中國鎳資源控股有限公司

CHINA NICKEL RESOURCES HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock code : 2889

ANNUAL REPORT 2007

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Dong Shutong
Mr. He Weiquan
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Mr. Zhao Ping
Mr. Dong Chengzhe^

Non-executive Director

Mr. Yang Tianjun

Independent Non-executive Directors

Mr. Bai Baohua
Mr. Huang Changhuai
Mr. Wong Chi Keung

^ *appointed on 12 March 2007*

Audit Committee

Mr. Wong Chi Keung
Mr. Huang Changhuai
Mr. Bai Baohua

Company Secretary and Qualified Accountant

Mr. Lau Hok Yuk, *MBA, FCPA, FCCA, ATIHK, FLMI, CFA*

Authorised Representatives

Mr. Dong Shutong
Mr. Lau Hok Yuk

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office in PRC

No. 7 Building F
Runhua Business Garden
No. 24 Jinshui Road
Jinshui District, Zhengzhou City
Henan Province, PRC 450012

Principal Place of Business in Hong Kong

Room 917–918
9th Floor, China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Auditors

Ernst & Young

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

CITIC Ka Wah Bank Limited
Deutsche Bank AG, Hong Kong Branch
Oversea – Chinese Banking Corporation Limited
Nanyang Commercial Bank

Website

www.cnrholdings.com

STOCK CODE

2889

Five Year Financial Summary

Summary Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Company and its subsidiaries (hereinafter collectively referred as "the Group") for the last five financial years prepared on the basis set out in the note below is as follows:

Results

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Revenue	**1,874,591**	879,796	837,529	783,240	403,062
Cost of sales	**(1,288,493)**	(691,564)	(677,174)	(626,911)	(283,555)
Gross profit	**586,098**	188,232	160,355	156,329	119,507
Other income and gains	**72,965**	9,553	17,145	15,554	8,058
Selling and distribution costs	**(43,988)**	(34,179)	(8,525)	(6,755)	(4,634)
Administrative costs	**(75,442)**	(32,280)	(23,958)	(16,676)	(13,146)
Other expenses	**(786)**	(332)	(284)	(881)	(29,653)
Finance costs	**(68,100)**	(23,420)	(22,609)	(20,007)	(13,162)
Profit before income tax	**470,747**	107,574	122,124	127,564	66,970
Income tax expenses	**(110,085)**	(17,332)	—	—	(3,515)
Net profit for the year	**360,662**	90,242	122,124	127,564	63,455
Attributable to:					
Equity holders of the parent	**359,291**	90,272	122,141	127,653	48,412
Minority interests	**1,371**	(30)	(17)	(89)	15,043
	360,662	90,242	122,124	127,564	63,455
Dividends	**121,732**	32,369	69,094	—	33,500

Assets, Liabilities and Minority Interests

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Total assets	**7,402,043**	1,593,043	1,131,895	826,833	763,599
Total liabilities	**3,264,816**	753,252	516,113	538,632	687,611
Minority interests	**54,191**	7	37	54	939
Net assets	**4,137,227**	839,791	615,782	288,201	75,988

The combined results of the Group for the years ended 31 December 2003 and 2004 are extracted from the Prospectus of the Company dated 9 May 2005 and the consolidated results of the Group for the year ended 31 December 2005 and 2006 are extracted from the Annual Report 2005 and 2006 of the Group respectively and while those for the year ended 31 December 2007 were prepared based on the consolidate income statement and balance sheet as set out on page 39 to 41. This summary does not form part of the audited financial statements.

Dong Shutong
Chairman & CEO

Chairman's Statement

Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2007 and extend my gratitude to all the shareholders on behalf of the Board of China Nickel Resources Holdings Company Limited.

Enterprise Value

Following the successful acquisition of the mineral ore resources in early 2007, the Group has aimed at becoming an integrated enterprise to further stabilize the consolidated profit of the Group and maximize the investors' return by capitalizing on the integration of the economic vantage of the three major sectors: the mineral ore resources, the nonferrous metals and the steel manufacture. Therefore, the Group has launched the project of constructing plants in China and Indonesia with the proceeds the two issuance of convertible bonds and internal funds. It is anticipated to achieve the goal of having gradual expansion of the steel production capacity and extract the nonferrous metals such as nickel and cobalt from the mineral ore resources directly for integrating with the steel making process, so as to achieve substantial cut of the steel production cost, or increase income by direct sales in the market.

Successful Transformation

2007 is an important turning point for the Group to create new enterprise value. With the concerted efforts of the management and all staff of the Group, we have experienced a smooth transformation. The equipment reform and product research and development have been accomplished smoothly as scheduled without affecting the overall operation of the Group. The new products are well received on the market, leading to substantial turnover growth. Despite the tension on the international capital market during the period, the achievements of the Group after years of effort have been widely acclaimed on the market and supported by the investors. The market has shown active response to our two financing activities which provided all the funds required for our expansion project and laid the foundation for further achievements of our transformation and the realization of enterprise value.

Profit Growth

In the forthcoming years, I anticipate three major driving forces as the impetus to secure further profit growth of the Group. First, we are going to shift to the products with a greater market and higher added value, and increase product margin per tonne and profit stabilization through optimal product mix. The benefits of this strategy began to realise in 2007 and will become more conspicuous in 2008 and 2009. Second, the increased production capacity arising from the expanded construction of the plants in China and Indonesia will deliver the economic value of the mineral ore resources of the Group, expand our domestic and oversea market by leverage on the geographical vantage of the two nations, and satisfy the tremendous market demand for our products. We expect to fulfill all these goals step by step in 2009 and 2010. Third, the Group is going to apply the proprietary technology in the new plants, namely, the ore beneficiation and separation technique, the non-coke smelting technique, the nickel production technology and the development of techniques for nickel-chromium based steel products. We are expecting breakthrough achievements in the reduction of production cost, the research and development of new products and the increase of income.

Market Highlights

According to the forecast of domestic economists, China's national economic growth was approximately 11.6% in 2007. The growth rate is higher than the previous year but is expected to slow down slightly next year. However, it will remain at approximately 10.7% according to the estimation in the latest report of United Nations. In particular, the industrial growth has gained pace very rapidly in China, with on-going upgrade in the sectors of the equipment production, the transport system and the infrastructure. As revealed in the latest report of Brook Hunt in Britain, the growth rate of industrial production in China reached 18.5% in 2007, representing an increase of 2.1% compared to 2006. Despite the regulatory measures of macroeconomics and the impact of the snow disaster early in the year, the annual growth rate still recorded 15.4% for the first two months in 2008. The growth rate is expected to be around 15.9% for the entire year.

Driven by the foregoing strong economic growth, the demand for premium special steel products has been on the rise as well. According to the statistics, the global output of stainless steel exceeded 28 million tonnes in 2007. With an output of around 7.5 million tonnes, China has continued to be the biggest manufacturer of stainless steel in the world. The supply and demand index of stainless steel formulated by International Stainless Steel Forum was 181.1 in 2007, which was 13.6 higher than 2006 and the highest in the past five years. It is expected to keep on rising in the coming two years to reach 211.4 in 2009. Therefore, we expect that the worldwide demand (especially China's demand) for premium special steel products remains strong.

In order to foster the balanced trade development, promote the restructuring of industries and encourage the development of key industries, the Chinese government implemented "Interim Measures for the Administration of Import Discount Interest Funds" in late 2007 to offer import discount interest for a certain imported resource products such as the nickel ores. This encouraging policy will help the Group develop the nickel-chromium based high-end steel products and construct the plant for processing iron-nickel ores.

Satisfactory Results

In early 2007, the Group launched the nickel-chromium product series. The stainless steel base materials were well received by the market, with remarkable growth in the sales and profit featuring an increase of 1.13 times from RMB879,796,000 in 2006 to RMB1,874,591,000 in 2007. After adjustment of the product mix, the total sales volume for the whole year was 238,074 tonnes whereas the high margin products (nickel-chromium product series) had a sales volume of 182,511 tonnes, representing 77% of the total sales volume. The Group made breakthrough again in the year. The average gross profit per tonne increased 2.6 times from RMB683 to RMB2,462. The gross profit margin increased from 21% in 2006 to 31% in 2007.

Prospects for 2008

Product Development

As mentioned above, the optimized product mix is an impetus for profit growth. From late 2007 to early 2008, the domestic production base of the Group launched successful trial production of quite a number of new products, including 300 Series stainless steel billet, nickel-chromium bearing steel and gear steel, nickel-chromium alloy steel ingot and weather-resistant steel containing nickel. These new products contain comparatively stable consolidated value. In particular, the additional economic value brought about by the techniques and production process has led to higher selling price per tonne and gross profit compared to the previous products. Upon being launched onto the market, they are expected to increase the income and profit of the Group.

Enhanced Production Capacity

After reform and trial run, the iron refining and the steel refining systems both have the capabilities of processing the iron-nickel ores purchased from Indonesia mines, and manufacturing the various steel products with high added value as mentioned above. By late 2007, the Group was already capable of consuming one million tonnes of iron-nickel ores each year, and, through the refining process, turning them into approximately 300,000 tonnes of stainless steel base materials, stainless steel billet and nickel-chromium series alloy steel products. It is anticipated that upon completion of our expansion project, the Group will have an annual consumption of up to 6 million tonnes of iron-nickel ores and the refining capabilities will cover a greater variety of quality finished products.

Progress of the Project

I am very glad to inform you of the approval by the Chinese government for our project of new plants in China. Project was commenced officially in March 2008 and expected for completion in early 2009. Upon completion of the project, the annual capabilities of processing the iron-nickel ores at the production base in China will increase by 3 million tonnes and the precious metals including steel, nickel and cobalt will be extracted through refining processes for steel refining by the Group or for sales. The establishment of the steel company in Indonesia was approved by the Indonesian government in January 2008. The applications have been filed for obtaining the land use right and the relevant approvals. I am looking forward to reporting to you on the latest progress of the project in the near future.

Finally, I would like to express my heart-felt thanks to all of those who have contributed to the successful creation of the enterprise value and implementation of the strategies of the Group. I also wish all of our customers, shareholders and employees on-going prosperity in future.

Dong Shutong
Chairman & CEO

Hong Kong, 23 April 2008

Flexible Product

Mix with Emphasis on
High Profit margin products

Management Discussion and Analysis

Financial Highlights

Result Summary

	For the year ended 31 December		
	2007	2006	Increase
	RMB'000	RMB'000	%
Turnover	**1,874,591**	879,796	113%
Gross Profit	**586,098**	188,232	211%
Earning before Interest, Tax, Depreciation and Amortization ("EBITDA")	**622,326**	179,012	248%
Proift before Income Tax	**470,747**	107,574	338%
Profit Attributable to Shareholders	**359,291**	90,272	298%
Gross Profit Margin	**31%**	21%	10%
EBITDA Margin	**33%**	20%	13%
Profit before Tax Margin	**25%**	12%	13%
Net Profit Margin	**19%**	10%	9%

The board of directors (the "Board" or the "Directors") of China Nickel Resources Holdings Company Limited (Formerly known as "China Special Steel Holdings Company Limited") (the "Company") is pleased to announce that the audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year 2007 was approximately RMB1,874.6 million, representing an increase of 1.13 times as compared to 2006. Audited profit attributable to shareholders of the Company was approximately RMB359.3 million, representing an increase of 2.98 times when compared to 2006. Audited basic earnings per share for 2007 increased by RMB0.082 to RMB0.245 when compared to 2006. Basic earnings per share was calculated based on the profit attributable to shareholders of RMB359.3 million divided by the weighted average of 1,469.2 million shares in issue in 2007. The Directors are pleased to declare final dividend of HK$0.013 per share, totalling HK$27.2 million. The audited consolidated financial statements for the year ended 31 December 2007 have been reviewed by the Company's Audit Committee.

Business Review

1. Capacity expansion and vertical integration

In January of 2007, the registration of the capital injection in Luoyang Yongan Special Steel Company Limited were completed and the total iron ore melting capacity for the Group was increased to 1 million tonnes per annum. After the completion of the acquisition of entire interests of S.E.A. Mineral Limited has completed in May, the Group owns a 14-year exclusive procurement right of acquiring a minimum of 40 million tonnes of iron-nickel ore with deposit based on applying a 45% iron cut-off grade and 0.7% nickel cut-off grade of over 150 million tonnes in Indonesia at the unit price of US$16 per each dry tonne.

2. Product mix enhancement and increase in profitability

The Group is enhancing its product mix by shifting its focus to steel products of high value added and larger market size. Stainless steel base material, a kind of nickel-chromium based intermediate product was launched to the market at the beginning of 2007 and received a very good response.

3. Completion of fund raising activities for business expansion plan

Although the international capital market in 2007 was under pressure, investors highly regarded the Group as a value enterprise with high growth prospect. Following the issuance of the convertible bonds in May, the second issuance of convertible bonds in December was one of the most successful fund raising activities in Hong Kong. The funds raised together with the cash flow generated internally were sufficient for the expansion projects during 2008/09.

Turnover and sales volume

Major products of the Group were stainless steel base material and bearing steel. The table below sets out the turnover and sales volume of our major products for the years indicated:

Turnover

	For the year ended 31 December			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Bearing steel	**159,211**	**8%**	805,004	92%
Spring steel	**3,877**	**–**	60,733	7%
Stainless steel base material	**1,687,527**	**90%**	–	–
Stainless steel	**6,407**	**1%**	–	–
Carbon structure steel & other steel	**17,569**	**1%**	14,059	1%
Total	**1,874,591**	**100%**	879,796	100%

Sales volume

	For the year ended 31 December			
	2007		2006	
	(tonnes)	**%**	(tonnes)	%
Bearing steel	**46,368**	**19%**	250,266	91%
Spring steel	**1,205**	**1%**	18,609	7%
Stainless steel base material	**182,511**	**77%**	–	–
Stainless steel	**278**	**–**	–	–
Carbon structure steel & other steel	**7,712**	**3%**	6,466	2%
Total	**238,074**	**100%**	275,341	100%

The Group's turnover in 2007 increased by RMB994.8 million, or 1.13 times, to approximately RMB1,874.6million (2006: RMB879.8 million). This increase was principally due to the change in product mix and increase in unit sale prices.

Total sale volume in 2007 was approximately 238,074 tonnes (2006: 275,341 tonnes). As a corporate strategy to enhance the Group's product mix, the Group focused more on producing high-margin products (i.e. nickel-chromium based products) such as stainless steel base material which accounted for 77% of the total sales volume (2006: Nil).

In 2007, the average unit selling price per tonne for stainless steel base material was RMB9,271 (2006: Nil) while the average unit selling price per tonne for bearing steel was RMB3,434 (2006: RMB3,217 per tonne).

Cost of sales

The cost of sales in 2007 increased by RMB596.9 million, or 86%, to approximately RMB1,288.5 million (2006: RMB691.6 million) which is lower than the increase in turnover over the same year.

The unit cost of sales for stainless steel base material was RMB6,223 per tonne in 2007 (2006: Nil). The unit cost of bearing steel in 2007 increased by RMB136 per tonne, or 5% to RMB2,666 per tonne (2006: RMB2,530 per tonne).

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

Cost of sales

	For the year ended 31 December			
	2007		2006	
	RMB'000	%	RMB'000	%
Raw Materials	743,841	58%	387,118	56%
Fuel	329,273	26%	161,634	23%
Utilities	115,197	9%	79,233	12%
Depreciation	57,190	4%	44,359	6%
Staff Cost	32,085	2%	16,884	3%
Repair	7,284	1%	587	–
Others	3,623	–	1,749	–
	1,288,493	100%	691,564	100%

Gross profit

The unit gross profit for stainless steel base material in 2007 was RMB3,048 per tonne (2006: Nil), representing a unit gross profit margin of 33%. The unit gross profit for bearing steel in 2007 was RMB768 per tonne (2006: RMB687 per tonne), representing a unit gross unit margin of 22%.

As a result of the factors discussed above, the gross profits in 2007 increased by RMB397.9 million, or 2.11 times, to RMB586.1 million (2006: RMB188.2 million).

The unit gross profit in 2007 increased by RMB1,779 per tonne, or 2.60 times, to RMB2,462 per tonne (2006: RMB683 per tonne).

The Group's gross profit margin in 2007 increased by 10 percentage points to 31% (2006: 21%). High gross profit of nickel-chromium based products, i.e. stainless steel base material is the major contributor to the Group's improved turnover and gross profit.

Other income and gains

Other income and gains in 2007 increased by RMB63.4 million, to RMB73 million (2006: RMB9.6 million). This is mainly due to the discount on debt restructuring of RMB15.8 million in the settlement of Yongan Special Steel with its creditors by the Group after the completion of the capital injection in Yongan Special Steel on 5 January 2007 and the increase in interest received from bank deposits amounted to RMB17 million.

Selling and distribution costs

Selling and distribution costs in 2007 increased by RMB9.8 million to RMB44 million (2006: RMB34.2 million), representing 2% of turnover (2006: 4%). This is in line with the increase in the turnover of the Group.

Administrative costs

Administrative costs in 2007 increased by RMB43.2 million, or 1.34 times, to RMB75.4 million (2006: RMB32.3 million), representing 4% of turnover (2006: 4%). This is in line with the increase in operation scale of the Group.

Finance costs

Finance costs in 2007 increased by RMB44.7 million, or 1.91 times, to RMB68.1 million (2006: RMB23.4 million). This increase was mainly due to the increase of interest on convertible bonds issued during 2007.

Profit before income tax

In the second half of 2007, the Group has proceeded with projects including (1) pre-operating works for expansion projects on processing ferro-nickel ore from Indonesia mine by existing iron making facilities in PRC; (2) product development for a number of new nickel-chromium based steel products which shall be launched to the market later.

As a result of the factors discussed above, the profit before income tax in 2007 increased to RMB470.7 million (2006: RMB 107.6 million). The profit before tax margin increased by 13 percentage points to 25% (2006: 12%) while the earning before interest, tax, depreciation and amortization (EBITDA) margin increased by 13 percentage points to 33% (2006: 20%).

Income tax expenses

Income tax expenses in 2007 increased by RMB92.8 million, or 5.35 times, to RMB110.1 million (2006: RMB17.3million). This increase was mainly due to the increase of profit before the tax in 2007 compared with 2006, and acquisition of Yongan Special Steel, which subject to tax rate of 33% in 2007.

Profit attributable to shareholders

As a result of the factors discussed above, the profit attributable to shareholders in 2007 increased by RMB269 million, or 2.98 times, to RMB359.3 million (2006: RMB90.3 million).

The unit net profit in 2007 increased by RMB1,187 per tonne, or 3.62 times to RMB1,515 per tonne (2006: RMB328 per tonne).

The Group's net profit margin in 2007 increased by 9 percentage points to 19% (2006: 10%).

Key financial ratios

	Notes	For the year ended 31 December 2007	2006
Current ratio	1	**328%**	135%
Inventories turnover days	2	**225 days**	121 days
Debtor turnover days	3	**41 days**	61 days
Creditor turnover days	4	**159 days**	151 days
Interest cover	5	**8 times**	6 times
Interest-bearing gearing ratio	6	**58%**	48%
Debt to EBITDA ratio*	7	**1.4 times**	1.3 times
Net debt/Capital and net debt ratio	8	**17%**	39%

Notes:

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

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

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

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

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

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

7 $$\frac{\text{Interest-bearing loans and other borrowings*}}{\text{EBITDA}}$$

8 $$\frac{\text{Net debt}}{\text{Capital and net debt}}$$

* *Since the Group has issued a convertible bond of HK$2 billion on 12 December 2007, for better comparison, weighted average debt balances on monthly basis was used in calculating the debt to EBITDA ratios.*

Construction in progress

Our construction in progress as at 31 December 2007 was increased to RMB168.3 million (2006: RMB48.7 million) which comprised of addition of new facilities and conversion of existing facilities in PRC to accommodate the production of new products.

Cash and cash equivalents and pledged time deposits

The increase in cash and bank balances by approximately RMB2,028 million to RMB2,238 million as at 31 December 2007 compared to that as at 31 December 2006 was mainly due to the net proceeds from issuance of convertible bonds of approximately RMB2,451.6 million. Part of the cash flow generated internally was used in repaying bank loans and other borrowings amounted to RMB258.0 million, acquiring subsidiaries, property, plant and equipment, intangible assets and settling other long-term prepayments assets by approximately RMB283.4 million, and paying dividend of RMB114.5 million to the shareholders of the Company.

Trade and notes receivables

The debtor turnover days decreased from 61 days in 2006 to 41 days in 2007. As at 31 December 2007, trade and notes receivables balance increased by RMB61.5 million, or 42%, to RMB209.4 million. This was mainly due to increase in sales at year end.

Inventories

The inventories turnover days increased from 121 days in 2006 to 225 days in 2007. As at 31 December 2007, inventories balance increased by RMB566.9 million, or 2.48 times, to RMB795.7 million. This was mainly due to the increase in ferro-nickel ore inventory by RMB109.5 million and stainless steel base materials by RMB457.3 million which were preserved for the further processing into stainless steel and nickel-chromium based steel products in the first quarter of 2008.

Prepayments, deposits and other receivables

As at 31 December 2007, prepayment, deposit and other receivables balance decreased by RMB56.5 million, or 52% to RMB52.3 million. This was mainly due to the elimination of inter-company balance due from Yongan Special Steel after completion of acquisition in 2007. As at 31 December 2006, RMB67 million due from Yongan Special Steel was classified as current assets.

Trade and notes payables

The creditor turnover days increased slightly from 151 days in 2006 to 159 days in 2007. As at 31 December 2007, trade and notes payables balance increased by RMB273.9 million, or 96%, to RMB560.5 million. This was mainly due to the increase in importing ferro-nickel ore at the end of 2007.

Interest-bearing loans and other borrowings

As at 31 December 2007, the total interest-bearing loans and other borrowings balance increased by RMB1,975 million, or 4.94 times, to RMB2,374.9 million which was also represented by issue of convertible bonds during the year. The interest bearing gearing ratio increased from 48% in 2006 to 58% in 2007.

Use of proceeds

The net proceeds from the Share Subscription and the Convertible Bond Subscription in May 2007 were approximately HK$700 million.

As at 31 December 2007, net proceeds were utilized in the following manner:

	Usage as disclosed in Convertible Bonds Circular HK$'million	**Utilised** HK$'million
Business expansion, capital expenditures, and general working capital related to new processing facility in the PRC for the ores	700.0	599.5

In December 2007, the net proceeds from the issue of the Convertible Bond were approximately HK$1,950 million.

As at 31 December 2007, the planned usage of net proceeds was as follows:

	Usage as disclosed in prospectus HK$'million	**Utilised** HK$'million
Capital expenditures of steel mill expansion in the PRC and Indonesia	1,462.5	0.0
General working capital	487.5	23.4

The unutilized balance was placed in short term bank deposits.

Liquidity and capital resources

Our working capital has been principally sourced from cash generated from operations and from long-term and short term debt. We also utilise advances we received from our customers to finance part of our working capital requirements. As at 31 December 2007, the advance from customers amounted to RMB11.4 million. We also make prepayments to our suppliers which amounted to RMB17 million as at 31 December 2007.

As at 31 December 2007, we had current liabilities of RMB1,003.7 million, of which RMB140.7 million were interest-bearing loans repayable within one year, and RMB560.5 million were trade and notes payables in respect of purchase of raw materials.

Foreign currency risk

Since 2004, the Group has begun the purchase of iron ore from overseas suppliers. Since the contracts are in US$ and the RMB is in a favourable trend now, no hedging is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and consider to use necessary financial instruments for hedging purposes. Except for the trust receipt loan related to the above contract of US$5.1 million (equivalent to RMB37.1 million) , all other bank loans are in RMB.

Since part of the proceeds from the convertible bonds issued in December 2007 will be used to build a steel plant in Indonesia through an investment holding subsidiary of the Group which is incorporated in Singapore, and Singapore dollar ("SG$") is highly correlated with RMB, about 60% of the proceeds in HK$ from the convertible bonds has been converted into SG$ in January of 2008. Besides, 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.

Security

As at 31 December 2007, the Group had notes payables of RMB383.8 million (2006: RMB176.3 million) were secured by time deposits amounting to RMB327.6 million (2006: RMB129.1 million) and notes receivable amounting to RMB40 million (2006: Nil).

Capital commitment

As at 31 December 2007, the Group had capital commitments in the amount of approximately RMB62.8 million for remaining parts of equipment refinement project.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group had approximately 3,200 employees, of whom 18 were management personnel. As at the same date, about 98% of our workforce had completed technical school or higher education.

The Group implemented remuneration policy of linkage between duties and efficiency. The remuneration of employee consists of a basic salary and a performance-based bonus. In 2007, the staff costs of the Group amounted to RMB64.6 million (2006: RMB26.9 million).

Directors and Audit Committee

Directors

Executive Directors

Mr. Dong Shutong, aged 56, is an executive Director and the Chairman and the chief executive officer of the Company and is responsible for formulating the Group's overall business plans and strategies. He has been the director of Zhengzhou Yongtong Special Steel Company Ltd ("Yongtong Special Steel"), a wholly owned subsidiary of the Group, and Yongtong Scrap Steel Company Ltd, ("Yontong Scrap Steel"), 95% owned by Yongtong Special Steel, since the their incorporation in 1993 and 1995 respectively and has been involved in the management and day-to-day operations on a full time basis since. He has served as the vice manager and senior economic technology consultant Ministry of Metallurgical Industry Metallurgy News Information Development Company (冶金工業部冶金報社信息開發公司) in 1989. The said company was the original Ministry's department for news on the industry, organisation and major reports on metallurgical industry. Mr. Dong was appointed as the director of the Synthesis Department of the World Metallurgical Products Exhibition in 1990. The said organisation was primarily involved in the activities relating to exhibitions of metallurgical products. In 1992, he was appointed as the general manager of Henan Sanen Industry Sci-Tech Industrial Company (河南三恩工業科技實業公司). The said company was primarily involved in the research and development of industrial technologies. Between October 1984 and April 2004, the business of Refractory Materials Factory was contracted out to be managed by Mr. Dong. The Refractory materials factory was principally involved in the operation and management of refractory materials. He has also been serving as a part-time associate professor in the field of economics at Wuhan University of Science and Technology since 2002. He graduated from the Metallurgy Department of Wuhan Iron and Steel College in 1989. He received his Trade and Economics degree from Graduate School, The Chinese Academy of Social Sciences in 2000. He has been honoured various times for his outstanding achievement in the advancement of technology by various PRC governmental authorities from 1985 to 1994. He has also been awarded the ``Award for Achievement in Development of the World Patent Technology'' for his outstanding contribution to the patent technology and a gold medal for his bicomponent nozzle with condenser project by the Hong Kong Organising Committee of the International Patent Technology Expo in 2001 and as ``The World's outstanding Chinese entrepreneur'' by the World Chinese Entrepreneur Association in 2004. He was appointed as a member of the Zhengzhou Overseas Exchange Association and was elected as a joint-committee member of the Zhengzhou Enterprises Association and the Representatives of the Members of the Zhengzhou Enterprises Association in 2003. In 2004, he was appointed as a representative of the Zhengzhou City to the Twelfth National People's Congress. Mr. Dong was awarded China Industry and Economics Hundred Outstanding People of the Year by the China Industry and Economics News and People of the Year Award Organisation Committee in April 2005. Mr. Dong was also the factory general manager and the sole legal representative of the Refractory Materials Factory from 1984 to 2004. Mr. Dong published《新經濟的背後 — 精神經濟浮出水面》(What's behind the New Economy — The Emergence of Spiritual Economy) in 2001 and《精神價值與中國經濟轉型》(Spiritual Value and the Transformation of the Chinese Economy) in 2002. Mr. Dong is the father of Mr. Dong Chengzhe, the executive Director of the Company.

Mr. He Weiquan, aged 54, is an executive Director and the chief operation officer of the Company and is responsible for implementing the Group's plans and strategies relating to production and financial matters. He worked in the Handan Steel Company (邯鄲鋼鐵公司), a company involved in steel production, for 17 years as a section chief and then as a factory director. Thereafter, he spent two years as factory director in Shuicheng Steel Group Co. (水城鋼鐵集團公司), a company principally involved in steel production. He joined Daye Special Steel (大冶特鋼), an enterprise principally involved in steel production as the chief engineer before he joined the Group in May 2000 first as a deputy general manager and then as a general manager. He was awarded a senior professional rank by the Title Reform Leading Group Office of the Hebei Province in 1997. He has also published several articles on techniques of steel smelting and continuous casting. He graduated with a bachelor's degree from the Metallurgy Department of Northeastern University of Technology (東北工學院) in 1980.

Mr. Lau Hok Yuk, *MBA, FCPA, FCCA, ATIHK, FLMI, CFA*, aged 42, is an executive Director and company secretary of the Company. He holds a Master Degree of Business Administration from the University of Strathclyde in the UK. He is a Certified Public Accountant and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the UK. He is also a Chartered Financial Analyst in the USA and an associate member of the Taxation Institution of Hong Kong. Mr. Lau has over 18 years of working experience in the areas of financial and compliance control, corporate finance and business administration and has held various senior finance positions in financial institutions, multinational enterprises and manufacturing companies.

Mr. Song Wenzhou, aged 40, is an executive Director and is responsible for the Group's administrative, marketing and staff development matters. Prior to joining the Group in July 1995, he was a teacher at the Zhengzhou Institute of Technology. He graduated from Beijing Open University with a Bachelor's Degree in Linguistics and Phonetics in 1987. He also received his Bachelor's Degree in Chinese Language and Literature from Henan Normal University and Bachelor's Degree in Legal Studies from Central Broadcast and Television University in 1992 and in 2003, respectively. Since joining the Group in 1995 until February 2004, Mr. Song was also responsible for the administrative matters at the Refractory Materials Factory.

Mr. Zhao Ping, aged 44, is an executive Director of the Company. He graduated from Chongqing Steel Industrial Institute in 1982. He studied Industrial Management at Shenyang Metallurgy Technical Institute, Political Economics at Xinjiang University, and was trained in prominent steel factories in Germany and Denmark. He obtained a Master in Business Administration at the Peking University in 2005 and is studying for a Doctorate in Steel Metallurgy at the Institute of Metallurgy, Peking University of Science and Technology. After serving respectively as technician, assistant engineer, engineer and senior engineer at the August First Steel Corporation in Xinjiang, he was appointed senior engineer (Professorial Grade) in 2001. He led various projects that were awarded prizes, commendations and distinctions in the Xinjiang Uygur Autonomous Region.

Mr. Dong Chengzhe, aged 29, is an executive Director of the Company. He graduated from the Wuhan University of Science and Technology with a diploma in international trade and obtained a bachelor degree in accountancy from the Royal Melbourne Institute of Technology in Australia. Mr. Dong joined the Group in 2007 and was primarily responsible for the finance and international trade functions of Yong Tong Special Steel Co. Ltd., an indirect wholly owned subsidiary of the Group in Zhengzhou, the PRC. Prior to joining the Group, Mr. Dong worked as a proprietor in international trade in Australia. Mr. Dong is the son of Mr. Dong Shutong, an executive Director and the controlling shareholder of the Company.

Non-executive Director

Mr. Yang Tianjun, aged 64, is a non-executive Director. He worked in Ministry of Metallurgy Forty Company (冶金部四零公司) and then in Angang Steelwork (鞍鋼煉鋼廠) for a total of 14 years as a technician and an engineer, respectively. He was the principal of University of Science and Technology Beijing from 1993 to July 2004 and is currently a professor and doctoral advisor in the Metallurgy Department of University of Science and Technology Beijing.

He has been awarded nine national and provincial first, second and third-grade State Scientific and Technological Progress Prizes since 1989 for his outstanding contributions to the State by conducting scientific researches in metallurgical projects. He was the chairman of the Sino-German co-operation in studying the multipurpose use of niobium. He was invited by Research Institute of Industrial Science and Technology of Korea to lead the research of blast furnace air-refined coal spray, and he participated in a joint research with Metallurgical Research Institute in blast furnace coal spray and mathematics model. He published over 70 academic papers both in the PRC and abroad and six books on the specialised subjects in the metallurgy field. He was appointed as the vice chairman of Chinese Society of Metals and a member of the Fifth Graduate Committee of the State Council (國務院學位委員會) in 2001 and 2003 respectively.

He graduated in 1965 from the Metallurgical Department of Beijing Iron and Steel College. He completed his postgraduate study in 1981 and obtained a master's degree in metallurgy from the Beijing Iron and Steel Institute. In 1985, he was granted the scholarship from Humboldt-University zu Berlin and conducted a joint research with the RWTH-Aachen University in Germany, and was awarded a doctorate degree in 1986.

Independent non-executive Directors

Mr. Bai Baohua, aged 66, is an independent non-executive Director. He has almost 41 years experience in the metallurgy field. He has worked as the engineer, manager and general manager of China Metallurgical Import & Export Company (中國冶金進出口公司), a company primarily involved in the trading of metals, the general manager of China International Steel Investment Company (中國國際鋼鐵投資公司), a company primarily involved in the promotion of foreign investment in the steel industry in the PRC, and the general manager, vice chairman and legal representative of China Iron and Steel Industry and Trade Group Corporation, a company primarily involved in production and trade of steel. He graduated from the Metal Pressure Processing Department at Beijing Iron and Steel College in 1965.

Mr. Huang Changhuai, aged 72, is an independent non-executive Director. He has worked in a printing and dyeing mill as a supervisor, political director and deputy director of the mill. He was appointed as the deputy director of the city's economic system reform committee by the People's Government of Zhengzhou City and as the director of the city's industrial and communications development committee at the Third Session of the Eighth People's Congress of Zhengzhou City in 1985. He was then appointed at the Twelfth Session of the Eighth People's Congress of Zhengzhou City as the director of the city's economic committee in 1986. He was also appointed the deputy director of the standing committee of the People's Congress of Zhengzhou City. He graduated in September 1958 from Zhengzhou Textile School.

Mr. Wong Chi Keung, *FCCA, FCPA, ACMA, ACIS*, aged 53, is an independent non-executive Director. He holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited for over ten years.

He is currently an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Ting Group Holdings Limited, First Natural Foods Holdings Limited, FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, International Entertainment Corporation, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of which are listed on the Stock Exchange. He was formerly an independent non-executive director of China Treasure (Greater China) Investments Limited (now known as Opes Asia Development Limited). Save as disclosed above, Mr. Wong does not hold other directorship in listed public company for the last three years. Mr. Wong has over 31years of experience in finance, accounting and management.

Company Secretary And Qualified Accountant

Mr. Lau Hok Yuk, is the Group's executive Director, company secretary and qualified accountant. Mr. Lau's personal particulars are set out in the paragraph headed "Directors" above.

Audit Committee

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

Dedication to Product

Quality

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

Principal Activities

The principal activities of the Company are investment holding and trading of iron ore. The Group is principally engaged in the manufacture and sale of special steel products in the PRC. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements.

Segment Information

The Group's turnover and profit for the year ended 31 December 2007 were mainly derived from the manufacture and sale of special steel products to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business or geographical segment is provided for the year ended 31 December 2007.

Results and Dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 108.

An interim dividend of HK$0.048 per ordinary share was declared on 6 September 2007 and paid on 18 October 2007. The Directors recommend the payment of a final dividend of HK$0.013 per ordinary share in respect of the year to shareholders on the register of members on 12 June 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Further details of dividends are set out in note 11 to financial statements.

Closure of Register of Members

The book close dates of the Group's final dividend payment of HK$0.013 per share for the year ended 31 December 2007 was set in the period from Tuesday, 10 June 2008 to Thursday, 12 June 2008. The dividend is expected to be paid on Friday, 27 June 2008 to the shareholders whose names appear on the Company's Register of Members on Thursday, 12 June 2008.

The register of members of the Company will be closed from Tuesday, 10 June 2008 to Thursday, 12 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and be eligible to attend and vote at the Annual General Meeting to be held on Thursday, 12 June 2008, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Branch Share Registrar and Transfer Office in Hong Kong, at shops 1712–1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 6 June 2008.

Summary Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial year is disclosed on page 3.

Property, Plant and Equipment

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

Share Capital, Share Options

Details of movements in the Company's share capital, share options during the year are set out in notes 30, 31 and 33 to the financial statements.

Pre-emptive Rights

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2007, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2004 Revision) of the Cayman Islands, amounted to RMB2,984,577,000.

Under the laws of the Cayman Islands, the share premium account and contributed surplus is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 93% of the total sales for the year and sales to the largest customer included therein accounted for 51%. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier accounted for 16%.

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

Directors

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

Executive Directors

Mr. Dong Shutong
Mr. He Weiquan
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Ms. Zhang Ming *(resigned on 1 April 2008)*
Mr. Zhao Ping
Mr. Dong Chengzhe

Non-executive Directors

Mr. Yang Tianjun

Independent Non-executive Directors

Mr. Bai Baohua
Mr. Huang Changhuai
Mr. Wong Chi Keung

The Company has received annual confirmation of independence from Mr. Bai Baohua, Mr. Huang Chuanghuai, Mr. Wong Chi Keung on 23 March 2008 and still considers them to be independent.

Directors' and Senior Management Biographies

Biographical details of the Directors of the Company are set out on pages 17 to 19.

Directors' Service Contracts

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

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

Directors' Remuneration

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

Directors' Interests in Contracts

Mr. Dong Shutong, being a beneficial shareholder of East Grow Management Limited ("East Grow"), was interested in a contract for the supplier of iron ore to the Group effective from 1 January 2006.

On 5 March 2007, S.E.A.M entered into an Exclusive Offtake Agreement with PT Yiwan Mining ("Yiwan Mining"), a limited company incorporated in Indonesia, which is substantially owned by Mr. Soen Bin Kuan. Pursuant to the Exclusive Offtake Agreement, Yiwan Mining agreed to exclusively sell and S.E.A.M agreed to buy the iron ores produced by Yiwan Mining at a fixed price of US$16 per dry tonne, for a minimum 40 million dry tones of iron ores throughout a period of approximately 14 years expiring on 24 January 2021.

By virtue of the convertible bonds issued by Yiwan Mining to Easyman Assets Management Limited ("Easyman") which is wholly-owned by Mr.Dong Shutong ("Mr. Dong"), Mr. Dong had an indirect interest in the Exclusive Offtake Agreement.

Further details of the transaction undertaken in connection therewith are included in note 36 to financial statements. Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2007, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Capacity in which interests are held	Number of shares	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	Beneficial owner	1,481,074,705 *(note 1)*	70.77%

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

Name of Director	Options to subscribe for Shares *(note 2)*	Capacity in which interests are held	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	5,000,000	Beneficial owner	0.24%
Mr. He Weiquan	4,250,000	Beneficial owner	0.20%
Mr. Lau Hok Yuk	3,000,000	Beneficial owner	0.14%
Mr. Song Wenzhou	1,020,000	Beneficial owner	0.05%
Ms. Zhang Ming *(note 3)*	1,275,000	Beneficial owner	0.06%
Mr. Zhao Ping	4,250,000	Beneficial owner	0.20%
Mr. Dong Chengzhe	1,275,000	Beneficial owner	0.06%

Notes:

1. *The shares are held directly by Easyman Assets Management Limited ("Easyman") which is wholly-owned by Mr. Dong Shutong ("Mr. Dong"). By virtue of the SFO, Mr. Dong is deemed to have beneficial interests in the above shares.*

2. *The above share options are unlisted equity-settled options granted pursuant to the Company's share option scheme adopted on 2 May 2005. Upon exercise of the options in accordance with such share option scheme, Company's shares of HK$0.10 each are issuable*

3. *Ms. Zhang Ming was resigned as a Director of the Company on 1 April 2008*

Save as disclosed above, as at 31 December 2007, none of the Directors and the chief executive of the Company and their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests and Short Positions in the Share Capital of the Company

As at 31 December 2007, shareholders (other than Directors or the chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(i) Long positions in the Shares as at 31 December 2007:

Name of shareholder	Capacity in which interests are held	Number of shares/ underlying shares held		Approximate percentage to the issued share capital of the Company	
		Long positions	Short positions	Long positions	Short positions
Easyman Assets Management Limited *(Note 1)*	Beneficial owner	1,481,074,705	Nil	70.77%	Nil
Deutsche Bank Aktiengesellschaft	Beneficial owner/ Person having a security interest in shares	23,814,221	1,758,000	1.14%	0.08%

Note:

1. *Easyman Assets Management Limited is wholly owned by Mr. Dong Shutong, chairman of the Company.*

(ii) Long positions in the underlying Shares of the 2012 3% convertible bonds of the Company as at 31 December 2007:

Name of the holder of the 2012 3% convertible bonds	Amount of the 2012 3% convertible bonds HK$	Number of underlying shares held	Approximate percentage to the issued share capital of the Company
Deutsche Bank Aktiengesellschaft *(Note 1)*	205,000,000	91,111,111	4.35%

Note:

1. *As at 31 December 2007, Deutsche Bank Aktiengesellschaft was the holder of a convertible bond in the principal amount of HK$205 million which could be converted upon exercise, into shares of the Company at HK$2.25 per share, by no later than the close of business on 15 days before 18 May 2012. This constituted a long position in physically settled equity derivatives under the SFO.*

(iii) Long positions in the underlying Shares of the 2012 zero coupon convertible bonds of the Company as at 31 December 2007:

Name of the holder of the 2012 zero coupon convertible bonds	Amount of the 2012 zero coupon convertible bonds HK$	Number of underlying shares held	Approximate percentage to the issued share capital of the Company
Deutsche Bank Aktiengesellschaft *(Note 1)*	2,000,000,000	346,620,451	16.56%

Note:

1. *As at 31 December 2007, Deutsche Bank Aktiengesellschaft was the holder of a convertible bond in the principal amount of HK$2 billion which could be converted upon exercise, into shares of the Company at HK$5.77 per share, by no later than the close of business on 2 December 2012. The convertible bond was jointly held with Credit Suisse (Hong Kong) Limited. This constituted a long position in physically settled equity derivatives under the SFO.*

(iv) Long positions in the underlying Shares of the 2010 convertible notes of the Company as at 31 December 2007:

Name of the holder of the 2010 convertible notes	Amount of the 2010 convertible notes HK$	Number of underlying shares held	Approximate percentage to the issued share capital of the Company
Mr. Soen Bin Kuan (also known as Tju Bin Kuan) *(Note 1)*	316,130,000	182,736,416	8.73%

Note:

1. *As at 31 December 2007, Mr. Soen Bin Kuan was the holder of a convertible notes in the principal amount of HK$316.13 million which is obliged to convert the principal outstanding amount of convertible notes into shares of the Company at the conversion price of HK$1.73 per share, upon maturity on 18 May 2010. This constituted a long position in physically settled equity derivatives under the SFO.*

Save as disclosed above, as at 31 December 2007, the Company has not been notified by any persons (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share option scheme

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

The exercise period of the option will be from the date of acceptance of the option up to the last day of the 10 year period after the day of acceptance of the option, which is in compliance with the terms of the share option scheme, subject to the following conditions.

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

During the year, the Board of the Company were authorized to grant share options under the Company's share option scheme to certain executive Directors and senior managers. The details of the share options are as follows:

	No. of share options					
	At beginning of year	Granted during the year	Exercised during the year	At 31 December 2007	Exercise price of share options* HK$	Price of Company's shares at exercise date of options** HK$
Name of Director						
Mr. Dong Shutong	5,000,000	—	—	5,000,000	1.07	—
Mr. He Weiquan	4,250,000	—	—	4,250,000	1.07	—
Mr. Lau Hok Yuk	—	3,000,000	—	3,000,000	1.91	—
Mr. Song Wenzhou	1,275,000	—	(255,000)	1,020,000	1.07	4.34
Ms. Zhang Ming***	—	1,275,000	—	1,275,000	1.91	—
Mr. Zhao Ping	—	4,250,000	—	4,250,000	1.91	—
Mr. Dong Chengzhe	—	1,275,000	—	1,275,000	1.91	—
Sub-total for number of share options to Directors	10,525,000	9,800,000	(255,000)	20,070,000		
Other employees	8,925,000	—	(510,000)	8,415,000	1.07	4.27
	—	1,275,000	—	1,275,000	1.91	—
	—	3,000,000	—	3,000,000	2.37	—
Sub-total for number of share options to other employees	8,925,000	4,275,000	(510,000)	12,690,000		
Total	19,450,000	14,075,000	(765,000)	32,760,000		

Notes:

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

** *The price of the shares of the Company as at the date of exercise of the share options is the Stock Exchange's closing price on the trading date immediately prior to the date on which the share options were exercised.*

*** *Ms. Zhang Ming resigned as a Director of the Company on 1 April 2008.*

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the share option scheme as set out in note 33 to the financial statements, at no time during the year ended 31 December 2007 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Connected Transactions

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

During the year, the Company had purchased nil (2006: US$3.5 million (approximately HK$27.3 million)) iron ore from East Grow.

Pursuant to an extraordinary general meeting of the Company held on 2 May 2007, the Company's independent shareholders approved the continuing connected transactions in relation to the exclusive ores purchase from PT Yiwan Mining. According to the exclusive offtake agreement entered into between PT Yiwan Mining and the S.E.A. Mineral Limited ("S.E.A.M."), an indirect wholly owned subsidiary of the Company, (the "Exclusive Offtake Agreement") in connection with the purchasing of ore, PT Yiwan Mining agreed to supply ore to the S.E.A.M. with effect from 18 May 2007 to 31 December 2009. According to the Exclusive Offtake Agreement, the prices for these continuing connected transactions will be US$16.00 per dry tonne and these transactions will be entered into in usual and ordinary course of business of the Group. The annual cap for these transactions for the year ended 31 December 2007 and years ending 31 December 2008 and 2009 will not exceed HK$89.70 million, HK$452.40 million and HK$491.40 million, respectively.

During the year, the Company had purchased US$8.9 million (approximately HK$69.40 million) ore from PT Yiwan Mining.

Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the auditors have reported their factual findings on the continuing connected transactions of the Group to the Board of Directors.

The independent non-executive Directors of the Company has reviewed the continuing connected transactions in 2007 and confirm that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole; and

(4) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

Directors' Interests in a Competing Business

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

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 41 to financial statements.

Audit Committee

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

Remuneration Committee

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

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

Auditors

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

ON BEHALF OF THE BOARD

Dong Shutong
Chairman

23 April 2008

Report of Corporate Governance

Corporate Governance Practices

For the year ended 31 December 2007, in the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviations from code provision A.4.1 of the Code in respect of the service term of independent non-executive Directors.

The Board of Director considered that the Group's prevailing structures and systems satisfied the requirements of the CG Code. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiries, the Company has confirmed that all Directors have compiled with the requirements set out in the Model Code.

The Board

Composition and appointment

As at 31 December 2007, the Board comprises eleven Directors, including seven executive Directors, one non-executive Director and three independent non-executive Directors. Names and biographies of the Directors, except Ms. Zhang Ming who resigned as director of the Company on 1 April 2008, are set out on pages 17 to 19 of this annual report.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules, one of the independent non-executive Directors possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and eligibility of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

The Directors confirmed that there was no connection amongst the Directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the year, the Board convened a total of five meetings, performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the Articles of Association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate. The average attendance rate was 94%.

Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term. The existing non-executive Directors of the Company were not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, according to the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those provided in the Code.

During the year, five full Board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Attendance Times	Attendance Rate (%)	Title
Dong Shutong	5	100	Chairman, Executive Director, Chief Executive Officer
He Weiquan	4	80	Executive Director, Chief Operation Officer
Lau Hok Yuk	5	100	Executive Director, Chief Financial Officer
Song Wenzhou	5	100	Executive Director
Zhang Ming*	5	100	Executive Director
Zhao Ping	5	100	Executive Director
Dong Chengzhe^	3	100	Executive Director
Yang Tianjun	5	100	Non-Executive Director
Bai Baohua	3	60	Independent Non-Executive Director
Huang Changhuai	5	100	Independent Non-Executive Director
Wong Chi Keung	5	100	Independent Non-Executive Director

* *resigned effective from 1 April 2008*

^ *appointed effective from 12 March 2007*

Chairman and chief executive

The executive Director, Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with internal rules, and compliance with statutory requirements and promoting the corporate governance of the Company, whereas the Company did not appoint another individual to act as a chief executive for the year ended 31 December 2007 and up to the date of the report. This constitutes a deviation from Code Provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for Mr. Dong Shutong, who is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. The significant decision-making and the day-to-day management of the Company is carried out by all of the executive Directors. Therefore, the roles of the Chairman and the chief executive of the Company are not segregated in the sense that two different individuals took up these roles. However, the functions of the chief executive were carried out by all of the executive Directors. The role of the Chairman and chief executive are not exercised by the same individual.

Remuneration Committee

The remuneration committee of the Company was established on 10 April 2006 and comprises one executive Director and three independent non-executive Directors. The members of the remuneration committee are: Mr. Dong Shutong, Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung.

The remuneration committee held three meetings on 21 February 2007, 20 March 2007 and 20 April 2007 respectively to review the performance and incentives of executive Directors and terms of employment of the management staff within the Group in 2007.

Responsibilities of the remuneration committee include:

(1) to make recommendation to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(4) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(6) to ensure that no Director is involved in deciding his own remuneration.

Auditors' Remuneration

For the year ended 31 December 2007, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company. The total fee paid to Ernst & Young amounted to RMB2,427,000.

Audit Committee

The audit committee comprises three independent non-executive Directors, and Mr. Wong Chi Keung serves as the chairman of the audit committee.

During the year, the audit committee held two committee meetings on 20 April 2007 and 5 September 2007. The attendance of each of the members of the audit committee at such meetings is as follows:

Name of Director	Attendance Times	Attendance Rate (%)	Title
Wong Chi Keung	2	100	Independent Non-Executive Director
Bai Baohua	2	100	Independent Non-Executive Director
Huang Changhuai	2	100	Independent Non-Executive Director

During the meetings held in 2007, the audit committee had performed the following work:

(1) reviewed the financial reports for the year ended 31 December 2006 and for the six months ended 30 June 2007;

(2) reviewed the effectiveness of internal control system;

(3) reviewed the external auditors' statutory audit plan and engagement letter;

(4) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2006;

(5) reviewed and recommended for approval by the Board the 2007 audit scope and fees.

Responsibilities of the audit committee include:

(1) reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company;

(2) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;

(3) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and

(4) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Company for the year ended 31 December 2007.

Internal Control

The Board is responsible for the Company's system of internal controls and its effectiveness. However, such a system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes updating the system of internal controls when there are changes to business environment.

During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Company's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Nickel Resources Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Nickel Resources Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 108, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the shareholders of China Nickel Resources Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
23 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	5	**1,874,591**	879,796
Cost of sales		**(1,288,493)**	(691,564)
Gross profit		**586,098**	188,232
Other income and gains	5	**72,965**	9,553
Selling and distribution costs		**(43,988)**	(34,179)
Administrative expenses		**(75,442)**	(32,280)
Other expenses		**(786)**	(332)
Finance costs	6	**(68,100)**	(23,420)
Profit before income tax	7	**470,747**	107,574
Income tax expenses	9	**(110,085)**	(17,332)
Net profit for the year		**360,662**	90,242
Attributable to:			
Equity holders of the parent	10	**359,291**	90,272
Minority interests		**1,371**	(30)
		360,662	90,242
Dividends	11	**121,732**	32,369
Earnings per share attributable to ordinary equity holders of the parent			
— Basic (RMB)	12	**0.245**	0.163
— Diluted (RMB)	12	**0.223**	0.161

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Balance Sheets

31 December 2007

	Notes	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	**930,838**	672,195	**359**	442
Construction in progress	15	**168,294**	48,660	**—**	—
Prepaid land lease payments	16	**201,485**	5,077	**—**	—
Goodwill	17	**65,052**	—	**—**	—
Intangible asset	18	**2,682,095**	—	**—**	—
Deferred tax assets	19	**24,290**	—	**—**	—
Interests in subsidiaries	20	**—**	—	**3,947,907**	859,106
Prepayments	21	**34,991**	171,730	**22,642**	—
Total non-current assets		**4,107,045**	897,662	**3,970,908**	859,548
Current assets					
Inventories	22	**795,693**	228,768	**—**	—
Trade and notes receivables	23	**209,369**	147,909	**—**	—
Prepayments, deposits and other receivables	24	**52,335**	108,842	**6,289**	14,431
Pledged time deposits	25	**327,642**	129,085	**—**	—
Cash and cash equivalents	25	**1,909,959**	80,777	**1,719,530**	62,496
Total current assets		**3,294,998**	695,381	**1,725,819**	76,927
TOTAL ASSETS		**7,402,043**	1,593,043	**5,696,727**	936,475
Current liabilities					
Trade and notes payables	26	**560,517**	286,572	**—**	—
Accrued liabilities and other payables	27	**231,662**	60,455	**5,280**	5,401
Interest-bearing loans and other borrowings	28	**140,659**	164,600	**37,089**	19,600
Tax payable		**70,851**	4,091	**—**	—
Total current liabilities		**1,003,689**	515,718	**42,369**	25,001
NET CURRENT ASSETS		**2,291,309**	179,663	**1,683,450**	51,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,398,354**	1,077,325	**5,654,358**	911,474
Non-current liabilities					
Interest-bearing loans and other borrowings	28	**120,370**	235,303	**—**	192,303
Convertible bonds	29	**2,113,871**	—	**2,113,871**	—
Deferred tax liabilities	19	**26,886**	2,231	**—**	—
Total non-current liabilities		**2,261,127**	237,534	**2,113,871**	192,303
NET ASSETS		**4,137,227**	839,791	**3,540,487**	719,171

to be continued/...

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

31 December 2007

	Notes	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	30	**209,938**	61,119	**209,938**	61,119
Equity component of convertible bonds	29	**73,198**	—	**73,198**	—
Reserves	31	**3,775,501**	761,512	**3,232,952**	640,899
Proposed final dividends	11	**24,399**	17,153	**24,399**	17,153
Total equity attributable to equity holders of the parent		**4,083,036**	839,784	**3,540,487**	719,171
Minority interests		**54,191**	7	**—**	—
TOTAL EQUITY		**4,137,227**	839,791	**3,540,487**	719,171

Dong Shutong
Chairman

Lau Hok Yuk
Director

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Statement of Changes in Equity

Year ended 31 December 2007

Group

	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Capital reserve RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Equity component of convertible bonds RMB'000 (note 29)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 31)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the parent												
At 1 January 2007		61,119	326,217*	51,599*	122,147*	3,565*	—	47,949*	(2,176)*	212,211*	17,153	839,784	7	839,791
Total income and expense recognised directly in equity — Exchange realignment		—	—	—	—	—	—	—	(10,795)	—	—	(10,795)	—	(10,795)
Profit for the year		—	—	—	—	—	—	—	—	359,291	—	359,291	1,371	360,662
Total income and expense for the year		—	—	—	—	—	—	—	(10,795)	359,291	—	348,496	1,371	349,867
Issue of ordinary shares	30	5,510	89,806	—	—	—	—	—	—	—	—	95,316	—	95,316
Share issue expenses	30	—	(2,964)	—	—	—	—	—	—	—	—	(2,964)	—	(2,964)
Issue of consideration shares	18	131,889	2,149,791	—	—	—	—	—	—	—	—	2,281,680	—	2,281,680
Issue of convertible notes	18	—	—	—	311,135	—	—	—	—	—	—	311,135	—	311,135
Exercise of share options	33	74	936	—	—	(219)	—	—	—	—	—	791	—	791
Equity-settled share option arrangements	33	—	—	—	—	4,590	—	—	—	—	—	4,590	—	4,590
Issue of convertible bonds, net of transaction costs	29	—	—	—	—	—	78,925	—	—	—	—	78,925	—	78,925
Conversion of convertible bonds	29(i)	11,346	249,469	—	—	—	(5,727)	—	—	—	—	255,088	—	255,088
Transferred from retained profits		—	—	—	—	—	—	27,168	—	(27,168)	—	—	—	—
Final 2006 dividend declared	11	—	—	—	—	—	—	—	—	—	(17,153)	(17,153)	—	(17,153)
Interim 2007 dividend	11	—	(97,333)	—	—	—	—	—	—	—	—	(97,333)	—	(97,333)
Proposed final 2007 dividend	11	—	(24,399)	—	—	—	—	—	—	—	24,399	—	—	—
Acquisition of subsidiaries	32	—	—	—	—	—	—	—	—	—	—	—	37,494	37,494
Acquisition of minority interests	20	—	—	—	(15,319)	—	—	—	—	—	—	(15,319)	15,319	—
At 31 December 2007		209,938	2,691,523*	51,599*	417,963*	7,936*	73,198	75,117*	(12,971)*	544,334*	24,399	4,083,036	54,191	4,137,227

* *The aggregate of these reserve accounts represented the consolidated reserves of RMB3,775,501,000 (2006: RMB761,512,000) in the consolidated balance sheet.*

to be continued/...

The accompanying notes on page 48 to 108 form an integral part of the financial statements

Year ended 31 December 2007

Group

	Notes	Attributable to equity holders of the parent												
		Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Capital reserve RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 31)	Statutory public welfare funds RMB'000 (note 31)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		53,000	184,462	51,599	122,147	1,448	32,998	5,309	(317)	143,410	21,689	615,745	37	615,782
Total income and expense recognised directly in equity — Exchange realignment		—	—	—	—	—	—	—	(1,859)	—	—	(1,859)	—	(1,859)
Profit/(loss) for the year		—	—	—	—	—	—	—	—	90,272	—	90,272	(30)	90,242
Total income and expense for the year		—	—	—	—	—	—	—	(1,859)	90,272	—	88,413	(30)	88,383
Issue of ordinary shares	*30*	8,058	167,207	—	—	—	—	—	—	—	—	175,265	—	175,265
Share issue expenses		—	(5,681)	—	—	—	—	—	—	—	—	(5,681)	—	(5,681)
Exercise of share options		61	769	—	—	(178)	—	—	—	—	—	652	—	652
Equity-settled share option arrangements	*33*	—	—	—	—	2,295	—	—	—	—	—	2,295	—	2,295
Transferred from the statutory public welfare fund		—	—	—	—	—	5,309	(5,309)	—	—	—	—	—	—
Transferred from retained profits		—	—	—	—	—	9,642	—	—	(9,642)	—	—	—	—
Adjustment on 2005 proposed final dividend resulting from shares issued in April 2006	*11*	—	(3,387)	—	—	—	—	—	—	—	3,387	—	—	—
Final 2005 dividend declared	*11*	—	—	—	—	—	—	—	—	—	(25,076)	(25,076)	—	(25,076)
Interim 2006 dividend	*11*	—	—	—	—	—	—	—	—	(11,829)	—	(11,829)	—	(11,829)
Proposed final 2006 dividend	*11*	—	(17,153)	—	—	—	—	—	—	—	17,153	—	—	—
At 31 December 2006		61,119	326,217	51,599	122,147	3,565	47,949	—	(2,176)	212,211	17,153	839,784	7	839,791

to be continued/...

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Year ended 31 December 2007

Company

	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Capital reserve RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Equity component of convertible bonds RMB'000 (note 29)	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000 (note 11)	Total equity RMB'000
At 1 January 2007		61,119	326,217*	314,784*	—	3,565*	—	(17,605)*	13,938*	17,153	719,171
Total income and expense recognised directly in equity											
— Exchange realignment		—	—	—	—	—	—	(28,692)	—	—	(28,692)
Loss for the year		—	—	—	—	—	—	—	(60,067)	—	(60,067)
Total income and expense for the year		—	—	—	—	—	—	(28,692)	(60,067)	—	(88,759)
Issue of ordinary shares	30	5,510	89,806	—	—	—	—	—	—	—	95,316
Share issue expenses		—	(2,964)	—	—	—	—	—	—	—	(2,964)
Issue of consideration shares	18	131,889	2,149,791	—	—	—	—	—	—	—	2,281,680
Issue of convertible notes	18	—	—	—	311,135	—	—	—	—	—	311,135
Exercise of share options	33	74	936	—	—	(219)	—	—	—	—	791
Equity-settled share option arrangements	33	—	—	—	—	4,590	—	—	—	—	4,590
Issue of convertible bonds net of transaction costs	29	—	—	—	—	—	78,925	—	—	—	78,925
Conversion of convertible bonds	29(i)	11,346	249,469	—	—	—	(5,727)	—	—	—	255,088
Final 2006 dividend declared	11	—	—	—	—	—	—	—	—	(17,153)	(17,153)
Interim 2007 dividend	11	—	(97,333)	—	—	—	—	—	—	—	(97,333)
Proposed final 2007 dividend	11	—	(24,399)	—	—	—	—	—	—	24,399	—
At 31 December 2007		209,938	2,691,523*	314,784*	311,135*	7,936*	73,198	(46,297)*	(46,129)*	24,399	3,540,487

* *The aggregate of these reserve accounts represents reserves of RMB3,232,952,000 (2006: RMB640,899,000) in the Company's balance sheet.*

to be continued/...

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Year ended 31 December 2007

Company

	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000 (note 11)	Total equity RMB'000
At 1 January 2006		53,000	184,462	314,784	1,448	(4,580)	1,778	21,689	572,581
Total income and expense recognised directly in equity									
— Exchange realignment		—	—	—	—	(13,025)	—	—	(13,025)
Profit for the year		—	—	—	—	—	23,989	—	23,989
Total income and expense for the year		—	—	—	—	(13,025)	23,989	—	10,964
Issue of ordinary shares		8,058	167,207	—	—	—	—	—	175,265
Share issue expenses		—	(5,681)	—	—	—	—	—	(5,681)
Exercise of share options		61	769	—	(178)	—	—	—	652
Equity-settled share option arrangements	*33*	—	—	—	2,295	—	—	—	2,295
Adjustment on 2005 proposed final dividend resulting from shares issued in April 2006		—	(3,387)	—	—	—	—	3,387	—
Final 2005 dividend declared	*11*	—	—	—	—	—	—	(25,076)	(25,076)
Interim 2006 dividends	*11*	—	—	—	—	—	(11,829)	—	(11,829)
Proposed final 2006 dividend	*11*	—	(17,153)	—	—	—	—	17,153	—
At 31 December 2006		61,119	326,217	314,784	3,565	(17,605)	13,938	17,153	719,171

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash flow from operating activities			
Profit before income tax		**470,747**	107,574
Adjustments for:			
Finance costs		**68,100**	23,420
Interest income		**(17,016)**	(5,049)
Amount waived by creditors		**(15,847)**	(2,589)
Gain on disposal of property, plant and equipment		**(3,325)**	(17)
Depreciation of property, plant and equipment		**79,129**	47,713
Amortisation of prepaid land lease payments		**4,350**	305
Provision/(reversal of provision) of impairment for trade receivable and other receivables		**267**	(531)
Write-down/(reversal of write-down) of inventories to net realisable value		**4**	(1,700)
Foreign exchange gain, net		**(29,567)**	(21)
Equity-settled share option expense	*33*	**4,590**	2,295
		561,432	171,400
Increase in inventories		**(391,929)**	(126,188)
Increase in trade and notes receivables		**(61,461)**	(60,406)
Decrease/(increase) in prepayments, deposits and other receivables		**83,188**	(5,574)
Increase/(decrease) in trade and notes payables		**84,117**	(1,980)
(Decrease)/increase in accrued liabilities and other payables		**(69,917)**	26,706
Increase in long-term prepayments		**(34,991)**	—
Cash generated from operations		**170,439**	3,958
Income tax paid		**(26,078)**	(13,353)
Net cash inflow/(outflow) from operating activities		**144,361**	(9,395)

to be continued/...

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow/(outflow) from operating activities		**144,361**	(9,395)
Cash flows from investing activities			
Interest received		**17,016**	5,049
Acquisition of subsidiaries	*32*	**(19,366)**	—
Acquisition of property, plant and equipment and construction in progress		**(121,024)**	(119,917)
Proceeds from disposal of property, plant and equipment		**4,688**	63
Additions to prepaid land lease payments		**(2,543)**	—
Additions to an intangible asset		**(105,470)**	—
Increase in prepayments for acquisition of a subsidiary		**—**	(171,730)
(Increase)/decrease in pledged time deposits		**(198,557)**	24,132
Net cash outflow from investing activities		**(425,256)**	(262,403)
Cash flows from financing activities			
Proceeds from issue of share		**93,143**	170,236
Proceeds from issue of convertible bonds	*29*	**2,451,577**	—
New bank loans and other borrowings		**307,212**	485,162
Repayment of bank loans and other borrowings		**(565,252)**	(257,684)
Dividends paid		**(114,486)**	(36,905)
Interest paid		**(35,969)**	(21,628)
Net cash inflow from financing activities		**2,136,225**	339,181
Net increase in cash and cash equivalents		**1,855,330**	67,383
Cash and cash equivalents at beginning of year		**80,777**	15,232
Effect of foreign exchange rate changes, net		**(26,148)**	(1,838)
Cash and cash equivalents at end of year		**1,909,959**	80,777
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*25*	**203,194**	78,702
Unrestricted time deposits with original maturity of less than three months	*25*	**1,706,765**	2,075
		1,909,959	80,777

The accompanying notes on page 48 to 108 form an integral part of the financial statements.

1. Corporate 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, British West Indies. The principal place of business of the Group is located at 4 Third Street, Jinshui District, Zhengzhou, Henan Province, the People's Republic of China (the "PRC"). The principal place of business of the Company is Room 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 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 20 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 wholly owned Mr. Dong Shutong, is the ultimate holding company of the Group.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") 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 under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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 intercompany transactions and balances within the Group have been eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

31 December 2007

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

In 2007, the Group adopted the following new and revised IFRSs, which are relevant to its operations.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of these new and revised IFRSs does not have any significant impact on the accounting policies of the Group and the method of computation in the financial statements.

The principal effects of adopting these new and revised IFRSs changes in accounting policies are as follows:

(a) Amendment to IAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 35 to the financial statements.

(b) IFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(c) IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the fair value of the goods or services received could be reliably estimated for the corresponding increase in equity and cash consideration paid, and as well as the Company's issuance of equity instruments to the Group's employees was in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) IFRIC 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

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

(e) IFRIC 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses recognised in a previous interim period respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 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 the consolidated financial statements.

IFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations[1]
IFRS 3(Revised)	Business Combination[2]
IFRS 8	Operating Segments[1]
IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 1 Amendment	Puttable Financial Instruments[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 Amendment	Puttable Financial Instruments[1]
IFRIC 11	IFRS 2 Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

31 December 2007

2.3 Impact of issued but not yet effective IFRSs (Continued)

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by IFRS 3 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segment and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions of owners, with non-owner changes in equity presented as a single line. The Group will need to consider whether to present the statement of comprehensive income as a single statement or two statements. This may also impact the information disclosed in other announcements by the Group, such as press releases.

This amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

Amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

31 December 2007

2.3 Impact of issued but not yet effective IFRSs (Continued)

IFRIC 12 requires an operator under public-to-private service concession arrangements to recognize the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or reduction in the future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirements exists.

As the Group currently has no customer loyalty award scheme and defined benefit scheme, IFRIC 13 and IFRIC 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.4 Summary of significant accounting policies

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.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Goodwill (Continued)

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

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.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) 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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

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, but 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.

2.4 Summary of significant accounting policies (Continued)

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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

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 on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Construction in progress

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Exclusive offtake right

The exclusive offtake right represents the exclusive right to purchase iron ores at a fixed price by the Group from an iron ore supplier for a period of approximately 14 years ending 24 January 2021. The exclusive offtake right is stated at cost less accumulated amortisation and any impairment losses. The exclusive offtake right is amortised based on the unit of purchase method.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred 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 availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when 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. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. As at 31 December 2007, the Group only has loans and receivables financial assets. When financial assets are recognised initially, they are measured at fair value.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates 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.

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 less any allowance for impairment. 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.

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 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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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 by adjusting the allowance account. 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.

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

In relation to trade and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) 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.

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 notes payable, other payables, 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. The related interest expense is recognised within "finance costs" in the income statement.

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

31 December 2007

2.4 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 less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, expect 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 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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.

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise as cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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.

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.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

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, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward 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 carryforward 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, 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 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 tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Revenue recognition

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

(a) from the sale of goods, 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;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

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 33. 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.

31 December 2007

2.4 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.

Retirement benefit schemes

Obligatory retirement benefits in the form of contributions under defined contribution retirement schemes administered by local government agencies are charged to the income statement as incurred. Further details of the retirement benefit schemes are set out in note 13 to the financial statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Dividends

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

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

Foreign currencies

The functional currency of the Company is Hong Kong dollars ("HK$"), the functional currency of its subsidiaries incorporated outside the PRC are HK$ or United States dollars ("US$"), and the functional currency of the PRC subsidiaries is Renminbi ("RMB"). The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in RMB, which is the Group's 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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.

31 December 2007

2.4 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

On consolidation, the assets and liabilities of the Group's non-PRC 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 non-PRC entity, the deferred cumulative amount recognised in equity relating to that particular non-PRC entity is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and its non-PRC 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 non-PRC subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 33.

(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 judgement 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 values of the receivables and expenses for write-back of bad and doubtful debts in the period in which the estimate has been changed.

3. Significant accounting judgements and estimates (Continued)

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, 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.

(d) Initial recognition of exclusive offtake right and its impairment

Exclusive offtake right is initially recognised at fair value. The fair value is determined by the Directors of the Company with reference to the valuation performed by an independent valuer. The independent valuer used income approach by applying discounted cash flow method in its valuation. The estimation of fair value requires management judgement and estimates and the fair value could change significantly as a result of change in discount rate, estimation of market price of nickel and iron and other risk factors related to the exclusive offtake right. Further details are included in note 18 to the financial statements.

The Group assesses whether there are any indicators of impairment for exclusive offtake right at each reporting date. When impairment test in undertaken, management judgement and estimate are required in adopting suitable valuation factors as mentioned above in the impairment test.

(e) Amortisation of exclusive offtake right

Amortisation of exclusive offtake right is made based on the actual iron ore purchase during the period over the total planned purchase volume during the contractual period. The estimation of total planned purchase volume requires management judgement and estimates. It could change significantly as a result of market demand on nickel-based products, technical innovations, reserve of the mine, the ability of the miner in meeting the Group's ore orders and other relevant factors. Management will review the planned purchase volume at least annually, and adjust the total planned purchase volume accordingly. Further details are included in note 18 to the financial statements.

(f) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2007 was RMB65,052,000 (2006: Nil), more details are included in note 17 to the financial statements.

(g) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each balance sheet date.

31 December 2007

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, other income and gains

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.

An analysis of revenue, other income and gains is as follows:

	2007 **RMB'000**	2006 RMB'000
Revenue		
Sale of goods:		
Stainless steel base materials	**1,687,527**	—
Bearing steel	**159,211**	805,004
Stainless steel	**6,407**	—
Spring steel	**3,877**	60,733
Carbon structure steel and other steel	**17,569**	14,059
Total revenue	**1,874,591**	879,796
Other income		
Bank interest income	**17,016**	5,049
Sales of scrap materials	**6,984**	1,226
Others	**226**	651
	24,226	6,926
Gains		
Gain on disposal of property, plant and equipment	**3,325**	17
Amounts waived by creditors	**15,847**	2,589
Foreign exchange gain, net	**29,567**	21
	48,739	2,627
Total other income and gains	**72,965**	9,553

31 December 2007

6. Finance costs

	Note	Group 2007 RMB'000	2006 RMB'000
Interest on bank loans and other borrowings		**32,199**	23,420
Interest on convertible bonds	*29*	**35,901**	—
		68,100	23,420

7. Profit before income tax

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

	Note	2007 RMB'000	2006 RMB'000
Staff costs (including Directors' and senior executives' emoluments as set out in note 8):			
Salaries and other staff costs		**54,083**	21,697
Retirement benefit schemes contributions		**5,883**	2,869
Equity-settled share-based expense	*33*	**4,590**	2,295
Total staff costs		**64,556**	26,861
Amortisation of intangible asset:			
Amortisation of exclusive offtake right	*18*	**16,190**	—
Less: Capitalised as cost of inventories		**(10,847)**	—
		5,353	—
Costs of inventories sold		**1,288,493**	691,564
Research and development costs		**137**	453
Auditors' remuneration		**2,427**	2,147
Depreciation of property, plant and equipment		**79,129**	47,713
Amortisation of prepaid land lease payments		**4,350**	305
Gain on disposal of property, plant and equipment		**(3,325)**	(17)
Provision/(reversal of provision) of impairment of trade receivables and other receivables		**267**	(531)
Write-down/(reversal of write-down) of inventories to net realisable value		**4**	(1,700)
Minimum lease payments under operating leases in respect of land and buildings and other assets		**1,557**	1,042

31 December 2007

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 2007 RMB'000	2006 RMB'000
Fees	**776**	820
Salaries, allowances and benefits in kind	**3,771**	2,879
Employee share option benefits	**3,032**	1,288
Retirement benefit schemes contributions	**47**	19
	7,626	5,006

In July 2005, March 2007 and April 2007, 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 33 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 2007 RMB'000	2006 RMB'000
Mr. Bai Baohua	**194**	205
Mr. Huang Changhuai	**194**	205
Mr. Wong Chi Keung	**194**	205
	582	615

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

31 December 2007

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	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
2007					
Executive directors:					
Mr. Dong Shutong	—	757	323	23	1,103
Mr. He Weiquan	—	631	275	—	906
Mr. Lau Hok Yuk	—	707	720	12	1,439
Mr. Song Wenzhou	—	226	82	3	311
Ms. Zhang Ming	—	538	306	—	844
Mr. Zhao Ping	—	646	1,020	—	1,666
Mr. Dong Chengzhe	—	266	306	9	581
	—	3,771	3,032	47	6,850
Non-executive director:					
Mr. Yang Tianjun	194	—	—	—	194
	194	3,771	3,032	47	7,044

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Retirement benefit schemes 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

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

31 December 2007

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 2007, the five highest paid individuals of the Group included five directors (2006: four). Information relating to these directors' emoluments has been disclosed above. The details of the remuneration of the remaining one highest paid employee for the year ended 31 December 2006 are as follow:

	Group	
	2007	2006
	RMB'000	RMB'000
Basic salaries and other benefits	—	355
Retirement benefit schemes contributions	—	7
	—	362

The non-director, highest paid employee's 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.

The applicable income tax rate of Zhengzhou Yongtong Special Steel Co., Ltd. ("Yongtong Special Steel"), Zhengzhou Yongtong Alloy Metals Co., Ltd. ("Yongtong Alloy Metals", formerly known as Zhengzhou Yongtong Scarp Steel Co., Ltd.), Luoyang Yongan Special Steel Co., Ltd. ("Yongan Special Steel"), and Zhengzhou Xiangtong Electricity Co., Ltd. ("Xiangtong Electricity"), subsidiaries of the Group, was 33% for the years ended 31 December 2007 and 2006.

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 was 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 three years ending 31 December 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 was fully exempted from local municipal income tax at a rate of 3%. 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 2007.

31 December 2007

9. Income tax expenses (Continued)

Xiangtong Electricity was re-registered as a foreign-invested company on 6 February 2007. In accordance with the relevant tax laws and regulations in the PRC and pursuant to an approval from the local tax authority, effective from 1 January 2007, Xiangtong Electricity is exempted from corporate income tax in the PRC for the year ended 31 December 2007 and the year ending 31 December 2008, and is entitled to a 50% reduction of corporate income tax in the PRC for the years ending 31 December 2009, 31 December 2010 and 31 December 2011.

	Note	**2007** **RMB'000**	2006 RMB'000
Group:			
Provision for income tax in respect of profit for the year:			
Current — PRC		**57,055**	17,444
Current — Hong Kong		**23,025**	—
Deferred	*19*	**30,005**	(112)
Income tax expenses		**110,085**	17,332

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:

	2007 **RMB'000**	2006 RMB'000
Accounting profit	**470,747**	107,574
Tax at statutory tax rate of 33%	**155,347**	35,499
Tax effect of:		
Lower income tax rate for Hong Kong at 17.5%	**(8,555)**	—
Tax exemption	**(49,042)**	(21,269)
Effect of change in tax rate on deferred tax	**(4,067)**	—
Expenses not deductible for tax	**14,765**	2,003
Tax losses not recognised	**1,637**	1,099
Income tax expense	**110,085**	17,332

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 CIT Law") was approved and became effective on 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will decrease from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Therefore, the tax rate of 25% is adopted in the calculation of deferred tax for temporary differences which will be realised or settled after 1 January 2008.

31 December 2007

9. Income tax expenses (Continued)

Under the New CIT Law being effective from 1 January 2008 and in accordance with "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" (Guo Fa 2007 No. 39) promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to tax holiday of "two-year exemption followed by three-year 50% reduction in tax rate", can continue to enjoy the remaining unused tax holiday until expiry. Accordingly, Yongtong Special Steel will subject to a tax rate of 15 % for the year ending 31 December 2008, and Xiangtong Electricity will be exempted income tax for the year ending 31 December 2008, and subject to a 50% reduction in tax rate for the year ending 31 December 2009, 31 December 2010 and 31 December 2011.

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective starting from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No.1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits of an entity as at 31 December 2007 are exempted from withholding tax.

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 2007 includes a loss of RMB 60,067,000 (2006:a profit of RMB23,989,000) which has been dealt with in the financial statements of the Company.

11. Dividends

	Notes	**2007** **RMB'000**	2006 RMB'000
Adjustment on proposed final dividend for 2005 — HK$4.2 cents per ordinary share		**—**	3,387
Interim — HK$4.8 cents (2006: HK$2 cents) per ordinary share	*(a)*	**97,333**	11,829
Proposed final — HK$1.3 cents (2006: HK$3 cents) per ordinary share	*(b)*	**24,399**	17,153
		121,732	32,369

Notes:

(a) Pursuant to a resolution of the board of Directors of the Company dated 6 September 2007, the Company declared an interim dividend of HK$0.048 (2006: HK$0.02) per share. Interim dividend totalling HK$100,458,000 (equivalent to RMB97,333,000) (2006: HK$11,560,000, equivalent to RMB11,829,000) was paid on 18 October 2007 based on the number of ordinary shares registered on 11 October 2007.

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

31 December 2007

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 Company, 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, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the weighted average number of 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:

	Notes	**2007** **RMB'000**	2006 RMB'000
Profit for the year attributable to ordinary equity holders of the parent		**359,291**	90,272
Interest on convertible bonds (CB May 2007)	*29(i)*	**29,632**	—
Interest on convertible bonds (CB December 2007)	*29(ii)*	**6,269***	—
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds		**395,192**	90,272

	Number of shares **2007** **'000**	2006 '000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,469,159**	552,560
Effect of dilution — weighted average number of ordinary shares:		
— Share options	**18,395**	6,524
— Convertible bonds (CB May 2007)	**141,933**	—
— Convertible bonds (CB December 2007)	**17,331***	—
— Convertible notes	**112,686**	—
	1,759,504	559,084

* *Because the diluted earnings per share amount is increased when taking CB December 2007 into account, the CB December 2007 had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts of the year is based on the profit for the year of RMB388,923,000, and the weighted average of 1,742,173,000 ordinary shares in issue during the year.*

31 December 2007

13. Retirement benefit schemes

As stipulated by the PRC State regulations, Yongtong Special Steel, Yongtong Alloy Metals, Yongan Special Steel and Xiangtong Electricity 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, Yongtong Alloy Metals and Xiangtong Electricity 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, and Yongan Special Steel is required to make contributions to the local social security bureau at 21% 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 benefit 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.

31 December 2007

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 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 and 1 January 2007		113,991	745,041	5,819	14,517	879,368
Acquisition of subsidiaries	*32*	90,647	139,292	48	365	230,352
Additions		3,481	12,804	688	1,773	18,746
Transferred from construction in progress	*15*	21,439	65,825	—	2,773	90,037
Disposals		—	(2,305)	—	(439)	(2,744)
As at 31 December 2007		229,558	960,657	6,555	18,989	1,215,759
Accumulated depreciation and provision for impairment losses:						
At 1 January 2006		20,674	128,355	3,429	7,310	159,768
Depreciation charge for the year		4,919	39,906	806	2,082	47,713
Disposals		—	—	(212)	(96)	(308)
At 31 December 2006 and 1 January 2007		25,593	168,261	4,023	9,296	207,173
Depreciation charge for the year		8,155	67,777	810	2,387	79,129
Disposals		—	(1,225)	—	(156)	(1,381)
At 31 December 2007		33,748	234,813	4,833	11,527	284,921
Net carrying amount:						
At 31 December 2007		195,810	725,844	1,722	7,462	930,838
At 31 December 2006		88,398	576,780	1,796	5,221	672,195

As at 31 December 2006, certain buildings and plant and machinery of the Group with a net carrying value of RMB391,199,000 in aggregate were pledged to banks to secure bank loans amounted to RMB125,000,000 as set out in note 28(a).

31 December 2007

14. Property, plant and equipment (Continued)

Company:

	Office equipment RMB'000
Cost:	
At 1 January 2006	390
Additions	383
Disposals	(212)
At 31 December 2006 and 1 January 2007	561
Additions	89
At 31 December 2007	650
Accumulated depreciation:	
At 1 January 2006	188
Charge for the year	143
Disposals	(212)
At 31 December 2006 and 1 January 2007	119
Charge for the year	172
At 31 December 2007	291
Net carrying amount:	
At 31 December 2007	359
At 31 December 2006	442

15. Construction in progress

		Group	
	Notes	**2007 RMB'000**	2006 RMB'000
At 1 January		**48,660**	119,036
Acquisition of a subsidiary	*32(i)*	**62,966**	—
Additions		**146,705**	78,958
Transferred to property, plant and equipment	*14*	**(90,037)**	(149,334)
At 31 December		**168,294**	48,660

31 December 2007

16. Prepaid land lease payments

		Group	
		2007	2006
	Note	**RMB'000**	RMB'000
Carrying amount at 1 January		**5,382**	5,687
Acquisition of a subsidiary	*32(i)*	**202,260**	—
Additions		**2,543**	—
Amortised during the year		**(4,350)**	(305)
Carrying amount at 31 December		**205,835**	5,382
Current portion included in prepayments, deposits and other receivables		**(4,350)**	(305)
Non-current portion		**201,485**	5,077

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

As at 31 December 2007, the Group was in the process of applying for land use right certificates for leasehold land which has a net book value of RMB118,094,000 (2006: Nil). The land cannot be sold, transferred or pledged until the certificate is obtained.

As at 31 December 2006, certain leasehold land with a net book value of RMB5,382,000 was pledged to banks to secure bank loans amounting RMB125,000,000 as set out in note 28(a).

17. Goodwill

Group

	Note	**RMB'000**
Cost at 1 January 2007		**—**
Acquisition of subsidiaries	*32*	**65,052**
At 31 December 2007		**65,052**

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units of the respective subsidiaries for impairment testing:

- Special steel product unit (Yongan Special Steel);
- Electricity generating unit (Xiangtong Electricity).

Special steel product unit (Yongan Special Steel)

The recoverable amounts of special steel products unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond the five-year period are extrapolated using a growth rate of 5% which is the Directors' estimate on the long-term growth rate of the special steel product unit.

31 December 2007

17. Goodwill (Continued)

Impairment testing of goodwill (Continued)

Electricity generating unit (Xiangtong Electricity)

The recoverable amount of electricity generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond the five-year period are assumed to be constant on the assumption that electricity generating unit is near its full capacity.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Special steel product unit 2007 RMB'000	Electricity generating unit 2007 RMB'000	Total 2007 RMB'000
Carrying amount of goodwill	**56,694**	**8,358**	**65,052**

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2007 as follows.

Budgeted gross margins

The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year ended 31 December 2007.

Discount rates

The discount rates used are before tax and reflect specific risks relating to the relevant units.

18. Intangible asset

	Note	Exclusive offtake right RMB'000
Cost:		
At 1 January 2007		—
Acquisition of an exclusive offtake right	*(a)*	2,698,285
Amortisation during the year		(16,190)
At 31 December 2007		2,682,095
At 31 December 2007:		
Cost		**2,698,285**
Accumulated amortisation		**(16,190)**
Net carrying amount		**2,682,095**

31 December 2007

18. Intangible asset (Continued)

Note:

(a) On 5 March 2007, S.E.A Mineral Limited ("S.E.A.M", formerly known as Murray Global Enterprises Limited), which was incorporated on 12 January 2007 in BVI, entered into an exclusive offtake agreement ("Exclusive Offtake Agreement") with PT Yiwan Mining ("Yiwan Mining"), a limited company incorporated in Indonesia. Pursuant to the Exclusive Offtake Agreement, Yiwan Mining agreed to exclusively sell iron ores produced by Yiwan Mining at a fixed price of US$16 per dry tonne, for a minimum 40 million dry tonnes of iron ores throughout a period of approximately 14 years expiring on 24 January 2021. In the event that Yiwan Mining produces over and above the minimum purchase volume of 40 million dry tonnes, the Group has the right but not the obligation to purchase such amount of excess iron ore on the same terms and conditions as the Exclusive Offtake Agreement. Following the completion of the Exclusive Offtake Agreement, S.E.A.M has secured the exclusive offtake right on the iron ores of Yiwan Mining.

On 5 March 2007, Infonics International Limited ("Infonics"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with, amongst others, Easyman Assets Management Limited ("Easyman"), a company incorporated in British Virgin Islands ("BVI") and wholly owned by Mr. Dong, Morgan Corporation, a company incorporated in the BVI with limited liability and Mr. Soen Bin Kuan (the "Vendors"), pursuant to which Infonics conditionally agreed to purchase from the Vendors the entire interests in S.E.A.M.

The acquisition of S.E.A.M was approved by independent shareholders of the Company in an extraordinary general meeting held on 2 May 2007. S.E.A.M had not carried on any business since the date of its incorporation save for entering into the Exclusive Offtake Agreement with Yiwan Mining as described above. In the opinion of the Directors of the Company, the acquisition of S.E.A.M was solely for the acquisition of the exclusive offtake right.

The purchase consideration of the acquisition of S.E.A.M was satisfied by cash of HK$95.56 million (equivalent to RMB94,050,000), issuance of 1,340,067,052 ordinary shares which resulted in an increase of issued capital and share premium account by HK$134,007,000 (equivalent to RMB131,889,000) and HK$2,184,303,000 (equivalent to RMB2,149,791,000) respectively, and issuance of convertible notes with a principal of HK$316,130,000 (equivalent to RMB311,135,000) which will be converted to 182,736,416 ordinary shares of the Company three years after the date of issuance, and is neither transferable nor redeemable. The Group measures the exclusive offtake right acquired and the corresponding increase in equity and cash consideration paid, directly, at the fair value of the exclusive offtake right. The fair value of the exclusive offtake right was determined at RMB2,686,865,000 by the Directors with reference to the valuation performed by Greater China Appraisal Limited ("Greater China"), an independent valuer dated 2 May 2007. The independent valuer used income approach by applying discounted cash flow method in its valuation. The transaction cost directly attributable to the acquisition of the exclusive offtake right amounted to RMB11,420,000 and was capitalised as part of cost of this intangible asset.

19. Deferred tax

The movements of deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Note	**Losses available for offsetting against future taxable profits** RMB'000	**Unrealised intra-group profit** RMB'000	**Decelerated tax depreciation** RMB'000	**Total** RMB'000
As at 1 January 2007		—	—	—	—
Acquisition of a subsidiary	*32(i)*	47,061	—	16,787	63,848
Deferred tax (charged)/credited to the income statement during the year		(47,061)	12,942	(5,439)	(39,558)
As at 31 December 2007		**—**	**12,942**	**11,348**	**24,290**

31 December 2007

19. Deferred tax (Continued)

Deferred tax liabilities

Group

	Note	Fair value adjustments arising from acquisition of a subsidiary RMB'000	others RMB'000	Total RMB'000
As at 1 January 2006		—	2,343	2,343
Deferred tax credited to the income statement during the year		—	(112)	(112)
As at 31 December 2006 and 1 January 2007		—	2,231	2,231
Acquisition of a subsidiary	*32(i)*	34,208	—	34,208
Deferred tax credited to the income statement during the year		(9,260)	(293)	(9,553)
As at 31 December 2007		**24,948**	**1,938**	**26,886**

The Group has tax losses arising in Hong Kong of HK$9,166,000 (equivalent to RMB8,834,000) (2006: HK$4,297,000, equivalent to RMB4,318,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and its subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

20. Interests in subsidiaries

	Company	
	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	**322,204**	322,204
Advances to subsidiaries	**3,625,703**	536,902
	3,947,907	859,106

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are denominated in HK$ and US$, unsecured 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. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

31 December 2007

20. Interests in subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows:

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Infonics	British Virgin Islands/ Hong Kong	US$10,001	100	—	Investment holding
Yongtong Metallurgy Engineering Technology Company Limited	British Virgin Islands/ Hong Kong	US$1	100	—	Dormant
S.E.A. Mineral Limited ("S.E.A.M")	British Virgin Islands/ Hong Kong	US$100	—	100	Trading of iron ore
Group Rise Trading Limited ("Group Rise")	British Virgin Islands/ Hong Kong	US$1	—	100	Dormant
CNR. Group Holdings Pte. Ltd. ("CNR Group Holdings")	Singapore	US$1	—	100	Trading of minerals, steel products and investment holding
Yongtong Special Steel	PRC	RMB376,760,000	—	100	Manufacture and sale of special steel products
Yongan Special Steel	PRC	RMB227,628,114	—	60*	Manufacture and sale of special steel products
Yongtong Alloy Metals	PRC	RMB3,000,000	—	95	Trading of scrap steel
Xiangtong Electricity	PRC	RMB10,000,000	—	50.01	Generation and sales of electricity

* *According to a management agreement entered into between Yongtong Special Steel and minority shareholders of Yongan Special Steel, Yongtong Special Steel is entitled to all remaining undistributable profits of Yongan Special Steel after an annual fixed payment of RMB6,310,000 for a period of 15 years from 5 January 2007. During the first year, the fixed annual payment to minority shareholders shall not be less than 50% of the amounts mentioned above. Accordingly, fixed annual payment payable to minority shareholders of RMB3,155,000 has been charged to the financial statements as an expense for the year ended 31 December 2007.*

On 5 December 2007, the Group contributed an additional RMB60 million to Yongan Special Steel to acquire an additional 14% equity interest therein. The additional contribution is accounted as an acquisition of a minority interest as the Group had obtained control of Yongan Special Steel since 5 January 2007. The Group adopted the entity concept method to account for the transaction. Under the entity concept method, the difference between the cost of the acquisition and the Group's interest in the net assets of Yongan Special Steel acquired as at the date of acquisition amounting to RMB15,319,000, was accounted for in capital reserve.

31 December 2007

21. Prepayments

Group

	Note	Prepayments for acquisition of a subsidiary RMB'000	Prepayments for operating lease RMB'000	Purchases of raw material RMB'000	Total RMB'000
Carrying amount at 1 January 2007	*(a)*	171,730	—	—	171,730
Capital contribution to a subsidiary	*(a)*	(77,628)	—	—	(77,628)
Elimination upon consolidation of a subsidiary		(94,102)	—	—	(94,102)
Additions		—	24,087	35,060	59,147
Settlement		—	—	(8,101)	(8,101)
Amortisation		—	(482)	—	(482)
Carrying amount at 31 December 2007		—	23,605	26,959	50,564
Current portion included in prepayments, deposits and other receivables		—	(963)	(14,610)	(15,573)
Non-current portion		—	22,642	12,349	34,991

Company

	Prepayments for operating lease RMB'000
Carrying amount at 1 January 2007	—
Addition	24,087
Amortisation	(482)
Carrying amount at 31 December 2007	23,605
Current portion included in prepayments, deposits and other receivables	(963)
Non-current portion	22,642

Note:

(a) *On 11 June 2006, the Company, through its indirect wholly-owned subsidiary, Yongtong Special Steel, entered into a capital injection agreement ("Capital Injection Agreement") with Anyang Steel Group Company Limited ("ASG"), Luoyang State-owned Asset Committee ("LSAC") and Anyang Steel Group Luoyang Anlong Steel Company Limited ("Anlong Steel", a company established in the PRC with limited liabilities) 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 an 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 all the above capital injections, Yongtong Special Steel will hold approximately 51% of the enlarged registered capital of Anlong Steel.*

The Group advanced RMB171,730,000 to Anlong Steel as at 31 December 2006 as long-term prepayments. As set out in note 32, the Capital Injection by Yongtong Special Steel amounting to RMB77,628,000 was completed in January 2007. Yongtong Special Steel held 46% of the enlarged registered capital of Anlong Steel as at 5 January 2007, and Anlong Steel became a subsidiary of the Group and was renamed as Luoyang Yongan Special Steel Company Limited.

According to the Capital Injection Agreement, the full capital injection will be completed in two years after the business licence date of Luoyang Yongan Special Steel Company Limited of 5 January 2007.

31 December 2007

22. Inventories

	Group 2007 RMB'000	2006 RMB'000
Raw materials	**281,687**	172,214
Work in progress	**112,332**	2,839
Finished goods	**374,472**	31,241
Spare parts and consumables	**27,515**	22,783
	796,006	229,077
Provision for write-down of inventories to net realisable value	**(313)**	(309)
	795,693	228,768

23. Trade and notes receivables

	Group 2007 RMB'000	2006 RMB'000
Trade receivables	**155,110**	73,027
Notes receivables	**54,259**	74,882
	209,369	147,909

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month (2006: one to two months). In view of the fact that the Group's trade receivables relate to a limited number of customers, there is a significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group 2007 RMB'000	2006 RMB'000
Outstanding balances aged:		
Within 90 days	**199,040**	139,270
91 to 180 days	**3,956**	4,929
181 to 365 days	**4,455**	3,352
Over 1 year	**2,846**	950
	210,297	148,501
Less: Provision for impairment of trade receivables	**(928)**	(592)
	209,369	147,909

The carrying amounts of trade and notes receivables approximate to their fair values.

31 December 2007

23. Trade and notes receivables (Continued)

The movement in the provision for impairment of trade receivables is as follow:

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**592**	813
Impairment losses recognised/(reversed)	**336**	(221)
At 31 December	**928**	592

The aged analysis of trade and notes receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**138,185**	49,141
Less than 90 days past due	**60,855**	90,129
91 days to 180 days past due	**4,698**	6,047
181 days to 365 days past due	**3,867**	2,234
Past due over 1 year	**1,764**	358
	209,369	147,909

Receivables that were neither past due nor impaired relate to a limited number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2007, a subsidiary has pledged notes receivable of approximately RMB40,000,000 (2006: Nil) to secure notes payable of RMB40,000,000 as set out in note 26(a) to the financial statements.

31 December 2007

24. Prepayments, deposits and other receivables

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current portion of advances to Yongan Special Steel		**—**	67,329	**—**	—
Prepayments to suppliers		**16,931**	32,760	**4,947**	10,732
Other prepayments		**821**	1,318	**—**	—
Other receivables		**19,808**	12,347	**379**	3,699
Current portion of long-term prepayments	*21*	**15,573**	—	**963**	—
Current portion of prepaid land lease payments	*16*	**4,350**	305	**—**	—
		57,483	114,059	**6,289**	14,431
Less: Provision for impairment of other receivables		**(5,148)**	(5,217)	**—**	—
		52,335	108,842	**6,289**	14,431

The carrying amounts of prepayments, deposits and other receivables approximate their fair value.

25. Cash and cash equivalents and pledged time deposits

		Group		Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**203,194**	78,702	**12,765**	60,421
Time deposits		**2,034,407**	131,160	**1,706,765**	2,075
		2,237,601	209,862	**1,719,530**	62,496
Less: Pledged time deposits for notes payable	*26(a)*	**(327,642)**	(129,085)	**—**	—
Cash and cash equivalents		**1,909,959**	80,777	**1,719,530**	62,496

Cash at banks earns 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. 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 2007 were pledged to banks to secure notes payable of RMB383,831,000 (2006: RMB176,330,000) as set out in note 26(a). The pledged time deposits bear interest at a rate of 2.93% (2006: 2.07%) per annum.

31 December 2007

26. 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	
	2007	2006
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**304,147**	139,560
91 to 180 days	**189,881**	131,040
181 to 365 days	**8,623**	9,053
1 to 2 years	**52,673**	4,064
2 to 3 years	**2,241**	1,127
Over 3 years	**2,952**	1,728
	560,517	286,572

Trade and notes payables are unsecured, interest-free and are generally on terms of 30 to 90 days.

		Group	
		2007	2006
	Note	**RMB'000**	RMB'000
Trade payables		**176,686**	110,242
Notes payable	*(a)*	**383,831**	176,330
		560,517	286,572

Note:

(a) As at 31 December 2007, notes payable of RMB383,831,000 (2006: RMB176,330,000) were secured by time deposits amounting to RMB327,642,000 (2006: RMB129,085,000) as set out in note 25 and notes receivable amounting to RMB40,000,000 (2006: Nil) as set out in note 23.

27. Accrued liabilities and other payables

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**11,409**	6,206	**—**	—
Payables related to purchases of property, plant and equipment	**67,429**	9,313	**—**	—
Value-added tax payable	**11,313**	30,462	**—**	—
Accrued interest expenses	**3,461**	2,057	**—**	1,851
Payroll payable	**6,650**	3,430	**563**	647
Amounts due to minority shareholders of a subsidiary	**85,760**	—	**—**	—
Other payables and accruals	**45,640**	8,987	**4,717**	2,903
	231,662	60,455	**5,280**	5,401

31 December 2007

27. Accrued liabilities and other payables (Continued)

Other payables and accruals are unsecured, interest-free and have no fixed terms of repayment. Included in the amounts due to minority shareholders of a subsidiary as at 31 December 2007 was an amount of RMB75,000,000 (2006: Nil) due to LSAC which will be accounted for as a capital contribution from LSAC in Yongan Special Steel upon the completion of the transfer of land use right to Yongan Special Steel.

28. Interest-bearing loans and other borrowings

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank loans:					
Secured	*(a)*	**—**	135,000	**—**	—
Guaranteed	*(b)*	**—**	192,303	**—**	192,303
Unsecured	*(c)*	**170,089**	72,600	**37,089**	19,600
		170,089	399,903	**37,089**	211,903
Other borrowings:	*(d)*	**90,940**	—	**—**	—
Total:		**261,029**	399,903	**37,089**	211,903
Repayable:					
Within one year		**140,659**	164,600	**37,089**	19,600
In the second year		**5,000**	58,002	**—**	58,002
In the third to fifth years, inclusive		**115,370**	177,301	**—**	134,301
		261,029	399,903	**37,089**	211,903
Portion classified as current liabilities		**(140,659)**	(164,600)	**(37,089)**	(19,600)
Long-term portion		**120,370**	235,303	**—**	192,303

Notes:

(a) As at 31 December 2006, bank loans of the Group of RMB125,000,000 bearing fixed interest at rates ranging from 5.58% to 6.12% per annum were secured by fixed charges over the Group's leasehold land, certain buildings, plant and machinery with net book values of RMB5,382,000 and RMB391,199,000, respectively.

As at 31 December 2006, bank loans of the Group of RMB10,000,000 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.

(b) As at 31 December 2006, syndicated loan 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 was 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. The syndicated loans were repaid and terminated on 12 December 2007.

(c) As at 31 December 2007, unsecured bank loans of RMB133,000,000 (2006: RMB53,000,000) bore fixed interest at rates ranging from 6.93% to 7.29% per annum (2006 : ranging from 6.93% to 8.10%), and with maturity date ranged from October 2008 to May 2010.

As at 31 December 2007, unsecured bank loans of US$5,082,000 (equivalent to RMB37,089,000) (2006: 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 (2006: 2% over and above London Interbank Offered Rate per annum), and with maturity date ranged from April 2008 to May 2008.

31 December 2007

28. Interest-bearing loans and other borrowings (Continued)

Notes: (Continued)

(d) As at 31 December 2007, an unsecured borrowing of approximately RMB10,000,000 (2006: Nil) was interest free from Luoyang Municipal Ministry of Finance, and was repayable from December 2008 to December 2009.

As at 31 December 2007, an unsecured borrowing of approximately RMB72,370,000 (2006: Nil) bearing fixed interest at a rate of 6.93% per annum from ASG, will be repayable by Yongan Special Steel from the second anniversary of its business licence date of 5 January 2007 with full repayment to be made within five years from 5 January 2007.

As at 31 December 2007, an unsecured borrowing of approximately RMB8,570,000 (2006: Nil) bearing fixed interest at a rate of 7.47% per annum from Xianghe Group Shangjie Power Engineering Co., Ltd. was repayable within one year.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Non-current borrowings in respect of				
— Bank loans	**43,000**	235,303	**42,900**	235,752
— Other loans	**77,370**	—	**74,849**	—
	120,370	235,303	**117,749**	235,752

29. Convertible bonds

	Notes	**31 December 2007 RMB'000**
Liability components:		
CB May 2007	*(i)*	**341,087**
CB December 2007	*(ii)*	**1,772,784**
		2,113,871
Equity components:		
CB May 2007	*(i)*	**7,833**
CB December 2007	*(ii)*	**65,365**
		73,198
		2,187,069

(i) HK$625 million 3% convertible bonds due 2012 (the "CB May 2007")

On 18 May 2007, the Company issued 625 3 percent convertible bonds due 2012 at HK$1,000,000 each with an aggregate nominal value of HK$625,000,000 to Deutsche Bank AG.

Some of the key terms of the CB May 2007 are:

(a) convertible from 2 June 2007 to 3 May 2012 into fully paid ordinary shares of the Company with a par value of HK$0.10 each at a conversion price of HK$2.25 per share.

(b) redeemable at the option of the bond holder after 18 May 2009 and prior to 18 May 2012, at yield to redemption amount calculated by the bond principal with an interest rate of 6.5% plus accrued but unpaid interest ("Yield to Redemption Amount").

31 December 2007

29. Convertible bonds (Continued)

(i) HK$625 million 3% convertible bonds due 2012 (the "CB May 2007") (Continued)

(c) redeemable at the option of the Company at Yield to Redemption Amount plus accrued interest to the date of redemption at anytime from 18 May 2010 to 18 May 2012, providing the prices of the Company's shares for 60 consecutive trading days are over 190% of the conversion price.

(d) Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at 137% of their principal amount on 18 May 2012. The CB May 2007 carry interest at a rate of 3% per annum, which is payable half-yearly in arrears on 18 May and 18 November each year.

The Company determined the fair value of the liability component based on the valuations performed by Greater China using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the host contract is determined to be 10.10%.

On 24 September 2007 and 4 October 2007, CB May 2007 with principal amounts of HK$108 million and HK$156 million were converted into 48,000,000 and 69,333,333 new ordinary shares of the Company, increasing issued capital and share premium account of the Company by RMB11,346,000 and RMB249,469,000, respectively.

The movements of the liability component and equity component of the CB May 2007 for the period from the issue date to 31 December 2007 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	600,047	13,766	613,813
Transaction costs	(9,002)	(206)	(9,208)
Interest expenses	29,632	—	29,632
Interest paid	(5,174)	—	(5,174)
Conversion into ordinary shares	(255,088)	(5,727)	(260,815)
Foreign exchange realignment to reserve	(19,328)	—	(19,328)
At 31 December 2007	341,087	7,833	348,920

31 December 2007

29. Convertible bonds (Continued)

(ii) HK$2,000 million zero coupon convertible bonds due 2012 (the "CB December 2007")

On 12 December 2007, the Company issued 20,000 zero coupon convertible bonds due 2012 at HK$100,000 each with an aggregated nominal value of HK$2,000,000,000, which were subsequently listed on the Hong Kong Stock Exchange.

Some of the key terms of CB December 2007 are:

(a) convertible at the option of the bond holders into fully paid ordinary shares at any time from 22 January 2008 to 2 December 2012 at a conversion price of HK$5.77 per share;

(b) redeemable at the option of the bond holder on 12 December 2010, being the third anniversary of the issue date, at principal amount multiplied by 117.68%;

(c) redeemable at the option of the Company at their early redemption amount calculated by the bond principal with an interest rate of 5.5% on a semi-annual basis, at anytime from 12 December 2010 to 12 December 2012, providing the prices of the Company's shares for 20 consecutive trading days are over 130% of the early redemption price divided by a conversion ratio.

The CB December 2007 will be redeemed at its principal amount multiplied by 131.17% of its principle amount on 12 December 2012.

The Company determined the fair value of the liability component based on the valuations performed by Greater China using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the host contract is determined to be 6.82%.

The movements of the liability component and equity component of the CB December 2007 for the period from the issue date to 31 December 2007 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	1,821,952	66,847	1,888,799
Transaction costs	(40,345)	(1,482)	(41,827)
Interest expenses	6,269	—	6,269
Foreign exchange realignment to reserve	(15,092)	—	(15,092)
At 31 December 2007	1,772,784	65,365	1,838,149

31 December 2007

30. Issued capital

	Notes	Year ended 31 December 2007 Number of ordinary shares	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 Number of ordinary shares	Year ended 31 December 2006 RMB'000
Authorised (HK$0.1 each):					
At 1 January		**1,000,000,000**	**106,000**	1,000,000,000	106,000
Increase during period	*(a)*	**2,000,000,000**	**196,420**	—	—
At 31 December		**3,000,000,000**	**302,420**	1,000,000,000	106,000
Issued and fully paid (HK$0.1 each):					
At 1 January		**578,600,000**	**61,119**	500,000,000	53,000
Issue for the acquisition of the exclusive offtake right	*(b)*	**1,340,067,052**	**131,889**	—	—
New placement	*(c)*	**56,100,000**	**5,510**	78,000,000	8,058
Exercise of share options	*(d)*	**765,000**	**74**	600,000	61
Conversion of convertible bonds	*(e)*	**117,333,333**	**11,346**	—	—
At 31 December		**2,092,865,385**	**209,938**	578,600,000	61,119

Notes:

(a) *Pursuant to a Directors' resolution of the Company dated 2 May 2007, the authorised share capital of the Company was increased from HK$100,000,000, divided into 1,000,000,000 shares of HK$0.10 each, to HK$300,000,000, divided into 3,000,000,000 shares of HK$0.10 each.*

(b) *On 18 May 2007, 1,340,067,052 ordinary shares of HK$0.10 each were issued as a consideration for the acquisition of an exclusive offtake right as set out in note 18.*

(c) *On 18 May 2007, 56,100,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.73 per ordinary share for a total cash consideration, before related issue expenses of HK$3,018,000 (equivalent to RMB2,964,000), of HK$97,053,000 (equivalent to RMB95,316,000) by way of a private placement.*

(d) *On 9 September 2007 and 13 September 2007, 255,000 and 510,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.07 per ordinary share to two employees pursuant to the exercise of share options granted on 30 July 2005.*

(e) *On 24 September 2007 and 4 October 2007, 48,000,000 and 69,333,333 ordinary shares of HK$0.10 each were issued upon conversion of convertible bonds CB May 2007 with principal amounts of HK$108 million and HK$156 million at a conversion price of HK$2.25 per share as set out in note 29(i).*

31 December 2007

31. 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 2006 over the nominal value of the Company's shares issued in exchange therefor.

Share premium account

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

As set out in note 18(a), the convertible notes with a principal of HK$316,130,000 (equivalent to RMB311,135,000) were issued for part of the consideration of an exclusive offtake rights in May 2007. The convertible notes will be converted to 182,736,416 ordinary shares of the Company in three years after the issuance of convertible notes and is neither transferable nor redeemable.

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 33.

The share option reserves comprise a proportion of 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 2.4 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.

Statutory surplus reserve and statutory reserve fund

In accordance with the Company Law of the PRC and their respective Articles of Association of Yongtong Special Steel, Yongtong Alloy Metals, Yongan Special Steel and Xiangtong Electricity these companies are each required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserves ("SSR") until such reserve reaches 50% of the registered capital.

Subsequent to the re-registration of Yongtong Special Steel as a wholly-foreign-owned company on 10 November 2003, allocation to the SSR was 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.

31 December 2007

31. Reserves (Continued)

Statutory public welfare fund

According to the Company Law of the PRC and their respectively articles of association. Yongtong Special Steel and Yongtong Alloy Metals 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 these companies. 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 Alloy Metals.

Subsequent to the re-registration of Yongtong Special Steel as a wholly foreign-owned company on 10 November 2003, Yongtong Special Steel was 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.

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 appropriations to the SSR, SRF and PWF as set out above.

32. Business combination

(i) Acquisition of Yongan Special Steel

On 5 January 2007, upon capital injection of RMB77,628,000 by Yongtong Special Steel as set out in note 21(a), the share capital of Anlong Steel increased to RMB167,628,000, of which the Group held 46% of the enlarged registered capital of Anlong Steel, and Anlong Steel was renamed as Luoyang Yongan Special Steel Company Limited ("Yongan Special Steel"). The principal activities of Yongan Special Steel include the production and sale of stainless steel base materials and other steel products.

Following the capital injection on 5 January 2007, a new board of directors of Yongan Special Steel of seven members has been formed, of whom four directors are appointed by Yongtong Special Steel. Accordingly, Yongtong Special Steel obtained the control of Yongan Special Steel thereafter.

31 December 2007

32. Business combination (Continued)

(i) Acquisition of Yongan Special Steel (Continued)

Yongtong Special Steel also entered into a management agreement ("Management Agreement") with ASG and LSAC on 11 June 2006, pursuant to which all parties agreed that Yongtong Special Steel will be responsible to manage the operations of Yongan Special Steel for a period of 15 years from its business licence date of 5 January 2007. During such period, ASG and LSAC will be entitled to a fixed annual payment of RMB2,270,000 and RMB4,040,000, respectively from Yongan Special Steel, during the first year of the Management Agreement, the fixed annual payment to ASG and LSAC shall not be less than 50% of the amounts mentioned above. Except for the fixed annual payment above, ASG and LSAC will neither share the profits nor bear the losses of Yongan Special Steel.

The fair values of the identifiable assets and liabilities of Yongan Special Steel as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	207,438	201,696
Construction in progress	62,966	62,966
Prepaid land lease payments	202,260	104,342
Inventories	158,753	158,753
Trade and notes receivables	230	230
Prepayments, deposits and other receivables	3,672	3,672
Deferred tax assets	63,848	63,848
Amount due from ASG and its related parties	331	331
Cash and cash equivalents	610	610
Interest-bearing loans	(10,000)	(10,000)
Amounts due to Yongtong Special Steel	(161,264)	(161,264)
Accrued liabilities and other payables	(66,822)	(66,822)
Deferred tax liabilities	(34,208)	—
Tax payables	(11,401)	(11,401)
Trade and notes payables	(204,937)	(204,937)
Amounts due to ASG and its related parties	(153,367)	(153,367)
	58,109	(11,343)
Minority interests	(31,379)	
Goodwill on acquisition	56,694	
Total consideration	83,424	
Satisfied by:		
Prepayments	77,628	
Direct expenses paid in connection with the acquisition	5,796	
	83,424	

31 December 2007

32. Business combination (Continued)

(i) Acquisition of Yongan Special Steel (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition of a subsidiary is as follows:

	RMB'000
Direct expenses paid in connection with the acquisition	(5,796)
Cash and cash equivalents acquired	610
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(5,186)

Since its acquisition, Yongan Special Steel contributed revenue of approximately RMB728,668,000 and profit of approximately RMB110,059,000 to the Group during the period from 5 January 2007 (date of acquisition) to 31 December 2007.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,878,420,000 and RMB360,317,000, respectively.

(ii) Acquisition of Xiangtong Electricity

On 18 August 2007, the Group acquired a 50.01% interest in Xiangtong Electricity from an independent third party. Xiangtong Electricity is engaged in the power generation business that generates and supplies the electricity to Yongtong Special Steel and other companies in the Zhengzhou area. The purchase consideration for the acquisition was in the form of cash totalling HK$15,000,000 (equivalent to RMB14,477,000).

31 December 2007

32. Business combination (Continued)

(ii) Acquisition of Xiangtong Electricity (Continued)

The fair values of the identifiable assets and liabilities of Xiangtong Electricity as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	22,914	22,914
Inventories	57	57
Trade and notes receivables	3,345	3,345
Prepayments, deposits and other receivables	219	219
Cash and cash equivalents	297	297
Interest-bearing loans	(8,570)	(8,570)
Accrued liabilities and other payables	(3,933)	(3,933)
Tax payables	(1,357)	(1,357)
Trade and notes payables	(738)	(738)
	12,234	12,234
Minority interests	(6,115)	
Goodwill on acquisition	8,358	
Satisfied by cash	14,477	

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(14,477)
Cash and cash equivalents acquired	297
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(14,180)

Since its acquisition, Xiangtong Electricity contributed revenue of nil and profit before tax of RMB2,406,000 to the Group's profit for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,874,591,000 and RMB361,799,000, respectively.

31 December 2007

33. 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 sheet 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.

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 which were already issued and may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-month period up to the date of grant, 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.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of offer of the share options. The options will have a vesting schedule of five years whereby only 20% of the option shall be exercisable 12 months after the grant date and an additional 20% may be exercised by the grantee in each subsequent year until five years later when 100% of the option may be exercised.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

31 December 2007

33. Share option scheme (Continued)

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

	2007 Weighted average exercise price HK$ per share	2007 Number of options '000	2006 Weighted average exercise price HK$ per share	2006 Number of options '000
At 1 January	**1.07**	**19,450**	1.07	23,725
Granted during the year	**2.01**	**14,075**	—	—
Lapsed during the year	—	—	1.07	(3,675)
Exercised during the year	**1.07**	**(765)**	1.07	(600)
At 31 December	**1.47**	**32,760**	1.07	19,450

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.29 (2006: HK$1.35).

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
18,685	**1.07**	**30 July 2006 to 29 July 2015**
11,075	**1.91**	**6 March 2008 to 5 March 2017**
3,000	**2.37**	**20 April 2008 to 19 April 2017**
32,760		

2006

Number of options '000	Exercise price* HK$ per share	Exercise period
19,450	1.07	30 July 2006 to 29 July 2015

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

The fair value of the share options granted on 6 March 2007 and 20 April 2007 were RMB8,227,000 (RMB0.74 each) and RMB2,534,000 (RMB0.84 each). The Group recognised a net share option expense of RMB4,590,000 during the year ended 31 December 2007 (2006: RMB2,295,000).

31 December 2007

33. Share option scheme (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into 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:

Grant date	6 March 2007	20 April 2007
Dividend yield (%)	4.02	4.02
Expected volatility (%)	52.83	52.18
Historical volatility (%)	52.83	52.18
Risk-free interest rate (%)	4.21	4.21
Expected life of options (years)	10	10
Weighted average share price (HK$)	1.88	2.25

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 the options granted were incorporated into the measurement of fair value.

The 765,000 share options exercised during the year resulted in the issue of 765,000 ordinary shares of the Company and new share capital of HK$77,000 (equivalent to RMB74,000) and share premium of HK$969,000 (equivalent to RMB936,000), including the amount transferred from share option reserves of HK$227,000 (equivalent to RMB219,000).

As at 31 December 2007, the Company had 32,760,000 share options outstanding under the Share Option Scheme, which represented approximately 1.6% of the Company's shares in issue as at 31 December 2007. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 32,760,000 additional ordinary shares of the Company and an additional share capital of HK$3,276,000 and share premium of HK$44,980,000 before share issue expenses.

As at the date of approval of these financial statements, the Company had 47,760,000 share options outstanding under the Share Option Scheme which represented approximately 2.2% of the Company's shares in issue as at that date.

31 December 2007

34. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group	
	2007	2006
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Trade and notes receivables	**209,369**	147,909
Financial assets included in prepayment, deposits and other receivables	**19,808**	79,676
Cash and cash equivalents	**1,909,959**	80,777
Pledged time deposits	**327,642**	129,085
	2,466,778	437,447

Financial liabilities

	Group	
	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and notes payables	**560,517**	286,572
Financial liabilities included in other payables and accruals	**145,253**	54,294
Liability component of convertible bonds	**2,113,871**	—
Interest-bearing bank and other borrowings	**261,029**	399,903
	3,080,670	740,769

Financial assets

	Company	
	2007	2006
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Financial assets included in prepayment, deposits and other receivables	**379**	3,699
Cash and cash equivalents	**1,719,530**	62,496
	1,719,909	66,195

31 December 2007

34. Financial instruments by category (Continued)

Financial liabilities

	Company 2007 Financial liabilities at amortised cost RMB'000	2006 Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	**5,280**	5,401
Liability component of convertible bonds	**2,113,871**	—
Interest-bearing bank and other borrowings	**37,089**	211,903
	2,156,240	217,304

35. Financial risk 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 interest rate 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 the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2007, approximately 58% (2006: 47%) of the Group's interest-bearing borrowings bore interest at fixed rates.

31 December 2007

35. Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Group:

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax RMB'000
2007	**25**	**(274)**
	(25)	**274**
2006	25	(530)
	(25)	530

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 sale transactions with manufacturers of stainless steel and hence has a significant concentration of credit risk in this regard. The Group's sales to its top five customers accounted for approximately 93% (2006: 61%) 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 principally operates in the PRC and its principal activities are transacted in RMB. The Group's financial assets and liabilities are not subject to foreign currency risk, except for cash and cash equivalents, interest-bearing loans and convertible bonds, and the inter-company trade and loan balances which are denominated in US$ and HK$. Therefore, the fluctuations in the exchange rates of RMB against foreign currencies could affect the Group's results of operations and equity. The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency.

31 December 2007

35. Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary liabilities) and the Group's equity.

	Increase/ decrease in foreign currency rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	RMB'000	RMB'000
2007			
If RMB weakens against US$	**5**	**(27,449)**	**4,254**
If RMB strengthens against US$	**5**	**27,449**	**(4,254)**
If RMB weakens against HK$	**5**	**(2,758)**	**(25,445)**
If RMB strengthens against HK$	**5**	**2,758**	**25,445**
2006			
If RMB weakens against US$	5	(7,439)	(7,979)
If RMB strengthens against US$	5	7,439	7,979
If RMB weakens against HK$	5	(3,063)	356
If RMB strengthens against HK$	5	3,063	(356)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, and other interest-bearing loans. The Group's policy is that not more than 75% of borrowings should mature in any 12-month period. 27% of the Group's debts would mature in less than one year as at 31 December 2007 (2006: 68%) based on the carrying value of borrowings reflected in the financial statements.

31 December 2007

35. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	—	2,210,840	2,210,840
Interest-bearing bank and other borrowings	—	—	140,659	120,370	261,029
Trade and notes payables	176,686	207,108	176,723	—	560,517
Other payables	77,824	67,429	—	—	145,253
	254,510	274,537	317,382	2,331,210	3,177,639

Group

	2006				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	56,170	108,430	235,303	399,903
Trade and notes payables	110,242	120,000	56,330	—	286,572
Other payables	44,936	9,313	—	—	54,249
	155,178	185,483	164,760	235,303	740,724

31 December 2007

35. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Company

	2007				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	—	2,210,840	2,210,840
Interest-bearing bank and other borrowings	—	—	37,089	—	37,089
Other payables	5,280	—	—	—	5,280
	5,280	—	37,089	2,210,840	2,253,209

	2006				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	6,170	13,430	192,303	211,903
Other payables	5,401	—	—	—	5,401
	5,401	6,170	13,430	192,303	217,304

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.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue bonds or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

31 December 2007

35. Financial risk management objectives and policies (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing loans and other borrowings, the liability component of convertible bonds, trade and notes payables and other payable and accruals less cash and cash equivalents and pledged deposits. Capital represents equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	31 December 2007 RMB'000	31 December 2006 RMB'000
Interest-bearing loans and other borrowings	**261,029**	399,903
Trade and notes payables	**560,517**	286,572
Other payable and accruals	**145,253**	54,249
Convertible bonds, the liability component	**2,113,871**	—
Less: cash and cash equivalents and pledged deposits	**(2,237,601)**	(209,862)
Net debt	**843,069**	530,862
Equity attributable to equity holders	**4,083,036**	839,784
Capital and net debt	**4,926,105**	1,370,646
Gearing ratio	**17%**	39%

36. 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:

Names of related parties	Nature of transactions	**2007 RMB'000**	2006 RMB'000
Group			
Easyman *(note a)*	Purchase of an exclusive offtake right *(note b)*	**2,686,865**	—
Yiwan Mining *(note c)*	Purchase of materials *(note d)*	**67,340**	—
East Grow Management Limited ("East Grow") *(note e)*	Purchases of materials *(note f)*	**—**	27,543
Company			
Yongtong Special Steel *(note g)*	Sales of materials *(note h)*	**307,405**	211,816
Infonics *(note i)*	Advances *(note j)*	**3,024,265**	156,525
S.E.A.M *(note k)*	Management fee *(note l)*	**7,040**	—
East Grow Management Limited ("East Grow") (note e)	Purchases of materials (note f)	**—**	27,543

31 December 2007

36. Related party transactions (Continued)

(I) (Continued)

Notes:

(a) *Easyman is a company wholly owned by Mr. Dong, an executive director and a substantial shareholder of the Company.*

(b) *As set out in note 18(a), the Group, through the acquisition of S.E.A.M from Easyman and the other Vendors, has acquired an exclusive offtake right from Yiwan Mining. The exclusive offtake right is valued at RMB2,698,285,000 upon acquisition, including the transaction cost of RMB11,420,000.*

(c) *The Directors consider that Mr. Dong through Easyman, as a lender of Yiwan Mining, has indirect economic interest in Yiwan Mining.*

(d) *The transaction was carried out based on terms agreed by the parties under the Exclusive Offtake Agreement as set out in note 18.*

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

(f) *According to the master agreement entered into between East Grow and the Company (the "Master Agreement") on 13 December 2006 in connection with the sourcing of iron ore, East Grow agreed to supply iron ore to the Group from 1 January 2007 to 31 December 2008. The Master Agreement was cancelled in 2007 due to the acquisition of the exclusive offtake right from S.E.A.M.*

(g) *Yongtong Special Steel is an indirect subsidiary of the Company.*

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

(i) *Infonics is a subsidiary of the Company.*

(j) *The advances to the subsidiaries are unsecured, interest-free and have no fixed terms 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 2.40% (2006: 2.50%) per annum, the Company would have received interest income, net of tax, of approximately RMB60,704,000 (2006: RMB7,415,000) for the year ended 31 December 2007.

(k) *S.E.A.M is an indirect subsidiary of the Company.*

(l) *Represented the management fee charged to S.E.A.M and direct expenses incurred in the Company on behalf of S.E.A.M.*

31 December 2007

36. Related party transactions (Continued)

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

	2007 RMB'000	2006 RMB'000
Fees	**776**	820
Salaries, allowances and benefits	**3,771**	2,879
Employee share option benefits	**3,032**	1,288
Retirement benefits schemes contributions	**47**	19
Total compensation paid to key management personnel	**7,626**	5,006

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.

37. Pledge of assets

Details of the Group's bank loans and notes payables, which are secured by the assets of the Group, are included in notes 14, 16, 23, 25, 26 and 28 to the financial statements.

38. Commitments

Operating lease arrangements

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 and Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company	
	2007 RMB'000	2006 RMB'000
Within one year	**1,149**	1,127
In the second to fifth years, inclusive	**542**	1,403
	1,691	2,530

31 December 2007

38. Commitments (Continued)

Capital commitments

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

	Group	
	2007	2006
	RMB'000	RMB'000
Capital commitments in respect of property, plant and equipment, contracted, but not provided for	**62,796**	6,419
Capital commitments in respect of the acquisition of Xiangtong Electricity	**—**	15,071
	62,796	21,490

39. Contingent liabilities

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantee given for bank loans of a subsidiary	**—**	—	**—**	35,000

At 31 December 2006, the bank loans of Yongtong Special Steel, a subsidiary of the Company, amounting to RMB35,000,000 were guaranteed by the Company.

40. Significant non-cash transactions

During the year ended 31 December 2007, the Group issued 1,340,067,052 ordinary shares and convertible notes with a principal of HK$316,130,000 (equivalent to RMB311,135,000) as part of the consideration for acquisition of an exclusive offtake right as set out in note 18.

31 December 2007

41. Post balance sheet events

The following significant events took place subsequent to 31 December 2007:

(a) Acquisition of a subsidiary

Pursuant to the acquisition agreement entered into among Yongtong Special Steel, Gongyi Shi People's Government and Gongyi Shi Xiaoguan Town People's Government on 6 January 2008, Yongtong Special Steel acquired 100% equity interest of Henan Zhongzhou Special Steel Products Co., Ltd. ("Zhongzhou Special Steel"), a company established on 2 April 2004 in PRC with limited liabilities, for a cash consideration of RMB16 million. Following the acquisition, Zhongzhou Special Steel was renamed as Henan Yongtong Nickel Co., Ltd. ("Henan Yongtong Nickel").

The Directors of the Company have confirmed that the Group has commenced considering its potential financial impact of the acquisition but is not yet in a position to determine the potential financial impact on the Group's results of operation in future periods and financial position at future dates.

(b) Grant of new share options

Pursuant to the Directors' meeting held on 20 March 2008, the Company granted certain employees under the Share Option Scheme a total of 15,000,000 share options to subscribe for the Company's shares of HK$0.1 each, at an exercise price of HK$2.45 per share.

(c) Proposed final dividend

Subsequent to 31 December 2007, the Directors proposed a final dividend of HK$0.013 per ordinary share, totalling approximately HK$27,207,000 (equivalent to approximately RMB24,399,000), pertaining to 2007 for payment in 2008. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

42. Comparative amounts

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

43. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of Directors on 23 April 2008.