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TURNOVER AND SALES VOLUME

Major products of the Group were bearing steel and spring steel. The tables below set out the sales volume and turnover of our major product for the periods indicated:

Sales Volume

	For the six months ended 30 June			
	2006		2005	
	(tonnes)	**%**	(tonnes)	%
Bearing Steel	**103,162**	**90%**	107,797	93%
Spring Steel	**10,256**	**9%**	8,355	7%
Carbon Structure Steel & Gear Steel	**1,017**	**1%**	290	0%
Total	**114,435**	**100%**	116,442	100%

Turnover

	For the six months ended 30 June			
	2006		2005	
	RMB'000	**%**	RMB'000	%
Bearing Steel	**338,690**	**90%**	391,144	92%
Spring Steel	**32,905**	**9%**	32,211	8%
Carbon Structure Steel & Gear Steel	**3,275**	**1%**	1,061	0%
Total	**374,870**	**100%**	424,416	100%

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The Group's turnover in the first half of 2006 decreased by RMB49.5 million, or 12%, to approximately RMB374.9 million (2005 corresponding period: RMB424.4 million). This decrease was principally due to the decrease in sales volume.

The Group's sales of steel products in the first half of 2006 decreased by 2,007 tonnes, or 2%, to approximately 114,435 tonnes (2005 corresponding period: 116,442 tonnes). With the self-developed technology and flexible production equipment, the Group mainly focused on producing bearing steels and spring steels which accounted for 90% and 9% of the total turnover respectively.

During the first half of 2006, steel prices in general has started to rebound from its lowest point since November 2005. However the average steel prices are much higher in the first half of 2005 than the prices in the second half of 2005. The average unit selling price per tonne in the first half of 2006 decreased by RMB369, or 10%, to RMB3,276 (2005 corresponding period: RMB3,645).

COST OF SALES

The cost of sales in the first half of 2006 decreased by RMB50 million, or 15%, to approximately RMB288.4 million (2005 corresponding period: RMB338.4 million).

The unit cost of sales in the first half of 2006 decreased by RMB386 per tonne, or 13% to RMB2,520 per tonne (2005 corresponding period: RMB2,906).

The decrease in cost of sales was mainly due to the management effort in implementing different cost-saving policies for purchase of raw materials mainly iron ore. During the period, we purchased iron ore from the local mines in Dengfeng and Luanchuan at prices lower than market price (RMB174 per tonne and RMB420 per tonne respectively). The Group commenced the continuing connected transaction in relation to the sourcing of iron ore from East Grow Management Limited, of which Mr. Dong Shutong, Chairman and a major beneficial shareholder of the Company, is a beneficial shareholder, at FOB price of USD28 (equivalent to RMB225) per tonne, thereby reducing the effect of 71.5% and 19% increase in

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international market price effective from 1 April 2005 to 31 March 2006 and from 1 April 2006 to 31 March 2007 respectively. Furthermore, due to the downturn in the generic steel industry, there are decrease in the market price of scrap steel, coke and alloy in the first half of 2006.

The table below shows a breakdown of our total production costs for the periods indicated:

Cost of sales

	For the six months ended 30 June			
	2006		2005	
	RMB'000	**%**	RMB'000	%
Raw Materials	**160,916**	**56%**	208,448	62%
Fuel	**65,084**	**23%**	67,124	20%
Utilities	**33,412**	**12%**	35,141	10%
Depreciation	**20,957**	**7%**	21,286	6%
Staff Cost	**6,670**	**2%**	6,247	2%
Repair	**1,000**	**0%**	1	0%
Others	**315**	**0%**	169	0%
	288,354	**100%**	338,416	100%

GROSS PROFIT

As a result of the factors discussed above, the gross profits in the first half of 2006 increased by RMB0.5 million, or 1%, to RMB86.5 million (2005 corresponding period: RMB86.0 million).

The unit gross profit in the first half of 2006 increased by RMB17 per tonne, or 2%, to RMB756 per tonne (2005 corresponding period: RMB739 per tonne).

The Group's gross profit margin in the first half of 2006 increased by 3% to 23% (2005 corresponding period: 20%).

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OTHER INCOME

Other income in the first half of 2006 increased by RMB5.0 million, or 3.8 times, to RMB6.3 million (2005 corresponding period: RMB1.3 million). This is mainly due to the additional interest income and write-back of unclaimed long-outstanding payable balances aged more than 3 years of RMB1.9 million and RMB2.6 million respectively.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs in the first half of 2006 increased by RMB9.8 million, or 2.8 times, to RMB13.3 million (2005 corresponding period: RMB3.5 million). This is mainly due to the additional transportation cost and marketing expenses of RMB9.2 million and RMB0.5 million respectively.

ADMINISTRATIVE COSTS

Administrative costs in the first half of 2006 increased by RMB7.0 million, or 76%, to RMB16.2 million (2005 corresponding period: RMB9.2 million). This is mainly due to the additional staff cost, professional fee and depreciation cost of RMB3.2 million, RMB0.9 million and RMB0.8 million respectively incurred after listing to cope with the statutory requirement in Hong Kong.

FINANCE COSTS

Finance costs in the first half of 2006 decreased by RMB1.0 million, or 9%, to RMB10.2 million (2005 corresponding period: RMB11.2 million). This is mainly due to the decrease in interest expenses for bank loans which is consistent with the decrease in our average balance of bank loans in the first half of 2006.

PROFIT BEFORE INCOME TAX

As a result of the factors discussed above, the profit before income tax in the first half of 2006 decreased slightly to RMB53.2 million (2005 corresponding period: RMB63.4 million).

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The unit profit before tax profit in the first half of 2006 was RMB465 per tonne (2005 corresponding period: RMB544 per tonne).

The Group's profit before tax margin in the first half of 2006 decreased by 1% to 14% (2005 corresponding period: 15%).

INCOME TAX EXPENSE

Income tax expense in the first half of 2006 increased by RMB8.1 million, or 100%, to RMB8.1 million (2005 corresponding period: Nil). As a percentage of profit before income tax, income tax expense increased to 15.3% in the first half of 2006, from nil in corresponding period in 2005. The increase in the effective tax rate in the first half of 2006 was mainly derived since Yongtong Special Steel was re-registered as a wholly-owned foreign enterprise which enjoys the whole-exemption from the income tax for the years ended 31 December 2004 and 2005, and is entitled to a 50% reduction (ie. 15% tax rate) from income tax of the PRC for the year ending 31 December 2006, 2007 and 2008.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

As a result of the factors discussed above, the profit attributable to shareholders in the first half of 2006 decreased slightly to RMB45.1 million (2005 corresponding period: RMB63.4 million).

The unit net profit in the first half of 2006 was RMB394 per tonne (2005 corresponding period: RMB544 per tonne).

The Group's net profit margin in the first half of 2006 decreased by 3% to 12% (2005 corresponding period: 15%).

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KEY FINANCIAL RATIOS

	Notes	**Six months ended 30 June 2006**	Year ended 31 December 2005
Current ratio	1	**117%**	89%
Inventories turnover days	2	**98 days**	54 days
Debtor turnover days	3	**45 days**	38 days
Creditor turnover days	4	**186 days**	156 days
Interest cover	5	**8 times**	7 times
Gearing ratio	6	**27%**	28%

Notes:

1. $\frac{\text{Current assets}}{\text{Current liabilities}} \times 100\%$

2. $\frac{\text{Inventories}}{\text{Cost of sales}} \times$ 181 days or 365 days

3. $\frac{\text{Trade and notes receivables}}{\text{Turnover}} \times$ 181 days or 365 days

4. $\frac{\text{Trade and notes payables}}{\text{Cost of sales}} \times$ 181 days or 365 days

5. $\frac{\text{Profit before interest and tax}}{\text{Net interest expense}}$

6. $\frac{\text{Interest-bearing loans and other borrowings}}{\text{Equity attributable to the shareholders}} \times 100\%$

CONSTRUCTION IN PROGRESS

The construction in progress as at 1 January 2006 and 30 June 2006 were RMB119.0 million and RMB154.2 million, respectively, which increased by RMB35.2 million. This was mainly due to the addition of construction for refinement of production process to attain optimum production capacity which was financed by the net proceeds from the initial public offering in May 2005. The construction in progress was subsequently transferred to plant and equipments upon the completion in July 2006.

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CASH AND BANK BALANCES

The increase in cash and bank balances by approximately RMB176.2 million to RMB344.7 million as at 30 June 2006 compared to that as at 31 December 2005 was mainly due to the net proceeds of approximately HK$164.3 million (equivalent to RMB169.7 million) received from the completion of placing 78 million new shares in April 2006.

TRADE AND NOTES RECEIVABLES

The debtor turnover days increased from 38 days in 2005 to 45 days for the six months period ended 30 June 2006. As at 30 June 2006, trade and notes receivables balance increased by RMB4.9 million to RMB92.2 million. This was mainly due to the suspension of production due to the equipment refinement project for 2 months during the first half of 2006, the adjusted debtor turnover days will be decreased to 30 days if we adopt 121 days rather than 181 days in the calculation.

INVENTORIES

The inventories turnover days increased from 54 days in 2005 to 98 days for the six months period ended 30 June 2006. As at 30 June 2006, inventories balance increased by RMB54.7 million to RMB155.6 million. This was mainly due to the increase in raw materials (imported iron ore) and spare parts by RMB26.5 million and RMB22.5 million respectively in the preparation for the increase in production volume upon the completion of the equipment refinement project in July 2006 and the capital injection in Anlong Steel in the third quarter of 2006.

TRADE AND NOTES PAYABLES

The creditor turnover days increased from 156 days in 2005 to 186 days for the six months period ended 30 June 2006. As at 30 June 2006, trade and notes payables balance increased by RMB7.9 million to RMB296.5 million. This was mainly due to the increase in notes payable, which was used in financing the purchase payment, by RMB5.7 million.

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INTEREST-BEARING LOANS AND OTHER BORROWINGS

As at 30 June 2006, the total interesting-bearing loans and other borrowings increased by RMB50.1 million to RMB222.5 million. This was mainly due to the addition of trust receipt loans of US$5.9 million (equivalent to RMB47.5 million) for purchase of imported iron ore. The gearing ratio decreased from 28% as at 31 December 2005 to 27% as at 30 June 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our working capital has been principally sourced from cash generated from operations and short term debt. We also make prepayments to our suppliers which amounted to RMB100.0 million as at 30 June 2006.

As at 30 June 2006, the Group had current liabilities of RMB600.8 million, of which RMB222.5 million were interest-bearing loans and other borrowings repayable within one year, and RMB296.5 million were trade and notes payables in respect of purchase of raw materials.

FOREIGN CURRENCY EXPOSURE

Since July 2004, the Group has begun the purchase of imported iron ore from different countries such as Australia, Indonesia and India. All these contracts are in US$ and therefore lead the Group to foreign exchange exposure. As the US$ and RMB exchange rate is quite stable and the RMB is in a favourable trend now, no hedging is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and use necessary financial instruments for hedging purposes. Except for the trust receipt loan related to the imported iron ore of US$5.9 million (equivalent to RMB47.5 million), all other bank loans and other borrowings are in RMB.

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SECURITY

As at 30 June 2006, the Group had an aggregate banking facility of RMB463.8 million, which consisted of short term bank loans of approximately RMB222.5 million, notes payables of RMB208.6 million (secured by pledged deposit of RMB162.4 million) and unutilized bank facilities of USD4.1 million (equivalent to RMB32.7 million). The Group's banking facilities are secured by:

(i) certain prepaid land lease payments, certain buildings, plant and machinery situated in Gongyi factory with a net book value of approximately RMB415.1 million as at 30 June 2006; and

(ii) pledged deposits of RMB162.4 million.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 30 June 2006, the Group had capital commitments of approximately RMB14.0 million in respect of plant and equipment to be financed from internal resources of the Company.

As at 30 June 2006, there were contingent liabilities amounting to RMB306.5 million for the bills discounted or endorsed with recourse.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2006, the Group had approximately 1,700 employees, of whom 11 were management personnel. As at the same date, about 98% of our workforce had completed technical school or higher education.

The Group implemented remuneration distribution policy of linkage between duties and efficiency. The remuneration of an employee consists of a basic salary and a performance-based bonus. During the period, the staff costs of the Group amounted to RMB13.8 million (2005 corresponding period: RMB9.7 million).