Notes to Financial Statements

31 December 2005

1. CORPORATION INFORMATION, GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

Corporation information

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 registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Group is located at 4 Third Street, Jinshui District, Zhengzhou, Henan Province, the People's Republic of China (the "PRC"). The principal place of business of the Company is Room 3504, 35th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The principal activities of the Company are investment holding and trading of iron ore. The Group is principally engaged in the manufacture and sale of special steel products in the PRC. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 May 2005 (the "Listing").

In the opinion of the directors, Easyman Assets Management Limited ("Easyman"), a company incorporated in the British Virgin Islands and is wholly owned by Mr. Dong Shutong, is the ultimate holding company of the Group.

Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Stock Exchange, the Company acquired the entire issued share capital of Infonics International Limited ("Infonics"), a company incorporated in the British Virgin Islands ("BVI"), which is the then immediate holding company of the subsidiaries set out in note 14 to the financial statements, on 29 April 2005, and thereby became the holding company of the Group. Further details of the Group Reorganisation are also set in the prospectus (the "Prospectus") of the Company dated 9 May 2005.

Basis of presentation

The Group Reorganisation involved companies under common control and, the Group is regarded and accounted for as a continuity group. Accordingly, the consolidated financial statements have been prepared using the pooling of interests method of accounting. On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the two years ended 31 December 2004 and 2005, rather than from the date of their acquisitions on 29 April 2005. Accordingly, the consolidated income statements and cash flows of the Group for the two years ended 31 December 2004 and 2005 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation/registration, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2005. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The results of subsidiaries established or dissolved during the year are consolidated from or to their effective dates of establishment or dissolution. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intragroup transactions and balances have been eliminated on consolidation.

Minority interests represent interests not held by the Group in the results and net assets of the Company's subsidiaries.

Impact of issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these IFRSs are effective for annual periods beginning on or after 1 January 2006:

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	Net Investment in a Foreign Operation
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective IFRSs (Continued)

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Subsidiaries

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

In the Company's financial statements, interests in subsidiaries are stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reevaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss (Continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue from the sale of goods

— Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

Interest income

— Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income

— Revenue is recognised when the shareholders' rights to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 to 25 years
Plant and machinery	8 to 15 years
Office equipment	3 to 5 years
Motor vehicles	5 years

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed these recoverable amounts, assets are written down to their recoverable amounts.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Construction in progress

Construction in progress represents property, plant and equipment under construction and is stated at cost less any impairment losses. The construction period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment investment when it is completed and ready for its intended use.

Land use rights

Land use rights are stated at costs less accumulated amortisation and any impairment losses. Land use rights are amortised on the straight-line basis over the unexpired period of the rights.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is calculated as the higher of its value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Trade and other receivables

Trade receivables, which generally have terms ranging from 30 to 60 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, and an appropriate proportion of overheads.

Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms ranging from 30 to 60 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Other payables are recognised and carried at cost.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when liabilities are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (that is, assets that necessarily take a substantial period of time to get ready for their intended use), are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Other borrowing costs are recognised as expenses in the period in which they are incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the year.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents a movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Foreign currencies transactions

The functional currencies of the Company and its subsidiaries incorporated outside the PRC are Hong Kong dollars ("HK$") and US dollars ("US$"). The functional currency of the PRC subsidiaries is Renminbi ("RMB"). The Group is measured using the currency of the primary economic environment in which the Group operates. The financial statement is presented in RMB, which is the Group's functional and presentation currency.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into RMB at the applicable rates of exchange ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separated component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operating is recognised in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and are not restricted as to use. Cash on hand and in banks are carried at cost.

For the purpose of the consolidated cash flow statements, cash and cash equivalents consist of cash on hand and unrestricted deposits in banks.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS

The preparation of the financial statements in conformity with the IFRS requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes to Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS (Continued)

The following judgements have the most significant effect on the amounts recognised in the financial statements.

(a) Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. The pricing option model takes into account, as a minimum, the following factors in estimating the fair value of the cost of equity-settled transactions:

(a) the exercise price of the option;

(b) the life of the option;

(c) the current price of the underlying shares;

(d) the expected volatility of the share price;

(e) the dividends expected on the shares;

(f) the risk-free rate for the life of the option; and

(g) the expected early exercise of the option, if any.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The Group's management estimates the number of equity instruments that will ultimately vest. Should the estimates including other relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statements and share option reserve. The share-based payments recognised for the year ended 31 December 2005 amounted to RMB1,448,000 (2004: Nil).

(b) Provision for bad and doubtful debts

Provision for bad and doubtful debts is made based on assessment of the recoverability of trade receivables. The identification of bad and doubtful debts requires management judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables, bad and doubtful debt expenses and write back in the period in which such estimate has been changed.

(c) Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to Financial Statements

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4. SEGMENT INFORMATION

The principal activities of the Group are manufacture and sale of special steel products to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business or geographical segment is provided.

5. REVENUE AND OTHER INCOME

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.

		Group	
	Note	**2005 RMB'000**	2004 RMB'000
Sale of goods:			
Bearing steel		**783,826**	642,982
Spring steel		**47,384**	69,303
Carbon structure steel and gear steel		**6,319**	54,347
Pig iron		**—**	16,860
		837,529	783,492
Less: Government surcharges		**—**	(252)
Revenue		**837,529**	783,240
Interest income from bank loans		**1,852**	1,131
Sales of scrap materials		**1,092**	291
Government grants	(a)	**11,714**	6,150
Recovery debtors which had been written off in prior years		**—**	3,777
Exchange gain		**417**	—
Others		**2,070**	4,205
Other income		**17,145**	15,554
Total revenue		**854,674**	798,794

Note:

(a) The Group received government grants in the form of electricity subsidies and environmental protection subsidies for its contribution and development in Gongyi City, Zhengzhou, the PRC.

There are no unfulfilled conditions or contingencies attaching to these grants.

Notes to Financial Statements

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6. FINANCE COSTS

	Group	
	2005 **RMB'000**	2004 RMB'000
Interest on bank loans	**22,127**	19,593
Bank charges	**482**	414
	22,609	20,007

7. PROFIT BEFORE INCOME TAX

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

	Note	**2005** **RMB'000**	2004 RMB'000
Staff costs (including directors', and senior executives' emoluments as set out in note 8):			
Salaries and other staff costs		**19,533**	14,965
Retirement benefits:			
defined contribution fund		**2,202**	1,472
Equity-settled share-based payments	28	**1,448**	—
Total staff costs		**23,183**	16,437
Interest on bank loans repayable within one year		**22,127**	19,593
Bank charges		**482**	414
Finance costs		**22,609**	20,007
Costs of inventories sold		**677,174**	626,911
Research and development costs		**490**	514
Auditors' remuneration		**1,688**	63
Depreciation of property, plant and equipment		**42,852**	45,409
Amortisation of land use rights		**305**	168
Loss/(gain) on disposal of property, plant and equipment		**22**	(9)
Reversal of provision for bad and doubtful debts		**(1,103)**	(775)
Minimum lease payments under operating leases in respect of land and buildings		**877**	316

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Fees	**2,155**	—
Basic salaries and other benefits	**225**	195
Pension scheme contributions	**14**	4
Equity-settled share-based payments	**826**	—
	3,220	199

During the year, certain directors were granted share options, in respect of their services to the Group, under the Company's share option scheme, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

	2005	2004
	RMB'000	RMB'000
Executive directors:		
Mr. Dong Shutong	**817**	17
Ms. Lee Han Yau, Florence	**833**	182
Mr. He Weiquan	**681**	—
Mr. Song Wenzhou	**234**	—
Mr. You Jinzhou	**95**	—
Non-executive director:		
Mr. Yang Tianjun	**140**	—
Independent non-executive directors:		
Mr. Bai Baohua	**140**	—
Mr. Huang Changhuai	**140**	—
Mr. Wong Chi Keung	**140**	—
Total	**3,220**	199

All directors' emoluments fell within the range of nil to HK$1 million.

The remuneration package of each director of the Company is determined with reference to his duties and responsibilities in the Company.

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION (Continued)

During the year ended 31 December 2005, all the five highest paid individuals of the Group are the Company's directors (2004: two, including one director for the four months ended 31 December 2004 who was appointed as director effective from 31 August 2004). Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining three non-director, highest paid employees for the year ended 31 December 2004 are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries and other benefits	**—**	1,289
Pension scheme contributions	**—**	7
	—	1,296

All the non-director, highest paid employees' remuneration fell within the range of nil to HK$1 million.

During the year ended 31 December 2005, no emoluments were paid by the Group to the directors or the other non-director, highest paid employees, as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. INCOME TAX EXPENSES

Hong Kong taxable profit has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Hence, the applicable Hong Kong corporate income tax rate of the Company which operates in Hong Kong is 17.5% based on existing legislation. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for 2005 and 2004.

The applicable income tax rate of Zhengzhou Yongtong Special Steel Co., Ltd. ("Yongtong Special Steel") and Zhengzhou Yongtong Scrap Steel Co., Ltd. ("Yongtong Scrap Steel"), subsidiaries of the Group, is 33% for the years ended 31 December 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 an 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 years ended 31 December 2004 and 31 December 2005, and is entitled to a 50% reduction in 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 for the years ended 31 December 2005 and 2004.

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9. 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:

	2005 RMB'000	2004 RMB'000
Accounting profit	**122,124**	127,564
Non-deductible tax losses of subsidiaries and the holding company	**7,722**	2,912
	129,846	130,476
Tax at an applicable tax rate of 33%	**42,849**	43,057
Tax effect of tax exemption	**(42,849)**	(43,057)
Income tax expense before minority interests	**—**	—

10. DIVIDENDS

	Notes	**2005 RMB'000**	2004 RMB'000
Declared prior to the listing on the Stock Exchange	(a)	**31,800**	—
Interim — HK$3 cents (2004: Nil) per ordinary share	(b)	**15,605**	—
Proposed final — HK$4.2 cents (2004: Nil) per ordinary share	(c)	**21,689**	—
		69,094	—

Notes:

(a) On 20 April 2005, Yongtong Special Steel declared a dividend of RMB33,000,000 to Infonics. On 29 April 2005, Infonics declared a dividend of HK$30,000,000 to the Company. On the same day, the Company declared a dividend of HK$30,000,000 (to Easyman, the ultimate holding company of the Group.

(b) Pursuant to a resolution of the board of directors of the Company dated 21 September 2005, the Company declared and paid an interim dividend of HK$0.03 per share, totalling HK$15 million.

(c) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements

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11. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

		2005	2004
		RMB'000	RMB'000
Net profit for the year attributable to ordinary equity holders of the Company		**122,141**	127,653
		Number of shares	
	Note	**2005**	2004
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	(a)	**430,000,000**	320,000,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year		**1,855,814**	—
Weighted average number of ordinary shares used in the diluted earnings per share calculation		**431,855,814**	320,000,000

Note:

(a) The weighted average number of ordinary shares used in the calculation of basic earnings per share for the year ended 31 December 2004 is based on the assumption that the 320,000,000 shares issued as at 2 May 2005 had been in issue throughout the year ended 31 December 2004.

Notes to Financial Statements

31 December 2005

12. 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 all employees of the companies 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 statements 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 to the MPF Scheme.

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

Group:

	Notes	**Buildings** RMB'000	**Plant and machinery** RMB'000	**Office equipment** RMB'000	**Motor vehicles** RMB'000	**Total** RMB'000
Cost:						
At 1 January 2004		97,156	558,572	4,204	8,293	668,225
Additions		9,322	11,406	786	1,612	23,126
Transferred from construction in progress	15	2,691	10,153	—	—	12,844
Disposals		—	—	—	(113)	(113)
At 31 December 2004 and 1 January 2005		109,169	580,131	4,990	9,792	704,082
Additions		459	829	3	2,591	3,882
Transferred from construction in progress	15	127	366	—	—	493
Disposals		—	(512)	—	(269)	(781)
As at 31 December 2005		109,755	580,814	4,993	12,114	707,676
Accumulated depreciation and provision for impairment losses:						
At 1 January 2004		10,960	54,515	2,001	4,208	71,684
Charge for the year		5,133	37,765	652	1,859	45,409
Disposals		—	—	—	(42)	(42)
At 31 December 2004 and 1 January 2005		16,093	92,280	2,653	6,025	117,051
Charge for the year		4,581	36,075	776	1,420	42,852
Disposals		—	—	—	(135)	(135)
At 31 December 2005		20,674	128,355	3,429	7,310	159,768
Net carrying amount:						
At 31 December 2005		89,081	452,459	1,564	4,804	547,908
At 31 December 2004		93,076	487,851	2,337	3,767	587,031

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company:

	Office equipment RMB'000
Cost:	
At 11 March 2004 (date of incorporation)	—
Additions	390
At 31 December 2004, 1 January 2005 and 31 December 2005	390
Accumulated depreciation:	
At 11 March 2004 (date of incorporation)	—
Charge for the year	51
At 31 December 2004 and 1 January 2005	51
Charge for the year	137
At 31 December 2005	188
Net carrying amount:	
At 31 December 2005	202
At 31 December 2004	339

As at 31 December 2005, land use rights, certain buildings and plant and machinery of the Group with a carrying value of RMB422,001,000 (2004: RMB246,583,000) in aggregate were pledged to banks to secure bank loans and notes payable amounted to RMB135,000,000 and RMB92,917,000, respectively (2004: RMB65,000,000 and RMB60,000,000), as set out in notes 21(a) and 22(a).

Notes to Financial Statements

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14. INTERESTS IN SUBSIDIARIES

	Company 2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**322,204**	—
Due from a subsidiary	**232,379**	—
Due to a subsidiary	**(674)**	—
	553,909	—

The amounts due from/to a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Infonics	British Virgin Islands/ Hong Kong	US$10,001	100%		Investment holding
Group Rise Trading Limited	British Virgin Islands/ Hong Kong	US$1		100%	Dormant
Yongtong Special Steel	PRC	RMB269,800,000		100%	Manufacture and sale of special steel products
Yongtong Scrap Steel	PRC	RMB3,000,000		95%	Trading of scrap steel

15. CONSTRUCTION IN PROGRESS

	Note	Group 2005 RMB'000	2004 RMB'000
At beginning of year		**4,709**	9,194
Additions		**114,820**	8,359
Transferred to property, plant and equipment	13	**(493)**	(12,844)
At end of year		**119,036**	4,709

Notes to Financial Statements

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16. LAND USE RIGHTS

		Group	
	Note	**2005** **RMB'000**	2004 RMB'000
Cost:			
At beginning and end of year		**6,160**	6,160
Accumulated amortisation:			
At beginning of year		**168**	—
Provided for the year		**305**	168
		473	168
Less: Current portion reclassified to prepayments, deposits and other receivables	20	**305**	305
Net carrying amount at end of year		**5,382**	5,687

As at the balance sheet dates, the Group's land use rights were pledged to secure bank loans and notes payable to the extent as set out in note 13.

17. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		Group		Company	
	Note	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Cash and bank balances		**15,232**	5,159	**12,166**	3
Time deposits		**153,217**	50,000	**—**	—
		168,449	55,159	**12,166**	3
Less: Pledged time deposits for notes payable	22(a)	**(153,217)**	(50,000)	**—**	—
Cash and cash equivalents		**15,232**	5,159	**12,166**	3

The above time deposits as at 31 December 2005 were pledged to banks to secure notes payable of RMB202,917,000 (2004: RMB100,000,000) as set out in note 22(a).

The pledged time deposits bear interest at 2.07% (2004: 1.89%) per annum.

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18. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at the balance sheet date, based on the due date, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**69,641**	67,450
91 to 180 days	**15,199**	13,862
181 to 270 days	**2,104**	1,613
271 to 365 days	**78**	37
1 to 2 years	**113**	646
2 to 3 years	**499**	37
Over 3 years	**461**	1,233
	88,095	84,878
Less: Provision for bad and doubtful debts	**(813)**	(1,916)
	87,282	82,962

The above trade and notes receivables balances are unsecured, interest-free and are generally on term of 30 to 60 days.

	2005	2004
	RMB'000	RMB'000
Trade receivables	**68,996**	69,218
Notes receivable	**18,286**	13,744
	87,282	82,962

As at 31 December 2004, notes receivable of RMB4,284,000 was pledged to banks to secure notes payable of RMB4,284,000 as set out in note 22(a).

Notes to Financial Statements

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19. INVENTORIES

	Group	
	2005 RMB'000	2004 RMB'000
Raw materials	**37,269**	35,230
Work in progress	**21,606**	13,276
Finished goods	**28,521**	7,441
Spare parts and consumables	**15,493**	7,768
	102,889	63,715
Less: Provision for inventories	**(2,009)**	(2,009)
	100,880	61,706

As set out in note 21(a), as at 31 December 2005, raw materials of RMB8,623,000 (2004: RMB8,178,000) were used as a lien for Yongtong Special Steel to obtain a trust receipt loan of US$920,000 (2004: US$650,000).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Prepayments to suppliers		**87,922**	22,861	**7,697**	1
Other prepayments		**8,130**	3,290	**—**	—
Other receivables		**6,601**	3,123	**292**	1,516
Current portion reclassified from land use rights	16	**305**	305	**—**	—
		102,958	29,579	**7,989**	1,517

The above balances are unsecured and interest-free and have no fixed term of repayment.

Notes to Financial Statements

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21. INTEREST-BEARING LOANS AND OTHER BORROWINGS

		Group	
	Notes	**2005 RMB'000**	2004 RMB'000
Bank loans:			
Secured	(a)	**142,425**	70,388
Guaranteed	(b)	**—**	190,870
Unsecured	(c)	**30,000**	—
		172,425	261,258
Other borrowings	(d)	**—**	15,200
Total		**172,425**	276,458
Repayable:			
Within one year		**172,425**	82,258
In the second year		**—**	179,000
In the third to fifth years, inclusive		**—**	15,200
		172,425	276,458
Portion classified as current liabilities		**(172,425)**	(82,258)
Long term portion		**—**	194,200

Notes:

(a) As at 31 December 2005, trust receipt bank loan of US$920,000 (equivalent to RMB7,425,000) (2004: US$650,000, equivalent to RMB5,388,000) with an interest rate of 7.90% per annum (2004: 5.76%) was secured by a lien over the Group's raw materials of RMB8,623,000 (2004: RMB8,178,000).

As at 31 December 2005, bank loans of the Group of RMB135,000,000 (2004: RMB65,000,000) with an interest rate of 5.58% per annum (2004: 5.49%) were secured by fixed charges over the Group's land use rights, certain buildings, plant and machinery with net book values of RMB422,001,000 (2004: RMB246,583,000) in aggregate as set out in note 13.

(b) As at 31 December 2004, these guaranteed bank loans denominated in RMB bore interest at commercial rates ranging from 5.31% to 9.56% per annum and are guaranteed by third parties.

(c) As at 31 December 2005, these unsecured bank loans denominated in RMB bore interest at commercial rates ranging from 5.58% to 6.14% per annum and are repayable by June 2006.

(d) As at 31 December 2004, Yongtong Special Steel had an unsecured loan of RMB15,200,000 from Gongyi Finance Development Company, a third party, bearing an interest rate of 5.31% per annum and fully repaid in December 2005.

Notes to Financial Statements

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22. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at the balance sheet date, based on the due date, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**135,185**	75,718
91 to 180 days	**139,410**	74,678
181 to 270 days	**3,465**	5,660
271 to 365 days	**1,192**	2,515
1 to 2 years	**4,182**	4,223
2 to 3 years	**2,166**	1,144
Over 3 years	**2,952**	8,791
	288,552	172,729

Trade payables are unsecured, interest-free and are generally on terms of 30 to 60 days.

		Group	
		2005	2004
	Note	**RMB'000**	RMB'000
Trade payables		**85,635**	68,445
Notes payable	(a)	**202,917**	104,284
		288,552	172,729

Note:

(a) As at 31 December 2005, notes payable of RMB202,917,000 (2004: RMB100,000,000) were secured by time deposits amounting to RMB153,217,000 (2004: RMB50,000,000) as set out in note 17. As at 31 December 2004, notes payable of RMB4,284,000 were secured by notes receivable amounting to RMB4,284,000 as set out in note 18.

As at 31 December 2005, notes payable of the Group of RMB92,917,000 (2004: RMB60,000,000) were secured by fixed charges over the Group's land use rights, certain buildings, plant and machinery with net book values of RMB422,001,000 (2004: RMB246,583,000) in aggregate as set out in note 13.

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23. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Advance from customers	**7,025**	15,569	**—**	—
Payables related to purchases of property, plant and equipment	**27,560**	40,625	**—**	—
Value-added tax payable	**10,264**	23,768	**—**	—
Accrued interest expenses	**265**	527	**—**	—
Payroll payable	**2,662**	2,526	**—**	—
Other payables and accrual	**5,017**	3,660	**1,685**	69
	52,793	86,675	**1,685**	69

Other payables and accruals are unsecured, interest-free and have no fixed terms of repayment.

24. AMOUNT DUE TO A SHAREHOLDER/SUBSIDIARY

An analysis of amount due to a shareholder is as follows:

	Group		Company	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Mr. Dong Shutong	**—**	427	**—**	—

An analysis of amount due to a subsidiary is as follows:

	Group		Company	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Infonics	**—**	—	**—**	2,860

The amounts due to a shareholder/subsidiary are unsecured, interest-free and have no fixed terms of repayment.

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25. DEFERRED TAX LIABILITIES

	Group	
	2005 RMB'000	2004 RMB'000
At beginning and end of year	**2,343**	2,343

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

26. SHARE CAPITAL

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

Notes:

(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. As at the date of incorporation, 1 share of HK$0.10 was allotted and issued at par and credited as fully paid to Mr. Dong Shutong.

(b) Pursuant to a directors' resolution of the Company dated 29 April 2005, the authorised share capital of the Company was 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.

Notes to Financial Statements

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26. SHARE CAPITAL (Continued)

Notes: (Continued)

(c) On 29 April 2005, Mr. Dong Shutong 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 Shutong.

(d) On 2 May 2005, a total of 250,000,000 ordinary shares of HK$0.1 each were allotted as fully paid at par to Easyman by way of capitalisation of the sum of HK$25,000,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being in credit as a result of the new shares issued to the public as detailed in (e) below.

(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.

27. RESERVES

Contribution surplus

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor. The contribution surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereon.

Share premium

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 RMB30,653,000, of HK$266,400,000 (equivalent to RMB282,384,000).

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium and contribution 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.

Capital reserves

Capital reserves are non-distributable. The capital reserve represents the additional contribution by the shareholder in 2003 amounted to RMB37,147,000 and the capitalisation of payable to the shareholder amounted to RMB85,000,000 in which Mr. Dong Shutong waived his rights and benefit in respect of the debts owing to him by Yongtong Special Steel in 2004.

Share option reserves

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to certain directors and senior employees as set out in note 28.

Notes to Financial Statements

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27. RESERVES (Continued)

Statutory surplus reserves 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%) of its profit after tax in accordance with the PRC GAAP to the statutory reserve fund ("SRF") until such reserve reaches 50% of its registered capital.

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.

Statutory public welfare fund

According to 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 transfer 5% to 10% of their profit after tax to, as determined in accordance with PRC GAAP the statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of liquidation of Yongtong Special Steel and Yongtong Scrap Steel. The fund must be used for capital expenditure on staff welfare facilities. Although such facilities are for staff use, they are owned by 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, Yongtong Special Steel is no longer required to provide for PWF.

28. SHARE OPTION SCHEME

On 2 May 2005, the Company approved a share option scheme (the "Share Option Scheme") under which the directors may, at their discretion, grant options to the directors and employees of the Company to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the directors, which shall be calculated at the time of grant of the relevant option and shall not be less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotation sheets on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing of the shares, where the Company has been listed for less than five business days as at the date of grant of the relevant option).

Notes to Financial Statements

31 December 2005

28. SHARE OPTION SCHEME (Continued)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Share Option Scheme will remain in force for the period of 10 years commencing on 2 May 2005. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-months period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Option Scheme.

At the Company's directors' meeting held on 30 July 2005, the Company granted certain employees under the Share Option Scheme a total of 25,000,000 share options to subscribe for the Company's shares of HK$0.1 each, at an exercise price of HK$1.07 per share, which was determined by the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. Share options do not confer rights on the holders to dividends or vote at shareholders' meetings.

The exercise period of the option will be from the date of acceptance of the option (i.e. 16 August 2005) up to 30 July 2015, both dates inclusive, which is in compliance with the terms of the share option scheme, subject to the following conditions.

The option will have a vesting schedule of 5 years whereby only 20% of the option shall be exercisable 12 months after 30 July 2005 and an additional 20% may be exercised by the grantee in each subsequent year until 30 July 2010 when 100% of the option may be exercised.

The timetable for exercising the option is set out as follows:

Exercise dates	Maximum percentage of options exercisable from the date thereof
30 July 2006	20%
30 July 2007	40%
30 July 2008	60%
30 July 2009	80%
30 July 2010	100%

Notes to Financial Statements

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28. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	At 1 January 2005	Grant during the year	Exercised during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options**	Exercise period of share options	Exercise price of share options*** HK$	Price of Company's shares**** At grant date of options HK$	Price of Company's shares**** At exercise date of options HK$
Directors										
Mr. Dong Shutong*	—	5,000,000	—	—	5,000,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Mr. He Weiquan	—	4,250,000	—	—	4,250,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Ms. Lee Han Yau, Florence	—	3,000,000	—	—	3,000,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Mr. Song Wenzhou	—	1,275,000	—	—	1,275,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Mr. You Jinzhou	—	1,275,000	—	(1,275,000)	—	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
	—	14,800,000	—	(1,275,000)	13,525,000					
Other employees	—	10,200,000	—	—	10,200,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Total	—	25,000,000	—	(1,275,000)	23,725,000					

Notes:

* According to the Share Option Scheme, the grant to Mr. Dong Shutong, a substantial shareholder of the Company, is subject to the approval of the Company's shareholders at the forthcoming general meeting.

** The vesting periods of the share options are from the date of the grant until the commencement dates of the respective exercise periods.

*** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

**** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options.

The fair value of the share options granted during the year was RMB7,795,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into accounts the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	6.95
Expected volatility (%)	54.70
Historical volatility (%)	54.70
Risk-free interest rate (%)	3.78
Expected life of option (years)	10
Weighted average share price (HK$)	1.28

Notes to Financial Statements

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28. SHARE OPTION SCHEME (Continued)

The expected life of the options is based on historical data over the past 5 months and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

As at 31 December 2005, the Company had 23,725,000 share options outstanding under the Share Option Scheme, which represented approximately 4.7% of the Company's shares in issue as at 31 December 2005. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 23,725,000 additional ordinary shares of the Company and an additional share capital of HK$2,373,000 and share premium of HK$23,013,000 before share issue expenses.

29. FINANCIAL INSTRUMENTS MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main financial risks faced by the Group are cash flow interest rate risk, raw materials' price risk, credit risk and liquidity 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 hedge interest rate fluctuations.

In the opinion of the directors, the Group has no significant interest rate risk due to the short maturity of the Group's interest-bearing loans and other borrowings.

Raw materials' price risk

Raw materials accounted for approximately 62% of the total cost of sales for the year ended 31 December 2005 (2004: 62%). The Group's operation may be exposed mainly to the volatility of the price of raw materials, which mainly included iron ore, scrap steel and coke. The price of these raw materials may be influenced by numerous factors and events which are beyond the Group's control. These factors and events include world demand and supply, forward selling activities and other macro-economic factors such as expectations regarding inflation, interest rates, currency exchange rates as well as general global economic conditions. These factors and events may have an adverse effect on the Group's operational activities.

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29. FINANCIAL INSTRUMENTS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Raw materials' price risk (Continued)

The Group does not involve in any hedging transactions or any alternative measures to manage the potential raw materials' price risk.

Credit risk

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

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties 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. The Group's sales to its top five customers accounted for approximately 43% (2004: 43%) of its total sales for the year. Failure to secure continued demand from these principal customers would adversely affect the Group's financial position.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Foreign currency risk

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to the Group's operations in the PRC.

The Group has foreign currency risk as certain of its payables to suppliers and interest-bearing loans are denominated in foreign currencies, principally United States dollars. Fluctuations in the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the directors consider the Group has no significant foreign currency risk.

Liquidity risk

The Group's net current liabilities amounted to approximately RMB54,201,000 as at 31 December 2005 (2004: RMB112,683,000). The Group recorded a net cash inflow from operating activities of approximately RMB164,994,000 for the year ended 31 December 2005 (2004: RMB130,553,000). For the year ended 31 December 2005, the Group had a net cash outflow from investing activities of approximately RMB232,508,000 (2004: RMB69,690,000). The Group also recorded a net cash inflow from financing activities of approximately RMB77,904,000 for the year ended 31 December 2005 and a net cash outflow from financing activities of approximately RMB79,724,000 for the year ended 31 December 2004. The Group has recorded an increase in cash and cash equivalents of approximately RMB10,390,000 for the year ended 31 December 2005 but a decrease in cash and cash equivalents of approximately RMB18,861,000 for the year ended 31 December 2004.

Notes to Financial Statements

31 December 2005

29. FINANCIAL INSTRUMENTS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

With regard to 2006 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain external financing to meet its committed future capital expenditures. With regard to its future capital commitments and other financing requirements, the Company has already obtained several banking facilities up to an amount of RMB256 million subsequent to 31 December 2005.

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities from banks to meet its commitment over the foreseeable future in accordance with its strategic plan.

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 the 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.

30. RELATED PARTY TRANSACTIONS

(1) 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:

Name of related parties	Nature of transactions	2005 RMB'000	2004 RMB'000
Group			
The Refractory Materials Factory (note a)	Purchases of materials from the related party (note c)	**—**	3,390
Mr. Dong Shutong, Mr. Dong Shujie and Mr. Dong Shulai (note b)	Interest expenses (note d)	**—**	3
Company			
Yongtong Special Steel (note e)	Sales of materials to the related party (note g)	**7,899**	—
Infonics (note f)	Advance to the related party (note h)	**206,315**	—
Yongtong Special Steel (note e)	Guaranteed bank loans (note i)	**205,000**	—

Notes to Financial Statements

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30. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) The Refractory Materials Factory was a former major shareholder of Yongtong Special Steel and was a collectively-owned enterprise controlled by Mr. Dong Shutong. Effective from 1 March 2004, the Refractory Materials Factory ceased to be a related party.

(b) Mr. Dong Shujie and Mr. Dong Shulai are relatives of Mr. Dong Shutong.

(c) The directors consider that the purchase transactions were carried out at 10% to 15% discounts 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 year ended 31 December 2004.

(d) Yongtong Special Steel issued unsecured, bearer coupons to a shareholder, related parties, employees and third party individuals during the period from 1993 to 2004. The coupons bore interest at a rate of 6% per annum and the principal and interest are repayable on the presentation of the coupons by the bearers. All these loans from individuals were settled as at 31 December 2004.

(e) Yongtong Special Steel is a subsidiary of the Company.

(f) Infonics is a subsidiary of the Company.

(g) The transaction was carried out based on normal commercial terms and agreed by the parties.

(h) The advance to the subsidiary is unsecured, interest-free and has no fixed term of repayment.

Had interest been charged on the outstanding amount due from the subsidiary, based on the official interest rate in Hong Kong quoted by the Hong Kong and Shanghai Banking Corporation Limited of approximately 2.50% (2004: 2.25%) per annum, the Company would have received an interest income, net of tax, of approximately RMB2,837,000 (2004: Nil) for the year ended 31 December 2005.

(i) The Company guaranteed the subsidiary's bank loans and bills payable free of charge.

In the opinion of the directors, all transactions above were conducted in the ordinary course of business.

(2) Compensation of key management personnel of the Group:

	2005 **RMB'000**	2004 RMB'000
Short term employee benefits	**2,380**	195
Post-employment benefits	**14**	4
Share-based payments	**826**	—
Total compensation paid to key management personnel	**3,220**	199

In the opinion of the directors, key management personnel of the Group consist of all the directors of the Company. Further details of directors' emoluments are included in note 8 to the financial statements.

Notes to Financial Statements

31 December 2005

31. PLEDGE OF ASSETS

Details of the Group's bank loans and trust receipts, which are secured by the assets of the Group, are included in notes 13, 16, 17, 18, 21 and 22 to the financial statements.

32. COMMITMENTS

	Group	
	2005	2004
	RMB'000	RMB'000
Future minimum lease rentals payable under non-cancellable operating leases expiring:		
Within a year	**576**	959
In the second to fifth years, inclusive	**—**	740
	576	1,699
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**—**	—
Contracted, but not provided for	**24,155**	—
	24,155	—

	Company	
	2005	2004
	RMB'000	RMB'000
Future minimum lease rentals payable under non-cancellable operating leases expiring:		
Within a year	**576**	—
In the second to fifth years, inclusive	**—**	—
	576	—

Notes to Financial Statements

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33. CONTINGENT LIABILITIES

As at balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guaranteed bank loans of:				
— Third parties	**—**	177,885	**—**	—
— Subsidiaries	**—**	—	**30,000**	—
Bills discounted or endorsed with recourse	**147,940**	161,553	**—**	—
	147,940	339,438	**30,000**	—

The bank loans of the subsidiary Yongtong Special Steel, a subsidiary of the Company, amounting to RMB30,000,000 were guaranteed by the Company.

34. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2005:

(a) Pursuant to an extraordinary general meeting of the Company held on 19 January 2006, the Company's independent shareholders approved the continuing connected transactions in relation to the sourcing of iron ore from East Grow Management Limited ("East Grow"), of which Mr. Dong Shutong, a director of the Company, is a beneficial shareholder. According to the master agreement entered into between East Grow and the Company (the "Master Agreement") in connection with the sourcing of iron ore, East Grow agreed to supply iron ore to the Group with effect from 1 January 2006 to 31 December 2008. According to the Master Agreement, the prices for these continuing connected transactions will be set on the basis of 90% of the market price, at maximum, and these transactions will be entered into in the usual and ordinary course of business of the Group. The annual cap for these transactions for years ending 31 December 2006, 2007 and 2008 will not exceed HK$318 million, HK$438 million and HK$588 million, respectively.

(b) Subsequent to 31 December 2005, the directors proposed a final dividend of HK$0.042 per ordinary share, totalling approximately HK$21,000,000 (equivalent to approximately RMB21,689,000), pertaining to 2005 for payment in 2006. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2006.