

We believe that the Group has successfully attained a leading position in the China special steel industry. As the machinery and equipment manufacturing industries continue to grow, there is a corresponding growing demand for special steel. The second half of 2005 is expected to see a steady growth in sales volume. The Company will closely monitor any changes in the market and continuously expand its market share in its higher margin products. Procurement management will be reinforced to ensure the quality of raw materials and to reduce procurement costs. The company is committed to technical innovation to improve product quality and reduce costs.

Since mid of June 2005, the local government has started a road construction project for improvement of the road network to support our future business development. Due to the heavy rain in July and August of 2005, the road construction project was delayed which will affect our production and sales volume in the second half year of 2005. After our discussion with the local government and the constructor, the construction project has been sped up and is expected to be finished by end of 2005. After completion of the road project, we expect the improvement of road network will support the Group's future sales growth.

In order to mitigate the transportation problem in raw materials and finished goods created by the road construction, we have rented an intermediate warehouse in Gongyi city in order to store our raw materials and finished goods in order to facilitate easy transportation.

In August 2005 we rented additional equipments in Luoyang Anlong Iron and Steel Company Limited (安陽鋼鐵集團洛陽安龍鋼鐵有限公司) ("Anlong"), which was situated in Luoyang, Henan Province of the PRC, for producing molten iron, pig iron and billets in order to produce such intermediate raw materials outside our existing premises so as to reduce the quantity of raw materials required to be transported to our factory.