Business Review

The Group has achieved satisfactory performance despite the general market downturn in the People's Republic of China ("PRC") special steel market. The gross profit margin were improved by 3% and a slight decrease in net profit margin by 3% was resulted in the first half of 2006. The successful new placement of 78 million shares of the Group in April this year has greatly strengthened the Group's financial position and provided more resources for the Group to enhance its leading position in the special steel market in the PRC.

During the period, bearing steel remained as the main source of income of the Group. Its contribution to the Group's turnover accounted for 90% of the Group's turnover in the first half of 2006. When compared to the first half of 2005, sales volume of special steel products decreased by 2% to approximately 114,435 tonnes in the first half of 2006. This was mainly due to the suspension of production for two months in the first half of 2006 to connect the new parts of equipment refinement project to our existing plant and equipments.

Aiming at enhancing the production capacity and improvement in the production efficiency, the equipment refinement project has progressed as planned during the period and was subsequently completed in July 2006. The Group also raised new bank loans (trust receipt loans) in Hong Kong of US$5.9 million (equivalent to RMB47.5 million) for purchase of imported iron ore during the period. With the increased equity from new placement and retained earning, the gearing ratio decreased from 28% as at 31 December 2005 to 27% as at 30 June 2006.