strength, high and low temperature repercussive and high-weatherability H-section steel products, to gradually complete angle steel and channel steel products series and specifications and products which suit standards of other countries, to continuously improve the quality and passing rate of established products, to increase the market share of high value-added products and to further optimise production costs including the proportion of self-generated electricity, investing resources in environmental protection equipment, etc., in order to enhance the core competitiveness of the Group.

The Group made its first investment in an upgrading project for sheet piling and ultra-large H-section steel products since 2016. The project is designed to have an annual capacity of approximately 1.0 million tonnes and is expected to require investments of approximately RMB1.0 billion to RMB1.5 billion. The primarily products of the project are U sheet piling of 500mm, 600mm, 750mm, and up to a maximum of 900mm and Z sheet piling of 500mm, 600mm, 750mm, and up to a maximum of 850mm as well as ultra-large H-section steel of ultra-thick, ultra-heavy, applying to super-high steel structure construction with a plate width reaching 1100mm, so as to further optimise the product mix, and fill the gap in Chinese market for the high-end section steel products categories which were relying on imports. It is expected to commence operation in the fourth quarter of 2017. The sheet piling products are highly-efficient materials internationally widely applied in works of construction, irrigation, ports, dams, temporary support cofferdam, railway, etc. The application in China is still in the start-up stage. Sheet piling earned its wide notice and recognition due to its advantages of simple structure, high construction efficiency, firm engineering, good watertightness and reusability.

In addition, the Group will continue to keep an eye on state projects which will consume large volume of steel, broaden the channels to collect market shortages product information to guide its new product development. Furthermore, it will strengthen the risks management and production procedure supervision to enhance the function of the risk management department, to improve the risk resistance capacity of the Group and to maintain its 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 13 years (since being listed), the Group's overall crude steel production capacity has reached approximately 11.0 million tonnes per annum from approximately 3.1 million tonnes per annum at the time of the listing. The steel products include H-section steel products, sheet piling products, strips and strip products, billets, cold rolled sheets and galvanised sheets and rebar. The Group is constantly developing products of different series and specifications to meet market needs. Moreover, the H-section steel products of the Group maintain its leading position in China. The Group will continue to develop its business towards the direction of the largest section steel production base in the world, and to explore expanding through upstream and downstream integration. 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 Company's shareholders' value.

PURCHASE, SALES 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 six months ended 30 June 2017.

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 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the six months ended 30 June 2017, 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.

Under code provision C.2.5 and the related notes of the CG Code, the Company should have an internal audit function which generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The Company's internal audit function is merged with the finance function during the six months ended 30 June 2017. During the period, the Group conducted a review on the need for setting up an independent internal audit department. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient internal control and risk management for the Group. The audit committee of the Board and the Board regularly review the effectiveness of the internal control systems and the risk management of the Group. The Board will review the need to set up an independent internal audit function on an annual basis.

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 2017.

AUDIT COMMITTEE

During the six months ended 30 June 2017, 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. WANG Bing 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 2017 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.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7 September 2017 to Monday, 11 September 2017 (both days inclusive), during which period no transfer of shares of the Company may be registered, for the purposes of ascertaining shareholders' entitlement for the proposed interim dividend. The record date for the proposed interim dividend shall be Monday, 11 September 2017. In order to qualify for the proposed interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 6 September 2017.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The interim results announcement of the Company for the six months ended 30 June 2017 is published on both the websites of the Company (www.chinaorientalgroup.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2017 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 due to insufficient public float. The public float was restored on 27 January 2017 through placing of new shares under general mandate by the Company and placing of existing shares by the controlling shareholder of the Company and trading was resumed on 1 February 2017. As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors 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 its shareholders for their continuous trust and support in the Company.

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

Hong Kong, 22 August 2017

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. Wang Bing being the Independent Non-executive Directors.