

## 1. BASIS OF PRESENTATION

China Special Steel Holdings Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacture and sale of special steel products in the People’s Republic of China (the “PRC”). On 29 April 2005, the Company acquired the entire issued share capital of Infonics International Limited (“Infonics”), a company incorporated in the British Virgin Islands (the “BVI”), which was the then immediate holding company of the other subsidiaries comprising the Group, and consequently became the holding company of the subsidiaries comprising the Group pursuant to the group reorganisation (the “Reorganisation”). The shares of the Company were admitted to listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 May 2005 (the “Listing”).

The unaudited condensed combined/consolidated interim income statement, statement of changes in equity and cash flow statement for the six months ended 30 June 2005 and 2004, and the unaudited condensed combined/consolidated balances sheet as at 30 June 2005 and 31 December 2004 (collectively the “Interim Financial Statements”) have been prepared by adopting a uniting of interests method of accounting as a result of the Reorganisation. Under this method, the Company and Infonics have been treated as the holding company and the intermediate holding company respectively of its subsidiaries comprising the Group for the six months ended 30 June 2005 and 2004 and as at 31 December 2004, rather than from the date of acquisition of the subsidiaries. The Reorganisation has been reflected in the unaudited combined/consolidated Interim Financial Statements by regarding the Group as a continuing entity. Accordingly, the unaudited combined/consolidated Interim Financial Statements of the Group have been prepared as if the Group’s structure as at 29 April 2005 had been in existence since 1 January 2004, or from the respective dates of establishment/incorporation of the companies now comprising the Group (whichever is a shorter period), to the extent of interests held by the Company’s shareholder. All material intra-group transactions and balances have been eliminated on combination/consolidation.

## 1. BASIS OF PRESENTATION (continued)

The unaudited condensed combined/consolidated Interim Financial Statements have been prepared under the historical cost convention in accordance with International Accounting Standards 34, “Interim Financial Reporting”, and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The accounting policies adopted in the preparation of these unaudited combined/consolidated interim financial statements are consistent with those used in the preparation of the Accountants’ Report as set out in Appendix I of the prospectus issued by the Company dated 19 May 2005 (the “Prospectus”).

## 2. SEGMENT INFORMATION

The Group’s turnover and profit for the six months ended 30 June 2005 and 2004 were mainly derived from the sale of special steel products to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no analysis by business or geographical segment is provided for these periods.

### 3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of government surcharges, where applicable.

|                                       | <b>For the six months<br/>ended 30 June</b> |                                |
|---------------------------------------|---|--------------------------------|
|                                       | <b>2005<br/>(Unaudited)<br/>RMB'000</b>     | 2004<br>(Unaudited)<br>RMB'000 |
| Sale of goods:                        |   |                                |
| Bearing steel                         | <b>391,144</b>                              | 274,174                        |
| Spring steel                          | <b>32,211</b>                               | 34,285                         |
| Carbon structure steel and gear steel | <b>1,061</b>                                | 53,105                         |
| Pig iron                              | <b>—</b>                                    | 16,567                         |
|                                       | <b>424,416</b>                              | 378,131                        |
| Less: Government surcharges           | <b>—</b>                                    | (252)                          |
| Turnover                              | <b>424,416</b>                              | 377,879                        |
| Interest income                       | <b>672</b>                                  | 700                            |
| Others                                | <b>619</b>                                  | 632                            |
| Other revenue                         | <b>1,291</b>                                | 1,332                          |
| <b>Total revenue</b>                  | <b>425,707</b>                              | 379,211                        |

#### 4. PROFIT FROM OPERATING ACTIVITIES BEFORE INCOME TAX AND MINORITY INTERESTS

The Group's profit before income tax and minority interests is arrived at after charging/(crediting):

|  | <b>For the six months<br/>ended 30 June</b> |                                |
|--|---|--------------------------------|
|  | <b>2005<br/>(Unaudited)<br/>RMB'000</b>     | 2004<br>(Unaudited)<br>RMB'000 |
| Cost of inventories recognized as an expense                                   | <b>338,416</b>                              | 295,032                        |
| Interest on loans  | <b>10,853</b>                               | 9,724                          |
| Bank charges and other finance costs   | <b>331</b>                                  | 109                            |
| <b>Finance costs</b>   | <b>11,184</b>                               | 9,833                          |
| Staff costs (including directors and senior executives' emoluments):           |   |                                |
| Salaries and other staff costs   | <b>8,728</b>                                | 7,785                          |
| Retirement costs:  |   |                                |
| Defined contribution retirement fund   | <b>967</b>                                  | 912                            |
| <b>Total staff costs</b>   | <b>9,695</b>                                | 8,697                          |
| Research and development costs   | <b>247</b>                                  | 254                            |
| Auditors' remuneration   | <b>893</b>                                  | 32                             |
| Depreciation   | <b>22,880</b>                               | 22,857                         |
| Amortisation of land use rights  | <b>153</b>                                  | 77                             |
| Gain on disposal of property, plant and equipment                              | <b>(4)</b>                                  | (9)                            |
| Minimum lease payments under operating leases in respect of land and buildings | <b>480</b>                                  | 31                             |

## 5. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the six months ended 30 June 2005 and 2004.

The applicable income tax rate of Zhengzhou Yongtong Special Steel Co., Ltd. (“Yongtong Special Steel”) and Gongyi Yongtong Scrap Steel Co., Ltd. (“Yongtong Scrap Steel”), subsidiaries of the Group, is 33% for the six months ended 30 June 2005 and 2004.

Yongtong Special Steel was re-registered as a wholly foreign-owned company on 10 November 2003. In accordance with the relevant tax laws and regulations in the PRC and pursuant to the approval from the local tax authority dated 4 June 2004, effective from 1 January 2004, Yongtong Special Steel is exempted from corporate income tax of the PRC for the year ended 31 December 2004 and the year ending 31 December 2005, and is entitled to a 50% reduction from corporate income tax of the PRC for the years ending 31 December 2006, 2007 and 2008.

Therefore, no provision for income tax has been made for Yongtong Special Steel during the six months ended 30 June 2005 and 2004.

## 5. INCOME TAX EXPENSES (continued)

A reconciliation of the income tax expense applicable to profit before tax using the statutory rate to the income tax expense at the effective tax rate is as follows:

|  | For the six months<br>ended 30 June |                                |
|--|-------------------------------------|--------------------------------|
|  | 2005<br>(Unaudited)<br>RMB'000      | 2004<br>(Unaudited)<br>RMB'000 |
| Accounting profit  | 63,363                              | 62,903                         |
| Loss of group companies not offset<br>against taxable profit | 1,901                               | 230                            |
|  | 65,264                              | 63,133                         |
| Tax at an applicable tax rate of 33%                         | 21,537                              | 20,834                         |
| Tax effect of:   |                                     |                                |
| Tax exemption  | (21,497)                            | (20,834)                       |
| Tax loss utilized  | (40)                                | —                              |
| Income tax expense before minority<br>interests              | —                                   | —                              |

## 6. EARNING PER SHARE

The calculation of basic earnings per share for each of the current period is based on the profit attributable to the shareholders of the Company of RMB63,356,000 (six months ended 30 June 2004: RMB62,903,000), and the weighted average number of 360,000,000 (six months ended 30 June 2004: 320,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2005 and 2004 is the same with that of basic earnings per share as no diluting events existed during these periods.

## 7. DIVIDENDS

Pursuant to the directors' resolution of the Company dated on 29 April 2005, the Company declared a special dividend of HK\$30,000,000 to Easyman Assets Management Limited ("Easyman"), a company incorporated in the British Virgin Islands, which is the ultimate holding company of the Group.

Pursuant to a directors' resolution of the Company dated on 21 September 2005, the Company declared a interim dividend of HK\$0.03 per share, totalling HK\$15 million for the six months ended 30 June 2005.

## 8. RETIREMENT BENEFITS

As stipulated by the PRC State regulations, Yongtong Special Steel and Yongtong Scrap Steel participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. Yongtong Special Steel and Yongtong Scrap Steel are required to make contributions to the local social security bureau at 20% of the previous year's average basic salaries within the geographical area where the employees are under employment with Yongtong Special Steel and Yongtong Scrap Steel. The Group has no obligations for the payment of pension benefits beyond the annual contributions as set out above.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees working in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

## 9. PROPERTY, PLANT AND EQUIPMENT

|   | Buildings<br>RMB'000 | Plant and<br>machinery<br>RMB'000 | Office<br>equipment<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Total<br>RMB'000 |
|---|----------------------|-----------------------------------|--------------------------------|------------------------------|------------------|
| <b>Cost:</b>                                    |                      |                                   |                                |                              |                  |
| As at 1 January 2005                            | 109,169              | 580,131                           | 4,990                          | 9,792                        | 704,082          |
| Additions                                       | 27                   | 1,178                             | 3                              | 858                          | 2,066            |
| Transferred from<br>construction in<br>progress |                      |                                   |                                |                              |                  |
| — note 10                                       | —                    | —                                 | —                              | 692                          | 692              |
| Disposals                                       | —                    | (442)                             | —                              | (270)                        | (712)            |
| As at 30 June 2005                              | 109,196              | 580,867                           | 4,993                          | 11,072                       | 706,128          |
| <b>Accumulated<br/>depreciation:</b>            |                      |                                   |                                |                              |                  |
| As at 1 January 2005                            | 16,093               | 89,222                            | 2,653                          | 6,025                        | 113,993          |
| Charge for the period                           | 2,451                | 19,554                            | 390                            | 485                          | 22,880           |
| Disposals                                       | —                    | —                                 | —                              | (65)                         | (65)             |
| As at 30 June 2005                              | 18,544               | 108,776                           | 3,043                          | 6,445                        | 136,808          |
| <b>Impairment loss:</b>                         |                      |                                   |                                |                              |                  |
| As at 1 January 2005                            | —                    | 3,058                             | —                              | —                            | 3,058            |
| Charge for the period                           | —                    | —                                 | —                              | —                            | —                |
| As at 30 June 2005                              | —                    | 3,058                             | —                              | —                            | 3,058            |
| <b>Net book value:</b>                          |                      |                                   |                                |                              |                  |
| As at 30 June 2005                              | 90,652               | 469,033                           | 1,950                          | 4,627                        | 566,262          |
| As at 31 December<br>2004                       | 93,076               | 487,851                           | 2,337                          | 3,767                        | 587,031          |



### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 30 June 2005, land use rights and certain buildings of the Group with a carrying value of RMB95,414,000 were pledged to a bank to secure bank loans totalling RMB50,000,000. Refer to note 17(1) for the details of the pledged bank loans.

As at 31 December 2004, certain plant and machinery with a net book value of RMB246,583,000 (31 December 2003: nil) were pledged to a bank to secure bank loans totalling RMB65,000,000 and notes payable totalling RMB60,000,000.

### 10. CONSTRUCTION IN PROGRESS

|  | <b>Six months<br/>ended 30<br/>June 2005<br/>(Unaudited)<br/>RMB'000</b> | Year ended<br>31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|--|---|
| At beginning of period/year                              | 4,709  | 9,194   |
| Additions  | 19,822   | 8,383   |
| Transferred to property, plant and<br>equipment — note 9 | (692)  | (12,868)  |
| At end of period/year                                    | <b>23,839</b>  | 4,709   |

In the opinion of the directors, no impairment provision for construction in progress was required at 30 June 2005 (31 December 2004: nil).

## 11. LAND USE RIGHTS

|                              | <b>Six months<br/>ended 30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | Year ended<br>31 December<br>2004<br>(Audited)<br>RMB'000 |
|------------------------------|--|---|
| Cost:                        |  |   |
| At beginning of period/year  | <b>6,160</b>   | —   |
| Additions                    | —  | 6,160   |
| At end of period/year        | <b>6,160</b>   | 6,160   |
| Accumulated amortisation:    |  |   |
| At beginning of period/year  | <b>168</b>   | —   |
| Provided for the period/year | <b>153</b>   | 168   |
| At end of period/year        | <b>321</b>   | 168   |
| Net book value:              | <b>5,839</b>   | 5,992   |

As at 30 June 2005, land use rights and certain buildings of the Group were pledged to a bank to secure bank loans. Refer to note 17(1) for further details of the bank loans.

## 12. CASH AND BANK BALANCES

|   | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|---|---|---|
| Cash on hand  | 542   | 736   |
| Cash in bank, unrestricted                                      | 97,281  | 4,423                                       |
| Pledged bank balances   | 25,212  | —   |
| Time deposits with original maturities<br>of more than 3 months | 50,000  | 50,000                                      |
|   | <b>173,035</b>                                      | 55,159                                      |

Pledged bank balances as at 30 June 2005 represented bank balances pledged to banks to secure letter of credit of RMB17,406,000 (31 December 2004: nil).

Time deposits with original maturity of more than three months as at 30 June 2005 were pledged to banks to secure notes payable of RMB40,000,000 (31 December 2004: RMB100,000,000).

In preparation of the combined cash flow statements, pledged bank balances and time deposits with original maturity of more than three months have been excluded from cash and cash equivalents.

**13. TRADE AND NOTES RECEIVABLES**

|                   | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|-------------------|---|---|
| Trade receivables | <b>58,098</b>                                       | 69,218                                      |
| Notes receivables | <b>3,170</b>  | 13,744                                      |
|                   | <b>61,268</b>                                       | 82,962                                      |

An aged analysis of the trade receivables as at 30 June 2005 is as follows:

|  | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|---|---|
| Outstanding balances aged:                 |   |   |
| Within 90 days                             | <b>56,105</b>                                       | 66,936                                      |
| 91 – 180 days                              | <b>413</b>  | 632   |
| 181 – 270 days                             | <b>607</b>  | 1,613                                       |
| 271 – 365 days                             | <b>337</b>  | 37  |
| 1 – 2 years                                | <b>1,081</b>  | 646   |
| 2 – 3 years                                | <b>238</b>  | 37  |
| Over 3 years                               | <b>1,233</b>  | 1,233                                       |
|  | <b>60,014</b>                                       | 71,134                                      |
| Less: Provision for bad and doubtful debts | <b>(1,916)</b>                                      | (1,916)                                     |
|  | <b>58,098</b>                                       | 69,218                                      |

For the majority of the Group's sales, the Group requests its customers to pay in advance through cash or commercial notes guaranteed by banks with credit periods ranging from 90 to 180 days. For customers that the Group has granted general credit terms, generally the credit terms are from 30 to 60 days.

**14. PREPAYMENTS AND OTHER RECEIVABLES**

|                   | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|-------------------|---|---|
| Prepayments       | 29,720  | 26,151                                      |
| Other receivables | 6,228   | 3,123                                       |
|                   | <b>35,948</b>                                       | 29,274                                      |

**15. INVENTORIES**

|  | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|---|---|
| Raw materials                                | 76,625  | 35,230                                      |
| Work in progress                             | 11,087  | 13,276                                      |
| Finished goods                               | 22,790  | 7,441                                       |
| Spare parts and consumables                  | 5,702   | 7,768                                       |
|  | <b>116,204</b>                                      | 63,715                                      |
| Less: Provision against obsolete inventories | <b>(2,009)</b>                                      | (2,009)                                     |
|  | <b>114,195</b>                                      | 61,706                                      |

At 30 June 2005, raw materials of RMB24,035,000 (31 December 2004: RMB8,178,000) were used as a lien for Yongtong Special Steel to obtain a trust receipt loan of US\$2,100,000 (31 December 2004: US\$650,000). Refer to note 17(1) for details of this trust receipt loan.

## 16. BALANCES WITH A SHAREHOLDER AND RELATED PARTIES

The balances with the shareholder and related parties were unsecured, interest-free and have no fixed term of repayments. The balances are non-trade in nature.

The balance with the shareholder as at 30 June 2005 represented the amount due to Mr. Dong Shutong (“Mr. Dong”), the major beneficial shareholder of the Company.

Had interest been charged on the outstanding amounts due to the shareholder and related parties during the six months ended 30 June 2005, based on the official lending rate in the PRC quoted by the People’s Bank of China of approximately 5.04% per annum during the six months ended 30 June 2005, the Group would have paid interest expenses of approximately RMB11,000 (six months ended 30 June 2004: RMB941,000).

## 17. INTEREST-BEARING LOANS AND OTHER BORROWINGS

|  | Notes | 30 June<br>2005<br>(Unaudited)<br>RMB'000 | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|-------|---|---|
| Bank loans                                   |       |   |   |
| Secured                                      | (1)   | 67,406                                    | 5,388                                       |
| Guaranteed                                   | (2)   | —   | 255,870                                     |
| Unsecured                                    | (3)   | 122,500                                   | —   |
|  |       | <b>189,906</b>                            | 261,258                                     |
| Other borrowings                             | (4)   | 14,600                                    | 15,200                                      |
| <b>Total</b>                                 |       | <b>204,506</b>                            | 276,458                                     |
| Repayable:                                   |       |   |   |
| Within one year                              |       | 117,406                                   | 82,258                                      |
| In the second year                           |       | 72,500                                    | 179,000                                     |
| In the third to fifth years,<br>inclusive    |       | 14,600                                    | 15,200                                      |
|  |       | <b>204,506</b>                            | 276,458                                     |
| Portion classified as current<br>liabilities |       | (117,406)                                 | (82,258)                                    |
| Long term portion                            |       | <b>87,100</b>                             | 194,200                                     |

**17. INTEREST-BEARING LOANS AND OTHER BORROWINGS (continued)**

Notes:

- (1) A trust receipt loan of US\$2,100,000 (equivalent to RMB17,406,000) at an annual interest rate of 6.51% was obtained on 23 June 2005 for the purchases of raw materials. The respective bank has a lien upon such raw materials. As at 30 June 2005, raw materials of RMB24,035,000 were pledged to secure the trust receipt loan.

A trust receipt loan of US\$1,159,657 (equivalent to RMB9,612,000) at an annual interest rate of 5.76% was obtained on 19 October 2004 for the purchase of raw materials. The respective bank has a lien upon such raw materials. As at 31 December 2004, raw materials of RMB8,178,000 were pledged to secure the remaining trust receipt loan of US\$650,000 (equivalent to RMB5,388,000).

As at 30 June 2005, the bank loans of RMB50,000,000, at an annual interest rates ranging from 5.31% to 5.58%, were secured by the Group's land use rights and certain buildings with a carrying value of RMB95,414,000. Refer to notes 9 and 11 for details of the respective buildings and land use rights.

- (2) These bank loans as at 31 December 2004 were denominated in RMB, bore interest at commercial rates ranging from 5.31% to 9.56% per annum and are guaranteed by third parties.

Pursuant to certain agreements entered into by the Company and certain lending banks in January 2005, guarantees given by third parties on bank loans of Yongtong Special Steel in an aggregated amount of RMB155,000,000 have been replaced by the guarantees of the Company upon the listing of the Company's shares. Bank loans of RMB100,870,000 have been repaid during the six months ended 30 June 2005.

- (3) Except for the pledged bank loans as mentioned in the preceding paragraphs, other bank loans as at 30 June 2005 are denominated in RMB, bear interest at commercial rates ranging from 5.22% to 7.25% per annum.
- (4) As at 30 June 2005, Yongtong Special Steel had an unsecured loan of RMB14,600,000 (31 December 2004: RMB15,200,000) from Gongyi Finance Development Company, a third party, bearing an interest rate of 5.31% (31 December 2004: 5.31%) per annum and is repayable on 31 December 2008.



## 18. TRADE AND NOTES PAYABLES

|                       | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|-----------------------|---|---|
| Trade payables        | <b>82,022</b>                                       | 68,445                                      |
| Notes payables (note) | <b>40,000</b>                                       | 104,284                                     |
|                       | <b>122,022</b>                                      | 172,729                                     |

Note: As at 30 June 2005, notes payable of RMB40,000,000 (31 December 2004: RMB100,000,000) were secured by time deposits amounted to RMB50,000,000 (31 December 2004: RMB50,000,000).

An aged analysis of trade payables as at 30 June 2005 is as follows:

|                                 | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|---------------------------------|---|---|
| Outstanding balances with ages: |   |   |
| Within 90 days                  | <b>57,394</b>                                       | 35,718                                      |
| 91 – 180 days                   | <b>6,101</b>  | 10,394                                      |
| 181 – 270 days                  | <b>3,831</b>  | 5,660                                       |
| 271 – 365 days                  | <b>2,045</b>  | 2,515                                       |
| 1 – 2 years                     | <b>3,534</b>  | 4,223                                       |
| 2 – 3 years                     | <b>940</b>  | 1,144                                       |
| Over 3 years                    | <b>8,177</b>  | 8,791                                       |
|                                 | <b>82,022</b>                                       | 68,445                                      |

**19. ACCRUED LIABILITIES AND OTHER PAYABLES**

|   | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|---|---|---|
| Advance from customers                        | 16,637  | 15,569                                      |
| Payables related to purchases of fixed assets | 38,421  | 40,625                                      |
| Value-added tax payable                       | 16,756  | 23,768                                      |
| Accrued interest expenses                     | 896   | 527   |
| Payroll payable                               | 2,713   | 2,526                                       |
| Other payables                                | 4,511   | 3,660                                       |
|   | <b>79,934</b>                                       | <b>86,675</b>                               |

**20. DEFERRED TAX LIABILITIES**

|                                     | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|-------------------------------------|---|---|
| At beginning and end of period/year | <b>2,343</b>  | 2,343                                       |

Deferred tax liabilities represent timing differences in respect of interest capitalised in property, plant and equipment.

## 21. ISSUED CAPITAL

|  | Notes | Six months ended<br>30 June 2005 |         | Year ended<br>31 December 2004  |         |
|--|-------|----------------------------------|---------|---------------------------------|---------|
|  |       | Number of<br>ordinary<br>shares  | RMB'000 | Number of<br>ordinary<br>shares | RMB'000 |
| At beginning of period/<br>year  |       | 3,800,000                        | 403     | —                               | —       |
| Incorporation on<br>11 March 2004  | (a)   | —                                | —       | 3,800,000                       | 403     |
| Increase in authorised<br>capital  | (b)   | 996,200,000                      | 105,597 | —                               | —       |
| At end of period/year  |       | 1,000,000,000                    | 106,000 | 3,800,000                       | 403     |
| Issued and fully paid:<br>At beginning of period/<br>year  |       | 1                                | —       | —                               | —       |
| Incorporation on<br>11 March 2004  | (a)   | —                                | —       | 1                               | —       |
| For the acquisition of<br>the entire issued<br>share capital of<br>Infonics, issuing and<br>allotting of ordinary<br>shares of HK\$0.10<br>each, credited as<br>fully paid | (c)   | 69,999,999                       | 7,420   | —                               | —       |
| Capitalisation issue   | (d)   | 250,000,000                      | 26,500  | —                               | —       |
| New issue on an initial<br>public offering   | (e)   | 180,000,000                      | 19,080  | —                               | —       |
| At end of period/year  |       | 500,000,000                      | 53,000  | 1                               | —       |

- (a) The Company was incorporated on 11 March 2004 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each at the time of incorporation. At incorporation, 1 share of HK\$0.10 of the Company was allotted and issued to Mr. Dong.

## 21. ISSUED CAPITAL (continued)

- (b) Pursuant to the shareholder's resolution of the Company dated 29 April 2005, the authorised share capital of the Company increased from HK\$380,000, divided into 3,800,000 shares of HK\$0.10 each, to HK\$100,000,000, divided into 1,000,000,000 shares of HK\$0.10 each.
- (c) On 29 April 2005, Mr. Dong transferred his 10,001 shares of US\$1 each in Infonics to the Company in consideration of the Company's allotting and issuing, credited as fully paid, 69,999,999 new shares to Easyman, a company wholly-owned by Mr. Dong. Immediately following the transfer of the entire share capital of Infonics to the Company, the Company became the ultimate holding company of the Group.
- (d) Upon the approval of the Company's listing on the Stock Exchange and pursuant to the minutes of a meeting of the committee of the board of directors of the Company dated 17 May 2005, the Company issued 250,000,000 ordinary shares of HK\$0.10 each to the then existing shareholder. The issued share capital of RMB26,500,000 was offset with the share premium arising from the public listing.
- (e) On 19 May 2005, 180,000,000 ordinary shares of HK\$0.10 each were issued at HK\$1.48 per ordinary share for a total cash consideration, before related issue expenses, of HK\$266,400,000 (equivalent to RMB282,384,000) through an initial public offering by way of placing and public offer.

## 22. OTHER RESERVES

The movements in the reserves of the Group are set out in the condensed combined/consolidated statement of changes in equity of the condensed combined/consolidated financial statements.

### Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of the paid-up capital of Infonics acquired pursuant to the Reorganisation on 29 April 2005 over the nominal value of the Company's shares issued in exchange therefor.

## 22. OTHER RESERVES (continued)

### Share premium

On 19 May 2005, 180,000,000 ordinary shares of HK\$0.10 each were issued to the public at HK\$1.48 per ordinary share for a total cash consideration, before the related issue expenses of RMB30,567,000, of HK\$266,400,000 (equivalent to RMB282,384,000) giving rise to a share premium of RMB263,304,000. Refer to note 21 (e) for details.

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

### Statutory surplus reserve and statutory reserve fund

In accordance with the Company Law of the PRC and the articles of association of Yongtong Special Steel and Yongtong Scrap Steel, Yongtong Special Steel and Yongtong Scrap Steel are each required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve (“SSR”) until such reserve reaches 50% of the registered capital of Yongtong Special Steel and Yongtong Scrap Steel.

Subsequent to the re-registration of Yongtong Special Steel as a wholly foreign-owned company on 10 November 2003, allocation to SSR is no longer required. According to the relevant PRC regulations applicable to wholly foreign-owned companies, Yongtong Special Steel is required to allocate certain portion (not less than 10%), as determined by the board of directors, of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (“SRF”) until such reserve reaches 50% of its registered capital.

## 22. OTHER RESERVES (continued)

### Statutory surplus reserve and statutory reserve fund (continued)

SSR and SRF are non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

## 23. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

The main financial risks faced by the Group are interest rate risk and credit risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

#### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

#### Credit risk

Credit risk arising from the inability of a counterpart to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterpart's obligations exceed the obligations of the Group. The Group minimises its exposure to credit risk by only dealing with counterparts with acceptable credit ratings.

## 23. FINANCIAL INSTRUMENTS (continued)

### Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### Credit risk exposures

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparty fail to perform their obligations as at 30 June 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheets.

### Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has significant sales transactions with manufacturers of automobiles and hence, has a significant concentration of credit risk in this regard.

## 24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and its subsidiaries had the following material transactions with related parties:

|  |   | <b>For the six months ended<br/>30 June</b> |   |
|--|---|---|---|
|  |   | <b>2005<br/>(Unaudited)<br/>RMB'000</b>     | <b>2004<br/>(Unaudited)<br/>RMB'000</b> |
| <b>Name of related parties</b>                         | <b>Nature of transactions</b>                 |   |   |
| The Refractory Materials Factory (note 1 & 2)          | Purchases of materials from the related party | —   | 3,390                                   |
| Mr. Dong, Mr. Dong Shujie and Mr. Dong Shulai (note 3) | Interest expenses                             | —   | 3                                       |

Notes:

- (1) The Refractory Materials Factory was a former major shareholder of Yongtong Special Steel and was a collectively owned enterprise controlled by Mr. Dong. Effective from 1 March 2004, the Refractory Materials Factory ceased to be a related party.
- (2) The directors consider that the purchase transactions were carried out at a 10%–15% discount off the normal market price taking into account the location proximity. Had the purchase transactions been carried out based on the normal market price, the cost of sales of the Group would have increased by RMB484,000 for the period ended 30 June 2004.
- (3) Mr. Dong Shujie and Mr. Dong Shulai are relatives of Mr. Dong.

In the opinion of the directors, all transactions above were conducted in the ordinary and usual course of the Group's business.



**25. COMMITMENTS****Capital commitments**

|  | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|---|---|
| Capital commitments in respect of property, plant and equipment: |   |   |
| — Authorised, but not contracted for                             | <b>95,075</b>                                       | —   |
| — Contracted, but not provided for                               | <b>1,925</b>  | —   |
|  | <b>97,000</b>                                       | —   |

**Operating lease commitments**

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of equipment and land and buildings falling due as follows:

|   | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|---|---|---|
| Within a year                           | <b>960</b>  | 959   |
| In the second to fifth years, inclusive | <b>261</b>  | 740   |
| Over five years                         | —   | —   |
|   | <b>1,221</b>  | 1,699                                       |

## 26. CONTINGENT LIABILITIES

As at 30 June 2005, the Group had the following contingent liabilities:

|  | <b>30 June<br/>2005<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2004<br>(Audited)<br>RMB'000 |
|--|---|---|
| Guaranteed bank loans of third parties     | —   | 177,885                                     |
| Bills discounted or endorsed with recourse | <b>223,844</b>                                      | 161,553                                     |
|  | <b>223,844</b>                                      | 339,438                                     |

## 27. SUBSEQUENT EVENTS

Pursuant to the directors' minutes of the Company dated 30 July 2005, share options totalling 25,000,000 shares were granted to 13 senior executives of the Company. The exercise price of the options is HK\$1.07, which is equal to the average market price of the Company's shares during the period from 25 July to 29 July 2005. The contractual life of each option granted is ten years. The exercise period of the options will be from the date of acceptance of the Option (i.e. 16 August 2005) up to 30 July 2015, both dates inclusive.

On 20 August 2005, Yongtong Special Steel entered into a lease agreement with Anlong, a third party, to lease Anlong's certain property, plant and equipment for the three years ending 19 August 2008 with monthly rental fee of RMB2,000,000.

Pursuant to the directors' minutes of the Company dated 21 September 2005, the directors declared an interim dividend of HK\$0.03 per share.

## 28. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorized for issue by the board of directors on 21 September 2005.