

## Use of Proceeds

The net proceeds of RMB252 million from the international offering of the Company had been almost fully utilized as at 31 December 2005 as illustrated below:

	Intended application from IPO proceeds RMB'million	Actual application from 1 January 2005 to 31 December 2005 RMB'million	(Excess portion financed from working capital)/Unutilized balance as at 31 December 2005 RMB'million
1) Equipment refinement	99		
i) Iron-making process: Sintering system and blast furnace		84	
ii) Steel-making process:			
a) Electromagnetic stirring machine to ensure the stable quality of the billets from continuous casting machine		4	
b) 60 tonne electro ladle furnace to refine molten steel in vacuum condition		9	
c) Upgrade of the dust-removing system to ensure the group achieved the China's environmental laws and regulations following the expansion of production volume		16	
iii) Rolling process: High pressure water desulphurisation system		6	
Sub-total	99	119	(20)
2) Bank loan repayment to resolve the cross- guarantee commitment	95	95	—
3) Development and production of pearlite	20	—	20
4) Purchasing of raw materials	38	38	—
<b>Total</b>	<b>252</b>	<b>252</b>	<b>—</b>

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The equipment refinement project improves the different parts of production process:

i) Iron-making process

This is expected to be completed in April 2006. the annual production capacity for making iron will be increased from 200,000 tonnes to 400,000 tonnes. This means the Group can totally use iron ore to produce molten iron in the steel making process rather than partially using scrap steel. This allows the Company to fully utilize the benefit from the iron ore to be sourced from the Indonesian iron ore mine beneficially owned by Mr. Dong, the chairman and substantial shareholder of the Company, at below market price. The arrangement is a Connected Transactions which was approved by resolution of extraordinary general meeting held in January 2006. Furthermore, using iron ore can save electricity cost and purchase cost for coal since coal gas is produced as by-product during the iron-making process in blast furnace.

ii) Steel-making and rolling process

This is expected to be completed in second quarter of 2006. This can help to improve the product quality, increase production efficiency and enhance cost-saving.

In 2006, the management will try to focus on the equipment refinement project as explained above which will lead to further increase in the production volume and market share of the Group. Therefore, the development and production of pearlite project will be delayed.