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The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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 17 to the financial statements.

SEGMENT INFORMATION

The Group's turnover and profit for the year ended 31 December 2006 were mainly derived from the 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 for the year ended 31 December 2006.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 116.

An interim dividend of HK\$0.02 per ordinary share was declared on 18 September 2006 and paid on 25 October 2006. The Directors recommend the payment of a final dividend of HK\$0.03 per ordinary share in respect of the year to shareholders on the register of members on 13 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Further details of dividends are set out in note 11 to financial statements.

CLOSURE OF REGISTER OF MEMBERS

The book close dates of the Group's final dividend payment of HK\$0.03 per share for the year ended 31 December 2006 was set in the period from Friday, 8 June 2007 to Wednesday, 13 June 2007. The dividend is expected to be paid on Wednesday, 27 June 2007 to the shareholders whose names appear on the Company's Register of Members on Wednesday, 13 June 2007.

The register of members of the Company will be closed from Friday, 8 June 2007 to Wednesday, 13 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and be eligible to attend and vote at the Annual General Meeting to be held on Wednesday, 13 June 2007, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Branch Share Registrar and Transfer Office in Hong Kong, at shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 7 June 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial year is disclosed on page 4.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS

Details of movements in the Company's share capital, share options during the year are set out in notes 27, 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2004 Revision) of the Cayman Islands, amounted to RMB672,092,000.

Under the laws of the Cayman Islands, the share premium account and contributed surplus is 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. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their profits as reflected in the Mainland of the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the Mainland of the PRC. These profits differ from those that are reflected in the Group's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein accounted for 22%. Purchases from the Group's five largest suppliers accounted for 33% of the total purchases for the year and purchases from the largest supplier accounted for 10%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers and customers.

DIRECTORS

The Directors of the Company during the year and as at the date of the report were:

Executive Directors

Mr. Dong Shutong

Mr. He Weiquan

Ms. Lee Han Yau, Florence (resigned on 1 November 2006)

Mr. Lau Hok Yuk (appointed on 1 November 2006)

Mr. Song Wenzhou

Ms. Zhang Ming (appointed on 18 September 2006)

Mr. Zhao Ping (appointed on 18 September 2006)

Mr. Dong Chengzhe (appointed on 12 March 2007)

Non-executive Directors

Mr. Yang Tianjun

Independent Non-executive Directors

Mr. Bai Baohua

Mr. Huang Changhuai

Mr. Wong Chi Keung

The Company has received annual confirmation of independence from Mr. Bai Baohua, Mr. Huang Chuanghuai, Mr. Wong Chi Keung on 17 April 2007 and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company are set out on page pages 20 to 24.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective Director, for a term of three years.

None of the Directors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The remuneration of the Directors is determined by the Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Dong Shutong, being a beneficial shareholder of East Grow Management Limited ("East Grow"), was interested in a contract for the supplier of iron ore to the Group effective from 1 January 2006. Further details of the transaction undertaken in connection therewith are included in note 31 to financial statements. Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	Beneficial owner	293,288,000 (note 1)	50.69%

(ii) Long positions in the underlying shares of the Company attached to the share options granted by the Company

Name of Director	Options to subscribe for Shares (note 2)	Capacity in which interests are held	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	5,000,000	Beneficial owner	0.86%
Mr. He Weiquan	4,250,000	Beneficial owner	0.73%
Mr. Song Wenzhou	1,275,000	Beneficial owner	0.22%

Notes:

1. The shares are held directly by Easyman Assets Management Limited ("Easyman") which is wholly-owned by Mr. Dong Shutong ("Mr. Dong"). By virtue of the SFO, Mr. Dong is deemed to have beneficial interests in the above shares.
2. The above share options are unlisted equity-settled options granted pursuant to the Company's share option scheme adopted on 2 May 2005. Upon exercise of the options in accordance with such share option scheme, Company's shares of HK\$0.10 each are issuable

Save as disclosed above, as at 31 December 2006, none of the Directors and the chief executive of the Company and their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2006, shareholders (other than Directors or the chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Number of shares		Approximate percentage to the issued share capital of the Company	
	Long positions	Short positions	Long positions	Short positions
Easyman Assets Management Limited (Note 1)	293,288,000	Nil	50.69%	Nil
Penta Investment Advisers Ltd. (Note 2)	46,260,000	Nil	8.00%	Nil
OZ Management, L.L.C.	34,669,180	Nil	5.99%	Nil

Save as disclosed above, as at 31 December 2006, the Company has not been notified by any persons (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Note:

1. Easyman Assets Management Limited is wholly owned by Mr. Dong Shutong, chairman of the Company.
2. Penta Investment Advisers Ltd. is a company wholly owned by Mr. John Zwaanstra.

Share option scheme

Pursuant to an ordinary resolution passed on 2 May 2005, the Company adopted a share option scheme for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are valuable to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 2 May 2015.

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.

At the Company's Directors' meeting held on 30 July 2005, the Board of the Company were authorized to grant share options under the Company's share option scheme to certain executive Directors and senior managers. The details of the share options are as follows:

Name of Director	No. of share options			At 31 December 2006	Exercise price of share options* HK\$	Price of Company's shares at exercise date of options** HK\$
	At beginning of year	Exercised during the year	Lapsed during the year			
Mr. Dong Shutong	5,000,000	—	—	5,000,000	1.07	—
Mr. He Weiquan	4,250,000	—	—	4,250,000	1.07	—
Ms. Lee Han Yau, Florence***	3,000,000	(600,000)	(2,400,000)	—	1.07	1.35
Mr. Song Wenzhou	1,275,000	—	—	1,275,000	1.07	—
Sub-total for number of share options to Directors	13,525,000	—	—	10,525,000		
Other employees	10,200,000	—	(1,275,000)	8,925,000	1.07	—
Total	23,725,000	(600,000)	(3,675,000)	19,450,000		

Notes:

- * 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 shares of the Company as at the date of exercise of the share options is the Stock Exchange's closing price on the trading date immediately prior to the date on which the share options were exercised.
- *** Ms. Lee Han Yau, Florence resigned as a Director of the Company on 1 November, 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme as set out in note 29 to the financial statements, at no time during the year ended 31 December 2006 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

CONNECTED TRANSACTIONS

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 sourcing of iron ore from East Grow. 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 usual and ordinary course of business of the Group. The annual cap for these transactions for the year ended 31 December 2006 and years ending 31 December 2007 and 2008 will not exceed HK\$318 million, HK\$438 million and HK\$588 million, respectively.

During the year, the Company had purchased US\$3.5 million (approximately HK\$27.3 million) iron ore from East Grow.

Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

The independent non-executive Directors of the Company has reviewed the continuing connected transactions in 2006 and confirm that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole; and
- (4) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to financial statements.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 May 2005 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee consists of the three independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Bai Baohua and Mr. Huang Changhuai and Mr. Wong Chi Keung is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 10 April 2006 in compliance with the Code on Corporate Governance Practices.

The remuneration committee consists of the three independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Bai Baohua, Mr. Huang Changhuai and an executive Director, Mr. Dong Shutong.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

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Dong Shutong

Chairman

20 April 2007