Notes to Financial Statements

31 December 2006

1. CORPORATION INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2003 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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. 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 917 and 918, 9th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The principal activities of the Company are investment holding and the 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.

The shares of the Company were 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2006. 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 are 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 within the Group have been eliminated on consolidation.

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

Impact of new and revised International Financial Reporting Standards ("IFRSs")

The following new and revised IFRSs affect the Group and are adopted for the first time for the current period's annual financial statements.

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
IFRS 6	Exploration for and Evaluation of Mineral Resources
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 (effective for accounting periods beginning on or after 1 December 2005)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of new and revised International Financial Reporting Standards ("IFRSs") (continued)

The adoption of these new standards had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements during the year ended 31 December 2006.

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 2007:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006)
IFRIC-Int 8	Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006)
IFRIC-Int 9	Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 June 2006)
IFRIC-Int 10	Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006)
IFRIC-Int 11	IFRS2-Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
IFRIC-Int 12	Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
IAS 23 (revised)	Borrowing costs (effective for accounting periods beginning on or after 1 January 2009)

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will supersede IAS 14 *Segment Reporting*.

Except as stated above, the Group expects that the adoption of the 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 an entity whose financial and operating policies the Company controls, directly or indirectly, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2006, the Group did not hold any financial assets at fair value through profit or loss (2005: nil).

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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. Held-to-maturity investments, 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. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. As at 31 December 2006, the Group did not hold any held-to-maturity investments (2005: nil).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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. As at 31 December 2006, the Group did not hold any available-for-sale financial assets (2005: nil).

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.

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 the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)
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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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.

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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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 them 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends (continued)

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, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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.

Prepaid land lease payments

Prepaid land lease payments are stated at costs less accumulated amortisation and any impairment losses. Prepaid land lease payments are amortised on the straight-line basis over the unexpired period of the terms.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquirees' identifiable assets acquired, liabilities and contingent liabilities assessed as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "*Segment Reporting*".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

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 finance cost in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 schemes

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. Further details of the retirement benefits schemes are set out in note 13 to the financial statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 29. 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.

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 income statement over the expected useful life of the relevant asset by equal annual instalments.

Foreign currencies

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 statements are presented in RMB, which is the Group's functional and presentation currency.

Foreign currency transactions are initially recorded using the functional currency 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

On consolidation, the assets and liabilities of the Group's foreign entities 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 separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and its overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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.

Conversably, previously 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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 have a short maturity of generally within three months when acquired, and are not restricted as to use.

For the purpose of the balance sheets, 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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c); or

(e) 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 ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(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 option pricing 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 interest 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 reserves. The equity-settled share-based payments recognised for the year ended 31 December 2006 amounted to RMB2,295,000 (2005: RMB1,448,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS (CONTINUED)

(b) *Impairment of receivables*

Impairment of receivables is made based on assessment of the recoverability of 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 the 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.

4. SEGMENT INFORMATION

The principal activities of the Group are 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.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns and trade discounts.

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
Sale of goods:			
Bearing steel		**805,004**	783,826
Spring steel		**60,733**	47,384
Carbon structure steel & other steel		**4,758**	6,319
Pig iron		**9,301**	—
Revenue		**879,796**	837,529
Bank interest income		**5,049**	1,852
Sales of scrap materials		**1,226**	1,092
Government grants	(a)	**—**	11,714
Others		**3,278**	2,487
Other income		**9,553**	17,145
Total revenue		**889,349**	854,674

(a) In 2005, the Group received government grants in the form of electricity subsidies and environmental protection subsidies for its contributions and development in Gongyi City, Zhengzhou, the PRC.

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

6. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	RMB'000
Interest on bank loans and other borrowings	**23,420**	22,609

7. PROFIT BEFORE INCOME TAX

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

	Note	**2006 RMB'000**	2005 RMB'000
Staff costs (including Directors', and senior executives' emoluments as set out in note 8):			
Salaries and other staff costs		**21,697**	19,533
Retirement benefits scheme contributions		**2,869**	2,202
Equity-settled share-based payments	29	**2,295**	1,448
Total staff costs		**26,861**	23,183
Costs of inventories sold		**691,564**	677,174
Research and development costs		**453**	490
Auditors' remuneration		**2,147**	1,688
Depreciation of property, plant and equipment		**47,713**	42,852
Amortisation of prepaid land lease payments		**305**	305
Loss/(gain) on disposal of property, plant and equipment		**(17)**	22
Reversal of impairment of trade receivables		**(531)**	(1,103)
Reversal of provision for inventories		**(1,700)**	—
Minimum lease payments under operating leases in respect of land and buildings		**1,042**	877

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2006	2005
	RMB'000	RMB'000
Fees	**820**	560
Salaries, allowances and benefits in kind	**2,879**	1,820
Employee share option benefits	**1,288**	826
Pension scheme contributions	**19**	14
	5,006	3,220

In July 2005, 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 29 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above Directors' remuneration disclosures above.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Mr. Bai Baohua	**205**	140
Mr. Huang Changhuai	**205**	140
Mr. Wong Chi Keung	**205**	140
	615	420

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2006					
Executive directors:					
Mr. Dong Shutong	—	859	564	—	1,423
Mr. He Weiquan	—	715	480	—	1,195
Ms. Lee Han Yau, Florence	—	604	100	10	714
Mr. Lau Hok Yuk	—	124	—	2	126
Mr. Song Wenzhou	—	255	144	7	406
Ms. Zhang Ming	—	147	—	—	147
Mr. Zhao Ping	—	175	—	—	175
	—	2,879	1,288	19	4,186
Non-executive director:					
Mr. Yang Tianjun	205	—	—	—	205
	205	2,879	1,288	19	4,391

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Executive directors and a non-executive director (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2005					
Executive directors:					
Mr. Dong Shutong	—	512	305	—	817
Mr. He Weiquan	—	421	260	—	681
Ms. Lee Han Yau, Florence	—	637	183	13	833
Mr. Song Wenzhou	—	155	78	1	234
Mr. You Jinzhou	—	95	—	—	95
	—	1,820	826	14	2,660
Non-executive director:					
Mr. Yang Tianjun	140	—	—	—	140
	140	1,820	826	14	2,800

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

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Executive directors and a non-executive director (continued)

During the year ended 31 December 2006, the five highest paid individuals of the Group included four directors (2005: five). Information relating to these directors' emoluments has been disclosed above. The details of the remuneration of the remaining one (2005: nil) highest paid employee for 2006 is as follow:

	Group	
	2006	2005
	RMB'000	RMB'000
Basic salaries and other benefits	**355**	—
Pension scheme contributions	**7**	—
	362	—

All the non-director, highest paid employees' remuneration fell within the range of nil to HK$1,000,000.

9. INCOME TAX EXPENSES

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 2006 and 2005.

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% (30% of Enterprise Income Tax and 3% of local income tax) for the years ended 31 December 2006 and 2005.

9. INCOME TAX EXPENSES (CONTINUED)

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 in the PRC for the years ended 31 December 2004 and 31 December 2005, and is entitled to a 50% reduction of corporate income tax in the PRC for the year ended 31 December 2006 and years ending 31 December 2007 and 2008. In accordance with relevant tax laws and regulations in the PRC and pursuant to approval from the relevant local tax authority dated 6 September 2002, Yongtong Special Steel is fully exempted from the 3% attributable to local municipal income tax. Accordingly, Yongtong Special Steel was subject to PRC corporate income tax at an applicable income tax rate of 15% for the year ended 31 December 2006.

No provision for Yongtong Scrap Steel has been made as Yongtong Scrap Steel had no assessable profits for 2006 and 2005.

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
Provision for income tax in respect of profit for the period:			
Current			
— charge for the year		**17,444**	—
Deferred	26	**(112)**	—
Tax expense		**17,332**	—

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:

	2006 RMB'000	2005 RMB'000
Accounting profit	**107,574**	122,124
Loss of group companies not offset against taxable profit	**8,605**	7,722
	116,179	129,846
Tax at an statutory tax rate of 33%	**38,339**	42,849
Tax effect of:		
Tax exemption	**(21,269)**	(42,849)
Expenses not deductible for tax	**262**	—
Income tax expense	**17,332**	—

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB23,989,000 (2005: RMB50,253,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	Notes	**2006** **RMB'000**	2005 RMB'000
Declared prior to the listing on the Stock Exchange	(a)	**—**	31,800
Adjustment on proposed final dividend for 2005 — HK$4.2 cents per ordinary share	(b)	**3,387**	—
Interim — HK$2 cents (2005: HK$3 cents) per ordinary share	(c)	**11,829**	15,605
Proposed final — HK$3 cents (2005: HK$4.2 cents) per ordinary share	(d)	**17,153**	21,689
		32,369	69,094

Notes:

(a) On 20 April 2005, Yongtong Special Steel declared a dividend of RMB33,000,000 to Infonics International Limited ("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 (equivalent to RMB31,800,000) to Easyman, the ultimate holding company of the Group.

(b) On 14 June 2006, the shareholders at the annual general meeting approved the Company's declaration of 2005 final dividend of HK$0.042 per share, totalling HK$24,276,000 (equivalent to RMB25,076,000), including HK$3,276,000 (equivalent to RMB3,387,000) for the additional 78,000,000 ordinary shares issued on 3 May 2006 on a private placement.

(c) Pursuant to a resolution of the board of Directors of the Company dated 18 September 2006, the Company declared and paid an interim dividend of HK$0.02 (2005: HK$0.03) per share, totalling HK$11,560,000 (equivalent to RMB11,829,000) (2005: HK$15,000,000, equivalent to RMB15,605,000).

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. 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:

	2006	2005
	RMB'000	RMB'000
Profit for the year attributable to ordinary equity holders of the parent	**90,272**	122,141

	Number of shares	
	2006	2005
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**552,560,000**	430,000,000
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	**6,523,602**	1,855,814
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**559,083,602**	431,855,814

13. RETIREMENT BENEFITS SCHEMES

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. 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 statement 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.

14. 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 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 and 1 January 2006		109,755	580,814	4,993	12,114	707,676
Additions		2,121	17,008	1,038	2,545	22,712
Transferred from construction in progress	15	2,115	147,219	—	—	149,334
Disposals		—	—	(212)	(142)	(354)
As at 31 December 2006		113,991	745,041	5,819	14,517	879,368
Accumulated depreciation and provision for impairment losses:						
At 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 and 1 January 2006		20,674	128,355	3,429	7,310	159,768
Charge for the year		4,919	39,906	806	2,082	47,713
Disposals		—	—	(212)	(96)	(308)
At 31 December 2006		25,593	168,261	4,023	9,296	207,173
Net carrying amount:						
At 31 December 2006		88,398	576,780	1,796	5,221	672,195
At 31 December 2005		89,081	452,459	1,564	4,804	547,908

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:

	Office equipment RMB'000
Cost:	
At 1 January 2005	390
Additions	—
At 31 December 2005 and 1 January 2006	390
Additions	383
Disposals	(212)
At 31 December 2006	561
Accumulated depreciation:	
At 1 January 2005	51
Charge for the year	137
At 31 December 2005 and 1 January 2006	188
Charge for the year	143
Disposals	(212)
At 31 December 2006	119
Net carrying amount:	
At 31 December 2006	442
At 31 December 2005	202

As at 31 December 2006, certain leasehold land, and certain buildings and plant and machinery of the Group with a net carrying value of RMB396,581,000 (2005: RMB422,001,000) in aggregate were pledged to banks to secure bank loans amounted to RMB125,000,000 (2005: RMB135,000,000), as set out in note 25(a).

15. CONSTRUCTION IN PROGRESS

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
At beginning of year		**119,036**	4,709
Additions		**78,958**	114,820
Transferred to property, plant and equipment	14	**(149,334)**	(493)
At end of year		**48,660**	119,036

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
Carrying amount at 1 January		**5,687**	5,992
Recognised during the year		**(305)**	(305)
Carrying amount at 31 December		**5,382**	5,687
Current portion included in prepayments, deposits and other receivables	21	**(305)**	(305)
Non-current portion		**5,077**	5,382

The leasehold land is held under a long term lease and is situated in PRC.

As at the balance sheet dates, the Group's leasehold land was pledged to secure bank loans to the extent as set out in note 25(a).

17. INTERESTS IN SUBSIDIARIES

	Company 2006 RMB'000	Company 2005 RMB'000
Unlisted shares, at cost	**322,204**	322,204
Advances to subsidiaries	**536,902**	231,705
	859,106	553,909

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's Directors, these advances are considered as quasi-equity loans to the subsidiaries.

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	Percentage of equity interest attributable to the Group Indirect	Principal activities
Infonics	British Virgin Islands/ Hong Kong	US$10,001	100%		Investment holding
Yongtong Metallurgy Engineering Technology Company Limited	British Virgin Islands/ Hong Kong	US$1	100%		Dormant
Group Rise Trading Limited ("Group Rise")	British Virgin Islands/ Hong Kong	US$1		100%	Dormant
Yongtong Special Steel	PRC	RMB376,760,000		100%	Manufacture and sale of special steel products
Yongtong Scrap Steel	PRC	RMB3,000,000		95%	Trading of scrap steel

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

As at 31 December 2006, the Company's entire ordinary shares in Infonics and Group Rise were pledged to banks to secure bank loans amounting to US$24,500,000 (equivalent to RMB192,303,000), as set out in notes 25(b).

18. PREPAYMENTS

		Group	
	Notes	**2006** **RMB'000**	2005 RMB'000
Advances to Luoyang Yongan Special Steel Company Limited ("Yongan Special Steel", formerly known as Anyang Steel Group Luoyang Anlong Steel Company Limited "Anlong Steel")		**239,059**	46,633
Less: Current portion	(b)	**(67,329)**	(46,633)
Non-current portion classified as prepayments	(a)	**171,730**	—

Notes:

(a) On 11 June 2006, the Company, through its indirect wholly-owned subsidiary, Yongtong Special Steel, entered into a capital injection agreement ("Capital Injection") with Anyang Steel Group Company Limited, Luoyang State-owned Asset Committee ("LSAC") and Anlong Steel pursuant to which (i) Yongtong Special Steel conditionally agreed to inject an aggregate amount of RMB171,730,000 by way of contribution to the registered capital of Anlong Steel and (ii) LSAC conditionally agreed to make additional capital contribution of RMB75,000,000 in the form of a parcel of land to increase the registered capital of Anlong Steel. Upon completion of the Capital Injection, Yongtong Special Steel will be interested in approximately 51% of the enlarged registered capital of Anlong Steel. As set out in note 35(a), the Capital Injection was completed in January 2007 and Anlong Steel was renamed as Yongan Special Steel.

The Group has advanced RMB239,059,000 to Anlong Steel as at 31 December 2006 (2005: RMB46,633,000). In the opinion of the Directors, the amount of RMB171,730,000, which was unsecured and interest free, would be capitalised as registered capital of Anlong Steel subsequent to the balance sheet date upon completion of the Capital Injection.

(b) The balance mainly represents the interest-free advances to Yongan Special Steel, which are unsecured and repayable on demand.

19. INVENTORIES

	Group 2006 RMB'000	Group 2005 RMB'000
Raw materials	**172,214**	37,269
Work in progress	**2,839**	21,606
Finished goods	**31,241**	28,521
Spare parts and consumables	**22,783**	15,493
	229,077	102,889
Less: Provision for inventories	**(309)**	(2,009)
	228,768	100,880

As set out in note 25(a), as at 31 December 2005, raw materials of RMB8,623,000 were used as a lien for Yongtong Special Steel to obtain a trust receipt loan of US$920,000 (equivalent of RMB7,425,000).

20. 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 2006 RMB'000	Group 2005 RMB'000
Outstanding balances aged:		
Within 90 days	**139,270**	69,641
91 to 180 days	**4,929**	15,199
181 to 270 days	**3,352**	2,104
271 to 365 days	**—**	78
1 to 2 years	**358**	113
2 to 3 years	**19**	499
Over 3 years	**573**	461
	148,501	88,095
Less: Impairment for trade receivables	**(592)**	(813)
	147,909	87,282

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Group	
	2006	2005
	RMB'000	RMB'000
Trade receivables	**73,027**	68,996
Notes receivable	**74,882**	18,286
	147,909	87,282

As at 31 December 2006, notes receivable of RMB10,000,000 (2005: nil) were pledged to banks to secure bank loans amounting to RMB10,000,000 (2005: nil) as set out in note 25(a).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current portion of advances to Yongan Special Steel	18(b)	**67,329**	46,633	**—**	—
Prepayments to suppliers		**32,760**	41,289	**10,732**	7,697
Other prepayments		**1,318**	8,130	**—**	—
Other receivables		**7,130**	6,601	**3,699**	292
Current portion of prepaid land lease payments	16	**305**	305	**—**	—
		108,842	102,958	**14,431**	7,989

The above balances are unsecured and interest-free.

22. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**78,702**	15,232	**60,421**	12,166
Time deposits		**131,160**	153,217	**2,075**	—
		209,862	168,449	**62,496**	12,166
Less: Pledged time deposits for notes payable	23(a)	**(129,085)**	(153,217)	**—**	—
Cash and cash equivalents		**80,777**	15,232	**62,496**	12,166

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

The above pledged time deposits as at 31 December 2006 were pledged to banks to secure notes payable of RMB176,330,000 (2005: RMB202,917,000) as set out in note 23(a). The pledged time deposits bear interest at 2.07% (2005: 2.07%) per annum.

23. 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	
	2006	2005
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**139,560**	135,185
91 to 180 days	**131,040**	139,410
181 to 270 days	**5,207**	3,465
271 to 365 days	**3,846**	1,192
1 to 2 years	**4,064**	4,182
2 to 3 years	**1,127**	2,166
Over 3 years	**1,728**	2,952
	286,572	288,552

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

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
Trade payables		**110,242**	85,635
Notes payable	(a)	**176,330**	202,917
		286,572	288,552

Note:

(a) As at 31 December 2006, notes payable of RMB176,330,000 (2005: RMB202,917,000) were secured by time deposits amounting to RMB129,085,000 (2005: RMB153,217,000) as set out in note 22.

24. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**6,206**	7,025	**—**	—
Payables related to purchases of property, plant and equipment	**9,313**	27,560	**—**	—
Value-added tax payable	**30,462**	10,264	**—**	—
Accrued interest expenses	**2,057**	265	**1,851**	—
Payroll payable	**3,430**	2,662	**647**	—
Other payables and accruals	**8,987**	5,017	**2,903**	1,685
	60,455	52,793	**5,401**	1,685

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

25. INTEREST-BEARING LOANS AND OTHER BORROWINGS

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank loans:					
Secured	(a)	**135,000**	142,425	**—**	—
Guaranteed	(b)	**192,303**	—	**192,303**	—
Unsecured	(c)	**72,600**	30,000	**19,600**	—
Total		**399,903**	172,425	**211,903**	—
Repayable:					
Within one year		**164,600**	172,425	**19,600**	—
In the second year		**58,002**	—	**58,002**	—
In the third to fifth years, inclusive		**177,301**	—	**134,301**	—
		399,903	172,425	**211,903**	—
Portion classified as current liabilities		**(164,600)**	(172,425)	**(19,600)**	—
Long term portion		**235,303**	—	**192,303**	—

25. INTEREST-BEARING LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2006, bank loans of the Group of RMB125,000,000 (2005: RMB135,000,000) bearing fixed interest at rates ranging from 5.58% to 6.12% per annum (2005: 5.58%) were secured by fixed charges over the Group's leasehold land, certain buildings, and plant and machinery with net book values of RMB396,581,000 (2005: RMB422,001,000) in aggregate as set out in notes 14 and 16.

As at 31 December 2006, bank loans of the Group of RMB10,000,000 (2005: nil) bearing fixed interest at a rate of 3.2% per annum were secured by fixed charges over the notes receivable amounting to RMB10,000,000 (2005: nil) as set out in note 20.

As at 31 December 2005, trust receipt loan of US$920,000 (equivalent to RMB7,425,000) bearing fixed interest at a rate of 7.90% per annum was secured by a lien over the Group's raw materials of RMB8,623,000 as set out in note 19.

(b) As at 31 December 2006, syndicated loans of US$24,500,000 (equivalent to RMB192,303,000) bearing floating interest at a rate of 1.55% over and above London Interbank Offered Rate per annum is repayable from April 2008 to October 2009. These loans were guaranteed by Infonics and Mr. Dong Shutong, the Company's controlling shareholder, and secured by fixed charges of the Group's entire equity interests in Infonics and Group Rise as set out in note 17.

In the opinion of the Directors, the estimated fair value of syndicated loans approximates their carrying amounts.

(c) As at 31 December 2006, unsecured bank loans of RMB53,000,000 (2005: RMB30,000,000) bearing fixed interest at rates ranging from 6.93% to 8.10% per annum (2005: ranging from 5.58% to 6.14%).

As at 31 December 2006, unsecured bank loans of US$2,501,000 (equivalent to RMB19,600,000) bearing floating interest at a rate of 2% over and above London Interbank Offered Rate per annum.

The carrying amounts of the interest-bearing loans and other borrowings at each of the balance sheet date approximated to their corresponding fair values.

26. DEFERRED TAX LIABILITIES

	Group 2006 RMB'000	2005 RMB'000
At beginning of year	**2,343**	2,343
Credited to income statement during the year	**(112)**	—
At end of year	**2,231**	2,343

The principal component of the Group's deferred tax liabilities is as follow:

	2006 RMB'000	2005 RMB'000
Capitalised finance costs	**2,231**	2,343

27. ISSUED CAPITAL

	Notes	**2006 Number of ordinary shares**	**2006 RMB'000**	2005 Number of ordinary shares	2005 RMB'000
Authorised:					
At beginning of year		**1,000,000,000**	**106,000**	3,800,000	403
Increase during the year	(a)	**—**	**—**	996,200,000	105,597
At end of year		**1,000,000,000**	**106,000**	1,000,000,000	106,000
Issued and fully paid:					
At beginning of year		**500,000,000**	**53,000**	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	(b)	**—**	**—**	69,999,999	7,420
Capitalisation issue	(c)	**—**	**—**	250,000,000	26,500
New issue on an initial public offering	(d)	**—**	**—**	180,000,000	19,080
New placement	(e)	**78,000,000**	**8,058**	—	—
Exercise of share options	(f)	**600,000**	**61**	—	—
At end of year		**578,600,000**	**61,119**	500,000,000	53,000

27. ISSUED CAPITAL (CONTINUED)

Notes:

(a) 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.

(b) 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.

(c) 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 (d) below.

(d) On 19 May 2005, 180,000,000 ordinary shares of HK$0.10 each were issued at a price of 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.

(e) On 3 May 2006, 78,000,000 ordinary shares of HK$0.10 each were issued at a price of HK$2.175 per ordinary share for a total cash consideration, before related issue expenses, of HK$169,650,000 (equivalent to RMB175,265,000) by way of private placing.

(f) On 16 October 2006, 600,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.07 per ordinary share pursuant to the exercise of share options for a total cash consideration of HK$642,000 (equivalent to RMB652,000).

28. RESERVES

Contributed surplus

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of Infonics acquired pursuant to the group reorganisation on 29 April 2005 over the nominal value of the Company's shares issued in exchange therefor.

Share premium account

On 19 May 2005, 180,000,000 ordinary shares of HK$0.10 each were issued at a price of 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).

28. RESERVES (CONTINUED)

Share premium account (continued)

On 3 May 2006, 78,000,000 ordinary shares of HK$0.10 each were issued at a price of HK$2.175 per ordinary share for a total cash consideration, before related issue expenses of RMB5,681,000, of HK$169,650,000 (equivalent to RMB175,265,000).

On 16 October 2006, 600,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.07 per ordinary share pursuant to the exercise of share options for a total cash consideration of HK$642,000 (equivalent to RMB652,000), and the related share option reserve of HK$174,000 (equivalent to RMB178,000) was transferred to share premium upon exercise of share options.

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

The capital reserve is non-distributable. It represents the additional contribution by the shareholder in 2003 amounting to RMB37,147,000, the capitalisation of payable to the shareholder amounting to RMB85,000,000 in which Mr. Dong Shutong waived his rights and benefits in respect of the debts owed 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 29.

The share option reserves comprise the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

28. 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 the SSR is no longer required. According to the relevant PRC regulations applicable to wholly-foreign-owned companies, Yongtong Special Steel is required to allocate a 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.

The 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 the PWF.

According to the revised Company Law of the PRC effective from 1 January 2006, the PWF as at 31 December 2006 was transferred to the SSR and SRF.

28. RESERVES (CONTINUED)

Distributable reserves

For dividend purposes, the amount which the PRC subsidiaries can legally distribute by way of a dividend is determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

In accordance with the Company Law of the PRC, profits after tax of the PRC subsidiaries can be distributed as dividends after the appropriation to the SSR, SRF and PWF as set out above.

29. 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).

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.

29. SHARE OPTION SCHEME (CONTINUED)

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 with reference to 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 is 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 five 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 options 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%

29. SHARE OPTION SCHEME (CONTINUED)

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

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	At exercise date of options HK$ per share
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	—	(600,000)	(2,400,000)	—	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	1.35
Mr. Song Wenzhou	1,275,000	—	—	—	1,275,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
	13,525,000	—	(600,000)	(2,400,000)	10,525,000					
Other employees	10,200,000	—	—	(1,275,000)	8,925,000	30 July 2005	30 July 2006 to 30 July 2015	1.07	1.04	—
Total	23,725,000	—	(600,000)	(3,675,000)	19,450,000					

Notes:

* 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.

**** Ms. Lee Han Yau, Florence resigned as a director of the Company on 1 November 2006.

The fair value of the share options granted (excluding the lapsed options) in July 2005 was RMB6,097,000. The Group recognised a net share option expense of RMB2,295,000 during the year ended 31 December 2006 (2005: RMB1,448,000).

29. SHARE OPTION SCHEME (CONTINUED)

The fair value of equity-settled share options granted in July 2005 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used in estimating the fair value of the equity-settled share options:

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

The expected life of the options is based on historical data 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.

The 600,000 share options exercised during the year resulted in the issue of 600,000 ordinary shares of the Company and new share capital of HK$60,000 (equivalent to RMB61,000) and share premium of HK$582,000 (equivalent to RMB591,000), as set out in note 28 to the financial statements.

As at 31 December 2006, the Company had 19,450,000 share options outstanding under the Share Option Scheme, which represented approximately 3.4% of the Company's shares in issue as at 31 December 2006. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 19,450,000 additional ordinary shares of the Company and an additional share capital of HK$1,945,000 and share premium of HK$18,866,500 before share issue expenses.

30. 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, foreign currency 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.

Raw materials' price risk

Raw materials accounted for approximately 56% of the total cost of sales for the year ended 31 December 2006 (2005: 62%). The Group's operations may be exposed mainly to the volatility of the price of raw materials, which mainly include 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.

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

30. FINANCIAL INSTRUMENTS MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 counterparties 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 61% (2005: 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 rate 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 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.

30. FINANCIAL INSTRUMENTS MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

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 commitments 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.

31. RELATED PARTY TRANSACTIONS

(I) 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	2006 RMB'000	2005 RMB'000
Group			
Continuing connected transactions			
East Grow Management Limited ("East Grow") (note a)	Purchases of materials (note b)	**27,543**	—
Company			
Continuing connected transactions			
East Grow Management Limited ("East Grow") (note a)	Purchases of materials (note b)	**27,543**	—
Yongtong Special Steel (note c)	Sales of materials (note d)	**211,816**	7,899
Infonics (note e)	Advance (note f)	**156,525**	206,315

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) 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: (continued)

Notes:

(a) East Grow is a company controlled by Mr. Dong Shutong, an executive director and a substantial shareholder of the Company.

(b) According to the master agreement entered into between East Grow and the Company (the "Master Agreement") on 13 December 2005 in connection with the sourcing of iron ore, East Grow agreed to supply iron ore to the Group from 1 January 2006 to 31 December 2008. According to the Master Agreement, the prices for these continuing connected transactions are set on the basis of 90% of the market price, at the 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 year ended 31 December 2006, and the years ending 31 December 2007 and 31 December 2008 will not exceed HK$318,000,000, HK$438,000,000 and HK$588,000,000, respectively.

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

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

(e) Infonics is a subsidiary of the Company.

(f) 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% (2005: 2.50%) per annum, the Company would have received interest income, net of tax, of approximately RMB7,415,000 (2005: RMB2,837,000) for the year ended 31 December 2006.

(II) Guarantees

(1) Guarantee for the Group by a related party

As set out in note 25(b), as at 31 December 2006, Mr. Dong Shutong, the controlling shareholder of the Company, provided a guarantee, free of charge, in favour of bank borrowings granted to the Company.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Guarantees (continued)

(2) Guarantees for the Company by related parties
As set out in note 25(b), as at 31 December 2006, Mr. Dong Shutong and Infonics, provided a guarantee, free of charge, in favour of bank borrowings granted to the Company.

As set out in note 25(b), as at 31 December 2006, the Company's syndicated loans of US$24,500,000 with interest of 1.55% over and above the London Interbank Offered Rate per annum were secured by fixed charges of the Group's entire equity interests shares in Infonics and Group Rise.

(3) Guarantees for a subsidiary by the Company
As at 31 December 2006, the Company provided a guarantee, free of charge, in favour of bank borrowings amounting to RMB35,000,000 granted to Yongtong Special Steel, a wholly owned subsidiary of the Company.

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

	2006 **RMB'000**	2005 RMB'000
Fees	**820**	560
Salaries, allowances and benefits in kind	**2,879**	1,820
Employee share option benefits	**1,288**	826
Pension scheme contributions	**19**	14
Total compensation paid to key management personnel	**5,006**	3,220

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.

32. 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 14, 16, 17, 19, 20, 22 and 23 to the financial statements.

33. COMMITMENTS

Operating lease arrangement

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At the balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,127**	576	**1,127**	576
In the second to fifth years, inclusive	**1,403**	—	**1,403**	—
	2,530	576	**2,530**	576

Capital commitment

In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the balance sheet date:

		Group	
		2006	2005
	Note	**RMB'000**	RMB'000
Capital commitments in respect of property, plant and equipment, contracted, but not provided for		**6,419**	24,155
Capital commitments in respect of the acquisition of Zhengzhou Xiangtong Electricity Co., Ltd. ("Xiangtong Electricity")	(a)	**15,071**	—
		21,490	24,155

33. COMMITMENTS (CONTINUED)

Note:

(a) On 8 July 2006, the Company, through its wholly-owned subsidiary, Infonics, entered into an agreement with Gongyi Refractory Materials Factory for the proposed acquisition of a controlling 50.01% equity interest in Xiangtong Electricity with a purchase consideration of HK$15,000,000 (equivalent to RMB15,071,000). The Company is obligated to pay the purchase consideration within 90 days after the approval from the related government bureau in respect of this acquisition. As at 31 December 2006, in the opinion of the directors, the acquisition has yet to be approved by the related government bureau.

34. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantee given for bank loans of a subsidiary	**—**	—	**35,000**	30,000

The bank loans of the subsidiary Yongtong Special Steel, a subsidiary of the Company, amounting to RMB35,000,000 (2005: RMB30,000,000) were guaranteed by the Company.

35. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2006:

(a) Acquisition of Yongan Special Steel

In January 2007, upon the capital contribution from the various parties as set out in note 18(a), the Group gained the controlling interest in Yongan Special Steel (hereinafter the Group and Yongan Special Steel are referred to as the "enlarged group"). The principal activities of Yongan Special Steel include the production and sale of stainless steel base material and other steel products.

35. POST BALANCE SHEET EVENTS (CONTINUED)

(a) Acquisition of Yongan Special Steel (continued)

The net fair value of the identifiable assets, liabilities and contingent liabilities acquired are expected to be RMB237 million and the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities assessed as at date of acquisition, amounting to RMB51 million is recognised as goodwill. The fair value of the net assets acquired is subject to changes upon the finalisation of the completion accounts. The principal items that are expected to generate goodwill are the strategic location of the plant and the acquired workforce, neither of which qualifies as a separate amortisable intangible asset.

Should the Capital Injection be completed as at 1 January 2006, total revenue and net profit of the enlarged group would be RMB896 million and RMB12 million, respectively, for the year ended 31 December 2006 and the total assets and net assets of the enlarged group would be RMB2,059 million and RMB686 million, respectively, as at 31 December 2006.

(b) Acquisition of S.E.A. Mineral Limited.

On 5 March 2007, Infonics entered into an acquisition agreement with, amongst others, Easyman, Morgan Corporation, a company incorporated in the BVI with limited liability, and Mr. Soen Bin Kuan, an independent third party (the "Vendors"), pursuant to which Infonics conditionally agreed to purchase from the Vendors a 100% equity interest in S.E.A. Mineral Limited ("S.E.A. Mineral") for an aggregate consideration of HK$2,730,000,000 (equivalent to RMB2,704,611,000) (the "Acquisition"). On the same date, S.E.A. Mineral, Yiwan Mining and the shareholders of Yiwan Mining, namely, Mr. Soen Bin Kuan and Mr. Suhandi entered into an exclusive offtake agreement ("Offtake Agreement"), according to the Offtake Agreement, Yiwan Mining will undertake to exclusively sell and S.E.A. Mineral will buy the iron ores produced by Yiwan Mining at US$16 per dry tonne for 14 years expiring on 24 January 2021. Upon completion of the Acquisition, S.E.A. Mineral will become a wholly-owned subsidiary of the Group.

35. POST BALANCE SHEET EVENTS (CONTINUED)

(b) Acquisition of S.E.A. Mineral Limited. (continued)

Pursuant to the acquisition agreement, the total purchase consideration will be satisfied as to HK$95,550,000 (equivalent to RMB94,661,000) by cash and to be financed by internal resources of the Group, as to HK$2,318,320,000 (equivalent to RMB2,296,760,000) by the issue of 1,340,067,052 ordinary shares of HK$0.10 each ("Consideration Shares") of the Company at the issue price of HK$1.73 (equivalent to RMB1.73) per share and the remaining balance by the issue of 182,736,416 convertible notes of the Company with an aggregate principal amount of HK$316,130,000 (equivalent to RMB313,190,000) at the exercise price of HK$1.73 (equivalent to RMB1.73) per share.

On 19 April 2007, Easyman and Morgan Corporation who will receive Consideration Shares, unconditionally and irrevocably waive all their rights, interests, title, benefits and claims in respect of the entitlement to receive the final dividend of the Company for the financial year ended 31 December 2006 by issuing a consent letter to the Company.

(c) Share subscription agreement and convertible bond subscription agreement

On 5 March 2007, the Company entered into a share subscription agreement and a convertible bond subscription agreement with Deutsche Bank AG, pursuant to the agreements:

(i) Deutsche Bank AG conditionally agreed to subscribe for 56,100,000 subscription shares at the lower of (i) HK$1.73, and (ii) the volume-weighted average price of the shares for the ten trading days prior to 30 June 2007 or another date as determined by Deutsche Bank AG .

(ii) Deutsche Bank AG conditionally agreed to subscribe for the convertible bonds in the principal amount of HK$625,000,000 with interest rate of 3% per annum, proposed to be issued by the Company with the initial conversion price of HK$2.25 per conversion share, subject to adjustment pursuant to the terms of the convertible bonds. The maturity date is the date falling 5 years from the date of issue.

35. POST BALANCE SHEET EVENTS (CONTINUED)

(c) Share subscription agreement and convertible bond subscription agreement (continued)

On 19 April 2007, Deutsche Bank AG unconditionally and irrevocably waive all their and its designee's rights, interests, title, benefits and claims in respect of the entitlement to receive the final dividend of the Company for the financial year ended 31 December 2006 by issuing a consent letter to the Company.

The proposed acquisition as set out in note (b) and the proposed share subscription agreement and proposed convertible bond subscription agreement as set out in note (c) are subject to the approval of the Company's shareholders at the forthcoming extraordinary general meeting.

(d) New corporate income tax law

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(e) Proposed final dividend

Subsequent to 31 December 2006, the Directors proposed a final dividend of HK$0.03 per ordinary share, totalling approximately HK$17,358,000 (equivalent to approximately RMB17,153,000), pertaining to 2006 for payment in 2007. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

36. COMPARATIVE AMOUNTS

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 20 April 2007.