NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

1. CORPORATION INFORMATION

The Company was incorporated in the Cayman Islands on 9 October 2003 as an exempt company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. Its subsidiaries' principal activities consisted of the manufacturing and trading of steel pipes, steel sheets and other products made of steel and the aluminum forged and forged-spun wheels and other spare parts for automobiles.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 37, HKAS Int 15 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures of the financial statements;

– HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 33, 37, HKAS Int 15 and HKFRS 2 had no material effect on the Group's policies;

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(a) HKAS 17 Leases

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from intangible assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, land use rights are carried at cost less accumulated depreciation and accumulated impairment.

(b) HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement

HKAS 32 and HKAS 39 establish principles for disclosure, presentation, recognition and measurement of financial instruments, including non-derivative financial assets, non-derivative financial liabilities and derivative instruments for hedging activities.

On the adoption of HKAS 39, the Group classified its financial instruments into the following categories: loans and receivables, held-to maturity, available-for-sale and fair value through profit and loss and measured its financial assets at either fair value or at amortised cost according to the classification. It also requires the recognition of derivative financial instruments at fair value and changes in the recognition and measurement of hedging activities.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1 January 2005 and the comparative figures have not been restated. HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied prospectively.

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) HKFRS 3 Business Combinations, HKAS 36 Impairment of Assets and HKAS 38 Intangible Assets

The adoption has resulted in a change in accounting policy for goodwill. Under HKFRS 3, goodwill is no longer amortised. Instead, it is tested for impairment annually, or more frequently, if events or changes in circumstances indicate a possible impairment. Any excess of fair value of assets and liabilities acquired over cost is recognised immediately as income under HKFRS 3. However, HKFRS 3 requires, if an entity previously recognised goodwill as a deduction from equity, it shall not recognised that goodwill in profit and loss account when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. There is no transitional arrangement for goodwill which has previously been eliminated against reserves as a matter of accounting policy.

(d) New standards or interpretations that have been issued but are not yet effective

At the date of authorisation of the financial statements, the Group has not early adopted the following new standards and interpretations which have been issued but not yet effective. The Directors anticipate that the adoption of these standards or interpretations or amendments will have no material impact on the financial statements of the Company and the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effect of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease[2]
HK (IFRIC)-Int 5	Rights to interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK (IFRIC)-Int 7	Applying the Restatement Approach Under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The adoption of HKASs 32 and 39 has resulted in an adjustment to the opening balance of retained profits of RMB1,520,000 as at 1 January 2005 as shown in "Consolidated Statement of Changes in Equity" and net profit for the year ended 31 December 2005 has been decreased by RMB124,000. Comparative amounts have not been restated as HKAS 39 is adopted prospectively as of 1 January 2005.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by certain properties and financial instruments, which are measured at revalued amounts or fair values. These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the principal accounting policies adopted by the Group is set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the years are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net asset of subsidiaries.

(b) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

Intra-group balances, transactions and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

On disposal of a cash generating unit, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset 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 the fixed assets 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 the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

	Depreciation
Freehold land	N/A
Building and factory premises	4% – $6^2/_3$%
Leasehold improvements	20%
Furniture, fixtures and office equipment	$6^2/_3$% – 50%
Plant and machinery	10% – $33^1/_3$%
Motor vehicles	20%
Aircrafts	10%

No depreciation is provided to write off the cost of construction in progress until the assets are brought into use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the relevant asset and is recognised in the income statement on the date of disposal or retirement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Land use rights

Land use rights are recognised as operating leases and stated at cost less accumulated amortisation of operating lease prepayment over the term of the lease.

(f) Club debentures

Club debentures are classified as available-for-sale financial asset and stated at cost less any identified impairment loss.

(g) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value and are calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the Group.

(k) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on all temporary differences arising from the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities.

(n) Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leases asset. The related asset is recognised at the time of inception of the lease at the present value of the lease payments plus incidental payment, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability, irrespective or whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreement, i.e. depreciation methods and useful lives correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

All other leases are treated as operating lease agreements. Rental receivable and payable under operating leases are credited and charged respectively to the income statement on straight-line basis over the leases. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

(p) Revenue

Revenue comprises the fair value for the sales of goods and services, net of rebates and discounts and after eliminated transactions within the Group. Revenue is recognised as follows:

(i) Sales of goods is recognised when the goods are delivered and title has passed to customer and the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income receivable under operating leases is recognised the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(iii) Consultancy fee and commission income are recognised when the services are rendered.

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and at the interest rate applicable.

(q) Translation of foreign currencies

Translation in currencies other than RMB are translated at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB at the balance sheet date are translated to RMB at the rates prevailing at the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated using the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Exchange differences arising an consolidation are dealt with as a movement in reserves. Such translation differences are recognised as income or expenses in the year in which the operation is disposed of.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basis 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 into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") and Taiwan are members of the state-sponsored retirement scheme operated by the government of the PRC and Taiwan.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economics benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economics benefits is remote.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intend use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial assets

From 1 January 2004 to 31 December 2004:

Club debentures are carried at cost and less any identified impairment loss.

From 1 January 2005 onwards:

The Group classified its financial assets as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed in subsequent periods.

For available-for-sale equity investments that do not have a quotes market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

(v) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segment. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management has made various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical accounting judgements that can significantly affect the amounts recognised in the financial statements are set out below.

(a) Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimse potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and new Taiwan dollars.

As the estimated foreign currency exposure in respect of committed future sales and purchases and estimated foreign currency exposure in respect of highly probable forecast sales and purchases is not significant, no hedging on foreign currency risk has been carried out during the year under review.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

(b) Credit risk

The Group's credit risks are primarily attributable to time deposits, trade and other receivables.

The Group's time deposits are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

For trade and other receivables, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount.

In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the holding company's board. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from bankers to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The Group does not expect any changes in interest rate which might materially affect the Group's result of operations.

7. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

The Group comprises the following main business segments:

(i) Steel – the manufacture and trade of steel pipes, steel sheets and other products made of steel.

(ii) Aluminium – the design, develop, manufacture and trade of aluminium forged and forged-spun wheels and other spare parts for automobiles.

7. SEGMENT INFORMATION *(continued)*

(a) Business segments *(Continued)*

	Steel		Aluminium		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue						
– External sales	**1,048,532**	941,577	**8,097**	–	**1,056,629**	941,577
– Inter-segment sales	**–**	–	**–**	–	**–**	–
	1,048,532	941,577	**8,097**	–	**1,056,629**	941,577
Segment results	**22,227**	72,279	**(1,586)**	–	**20,641**	72,279
Unallocated operating income and expenses					**(4,631)**	(6,744)
Profit from operations					**16,010**	65,535
Finance costs					**(14,372)**	(5,375)
Taxation					**(878)**	(5,019)
Profit for the year					**760**	55,141
Segment assets	**676,955**	541,899	**169,747**	–	**846,702**	541,899
Unallocated assets					**26,721**	–
Total assets					**873,423**	541,899
Segment liabilities	**450,969**	260,998	**140,785**	–	**591,754**	260,998
Unallocated liabilities					**576**	–
Total liabilities					**592,330**	260,998
Capital expenditure	**20,119**	22,538	**1,420**	–	**21,539**	22,538
Unallocated amounts					**15,611**	–
					37,150	22,538
Depreciation and amortisation	**10,457**	8,159	**3,051**	–	**13,508**	8,159
Unallocated amounts					**785**	–
					14,293	8,159

7. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The Group's revenue for the year ended 31 December 2005 is substantially made to customers based in the PRC, no separate analysis of sales by geographical locations is presented accordingly.

The following is an analysis of the carrying amount of segment assets and capital expenditure of the Group analysed by the geographical areas in which the assets are located.

	Segment assets		Capital expenditure	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hong Kong	**6,882**	53,365	**–**	300
Mainland China	**676,955**	487,543	**20,119**	22,238
Taiwan	**187,122**	–	**17,031**	–
Unallocated amounts	**2,464**	991	**–**	–
	873,423	541,899	**37,150**	22,538

8. TURNOVER AND OTHER REVENUE

Turnover represents the net amounts received and receivable for sale of goods by the Group to outside customers.

An analysis of the Group's turnover and other revenue is as follows:

	2005	2004
	RMB'000	*RMB'000*
Turnover		
Sale of goods	**1,056,629**	941,577
Other revenue		
Interest income	**964**	288
Rental income	**2,840**	–
Consultancy fee	**358**	–
	4,162	288
	1,060,791	941,865

9. OTHER INCOME

	2005	2004
	RMB'000	*RMB'000*
Scrap sales	**5,916**	6,366
Exchange gains, net	**3,019**	1,388
Fair value gain on foreign currency contracts	**1,396**	–
Reversal of previous impairment loss recognised on trade receivables	**3,229**	–
Sundry income	**618**	115
	14,178	7,869

10. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2005	2004
	RMB'000	*RMB'000*
Auditors' remuneration	**364**	373
Cost of inventories recognised as expenses	**993,240**	827,767
Depreciation	**14,071**	7,937
Amortisation of operating lease prepayment	**222**	222
Loss on disposal of property, plant and equipment, net	**120**	142
Operating leases in respect of		
– rented premises	**698**	239
– motor vehicles	**845**	660
Impairment loss on trade receivables	**–**	200
Contribution to defined contribution retirement schemes	**1,474**	1,397
Staff costs (including directors' remuneration)	**17,166**	17,731

11. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable		
– within five years	**14,262**	5,375
– after five years	**110**	–
	14,372	5,375

12. TAXATION

The charge comprises:

	2005	2004
	RMB'000	*RMB'000*
Income tax		
Current year	**612**	5,019
Underprovision of prior years	**25**	–
Deferred taxation *(note 23)*	**241**	–
	878	5,019

Pursuant to the tax authorities in the PRC, Guangzhou Mayer Corporation Limited ("Guangzhou Mayer") is entitled to a preferential rate on PRC enterprise income tax of 10% for 2005 to 2006 (2004: 7.5%). The charge of PRC enterprise income tax for the year has been provided for after taking these tax incentives into account.

Income tax of the other companies comprising the Group is calculated at tax rates applicable to the jurisdictions in which they are incorporated/registered.

The charge for the year can be reconciled to the profit before taxation as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**1,638**	60,160
Tax at income tax at statutory tax rate	**246**	9,024
Tax effect of tax exemption	**(365)**	(5,017)
Tax effect on non-deductible expenses	**1,320**	588
Tax effect on non-taxable income	**(1,044)**	(25)
Under-provision in respect of prior years	**26**	–
Others	**695**	449
	878	5,019

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The net profit attributable to equity holders of the Company includes a loss of approximately RMB6,675,000 (2004: profit of RMB3,125,000) which has been dealt with in the financial statements of the Company for the year ended 31 December 2005.

14. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend of 1 cent per share (2004: 3 cents) out of the special reserve of the Company *(Note 34)*	**4,000**	12,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of special reserve for the year ended 31 December 2005.

15. EARNINGS PER SHARE

The calculations of the basic earnings per share is based on the net profit from ordinary activities attributable to equity holders for the year of approximately RMB308,000 (2004: RMB41,229,000) and the weighted average of 400,000,000 (2004: 353,150,685) shares in issue during the year.

There were no potential dilutive shares in existence for the year ended 31 December 2005 and 2004, and accordingly, no diluted earnings per share amount has been presented.

16. DIRECTORS' REMUNERATION

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of directors	**Fees**	**Salary**	**Bonus**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Lai Yueh-hsing	–	187	–	187
Lo Haw	–	661	–	661
Shen Heng-chiang	–	452	–	452
Wu Kuo-lung	–	187	–	187
Chiang Jen-chin	–	219	–	219
Cheng Dar-terng	–	187	–	187
Non-executive Directors				
Hsiao Ming-chih	–	121	–	121
Huang Chun-fa	–	105	–	105
Independent non-executive Directors				
Lin Sheng-bin	31	–	–	31
Huang Jui-hsiang	31	–	–	31
Alvin Chiu	237	–	–	237
	299	2,119	–	2,418

16. DIRECTORS' REMUNERATION *(continued)*

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name of directors	Fees *RMB'000*	Salary *RMB'000*	Bonus *RMB'000*	Total *RMB'000*
Executive Directors				
Lai Yueh-hsing	–	132	–	132
Lo Haw	–	437	426	863
Shen Heng-chiang	–	360	958	1,318
Wu Kuo-lung	–	101	–	101
Chiang Jen-chin	–	101	–	101
Cheng Dar-terng	–	101	–	101
Non-executive Directors				
Hsiao Ming-chih	–	56	–	56
Huang Chun-fa	–	56	–	56
Independent non-executive Directors				
Lin Sheng-bin	17	–	–	17
Huang Jui-hsiang	17	–	–	17
Alvin Chiu	128	–	–	128
	162	1,344	1,384	2,890

During the year, no remunerations were paid by the Group to any directors or any five highest paid individuals (note 17) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during the year.

The remuneration of the directors was within the following bands:

	2005 **Number of** **Directors**	2004 Number of Directors
Nil to RMB1,040,000 (HK$1,000,000)	**11**	10
RMB1,040,000 (HK$1,000,000) to RMB2,080,000 (HK$2,000,000)	**–**	1
	11	11

17. FIVE HIGHEST PAID INDIVIDUALS

During the year, the five highest paid individuals in the Group included two (2004: two) directors, details of those emolument are set out in note 16 above. The emoluments of the remaining three (2004: three) individuals for the year ended 31 December 2005 were as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries and other benefits	**821**	884
Bonus	**–**	1,172
	821	2,056

The remuneration of the individuals was within the following band:

	2005	2004
	Number of employees	Number of employees
Nil to RMB1,040,000 (HK$1,000,000)	**3**	3

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Freeland land	Building and factory premises	Construction in progress	Leasehold improvements	Furniture, fixtures and office equipment	Plant and machinery	Motor vehicles	Aircrafts	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2004	–	33,331	1,331	8,034	3,184	62,076	967	–	108,923
Additions	–	1,053	15,122	180	403	5,780	–	–	22,538
Transfers	–	8,011	(8,593)	–	204	378	–	–	–
Disposals	–	(144)	–	(8,034)	(468)	(1)	–	–	(8,647)
At 31 December 2004	–	42,251	7,860	180	3,323	68,233	967	–	122,814
Acquisition of a subsidiary	14,932	10,931	–	14,889	810	83,864	455	–	125,881
Additions	–	–	18,228	102	741	2,044	424	15,611	37,150
Transfers	–	116	(23,061)	2,740	1,492	18,713	–	–	–
Disposals	–	–	–	–	(462)	(444)	–	–	(906)
Exchange adjustments	–	–	–	–	–	–	–	(410)	(410)
At 31 December 2005	**14,932**	**53,298**	**3,027**	**17,911**	**5,904**	**172,410**	**1,846**	**15,201**	**284,529**
Depreciation									
At 1 January 2004	–	8,802	–	4,401	1,809	26,380	377	–	41,769
Provided for the year	–	1,606	–	25	330	5,802	174	–	7,937
Eliminated on disposals	–	(45)	–	(4,401)	(420)	(1)	–	–	(4,867)
At 31 December 2004	–	10,363	–	25	1,719	32,181	551	–	44,839
Acquisition of a subsidiary	–	1,248	–	4,868	470	24,328	259	–	31,173
Provided for the year	–	2,017	–	832	460	9,750	225	787	14,071
Written-back	–	–	–	–	(383)	(333)	–	–	(716)
Exchange adjustments	–	–	–	1	1	–	–	–	2
At 31 December 2005	**–**	**13,628**	**–**	**5,726**	**2,267**	**65,926**	**1,035**	**787**	**89,369**
Net book value									
At 31 December 2005	**14,932**	**39,670**	**3,027**	**12,185**	**3,637**	**106,484**	**811**	**14,414**	**195,160**
At 31 December 2004	–	31,888	7,860	155	1,604	36,052	416	–	77,975

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

The freehold land is situated in Taiwan.

The building and factory premises are situated in the People's Republic of China and Taiwan and are held under medium term lease.

The aircrafts are leased to a related company established under the laws of the Republic of China, in which Mr. Huang Chun-fa has beneficial interest. During the year, rental income and consultancy fee income amounting to RMB2,840,000 and RMB358,000 respectively were received and receivable from this related company.

At 31 December 2005, the Group's property, plant and equipment with carrying value of RMB159,791,000 (2004: RMB60,567,000) were pledged to certain banks for banking facilities granted to the Group (Note 31).

Company

	Leasehold improvements *RMB'000*	Furniture and fixtures *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2004	–	–	–
Additions	180	120	300
At 31 December 2004 and at 31 December 2005	**180**	**120**	**300**
Depreciation			
At 1 January 2004	–	–	–
Provided for the year	25	16	41
At 31 December 2004	25	16	41
Provided for the year	60	40	100
At 31 December 2005	**85**	**56**	**141**
Net book value			
At 31 December 2005	**95**	**64**	**159**
At 31 December 2004	155	104	259

19. LEASEHOLD LAND AND LAND USE RIGHTS FOR OWN USE UNDER OPERATING LEASE

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2005	2004
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**8,860**	9,082

Bank borrowings are secured on leasehold land for the carrying amount of RMB8,860,000 (2004: RMB9,082,000) (Note 31).

The movements of the leasehold land and land use rights for own use under operating lease are as follows:

	2005	2004
	RMB'000	*RMB'000*
Opening	**9,082**	9,304
Amortistation of prepaid operating lease payment	**(222)**	(222)
Closing	**8,860**	9,082

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005	2004
	Available-for-sale financial assets	Club debentures
	RMB'000	*RMB'000*
Club debentures		
Unquoted, at cost	**1,294**	1,294
Less: Impairment loss recognised	**(574)**	(574)
	720	720

The carrying amount of the club debentures approximates to the fair value.

21. INTANGIBLE ASSETS

	2005	2004
	RMB'000	*RMB'000*
Goodwill attributable to acquisition of a subsidiary *(note 35(b))*	**12,708**	–

Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

The goodwill is related to the business segment of aluminium wheels and car spare parts which is located in Taiwan.

The recoverable amount of CGU as at 31 December 2005 is valued by an independent professional valuer, RHL Appraisal Limited, on 24 April 2006 based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering on 3 year period. Cash flows beyond the 3 year period are extrapolated using the estimate rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which CGU operates.

Key assumptions used for value-in-use calculations:

	2005	2004
– Gross margin	**12%**	–
– Growth rate	**18.4%**	–
– Discount rate	**6.1%**	–

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate are consistent with forecasts included in industry report. The discount rate used are per-tax and reflect specific risks relating to the relevant segments.

No impairment loss has been recognised on the goodwill in respect of the business segments of aluminium wheels and car spare parts as the estimated recoverable amount of this CGU as at 31 December 2005 exceeds its carrying value.

22. INTERESTS IN SUBSIDIARIES

	2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**141,211**	141,211
Amounts due from subsidiaries	**64,015**	–
	205,226	141,211

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of interest held Direct	Indirect	Principal activities
Bamian Investments Pte Ltd.	Singapore	US$10,100,875	100%	–	Investment holding
Guangzhou Mayer Corp., Ltd. ("Guangzhou Mayer")	PRC	RMB127,500,000	–	77.52%	Manufacture and trading of steel pipes, steel sheets and other products made of steel
ROC Advance Ltd.	BVI	USD1	100%	–	Leasing of aircrafts and provision of consultancy service
Sunbeam Group Ltd.	BVI	USD1	100%	–	Investment holding
Fullchamp Technologies Co. Ltd. *	The Republic of China	NTD319,485,000	–	51.83%	Design, development, manufacture and trading of aluminum forged and forged-spun wheels and other spare parts for automobiles
Teson Corporation *	USA	USD200,000	–	51.83%	Dormant
Fullchamp Technologies Co. Ltd. *	Samoa	USD200,000	–	51.83%	Dormant
Vansen International Ltd. #	BVI	USD1	100%	–	Dormant

* Not audited by CCIF CPA Limited

\# Incorporated on 8 March 2006

Note: Guangzhou Mayer is a joint stock limited liability company established under the laws of the PRC.

23. DEFERRED TAX ASSETS

The followings are the major deferred tax assets recognised by the Group and movements thereon during the year:

	2005	2004
	RMB'000	*RMB'000*
At beginning of the year	**268**	268
Charge for the year *(note 12)*	**(241)**	–
At end of the year	**27**	268

	Deferred assets	**Impairment loss on club debentures and property, plant and equipment**	**Allowance for doubtful debts**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	–	43	225	268
(Charge)/credit for the year	–	(11)	11	–
At 31 December 2004	–	32	236	268
Charge for the year	–	(5)	(236)	(241)
At 31 December 2005	**–**	**27**	**–**	**27**

24. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
At cost:		
Raw materials	**163,937**	84,604
Finished goods	**48,930**	28,774
	212,867	113,378

25. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30-100 days to its trade customers and may be extended to selected customers depending on their trade volume and settlement with the Group.

An ageing analysis of trade receivables is as follows:

	2005	2004
	RMB'000	*RMB'000*
1 – 30 days	**70,501**	97,072
31 – 60 days	**70,294**	75,993
61 – 90 days	**58,240**	37,514
91 – 180 days	**92,283**	17,898
Over 180 days	**19,637**	746
	310,955	229,223
Provision for impairment of receivables	**(11,426)**	(3,148)
	299,529	226,075

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance is an amount of RMB4,000,000 (2004: Nil) which represents the loan receivable from a third party with an annual interest bearing at 9.108%. The directors consider that the balance of prepayments, deposits and other receivables approximate their fair value.

27. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company, in which Mr. Huang Chun-fa has beneficial interest, is unsecured, interest-free and will be repayable within the next twelve months from the balance sheet date. The maximum amount outstanding during the year amounted to RMB2,733,000 (2004: Nil).

No provision for the amount due has been made in the financial statements. The directors are of the opinion that the carrying value of the amount due approximate to the fair value.

28. TIME DEPOSITS

Included in the balance are deposits of RMB8,194,000 (2004: Nil) pledged to banks to secure banking facilities granted to the Group. These pledged deposits carry fixed interest rate of ranging from 1% to 3.8% per annum and will be released upon the settlement of relevant bank borrowings. The other remaining time deposits of RMB 87,553,000 (2004: Nil) carry fixed interest rate ranging from 2.07% to 2.25% per annum and with maturities ranging from 5 to 12 months. The directors consider that the fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**26,276**	50,948	**1,669**	343
Short-term bank deposits	**860**	52,533	**860**	52,533
	27,136	103,481	**2,529**	52,876

The effective interest rate of short-term bank deposits is 3.86% (2004: 1.2% to 1.89%) per annum. They have a maturity of 6 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group are RMB19,281,000 and NTD15,643,000 (2004: RMB49,614,000) of bank balances denominated in Renminbi ("RMB") and new Taiwan dollars ("NTD") placed with banks in the PRC and Taiwan respectively. RMB and NTD are not freely convertible currencies.

30. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	2005	2004
	RMB'000	*RMB'000*
1 – 30 days	**35,555**	15,776
31 – 60 days	**26,135**	1,000
61 – 90 days	**23,267**	1,076
91 – 180 days	**33,361**	21
Over 180 days	**16,853**	7
	135,171	17,880

31. BORROWINGS

At 31 December 2005, the borrowings were repayable as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**365,511**	230,807	**40,198**	–
After 1 year but within 2 years	**32,302**	–	**–**	–
After 2 years but within 5 years	**11,100**	–	**–**	–
After 5 years	**18,598**	–	**–**	–
	427,511	230,807	**40,198**	–
Current portion	**(379,025)**	(230,807)	**(40,198)**	–
Non-current portion	**48,486**	–	**–**	–

At 31 December 2005, the borrowings were secured as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans				
– Corporate guarantees by Group companies	**153,320**	104,319	**40,198**	–
– Secured by plant and machinery with carrying value of RMB82,667,000 (2004: RMB36,052,000)	**23,233**	36,254	**–**	–
– Secured by freehold land and land use rights with carrying value of RMB23,792,000, buildings with carrying value of RMB39,415,000 and bank deposits of RMB8,194,000 (2004: RMB33,597,000)	**72,635**	28,171	**–**	–
	249,188	168,744	**40,198**	–
– Unsecured	**151,316**	62,063	**–**	–
Other loans				
– Secured by plant and machinery with carrying value of RMB22,777,000 (2004: Nil)	**27,007**	–	**–**	–
	427,511	230,807	**40,198**	–

32. ISSUED CAPITAL

	Number of authorised shares	Number of shares issued	Nominal value of shares issued *RMB'000*
At 1 January 2004	1,000,000	1	–
Shares issued as consideration for the acquisition of the entire issued share capital of Bamian Investments Pte Ltd.	–	1	–
Increased in authorised share capital	999,000,000	–	–
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares	–	299,999,998	31,860
New Issue on public listing	–	100,000,000	10,620
At 31 December 2004 and at 31 December 2005	**1,000,000,000**	**400,000,000**	**42,480**

33. SHARE OPTION SCHEME

The Share Option Scheme was adopted on 24 May 2005 for the primary purpose of providing incentives and to recognise the contribution of the eligible participants to the growth of the Group and will expire on 24 May 2014. Under the Share Option Scheme, the Board may grant options to eligible full time employees, including any executive, non-executive and independent non-executive directors, and consultants or advisers of the Company and/or any of its subsidiaries.

Up to 31 December 2005, no options have been granted since the adoption of the Share Option Scheme. The total number of shares in respect of which options may be granted under the Share Option Scheme and any other option schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any year is not permitted to exceed 1% of the issued share capital of the Company, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant to the 10 years of the date of grant. No minimum period for which an option must be held is required. The exercise price, which is determined by the Board is the highest of: (i) the closing price per share on the date of grant; (ii) the average closing price per share for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

34. RESERVES

Company

	Special reserve *RMB'000*	Share premium *RMB'000*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
At 1 January 2004	141,211	–	–	–	–	141,211
Capitalisation issue of shares	–	(31,860)	–	–	–	(31,860)
New issue on public listing	–	47,790	–	–	–	47,790
Share issue expenses	–	(11,854)	–	–	–	(11,854)
Profit for the year	–	–	–	3,125	–	3,125
Proposed final dividend	(12,000)	–	–	–	12,000	–
At 31 December 2004 and 1 January 2005	129,211	4,076	–	3,125	12,000	148,412
Exchange differences	–	–	(870)	–	–	(870)
Loss for the year	–	–	–	(6,675)	–	(6,675)
Dividend paid	–	–	–	–	(12,000)	(12,000)
Proposed final dividend	(4,000)	–	–	–	4,000	–
At 31 December 2005	**125,211**	**4,076**	**(870)**	**(3,550)**	**4,000**	**128,867**

The special reserve represented the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group Reorganisation on 12 December 2004.

Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the share premium and special reserve are distributable to the shareholders of the Company.

Movements of the Group's reserves are set out in the consolidated statement of changes in equity on page 17.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**1,638**	60,160
Adjustments for:		
Interest income	**(964)**	(288)
Interest expenses	**14,372**	5,375
Depreciation	**14,071**	7,937
Amortisation of operating lease prepayment	**222**	222
Reversal of impairment loss on trade receivables	**(3,229)**	–
Fair value gain on foreign currency contracts	**(1,396)**	–
Loss on disposal of property, plant and equipment, net	**120**	142
Exchange adjustment	**–**	150
Operating profit before working capital changes	**24,834**	73,698
Increase in inventories	**(74,999)**	(36,345)
Increase in amount due from a related company	**(2,733)**	–
Increase in trade receivables, prepayments, deposits and other receivables	**(45,181)**	(46,430)
Increase in time deposits	**(95,747)**	–
Increase in trade payables, other payables and accruals	**54,442**	19,463
Decrease in amount due to ultimate holding company	**–**	(34)
Cash (outflow)/inflow from operating activities	**(139,384)**	10,352
Income tax paid	**(2,701)**	(4,931)
Net cash (outflow)/inflow from operating activities	**(142,085)**	5,421

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of a subsidiary

On 1 November 2005, the Group acquired 51.83% of the share capital of Fullchamp Technologies Co., Limited ("Fullchamp"), a company established under the laws of the Republic of China. Fullchamp is principally engaged in the design, development and manufacture of aluminum forged and forged-spun wheels for automobiles and trading of the products mainly in China, United States of America, Japan, Taiwan, Europe and Australia.

Details of net assets acquired and goodwill are as follows:

	2005
	RMB'000
Purchase consideration	
– Cash paid	**40,112**
Fair value of net assets acquired – shown as below	**27,404**
Goodwill	**12,708**

The tangible assets and liabilities arising from the acquisition are as follows:

	Fair value
	RMB'000
Cash and cash equivalents	**20,057**
Property, plant and equipment	**94,708**
Inventories	**24,490**
Receivables	**30,464**
Payables	**(80,548)**
Borrowings	**(36,299)**
Net assets	**52,872**
Minority interests (48.17%)	**(25,468)**
Net tangible assets attributable to 51.83% acquired	**27,404**
Purchase consideration settled in cash	**40,112**
Cash and cash equivalents in subsidiary acquired	**(20,057)**
Cash outflow on acquisition	**20,055**

There was no similar acquisition for the last year ended 31 December 2004.

36. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of motor vehicles and rented premises which fall due as follows:

	2005	2004
	RMB'000	*RMB'000*
Motor vehicles		
Within one year	**436**	133
Rented premises		
Within one year	**1,193**	397
In the second to fifth years inclusive	**727**	553
	1,920	950

Leases are negotiated for term of one to two years with fixed monthly rentals over the term of the leases.

37. FUTURE OPERATING LEASE ARRANGEMENT

At the balance sheet date, the Group had future aggregate minimum lease receipts under non-cancellable operating lease in respect of aircrafts as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**6,004**	–
In the second to fifth years inclusive	**8,005**	–
	14,009	–

Lease is negotiated for term of three years with a fixed monthly rental over the term of the lease.

38. COMMITMENTS

	2005	2004
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment	**4,054**	10,649

The Company did not have any significant capital commitments at both balance sheet dates.

39. PLEDGE OF ASSETS

At 31 December 2005, the Group pledged the land use rights with a carrying value of RMB8,860,000 (2004: RMB9,082,000) and property, plant and equipment with a carrying value of RMB159,791,000 (2004: RMB60,567,000) to banks to secure banking facilities to the extent of RMB122,875,000 (2004: RMB54,738,000) granted to the Group.

40. CONTINGENT LIABILITIES

At 31 December 2005, the Company has given corporate guarantees in favour certain banks to secure banking facilities of RMB145,263,000 (2004: RMB173,808,000) granted to Guangzhou Mayer, a subsidiary. Out of these banking facilities, RMB96,983,000 was utilised by Guangzhou Mayer as at 31 December 2005 (2004: RMB104,320,000).

Apart from the above, the Company and the Group have no other material contingent liabilities at both balance sheet dates.

41. EMPLOYEE RETIREMENT BENEFITS

The Company and its subsidiaries participate in defined contribution retirement schemes governed by the relevant local government authorities in which they operate.

The Company operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Company contributes 5% of the relevant payroll to the Scheme, which contribution is matched by employees. The Company's employer contributions vest fully with the employees when contributed into the scheme.

The Company's subsidiary in the PRC is required to make monthly contributions to the retirement schemes up to the time of retirement of the eligible employees, at a rate of 12% of the local standard basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As of 31 December 2005, the Group had no obligation apart from the contributions as stated above. There were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes.

42. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following connected and related party transactions which were conducted in the ordinary course of the Group's business:

(i) On 28 September 2005, Guangzhou Mayer Corp., Limited ("Guangzhou Mayer"), a 77.52% subsidiary of the Group, had given a corporate guarantee in favour certain banks established under the laws of the PRC for revolving bank facilities up to a maximum amount of RMB60 million granted to Shanghai Fervent Alloy Wheel Manufacturing Co., Limited ("Shanghai Fervent"), a fellow subsidiary of the Company. Guangzhou Mayer will receive a back-to-back guarantee from Mayer Steel Pipe Corporation ("Taiwan Mayer") in respect of the granting of the Guarantees as a result of the default of Shanghai Fervent, Guangzhou Mayer shall have the right to be fully indemnified by Taiwan Mayer. In respect of the benefits of the Group, Guangzhou Mayer will receive an annual guarantee fee in cash amounting to 0.75% of the amount of the loan facilities which is payable after every six months as agreed between Shanghai Fervent and Guangzhou Mayer. The guarantee fee is arrived at after arm's length negotiations and on commercial basis.

42. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(ii) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Name	Relationship	Nature of transaction	2005	2004
			RMB'000	*RMB'000*
Lo Haw and his spouse	Director of the company	Rental paid *(Note a)*	**120**	120
Daily Air Corporation	Under common director	Rental income *(Note b)*	**2,840**	–
		Consultancy fee income *(Note b)*	**358**	–

Note:

(a) The rental, which was paid for a property owned by Mr. Lo Haw, a director of the Company, and his spouse was determined with reference to the prevailing market rental.

(b) ROC Advance Limited ("ROC"), a wholly-owned subsidiary of the Group, entered into an aircraft lease agreement with Daily Air Corporation, a related company in which Mr. Huang Chun-fa has beneficial interest, pursuant to which, ROC leases two aircrafts at a monthly rental of US$26,000 for each aircraft and provide consultancy services at a monthly fee of US$10,000 to Daily Air Corporation for a term of three years commencing from 1 May 2005 to 30 April 2008. The transactions were conducted at terms mutually agreed. The rental and consultancy fee income received and receivable amounted to RMB2,840,000 (2004: Nil) and RMB358,000 (2004: Nil) for the year ended 31 December 2005. At the balance sheet date, RMB2,733,000 is due from this related company which is interest free, unsecured and repayable on demand. No provision for the amount due was made for the year (Note 27).

43. POST BALANCE SHEET EVENTS

The Group and the Company had no material post balance sheet events at the balance sheet date.

44. ULTIMATE HOLDING COMPANY

The directors regards Mayer Steel Corporation, a company incorporated in the Republic of China, as being the ultimate holding company.

45. COMPARATIVE FIGURES

Certain comparative figures have been re-classified as a result of the changes in accounting policies as disclosed in notes 2 and 3.