Web Proof Information Pack of

中國金屬再生資源(控股)有限公司
CHINA METAL RECYCLING (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

WARNING

This Web Proof Information Pack is being published as required by The Stock Exchange of Hong Kong Limited ("HKEx")/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with China Metal Recycling (Holdings) Limited (the "Company"), any of its sponsors, advisers and/or members of the underwriting syndicate that:

(a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;

(b) the posting of the Web Proof Information Pack or any supplemental, revised or replacement pages thereof on the HKEx website does not give rise to any obligation of the Company, any of its sponsors, advisers and/or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with any offering;

(c) the contents of the Web Proof Information Pack or any supplemental, revised or replacement pages thereof may or may not be replicated in full or in part in the actual prospectus;

(d) this Web Proof Information Pack may be updated or revised by the Company from time to time but each of the Company and its affiliates, advisers, sponsors and members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;

(e) this Web Proof Information Pack does not constitute a prospectus, notice, circular, brochure or advertisement or document offering to sell any securities to the public in any jurisdiction, nor is it an invitation or solicitation to the public to make offers to acquire, subscribe for or purchase any securities, nor is it calculated to invite or solicit offers by the public to acquire, subscribe for or purchase any securities;

(f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(g) neither the Company nor any of its affiliates, advisers, sponsors or members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;

(h) neither the Company nor any of its affiliates, advisers, sponsors or members of the underwriting syndicate makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in this Web Proof Information Pack;

(i) each of the Company and any of its affiliates, advisers, sponsors and members of the underwriting syndicate expressly disclaims any and all liabilities on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;

(j) the Company has not and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended, or any state securities laws of the United States; and

(k) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THIS WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHOUT REGISTRATION THEREUNDER OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM.

NEITHER THIS WEB PROOF INFORMATION PACK NOR THE INFORMATION CONTAINED HEREIN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT INTO CANADA OR JAPAN.

Any offer or invitation to make an offer for any securities will only be made to the public in Hong Kong after the Company has registered its prospectus in accordance with the Companies Ordinance (Cap 32). If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a prospectus of the Company registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

CONTENTS

This Web Proof Information Pack contains the following information relating to China Metal Recycling (Holdings) Limited and its subsidiaries extracted from an amended version of the Listing Committee Hearing Proof of the draft prospectus:

YOU SHOULD READ THE SECTION HEADED "WARNING" ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

OVERVIEW

We are the largest scrap metal recycling company in China based on our revenue of HK$6.5 billion for the year ended 31 December 2008, according to a survey conducted by the China Association of Metal Scrap Utilization, or CAMU, among its members.* We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual labour to separate the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. Our products are used by metal manufacturers in China in the production of new crude steel and other non-ferrous metals. These materials, in turn, are used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

We have recycling facilities in key metal producing regions in China with high demand for recycled scrap metal. Our current recycling facilities are located in Guangdong Province, Jiangsu Province and Hong Kong, with a total designed annual production capacity of approximately 1.6 million metric tons. We are in the process of establishing new recycling facilities in Tianjin, Zhejiang Province and Jiangsu Province, which we expect to complete by the end of the third quarter of 2009. These facilities are expected to almost double our designed annual production capacity to approximately 3.1 million metric tons. In addition, in 2010 we plan to open a new recycling facility in Hubei Province in central China with a designed annual production capacity of approximately 0.5 million metric tons. We expect to incur capital expenditures of approximately HK$134.0 million in 2009 primarily in connection with the establishment of these new facilities. By establishing a network of operations in multiple key metal producing regions in China, we are able to efficiently allocate resources and capitalise on pricing differences between regions for raw materials and recycled scrap metal. Our facilities also have convenient access to waterways, which provide a low cost and efficient means of transportation for both raw materials and recycled scrap metal.

China has experienced significant growth in the consumption of steel in the past few years due to China's rapid development and industrialisation. From 2003 to 2007, consumption of steel in China grew at a CAGR of 13.9%. Steel is produced by either refining iron ore in a blast furnace or melting recycled scrap steel in an electric arc furnace. The electric arc furnace process uses scrap steel as the primary raw material for the production of new crude steel. The blast furnace process uses iron ore as the primary raw material for production, and uses scrap steel to cool the molten metal to add efficiency to the production process. The electric arc furnace process has significant advantages over the blast furnace process, including consuming less energy, creating less pollution and reducing demands on natural resources by using recycled scrap as the principal raw material. According to CAMU, the electric arc furnace process consumes approximately 60% less energy and

* Information regarding our ranking in the metal recycling industry in China is based on a confirmation from CAMU. CAMU members include large scrap steel recycling companies and other enterprises engaged in metal recycling in the PRC. CAMU regularly conducts surveys among its members in which members provide data on volume, sales and other operating information requested by CAMU. To our Directors' knowledge, no other industry statistics with respect to ranking in the PRC metal recycling industry are available. Our Chairman, Chief Executive Officer and Controlling Shareholder, Mr. Chun Chi-wai, is a standing committee member of CAMU, but he was not involved in compiling the ranking confirmation by CAMU.

approximately 40% less water and discharges approximately 97% less waste. Due to these benefits, there has been a trend towards electric arc furnace steelmaking, and in 2005 the PRC Government adopted a Steel Policy which has as one of its principal goals an increase in the role of scrap steel in the production of steel in China. We believe these factors create strong growth opportunities in our industry.

China has also experienced significant growth in the consumption of copper and other non-ferrous metal in the last few years. From 2004 to 2007, consumption of copper and other non-ferrous metal in China grew at a CAGR of 20.4%. However, copper resources are in relatively short supply in China, with domestic copper ore resources characterised by small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs. As a result, we expect demand for secondary copper, which are concentrates produced from scrap copper, in China to strengthen over time. Our production facilities are located in areas with significant demand for scrap copper and other non-ferrous scrap metal, including the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the "2008 Report for China's Copper Market" by CBI China, approximately 75.6% of China's total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our principal suppliers include private enterprises in the PRC engaged in the business of collecting unprocessed scrap metal and foreign scrap metal collection companies. We produce quality recycled scrap metal products that have the metal content, size and shape to meet customer specifications and market demand. Our customers are primarily large steel and copper manufacturers in the PRC, both private enterprises and state-owned entities, and scrap metal resellers. During the Track Record Period, our business relied to a significant extent on a limited number of major customers and suppliers. However, we have successfully expanded both our customer and supplier bases in recent periods to lessen our reliance on major customers and suppliers. For example, the number of major customers increased from one in 2005 to 16 in 2008, and the number of major raw material suppliers increased from three in 2005 to 21 in 2008. For the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively, and purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6% of our total purchases of raw materials, respectively.

We generated revenue of HK$1,090.3 million, HK$1,942.4 million and HK$6,526.6 million, respectively, in 2006, 2007 and 2008, representing a CAGR of 144.7%. The increase in revenue from 2006 to 2007 was primarily due to an increase in sales volume of non-ferrous metal and an increase in the average sales price per metric ton of our products. Sales of scrap copper and other non-ferrous scrap metal increased from approximately 56.0% of our total revenue in 2006 to approximately 64.9% of our total revenue in 2008. The results for the year ended 31 December 2008 reflect our acquisition of Zhangjiagang Rongli in January 2008, the opening of new production facilities in Guangzhou and Tianjin in 2008 and increased sales to external customers by our Macau subsidiary in 2008.

We have also significantly enhanced our profitability during the Track Record Period, generating a profit for the year of HK$95.4 million, HK$178.7 million and HK$307.9 million in 2006, 2007 and 2008, respectively, representing a CAGR of 79.7%. Our gross margin was 10.9%, 12.4% and 7.6% in 2006, 2007 and 2008, respectively. The decrease in our gross margin in 2008 was primarily due to the acquisition of Zhangjiagang Rongli, which has historically had a lower gross margin than the Group due to the relatively small size of its production facility. With limited operating space, Zhangjiagang Rongli's operations in 2008 were primarily focused on collecting scrap metal that required limited processing, like simple separation and cutting, which resulted in lower value being added in the recycling process and therefore lower gross margins. In December 2008, we relocated Zhangjiagang Rongli's operations to a larger facility with a view to improving its operating efficiency and operating results. Separate financial information for Zhangjiagang Rongli for the period ended 31 December 2007 is included in Appendix II to this document.

The recent disruptions in the credit markets have not had a significant impact on the financing of our operations, which we have financed primarily through cash generated from operations and existing cash and bank balances, including proceeds from the Senior Notes we issued in October 2007, capital contributions from our Controlling Shareholder and, to a lesser extent, bank borrowings. As of 31 December 2008, approximately 21.1% of our total assets was financed by bank borrowings and discounted bills. As of the Latest Practicable Date, the Directors confirmed that we had not received demands for repayment of any outstanding indebtedness prior to its stated maturity, nor had we experienced disruptions in the availability of financing on satisfactory terms under our existing credit facilities.

The recent downturn in the United States and other major economies, and the slowing economic growth in the PRC, has had a significant impact on commodity prices, including the prices of steel, copper and other metals. This has resulted in a decrease in the price of both the raw materials we purchase and the recycled scrap metal products we sell. For example, the price of scrap steel in the PRC decreased from RMB4,000 per metric ton in July 2008 to RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. Our exposure to fluctuations in metal prices is primarily the risk of price changes between the time we commit purchase orders with suppliers and the time we confirm sales with customers. Our results for 2008 were adversely affected in part by the rapid decline in metal prices in the second half of the year. In response to the decline in metal prices, we adopted tighter inventory management policies to reduce the time between the purchase of raw materials and sales to our customers. We shortened our average inventory turnover days from 15 days for the six months ended 30 June 2008 to 12 days for the year ended 31 December 2008 through improved coordination amongst our purchasing, production and sales functions. Approximately 97.1% of our inventory as of 31 December 2008 had been sold to customers by 31 March 2009. As of the Latest Practicable Date, we had not experienced a significant pileup of inventory.

Since the onset of the global financial crisis, there has been a general tightening of credit with customers and suppliers, and we as well as our suppliers have been placing greater emphasis on timely collection of receivables. Our turnover days of average trade receivables and bills receivable increased slightly from 47 days for the six months ended 30 June 2008 to 52 days for the year ended 31 December 2008, while our turnover days of average trade payables decreased from 19 days for the six months ended 30 June 2008 to 14 days for the year ended 31 December 2008. However, our working capital turnover days have been relatively stable during this period, increasing slightly from 43 days for the six months ended 30 June 2008 to 50 days for the year ended 31 December 2008. As a result, the Directors believe there has been no significant impact on our cash flow position since 30 June 2008.

Although metal prices have declined, demand for our recycled scrap metal products has remained relatively stable as of the Latest Practicable Date. Our Directors believe this is due to the sharper decrease in the cost of scrap steel compared to the cost of iron ore since the middle of 2008, which encourages the use of scrap steel in steel production, as well as a general trend towards electric arc furnace steelmaking in the PRC. The Directors expect demand for recycled scrap metal in the PRC to continue to be relatively stable over the next few quarters as a result of continued economic growth in the PRC, the recently announced stimulus measures in the PRC and the trend towards electric arc furnace steelmaking. Accordingly, the Directors do not expect the recent disruptions in the credit markets, the economic downturns or the declines in metal prices to have a significant impact on our expansion plans. Nevertheless, we intend to monitor these developments and their impact on our industry and business, and adjust our expansion plans to the extent we believe it to be appropriate. We cannot assure you that developments in the financial markets, the downturn in the United States or other major economies or the slowdown in the PRC economy will not have a material adverse effect on our business, financial condition or results of operations.

OUR COMPETITIVE STRENGTHS

We believe there are significant opportunities for growth in the scrap metal recycling industry and that we are well positioned to benefit from these opportunities. We believe we have the following principal competitive strengths:

- We are the largest scrap metal recycling company in China, based on revenue for 2008 according to CAMU, and have broad geographic coverage;
- Our production facilities are strategically located in areas with high demand for recycled scrap metal, strong supply of raw materials and convenient access to water transportation;
- We have a strong profile of quality customers and an expanding procurement network;
- We are an efficient recycled scrap metal producer and utilise advanced equipment to produce quality recycled scrap metal products; and
- We have an experienced and dedicated senior management team.

OUR BUSINESS STRATEGIES

Our goal is to maximise shareholder value and enhance our market position in the scrap metal recycling industry in China. To achieve this, we plan to continue to capitalise on opportunities to leverage our competitive strengths and implement the following strategies:

- Strengthen our leading position in southern China, and capitalise on our advanced equipment and experience to expand in northern, eastern and central China;
- Enhance our operating efficiency through further investment in advanced equipment;
- Expand our customer base and our supply network;
- Further develop our management team and recruit and retain quality staff; and
- Expand our capacity or regional coverage through selective acquisitions.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, the selected financial data from our consolidated financial information. You should read the summary historical consolidated financial information below in conjunction with the Accountants' Reports for the Group and for Zhangjiagang Rongli, our subsidiary acquired in January 2008, in Appendices I and II to this document, which have been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS.

Summary consolidated income statement data

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Revenue	1,090,338	1,942,400	6,526,594
Cost of sales	(971,752)	(1,701,013)	(6,031,534)
Gross profit	118,586	241,387	495,060
Other income	2,607	11,975	21,998
Distribution and selling expenses	(1,991)	(3,832)	(7,804)
Administrative expenses	(11,745)	(20,306)	(49,756)
Change in fair value of derivative financial instruments	2,730	(6,446)	16,181
Finance costs	(13,999)	(39,419)	(147,413)
Share of result of an associate	4,047	3,710	2,654
Profit before taxation	100,235	187,069	330,920
Income tax expense	(4,855)	(8,342)	(23,007)
Profit for the year	95,380	178,727	307,913
Attributable to:			
Equity holders of the Company	46,626	137,691	294,431
Minority interests	48,754	41,036	13,482
	95,380	178,727	307,913
Dividends	16,879	90,000	—
	HK$	HK$	HK$
Earnings per share[(1)]			
— basic	9.34	0.26	0.42
— diluted	N/A	0.26	0.42

(1) Earnings per Share is calculated assuming the [●] described in this document occurred at the beginning of the relevant period. Our earnings per Share decreased from HK$9.34 in 2006 to HK$0.26 in 2007 primarily due to the increase in the weighted average number of Shares used in calculating earnings per Share, from 5.0 million Shares in 2006 to 533.4 million Shares in 2007, as a result of the capitalisation of shareholders' loans of HK$40.6 million in December 2006. Our earnings per Share increased from HK$0.26 in 2007 to HK$0.42 in 2008 due to an increase in profit for the year attributable to equity holders of the Company, offset in part by an increase in the weighted average number of Shares, from 533.4 million Shares in 2007 to 700.0 million Shares in 2008, primarily due to a capital contribution of HK$234.0 million from Wellrun in February 2008 from the proceeds of the Exchangeable Notes.

Summary consolidated balance sheet data

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	47,444	50,070	82,537
Inventories	65,186	144,691	257,536
Trade and other receivables and deposits	173,943	803,715	835,573
Bills receivable	107,594	40,689	304,601
Pledged bank deposits	55,053	117,772	72,455
Bank balances and cash	43,299	277,798	343,293
Total assets	583,274	1,585,317	2,102,263
Trade and other payables	101,446	421,908	52,330
Discounted bills	107,594	28,333	304,601
Secured bank borrowings	161,676	189,525	139,573
Senior Notes	—	624,718	696,724
Total liabilities	373,768	1,272,031	1,205,911
Net current assets	102,186	766,983	630,797
Net assets	209,506	313,286	896,352
Equity attributable to equity holders of the Company	100,224	278,527	831,554

OTHER DATA

Set out below is our average sales price per metric ton for recycled scrap ferrous and non-ferrous metal for each of the periods indicated. The fluctuations in the average sales price are primarily due to price movements of the relevant metals in the underlying commodity markets and product mix for non-ferrous metals.

	Year ended 31 December		
Average sales price per metric ton	2006	2007	2008
	HK$	HK$	HK$
Ferrous metals	1,822	2,368	3,785
Non-ferrous metals	51,944	55,989	38,481(1)

(1) The decrease in the average sales price per metric ton of recycled scrap non-ferrous metal in 2008 compared to 2007 was primarily due to a decrease in the price of copper, from HK$55,989 per metric ton in 2007 to HK$51,644 per metric ton in 2008, and a greater percentage of sales from recycled scrap stainless steel and aluminium, which had a lower price than copper. Copper accounted for approximately 67.6% of sales of recycled scrap non-ferrous metal (by volume) in 2008 and approximately 99.9% in 2007.

The following table sets forth our sales volume (both in metric tons and as a percentage of total sales volume) and revenue (both in Hong Kong dollars and as a percentage of total revenue) for sales of recycled scrap ferrous and non-ferrous metal for each of the periods indicated:

	Year ended 31 December											
Product	**2006**				**2007**				**2008(1)**			
	Sales Volume (metric tons)	**%**	**Sales (HK$'000)**	**%**	**Sales Volume (metric tons)**	**%**	**Sales (HK$'000)**	**%**	**Sales Volume (metric tons)**	**%**	**Sales (HK$'000)**	**%**
Ferrous metals	263,093	95.7	479,481	44.0	296,886	93.1	703,032	36.2	605,385	84.6	2,291,541	35.1
Non-ferrous metals	11,760	4.3	610,857	56.0	22,136	6.9	1,239,368	63.8	110,055	15.4	4,235,053	64.9
Total	274,853	100.0	1,090,338	100.0	319,022	100.0	1,942,400	100.0	715,440	100.0	6,526,594	100.0

(1) Results for 2008 reflect the acquisition of Zhangjiagang Rongli in January 2008.

DIVIDEND POLICY

The payment and amount of any dividends to our shareholders will depend on our results of operations, cash flows, financial condition, contractual, statutory and regulatory restrictions on the payment of dividends by us or our subsidiaries, our prospects and other factors that our Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The payment and amount of dividends will be subject to the discretion of our Directors.

Our ability to pay dividends will also depend upon the amount of distributions, if any, received from our subsidiaries. Under PRC law and regulations, dividends may be paid by our subsidiaries only after they have established the required statutory surplus reserve and the required income tax has been paid. See the section headed "Risk Factors — Risks Relating to Our Business — We are a holding company and rely on dividend payments from our subsidiaries and associated companies."

To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our business. The dividends that we have paid in the past should not be used as a reference or basis to determine the level of dividends that we may declare or pay in the future, and we cannot assure you that we will be able to declare or pay any dividends in the future.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Please refer to "Appendix VI — Summary of the Constitution of our Company and Cayman Company Law" to this document.

Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of approximately 20% of the profit attributable to equity holders of our Company for the year ending 31 December 2009.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2009

Forecasted consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2009(1) ....not less than HK$ million

(1) The bases and assumptions on which the above profit forecast for the six months ending 30 June 2009 have been prepared are summarised in Appendix IV to this document. Under the terms of the Senior Notes, in the event that the Senior Notes are redeemed between interest payment dates (23 April and 23 October), the Company is required to pay accrued coupon interest to the next interest payment date. The Directors expect to redeem the Senior Notes between 23 April 2009 and 23 October 2009, and all the related interest expenses in an amount of approximately HK$116 million, which represents the interest accrued from 1 January 2009 to 23 October 2009, are expected to be incurred in the forecast period for the six months ending 30 June 2009, and no such interest expenses are expected to be incurred after 30 June 2009.

RISK FACTORS

Our operations are subject to a number of risks and uncertainties. A description of certain of these risk and uncertainties is set forth in the section headed "Risk Factors" in this document. We have categorised these risks and uncertainties into (i) risks relating to our business, (ii) risk relating to our industry; (iii) risks relating to the PRC, and (iv) risks relating to the Shares.

Risks relating to our business

➢ We may be adversely affected by the global financial crisis and disruptions in the financial markets;
➢ We require a high level of working capital to sustain our operations and overall growth;
➢ Our expansion plans may not be successful;
➢ Our business and prospects depend heavily on the performance of the metal and metal consuming industries in China;
➢ Our operations are heavily dependent on our key management;
➢ We rely on a few major customers;
➢ We rely on our major suppliers;
➢ We may not be able to successfully integrate newly acquired businesses or achieve expected profitability from our acquisitions;
➢ Our acquisition of Zhangjiagang Rongli adversely affected our profitability in 2008 and we may not be successful in significantly improving Zhangjiagang Rongli's profitability;
➢ Our business requires significant capital investments;
➢ A material disruption of our operations could adversely affect our business;
➢ Shortages of electricity could adversely affect our customers' and our business, and increases in the price of electricity could increase our costs and lower our profitability;
➢ We may be subject to liability in connection with industrial accidents at our production facilities;
➢ We may experience difficulties in recruiting or retaining key personnel;
➢ Rising interest rates would increase our borrowing costs;
➢ Our interests may conflict with those of our joint venture partners;
➢ Our import license for scrap metal and other licenses are subject to renewal from time to time or inspection by the PRC Government;
➢ We may not have adequate insurance coverage for our potential losses and liabilities;
➢ We are subject to foreign exchange exposure;

- We may incur higher income tax expenses due to changes in income tax law in Macau;
- Fluctuations in the value of the Renminbi may adversely affect demand for Chinese products, including those that contain steel and other metal and the value of dividends payable to us from our subsidiaries in the PRC;
- We are a holding company and rely on dividend payments from our subsidiaries and associated companies;
- We are subject to risks related to transportation systems;
- The interests of our Controlling Shareholder may differ from those of our other shareholders; and
- The lease and use of facilities may be adversely affected due to the lack of registration.

Risks relating to our industry

- The PRC Government may adopt measures to slow down growth in the metal manufacturing industry and other metal consuming industries, thereby adversely affecting the demand for recycled scrap metal;
- Our business is affected by fluctuations in the price of raw materials and products;
- Our industry is subject to economic and market conditions in China and other countries;
- We operate in a highly competitive industry; and
- Our business is subject to seasonality.

Risks relating to the PRC

- The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business;
- The PRC legal system has inherent uncertainties that could limit the legal protections available to us and may cause difficulties in the enforcement of judgments in China;
- Changes in foreign exchange and other regulations may adversely affect our results of operations;
- We may incur higher income tax expenses due to changes in the PRC income tax law;
- Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws;
- Our operations are subject to comprehensive environmental regulation and involve significant expenditures for compliance with regulations; and
- An outbreak of avian influenza or H1N1 influenza A or a recurrence of SARS or any other similar epidemic may, directly or indirectly, adversely affect our operating results and the market price of our Shares.

Risks relating to the Shares

- Dividends paid in the past are not indicative of the amount of future dividend payments or our future dividend policy;
- The industry statistics contained in this document that are derived from government official sources which may not be reliable; and
- You should read the entire document carefully and rely only on the information contained in this document in making your investment decision. We strongly caution you not to place any reliance on any information contained in press articles or other media reports not prepared or approved by us.

SENIOR NOTES, LISTCO WARRANTS AND EXCHANGEABLE NOTES

The following table shows the names of the holders of the Senior Notes, the respective principal amount and percentage of the Senior Notes and the number of Listco Warrants held by them:

Name of the Holders	Principal Amount of the Senior Notes (US$)	Percentage held by purchasers of Senior Notes	Number of Listco Warrants
UBS Limited	25,000,000	31.25%	50
Spinnaker Global Emerging Markets Fund Ltd.	14,000,000	17.50%	28
Spinnaker Global Opportunity Fund Ltd.	9,000,000	11.25%	18
Spinnaker Global Strategic Fund Ltd.	12,000,000	15.00%	24
The ADM Maculus Fund III L.P.	20,000,000	25.00%	40
Total	80,000,000	100.00%	160

The following table shows the names of the holders of the Exchangeable Notes and the respective principal amount and percentage of the Exchangeable Notes held by them:

Name of the Holders	Principal Amount of the Exchangeable Notes (US$)	Percentage held by holders of Exchangeable Notes
Spinnaker Global Emerging Markets Fund Ltd.	6,000,000	20.0%
Spinnaker Global Opportunity Fund Ltd.	3,750,000	12.5%
Spinnaker Global Strategic Fund Ltd.	5,250,000	17.5%
The ADM Maculus Fund III L.P.	15,000,000	50.0%
Total	30,000,000	100.0%

Senior Notes and Listco Warrants

We issued US$80.0 million aggregate principal amount of Senior Notes in October 2007 to a group of institutional investors. The Senior Notes bear coupon interest at 8.5% per annum, payable semi-annually in arrears. The Senior Notes are secured by substantially all of our assets outside of the PRC and a pledge of our Shares and the shares of our subsidiaries. The Senior Notes are also guaranteed by certain of our subsidiaries. Under the terms of the indenture governing the Senior Notes, we are required to redeem the Senior Notes in cash on 23 October 2009, being the maturity date of the Senior Notes, or upon the [●], whichever is earlier. In the event that the Senior Notes are redeemed between coupon interest payment dates, which are 23 April and 23 October of each year, we are required to pay the principal amount of the Senior Notes together with accrued and unpaid coupon interest to the next interest payment date.

In connection with the issuance of the Senior Notes, we also issued 160 Listco Warrants to the purchasers of the Senior Notes. The Listco Warrants are exercisable only upon a primary public offering of the Shares on an internationally recognised stock exchange acceptable to the holders of the Senior Notes, which includes the Stock Exchange. At the election of each holder of the Listco Warrants, the Shares issuable upon exercise of such Listco Warrants may be either (i) physically settled, in which case such Shares will be issued to such holder no later than 10 days after the date of exercise, or (ii) cash settled. Listco Warrantholders may physically settle a portion of their Listco Warrant and cash settle the remaining portion.

Exchangeable Notes

On 1 February 2008, Wellrun, which is wholly owned by Mr. Chun Chi-wai, issued the Exchangeable Notes in the aggregate principal amount of US$30.0 million to a group of institutional investors. Wellrun currently owns all of our issued Shares. The Exchangeable Notes, which do not bear coupon interest, are exchangeable into our Shares owned by Wellrun. As a result, the Exchangeable Notes will not result in the issuance of additional Shares by us. Wellrun contributed the net proceeds it received from the sale of the Exchangeable Notes to us as a capital contribution. The proceeds from the issue of the Exchangeable Notes were principally applied towards financing the activities of our Company, and used by members of our Group for the acquisition of fixed assets including land and machinery. The Exchangeable Notes are secured by all of Wellrun's assets and all of its issued share capital. The collateral securing the Exchangeable Notes will be released when the Exchangeable Notes are exchanged for Shares upon the [●] and/or all the secured liabilities under the Exchangeable Notes have been paid and discharged in full.

Wellrun is required to exchange Shares held by it for the Exchangeable Notes upon the occurrence of an equity offering by us that results in aggregate proceeds to us at least equal to the aggregate outstanding principal amount of the Exchangeable Notes at the time, together with accrued interest and the premium payable, if any, with respect to such Exchangeable Notes.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this document. Certain other terms are explained in "Glossary of Technical Terms" in this document:

"affiliate(s)"	with respect to any person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 22 May 2009 and as amended from time to time
"Asia Steel (Development)"	Asia Steel (Development) Limited (亞洲鋼鐵(發展)有限公司), a company incorporated in Hong Kong with limited liability on 4 June 1999, an indirect wholly owned subsidiary of our Company
"Asia Steel (H.K.)"	Asia Steel (H.K.) Limited (亞洲鋼鐵(香港)有限公司), a company incorporated in Hong Kong with limited liability on 6 December 2000, an indirect wholly owned subsidiary of our Company
"Asia Steel (Holdings)"	Asia Steel (Holdings) Limited (亞洲鋼鐵(控股)有限公司), a company incorporated in the British Virgin Islands on 20 July 1999, a direct wholly owned subsidiary of our Company
"Asia Steel (Investments)"	Asia Steel (Investments) Limited (亞洲鋼鐵(投資)有限公司), a company incorporated in Hong Kong with limited liability on 11 August 1999, an indirect wholly owned subsidiary of our Company
"Asia Wing Tat"	Asia Wing Tat Recycling Limited (亞洲榮達回收有限公司), a company incorporated in Hong Kong with limited liability on 6 July 2005, is wholly owned by Asia Huan Bao Steel Limited which is wholly owned by Mr. Chun
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board" or "Board of Directors"	the board of directors of our Company
"Bohai Sea Ring Area"	one of three main economic areas in the PRC. It is located in northern China and includes Beijing, Tianjin, Hebei Province, Liaoning Province and Shandong Province
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands

"CAGR"	compound annual growth rate
[●]	
"CBI China"	CBI (China) Co., Limited (易貿資訊(上海)有限公司), which provides market intelligence, consulting and advertising services related to the Chinese commodity markets, including iron, steel and non-ferrous metals. CBI China is an independent third party and not commissioned by our Company
"Central Steel Macau"	Central Steel (Macao Commercial Offshore) Limited, a company incorporated in Macau with limited liability on 21 March 2005, an indirect wholly owned subsidiary of our Company
"China Association of Metal Scrap Utilization" or "CAMU"	an industrial and commercial association in China which includes enterprises engaged in the recycling, processing, sale and application of scrap steel within China, as well as other organisations. CAMU is a non-profit organisation established under the Ministry of Civil Affairs of the PRC and supervised by the State-owned Assets Supervision and Administration Commission of the State Council. CAMU (i) collects, analyses and publishes statistics on the scrap steel industry in China, (ii) conducts research and publishes reports with respect to scrap steel resources and consumption in China, and (iii) participates in the formulation of national standards, policies and regulations relating to the scrap steel industry. Mr. Chun Chi-wai is a standing committee member of CAMU. Mr. Chun was not involved in compiling the ranking confirmation by CAMU of the Group's position in the scrap metal recycling industry set forth in this document. The Group's ranking is based solely on the confirmation from CAMU and to the Directors' knowledge no other industry statistics are available
"Companies Law"	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time

"Company" or "our Company", "Group" or "our Group" or "we" or "us"	China Metal Recycling (Holdings) Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands on 18 July 2007 and, unless the context indicates otherwise, (i) subsidiaries of China Metal Recycling (Holdings) Limited, and (ii) in respect of the period before China Metal Recycling (Holdings) Limited became the holding company of its current subsidiaries, such subsidiaries or their predecessors as if they were subsidiaries of China Metal Recycling (Holdings) Limited during that period
"connected person"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules and, in the context of our Company, means Mr. Chun Chi-wai, our Chairman and Chief Executive Officer, and Wellrun, which is wholly owned by Mr. Chun Chi-wai
"Covered Warrants"	warrants which may be issued by Wellrun to the holders of the Exchangeable Notes, particulars of which are set out in the section headed "History and Development — Issue of the Senior Notes and the Exchangeable Notes — Exchangeable Notes" in this document
"Director(s)"	the director(s) of our Company
"Exchangeable Notes"	the exchangeable senior secured notes due 2010 in the aggregate principal amount of US$30.0 million issued by Wellrun on 1 February 2008
"FIE"	a foreign invested enterprise under PRC tax laws
"GAS Property"	Guangzhou Asia Steel Property Co., Ltd. (廣州亞鋼置業有限公司), a company established in the PRC on 29 April 2006, which is wholly owned by Asia Steel (Properties) Limited (亞州鋼鐵(置業)有限公司), which, in turn, is wholly owned by Mr. Chun Chi-wai, our Chairman, Chief Executive Officer and Controlling Shareholder
"GSEG"	Guangzhou Iron & Steel Enterprises Group Co., Ltd. (廣州鋼鐵企業集團有限公司), a company incorporated in the PRC which is interested in an approximately 72.4% equity interest in GZS
"GSEG Group"	GSEG and its subsidiaries

"Guangzhou Asia Steel"	Guangzhou Asia Steel Co., Ltd. (廣州亞鋼鋼鐵有限公司), a company incorporated in the PRC on 15 May 2001 which is owned as to 75% by Asia Steel (H.K.) and as to 25% by GZSL
"Guangzhou Yatong"	Guangzhou Yatong Metal Co., Ltd. (廣州亞銅金屬有限公司), a company incorporated in the PRC on 25 May 2007, an indirect wholly owned subsidiary of our Company
"Guangzhou Zhujiang Port"	Guangzhou Zhujiang Steel Port Co., Ltd. (廣州珠鋼碼頭有限公司), a company incorporated in the PRC on 28 February 2003 and owned by our Company, GZS and Guangzhou Iron and Steel Co., Ltd (廣州鋼鐵股份有限公司), each holding a 45%, 45% and 10% interest, respectively
"GZS"	Guangzhou Zhujiang Steel Co., Ltd. (廣州珠江鋼鐵有限責任公司), a company incorporated in the PRC on 15 May 1993 which holds the entire equity interest in GZSL
"GZSL"	Guangzhou Zhujiang Supplier Ltd. (廣州珠鋼供銷公司), a company incorporated in the PRC on 11 February 1993 and a substantial shareholder of Guangzhou Asia Steel
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Huan Bao Steel"	Huan Bao Steel Limited (環保鋼鐵有限公司), a company incorporated in Hong Kong with limited liability on 7 August 1998, an indirect wholly owned subsidiary of our Company
"Latest Practicable Date"	3 June 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
"Listco Warrants"	warrants issued by our Company to the holders of the Senior Notes, particulars of which are set out in the section headed "History and Development — Issue of the Senior Notes and the Exchangeable Notes — Senior Notes and Listco Warrants"
"Listco Warrantholders"	holders of Listco Warrants
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time

"LME"	London Metal Exchange Limited, a global non-ferrous metals trading market
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent of and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted upon our incorporation and as amended from time to time
"mt"	metric ton
"Ningbo Yagang"	Ningbo Yagang Metal Co., Ltd. (寧波亞鋼金屬有限公司), a company incorporated in the PRC on 4 September 2008, an indirect wholly owned subsidiary of our Company
"PBOC"	the People's Bank of China
"Pearl River Delta"	one of three main economic areas in the PRC. It is located in southern China and includes Guangdong Province and the Special Administrative Regions of Hong Kong and Macau
"PRC" or "China"	the People's Republic of China which, except where the context otherwise requires and only for the purposes of this document, excludes Taiwan and the Hong Kong and Macau Special Administrative Regions
"PRC Company Law"	中華人民共和國公司法 (the Company Law of the PRC), which was enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"PRC Government" or "State"	the central government of the PRC and all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"Post-IPO Share Option Scheme"	the share option scheme we conditionally approved on 22 May 2009 as described in Appendix VII to this document
"Reorganisation"	the reorganisation of the group of companies now comprising the Group in preparation for the [●] of the Shares on the Stock Exchange, as described in the paragraph headed "Corporate reorganisation" in Appendix VII to this document
"RMB" or "Renminbi"	the lawful currency of the PRC

"SAFE"	State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SARS"	the severe acute respiratory syndrome
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"Senior Notes"	the US$80,000,000 secured guaranteed senior notes due 2009 issued by our Company on 23 October 2007
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a nominal value of HK$0.0001 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
"Share Option Schemes"	the [●] and the Post-IPO Share Option Scheme
"SHFE"	Shanghai Futures Exchange
"Spinnaker"	Spinnaker Global Emerging Markets Fund Ltd., Spinnaker Global Opportunity Fund Ltd. and Spinnaker Global Strategic Fund Ltd.
"Steel Policy"	the PRC's Iron and Steel Industry Development Policy, or the "Steel Policy", which was released on 20 July 2005
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Track Record Period"	the years ended 31 December 2006, 2007 and 2008
"Tianjin Yatong"	Tianjin Yatong Steel Co., Ltd. (天津亞銅鋼鐵有限公司) (formerly known as Tianjin Lantong Metal Production Co., Ltd. (天津蘭通金屬製品有限公司), established in the PRC on 16 August 2006, which is owned as to 90.385% by Asia Steel (Development) and as to 9.615% by Lester Metal, Inc. (萊斯特金屬有限公司), an independent third party except for its minority shareholding in Tianjin Yatong
"United States" or "U.S."	the United States of America

"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Wuhan Yagang"	Wuhan Yagang Metal Co., Ltd. (武漢亞鋼金屬有限公司), a company incorporated in the PRC on 10 November 2008, which is owned as to 70% by Asia Steel (Development) and as to 30% by Wuhan Jin Huan Investment Co., Ltd. (武漢金寰投資有限公司)
"Yangzhong Yagang"	Yangzhong Yagang Metal Co., Ltd. (揚中亞鋼金屬有限公司), a company incorporated in the PRC on 15 December 2006 and an indirect wholly owned subsidiary of our Company
"Yangtze River Delta"	one of three main economic areas in the PRC. It is located in eastern China and includes Shanghai, southern Jiangsu Province and northern Zhejiang Province
"Zhangjiagang Rongli"	Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. (張家港容利再生資源有限公司), a company incorporated in the PRC on 1 December 2006, which is owned as to 70% by Yangzhong Yagang, 25% by Mr. Wu Yue-xing (吳岳興), a director of Zhangjiagang Rongli, 2.5% by Ms. Xiang Man-qin (項滿琴), an employee of Zhangjiagang Rongli and 2.5% by Mr. Li Dong-hui (李東輝), a director of Zhangjiagang Rongli
"Zhangjiagang Xilong"	Zhangjiagang Xilong Metal Materials Processing Factory (張家港市禧龍金屬材料加工廠), a company incorporated in the PRC on 31 May 2002 and wholly owned by Mr. Wu Yue-xing (吳岳興), a shareholder and Director of Zhangjiagang Rongli
"Zhongshan Yatong"	Zhongshan Yatong Metal Materials Co., Ltd. (中山亞銅金屬材料有限公司), a company incorporated in the PRC on 3 September 2008, an indirectly wholly owned subsidiary of our Company

Certain amounts and percentage figures included in this document have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, amounts denominated in Renminbi and U.S. dollars have been converted into Hong Kong dollars in this document for the purpose of illustration only at the rates set out as following: (i) HK$1.00 : RMB0.8812; and (ii) HK$7.7519 : US$1.00. No representation is made that any amounts in RMB, US$ or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates or at all.

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions, PRC-incorporated companies or other entities or any descriptions for which no English translation exists are unofficial translations for reference only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms and definitions used in this document in relation to us and our business. The terms and their given meanings may not correspond to definitions or usage.

"B&S wire gauge"	Brown and Sharpe wire gauge, which is a standard set of non-ferrous wire conductor sizes where the "gauge" means the diameter; the higher the gauge number, the smaller the diameter and the thinner the wire
"Barley No. 1 copper wire"	consists of uncoated, unalloyed copper wire, green copper wire and hydraulically briquetted material
"Berry No. 1 copper wire"	consists of clean, untinned, uncoated, unalloyed copper wire and cable and hydraulically briquetted copper
"Birch No. 2 copper wire"	consists of miscellaneous, unalloyed copper wire having a nominal 96% copper content (minimum 94%) and free of excessively leaded, tinned, soldered copper wire, brass and bronze wire
"Candy No. 1 heavy copper"	consists of clean, unalloyed, uncoated copper clippings, punchings, bus bars, commutator segments and wire not less than 1/16 of an inch thick, free of burnt wire which is brittle; but may include clean copper tubing
"Cliff No. 2 copper"	consists of miscellaneous, unalloyed copper scrap having a nominal 96% copper content (minimum 94%) and free of excessively leaded, tinned, soldered copper scrap, brasses and bronzes
"dwt"	dead weight tonnage, a measure of the capacity of a cargo ship or vessel
"eddy current separator"	a system that includes a rotor that creates a field of energy around non-ferrous metals which are repelled by magnetic force to separate the non-ferrous metals from non-metal materials
"ferrous metal"	metallic alloy in which iron is the major constituent and is easily separated from other materials with magnets
"hot rolled coil"	steel sheets rolled up in coils
"ISO"	acronym for a series of quality management and quality assurance standards published by the International Organization for Standardization, a non-governmental organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations

GLOSSARY OF TECHNICAL TERMS

"ISO 9001"	ISO standards for quality management which are primarily concerned with what an organisation does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organisation must do to manage processes influencing product quality
"ISO 14001"	ISO standards for environmental management which are primarily concerned with what an organisation does to minimise harmful effects on the environment caused by its activities and which set requirements for what an organisation must do to manage processes influencing the impact of its activities on the environment
"No. 1 heavy melting steel"	wrought iron and/or steel scrap, 1/4 inch and over in thickness
"No. 2 heavy melting steel"	wrought iron and steel scrap, black and galvanised, 1/8 inch or over in thickness
"non-ferrous metals"	metals other than ferrous metals such as copper and aluminium
"pig iron"	solidified iron produced from a blast furnace during the steel smelting process
"secondary copper"	concentrate produced from scrap copper, which is used to produce semi-finished copper products. Concentrate produced from copper ore is referred to as primary concentrate
"Shredded scrap"	homogeneous iron and steel scrap, magnetically separated, originating from automobiles with average density of 50-70 pounds per cubic foot
"Zorba Shredded Non-ferrous Scrap"	made up of a combination of the non-ferrous metals such as aluminium, copper, lead, magnesium, stainless steel, nickel, tin and zinc, in elemental or alloyed (solid) form

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Shares in the [●]. You should pay particular attention to the fact that our business is located primarily in China, and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of the risks and uncertainties described below.

RISKS RELATING TO OUR BUSINESS

We may be adversely affected by the global financial crisis and disruptions in the financial markets

Demand for recycled scrap metal in the PRC may be adversely affected by recent downturns in the United States and other major economies and the slowdown in the PRC economy, as well as the disruptions in the credit markets. Our business and prospects depend heavily on the performance of the metal industry in China, particularly the steel and copper industries, and the industries that consume metal in China, including construction and manufacturing of heavy equipment, automobiles, aircraft, ships and household appliances. A significant slowdown in the PRC economy, or in any of these industries, could significantly reduce demand for recycled scrap metal, which could depress prices for our products, our sales volume and our profitability. For example, the price of scrap steel in the PRC decreased from RMB4,000 per metric ton in July 2008 to RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. There is evidence of a slowdown in the PRC economy generally and in the construction sector in particular. In addition, some of these industries depend to a significant degree on exports to the United States and other countries that are experiencing severe downturns in their economies, which will adversely affect demand for household appliances and other products manufactured in China. We cannot assure you as to how substantial these downturns will be or how long they will last.

In addition, some customers may experience difficulty in obtaining credit as a result of disruptions in the credit markets, which may adversely affect our sales volume and increase the risk of customers defaulting on their payment obligations to us.

In addition to the potential impact of these developments on our financial condition and results of operations, they may affect our expansion plans and negatively impact our ability to make acquisitions.

We require a high level of working capital to sustain our operations and overall growth

Because the purchase of raw materials requires substantial capital, we require a high level of working capital to sustain our operations and maintain our overall growth. Historically, we have financed our working capital through cash from operations derived from customer payments, loans from financial institutions and loans and capital contributions from shareholders. We also used a portion of the proceeds from the issuance of our Senior Notes and Listco Warrants in 2007 to finance our working capital requirements. Accordingly, our liquidity and financial condition could be materially and adversely affected if we do not receive payments from our customers on a timely basis to satisfy payments to our suppliers and other working capital requirements, or if we are unable to obtain financing on satisfactory terms.

In 2007 and the first half of 2008, the PRC Government adopted measures to control excess liquidity, credit flows and lending growth in the banking system. Among other things, these measures required PRC commercial banks to place more money in reserve and tighten lending practices. Such measures adversely affected the cash flow and liquidity of some of our customers as well as their ability to meet their payment obligations to us on a timely basis. In addition, metal prices, particularly copper, were significantly higher during that period. As a result, we experienced larger receivable amounts and longer payment periods from our customers in 2007. For example, we had trade receivables and bills receivable of HK$236.9 million and HK$790.0 million as of 31 December 2006 and 2007, respectively, and our turnover of average trade receivables and bills receivable were 73 days and 97 days, respectively, for the years ended 31 December 2006 and 2007. We had trade receivables and bills receivable of HK$1,076.9 million as of 31 December 2008, and our turnover of average trade receivables and bills receivable was 52 days for the year ended 31 December 2008. We have also experienced negative operating cash flow in each of the last two years. For the years ended 31 December 2007 and 2008, we had negative operating cash flow in the amounts of HK$86.3 million and HK$309.0 million, respectively.

We cannot assure you that we will be able to achieve positive operating cash flow or obtain adequate financing to meet our future working capital requirements. In addition, we will redeem the Senior Notes on the day after [●]. Following the redemption of the Senior Notes, substantially all of our existing borrowings will be current liabilities due within one year. The inability to achieve positive operating cash flow or obtain additional short-term loans and additional financing on a timely basis or on acceptable terms would adversely affect our ability to satisfy our working capital requirements, including payments to suppliers in accordance with the terms of our agreements with them. In addition, we cannot assure you that we will be able to obtain additional working capital for our expansion plans, or that additional working capital needs of our new production facilities will not adversely impact the current or future level of working capital for our existing production facilities.

Our expansion plans may not be successful

We are in the process of opening production facilities in Ningbo, Yangzhong and Tianjin which we expect to complete by the end of the third quarter of 2009 and plan to open another facility in Wuhan in 2010. In addition, we plan to continue to invest in our existing production facilities to further expand our production capacity and operating efficiency. We expect to incur significant costs in connection with the expansion of our business, and any failure to successfully implement our expansion plans may materially and adversely affect our business, financial condition and results of operations.

Our expansion plans involve significant risks and uncertainties, including:

- ➢ we may be unable to complete or implement our expansion plans at the expected costs or within the time periods we anticipate;
- ➢ we may be unable to obtain required governmental approvals and certificates (including, but not limited to, land use or title documents, favourable environmental assessments, construction permits and scrap metal import licenses) related to the construction and operation of our new facilities. Failure to receive or delays in receiving the required regulatory approvals and certificates may delay or prevent the completion of, or increase the cost of, our expansion plans;

- ➢ we may be unable to establish and maintain new customer and supplier relationships to ensure sufficient utilisation of expanded production capacity;
- ➢ we may not be able to obtain adequate financing to complete construction of, and to commence commercial operations at, our new facilities;
- ➢ we may encounter difficulties in obtaining adequate staffing and maintaining an experienced team of management and skilled work force for our new facilities;
- ➢ growth of our business may strain management resources and operational and financial systems and controls;
- ➢ we may be unable to complete our expansion plans on schedule, or at all, in the event that any equipment for our new facilities fails to meet our specifications, fails to arrive on time, is lost or damaged during shipment or experiences difficulties during installation and testing;
- ➢ delays in completion and commercial operation of our new facilities could increase financing and other costs associated with our expansion plans; and
- ➢ our new production facilities may not operate at designed capacity or may cost more to operate than we expect.

Our business and prospects depend heavily on the performance of the metal and metal consuming industries in China

Our business and prospects depend heavily on the performance of the metal industry in China, particularly the steel and copper industries, and the industries that consume metal in China, including construction and manufacturing of heavy equipment, automobiles, aircraft, ships and household appliances. China has experienced rapid growth in recent years, which has contributed to the strong demand for steel and other metal. This, in turn, has resulted in strong demand for recycled scrap metal. For example, from 2003 to 2007, consumption of steel in China grew at a CAGR of 13.9%. A significant slowdown in the Chinese economy, or a downturn in the construction or manufacturing sectors in China, likely would adversely affect demand for recycled scrap metal in China. There is evidence of a slowdown in the PRC economy generally and in the construction sector in particular.

In addition, a significant portion of the products produced in China with steel, copper and other metal are sold to the United States and other markets outside China. Any downturn in those markets, such as the recent slowdown in the U.S. economy, or a variety of other factors, such as rising manufacturing costs in China or the appreciation of the Renminbi against other currencies, could adversely affect demand for Chinese products, which in turn may adversely affect demand for recycled scrap metal in China. Demand for recycled scrap metal may also be affected by various other factors, such as changes in industry preferences, the cost and availability of substitute materials and recycled scrap metal prices.

As a result, we cannot assure you that there will be continued or growing demand for recycled scrap metal in China. If demand for recycled scrap metal in China does not continue to grow or grows more slowly than expected, recycled scrap metal prices may decline and our business, financial condition and results of operations could be materially and adversely affected.

Our operations are heavily dependent on our key management

Our continued success depends, to a significant extent, on the continued services and the performance of our key management members. In particular, we are dependent on the continued service of Mr. Chun Chi-wai, our founder, Chairman, Chief Executive Officer and Controlling Shareholder, Mr. Wong Hok-leung, our Chief Financial Officer and deputy Chief Executive Officer, and Mr. Jiang Yan-zhang, our Chief Operating Officer, as well as Mr. Wu Yue-xing, Director of Zhangjiagang Rongli. Many of these individuals and other key management members listed in the section headed "Directors and Senior Management" in this document have substantial experience in the recycling of scrap metal. If one or more of our Directors or members of senior management were unable or unwilling to continue in their present positions, we may not be able to find a suitable replacement or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our Directors and members of senior management or other key personnel, or attract and retain high-quality personnel in the future. In addition, if any Director or member of senior management or any of our other key personnel joins a competitor or forms a competing company, we may lose suppliers, customers and key personnel.

We rely on a few major customers

During the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively. Our largest customer accounted for approximately 60.9%, 39.3% and 30.4% of our total revenue for the years ended 31 December 2006, 2007 and 2008, respectively. GSEG Group was our largest customer in the years ended 31 December 2006 and 2008. GSEG, a state-owned enterprise responsible for administering various state-owned metal manufacturing enterprises, is a controlling shareholder of GZS which, in turn, is the sole shareholder of GZSL. GZSL is a substantial shareholder of Guangzhou Asia Steel. As a result, GSEG and its subsidiaries, including GZS and GZSL, are connected persons of our Company under the Listing Rules. For additional information regarding the relationship between GSEG, the GSEG Group and our Group, please refer to the section headed "Connected Transactions — C. Non-exempt continuing connected transactions which are subject to the reporting, announcement and the independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules" in this document.

Our business with our customers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from time to time. Many of our major customers only began to purchase recycled scrap metal from us in the last few years. We cannot assure you that our major customers will continue to do business with us at the same or increased levels or at all. If one or more major customers were to cease to conduct business with us and we were unable to expand our business with existing customers or attract new customers, our business, financial condition and results of operations would be materially and adversely affected. For additional information, see the section headed "Business — Customers" in this document.

We cannot assure you that we will be able to retain our existing customers or add new customers at desired levels or at all. A decision made by a major customer, whether motivated by competitive considerations, economic conditions or otherwise, to reduce its purchases from us or any other adverse change in our business relationship with the customer could have a material adverse effect on our business, financial condition and results of operations. Further, any significant changes in the operations or financial condition of a significant customer, including liquidity problems, changes in ownership, restructuring, bankruptcy or liquidation could cause us to limit or discontinue business with that customer, or require us to assume more credit risk relating to receivables from that customer, which could have a material adverse effect on our business, financial condition and results of operations. Of our total trade receivables and bills receivable as of 31 December 2006, 2007 and 2008, approximately 67.3%, 61.2% and 39.4%, respectively, were from our largest debtor, and approximately 99.9%, 99.9% and 92.3%, respectively, were from our five largest debtors.

We rely on our major suppliers

Scrap metal is the raw material for our products. We purchase scrap metal from various suppliers, and we do not own or control any source of scrap metal. During the years ended 31 December 2006, 2007 and 2008, purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6%, respectively, of our total purchases of raw materials. During the same period, purchases from our largest supplier accounted for approximately 24.2%, 18.9% and 16.6%, respectively, of our total purchases of raw materials. With the exception of Lane Tone International Material Inc., which is a connected person of our Group as described in the section headed "Connected Transactions" in this document and our largest supplier for the year ended 31 December 2008, all of our five largest suppliers were independent third parties during the Track Record Period.

Our business with our suppliers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders placed by us from time to time. If any of our major suppliers fails to meet our purchase orders or terminates their business relationship with us and we are unable to source raw materials from alternative suppliers on a timely basis and on acceptable terms, our business, financial condition and results of operations could be materially and adversely affected. In addition, we intend to expand our supplier network in connection with our planned new production facilities in Ningbo, Yangzhong, Tianjin and Wuhan, and we cannot assure you that we will be successful in expanding our supplier network.

If we are unable to obtain sufficient quantities of scrap metal, or if there are increases in the price of scrap metal, we may be unable to maintain our production schedules and meet our commitments to our customers, or we may incur significant additional costs which we may be unable to pass along to our customers. Any such developments could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully integrate newly acquired businesses or achieve expected profitability from our acquisitions

Acquisitions have been, and are expected to continue to be, an element of our growth strategy. We acquired a 70% equity interest in Zhangjiagang Rongli in January 2008 and we expect to explore additional acquisitions in the future. If we cannot successfully integrate this or future acquisitions, joint ventures and other partnerships on a timely basis, we may be unable to generate sufficient revenue to offset acquisition costs, we may incur costs in excess of what we anticipate and our expectations of future results of operations and synergies may not be achieved. In addition, our profitability may be adversely affected if we are unable to improve the efficiency of Zhangjiagang Rongli's operations, which had a loss of approximately HK$2.1 million for the year ended 31 December 2008. Acquisitions involve substantial risks, including:

➢ unforeseen difficulties in integrating operations, accounting systems and personnel;
➢ diversion of financial and management resources from existing operations;
➢ the need to attract and retain management and key employees;
➢ unforeseen difficulties related to entering geographic regions where we do not have prior experience;
➢ risks relating to obtaining sufficient equity or debt financing;
➢ potential undisclosed liabilities; and
➢ the loss of customers or suppliers.

In addition, if we finance acquisitions by issuing equity or equity-related securities, the equity interests of our shareholders would be diluted, which, in turn, could adversely affect the market price of our Shares. Moreover, we may finance an acquisition with debt, resulting in higher leverage and finance costs.

Our acquisition of Zhangjiagang Rongli adversely affected our profitability in 2008 and we may not be successful in significantly improving Zhangjiagang Rongli's profitability

We acquired Zhangjiagang Rongli in January 2008. Zhangjiagang Rongli has historically had a lower gross margin than our Group due to the relatively small size of its production facility. For example, Zhangjiagang Rongli's gross margin was 0.7% in 2007. The acquisition of Zhangjiagang Rongli adversely affected our gross margin in 2008. Our gross margin in 2006, 2007 and 2008 was 10.9%, 12.4% and 7.6%, respectively. With limited operating space, Zhangjiagang Rongli's operations in 2008 were primarily focused on collecting scrap metal that required limited processing, like simple separation and cutting, which resulted in lower value being added in the recycling process and therefore lower gross margins. In December 2008, we relocated Zhangjiagang Rongli's operations to a larger facility with a view to improving its operating efficiency and operating results. However, we cannot assure you that we will be successful in significantly improving Zhangjiagang Rongli's profitability.

Our business requires significant capital investments

We need to make regular capital investments in our production facilities to sustain our growth, maintain our equipment, comply with environmental laws and regulations and remain competitive. We will also be required to make substantial capital investments in connection with our planned new production facilities in Ningbo, Yangzhong, Tianjin and Wuhan. In 2008, our total capital expenditures paid were approximately HK$100.1 million, primarily for purchases of property, plant and equipment, acquisition of land use rights relating to our Yangzhong and Tianjin facilities, deposits for land use rights relating to our Guangzhou and Wuhan facilities and deposits for property, plant and equipment primarily related to the shredder for our Ningbo facility. For 2009, we expect to make capital expenditures of approximately HK$134.0 million. We intend to finance these capital expenditures through our internal resources and the net proceeds from the [●].

We have relied in part on external financing to fund our capital investments. The availability of external financing depends on many factors beyond our control, including but not limited to market conditions and policies of the PRC Government. The current disruptions in the credit markets may also limit our ability to obtain external financing. Our current financing may not be adequate to sustain our operations or to fund our expansion plans and we may not be able to obtain additional financing in the future to continue to fund these programs. If we do not have sufficient internally generated cash or acceptable external financing to make necessary capital expenditures in the future, we may be unable to develop or enhance our production facilities, take advantage of business opportunities and respond to competitive pressures. Any failure to obtain adequate financing for our current operations or our expansion plans may materially and adversely affect our business, financial condition and results of operations.

A material disruption of our operations could adversely affect our business

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions in our operations and adversely affect our business. These include industrial accidents, fires, floods, droughts, storms, earthquakes, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads and ports. We rely in part on advanced equipment for our production of recycled scrap metal, including, among others, an automated shredder and eddy current separator at our Guangzhou Asia Steel production facility. Any breakdown or malfunction of any such equipment could cause a material disruption of our operations.

Any such disruption in our operations could cause us to reduce or halt our production of recycled scrap metal, prevent us from meeting customer orders, adversely affect our business reputation, increase our costs of production or require us to make unplanned capital expenditures, any one of which could materially and adversely affect our business, financial condition and results of operations.

Shortages of electricity could adversely affect our customers' and our business, and increases in the price of electricity could increase our costs and lower our profitability

Our customers are dependent on electricity to convert our recycled scrap metal into steel and other products. We also rely on electricity to operate equipment at our production facilities. Accordingly, the successful operation of our customers' business and our production facilities requires a reliable supply of electricity, and both our customers and we face risks in the event of a disruption in the supply of electricity. In addition, increases in the price of electricity would increase our operating costs. We incurred electricity cost of approximately HK$0.4 million, HK$0.8 million and HK$1.4 million, respectively, in 2006, 2007 and 2008. The PRC electricity industry has historically experienced shortages and price volatility as a result of a variety of factors, including surging demand as a result of rapid growth in China and disruptions in the supply of coal used to produce electricity. Any significant shortages of electricity or prolonged blackouts would disrupt our customers' operations and reduce the demand for recycled scrap metal. Shortages or prolonged blackouts would also disrupt our production processes and result in reduced production of recycled scrap metal or shutdowns. As a result, significant shortages of electricity or prolonged blackouts would negatively impact our operating results. In addition, significant increases in the price of electricity would adversely affect our profitability if we were unable to pass on those additional costs to our customers.

We may be subject to liability in connection with industrial accidents at our production facilities

Our operations involve the operation of heavy machinery that could result in industrial accidents which cause injuries or deaths. We cannot assure you that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our production facilities. In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violation of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may experience difficulties in recruiting or retaining key personnel

We are in the process of opening production facilities in Ningbo, Yangzhong and Tianjin in 2009 and plan to open another facility in Wuhan in 2010. To support the growth of our business, we will need to increase our work force of experienced management, skilled labour and other employees to implement our expansion plans and enhance the operating efficiency of our existing facilities. We anticipate that our staffing requirements can be satisfied through internal transfers and local hiring. However, we cannot assure you that we will not experience difficulty in recruiting or retaining personnel at our existing or new facilities. Nor can we assure you that any personnel changes in our existing facilities in connection with our expansion plans will not adversely affect the business and operations of our existing facilities.

We incurred labour cost of approximately HK$9.6 million, HK$13.1 million and HK$23.4 million, respectively, in 2006, 2007 and 2008. With the promulgation of the new Labour Contract Law, which became effective on 1 January 2008, more stringent requirements have been imposed on employers in the PRC with respect to employment contracts entered into between an employer and its employees, hiring of temporary employees and dismissal of employees. We have entered into labour contracts with all of our employees. The labour contracts we entered into with our employees prior to the promulgation of the new Labour Contract Law, which are still effective, are subject to the old labour law and relevant rules and regulations. The labour contracts we entered into with our employees after 1 January 2008 were entered into in accordance with the new Labour Contract Law. We expect that our labour cost will increase as a result of the implementation of the new Labour Contract Law.

Moreover, there have been instances of shortages in the supply of labour in southeastern and coastal China where our existing facilities are located. In the event of labour shortages, we may have difficulties recruiting or retaining employees or may face increasing labour costs. The failure to attract and retain key personnel, or significant increases in our labour costs, could adversely affect our business, financial condition and results of operations.

Rising interest rates would increase our borrowing costs

We rely in part on short-term bank borrowings to finance our working capital and operations, much of which bears interest at variable rates. As of 31 December 2008, we had bank borrowings due within one year of approximately HK$128.7 million. Interest rates on our bank borrowings at each balance sheet date during the Track Record Period ranged from approximately 2.7% to 8.3%. If interest rates on bank borrowings increase, our cost of borrowing will increase and our profitability may be adversely affected. The PBOC has adjusted the benchmark one-year lending rate and the deposit reserve ratio for PRC commercial banks a number of times in recent years. For example, the PBOC raised the benchmark one-year lending rate from 5.58% as of the end of 2005 to 7.47% as of the end of 2007. Such tightening measures caused interest rates to increase and limited the amount that commercial banks in China were able to lend. Although the PBOC lowered the benchmark one-year lending rate to 5.31% as of the end of 2008, we cannot assure you that the PBOC will not raise lending rates or institute other actions in the future that would result in increased interest rates. A significant increase in prevailing interest rates could substantially increase our finance costs, which could adversely affect our business, financial condition and results of operations.

Our interests may conflict with those of our joint venture partners

Some of the subsidiaries through which we conduct our business are not wholly owned by us. For example, we own 45% of Guangzhou Zhujiang Port. The other shareholders, GZS and Guangzhou Iron and Steel Co., Ltd., hold a 45% and 10% interest, respectively, in Guangzhou Zhujiang Port.

In addition, our Guangzhou Asia Steel, Tianjin Yatong, Zhangjiagang Rongli and Wuhan Yagang subsidiaries have 25%, 9.615%, 30% and 30% minority shareholders, respectively. These minority shareholders have influence over the management and operations of the subsidiaries through, among other things, representatives on the board of directors or in the management team as well as shareholder voting rights.

To the extent that there are any conflicts of interest between our joint venture partners and us, we cannot assure you that we will be able to resolve them in a manner that will be in our best interests. Our joint venture partners may:

➢ have economic or business interests or goals that are inconsistent with ours;
➢ take actions contrary to our instructions or requests or contrary to our policies and objectives;
➢ be unable or unwilling to fulfill their obligations under the relevant joint venture arrangements or agreements;
➢ have financial difficulties;
➢ be acquired or undergo a change in control; or
➢ have disputes with us.

A serious dispute with our joint venture partners or the early termination of our cooperation arrangements or agreements with them could adversely affect our business, financial condition and results of operations.

Our import license for scrap metal and other licenses are subject to renewal from time to time or inspection by the PRC Government

Under current PRC laws and regulations, our import licenses for scrap metal have a term of no more than one year and are for a fixed quantity and category of imported waste. Since the quantity and category of imported waste in each import license is fixed, we need to apply for import licenses from time to time based on the requirements of our operations. To apply for an import license, we are required to submit relevant documents to the Ministry of Environmental Protection. For additional information, see the section headed "Business — Regulation" in this document. We cannot assure you that we will not encounter difficulties in obtaining additional import licenses for scrap metal or other required licenses in the future, or that we can obtain adequate import licenses in a timely manner to satisfy our production requirements. Any failure or difficulty in obtaining such import licenses may adversely impact the volume of our imported scrap metal, thereby adversely affecting our business, financial condition and results of operations. In addition, we cannot assure you that the PRC Government will not adopt stricter standards (such as environmental requirements) in handling such licenses in the future or that we will be able to meet such standards in a timely manner or at all.

We may not have adequate insurance coverage for our potential losses and liabilities

Our significant insurance policies for ongoing operations include property insurance on machinery, natural disaster insurance, personal injury insurance and insurance on raw materials and products against risk of loss while in transit by vessel. We also maintain social security insurance policies for our employees in China pursuant to PRC laws. However, we cannot assure you that the insurance coverage we maintain will be adequate to cover our potential losses or liabilities. In addition, there are certain types of risks that are either uninsurable or that we cannot obtain insurance for at a reasonable cost. Should an uninsured liability or a liability in excess of its insured limit occur, we may suffer losses which could adversely affect our business, financial condition and results of operations.

We are subject to foreign exchange exposure

Substantially all our costs are denominated in Renminbi, U.S. dollars and Hong Kong dollars, while our sales are mainly denominated in Renminbi. For example, for the year ended 31 December 2008, approximately 56.3%, 39.5% and 4.2% of our direct material purchases were denominated in Renminbi, U.S. dollars and Hong Kong dollars, respectively. We occasionally enter into foreign currency forward contracts. However, we do not have a formal hedging policy to manage our foreign currency exchange risk on an ongoing basis. Any fluctuation in exchange rates may have an adverse effect on our results of operations. In addition, any future exchange rate volatility relating to the Renminbi may give rise to uncertainties in the value of net assets, profits and dividends. Appreciation of the value of the Renminbi may subject us to increased competition from foreign competitors, and depreciation in the value of the Renminbi may adversely affect the value of our net assets and earnings and dividends from our PRC subsidiaries.

We may incur higher income tax expenses due to changes in income tax law in Macau

Under the general rules established in the Macau Commercial Code, namely the rules established for private limited liability companies, and the specific rules established in the Macau Offshore Law, Macau offshore institutions may be exempted from income tax, industrial tax and stamp duty. Particularly, under Decree-Law no. 58/99/M, a Macau company incorporated under that law duly authorised to operate as an offshore institution is exempted from Macau income tax when the income is generated through the engagement in offshore business that target only overseas residents as customers and use only non-Macau currency in their activities.

We established Central Steel Macau in 2005 as a scrap metal sourcing arm to source scrap metal supplies from international markets for our operations in the PRC, which currently enjoys the tax exemption provided by Decree-Law no. 58/99/M. A significant portion of our sales during the Track Record Period was attributable to sales by Central Steel Macau to customers outside of Macau, which was exempted from Macau income tax.

We cannot assure you that the tax exemption Central Steel Macau enjoys will continue to be available. If the government of Macau were to revoke the relevant tax exemption regulations or such current tax benefits become unavailable to Central Steel Macau for any reason, our effective tax rate may materially increase. As a result, our financial condition, results of operations and cash flow may be materially and adversely affected.

Fluctuations in the value of the Renminbi may adversely affect demand for Chinese products, including those that contain steel and other metal and the value of dividends payable to us from our subsidiaries in the PRC

Our recycled scrap metal is sold primarily to metal manufacturers in China. They further process our recycled scrap metal into steel and other processed metal that are used in a variety of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances. Many of these products are sold for export from China. The appreciation of the value of the Renminbi against other currencies may result in an increase in the cost of these products in the other currencies. This may adversely affect demand for these products, which in turn could adversely affect demand for recycled scrap metal in China. On 21 July 2005, the PRC Government changed its policy of directly pegging the value of the Renminbi to the U.S. dollar. From that time until the 31 December 2008, the value of the Renminbi has appreciated by 15.8% against the U.S. dollar. We cannot assure you that the value of the Renminbi will not further appreciate in the future. Further appreciation of the value of the Renminbi against other currencies could adversely affect our business, financial condition and results of operations.

In addition, most of our income is derived from the operations of our subsidiaries in the PRC. Since most of our income and profits are denominated in Renminbi, any appreciation of the Renminbi will increase the value of any dividends payable to us from our subsidiaries in the PRC, in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of our net assets, earnings and any dividends payable to us from our subsidiaries in the PRC, in foreign currency terms, and may adversely affect our ability to pay dividends on our Shares. Fluctuations in the value of the Renminbi will also affect the amount of our foreign-currency denominated debt in Renminbi terms since we have to convert Renminbi into foreign currencies to service our foreign-currency denominated debt.

We are a holding company and rely on dividend payments from our subsidiaries and associated companies

We are a holding company and conduct substantially all of our business through operating subsidiaries in China, Hong Kong and Macau. As a result, our ability to pay dividends depends on dividends and other distributions received from these subsidiaries. If our subsidiaries incur debt or losses, it may impair their ability to pay dividends or other distributions to us, which could adversely affect our ability to pay dividends to our shareholders.

Under current PRC laws, dividends of PRC companies can be paid only once a year and only out of the net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions. Furthermore, PRC law requires FIEs, such as our subsidiaries in China, to set aside part of their net profit as statutory reserves. Our PRC subsidiaries are required to set aside each year at least 10% of their after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiary. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC subsidiary. These statutory reserves are not available for distribution to us, except in a liquidation. Limitations on the ability of our PRC subsidiaries to remit their entire after-tax profits to us in the form of dividends or other distributions could adversely affect our ability to grow, make investments that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. We cannot assure you that our subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to pay dividends to our shareholders.

In addition, restrictive covenants in bank credit facilities, indentures, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn would restrict our ability to pay dividends to our shareholders.

We are subject to risks related to transportation systems

We are highly dependent upon the transportation systems we use to acquire raw materials and ship our products. We receive raw materials from suppliers and ship recycled scrap metal to our customers primarily by truck, using both our fleet of trucks and third-party providers, and by vessel. Because we generally keep only 15 to 30 days of inventory on hand, our business is substantially dependent on reliable and efficient transportation systems.

Transportation services are subject to disruption from a variety of causes, including shortages of supplies, equipment or operating problems, labour disputes or port strikes, storms and adverse weather, energy shortages, acts of war or terrorism, natural disasters and other causes. Disruptions in the transportation systems we use for these or any other reasons could adversely affect our ability to receive raw materials and deliver products to our customers on a timely basis. A prolonged disruption in these transportation services, or a significant increase in transportation costs, may adversely affect our business, financial condition and results of operations. Our third-party total transportation costs incurred in acquiring raw materials and shipping recycled scrap metal to customers during the years ended 31 December 2006, 2007 and 2008 were approximately HK$4.9 million, HK$8.1 million and HK$12.9 million, respectively.

The interests of our Controlling Shareholder may differ from those of our other shareholders

Prior to the [●], we were wholly owned by our Controlling Shareholder. Immediately following the [●], our Controlling Shareholder will own approximately % of our total issued share capital (assuming that the [●] is not exercised the [●] has occurred, no Shares have been issued upon exercise of options granted under the Share Option Schemes and an [●] of HK$ per Share, being the midpoint of the indicative [●] range of HK$ to HK$ per Share). Subject to our Articles of Association and applicable laws and regulations, our Controlling Shareholder will be able to influence major policy decisions, including our overall strategic and investment decisions, by:

- ➢ controlling the election of Directors and, in turn, indirectly controlling the selection of senior management;
- ➢ determining the timing and amount of dividend payments;
- ➢ deciding on increases or decreases in share capital;

- ➢ determining the issuance of new securities;
- ➢ approving or disapproving mergers, acquisitions and disposals of our assets or businesses; and
- ➢ taking other actions that require shareholder approval.

The interests of our Controlling Shareholder could conflict with those of our other shareholders. Accordingly, our Controlling Shareholder may take (or fail to take) actions that favour his own interests and which may not be in the best interests of our other shareholders. Any such actions could adversely affect our business, the interests of minority shareholders or the market price of our Shares.

The lease and use of facilities may be adversely affected due to the lack of registration

The leases under which we occupy certain of our facilities have not been registered with the relevant governmental authorities. If there is a dispute regarding legal title to any such property or if our right to occupy such property is challenged, we may be required to vacate the property, which could result in a disruption to our business. The affected properties include our leased office and dormitory spaces in Zhangjiagang with a total gross floor area of approximately 800 square metres and our leased office in Tianjin with a total gross floor area of approximately 272 square metres.

RISKS RELATING TO OUR INDUSTRY

The PRC Government may adopt measures to slow down growth in the metal manufacturing industry and other metal consuming industries, thereby adversely affecting the demand for recycled scrap metal

The PRC Government has in the past adopted, and may in the future adopt from time to time, restrictive measures to curtail the growth of various industry sectors in an effort to control inflation and stabilise the value of the Renminbi. Such measures may extend to the metal manufacturing industry and other metal consuming industries, such as construction and manufacturing of heavy equipment, automobiles, aircraft, ships and household appliances. The PRC Government may also take actions that adversely affect the export of metal and metal products. For example, in 2006, the PRC Government reduced export tax incentives for steel, which in turn adversely affected steel and scrap steel prices in China. Because many of our supplier relationships in 2006 were with foreign suppliers, the higher cost of imported scrap steel compared to scrap steel from China adversely affected our sales in 2006. We cannot assure you that the PRC Government will not take actions in the future that would adversely affect demand and prices for recycled scrap metal in China. Such actions could materially and adversely affect our business, financial condition and results of operations.

Our business is affected by fluctuations in the price of raw materials and products

The raw materials for our operations are scrap ferrous and scrap non-ferrous metal. We source our raw materials from suppliers in China and from foreign markets, including the United States, Europe, Japan, Australia, Hong Kong and Taiwan. The price of our raw materials has fluctuated significantly. For example, during the years ended 31 December 2006, 2007 and 2008, our average cost per metric ton of scrap metal was approximately HK$3,325, HK$5,626 and HK$7,940, respectively.

An increase in raw material prices will increase our need for working capital and financing, which may not be available on favourable terms, or at all. Increases in metal prices may also increase our customers' working capital requirements, which could result in delays in payments by our customers and increases in our trade receivables and bills receivable. Our profit margin would also be affected if we are unable to pass on the increased costs to our customers. Decreases in raw material prices may result in a decrease in the value of our inventory, which would negatively affect our net asset value. In addition, decreases in raw material prices may result in decreases in the price of recycled scrap metal, which may adversely affect our revenue and profit.

We generally pay prevailing market prices for our raw materials at the time of purchase. In the event that we are unable to obtain a sufficient quantity of raw materials at reasonable prices, or to pass on higher raw material costs to our customers, our business, financial condition and results of operations could be materially and adversely affected.

Our industry is subject to economic and market conditions in China and other countries

Our industry is subject to fluctuations in supply and demand in the metal manufacturing and metal consuming industries. Periods of relatively slow economic growth, a recession or public perception that a slowdown or recession may occur, especially in the regions or countries where the end users of products made from recycled scrap metal are located, may decrease the demand for our products, thereby adversely affecting our sales and profitability. For example, during periods of slowing growth or recession, the construction and manufacturing industries may experience significant cutbacks in production, which could adversely affect demand for steel, copper and aluminum and, as a result, recycled scrap metal.

Our overall financial results will depend substantially upon the economies of China and its principal export markets. Slowing economic growth or a recession in China or in its principal export markets could have a material adverse effect on our business, financial condition and results of operations. Our results are also affected by local market conditions in the regions where we operate. We currently have major production facilities in Guangdong and Jiangsu Provinces, and we will be subject to local market conditions in Zhejiang Province, Tianjin and Hubei Province when we complete our planned production facilities in those regions. Economic downturns in those areas could adversely affect our sales and profitability.

We operate in a highly competitive industry

The scrap metal recycling industry in China is highly fragmented and competitive, with a large number of providers throughout the country. We compete primarily with local metal recycling companies and new entrants to the market, some of which may have a lower cost structure than ours due to lower capital expenditures or lower labour costs resulting from being located in other regions of China. The barriers to entry in the metal recycling industry are relatively low. We also compete with large metal recycling companies and may face competition from other sources as well, such as foreign metal recycling companies and metal manufacturers seeking to vertically integrate their operations. Some of our competitors may have greater financial and other resources than we do. Our products also compete with imported recycled scrap metal and further appreciation of the Renminbi, which may have the effect of lowering the cost of imported recycled scrap metal, may intensify such competition. We cannot assure you that we will be able to compete successfully in our existing markets or in the new markets where we are expanding. Any increase in competition may adversely affect our business, financial condition and results of operations.

Our business is subject to seasonality

Demand for our products is subject to seasonal fluctuations. Due to the Chinese New Year holiday in the first half of the year, demand for our products is generally higher in the second half of the year. As a result, fluctuations in demand for recycled scrap metal in the second half of the year may have a disproportionate impact on our results of operations. In addition, our working capital requirements are generally higher in the second half of the year.

RISKS RELATING TO THE PRC

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business

A majority of our assets are located in the PRC and we derive substantially all of our revenue from our operations in the PRC. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC and, in turn, our business.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall economy of the PRC but may have a negative effect on us. For example, our results of operations and financial condition could be materially and adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the metal and scrap metal recycling industries.

The PRC legal system has inherent uncertainties that could limit the legal protections available to us and may cause difficulties in the enforcement of judgments in China

Our business is conducted primarily within China and is governed to a large extent by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions generally can only be used as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, property, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency involved in applying or enforcing these laws and regulations or how an application or case is presented to such agency, we may receive less favourable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All of these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits and other statutory and contractual rights and interests.

A majority of our assets are located in China, and certain of our Directors and executive officers reside in China. As a result, it may not be possible for investors to effect service of process within the United States, the United Kingdom, Japan, Singapore or many other countries upon such persons or us.

Further, we have been advised that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan, Singapore and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in any of these and other jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

The holders of our Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Furthermore, the Hong Kong Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Changes in foreign exchange and other regulations may adversely affect our results of operations

We currently receive most of our revenue in Renminbi while making a portion of our purchases and incurring a portion of our debt in foreign currencies. Conversion of the Renminbi is under government regulation in the PRC. Currently, the Renminbi is not a freely convertible currency. Historically, the PRC Government has strictly regulated the conversion of Renminbi into foreign currencies. In recent years, the PRC Government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade- and service-related foreign exchange transactions, payment of dividends and service of foreign debts. In the future, however, the PRC Government may, at its discretion, restrict access to foreign currencies for current account transactions and prohibit us from converting Renminbi into foreign currencies. If this occurs, our PRC subsidiaries may not be able to pay us dividends in foreign currency without prior approval of SAFE or its authorised local agency.

In addition, any transfer of funds from us to our PRC subsidiary as an increase in registered capital is subject to registration with or approval by the PRC Government authorities, including SAFE and/or the relevant examination and approval authority. Our subsidiaries may experience difficulties in converting our capital contributions made in foreign currencies into Renminbi due to changes in PRC foreign exchange control policies. Further, our PRC subsidiaries are generally not allowed to lend money to one another directly under PRC laws. Therefore, it may be difficult to change capital expenditure plans once the relevant funds have been remitted from us to our PRC subsidiaries. These limitations could restrict our ability to act in response to changing market conditions and to reallocate funds among our PRC subsidiaries in a timely manner.

Our choice of investment is affected by the relevant regulations of SAFE with respect to capital-account and current-account foreign exchange transactions in China. We cannot assure you that these PRC laws and regulations on foreign investments will not create uncertainties regarding our financing and operating plans in China. These laws and regulations may limit our ability to repay foreign currency denominated indebtedness, purchase raw materials with foreign currencies and receive dividends from our subsidiaries.

We may incur higher income tax expenses due to changes in the PRC income tax law

Preferential tax treatments of PRC subsidiaries

Under the PRC Foreign Investment Enterprise and Foreign Enterprise Income Tax Law promulgated on 9 April 1991, the standard statutory PRC national income tax rate and local income tax rate for foreign invested enterprises, or FIEs, was 30% and 3%, respectively, of the assessable income. If an FIE is a manufacturing enterprise with an operating term of more than ten years, it is exempt from PRC national income tax for two years starting from the first profit-making year and receives a 50% reduction in the tax for the three years thereafter.

On 16 March 2007, the PRC Government enacted the PRC Enterprise Income Tax Law, under which most domestic enterprises and FIEs are subject to a uniform income tax rate of 25%. The PRC Enterprise Income Tax Law became effective on 1 January 2008, when the Foreign-Invested Enterprise Income Tax Law and the Enterprise Income Tax Provisional Regulations of the PRC expired. The PRC Enterprise Income Tax Law provides for a five-year transition period starting from 1 January 2008 for enterprises that enjoy low tax rate preferences. Under the PRC Enterprise Income Tax Law, those enterprises established prior to 16 March 2007 which were eligible for tax exemption or reduction in accordance with the prior tax laws and regulations are eligible to continue to enjoy any existing preferential tax treatments until their expiration, but for FIEs that did not make profit, such preferential tax treatment is deemed to commence from 1 January 2008. A number of our subsidiaries currently enjoy preferential tax treatments, which will expire or are subject to progressive increases in tax rates during the transition period. See the section headed "Financial Information — Taxation." Our income tax expenses may increase substantially after the expiration of such preferential tax treatments.

Withholding tax on dividend income received from PRC subsidiaries if we are deemed a non-resident enterprise for PRC tax purposes

Under the PRC Enterprise Income Tax Law, dividends payable to foreign investors that are "derived from sources within the PRC" may be subject to a withholding tax at a rate of up to 20%. The implementation rule of the PRC Enterprise Income Tax Law provides that an income tax rate of 10% will normally be applicable to dividends payable to foreign investors who are non-resident enterprises. Since we are a holding company established outside the PRC and a substantial portion of our income will come from dividends that we receive from our PRC subsidiaries, those dividends may be deemed to be "derived from sources within the PRC" for purposes of the PRC Enterprise Income Tax Law and therefore subject to a 10% withholding tax. However, the applicable bilateral tax treaties between the PRC and other regions and countries may reduce the withholding tax on outgoing dividends to a lower rate. For example, pursuant to a tax treaty between the PRC and Hong Kong that became effective on 8 December 2006, a company incorporated in Hong Kong, such as our subsidiary Asia Steel (H.K.) Limited, is subject to a withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds 25% or more of the PRC company, or 10% if it holds less than 25% of the PRC company. If our PRC subsidiaries are required under the new income tax law to withhold substantial income tax for dividends they pay to us or our non-PRC subsidiaries, it could materially reduce our income and, accordingly, the amount of dividends we may pay to our shareholders.

Tax on worldwide income if we are deemed a PRC resident enterprise for PRC tax purposes

Furthermore, under the PRC Enterprise Income Tax Law, enterprises organised under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. On 6 December 2007, the State Council adopted the Regulation on the Implementation of PRC Enterprise Income Tax Law, effective as of 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises." In April 2009, the State Administration of Taxation further specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in China and therefore a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, board and shareholder meeting minutes are located or maintained in China, and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. However, there has been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). We cannot assure you that we will not be considered a "resident enterprise" under the new EIT law and not be subject to the enterprise income tax rate of 25% on our global income. In addition, although the PRC Enterprise Income Tax Law provides that "dividend income between qualified resident enterprises" is exempted income, it is not clear what is considered a "qualified resident enterprise" under such law.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise," for those non-resident enterprise shareholders, it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the new PRC Enterprise Income Tax Law to withhold PRC income tax on our dividends payable to our foreign shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

Our operations are subject to comprehensive environmental regulation and involve significant expenditures for compliance with regulations

We are subject to certain PRC laws and regulations relating to environmental and safety matters. The discharge of water, dust and noise into the environment during the scrap metal recycling process and the disposal of non-metal byproducts of the scrap metal recycling process could give rise to liabilities which may require us to incur costs to remedy such discharge or disposal. These environmental laws and regulations impose stringent standards regarding water discharge, airborne emissions, the use, handling, discharge and disposal of solid waste and hazardous materials, noise pollution and remediation of environmental contamination.

Notwithstanding our efforts to comply with applicable environmental laws and regulations, we cannot assure you that we will at all times be in full compliance with all of the environmental requirements that apply to our operations. Any failure, or any claim that we have failed, to comply with environmental laws and regulations could increase our operating expenses, cause delays to our expansion plans and affect our public image, any one of which could harm our business. In addition, any failure to comply with these laws and regulations could subject us to substantial fines, clean-up costs or other environmental liabilities or require us to suspend or modify our operations.

Further, environmental laws and regulations may become more stringent in the future. We have made and expect to continue to make necessary capital and other expenditures for environmental compliance. The adoption of new laws and regulations in the PRC relating to environmental compliance could require us to make capital expenditures in excess of what was anticipated, which may adversely affect our business, financial condition and results of operations.

An outbreak of avian influenza or H1N1 influenza A or a recurrence of SARS or any other similar epidemic may, directly or indirectly, adversely affect our operating results and the market price of our Shares

Our business could be adversely affected by the effects of avian influenza, H1N1 influenza A , SARS or another epidemic or outbreak of disease. China reported a number of cases of SARS in 2004. Recently, certain countries have encountered incidents of avian influenza and H1N1 influenza A. According to health authorities, this disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. If any of our employees are identified as a possible source of avian influenza, H1N1 influenza A or any other epidemic or serious disease, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that have come into contact with those employees. We may also be required to disinfect any affected production facilities or port terminals, which could cause a temporary suspension of operations at those sites. As a result, our business, financial condition and results of operations could be adversely affected. Even if we are not directly affected by the epidemic, an outbreak of avian influenza, H1N1 influenza A or recurrence of SARS or another epidemic or serious disease, whether inside or outside China, could slow down or disrupt import and export activities and/or restrict the level of economic activity generally, which could also adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE SHARES

Dividends paid in the past are not indicative of the amount of future dividend payments or our future dividend policy

We paid dividends of approximately HK$16.9 million, HK$90.0 million and nil in the years ended 31 December 2006, 2007 and 2008, respectively. The payment and amount of any future dividends will depend on our results of operations, cash flows, financial condition, contractual, statutory and regulatory restrictions on the payment of dividends by us and our subsidiaries, our prospects and other factors that our Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. For more details, see "Financial Information — Dividend policy." We cannot assure you as to the amounts of dividends in the future or that dividends will be paid at all. Past dividend payments should not be used as reference for our future dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

The industry statistics contained in this document that are derived from government official sources which may not be reliable

Statistics derived from government official sources may not be prepared on a comparable basis. Neither the Sole Global Coordinator, the Underwriters nor any of their affiliates or advisers, nor we or any of our Directors, officers, affiliates or advisers, have verified the accuracy of the information contained in such sources. We make no representation as to the accuracy of this information. Accordingly, the industry information and statistics contained herein derived from government official sources may not be accurate and should not be unduly relied upon for your investment in our Company or otherwise.

You should read the entire document carefully and rely only on the information contained in this document in making your investment decision. We strongly caution you not to place any reliance on any information contained in press articles or other media reports not prepared or approved by us

There has been press and media coverage regarding us and the [●] in certain news publications. For example, on 12 May 2009, the Apple Daily and Ming Pao Daily published certain articles, which contained, among other things, certain financial information, projections, valuations and other historical and forward-looking information about us. Such articles were not prepared or approved by us. Therefore, we make no representation as to the appropriateness, accuracy, completeness or reliability of any of the information contained in such news publications or any assumptions underlying such information, nor do we accept any responsibility for the accuracy or completeness of any such information or assumptions.

You should carefully evaluate all the information in this document, including the risks described in this section and throughout this document. We may receive a high degree of media coverage including coverage that is not directly attributable to statements made by our officers and employees. You should rely only on the information contained in this document in making your investment decision and should not rely on any other information.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including, without limitation, words and expressions such as "expect", "believe", "plan", "intend", "estimate", "project", "anticipate", "may", "will", "would" and "could" or similar words or statements, in particular, in the sections entitled "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of Proceeds" in this document in relation to future events, our future financial, business or other performance and development, including our expansion plans, the future development of our industry and the future development of the general economy of our key markets and globally. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future.

Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect, and actual results may diverge significantly from such forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- economic and market conditions in China and overseas;
- performance of the metal and metal consuming industries;
- cost and availability of financing;
- our ability to meet debt and other obligations when due;
- our expansion and capital expenditures plans;
- our business and operating strategies and our ability to implement such strategies;
- our ability to successfully integrate newly acquired business;
- our ability to maintain and expand our customer base and supplier base;
- cost, fluctuations in the price and availability of scrap metal;
- the completion and commencement of operation of our planned production facilities;
- disruptions to construction and operations owing to natural and human-induced disasters;
- regulations and restrictions, including tax law and environmental regulations, particularly those regulations related to our operations; and
- governmental approval processes.

Additional factors that could cause actual results, performance or achievements to differ materially from the forward-looking statements contained herein include, but are not limited to, those discussed in the section headed "Risk Factors" in this document. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations by us that our plans and objectives will be achieved. We do not intend to update these forward looking statements in connection with our ongoing disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.

DIRECTORS

Name	Address	Nationality
Executive Directors		
CHUN Chi-wai	Flat A, 14/F., Glory Heights 52 Lyttelton Road Mid-Levels Hong Kong	Chinese
WONG Hok-leung	7A, Hamilton Court 8 Po Shan Road Mid-Levels Hong Kong	British
JIANG Yan-zhang	Unit 82, 101st Street Feng Ming Yuan Phoenix City Country Garden Guangzhou PRC	Chinese
Non-executive Directors		
LAI Wun-yin	Flat A, 14/F., Glory Heights 52 Lyttelton Road Mid-Levels Hong Kong	Chinese
Independent non-executive Directors		
CHAN Iu-seng	2/F., 8 Hereford Road Kowloon Tong Kowloon Hong Kong	Portuguese
CHAN Kam-hung	34A, Block 1, Hanley Villa 18 Yau Lai Road Ting Kau New Territories Hong Kong	Australian
LEUNG Chong-shun	Flat C, Floor 8 29 Braemar Hill Road North Point Hong Kong	Chinese

PARTIES INVOLVED

Legal advisors to our Company

As to Hong Kong and U.S. law:

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:

Jun He Law Offices
China Resources Building
20th Floor
8 Jianguomenbei Avenue
Beijing 100005
PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to Macau law:

Gonçalves Pereira, Rato, Ling Vong & Cunha — Advogados
Avenida da Amizade no. 555
Macau Landmark
Office Tower 23
2301-2304
Macau

Auditors and reporting accountants

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

Property valuer

Vigers Appraisal and Consulting Limited
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office in the PRC	15/F Asia Steel Building No. 3401 Huangpu Road East Huangpu District, Guangzhou Guangdong Province PRC
Principal place of business in Hong Kong	Suite 4803 Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Company's website	www.chinametalrecycle.com[1]
Company secretary	LAM Po-kei Kenneth Greg Associate member of the Hong Kong Institute of Certified Public Accountants
Audit committee	CHAN Kam-hung *(Chairman)* CHAN Iu-seng LEUNG Chong-shun
Remuneration committee	CHAN Iu-seng *(Chairman)* CHAN Kam-hung LEUNG Chong-shun CHUN Chi-wai
Authorised representatives	CHUN Chi-wai Flat A, 14/F., Glory Height 52 Lyttelton Road Hong Kong LAM Po-kei Kenneth Greg Flat D, 29/F Tower 6 Nan Fung Plaza Tseung Kwan O Hong Kong

(1) Please note that the contents of our Company's website do not form part of the Document.

CORPORATE INFORMATION

Principal bankers	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong
	DBS Bank (HK) Limited G/F, The Center 99 Queen's Road Central Hong Kong

STEEL INDUSTRY IN CHINA

China is the largest steel producing country in the world. Due to robust domestic demand, the country's crude steel output has increased significantly in recent years. According to the World Steel Association, crude steel production in China increased from approximately 222.4 million metric tons in 2003 to approximately 500.9 million metric tons in 2008, representing a CAGR of approximately 17.6%. China accounted for approximately 37.7% of the world's total steel output in 2008.

China is also the largest steel consuming country in the world. Domestic consumption for crude steel reached approximately 432.9 million metric tons in 2007, accounting for approximately 32.1% of the world's total consumption during that year. From 2003 to 2007, steel consumption in China grew at a CAGR of approximately 13.9%, significantly higher than world steel consumption, which grew at a CAGR of approximately 9.3% over the same period.

The following chart sets forth the growth in steel consumption in China and the world during the period from 2003 to 2007:

Growth in Steel Consumption

Source: World Steel Association report

According to the Information Center of Metallurgical Industry of PRC Information Department, steel consumption in China increased by approximately 4.6% year over year to approximately 453 million metric tons in 2008. The growth rate slowed down due to the global economic downturn.

China's economy has been growing rapidly since the PRC Government introduced economic reforms in the late 1970s. Notwithstanding the recent global economic downturn, we believe China's economic growth and fixed asset investments will continue to be the major drivers of growth in steel demand and production, as well as demand and production of related metals, such as iron and stainless steel, in China.

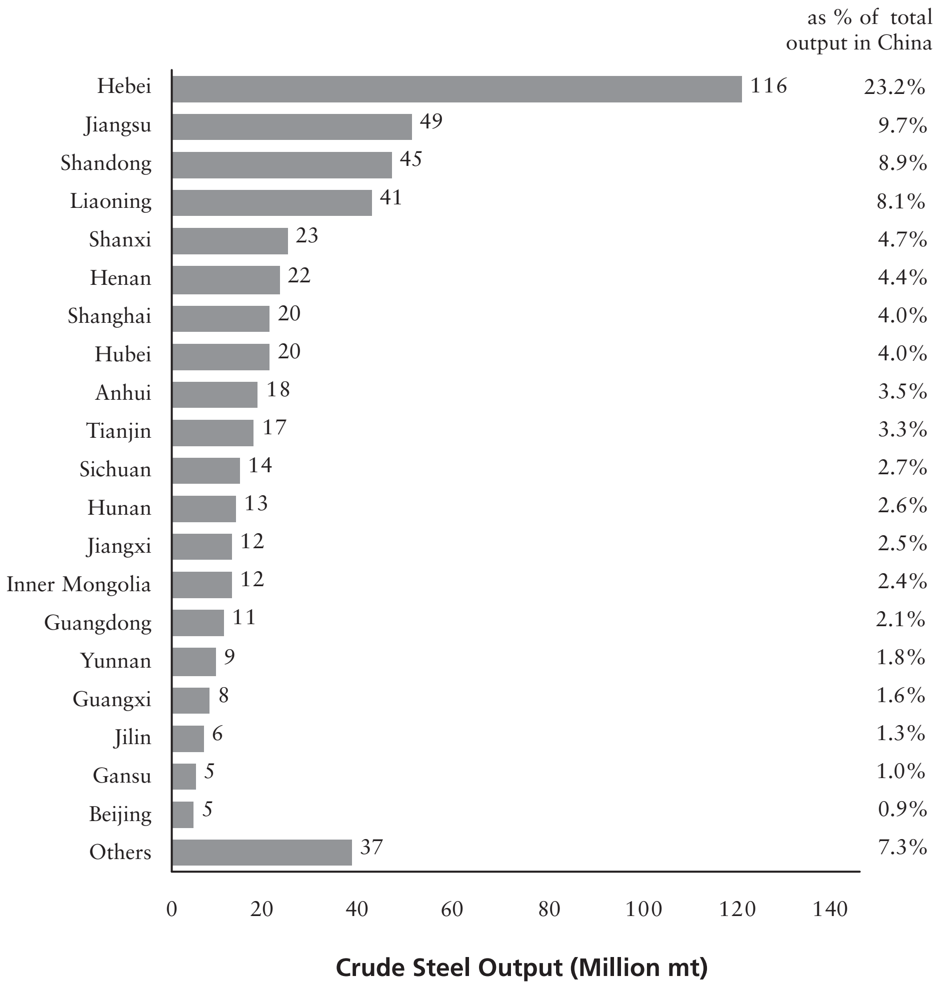
The competitive landscape in the steel industry in China includes the following:

- ➢ The steel industry competition in China is not concentrated within a few large players, but is among thousands of small players, according to China Iron & Steel Association. In recent years, although leading players increased the production volumes through mergers and acquisitions, the concentration ratio of the industry has not improved. The production volumes of the top ten steelmakers accounted for only approximately 35.8% of the total output in China in 2007. As of 2007, only 23 steelmakers have production volume of larger than 5 million metric tons, and only ten steelmakers have production volume of larger than 10 million metric tons. One of the goals of the Steel Policy is to promote consolidation in the steel industry. Under the Steel Policy, the number of steel smelters should be reduced significantly in China with the top ten steelmakers accounting for over 50% of total national output by 2010 and over 70% by 2020;
- ➢ Substitution with renewable materials and scrap steel recycling are encouraged to reduce the use of iron ore, and the Steel Policy seeks to achieve sustainable development and a goal of zero discharge. Meanwhile, the National Development and Reform Commission has stated that encouraging recycling is one of the main measures to save energy and reduce discharge; and
- ➢ The steel industry in China has high entry barriers, which is primarily because (a) steelmaking is a capital intensive industry, with specialised fixed assets that in turn increase exit costs; (b) technology involved in the steelmaking process requires specialised personnel, and competition requires significant expenditures for research and development to maintain high quality products; and (c) the steel manufacturing industry is subject to significant regulations, which impose greater burdens on smaller entities with limited resources.

The production of steel in China varies significantly by region. Hebei Province was the largest producer of crude steel in China in 2008, with an output of approximately 116 million metric tons, representing approximately 23.2% of China's total crude steel production. Jiangsu Province ranked second, with an output of approximately 49 million metric tons, representing approximately 9.7% of China's total crude steel production in 2008, and Shandong Province ranked third, with an output of approximately 45 million metric tons, representing approximately 8.9% of China's total crude steel production in 2008.

The following chart sets forth crude steel production in China by region in 2008:

2008 Crude Steel Output in China by Province



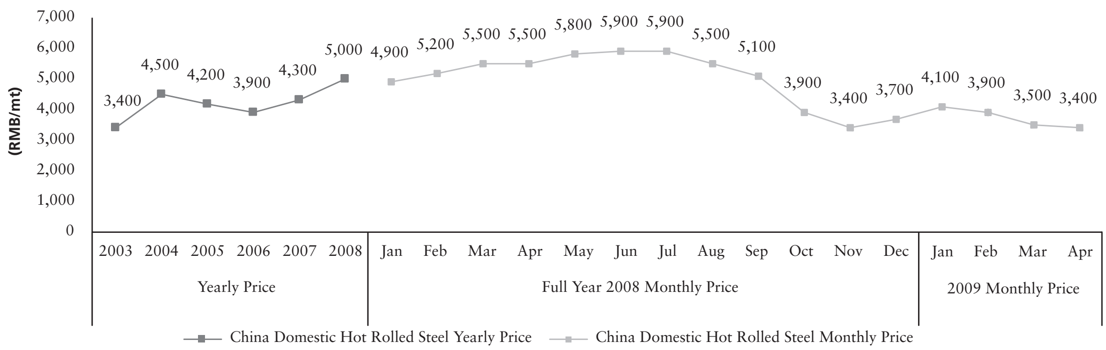
Source: The Information Center of Metallurgical Industry of PRC Information Department

China Steel Prices

Due to the growth in steel consumption in China, the China domestic hot rolled steel average price increased from approximately RMB3,400 per metric ton in 2003 to approximately RMB5,000 per metric ton in 2008, representing an increase of approximately 47.1%. In the first half of 2008, the growth trend continued, up from approximately RMB4,900 per metric ton in January 2008 to approximately RMB5,900 per metric ton in July 2008, representing an increase of approximately 20.4%. However, since July 2008, due to the deterioration of the world economy, the China domestic hot rolled steel average price decreased by approximately 42.4% to approximately RMB3,400 per metric ton in November 2008, and only recovered approximately 8.8% from November to RMB3,700 per metric ton in December 2008, due in part to a RMB4 trillion economic stimulus measure announced by the PRC Government on 9 November 2008. In the first quarter of 2009, the price further increased by approximately 10.8% in January to approximately RMB4,100 per metric ton, but decreased over the next three months to approximately RMB3,400 per metric ton in April 2009.

The following chart sets forth the China domestic hot rolled steel average prices during the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:

China Domestic Hot Rolled Steel Average Prices(1)



Source: Bloomberg (Antaike Information Development Co., Ltd.)

(1) This represents the arithmetic average of daily prices for the years and months indicated.

GROWING IMPORTANCE OF SCRAP STEEL

There are two common methods for producing steel: electric arc furnace steelmaking and blast furnace/converter steelmaking. In electric arc furnace steelmaking, the principal raw material is scrap steel, which is heated along with other materials using electric current to form steel. In blast furnace/converter steelmaking, the principal raw material is iron ore. It is heated in a blast furnace and then the impurities are removed using a converter. Scrap steel is also used in the blast furnace steelmaking process, where it is used to cool the molten metal to add efficiency to the production process.

By using recycled scrap steel rather than iron ore, the electric arc furnace process helps to make efficient use of existing resources and reduces the industry's reliance on iron ore. It also requires less energy and produces less waste. The key advantages of using scrap steel and electric arc furnaces rather than iron ore and blast furnaces/converters to make steel include the following:

➢ the electric arc furnace process requires approximately 60% less energy and approximately 40% less water than the blast furnace process, according to the China Association of Metal Scrap Utilization's report dated May 2007;

➢ the electric arc furnace process discharges approximately 86% less exhaust gas, approximately 76% less sewage and approximately 97% less waste than the blast furnace process, according to the China Association of Metal Scrap Utilization's report dated May 2007; and

➢ electric arc furnace facilities are generally less expensive to build and can be built more quickly than blast furnace/converter facilities.

As a result, in recent years there has been a trend towards electric arc furnace steelmaking as governments focus on efficient resource utilisation and environmental protection. According to the China Iron and Steel Association, electric arc furnace production represented approximately 30.9% of the world's total steel production in 2007. However, only approximately 11.9% of China's total steel production was from electric arc furnaces in 2007.

We believe the role of electric arc furnace steelmaking in China will increase in the future due to the advantages of the electric arc process, which were highlighted in the Steel Policy. We believe the Steel Policy has had, and will continue to have, a significant impact on the development of China's iron and steel industry. One important message of the Steel Policy was the concept of sustainable development and recycling in the steel industry. Among other things, the Steel Policy aimed to enhance awareness of environmental protection and improve the utilisation rate of natural resources, such as iron ore, minimise energy consumption, as well as promote recycling and reduce the discharge of exhaust gas, sewage and waste.

Some of the key components from the Steel Policy that we believe will benefit the scrap metal recycling industry include the following:

➢ Goals of the Policy — Under Chapter I, Article 5, the goals of the policy include:

  - Evaluating the level of environmental protection and resource utilisation to save energy and lower consumption, consistent with the concept of sustainable development and recycling;
  - Evaluating the discharge of waste gases, water and rubbish to strive for a goal of zero discharge; and
  - Promote iron and steel factories that utilise recycled materials.

➢ Industrial Technical Policies — Under Chapter IV, Article 19, the Steel Policy encourages the growth of a specialised group of steelmakers that utilise scrap steel as the principal raw material in steel manufacturing.

➢ Focus on Economic Use of Steel Products — Under Chapter VIII, Articles 31 and 35, the Steel Policy seeks to increase awareness of the economic importance of steel, encourage the substitution of renewable materials and increase the use of recycled scrap steel in the steel making process.

Iron ore is a natural resource that is limited and non-renewable. Because China's iron ore output has been insufficient to meet demand for iron and steel production in recent years, China has increasingly relied upon the import of iron ore. According to the China Steel Industry Yearbook, pig iron output from the import of iron ore rose from approximately 45.1 million metric tons in 2000 (accounting for approximately 34.4% of the country's total output of pig iron in 2000) to approximately 247.2 million metric tons in 2007 (accounting for approximately 51.9% of the country's total output of pig iron in 2007). The PRC Government has expressed concerns over the industry's reliance on iron ore and has been promoting alternative methods of steel production, including the use of electric arc furnaces to produce steel from scrap steel. According to the Steel Policy, China will "gradually reduce the proportion of iron ore consumed and increase the importance of scrap steel" in the production of steel.

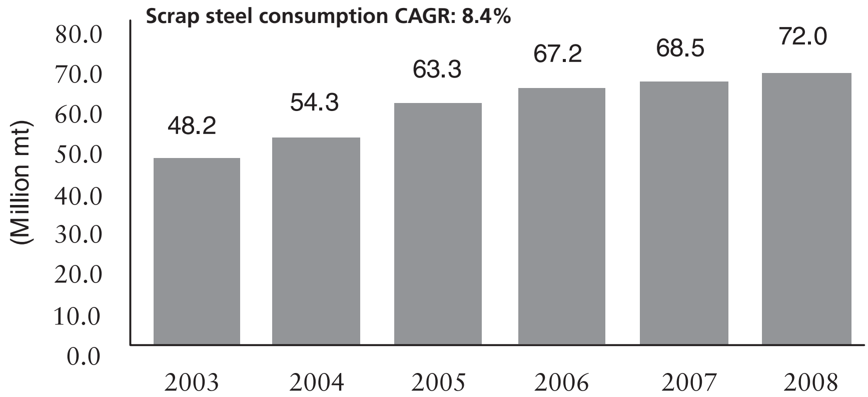
Through regulatory and policy actions such as the Steel Policy, the PRC Government has placed greater emphasis on the use of electric arc furnace steelmaking as it focuses on efficient resource utilisation and environmental protection in connection with the development of the domestic steel industry. Because scrap steel is the principal raw material used in electric arc furnace steelmaking, we believe the Steel Policy and the advantages of electric arc furnace process will result in continued strong demand for recycled scrap steel in the Chinese market.

Although there are a number of advantages to electric arc furnace steelmaking, it can have a significant impact on the environment, primarily noise pollution, as well as gas and metal dust emissions. In addition, there can be indirect environmental effects associated with electricity production.

SCRAP STEEL INDUSTRY IN CHINA

The growth in China's steel output and consumption in recent years has had a significant effect on demand for scrap steel in China. Scrap steel consumption in China increased from approximately 48.2 million metric tons in 2003 to approximately 72.0 million metric tons in 2008, representing a CAGR of approximately 8.4%. The following chart sets forth the growth in scrap steel consumption in China during the period from 2003 to 2008:

Growth in Scrap Steel Consumption In China



Source: *China Association of Metal Scrap Utilization report titled "The Impact of the Global Financial Crisis on the Chinese Scrap Steel Market and the Outlook of the Market in 2009"*

The following table sets forth the top 15 scrap steel users in China in 2008:

Top 15 Scrap Steel Users in China (2008)

Steel Mills	Total Scrap Steel Consumed ('000s mt)
Jiangsu Shagang Group Co., Ltd.*	4,098
BaoSteel Group Corporation	3,951
Wuyang Iron and Steel Co., Ltd.(1)	2,134
Wuhan Iron and Steel (Group) Corporation	2,028
Magang (Group) Holding Co., Ltd.	2,011
Anshan Iron and Steel Group Corporation(2)	1,497
Guangxi Liuzhou Iron and Steel (Group) Company	1,402
Tianjin Pipe (Group) Corporation	1,379
Taiyuan Iron and Steel (Group) Company Ltd.	1,338
Nanjing Steel Group Company Ltd.	1,199
Shougang Group	1,163
Jiangsu Yonggang Group Co., Ltd.*	1,125
Jiangyin Xingcheng Special Steel Co., Ltd.*	1,093
Xinjiang Bayi Iron and Steel Co., Ltd..	1,070
Hangzhou Iron and Steel Group Company	1,055

Source: China Association of Metal Scrap Utilization

* Customers of the Group

(1) Member of Hebei Steel Group

(2) Member of An-ben Group

Although scrap steel consumption in China has grown from 2003 to 2008, the amount of scrap steel used for each metric ton of steel produced, or the scrap unit consumption, has decreased over the same period from approximately 217 kilograms per metric ton in 2003 to approximately 144 kilograms per metric ton in 2008. We believe this was due to a combination of a dramatic increase in overall steel production, coupled with several factors that adversely affected the supply of scrap steel in China during these periods, including low steel reserves and greater manufacturing efficiencies.

➢ ***Low steel reserves*** — The amount of domestic steel available for recycling is largely a function of the amount of steel in products or other applications nearing the end of their useful lives. Much of China's steel reserves, or the steel in use in China today, has only recently been put into use. For example, according to the China Iron and Steel Association, the accumulated steel product consumption in China from 1949 to 2007, or the total volume of steel products consumed during that period, was approximately 4.13 billion metric tons, of which approximately 2.23 billion metric tons, or approximately 54%, was consumed in the period from 2001 to 2007.

As a result, many of the steel products in use in China today have yet to reach the end of their useful lives. However, that is expected to change in the next few years, as many of the products put into use in China over the last few years with relatively short life spans, such as vehicles and home appliances, as well as buildings and other infrastructure projects with longer life spans that were built during the early stages of China's industrialisation, are expected to reach the end of their useful lives, providing a significant source of domestic scrap steel available for recycling.

➢ ***Enhancements in production technology have led to less scrap steel from steel manufacturers*** — China's steel production technology has become increasingly efficient, with the combined steel product yield rate, which is a measure of the amount of scrap steel created in the steel production process, reaching approximately 95.7% in 2006, according to China Association of Metal Scrap Utilization. As a result, the amount of scrap steel created by steel companies per metric ton of steel produced has decreased.

The following chart sets forth the supply of scrap steel in China from society at large, enterprises and imports during the period from 2003 to 2008:

Supply Of Scrap Steel in China

Source: China Association of Metal Scrap Utilization report titled "The Impact of the Global Financial Crisis on the Chinese Scrap Steel Market and the Outlook of the Market in 2009"

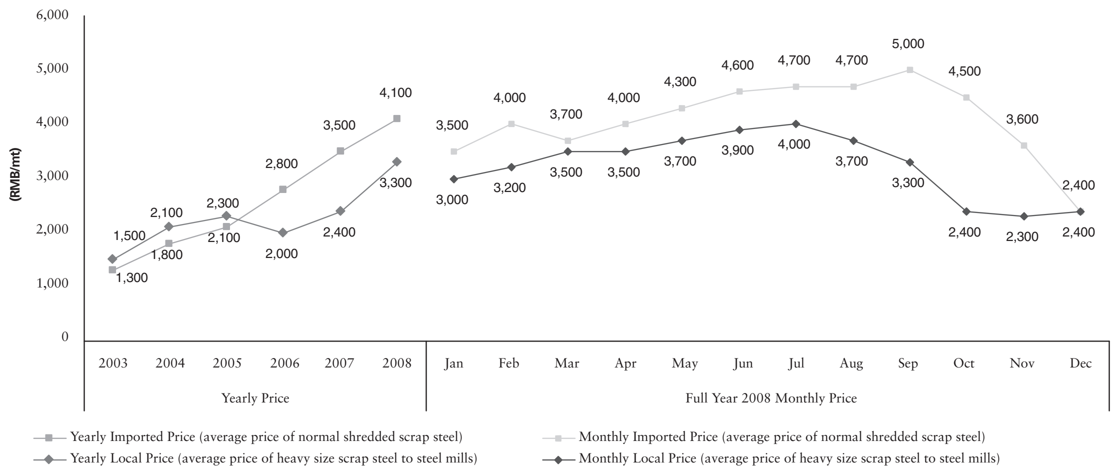
We expect the increasing focus on environmental matters and efficient utilisation of resources, as reflected in the Steel Policy, will further strengthen demand for scrap steel in domestic steel production in China. With the expected increase in steel available for recycling as steel products in China reach the end of their useful lives, scrap steel recycling companies with strong domestic supply networks should be particularly well positioned to capitalise on these trends.

On 9 November 2008, the PRC Government announced ten economic stimulus measures featuring spending of RMB4 trillion in 2009 and 2010, focusing on accelerating infrastructure construction, rural area development and accelerating the reconstruction of regions affected by the earthquake in 2008. According to the executive meeting of the Chinese State Council on 26 November 2008, the PRC Government planned to release policies focusing on the recovery of nine industries, including steel, automotive and shipbuilding. We expect these measures will benefit the scrap steel industry in China over the next few years.

Prices of scrap steel

Prices of scrap steel are highly correlated to the price of steel. According to the China Association of Metal Scrap Utilization, the spread between hot rolled coil prices and average scrap steel prices in China remained relatively stable over the past few years. As a result, factors that affect the price of steel in China, such as the reduction in export tax incentives in 2006, often have a similar impact on the price of scrap steel in China, which is evident by the inversion of the imported prices and local prices in 2006 and 2007. In the first half of 2008, the local prices increased at a higher rate compared to 2007 while the imported prices increased at a relatively smaller rate. However, both prices decreased sharply due to the economic deterioration during the second half of 2008, suggesting a convergence between the two prices. The imported prices decreased from approximately RMB5,000 per metric ton in September 2008 to approximately RMB2,400 per metric ton in December 2008, representing a decrease of approximately 52.0%; the local prices decreased from approximately RMB4,000 per metric ton in July 2008 to approximately RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. The following chart sets forth the imported and the local scrap steel prices during the period from 2003 to 2008 and the monthly price for 2008:

Scrap Steel Prices: Imported vs. Local



Source: China Association of Metal Scrap Utilization report

Unlike other metals, such as copper, there is no established benchmark price for crude steel. However, we believe, based on our Directors' industry experience, that the price of scrap steel is typically lower than the price of crude steel.

Competitive environment

The scrap metal recycling market in China is highly fragmented. According to data from the China Association of Metal Scrap Utilization, there were 464 small steel recycling enterprises in China in 2007. Many participants are individual entrepreneurs operating simple equipment with low production volume and efficiency. These small enterprises generally are at a competitive disadvantage to larger enterprises that have greater financial and other resources. Smaller enterprises such as sole proprietors often lack the resources to invest in heavy equipment, such as a shredder, to improve the efficiency of their operations and produce large volumes of recycled scrap metal. They may also lack the management resources and controls necessary to comply with environmental regulations and policies.

The success of scrap metal recycling companies is also driven by proximity to important metal producing regions and efficient transportation systems. Many scrap metal recycling companies are located in the coastal provinces of northern, southern and eastern China due to the relatively high concentration of metal manufacturers and well-developed transportation systems and shipping conditions in these regions.

We believe the keys to competing successfully in the Chinese scrap steel recycling industry include:

➢ **Large scale, efficient operations —** One of the goals of the Steel Policy is to promote consolidation in the steel industry, which is expected to reduce the number of small steel manufactures and enhance the role of large providers. These customers require a reliable source of high volumes of recycled scrap steel for their operations. Companies that utilise advanced recycling equipment and machinery are better able to serve these customers.

➢ **Strong domestic supply networks —** In recent years, prices for scrap steel in China have been generally lower than in international markets. As a result, reliable access to domestic scrap steel is critical to being able to compete successfully.

➢ **Established customer relationships with large steel manufacturers —** As the Chinese steel industry undergoes consolidation, scrap steel recycling companies with established relationships with large steel manufactures will be well positioned to capitalise on the consolidation.

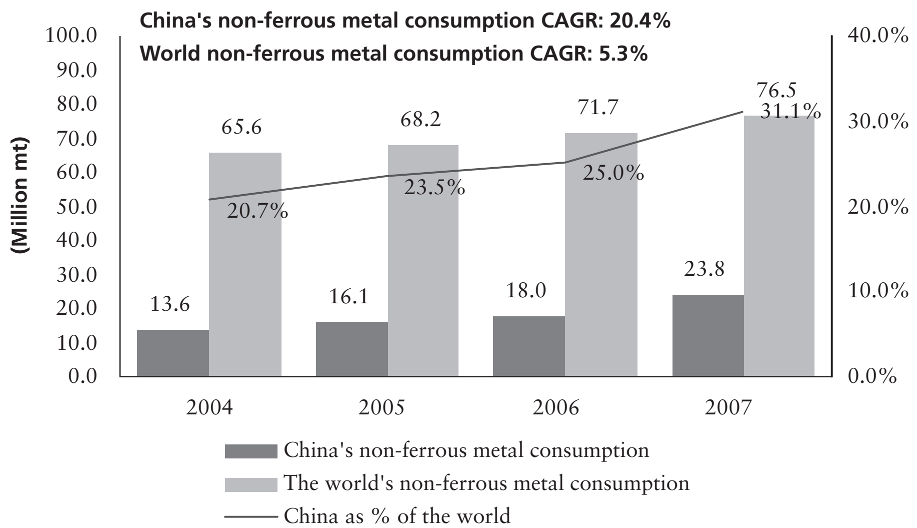
➢ **Presence in key steel producing regions and access to waterways —** Companies located in key steel producing regions should benefit from the continued growth in the Chinese steel industry, and companies with convenient access to waterways can benefit from low cost and efficient means of transport for both raw materials and recycled scrap steel.

NON-FERROUS METAL INDUSTRY IN CHINA

China is the largest non-ferrous metal consuming country in the world. Due to strong domestic demand, the country's non-ferrous metal consumption increased from approximately 13.6 million metric tons in 2004 to approximately 23.8 million metric tons in 2007, representing a CAGR of approximately 20.4%. World consumption of non-ferrous metals over the same period grew at a CAGR of approximately 5.3%. China consumed approximately 20.7% of the world's output of non-ferrous metal in 2004 and approximately 31.1% in 2007.

The following chart sets forth the growth in non-ferrous metal consumption in China and the world during the period from 2004 to 2007:

Growth in Non-Ferrous Metal Consumption

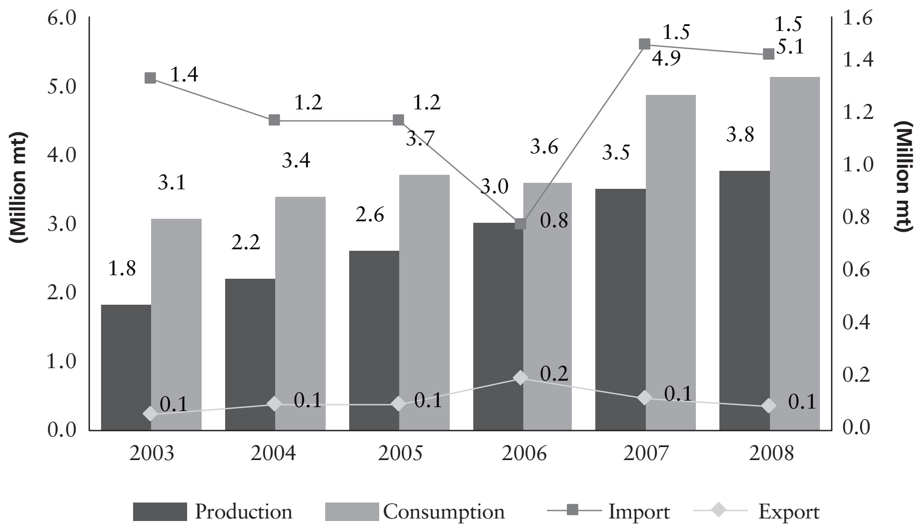


Source: The Yearbook of Nonferrous Metals Industry of China 2008

Copper

Although domestic copper output has grown significantly in recent years, domestic consumption of refined copper in China exceeded domestic production from 2003 to 2008. The following chart sets forth the production, consumption, import and export of refined copper in China during the period from 2003 to 2008:

Production and Consumption of Copper in China

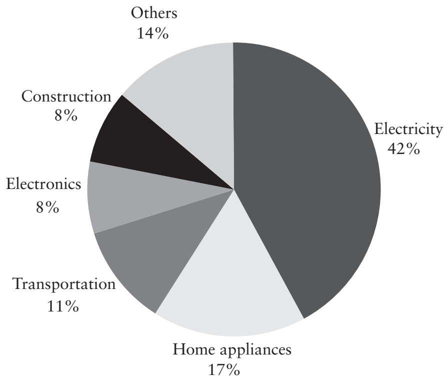


Source: The Yearbook of Nonferrous Metals Industry of China 2008, Emerging Markets Information Service

The rapid growth of China's copper consumption from 2003 to 2007 was primarily due to the economic development, industrialisation and urbanisation in China, combined with the movement of production from developed countries to China. In 2008, copper consumption in China continued to grow. However, the growth slowed down and the market demand remained soft for the year due to the global economic downturn, which resulted in decreased demand for consumer products, particularly for export, and construction-related products, and a downturn in the real estate market in China.

The following chart sets forth the structure of copper consumption in China for 2008:

Structure of Copper Consumption in China for 2008



Source: China Nonferrous Metals Industry Association

While the current economic downturn has had a negative impact on copper consuming industries, we expect copper consumption in China to continue to grow along with continued economic growth and urbanisation in China.

The PRC Government has also introduced a series of policies to assist in the development of various industries that consume copper, including the following:

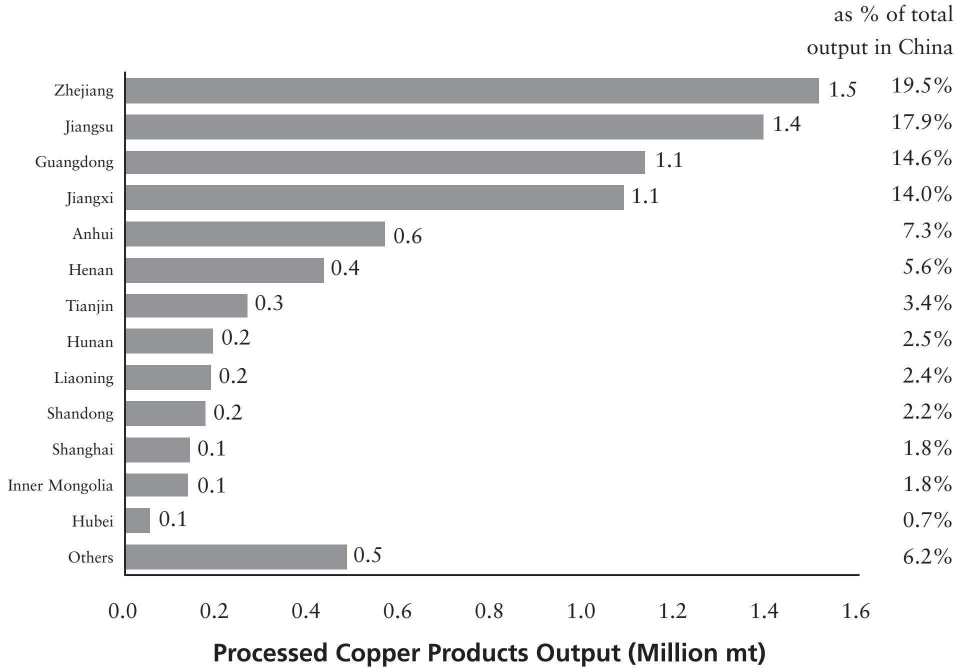
➢ ***Electricity Distribution.*** From 2003 to 2007, the electricity distribution network in China has been growing at an average annual rate of approximately 11.6%. The economic stimulus measures announced by the PRC Government on 9 November 2008 are expected to further expand the PRC's electricity distribution network. Together with the existing development plans, it is expected that investment in the electricity distribution network will reach approximately RMB1.1 trillion in 2009 and 2010.

➢ ***Home Appliances.*** According to a joint announcement of the Ministry of Finance, the Ministry of Commerce and the Ministry of Industry and Information Technology in the PRC in November 2008, a policy encouraging the use of home appliances in rural areas will be implemented in 14 provinces effective from 1 December 2008, and will cover most rural areas in China effective from 1 February 2009. The policy is expected to be implemented nationwide for a tentative period of four years. Qualifying individuals who purchase color TVs, refrigerators, handsets and washing machines will be eligible for subsidies, which are expected to significantly increase demand for these products.

The production of processed copper products in China reached approximately 7.8 million metric tons in 2008, representing an increase of approximately 17.2% from 2007.

The following chart sets forth the processed copper products production in China by region in 2008:

2008 Processed Copper Products Output in China by Province



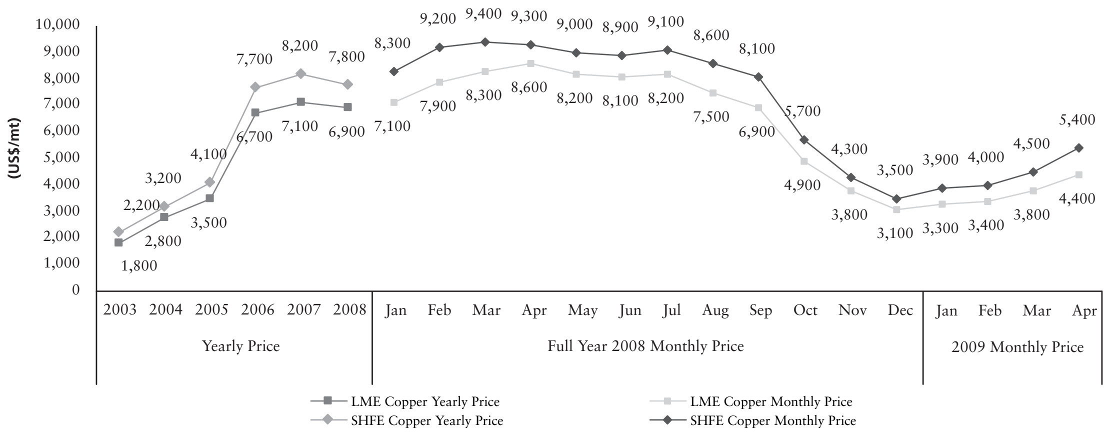
Source: China Nonferrous Metals Industry Association

Due to an inadequate supply of copper concentrate (the raw material used in the production of copper) and as a result of inflation, depreciation of the U.S. dollar and strikes at copper mines, LME copper prices increased from approximately US$1,800 per metric ton in 2003 to approximately US$7,100 per metric ton in 2007, representing an increase of approximately 294.4%. In the first half of 2008, the growth trend continued, up from approximately US$7,100 per metric ton in January to US$8,200 per metric ton in July, representing an increase of approximately 15.5%. However, since July 2008, due to the deterioration of the world economy, LME copper prices decreased approximately 62.2% to a low of approximately US$3,100 per metric ton in December 2008. Although SHFE copper prices have been consistently higher than LME copper prices, the two prices followed the same trend. SHFE copper prices increased from approximately US$2,200 per metric ton in 2003 to approximately US$8,200 per metric ton in 2007, representing an increase of approximately 272.7%. SHFE copper prices reached their peak price of approximately US$9,400 per metric ton in March 2008. However, since July 2008, SHFE copper prices decreased approximately 61.5% to a low of approximately US$3,500 per metric ton in December 2008.

In the first four months of 2009, LME copper prices increased approximately 41.9% compared to the December 2008 price, to approximately US$4,400 per metric ton in April 2009. In the first four months of 2009, due in part to the economic stimulus measures announced by the PRC Government on 9 November 2008, SHFE copper prices increased approximately 54.3% compared to the December 2008 price, to approximately US$5,400 per metric ton in April 2009.

The following chart sets forth the average prices of three-month copper futures on the LME and SHFE during the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:

Copper Futures Average Prices(1)



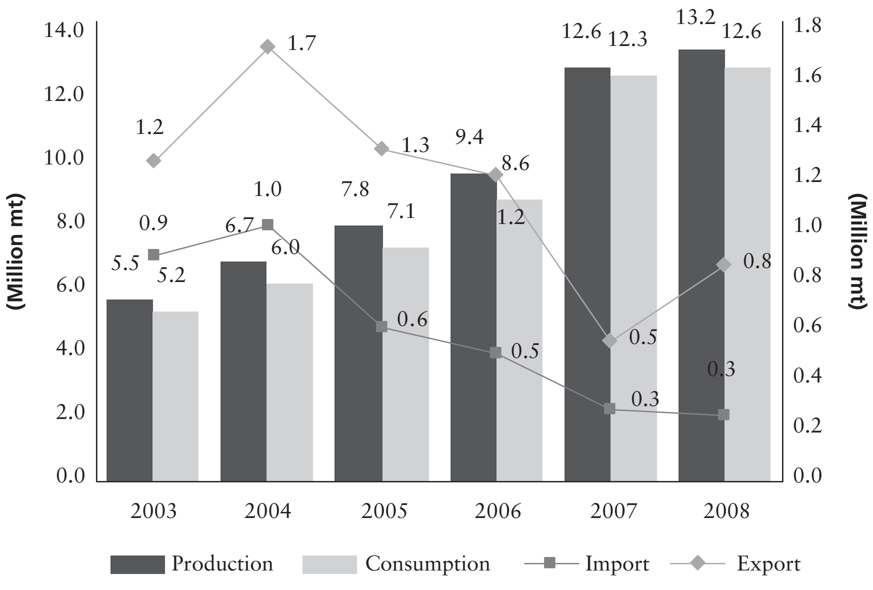
Source: *Bloomberg (LME, SHFE)*

(1) This represents the arithmetic average of daily prices for the years and months indicated.

Aluminium

From 2003 to 2008, production of primary aluminium in China exceeded domestic consumption. The rapid growth of China's economy has driven aluminium consumption in a wide range of industries, including construction, transportation, packaging, aviation and aerospace. The following chart sets forth the production, consumption, import and export of aluminium in China during the period from 2003 to 2008:

Production and Consumption of Aluminium in China

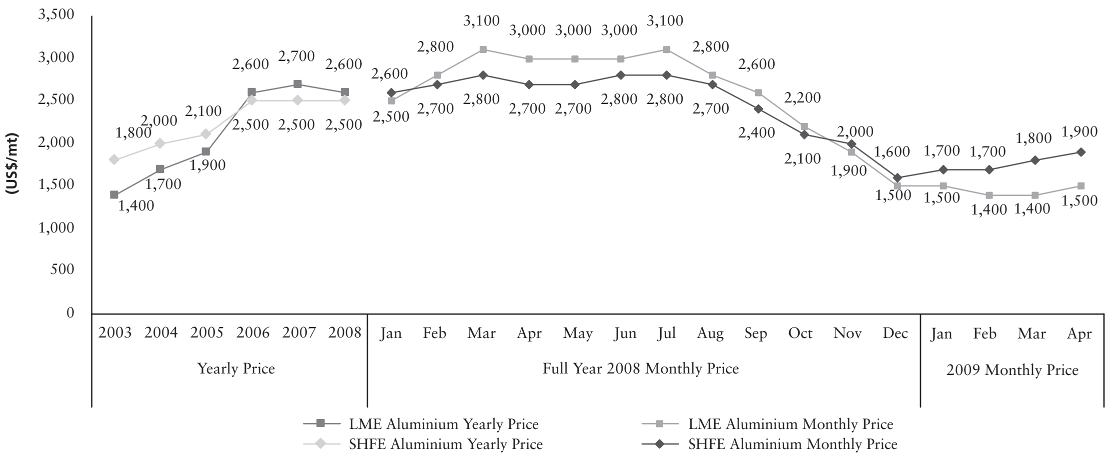


Source: The Yearbook of Nonferrous Metals Industry of China 2008, Emerging Markets Information Service

International aluminium prices also increased in recent years until July 2008. The average price of three-month primary aluminium futures on the LME increased from approximately US$1,400 per metric ton in 2003 to approximately US$2,700 per metric ton in 2007. In 2006, due to the appreciation of RMB, local and international prices converged. In 2007, due to the increase of PRC aluminium export taxes from 5% to 15% on 1 November 2006, the local price remained flat. In the first half of 2008, both LME and SHFE aluminium prices continued to increase. The LME prices increased from approximately US$2,500 per metric ton in January to approximately US$3,100 per metric ton in July, and the SHFE prices increased from approximately US$2,600 per metric ton in January to approximately US$2,800 per metric ton in July, representing increases of approximately 24.0% and 7.7% for LME and SHFE prices, respectively. However, since July 2008, due to the deterioration of the world economy, LME and SHFE aluminium prices decreased approximately 51.6% and 42.9%, respectively, to a low of approximately US$1,500 per metric ton and approximately US$1,600 per metric ton, respectively, in December 2008. LME aluminium prices remained low in the first four months of 2009. However, due in part to the economic stimulus measures announced by the PRC Government on 9 November 2008, SHFE aluminium prices increased approximately 18.8% compared to the December 2008 price, to approximately US$1,900 per metric ton in April 2009.

The following chart sets forth the average prices of three-month aluminium futures on the LME and SHFE for the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:

Aluminium Futures Average Prices(1)



Source: *Bloomberg (LME, SHFE)*

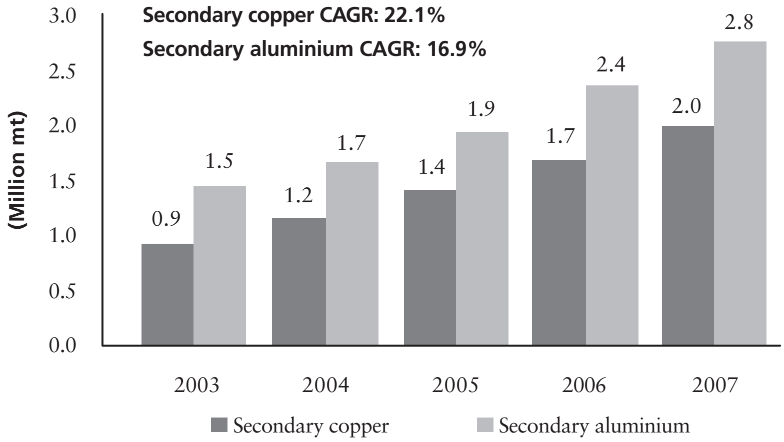
(1) This represents the arithmetic average of daily prices for the years and months indicated.

SCRAP NON-FERROUS METAL INDUSTRY IN CHINA

Secondary production refers to the production of non-ferrous metal using scrap non-ferrous metal. The secondary non-ferrous metal production volume in China increased from approximately 2.6 million metric tons in 2003 to approximately 5.3 million metric tons in 2007, representing a CAGR of approximately 19.5%, according to the China Nonferrous Metal Industry Association. Secondary copper is one of the largest components of the secondary non-ferrous metal segment. The production volume of secondary copper increased from approximately 0.9 million metric tons in 2003 to approximately 2.0 million metric tons in 2007, representing a CAGR of approximately 22.1%. Similarly, the production volume of secondary aluminium increased from approximately 1.5 million metric tons in 2003 to approximately 2.8 million metric tons in 2007, representing a CAGR of approximately 16.9%.

The following chart sets forth the secondary copper and aluminium production volumes in China during the period from 2003 to 2007:

Secondary Copper and Aluminium Production Volumes in China

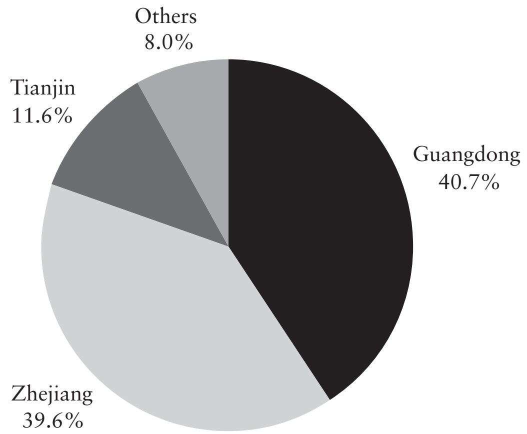


Source: China Nonferrous Metal Industry Association

In 2007, according to the 2007 China Recycled Metal Industry Development Report, China imported approximately 7.7 million metric tons of scrap non-ferrous metal from more than 120 countries and regions, representing an increase of approximately 13.8% from the previous year. Imported scrap copper amounted to approximately 5.6 million metric tons and imported scrap aluminium amounted to approximately 2.1 million metric tons, representing increases of approximately 13.0% and 18.4%, respectively, from the previous year. Guangdong Province and Zhejiang Province are the two largest importing provinces of non-ferrous metal in China, representing approximately 40.7% and 39.6%, respectively, of total scrap non-ferrous metal imports in China in 2007.

The following chart sets forth non-ferrous metal imports by region in China for 2007:

Scrap Non-Ferrous Metal Imports in China by Region for 2007



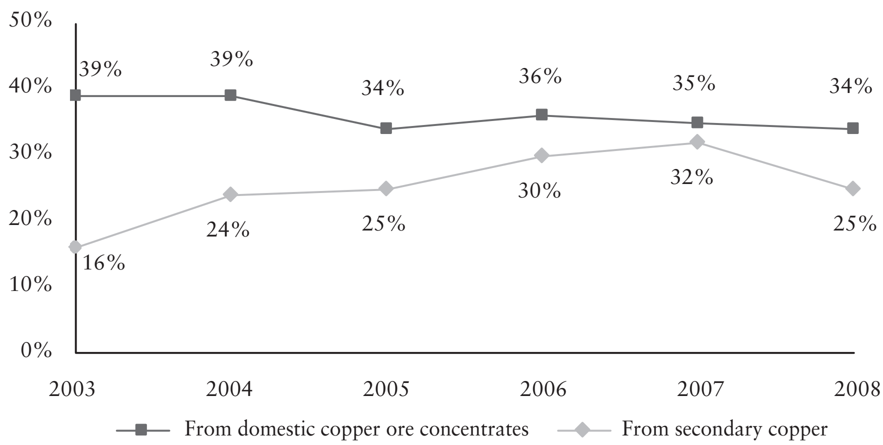
Source: China Nonferrous Metal Industry Association report titled "China Recycled Metal Industry Development 2007"

Scrap copper industry

Copper is in relatively short supply in China, with the per capita reserves of copper resources accounting for approximately 18% of world per capita reserves in 2008, according to CBI China. Copper resources in China are characterised by relatively small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs.

The following chart sets forth the percentage of copper cathode produced in China in 2003 to 2008 from domestic copper ore concentrates and secondary copper:

Copper Cathode Production in China



Source: National Bureau of Statistics of China, China Nonferrous Metals Industry Association

Prior to 2008, the percent of copper cathode produced in China from secondary copper had been increasing. In 2008, the percent of copper cathode produced from secondary copper decreased due to the reduced difference in prices between scrap copper and copper cathode. Such reduced price difference to a certain extent discouraged the use of secondary copper as it would lead to a relatively lower profit margin as compared with using copper ore concentrates in the production of copper cathode. However, as existing copper ore resources are expected to decrease due to continuing mining, supply of copper ore concentrates are expected to tighten, which is expected to strengthen demand for secondary copper in copper production in the future.

According to the Yearbook of Nonferrous Metals Industry of China 2008, the main suppliers of scrap copper include China, Germany, Japan, Russia and Belgium. Global scrap copper recovery reached approximately 2.5 million metric tons in 2007, compared to approximately 1.7 million metric tons in 2003, representing a CAGR of approximately 10.1%. China was the largest source of scrap copper throughout that period, with scrap copper recovery in China growing at a CAGR of approximately 27.8% from 2003 to 2007.

The following table sets forth the rankings by country of global scrap copper recovery for the period from 2003 to 2007:

Global Scrap Copper Recovery

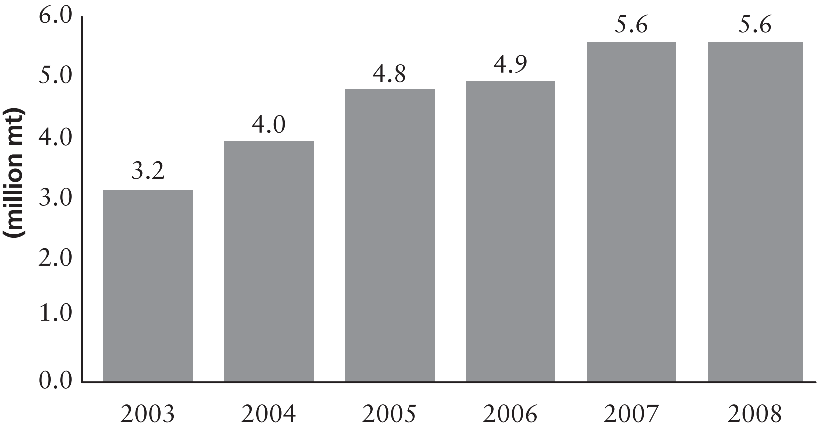
		2003	2004	2005	2006	2007	2007 as % of world	CAGR
				('000 mt)				
1	China	426	620	744	999	1,136	45.3%	27.8%
2	Germany	311	369	344	350	364	14.5%	4.0%
3	Japan	173	196	199	219	245	9.8%	9.1%
4	Russia	150	150	160	160	160	6.4%	1.6%
5	Belgium	200	130	97	96	96	3.8%	-16.8%
	Others	447	472	510	523	507	20.2%	3.2%
	World Total	1,707	1,937	2,054	2,347	2,508	100.0%	10.1%

Source: The Yearbook of Nonferrous Metals Industry of China 2008

China is a major importer of scrap copper. According to the General Administration of Customs of China, in 2008, the import of scrap copper for copper refining exceeded 5 million metric tons.

The following chart sets forth scrap copper imports in China for 2003 to 2008:

Scrap Copper Imports in China for 2003 to 2008



Source: General Administration of Customs of China

China has seen the formation of three major areas for the disintegration, processing and consumption of scrap copper: the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the "2008 Report for China's Copper Market" by CBI China, approximately 75.6% of China's total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas, particularly in Jiangsu, Zhejiang and Shanghai.

Scrap aluminium industry

According to the Yearbook of Nonferrous Metals Industry of China 2008, the main suppliers of scrap aluminium include the United States, Japan, Germany, Italy and Norway. Global scrap aluminium recovery reached approximately 8.8 million metric tons in 2007, compared to approximately 7.7 million metric tons in 2003, representing a CAGR of approximately 3.6%. The United States ranked first in terms of the total global output, and Norway had the highest growth in output from 2003 to 2007.

The following table sets forth the amount of global scrap aluminium recovery for the period from 2003 to 2007:

Global Scrap Aluminium Recovery

		2003	2004	2005	2006	2007	2007 as % of world	CAGR
				('000 mt)				
1	United States	2,930	2,977	3,019	3,023	2,888	32.8%	-0.4%
2	Japan	1,261	1,015	1,039	1,070	1,145	13.0%	-2.4%
3	Germany	680	655	712	796	836	9.5%	5.3%
4	Italy	590	611	654	666	705	8.0%	4.6%
5	Norway	257	349	362	349	348	4.0%	7.9%
	Others	1,933	1,953	1,976	1,961	2,882	32.7%	10.5%
	World Total	7,651	7,560	7,762	7,865	8,804	100.0%	3.6%

Source: The Yearbook of Nonferrous Metals Industry of China 2008

REGULATORY ENVIRONMENT/TAX POLICY

The PRC Government also encourages the development of the scrap metal recycling industry. After the accession to the World Trade Organization, the PRC Government adopted a favourable policy of zero tariffs on scrap steel imports and implemented a quota-free policy on the volume of imports via self-registration. In order to facilitate and regulate the domestic scrap steel recycling market, the PRC Ministry of Finance and the State Administration of Taxation studied and reviewed six ministries of the State Council and six renewable resource utilisation associations to further revise China's taxation policy on waste and old materials to encourage development of the scrap steel recycling industry.

In addition, the PRC Ministry of Finance and State Administration of Taxation increased the export tax rebate for some products effective 1 April 2009. The rebate for some steel and non-ferrous metal products increased to 13% effective 1 April 2009. We expect these measures will benefit the scrap metal industry in China over the next few years.

HISTORY AND DEVELOPMENT

We were co-founded by Mr. Chun Chi-wai and Ms. Lai Wun-yin and have established operations in Guangzhou, Zhangjiagang, Tianjin, Hong Kong and Macau. In 1999, we acquired the shares of Huan Bao Steel. In 2001, we established Guangzhou Asia Steel as a 75% owned subsidiary. Guangzhou Asia Steel operates our principal production facility in Guangzhou. Huan Bao Steel Limited collects unprocessed scrap metals at its Hong Kong facility and then supplies the scrap metals to our Guangzhou Asia Steel facility for further processing or sells them to customers in other regions, primarily Taiwan.

In 2003, we established Guangzhou Zhujiang Port with two other shareholders, GZS and Guangzhou Iron and Steel Co., Ltd. (廣州鋼鐵股份有限公司). We hold a 45% interest in Guangzhou Zhujiang Port, and GZS and Guangzhou Iron and Steel Co., Ltd., hold a 45% and 10% interest, respectively. Guangzhou Zhujiang Port operates a pier with two berths, each capable of accommodating ocean-going vessels of up to 5,000 dwt, and provides port services mainly to Guangzhou Asia Steel and its two other shareholders.

In March 2005, we established Central Steel Macau to acquire scrap metal from foreign suppliers for our PRC operations and other customers.

In December 2006, we established Yangzhong Yagang to operate our planned production facility in Yangzhong, which is expected to commence operations in the third quarter of 2009.

In May 2007, Guangzhou Yatong was established by Asia Steel (Development) to operate a second production facility in Guangzhou, located opposite to our Guangzhou Asia Steel facility. At that time, Asia Steel (Development) was owned by Mr. Chun Chi-wai. In September 2007 Mr. Chun Chi-wai transferred to us 100% of the equity interest in Asia Steel (Development) in consideration of the allotment and issue of 100,000 ordinary shares of HK$1.00 each of Asia Steel (H.K.) credited as fully paid, at the direction of Mr. Chun Chi-wai.

In November 2007, we acquired a 75% equity interest in Tianjin Yatong by investing US$2.25 million in cash into Tianjin Yatong as registered capital. All relevant approvals regarding this capital increase have been obtained. The remaining 25% was owned by Lester Metal, Inc. Subsequently, in September 2008, we acquired from Lester Metal, Inc. an additional 15.385% equity interest in Tianjin Yatong at a consideration of US$2.0 million satisfied by Asia Steel (Development) paying up the capital contribution of US$2.0 million to Tianjin Yatong which was initially payable by Lester Metal, Inc. As a result of such equity transfer, Tianjin Yatong is owned as to 90.385% by Asia Steel (Development) and as to 9.615% by Lester Metal, Inc. Tianjin Yatong operates our production facility in Tianjin.

In January 2008, we acquired a 70% equity interest in Zhangjiagang Rongli by entering into a capital increase agreement with Mr. Wu Yue-xing, Mr. Hu Wen-hu, Ms. Xiang Man-qin and Mr. Li Dong-hui. Yangzhong Yagang invested RMB11,667,000 in cash into Zhangjiagang Rongli as an increase in capital. The original individual shareholders of Zhangjiagang Rongli, i.e. Mr. Wu Yue-xing, Mr. Hu Wen-hu, Ms. Xiang Man-qin and Mr. Li Dong-hui, are local residents of Zhangjiagang and are the founders of Zhangjiagang Rongli. The investment injected by Yangzhong Yagang to Zhangjiagang Rongli was made by way of a capital increase as registered capital. Such increased capital has been duly contributed and verified by a qualified accounting firm in the PRC. All relevant approvals regarding this capital increase have been obtained. Zhangjiagang Rongli operates our production facility in Zhangjiagang. Prior to this capital increase, we and our PRC counsel conducted a due diligence review of Zhangjiagang Rongli's business and operations. We held discussions with the individual shareholders of Zhangjiagang Rongli regarding its operations and development plans to identify potential synergies. We also met with major customers and suppliers of Zhangjiagang Rongli to understand their business relationships. Based on our review, we believe we can significantly improve Zhangjiagang Rongli's operating results through increased capital and combining resources and experience.

Subsequently, in June 2008, Mr. Wu Yue-xing, Ms. Xiang Man-qin and Mr. Li Dong-hui purchased from Mr. Hu Wen-hu all his equity interest in Zhangjiagang Rongli. Of the remaining 30% equity interest in Zhangjiagang Rongli, 25% is now owned by Mr. Wu Yue-xing, who continues to serve as director of Zhangjiagang Rongli, and the balance is owned as to 2.5% by Ms. Xiang Man-qin, an employee of Zhangjiagang Rongli, and as to 2.5% by Mr. Li Dong-hui, a director of Zhangjiagang Rongli. As each of the other shareholders holding the remaining 30% interest in Zhangjiagang Rongli are either a director or employee of Zhangjiagang Rongli, they are not independent third parties with respect to our Group.

In September 2008, we established two wholly owned subsidiaries, Ningbo Yagang and Zhongshan Yatong in Ningbo, Zhejiang Province and Zhongshan, Guangdong Province, respectively.

In November 2008, we established Wuhan Yagang with another joint venture partner, Wuhan Jin Huan Investment Co., Ltd. (武漢金寰投資有限公司) ("Wuhan Jin Huan"), to operate our production facility in Wuhan. Wuhan Yagang is expected to commence operations in 2010. We hold a 70% interest in Wuhan Yagang, and the remaining 30% interest is held by Wuhan Jin Huan, which is considered as our connected person by reason only of its substantial shareholding in Wuhan Yagang.

According to the joint venture agreement and articles of association of Wuhan Yagang, the board of directors of Wuhan Yagang consists of seven members, with five, including the chairman, appointed by us and two appointed by Wuhan Jin Huan. Each shareholder is entitled to preemptive rights in the event of the issuance of additional shares by Wuhan Yagang, as well as a right of first refusal in the event of a proposed transfer of shares by the other shareholder. Any dividends of Wuhan Yagang shall be distributed to each shareholder in accordance with its percentage holding of equity interests in Wuhan Yagang. The shareholders are entitled to inspect the articles of association, meeting minutes, board resolutions and financial statements and other corporate files of Wuhan Yagang. In addition, Wuhan Jin Huan has agreed not to directly or indirectly hold any equity interest in another company that engages in business activities that are similar to Wuhan Yagang.

During the Track Record Period, we had disposed of two subsidiaries, Asia Huan Bao Steel Limited ("Asia Huan Bao") and Longmen Yagang Tongye Limited (龍門亞鋼銅業有限公司) ("Longmen").

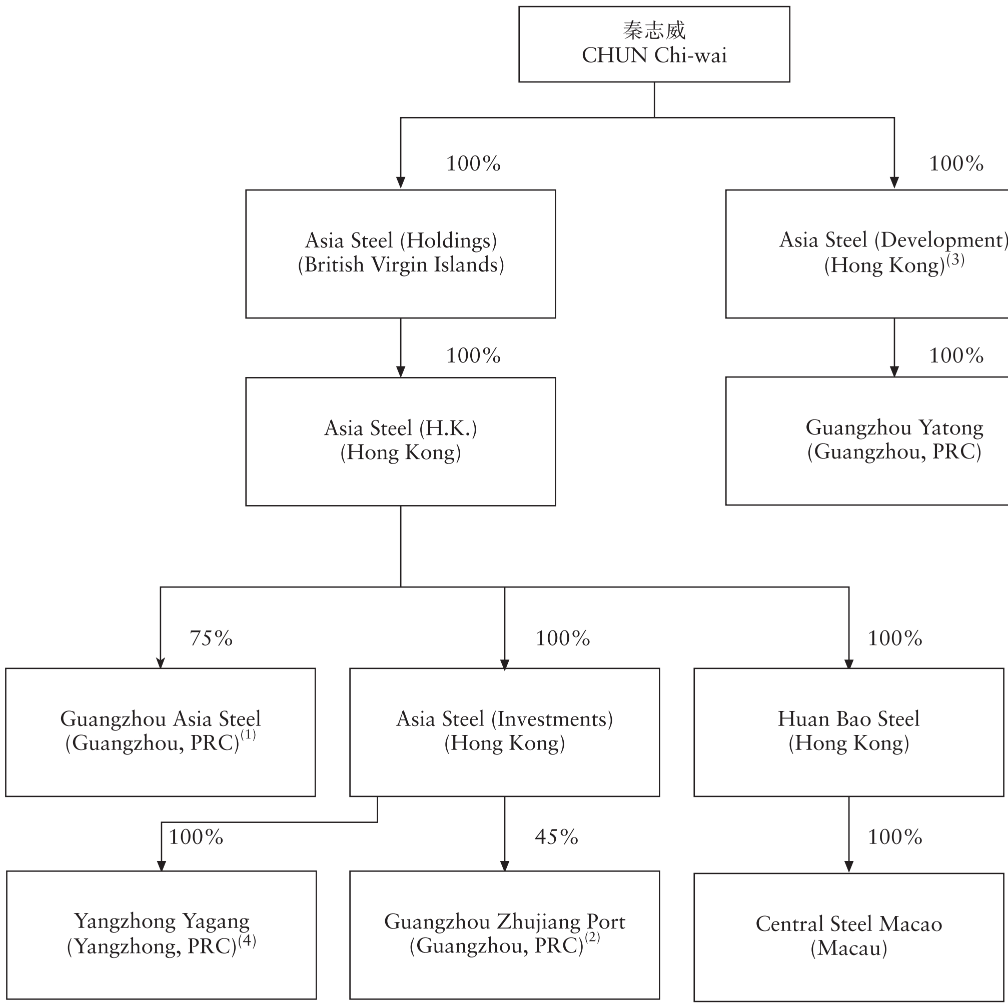
Asia Huan Bao held 55% interest in Asia Wing Tat, a company incorporated in Hong Kong. During the Track Record Period, Asia Wing Tat was principally engaged in the trading of scrap metals, and it has ceased its operation and became inactive after we disposed of our interest in Asia Huan Bao. Longmen had no active business during the Track Record Period. As Asia Huan Bao, Asia Wing Tat and Longmen had insignificant profit contribution to our Group during the Track Record Period, Asia Huan Bao (being the holding company of Asia Wing Tat) and Longmen were respectively disposed of to Mr. Chun Chi-wai and To Kee Holdings Limited (a company wholly owned by Mr. Tsui Cham To ("Mr. Tsui") in December 2006 and June 2007, respectively as part of the Reorganisation.

During the Track Record Period, Mr. Tsui was (i) a business partner of Mr. Chun Chi-wai, (ii) a shareholder of Huan Bao Steel holding approximately 0.01% interest in Huan Bao Steel which was subsequently transferred to Asia Steel (H.K.) on 5 August 2005 and (iii) a shareholder of Asia Steel (Holdings) holding 48% interest in Asia Steel (Holdings) which was subsequently transferred to Mr. Chun Chi-wai on 29 June 2007. Prior to leaving our Group, Mr. Tsui held various non-executive directorships in Guangzhou Asia Steel, Yangzhong Yagang, Central Steel Macau, Huan Bao Steel and Guangzhou Zhujiang Port. Mr. Tsui ceased all such directorships in August 2007 and did not hold any executive positions in our Group during the Track Record Period.

There were no material disputes between us and our joint venture partners or minority shareholders or early termination of any cooperation agreements during the Track Record Period.

CORPORATE STRUCTURE PRIOR TO REORGANISATION

The following chart shows our corporate structure as it existed immediately prior to the Reorganisation:



(1) The other 25% equity interest in Guangzhou Asia Steel is owned by GZSL, and is considered our connected person by reason of its substantial shareholding in Guangzhou Asia Steel.

(2) The other 55% equity interest in Guangzhou Zhujiang Port is owned by GZS, which has a 45% equity interest, and Guangzhou Iron and Steel Co., Ltd., which has a 10% equity interest.

(3) Subsequent to the Reorganisation, Asia Steel (Development) acquired a 75% equity interest in Tianjin Yatong in November 2007 and a further 15.385% equity interest in Tianjin Yatong in September 2008. It also established a wholly owned subsidiary, Zhongshan Yatong, in September 2008 and a 70% owned subsidiary, Wuhan Yagang in November 2008.

(4) Subsequent to the Reorganisation, Yangzhong Yagang acquired a 70% equity interest in Zhangjiagang Rongli in January 2008 and established a wholly owned subsidiary, Ningbo Yagang, in September 2008.

REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for the [●]. The principal steps involved in the Reorganisation are summarised below:

(a) On 18 July 2007, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 3,800,000 shares with the par value of HK$0.10. On 18 July 2007, one subscriber share with the par value of HK$0.10 was transferred to Mr. Chun Chi-wai.

(b) On 30 September 2007, Asia Steel (Holdings) allotted and issued 100 shares with the par value of US$1.00 each to Mr. Chun Chi-wai in full and final settlement of the indebtedness in the amount of HK$78,000,000 due from Asia Steel (Holdings) to Mr. Chun Chi-wai.

(c) On 30 September 2007, our Company acquired 200 shares with a par value of US$1.00 each, representing the entire issued share capital of Asia Steel (Holdings), from Mr. Chun Chi-wai. In consideration of such acquisition, our Company allotted and issued 99 shares with the par value of HK$0.10 each, credited as fully paid, to Wellrun as directed by Mr. Chun Chi-wai and credited one nil-paid share with the par value of HK$0.10 held by Mr. Chun Chi-wai as fully-paid share with par value of HK$0.10. On the same day, Mr. Chun Chi-wai transferred one share with the par value of HK$0.10 to Wellrun at par.

(d) On 30 September 2007, Asia Steel (H.K.) allotted and issued 100,000 shares of HK$1.00 each to Asia Steel (Holdings) at the direction of Mr. Chun Chi-wai as consideration for the acquisition of the entire issued share capital of Asia Steel (Development) by Asia Steel (H.K.).

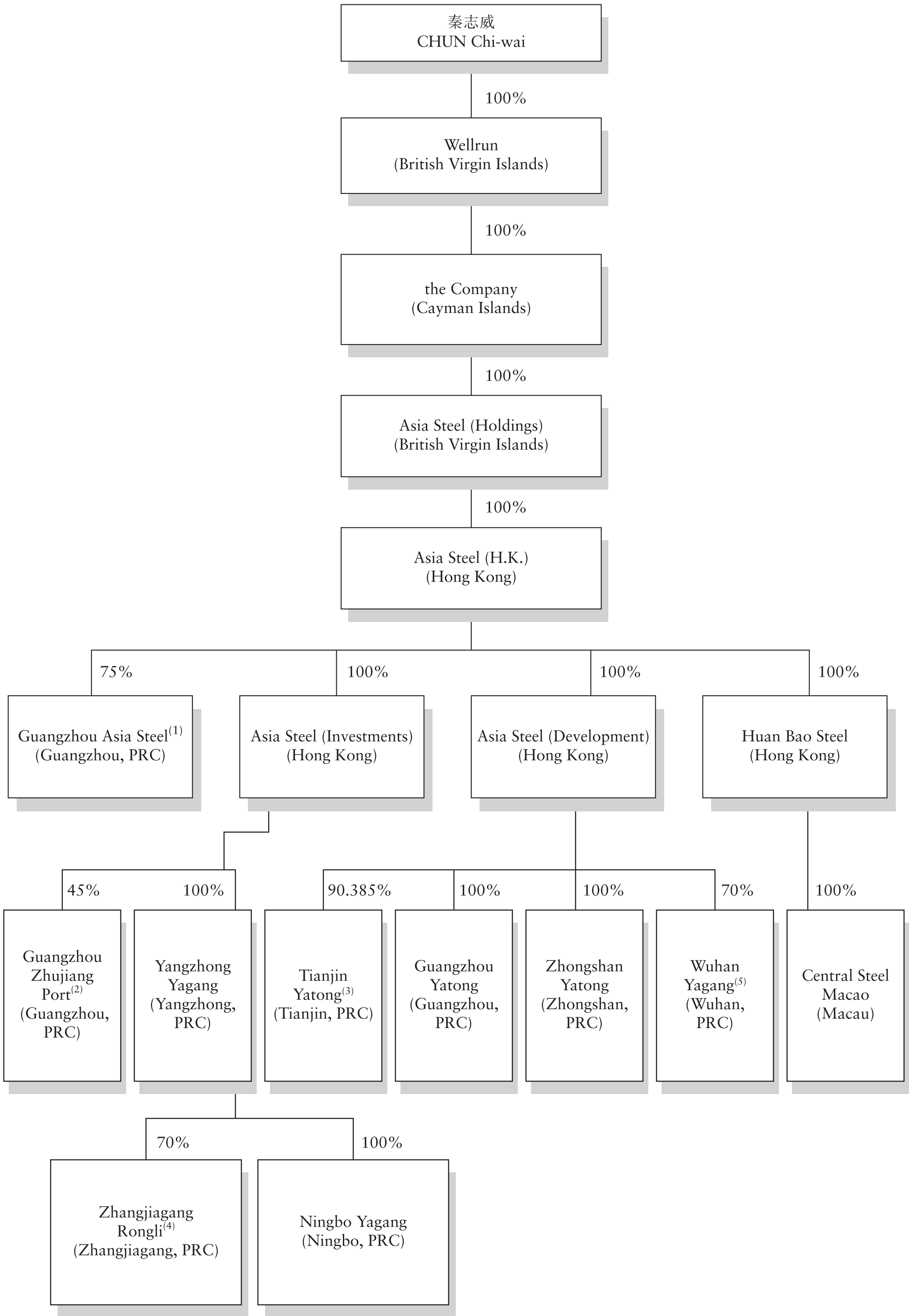
(e) On 23 October 2007, every issued and unissued share of HK$0.10 each in the capital of our Company was sub-divided into 1,000 shares of HK$0.0001 each such that the authorised share capital of our Company became HK$380,000 divided into 3,800,000,000 shares with the par value of HK$0.0001 each and the issued share capital of our Company became HK$10 divided into 100,000 shares with the par value of HK$0.0001 each.

(f) On 1 February 2008, our Company allotted and issued one share of HK$0.0001 credited as fully paid to Wellrun for a cash consideration of US$30,000,000.

(g) On 22 May 2009, the authorised share capital of our Company was further increased to HK$1,000,000 divided into 10,000,000,000 Shares.

Subsequent to the Reorganisation, Asia Steel (Development) acquired a 75% equity interest in Tianjin Yatong in November 2007 and a further 15.385% equity interest in Tianjin Yatong in September 2008. See the section headed "History and Development — History and Development." It established a wholly owned subsidiary, Zhongshan Yatong, in September 2008 and a 70% owned subsidiary, Wuhan Yagang in November 2008. In addition, Yangzhong Yagang acquired a 70% equity interest in Zhangjiagang Rongli in January 2008 and established a wholly owned subsidiary, Ningbo Yagang, in September 2008.

Upon completion of the Reorganisation, our Company became the holding company of our Group. The following chart sets out the structure of our Group immediately after the Reorganisation, acquisition of 90.385% equity interest in Tianjin Yatong, acquisition of 70% equity interest in Zhangjiagang Rongli and the establishment of Zhongshan Yatong, Wuhan Yagang and Ningbo Yagang:



(1) The other 25% equity interest in Guangzhou Asia Steel is owned by GZSL and is considered our connected person by reason of its substantial shareholding in Guangzhou Asia Steel.

(2) The other 55% equity interest in Guangzhou Zhujiang Port is owned by GZS, which has a 45% equity interest, and Guangzhou Iron and Steel Co., Ltd., which has a 10% equity interest.

(3) The other 9.615% equity interest in Tianjin Yatong is owned by Lester Metal, Inc., an independent third party except for its equity investment in Tianjin Yatong.

(4) Of the remaining 30% equity interest in Zhangjiagang Rongli, 25% is owned by Mr. Wu Yue-xing, a Director of Zhangjiagang Rongli, 2.5% by Ms. Xiang Man-qin, an employee of Zhangjiagang Rongli, and 2.5% by Mr. Li Dong-hui, a director of Zhangjiagang Rongli.

(5) The other 30% equity interest in Wuhan Yagang is owned by Wuhan Jin Huan which is an independent third party except for its equity investment in Wuhan Yagang and is considered our connected person by reason of its substantial shareholding in Wuhan Yagang.

As referred to in the paragraph headed "History and Development" above, subsequent to the Reorganisation, Asia Steel (Development) acquired a 75% equity interest in Tianjin Yatong in November 2007 and a further 15.385% equity interest in Tianjin Yatong in September 2008. It established a wholly owned subsidiary, Zhongshan Yatong, in September 2008 and a 70% owned subsidiary, Wuhan Yagang in November 2008.In addition, Yangzhong Yagang acquired a 70% equity interest in Zhangjiagang Rongli in January 2008 and established a wholly owned subsidiary, Ningbo Yagang, in September 2008.

ISSUE OF THE SENIOR NOTES AND THE EXCHANGEABLE NOTES

Senior Notes and Listco Warrants

We issued US$80.0 million aggregate principal amount of Senior Notes in October 2007 to a group of institutional investors.

The following table shows the names of the holders of the Senior Notes, the respective principal amount and percentage of the Senior Notes and the number of Listco Warrants held by them:

Name of the Holders	Principal Amount of the Senior Notes (US$)	Percentage held by purchasers of Senior Notes	Number of Listco Warrants
UBS Limited	25,000,000	31.25%	50
Spinnaker Global Emerging Markets Fund Ltd.	14,000,000	17.50%	28
Spinnaker Global Opportunity Fund Ltd.	9,000,000	11.25%	18
Spinnaker Global Strategic Fund Ltd.	12,000,000	15.00%	24
The ADM Maculus Fund III L.P.	20,000,000	25.00%	40
Total	80,000,000	100.00%	160

The Senior Notes bear coupon interest at 8.5% per annum, payable semi-annually in arrears. The Senior Notes are secured by substantially all of our assets outside of the PRC and a pledge of our Shares and the shares of our subsidiaries. The Senior Notes are also guaranteed by certain of our subsidiaries. Under the terms of the indenture governing the Senior Notes, we are required to redeem the Senior Notes in cash on 23 October 2009, being the maturity date of the Senior Notes, or upon [●], whichever is earlier. In the event that the Senior Notes are redeemed between interest payment dates, which are 23 April and 23 October of each year, we are required to pay the principal amount of the Senior Notes together with accrued and unpaid coupon interest to the next interest payment date.

In connection with the issuance of the Senior Notes, we also issued 160 Listco Warrants to the purchasers of the Senior Notes. These Listco Warrants were issued in consideration of the purchase of the Senior Notes by the purchasers of the Senior Notes. The Listco Warrants are exercisable only upon a primary public offering of the Shares on an internationally recognised stock exchange acceptable to the holders of the Senior Notes, which includes the Stock Exchange. The Listco Warrants may be transferred by the holders thereof in accordance with the terms of the Listco Warrants. Additional information regarding the procedures for transfer of the Listco Warrants is set forth in Appendix VIII to this document.

At the election of each holder of the Listco Warrants (which election must be made between the date of the Offering Notice given by us up to the [●]), the Shares issuable upon exercise of such Listco Warrants may be either (i) physically settled, in which case such Shares will be issued to such holder at the time of [●] and the physical Shares will be delivered to such holder no later than 10 days after the date of exercise, or (ii) cash settled. Listco Warrantholders may physically settle a portion of their Listco Warrant and cash settle the remaining portion.

The holders of the Senior Notes are entitled to information rights to receive the financial statements of our Group, and such rights will be extinguished upon the [●] when the amount under the Senior Notes are fully repaid.

Exchangeable Notes

On 1 February 2008, Wellrun, which is wholly owned by Mr. Chun Chi-wai, issued the Exchangeable Notes in the aggregate principal amount of US$30.0 million.

The following table shows the names of the holders of the Exchangeable Notes, the respective principal amount and percentage of the Exchangeable Notes held by them:

Name of the Holders	Principal Amount of the Exchangeable Notes (US$)	Percentage held by holders of Exchangeable Notes
Spinnaker Global Emerging Markets Fund Ltd.	6,000,000	20.0%
Spinnaker Global Opportunity Fund Ltd.	3,750,000	12.5%
Spinnaker Global Strategic Fund Ltd.	5,250,000	17.5%
The ADM Maculus Fund III L.P.	15,000,000	50.0%
Total	30,000,000	100.0%

Wellrun currently owns all of our issued Shares. The Exchangeable Notes, which do not bear coupon interest, are exchangeable into Shares owned by Wellrun. As a result, the Exchangeable Notes will not result in the issuance of additional Shares by us and, accordingly, will not have a dilutive effect on our shareholders. Wellrun contributed the net proceeds it received from the sale of the Exchangeable Notes to us as a capital contribution.

The proceeds from the issue of the Exchangeable Notes were principally applied towards financing the activities of our Company, and used by members of our Group for the acquisition of fixed assets including land and machinery. The Exchangeable Notes are secured by all of Wellrun's assets and all of its issued share capital. The collateral securing the Exchangeable Notes will be released when the Exchangeable Notes are exchanged for Shares upon the [●] and/or all the secured liabilities under the Exchangeable Notes have been paid and discharged in full. The Exchangeable Notes are transferable.

Wellrun is required to exchange Shares held by it for the Exchangeable Notes upon the occurrence of an equity offering by us that results in aggregate proceeds to us at least equal to the aggregate outstanding principal amount of the Exchangeable Notes at the time, together with accrued interest and the premium payable, if any, with respect to such Exchangeable Notes.

Wellrun is required to redeem all of the Exchangeable Notes in a redemption amount calculated to yield an internal rate of return of 22.5% per year on the principal amount upon the earliest of (a) the second anniversary of the issuance date, which is 1 February 2010, (b) the date on which the holders of a majority of the aggregate principal amount of the Exchangeable Notes then outstanding give notice to Wellrun of an event of default under the Exchangeable Notes (except for certain events of default involving the bankruptcy, winding up or dissolution of Wellrun or its subsidiaries, in which case no notice is required), and (c) the date on which an equity offering is consummated if the SFC or Hong Kong Exchanges and Clearing Limited, in connection with a review of an equity offering by us, disallows the delivery by Wellrun of such Shares in accordance with the terms of the Exchangeable Notes or requires any material change to the terms of the Exchangeable Notes that are not accepted by the noteholders. The Exchangeable Noteholders are not entitled to request Wellrun to redeem the Exchangeable Notes except the above circumstances, and Wellrun has not received any notice from the Exchangeable Noteholders regarding redemption of the Exchangeable Notes before [●].

From and after 1 February 2009, Wellrun may elect to redeem all but not less than all the Exchangeable Notes for a redemption price calculated to yield an internal rate of return of 22.5% per year on the principal amount of the Exchangeable Notes.

In the event that Wellrun elects or is required to redeem the Exchangeable Notes, Wellrun's sole shareholder, Mr. Chun Chi-wai, shall fund the cash requirement for such redemption.

If the initial holder of Shares to be issued pursuant to the terms of the Exchangeable Notes proposes to sell any Shares at any time earlier than the expiration of six months after [●] to any person, Wellrun shall have, subject to the rules and regulations of any stock exchange on which the Shares are listed, a right of first refusal with respect to such sale of Shares. Such right will extinguish if the holders of the Exchangeable Notes are subject to the six-month lock-up period. The holders of the

Exchangeable Notes have agreed that they will not sell or otherwise dispose of any of Shares which are acquired in exchange for Exchangeable Notes during the six-month period after [●]. Wellrun agreed to release the holders of the exchangeable notes from the right of first refusal in connection with the agreement by such holders not to sell or otherwise dispose of their Shares during such six-month period. The Shares so issued will be counted as part of the public float.

As long as the Exchangeable Notes are outstanding, Wellrun is subject to additional conditions and obligations which may affect us or our subsidiaries, including the following:

➢ Wellrun is required to provide the noteholders with our audited and unaudited financial statements; and

➢ Wellrun will not, and will not permit any of our subsidiaries to, create or permit to subsist any lien (other than liens permitted under the terms of the Exchangeable Notes) upon the property, assets or revenues of Wellrun or such subsidiary, to secure for the benefit of the holders of any indebtedness any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such indebtedness, unless, in any such case, at the same time or prior thereto, either (a) the same lien is granted to the holders of the Exchangeable Notes or (b) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Exchangeable Notes or as shall be approved by the holders of a majority of the principal amount of the Exchangeable Notes.

These provisions, including the right to receive audited and unaudited financial statements, will terminate in connection with the [●] and the exchange of the Exchangeable Notes for Shares or the redemption of the Exchangeable Notes in full. Please refer to Appendix VIII to this document for further details in relation to the Senior Notes and the Exchangeable Notes.

Brief description of the holders of Senior Notes/Listco Warrantholders and/or holders of Exchangeable Notes

(a) UBS Limited

UBS is one of the world's leading financial firms. It has offices in 50 countries, and its financial businesses employ more than 75,000 people around the world. Its shares are listed on the SWX Swiss Exchange (SWX), the New York Stock Exchange (NYSE) and the Tokyo Stock Exchange (TSE). UBS Limited is a wholly owned subsidiary of UBS AG registered in the United Kingdom.

(b) Spinnaker Global Emerging Markets Fund Ltd., Spinnaker Global Opportunity Fund Ltd. and Spinnaker Global Strategic Fund Ltd.

Spinnaker Global Emerging Markets Fund Ltd., Spinnaker Global Opportunity Fund Ltd. and Spinnaker Global Strategic Fund Ltd. (collectively, the "Spinnaker Funds") are each incorporated in the British Virgin Islands, and HSBC Custody Services (Guernsey) Ltd. acts as the custodian and agent for the Spinnaker Funds under the Senior Notes, Listco Warrants and Exchangeable Notes.

Spinnaker Capital Group's principal business is emerging markets investment management. Its funds invest in sovereign and corporate securities and related products in emerging markets.

The Spinnaker Funds are co-managed by Spinnaker Capital Limited, which is based in London and regulated by the Financial Services Authority in the UK, and Spinnaker Asset Management, which is based in Sao Paulo and authorised by the Comissao de Valores Mobiliarios in Brazil.

The Spinnaker Funds are owned by institutional investors including university endowments, charitable trusts, pension funds, sovereign wealth funds, and investment banks.

(c) The ADM Maculus Fund III L.P.

The ADM Maculus Fund III L.P. ("ADM") is a fund established under the laws of the Cayman Islands, which has been mainly making special situations investments primarily in Asia and Europe since its inception in October 2006. ADM is a closed-end fund administered by Bank of Bermuda (Cayman) Limited (through its agent HSBC Institutional Trust Services (Asia) Limited). ADM has engaged Asia Debt Management Hong Kong Limited to provide certain limited discretionary asset management services. Asia Debt Management Hong Kong Limited is established under Hong Kong law and regulated by the SFC. The shareholders of ADM Maculus Fund III L.P. comprise university endowments, international institutional investors, international funds of funds, and international private banks/family offices.

UBS Limited, the Spinnaker Funds and ADM are functionally and operationally independent of the Group and each other, although UBS Limited is a wholly owned subsidiary of UBS AG.

OVERVIEW

We are the largest scrap metal recycling company in China based on our revenue of HK$6.5 billion for the year ended 31 December 2008, according to a survey conducted by the China Association of Metal Scrap Utilization, or CAMU, among its members.* We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual labour to separate the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. Our products are used by metal manufacturers in China in the production of new crude steel and other non-ferrous metals. These materials, in turn, are used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

We have recycling facilities in key metal producing regions in China with high demand for recycled scrap metal. Our current recycling facilities are located in Guangdong Province, Jiangsu Province and Hong Kong, with a total designed annual production capacity of approximately 1.6 million metric tons. We are in the process of establishing new recycling facilities in Tianjin, Zhejiang Province and Jiangsu Province, which we expect to complete by the end of the third quarter of 2009. These facilities are expected to almost double our designed annual production capacity to approximately 3.1 million metric tons. In addition, in 2010 we plan to open a new recycling facility in Hubei Province in central China with a designed annual production capacity of approximately 0.5 million metric tons. We expect to incur capital expenditures of approximately HK$134.0 million in 2009 primarily in connection with the establishment of these new facilities. By establishing a network of operations in multiple key metal producing regions in China, we are able to efficiently allocate resources and capitalise on pricing differences between regions for raw materials and recycled scrap metal. Our facilities also have convenient access to waterways, which provide a low cost and efficient means of transportation for both raw materials and recycled scrap metal.

China has experienced significant growth in the consumption of steel in the past few years due to China's rapid development and industrialisation. From 2003 to 2007, consumption of steel in China grew at a CAGR of 13.9%. Steel is produced by either refining iron ore in a blast furnace or melting recycled scrap steel in an electric arc furnace. The electric arc furnace process uses scrap steel as the primary raw material for the production of new crude steel. The blast furnace process uses iron ore as the primary raw material for production, and uses scrap steel to cool the molten metal to add efficiency to the production process. The electric arc furnace process has significant advantages over the blast furnace process, including consuming less energy, creating less pollution and reducing demands on natural resources by using recycled scrap as the principal raw material. According to CAMU, the electric arc furnace process consumes approximately 60% less energy and

* Information regarding our ranking in the metal recycling industry in China is based on a confirmation from CAMU. CAMU members include large scrap steel recycling companies and other enterprises engaged in metal recycling in the PRC. CAMU regularly conducts surveys among its members in which members provide data on volume, sales and other operating information requested by CAMU. To our Directors' knowledge, no other industry statistics with respect to ranking in the PRC metal recycling industry are available. Our Chairman, Chief Executive Officer and Controlling Shareholder, Mr. Chun Chi-wai, is a standing committee member of CAMU, but he was not involved in compiling the ranking confirmation by CAMU.

approximately 40% less water and discharges approximately 97% less waste. Due to these benefits, there has been a trend towards electric arc furnace steelmaking, and in 2005 the PRC Government adopted a Steel Policy which has as one of its principal goals an increase in the role of scrap steel in the production of steel in China. We believe these factors create strong growth opportunities in our industry.

China has also experienced significant growth in the consumption of copper and other non-ferrous metal in the last few years. From 2004 to 2007, consumption of copper and other non-ferrous metal in China grew at a CAGR of 20.4%. However, copper resources are in relatively short supply in China, with domestic copper ore resources characterised by small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs. As a result, we expect demand for secondary copper, which are concentrates produced from scrap copper, in China to strengthen over time. Our production facilities are located in areas with significant demand for scrap copper and other non-ferrous scrap metal, including the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the "2008 Report for China's Copper Market" by CBI China, approximately 75.6% of China's total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our principal suppliers include private enterprises in the PRC engaged in the business of collecting unprocessed scrap metal and foreign scrap metal collection companies. We produce quality recycled scrap metal products that have the metal content, size and shape to meet customer specifications and market demand. Our customers are primarily large steel and copper manufacturers in the PRC, both private enterprises and state-owned entities, and scrap metal resellers. During the Track Record Period, our business relied to a significant extent on a limited number of major customers and suppliers. However, we have successfully expanded both our customer and supplier bases in recent periods to lessen our reliance on major customers and suppliers. For example, the number of major customers increased from one in 2005 to 16 in 2008, and the number of major raw material suppliers increased from three in 2005 to 21 in 2008. For the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively, and purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6% of our total purchases of raw materials, respectively.

We generated revenue of HK$1,090.3 million, HK$1,942.4 million and HK$6,526.6 million, respectively, in 2006, 2007 and 2008, representing a CAGR of 144.7%. The increase in revenue from 2006 to 2007 was primarily due to an increase in sales volume of non-ferrous metal and an increase in the average sales price per metric ton of our products. Sales of scrap copper and other non-ferrous scrap metal increased from approximately 56.0% of our total revenue in 2006 to approximately 64.9% of our total revenue in 2008. The results for the year ended 31 December 2008 reflect our acquisition of Zhangjiagang Rongli in January 2008, the opening of new production facilities in Guangzhou and Tianjin in 2008 and increased sales to external customers by our Macau subsidiary in 2008.

We have also significantly enhanced our profitability during the Track Record Period, generating a profit for the year of HK$95.4 million, HK$178.7 million and HK$307.9 million in 2006, 2007 and 2008, respectively, representing a CAGR of 79.7%. Our gross margin was 10.9%, 12.4% and 7.6% in 2006, 2007 and 2008, respectively. The decrease in our gross margin in 2008 was primarily due to the acquisition of Zhangjiagang Rongli, which has historically had a lower gross margin than the Group due to the relatively small size of its production facility. With limited operating space, Zhangjiagang Rongli's operations in 2008 were primarily focused on collecting scrap metal that required limited processing, like simple separation and cutting, which resulted in lower value being added in the recycling process and therefore lower gross margins. In December 2008, we relocated Zhangjiagang Rongli's operations to a larger facility with a view to improving its operating efficiency and operating results. Separate financial information for Zhangjiagang Rongli for the period ended 31 December 2007 is included in Appendix II to this document.

The recent disruptions in the credit markets have not had a significant impact on the financing of our operations, which we have financed primarily through cash generated from operations and existing cash and bank balances, including proceeds from the Senior Notes we issued in October 2007, capital contributions from our Controlling Shareholder and, to a lesser extent, bank borrowings. As of 31 December 2008, approximately 21.1% of our total assets was financed by bank borrowings and discounted bills. As of the Latest Practicable Date, the Directors confirmed that we had not received demands for repayment of any outstanding indebtedness prior to its stated maturity, nor had we experienced disruptions in the availability of financing on satisfactory terms under our existing credit facilities.

The recent downturn in the United States and other major economies, and the slowing growth in the PRC, has had a significant impact on commodity prices, including the prices of steel, copper and other metals. This has resulted in a decrease in the price of both the raw materials we purchase and the recycled scrap metal products we sell. For example, the price of scrap steel in the PRC decreased from RMB4,000 per metric ton in July 2008 to RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. Our exposure to fluctuations in metal prices is primarily the risk of price changes between the time we commit purchase orders with suppliers and the time we confirm sales with customers. Our results for 2008 were adversely affected in part by the rapid decline in metal prices in the second half of the year. In response to the decline in metal prices, we adopted tighter inventory management policies to reduce the time between the purchase of raw materials and sales to our customers. We shortened our average inventory turnover days from 15 days for the six months ended 30 June 2008 to 12 days for the year ended 31 December 2008 through improved coordination amongst our purchasing, production and sales functions. Approximately 97.1% of our inventory as of 31 December 2008 had been sold to customers by 31 March 2009. As of the Latest Practicable Date, we had not experienced a significant pileup of inventory.

Since the onset of the global financial crisis, there has been a general tightening of credit with customers and suppliers, and we as well as our suppliers have been placing greater emphasis on timely collection of receivables. Our turnover days of average trade receivables and bills receivable increased slightly from 47 days for the six months ended 30 June 2008 to 52 days for the year ended 31 December 2008, while our turnover days of average trade payables decreased from 19 days for the six months ended 30 June 2008 to 14 days for the year ended 31 December 2008. However, our working capital turnover days have been relatively stable during this period, increasing slightly from 43 days for the six months ended 30 June 2008 to 50 days for the year ended 31 December 2008. As a result, the Directors believe there has been no significant impact on our cash flow position since 30 June 2008.

Although metal prices have declined, demand for our recycled scrap metal products has remained relatively stable as of the Latest Practicable Date. Our Directors believe this is due to the sharper decrease in the cost of scrap steel compared to the cost of iron ore since the middle of 2008, which encourages the use of scrap steel in steel production, as well as a general trend towards electric arc furnace steelmaking in the PRC. The Directors expect demand for recycled scrap metal in the PRC to continue to be relatively stable over the next few quarters as a result of continued economic growth in the PRC, the recently announced stimulus measures in the PRC and the trend towards electric arc furnace steelmaking. Accordingly, the Directors do not expect the recent disruptions in the credit markets, the economic downturns or the declines in metal prices to have a significant impact on our expansion plans. Nevertheless, we intend to monitor these developments and their impact on our industry and business, and adjust our expansion plans to the extent we believe it to be appropriate. We cannot assure you that developments in the financial markets, the downturn in the United States or other major economies or the slowdown in the PRC economy will not have a material adverse effect on our business, financial condition or results of operations.

COMPETITIVE STRENGTHS

We are the largest scrap metal recycling company in China, based on revenue for 2008 according to CAMU, and have broad geographic coverage

The scrap metal recycling industry in China is highly fragmented and there are only a few large-scale competitors. We believe our large size gives us competitive advantages in our industry, including the ability to:

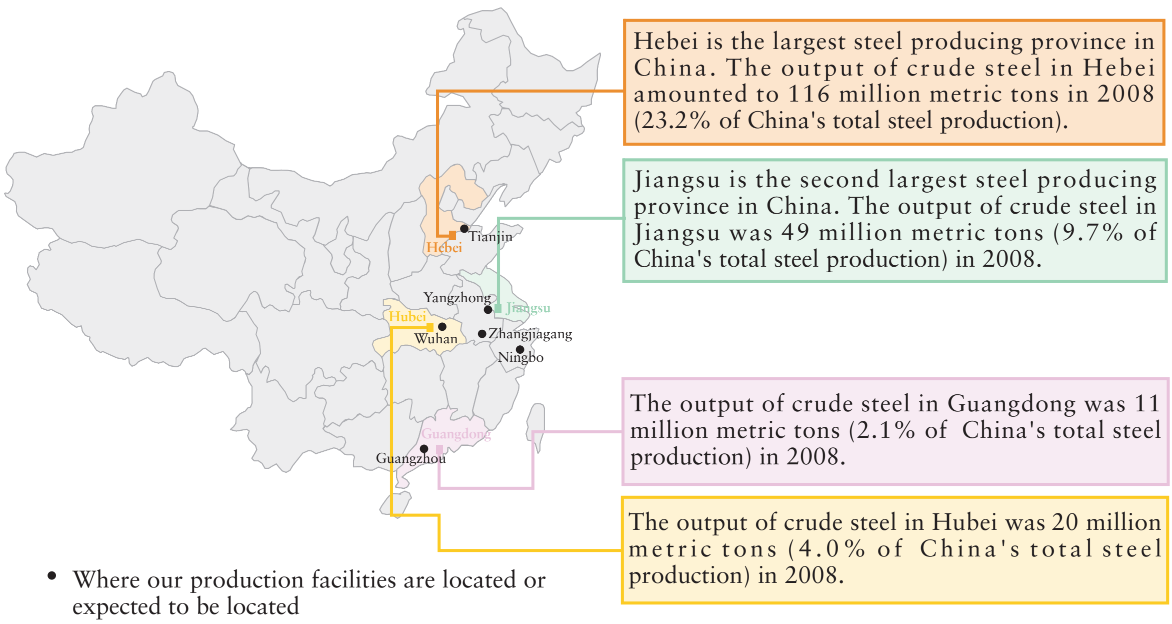
- ➢ attract quality customers that require high volumes and a reliable source of recycled scrap metal;
- ➢ negotiate favourable terms with suppliers of raw materials and customers;
- ➢ invest in advanced equipment to improve our operating efficiency and our profitability;
- ➢ utilise our financial resources, geographic diversity and industry expertise to effectively consolidate smaller metal recycling companies; and
- ➢ enjoy economies of scale.

In addition, our broad geographic coverage allows us to better allocate our resources and leverage our purchasing and sales networks to take advantage of differences between regions in the prices for raw materials and demand for recycled scrap metal.

Our production facilities are strategically located in areas with high demand for recycled scrap metal, strong supply of raw materials and convenient access to water transportation

Currently, our principal production facilities are located in Guangzhou, Zhangjiagang and Hong Kong, supplying products to meet high demand for recycled scrap metal from large PRC steel and non-ferrous metal manufacturers. We are in the process of opening additional production facilities in Ningbo, Yangzhong and Tianjin which we expect to complete by the end of the third quarter of 2009, with a total designed annual production capacity of approximately 1.5 million metric tons.

We also plan to open an additional production facility in Wuhan in Hubei Province in 2010. These new production facilities, like our existing production facilities in Guangzhou and Zhangjiagang, will be strategically located in areas where demand for scrap metal is high and there is a strong supply of raw materials. Our current and future production facilities are illustrated in the map below:



Source: The Information Center of Metallurgical Industry of PRC Information Department

Our production facilities are also located in areas with high demand for recycled scrap non-ferrous metal. According to the "2008 Report for China's Copper Market" by CBI China, the production of secondary copper in the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta accounted for approximately 75.6% of China's total production of secondary copper in 2008. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

Our production facilities have convenient access to waterways, which are an important means of transportation for both raw materials and recycled scrap metal. Our Guangzhou Asia Steel facility is located adjacent to a pier which has two berths, each capable of accommodating ocean-going vessels of up to 5,000 dwt. We also plan to build a pier with two berths next to our planned Yangzhong production facility, with each berth capable of accommodating ocean-going vessels of up to 50,000 dwt. We expect to complete construction of the Yangzhong pier in 2010.

We have a strong profile of quality customers and an expanding procurement network

Large metal manufacturers in China generally prefer to purchase from sizable scrap metal providers like us to ensure a stable long-term supply of quality recycled scrap metal. After years of operation, we have established a strong profile of quality customers, including three out of the four largest steel manufacturers in Guangdong Province. These customers are in close proximity to our production facilities in Guangzhou, which enables us to deliver our products to them promptly and also lowers our transportation costs.

Prior to 2006, we sold recycled scrap metal primarily to Guangzhou Zhujiang Steel Co., Ltd. (廣州珠江鋼鐵有限責任公司) (GZS). In recent years, we have expanded our customer base to include a number of other large metal manufacturers in the PRC, including Guangzhou Iron and Steel Corporation Ltd. (廣州鋼鐵股份有限公司), Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) and Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司), each a state-owned enterprise, and Lianzhong Stainless Steel Corporation (聯眾(廣州)不銹鋼有限公司), a private enterprise. We began selling our products to Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司), the purchasing division of Jiangsu Shagang Group Co., Ltd. (江蘇沙鋼集團有限公司), in the Jiangsu Province in 2007. In addition, our acquisition of Zhangjiagang Rongli in 2008 has provided us access to two of the largest steel manufacturers in the Zhangjiagang area, Jiangyin Xingcheng Special Steel Co., Ltd. (江陰興澄特種鋼鐵有限公司), and Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司).

We have also established a strong procurement network. Our principal suppliers include private enterprises in the PRC that are in the business of collecting scrap metal, as well as overseas suppliers in the United States, Europe, Australia, Japan, Hong Kong and Taiwan. We have entered into a number of five-year contracts with our major suppliers in the PRC whereby the suppliers have agreed to supply at least 17,000 metric tons of unprocessed scrap metal to our Guangzhou Asia Steel production facility each month. These long-term contracts allow us to secure a stable supply of price competitive raw materials. We also have a collection center in Hong Kong which supplied approximately 5,800 metric tons of scrap metal per month to our Guangzhou Asia Steel facility in 2008.

We are an efficient recycled scrap metal producer and utilise advanced equipment to produce quality scrap metal products

We produce quality recycled scrap metal using both heavy equipment and manual labour. We believe we are among the most automated scrap metal recycling companies in China. Our total capital investments in equipment and machinery during the Track Record Period amounted to approximately HK$38.0 million. In 2007, we were the only metal recycling company selected by the China Association of Metal Scrap Utilization as the Role Model to develop large-scale and automated steel recycling operations in southern China. This selection was based on a variety of criteria, including scale and efficiency of operations, service quality, integrity, quality management, environmental protection and industrial safety.

We use an automated shredder and metal separation system at our Guangzhou Asia Steel facility. The shredder and metal separation system are capable of processing 80 to 120 metric tons of scrap metal per hour and are able to separate non-ferrous metal efficiently and effectively. We believe such automated heavy equipment has significantly enhanced our operating efficiency and increased our production capacities, enabling us to keep pace with rising demand for recycled metal in recent years. We plan to install similar equipment at our planned Ningbo and Wuhan facilities.

In addition, the pier next to our Guangzhou Asia Steel production facility, which is operated through our 45%-owned affiliate, Guangzhou Zhujiang Port, helps lower our logistics costs and enhance our operating efficiency. We also plan to build a pier next to our planned Yangzhong production facility.

We have an experienced and dedicated senior management team

We have an experienced and dedicated senior management team which includes our founder, Mr. Chun Chi-wai, Mr. Wong Hok-leung, our Chief Financial Officer and deputy Chief Executive Officer, and Mr. Jiang Yan-zhang, our Chief Operating Officer, as well as Mr. Wu Yue-xing, Director of Zhangjiagang Rongli. Mr. Chun Chi-wai has over 15 years of experience in the metal recycling industry, and each of Mr. Jiang Yan-zhang and Mr. Wu Yue-xing has over 25 years of experience in the operation of metal production. Since our establishment in 2000, Mr. Chun Chi-wai has been leading us through the growth and expansion of our business. The other members of management of our principal production facilities also have extensive experience in metal recycling. Through our management's leadership and its efforts to continually enhance and streamline our production processes, we have become the largest scrap metal recycling company in China based on revenue in 2008, according to CAMU. The majority of our senior management team has been serving us or our subsidiaries since our establishment.

BUSINESS STRATEGIES

Our goal is to maximise shareholder value and enhance our market position in the scrap metal recycling industry in China. To achieve this, we plan to continue to capitalise on opportunities to leverage our competitive strengths and implement the following strategies:

Strengthen our leading position in southern China, and capitalise on our advanced equipment and experience to expand in northern, eastern and central China

To strengthen our leading position in southern China, we recently completed the construction of a new production facility adjacent to our Guangzhou Asia Steel production facility, with a designed annual production capacity of approximately 0.5 million metric tons. We are leveraging our experience in southern China to expand our presence into eastern, northern and central China.

By the end of the third quarter of 2009, we plan to complete new production facilities in Ningbo and Yangzhong, with a total designed annual production capacity of approximately 1.0 million metric tons, and in Tianjin, with a designed annual production capacity of approximately 0.5 million metric tons. We also plan to build a pier with two berths, each capable of accommodating vessels of up to 50,000 dwt, next to our planned production facility in Yangzhong. We expect to commence construction of the pier and complete it in 2010.

We have leveraged our leading position in southern China to expand our customer base, adding affiliates of Foshan Nanhai Chengqun Resources Recycling Co., Ltd. (佛山市南海區成群物資回收有限公司), a scrap metal reseller, Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) and Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司) as new customers in 2006, and Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司), the purchasing division of Jiangsu Shagang Group Co., Ltd. in the Yangtze River Delta region, as a new customer in 2007. We have also expanded our customer base through our acquisition of Zhangjiagang Rongli, adding Jiangyin Xingcheng Special Steel Co. Ltd. (江陰興澄特種鋼鐵有限公司) and Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司) as customers in 2008. We believe our recent customer additions and the acquisition of Zhangjiagang Rongli provide a strong customer base for our expansion.

We also intend to capitalise on our expertise to open a new production facility in 2010 in Wuhan, Hubei Province in central China, with a designed annual production capacity of approximately 0.5 million metric tons.

Enhance our operating efficiency by further investment in advanced equipment

We believe that the use of advanced equipment, such as the automated shredder and eddy current separator at our Guangzhou Asia Steel facility, has significantly increased our operating efficiency. We also believe it distinguishes us from many other scrap metal recycling companies which rely primarily on manual labour. We plan to continue to invest in advanced equipment to further increase our operating efficiency at our existing facilities and in connection with our expansion plans. For example, we plan on installing automated shredders with eddy current separators at our planned production facilities in Ningbo and Wuhan.

Expand our customer base and our supply network

We have historically focused our production on recycled scrap ferrous metal, and began producing recycled scrap non-ferrous metal in 2006 as a strategic decision to expand our product range and customer base. We intend to continue to expand our customer base by producing both recycled scrap ferrous metals and recycled scrap non-ferrous metal to capitalise on our increasing production capability and the relatively high prices of recycled scrap non-ferrous metal, and by expanding our sales activities as we grow our business. We also intend to expand our supplier network in northern, eastern and central China. We believe that an extensive supplier network will provide us with reliable quantities of raw materials and significant cost savings.

Further develop our management team and recruit and retain quality staff

We believe that our management and skilled workers are crucial to our long-term growth. We intend to actively recruit and hire additional qualified managerial staff and skilled workers in connection with our expansion into northern, eastern and central China. We also plan to utilise some of our experienced managers and engineers from our existing production facilities and offices to facilitate the establishment of our new production facilities. At the same time, we intend to continue to actively recruit qualified managerial staff and skilled workers for our existing operations to manage our growth. We also intend to implement our Share Option Schemes for qualified employees, and to enhance our current training and promotional opportunities in order to retain quality staff.

Expand our capacity or regional coverage through selective acquisitions

Our industry is highly fragmented, with many smaller metal recycling companies that may be unable to compete successfully and that may become potential acquisition targets. Although we have no specific acquisition targets as of the Latest Practicable Date, as a leader in the PRC scrap metal recycling industry, we intend to selectively pursue strategic acquisition opportunities which complement or enhance our business. We may pursue acquisition opportunities to, among other things, expand our capacity or regional coverage, expand our customer or supplier networks or for other strategic purposes.

OUR PRODUCTS AND BUSINESS ACTIVITIES

We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual labour to recycle scrap metal by separating the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our recycled scrap metal products include:

➢ **Recycled scrap ferrous metals:** mainly iron and steel; and
➢ **Recycled scrap non-ferrous metals:** mainly copper, aluminium and stainless steel.

In the early years of our operations, we focused on building up our production scale and improving our cash position. As such, our products were limited primarily to recycled scrap ferrous metals. As we gradually increased our production capacity and strengthened our cash position, we made a strategic decision in 2006 to increase production of recycled scrap non-ferrous metals such as copper, aluminium and stainless steel to diversify our product range.

The following table sets forth our sales volume and revenue for sales of recycled scrap ferrous and non-ferrous metal for each of the periods indicated:

	Year ended 31 December											
Product	2006				2007				2008			
	Sales Volume (metric tons)	%	Sales (HK$'000)	%	Sales Volume (metric tons)	%	Sales (HK$'000)	%	Sales Volume (metric tons)	%	Sales (HK$'000)	%
Ferrous metals	263,093	95.7	479,481	44.0	296,886	93.1	703,032	36.2	605,385	84.6	2,291,541	35.1
Non-ferrous metals	11,760	4.3	610,857	56.0	22,136	6.9	1,239,368	63.8	110,055	15.4	4,235,053	64.9
Total	274,853	100.0	1,090,338	100.0	319,022	100.0	1,942,400	100.0	715,440	100.0	6,526,594	100.0

Products

Recycled scrap ferrous metals

Recycled scrap ferrous metals, primarily iron and steel, are generally sold to steel manufacturers for further processing into steel products used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

The following table sets forth our main recycled scrap ferrous metal products:

Type of ferrous metal	Specifications [1]	
No. 1 heavy melting steel 	Wrought iron and/or steel scrap, 1/4 inch and over in thickness	Individual pieces not over: ➢ 60 x 24 inches ➢ 36 x 18 inches, or ➢ 60 x 18 inches
No. 2 heavy melting steel 	Wrought iron and steel scrap, black and galvanised, 1/8 inch or over in thickness	Maximum size: ➢ 36 x 18 inches, or ➢ 60 x 18 inches
Shredded scrap 	Homogeneous iron and steel scrap, magnetically separated, originating from automobiles, unprepared No. 1 and No. 2 steel, miscellaneous baling and sheet scrap	Average density of 50 or 70 pounds per cubic foot

(1) Specifications based on the Scrap Specifications Circular 2007 by the Institute of Scrap Recycling Industries, Inc.

Recycled scrap non-ferrous metals

Recycled scrap non-ferrous metals, primarily copper, aluminium and stainless steel, are sold to copper, aluminium and stainless steel manufacturers for further processing into copper, aluminium and stainless steel products to be used in the manufacture of construction materials, household appliances, wire and other products.

BUSINESS

The following table sets forth our main recycled scrap non-ferrous metal products:

Type of non-ferrous metal	Specifications [(1)]	
No. 1 copper		
Barley No. 1 copper wire 	No. 1 bare, uncoated, unalloyed copper wire, not smaller than No. 16 B&S wire gauge	Green copper wire and hydraulically compacted material subject to agreement
Berry No. 1 copper wire 	Clean, untinned, uncoated, unalloyed copper wire and cable, not smaller than No. 16 B&S wire gauge, free of burnt wire which is brittle	Hydraulically briquetted copper subject to agreement
Candy No. 1 heavy copper 	Clean, unalloyed, uncoated copper clippings, punchings, bus bars, commutator segments, and wire not less than 1/16 of an inch thick, free of burnt wire which is brittle; may include clean copper tubing	Hydraulically briquetted copper subject to agreement
No. 2 copper		
Birch No. 2 copper wire 	Miscellaneous, unalloyed copper wire having a nominal 96% copper content (minimum 94%)	Free of the following: excessively leaded, tinned, soldered copper wire; brass and bronze wire; excessive oil content, iron, and non-metallics; copper wire from burning, containing insulation; hair wire; burnt wire which is brittle; should be reasonably free of ash; hydraulically briquetted copper subject to agreement

Type of non-ferrous metal	Specifications [(1)]	
Cliff No. 2 copper 	Miscellaneous, unalloyed copper scrap having a nominal 96% copper content (minimum 94%)	Free of the following: excessively leaded, tinned, soldered copper scrap; brasses and bronzes; excessive oil content, iron, and non-metallics; copper tubing with other than copper connections or with sediment; copper wire from burning, containing insulation; hair wire; burnt wire which is brittle; and should be reasonably free of ash, hydraulically briquetted copper subject to agreement
Other Non-Ferrous Metal		
Zorba Shredded Non-ferrous Scrap (predominantly aluminium) 	Made up of a combination of the non-ferrous metals: aluminium, copper, lead, magnesium, stainless steel, nickel, tin and zinc, in elemental or alloyed (solid) form	Material generated by eddy current, air separation, flotation, screening, other segregation technique(s), or a combination thereof; free of radioactive material, dross, or ash; may be screened to permit description by specific size ranges
Sabot Stainless Steel Scrap 	Clean 18-8 type stainless steel clips and solids containing a minimum 7% nickel and 16% chrome	Particulars concerning physical description, grading, additional analysis and preparation subject to agreement

(1) Specifications based on the Scrap Specifications Circular 2007 by the Institute of Scrap Recycling Industries, Inc.

Production Facilities

The following table sets forth information about our existing and planned production facilities as of the Latest Practicable Date (unless otherwise indicated):

	Existing production facilities					Planned production facilities	
	Southern China			Eastern China	Northern China	Eastern China	Central China
Production facilities	Guangzhou Asia Steel	Guangzhou Yatong	Huan Bao Steel (Hong Kong)	Zhangjiagang Rongli	Tianjin Yatong	Yangzhong Yagang and Ningbo Yagang	Wuhan Yagang
Period operations commenced	April 2003	November 2007(1)	July 2005	January 2007(2)	June 2008(3)	third quarter 2009 (estimated)	2010 (estimated)
Approximate area (m^2)	52,000	34,500(4)	9,200	66,000	105,000	232,000	118,000
Approximate designed annual production capacity(5) (metric tons)	500,000	500,000	200,000	400,000	500,000	1,000,000	500,000
Number of employees(6)	117	32	11	22	7	3	—
Major equipment:	Installed	Installed	Installed	Installed	Planned	Planned	Planned
Shredders	1 (120 mts/hr)	—	—	—	—	1 (150 mts/hr)	1 (150 mts/hr)
Gantry cranes	2	2	—	—	2	4	2
Lifting cranes	3	—	1	—	—	5	—
Shears	5	15	1	10	15	10	5
Grapplers	10	5	4	3	10	10	5
Balers	2	—	1	2	2	2	2
Wire strippers	34	30	—	—	30	30	30
Actual production volume (metric tons)(7)	2006: 234,000 2007: 274,000 2008: 212,000	2007: 15,000 2008: 105,000	2006: 81,000 2007: 74,000 2008: 83,000	2008: 327,000	2008: 2,000	—	—
Utilisation rates(7)	2006: 47% 2007: 55% 2008: 42%	2007: 18% 2008: 21%	2006: 100% 2007: 100% 2008: 42%	2008: 82%	2008: 8%	—	—
Piers	2 berths, each with a capacity of 5,000 dwt(8)	—	—	—	—	2 berths, each with a capacity of 50,000 dwt (application pending)	—

(1) Guangzhou Yatong commenced operations in November 2007. Zhongshan Yatong is expected to commence operations in the third quarter of 2009 to operate a scrap metal collection facility for Guangzhou Yatong. See the section headed "Southern China — Guangzhou Yatong" below.

(2) Acquired by the Group in January 2008.

(3) We began limited operations in Tianjin in June 2008 and expect to complete this facility in the third quarter of 2009. See the section headed "Northern China — Tianjin Facility" below.

(4) Includes a scrap metal collection facility of approximately 30,000 square metres. Zhongshan Yatong entered into the formal land grant contract for this site on 3 April 2009. See the section headed "Southern China — Guangzhou Yatong" below.

(5) Approximate designed annual production capacity figures are estimates based on equipment manufacturers' specifications, historical experience, storage area and other data we believe to be reliable. However, actual production capacity may differ materially from estimated capacity due to equipment defects or breakdowns, variations in raw materials or other factors.

(6) Our Guangzhou Asia Steel facility generally recycles scrap metal that requires higher levels of processing and labour, such as shredding and cutting larger pieces of scrap. In addition, newer facilities, such as Guangzhou Yatong and Tianjin Yatong, generally employ fewer employees during their initial stages of operations.

(7) For the years ended 31 December 2006 and 2007, our Huan Bao Steel facility had a designed annual production capacity of approximately 70,000 metric tons. Utilisation rates were calculated by dividing actual production volume by the designed annual production capacity during the period.

(8) Pier operated by our 45% owned affiliate Guangzhou Zhujiang Port.

Southern China

Guangzhou Asia Steel

We have two production facilities in Guangzhou. Our subsidiary, Guangzhou Asia Steel, began operations in 2003 and is located in Miaotou Industrial District in Huangpu, at the confluence of the Pearl River and the northern tributary of the Dongjiang River. This site has convenient access to waterways as well as railways and highways. It covers an area of approximately 52,000 square metres, which includes a covered warehousing area and an outdoor yard providing storage capacity of up to approximately 64,000 metric tons. We originally entered into a contract with the People's Government of Nangang Town on the transfer of this land in November 2001. However, the original contract was not a formal land transfer contract. We entered into a formal land transfer contract for this site with the People's Government of Nangang Town in April 2004, which adopted some articles from the 2001 contract, and the land use right certificate, with a term of 50 years, was issued in July 2004. Since the People's Government of Nangang Town delivered the land to Guangzhou Asia Steel in 2001 according to the 2001 contract, Guangzhou Asia Steel was admitted by Nangang Government to occupy the land and commence operations there from 2003.

Guangzhou Asia Steel currently has a designed annual production capacity of approximately 500,000 metric tons. We have been operating an automated shredder for our production in this facility since the later half of 2003. The shredder is able to process large pieces of scrap metal such as scrap vehicles, washing machines, refrigerators and air conditioners, all of which are difficult and time-consuming to shred using manual labour. With a designed production capacity of approximately 80 to 120 metric tons of scrap metal per hour, the shredder has significantly increased our operating efficiency. In addition, the shredding plant includes an electromagnetic drum to separate the ferrous and non-ferrous metals, and an eddy current separator to separate the non-ferrous metal and non-metal materials.

Our production at this facility increased from approximately 218,000 metric tons in 2004 to approximately 274,000 metric tons in 2007, and was approximately 212,000 metric tons in 2008. For 2006, 2007 and 2008, the utilisation rate of this facility was approximately 47%, 55% and 42%, respectively. Other equipment used in production at our Guangzhou Asia Steel facility includes two 15-metric ton gantry cranes, three lifting cranes, five hydraulic shears, ten grapplers, two balers and 34 wire strippers of various sizes.

Guangzhou Yatong

In May 2007, we formed Guangzhou Yatong as a wholly owned subsidiary of Asia Steel (Development) to establish our second production facility in Guangzhou. This production facility is located opposite to our Guangzhou Asia Steel facility and has a designed annual production capacity of approximately 500,000 metric tons.

Our Guangzhou Yatong facility occupies a site area of approximately 4,000 square metres. We lease this site under a lease with a three year term commencing on 1 February 2008. We commenced operations at this facility in November 2007. Our production at this facility in 2008 was approximately 105,000 metric tons, and the utilisation rate in 2008 was approximately 21%. Equipment used in production at our Guangzhou Yatong facility includes two gantry cranes, 15 hydraulic shears, five grapplers and 30 wire strippers of various sizes.

Guangzhou Yatong currently focuses on local sourcing and collection of unprocessed scrap metal. However, we plan to apply for a scrap metal import license for Guangzhou Yatong in the second half of 2009. Our PRC counsel has confirmed that there should be no legal impediment for Guangzhou Yatong to obtain such a license.

In September 2008, we established Zhongshan Yatong as a wholly owned subsidiary of Asia Steel (Development) to operate a scrap metal collection facility for Guangzhou Yatong in Zhongshan, Guangdong Province. On 3 April 2009, we entered into a formal land grant contract with Zhongshan State-owned Land and Resources Bureau relating to the acquisition of a site of approximately 30,000 square metres. The consideration for this land use right is approximately RMB 11.7 million. We have paid all consideration for the acquisition of this land and we expect to obtain the title certificate in the third quarter of 2009. After we obtain the title certificate of this land, we intend to apply for the requisite approvals, such as the approval on the environmental assessment report, required for the operation of the facility and we expect to complete this facility in the third quarter of 2009.

Guangzhou pier

Access to stable and convenient port services is important to our success since water transportation is a significant and cost effective means of transporting scrap metal. As part of our logistics strategy, we operate a 42,000 square metre pier through Guangzhou Zhujiang Port, which leases the port facility from GZS. The lease has a term of five years commencing from March 2003 and has been renewed for another two years to March 2010. The lease for the port facility does not have an automatic renewal clause. If the lease is not renewed in 2010, there are other port facilities that we could utilise in close proximity to our Guangzhou Asia Steel facility. We hold a 45% equity interest in Guangzhou Zhujiang Port. The remaining equity interest is held by GZS, which holds a 45% equity interest, and Guangzhou Iron and Steel Corporation Ltd., which holds a 10% equity interest. We believe that by operating a pier through Guangzhou Zhujiang Port in close proximity to our Guangzhou production facilities, we are able to reduce transportation costs and enhance our control over the transportation of raw materials as well as the delivery of finished products. Guangzhou Zhujiang Port is managed by an independent entity. Currently, the pier principally services our own transportation needs and the needs of the other two shareholders of Guangzhou Zhujiang Port on a "first come, first served" basis. There is no agreement governing the rights, obligations and usage by the three owners of Guangzhou Zhujiang Port. Our usage of Guangzhou Zhujiang pier was 10% or less of the total usage during the Track Record Period.

The pier is approximately 500 metres from our Guangzhou Asia Steel production facility and has a coast line of approximately 800 metres. It has two berths, each capable of accommodating ocean-going vessels of up to 5,000 dwt. For 2006, 2007 and 2008, the actual loading and unloading capacity utilised was approximately 1.5 million metric tons, 1.8 million metric tons and 1.5 million metric tons, respectively. The pier is open to foreign registered vessels and is also equipped with customs and border control and China Certification and Inspection Group facilities, which can process international shipments.

Hong Kong facility

Huan Bao Steel has entered into an agreement with Asia Wing Tat whereby Huan Bao Steel engaged Asia Wing Tat to provide cargo handling services with a designated area of approximately 1,800 square metres in the Yau Tong area for a term commencing from 1 January 2009 to 30 June 2009. The agreement will constitute exempt continuing connected transactions after the [●]. Further details of the agreement are disclosed in the section headed "Connected Transactions — Continuing Connected Transactions" of this document. We have also entered into an agreement with an independent third party in January 2008, and an addendum thereto in April 2008, to provide container and breakbulk cargo storage services with a designated area of approximately 7,400 square metres for an initial term expiring in February 2011, with an option to renew for an additional two years. The Tuen Mun facility has a designed annual production capacity of approximately 200,000 metric tons. The principal equipment used in our Hong Kong facilities, including Yau Tong and Tuen Mun, includes one lifting crane, one hydraulic shear, one baler and four grapplers. We relocated a significant portion of our operations in Yau Tong to the larger Tuen Mun facility in 2008.

In Hong Kong, we mainly collect unprocessed scrap metal from numerous small collectors. Such collectors transport the collected scrap metal by trucks to our facilities at Yau Tong and Tuen Mun. After preliminary handling, which mainly consists of sorting the scrap metal to remove loose non-metal substances and potentially harmful objects and cutting the scrap metal into smaller pieces, we ship a majority of such scrap metal to our Guangzhou production facilities for further processing. We sell the remaining scrap metal from Hong Kong to other companies, mainly in Taiwan. We believe such arrangements allow us to have access to raw materials outside China and to maintain cost-effectiveness by keeping the principal production process in China. To facilitate transportation of scrap metal from our Hong Kong facility, we own two 3,000-metric ton barges and lease a 1,000-metric ton vessel in Hong Kong.

Central Steel Macau

China relies in part on imported scrap metal to satisfy its demand. In 2005 we established Central Steel Macau, which is located in the Macau Special Administrative Region, as our sourcing arm to source scrap metal from international markets for our operations in the PRC. Central Steel Macau also sells scrap metal directly to external customers if the scrap metal sourced by Central Steel Macau meets the needs of customers in terms of size, purity and other requirements. Sales by Central Steel Macau to external customers in 2006, 2007 and 2008 accounted for approximately 32.9%, 53.3% and 44.7%, respectively, of the Group's total revenue and approximately 3.2%, 5.7% and 8.0%, respectively, of the Group's total sales by volume. Central Steel Macau primarily sourced scrap copper and other scrap non-ferrous metal from overseas markets during the Track Record Period due to the relative shortage of such materials in the PRC. Because scrap non-ferrous metal had a higher sales price per metric ton than scrap steel during the Track Record Period, Central Steel Macau's revenue from sales to external customers represented a relatively low percentage of the Group's total sales by volume but a relatively high percentage of the Group's total revenue during the Track Record Period.

Central Steel Macau has an employee in the United States that is responsible for overseeing the collection of scrap metal from local suppliers and inspecting the scrap metal to ensure that it meets the requirements of our customers. The scrap metal sourced by Central Steel Macau often has already been separated from other materials by the local suppliers. If scrap metal sourced in overseas markets meets customer requirements, no further processing at our facilities in the PRC is required and the scrap metal can be sold directly to our customers in the PRC. Otherwise, further processing is conducted in the PRC by our PRC subsidiaries. Central Steel Macau also works to expand our overseas supplier network, arranges logistics and financing, coordinates export and import documentation and provides sales and marketing support. Central Steel Macau shares the same customer base as our other subsidiaries in the PRC.

Central Steel Macau operates as an offshore institution that is exempt from Macau income tax for income generated through offshore business. For additional information, please see the section headed "Financial Information — Taxation — Macau Complementary Tax." The Directors confirm that transactions between Central Steel Macau and our other subsidiaries during the Track Record Period were at prevailing market rates.

Eastern China

Zhangjiagang facility

To expand our business and operations into eastern China, in January 2008 we injected capital into Zhangjiagang Rongli to acquire a 70% equity interest using a portion of the proceeds from the sale of our Senior Notes. This acquisition allowed us to strategically expand our scrap metal recycling business into Jiangsu Province, which was the second largest crude steel producing province in China in 2008. In addition, since Zhangjiagang Rongli has extensive customer and supplier networks in Jiangsu Province that have been developed by its general manager, Mr. Wu Yue-xing, over his 25 years of experience in scrap steel recycling, this acquisition has enabled us to significantly expand our customer and supplier profiles in eastern China. We expect our Ningbo facility, once complete, to be our main production facility in eastern China, and we intend to capitalise on Zhangjiagang Rongli's existing customer and supplier networks to build an integrated operation there. We have retained members of Zhangjiagang Rongli's senior management and are capitalising on their knowledge of the local scrap metal industry and their customer and supplier relationships.

In December 2008, we completed the relocation of Zhangjiagang Rongli's facility in Zhangjiagang to a new site of approximately 66,000 square metres that we use under a service agreement with Jiangyin Dongjiang Port Co., Ltd., a third party independent of the Group. The new site is larger than the site previously occupied by Zhangjiagang Rongli and has convenient access to water transportation. The service agreement has an initial term of three years expiring 30 June 2011, subject to termination after one year with two months advance written notice by us or six months advance written notice by the other party. The services provided by Jiangyin Dongjiang Port Co., Ltd. include loading and uploading of goods, transporting the goods to a stack yard, provision of equipment and maintenance of the stack yard. The service fee includes a fixed fee of RMB2.0 million per year and a variable fee of RMB20 per metric ton of loaded and unloaded scrap metal, with a minimum variable fee of RMB3.4 million per year. Under the service agreement, we are entitled to install our equipment and have our employees work at this site, and we are responsible for the safety and cleaning of the site and are required to pay utility fees incurred in connection with our operations there. The scrap metal recycling activities at this facility are conducted by employees of Zhangjiagang Rongli.

Our facility in Zhangjiagang has a designed annual production capacity of approximately 400,000 metric tons. Zhangjiagang Rongli's production in 2008 was approximately 327,000 metric tons, and its utilisation rate in 2008 was approximately 82%. The principal equipment at our Zhangjiagang facility, which is owned by Zhangjiagang Rongli, includes ten hydraulic shears, three grapplers and two balers.

Planned Yangzhong facility

In December 2006, we established Yangzhong Yagang as a wholly owned subsidiary of Asia Steel (Investments) to operate a facility in Yangzhong, Jiangsu Province. Our Yangzhong facility occupies a site of approximately 190,000 square metres. We entered into a land grant contract with the land bureau of Yangzhong City for this site in April 2008 with a term of 50 years, and we obtained the land use right certificate for this site in August 2008. The Yangzhong facility and the Ningbo facility together are expected to have a designed annual production capacity of approximately 1.0 million metric tons. The total capital expenditures for 2009 in respect of our Yangzhong facility (excluding the pier described below) are expected to be approximately HK$11.0 million, which we intend to finance with a portion of the proceeds from the Senior Notes and the [●] and internal resources. We began work on the Yangzhong facility in April 2008 and expect to complete it by the end of the third quarter of 2009 provided we obtain the required construction permit in a timely manner.

This site also includes a coastline of approximately 450 metres. We intend to apply for a construction permit to construct a pier at this facility and for other approvals such as the environmental assessment report and scrap metal import license for the operation of the facility. We expect to commence the construction of the pier and complete it in 2010. The total capital expenditures for the pier are expected to be approximately HK$146 million, which we intend to finance by internal resources and a portion of the proceeds from the [●]. Prior to completion of the pier, we intend to rely on land transportation and public piers in the vicinity for transporting scrap metal to and from this facility.

In addition to the construction permit, the other types of approvals required for the construction and operation of the pier include the harbour operation permit, the pier construction planning permit, the inspection and acceptance permit and the approval on the environmental impact assessment. We expect to obtain all the required approvals for the pier by 2011.

Planned Ningbo facility

In September 2008, we established Ningbo Yagang as a wholly owned subsidiary of Yangzhong Yagang to further expand our operations in eastern China. We entered into a lease agreement in February 2009 to operate a new facility at the Ningbo Recycling Resources Processing Park in Ningbo, Zhejiang Province. The Ningbo Recycling Resources Processing Park includes a number of enterprises engaged in the import and dismantling of scrap equipment. As a result, we believe it will provide a good source of raw materials. We expect to begin operations at this facility in the third quarter of 2009. This site covers an area of approximately 67,000 square metres, with a usable area of approximately 43,000 square metres, and the lease agreement pursuant to which we will operate this facility has a term of 20 years. The site consists of two plots of land owned by Ningbo Xinghe Recycling Metals Co., Ltd. (寧波星河再生金屬有限公司) and Ningbo Zhenglian Recycling Metals Co., Ltd. (寧波正聯再生金屬有限公司), which are independent third parties of the Group. The fee is RMB5.0 million per year, to be revised every three years with the rate of revision not exceeding five percent. with additional charges based on the volume of imported scrap metal.

Under the lease for this facility, the lessors are responsible for applying for the construction permit to construct the production facility and for other approvals such as the environmental assessment report for the operation of the facility. We expect construction of the production facilities to be completed and all required approvals for operation to be obtained in the third quarter of 2009. If the lessors fail to deliver the leased land and the facilities pursuant to the stipulations in the lease agreement, the lessors are liable to Ningbo Yagang for liquidated damages equal to five percent of the annual rent under the lease agreement.

The Ningbo facility and the Yangzhong facility together are expected to have a designed annual production capacity of approximately 1.0 million metric tons. In 2007, we entered into an agreement to purchase an automated shredder for a consideration of US$5.7 million, which we plan to install at the Ningbo facility. The shredder is expected to have a designed production capacity of approximately 120 to 150 metric tons per hour. We expect the automated shredder to be delivered and commence operations in the third quarter of 2009. The shredding plant will include an electromagnetic drum to separate the ferrous and non-ferrous metals, and an eddy current separator to separate the non-ferrous metal and non-metal materials. We intend to equip this facility with other heavy equipment as well. The total capital expenditures for 2009 in respect of the Ningbo facility are estimated to be approximately HK$70.0 million, which we expect to finance partly with internal resources of the Group and partly with a portion of the proceeds of the [●].

Northern China

Tianjin facility

To expand our operations into northern China, in June 2007 we entered into a joint venture agreement with Lester Metal, Inc. (萊斯特金屬製品有限公司), which we refer to as Lester Metal, to establish a new production facility in Tianjin. We currently hold a 90.385% equity interest in Tianjin Yatong, with Lester Metal owning the remaining 9.615% equity interest. Lester Metal is a U.S. metal recycling company.

The production facility in Tianjin has a designed annual production capacity of approximately 500,000 metric tons. The main equipment to be used at our Tianjin facility includes two gantry cranes, 15 hydraulic shears, ten grapplers, two balers and 30 wire strippers.

We currently have land use rights at this site for an area of approximately 10,000 square metres and 95,000 square metres for a term expiring in 2056 and 2058, respectively. We commenced collecting and reselling scrap metal at this site in the second quarter of 2008, although we have not yet entered into long-term agreements with customers or suppliers for this facility. We have obtained a scrap metal import license of restricted category for the import of scrap copper from old electronic machines, which is under the name of Tianjin Yatong. This import license has an authorised quantity of 800,000 kilograms. We are entitled to apply for additional import licenses for scrap copper in 2009 with a total authorised quantity of 4,000,000 kilograms. We are applying for a construction permit to construct the production facilities and for other approvals such as the environmental assessment report for the operation of the facility. We expect to complete construction of the production facilities and obtain all required approvals for operation in the third quarter of 2009. The total capital expenditures for 2009 in respect of our Tianjin facility are expected to be approximately HK$20 million, which we expect to finance with internal resources and a portion of the proceeds from the Senior Notes and the [●].

Tianjin Yatong has a board consisting of four directors, of which we appoint three directors and Lester Metal appoints one director. The general manager was appointed by the Group. If we or Lester Metal intends to transfer our equity interest in Tianjin Yatong, the other shareholder has a right of first refusal to purchase such interest.

Central China

Planned Wuhan facility

To expand our operations into central China, we established Wuhan Yagang, a Sino-foreign joint venture enterprise, with Wuhan Jin Huan in September 2008. We hold a 70% equity interest in Wuhan Yagang and Wuhan Jin Huan holds a 30% equity interest. Wuhan Jin Huan is an independent third party except for its investment in Wuhan Yagang and is considered a connected person by reason of its substantial shareholding in Wuhan Yagang. Wuhan Jin Huan is an investment holding company whose shareholder is experienced in the metal refining and metal recycling industries in Wuhan. On 17 October 2008, we entered into a land use agreement with the Office of Dongxihu Government with respect to the use of a plot of industrial land of approximately 118,000 square metres for construction of Wuhan facility, and have paid a deposit of RMB6.0 million for this land. Under this agreement, the Office of Donxihu Government has agreed to help arrange the bidding and auction within nine months of the date of the agreement. The timing of the signing of land grant contract is subject to the bidding and auction procedures arranged by the Administration of State-owned Land and Resources of Wuhan Government. However, we have not entered into a formal land grant contract with the relevant land bureau and cannot assure you that we can obtain the required land use rights in a timely manner or at all. If we are unable to acquire the land for which we have paid the deposit, the deposit is refundable. After we enter into the formal land grant contract with the land bureau, we intend to apply for a construction permit to construct the production facilities and for other approvals such as the environmental assessment report and a scrap metal import license for the operation of the facility. We expect to complete construction of the production facilities and obtain the required approvals in the second half of 2010.

The planned new production facility in Wuhan is expected to have a designed annual production capacity of approximately 500,000 metric tons. The main equipment expected to be used at our Wuhan facility will include an automated shredder similar to the one to be installed at our planned Ningbo facility, as well as other heavy equipment. We expect the new Wuhan production plant to commence commercial operations in 2010. The total capital expenditures for 2009 in respect of the Wuhan facility are expected to be approximately HK$23.0 million, which we expect to finance with internal resources and a portion of the proceeds from the [●].

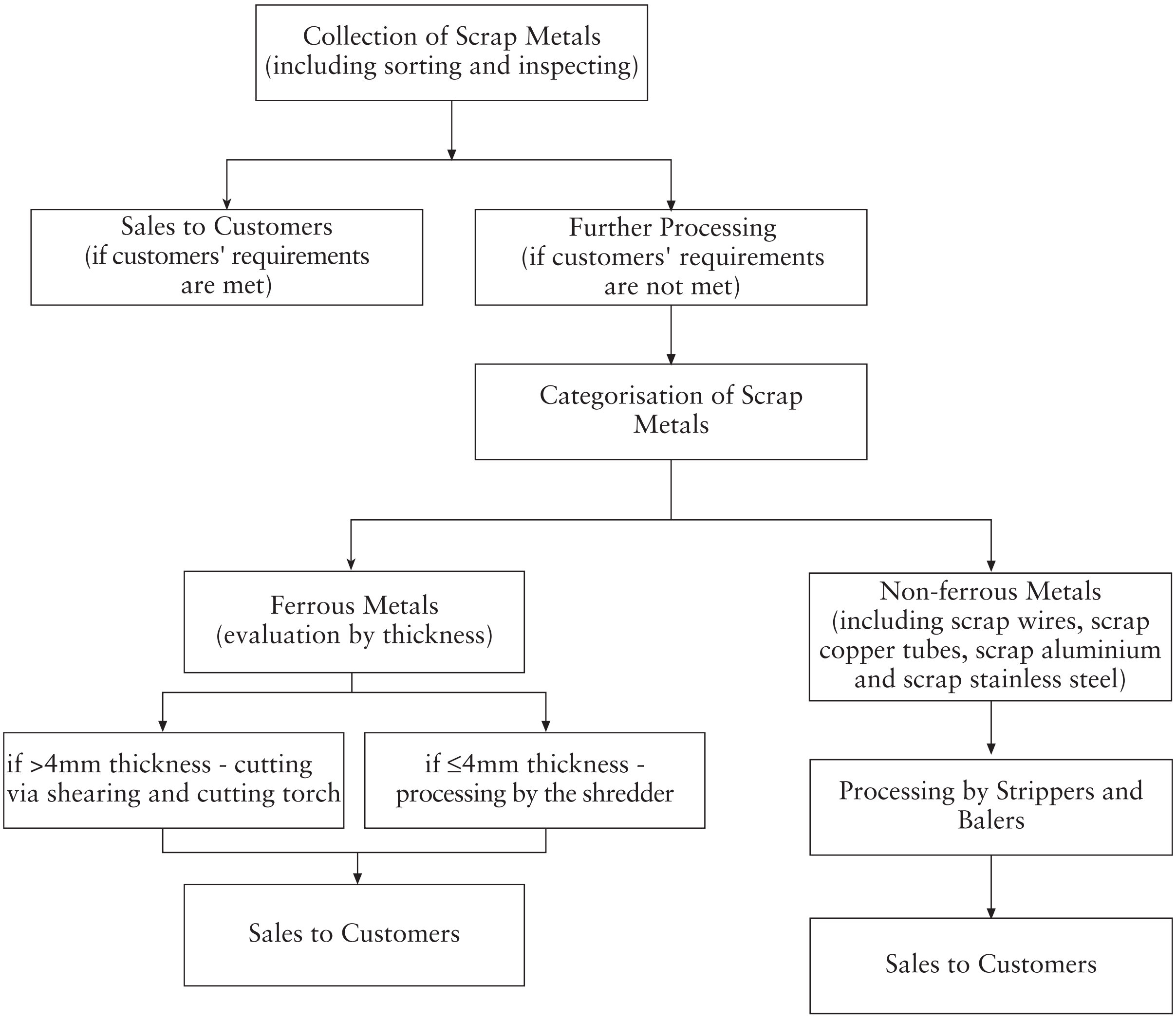
Production Process and Transaction Flow

We produce recycled scrap ferrous metal and recycled scrap non-ferrous metal using both heavy equipment and manual labour. Recycling scrap metal consists of a variety of steps, including collecting, inspecting, sorting, stripping, shearing, cutting, shredding and baling. The precise steps involved depend on the types and condition of the raw materials that we source. For some materials, a number of these steps are required to produce recycled scrap metal that meets the requirements of our customers. For other materials, only a few of theses steps are required.

For ferrous scrap metal, we primarily use heavy machinery such as a shredder or hydraulic shear to break large pieces of scrap metal into smaller pieces. In the shredding process, the ferrous metal is separated from other materials by an automated electromagnetic drum. For non-ferrous scrap metal, we primarily use lighter machinery, such as wire strippers to strip plastic coating off copper wires and balers to press the non-ferrous metal in bales for delivery to customers. We also recover non-ferrous scrap metal through the use of an eddy current separator in the shredding process, which separates non-ferrous metal from non-metal materials. The non-ferrous metal is then manually separated into copper, aluminium and other non-ferrous metal primarily based on color and weight of the extracted metal pieces. This manual separation process requires minimal training and, as a result, we do not believe it will be difficult to hire any additional employees that may be required to perform the separation process to support growth in our sales of recycled scrap non-ferrous metal.

BUSINESS

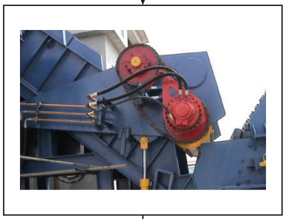
The following flow chart provides the major steps and divisions involved in the production process for our recycled scrap metals.



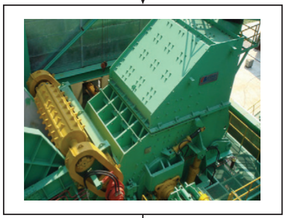
BUSINESS

The following chart illustrates the principal steps involved in the production of recycled scrap ferrous metals (mainly shredded scrap steel) using a shredder, as well as the separation of scrap non-ferrous metals:

FEEDING
A crane or forklift feeds unprocessed scrap metal such as household appliances onto the conveyor belt.



COMPRESSING
Scrap metal is compacted before feeding into the hammer mill for shredding.



SHREDDING
The hammers inside the shredder shear the scrap metal. Water is sprayed into the shredder to prevent it from overheating during its operation.

DUST REMOVAL
Air cyclones remove rust, plastics, dirt, rubber and paint from the compressed scrap. Dust produced during shredding and separation is also removed by means of centrifugal force.

SEPARATING
Ferrous and non-ferrous metals are separated by means of an electromagnetic drum.

OUTPUT
Recycled scrap contains mainly iron, steel and non-ferrous metal. Non-ferrous metal is separated from non-metal materials by means of an eddy current separator. Recovered non-ferrous metal is separated by our employees into copper, aluminium and other types of non-ferrous metal.

The recycled non-ferrous metal and shredded ferrous scrap metal are sent to our warehouses on-site for temporary storage before delivery to our customers.

Although we obtain non-ferrous scrap metal as part of the shredding process, the principal steps involved in the production of recycled scrap non-ferrous metal include:

- **Collecting:** scrap non-ferrous metal is purchased from our suppliers or obtained as output from our shredder, and stockpiled in the production plant's raw material yards. We don't separately track the volume of scrap non-ferrous metal obtained from suppliers compared to the shredder.
- **Separating:** scrap non-ferrous metal is separated manually into product category.
- **Processing:** scrap non-ferrous metal such as copper wires and cables are processed using a wire stripper to strip off their plastic coating.
- **Compressing:** the processed scrap non-ferrous metal is separately packed into bundles using a baler and stored in our warehouses awaiting delivery to our customers.

We rely on electricity to operate equipment at our production facilities. Our customers also are dependent on electricity to convert our recycled scrap metal into steel and other products. Accordingly, the successful operation of our customers' business and our production facilities requires a reliable supply of electricity. The PRC electricity industry has historically experienced shortages and price volatility as a result of a variety of factors, including surging demand as a result of rapid growth in China and disruptions in the supply of coal used to produce electricity. However, we have not experienced any material disruptions in the supply of electricity during the Track Record Period.

Our sales staff at our various production facilities made regular contacts with customers to track market demand and to determine their specific requirements and production schedules. We sell products to some of our major customers under annual contracts where volume is indicated and pricing is determined on a monthly basis. We sell products to other customers based on quarterly, monthly or spot contracts. Our customers generally submit orders to our production facilities in the regions where they are located, and we generally fill orders from inventory at the local production facilities. However, for customers with port loading facilities, their orders may be fulfilled from our production facilities in other regions that have convenient access to water transportation.

We ship our products to customers with annual contracts on a daily or weekly basis as per our customers' instruction, and invoice these customers on a monthly basis. We ship products to other customers promptly after we accept the orders and invoice these customers promptly following shipment of our products. Invoices are settled by the customers with our local production facility by bank transfer or bills of exchange in accordance with the credit terms we have agreed upon with the customers. We generally assign bills of exchange to local banks for cash advances promptly after receiving the bills from the customers.

Scrap metal is sourced by our staff at the local production facilities as well as by our Macau and Hong Kong offices. We purchase scrap metal from suppliers either under long-term contracts or on a spot basis. Pricing is generally determined at the time of purchase. Our suppliers invoice us on a monthly basis or promptly after shipping the scrap metal to us.

Sales and Marketing

We operate our sales network through our production facilities in China and Hong Kong, and our office in Macau. As of the Latest Practicable Date, our sales and marketing team consisted of 44 dedicated members, including 33 in Guangzhou, six in eastern China, two in northern China, one in Hong Kong and two in Macau. The sales teams in China and Hong Kong are responsible for coordinating with our PRC customers, and our Macau staff focuses on both overseas and PRC customers. Members of our sales team contact our customers to negotiate sales orders and prices and provide after-sales services, including delivery logistics and handling questions and feedback on our products. The sales team members in China and Hong Kong also visit customers to provide administrative and logistical support where necessary.

Raw Material Supplies

Raw materials for our production primarily include scrap metal from household appliances and the construction and manufacturing industries. We have a strong supply network in both China and foreign countries and regions including the United States, Europe, Australia, Japan, Macau, Hong Kong and Taiwan.

The following are our principal sources of raw materials:

SCRAP FROM HOUSEHOLD APPLIANCES

SCRAP FROM THE CONSTRUCTION INDUSTRY

SCRAP FROM MANUFACTURING INDUSTRIES

Our PRC, Hong Kong and Macau suppliers are private enterprises engaged in the business of collecting unprocessed scrap metal. Due to transportation constraints, these suppliers generally sell the unprocessed scrap metal they collect within a limited area. In the PRC, we deal with various district or regional scrap metal collectors (either sole proprietors or companies) located in or near our operations. Dealings with individuals during the Track Record Period were negligible. Our foreign suppliers include major companies engaged in the business of scrap metal trading, such as Jason Metal Recycle Corp. and Lane Tone International Material Inc. in the United States, which is a connected person of our Group and our largest supplier for the year ended 31 December 2008. Our Macau office is responsible for coordinating with our foreign suppliers. To facilitate sourcing of raw materials in the United States, we have a designated representative in the United States who is responsible for liaising with potential suppliers.

We acquired a 70% equity interest in Zhangjiagang Rongli, Jiangsu Province, in January 2008, which allows us to strategically enhance our foothold in the scrap metal recycling industry and to expand our supplier network in eastern China.

In addition, we have entered into five-year supply contracts with five PRC suppliers between January 2006 and September 2007. Under these supply contracts, each supplier is required to supply us with a minimum of 3,000 to 5,000 metric tons of unprocessed scrap metal each month at the then-prevailing market price. We enter into quarterly, monthly or spot contracts specifying the detailed terms of each particular shipment such as quantity, price and shipping terms. We also purchase from smaller suppliers on a spot basis. We do not have long-term contracts with our foreign suppliers. While we believe that we have established good business relationships with our suppliers, our business with them has been, and we expect will continue to be, conducted on the basis of actual purchase orders placed by us from time to time. During the Track Record Period, none of our major suppliers have failed to meet our purchase orders or have terminated their business relationship with us.

Our PRC and foreign suppliers generally grant us credit periods of approximately 15 to 45 days. We typically pay our suppliers through telegraphic transfers or letters of credit. During the Track Record Period, all purchases from our PRC suppliers were settled in Renminbi and all purchases from foreign suppliers were settled in U.S. dollars or Hong Kong dollars.

During the years ended 31 December 2006, 2007 and 2008, purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6%, respectively, of our total purchases of raw materials. During the same period, purchases from our largest supplier accounted for approximately 24.2%, 18.9% and 16.6%, respectively, of our total purchases of raw materials. With the exception of Lane Tone International Material Inc., which is a connected person of our Group as described in the section headed "Connected Transactions" in this document, all of our five largest suppliers are independent third parties and none of our Directors, their respective associates or any shareholders who own more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our five largest suppliers during the Track Record Period. During the years ended 31 December 2006, 2007 and 2008, imported scrap metal accounted for 67.0%, 79.5% and 43.7%, respectively, of our total purchases of scrap metal.

Customers

Our customers are primarily large steel and copper manufacturers and scrap metal resellers in the PRC. Prior to 2006, we sold our recycled steel products primarily to GZS. In recent years, we have expanded our customer base to include a number of other large steel manufacturers, such as those set out in Section I of the table below. These steel manufacturers are all located within a 50-kilometer radius of our Guangzhou production facilities.

We have leveraged our leading position in southern China to expand our customer base, including those set out in Section II of the table below. We have also expanded our customer base through our recent acquisition of Zhangjiagang Rongli, adding customers of Zhangjiagang Rongli into our enlarged customer base, including those set out in Section III of the table below. We also sell some of our products to Taiwan through our Hong Kong subsidiary. We believe our customer additions and the acquisition of Zhangjiagang Rongli provide a strong customer base for our expansion.

GSEG Group was our largest customer in the years ended 31 December 2006 and 2008. GSEG, a state-owned enterprise responsible for administering various state-owned metal manufacturing enterprises, is a controlling shareholder of GZS which, in turn, is the sole shareholder of GZSL. GZSL is a substantial shareholder of Guangzhou Asia Steel. As a result, GSEG and its subsidiaries, including GZS and GZSL, are connected persons of our Company under the Listing Rules. For additional information regarding the relationship between GSEG Group and us, see the section headed "Connected Transactions."

The following table sets forth information regarding our major customers:

Customers		Region of customers	Description	Year becoming customer	Principal materials purchased from us
Section I					
A.	Guangzhou Zhujiang Steel Co., Ltd. GZS[1] (廣州珠江鋼鐵有限責任公司)	Southern China	Steel manufacturer	Prior to 2006	Ferrous metal
B.	Guangzhou Iron and Steel Corporation Ltd.[1] (廣州鋼鐵股份有限公司)		Steel manufacturer	2006	Ferrous metal
C.	Lianzhong Stainless Steel Corporation (聯眾(廣州)不銹鋼有限公司)		Stainless steel manufacturer	2007	Ferrous metal
Section II					
A.	Foshan Nanhai Chengqun Resources Recycling Co., Ltd. (佛山市南海區成群物資回收有限公司)	Southern China	Scrap metal reseller	2006	Non-ferrous metal
B.	Guangzhou Metallurgy Industrial Co., Ltd.[1] (廣州冶金實業有限公司)	Southern China	Non-ferrous metal manufacturer	2006	Non-ferrous metal
C.	Guangzhou Nanfang Nonferrous Metal Co., Ltd.[1] (廣州南方有色金屬有限公司)	Southern China	Non-ferrous metal manufacturer	2006	Non-ferrous metal
D.	Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司)	Eastern China	Purchasing division of Jiangsu Shagang Group Co., Ltd.	2007	Ferrous metal
Section III					
A.	Jiangyin Xingcheng Special Steel Co., Ltd. (江陰興澄特種鋼鐵有限公司)	Eastern China	Steel manufacturer	2008	Ferrous metal
B.	Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司)	Eastern China	Steel manufacturer	2008	Ferrous metal

(1) Subsidiaries of GSEG Group. GSEG Group is a connected person of our Group.

During the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively. Our largest customer accounted for approximately 60.9%, 39.3% and 30.4% of our total revenue for the years ended 31 December 2006, 2007 and 2008, respectively. While we believe that we have established good business relationships with our major customers, our business with them has been, and we expect will continue to be, conducted on the basis of actual purchase orders received from them from time to time.

With the exception of members of the GSEG Group, all of our five largest customers during the Track Record Period were independent third parties and none of our Directors, their respective associates or any shareholders who own more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our five largest customers during the Track Record Period. For the relationship between members of the GSEG Group and our Group, please refer to the section headed "Connected Transactions — Continuing Connected Transactions — C. Non-exempt continuing connected transactions which are subject to the reporting, announcement and the independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules - (i) Sale of recycled metal."

Terms of Sales and Credit Policy

We sell products to some of our major customers under annual contracts where volume is indicated and pricing is determined on a monthly basis. We sell products to other customers based on quarterly, monthly or spot contracts. For quarterly and monthly sales, the selling price is generally determined monthly based on the market price. We generally grant credit periods to our customers for trade receivables of approximately 30 to 90 days. We generally grant longer credit periods to buyers of recycled scrap non-ferrous metal. In addition, the credit periods are generally longer for sales financed with bills of exchange, usually up to 180 days, although the bills may be discounted and transferred to a bank to receive payment prior to maturity. Our customers generally pay by cheque, telegraphic transfers or letters of credit. Our policy is to make full provision for trade receivables that are overdue for more than 365 days.

In 2007, we experienced longer credit periods and delays in receiving payment from some of our customers. This was due in part to measures adopted by the PRC Government to control the growth of credit and lending in the banking system in response to concerns over the high rate of growth in industrial production and bank credit in China. Such measures adversely affected the liquidity of our customers and their ability to make timely payments to us. As of 31 December 2007, we experienced larger receivable amounts and longer receivable periods from our customers as compared to 31 December 2006. As of 31 December 2007, we had trade receivables of HK$749.3 million, of which HK$191.0 million were 31 to 60 days, HK$120.3 million were 61 to 90 days and HK$106.3 million were over 90 days. To minimise credit risk, we implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that timely follow-up action is taken to recover overdue amounts. These measures contributed to a decrease in our turnover days of our average trade receivables and bills receivable from 97 days in 2007 to 52 days in 2008. As of 31 December 2008, we had trade receivables of HK$772.3 million, of which HK$316.6 million were 31 to 60 days, HK$27.0 million were 61 to 90 days and HK$3.4 million were over 90 days.

Distribution Process

We distribute products from our production facilities primarily over land in trucks or via waterways in barges and other vessels. As of the Latest Practicable Date, we had a fleet of approximately 15 trucks, with an aggregate daily loading capacity of 1,500 metric tons, which are used for distribution of products from our Guangzhou production facilities. We also use independent trucking companies and other transportation service providers to ship our products on a quarterly, monthly or as-needed basis.

Products from our Guangzhou production facilities are also distributed via waterways through the Guangzhou Zhujiang Port facility, which allows us to reduce our distribution costs and help ensure timely loading. We intend to build another pier next to our planned production facility in Yangzhong in Jiangsu Province. We also own two barges, each with a loading capacity of 3,000 metric tons, and lease a third vessel with a loading capacity of 1,000 metric tons. We use these vessels primarily for shipping scrap metal from our Hong Kong facility to our facilities in Guangzhou for further processing.

Our distribution and selling expenses accounted for approximately 0.2% of our total revenue in each of the years ended 31 December 2006 and 2007 and approximately 0.1% of our total revenue for the year ended 31 December 2008.

INVENTORY MANAGEMENT

We monitor the inventory levels of our raw materials and finished products to balance our production needs and our exposure to changes in metal prices. We generally maintain an inventory of scrap metals sufficient for approximately 15 to 30 days of sales.

As of 31 December 2006, 2007 and 2008, our inventory was approximately HK$65.2 million, HK$144.7 million and HK$257.5 million, respectively. Our average inventory turnover days during the years ended 31 December 2006, 2007 and 2008 were 18 days, 23 days and 12 days, respectively. The decline in our inventory turnover days in 2008 was primarily due to tighter inventory management policies in 2008 in response to the global financial crisis. Also, in 2008 we had a write-down of inventories of HK$10.0 million due to the decline in copper prices. We have not made any other provisions for inventory obsolescence during the Track Record Period as our raw materials and products, primarily scrap metal, are not susceptible to obsolescence by passage of time.

AWARDS AND CERTIFICATION

We have received a number of awards and certifications from various PRC Government authorities and other associations. The more significant awards and certifications are summarised as follows:

Time of grant	Awards/Certificates	Issuing Organisation
June 2007	Role model of processing and distribution centre for scrap steel and iron in southern China (華南廢鋼鐵加工配送中心示範基地)	China Association of Metal Scrap Utilization (中國廢鋼應用協會)
December 2006 ...	2006 outstanding supplier award (2006年度優秀供應商)	GZS

Time of grant	Awards/Certificates	Issuing Organisation
August 2006	ISO 14001:2004 for environmental management system in the manufacture and processing of scrap steel and metal	Guangdong Zhongjiang Certification Co., Ltd.
June 2006	Guangdong Province Clean Production Enterprise (廣東省清潔生產企業)	The Economic and Trade Commission of Guangdong Province (廣東省經濟貿易委員會); Guangdong Environmental Protection Bureau (廣東省環境保護局) and Guangdong Science & Technology Bureau (廣東省科學技術廳)
January 2006	ISO 9001:2000 for quality management system in the manufacture and processing of scrap steel and metal	Beijing Daluhangxing Quality Certification Center
April 2005	AAA Grade China Quality Credit Enterprise (AAA級中國質量信用企業)	China Quality Credit Appraise (中國質量信用評價中心)
March 2005	2004 Guangdong Province environmentally-friendly enterprise — mainstay enterprise (2004年度廣東省環保產業 — 骨幹企業)	Guangdong Province Environmental Protection Enterprise Association (廣東省環境保護產業協會)

QUALITY CONTROL

Pursuant to our internal quality control procedures, we assess our raw material suppliers every year in accordance with specified criteria on pricing, quality of raw materials supplied, the source of the scrap metal and quality of services. Before commencing a relationship with a new supplier, we check the supplier's background and business reputation through meetings, discussions and other available information to assess whether it is qualified and suitable to be a new supplier of the Group. Where scrap metal is purchased from individual collectors, we also record their name and identification number in the event we are required to assist in tracing an individual collector in connection with an enquiry by the police relating to the supplied materials, although we have not received any such enquiries.

Before raw materials are accepted for use in our production process, the raw materials are physically inspected for dangerous or suspicious materials and a sample of each type of raw material is physically examined to determine metal content. We also inspect raw materials to determine whether they contain significant amounts of chemical residuals or other environmental pollutants, which are to be removed from the raw materials by our suppliers or others in the supply chain before delivery to us, and to verify compliance with environmental protection control standards for imported solid wastes as raw materials based on the national standards of the PRC (中華人民共和國國家標準 — 進口可用作原材料的固體廢物環境保護控制標準). Our suppliers are responsible for removing fluorocarbons and other hazardous materials, as well as larger pieces of plastic, from raw materials provided to us. If upon inspection we discover the existence of enclosed objects that may contain fluorocarbons or other hazardous materials, we return the enclosed objects to the supplier. Smaller pieces of plastic, including wire coatings, are collected and sold.

As part of our compliance program relating to national standards, our PRC facilities use a quality control manual to guide inspection of raw materials upon delivery before they are accepted. As of the Latest Practicable Date, the total number of staff in our quality control department was 18. No illegal items or substances have been discovered in raw materials purchased by us or reported to the relevant governmental authorities during the Track Record Period. In 2006, however, Asia Steel (H.K.) imported scrap metal into Hong Kong and then sold the materials to a third-party customer. After the materials had left our control, the customer added waste vehicles to the materials and then exported those materials to Guangdong Province, which constituted a violation of the regulations governing the import of waste vehicles into the PRC. As a result of such customer conduct, Asia Steel (H.K.)'s license from the PRC Government to export scrap materials to the PRC was temporarily suspended from June 2006 to July 2008, when it was reinstated. The suspension did not result in any penalties or fines and did not have a material effect on our business or results of operations as we were able to export scrap metal to the PRC through another subsidiary, Huan Bao Steel, which also has a license from the PRC Government to export scrap materials to the PRC. We did not pursue legal action against the customer. After this incident, we changed our policy so that we do not provide customers with pre-shipment inspection certificates (裝運前驗證), but require them to obtain their own certificates after they have taken possession of the materials.

In January 2006, Guangzhou Asia Steel obtained ISO 9001:2000 certification, an international standard used to measure product quality which requires the implementation of a quality control system throughout the various stages of production, including production process, inspection and service of finished products.

In August 2006, Guangzhou Asia Steel obtained ISO 14001:2004 certification, an international standard used to measure the impact of an operation on the environment, taking into account compliance with applicable laws, regulations and other environmentally oriented requirements from time to time.

Guangzhou Asia Steel have compiled a "Quality Assurance Handbook" in accordance with ISO 9001 and ISO 14001 requirements, which sets forth standardised requirements and procedures regarding quality control and environmental protection.

Our ISO certifications are valid from 2006 to 2009. ISO certification is not required under our agreements with our customers or by the PRC Government. However, we believe ISO certification is beneficial to us and we intend to continue to operate our business in accordance with our quality control manual and the other requirements of ISO certification. Mr. Jiang Yan-zhang, our chief operating officer, is responsible for formulating and implementing our quality control measures to ensure ongoing compliance with ISO certification requirements. He has over 37 years of experience in the business of metal production.

As of the Latest Practicable Date, we had not received any material complaints or claims in relation to the products sold that would affect our financial position or results of operations.

MAINTENANCE

As of the Latest Practicable Date, we had approximately 20 staff members responsible for regular repairs and maintenance of our equipment and machinery at our production facilities, including the shredder, and our delivery trucks. Maintenance staff members undergo training conducted by equipment suppliers before undertaking repair and maintenance work in our production facilities. The maintenance staff carries out regular weekly inspections and maintenance of our shredder in accordance with our maintenance manual. These inspections and maintenance include testing the proper functioning of the shredder and rotating the hammers inside the shredder regularly to reduce wear and tear. We also undertake an overhaul for the shredder each year, during which time the shredder is shut down for approximately ten days. Other machinery and equipment is also subject to inspection and maintenance, generally once a month. We plan to extend our rigorous maintenance program to our new production facilities. We have not experienced any incidents leading to material disruptions to our operations during the Track Record Period.

EMPLOYEES

As of the Latest Practicable Date, we had 475 employees. The following table sets forth the number of employees in our different departments.

Department	Total
Administration	74
Executive management	19
Finance	32
Production (including maintenance and logistics)	280
Purchasing	22
Sales and marketing	44
Others	4
Total	475

We incurred labour costs of approximately HK$9.6 million, HK$13.1 million and HK$23.4 million, respectively, in 2006, 2007 and 2008. With the promulgation of the new Labour Contract Law, which became effective on 1 January 2008, more stringent requirements have been imposed on employers in the PRC with respect to employment contracts entered into between an employer and its employees, hiring of temporary employees and dismissal of employees. We have entered into labour contracts with all of our employees. The labour contracts we entered into with our employees prior to the promulgation of the new Labour Contract Law, which are still effective, are subject to the old labour law and relevant rules and regulations. The labour contracts we entered into with our employees after 1 January 2008 were entered into in accordance with the new Labour Contract Law. We expect that our labour cost will increase as a result of the implementation of the new Labour Contract Law. However, since the labour costs are a relatively small component of our overall cost structure, we do not expect the new Labor Contract Law to have material impact on our business or results of operations.

INSURANCE AND SAFETY MEASURES

Our significant insurance policies for ongoing operations include property insurance on machinery, natural disaster insurance, personal injury insurance and insurance on raw materials and products against risk of loss while in transit by vessel. We also maintain social security insurance policies for our employees in China pursuant to PRC laws. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. Certain types of liabilities which are beyond our control are generally not insured because they are either uninsurable or the costs involved to insure against such risks are not commercially reasonable in our view. Neither do we carry insurance coverage against war or acts of terrorism. We believe that our insurance coverage is in line with industry practice in China. We have not experienced any material industrial accidents during the Track Record Period.

Our safety measures include regular training and occupational safety gear for our staff, protective devices and warning signage on production equipment and a dedicated safety officer to monitor safety measures and conduct safety training. Our employees generally are not exposed to significant amounts of hazardous materials in connection with the recycling process.

PROPERTIES

As of the Latest Practicable Date, we held land use rights for production facilities of approximately 52,000 square metres in Guangzhou, 105,000 square metres in Tianjin and 190,000 square metres in Yangzhong. We have also entered into the formal land grant contract for a site of approximately 30,000 square metres in Zhongshan and we expect to obtain the title certificate for this site in the third quarter of 2009. In addition, we operated production facilities of approximately 4,000 square metres in Guangzhou under a lease with a third party and 9,200 square metres in Hong Kong under licenses with third parties. We also leased approximately 67,000 square metres in Ningbo, with a usable area of approximately 43,000 square metres, for production facilities, and owned or leased office, dormitory and car parking spaces in Hong Kong, Guangzhou, Zhangjiagang, Yangzhong, Tianjin and Macau.

The Guangzhou facility comprises seven buildings with a total gross floor area of approximately 12,000 square metres, which were present on the property when we acquired it. These buildings have been used by us on a temporary basis as office and warehouse space. We have recently relocated the office to an office space in Huangpu District, Guangzhou. We intend to demolish these buildings by the end of 2009. We intend to use this land for storage purposes. As a result, these buildings are not crucial to our operations and we do not intend to apply for the building ownership certificates for such buildings. Further, since the seven buildings are erected on the Guangzhou facility, the land use rights of which we own, we are entitled to occupy and use such buildings. The estimated demolition cost for the seven buildings is approximately RMB0.2 million. The leased office in Huangpu District, Guangzhou is crucial to our operation. The registration of the lease agreement of this property was completed in July 2008.

Regarding the leased office and dormitory spaces in Zhangjiagang with a total gross floor area of approximately 800 square metres and the leased office in Tianjin with a total gross floor area of approximately 300 square metres, the lease agreements have not been registered with the relevant governmental authorities. Such leased property in Zhangjiagang is used on a temporary basis as we have relocated our operation in Zhangjiagang to a new site. Therefore, we do not consider it necessary to register the lease agreement for such existing property. As advised by our PRC legal advisors, Jun He Law Offices, non-registration of these lease agreements will not affect their legality or validity and our rights as lessees under the lease agreements are still legally recognised and protected under PRC laws.

In December 2008 we completed the relocation of our facility in Zhangjiagang to a site of approximately 66,000 square metres that we use under a service agreement with Jiangyin Dongjiang Port Co., Ltd., a third party independent of the Group. The service agreement has an initial term of three years expiring 30 June 2011, subject to termination after one year with two months advance written notice by us or six months advance written notice by the other party. The services are provided by Jiangyin Dongjiang Port Co., Ltd. (江陰市東江港務有限公司) and include loading and uploading of goods, transporting the goods to a stack yard, provision of equipment and maintenance of the stack yard. The service fee includes a fixed fee of RMB2.0 million per year and a variable fee of RMB20 per metric ton of loaded and unloaded scrap metal, with a minimum variable fee of RMB3.4 million per year. This is a services agreement under which we pay fees to Jiangyin Dongjiang Port Co., Ltd. in exchange for services rather than a lease agreement under which fees are paid for the right to occupy land.

We entered into a lease agreement in February 2009 to operate a new facility at the Ningbo Recycling Resources Processing Park in Ningbo, Zhejiang Province. This site covers an area of approximately 67,000 square metres, with a usable area of approximately 43,000 square metres, and the lease agreement pursuant to which we will operate this facility has a term of 20 years. The site consists of two plots of land owned by Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. The registration of the lease for this site was completed in February 2009.

Our Controlling Shareholder, Mr. Chun Chi-wai, has undertaken to indemnify us against any fines, expenses, penalties, losses and damages suffered by us that may arise from any property claim affecting the properties owned, rented or otherwise occupied by us that are listed in Appendix V to this document.

Vigers Appraisal and Consulting Limited, an independent property valuation firm, has valued our property interests as of 31 March 2009. The text of Vigers Appraisal and Consulting Limited's letter, a summary of valuation and valuation certificates are included in Appendix V to this document.

ENVIRONMENTAL MATTERS

According to PRC environmental laws and regulations, we are required to adopt effective measures to prevent and control pollution to the environment during the course of our operations. We monitor compliance with applicable environmental regulations relating to noise and solid waste discharge and have established an environmental control system pursuant to the requirements of ISO 14001:2004 standards. In 2005, the Environmental Protection Enterprise Association of Guangdong Province (廣東省環境保護產業協會) pronounced Guangzhou Asia Steel as an environmentally friendly enterprise in Guangdong Province, and in 2006 Guangzhou Asia Steel received ISO 14001:2004 certification for our environmental management standards in processing scrap metals.

We are also required to carry out an environmental impact assessment before commencing construction of production facilities, and to install equipment to reduce pollution in accordance with relevant environmental standards. The scrap metal recycling process involves sorting, cutting, shredding, shearing, stripping and baling. Sorting consists of sorting by size and type of metal included in the scrap metal, as our suppliers generally have already sorted out a significant portion of the non-metal components. Any remaining non-metal components included in the scrap metal is separated either manually, for example by stripping plastic coating from copper cable, or through the shredding process and the operation of the electromagnetic drum and eddy current separator. No chemical solvents are used in the process. The principal environmental impact is the discharge of dust and sound generated in the physical or mechanical breaking process. Substantially all materials output from the recycling process are sold, including the non-metal components. The principal solid waste produced during the recycling process is dust, which is collected by a dust filtering sub-system of the shredder and disposed of through the urban department of the local government. We have also installed water drainage and filtering systems in our Guangzhou facility for the waste minimisation control for our operations and to process rainwater passing through the stored scrap metal, and we plan to install similar systems in our facilities in Tianjin, Yangzhong and Wuhan. The costs for compliance with environmental laws and regulations were not material during the Track Record Period.

In Hong Kong, environmental laws and regulations applicable to the activities of Huan Bao Steel are principally the Waste Disposal Ordinance (Chapter 354, Laws of Hong Kong) and the Noise Control Ordinance (Chapter 400, Laws of Hong Kong). The handling of scrap metal in Hong Kong falls within the ambit of the purpose of reprocessing, recycling and recovery operations as well as for reuse, and as such, no permits under the Waste Disposal Ordinance for importing and exporting the scrap metal to and from Hong Kong are required. As regards the Noise Control Ordinance, noise generated by Huan Bao Steel at its facilities in Yau Tong, Kowloon and Tuen Mun is within the levels specified by the Technical Memorandum for the Assessment of Noise from Places other than Domestic Premises, Public Places or Construction Sites issued under the Noise Control Ordinance, and Huan Bao Steel has not been served with any noise abatement notices by the Environmental Protection Department.

We, as well as all organisations in Macau, including Central Steel Macau, have to comply with the environmental principles of environment protection policy according to the Macau Ordinance, in respect of noise, pollution and construction nuisance. However, Central Steel Macau, which is the overseas scrap metal sourcing arm for our PRC business, does not collect or recycle scrap metal in Macau. Therefore, the environmental regulations are not applicable to Central Steel Macau.

We are required to comply with the following domestic regulations relating to environmental protection and safety in the PRC: (a) the Environmental Protection Law of the PRC; (b) the Environmental Impact Assessment Law of the PRC; (c) the Law on the Prevention and Control of Solid Waste Pollution; (d) the Law on the Prevention and Control of Water Pollution; (e) the Law on the Prevention and Control of Air Pollution; (f) the Law on the Prevention and Control of Noise Pollution; and (g) Safety Production Law of the PRC.

Our chief operating officer, Mr. Jiang Yan-zhang, is responsible for formulating and implementing our quality control measures to ensure ongoing compliance with the applicable environmental standards in the PRC. Before joining us, he has served various management positions in Guangdong Shaogang Company Group for 33 years, including the manager of the scrap steel department and the safety and environmental department.

Our environmental protection activities mainly focus on the initial selection of the site for our production facilities, site formation and installation of sound panels and dust removal devices for shredders. We seek to select sites that are away from the residential areas. Site operations are subject to initial and subsequent annual assessment by our environmental protection department. During the Track Record Period, we have passed all annual assessments by governmental environmental protection departments, which is a condition for our continuous operation and renewal of scrap metal import licences. Between annual assessments, we focus primarily on maintenance and implementation of measures to ensure compliance with environmental protection rules and regulations.

We have complied in all material respects with the relevant environmental laws and regulations during the Track Record Period. We have not experienced any material discharge of contaminants into the environment nor incurred any penalties or fines as a result of violation of environmental rules or regulations during the Track Record Period. In addition, we believe we have conducted all required environmental impact assessments before commencing construction of production facilities, and have obtained all required permits and environmental approvals for our existing production facilities. Our Directors are not aware of any non-compliance with relevant environmental regulations by our suppliers during the Track Record Period and up to the Latest Practicable Date, and our PRC legal counsel, Jun He Law Offices, have confirmed that we have complied with the relevant environmental protection laws and regulations in the PRC during this period.

REGULATION

Scrap metal recycling companies in China are subject to laws and regulations governing various aspects of their operations, including the import of solid waste and the handling of waste vehicles and disused vessels. Under the PRC's Law on Prevention and Control of Environmental Pollution by Solid Waste and related regulations, waste materials are classified into various categories that have differing restrictions and licensing requirements for import. Scrap iron, steel and copper in fragments generally falls within the automatic category of solid waste usable as raw materials and is eligible for import under the automatic licensing administration. Scrap wires, appliances and electrical equipment, which are imported for the purpose of recycling iron, steel and copper in such wires, appliances and equipment, falls within the restrictive category of solid waste usable as raw materials and is eligible for import under the restricted licensing administration.

The disposal and recycling of waste vehicles and disused vessels are strictly regulated in China, and only companies that have been authorised by the economic and trade commission of the local government in the PRC are permitted to recycle waste vehicles, and only companies that have been authorised by the local environmental protection authority or port supervision authority in the PRC may recycle disused vessels. We did on occasion acquire waste vehicle scraps prior to the Track Record Period. However, these waste vehicle scraps had been crushed and stripped of their engines, airbags and other components that contain potentially hazardous materials. As a result, these waste vehicle scraps were not deemed to be waste vehicles for purposes of the PRC regulations. During the Track Record Period, our principal source of raw materials has been scrap metal from household appliances and the construction and manufacturing industries, not vehicles or vessels. Our raw materials may at times include pieces of scrap metal that were originally part of vehicles or vessels, but our Directors confirm that the Group neither disassembles waste vehicles or disused vessels, nor purchases raw materials from disassemblers of vehicles or vessels. Our policy is to purchase raw materials from suppliers that are properly authorised and admitted by the relevant government authority, and our Directors confirm that the Group has been in compliance with this policy during the Track Record Period and up to the Latest Practicable Date.

To apply for a solid waste import license, we are required to submit the application form, the effective business license of the importer, the certificate of incorporation of the overseas supplier, the customs declaration registration certificate of the importer and the annual report on the environmental risks of imported waste to the Ministry of Environmental Protection. Since the quantity and category of imported waste on each import license are fixed, the solid waste import license should be applied for from time to time based on the requirement of our operations. We can apply for additional import licenses if required. Such solid waste import licenses are effective for no more than one year (ending on 31 December of each year).

The solid waste import licenses we hold are under the names of Guangzhou Asia Steel and Tianjin Yatong, which have the required capacity and is authorised by the Ministry of Environmental Protection to process and dispose of the imported scrap metals. We have been granted all the solid waste import licenses that we applied for during the Track Record Period, and our PRC counsel has confirmed in its legal opinion that the Group has complied with the PRC laws and regulations governing the import of solid waste. As of the Latest Practicable Date, we held 11 valid import licenses of automatic import category, which are under the name of Guangzhou Asia Steel, and an additional valid import license of restricted category, which is under the name of Tianjin Yatong. Our current automatic import licenses each have an authorised quantity of 10.0 million kilograms of scrap steel, and our restricted import license has an authorised quantity of 800,000 kilograms of scrap copper from old electronic machines. All our import licenses will expire on 31 December 2009. If we were unable to obtain import licenses in the future, we would source raw materials from suppliers in the PRC, which could include suppliers that have imported the raw materials into the PRC under import licenses obtained by such suppliers. We believe we have obtained all material approvals, permits, licenses and certificates required for our operations. We are not required to obtain licenses or approvals for scrap metal sourced from suppliers within the PRC.

Our PRC suppliers are not required to apply for licenses to supply scrap metal sourced in China. Our foreign suppliers are required to obtain a license of registration for overseas supplier enterprise of imported scrap materials from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC for the purpose of exporting scrap materials to China. The foreign supplier should (1) be duly incorporated and legally existing, (2) be familiar with the environmental protection laws, regulations and standards of environmental protection control in the PRC, (3) have facilities and testing capacity on environmental protection control, (4) have established a certified quality assurance or environmental quality control system, (5) have stable sources of supply, (6) have implemented environmental protection control measures on the sources of supply, and (7) have no record of being involved in any major quality issues related to safety, hygiene and environmental protection in the past three years.

COMPETITION

The scrap metal recycling industry in China is highly fragmented and competitive, and we compete with numerous other companies for both raw materials and sales of recycled scrap metal. We compete with large steel manufacturers that have their own scrap steel processing and production lines, as well as a number of specialised scrap steel companies that have emerged in recent years. According to CAMU, in 2008 there were approximately 15 scrap steel companies with designed annual production capacity of more than 200,000 metric tons and production facilities of 50 to 1,000 acres.

Competition for raw materials is primarily based on price and proximity to the source of raw materials. Competition for sales of recycled scrap metal is primarily based on price and quality of the recycled scrap metal, the level of service in terms of capacity, reliability and timely delivery, proximity to customers and the availability of scrap metal and scrap metal substitutes.

We compete primarily with local metal recycling companies and new entrants to the market, some of which may have a lower cost structure than ours due to lower capital expenditures or lower labour costs resulting from being located in other regions of China. The barriers to entry in the metal recycling industry are relatively low. However, many of these local metal recycling companies have small production capacity and relatively low efficiency.

We also compete with large metal recycling companies and may face competition from other sources as well, such as foreign metal recycling companies and metal manufacturers seeking to vertically integrate their operations. Some of our competitors may have greater financial and other resources than we do.

We also face competition from companies in China that import recycled scrap metal from overseas markets such as the United States, Australia and Europe. Further appreciation of the Renminbi, which may have the effect of lowering the cost of imported recycled scrap metal, may intensify such competition.

While we believe that the size of our operations, our use of advanced equipment, our geographic diversification and our experience in the industry allow us to compete effectively, we cannot assure you that we will be able to continue to compete successfully in our existing markets or in the new markets where we are expanding.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we have registered the trademarks “ ” and “ ” in Hong Kong. Details of our intellectual property rights are set forth in the paragraph headed “Intellectual property rights of the Group” in Appendix VII to this document.

During the Track Record Period, we did not have any pending or threatened claims against us, nor has any claim been made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

LEGAL PROCEEDINGS

We confirm that there are no pending or threatened litigation or other proceedings that may, and we are not involved in any litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, materially and adversely affect our business, financial condition or results of operations.

COMPLIANCE

We confirm that as of the Latest Practicable Date, save as disclosed in this document, we have obtained all licenses, permits, approvals and certificates necessary to conduct our business operations and have complied with all applicable laws, rules and regulations in all material respects.

Wellrun is wholly owned by Mr. Chun Chi-wai. During the Track Record Period, we disposed of Asia Huan Bao, which was previously within our Group. Asia Huan Bao is an investment holding company and had no active business during the Track Record Period. Asia Huan Bao held a 55% interest in Asia Wing Tat, a company incorporated in Hong Kong. During the Track Record Period, Asia Wing Tat was principally engaged in the trading of scrap metal. It ceased operations and became inactive after we disposed of Asia Huan Bao. As such, neither Asia Huan Bao nor Asia Wing Tat compete, directly or indirectly, with our Group's business. Upon the completion of the [●], neither the Controlling Shareholder nor any of our Directors will have any interests in other companies or businesses that compete or are likely to compete with us.

We believe that we are able to carry on our business independently of our Controlling Shareholder because:

(a) we have a separate financial system, an independent financial budget and independent sources of financing from our Controlling Shareholder;

(b) we do not share operational or production capabilities with our Controlling Shareholder;

(c) we have independent access to customers;

(d) we have an independent management team and staff to handle our day-to-day operations; and

(e) we have access to independent sources of supplies and raw materials.

NON-COMPETITION UNDERTAKING

In order to eliminate any existing and future competing business with us, on 22 May 2009, Mr. Chun Chi-wai and Wellrun entered into a deed of non-competition with our Company pursuant to which he/it confirms/undertakes, inter alia, that:

(a) as of the date of the deed of non-competition, he/it did not engage or was not interested in any entities which engaged in any business that is directly or indirectly in competition with our business;

(b) he/it will not and will procure his/its associates not to engage, directly or indirectly, whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise, in businesses that will or may compete with the business carried on or to be carried on by us;

(c) in the event that he/it or his/its associates is given/identifies any opportunities to engage in a business that is in competition with a business carried on by us, he/it or his/its associates will as soon as practicable inform us of such opportunity and we have a right within three months thereafter to request that he/it or his/its associates allow us to take up the opportunity and in the event that we decide to take up the opportunity, he/it will endeavour to assist us to obtain the opportunity. Such three-month period may be extended to a reasonable time when required by our independent non-executive Directors (please refer to the paragraph headed "Relationship with Our Controlling Shareholder — Corporate Governance relating to the deed of non-competition" below for details);

(d) he/it will not (i) solicit business in which we are involved or engaged from a person, firm, company, corporation, partnership or organisation that is a client or a potential client of ours; and (ii) on behalf of himself/itself or any other person, firm or company, solicit or endeavour to cause any of our employees, former employees or agents to work for any other person, firm or company engaging in a business that will or may compete directly or indirectly with the business carried on or to be carried on by us; and

(e) he/it will provide all information necessary for the review and enforcement of the non-competition undertaking.

Notwithstanding the foregoing, Mr. Chun Chi-wai and Wellrun and/or his/its associates or any company in which he/it is interested may invest, participate in and engage in the Restricted Activity if the terms of such investment, participation or engagement in the Restricted Activity have been first offered to us, and our independent non-executive Directors have confirmed that our Group does not intend to carry on or engage in such Restricted Activity.

Corporate Governance relating to the deed of non-competition

The decision-making process in relation to the deed of non-competition in respect of the business opportunity will be governed and monitored as follows:

➢ In the event that Mr. Chun Chi-wai or Wellrun or his/its associates are given or identify any opportunities to engage in a business that is in competition with a business carried on by us (each a "business opportunity"), he/it or his/its associates will as soon as practicable inform us of such opportunity and we have a right within three months to request that he/it or his/its associates allow us to take up the opportunity and in the event that we decide to take up the business opportunity, he/it will endeavour to assist us to obtain the business opportunity. Such three-month period may be extended to a reasonable time when required by our independent non-executive Directors.

➢ Our independent non-executive Directors will be solely responsible for deciding whether or not to take up a business opportunity referred to us under the terms of the deed of non-competition. Any decision on whether to accept the business opportunity should only be made by the independent non-executive Directors and they will take into account the business strategy and financial condition of our Group, the potential of the business opportunity and whether the terms of the business opportunity are fair and reasonable and on normal commercial terms before accepting or declining the business opportunity.

➢ Any decision under the deed of non-competition will be voted on solely by our independent non-executive Directors and decided by majority vote. In the event of a deadlock, our Company shall not pursue the business opportunity.

➢ Our Board will take appropriate steps to implement the decision of our independent non-executive Directors in accordance with the Listing Rules.

➢ Our independent non-executive Directors shall review, on an annual basis, the compliance with the deed of non-competition by Mr. Chun Chi-wai and Wellrun.

➢ We will disclose decisions of our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking either through our annual report or by way of announcements to the public.

In addition to Mr. Chun Chi-wai and Wellrun, on 22 May 2009, each of our Directors has entered into a deed of non-competition in favour of the Company on the same terms as those set out in the paragraph headed "Relationship with Our Controlling Shareholder — Non-competition Undertaking" above.

CONTINUING CONNECTED TRANSACTIONS

Upon [●], we intend to carry out the following connected transactions which constitute continuing connected transactions for our Company under the Listing Rules.

A. Exempt Continuing Connected Transactions

Following [●], the following transactions will be regarded as continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

(i) ZR Office Lease

On 1 December 2006, Zhangjiagang Rongli entered into a lease agreement (the "ZR Office Lease") as tenant with Mr. Wu Yue-xing (吳岳興) ("Mr. Wu") as landlord, pursuant to which Mr. Wu agreed to lease to Zhangjiagang Rongli an office building situated at No.148 Pangang Road South, Gang District, Jingang Town, Zhangjiagang City, Jiangsu Province, the PRC (中國張家港港區蟠港南路148號) at an annual rental of RMB30,000 for a term of 15 years commencing from 1 December 2006 and ending on 30 November 2021.

Connected persons

Mr. Wu is a substantial shareholder of Zhangjiagang Rongli and thus a connected person of our Company under the Listing Rules. The transaction under the ZR Office Lease will therefore constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon [●].

Historical transaction value

Zhangjiagang Rongli did not pay any annual rental to Mr. Wu pursuant to the ZR Office Lease for the year ended 31 December 2007 because, prior to the acquisition of a 70% equity interest in Zhangjiagang Rongli by us in January 2008, Zhangjiagang Rongli was controlled by Mr. Wu who agreed to waive such rentals when Zhangjiagang Rongli was in a start-up stage. For the year ended 31 December 2008, the aggregate rental paid by us under the ZR Office Lease was RMB30,000. The rental rates under the ZR Office Lease have been determined on the basis of prevailing market rates and on normal commercial terms. Our Company's valuer, Vigers Appraisal and Consulting Limited, has confirmed that the rentals payable under the ZR Office Lease are fair and reasonable as a whole and reflect the prevailing market rate.

The applicable percentage ratio derived from the annual rentals under the ZR Office Lease will be less than 0.1% and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements contemplated under Rule 14A.33(3) of the Listing Rules.

(ii) GAS Office Lease

The office of Guangzhou Asia Steel during the Track Record Period was located at an industrial complex at Ximentan, Miaotou Village, Nangang Town, Huangpu District, Guangzhou, Guangdong Province, the PRC. On 23 May 2008, Guangzhou Asia Steel entered into an office lease (the "GAS Office Lease") as tenant with GAS Property as landlord, pursuant to which GAS Property agreed to lease to Guangzhou Asia Steel the office premises situated at 15th Floor Asia Steel Building, No. 3401 Huangpu Road East, Huangpu District, Guangzhou, the PRC (中國廣州市黃埔區黃埔東

路3401號亞鋼大廈十五層) at a monthly rental of RMB36,028.59 (exclusive of building management fees) for a term commencing from 1 June 2008 and ending on 31 May 2010. We leased these properties due to the expansion of our Group's business in Guangzhou and the close proximity of the above office property with the Guangzhou Asia Steel's facility.

Connected persons

GAS Property is wholly owned by Asia Steel (Properties) Limited (亞州鋼鐵(置業)有限公司), an investment holding company, which, in turn, is wholly owned by Mr. Chun Chi-wai, our Chairman, Chief Executive Officer and Controlling Shareholder. As such, GAS Property is an associate of Mr. Chun and a connected person of our Company under the Listing Rules. The transactions under the GAS Office Lease will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [●]. GAS Property is principally engaged in the investment of properties for the receipt of rental incomes.

Historical transaction value

Guangzhou Asia Steel did not lease the above-mentioned office premises from GAS Property during the three years ended 31 December 2007. For the year ended 31 December 2008, the aggregate rent incurred by us under the GAS Office Lease was RMB252,203.

The rental rate under the GAS Office Lease has been determined on the basis of prevailing market rates and on normal commercial terms. Our Company's valuer, Vigers Appraisal and Consulting Ltd., has confirmed that the rental payable under the GAS Office Lease are fair and reasonable as a whole and reflect the prevailing market rates.

The applicable percentage ratio derived from the annual rentals under the GAS Office Lease will be less than 0.1% and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements contemplated under Rule 14A.33(3) of the Listing Rules.

(iii) Cargo Handling Service Agreement

On 23 February 2009, our subsidiary, Huan Bao Steel entered into a service agreement with Asia Wing Tat (the "Cargo Handling Service Agreement") whereby Huan Bao Steel has engaged Asia Wing Tat to provide cargo handling services in the Yau Tong area at a monthly service fee of HK$288,000 for a term commencing from 1 January 2009 to 30 June 2009. The service fee payable by Huan Bao Steel in relation to the provision of cargo handling services by Asia Wing Tat is determined on the basis of prevailing market price, was negotiated on an arm's length basis and entered into in the ordinary course of business of our Group and on normal commercial terms.

Connected persons

Asia Wing Tat is wholly owned by Asia Huan Bao Steel Limited which is in turn wholly owned by Mr. Chun Chi-wai, our Chairman, Chief Executive Officer and Controlling Shareholder. As such, Asia Wing Tat is an associate of Mr. Chun and thus a connected person of our Company under the Listing Rules. The transactions contemplated under the Cargo Handling Service Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [●].

Reasons for the transaction

We are in the process of relocating our business operation in Yau Tong to our Tuen Mun facility. To give convenience to certain scrap suppliers of our Group who are accustomed to the Yau Tong site, Huan Bao Steel entered into the Cargo Handling Service Agreement whereby Huan Bao Steel agreed to engage Asia Wing Tat and Asia Wing Tat agreed to provide cargo handling services to Huan Bao Steel upon and subject to the terms of the Cargo Handling Service Agreement. We shall relocate our remaining business operation in the event that the Cargo Handling Service Agreement is terminated. We believe that the Cargo Handling Service Agreement would enable us to achieve a smooth transition for our relocation of business operation from Yau Tong to Tuen Mun.

The applicable percentage ratio derived from the service fee under the Cargo Handling Service Agreement will be less than 0.1% and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements contemplated under Rule 14A.33(3) of the Listing Rules.

B. Continuing connected transactions which are exempt from the independent shareholders' approval requirement, but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules

Service agreement in relation to port loading services

Prior to [●], Guangzhou Asia Steel received port loading services from Guangzhou Zhujiang Port to facilitate the business of Guangzhou Asia Steel.

On 22 May 2009, Guangzhou Asia Steel and Guangzhou Zhujiang Port entered into a service agreement (the "Port Loading Service Agreement") under which Guangzhou Zhujiang Port has agreed to provide port loading services to Guangzhou Asia Steel commencing from [●] and ending on 31 December 2011. The service fee payable by Guangzhou Asia Steel in relation to the provision of port loading services by Guangzhou Zhujiang Port is determined on the basis of prevailing market price and on normal commercial terms.

The Port Loading Service Agreement was negotiated on an arm's length basis and entered into in the ordinary course of business of the Group and the terms of which represent normal commercial terms.

Connected persons

GZSL is a substantial shareholder of Guangzhou Asia Steel and is therefore a connected person of our Company under the Listing Rules. GZS holds the entire equity interest in GZSL. GZS is an associate of GZSL and is therefore a connected person of our Company under the Listing Rules. GZS controls the exercise of 45% of the voting power at general meetings of Guangzhou Zhujiang Port. Guangzhou Zhujiang Port is therefore an associate of GZS and a connected person of our Company under the Listing Rules. The transactions contemplated under the Port Loading Service Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [●].

Reasons for the transaction

During the Track Record Period, Guangzhou Asia Steel has received port loading services from Guangzhou Zhujiang Port in a timely and efficient manner. Our Directors consider that it is in our interests to continue our relationship with Guangzhou Zhujiang Port upon [●].

Historical transaction value

For the three years ended 31 December 2008, the annual service fees incurred by Guangzhou Asia Steel in relation to the provision of port loading services by Guangzhou Zhujiang Port amounted to approximately HK$3.0 million, HK$1.5 million and HK$32,000, respectively. The decrease of historical service fees was due to the decrease of sales of recycled metal to GZS as a result of our diversification of our customer base and the fact that we distributed our scrap metal to GZS primarily by trucks from GZAS rather than via waterways in barges or other vessels or imported from Huan Bao in 2008. During the Track Record Period, in addition to serving our ferrous customers such as GZS, we diversified our customer base and started serving non-ferrous customers such as Guangzhou Metallurgy Industrial Co., Ltd. and Guangzhou Nonferrous Metal Co., Ltd.

Annual Caps

Pursuant to the terms of the Port Loading Service Agreement, the proposed annual service fees payable by Guangzhou Asia Steel to Guangzhou Zhujiang Port will not exceed HK$3.2 million, HK$3.9 million and HK$4.7 million for the three years ending 31 December 2011, respectively (the "Service Caps"), which are determined on the basis of prevailing market rates and on normal commercial terms. In arriving at the Service Caps, we have taken into account: (i) the historical amount of port loading services provided by Guangzhou Zhujiang Port during the Track Record Period; (ii) the expected increase in demand for the Group's port loading services as a result of anticipated growth of our business operations; and (iii) the possibility of any appreciation in the value of Renminbi against the Hong Kong dollar. The Service Caps are estimated based on the expected growth in the Group's sales volumes to GZS and the projected increase in the port loading service fees for the three years ending 31 December 2011 taking into account the expected increase in infrastructure needs of the PRC, which in turn is expected to lead to the increased demand for the Group's products and the port loading services, coupled with an estimated appreciation in the value of Renminbi against the Hong Kong dollar over the three years ending 31 December 2011.

Given that each of the applicable percentage ratios in respect of the above transaction is more than 0.1% but less than 2.5%, the transactions contemplated under the Port Loading Service Agreement will be exempt from the independent shareholders' approval requirements but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

C. Non-exempt continuing connected transactions which are subject to the reporting, announcement and the independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules

(i) Sale of recycled metal

We have supplied recycled scrap metal to certain subsidiaries of GSEG. As far as our Company is aware, GSEG is a large-scale state-owned enterprise in Guangzhou with the responsibility for managing various state-owned iron and steel enterprises in an administrative capacity. GSEG and each of its subsidiaries are separate legal entities and have their own independent management teams.

We have entered into separate sale agreements (collectively, the "Sale Agreements") with Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司), GZS, Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) and Guangzhou Non-Ferrous Metal Trading Development Co. Ltd. (廣州有色金屬貿易發展有限公司) (collectively, the "Purchasers") that are GSEG's subsidiaries for the purchase of recycled metal. Under the Sale Agreements, we have agreed to supply recycled scrap metal to the Purchasers. The purchase price payable by the Purchasers in relation to the purchase of recycled scrap metal from us pursuant to the Sale Agreements is determined with reference to the prevailing market price of the recycled scrap metal.

The Sale Agreements were negotiated on an arm's length basis and entered into in the ordinary course of business of our Company and their terms represent normal commercial terms.

Connected persons

As mentioned above, GZSL is a substantial shareholder of Guangzhou Asia Steel and is therefore a connected person of our Company under the Listing Rules. GZS holds the entire equity interest in GZSL. GZS is therefore an associate of GZSL and a connected person of our Company under the Listing Rules.

GZS is owned, amongst others, as to approximately 39.54% by GSEG and as to approximately 32.9% by Kam Kwan Limited (金鈞有限公司). Kam Kwan Limited (金鈞有限公司) is wholly owned by Kam Kwan Enterprise (Holdings) Limited, which is in turn wholly owned by GSEG. Accordingly, GSEG is interested in an approximately 72.44% equity interest in GZS. GSEG is an associate of GZS and is therefore a connected person of our Company under the Listing Rules.

Relationship between GSEG and its subsidiaries is as follows:

	Name of subsidiaries	Relationship with GSEG
1.	Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司)	It is owned as to 95% by Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) (which is in turn wholly owed by GSEG) and as to 5% by GSEG. It is therefore wholly owned by GSEG.
2.	GZS	It is owned as to approximately 72.4% by GSEG as mentioned above.
3.	Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司)	It is wholly owned by GSEG.
4.	Guangzhou Non-Ferrous Metal Trading Development Co. Ltd. (廣州有色金屬貿易發展有限公司)	It is owned as to 95% by Guangzhou Nanfang Nonferrous Metal Co., Ltd., and as to 5% by GSEG. It is therefore wholly owned by GSEG.

As GSEG controls the exercise of more than 30% of the voting power at general meetings of each of the Purchasers, the Purchasers are therefore associates of GSEG and are connected persons of our Company under the Listing Rules. The transactions contemplated under the Sale Agreements between the Purchasers that are GSEG's subsidiaries and we will therefore constitute connected transactions for our Company under Chapter 14A of the Listing Rules upon [●].

Reasons for the transaction

GSEG Group was our largest customer in the years ended 31 December 2006 and 2008. During the Track Record Period, we supplied recycled scrap metal to members of GSEG Group, which settled our invoices on a timely basis. Our Directors consider that it is in our interests to continue our relationship with members of the GSEG Group upon [●].

Historical transaction value

For the three years ended 31 December 2008, the annual sale price paid by GSEG's subsidiaries to us in relation to the sale of recycled metals amounted to HK$664.4 million, HK$679.0 million and HK$1,981.4 million, respectively, which represent approximately 61%, 35% and 30% of the total revenues of the Group for the three years ended 31 December 2008, respectively. The fluctuation of historical sales of recycled scrap metals is due to our diversification of our customer base. During the Track Record Period, in addition to serving our ferrous customers such as GZS, we diversified our customer base and started serving non-ferrous customers such as Guangzhou Metallurgy Industrial Co., Ltd. and Guangzhou Nanfang Nonferrous Metal Co., Ltd.

Annual Caps

The proposed annual sale price payable by the Purchasers to us will not exceed HK$3,300 million, HK$4,900 million and HK$5,500 million for the three years ending 31 December 2011, respectively (the "Sale Caps"), which are determined on the basis of the prevailing market rate and on normal commercial terms. In arriving at the Sale Caps, we have taken into account: (i) the historical amount of recycled scrap metal sold by us to the Purchasers during the Track Record Period; (ii) the expected increase in demand for our Group's products, based on the Sale Agreements, the current negotiations between our Group and the Purchasers, and as a result of anticipated growth of our business operations; (iii) potential fluctuations in the cost of recycled scrap metal; and (iv) the possibility of any appreciation in the value of Renminbi against the Hong Kong dollar. The Sales Caps are estimated based on the projected growth in the sales volumes to the Purchasers for the three years ending 31 December 2011 taking into account the expected increase in infrastructure needs of the PRC which in turn is expected to lead to the increasing demand for our Group's products, coupled with an estimated appreciation in the value of Renminbi against the Hong Kong dollar over the three years ending 31 December 2011.

Given that each of the applicable percentage ratios in respect of the above transaction is more than 2.5%, the transactions under the Sale Agreements will be subject to the reporting, announcement and the independent shareholders' approval requirements pursuant to Rules 14A.35(3) and (4) of the Listing Rules.

(ii) Purchase of scrap metal

We have purchased scrap metal from Lane Tone International Material Inc. ("Lane Tone"), which is a supplier of our Group in the United States engaged in the business of scrap metal trading.

On 1 June 2009, Lane Tone and our Company entered into a framework purchase agreement (the "Purchase Agreement") pursuant to which our Group has agreed to purchase scrap metal from Lane Tone commencing from [●] and ending on 31 December 2011. The purchase price payable by our Group in relation to the purchase of the scrap metal from Lane Tone is determined with reference to the prevailing market price of the scrap metal. The Purchase Agreement was negotiated on an arm's length basis and was entered into in the ordinary course of business of our Group and on normal commercial terms.

Connected persons

Huang Lei is a director of Tianjin Yatong (our subsidiary) and is therefore a connected person of our Company under the Listing Rules. Lane Tone is wholly owned by Huang Lei and his wife and is thus an associate of Huang Lei. Lane Tone is therefore a connected person of our Company under the Listing Rules. The transactions contemplated under the Purchase Agreement will therefore constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [●].

Reasons for the transaction

We began to purchase scrap metal from Lane Tone as raw materials for our production beginning in the second half of 2007. Since then, we have expanded our business relationship with Lane Tone as it has proven to be a good source of raw materials for our Company. Our Directors consider that it is in our interests to continue our relationship with Lane Tone after [●].

Historical transaction value

For the three years ended 31 December 2008, the annual purchase price paid by our Group to Lane Tone in relation to the purchase of the scrap metals amounted to approximately HK$nil, HK$241.8 million and HK$1,012.9 million, respectively. Lane Tone is our largest supplier for the year ended 31 December 2008.

Annual Caps

The proposed annual purchase price payable by our Group to Lane Tone will not exceed HK$1,100 million, HK$1,600 million and HK$1,700 million for the three years ending 31 December 2011, respectively (the "Purchase Caps"), which are determined on the basis of the prevailing market rate and on normal commercial terms. In arriving at the Purchase Caps, we have taken into account: (i) the historical transaction amount of scrap metal supplied by Lane Tone to our Group during the Track Record Period; (ii) the expected increase in demand for our Group's products, based on the sales contract entered into between our Group and our customers and as a result of anticipated growth of our business operations; and (iii) potential fluctuations in the cost of scrap metal. The Purchase Caps are estimated based on the projected growth in the purchase volumes from Lane Tone for the three years ending 31 December 2011 as a result of continued expected economic growth in the PRC which in turn is expected to lead to the increasing demand for our Group's products.

Given that each of the applicable percentage ratios in respect of the above transaction is more than 2.5%, the transaction under the Purchase Agreement will be subject to the reporting, announcement and the independent shareholders' approval requirements pursuant to Rules 14A.35(3) and (4) of the Listing Rules.

DIRECTORS

Our Board of Directors currently consists of seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

CHUN Chi-wai, (秦志威) aged 43

Mr. Chun is an executive Director and the Chairman, Chief Executive Officer and Controlling Shareholder of our Group. Mr. Chun also serves as a member of the remuneration committee of our Company and is a director of each of Guangzhou Asia Steel, Yangzhong Yagang, Zhangjiagang Rongli, Zhongshan Yatong, Huan Bao Steel and Central Steel Macau. Mr. Chun co-founded our Group with Ms. Lai Wun-yin in 2000 and is responsible for the overall strategic planning and business management. Mr. Chun has over 15 years of experience in the business of scrap metal recycling and trading, port operations and shipping, including serving as general manager and executive director of Whampoa Materials (Hong Kong) Company Limited from 1995 to 2000 and Guangzhou Zhujiang Port from 2003 to 2006. He served as a director of the 33rd and the 35th term of the board of directors of Yan Chai Hospital. From 2004 to 2006, he was a committee member of the People's Political Consultative Committee of Guangzhou Huang Pu District. Mr. Chun is currently a standing committee member of the China Association of Metal Scrap Utilization and a director of Guangzhou Zhujiang Port. Mr. Chun was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

Save for being a spouse of Ms. Lai Wun-yin (a non-executive Director) and the sole shareholder and director of Wellrun Limited, which is a substantial and controlling shareholder of our Company, Mr. Chun does not have any relationship with any Directors, senior management or substantial or controlling shareholders of our Company. As at the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Mr. Chun does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

WONG Hok-leung, (王學良) aged 56

Mr. Wong is an executive Director and the Chief Financial Officer and deputy Chief Executive Officer of our Group. Mr. Wong joined our Group in May 2008 and is responsible for our Group's business and financial matters. Mr. Wong has over 23 years of experience in financial management and business operations in manufacturing, banking and logistics. Prior to joining our Group, Mr. Wong was the Group Head of Financial Control and Business Development of Sun Hung Kai Properties Limited from 2002 to 2008, and during this period, he was also the Chairman of Sun Hung Kai Logistics Holdings Limited, Deputy Chairman of Air Freight Forwarding Center Company Limited, and Director and General Manager of River Trade Terminal Limited. Mr. Wong is currently a director of Hong Kong Sinfonietta Ltd. Mr. Wong received his Bachelor of Science Degree from the University of Hong Kong in 1975. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of Chartered Association of Certified Accountants (UK). Mr. Wong was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

Mr. Wong does not have any relationships with any directors, senior management or other substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Mr. Wong does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

JIANG Yan-zhang, (姜延章) aged 54

Mr. Jiang is an executive Director and the Chief Operating Officer of our Group. Mr. Jiang also serves as a director of each of Guangzhou Asia Steel, Yangzhong Yagang, Zhangjiagang Rongli and Zhongshan Yatong. Mr. Jiang joined our Group in December 2003 and is responsible for various aspects of our operations such as production, procurement, quality control, marketing and sales. Mr. Jiang has over 37 years of experience in the business of metal production. Prior to joining our Group, Mr. Jiang served various management positions in Guangdong Shaogang Company Group from 1970 to 2003, including the manger of scrap steel department and the safety and environmental department. Mr. Jiang is currently a director of Guangzhou Zhujiang Port. Mr. Jiang received his Bachelor's Degree in Philosophy from Zhongshan University in 1989 and a Master's Degree in Business Administration from Macau University of Science and Technology in 2003. Mr. Jiang was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

Mr. Jiang does not have any relationships with any directors, senior management or other substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Mr. Jiang does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

Non-executive Directors

LAI Wun-yin, (黎煥賢) aged 38

Ms. Lai is a non-executive Director and also serves as a non-executive director of each of Guangzhou Yatong, Tianjin Yatong, Huan Bao Steel and Central Steel Macau in non-executive capacity. Ms. Lai co-founded our Group with Mr. Chun in 2000. During the Track Record Period, Ms. Lai had been a director of each of Asia Steel (Holdings), Asia Steel (H.K.), Asia Steel (Investments), Asia Steel (Development), Huan Bao Steel, Central Steel Macau, Guangzhou Yatong and Tianjin Yatong. Ms. Lai had secondary education and has over 8 years of experience in financial and administrative management. Ms. Lai was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

Save that Ms. Lai is the wife of Mr. Chun Chi-wai, she does not have any relationships with any directors, senior management or substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Ms. Lai does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

Independent Non-executive Directors

CHAN Iu-seng, (陳耀星) aged 64

Mr. Chan joined our Company as an independent non-executive Director on 22 May 2009. Mr. Chan also serves as the chairman of the remuneration committee and is a member of the audit committee of our Company. Mr. Chan has served as the Chairman of Vimchamp Holdings Ltd., a company in the garment manufacturing and property investment industries, for over 20 years. Mr. Chan was appointed as a Justice of the Peace after he was actively involved in a variety of public service organisations and has been awarded the Bronze Bauhinia Star in Hong Kong in recognition of his service. He has also served in a number of public positions, including a member of the Elderly Commission and Appeal Panel (Housing), a lay observer of Independent Police Complaints Council Lay Observer Scheme (IPCC), an appointed councilor of Tsuen Wan District Council and the Chairman of Tsuen Wan District Fight Crime Committee. Mr. Chan was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

Mr. Chan does not have any relationships with any directors, senior management or other substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Mr. Chan does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

CHAN Kam-hung, (陳錦雄) aged 50

Mr. Chan joined our Company as an independent non-executive Director on 22 May 2009. Mr. Chan also serves as the chairman of the audit committee and is a member of the remuneration committee of our Company. Mr. Chan has over 25 years of auditing, accounting and corporate management experience and he held senior corporate management positions in multi-national companies and listed companies in Hong Kong. He served as the audit director and the group financial controller of Universal Furniture Limited between 1986 and 1995, the chief executive officer of Lamex Holdings Limited (which changed its name to Ezcom Holdings Limited in November 2001 and was formerly a listed company in Hong Kong whose shares were delisted in July 2007) between 1995 and 1998, and a director and the general manager of Hong Kong Teakwood Works Limited ("Teakwood") between 1998 and 2002. He is currently an executive director and chief operating officer of Road King Infrastructure Limited (Stock Exchange stock code 1098). Mr. Chan received a Bachelor of Economics degree from the University of Sydney in 1980. He is a Chartered Accountant of Australia and a fellow member of The Hong Kong Institute of Certified Public Accountants.

Teakwood was a private company incorporated in Hong Kong with a principal business of carrying out interior fitting-out works. Mr. Chan confirmed that he was employed by Teakwood as a salaried director. Mr. Chan was involved in the day-to-day management of Teakwood together with the other two directors of Teakwood. Mr. Chan confirmed that as a result of Teakwood's liquidity problem and its business slowdown following the financial crisis in Asia in 1997, Teakwood was unable to pay its debt. On 1 August 2002, a creditor's petition was filed with the High Court of Hong Kong to wind up Teakwood and the total sum involved was HK$436,970. The said sum of HK$436,970 was fully settled as at the Latest Practicable Date. On 4 November 2002, an order for winding-up against Teakwood was granted by the High Court of Hong Kong. As at the Latest Practicable Date, the winding-up proceeding of Teakwood is still pending. Mr. Chan has confirmed that there are no potential claims and liabilities against him as a director of Teakwood.

Mr. Chan does not have any relationships with any directors, senior management or other substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders " of this document, Mr. Chan does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

LEUNG Chong-shun, (梁創順) aged 43

Mr. Leung joined our Company as an independent non-executive Director on 22 May 2009. Mr. Leung is also a member of each of the audit committee and the remuneration committee of our Company. Mr. Leung joined Woo, Kwan, Lee & Lo, a law firm in Hong Kong since 1989 and became a partner of Woo, Kwan, Lee & Lo since September 1997. Mr. Leung has served as an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. (Stock Exchange stock code 2005) since October 2005 and China National Materials Company Limited (Stock Exchange stock code 1893) since July 2007. Mr. Leung received a Bachelor of Laws degree in 1988 and the Postgraduate Certificate in Laws in 1989 from the University of Hong Kong. He qualified as a solicitor in Hong Kong and England & Wales in 1991 and 1994, respectively.

Mr. Leung does not have any relationships with any directors, senior management or other substantial or controlling shareholders of our Company. As of the Latest Practicable Date, save as disclosed under the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document, Mr. Leung does not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

Please refer to the section headed "Appendix VII — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders" of this document for the amount of the Directors' emoluments and the basis of determining such emoluments.

Save as disclosed above, there is no other information in respect of the Directors that is discloseable pursuant to rules 13.51(2)(h) to (v) of the Listing Rules and there is no other matter that needs to be brought to the attention of the shareholders of our Company.

SENIOR MANAGEMENT

Below is the biography of each of our key management members:

LAM Po-kei Kenneth Greg, (林寶基) aged 42

Mr. Lam joined our Group in 2007 and was appointed as the Financial Controller of our Company, responsible for supervising financing and accounting matters for our Group. Mr. Lam has also acted as a director of Zhangjiagang Rongli since December 2007. Mr. Lam has over 19 years of experience in accounting and financial management. Prior to joining our Group, Mr. Lam worked as an audit manager at Deloitte Touche Tohmatsu from 1989 to 1998 and as a regional finance manager for Asia Pacific at EGL Eagle Global Logistics (HK) Limited from 2000 to 2007. Mr. Lam received his Bachelor's Degree in Social Sciences from the University of Hong Kong in 1989, and obtained a Master of Business Administration jointly awarded by the University of Wales and University of Manchester in 2001. He is a qualified Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and an associate member of American Institute of Certified Public Accountants. Mr. Lam was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

LI Wen-zhe, (李文哲) aged 68

Mr. Li joined our Group in 2003 and is Deputy General Manager and Plant Manager of Guangzhou Asia Steel. He was also appointed as the General Manager of Yangzhong Yagang in 2007, responsible for the operation and management matters. Mr. Li has over 33 years of experience in metal production and machinery management. Prior to joining our Company, Mr. Li worked as the head of the Guangzhou Mechanical Engineering Research Institute. Mr. Li is a certified senior engineer. Mr. Li graduated from Dalian University of Technology. Mr. Li was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

WU Yue-xing, (吳岳興) aged 44

Mr. Wu joined our Group in 2007 and is the General Manager of Zhangjiagang Rongli, responsible for overseeing its management and operations. Mr. Wu has over 25 years of experience in the operation of metal recycling industry. During 1983 to 2000, Mr. Wu established and operated various scrap metal collection and recycling depots in Zhangjiagang. In 2002, Mr. Wu further expanded his business to metal processing by establishing Zhangjiagang Xilong in the Zhangjiagang. In 2006, Mr. Wu established another enterprise, Zhangjiagang Rongli, focusing on scrap metal recycling. Mr. Wu was the president and founder of Zhangjiagang Rongli. In 2007, Mr. Wu was elected as a committee member of the People's Political Consultative Committee of Zhangjiagang City. Mr. Wu was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

LIANG Jian-xiong, (梁建雄) aged 47

Mr. Liang joined our Group in 2006 and is the General Manager of Tianjin Yatong, responsible for overseeing its management and operations. Mr. Liang has over ten years of experience in operations and financial management. Prior to joining our Company, Mr. Liang was the vice general manager and financial controller of Shenzhen Guangnan Investment and Development Company Limited. Mr. Liang was not a director of any other publicly listed company at any time during the three years preceding the date of this document.

COMPANY SECRETARY

LAM Po-kei Kenneth Greg is our company secretary and works for us on a full-time basis. For additional details regarding Mr. Lam's background, see the section headed "Directors and Senior Management — Senior Management" above.

BOARD COMMITTEES

Audit Committee

The Board of Directors has established an audit committee in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system and to provide advice on accounting and financial reporting matters to the Board of Directors. The audit committee consists of three members, each an independent non-executive Director. The chairman of the audit committee is Mr. Chan Kam-hung, who is a Chartered Accountant of Australia and a fellow member of The Hong Kong Institute of Certified Public Accountants. Mr. Chan Kam-hung possesses the professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. The other members of the Audit Committee are Mr. Chan Iu-seng and Mr. Leung Chong-shun.

Remuneration Committee

The Board of Directors has also established a remuneration committee which consists of four members, Mr. Chan Iu-seng, who serves as chairman of the remuneration committee, Mr. Chan Kam-hung, Mr. Leung Chong-shun and Mr. Chun Chi-wai. The appointment of Mr. Chan Iu-seng, an independent non-executive Director, as chairman of the remuneration committee is in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee considers and recommends to the Board or approves (after authorisation by our shareholders, where required) the remuneration and other benefits paid by us to our Directors, senior management and staff. The remuneration of all Directors, senior management and staff is subject to regular review by the remuneration committee to ensure that levels of their remuneration and compensation are at appropriate levels.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration received by Directors (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) for the years ended 31 December 2006, 2007 and 2008 was approximately HK$0.4 million, HK$0.4 million and HK$3.1 million, respectively. Only Mr. Chun Chi-wai served as an executive Director during the years ended 31 December 2006 and 2007. Mr. Chun Chi-wai, Mr. Wong Hok-leung and Mr. Jiang Yan-zhang served as executive Directors during the year ended 31 December 2008.

The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of our Company, excluding Directors, for the years ended 31 December 2006, 2007 and 2008 was approximately HK$2.2 million, HK$2.0 million and HK$2.3 million, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2006, 2007 or 2008. Further, none of our Directors had waived any remuneration during the same period.

Except as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2006, 2007 or 2008, by us or any of our subsidiaries to our Directors.

SHARE OPTION SCHEMES

We conditionally approved the Post-IPO Share Option Scheme on 22 May 2009.

The total number of Shares that may be issued upon exercise of all options granted and yet to be exercised under the Share Option Schemes or any other share option schemes adopted by us (and to which the provisions of Chapter 17 of the Listing Rules are applicable) will not exceed 30% of the Shares in issue from time to time. Initially, the maximum number of Shares that may be issued upon exercise of all options to be granted under the Share Option Schemes or any other share option schemes adopted by us may not exceed 10% of the aggregate number of Shares in issue immediately following the completion of the [●] and the [●] (without taking into account any Shares that may be issued upon the exercise of the [●]).

The purpose of the Share Option Scheme is to recognise the contribution that certain employees, officers and Directors of the Group made or may have made to the growth of the Group. They aim to give the participants an opportunity to acquire a personal stake in our Company and help motivate such participants to optimise their performance and efficiency, and also to help attract or retain the participants whose contributions are important to the long-term growth and profitability of the Group. Additional information regarding the Share Option Scheme and the grantees under the [●] is set forth in Appendix VII to this document.

COMPLIANCE ADVISOR

We intend to appoint Somerley Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(iii) if we propose to use the proceeds of the [●] in a manner different from that detailed in this document or if our business activities, developments or results deviate from any forecast, estimate or other information in this document; and

(iv) if the [●] makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares.

In addition, the compliance advisor will also provide, inter alia, the following services to us:

(i) if required by the [●], deal with the [●] in respect of any or all matters listed in paragraphs (i) to (iv) above;

(ii) in relation to an application by us for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise us on our obligations and in particular the requirement to appoint an independent financial advisor; and

(iii) assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent we form an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps, such as training.

The term of the appointment shall commence on [●] and end on the date on which we distribute our annual report in respect of its financial results for our first full financial year commencing after [●], and such appointment may be subject to extension by mutual agreement.

In addition, after the [●], we will retain legal advisors to advise on ongoing compliance and Listing Rules issues and other applicable laws and regulations in Hong Kong.

So far as our Directors are aware, immediately following completion of the [●], the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity	Number of Shares[(1)]	Approximate percentage of shareholder [(2)]
Wellrun Limited[(2)]	Beneficial interest	(L)	%
		(S)	%
Chun Chi-wai[(2)].	Interest of a controlled corporation	(L)	%
		(S)	%
Lai Wun-yin[(2)]	Family interest	(L)	%
		(S)	%

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) Mr Chun Chi-wai is beneficially interested in 100% of the issued share capital of Wellrun. Wellrun holds % of our Company's Shares in issue. Ms. Lai Wun-yin is the spouse of Mr. Chun Chi-wai and is deemed to be interested in the Shares held by Mr. Chun pursuant to the SFO.

Name of shareholder	Name of the Group Member	Capacity	Approximate percentage of shareholding
GZSL	Guangzhou Asia Steel	Beneficial owner	25%
Wu Yue-xing	Zhangjiagang Rongli	Beneficial owner	25%
Wuhan Jin Huan Investment Co., Ltd.	Wuhan Yagang Metal Co., Ltd.	Beneficial owner	30%

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the [●], have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group and are therefore regarded as substantial shareholders under the Listing Rules.

Ranking

The Shares will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify for all dividends or other distributions declared, made or paid after the date of this document except in respect of the [●].

Share Option Scheme

We conditionally approved the Post-IPO Share Option Scheme on 22 May 2009. Pursuant to the Post-IPO Share Option Scheme, eligible participants of the scheme (including our Directors and directors of other members of the Group, full-time and part-time employees, officers, advisors, and consultants of the Group) may be granted options which entitle them to subscribe for Shares representing (when aggregated with options granted under any other scheme) not more than 10% of the aggregate number of Shares in issue immediately following the completion of the [●] and [●] (on the basis that all of the Listco Warrants are settled for cash and without taking into account any Shares that may be issued upon the exercise of the [●]), representing Shares.

Additional information regarding the Share Option Scheme is set forth in Appendix VII to this document.

General mandate to issue Shares

If [●] becomes unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with (otherwise than pursuant to a rights issue, or an issue of Shares upon the exercise of the subscription rights attaching to any warrants which may be issued by us from time to time or any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription rights attaching to the options granted under [●] any option schemes or similar arrangements or pursuant to [●], the [●] or the Listco Warrants) Shares with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [●] and the [●] (such share capital shall include Shares issued upon the exercise of the Listco Warrants but exclude the Shares which may be issued pursuant to the [●]); and

(ii) the aggregate nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

(i) the conclusion of our next annual general meeting; or

(ii) the expiration of the period within which we are required by law or the Articles of Association to hold our next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed "Resolutions in writing of the sole shareholder of our Company passed on 22 May 2009" in "Appendix VII — Statutory and General Information" of this document.

General mandate to repurchase Shares

If the [●] becomes unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of our share capital in issue or to be issued immediately following completion of [●] and the [●] (such share capital shall include Shares issued upon the exercise of the Listco Warrants but exclude the Shares which may be issued pursuant to [●]).

This mandate only relates to repurchases made on [●], or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company of Shares" in Appendix VII to this document.

This mandate will expire at the earliest of:

(i) the conclusion of our next annual general meeting; or

(ii) the expiration of the period within which we are required by law or Articles of Association to hold its next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our shareholders in a general meeting.

Investors should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, which are included as Appendix I to this document, and the audited financial statements of Zhangjiagang Rongli, including the notes thereto, which are included as Appendix II to this document. These financial statements have been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants, which differ in certain material respects from generally accepted principles in other jurisdictions, including the United States.

The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. You should review the section headed "Risk Factors" in this document for a discussion of important factors.

BASIS OF PRESENTATION

We underwent a Reorganisation in September 2007 pursuant to which China Metal Recycling (Holdings) Limited became the ultimate holding company of our Group. Please see the section in this document headed "History and Development" for details regarding our Reorganisation. Our consolidated financial statements for the years ended 31 December 2006 and 2007 have been prepared by applying the principles of merger accounting, as if our Group structure as of 31 December 2007 had been in existence for all periods since 1 January 2006.

We acquired Zhangjiagang Rongli in January 2008. Separate financial information for Zhangjiagang Rongli is included in this document as Appendix II, and unaudited pro forma financial information for the Group giving effect to the acquisition of Zhangjiagang Rongli as if it had occurred on 1 January 2007 is included in note 39 to Appendix I. The following discussion and analysis of our financial condition and results of operations for the years ended 31 December 2006 and 2007 does not include the financial condition or results of operations of Zhangjiagang Rongli. However, a summary of Zhangjiagang Rongli's financial position and results of operations as of and for the period ended 31 December 2007 is set forth below under the heading "Financial Condition and Results of Operations of Zhangjiagang Rongli."

All significant intra-group transactions, cash flows and balances have been eliminated on consolidation.

OVERVIEW

We are the largest scrap metal recycling company in China based on our revenue of HK$6.5 billion for the year ended 31 December 2008, according to a survey conducted by the China Association of Metal Scrap Utilization, or CAMU, among its members.* We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual

* Information regarding our ranking in the metal recycling industry in China is based on a confirmation from CAMU. CAMU members include large scrap steel recycling companies and other enterprises engaged in metal recycling in the PRC. CAMU regularly conducts surveys among its members in which members provide data on volume, sales and other operating information requested by CAMU. To our Directors' knowledge, no other industry statistics with respect to ranking in the PRC metal recycling industry are available. Our Chairman, Chief Executive Officer and Controlling Shareholder, Mr. Chun Chi-wai, is a standing committee member of CAMU, but he was not involved in compiling the ranking confirmation by CAMU.

labour to separate the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. Our products are used by metal manufacturers in China in the production of new crude steel and other non-ferrous metals. These materials, in turn, are used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

We have recycling facilities in key metal producing regions in China with high demand for recycled scrap metal. Our current recycling facilities are located in Guangdong Province, Jiangsu Province and Hong Kong, with a total designed annual production capacity of approximately 1.6 million metric tons. We are in the process of establishing new recycling facilities in Tianjin, Zhejiang Province and Jiangsu Province, which we expect to complete by the third quarter of 2009. These facilities are expected to almost double our designed annual production capacity to approximately 3.1 million metric tons. In addition, in 2010 we plan to open a new recycling facility in Hubei Province in central China with a designed annual production capacity of approximately 0.5 million metric tons. We expect to incur capital expenditures of approximately HK$134.0 million in 2009 primarily in connection with the establishment of these new facilities. By establishing a network of operations in multiple key metal producing regions in China, we are able to efficiently allocate resources and capitalise on pricing differences between regions for raw materials and recycled scrap metal. Our facilities also have convenient access to waterways, which provide a low cost and efficient means of transportation for both raw materials and recycled scrap metal.

China has experienced significant growth in the consumption of steel in the past few years due to China's rapid development and industrialisation. From 2003 to 2007, consumption of steel in China grew at a CAGR of 13.9%. Steel is produced by either refining iron ore in a blast furnace or melting recycled scrap steel in an electric arc furnace. The electric arc furnace process uses scrap steel as the primary raw material for the production of new crude steel. The blast furnace process uses iron ore as the primary raw material for production, and uses scrap steel to cool the molten metal to add efficiency to the production process. The electric arc furnace process has significant advantages over the blast furnace process, including consuming less energy, creating less pollution and reducing demands on natural resources by using recycled scrap as the principal raw material. According to CAMU, the electric arc furnace process consumes approximately 60% less energy and approximately 40% less water and discharges approximately 97% less waste. Due to these benefits, there has been a trend towards electric arc furnace steelmaking, and in 2005 the PRC Government adopted a Steel Policy which has as one of its principal goals an increase in the role of scrap steel in the production of steel in China. We believe these factors create strong growth opportunities in our industry.

China has also experienced significant growth in the consumption of copper and other non-ferrous metal in the last few years. From 2004 to 2007, consumption of copper and other non-ferrous metal in China grew at a CAGR of 20.4%. However, copper resources are in relatively short supply in China, with domestic copper ore resources characterised by small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs. As a result, we expect demand for secondary copper, which are concentrates produced from scrap copper, in China to strengthen over time. Our production facilities are located in areas with significant demand for scrap copper and other non-ferrous scrap metal, including the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the "2008 Report for China's Copper Market" by CBI China, approximately 75.6% of China's total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our principal suppliers include private enterprises in the PRC engaged in the business of collecting unprocessed scrap metal and foreign scrap metal collection companies. We produce quality recycled scrap metal products that have the metal content, size and shape to meet customer specifications and market demand. Our customers are primarily large steel and copper manufacturers in the PRC, both private enterprises and state-owned entities, and scrap metal resellers. During the Track Record Period, our business relied to a significant extent on a limited number of major customers and suppliers. However, we have successfully expanded both our customer and supplier bases in recent periods to lessen our reliance on major customers and suppliers. For example, the number of major customers increased from one in 2005 to 16 in 2008, and the number of major raw material suppliers increased from three in 2005 to 21 in 2008. For the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively, and purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6% of our total purchases of raw materials, respectively.

We generated revenue of HK$1,090.3 million, HK$1,942.4 million and HK$6,526.6 million, respectively, in 2006, 2007 and 2008, representing a CAGR of 144.7%. The increase in revenue from 2006 to 2007 was primarily due to an increase in sales volume of non-ferrous metal and an increase in the average sales price per metric ton of our products. Sales of scrap copper and other non-ferrous scrap metal increased from approximately 56.0% of our total revenue in 2006 to approximately 64.9% of our total revenue in 2008. The results for the year ended 31 December 2008 reflect our acquisition of Zhangjiagang Rongli in January 2008, the opening of new production facilities in Guangzhou and Tianjin in 2008 and increased sales to external customers by our Macau subsidiary in 2008. We have also significantly enhanced our profitability during these periods, generating a profit for the year of HK$95.4 million, HK$178.7 million and HK$307.9 million in 2006, 2007 and 2008, respectively, representing a CAGR of 79.7%. Our gross margin was 10.9%, 12.4% and 7.6% in 2006, 2007 and 2008, respectively.

The recent disruptions in the credit markets have not had a significant impact on the financing of our operations, which we have financed primarily through cash generated from operations and existing cash and bank balances, including proceeds from the Senior Notes we issued in October 2007, capital contributions from our Controlling Shareholder and, to a lesser extent, bank borrowings. As of 31 December 2008, approximately 21.1% of our total assets was financed by bank borrowings and discounted bills. As of the Latest Practicable Date, the Directors confirmed that we had not received demands for repayment of any outstanding indebtedness prior to its stated maturity, nor had we experienced disruptions in the availability of financing on satisfactory terms under our existing credit facilities.

The recent downturn in the United States and other major economies, and the slowing economic growth in the PRC, has had a significant impact on commodity prices, including the prices of steel, copper and other metals. This has resulted in a decrease in the price of both the raw materials we purchase and the recycled scrap metal products we sell. For example, the price of scrap steel in the PRC decreased from RMB4,000 per metric ton in July 2008 to RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. Our exposure to fluctuations in metal prices is primarily the risk of price changes between the time we commit purchase orders with suppliers and the time we confirm sales with customers. Our results for 2008 were adversely affected in part by the rapid decline in metal prices in the second half of the year. In response to the decline in metal prices, we adopted tighter inventory management policies to reduce the time between the purchase of raw materials and sales to our customers. We shortened our average inventory turnover days from 15 days for the six months ended 30 June 2008 to 12 days for the year ended 31 December 2008 through improved coordination amongst our purchasing, production and sales functions. Approximately 97.1% of our inventory as of 31 December 2008 had been sold to customers by 31 March 2009. As of the Latest Practicable Date, we had not experienced a significant pileup of inventory.

Since the onset of the global financial crisis, there has been a general tightening of credit with customers and suppliers, and we as well as our suppliers have been placing greater emphasis on timely collection of receivables. Our turnover days of average trade receivables and bills receivable increased slightly from 47 days for the six months ended 30 June 2008 to 52 days for the year ended 31 December 2008, while our turnover days of average trade payables decreased from 19 days for the six months ended 30 June 2008 to 14 days for the year ended 31 December 2008. However, our working capital turnover days have been relatively stable during this period, increasing slightly from 43 days for the six months ended 30 June 2008 to 50 days for the year ended 31 December 2008. As a result, the Directors believe there has been no significant impact on our cash flow position since 30 June 2008.

Although metal prices have declined, demand for our recycled scrap metal products has remained relatively stable as of the Latest Practicable Date. Our Directors believe this is due to the sharper decrease in the cost of scrap steel compared to the cost of iron ore since the middle of 2008, which encourages the use of scrap steel in steel production, as well as a general trend towards electric arc furnace steelmaking in the PRC. The Directors expect demand for recycled scrap metal in the PRC to continue to be relatively stable over the next few quarters as a result of continued economic growth in the PRC, the recently announced stimulus measures in the PRC and the trend towards electric arc furnace steelmaking. Accordingly, the Directors do not expect the recent disruptions in the credit markets, the economic downturns or the declines in metal prices to have a significant impact on our expansion plans. Nevertheless, we intend to monitor these developments and their impact on our industry and business, and adjust our expansion plans to the extent we believe it to be appropriate. We cannot assure you that developments in the financial markets, the downturn in the United States or other major economies or the slowdown in the PRC economy will not have a material adverse effect on our business, financial condition or results of operations.

We intend to use approximately 60% of the proceeds from the [●] to redeem a portion of our Senior Notes and the remaining 40% for our expansion plans. We intend to redeem the remainder of our Senior Notes, plus accrued coupon interest, concurrently using internal resources and borrowings under our banking facilities. Assuming an [●] of HK$ per Share, which is the mid-point of the indicative [●] range of HK$ to HK$ per Share, and no exercise of the [●], we intend to redeem approximately US$ million (or equivalent to approximately HK$ million) in principal amount of Senior Notes (or approximately % of the US$80.0 million in aggregate principal amount of the Senior Notes) with the proceeds of the [●] and the balance, plus accrued coupon interest, of approximately US$ million (or equivalent to approximately HK$ million) using internal resources and borrowings under our banking facilities.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Potential investors should be aware of the following factors that may affect our results of operations and financial condition and the period-to-period comparability of our results of operations and financial condition. Many of these factors are beyond our control. For additional information regarding these and other factors that may affect our business, results of operations and financial condition, please see the section headed "Risk Factors" in this document.

Working capital requirements

Our working capital requirements have increased significantly over the last few years due to a number of factors, including increases in our sales, increases in the costs of raw materials, particularly copper, and changes in payment terms with our customers and suppliers. For example, the average LME copper futures price per metric ton was US$6,700 in 2006, US$7,100 in 2007 and US$6,900 in 2008. When copper price increases, the costs to purchase scrap metal with high copper content (unprocessed copper) increases as well, which increases our working capital requirements. The increase in copper prices in 2006 and 2007 increased the working capital requirements of our customers, which, coupled with tightening credit in China, resulted in an increase in the time it took our customers to pay us. As a result, our turnover days of average trade receivables and bills receivable increased from 73 days in 2006 to 97 days in 2007. Our turnover days of average trade receivables and bills receivable decreased to 52 days in 2008 as a result of tighter credit with customers and our acquisition of Zhangjiagang Rongli, which has a lower turnover days of average trade receivables and bills receivable than the Group as a whole. However, the decrease in our turnover days of average trade receivables and bills receivable in 2008 was offset by a decrease in our turnover days of average trade payables in 2008 as our suppliers required us to pay for raw materials sooner. Our turnover days of average trade payables decreased from 51 days in 2007 to 14 days in 2008, increasing our working capital requirements.

We have financed our working capital requirements primarily through short-term bank borrowings and other indebtedness and capital contributions from our shareholder. We expect our working capital requirements to continue to grow as we expand our operations. As a result, our business will continue to be dependent on the availability of financing on acceptable terms for our working capital requirements. We cannot assure you that financing will continue to be available on acceptable terms, or at all.

Fluctuations in the market price of metals

Our results of operations are also affected by fluctuations in the market price of scrap metal. Scrap metal prices affect both our raw material costs and our sales prices. We generally buy and sell scrap metal at prevailing market prices. We are exposed to commodity price risk because we purchase our raw materials in advance of sales to customers. During periods of increasing prices, competitive conditions may limit our ability to pass on price increases to our customers. During periods of declining prices, we may be unable to fully recoup the costs of raw scrap metal purchased earlier. We attempt to limit our exposure to commodity price risk by turning over our inventory of scrap metal as promptly as possible. We also periodically hedge against the risk of declining prices through the use of futures contracts, primarily for copper prices.

In addition, scrap metal prices may vary between China and other markets and between different regions within China, which can also impact our business and financial results. For example, in 2006, the PRC Government reduced export tax incentives for steel, which resulted in lower steel and scrap steel prices in China than in other markets. Because many of our supplier relationships in 2006 were with foreign suppliers, the higher cost of imported scrap steel relative to China adversely affected our sales in 2006. We have expanded and plan to continue to expand our supplier network in China to reduce our reliance on foreign suppliers. Our approximate average purchase price per metric ton for scrap metal from the PRC and imported scrap metal during the Track Record Period was as follows:

	Year ended 31 December		
	2006	2007	2008
	HK$	HK$	HK$
PRC	2,100	3,400	5,900
Imported	4,600	6,800	14,700(1)

(1) The increase in the average purchase price per metric ton of imported scrap metal in 2008 was primarily due to an increase in copper content, which has a higher cost.

Availability of raw materials

Our raw materials primarily consist of scrap metal from household appliances and the construction and manufacturing industries. We purchase raw materials from suppliers in China and from foreign sources. Our purchase volume of scrap metal for the years ended 31 December 2006, 2007 and 2008 was 293,421 tons, 310,543 tons and 767,069 tons, respectively. Our average purchase cost of scrap metal per metric ton for the years ended 31 December 2006, 2007 and 2008 was HK$3,325, HK$5,626 and HK$7,940, respectively. We entered into long-term supply agreements with five-year terms in 2006 and 2007 with several of our suppliers in China. Under these agreements, the suppliers have agreed to provide us with approximately 17,000 metric tons of unprocessed scrap metals per month. We purchase the remainder of our raw materials from suppliers on a spot basis. During periods of low scrap metal prices, suppliers may elect to hold scrap to wait for higher prices or may slow their collection activities. In addition, a slowdown of industrial production in the countries where we source raw materials could reduce the supply of scrap metal. A shortage of raw materials could adversely affect our sales volume and increase our raw material costs, which could adversely affect our profitability if we were unable to pass along the higher costs to our customers.

Demand for recycled scrap metal

Our results are dependent on the production of end products that contain recycled scrap metal. Over 90% of our sales during the Track Record Period were to customers located in the PRC. The recycled scrap metal we produce is used in the manufacture in China of a variety of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances. Some of these end products are consumed in China while others are exported to other markets. As a result, our financial results are affected by demand for these products both within China and in the other markets where these products are sold.

The scrap metal recycling industry tends to be cyclical in nature, reflecting general economic conditions. During periods of slow economic growth or recession, the construction industry and manufacturers of durable goods often experience significant cutbacks in production, resulting in decreased demand for steel, copper and aluminium. Demand for Chinese exports may also be affected by fluctuating exchange rates, with a strengthening of the Renminbi adversely affecting the competitiveness of Chinese goods. In addition, demand for our recycled scrap metals may be adversely affected by policies adopted by other countries to protect domestic manufacturers from competition from Chinese products.

There is evidence of a slowdown in the PRC economy generally and in the construction sector in particular. In addition, some of the metal consuming industries in the PRC depend to a significant degree on exports to the United States and other countries that are experiencing severe downturns in their economies. We cannot assure you as to how substantial these downturns will be or how long they will last.

Product Mix

Scrap non-ferrous metal has historically had a significantly higher sales price per metric ton than scrap ferrous metal. For example, in the year ended 31 December 2008, our average sales price per metric ton of recycled scrap non-ferrous metal was approximately HK$38,481 while our average sales price per metric ton of recycled scrap ferrous metal was approximately HK$3,785. Because we generally buy and sell scrap metal at prevailing market prices, changes in our product mix can have a significant impact on our revenue, raw material costs and working capital requirements. During the Track Record Period, sales of recycled scrap non-ferrous metal increased from 56.0% of our total revenue in 2006 to 64.9% of our total revenue in 2008.

PRC Government control and policies

Our principal operating subsidiaries are established in the PRC and are subject to the laws, regulations and policies of the PRC Government. Changes in the level of government control over, and the policies applicable to, the industries in which we and our customers operate have a direct impact on our business. In addition, measures adopted by the PRC Government or other countries to control the import or export of raw materials may affect the supply and price of raw materials and affect our business. For example, the reduction in PRC export tax incentives for steel in 2006 resulted in lower scrap steel prices in China than in other markets. We endeavour to adjust our business strategies and operations in response to evolving policies of the PRC Government.

The PRC Government has in the past adopted restrictive measures to curtail the growth of various industries, including construction, which is a source of a significant demand for recycled scrap metals, in an effort to prevent inflation and stabilise the value of the Renminbi. Such measures may extend to the metal manufacturing sector and other metal consuming industries. If such measures are adopted by the PRC Government, our business, financial condition and results of operations may be adversely affected.

The metal recycling industry in China is also subject to certain PRC laws and regulations relating to environmental and safety matters. The discharge of solid waste and noise into the environment during the scrap metal recycling process could give rise to liabilities which may require us to incur costs to remedy or prevent such discharge in the future. In addition, while we believe we are currently in compliance in all material respects with applicable environmental laws, we cannot assure you that any environmental laws adopted in the future will not materially increase our operating and other costs.

Reliance on major customers

We have relied on a small number of customers for a large portion of our revenue. For example, during the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively. Our largest customer accounted for approximately 60.9%, 39.3% and 30.4% of our total revenue for the years ended 31 December 2006, 2007 and 2008, respectively. Although we are seeking to diversify our customer base, we expect our financial performance will continue to be dependent on sales to our largest customers. A significant decrease in sales to one or more of our large customers, or significant changes in the operations or financial condition of our large customers, could materially and adversely affect our business, financial condition and results of operations.

Production capacity and operating efficiencies

We have expanded, and are continuing to expand, the scale of our operations through the addition of new recycling facilities and the purchase of additional equipment. Our capital expenditures paid for property, plant and equipment and land use rights, including deposits for property, plant and equipment and land use rights, for the years ended 31 December 2006, 2007 and 2008 were HK$9.5 million, HK$58.8 million and HK$100.1 million, respectively. Our capital expenditures for property, plant and equipment were primarily used for purchasing machinery and equipment to expand our production capacity. Our designed annual production capacity as of 31 December 2006, 2007 and 2008 was approximately 570,000 metric tons, 570,000 metric tons and 1,650,000 metric tons, respectively, and the utilisation rate for the years ended 31 December 2006, 2007 and 2008 was approximately 55%, 61% and 44%, respectively.

We believe that increases in our production capacity result in increased economies of scale and more efficient use of resources, which enhance our ability to meet customer demands and our financial performance. Also, the addition of processing equipment allows us to increase the automation of our processing activities and to separate non-ferrous metals more effectively, which has resulted in an increase in our profitability. We intend to continue to expand our production capacity and invest in additional processing equipment. Please refer to the information under the headings "Business — Business Strategies" and "Business — Production Facilities" of this document for descriptions of our production capacity and expansion plans. We cannot assure you, however, that demand for recycled scrap metal will continue to increase in tandem with increased supply in China and other markets. An oversupply of recycled scrap metal in China could adversely affect our sales prices and volumes, narrow our profit margins and increase our operating costs, which could have a material adverse effect on our business, financial condition and results of operations.

TAXATION

PRC Enterprise Income Tax

We are a Cayman Islands company. Our PRC operating subsidiaries are subject to PRC income tax on an individual basis. Under the PRC Foreign Investment Enterprise and Foreign Enterprise Income Tax Law promulgated on 9 April 1991, the standard statutory PRC national income tax rate and local income tax rate for foreign invested enterprises, or FIEs, was 30% and 3%, respectively, of the assessable income. A FIE that is engaged in manufacturing with an operating term of more than ten years is exempt from PRC national income tax for two years starting from the first profit-making year and receives a 50% reduction in the tax for the three years thereafter. In addition, FIEs conducting port construction may qualify for an exemption from PRC national income tax for five years starting from the first profit-making year and receive a 50% reduction in the tax for five years thereafter, subject to the approval of governing tax authorities.

On 16 March 2007, the PRC Government enacted the PRC Enterprise Income Tax Law, under which most domestic enterprises and FIEs are subject to a uniform income tax rate of 25%. The PRC Enterprise Income Tax Law became effective on 1 January 2008, when the Foreign-Invested Enterprise Income Tax Law and the Enterprise Income Tax Provisional Regulations of the PRC expired. The PRC Enterprise Income Tax Law provides for a five-year transition period starting from 1 January 2008 for enterprises that enjoy low tax rate preferences. Under the PRC Enterprise Income Tax Law, those enterprises established prior to 16 March 2007 which are eligible for tax exemption or reduction in accordance with the prevailing tax laws and regulations may continue to enjoy any existing preferential tax treatments until their expiration, but for FIEs that did not make a profit such preferential tax treatment is deemed to commence from 1 January 2008.

A number of our subsidiaries currently enjoy preferential tax treatments, which will expire or are subject to progressive increases in tax rates during the transition period. Our income tax expenses may increase substantially after the expiration of such preferential tax treatments. Our Guangzhou Asia Steel subsidiary was exempt from PRC national income tax in 2004 and 2005 and was subject to a PRC national income tax rate of 12% in 2006 and 2007 and 12.5% in 2008. Beginning in 2009 it is subject to the statutory income tax rate of 25% under the PRC Enterprise Income Tax Law. Our Guangzhou Yatong subsidiary, which was established after the promulgation of the PRC Enterprise Income Tax Law, is subject to a statutory income tax rate of 25% in 2008 and thereafter. Guangzhou Zhujiang Port was exempt from PRC national income tax through 2008. It is subject to a national income tax rate of 10% for 2009, 11% for 2010, 12% for 2011, 12.5% for 2012 and 12.5% for 2013. Beginning in 2014 and thereafter, it will be subject to a statutory income tax rate of 25%. Our Zhangjiagang Rongli subsidiary, which we acquired in January 2008, is subject to a statutory income tax rate of 25% in 2008 and thereafter. We expect our Yangzhong and Tianjin subsidiaries to be exempt from PRC national income taxes for their first two years of operations starting from

2008. Thereafter, we expect that they will be subject to a PRC national income tax rate of 12.5% for the next three years and then the statutory rate of 25%. Our Ningbo Yagang, Wuhan Yagang and Zhongshan Yatong subsidiaries are subject to a statutory income tax rate of 25% in 2008 and thereafter.

Under the PRC Enterprise Income Tax Law, dividends payable to foreign investors that are "derived from sources within the PRC" may be subject to a withholding tax at a rate of up to 20%. The implementation rules further provide that such an income tax rate of 10% will normally be applicable to dividends payable to foreign investors who are non-resident enterprises. Since we are a holding company established outside the PRC and a substantial portion of our income will come from dividends that we receive from our PRC subsidiaries, those dividends may be deemed to be "derived from sources within the PRC" for purposes of the PRC Enterprise Income Tax Law and therefore subject to a 10% withholding tax. However, applicable tax treaties may reduce the withholding tax on dividends to a lower rate. For example, pursuant to a tax treaty between the PRC and Hong Kong that became effective on 8 December 2006, a company incorporated in Hong Kong, such as our subsidiary Asia Steel (H.K.) Limited, is subject to a withholding tax at the rate or 5% on dividends it receives from a company incorporated in the PRC if it holds 25% or more of the PRC company, or 10% if it holds less than 25% of the PRC company.

Furthermore, under the PRC Enterprise Income Tax Law, enterprises organised under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. On 6 December 2007, the State Council adopted the Regulation on the Implementation of PRC Enterprise Income Tax Law, effective as of 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises." In April 2009, the State Administration of Taxation further specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in China and therefore a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, board and shareholder meeting minutes are located or maintained in China, and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. However, there has been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises that are not controlled by PRC enterprises (including companies like ourselves). We cannot assure you that we will not be considered a "resident enterprise" under the new EIT law and not be subject to the enterprise income tax rate of 25% on our global income. In addition, although the PRC Enterprise Income Tax Law provides that "dividend income between qualified resident enterprises" is exempted income, it is not clear what is considered a "qualified resident enterprise" under such law.

Our consolidated financial statements for the years ended 31 December 2006 and 2007 have been prepared by applying the principles of merger accounting, as if our Group structure as of 31 December 2007 had been in existence for all periods since the beginning of the year ended 31 December 2006. For additional information, please see the section of this document headed "Financial Information — Basis of Presentation" above. Accordingly, our income tax liabilities during the years ended 31 December 2006 and 2007 comprise the income tax liabilities that each of our PRC subsidiaries was subject to during those years.

For the years ended 31 December 2006, 2007 and 2008, our effective tax rate was 4.8%, 4.5% and 7.0%, respectively.

For additional information, please see the section of this document headed "Risk Factors — Risks Relating to the PRC — We may incur higher income tax expenses due to changes in the PRC income tax law."

Hong Kong Profits Tax

Our subsidiaries Asia Steel (H.K.) Limited, Asia Steel (Investments) Limited, Asia Steel (Development) Limited and Huan Bao Steel Limited are incorporated in Hong Kong and are subject to tax based on profits arising in or derived from Hong Kong. Hong Kong profits tax is calculated at 17.5% and 16.5% of estimated assessable profit for each of the two years ended 31 December 2007 and the year ended 31 December 2008, respectively.

Macau Complementary Tax

Under Decree-Law no. 58/99/M, a Macau company incorporated under that law duly authorised to operate as an offshore institution is exempted from Macau income tax when the income is generated through the engagement in offshore business that target only overseas residents as customers and use only non-Macau currency in their activities. A significant portion of our sales during the Track Record Period was attributable to sales by our Macau subsidiary to customers outside of Macau, which was exempted from Macau income tax. If the government of Macau were to revoke the tax exemption regulations now enjoyed by Central Steel Macau, our effective tax rate may materially increase.

Cayman Islands

Our Company is incorporated in the Cayman Islands. However, it is not subject to income tax in the Cayman Islands and dividends paid by our Company are not subject to withholding taxes under Cayman Islands laws.

British Virgin Islands

Our Asia Steel (Holdings) subsidiary is incorporated in the British Virgin Islands. However, it is not subject to income tax in the British Virgin Islands and dividends paid by Asia Steel (Holdings) are not subject to withholding taxes under British Virgin Islands law.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information set out in the Accountants' report included as Appendix I of this document have been prepared in accordance with HKFRS. Our principal accounting policies are set out in Note 3 "Significant Accounting Policies" of the Accountants' report. The preparation of our financial information requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures of contingent assets and liabilities. Critical accounting policies are those that are most important to both the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates on the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments.

The critical accounting policies and estimates have been consistently applied throughout the Track Record Period. Going forward, we will reassess the accounting estimations at each reporting date in accordance with the requirements of HKFRS.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Revenue from the sale of goods is recognised when the goods are delivered and title has passed to our customers.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in production or for administrative purposes (other than construction in progress), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives for our property, plant and equipment are as follows:

Property, Plant and Equipment	Useful Life
Buildings	20 to 50 years or over the lease term of the land on which the building is located, whichever is shorter
Motor vehicles	5 years
Leasehold improvements	25 years or over the lease term of the building, whichever is shorter
Machinery, furniture, fixtures and equipment	5 to 10 years

Our estimates of useful lives and residual values of our assets are based on historical experience of the actual useful lives of assets of similar nature and functions. Useful lives and residual values are reassessed at each balance sheet date.

Construction in progress represents property, plant and equipment in the course of construction for production or for our own use. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when they are completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in our consolidated income statements in the year in which the item is derecognised.

Impairment of trade and other receivables and other financial assets

Trade and other receivables and other financial assets, other than derivative financial instruments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

➢ significant financial difficulty of the issuer or counterparty; or
➢ default or delinquency in interest or principal payments; or
➢ it becoming probable that the borrower will enter into bankruptcy or financial reorganisation.

An impairment loss is recognised when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost could have been had the impairment not been recognised.

No material provision for trade and other receivables or other financial assets has been made during the years ended 31 December 2006, 2007 or 2008 in light of the payment record of our customers and subsequent settlements.

Impairment of non-financial assets

At each balance sheet date, we review the carrying amounts of our non-financial 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. An impairment loss is recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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 periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and includes expenditures incurred in acquiring the inventories and to bring them to their existing location and condition. In the case of processed inventories and work in progress, cost includes direct labour and an appropriate share of processing overhead based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. At each balance sheet date, our management reassesses the net realisable value of our inventories based on market conditions and the historical experience in selling goods of a similar nature. If the net realisable value of an item of inventory is lower than its cost, the difference is charged to profit and loss and the carrying value of that item is written down to its net realisable value.

We recorded a write-down of inventories of HK$10.0 million during the year ended 31 December 2008 due to the decline in copper prices in the last quarter of 2008. No other provisions for inventory were made during the years ended 31 December 2006, 2007 and 2008.

OVERVIEW OF MAJOR INCOME STATEMENT ITEMS

Revenue

Revenue represents the amounts received and receivable for recycled scrap metals sold to customers during the period, net of discounts and sales related taxes. Our revenue is affected by the volume of products sold, the price of our products and product mix, with non-ferrous metal generally commanding a higher price than ferrous metal. Revenue is recognised when the goods have been delivered and title has passed to our customers.

Over the last several years, non-ferrous metal, including copper and aluminium, have contributed an increasing percentage of our total revenue. The growth in sales of non-ferrous metal is due to the sourcing of raw materials with greater non-ferrous metal content and the installation in 2006 of equipment to help automate the separation of ferrous and non-ferrous metal during the recycling process.

Set out below is our average sales price per metric ton for recycled scrap ferrous and non-ferrous metal for each of the periods indicated. The fluctuations in the average sales price are primarily due to price movements of the relevant metals in the underlying commodity markets and product mix for non-ferrous metals.

	Year ended 31 December		
Average sales price per metric ton	**2006**	**2007**	**2008**
	HK$	**HK$**	**HK$**
Ferrous metals	1,822	2,368	3,785
Non-ferrous metals	51,944	55,989	38,481[(1)]

(1) The decrease in the average sale price per metric ton of recycled scrap non-ferrous metal in 2008 compared to 2007 was primarily due to a decrease in the price of copper, from HK$55,989 per metric ton in 2007 to HK$51,644 per metric ton in 2008, and a greater percentage of sales from recycled scrap stainless steel and aluminium, which had a lower price than copper. Copper accounted for approximately 67.6% of sales of recycled scrap non-ferrous metal (by volume) in 2008 and approximately 99.9% in 2007.

The following table sets forth our sales volume (both in metric tons and as a percentage of total sales volume) and revenue (both in Hong Kong dollars and as a percentage of total revenue) for sales of recycled scrap ferrous and non-ferrous metal for each of the periods indicated:

	Year ended 31 December											
Product	**2006**				**2007**				**2008**			
	Sales Volume (metric tons)	**%**	**Sales (HK$'000)**	**%**	**Sales Volume (metric tons)**	**%**	**Sales (HK$'000)**	**%**	**Sales Volume (metric tons)**	**%**	**Sales (HK$'000)**	**%**
Ferrous metals	263,093	95.7	479,481	44.0	296,886	93.1	703,032	36.2	605,385	84.6	2,291,541	35.1
Non-ferrous metals	11,760	4.3	610,857	56.0	22,136	6.9	1,239,368	63.8	110,055	15.4	4,235,053	64.9
Total	274,853	100.0	1,090,338	100.0	319,022	100.0	1,942,400	100.0	715,440	100.0	6,526,594	100.0

Cost of sales

Our cost of sales primarily includes the cost of raw materials, processing costs and depreciation charges. During the years ended 31 December 2006, 2007 and 2008 , our cost of sales accounted for 89.1%, 87.6% and 92.4%, respectively, of our total revenue for the respective periods.

The following table shows a breakdown of our cost of sales by major cost items for each of the periods indicated:

	Year ended 31 December					
	2006		2007		2008	
	HK$'000	%	HK$'000	%	HK$'000	%
Raw materials	939,559	96.7	1,667,487	98.0	5,984,419	99.2
Processing costs	25,360	2.6	25,816	1.5	38,006	0.6
Depreciation expenses	6,833	0.7	7,710	0.5	9,109	0.2
Total	971,752	100.0	1,701,013	100.0	6,031,534	100.0

Raw materials

The principal raw materials used in the production of our products are unprocessed scrap metals, which we acquire from sources within China and in other markets, including the United States, Europe, Japan, Hong Kong, Australia and Taiwan. Our raw material costs are primarily affected by the supply and demand for scrap ferrous and non-ferrous metal in China and international markets. For the years ended 31 December 2006, 2007 and 2008, raw material costs accounted for 96.7%, 98.0% and 99.2%, respectively, of our total cost of sales.

Processing costs

Our processing costs include wages, benefits and other expenses relating to workers who are directly involved in the processing of our recycled scrap metal products, as well as transportation costs and port loading charges, energy costs, repairs and maintenance costs and other overhead related expenses. Labour costs are affected by the supply and demand for labour and changes in PRC Governmental policies or labour laws, as well as the competition for experienced labour in the provinces in which we operate our facilities. Labour costs generally have been increasing in the more industrialised areas of China over the last few years, including the areas in which we operate. Our principal energy costs are for electricity, the availability and price of which is dependent on the supply and demand for electricity in the provinces in which we operate and PRC Government policies. Processing costs represented 2.6%, 1.5% and 0.6% of our total cost of sales for the years ended 31 December 2006, 2007 and 2008, respectively.

Depreciation expenses

Depreciation expenses for property, plant and equipment used in our recycling operations represented 0.7%, 0.5% and 0.2% of our total cost of sales for the years ended 31 December 2006, 2007 and 2008, respectively.

Other income

Other income primarily represents interest income on cash balances and net exchange gains from fluctuations in currency exchange rates. We generally pay for unprocessed scrap metal sourced outside China in U.S. dollars or Hong Kong dollars. Depending on exchange rates and currency markets, we may enter into forward currency contracts to lock in exchange rates between the Renminbi and the U.S. dollar or Hong Kong dollar in connection with the purchase of raw materials in international markets. Any gain on the forward contracts that have been settled during the period is recorded as net exchange gains in other income. We may also record net exchange gains if the value of the Renminbi appreciates against the U.S. dollar between the time we enter into commitments to purchase raw materials and the date we pay for the raw materials, or between the date we borrow U.S. dollars or Hong Kong dollars and the date we repay the loan, in each case even if we have not entered into corresponding forward currency contracts.

Distribution and selling expenses

Our distribution and selling expenses consist primarily of freight charges for shipments of recycled scrap metals to customers and marketing and selling costs. Our distribution and selling expenses represented 0.2% of our revenue in each of the years ended 31 December 2006 and 2007, and approximately 0.1% of our revenue in the year ended 31 December 2008.

Administrative expenses

Our administrative expenses consist primarily of staff costs, professional and audit fees, depreciation of office equipment, amortisation of prepaid lease payments, entertainment and travelling expenses, office expenses and local levies. Our administrative expenses represented 1.1%, 1.0% and 0.8% of our revenue for the years ended 31 December 2006, 2007 and 2008, respectively.

Staff costs refer to the wages, welfare benefits and bonuses payable to Directors and administrative staff. Staff costs were approximately HK$4.6 million, HK$5.6 million and HK$15.6 million for the years ended 31 December 2006, 2007 and 2008, respectively.

Change in fair value of derivative financial instruments

Change in fair value of derivative financial instruments results from changes in fair value of forward currency contracts that have not been settled at the balance sheet date and futures contracts relating to the price of copper. We import a portion of our scrap metal in transactions that are denominated in U.S. dollars. As a result, we are exposed to foreign currency risk. In order to manage this risk and to minimise our exposure, we from time to time hedge this exposure by entering into foreign currency forward contracts. In addition, to reduce our exposure to commodity price risk for scrap metal with high copper content, we from time to time use copper futures contract for hedging purposes. We had a gain on changes in the fair value of derivative financial instruments of approximately HK$2.7 million and HK$16.2 million in the years ended 31 December 2006 and 2008, respectively, and a loss on changes in the fair value of derivative financial instruments of approximately HK$6.4 million in the year ended 31 December 2007.

Finance costs

Finance costs represent interest costs on bank borrowings, our Senior Notes issued in October 2007 and other indebtedness. Finance costs were HK$14.0 million, HK$39.4 million and HK$147.4 million in the years ended 31 December 2006, 2007 and 2008, respectively. The increase in interest costs was the result of increased borrowings during these periods to finance the acquisition of property, plant and equipment and for general working capital purposes. The increase in borrowings for working capital purposes was due to growth in sales and increases in the costs of raw materials, primarily non-ferrous scrap metals, during the Track Record Period.

Share of result of an associate

Share of result of an associate represents our portion of the profits earned by Guangzhou Zhujiang Port, which operates a pier located next to our production facilities in Guangzhou. We hold a 45% interest in Guangzhou Zhujiang Port, which provides port services to us and the two other shareholders of Guangzhou Zhujiang Port. Our share of results of Guangzhou Zhujiang Port was HK$4.0 million, HK$3.7 million and HK$2.7 million for the years ended 31 December 2006, 2007 and 2008, respectively. The pier currently has two berths capable of handling vessels of 5,000 dwt and an annual loading and unloading capacity of approximately 1.5 million metric tons. During 2009, Guangzhou Zhujiang Port expects to add an additional berth capable of handling vessels of 30,000 dwt, which is expected to increase its annual loading and unloading capacity to approximately 3.0 million metric tons.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the company represents profit for the year net of minority interests.

Minority interests

Minority interests represent the interests of outside shareholders in the profits and losses of our consolidated subsidiaries.

Prior to our Reorganisation in September 2007, Mr. Chun Chi-wai and Mr. Tsui Cham To held 52% and 48%, respectively, of the equity interests in our Asia Steel (Holdings) subsidiary. As a result, there was a 48% minority interest in Asia Steel (Holdings) for 2006. This minority interest was reclassified to capital reserve as a deemed contribution by Mr. Chun to the Group in June 2007 when Mr. Chun acquired the remaining 48% interest held by Mr. Tsui in Asia Steel (Holdings).

Share Option Expenses

We did not grant options to purchase Shares to our Directors or employees during the Track Record Period. However, we adopted the [●] Scheme on 22 May 2009 under which we have conditionally granted options to purchase an aggregate of Shares with an exercise price equal to the [●] per Share (assuming an [●] of HK$ per Share, which is the mid-point of the indicative [●] range of HK$ to HK$ per Share, and assuming that the [●] is not exercised). These options vest in equal annual installments on the first three anniversaries of [●]. The amount of pre-tax expenses related to the [●] Scheme is HK$59.4 million, which will amortise over the relevant vesting period from the date of grant.

In addition, we conditionally approved the Post-IPO Share Option Scheme on 22 May 2009, and we will incur additional expenses to the extent we grant options under the Post-IPO Share Option Scheme.

Additional information regarding the Share Option Schemes is set forth in Appendix VII to this document.

REVIEW OF HISTORICAL OPERATING RESULTS

The following discussion addresses the principal trends that have affected our results of operations during the periods under review.

The following table sets forth our results of operations for the years indicated:

	Year ended 31 December					
	2006		2007		2008	
	HK$'000	Percent of Revenue (%)	HK$'000	Percent of Revenue (%)	HK$'000	Percent of Revenue (%)
Revenue	1,090,338	100.0	1,942,400	100.0	6,526,594	100.0
Cost of sales	(971,752)	89.1	(1,701,013)	87.6	(6,031,534)	92.4
Gross profit	118,586	10.9	241,387	12.4	495,060	7.6
Other income	2,607	0.2	11,975	0.6	21,998	0.3
Distribution and selling expenses	(1,991)	0.2	(3,832)	0.2	(7,804)	0.1
Administrative expenses	(11,745)	1.1	(20,306)	1.0	(49,756)	0.8
Change in fair value of derivative financial instruments	2,730	0.3	(6,446)	0.3	16,181	0.2
Finance costs	(13,999)	1.3	(39,419)	2.1	(147,413)	2.3
Share of result of an associate	4,047	0.4	3,710	0.2	2,654	0.1
Profit before taxation	100,235	9.2	187,069	9.6	330,920	5.1
Income tax expense	(4,855)	0.4	(8,342)	0.4	(23,007)	0.4
Profit for the year	95,380	8.8	178,727	9.2	307,913	4.7
Attributable to:						
Equity holders of the Company	46,626	4.3	137,691	7.1	294,431	4.5
Minority interests	48,754	4.5	41,036	2.1	13,482	0.2
	95,380	8.8	178,727	9.2	307,913	4.7
Dividends	16,879	1.5	90,000	4.6	—	—
	HK$		HK$		HK$	
Earnings per share[(1)]						
- basic	9.34		0.26		0.42	
- diluted	N/A		0.26		0.42	

(1) Earnings per Share is calculated assuming the [●] described in this document occurred at the beginning of the relevant period. Our earnings per Share decreased from HK$9.34 in 2006 to HK$0.26 in 2007 primarily due to the increase in the weighted average number of Shares used in calculating earnings per Share, from 5.0 million Shares in 2006 to 533.4 million Shares in 2007, as a result of the capitalisation of shareholders' loans of HK$40.6 million in December 2006. Our earnings per Share increased from HK$0.26 in 2007 to HK$0.42 in 2008 due to an increase in profit for the year attributable to equity holders of the Company, offset in part by an increase in the weighted average number of Shares, from 533.4 million shares in 2007 to 700.0 million shares in 2008, primarily due to a capital contribution of HK$234.0 million from Wellrun in February 2008 from the proceeds of the Exchangeable Notes.

The following table sets forth selected balance sheet data as of the dates indicated:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	47,444	50,070	82,537
Inventories	65,186	144,691	257,536
Trade and other receivables and deposits	173,943	803,715	835,573
Bills receivable	107,594	40,689	304,601
Pledged bank deposits	55,053	117,772	72,455
Bank balances and cash	43,299	277,798	343,293
Total assets	583,274	1,585,317	2,102,263
Trade and other payables	101,446	421,908	52,330
Discounted bills	107,594	28,333	304,601
Secured bank borrowings	161,676	189,525	139,573
Senior Notes	—	624,718	696,724
Total liabilities	373,768	1,272,031	1,205,911
Net current assets	102,186	766,983	630,797
Net assets	209,506	313,286	896,352
Equity attributable to equity holders of the Company	100,224	278,527	831,554

2008 Compared to 2007

Revenue

Our revenue increased from HK$1,942.4 million in 2007 to HK$6,526.6 million in 2008, an increase of 236.0%. The principal reason for the increase was the acquisition of Zhangjiagang Rongli in January 2008, as well as contributions from Guangzhou Yatong and Tianjin Yatong which commenced operations in November 2007 and June 2008, respectively, and increased sales to external customers by Central Steel Macau in 2008. Sales by Central Steel Macau to external customers in 2007 and 2008 accounted for approximately 53.3% and 44.7%, respectively, of our total revenue and approximately 5.7% and 8.0%, respectively, of our total sales by volume. The volume of ferrous metal sold in 2008 increased by 103.9%, from 296,886 metric tons in 2007 to 605,385 metric tons in 2008. The average selling price per metric ton of ferrous metal increased from HK$2,368 per metric ton in 2007 to HK$3,785 per metric ton in 2008, an increase of 59.8%.

The volume of non-ferrous metal sold in 2007 increased by 397.2%, from 22,136 metric tons in 2007 to 110,055 metric tons in 2008. The average selling price per metric ton of non-ferrous metal decreased from HK$55,989 per metric ton in 2007 to HK$38,481 per metric ton in 2008, representing a decrease of 31.3% due to a decrease in the price of copper and a greater percentage of sales from recycled scrap stainless steel and aluminium in 2008.

Cost of sales

Our cost of sales increased from HK$1,701.0 million in 2007 to HK$6,031.5 million in 2008, an increase of 254.6%, primarily as a result of the acquisition of Zhangjiagang Rongli and the increase in costs of raw materials due to increased volume and higher metal prices, particularly for copper, during the first half of the year. Our gross margin was 7.6% in 2008 compared to 12.4% in 2007. The decrease in our gross margin was primarily due to the acquisition of Zhangjiagang Rongli, which has historically had a lower gross margin than the Group due to the relatively small size of its production facility. With limited operating space, Zhangjiagang Rongli's operations in 2008 were primarily focused on collecting scrap metal that required limited processing, like simple separation and cutting, which resulted in lower value being added in the recycling process and therefore lower gross margins. In December 2008, we relocated Zhangjiagang Rongli's operations to a larger facility with a view to improving its operating efficiency and operating results.

Gross margins were also adversely affected by the inclusion of the results of Guangzhou Yatong and Tianjin Yatong, which began operations in November 2007 and June 2008, respectively. New facilities tend to have lower operating efficiencies and therefore lower gross margins in their initial stages of operations. Our gross margin was also adversely affected in the second half of 2008 due to the rapid decline in metal prices. In response to the decline in metal prices, we adopted tighter inventory management policies to reduce the time between the purchase of raw materials and sales to our customers, which resulted in a decline in our average inventory turnover days in 2008.

Other income

Other income increased from HK$12.0 million for 2007 to HK$22.0 million for 2008, an increase of 83.7%. The increase was primarily the result of an increase of HK$6.7 million in net exchange gains and an increase of HK$2.3 million in interest income from higher cash balances in 2008.

The net exchange gains were due to the repayment of borrowings or loans and trade payables denominated in foreign currencies and increased borrowings denominated in foreign currencies due to the appreciation of Renminbi against the foreign currencies.

The increase in cash balances in 2008 was primarily due to the proceeds from the issue of US$80.0 million of Senior Notes in October 2007 and a capital contribution from Wellrun with the net proceeds from the Exchangeable Note offering in February 2008.

Distribution and selling expenses

Our distribution and selling expenses increased from HK$3.8 million for 2007 to HK$7.8 million for 2008, an increase of 103.7%. This increase was primarily attributable to an increase in volume of products sold in 2008 compared to 2007.

Administrative expenses

Our administrative expenses increased from HK$20.3 million for 2007 to HK$49.8 million for 2008, an increase of 145.0%. The increase in administrative expenses was primarily attributable to an increase in staff costs, directors fees and related expenses, and rental fees as a result of the expansion of our operations.

Change in fair value of derivative financial instruments

We had a loss from changes in the fair value of derivative financial instruments of HK$6.4 million in 2007 primarily due to losses on the disposal of copper futures contracts. We had a gain from changes in the fair value of derivative financial instruments of HK$16.2 million in 2008 primarily due to realised and unrealised gains on the change in fair value of copper futures contracts.

Finance costs

Our finance costs increased from HK$39.4 million for 2007 to HK$147.4 million for 2008, an increase of 274.0%. The increase in finance costs was the result of an increase in outstanding indebtedness in 2008, including our US$80.0 million Senior Note offering completed in October 2007. At 31 December 2008, we had total indebtedness, including discounted bills, of HK$1,140.9 million with a weighted average interest rate of 15.0% per annum. At 31 December 2007, we had total indebtedness, including discounted bills, of HK$842.6 million with a weighted average interest rate of 10.9% per annum.

Share of result of an associate

Our share of the profit from Guangzhou Zhujiang Port was HK$3.7 million in 2007 and HK$2.7 million in 2008.

Income tax expense

Our corporate income tax expense increased from HK$8.3 million for 2007 to HK$23.0 million for 2008. The increase in corporate income tax expense was mainly due to an increase in taxable profit. Our effective tax rate was 4.5% in 2007 and 7.0% in 2008. Our effective tax rate in both periods benefited from the fact that a significant portion of our sales was by our Macau subsidiary, which in accordance with the Macau Law is not subject to income tax for sales made to customers outside of Macau. The portions of our total sales made by our Macau subsidiary amounted to 53.3% in 2007 and 44.7% in 2008.

Profit attributable to equity holders

Our profit attributable to equity holders increased from HK$137.7 million in 2007 to HK$294.4 million in 2008, an increase of 113.8%. As a percentage of profits, our profit attributable to equity holders increased from 77.0% in 2007 to 95.6% in 2008. The increase in profit attributable to equity holders as a percent of profits was due to the elimination of a 48% minority interest in our Asia Steel (Holdings) subsidiary in connection with our Reorganisation in September 2007.

2007 Compared to 2006

Revenue

Our revenue increased from HK$1,090.3 million in 2006 to HK$1,942.4 million in 2007, an increase of 78.1%. The volume of ferrous metal sold in 2007 increased by 12.8%, from 263,093 metric tons in 2006 to 296,886 metric tons in 2007. The average selling price per metric ton of ferrous metal increased from HK$1,822 per metric ton in 2006 to HK$2,368 per metric ton in 2007, an increase of 30.0%. Although sales to GZS, which was our largest customer in 2006 and 2005, decreased in 2007 compared to 2006, this decrease was offset by the addition of new customers and an increase in sales to other existing customers. Sales by Central Steel Macau to external customers in 2006 and 2007 accounted for approximately 32.9% and 53.3%, respectively, of the Group's total revenue and approximately 3.2% and 5.7%, respectively, of the Group's total sales by volume.

The volume of non-ferrous metal sold in 2007 increased by 88.2%, from 11,760 metric tons in 2006 to 22,136 metric tons in 2007. The average selling price per metric ton of non-ferrous metal increased from HK$51,944 per metric ton in 2006 to HK$55,989 per metric ton in 2007, an increase of 7.8%. The increase in the volume of non-ferrous metal sold was due to an increase in sales to existing customers.

Sales also increase as a result of the expansion of our supplier base in 2007, which allowed us to increase our production of recycled scrap metals.

Cost of sales

Our cost of sales increased from HK$971.8 million in 2006 to HK$1,701.0 million in 2007, an increase of 75.0%, primarily as a result of the increase in costs of raw materials due to increased volume and higher metal prices, particularly for copper. Our gross margin was 12.4% in 2007 compared to 10.9% in 2006. The increase in our gross margin was due to several factors. The eddy current separator we installed in our Guangzhou Asia Steel production facility in August 2006 allowed us to more effectively extract non-ferrous metal, which generally has a higher average selling price per metric ton, from the unprocessed scrap metal we buy. The cost of the eddy current separator was approximately RMB1.0 million, which is being depreciated over its estimated useful life of ten years. Gross margins benefited from the operation of the separator for a full year in 2007. Our gross margin also increased as a result of the expansion of our customer base, which enhanced our ability to negotiate favourable pricing for our recycled scrap metal by providing us with more alternatives for selling our recycled scrap metal.

Other income

Other income increased from HK$2.6 million for 2006 to HK$12.0 million for 2007, an increase of 359.3%. The increase was primarily the result of an increase of HK$6.3 million in net exchange gains and an increase of HK$3.1 million in interest income from higher cash balances and average interest rate in 2007.

The net exchange gains in 2007 and 2006 were primarily due to the repayment of borrowings or loans and trade payables denominated in foreign currencies, due to the appreciation of Renminbi against the foreign currencies. The increase in net exchange gains in 2007 compared to 2006 resulted from increased borrowings denominated in foreign currencies.

The increase in cash balances in 2007 was primarily due to the proceeds from the issue of US$80.0 million of Senior Notes in October 2007. Average interest rates on cash balances were 2.5% in 2006 and 3.0% in 2007.

Distribution and selling expenses

Our distribution and selling expenses increased from HK$2.0 million for 2006 to HK$3.8 million for 2007, an increase of 92.5%. This increase was primarily attributable to an increase in volume of products sold in 2007 compared to 2006, the addition of new customers located further from our production facilities and an increase in our marketing and selling costs as a result of additional marketing efforts and an increase in new customers.

Administrative expenses

Our administrative expenses increased from HK$11.7 million for 2006 to HK$20.3 million for 2007, an increase of 72.9%. The increase in administrative expenses was primarily attributable to an increase in staff costs, from HK$4.6 million in 2006 to HK$5.6 million in 2007, and fees and expenses incurred in connection with our Senior Note offering in 2007.

Change in fair value of derivative financial instruments

We had a gain from changes in the fair value of derivative financial instruments of HK$2.7 million in 2006 primarily due to gains on the disposal of copper futures contracts, offset in part by changes in the fair value of forward currency contracts. We had a loss from changes in the fair value of derivative financial instruments of HK$6.4 million in 2007, primarily due to losses on the disposal of copper futures contracts and changes in the fair value of forward currency contracts.

Finance costs

Our finance costs increased from HK$14.0 million for 2006 to HK$39.4 million for 2007, an increase of 181.6%. The increase in finance costs was the result of an increase in outstanding indebtedness in 2007, including our US$80.0 million Senior Note offering completed in October 2007. As of 31 December 2006, we had total indebtedness, including discounted bills, of HK$269.3 million with a weighted average interest rate of 5.0% per annum. Our weighted average bank borrowings in 2006 and 2007 were HK$282.3 million and HK$362.8 million, respectively. As of 31 December 2007, we had total indebtedness, including discounted bills, of HK$842.6 million with a weighted average interest rate of 10.9% per annum.

Share of result of an associate

Our share of the profit from Guangzhou Zhujiang Port was HK$4.0 million in 2006 and HK$3.7 million in 2007.

Income tax expense

Our corporate income tax expense increased from HK$4.9 million for 2006 to HK$8.3 million for 2007. The increase in corporate income tax expenses was mainly due to an increase in taxable profit. Our effective tax rate was 4.8% in 2006 and 4.5% in 2007. Our effective tax rate in both periods benefited from the fact that a significant portion of our sales was by our Macau subsidiary, which in accordance with the Macau Law is not subject to income tax for sales made to customers outside of Macau. The portions of our total sales made by our Macau subsidiary amounted to 32.9% in 2006 and 53.3% in 2007.

Profit attributable to equity holders

Our profit attributable to equity holders increased from HK$46.6 million in 2006 to HK$137.7 million in 2007, an increase of 195.5%. As a percentage of profits, our profit attributable to equity holders increased from 48.9% in 2006 to 77.0% in 2007. The increase in profit attributable to equity holders as a percent of profits was due to the elimination of a 48% minority interest in our Asia Steel (Holdings) subsidiary in connection with our Reorganisation in 2007.

WORKING CAPITAL ANALYSIS

Liquidity and Capital Resources

Our cash was mainly used for purchase of property, plant and equipment, costs and expenses relating to operating activities, repayment of bank borrowings and payment of dividends. We have historically obtained our cash mainly from operating activities, loans and capital contributions from our shareholders and bank borrowings, discounted bills and our Senior Note offering in 2007.

We recorded net cash used in operating activities of HK$86.3 million for 2007 and HK$309.0 million for 2008. We recorded net cash from operating activities of HK$36.1 million for 2006. In 2007, our negative operating cash flow was primarily due to a HK$629.8 million increase in trade and other receivables. In 2008, our negative operating cash flow was primarily due to a decrease in trade and other payables and an increase in bills receivable and inventories. For a detailed analysis of our cash flow during the Track Record Period, please refer to the paragraph headed "Cash flows" under this section of the document.

We had net current assets of HK$102.2 million, HK$767.0 million, HK$630.8 million and HK$696.3 million as of 31 December 2006, 2007 and 2008 and 31 March 2009, respectively. Short-term borrowings represented 92.6%, 23.2%, 99.0% and 99.3% of our total indebtedness, including discounted bills, as of 31 December 2006, 2007 and 2008 and 31 March 2009, respectively. As of 31 March 2009, we had not experienced any difficulty in raising funds by securing and refinancing the short-term loans borrowed from various banks in the PRC or Hong Kong. Our Directors believe that based on past experience and our relationships with our principal lending banks, we will be able to refinance existing short-term bank borrowings upon maturity in the coming year.

The table below sets out our net current assets at 31 March 2009:

	Unaudited consolidated balance sheet as of 31 March 2009
	HK$'000
CURRENT ASSETS	
Inventories	468,274
Trade and other receivables and deposits	1,192,239
Bills receivable	184,890
Prepaid lease payments - current portion	3,460
Amount due from an associate	54
Amount due from a controlling shareholder	771
Deposit paid to a related party	115
Derivative financial instruments	371
Taxation recoverable	2,182
Pledged bank deposits	151,269
Restricted bank deposits	7,677
Bank balances and cash	191,632
	2,202,934
CURRENT LIABILITIES	
Trade and other payables	437,277
Discounted bills	184,890
Amount due to minority shareholders of subsidiaries	1,252
Amount due a director	2,219
Secured bank borrowings - due within one year	142,337
Senior Notes	733,085
Taxation payable	5,610
	1,506,670
NET CURRENT ASSETS	696,264

Cash flows

The following table sets out certain information regarding our consolidated cash flows for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Net cash from (used in) operating activities	36,087	(86,308)	(309,040)
Net cash used in investing activities	(38,396)	(129,383)	(34,718)
Net cash from financing activities	20,082	448,086	400,641
Net increase in cash and cash equivalents	17,773	232,395	56,883
Cash and cash equivalents at beginning of the year	25,314	43,299	277,798
Effect of foreign exchange rate changes	212	2,104	8,612
Cash and cash equivalents at the end of the year	43,299	277,798	343,293

Operating activities

Our cash from operating activities reflects profit before taxation for the year, adjusted for (i) non-cash items such as depreciation of property, plant and equipment, amortisation of prepaid lease payments and share of results of an associate; (ii) the effect of changes in working capital, such as increases or decreases in inventories, trade and other receivables and trade and other payables; and (iii) interest income and expense and income taxes paid or refunded.

For 2008, net cash used in operating activities was HK$309.0 million. This was primarily due to profit before taxation of HK$330.9 million, a decrease of HK$422.9 million in trade and other payables as our suppliers tightened credit, resulting in a decline in turnover days of average trade payables from 51 days for 2007 to 14 days for 2008. This was offset in part by tightening credit with our customers, resulting in a decrease in trade and other receivables and deposits of HK$31.2 million and a decline in turnover days of average trade receivables and bills receivable from 97 days for 2007 to 52 days for 2008. Operating cash flow was also adversely affected by a HK$263.9 million increase in bills receivable and a HK$119.9 million increase in inventories.

For 2007, net cash used in operating activities was HK$86.3 million. This was primarily due to profit before taxation of HK$187.1 million, a net increase of HK$629.8 million in trade and other receivables and deposits and a HK$79.5 million increase in inventories, offset in part by a HK$324.1 million increase in trade and other payables and a HK$66.9 million decrease in bills receivable. The increase in trade and other receivables and deposits was due to (i) growth in total sales, (ii) an increase in sales in November and December 2007, and (iii) an increase in the turnover days of average trade and other receivables and bills receivable as a result of tightening credit conditions in the PRC and an increase in working capital requirements due to higher metal prices. Our turnover days of average trade and other receivables and deposits and bills receivable increased from 73 days in 2006 to 97 days in 2007.

For 2006, net cash from operating activities was HK$36.1 million, primarily due to our profit before taxation of HK$100.2 million, a decrease in bills receivable of HK$37.6 million and an increase in trade and other payables of HK$44.6 million, offset in part by a HK$117.2 million increase in trade and other receivables and deposits and a HK$36.2 million increase in inventories.

Investing activities

Our cash used in investing activities primarily consists of the purchase of property, plant and equipment, acquisition of land use rights, increases in pledged bank deposits, deposits for property, plant and equipment or land use rights and payments for other investments.

For 2008, net cash used in investing activities was HK$34.7 million. This was primarily due to purchases of property, plant and equipment of HK$38.3 million for our production facilities, acquisition of land use rights of HK$34.0 million relating to our Yangzhong and Tianjin facilities, deposits for land use rights of HK$12.5 million relating to our Guangzhou and Wuhan facilities and deposits for acquisition of property, plant and equipment of HK$15.3 million primarily related to the shredder for our Ningbo facility. Cash used in investing activities in 2008 was offset in part by a cash inflow of HK$14.0 million from bank balances and cash at Zhangjiagang Rongli at the time of our January 2008 acquisition.

For 2007, net cash used in investing activities was HK$129.4 million, primarily due to an increase of HK$62.7 million in pledged bank deposits to support purchases of raw materials, deposits paid for acquisition of land use rights of HK$46.9 million relating to our planned production facilities in Yangzhong and Tianjin, a HK$12.4 million deposit paid in connection with the acquisition of Zhangjiagang Rongli and purchases of property, plant and equipment of HK$9.0 million primarily related to the acquisition of equipment for our facilities in Hong Kong and Guangzhou. Cash used in investing activities in 2007 was offset in part by interest received of HK$4.3 million and dividends received from Guangzhou Zhujiang Port of HK$3.4 million.

For 2006, net cash used in investing activities was HK$38.4 million, primarily due to an increase of HK$34.4 million in pledged bank deposits to support purchases of raw materials, and purchases of property, plant and equipment of HK$8.5 million, primarily related to the acquisition of equipment for our Guangzhou Asia Steel facility. Cash used in investing activities in 2006 was offset in part by dividends received from Guangzhou Zhujiang Port of HK$4.4 million and interest received of HK$1.2 million.

Financing activities

Our cash from financing activities primarily consists of proceeds from bank borrowings, discounted bills, Senior Notes and other indebtedness, and capital contributions from our shareholders. Discounted bills are bills of exchange from our customers that we have transferred, with recourse, at a discount to a lender, typically a bank. Our cash used in financing activities primarily consists of repayment of bank borrowings and other indebtedness and dividends paid to our shareholders.

For 2008, net cash from financing activities was HK$400.6 million. This was primarily due to a capital contribution by Wellrun of HK$234.0 million from the net proceeds from the Exchangeable Bond offering by Wellrun and an increase in discounted bills of HK$276.3 million, offset in part by interest payments of HK$75.4 million and a net decrease in bank borrowings of HK$36.3 million.

For 2007, net cash from financing activities was HK$448.1 million, primarily from the proceeds of our Senior Note offering of HK$624.0 million and increased bank borrowings of HK$515.6 million, offset in part by repayment of HK$486.5 million in bank borrowings, a decrease of HK$79.3 million in discounted bills, HK$92.7 million in dividends paid to shareholders, transaction costs in connection with the issuance of the Senior Notes of HK$20.3 million and interest paid of HK$18.4 million.

For 2006, net cash from financing activities was HK$20.1 million, primarily from increased bank borrowings of HK$478.2 million and a HK$7.4 million increase in loans from shareholders, offset in part by repayment of HK$378.8 million in bank borrowings, HK$36.4 million in dividends paid to shareholders, a decrease of HK$31.1 million in discounted bills and interest paid of HK$14.0 million.

Receivables and payables

Trade receivables and bills receivable

Our trade receivables and bills receivable represent receivables from customers for the sale of goods. We had trade receivables and bills receivable of HK$236.9 million, HK$790.0 million and HK$1,076.9 million as of 31 December 2006, 2007 and 2008, respectively. The increase in trade receivables and bills receivable during the Track Record Period was primarily due to an increase in revenue, particularly from the increase in sales of recycled scrap non-ferrous metal and the acquisition of Zhangjiagang Rongli in 2008, and, for the year ended 31 December 2007, an increase in turnover days of our average trade receivables and bills receivable.

The following table sets forth the turnover days of our average trade receivables and bills receivable for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Turnover of average trade receivables and bills receivable (days) [(1)]	73	97	52

(1) Calculated as the average of the beginning and ending trade receivables and bills receivable balance for the year, divided by revenue for the year, multiplied by 365 days.

Our suppliers may request deposits from time to time for the purchase of raw materials, with terms negotiated on a case by case basis. As of 31 December 2006, 2007 and 2008, we had outstanding deposits for the purchase of raw materials of HK$26.0 million, HK$45.2 million and HK$39.6 million, respectively. As of 31 March 2009, we had outstanding deposits for the purchase of raw materials of HK$84.5 million.

Our turnover days of average trade receivables and bills receivable increased significantly in 2007 due to an increase in working capital requirements as a result of higher metal prices and tightening credit conditions in the PRC. The increase in metal prices, particularly copper, and the increase in our sales of non-ferrous metal increased the working capital requirements of our customers. In addition, authorities in the PRC took steps in 2007 to tighten the availability of credit, which made it more difficult and expensive for customers to finance their working capital requirements. As a result, several of our significant customers delayed payments to us. In response, we are seeking to diversify our customer base and strengthen the overall credit quality of our customer base. Our turnover days of average trade receivables and bills receivable for 2008 decreased to 52 days as a result of our acquisition of Zhangjiagang Rongli, which has a lower turnover days of average trade receivables and bills receivable than the Group as a whole due to differing local business practices and a loosening of credit policies in the PRC in the second half of 2008 as a result of the global economic crisis.

An aging analysis of our trade receivables is set forth below:

	As of 31 December		
	2006	**2007**	**2008**
	HK$'000	**HK$'000**	**HK$'000**
0-30 days	61,526	331,659	425,213
31-60 days	33,837	190,972	316,600
61-90 days	33,971	120,346	27,002
Over 90 days	—	106,323	3,441
Total	129,334	749,300	772,256

Of the HK$3.4 million in trade receivables that were over 90 days as of 31 December 2008, HK$3.2 million were 91 to 120 days and HK$0.2 million were over 180 days.

We generally allow an average credit period of 30 to 60 days to our ferrous customers. In addition, we generally allow longer credit periods, 30 to 90 days, for sales of non-ferrous metals. Also, the credit periods are generally longer for sales financed with bills of exchange, usually up to 180 days. We had bills receivable of HK$304.6 million as of 31 December 2008. An aging analysis of our trade receivables arising from the sale of non-ferrous metal is set forth below:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
0-30 days	24,792	281,131	354,795
31-60 days	27,633	189,476	277,591
61-90 days	33,971	120,346	255
Over 90 days	—	105,002	—
Total	86,396	695,955	632,641

Our maximum exposure in the event of a counterparty's failure to perform their obligations is the carrying amount of the financial assets as stated on our balance sheet. To minimise the credit risk, we has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue amounts. In addition, we review the recoverable amount of each debt at each balance sheet date to determine whether any impairment losses should be recorded.

At 31 December 2008, 39.4% of our total trade receivables and bills receivable was due from our largest debtor, and 92.3% of our total trade receivables and bills receivable was due from our five largest debtors. The aggregate amount of total trade receivables and bills receivable from the GSEG Group as of 31 December 2006, 2007 and 2008 was HK$159.5 million, HK$260.3 million and HK$424.6 million, respectively. As of 31 March 2009, more than 99.2% of trade and bills receivable as of 31 December 2008 were settled.

Trade and other payables

Our trade and other payables represent amounts we owe our suppliers for the purchase of goods and services and deposits from customers. We had trade and other payables of HK$101.4 million, HK$421.9 million and HK$52.3 million as of 31 December 2006, 2007 and 2008, respectively. This increase in trade and other payables from 2006 to 2007 was primarily due to growth in sales and increases in raw materials costs. The increase in turnover days of average trade payables in 2007 was due to tighter credit policies of the PRC Government, as a result of which we negotiated with our suppliers to lengthen payment periods to correspond to the longer payment periods of our customers. For example, our turnover of average trade receivables and bills receivable increased from 73 days in 2006 to 97 days in 2007, and our turnover of average trade payables increased from 17 days in 2006 to 51 days in 2007. In 2008, we experienced tighter credit terms from suppliers, which resulted in a significant decrease in trade and other payables as of 31 December 2008 compared to 31 December 2007. The effects of such tighter credit terms from suppliers were offset in part by tighter credit terms granted to our customers. For 2008, our turnover of average trade receivables and bills receivable decreased to 52 days, and our turnover of average trade payables decreased to 14 days.

The following table sets forth the turnover days of our average trade payables for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Turnover of average trade payables (days)(1)	17	51	14

(1) Calculated as the average of the beginning and ending trade payables balance for the year, divided by cost of sales for the year, multiplied by 365 days.

We may require deposits from customers from time to time depending on whether the customer is relatively new, the customer's payment history and the amount of business done with the customer. As of 31 December 2006, 2007 and 2008, we had outstanding deposits from customers of HK$25.1 million, HK$4.0 million and HK$15.8 million, respectively. The deposits received from customers as of 31 December 2006 mainly came from GZS. The deposits received from customers as of 31 December 2007 declined primarily due to a decrease in the volume of business with GZS. The increase in 2008 was due to the addition of new customers and the growth of our business.

Credit periods granted by our suppliers range in general from 14 to 45 days. Our turnover days for each of the years ended 31 December 2006, 2007 and 2008 were generally within the relevant credit periods granted by our suppliers. The increase in turnover days of average trade payables in 2007 was primarily the result of the increase in our turnover days of average trade receivables and bills receivable from our customers. As a result of the longer payment periods from our customers in 2007, we sought and obtained longer credit periods from our suppliers. In 2008, tightened credit terms from our suppliers resulted in a decline in turnover days of average trade payables from 51 days for 2007 to 14 days for 2008, which our Directors believe was caused by the global economic crisis and resulting pressures on businesses, including our customers, to preserve cash.

An aging analysis of our trade payables is set forth below:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
0-30 days	27,453	195,592	12,425
31-60 days	41,120	54,586	5,729
Over 60 days	380	154,870	1,837
Total	68,953	405,048	19,991

Of the HK$1.8 million in trade payables that were over 60 days at 31 December 2008, HK$1.1 million were 61 to 90 days, HK$0.5 million were 91 to 120 days, and HK$0.2 million were over 150 days. As of 31 March 2009, more than 90.6% of the trade payables as of 31 December 2008 were settled.

Inventories

Our inventories primarily consist of unprocessed and processed scrap metals, including steel, copper, aluminium and stainless steel. We had inventories of HK$65.2 million, HK$144.7 million and HK$257.5 million as of 31 December 2006, 2007 and 2008, respectively. The increase in inventory balances was primarily due to an increase in the purchase of raw materials for processing as a result of growth in our sales volume and the rising prices of copper and, for 2006 and 2007, an increase in turnover days of average inventory to ensure an adequate supply to meet increasing customer demand. We did not acquire inventory to speculate on price movements in the underlying metal during the Track Record Period.

Set forth below is information regarding our inventory as of the dates indicated:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Raw materials	64,089	131,135	215,675
Finished goods	1,097	13,556	41,861
Total	65,186	144,691	257,536

We recorded a write-down of inventories of HK$10.0 million during the year ended 31 December 2008 due to the decline in copper prices. We have not made any other provisions for inventory obsolescence during the years ended 31 December 2006, 2007 and 2008. Unprocessed and processed scrap metal, the principal components of our inventory, generally are not susceptible to obsolescence by the passage of time. However, the value of our inventory can be affected by fluctuations in the metal prices. At each balance sheet date, our management reassesses the net realisable value of our inventories based on market conditions and our historical experience in selling goods of a similar nature. If the net realisable value of an item of inventory is lower than its cost, the difference is charged to profit and loss and the carrying value of that item is written down to its net realisable value. Approximately 97.1% of our inventory as of 31 December 2008 had been sold to customers by 31 March 2009.

Set forth below are our inventory turnover days for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Turnover of average inventory (days)[1]	18	23	12

(1) Calculated as the average of the beginning and ending inventory for the year, divided by cost of sales for the year, multiplied by 365 days.

We seek to maintain an optimal level of inventory and generally keep approximately 15 to 30 days of inventory on hand. We may increase our purchases of raw materials when we believe that the cost of raw materials and our estimates of production and sales make it prudent to do so. The decline in our inventory turnover days in 2008 was primarily due to tighter inventory management policies in 2008 in response to the global financial crisis.

Historical Indebtedness

The following table sets forth our bank borrowings and other indebtedness as of the dates indicated:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Current:			
Bank borrowings(1)	141,676	167,057	128,664
Bank advances under discounted bills(2)	107,594	28,333	304,601
Senior Notes	—	—	696,724
Total current	249,270	195,390	1,129,989
Non-current:			
Bank borrowings(1)	20,000	22,468	10,909
Senior Notes	—	624,718	—
Total non-current	20,000	647,186	10,909
Total current and non-current	269,270	842,576	1,140,898

(1) Bank borrowings of HK$161.7 million, HK$189.5 million and HK$139.6 million as of 31 December 2006, 2007 and 2008, respectively, were secured by property, plant and equipment, prepaid lease payments, trade receivables, inventories and bank deposits.

(2) Discounted bills with recourse have been accounted for as short-term bank advances. These discounted bills are secured by the underlying bills receivable as of the respective balance sheet date.

We issued US$80.0 million aggregate principal amount of our Senior Notes in October 2007. The Senior Notes bear coupon interest at 8.5% per annum, payable semi-annually in arrears, and mature in October 2009. The carrying amount of the Senior Notes of HK$696.7 million as of 31 December 2008 was calculated by an effective interest rate of 19.36% per annum, which takes into account the coupon interest and the effect of the Listco Warrants. The Senior Notes are secured by substantially all of our assets outside of the PRC and a pledge of our outstanding Shares and the outstanding shares of our subsidiaries. The Senior Notes are also guaranteed by certain of our subsidiaries. Under the terms of the Senior Notes, we are required to redeem the Senior Notes in full, plus accrued coupon interest to 23 October 2009, upon completion of the [●] if [●] is earlier than 23 October 2009, the maturity date of the Senior Notes. To ensure that there is sufficient time for the funds to reach the holders of the Senior Notes, we have agreed with the holders to redeem the Senior Notes on the day after [●]. We intend to redeem the Senior Notes in full using a portion of the proceeds from the [●], internal resources and borrowings under our banking facilities. See the section headed "Future Plans and Use of Proceeds."

The following table sets forth our fixed rate and variable rate bank borrowings and discounted bills and effective interest rates for the dates indicated:

	As of 31 December					
	2006		2007		2008	
	HK$'000	Effective Interest Rate (%)	HK$'000	Effective Interest Rate (%)	HK$'000	Effective Interest Rate (%)
Bank borrowings:						
Fixed rate	113,916	5.00% to 7.02%	177,231	5.03% to 8.02%	59,802	3.77% to 7.84%
Variable rate	47,760	6.86% to 8.25%	12,294	6.25% to 7.75%	79,771	2.73% to 6.74%
Discounted bills	107,594	2.76% to 5.02%	28,333	2.70% to 5.80%	304,601	3.85% to 6.04%

Indebtedness as of 31 March 2009

As of 31 March 2009, for the purpose of this statement of indebtedness prior to the printing of this document, we had outstanding indebtedness of HK$1,067.9 million, which consisted of (i) secured bank loans denominated in Renminbi totalling RMB79.0 million with interest rates ranging from 1.05% to 5.35%, and RMB72.3 million and RMB6.7 million of such loans are set to mature before March 2010 and October 2010, respectively; (ii) short-term secured bank loans denominated in U.S. and Hong Kong dollars totalling the equivalent of HK$60.2 million and scheduled to mature before June 2009, with interest rates ranging from 2.05% to 6.56%; (iii) discounted bills in an aggregate principal amount of RMB162.7 million and scheduled to mature before September 2009, with interest rates ranging from 1.56% to 3.60%; and (iv) Senior Notes in the aggregate principal amount of US$80.0 million and scheduled to mature in October 2009, with a carrying amount of HK$733.1 million calculated by an effective interest rate of 19.36% per annum, which takes into account the coupon interest of 8.5% per annum and the effect of the Listco Warrants. In addition, as of such date we had unused bank facilities of HK$153.1 million.

Contingent liabilities

We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving our Group. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Disclaimers

Except as disclosed in the section headed "Financial Information — Historical Indebtedness" in this document, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 31 March 2009.

Our Directors confirm that there have been no material changes in our indebtedness and contingent liabilities as of 31 March 2009.

Capital expenditures

Our capital expenditures are incurred primarily in connection with the expansion of our business operations and primarily consist of purchases of property, plant and equipment for our processing and administrative facilities, and deposits and other payments for land leases (land use rights) for our production facilities. Our capital expenditures paid were HK$9.5 million, HK$58.8 million and HK$100.1 million for the years ended 31 December 2006, 2007 and 2008, respectively. The increase in capital expenditures in 2007 was primarily for deposits paid for land leases for our planned production facilities in Yangzhong and Tianjin. The capital expenditures in 2008 were primarily for purchases of property, plant and equipment, acquisition of land use rights relating to our Yangzhong and Tianjin facilities, deposits for land use rights relating to our Guangzhou and Wuhan facilities and deposits for property, plant and equipment primarily related to the shredder for our Ningbo facility. We expect to incur capital expenditures of approximately HK$134.0 million in 2009, which are primarily for purchases of property, plant and equipment and the acquisition of land use rights in connection with our facilities in Tianjin and Zhongshan and our planned facilities in Yangzhong, Ningbo and Wuhan. In 2010, we expect to incur approximately HK$146 million for the construction of a pier at our planned Yangzhong facility. We also expect to incur capital expenditures for our planned Wuhan facility in 2010. The amount and timing of such capital expenditures will depend in part on the bidding and auction procedures of the land to be acquired for the planned Wuhan facility. For additional information regarding our production facilities, see the section headed "Business — Our Products and Business Activities — Production Facilities." We may adjust our capital expenditures for any given period according to our development plans and in light of market conditions and other factors we believe to be appropriate.

Contractual obligations

The following table sets forth our contractual obligations for future operating lease payments under non-cancellable leases as of the dates indicated:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Within one year	299	10,209	21,308
In the second to fifth year inclusive	936	5,493	49,320
Over five years	11,580	11,012	78,395
Total	12,815	26,714	149,023

Operating lease payments represent rentals payable by us for office and factory premises. We have also entered into long-term supply agreements under which we have agreed to purchase certain minimum quantities of unprocessed scrap metals.

The following table sets forth our capital commitments as of the dates indicated:

	As of 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Acquisition of property, plant and equipment	113	149	32,274
Additions of construction in progress	—	2,390	3,239
Inception of land lease	29,000	28,723	30,180
Total	29,113	31,262	65,693

All of our capital commitments as of 31 December 2008 are due within one year.

Working capital

Our Directors are of the opinion that, after taking into account the net proceeds available to us from the [●], the cash generated by operations, and our credit facilities maintained with our banks, we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

Off-balance sheet commitments and arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties other than the pledge of certain bank deposits to secure bank facilities provided to Guangzhou Zhujiang Port in the amount of HK$6.2 million as of 31 December 2006. This guarantee was released during 2007 upon the settlement of the relevant bank borrowings. In addition, we have not entered into any derivative contracts that are indexed to our own Shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Further, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including fluctuations in commodity prices, currency exchange rates and interest rates. Our risk management strategy is intended to minimise the adverse effects of these risks on our financial performance.

Commodity price risks

We are exposed to fluctuations in the prices of raw materials. We generally purchase raw materials at market prices. In addition, sales of all our products are made at market prices, which may fluctuate and are beyond our control. Therefore, fluctuations in the prices for our raw materials may have an adverse effect on our results of operations. In particular, we are exposed to the risk of price changes between the time we commit purchase orders with suppliers and the time we confirm sales with customers. We have periodically hedged a portion of our commodity price risk through the use of futures contracts for certain metals, such as copper. As of the Latest Practicable Date, we had a net short position on 2,935 metric tons of metals future contracts, mainly copper, underlined with a similar quantity of inventories on hand, with a mark-to-market unrealized net loss of HK$10.1 million. Such a loss position resulted from the general increase in metal prices recently.

We have adopted a hedging policy that addresses the responsibilities of our relevant departments, price protection principles, implementation strategies, sales contract guidelines, inventory guidelines, material import guidelines and other detailed hedging procedures. The purpose of our hedging policy is to mitigate our exposure to fluctuations in copper prices and to protect the sales price of our products primarily through buying and selling copper futures contracts in organised markets. The policy has been approved by our Board of Directors and became effective on 1 April 2008. The key elements of this policy include:

➢ copper positions are established during the course of recycling and sales activities involving scrap copper;
➢ to reduce the risk of losses from copper price fluctuations on copper positions, target a "zero" position by hedging spot positions with future contracts;
➢ to provide flexibility to persons responsible for implementing the policy, small daily long or short positions are permitted subject to a position limit recommended by the corporate finance department and approved by our board of directors; and
➢ daily reports are compiled and submitted to the corporate finance department detailing movements in spot and forward transactions and net copper positions.

Foreign currency risk

We have debt denominated in both Renminbi and U.S. dollars. As of the Latest Practicable Date, the exchange rate for Renminbi to the U.S. dollar is approximately RMB6.85 to US$1.00. To the extent that the Renminbi appreciates (or depreciates) against the U.S. dollar, the value of our borrowings and the repayment cost of such borrowings will decrease (or increase) correspondingly.

The fluctuation of the Renminbi exchange rate also may affect our business and results of operations because a portion of our raw material purchases are denominated in U.S. dollars and Hong Kong dollars. As a result, we are exposed to foreign currency risk. In order to manage this risk and to reduce our exposure, we hedge this exposure by entering into foreign currency forward contracts from time to time. We were not a party to any foreign currency forward contracts as of the Latest Practicable Date.

Interest rate risk

We do not have significant interest-bearing assets other than short-term deposits. As such, our income and operating cash flows are, to a large extent, independent of changes in market interest rates. Our exposure to market risk for changes in interest rates is related primarily to fluctuations in interest rates on our bank borrowings. We undertake debt obligations to support general corporate purposes, including capital expenditures and working capital needs. Our bank borrowings bear interest rates that are subject to adjustment by our lenders in accordance with changes to the relevant regulations of the PBOC. If the PBOC increases interest rates, our finance costs will increase. If the PBOC reduces interest rates, our finance costs will decrease. The PBOC has adjusted the benchmark one-year lending rate a number of times in recent years. For example, the PBOC raised the benchmark one-year rate from 5.58% as of the end of 2005 to 7.47% as of the end of 2007, but lowered the rate to 5.31% as of the end of 2008. Fluctuations in interest rates will affect the cost of our new debts. We do not use any interest rate swaps to hedge against our exposure to interest rate risks.

DIVIDEND POLICY

We paid dividends of HK$16.9 million, HK$90.0 million and nil for the years ended 31 December 2006, 2007 and 2008, respectively. The payment and the amount of any dividends will depend on our results of operations, cash flows, financial condition, contractual, statutory and regulatory restrictions on the payment of dividends by us and our subsidiaries, our future prospects and other factors that our Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to the discretion of our Directors.

Our ability to pay dividends will also depend upon the amount of distributions, if any, received from our subsidiaries. Under PRC law and regulations, dividends may be paid by our subsidiaries only after they have established the required statutory surplus reserve and the required income tax has been paid. See the section headed "Risk Factors — Risks Relating to Our Business — We are a holding company and rely on dividend payments from our subsidiaries and associated companies."

To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our business. The dividends that we have paid in the past should not be used as a reference or basis to determine the level of dividends that we may declare or pay in the future, and we cannot assure you that we will be able to declare or pay any dividends in the future.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Please refer to "Appendix VI — Summary of the Constitution of the Company and Cayman Company Law" to this document.

Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of approximately 20% of the profit attributable to equity holders of the Company for the year ending 31 December 2009.

INFLATION

According to the National Bureau of Statistics of China, the changes in the consumer price index in China were approximately 1.7%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively. We have not been materially and adversely affected by inflation or deflation in China.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had our Group been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION

Details relating to our property interests are set out in Appendix V of this document. Vigers Appraisal and Consulting Limited, an independent property appraiser, has valued the properties owned by us as of 31 March 2009. The text of its letter, a summary of valuations and valuation certificates are set out in Appendix V.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	HK$'000
Net book value of property interests as of 31 December 2008 (audited)	114,464
Less: Depreciation and amortisation for the three months ended 31 March 2009	(1,266)
Net book value as of 31 March 2009 (unaudited)	113,198
Add: Valuation surplus as of 31 March 2009	8,332
Valuation as of 31 March 2009 (before deducting minority shareholders' interests)	121,530
Less: Interests attributable to minority shareholders	(11,070)
Valuation as of 31 March 2009 as per Appendix V to this document (after deducting minority shareholders' interests)	110,460

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2009

Our Directors forecast that, on the bases and assumptions set out in Appendix IV to this document and in the absence of unforeseen circumstances, the consolidated profit attributable to equity holders of the company for the six months ending 30 June 2009 will not be less than HK$ million.

The profit forecast, for which our Directors are solely responsible, has been prepared by them based on the unaudited management accounts of the Group for the three months ended 31 March 2009 and a forecast of the consolidated results of the Group for the remaining three months ending 30 June 2009.

The Directors have undertaken to the Stock Exchange that the Company's consolidated financial statements for the six months ending 30 June 2009 will be audited, pursuant to Rule 11.18 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2008, being the date of our Consolidated Financial Statements as set out in the Accountants' Report included in Appendix I to this document.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ZHANGJIAGANG RONGLI

We acquired a 70% equity interest in Zhangjiagang Rongli in January 2008. Prior to that time, it was under the control and management of another party. The following is a summary of Zhangjiagang Rongli's financial condition and results of operations as of and for the year ended 31 December 2007. It was established in December 2006 and therefore prior year results are not meaningful. The following information should be read in conjunction with Zhangjiagang Rongli's audited financial statements, including the notes thereto, included as Appendix II to this document. The principal operations of Zhangjiagang Rongli are conducted in the PRC and, as a result, its financial statements have been prepared in Renminbi which is Zhangjiagang Rongli's functional currency.

Results of Operations for 2007

The following table sets forth Zhangjiagang Rongli's results of operations for the year ended 31 December 2007:

	Year ended 31 December 2007
	RMB'000
Revenue:	
Ferrous	790,256
Non-ferrous	419,804
Total revenue	1,210,060
Cost of sales	(1,201,273)
Gross profit	8,787
Bank interest income	10
Distribution and selling expenses	(77)
Administrative expenses	(3,215)
Interest on discounted bills	(333)
Profit before taxation	5,172
Income tax expense	(1,701)
Profit for the year	3,471

Zhangjiagang Rongli's gross margin for 2007 was 0.7%. We believe Zhangjiagang Rongli's gross margin in 2007 was adversely affected by a number of factors, including its relatively small production facility and reliance on labour and the resulting lack of operating efficiency.

Liquidity and capital resources

Cash flow

Zhangjiagang Rongli had negative operating cash flow in 2007. Its net cash used in operating activities for 2007 was RMB11.7 million, primarily due to a RMB59.2 million increase in trade receivables, offset in part by a RMB44.9 million increase in trade and other payables.

Zhangjiagang Rongli had cash from investing activities of RMB0.5 million in 2007, primarily due to the repayment of a note from a related company of RMB2.0 million, offset in part by purchases of property, plant and equipment of RMB1.5 million.

Zhangjiagang Rongli had cash from financing activities of RMB24.4 million in 2007, primarily due to RMB14.7 million in proceeds from the issuance of shares, RMB5.1 million in shareholder advances and RMB5.0 million in other borrowings.

Receivables and payables

Trade receivables

Zhangjiagang Rongli had trade receivables of RMB59.2 million at 31 December 2007. The following table sets forth an aging analysis of Zhangjiagang Rongli's trade receivables as of 31 December 2007:

	As of 31 December 2007
	RMB'000
0-30 days	56,079
31-60 days	3,151
Total	59,230

Zhangjiagang Rongli generally allows an average credit period of 30 to 60 days to its customers. At 31 December 2007, 37.6% of its total trade receivables was due from its largest debtor, and 94.2% of its total trade receivables was due from its five largest debtors. All of the trade receivables as of 31 December 2007 were settled as of 29 February 2008.

Trade and other payables

Zhangjiagang Rongli had trade and other payables of RMB44.9 million at 31 December 2007. The following table sets forth an aging analysis of Zhangjiagang Rongli's trade payables as of 31 December 2007:

	As of 31 December 2007
	RMB'000
0-30 days	40,945
31-60 days	3,139
Total	44,084

Balance Sheet Data

The following table sets forth selected balance sheet data for Zhangjiagang Rongli as of 31 December 2007:

	As of 31 December 2007
	RMB'000
Property, plant and equipment	1,406
Inventories	2,759
Trade receivables	59,230
Bank balances and cash	13,188
Total assets	76,583
Trade and other payables	44,892
Amount due to a shareholder	5,058
Other borrowing	5,000
Taxation payable	1,500
Total liabilities	56,450
Net assets	20,133

FUTURE PLANS

Our goal is to strengthen our market position in the scrap metal recycling industry in China, serving major steel and copper producing manufacturers in industrialised areas throughout China. To achieve this, we plan to significantly expand our operations and production capacity.

For example, we plan to complete new production facilities in Ningbo, Yangzhong and Tianjin by the end of the third quarter of 2009. These new facilities are expected to have a total designed annual production capacity of approximately 1.5 million metric tons. By the end of 2009, we expect to have significant production capacity in areas with high demand for scrap metals in northern, southern and eastern China, with a total designed annual production capacity of approximately 3.1 million metric tons. In addition, in 2010, we plan to open a new production facility in Wuhan, Hubei Province in central China, with a total designed annual production capacity of approximately 0.5 million metric tons.

As part of our expansion plans, we also plan to continue to invest in equipment to further automate our operations, which we believe will help us to achieve greater efficiencies and maximise our profitability and returns to our shareholders. For example, we have contracted to purchase an automated shredder with a processing speed of 120 to 150 metric tons of scrap metal per hour for installation at our planned production facility in Ningbo.

Please refer to the section headed "Business — Business Strategies" in this document for additional information regarding our growth strategies and future plans.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

[DATE]

The Directors
China Metal Recycling (Holdings) Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding China Metal Recycling (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008 (the "Relevant Periods"), for inclusion in the document of the Company dated [●] 2009 (the "Document").

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 18 July 2007. Pursuant to a group reorganisation, as more fully explained in the section "History and Development" in the document (the "Group Reorganisation"), the Company became the holding company of the Group on 30 September 2007.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Asia Steel (Holdings) Limited ("Asia Steel (Holdings)")	British Virgin Islands 20 July 1999	US$200	100	—	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Asia Steel (H.K.) Limited ("Asia Steel HK") (note 1)	Hong Kong 6 December 2000	HK$78,100,000	—	100	Investment holding
Asia Steel (Investments) Limited (note 2)	Hong Kong 11 August 1999	HK$100,000	—	100	Investment holding
Asia Steel (Development) Limited (note 2)	Hong Kong 4 June 1999	HK$100,000	—	100	Investment holding
Huan Bao Steel Limited (note 1)	Hong Kong 7 August 1998	HK$10,000	—	100	Investment holding and collection, processing and sale of recycled scrap metal
Central Steel (Macao Commercial Offshore) Limited ("Central Steel") (note 1)	Macau 21 March 2005	MOP100,000	—	100	Metal trading
揚中亞鋼金屬有限公司 (Yangzhong Yagang Metal Co., Ltd.) ("Yangzhong Yagang") (note 3)	The People's Republic of China (the "PRC") 15 December 2006	US$20,000,000	—	100	Investment holding and collection, processing and sale of recycled scrap metal
天津亞銅鋼鐵有限公司 (Tianjin Yatong Steel Co., Ltd.) ("Tianjin Yatong") (note 3)	The PRC 16 August 2006	US$13,000,000 (note 6)	—	90.385	Collection, processing and sale of recycled scrap metal
廣州亞銅金屬有限公司 (Guangzhou Yatong Metal Co., Ltd.) ("Guangzhou Yatong") (note 3)	The PRC 25 May 2007	US$3,500,000	—	100	Collection, processing and sale of recycled scrap metal
廣州亞鋼鋼鐵有限公司 (Guangzhou Asia Steel Co., Ltd.) ("Guangzhou Asia Steel") (note 4)	The PRC 15 May 2001	US$4,500,000	—	75	Collection, processing and sale of recycled scrap metal
張家港容利再生資源有限公司 (Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.) ("Zhangjiagang Rongli") (note 5)	The PRC 1 December 2006	RMB16,667,000	—	70	Collection, processing and sale of recycled scrap metal

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
中山亞銅金屬材料有限公司 (Zhongshan Yatong Metal Materials Co., Ltd. ("Zhongshan Yatong") (note 3)	The PRC 3 September 2008	US$10,000,000 (note 6)	—	100	Inactive
寧波亞鋼金屬有限公司 (Ningbo Yagang Metal Co., Ltd.) ("Ningbo Yagang") (note 3)	The PRC 4 September 2008	RMB20,000,000	—	100	Inactive
武漢亞鋼金屬有限公司 (Wuhan Yagang Metal Co., Ltd.) ("Wuhan Yagang") (note 4)	The PRC 10 November 2008	US$12,000,000 (note 6)	—	70	Inactive

Notes:

(1) Deloitte Touche Tohmatsu is the statutory auditor for the Relevant Periods.

(2) Deloitte Touche Tohmatsu is the statutory auditor of these entities for each of the two years ended 31 December 2008 while their statutory financial statements for the year ended 31 December 2006 were audited by Simon Chan & Co., certified public accountants in Hong Kong.

(3) These entities are wholly-foreign owned enterprises established in the PRC.

(4) These entities are Sino-foreign owned enterprises established in the PRC.

(5) This entity is a limited company in the PRC acquired by the Group in January 2008.

(6) Capital injections to these entities are not completed as at the date of this report. The unpaid capital for Tianjin Yatong, Zhongshan Yatong and Wuhan Yagang amounted to US$1,999,986, US$8,500,000 and US$12,000,000, respectively.

The financial year end date of the companies now comprising the Group is 31 December.

As at the date of this report, the Company has interest in the following associate:

Name of associate	Form of business structure	Place and date of establishment	Proportion of nominal value of registered capital held indirectly by the Company	Principal activities
廣州珠鋼碼頭有限公司 (Guangzhou Zhujiang Steel Port Co., Ltd.) ("Guangzhou Zhujiang Steel Port")	Sino-foreign owned enterprise	The PRC 28 February 2003	45%	Construction of terminals, loading and unloading of cargoes, and warehousing

No audited statutory financial statements have been prepared for the Company and Asia Steel (Holdings) since their respective dates of incorporation as there is no statutory requirement to do so. No statutory financial statements have also been prepared for Zhongshan Yatong, Ningbo Yagang and Wuhan Yagang since their first statutory financial statements will be closed at 31 December 2009. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies since their respective dates of incorporation/establishment to 31 December 2008 and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

The statutory financial statements of the Group's subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by:

Name of subsidiary	Periods covered	Certified Public Accountants
Yangzhong Yagang	15 December 2006 (date of establishment) to 31 December 2007	揚中正信會計師事務所有限公司 (Yangzhong Zhengxin Certified Public Accountants Co., Ltd.) ("Yangzhong Zhengxin")
	Year ended 31 December 2008	Yangzhong Zhengxin
Tianjin Yatong	16 August 2006 (date of establishment) to 31 December 2007	天津東南會計師事務所有限公司 (Tianjin Southeast Certified Public Accountants Co., Ltd.)
	Year ended 31 December 2008	天津中興財有限責任會計師事務所 (Tianjin Zhong Xing Cai Certified Public Accountants)
Guangzhou Yatong	25 May 2007 (date of establishment) to 31 December 2007	廣東粵信會計師事務所有限公司 (Guangdong Yuexin Certified Public Accountants Co. Ltd.) ("Guangdong Yuexin")
	Year ended 31 December 2008	Guangdong Yuexin
Guangzhou Asia Steel	Year ended 31 December 2006	深圳大華天誠會計師事務所有限公司 (Shen Zhen Da Hua Tian Cheng Certified Public Accountants Co., Ltd.)
	Each of the two years ended 31 December 2008	Guangdong Yuexin
Zhangjiagang Rongli	1 December 2006 (date of establishment) to 31 December 2007	蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.) ("Suzhou Qinye")
	Year ended 31 December 2008	Suzhou Qinye

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A below. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007 and 2008, and of the Company as at 31 December 2007 and 2008 and of the consolidated results and cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December		
		2006	2007	2008
		HK$'000	HK$'000	HK$'000
Revenue	7	1,090,338	1,942,400	6,526,594
Cost of sales		(971,752)	(1,701,013)	(6,031,534)
Gross profit		118,586	241,387	495,060
Other income	8	2,607	11,975	21,998
Distribution and selling expenses		(1,991)	(3,832)	(7,804)
Administrative expenses		(11,745)	(20,306)	(49,756)
Change in fair value of derivative financial instruments		2,730	(6,446)	16,181
Finance costs	9	(13,999)	(39,419)	(147,413)
Share of result of an associate		4,047	3,710	2,654
Profit before taxation		100,235	187,069	330,920
Income tax expense	10	(4,855)	(8,342)	(23,007)
Profit for the year	11	95,380	178,727	307,913
Attributable to:				
Equity holders of the Company		46,626	137,691	294,431
Minority interests		48,754	41,036	13,482
		95,380	178,727	307,913
Dividends	13	16,879	90,000	—
		HK$	HK$	HK$
Earnings per share	14			
- basic		9.34	0.26	0.42
- diluted		N/A	0.26	0.42

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 December 2006	2007	2008
		HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	47,444	50,070	82,537
Investment properties	16	—	—	1,770
Prepaid lease payments - non-current portion	17	19,111	18,764	97,989
Interest in an associate	19	61,330	62,941	67,046
Investment in Zhangjiagang Rongli	39	—	12,412	—
Deposits paid for acquisition of land use rights		1,000	47,872	12,500
Deposits paid for acquisition of property, plant and equipment		—	2,858	15,304
		128,885	194,917	277,146
CURRENT ASSETS				
Inventories	20	65,186	144,691	257,536
Trade and other receivables and deposits	21	173,943	803,715	835,573
Bills receivable	22	107,594	40,689	304,601
Prepaid lease payments - current portion	17	1,278	1,355	3,460
Amount due from an associate	19	—	7	54
Amounts due from minority shareholders of subsidiaries	23	79	3,265	—
Amount due from a controlling shareholder	24	—	—	771
Deposit paid to a related party	25	—	—	115
Derivative financial instruments	26	5,967	—	1,446
Taxation recoverable		1,990	1,108	2,182
Pledged bank deposits	27	55,053	117,772	72,455
Restricted bank deposits	28	—	—	3,631
Bank balances and cash	28	43,299	277,798	343,293
		454,389	1,390,400	1,825,117

	Notes	As at 31 December		
		2006	2007	2008
		HK$'000	HK$'000	HK$'000
CURRENT LIABILITIES				
Trade and other payables	29	101,446	421,908	52,330
Discounted bills	30	107,594	28,333	304,601
Amount due to an associate	19	734	—	—
Amounts due to minority shareholders of subsidiaries	31	—	—	1,286
Amount due to a director	32	—	—	2,219
Derivative financial instruments	26	—	3,913	127
Secured bank borrowings - due within one year	33	141,676	167,057	128,664
Secured guaranteed senior notes	34	—	—	696,724
Taxation payable		753	2,206	8,369
		352,203	623,417	1,194,320
NET CURRENT ASSETS		102,186	766,983	630,797
TOTAL ASSETS LESS CURRENT LIABILITIES		231,071	961,900	907,943
NON-CURRENT LIABILITIES				
Secured bank borrowings - due after one year	33	20,000	22,468	10,909
Secured guaranteed senior notes	34	—	624,718	—
Deferred taxation	35	565	577	—
Other long-term payable	36	1,000	851	682
		21,565	648,614	11,591
NET ASSETS		209,506	313,286	896,352
CAPITAL AND RESERVES				
Share capital	37	40,559	—	—
Reserves		59,665	278,527	831,554
Equity attributable to equity holders of the Company		100,224	278,527	831,554
Minority interests		109,282	34,759	64,798
TOTAL EQUITY		209,506	313,286	896,352

BALANCE SHEETS

		As at 31 December	
	Notes	2007	2008
		HK$'000	HK$'000
NON-CURRENT ASSET			
Investment in a subsidiary	18	272,518	428,324
CURRENT ASSETS			
Amount due from a subsidiary	18	444,592	623,225
Other receivables	21	—	20
Bank balances	28	48,774	7,023
		493,366	630,268
CURRENT LIABILITIES			
Other payables	29	858	889
Amount due to a subsidiary	18	85	—
Secured guaranteed senior notes	34	—	696,724
		943	697,613
NET CURRENT ASSETS (LIABILITIES)		492,423	(67,345)
TOTAL ASSETS LESS CURRENT LIABILITIES		764,941	360,979
NON-CURRENT LIABILITY			
Secured guaranteed senior notes	34	624,718	—
NET ASSETS		140,223	360,979
CAPITAL AND RESERVES			
Share capital	37	—	—
Reserves	38	140,223	360,979
TOTAL EQUITY		140,223	360,979

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve	Exchange reserve	Retained profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	—	—	—	531	27,998	28,529	40,700	69,229
Exchange difference arising on translation to presentation currency	—	—	—	992	—	992	1,526	2,518
Share of exchange reserve of an associate	—	—	—	397	—	397	367	764
Total income recognised directly in equity	—	—	—	1,389	—	1,389	1,893	3,282
Profit for the year	—	—	—	—	46,626	46,626	48,754	95,380
Total recognised income for the year	—	—	—	1,389	46,626	48,015	50,647	98,662
Capital contribution from shareholders of a subsidiary	40,559	—	—	—	—	40,559	37,440	77,999
Dividends recognised as distribution	—	—	—	—	(16,879)	(16,879)	—	(16,879)
Dividends paid to minority interests	—	—	—	—	—	—	(19,505)	(19,505)
At 31 December 2006	40,559	—	—	1,920	57,745	100,224	109,282	209,506
Exchange difference arising on translation to presentation currency	—	—	—	8,524	—	8,524	1,646	10,170
Share of exchange reserve of an associate	—	—	—	1,277	—	1,277	—	1,277
Total income recognised directly in equity	—	—	—	9,801	—	9,801	1,646	11,447
Profit for the year	—	—	—	—	137,691	137,691	41,036	178,727
Total recognised income for the year	—	—	—	9,801	137,691	147,492	42,682	190,174
Acquisition of additional equity interest in Asia Steel (Holdings) from a minority shareholder by the founder shareholder	—	—	120,811	—	—	120,811	(120,811)	—
Effect of the Group Reorganisation	(40,559)	—	40,559	—	—	—	—	—
Capital contribution from a minority shareholder of a subsidiary	—	—	—	—	—	—	6,266	6,266
Dividends recognised as distribution	—	—	—	—	(90,000)	(90,000)	—	(90,000)
Dividends paid to minority interests	—	—	—	—	—	—	(2,660)	(2,660)
At 31 December 2007	—	—	161,370	11,721	105,436	278,527	34,759	313,286

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve	Exchange reserve	Retained profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Exchange difference arising on translation to presentation currency	—	—	—	23,145	—	23,145	3,651	26,796
Share of exchange reserve of an associate	—	—	—	1,451	—	1,451	—	1,451
Total income recognised directly in equity	—	—	—	24,596	—	24,596	3,651	28,247
Profit for the year	—	—	—	—	294,431	294,431	13,482	307,913
Total recognised income for the year	—	—	—	24,596	294,431	319,027	17,133	336,160
Issue of share (note 37 (iv))	—	234,000	—	—	—	234,000	—	234,000
Acquisition of a subsidiary (note 39)	—	—	—	—	—	—	9,006	9,006
Capital contribution from a minority shareholder of a subsidiary	—	—	—	—	—	—	3,900	3,900
At 31 December 2008	—	234,000	161,370	36,317	399,867	831,554	64,798	896,352

The capital reserve of the Group represents the aggregate of:

(i) the reserve of approximately HK$120,811,000 arising on the acquisition of remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui Cham To ("Mr. Tsui"), a minority shareholder, by Mr. Chun Chi Wai ("Mr. Chun"), the founder shareholder of the Company, in June 2007 and representing the unaudited consolidated net assets value of Asia Steel (Holdings) attributable to Mr. Tsui as at 30 June 2007 reclassified from minority interests as deemed contribution by Mr. Chun; and

(ii) the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Company upon the Group Reorganisation and the nominal value of the Company's shares issued in exchange of approximately HK$40,559,000.

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 31 December		
		2006	2007	2008
		HK$'000	HK$'000	HK$'000
OPERATING ACTIVITIES				
Profit before taxation		100,235	187,069	330,920
Adjustments for:				
Amortisation of prepaid lease payments		1,254	1,315	2,061
Depreciation of property, plant and equipment		7,293	8,274	11,012
Depreciation of investment properties		—	—	29
Finance costs		13,999	39,419	147,413
Interest income		(1,238)	(4,324)	(6,657)
Loss on disposal of property, plant and equipment		5	7	45
Share of result of an associate		(4,047)	(3,710)	(2,654)
Write-down of inventories		—	—	10,000
Operating cash flows before movements in working capital		117,501	228,050	492,169
Increase in inventories		(36,155)	(79,505)	(119,910)
(Increase) decrease in trade and other receivables and deposits		(117,194)	(629,772)	31,153
Decrease (increase) in bills receivable		37,605	66,905	(263,912)
Net movement in derivative financial instruments		(5,967)	9,880	(5,232)
Increase in amount due from a related company		—	—	(115)
Increase (decrease) in trade and other payables		44,578	324,129	(422,886)
Cash generated from (used in) operations		40,368	(80,313)	(288,733)
Hong Kong Profits Tax paid		(1,083)	(1,624)	—
Hong Kong Profits Tax refunded		—	1,132	481
PRC Enterprise Income Tax paid		(3,198)	(5,503)	(21,823)
PRC Enterprise Income Tax refunded		—	—	1,035
NET CASH FROM (USED IN) OPERATING ACTIVITIES		36,087	(86,308)	(309,040)

	Notes	Year ended 31 December 2006	2007	2008
		HK$'000	HK$'000	HK$'000
INVESTING ACTIVITIES				
(Increase) decrease in pledged bank deposits		(34,421)	(62,719)	45,317
Purchase of property, plant and equipment		(8,523)	(9,029)	(38,330)
Deposits paid for acquisition of land use rights		(1,000)	(46,872)	(12,500)
(Increase) decrease in amounts due from minority shareholders of subsidiaries		(79)	(3,186)	3,265
Dividend received from an associate		4,377	3,376	—
Interest received		1,238	4,324	6,657
Proceeds on disposal of property, plant and equipment		12	—	587
Investment in Zhangjiagang Rongli	39	—	(12,412)	—
Deposits paid for acquisition of property, plant and equipment		—	(2,858)	(15,304)
Advance to an associate		—	(7)	(47)
Acquisition of land use rights		—	—	(33,991)
Increase in restricted bank deposits		—	—	(3,631)
Advance to a controlling shareholder		—	—	(771)
Acquisition of a subsidiary	39	—	—	14,030
NET CASH USED IN INVESTING ACTIVITIES		(38,396)	(129,383)	(34,718)

	Notes	Year ended 31 December		
		2006	2007	2008
		HK$'000	HK$'000	HK$'000
FINANCING ACTIVITIES				
New bank borrowings raised		478,192	515,637	356,240
Increase in unsecured loans from shareholders of a subsidiary		7,352	—	—
Repayment of bank borrowings		(378,788)	(486,461)	(392,546)
Dividends paid		(36,384)	(92,660)	—
(Decrease) increase in discounted bills		(31,138)	(79,261)	276,268
Interest paid		(13,999)	(18,421)	(75,407)
Decrease in amounts due to minority shareholders of subsidiaries		(4,096)	—	(4,033)
Repayment to an associate		(1,057)	(734)	—
Proceeds from issue of guaranteed senior notes		—	624,000	—
Capital contribution from a minority shareholder of a subsidiary		—	6,266	3,900
Transaction cost on issue of secured guaranteed senior notes		—	(20,280)	—
Proceed from issue of share		—	—	234,000
Advance from a director		—	—	2,219
NET CASH FROM FINANCING ACTIVITIES		20,082	448,086	400,641
NET INCREASE IN CASH AND CASH EQUIVALENTS		17,773	232,395	56,883
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		25,314	43,299	277,798
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		212	2,104	8,612
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		43,299	277,798	343,293

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated by Wellrun Limited, a company wholly-owned by Mr. Chun (the controlling shareholder of all group entities throughout the Relevant Periods or since their establishment/acquisition by Mr. Chun to 31 December 2008, where this is a shorter period), on 18 July 2007 and the Company effected the Group Reorganisation on 30 September 2007 to acquire the entire interest in Asia Steel (Holdings), the then holding company of the group entities. Prior to June 2007, Mr. Chun and Mr. Tsui were the shareholders of Asia Steel (Holdings) whose shareholdings were 52% and 48%, respectively. In June 2007, Mr. Chun acquired the remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui (the "Transaction") and Asia Steel (Holdings) becomes a company wholly-owned by Mr. Chun.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the Relevant Periods include the results and cash flows of the companies now comprising the Group and are prepared by applying the principles of merger accounting as stated in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or up to the effective date of disposal where this is a shorter period, except that the results attributable to Mr. Tsui prior to the Transaction were treated as minority interests.

The consolidated balance sheet of the Group as at 31 December 2006 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as of that date in accordance with the then effective interest held by Mr. Chun at the balance sheet date. The consolidated balance sheets of the Group as at 31 December 2007 and 2008 have been prepared on the basis of consolidation as set out in note 3.

All significant intra-group transactions, cash flows and balances have been eliminated on consolidation.

Two subsidiaries, Asia Huan Bao Steel Limited and its subsidiary, Asia Wing Tat Recycling Limited, were disposed of to the director, Mr. Chun, on 29 December 2006. The consideration for the disposals, which was determined based on the consolidated net assets value of Asia Huan Bao Steel Limited at 29 December 2006 under HKFRSs, amounted to approximately HK$174,000. The subsidiaries disposed of did not have significant contribution to the Group's results and cash flows for the Relevant Periods.

The functional currency of the Company is United States dollar. The Financial Information is presented in Hong Kong dollar for the convenience of the shareholders as the Company is going to be listed in Hong Kong.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all the new and revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning on 1 January 2008.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations that are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible hedged items[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[5]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[6]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[7]
HK(IFRIC) - Int 17	Distribution of Non-cash Assets to Owners[4]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[8]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 July 2008
7 Effective for annual periods beginning on or after 1 October 2008
8 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below which conform with HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses, other than involving entities under common control, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Freight income included in other income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statements on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

The results and assets and liabilities of the associate are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment (see the accounting policy in respect of "impairment losses" of assets below).

Where a group entity transacts with the associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statements in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interest. The prepaid lease payments are stated at cost and are charged to the consolidated income statements over the period of the lease or the operating license of the relevant entity on a straight-line basis, whichever is shorter, subject to a cap of 50 years.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statements in the year in which the item is derecognised.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets (including goodwill arising from investment in an associate) 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. An impairment loss is 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 periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statements in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables and derivative financial instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, amount due from an associate, amounts due from minority shareholders of subsidiaries, amount due from a controlling shareholder, deposit paid to a related party, amounts due from subsidiaries, pledged bank deposits, restricted bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities other than derivative financial instruments (including trade and other payables, discounted bills, amount due to an associate, amounts due to minority shareholders of subsidiaries, amount due to a director, secured bank borrowings, amount due to a subsidiary and other long-term payable) are measured at amortised cost, using the effective interest method.

Guaranteed senior notes

Guaranteed senior notes issued by the Group contain both liability and conversion option components. Conversion option component is not accounted for separately if the amount involved is insignificant. At the date of issue, the guaranteed senior notes (including both the liability and conversion option components) are recognised at fair value.

In subsequent periods, the guaranteed senior notes are carried at amortised cost using the effective interest method. Transaction costs that relate to the issue of the guaranteed senior notes are included in the carrying amount of the guaranteed senior notes and amortised over the period of the guaranteed senior notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit costs

Payments to state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Estimated impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, 2007 and 2008, the carrying amounts of trade receivables of the Group are approximately HK$129,334,000, HK$749,300,000 and HK$772,256,000, respectively.

5. CAPITAL RISK MANAGEMENT

The Group and the Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group and the Company's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group and the Company consists of net debt, which includes the borrowings disclosed in notes 30, 31, 32, 33, 34 and 36, cash and cash equivalents disclosed in note 28, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on recommendations of the directors, the Group and the Company will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2006	2007	2008	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets					
Loans and receivables (including cash and cash equivalents)	336,245	1,189,617	1,497,723	493,366	630,248
Derivative financial instruments	5,967	—	1,446	—	—
Financial liabilities					
Amortised cost	342,351	1,250,371	1,173,701	624,803	696,724
Derivative financial instruments	—	3,913	127	—	—

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, amount due from/to an associate, amounts due from/to minority shareholders of subsidiaries, amount due from a controlling shareholder, deposit paid to a related party, derivative financial instruments, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, discounted bills, amount due to a director, secured bank borrowings, other long-term payable and secured guaranteed senior notes. The Company's major financial instruments include amount due from/to a subsidiary, bank balances and secured guaranteed senior notes. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

At the respective balance sheet date, the Group and the Company’s maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheets.

In order to minimise the credit risk, management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and bill receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group and the Company’s credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 67.3%, 61.2% and 39.4% of the total trade and bills receivables as at 31 December 2006, 2007 and 2008 was due from the Group’s largest debtor and 99.9%, 99.9% and 92.3% of the total trade and bills receivables as at 31 December 2006, 2007 and 2008 was due from the five largest debtors, respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group’s customer base has been diversified and became less concentrated during the Relevant Periods.

The Company’s amount due from a subsidiary amounted to approximately HK$444,592,000 and HK$623,225,000 as at 31 December 2007 and 31 December 2008, respectively exposed the Company to the concentration of credit risk on one single counterparty.

The Group’s concentration of credit risk by geographical location is mainly in the PRC, which accounted for over 90% of the total trade receivables at the respective balance sheet date.

The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group and the Company’s operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and other source of fundings and considers the risk is minimal.

The Group relies on bank borrowings and guaranteed senior notes as significant sources of liquidity while the Company relies on guaranteed senior notes as significant source of liquidity. Details of these are set out in notes 33 and 34.

The following tables detail the Group and the Company’s remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

THE GROUP

	Weighted average effective interest rate	Less than 3 months or on demand	3 - 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2006							
Non-derivative financial liabilities							
Trade and other payables	—	71,347	—	—	—	71,347	71,347
Discounted bills	—	91,994	15,600	—	—	107,594	107,594
Amount due to an associate	—	734	—	—	—	734	734
Secured bank borrowings							
- fixed rate	5.80	74,402	20,560	—	21,266	116,228	113,916
- variable rate	7.39	27,260	—	21,593	—	48,853	47,760
Other long-term payable	—	—	—	—	1,000	1,000	1,000
		265,737	36,160	21,593	22,266	345,756	342,351

	Weighted average effective interest rate	Less than 3 months or on demand	3 - 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2007							
Non-derivative financial liabilities							
Trade and other payables	—	406,944	—	—	—	406,944	406,944
Discounted bills	—	28,333	—	—	—	28,333	28,333
Secured bank borrowings							
- fixed rate	5.82	118,212	—	36,060	29,613	183,885	177,231
- variable rate	7.30	12,357	—	—	—	12,357	12,294
Other long-term payable	—	—	—	—	851	851	851
Secured guaranteed senior notes	19.36	—	26,520	26,520	747,677	800,717	624,718
		565,846	26,520	62,580	778,141	1,433,087	1,250,371
Derivatives settled net							
Foreign currency forward contracts	—	—	—	3,913	—	3,913	3,913

	Weighted average effective interest rate	Less than 3 months or on demand	3 - 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2008							
Non-derivative financial liabilities							
Trade and other payables	—	28,616	—	—	—	28,616	28,616
Discounted bills	—	155,406	149,195	—	—	304,601	304,601
Amounts due to minority shareholders of subsidiaries	—	1,286	—	—	—	1,286	1,286
Amount due to a director	—	2,219	—	—	—	2,219	2,219
Secured bank borrowings							
- fixed rate	4.78	60,516	—	—	—	60,516	59,802
- variable rate	5.37	36,805	26,698	6,897	11,495	81,895	79,771
Secured guaranteed senior notes	19.36	—	747,677	—	—	747,677	696,724
Other long-term payable		—	—	—	682	682	682
		284,848	923,570	6,897	12,177	1,227,492	1,173,701
Derivatives settled net							
Copper future contracts	—	127	—	—	—	127	127

THE COMPANY

	Weighted average effective interest rate	Less than 3 months or on demand	3 - 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2007							
Non-derivative financial liabilities							
Amount due to a subsidiary	—	85	—	—	—	85	85
Secured guaranteed senior notes	19.36	—	26,520	26,520	747,677	800,717	624,718
		85	26,520	26,520	747,677	800,802	624,803

	Weighted average effective interest rate	Less than 3 months or on demand	3 - 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2008							
Non-derivative financial liability							
Secured guaranteed senior notes	19.36	—	747,677	—	—	747,677	696,724

Market risk

There has been no change to the Group and the Company's exposure to market risk or the manner in which it manages and measures the risk.

(i) Currency risk

The Company has no significant exposure to foreign currency risk and no analysis is therefore presented. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities			Assets		
	As at 31 December			As at 31 December		
	2006	2007	2008	2006	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
United States dollar ("USD") .	76,854	53,497	43,049	3,666	6,017	43,604
Renminbi ("RMB")	—	—	—	—	—	13,533
Hong Kong dollar ("HKD") .	19,855	69,939	14,110	16,690	4,784	663

In addition, the Group was exposed to fluctuations in foreign exchange rates (mainly USD/HKD, see note 26) in relation to its foreign currency forward contracts outstanding as at 31 December 2007.

The Group and the Company currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will use foreign currency forward contracts to hedge the significant foreign currency exposure.

Sensitivity analysis

The Group is mainly exposed to the foreign currencies of USD, RMB and HKD when such currencies are different from the functional currencies of the corresponding group entities.

The following table details the Group's sensitivity to a 5% appreciation and depreciation in the above foreign currencies against the functional currencies of the corresponding group entities, except for HKD against USD since the two currencies are pegged in the market. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% increase in foreign currency rates. The sensitivity analysis includes mainly trade receivables, bank balances, trade payables, amounts due to minority shareholders of subsidiaries and bank borrowings where the denomination of these balances are in the above foreign currencies. A positive/negative number below indicates a decrease/an increase in profit before taxation where the USD, RMB and HKD strengthen 5% against the functional currency of the corresponding group entity. For a 5% weakening of the above foreign currency against the functional currency of the corresponding group entity, there would be an equal and opposite impact.

	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Decrease (increase) in profit before taxation:			
USD against RMB	2,696	2,666	827
RMB against USD	—	—	(677)
HKD against RMB	—	3,497	250
	2,696	6,163	400

In respect of the foreign currency forward contracts, a 0.5% increase or decrease is used when reporting currency risk arising from forward contracts internally to key management personnel as HKD is pegged to USD and represents management's assessment of the reasonably possible change. The Group's sensitivity to 0.5% increase in the forward foreign exchange rate of the forward contracts as at 31 December 2007, assuming other variables are stable, is that the Group's profit before taxation for the year then ended would be increased by approximately HK$3,748,000. For a 0.5% decrease in the forward foreign exchange rates of the forward contracts, there would be an equal and opposite impact on the Group's profit before taxation.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and secured guaranteed senior notes (see notes 33 and 34 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 33 for details of these borrowings) and bank deposits.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2008 would decrease/increase by HK$399,000 (2007: HK$61,000 and 2006: HK$239,000).

No sensitivity analysis has been prepared for variable-rate bank deposits as the directors of the Company consider the exposure is limited.

(iii) Other price risk

The Group is exposed to other price risk through its copper future contracts as at both 31 December 2006 and 2008. Management manages this exposure by a team of specialists, who closely monitors the future markets and the position of the Group and will take necessary action to minimise the risk to the Group. The Group's other price risk is mainly concentrated on future prices quoted in the relevant exchanges.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risk of copper future contracts at the relevant balance sheet dates. A 5% increase or decrease is used when reporting other price risk internally to key management personnel and represents management's assessment of the reasonably possible change.

If the quoted price of the future contracts had been 5% higher/lower and all other variables were held constant, the Group's profit before taxation would increase/decrease by approximately HK$2,799,000 and HK$847,000 for the year ended 31 December 2006 and 2008, respectively.

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

➢ the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

➢ the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE AND SEGMENTAL INFORMATION

Business segments

The Group is engaged in the principal business of metal recycling, involving the recycling of scrap metal into recycled ferrous and non-ferrous metals, which are the raw materials for a wide range of metallic end-products. The Group collects scrap steel, scrap copper and other scrap metals and processes them using advanced equipment to produce quality recycled scrap metals. From time to time, the Group also sells scrap metals collected directly to customers when the quality of such scrap metals meets certain required standards. The metals can be broadly classified into two categories:

(i) ferrous metal, namely iron and steel; and

(ii) non-ferrous metal, including copper, aluminium, etc.

The two principal metals processed/sold by the Group are the basis on which the Group reports its primary segment information. However, in the opinion of directors of the Company, it is not practical and meaningful to present such segment information except for revenue, because it would involve indefinite assumptions on the allocation of cost of materials and assets used for production in preparing those information.

The Group presents its revenue by the two principal business segments as below:

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Ferrous metal	479,481	703,032	2,291,541
Non-ferrous metal	610,857	1,239,368	4,235,053
	1,090,338	1,942,400	6,526,594

Geographical segments

The following tables provide an analysis of the Group's identifiable assets, and additions to property, plant and equipment by the geographical area in which the assets are located:

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Carrying amount of segment assets:			
The PRC, other than Hong Kong and Macau	278,978	350,362	855,153
Hong Kong	14,242	17,073	71,363
Macau	76,727	637,434	614,884
Total segment assets	369,947	1,004,869	1,541,400
Unallocated	213,327	580,448	560,863
Consolidated total assets	583,274	1,585,317	2,102,263

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Additions to property, plant and equipment:			
The PRC, other than Hong Kong and Macau	5,344	6,159	36,997
Hong Kong	3,976	2,372	5,686
Macau	1	—	1
	9,321	8,531	42,684

Since over 90% of the Group's sales are delivered to the PRC at customers' instruction, no analysis by the geographical location of the Group's customers is presented.

8. OTHER INCOME

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Freight income	11	—	—
Interest income	1,238	4,324	6,657
Net exchange gain	1,341	7,649	14,365
Rental income	2	—	401
Others	15	2	575
	2,607	11,975	21,998

9. FINANCE COSTS

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	13,999	18,421	22,367
Effective interest expense on secured guaranteed senior notes	—	20,998	125,046
	13,999	39,419	147,413

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
The charge comprises:			
Hong Kong Profits Tax			
Current year	847	620	—
Underprovision in prior years	351	1	10
PRC Enterprise Income Tax			
Current year	3,198	7,703	24,607
Under(over)provision in prior years	—	6	(1,033)
	4,396	8,330	23,584
Deferred taxation (note 35)			
Current year	459	12	(544)
Effect of change in tax rate	—	—	(33)
	459	12	(577)
	4,855	8,342	23,007

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for each of the two years ended 31 December 2007. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2008.

Pursuant to the relevant laws and regulations in the PRC, Guangzhou Asia Steel is exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The basic tax rate is 27% for each of the two years ended 31 December 2007 since it is located in an approved economic zone in the PRC. The first profit-making year of Guangzhou Asia Steel is the year 2004.

The basic tax rate of Guangzhou Yatong is 27% for the year ended 31 December 2007 since it is also located in an approved economic zone in the PRC. It was approved by the relevant PRC tax authority for an exemption of PRC Enterprise Income Tax for the period from 25 May 2007 (date of establishment) to 31 December 2007.

The basic tax rate of Yangzhong Yagang, Tianjin Yatong and Zhangjiagang Rongli is 33% up to 31 December 2007.

Pursuant to the relevant PRC tax laws and regulations, a foreign investment equity joint venture engaged in wharf construction and having an operating period over 15 years could be exempted from the PRC Foreign Enterprise Income Tax ("FEIT") for five years starting from its first profit-making year, followed by a 50% reduction for the next five years ("5+5 holidays") subject to the approval by the provincial tax authority. Guangzhou Zhujiang Steel Port, an associate of the Group rented a wharf and made improvement on the wharf. All the operating income for the years from 2006 to 2008 was derived from the rented wharf. Guangzhou Zhujiang Steel Port has obtained a written approval YueGuoShuiHan [2005] No.445 issued by Guangdong State Tax Bureau on the 5+5 holidays on the basis of the abovementioned circumstances. The first profit-making year of Guangzhou Zhujiang Steel Port is the year of 2004 and Guangzhou Zhujiang Steel Port was exempted from FEIT for the years from 2006 to 2008.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 27% or 33% to 25% for subsidiaries in the PRC from 1 January 2008. Specifically, Guangzhou Asia Steel was allowed under the New Law to enjoy the last year of 50% tax deduction in 2008 based on the new rate of 25%. Guangzhou Zhujiang Steel Port was exempted from FEIT through 2008. It will then be subject to FEIT of 10% for 2009, 11% for 2010, 12% for 2011, 12.5% for 2012 and 12.5% for 2013. Beginning in 2014 and thereafter, it will be subject to the statutory income tax rate of 25%.

Under Decree-Law no. 58/99/M, Central Steel, a Macau company incorporated under that Law (called "58/99/M Company") is exempted from Macau Complementary tax (Macau income tax) as the 58/99/M Company does not sell its products to a Macau resident company during the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the profit before taxation per the consolidated income statements as follows:

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Profit before taxation	100,235	187,069	330,920
PRC Enterprise Income Tax rate	33%	33%	25%
Tax at the PRC Enterprise Income Tax rate	33,078	61,733	82,730
Tax effect of expenses not deductible for tax purpose (note)	1,335	11,312	38,618
Tax effect of income not taxable for tax purpose	(151)	(1,497)	(1,616)
Tax effect of share of result of an associate	(1,336)	(1,224)	(664)
Tax effect of tax exemption granted to PRC subsidiaries	(4,777)	(13,020)	(8,676)
Tax effect of tax exemption granted to a Macau subsidiary	(21,869)	(46,633)	(94,851)
Tax effect of tax losses not recognised	314	364	8,282
Utilisation of tax losses previously not recognised	(223)	—	—
Effect of different tax rates of subsidiaries operating in Hong Kong or the PRC	(1,867)	(2,700)	240
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	—	—	(33)
Under(over)provision in prior years	351	7	(1,023)
Tax charge for the year	4,855	8,342	23,007

Note: Expenses not deductible for tax purpose mainly included non-deductible professional expenses, effective interest expense on secured guaranteed senior notes and loss on derivative financial instruments.

Details of deferred taxation are set out in note 35.

11. PROFIT FOR THE YEAR

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):			
Directors' emoluments (note 12)	431	431	3,141
Other staff costs	8,352	11,382	18,168
Retirement benefit scheme contributions, excluding those of directors	863	1,250	2,056
Total staff costs	9,646	13,063	23,365
Auditor's remuneration	500	1,000	2,680
Amortisation of prepaid lease payments	1,254	1,315	2,061
Depreciation of property, plant and equipment	7,293	8,274	11,012
Depreciation of investment properties	—	—	29
Loss on disposal of property, plant and equipment	5	7	45
Operating lease rentals paid in respect of rented premises	1,470	2,122	14,702
Write-down of inventories	—	—	10,000
Net exchange gain	(1,341)	(7,649)	(14,365)

Note: For each of the Relevant Periods, cost of inventories recognised as an expense approximates cost of sales as shown in the consolidated income statements.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors for the Relevant Periods are as follows:

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Fee	—	—	—
Salaries and other allowances	430	430	3,132
Retirement benefit scheme contributions	1	1	9
	431	431	3,141
Executive directors:			
Mr. Chun	431	431	431
Mr. Jiang Yan Zhang	—	—	202
Mr. Wong Hok Leung	—	—	2,508
Non-executive directors:			
Mr. Chan Iu Seng *	—	—	—
Mr. Chan Kam Hung *	—	—	—
Mr. Leung Chong Shun *	—	—	—
Ms. Lai Wun Yin	—	—	—
	431	431	3,141

* Independent non-executive directors

Employees

Of the five highest paid individuals of the Group for the Relevant Periods, the number of directors and employees are as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	**HK$'000**	**HK$'000**
Directors	1	1	2#
Employees	4	4	3
	5	5	5

It includes a director who was appointed on 28 May 2008 and received emoluments of approximately HK$219,000 for the period from 1 January 2008 to 27 May 2008 as an employee.

The remuneration of the above directors are set out above. The remuneration of the remaining individuals for the Relevant Periods are as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	**HK$'000**	**HK$'000**
Salaries and other allowances	2,129	1,934	2,238
Retirement benefit scheme contributions	37	41	41
	2,166	1,975	2,279

Note: The emolument of each of the above employees is below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

13. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. During the Relevant Periods, dividends were paid by Asia Steel HK to its then shareholders prior to the Group Reorganisation.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods is based on the following data:

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	46,626	137,691	294,431
Number of shares for the purposes of basic and diluted earnings per share	4,990,854	533,375,488	699,999,388

The number of shares for the purposes of basic earnings per share has been determined assuming the capitalisation issue as detailed in Appendix VII of the document occurred in the first day of the Relevant Periods. The computation of dilutive earnings per share for the years ended 31 December 2007 and 2008 does not take into account the Warrants as set out in note 34 as the Warrants are not dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Motor vehicles	Leasehold improvement	Machinery, furniture, fixtures, and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2006	11,360	—	12,128	460	31,739	55,687
Exchange realignment	66	—	492	—	1,542	2,100
Additions	—	3,624	358	—	5,339	9,321
Transfer	—	(3,624)	—	—	3,624	—
Disposals	—	—	—	—	(17)	(17)
At 31 December 2006	11,426	—	12,978	460	42,227	67,091
Exchange realignment	606	—	855	—	2,257	3,718
Additions	—	335	2,340	301	5,555	8,531
Disposals	—	—	—	—	(11)	(11)
At 31 December 2007	12,032	335	16,173	761	50,028	79,329
Exchange realignment	732	120	1,081	28	3,080	5,041
Acquisition of a subsidiary (note 39)	—	—	757	—	739	1,496
Additions	3,895	8,592	2,753	2,487	23,461	41,188
Disposals	—	—	(4,300)	—	(2)	(4,302)
Reclassified as investment properties (note 16)	(1,940)	—	—	—	—	(1,940)
At 31 December 2008	14,719	9,047	16,464	3,276	77,306	120,812
DEPRECIATION						
At 1 January 2006	1,352	—	4,350	60	6,021	11,783
Exchange realignment	36	—	223	—	312	571
Provided for the year	588	—	2,427	51	4,227	7,293
At 31 December 2006	1,976	—	7,000	111	10,560	19,647
Exchange realignment	139	—	528	—	675	1,342
Provided for the year	617	—	2,622	64	4,971	8,274
Eliminated on disposals	—	—	—	—	(4)	(4)
At 31 December 2007	2,732	—	10,150	175	16,202	29,259
Exchange realignment	185	—	677	—	953	1,815
Provided for the year	698	—	2,375	219	7,720	11,012
Eliminated on disposals	—	—	(3,670)	—	—	(3,670)
Reclassified as investment properties (note 16)	(141)	—	—	—	—	(141)
At 31 December 2008	3,474	—	9,532	394	24,875	38,275
CARRYING VALUES						
At 31 December 2006	9,450	—	5,978	349	31,667	47,444
At 31 December 2007	9,300	335	6,023	586	33,826	50,070
At 31 December 2008	11,245	9,047	6,932	2,882	52,431	82,537

After considering the estimated residual values, the above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 - 50 years or over the lease term of the relevant land, whichever is shorter
Motor vehicles	20%
Leasehold improvement	4% or over the term of the relevant lease, whichever is shorter
Machinery, furniture, fixtures and equipment	10% - 20%

16. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1 January 2006, 31 December 2006 and 2007	—
Reclassified from property, plant and equipment (note 15)	1,940
At 31 December 2008	1,940
DEPRECIATION	
At 1 January 2006, 31 December 2006 and 2007	—
Reclassified from property, plant and equipment (note 15)	141
Provided for the year	29
At 31 December 2008	170
CARRYING VALUES	
At 31 December 2006 and 2007	—
At 31 December 2008	1,770

The fair value of the Group's investment properties (including the corresponding leasehold land interests with a carrying amount of approximately HK$3,256,000) at 31 March 2009 was HK$9,700,000. The fair value has been arrived at based on a valuation carried out by Vigers Appraisal and Consulting Limited, independent professional valuers not connected with the Group and whose address is 10th Floor, The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong. The valuation was determined by reference to recent market prices for similar properties. In the opinion of the directors of the Company, the valuation at 31 March 2009 is not materially different from that at 31 December 2008.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the cost model and are classified and accounted for as investment properties.

The above investment properties are erected on lands held under long leases in Hong Kong and are depreciated on a straight-line basis over approximately 46 years.

17. PREPAID LEASE PAYMENTS

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
The prepaid lease payments comprise leasehold lands:			
- in Hong Kong held under long leases	3,399	3,328	3,256
- in the PRC held under medium leases	16,990	16,791	98,193
	20,389	20,119	101,449
Analysed for reporting purposes as:			
Current asset	1,278	1,355	3,460
Non-current asset	19,111	18,764	97,989
	20,389	20,119	101,449

The above leasehold lands are amortised over the following years:

Long lease	50 years
Medium lease	20 years

18. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE FROM/TO A SUBSIDIARY

	As at 31 December	
	2007	2008
	HK$'000	HK$'000
Unlisted investment, at cost	161,370	161,370
Deemed capital contribution	111,148	266,954
	272,518	428,324

The amount due from/to a subsidiary is unsecured and non-interest bearing. In the opinion of the directors of the Company, the amount will be repayable within one year from the respective balance sheet date. For initial recognition purpose, an effective interest rate of 20% (2007: 20%) per annum was used to determine the fair value of the amount due from a subsidiary at the respective date of advancement.

19. INTEREST IN AN ASSOCIATE/AMOUNT DUE FROM/TO AN ASSOCIATE

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Cost of unlisted investment in an associate (note)	53,519	53,519	53,519
Share of post-acquisition reserves, net of dividends received	7,811	9,422	13,527
	61,330	62,941	67,046

Note: Included in the cost of unlisted investment in an associate at each of the reporting dates is goodwill arising on acquisition of approximately HK$9,237,000.

The amount due from/to an associate is unsecured, non-interest bearing and repayable on demand.

The summarised financial information in respect of the Group's associate is set out below:

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Total assets	130,655	130,062	139,505
Total liabilities	(14,893)	(10,720)	(11,040)
Net assets	115,762	119,342	128,465
The Group's share of net assets of an associate	52,093	53,704	57,809

	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Revenue	29,494	32,718	36,348
Profit for the year	8,993	8,245	5,897
The Group's share of result of an associate for the year	4,047	3,710	2,654

20. INVENTORIES

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Raw materials	64,089	131,135	215,675
Finished goods	1,097	13,556	41,861
	65,186	144,691	257,536

Included in finished goods above as at 31 December 2008 is an amount of approximately HK$20,765,000 representing inventories carried at net realisable value. The remaining inventories are stated at cost.

21. TRADE AND OTHER RECEIVABLES AND DEPOSITS

The Group generally allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of the Group's trade receivables is as follows:

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2006	2007	2008	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables:					
0 - 30 days	61,526	331,659	425,213	—	—
31 - 60 days	33,837	190,972	316,600	—	—
61 - 90 days	33,971	120,346	27,002	—	—
91 - 120 days	—	27,382	3,185	—	—
121 - 180 days	—	77,742	—	—	—
Over 180 days	—	1,199	256	—	—
	129,334	749,300	772,256	—	—
Other receivables and deposits:					
Advances to staff	486	106	119	—	—
Deposits and prepayments	12,571	8,437	18,099	—	20
Deposits paid for purchase of raw materials	26,019	45,192	39,601	—	—
Other taxes recoverable	5,133	—	5,070	—	—
Others	400	680	428	—	—
	44,609	54,415	63,317	—	20
	173,943	803,715	835,573	—	20

The above trade and other receivables of the Group that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD equivalent of		
	USD	RMB	HKD
	HK$'000	HK$'000	HK$'000
As at 31 December 2006	299	—	16,684
As at 31 December 2007	—	—	—
As at 31 December 2008	30,187	13,533	—

Before accepting any new customer, the Group assess the potential customer's credit quality and define credit limits by customer. Limits and scoring attributable to customers are reviewed regularly.

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history and substantial subsequent settlement from those debtors of the Group which are past due but not impaired for the Relevant Periods, the directors consider that no allowance is required.

Aging of trade receivables which are past due but not impaired

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
31 - 60 days	33,837	190,972	316,600
61 - 90 days	33,971	120,346	27,002
91 - 120 days	—	27,382	3,185
121 - 180 days	—	77,742	—
Over 180 days	—	1,199	256
	67,808	417,641	347,043

The Group does not hold any collateral over the above balances.

22. BILLS RECEIVABLE

The amount represents bills receivable already discounted to banks with recourse with a maturity period of less than 180 days. These receivables are not matured at the respective balance sheet date and the management considers the default rate is low based on past experience that the Group seldom encounters default on bills. The Group retains all the risks and rewards of such discounted bills receivable and accordingly, the Group continues to recognise the full carrying amount of such bills receivable and has recognised the cash received on such discount as secured discounted bills in note 30.

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

These receivables arose from temporary fund transfers which are non-trade in nature. The amounts are unsecured, non-interest bearing and repayable on demand. During the year ended 31 December 2008, the amounts were fully settled.

24. AMOUNT DUE FROM A CONTROLLING SHAREHOLDER

The receivable arose from temporary fund transfers which are non-trade in nature. The amount is unsecured, non-interest bearing and repayable on demand. [The outstanding balance as at 31 December 2008 which was also the maximum amount outstanding during the year then ended has been fully recovered as at the date of this report.]

25. DEPOSIT PAID TO A RELATED PARTY

The amount represents a rental deposit paid to secure the lease agreement entered into between the Group and a related party as the landlord.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not under hedge accounting:

	As at 31 December					
	2006		2007		2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fair value of:						
Copper future contracts	5,967	—	—	—	1,446	127
Foreign currency forward contracts.	—	—	—	3,913	—	—
	5,967	—	—	3,913	1,446	127

The Group uses copper future contracts and foreign currency forward contracts to reduce its exposure to the price risk of copper and the foreign exchange risk.

The copper future contracts are actively traded in the market and measured at their fair values at each reporting date, with gain or loss recognised directly in the consolidated income statements.

The foreign currency forward contracts are measured at their fair values at each reporting date. Their fair values are determined based on forward rate obtained from banks for equivalent instruments at each reporting date.

Major terms of these contracts are set out below:

At 31 December 2006:

Quoted price	Standard trading unit	Unit bought	Maturity
Copper future contracts			
USD0.2871 per pound.	25,000 pounds	100	31 March 2007

At 31 December 2007:

Notional amount	Maturity	Exchange rates
Foreign currency forward contracts		
9 contracts in total of HK$696,600,000 . . .	24 September 2008	Sell USD/buy HK$ at 7.74
3 contracts in total of HK$30,378,154	Ranged from 22 August 2008 to 27 October 2008	Sell RMB/buy HK$ at 0.9348 to 0.9473
3 contracts in total of USD3,618,020	Ranged from 19 September 2008 to 27 October 2008	Sell RMB/buy USD at 7.22 to 7.29

At 31 December 2008:

Quoted price	Standard trading unit	Unit bought	Maturity
Copper future contracts			
RMB24,267 per ton	5 tons	65	15 January 2009
USD1.85 per pound.	25,000 pounds	5	27 March 2009
Ranged from USD3,130 to 4,240 per ton .	25 tons	11	Ranged from 4 February 2009 to 16 March 2009

27. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure the general banking facilities granted to the Group or as custom security. All deposits are pledged to secure short-term facilities and therefore, classified as current assets.

The pledged bank deposits of the Group carry interest at the following fixed interest rates:

	As at 31 December		
	2006	2007	2008
Range of interest rates per annum. .	2.07% to 3.8%	2.25% to 4.05%	1.00% to 4.80%

28. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with maturity of three months or less.

Restricted bank deposits represent deposits placed with the financial institutions to secure the margin accounts of the Group for trading copper futures in the relevant financial institutions.

The above bank balances and cash and restricted bank deposits of the Group that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD equivalent of USD	HKD
	HK$'000	HK$'000
As at 31 December 2006	3,367	6
As at 31 December 2007	6,017	4,784
As at 31 December 2008	13,417	663

The bank deposits of the Group and the Company carry floating rate interest at the following rates:

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2006	2007	2008	2007	2008
Range of interest rates per annum	0.5% to 3.8%	0.81% to 4.8%	0.01% to 4.8%	3% to 3.25%	0.01% to 3%

29. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables is as follows:

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2006	2007	2008	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables:					
0 - 30 days	27,453	195,592	12,425	—	—
31 - 60 days	41,120	54,586	5,729	—	—
61 - 90 days	380	63,904	1,122	—	—
91 - 120 days	—	59,250	520	—	—
121 - 150 days	—	24,702	—	—	—
Over 150 days	—	7,014	195	—	—
	68,953	405,048	19,991	—	—
Other payables:					
Accruals	4,259	4,867	7,008	858	889
Construction cost payable	148	—	—	—	—
Payables for acquisition of property, plant and equipment	2,394	1,896	2,085	—	—
Deposits received from customers	25,128	3,953	15,829	—	—
Other taxes payable	—	4,602	4,224	—	—
Others	564	1,542	3,193	—	—
	32,493	16,860	32,339	858	889
	101,446	421,908	52,330	858	889

The above Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD equivalent of USD	HKD
	HK$'000	HK$'000
As at 31 December 2006	—	12,364
As at 31 December 2007	14,118	—
As at 31 December 2008	1,404	—

30. DISCOUNTED BILLS

The amounts represent the Group's bank borrowings secured by bills discounted to banks with recourse (see note 22). The ranges of effective interest rates per annum in respect of the Group's discounted bills with recourse are as follows:

	As at 31 December		
	2006	2007	2008
Effective interest rates per annum	2.76% to 5.02%	2.70% to 5.80%	3.85% to 6.04%

31. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The payables arose from temporary fund transfers, which are non-trade in nature. The amounts are unsecured, non-interest bearing and repayable on demand. [The amounts have been fully settled as at the date of this report].

32. AMOUNT DUE TO A DIRECTOR

The payable arose from temporary fund transfers, which are non-trade in nature. The amount is unsecured, non-interest bearing and repayable on demand. [The amount has been fully settled as at the date of this report].

33. SECURED BANK BORROWINGS

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Fixed-rate borrowings:			
Bank loans	113,916	177,231	59,802
Variable-rate borrowings:			
Bank loans	1,512	—	76,437
Bank overdrafts	24,805	7,248	3,334
Trust receipt loans	21,443	5,046	—
	161,676	189,525	139,573

The maturity of the above loans and overdrafts is as follows:

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
On demand or within one year	141,676	167,057	128,664
In more than one year but not more than two years	20,000	12,255	10,909
In more than two years but not more than three years	—	10,213	—
	161,676	189,525	139,573
Less: Amount repayable on demand or due within one year shown under current liabilities	(141,676)	(167,057)	(128,664)
Amount due after one year	20,000	22,468	10,909

The Group's variable-rate borrowings are mainly subject to interest at Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus a spread, ranging from 1.75% to 3%, Prime Rate of the relevant bank in Hong Kong or 105% or 110% of The People's Bank of China Base Lending Rate, for the Relevant Periods. The ranges of effective interest rates per annum on the Group's bank borrowings are as follows:

	As at 31 December		
	2006	2007	2008
Effective interest rates:			
Fixed-rate borrowings	5% to 7.02%	5.03% to 8.02%	3.77% to 7.84%
Variable-rate borrowings	6.86% to 8.25%	6.25% to 7.75%	2.73% to 6.74%

The above Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD equivalent of USD	HKD
	HK$'000	HK$'000
As at 31 December 2006	76,854	7,491
As at 31 December 2007	39,379	69,939
As at 31 December 2008	38,220	14,110

34. SECURED GUARANTEED SENIOR NOTES

On 23 October 2007 (the "Issue Date"), the Company issued US$80,000,000, 8.5% guaranteed senior notes to a group of institutional investors not related to the Group at a par value of US$500,000 each ("Notes"). The Notes bear coupon interest at 8.5% per annum, payable semi-annually in arrears and are denominated in USD. The Notes are secured by substantially all the assets of the Group outside of the PRC and the entire issued shares of the Company and certain subsidiaries of the Company. The Notes are also guaranteed by certain subsidiaries of the Company. Under the indenture governing the Notes ("Indenture"), the Company is required to redeem the Notes in cash on 23 October 2009, being the maturity date of the Notes, or [●], whichever is the earlier. The above pledges and guarantees will also be released upon the completion of [●]. The redemption is at the Notes redemption price equal to 100% of the principal outstanding amount of the Notes as of the date fixed for redemption, together with accrued interest to the next interest payment date.

In connection with the issuance of the Notes, the Company also issued one warrant per Note totalling 160 warrants ("Warrants") to the holders of the Notes. The Warrants entitled the holders to put the Warrants to the Company at the agreed Warrants redemption price (see the table set out below) upon (i) a primary public offering of the [●] of shares of the Company on an internationally recognised stock exchange acceptable to the holders of the Notes, which included the Stock Exchange (the "Qualified IPO"); (ii) if [●] shall not occur on or before the date that is 24 months after the Issue Date; or (iii) if any event of default as detailed in the Indenture shall occur under the Notes (such date that is the earlier to occur of (i) and (ii)) (hereinafter (i) to (iii) are referred to as "Warrants Redemption Date"). On the Warrants Redemption Date the Company agrees to, and shall, redeem the Warrants for a price equal to the Warrants redemption price as set out below.

At the election of each holder of the Warrants, the Warrants may be either (a) cash settled or (b) equity settled, during the 24 month's after the Issue Date upon the Qualified IPO in the following manner:

(a) Cash settled of Warrants

The Company shall redeem the Warrants for a price equal to the redemption price as follows:

Warrants Redemption date	*Warrants Redemption price*
On or before the date that is 6 months after the Issue Date	Number of Warrants x USD500,000 x 4.25%
After the date that is 6 months after the Issue Date but on or before the date that is 12 months after the Issue Date	Number of Warrants x USD500,000 x 8.86%
After the date that is 12 months after the Issue Date but on or before the date that is 18 months after the Issue Date	Number of Warrants x USD500,000 x 15.57%

Warrants Redemption date	*Warrants Redemption price*
After the date that is 18 months after the Issue Date but on or before the date that is 24 months after the Issue Date	Number of Warrants x USD500,000 x 21.72%
On the date that is 24 months after the Issue Date	Number of Warrants x USD500,000 x 19.28%

(b) Equity settled of Warrants

Within the 24 months after the Issue Date, holders of the Warrants are entitled to receive shares of the Company in lieu of cash for the above mentioned amounts calculated with reference to the offer price under the Qualified IPO.

The Notes are accounted for as financial liabilities, which are carried at amortised cost using the effective interest method.

In the opinion of the directors of the Company, the redemption feature of the Warrants also represents the borrowing cost of the Notes, which will be incurred through with the passage of time. As a result, it is taken into account in the calculation of effective interest of the Notes. In addition, the directors of the Company consider that the value of the conversion options adhered to the Warrants is insignificant as at the date of issue and the subsequent balance sheet dates.

The movements of the secured guaranteed senior notes of the Group and the Company are as follows:

	HK$'000
Issue of secured guaranteed senior notes, net of direct issue costs	603,720
Interest charge	20,998
At 31 December 2007	624,718
Interest charge	125,046
Interest paid	(53,040)
At 31 December 2008	696,724

The effective interest rate applied is 19.36% per annum.

35. DEFERRED TAXATION

The deferred tax liabilities and assets recognised by the Group and movements thereon during the Relevant Periods are as follows:

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2006	106	—	106
Charged for the year	459	—	459
At 31 December 2006	565	—	565
Charged for the year	12	—	12
At 31 December 2007	577	—	577
Charged (credited) for the year	366	(910)	(544)
Effect of change in tax rate	(33)	—	(33)
At 31 December 2008	910	(910)	—

At 31 December 2006, 2007, 2008, the Group had unused tax losses of approximately HK$915,000, HK$2,016,000 and HK$40,661,000, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of HK$5,516,000 of such losses for the year ended 31 December 2008. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$29,200,000 as at 31 December 2008 that will expire in 2013. Other losses may be carried forward indefinitely.

Under the New Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied. Deferred tax has not been provided for in the Financial Information in respect of the temporary differences attributable to such profits amounting to approximately HK$85,814,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

36. OTHER LONG-TERM PAYABLE

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Total other long-term payable	1,200	1,064	909
Less: current portion included in trade and other payables	(200)	(213)	(227)
	1,000	851	682

The amount represents payable for acquisition of property, plant and equipment which is unsecured, non-interest bearing and repayable by instalments in ten years commencing from the year 2003.

37. SHARE CAPITAL

	Number of shares	Amount
		HK$
Authorised:		
Ordinary shares of HK$0.1 each on incorporation (note i)	3,800,000	380,000
Ordinary shares of HK$0.0001 each:		
Subdivision of 1 share of HK$0.1 each into 1,000 shares of HK$0.0001 each (note iii)	3,796,200,000	—
At 31 December 2007 and 31 December 2008	3,800,000,000	380,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each:		
On incorporation (note i)	1	0.1
Issue of shares on 30 September 2007 (note ii)	99	9.9
	100	10
Ordinary shares of HK$0.0001 each:		
Subdivision of 1 share of HK$0.1 each into 1,000 shares of HK$0.0001 each (note iii)	99,900	—
At 31 December 2007	100,000	10
Issue of share on 1 February 2008 (note iv)	1	0.0001
At 31 December 2008	100,001	10.0001

	HK$'000
Shown in the Financial Information as at 31 December 2007 and 31 December 2008	—

Notes:

(i) The Company was incorporated on 18 July 2007 with an authorised share capital of HK$380,000. At the time of incorporation, 1 ordinary share of HK$0.1 was issued at par to the subscriber to provide the initial capital to the Company.

(ii) On 30 September 2007, 99 ordinary shares of HK$0.1 each were allotted and issued at par pursuant to the Group Reorganisation.

(iii) Pursuant to a resolution passed on 23 October 2007, each issued and unissued shares of the Company of HK$0.1 each was subdivided into 1,000 shares of HK$0.0001 each.

(iv) On 1 February 2008, 1 ordinary share of HK$0.0001 was allotted and issued to the then existing shareholder for a consideration of US$30,000,000 (equivalent to approximately HK$234,000,000).

The new share ranks pari passu in all respects with other shares in issue.

The share capital at 31 December 2006 shown on the consolidated balance sheets represented the share capital of Asia Steel HK attributable to Mr. Chun. The movement of share capital is as follows:

	Number of shares	Amount
		HK$'000
Issued and fully paid:		
Ordinary shares of HK$1 each:		
At 1 January 2006	520	—
Capitalisation of shareholder's loan on 27 December 2006	40,559,480	40,559
At 31 December 2006	40,560,000	40,559

38. RESERVES OF THE COMPANY

	Share premium	Capital reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Reserve arising on acquisition of subsidiaries	—	161,370	—	161,370
Loss for the period	—	—	(21,147)	(21,147)
At 31 December 2007	—	161,370	(21,147)	140,223
Issue of share (note 37(iv))	234,000	—	—	234,000
Loss for the year	—	—	(13,244)	(13,244)
At 31 December 2008	234,000	161,370	(34,391)	360,979

The capital reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation and the nominal value of the Company's shares issued for the acquisition.

39. INVESTMENT IN ZHANGJIAGANG RONGLI/ACQUISITION OF A SUBSIDIARY

In December 2007, the Group injected RMB11,667,000 (equivalent to approximately HK$12,412,000), representing 70% of the enlarged capital, to Zhangjiagang Rongli as capital injection. Since the control over Zhangjiagang Rongli was successfully achieved on 1 January 2008, the Group accounted for the acquisition on that date by using the purchase method of accounting. The retained profits prior to 1 January 2008 of approximately HK$3,687,000 belong to the original shareholders pursuant to the relevant agreement signed.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	1,496
Inventories	2,935
Trade receivables	63,011
Bank balances and cash	14,030
Trade and other payables	(53,139)
Amount due to a shareholder	(5,319)
Taxation payable	(1,596)
	21,418
Minority interests	(9,006)
Total consideration satisfied by capital injection in December 2007	12,412
Cash inflow arising on acquisition:	
Bank balances and cash acquired	14,030

Zhangjiagang Rongli incurred a loss of approximately HK$2,064,000 for the year ended 31 December 2008.

If the acquisition had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been approximately HK$3,190 million and profit would have been approximately HK$182 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, loans from shareholders of a subsidiary with an amount of approximately HK$77,999,000 was capitalised as capital of a subsidiary of the Company.

In June 2007, Mr. Chun, the Group's controlling shareholder, has acquired the remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui. An amount of approximately HK$120,811,000, representing the unaudited consolidated net assets value of Asia Steel (Holdings) attributable to Mr. Tsui as at 30 June 2007, was reclassified from minority interests to capital reserve as deemed contribution by Mr. Chun.

41. PLEDGE OF ASSETS

The Notes issued by the Company in 2007 as disclosed in note 34 were secured by the entire issued shares and the assets of the Company and certain of its subsidiaries. These pledges will be released upon the completion of the [●] or/and the redemption of the Notes.

Save as disclosed above, the Group also had the following assets pledged to banks to secure the general banking facilities granted to the Group or as custom security during the Relevant Periods:

	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	1,788	1,751	1,706
Prepaid lease payments	19,967	19,705	2,853
Trade receivables	20,000	—	—
Bills receivable	107,594	28,333	304,601
Inventories	3,405	—	—
Bank deposits	55,053	117,772	72,455
	207,807	167,561	381,615

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the Relevant Periods are as follows:

	THE GROUP		
	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Office and factory premises	1,470	2,122	14,702

The Group had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

	THE GROUP		
	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Within one year	299	10,209	21,308
In the second to fifth years inclusive	936	5,493	49,320
Over five years	11,580	11,012	78,395
	12,815	26,714	149,023

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for terms of fifteen to twenty years and rentals are fixed during the lease period.

The Group as lessor

Property rental income earned during the Relevant Periods are as follows:

	THE GROUP		
	Year ended 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Rental income	2	—	401

As at 31 December 2008, the Group's investment properties have committed tenant for the next fifteen months.

The Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP		
	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Within one year	—	—	567
In the second to fifth years inclusive	—	—	118
	—	—	685

43. CAPITAL COMMITMENTS

	THE GROUP		
	As at 31 December		
	2006	2007	2008
	HK$'000	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the Financial Information in respect of:			
- acquisition of property, plant and equipment	113	149	32,274
- addition of construction in progress	—	2,390	3,239
- acquisition of land use rights	29,000	28,723	30,180
	29,113	31,262	65,693

44. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

45. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Relevant Periods, the Group had the following transactions with related parties:

		Year ended 31 December		
Class of related party	**Nature of transactions**	**2006**	**2007**	**2008**
		HK$'000	**HK$'000**	**HK$'000**
An associate of the Group . .	Port loading charges paid#	3,021	1,533	32
	Dividend income received#	(4,377)	(3,376)	—
A company wholly-owned by Mr. Chun	Rental expenses paid#	—	—	283
Minority shareholders of subsidiaries	Dividend paid#	19,505	2,660	—

In the opinion of the directors, they are transactions that may continue after [●].

In addition, Mr. Chun and Mr. Tsui provide unlimited personal guarantees and pledged certain bank deposits to banks to secure general banking facilities granted to the Group. The personal guarantee provided by Mr. Tsui has been released during the year ended 31 December 2007 while the guarantee given by Mr. Chun and the bank deposits pledged under his name will be released prior to the completion of [●].

At 31 December 2006, the Group had given a guarantee to a bank to secure the general banking facilities granted to an associate. The extent of utilisation at 31 December 2006 amounted to approximately HK$6,195,000. Such guarantee was released during the year ended 31 December 2007 upon the settlement of the relevant bank borrowing.

(II) Related party balances

The Group had the following balances with related parties:

		As at 31 December		
Class of related party	**Nature of balances**	**2006**	**2007**	**2008**
		HK$'000	**HK$'000**	**HK$'000**
An associate of the Group . .	Non-trade payable	(734)	—	—
	Non-trade receivable	—	7	54
Mr. Chun	Non-trade payable	—	—	(2,219)
Wellrun Limited	Non-trade receivable	—	—	771
A company wholly-owned by Mr. Chun	Deposit paid	—	—	115

(III) Compensation of key management personnel

The emolument of directors who are also identified as members of key management of the Group during the Relevant Periods is set out in note 12.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

C. SUBSEQUENT EVENTS

[●]

No other significant events took place subsequent to 31 December 2008.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

[DATE]

The Directors
China Metal Recycling (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 張家港容利再生資源有限公司 (Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.) ("Zhangjiagang Rongli") for the period from 1 December 2006 (date of establishment) to 31 December 2006 and the year ended 31 December 2007 (the "Relevant Periods"), for inclusion in the document of China Metal Recycling (Holdings) Limited (the "Company") dated [●] June 2009 (the "Document").

Zhangjiagang Rongli was established in the People's Republic of China (the "PRC") on 1 December 2006. It has adopted 31 December as its financial year end date. The principal activities of Zhangjiagang Rongli are collection, processing and sale of recycled scrap metal.

The statutory financial statements of Zhangjiagang Rongli were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.), a certified public accountant registered in the PRC for the Relevant Periods.

For the purpose of this report, the directors of Zhangjiagang Rongli have prepared the financial statements of Zhangjiagang Rongli for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Zhangjiagang Rongli for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements for the purpose of preparing our report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of Zhangjiagang Rongli who approve their issue. The directors of the Company are responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Zhangjiagang Rongli as at 31 December 2006 and 2007 and of the results and cash flows of Zhangjiagang Rongli for the period from 1 December 2006 to 31 December 2006 and the year ended 31 December 2007.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

	Notes	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
		RMB'000	RMB'000
Revenue	7	—	1,210,060
Cost of sales		—	(1,201,273)
Gross profit		—	8,787
Bank interest income		—	10
Distribution and selling expenses		—	(77)
Administrative expenses		(5)	(3,215)
Interest on discounted bills		—	(333)
(Loss) profit before taxation		(5)	5,172
Income tax expense	8	—	(1,701)
(Loss) profit for the period/year	9	(5)	3,471

BALANCE SHEETS

	Notes	As at 31 December 2006	2007
		RMB'000	RMB'000
NON-CURRENT ASSET			
Property, plant and equipment	12	—	1,406
CURRENT ASSETS			
Inventories	13	—	2,759
Trade receivables	14	—	59,230
Amount due from a related company	15	1,950	—
Bank balances and cash	16	45	13,188
		1,995	75,177
CURRENT LIABILITIES			
Trade and other payables	17	—	44,892
Amount due to a shareholder	18	—	5,058
Other borrowing	19	—	5,000
Taxation payable		—	1,500
		—	56,450
NET CURRENT ASSETS		1,995	18,727
TOTAL ASSETS LESS CURRENT LIABILITIES		1,995	20,133
CAPITAL AND RESERVE			
Paid-in capital	20	2,000	16,667
(Accumulated loss) retained profit		(5)	3,466
TOTAL EQUITY		1,995	20,133

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	(Accumulated loss) retained profit	Total
	RMB'000	RMB'000	RMB'000
Injection of capital	2,000	—	2,000
Loss for the period	—	(5)	(5)
At 31 December 2006	2,000	(5)	1,995
Profit for the year	—	3,471	3,471
Injection of capital	14,667	—	14,667
At 31 December 2007	16,667	3,466	20,133

CASH FLOW STATEMENTS

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	(5)	5,172
Adjustments for:		
Depreciation of property, plant and equipment	—	90
Interest income	—	(10)
Interest on discounted bills	—	333
Operating cash flows before movements in working capital	(5)	5,585
Increase in inventories	—	(2,759)
Increase in trade receivables	—	(59,230)
Increase in trade and other payables	—	44,892
Cash used in operations	(5)	(11,512)
PRC Enterprise Income Tax paid	—	(201)
NET CASH USED IN OPERATING ACTIVITIES	(5)	(11,713)
INVESTING ACTIVITIES		
(Advance to) repayment from a related company	(1,950)	1,950
Interest received	—	10
Purchase of property, plant and equipment	—	(1,496)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,950)	464
FINANCING ACTIVITIES		
Proceeds from capital injection	2,000	14,667
Advance from a shareholder	—	5,058
Other borrowing raised	—	5,000
Interest paid	—	(333)
NET CASH FROM FINANCING ACTIVITIES	2,000	24,392
NET INCREASE IN CASH AND CASH EQUIVALENTS	45	13,143
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	—	45
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash	45	13,188

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Zhangjiagang Rongli was established in the PRC on 1 December 2006. Its immediate holding company is 揚中亞鋼金屬有限公司 (Yangzhong Yagang Metal Co., Ltd.) and the ultimate holding company is Wellrun Limited, a company incorporated in the British Virgin Islands.

The principal operations of Zhangjiagang Rongli are conducted in the PRC. Accordingly, the financial statements of Zhangjiagang Rongli have been prepared in Renminbi which also represents the functional currency of Zhangjiagang Rongli.

The principal activities of Zhangjiagang Rongli are collection, processing and sale of recycled scrap metal.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

Zhangjiagang Rongli has applied consistently throughout the Relevant Periods all of the standards and interpretations issued by the HKICPA that are effective for the Zhangjiagang Rongli's financial period beginning on 1 January 2007 in the preparation of the Underlying Financial Statements.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations that are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets[5]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arranagements[8]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[9]
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[8]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[10]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[4]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[11]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate

[3] Effective for annual periods beginning on or after 1 January 2009

[4] Effective for annual periods beginning on or after 1 July 2009

[5] Effective from 1 July 2008

[6] Effective for annual periods ending on or after 30 June 2009

[7] Effective for annual periods beginning on or after 1 March 2007

[8] Effective for annual periods beginning on or after 1 January 2008

[9] Effective for annual periods beginning on or after 1 July 2008

[10] Effective for annual periods beginning on or after 1 October 2009

[11] Effective for transfers on or after 1 July 2009

The directors of Zhangjiagang Rongli anticipate that the application of the above new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Zhangjiagang Rongli.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below which conform with the HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Property, plant and equipment

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period/year in which the item is derecognised.

Impairment of assets

At each balance sheet date, Zhangjiagang Rongli reviews the carrying amounts of its 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. An impairment loss is 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 periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Zhangjiagang Rongli's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Zhangjiagang Rongli's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, amount due from a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- ➢ significant financial difficulty of the issuer or counterparty; or
- ➢ default or delinquency in interest or principal payments; or
- ➢ it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Zhangjiagang Rongli are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Zhangjiagang Rongli after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

Zhangjiagang Rongli's financial liabilities (including trade and other payables, amount due to a shareholder and other borrowing) are measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Zhangjiagang Rongli are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhangjiagang Rongli has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If Zhangjiagang Rongli retains substantially all the risks and rewards of ownership of a transferred asset, Zhangjiagang Rongli continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Estimated impairment of trade receivables

In determining whether there is objective evidence of impairment loss, Zhangjiagang Rongli takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade receivables is approximately RMB59,230,000.

5. CAPITAL RISK MANAGEMENT

Zhangjiagang Rongli manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Zhangjiagang Rongli's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Zhangjiagang Rongli consists of net debt, which includes amount due to a shareholder disclosed in note 18, other borrowing disclosed in note 19, cash and cash equivalents disclosed in note 16, and equity attributable to equity holders of Zhangjiagang Rongli, comprising paid-in capital and retained profit.

The directors of Zhangjiagang Rongli review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on recommendations of the directors, Zhangjiagang Rongli will balance its overall capital structure through the payment of dividends and new capital injection as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,995	72,418
Financial liabilities		
Amortised cost	—	54,604

(b) Financial risk management objectives and policies

Zhangjiagang Rongli's major financial instruments include trade receivables, amount due from a related company, bank balances and cash, trade and other payables, amount due to a shareholder and other borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

Zhangjiagang Rongli's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations is the carrying amounts of the financial assets as stated in the balance sheets. In order to minimise the credit risk, Zhangjiagang Rongli reviews the recoverable amount of each individual debt at each balance sheet date and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Zhangjiagang Rongli consider that the credit risk is significantly reduced.

Zhangjiagang Rongli has concentration of credit risk as 37.6% and 94.2% of the total trade receivables as at 31 December 2007 was due from the largest debtor and the five largest debtors respectively.

Zhangjiagang Rongli's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% of the total trade receivables at the respective balance sheet date.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, Zhangjiagang Rongli monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance Zhangjiagang Rongli's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of other source of fundings and considers the risk is minimal.

The remaining contractual maturity for Zhangjiagang Rongli's financial liabilities is less than 1 month or repayable on demand.

Interest rate risk

Zhangjiagang Rongli is exposed to cash flow interest rate risk due to the variable-rate bank deposits. Zhangjiagang Rongli does not have any interest rate hedging policy in relation to interest rate risks. However, management monitors interest rate exposure on ongoing basis and will consider hedging significant interest rate changes should the need arise. No sensitivity analysis is presented for cash flow interest rate risk as the directors consider the exposure is limited.

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE AND SEGMENTAL INFORMATION

Zhangjiagang Rongli is engaged in the principal business of metal recycling, involving the recycling of scrap metal into recycled ferrous and non-ferrous metals, which are the raw materials for a wide range of metallic end-products. Zhangjiagang Rongli's products can be broadly classified into two categories:

(i) ferrous metal, namely iron and steel; and

(ii) non-ferrous metal, including copper, aluminium, etc.

The two principal metals processed/sold by Zhangjiagang Rongli are the basis on which Zhangjiagang Rongli reports its primary segment information. However, in the opinion of directors of Zhangjiagang Rongli, it is not practical and meaningful to present such segment information except for revenue and inventories (all inventories were related to ferrous metal), because it would involve indefinite assumptions on the allocation of cost of materials and assets used for production in preparing those information.

Zhangjiagang Rongli presents its revenue by the two principal business segments as below:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
Ferrous metal	—	790,256
Non-ferrous metal	—	419,804
	—	1,210,060

Zhangjiagang Rongli's revenue was wholly derived from the PRC and its assets and customers are all located in the PRC. Accordingly, no analysis of geographical segment is presented.

8. INCOME TAX EXPENSE

PRC Enterprise Income Tax is calculated at 33% of the estimated assessable profit for the Relevant Periods.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% for Zhangjiagang Rongli from 1 January 2008.

The tax charge for the Relevant Periods can be reconciled to the (loss) profit before taxation per the income statements as follows:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
(Loss) profit before taxation	(5)	5,172
Tax at the PRC Enterprise Income Tax rate of 33%	(2)	1,707
Tax effect of tax loss not recognised	2	—
Utilisation of tax loss previously not recognised	—	(2)
Others	—	(4)
Tax charge for the period/year	—	1,701

9. (LOSS) PROFIT FOR THE PERIOD/YEAR

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
(Loss) profit for the period/year has been arrived at after charging:		
Directors' emoluments (note 10)	—	194
Other staff costs	—	690
Retirement benefit scheme contributions, excluding those of directors	—	17
Total staff costs	—	901
Auditor's remuneration	—	—
Depreciation of property, plant and equipment	—	90

Note: For the year ended 31 December 2007, cost of inventories recognised as an expense approximates cost of sales as shown in the income statements.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of Zhangjiagang Rongli for the Relevant Periods are as follows:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
Fee	—	—
Salaries and other allowances	—	188
Retirement benefit scheme contributions	—	6
	—	194
Executive directors:		
Mr. Wu Yue Xing	—	63
Mr. Hu Wen Hu	—	61
Ms. Xiang Man Qin (note i)	—	35
Mr. Li Dong Hui (note i)	—	35
Mr. Chun Chi Wai (note ii)	—	—
Mr. Jiang Yan Zhang (note ii)	—	—
Mr. Lam Po Kei Kenneth Greg (note ii)	—	—
Mr. Xie Hao Liang (note ii)	—	—
	—	194

Notes:

(i) Ms. Xiang Man Qin and Mr. Li Dong Hui resigned as directors of Zhangjiagang Rongli on 13 December 2007.

(ii) Mr. Chun Chi Wai, Mr. Jiang Yan Zhang, Mr. Lam Po Kei Kenneth Greg and Mr. Xie Hao Liang were appointed as directors of Zhangjiagang Rongli on 13 December 2007.

Employees

Of the five highest paid individuals of Zhangjiagang Rongli for the Relevant Periods, the number of directors and employees are as follows:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
Directors	—	4
Employees	—	1
	—	5

The remuneration of the above directors are set out above. The remuneration of the remaining individual for the Relevant Periods are as follows:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
Salaries and other allowances	—	54
Retirement benefit scheme contributions	—	4
	—	58

During the Relevant Periods, no emoluments were paid by Zhangjiagang Rongli to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Zhangjiagang Rongli or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

11. DIVIDENDS

No dividend has been paid or declared by Zhangjiagang Rongli since its date of establishment.

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
Acquired during 2007 and balance at 31 December 2007	555	766	175	1,496
DEPRECIATION				
Provided for 2007 and balance at 31 December 2007	20	54	16	90
CARRYING VALUES				
At 31 December 2007	535	712	159	1,406

After considering the estimated residual values, the above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum after taking into account their estimated residual value:

Plant and machinery	10%
Motor vehicles	20%
Office equipment	20%

13. INVENTORIES

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Finished goods	—	2,759

14. TRADE RECEIVABLES

Zhangjiagang Rongli generally allows an average credit period of 30 to 60 days to its trade customers. The aged analysis of Zhangjiagang Rongli's trade receivables is as follows:

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
0 - 30 days	—	56,079
31 - 60 days	—	3,151
	—	59,230

Before accepting any new customer, Zhangjiagang Rongli assessed the potential customer's credit quality and defined credit limits by customer. Limits and scoring attributable to customers are reviewed regularly.

In determining the recoverability of a trade receivable, Zhangjiagang Rongli considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history and substantial subsequent settlement from those customers, no impairment loss was recognised for the Relevant Periods.

At 31 December 2007, the trade receivables are within the credit period granted by Zhangjiagang Rongli.

15. AMOUNT DUE FROM A RELATED COMPANY

The balance represented amount due from a company controlled by a shareholder of Zhangjiagang Rongli and was unsecured, non-interest bearing and repayable on demand. The maximum amount outstanding of RMB1,950,000 at 31 December 2006 was fully settled during the year ended 31 December 2007.

16. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by Zhangjiagang Rongli and short-term bank deposits with maturity of three months or less.

The bank deposits carry floating rate interest of 0.81% (2006: 0.72%) per annum.

17. TRADE AND OTHER PAYABLES

The aged analysis of Zhangjiagang Rongli's trade payables is as follows:

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Trade payables:		
0 - 30 days	—	40,945
31 - 60 days	—	3,139
	—	44,084
Other payables:		
Accruals	—	331
Payables for acquisition of property, plant and equipment	—	462
Other taxes payable	—	15
	—	808
	—	44,892

18. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder, Mr. Wu Yue-xing, is unsecured, non-interest bearing and repayable on demand. The amount was subsequently settled in January 2008.

19. OTHER BORROWING

Other borrowing is unsecured, non-interest bearing and repayable on demand.

20. PAID-IN CAPITAL

	RMB'000
Registered and paid-in capital	
On establishment and balance at 31 December 2006	2,000
Injection of capital on 7 September 2007	3,000
Injection of capital on 27 December 2007	11,667
At 31 December 2007	16,667

21. OPERATING LEASE COMMITMENT

Minimum lease payments paid under operating leases during the Relevant Periods are as follows:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
Office and factory premises	—	130

Zhangjiagang Rongli had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Within one year	180	180
In the second to fifth year inclusive	720	720
Over five years	1,785	1,605
	2,685	2,505

Operating lease payments represent rentals payable by Zhangjiagang Rongli for certain of its office and factory premises. Leases are negotiated for an average term of 15 years with fixed rentals.

All the leases are entered into with related parties and details are set out in note 23.

22. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. Zhangjiagang Rongli is required to contribute a certain percentage of its payroll to the retirement benefit schemes to fund the benefits. The only obligation of Zhangjiagang Rongli with respect to the retirement benefit schemes is to make the required contributions under the schemes.

23. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Relevant Periods, Zhangjiagang Rongli had the following transactions with related parties:

Class of related party	Nature of transactions	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
		RMB'000	RMB'000
A related company (note)	Rental expense#	—	80
A shareholder	Rental expense#	—	50

In the opinion of the directors, they are transactions that are expected to continue after 1 January 2008.

(II) Related party balances

The Group had the following balances with related parties:

Class of related party	Nature of balances	As at 31 December 2006	As at 31 December 2007
		RMB'000	RMB'000
A related company (note)	Non-trade receivable	1,950	—
A shareholder	Non-trade payable	—	5,058

Note: A company wholly owned by a shareholder of Zhangjiagang Rongli.

(III) Compensation of key management personnel

The emolument of directors who are also identified as members of key management of Zhangjiagang Rongli during the Relevant Periods is set out in note 10.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by Zhangjiagang Rongli to the directors of Zhangjiagang Rongli in respect of the Relevant Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

The statutory financial statements of Zhangjiagang Rongli for the year ended 31 December 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.). No audited financial statements of Zhangjiagang Rongli have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit after taxation and minority interests but before extraordinary items of the Group for the six months ending 30 June 2009 is set out in the section headed "Financial information — Profit Forecast" in this document.

(1) BASIS AND ASSUMPTIONS

The forecast of the consolidated profit after taxation and minority interests but before extraordinary items of the Group for the six months ending 30 June 2009 prepared by our Directors is based on the unaudited management accounts of the Group for the three months ended 31 March 2009 and a forecast of the consolidated results of the Group for the remaining three months ending 30 June 2009. Our Directors are not aware of any extraordinary items which have arisen or are likely to arise during the six months ending 30 June 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set out in Appendix I to this document and is based on the following principal assumptions:

(a) There will be no material change in existing political, legal, fiscal, market or economic condition in China (including Hong Kong and Macau), or any other country or territory in which we currently operate or which are otherwise material to our business;

(b) There will be no changes in legislation, regulations, or rules in China (including Hong Kong and Macau), or any other country or territory in which we have arrangements or agreements, which materially adversely affect our business;

(c) There will be no material changes in the bases or rate of taxation in China (including Hong Kong and Macau) or any other country or territory in which we operate, except as otherwise disclosed in this profit forecast;

(d) There will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing; and

(e) The Group's operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document, received from Vigers Appraisal and Consulting Limited, an independent valuer, in connection with its valuation as of 31 March 2009 of the property interests of the Group.

Vigers Appraisal and Consulting Limited
International Property Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

VIGERS 威格斯

[●] 2009

The Directors
China Metal Recycling (Holdings) Limited
Unit No. 4803 on 48/F
Office Tower of Convention Plaza
No. 1 Harbour Road
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by China Metal Recycling (Holdings) Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), the Hong Kong Special Administrative Region of the PRC ("Hong Kong") and the Macau Special Administrative Region of the PRC ("Macau"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 March 2009 (the "date of valuation") for the purpose of incorporation into the document.

Our valuation is our opinion of the market value of the property interests which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests in Groups I and II except Property 5, we have valued the properties by the direct comparison approach assuming sale of the properties in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In valuing Property 5 in Group II, it has been valued on the basis of capitalisation of net rental income currently derived from the existing tenancy having taken into account the reversionary income potential of the property.

For property interests in Groups III, IV and V which are rented by the Group in the PRC, Hong Kong and Macau, we have assigned no commercial value to them mainly due to the prohibition against assignment or sub-letting, the lack of substantial profit rents or the short term nature of such interests.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in their existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interests at the relevant government bureau in the PRC and Macau. For the property interests in Hong Kong, we have caused searches to be made at the Land Registry. We have been provided with certain extracts of title documents relating to the property interests in the PRC and Macau. However, we have not inspected the original documents to verify the ownership, encumbrances or existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinions provided by the Group's PRC legal advisers, Jun He Law Offices.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matters. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK$). The exchange rate used in valuing the property in the PRC as at 31 March 2009 was HK$1=RMB0.8817. There has been no significant fluctuation in the exchange rate for Renminbi (RMB) against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith a summary of our valuations and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal and Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty years' experience in undertaking valuations of properties in Hong Kong and has over thirteen years' experience in valuations of properties in the PRC, Macau and Taiwan.

SUMMARY OF VALUATION

	Property	Market Value in existing state as at 31 March 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2009
Group I — Property interests owned and occupied by the Group in the PRC				
1.	An industrial complex located at Ximentan, Miaotou Village, Nangang Town, Huangpu District, Guangzhou, Guangdong Province, The PRC.	RMB27,000,000 (equivalent to HK$30,620,000)	75%	RMB20,250,000 (equivalent to HK$22,970,000)
2.	A parcel of land located at Zi Ya Environment Protection Industrial Park, Ziwang Road West and Tianhuan Road South, Jinghai County, Tianjin, The PRC.	RMB3,000,000 (equivalent to HK$3,400,000)	90.385%	RMB2,710,000 (equivalent to HK$3,070,000)
3.	A parcel of land located at Donglai Village, Xilaiqiao Town, Yangzhong City, Jiangsu Province, The PRC.	RMB40,300,000 (equivalent to HK$45,710,000)	100%	RMB40,300,000 (equivalent to HK$45,710,000)
4.	A parcel of land located at Zi Ya Environment Protection Industrial Park, Zixing Road West, Jinghai County, Tianjin, The PRC.	RMB28,300,000 (equivalent to HK$32,100,000)	90.385%	RMB25,580,000 (equivalent to HK$29,010,000)
	Sub-total:	**RMB98,600,000 (equivalent to HK$111,830,000)**		**RMB88,840,000 (equivalent to HK$100,760,000)**

	Property	Market Value in existing state as at 31 March 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2009
Group II — Property interests owned by the Group in Hong Kong				
5.	Unit 1 on 16th Floor, "118 Connaught Road West", No.118 Connaught Road West, Sai Ying Pun, Hong Kong.	HK$9,000,000	100%	HK$9,000,000
6.	Car Parking Space No.358 on 3/F, "118 Connaught Road West", No.118 Connaught Road West, Sai Ying Pun, Hong Kong.	HK$700,000	100%	HK$700,000
	Sub-total:	**HK$9,700,000**		**HK$9,700,000**
Group III — Property interests rented and occupied by the Group in the PRC				
7.	No.1 Guangjiang Road, Huangpu District, Guangzhou, Guangdong Province, The PRC.	No commercial value	75%	Nil
8.	No.148 Pangang Road South, Gang District, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC.	No commercial value	70%	Nil
9.	An office on 15/F, Asia Steel Building, No.3401 Huangpu Road East, Huangpu District, Guangzhou, Guangdong Province, The PRC.	No commercial value	75%	Nil

	Property	Market Value in existing state as at 31 March 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2009
10.	An office on 11/F, No.111 Yangzi Road Central, Yangzhong City, Jiangsu Province, The PRC.	No commercial value	100%	Nil
11.	Two parcels of land located at Hou Hai Tang, Zhen Hai Zhao Bao Shan Jie Dao, Ningbo, Zhejiang Province, The PRC.	No commercial value	100%	Nil
12.	Unit Nos. 1807 and 1808 on 18/F, 信達廣場 (Centre Plaza), No. 188 Jiefang Road, Heping District, Tianjin City, The PRC.	No commercial value	90.385%	Nil
	Sub-total:	**Nil**		**Nil**

Group IV — Property interest rented and occupied by the Group in Hong Kong

	Property	Market Value in existing state as at 31 March 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2009
13.	Unit No.4803 on 48/F, Office Tower of Convention Plaza, No.1 Harbour Road, Hong Kong.	No commercial value	100%	Nil
	Sub-total:	**Nil**		**Nil**

	Property	Market Value in existing state as at 31 March 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31 March 2009
Group V — Property interest rented and occupied by the Group in Macau				
14.	Unit No.B on 26/F, Bank of China Building, located n.° s7 to 15, Praca Ferreira do Amaral, n.° s1 to 5, Avenida do Infante D. Henrique and n.° s307 to 323, Avenida Doutor Mário Soares Macau.	No commercial value	100%	Nil
	Sub-total:	**Nil**		**Nil**
	Grand-total:	**HK$121,530,000**		**HK$110,460,000**

VALUATION CERTIFICATE

Group I — Property interests owned and occupied by the Group in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2009
1.	An industrial complex located at Ximentan, Miaotou Village, Nangang Town, Huangpu District, Guangzhou, Guangdong Province, The PRC.	The property comprises a parcel of land having a site area of approximately 52,162 sq.m. together with 7 buildings erected thereon. The buildings have a total gross floor area of approximately 12,432.80 sq.m. completed between 1992-2002. The land use rights of the property were granted for a term of 50 years commencing from 19 January 2004 and expiring on 18 January 2054 for industrial, mining and warehouse uses.	The property is currently occupied by the Group for warehouse and ancillary office uses.	RMB27,000,000 (equivalent to HK$30,620,000) **Interest attributable to the Group** 75% **Market Value in existing state attributable to the Group as at 31 March 2009** RMB20,250,000 (equivalent to HK$22,970,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Sui Guo Yong (2004) Di No.10007) dated 6 July 2004, the land use rights of the property having a total site area of approximately 52,162 sq.m. were granted to Guangzhou Asia Steel Co., Ltd. for a term of 50 years commencing from 19 January 2004 and expiring on 18 January 2054 for industrial, mining and warehouse uses.
2. As advised by the Company, Guangzhou Asia Steel Co., Ltd. does not possess the title documents of the buildings of the property with a total gross floor area of approximately 12,432.80 sq.m. In our valuation, we have ascribed "no commercial value" to the buildings. Should the Guangzhou Asia Steel Co., Ltd. obtain all the title documents of the buildings, the capital value of the buildings of the property at their existing state as at the date of valuation was in the sum of RMB8,200,000.
3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:
   (i) Guangzhou Asia Steel Co., Ltd. has obtained the State-owned Land Use Rights Certificate of the land of the property and is the sole land use rights holder thereof whose ownership is complete and is recognised and protected under PRC laws;
   (ii) the land transfer fee has been fully settled;
   (iii) the property is free from any mortgages or third party encumbrance restriction;

(iv) Guangzhou Asia Steel Co., Ltd. has the right to use and occupy the land of the property and to transfer, lease, mortgage or dispose of the land use rights of the land of the property; and

(v) Guangzhou Asia Steel Co., Ltd. has not obtained the Building Ownership Certificates for the buildings of the property, however, since they are erected on the land of the property of which Guangzhou Asia Steel Co., Ltd. is the sole land use rights holder, Guangzhou Asia Steel Co., Ltd. has the right to occupy and use the same and is entitled to transfer, lease, mortgage or dispose of such buildings once the Building Ownership Certificates have been obtained.

4. Guangzhou Asia Steel Co., Ltd. is an indirect 75% interest owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2009
2.	A parcel of land located at Zi Ya Environment Protection Industrial Park, Ziwang Road West and Tianhuan Road South, Jinghai County, Tianjin, The PRC.	The property comprises a parcel of land having a site area of approximately 9,978.8 sq.m. The land use rights of the property were granted for a term expiring on 29 December 2056 for industrial and ancillary uses.	The property is currently occupied by the Group for industrial and ancillary uses.	RMB3,000,000 (equivalent to HK$3,400,000) **Interest attributable to the Group** 90.385% **Market Value in existing state attributable to the Group as at 31 March 2009** RMB2,710,000 (equivalent to HK$3,070,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Jing Dan Guo Yong (2008) Di No.010) dated 28 January 2008, the land use rights of the property having a total site area of approximately 9,978.8 sq.m. were granted to Tianjin Yatong Steel Co., Ltd. for a term expiring on 29 December 2056 for industrial and ancillary uses.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) Tianjin Yatong Steel Co., Ltd. has obtained the State-owned Land Use Rights Certificate of the land of the property and is the sole land use rights holder thereof whose ownership is complete and is recognised and protected under PRC laws;

   (ii) the land premium has been fully settled;

   (iii) the property is free from any mortgages or third party encumbrance restriction;

   (iv) Tianjin Yatong Steel Co., Ltd. has the right to use and occupy the property and to transfer, lease, mortgage or dispose of the land use rights of the property; and

   (v) Tianjin Yatong Steel Co., Ltd. has obtained a Construction Engineering Planning Permit (Document No. Zhen Jian Zheng Zi 2009-011 Hao Bu) issued by Tianjin City Jinghai County Planning Bureau.

3. Tianjin Yatong Steel Co., Ltd. is an indirect 90.385% interest owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
3.	A parcel of land located at Donglai Village, Xilaiqiao Town, Yangzhong City, Jiangsu Province, The PRC.	The property comprises a parcel of land having a site area of approximately 188,632.3 sq.m. The land use rights of the property were granted for a term expiring on 14 June 2058 for industrial uses.	The property is currently vacant.	RMB40,300,000 (equivalent to HK$45,710,000) **Interest attributable to the Group** 100% **Market value in existing state attributable to the Group as at 31 March 2009** RMB40,300,000 (equivalent to HK$45,710,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Yang Guo Yong (2008) Di No. 10249) dated 8 August 2008, the land use rights of the property having a total site area of approximately 188,632.3 sq.m. were granted to Yangzhong Yagang Metal Co., Ltd. for a term expiring on 14 June 2058 for industrial uses.
2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:
   (i) Yangzhong Yagang Metal Co., Ltd. has obtained the State-owned Land Use Rights Certificate of the land of the property and is the sole land use rights holder thereof whose ownership is complete and is recognised and protected under PRC laws;
   (ii) the land premium has been fully settled;
   (iii) the property is free from any mortgages or third party encumbrance restriction;
   (iv) Yangzhong Yagang Metal Co., Ltd. has the right to use and occupy the property and to transfer, lease, mortgage or dispose of the land use rights of the property; and
   (v) Yangzhong Yagang Metal Co., Ltd has obtained a Construction Land Planning Permit (Document No.: Yang Gui Di 2006084) issued by Yangzhong City Planning Management Bureau dated 24 November 2006.
3. Yangzhong Yagang Metal Co., Ltd. is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
4.	A parcel of land located at Zi Ya Environment Protection Industrial Park, Zixing Road West, Jinghai County, Tianjin, The PRC.	The property comprises a parcel of land having a site area of approximately 95,197.75 sq.m. The land use rights of the property were granted for a term expiring on 11 September 2058 for industrial uses.	The property is currently vacant.	RMB28,300,000 (equivalent to HK$32,100,000) **Interest attributable to the Group** 90.385% **Market Value in existing state attributable to the Group as at 31 March 2009** RMB25,580,000 (equivalent to HK$29,010,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract entered into between Tianjin Municipal Bureau of Land Resources and Housing Management Jinghai Branch ("Party A") and Tianjin Yatong Steel Co., Ltd. dated 12 September 2008, Party A agreed to grant the land use rights of the property having a site area of approximately 95,197.75 sq.m. to Tianjin Yatong Steel Co., Ltd. for a consideration of RMB28,300,000 for a term of 50 years commencing from 12 September 2008 for industrial uses.

2. Pursuant to a State-owned Land Use Rights Certificate (Document No. Fang De Zheng Jin Zi Di No. 123050903716) dated 14 January 2009, the land use rights of the property having a total site area of approximately 95,197.75 sq.m. were granted to Tianjin Yatong Steel Co., Ltd. for a term expiring on 11 September 2058 for industrial uses.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) Tianjin Yatong Steel Co., Ltd. has obtained the State-owned Land Use Rights Certificate of the land of the property and is the sole land use rights holder thereof whose ownership is complete and is recognized and protected under PRC laws;

   (ii) the land premium has been fully settled;

   (iii) the property is free from any mortgages or third party encumbrance restriction;

   (iv) Tianjin Yatong Steel Co., Ltd. has the right to use and occupy the property and to transfer, lease, mortgage or dispose of the land use rights of the property; and

   (v) Tianjin Yatong Steel Co., Ltd. has obtained a Construction Land Planning Permit (Document No.: 2008 Huan Bao Yuan Di Zheng Zi 012 Hao) issued by Tianjin City Jinghai County Planning Bureau.

4. Tianjin Yatong Steel Co., Ltd. is an indirect 90.385% interest owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Property interests owned by the Group in Hong Kong

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2009
5.	Unit 1 on 16th Floor, "118 Connaught Road West", No.118 Connaught Road West, Sai Ying Pun, Hong Kong 24/5674th equal and undivided shares of and in Section A of Marine Lot No. 534, The Remaining Portion of Marine Lot No.533, Section A of Marine Lot No.532, Section A of Marine Lot No.531, Section A of Marine Lot No.530, Section A of Marine Lot No. 529, The Remaining Portion of Marine Lot No.528, Marine Lot Nos. 527, 475, 474, 473 and 472, Inland Lot No.2866, The Remaining Portion of Inland Lot Nos.2871, 2860, 2870 and 2861.	The property comprises an office unit on the 16th floor of a 37-storey office building completed in around 1994. The property has a gross floor area of approximately 2,036 sq.ft. The property is held under various government leases for various terms of 999 years commencing from 11 June 1895, 27 July 1898, 31 March 1898, 5 October 1889, 25 June 1897, 24 July 1895, 23 May 1895, 14 September 1895 and 10 March 1896 respectively.	The property is leased to Okay Holdings Group Limited for a term from 15 April 2008 to 14 March 2010 at a monthly rental of $47,235 excluding all the utilities charges but including rates and management fees.	HK$9,000,000 **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2009** HK$9,000,000

Notes:

1. According to the Land Registry record, the current registered owner of the property is Asia Steel (H.K.) Limited.
2. According to a Tenancy Agreement entered into between Asia Steel (H.K.) Limited and Okay Holdings Group Limited dated 2 April 2008, the property is leased by Okay Holdings Group Limited from Asia Steel (H.K.) Limited for a term from 15 April 2008 to 14 March 2010 at a monthly rental of $47,235 excluding all the utilities charges but including rates and management fees.
3. The property is subject to a mortgage in favour of DBS Bank (Hong Kong) Limited dated 13 November 2004 vide memorial no. UB9403050. DBS Bank (Hong Kong) Limited has noted the entering into of the Tenancy Agreement.
4. Asia Steel (H.K.) Limited is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
6.	Car Parking Space No.358 on 3/F, "118 Connaught Road West", No.118 Connaught Road West, Sai Ying Pun, Hong Kong 1/5674th equal and undivided share of and in Section A of Marine Lot No. 534, The Remaining Portion of Marine Lot No.533, Section A of Marine Lot No.532, Section A of Marine Lot No.531, Section A of Marine Lot No.530, Section A of Marine Lot No. 529, The Remaining Portion of Marine Lot No.528, Marine Lot Nos. 527, 475, 474, 473 and 472, Inland Lot No.2866, The Remaining Portion of Inland Lot Nos.2871, 2860, 2870 and 2861	The property comprises a car parking space on the 3rd floor of a 37-storey office building completed in around 1994. The property is held under various government leases for various terms of 999 years commencing from 11 June 1895, 27 July 1898, 31 March 1898, 5 October 1889, 25 June 1897, 24 July 1895, 23 May 1895, 14 September 1895 and 10 March 1896 respectively.	The property is currently vacant.	HK$700,000 **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 31 March 2009** HK$700,000

Notes:

1. According to the Land Registry record, the current registered owner of the property is Asia Steel (H.K.) Limited.
2. Asia Steel (H.K.) Limited is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
7.	No.1 Guangjiang Road, Huangpu District, Guangzhou, Guangdong Province, The PRC.	The property comprises an open space area having a site area of approximately 4,000 sq.m., a warehouse having a gross floor area of approximately 1,086.82 sq.m. and an office having a gross floor area of approximately 150 sq.m..	The property is leased by Guangzhou Yatong Metal Co., Ltd. from 廣州集通倉碼有限公司 for a term of 3 years from 1 February 2008 to 31 January 2011 at a monthly rental of RMB36,041.84. The property is currently occupied by the Group for operation uses.	No commercial value

Notes:

1. According to a Tenancy Agreement entered into between Guangzhou Yatong Metal Co., Ltd. and 廣州集通倉碼有限公司 dated 25 May 2007, the property was leased by Guangzhou Yatong Metal Co., Ltd. from 廣州集通倉碼有限公司 for a term of 5 years from 25 May 2007 to 24 May 2012 at a monthly rental of RMB36,041.84. The Tenancy Agreement was replaced by another Tenancy Agreement entered into between Guangzhou Yatong Metal Co., Ltd. and 廣州集通倉碼有限公司 dated 19 January 2008, whereby the property is leased by Guangzhou Yatong Metal Co., Ltd. from 廣州集通倉碼有限公司 for a term of 3 years from 1 February 2008 to 31 January 2011 at a monthly rental of RMB36,041.84.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the land use rights and building ownership of the property are legally owned by 廣州集通倉碼有限公司 who is entitled to lease the property;

   (iii) the tenancy agreement has been registered, the rights of Guangzhou Yatong Metal Co., Ltd. as lessee under the tenancy agreement are legally recognised and protected under PRC laws; and

   (iv) the property is mortgaged in favour of Hang Seng Bank (China) Limited Guangzhou Branch on 17 October 2007. Since the mortgage was created after the tenancy agreement, upon enforcement of the mortgage, the tenancy agreement will continue to be valid against the transferee under the mortgage.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
8.	No.148 Pangang Road South, Gang District, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC.	The property comprises a 4-storey building having a total gross floor area of approximately 799.5 sq.m..	The property is leased by Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. from Wu Yue-xing for a term of 15 years from 1 December 2006 to 30 November 2021 at a total annual rental of RMB30,000. The property is occupied by the Group as staff quarters and office.	No commercial value

Notes:

1. According to a Tenancy Agreement dated 1 December 2006 entered into between Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. and Wu Yue-xing, the property is leased by Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. from Wu Yue-xing for a term of 15 years from 1 December 2006 to 30 November 2021 at a total annual rental of RMB30,000.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the building ownership of the property is legally owned by Wu Yue-xing who is entitled to lease the property;

   (iii) the tenancy agreement has not been registered but this will not affect the legality and validity of the tenancy agreement, the rights of Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. as lessee under the tenancy agreement are legally recognized and protected under PRC laws;

   (iv) the permitted use of the property is for residential uses, but part of the property is currently occupied for office uses. If the use of property is illegally changed, the property owner, but not the lessee, may be subject to a fine, and in serious cases, the building ownership may be forfeited. Having considered the relatively small scale of the property, even in case Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. is to be requested not to use the property by the Government, it will not have practical adverse effect on the normal business operation of Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.; and

   (v) the property is mortgaged in favour of Agricultural Bank of China Zhangjiagang Free Trade Zone Sub-Branch on 9 March 2007. Since the mortgage was created after the tenancy agreement, upon enforcement of the mortgage, the tenancy agreement will continue to be valid against the transferee under the mortgage.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
9.	An office on 15/F, Asia Steel Building, No.3401 Huangpu Road East, Huangpu District, Guangzhou, Guangdong Province, The PRC.	The property comprises an office on the 15th floor of a building having a gross floor area of approximately 923.81 sq.m..	The property is leased by Guangzhou Asia Steel Co., Ltd. from Guangzhou Asia Steel Property Co., Ltd. for a term of 2 years from 1 June 2008 to 31 May 2010 at a monthly rental of RMB36,028.59 exclusive of management fees. The property is currently occupied by the Group for office uses.	No commercial value

Notes:

1. According to a Tenancy Agreement entered into between Guangzhou Asia Steel Co., Ltd. and Guangzhou Asia Steel Property Co., Ltd. dated 23 May 2008, the property is leased by Guangzhou Asia Steel Co., Ltd. from Guangzhou Asia Steel Property Co., Ltd. for a term of 2 years from 1 June 2008 to 31 May 2010 at a monthly rental of RMB36,028.59 exclusive of management fees.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the building ownership of the property is legally owned by Guangzhou Asia Steel Property Co., Ltd. who is entitled to lease the property; and

   (iii) the tenancy agreement has been registered, the rights of Guangzhou Asia Steel Co., Ltd. as lessee under the tenancy agreement are legally recognised and protected under PRC laws.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
10.	An office on 11/F, No.111 Yangzi Road Central, Yangzhong City, Jiangsu Province, The PRC.	The property comprises an office on the 11th floor of a building having a gross floor area of approximately 400 sq.m.	The property is leased by Yangzhong Yagang Metal Co., Ltd. from The China Construction Bank Corporation Limited Yangzhong Branch for a term of 5 years from 1 January 2008 to 31 December 2012 at an annual rental of RMB80,000 inclusive of water, electricity and management charges. The property is currently occupied by the Group for office uses.	No commercial value

Notes:

1. According to a Tenancy Agreement entered into between Yangzhong Yagang Metal Co., Ltd. and The China Construction Bank Corporation Limited Yangzhong Branch dated 3 January 2008, the property is leased by Yangzhong Yagang Metal Co., Ltd. from The China Construction Bank Corporation Limited Yangzhong Branch for a term of 5 years from 1 January 2008 to 31 December 2012 at an annual rental of RMB80,000 inclusive of water, electricity and management charges.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the building ownership of the property is legally owned by The China Construction Bank Corporation Limited Yangzhong Branch who is entitled to lease the property; and

   (iii) the tenancy agreement has been registered, the rights of Yangzhong Yagang Metal Co., Ltd. as lessee under the tenancy agreement are legally recognized and protected under PRC laws.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
11.	Two parcels of land located at Hou Hai Tang, Zhen Hai Zhao Bao Shan Jie Dao, Ningbo, Zhejiang Province, The PRC.	The property comprises two parcels of land having a total site area of approximately 66,667 sq.m. with a usable area of approximately 43,333.55 sq.m.	The property is leased by Ningbo Yagang Metal Co., Ltd. from Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. for a term of 20 years tentatively from 1 October 2008 to 30 September 2028 at an initial annual comprehensive service charge of RMB5,000,000 to be revised every 3 years, with the rate of revision not exceeding ±5%. The property is currently occupied by the Ningbo Yagang Metal Co., Ltd. for scrap metal processing uses.	No commercial value

Notes:

1. According to a Tenancy Agreement entered into between Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. and Yangzhong Yagang Metal Co., Ltd. dated 15 February 2009, the property is leased by Ningbo Yagang Metal Co., Ltd. from Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. for a term of 20 years tentatively from 1 October 2008 to 30 September 2028 at an initial annual comprehensive service charge of RMB5,000,000.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the land use rights of the respective areas for the property are legally owned by Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. who are entitled to lease the property;

   (iii) the tenancy agreement has been registered, the rights of Ningbo Yagang Metal Co., Ltd. as lessee under the tenancy agreement are legally recognized and protected under PRC laws; and

   (iv) a site area of 28,037 sq.m. owned by Ningbo Zhenglian Recycling Metals Co., Ltd. is mortgaged in favour of China Merchants Bank Co., Ltd. Ningbo Yinzhou Sub-Branch on 24 June 2008 and mortgagee consent for entering into the Tenancy Agreement has been obtained on 19 September 2008.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
12.	Unit Nos. 1807 and 1808 on 18/F, 信達廣場 (Centre Plaza), No. 188 Jiefang Road, Heping District, Tianjin City, The PRC.	The property comprises an office on the 18th floor of a building having a total gross floor area of 271.74 sq.m.	The property is leased by Tianjin Yatong Steel Co., Ltd. from 耀龍投資有限公司 for a term of 2 years from 19 December 2007 to 18 December 2009 at a monthly rental of RMB35,054 inclusive of water, air-conditioning and management charges. The property is currently occupied by the Group for office uses.	No commercial value

Notes:

1. According to a Tenancy Agreement entered into between Tianjin Yatong Steel Co., Ltd., 耀龍投資有限公司 and 天津眾聯行房地產信息諮詢有限公司 dated 26 November 2007, the property is leased by Tianjin Yatong Steel Co., Ltd. from 耀龍投資有限公司 for a term of 2 years from 19 December 2007 to 18 December 2009 at a monthly rental of RMB35,054 inclusive of water, air-conditioning and management charges.

2. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the tenancy agreement of the property is legal and valid;

   (ii) the building ownership of the property is legally owned by 耀龍投資有限公司 who is entitled to lease the property; and

   (iii) the tenancy agreement has not been registered but this will not affect the legality and validity of the tenancy agreement, the rights of Tianjin Yatong Steel Co., Ltd. as lessee under the tenancy agreement are legally recognized and protected under PRC laws.

VALUATION CERTIFICATE

Group IV — Property interest rented and occupied by the Group in Hong Kong

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
13.	Unit No.4803 on 48/F, Office Tower of Convention Plaza, No.1 Harbour Road, Hong Kong.	The property comprises an office unit on the 48th floor of a 48-storey office building completed in around 1990. The property has a gross floor area of approximately 4,462 sq.ft. (414 sq.m.).	By a novation agreement dated 4 July 2008, and a tenancy agreement dated 13 November 2007, the property is leased by Huan Bao Steel Limited ("Substituted Tenant") replacing Asia Wing Tat Recycling Limited ("Original Tenant") from Dong Yin Development (Holdings) Limited ("Landlord") for a term of 2 years from 15 November 2007 and expiring on 14 November 2009 at a monthly rental of HK$214,176.00 excluding all the utilities charges (government rent, rates, management fees and property tax excepted) which has been reduced to HK$191,866.00 per month exclusive of all the utilities charges with effect from 15 January 2009 under a supplemental letter dated 15 January 2009 by the Landlord and confirmed/agreed by the Substituted Tenant. The property is occupied by the Group for office uses.	No commercial value

Notes:

1. According to the Land Registry record, the current registered owner of the property is the Landlord.
2. The Landlord has not provided the relevant written approval for the sharing of the property by the Substituted Tenant with the Company/the Group, the Substituted Tenant may be in breach of the non-alienation clause in the tenancy agreement (as varied by the novation agreement and the supplemental letter) which will entitle the Landlord to exercise its rights under the tenancy agreement (as varied by the novation agreement and the supplemental letter) including requiring the Substituted Tenant to vacate the property forthwith.

VALUATION CERTIFICATE

Group V — Property interest rented and occupied by the Group in Macau

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2009
14.	Unit No.B on 26/F, Bank of China Building, located n.° s7 to 15, Praca Ferreira do Amaral, n.° s1 to 5, Avenida do Infante D. Henrique and n.° s307 to 323, Avenida Doutor Mario Soares Macau.	The property comprises an office on the 26th floor of a 34-storey office building completed in about 1991. The property has a gross floor area of approximately 1,560 sq.ft. (144.93 sq.m.).	The property is leased by Central Steel (Macao Commercial Offshore) Limited from Bank of China Limited represented by Sun Chung Property Management (Macao) Limited for a term of 2 years commencing from 10 May 2007 to 9 May 2009 at a monthly rental of MOP$24,180.00 exclusive of management charges, renewed on the same terms for a term of 2 years from 10 May 2009 to 9 May 2011. The property is occupied by the Group for office uses.	No commercial value

Notes:

1. According to the Macau Land and Real Estate Registry Certificates and Searches of the property, the current registered owner of the property is Bank of China Limited.
2. We have been provided with a legal opinion on the property prepared by the Group's Macau legal advisors, which contains, inter alia, the following information:
   - (i) all requisite legal formalities in relation to the lease agreements have been duly attended to and concluded;
   - (ii) the lease agreements are valid and enforceable by Central Steel (Macao Commercial Offshore) Limited as the tenant against the landlord in accordance with its terms and the Macau laws (except the provisions regarding the option to renew);
   - (iii) Central Steel (Macao Commercial Offshore) Limited as the tenant is entitled to enjoy possession of the property on the terms set out in the lease agreements (excepted as aforesaid);
   - (iv) as a result of execution of the renewal lease agreement, the lease relationship between the landlord and Central Steel (Macao Commercial Offshore) Limited as the tenant was duly renewed for 2 years commencing from 10 May 2009 to 9 May 2011;
   - (v) despite the option to renew being provided in the lease agreements, that clause is not permitted under the Macau laws, which provides that in case no new agreement is to be reached between the parties or there is no notice in relation to the tenancy upon expiration of the term, Central Steel (Macao Commercial Offshore) Limited as the tenant is entitled to lease the property and the lease agreement is deemed

renewed. Therefore, by virtue of article 1038 of the Macau Civil Code, in case of expiration of the term of the renewal lease agreement, Central Steel (Macao Commercial Offshore) Limited as the tenant shall have the right to renew the lease until 9 May 2012 albeit there is no new agreement or renewal notice to be given in the specified period.

Set out below is a summary of certain provisions of the Memorandum and Articles of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 July 2007 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(i) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(ii) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 22 May 2009. The following is a summary of certain provisions of the Articles:

(i) Directors

(a) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(b) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(c) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(d) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(e) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to our Directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(1) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;

(2) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(3) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the [●] or sub-[●] of the offer;

(4) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;

(5) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(6) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(f) Remuneration

The ordinary remuneration of our Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Our Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(g) Retirement, appointment and removal

At each annual general meeting, one third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Our Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

Our Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(1) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;

(2) becomes of unsound mind or dies;

(3) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(4) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(5) if he is prohibited from being a director by law;

(6) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(h) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(i) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(j) Register of Directors and Officers

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(ii) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(iii) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(a) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;

(d) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or

(e) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(v) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(vi) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)).

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(vii) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(viii) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of our Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and our Directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and our Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(ix) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (v) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above of permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheet and the reports of our Directors and the auditors;

(c) the election of directors in place of those retiring;

(d) the appointment of auditors and other officers;

(e) the fixing of the remuneration of our Directors and of the auditors;

(f) the granting of any mandate or authority to our Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty (20)% in nominal value of its existing issued share capital; and

(g) the granting of any mandate or authority to our Directors to repurchase securities of our Company.

(x) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as our Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(xi) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(xii) Power for any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(xiii) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (b) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(xiv) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(xv) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20)% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20)% per annum as the board determines.

(xvi) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(xvii) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of our Directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(xviii) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(vi) of this Appendix.

(xix) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(xx) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(xxi) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(i) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(ii) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by our company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of our company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of our company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(iii) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if our Directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(iv) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and our Directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(v) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(vi) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(vii) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(viii) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(ix) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(x) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 31 July 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(xi) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(xii) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(xiii) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as our Directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(xiv) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(xv) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75)% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(xvi) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90)% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(xvii) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix IX to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 18 July 2007. Our Company has established a principal place of business in Hong Kong at Suite 4803, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 12 June 2008. Mr. Chun Chi-wai has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising a memorandum of association and the articles of association. A summary of certain provisions of its constitution and relevant aspects of Cayman company law is set out in Appendix VI to this document.

2. Change in share capital

The authorised share capital of our Company as of the date of its incorporation was HK$380,000 divided into 3,800,000 shares of HK$0.10 each.

On 18 July 2007, one subscriber share with the par value of HK$0.10 was transferred to Mr. Chun Chi-wai.

On 30 September 2007, our Company allotted and issued 99 shares with the par value of HK$0.10 each, all credited as fully paid, to Wellrun as directed by Mr. Chun Chi-wai, and credited as fully-paid share with par value of HK$0.10 the one nil-paid share with the par value of HK$0.10 held by Mr. Chun Chi-wai as consideration for our Company's acquisition of the entire issued share capital of Asia Steel (Holdings) from Mr. Chun Chi-wai pursuant to the Reorganisation. On the same day, Mr. Chun Chi-wai transferred one share with the par value of HK$0.10 to Wellrun at par.

Pursuant to the resolutions in writing of the sole Shareholder passed on 23 October 2007, every issued and unissued share of HK$0.10 each in the capital of our Company was sub-divided into 1,000 shares of HK$0.0001 each such that the authorised share capital of our Company became HK$380,000 divided into 3,800,000,000 shares with the par value of HK$0.0001 and the issued share capital of our Company became HK$10 divided into 100,000 shares with the par value of HK$0.0001. On 1 February 2008, our Company allotted and issued one share of HK$0.0001 credited as fully paid to Wellrun for a cash consideration of US$30,000,000.

Pursuant to the resolutions in writing of the sole Shareholder passed on 22 May 2009, the authorised share capital of our Company was subsequently further increased to HK$1,000,000 divided into 10,000,000,000 Shares.

Save for aforesaid and as mentioned in the paragraph headed "Resolutions in writing of the sole Shareholder passed on 22 May 2009" below, there has been no alteration in the share capital of our Company since its incorporation.

3. [●]

4. Corporate reorganisation

The companies comprising the Group underwent the Reorganisation in preparation for [●]. The Reorganisation involved the following:

(a) On 18 July 2007, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 3,800,000 shares with the par value of HK$0.10. On 18 July 2007, one subscriber share with the par value of HK$0.10 was transferred to Mr. Chun Chi-wai.

(b) On 30 September 2007, Asia Steel (Holdings) allotted and issued 100 shares with the par value of US$1.00 each to Mr. Chun Chi-wai in full and final settlement of the indebtedness in the amount of HK$78,000,000 due from Asia Steel (Holdings) to Mr. Chun Chi-wai.

(c) On 30 September 2007, our Company acquired 200 shares with a par value of US$1.00 each, representing the entire issued share capital of Asia Steel (Holdings), from Mr. Chun Chi-wai. In consideration of such acquisition, our Company allotted and issued 99 shares with the par value of HK$0.10 each, credited as fully paid, to Wellrun as directed by Mr. Chun Chi-wai and credited one nil-paid share with the par value of HK$0.10 held by Mr. Chun Chi-wai as fully-paid share with par value of HK$0.10. On the same day, Mr. Chun Chi-wai transferred one share with the par value of HK$0.10 to Wellrun at par.

(d) On 30 September 2007, Asia Steel (H.K.) allotted and issued 100,000 shares of HK$1.00 each to Asia Steel (Holdings) at the direction of Mr. Chun Chi-wai as consideration for the acquisition of the entire issued share capital of Asia Steel (Development) by Asia Steel (H.K.).

(e) On 23 October 2007, every issued and unissued share of HK$0.10 each in the capital of our Company was sub-divided into 1,000 shares of HK$0.0001 each such that the authorised share capital of our Company became HK$380,000 divided into 3,800,000,000 shares with the par value of HK$0.0001 each and the issued share capital of our Company became HK$10 divided into 100,000 shares with the par value of HK$0.0001 each.

(f) On 1 February 2008, our Company allotted and issued one share of HK$0.0001 credited as fully paid to Wellrun for a cash consideration of US$30,000,000.

(g) On 22 May 2009, the authorised share capital of our Company was further increased to HK$1,000,000 divided into 10,000,000,000 Shares.

Subsequent to the Reorganisation, Asia Steel (Development) acquired a 75% equity interest in Tianjin Yatong in November 2007 and a further 15.385% equity interest in Tianjin Yatong in September 2008. It established a wholly owned subsidiary, Zhongshan Yatong, in September 2008 and a 70% owned subsidiary, Wuhan Yagang, in November 2008. In addition, Yangzhong Yagang acquired a 70% equity interest in Zhangjiagang Rongli in January 2008 and established a wholly owned subsidiary, Ningbo Yagang, in September 2008.

5. Changes in share capital of subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this document. Save as disclosed below, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document:

(a) Asia Steel (Holdings)

On 30 September 2007, Asia Steel (Holdings) allotted and issued 100 shares of US$1.00 each to Mr. Chun Chi-wai in full and final settlement of the indebtedness of HK$78,000,000 due from Asia Steel (Holdings) to Mr. Chun Chi-wai. After such allotment, the issued share capital of Asia Steel (Holdings) was increased from US$100 divided into 100 shares of US$1.00 each to US$200 divided into 200 shares of US$1.00 each.

(b) Asia Steel (H.K.)

On 30 September 2007, Asia Steel (H.K.) allotted and issued 100,000 shares of HK$1.00 each to Asia Steel (Holdings) at the direction of Mr. Chun Chi-wai as consideration for acquisition of the entire issued share capital of Asia Steel (Development) by Asia Steel (H.K.). After such allotment, the issued share capital of Asia Steel (H.K.) was increased from HK$78,000,000 divided into 78,000,000 shares of HK$1.00 each to HK$78,100,000 divided into 78,100,000 shares of HK$1.00 each.

(c) Tianjin Yatong

On 15 November 2007, the registered capital of Tianjin Yatong Steel Co., Ltd. was increased from US$680,000 to US$3,000,000 which was fully paid. On 21 March 2008, the registered capital of Tianjin Yatong Steel Co., Ltd. was increased from US$3,000,000 to US$13,000,000 of which US$11,000,014 was paid and the remaining amount of US$1,999,986 will be paid in full on or before 24 September 2009.

(d) Zhangjiagang Rongli

On 9 January 2008, the registered capital of Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. was increased from RMB5,000,000 to RMB16,667,000 which was fully paid.

6. Particulars of subsidiaries

The Group has interests in a number of PRC subsidiaries. Set out below is a summary of the corporate information of these PRC subsidiaries:

Registered Company Name	:	Guangzhou Asia Steel Co., Ltd. (廣州亞鋼鋼鐵有限公司)	
Date of Establishment	:	15 May 2001	
Place of Establishment	:	PRC	
Nature	:	Sino-foreign equity joint venture	
Registered Capital	:	US$4,500,000	
Shareholders	:	Asia Steel (H.K.) Limited	75%
		GZSL	25%
Registered Company Name	:	Yangzhong Yagang Metal Co., Ltd. (揚中亞鋼金屬有限公司)	
Date of Establishment	:	15 December 2006	
Place of Establishment	:	PRC	
Nature	:	Wholly foreign owned enterprise	
Registered Capital	:	US$20,000,000	
Shareholder	:	Asia Steel (Investments) Limited	100%
Registered Company Name	:	Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd. (張家港容利再生資源有限公司)	
Date of Establishment	:	1 December 2006	
Place of Establishment	:	PRC	
Nature	:	Domestic company	
Registered Capital	:	RMB16,667,000	
Shareholders	:	Yangzhong Yagang Metal Co., Ltd. (揚中亞鋼金屬有限公司)	70%
		Wu Yue-xing (吳岳興)	25%
		Xiang Man-qin (項滿琴)	2.5%
		Li Dong-hui (李東輝)	2.5%
Registered Company Name	:	Tianjin Yatong Steel Co., Ltd. (天津亞銅鋼鐵有限公司)	
Date of Establishment	:	16 August 2006	
Place of Establishment	:	PRC	

Nature	:	Wholly foreign owned enterprise	
Registered Capital	:	US$13,000,000	
Shareholders	:	Asia Steel (Development) Limited	90.385%
		Lester Metal Inc.	9.615%

Registered Company Name	:	Guangzhou Yatong Metal Co., Ltd. (廣州亞銅金屬有限公司)	
Date of Establishment	:	25 May 2007	
Place of Establishment	:	PRC	
Nature	:	Wholly foreign owned enterprise	
Registered Capital	:	US$3,500,000	
Shareholder	:	Asia Steel (Development) Limited	100%

Registered Company Name	:	Zhongshan Yatong Metal Materials Co., Ltd. (中山亞銅金屬材料有限公司)	
Date of Establishment	:	3 September 2008	
Place of Establishment	:	PRC	
Nature	:	Wholly foreign owned enterprise	
Registered Capital	:	US$10,000,000	
Shareholder	:	Asia Steel (Development) Limited	100%

Registered Company Name	:	Ningbo Yagang Metal Co., Ltd. (寧波亞鋼金屬有限公司)	
Date of Establishment	:	4 September 2008	
Place of Establishment	:	PRC	
Nature	:	Domestic company	
Registered Capital	:	RMB20,000,000	
Shareholder	:	Yangzhong Yagang Metal Co., Ltd.	100%

Registered Company Name	:	Wuhan Yagang Metal Co., Ltd. (武漢亞鋼金屬有限公司)
Date of Establishment	:	10 November 2008
Place of Establishment	:	PRC
Nature	:	Sino-foreign equity joint venture
Registered Capital	:	US$12,000,000

Shareholders	:	Asia Steel (Development) Limited	70%
		Wuhan Jin Huan Investment Co., Ltd. (武漢金寰投資有限公司)	30%

Our Company has been advised by its PRC legal advisors that, except for Tianjin Yatong, Wuhan Yagang and Zhongshan Yatong, the registered capital of each of the PRC subsidiaries has been fully paid up in a timely manner.

7. Repurchase by our Company of Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary Listing are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary Listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the resolutions passed by the sole Shareholder on 22 May 2009, a general unconditional mandate (the "Buyback Mandate") was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [●] (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [●] and any options granted or to be grant under [●] Schemes) and the [●], at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its shareholders for our Directors to have a general authority from shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

Any repurchase of Shares will be made out of the profits of our Company or out of a fresh issue of Shares made for the purpose of the purchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company, or if authorised by the Articles and subject to the Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Buyback Mandate, on the basis of Shares in issue immediately after completion of the [●] and the [●] (but taking no account of Shares which may be allotted and issued pursuant to the exercise of the [●] and any options granted or to be granted under [●], could accordingly result in up to Shares being repurchased by our Company during the period until:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held; or

(iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(e) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the [●] that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a Shares repurchase pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the

Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is exercised in full immediately following completion of the [●] (but taking no account of any Shares which may be allotted and issued upon the exercise of the [●] or any options granted or to be granted under the [●]) and the [●], the total number of Share which will be repurchased pursuant to the Buyback Mandate shall be Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions). The percentage shareholding of Wellrun, the controlling Shareholder, will be increased to approximately % of the issued share capital of our Company immediately following the full exercise of the Buyback Mandate. In the event that the Buyback Mandate is exercised in full, the number of Shares held by the public would not fall below % of the total number of Shares in issue. Any repurchase of the Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of [●].

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this document and are or may be material:

(a) an instrument of transfer dated 30 September 2007 entered into between Mr. Chun Chi-wai as seller and our Company as purchaser regarding the acquisition of 200 Shares of US$1.00 each being the entire issued share capital of Asia Steel (Holdings) in consideration of the allotment and issuance of 99 ordinary shares of HK$0.10 each in the capital of our Company, credited as fully paid, to Wellrun and the crediting as fully paid of one nil-paid share of HK$0.10 in the capital of our Company held by Mr. Chun Chi-wai;

(b) a purchase agreement dated 22 October 2007 entered into between our Company as the issuer, Asia Steel (Holdings), Asia Steel (H.K.), Asia Steel (Investments), Asia Steel (Development), Huan Bao Steel and Central Steel Macau as subsidiary guarantors (collectively, the "**Subsidiary Guarantors**") and UBS Limited, HSBC Custody Services (Guernsey) Ltd. (as subcustodian and agent for Spinnaker Global Emerging Markets Fund Ltd.), HSBC Custody Services (Guernsey) Ltd. (as subcustodian and agent for Spinnaker Global Opportunity Fund Ltd.), HSBC Custody Services (Guernsey) Ltd. (as subcustodian and agent for Spinnaker Global Strategic Fund Ltd.) and The ADM Maculus Fund III L.P. as purchasers (collectively the "Purchasers") and UBS AG as purchasers' representative with respect to the issuance and sale by our Company and the purchase by the Purchasers of the Senior Notes, together with 160 Listco Warrants;

(c) an indenture dated 23 October 2007 entered into between our Company, the Subsidiary Guarantors and DB Trustees (Hong Kong) Limited with respect to the terms and conditions of the Senior Notes (the "Indenture");

(d) an escrow and disbursement agreement dated 23 October 2007 entered into between our Company, DB Trustees (Hong Kong) Limited as trustee and DB Trustees (Hong Kong) Limited as escrow agent with respect to the deposit of the net proceeds of the offering of the Senior Notes with the escrow agent;

(e) a security agreement dated 23 October 2007 entered into between our Company, Wellrun and the Subsidiary Guarantors as chargors and DB Trustees (Hong Kong) Limited as trustee in connection with certain security created to secure the obligations of our Company under the Senior Notes, the Indenture and other transaction agreements in connection with the Senior Notes;

(f) a warrant agreement dated 23 October 2007 entered into between our Company and the Purchasers for the issuance by our Company to the Purchasers of Listco Warrants (the "Warrant Agreement");

(g) a warrant agency agreement dated 23 October 2007 entered into among our Company, Deutsche Bank AG, Hong Kong Branch, as warrant agent, and Deutsche Bank Luxembourg S.A., as registrar in relation to the Listco Warrants;

(h) a warrant subsidiary guarantees dated 23 October 2007 entered into by the Subsidiary Guarantors with respect to the obligations of our Company under the Listco Warrants and the Warrant Agreement;

(i) a joint venture agreement dated 25 June 2007, entered into between Lester Metal, Inc. and Asia Steel (Development), regarding the acquisition of 75% equity interest in Tianjin Yatong by Asia Steel (Development) from Lester Metal, Inc. for the consideration of US$2,250,000;

(j) a joint venture agreement dated 7 December 2007, entered into between Mr. Wu Yue-xing (吳岳興), Mr. Hu Wen-hu (胡文虎), Ms. Xiang Man-qin (項滿琴), Mr. Li Dong-hui (李東輝) and Yangzhong Yagang regarding the subscription of 70% equity interest in Zhangjiagang Rongli by Yangzhong Yagang for the consideration of RMB11,667,000;

(k) a share transfer agreement dated 25 August 2008 entered into between Asia Steel (Development) and Lester Metal, Inc. regarding the transfer of 15.385% equity interest in Tianjin Yatong from Lester Metal, Inc. to Asia Steel (Development) for the consideration of USD2,000,000;

(l) a joint venture agreement dated 18 July 2008 entered into between Asia Steel (Development) and Wuhan Jin Huan Investment Co., Ltd. (武漢金寰投資有限公司) regarding the establishment of Wuhan Yagang;

(m) a deed of warranties dated 22 May 2009 between Mr. Chun Chi-wai and our Company in connection with certain representations and warranties in relation to our Group given by Mr. Chun Chi-wai in consideration of our Company acquiring the entire issued shares of Asia Steel (Holdings) on 30 September 2007;

(n) the deed of indemnity dated 22 May 2009 given by Mr. Chun Chi-wai and Wellrun in favour of our Company and its subsidiaries in respect of, amongst others, estate duty, and other taxation referred to in the sub-section headed "Estate duty and tax indemnity" in this Appendix;

(o) the deed of non-competition dated 22 May 2009 entered into between Mr. Chun Chi-wai, Wellrun Limited and our Company in respect of the non-competition undertaking given by Mr. Chun Chi-wai and Wellrun Limited;

(p) the deed of non-competition dated 22 May 2009 entered into between Mr. Wong Hok-leung and our Company in respect of the non-competition undertaking given by Mr. Wong Hok-leung;

(q) the deed of non-competition dated 22 May 2009 entered into between Mr. Jiang Yan-zhang and our Company in respect of the non-competition undertaking given by Mr. Jiang Yan-zhang;
(r) the deed of non-competition dated 22 May 2009 entered into between Ms. Lai Wun-yin and our Company in respect of the non-competition undertaking given by Ms. Lai Wun-yin;
(s) the deed of non-competition dated 22 May 2009 entered into between Mr. Chan Kam-hung and our Company in respect of the non-competition undertaking given by Mr. Chan Kam-hung;
(t) the deed of non-competition dated 22 May 2009 entered into between Mr. Chan Iu-seng and our Company in respect of the non-competition undertaking given by Mr. Chan Iu-seng;
(u) the deed of non-competition dated 22 May 2009 entered into between Mr. Leung Chong-shun and our Company in respect of the non-competition undertaking given by Mr. Leung Chong-shun; and
(v) [●].

2. Intellectual property rights of the Group

(a) Trademarks

As of the Latest Practicable Date, the Group is the registered proprietor and beneficial owner of the following trademark:

Trademark	Registrant	Place of registration	Registration number	Validity period	Class
CMR CHINA METAL	China Metal Recycling (Holdings) Ltd.	Hong Kong	300930663	8 August 2007 — 7 August 2017	35 and 40

(b) Domain Name

As of the Latest Practicable Date, the Group is a registered proprietor of the following domain name in Hong Kong:

Domain Name	Name of Proprietor	Place of registration	Effective Period
chinametalrecycle.com . . .	China Metal Recycling (Holdings) Limited	Hong Kong	19 March 2009 to 18 March 2012

C. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interest — interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the [●] (assuming that the [●] is not exercised, no Shares have been issued upon exercise of options granted or to be granted under [●] and [●] and the [●], the interest and/or short position of Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they have taken or are deemed to have undersuch provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules ("Model Code"), once the Shares are listed are as follows:

(i) Long and short positions in the Shares

Name of Director	**Capacity**	**Number of shares** *(note 1)*	**Approximate percentage of shareholding**
Chun Chi-wai *(note 2)*	Interest of a controlled corporation	(L) (S)	% %
Lai Wun-yin *(note 2)*	Family interest	(L) (S)	% %

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) Mr Chun Chi-wai is the beneficial owner of 100% of the issued share capital of Wellrun. Wellrun holds % of the Shares in issue (based on the aforesaid assumptions). Ms. Lai Wun-yin is the spouse of Mr. Chun Chi-wai and is deemed to be interested in the Shares held by Mr. Chun Chi-wai pursuant to the SFO.

(ii) Long and short positions in underlying Shares

Name of Director	**Capacity**	**Description of equity derivatives**	**Number of underlying shares** *(note 1)*
Chun Chi-wai	Beneficial owner		(L)
	Family interest		(L)
Wong Hok-leung	Beneficial owner		(L)
Jiang Yan-zhang	Beneficial owner		(L)
Lai Wun-yin	Beneficial owner		(L)
	Family interest		(L)
Chan Iu-seng	Beneficial owner		(L)
Chan Kam-hung	Beneficial owner		(L)
Leung Chong-shun	Beneficial owner		(L)

Notes:

(1) The letter "L" denotes the person's long position in such securities.

(2) These share options were granted under the [●] Scheme.

(b) Particulars of service contracts

Each of the executive Directors has entered into a service contract with our Company for a term of 3 years commencing from [●], which may be terminated by not less than 3 months' notice in writing served by either party on the other.

(c) Directors' remuneration

No Director's fees is payable to the executive Directors.

In addition, Mr. Chun Chi-wai has been employed as our chief executive officer and is entitled to an annual salary of HK$5,000,000. Mr. Wong Hok-leung has been employed as our chief financial officer and is entitled to an annual salary of HK$3,750,000. Mr. Jiang Yan-zhang has been employed as our chief operating officer and is entitled to an annual salary of RMB180,000 (equivalent to approximately HK$204,266).

The term of the service contract of Ms. Lai Wun-yin, the non-executive Director, is one year commencing from [●], which may be terminated by not less than 3 months' notice in writing served by either party on the other. The director's fee payable to Ms. Lai as the non-executive Director is HK$150,000 per annum. The independent non-executive Directors have been appointed for a term commencing from 22 May 2009 to the conclusion of the next annual general meeting of our Company. The aggregate director's fee payable to each of the independent non-executive Directors during the term of his appointment is HK$150,000.

Under the arrangement currently in force, the aggregate amount of emoluments payable by the Group to our Directors for the year ending 31 December 2009 will be approximately HK$9,554,266.

2. Substantial Shareholders

So far as our Directors are aware, immediately following completion of the [●] (assuming that the [●] is not exercised and on the basis that all of the Listco Warrants have been settled for cash, no Shares have been issued upon exercise of options granted or to be granted under [●] and the [●], the following persons (other than our Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Percentage of shareholding
Wellrun Limited	Beneficial owner	(L)	%
		(S)	%
		(Note 1)	

Notes:

1. The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.
2. Mr Chun Chi-wai is beneficially interested in 100% of the issued share capital of Wellrun Limited. Wellrun Limited is the controlling shareholder of our Company.

So far as our Directors are aware, immediately following completion of the [●] and the [●], the following persons will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of our subsidiaries other than our Company.

Name of shareholder	Name of the Group Member	Capacity	Approximate percentage of shareholding
GZSL	Guangzhou Asia Steel Co., Ltd.	Beneficial owner	25%
Wu Yue-xing	Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.	Beneficial owner	25%
Wuhan Jin Huan Investment Co., Ltd.	Wuhan Yagang Metal Co., Ltd.	Beneficial owner	30%

3. Agency fees or commissions received

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this document in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as disclosed in this document:

(a) [●];

(b) none of our Directors or experts referred to under the heading "Consents of experts" in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

(d) none of our Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) [●];

(f) none of the experts referred to under the heading "Consents of experts" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of the Group; and

(g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Share Option Scheme

Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by the written resolutions of the sole shareholder of our Company passed on 22 May 2009:

(a) Purpose

The Post-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Post-IPO Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers and agents to our Company or any of its Subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme and under any other share option schemes of our Company must not in the aggregate exceed 10% of the total number of Shares in issue immediately following completion of the [●] (but taking no account of any Shares which may be allotted or issued pursuant to the exercise of the [●]) and [●], being Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Post-IPO Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Schemes) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, right issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(d) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by our Company containing the identity of the Eligible Participant, the number of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine.

(e) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Post-IPO Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(f) Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Company proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the Shareholders pursuant to the above paragraph shall contain the following information:

(i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;

(iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(iv) the information required under Rule 2.17 of the Listing Rules.

(g) Restrictions on the times of grant of Options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of its annual results, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) Time of exercise of Option and duration of the Post-IPO Share Option Scheme

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Post-IPO Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(j) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Post-IPO Share Option Scheme can be exercised.

(k) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries:

(i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the grantee may exercise the option up to the entitlement of the grantee as of the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or

(ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation,

which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) Rights on dismissal

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty, or he has committed an act of bankruptcy, or that he has become insolvent or has made arrangement or compositions with his creditors generally, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, his Option will lapse and not be exercisable after the date of termination of his employment.

(m) Rights on takeover

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(o) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than noon (Hong Kong time) on the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and terminate. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(q) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, open offer, subdivision or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules, the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);

(iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;

(iv) subject to paragraph (n), the date of commencement of the winding-up of our Company;

(v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty or he has committed an act of bankruptcy, or that he has become insolvent or has made arrangements or compositions with his creditors generally in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(vi) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) Alteration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and

(ii) any material alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting at which any persons to whom or for whose benefit the shares may be issued under the Post-IPO Share Option Scheme and their respective associates shall abstain from voting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Post-IPO Share Option Scheme. The amended terms of the Post-IPO Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Post-IPO Share Option Scheme must be approved by Shareholders in general meeting.

(t) Cancellation of Options

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(u) Termination of the Post-IPO Share Option Scheme

Our Company may by resolution of the Board or resolution of the shareholders in general meeting at any time terminate the Post-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(v) Administration of the Board

The Post-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Post-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional on:

(i) the Listing Committee of the Stock Exchange granting the [●] of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Post-IPO Share Option Scheme;

(ii) the obligations of the Underwriters under the [●] Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the [●] Agreements or otherwise; and

(iii) the commencement of dealings in the Shares on the Stock Exchange.

(x) Disclosure in annual and interim reports

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(y) Present status of the Post-IPO Share Option Scheme

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the [●] of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, being Shares in total.

2. Estate duty, tax and property indemnity

Each of Mr. Chun Chi-wai and Wellrun has entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (n) of the subsection headed "Summary of material contracts" in this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, estate duty which might be payable by any member of the Group, by reason of any transfer of property under applicable law to any member of the Group on or before the date on which the [●] becomes unconditional (the "Effective Date").

The deed of indemnity also contains indemnities given by each of Mr. Chun Chi-wai and Wellrun in respect of taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Company may be subject on or before the Effective Date which might be payable by any member of the Group.

3. Litigation

As of the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of the Group.

4. [●]

5. [●]

6. Promoter

There is no promoter of our Company. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [●] and the related transactions described in this document.

7. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax for persons who carry on a business of trading or dealing in securities in Hong Kong.

The Shares are Hong Kong property for the purpose of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong). The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) Cayman Islands

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the [●] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
Vigers Appraisal & Consulting Limited	Property valuation firm
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jun He Law Offices	Qualified PRC lawyers
Gonçalves Pereira, Rato, Ling, Vong & Cunha - Advogados	Qualified Macau lawyers

9. Consents of experts

[●]

10. [●]

11. [●]

12. Miscellaneous

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

  (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

  (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

  (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

  (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

(b) save as disclosed in this document, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries;

(c) none of the persons named in the sub-paragraph headed "Consents of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;

(d) our Directors confirm that there has been no material adverse change in the financial or trading position or document of the Group since 31 December 2007 (being the date to which the latest audited combined financial statements of the Group were made up);

(e) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this document; and

(f) no company within the Group is presently listed on any stock exchange or traded on any trading system.

The terms of the Senior Notes and the Exchangeable Notes are summarized as follows:

Senior Notes

On October 23, 2007, our Company issued 8.50% Senior Notes due 2009 in the aggregate principal amount of US$80 million. Details of the principal terms of the Senior Notes are as follows:

Issuer: Our Company

Purchasers: The name of the purchasers of the Senior Notes and the respective principal amount of the Senior Notes are as follows:

Name of the Purchaser	Principal Amount of the Senior Notes (US$)
UBS Limited	25,000,000
Spinnaker (Note)	35,000,000
The ADM Maculus Fund III. L.P.	20,000,000
Total:	**US$80,000,000**

Note: Spinnaker Global Emerging Markets Fund Ltd. holds US$14,000,000 in principal amount of Senior Notes; Spinnaker Global Strategic Fund Ltd. holds US$12,000,000 in principal amount of Senior Notes; and Spinnaker Global Opportunity Fund Ltd. holds US$9,000,000 in principal amount of Senior Notes.

The above purchasers of the Senior Notes (the "Senior Notes Purchasers") are independent third parties who are not connected with our Company or our subsidiaries.

Coupon interest rate: 8.5% per annum payable semi-annually

Interest Payment Dates: April 23 and October 23

Maturity date: October 23, 2009 (the "Maturity Date")

Redemption:

(a) Mandatory redemption

Prior to the Maturity Date, in the event of the occurrence of the Equity Offering (as defined below) at any time after October 23, 2007, our Company shall redeem the Senior Notes in whole and not in part at a redemption price equal to 100% of the principal outstanding amount of Senior Notes as of the date fixed for redemption, together with accrued and unpaid coupon interest to the next interest payment date.

(b) Redemption for taxation reasons

The Senior Notes may be redeemed at the option of our Company in whole but not in part upon giving not less than 30 days' nor more than 60 days' notice to the holders of the Senior Notes and upon reasonable notice in advance of such notice, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid coupon interest (including any required additional amount), if any, to the date fixed by our Company for redemption if, as a result of, (i) any change in, or amendments to, the laws (or regulations or rulings promulgated thereunder) of a relevant jurisdiction affecting taxation; or (ii) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdictions), the Company is required to pay additional amounts that cannot be avoided by the taking of reasonable measures by the Company.

For purpose of the Senior Notes, "Equity Offering" means any primary listing of Common Stock of our Company on an internationally recognized stock exchange acceptable to the holders, including, without limitation, the Stock Exchange of Hong Kong Limited and Singapore Exchange Securities Trading Limited, or any private placement of Common Stock of our Company, in each case after the Original Issue Date and that results in the aggregate gross cash proceeds received by our Company being no less than the aggregate outstanding principal amount of Senior Notes at such time, together with accrued interest and the premium payable with respect to such Senior Notes at the applicable redemption date.

Repurchase of the Senior Notes:

Not later than 30 days following a Change of Control Triggering Event (as defined below), our Company shall make an offer to purchase all outstanding Senior Notes at a purchase price equal to 103% of the principal amount thereof plus accrued and unpaid coupon interest, if any.

Within 120 days after the receipt of any net cash proceeds from an asset sale, our Company shall apply such proceeds to (i) acquire properties and assets that replace the properties and assets that were the subject of such asset sale and that are of substantially equivalent quality and utility and will be used in the permitted businesses; or (ii) make an offer to purchase the Senior Notes *provided* that any net cash proceeds not used to repay Notes pursuant to such Offer to Purchase Notes shall be used to acquire Replacement Assets (as defined in the Senior Notes) and that the [●] in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

For purpose of the Senior Notes, "Change of Control Triggering Event" means the occurrence of one or more of the following events:

(a) the merger, amalgamation or consolidation of our Company with or into another entity or the merger or amalgamation of another entity with or into our Company, or the sale of all or substantially all the assets of our Company to another entity;

(b) the permitted holders are the beneficial owners of less than 50% in the aggregate of the total voting power of the Voting Stock of our Company;

(c) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the United States Securities Exchange Act of 1934 (the "Exchange Act") is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the voting stock of our Company greater than such total voting power held beneficially by the permitted holders;

(d) individuals who on the date of the issue of the Senior Notes constituted the board of directors of our Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of our Company then in office; or

(e) the adoption of a plan relating to the liquidation or dissolution of our Company.

Transferability: The Senior Notes may be transferred by the holders thereof in accordance with the terms and conditions of the Senior Notes.

Collateral: The obligations of the Senior Notes are guaranteed by our subsidiaries incorporated in Hong Kong, BVI and Macau (the "Subsidiary Guarantors") and secured by a pledge over the shares of our Company and the shares of the Subsidiary Guarantors, all assets of our Company and the Subsidiary Guarantors, all bank accounts of our Company and the Subsidiary Guarantors located outside of the PRC and assignments in respect of all insurance contracts of our Company and the Subsidiary Guarantors. The above collateral will be released when the Senior Notes are redeemed upon the [●] and all the secured liabilities under the Senior Notes have been paid and discharged in full subject to completion of documentation and filing and approval procedures with the relevant government authorities.

Rights of the holders of the Senior Notes: So long as any of the Senior Notes remain outstanding, our Company will furnish to the holders of the Senior Notes:

(a) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of our Company, copies of its financial statements (on a consolidated and an unconsolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by Deloitte Touche Tohmatsu or any other member firm of an internationally-recognized firm of independent accountants, together with an audit report thereof;

(b) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of our Company and each of our subsidiaries, copies of its financial statements (unaudited and on a consolidated and unconsolidated basis) in respect of such half-year period, prepared on a basis consistent with the audited financial statements of our Company together with a certificate signed by the person then authorized to sign financial statements on behalf of our Company to the effect that such financial statements are true in all material respects and present fairly the financial position of our Company as at the end of, and the results of its operations for, the relevant half-year period; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of our Company and each of our subsidiaries, copies of its unaudited financial statements (on an unconsolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of our Company together with a certificate signed by the person then authorized to sign financial statements on behalf of our Company to the effect that such financial statements are true in all material respects and present fairly the financial position of our Company as at the end of, and the results of its operations for, the relevant quarterly period.

(d) For so long as any of the Senior Notes remain outstanding, our Company will provide to the Trustee (i) within 120 days after the close of each fiscal year of our Company, within 60 days after the close of each semi-annual fiscal period of our Company and within 15 days of the delivery of the quarterly financial statements of our Company delivered pursuant to clause (a)(iii) above, an Officers' Certificate stating (x) that a review has been conducted of the activities of our Company and our subsidiaries and our Company's and our subsidiaries' performance under this Indenture and that our Company and our subsidiaries have fulfilled all obligations hereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof and (y) the Interest Coverage Ratio as of the last day of such fiscal year or such semi-annual or quarterly fiscal period, as the case may be, and showing in reasonable detail the calculation of the Interest Coverage Ratio, including the arithmetic computations of each component of the Interest Coverage Ratio, together with a certificate from our Company's external auditors with respect to the Interest Coverage Ratio set forth in the Officer's Certificate delivered in connection with our Company's fiscal year end verifying the accuracy and correctness of such calculation and arithmetic computation; and (ii) as soon as possible and in any event within 15 days after our Company becomes aware or should reasonably become aware of the occurrence of a default, an Officers' Certificate setting forth the details of the default, and the action which our Company proposes to take with respect thereto.

Such information rights will be extinguished when the Senior Notes are redeemed upon the [●] and all the secured liabilities under the Senior Notes have been paid and discharged in full.

Listco Warrants ("Warrants"):

On October 23, 2007, in consideration of the holders of the Senior Notes agreeing to subscribe the Senior Notes, our Company issued 160 Warrants to the following holders of the Senior Notes on and subject to, the principal terms outlined below:

Name of the Purchaser	Number of Warrants
UBS Limited	50
Spinnaker (note)	70
The ADM Maculus Fund III. L.P.	40
Total:	**160**

Note: Spinnaker Global Emerging Markets Fund Ltd. holds 28 Listco Warrants; Spinnaker Global Strategic Fund Ltd. holds 24 Listco Warrants; and Spinnaker Global Opportunity Fund Ltd. holds 18 Listco Warrants.

(i) Exercise price

The Warrants are exercisable at a price (the "Exercise Price") of HK$0.0001 per Share which was arrived at after arm's length negotiations with the holders of the Warrants (the "Warrantholders").

(ii) Exercise date of the Warrants

The Warrants will be exercisable only on the date that the [●] occurs (the "Exercise Date").

At the election of each Warrantholder as set forth in the relevant notice of exercise, such Warrantholder's Warrant Shares may be either:

(a) physically settled, thereby being transferred to and registered in the name of such Warrantholder or any Affiliate of such Warrantholder nominated by such Warrantholder in the relevant notice of exercise no later than 10 days after the Exercise Date, and our Company shall reflect such Warrant Shares in the share register maintained by or on behalf of our Company; or

(b) cash settled, in which case our Company agrees to, and shall, pay to such Warrantholder or any affiliate of such Warrantholder nominated by such Warrantholder in the relevant notice of exercise an amount equal to the number of Warrant Shares of such Warrantholder that are so cash settled times the [●], such payment to be made on the Exercise Date. Any Warrant Shares that are cash settled shall be eligible for reissuance by our Company at the election of the Company.

(iii) Shares to be issued upon exercise of the Warrants ("Warrant Shares")

The number of Warrant Shares is determined as follows:

(a) if the Exercise Date occurs on or before April 23, 2008, A;

(b) if the Exercise Date occurs after April 23, 2008 but on or before October 23, 2008, B;

(c) if the Exercise Date occurs after October 23, 2008 but on or before April 23, 2009, C; and

(d) if the Exercise Date occurs after April 23, 2009 but before October 23, 2009, D, where:

$$\text{“A”} = \frac{(\text{number of Warrants } \underline{\text{times}} \text{ U.S.\$500,000}) \ \underline{\text{times}} \ 4.25\%}{\text{Dollar Equivalent of the [●] of Ordinary Shares in the Equity Offering}};$$

$$\text{“B”} = \frac{(\text{number of Warrants } \underline{\text{times}} \text{ U.S.\$500,000}) \ \underline{\text{times}} \ 8.86\%}{\text{Dollar Equivalent of the [●] of Ordinary Shares in the Equity Offering}};$$

$$\text{“C”} = \frac{(\text{number of Warrants } \underline{\text{times}} \text{ U.S.\$500,000}) \ \underline{\text{times}} \ 15.57\%}{\text{Dollar Equivalent of the [●] of Ordinary Shares in the Equity Offering}};$$

$$\text{“D”} = \frac{(\text{number of Warrants } \underline{\text{times}} \text{ U.S.\$500,000}) \ \underline{\text{times}} \ 21.72\%}{\text{Dollar Equivalent of the [●] of Ordinary Shares in the Equity Offering}}.$$

(iv) Transfer of the Warrants

The Warrants may be transferred by execution of the relevant form of transfer, and the warrant certificate issued in respect of the Warrants to be transferred must be surrendered for registration, together with the form of transfer endorsed thereon, duly completed and executed, at the specified office of the registrar or the agent for the Warrants, and together with such evidence as the registrar or the agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the form of transfer. The transfer of the Warrant will be registered in the register of the Warrants and the agent or the registrar will, within five business days of the request for transfer being duly made, deliver at its specified office to the transferee or despatch by registered post (at the request and risk of the transferee) to such address as the transferee entitled to the Warrants in relation to which such warrant certificate is issued may have specified, a warrant certificate in respect of which entries have been made in the register, all formalities complied with and the name of the transferee completed on the warrant certificate by or on behalf of the registrar.

(v) Redemption of Warrants

If an Equity Offering shall not occur on or before October 23, 2009 or if any event of default shall occur under the Senior Notes (such date that is the earlier of (i) October 23, 2009; and (ii) an event of default shall occur under the indenture in connection with the Senior Notes, a "Redemption Date"), then on the Redemption Date our Company agrees to, and shall, redeem the Warrants of each Warrantholder for the redemption price to be calculated as follows:

(a) if the Redemption Date occurs on or before April 23, 2008, A;

(b) if the Redemption Date occurs after April 23, 2008 but on or before October 23, 2008, B;

(c) if the Redemption Date occurs after October 23, 2008 but on or before April 23, 2009, C;

(d) if the Redemption Date occurs after April 23, 2009 but before October 23, 2009, D; or

(e) if the Redemption Date occurs on October 23, 2009, E,

where

"A" = (number of Warrants <u>times</u> U.S.$500,000) <u>times</u> 4.25%;

"B" = (number of Warrants <u>times</u> U.S.$500,000) <u>times</u> 8.86%;

"C" = (number of Warrants <u>times</u> U.S.$500,000) <u>times</u> 15.57%;

"D" = (number of Warrants <u>times</u> U.S.$500,000) <u>times</u> 21.72%;

"E" = (number of Warrants <u>times</u> U.S.$500,000) <u>times</u> 19.28%;

(vi) Lapse of the Warrants

The Warrants will lapse on the earlier to occur of: (1) the date on which all transfer rights under the Warrants (the "Transfer Rights") have been exercised in full; (2) the Exercise Date; (3) the date on which all Transfer Rights have lapsed in accordance with the Warrant Agreement; and (4) October 23, 2009.

Use of proceeds: Our Company will not, and will not permit any subsidiary to, use the net proceeds from the sale of the Senior Notes, in any amount, for any purpose other than in the approximate amounts and for the purposes specified below, including any adjustment in response to changes in acquisition or development plans to be carried out by us:

(a) approximately 51% for capital expenditure in Yangzhong Yagang;

(b) approximately 3% for investment in Tianjin Yatong as equity contributions;

(c) approximately 4% for investment in Guangzhou Yatong as equity contributions;

(d) approximately 24% for refinancing existing credit facilities and other indebtedness of our Company and our subsidiaries;

(e) approximately 13% for working capital requirements of our Company and our subsidiaries;

(f) approximately 5% for fees, transaction costs and expenses related to the offer, sale, structuring and marketing of the Senior Notes and all related transactions; and

(g) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds held in the Escrow Account not yet so applied in temporary cash investments.

Exchangeable Notes

On 1 February 2008, Wellrun Limited ("Wellrun") issued the Exchangeable Notes in the aggregate principal amount of US$30 million exchangeable in respect of the accreted principal into Shares upon occurrence of the [●]. Details of the principal terms of the Exchangeable Notes are as follows:

Issuer: Wellrun

Purchasers: The name of the purchasers of the Exchangeable Notes and the respective principal amount of the Exchangeable Notes are as follows:

Purchaser	Aggregate Principal Amount of Notes
Spinnaker (Note)	US$15,000,000
The ADM Maculus Fund III L.P.	US$15,000,000
Total:	**US$30,000,000**

Note: Spinnaker Global Emerging Markets Fund Ltd. holds US$6,000,000 in principal amount of Exchangeable Notes; Spinnaker Global Strategic Fund Ltd. holds US$5,250,000 in principal amount of Exchangeable Notes; and Spinnaker Global Opportunity Fund Ltd. holds US$3,750,000 in principal amount of Exchangeable Notes.

The above purchases (the "Purchasers") of the Exchangeable Notes are independent third parties who are not connected with our Company and our subsidiaries.

Exchange of Shares: Wellrun shall mandatorily exchange the Exchangeable Notes for Shares upon an Equity Offering (as defined below) for a number of Shares equal to the quotient obtained by dividing the Exchange Value (as defined below) by the [●].

"Exchange Value" means an amount calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards, plus any additional amounts as may be payable by Wellrun:

$$\text{Exchange Value} = I \times (1 + r)^{d/360}$$

Where:

I = Issue price (100% of principal amount) of such Exchangeable Note;

r = 20.0% expressed as a decimal; and

d = Number of days from and including the Exchangeable Notes Issue Date to, but excluding, the date of exchange of the Exchangeable Notes for which such calculation is being made, calculated on the basis of a 360-day year for the actual number of days elapsed, *provided, however*, that for purposes of calculating the Exchange Value, in no event shall the Exchangeable Notes be deemed to be outstanding for fewer than 180 days.

For purpose of the Exchangeable Note, "Equity Offering" means any primary or secondary listing of Common Stock of our Company on an internationally recognized stock exchange acceptable to the Purchasers of the Exchangeable Notes, including, without limitation, the Stock Exchange and Singapore Exchange Securities Trading Limited, or any private placement of Common Stock of our Company, in each case after 1 February 2008 and that results in the aggregate gross cash proceeds received by our Company being no less than the aggregate outstanding principal amount of the Exchangeable Notes at such time, together with accrued interest and the premium payable with respect to such Exchangeable Notes at the applicable redemption date.

Mandatory Redemption:	Wellrun shall redeem all but not less than all of the outstanding Exchangeable Notes in the redemption amount calculated to yield an internal rate of return of 22.5 per cent. per annum on such principal amount from the issue date of the Exchangeable Notes to the date of payment of the redemption amount, plus any additional amount as may be payable by Wellrun pursuant to the terms and conditions of the Exchangeable Notes upon the earliest to occur of (a) the date falling 24 months after 1 February 2008 (the "Maturity Date"), (b) the date on which the holders of a majority in aggregate principal amount of the Exchangeable Notes then outstanding give notice to Wellrun or the date of any Event of Default (as defined in the Exchangeable Notes) described in the terms and conditions of the Exchangeable Notes, and (c) the date on which an Equity Offering is consummated if the Securities and Futures Commission of Hong Kong, or Hong Kong Exchanges and Clearing, in connection with a review of an Equity Offering by our Company, disallows the delivery in such Equity Offering in accordance with the terms of these Conditions of all or any Exchange Shares in exchange for the Exchangeable Notes or requires any material change to the terms of the Exchangeable Notes which are not accepted by the Noteholders.
Early Redemption:	Prior to the first anniversary of the Exchangeable Notes Issue Date, Wellrun shall not have the right to elect to redeem the Exchangeable Notes prior to the Maturity Date. From and after the first anniversary of 1 February 2008, Wellrun may elect to redeem all but not less than all the Exchangeable Notes, in the redemption amount calculated to yield an internal rate of return of 22.5 per cent. per annum on such principal amount from the issue date of the Exchangeable Notes to the date of payment of the redemption amount, plus any additional amounts as may be payable by Wellrun pursuant to the terms and conditions of the Exchangeable Notes together with delivery of a warrant instrument for the covered Warrants in accordance with the terms and conditions of the Exchangeable Notes to purchase Shares.
Interest:	The Exchangeable Notes shall not bear any interest save and except that a default interest of 3% per annum is payable on any overdue redemption amount.

Covered warrants:	If the Exchangeable Notes are redeemed at Wellrun's option pursuant to the terms thereof, Wellrun will upon redemption of the Exchangeable Notes issue the covered warrants ("Covered Warrants") to each holder of Exchangeable Notes to provide for purchase of Shares from Wellrun.
Collateral:	The Exchangeable Notes will be secured by all the assets of Wellrun and a share charge over all of the issued share capital of Wellrun held by Mr. Chun Chi-wai which will be released when the Exchangeable Notes are exchanged for Shares upon the [●] and/or all the secured liabilities under the Exchangeable Notes have been paid and discharged in full.
Use of proceeds:	The proceeds of the Exchangeable Notes were principally applied towards financing the activities of our Company solely by subscription of new Shares to be issued by our Company contemporaneously with completion of the issue of the Exchangeable Notes.
Lock-up:	The holders of the Exchangeable Notes have agreed that they will not sell or otherwise dispose of any of Shares which are acquired in exchange for Exchangeable Notes during the six-month period after [●].
Transferability:	The Exchangeable Notes may be transferred by the holders thereof in accordance with the terms and conditions of the Exchangeable Notes.

Rights of the holders of the Exchangeable Notes:

(a) So long as any of the Exchangeable Notes remain outstanding, Wellrun will furnish to the holders of the Exchangeable Notes:

(i) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of our Company, copies of its financial statements (on a consolidated and an unconsolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by Deloitte Touche Tohmatsu or any other member firm of an internationally-recognized firm of independent accountants, together with an audit report thereof;

(ii) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of our Company and each of our subsidiaries, copies of its financial statements (unaudited and on a consolidated and unconsolidated basis) in respect of such half-year period, prepared on a basis consistent with the audited financial statements of our Company together with a certificate signed by the person then authorized to sign financial statements on behalf of our Company to the effect that such financial statements are true in all material respects and present fairly the financial position of our Company as at the end of, and the results of its operations for, the relevant half-year period;

(iii) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of our Company and each of our subsidiaries, copies of its unaudited financial statements (on an unconsolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of our Company together with a certificate signed by the person then authorized to sign financial statements on behalf of our Company to the effect that such financial statements are true in all material respects and present fairly the financial position of our Company as at the end of, and the results of its operations for, the relevant quarterly period; and

(iv) as soon as they are available, but in any event within 15 calendar days after the end of each financial quarter of Wellrun, copies of its unaudited financial statements (on an unconsolidated basis) in respect of such financial quarter (including a statement of income, balance sheet and cash flow statement).

(b) For so long as any of the Exchangeable Notes remain outstanding, Wellrun will provide to the holders of the Exchangeable Notes (i) within 120 days after the close of each fiscal year of our Company, within 60 days after the close of each semi-annual fiscal period of our Company and within 15 days of the delivery of the quarterly financial statements of our Company, an officers' certificate stating (x) that a review has been conducted of the activities of our Company and our subsidiaries and our Company's and our subsidiaries' performance under the indenture originally extended on October 23, 2007 in respect of our Company Exchangeable Notes and that our Company and our Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof and (y) the interest coverage ratio under the Exchangeable Notes (the "Interest Coverage Ratio") as of the last day of such fiscal year or such semi-annual or quarterly fiscal period, as the case may be, and showing in reasonable detail the calculation of our Company Interest Coverage Ratio, including the arithmetic computations of each component of our Company Interest Coverage Ratio, together with a certificate from our Company's external auditors with respect to our Company Interest Coverage Ratio set forth in the officer's certificate delivered in connection with our Company's fiscal year end verifying the accuracy and correctness of such calculation and arithmetic computation; and (ii) as soon as possible and in any event within 15 days after Wellrun becomes aware or should reasonably become aware of the occurrence of a default, an Officers' Certificate setting forth the details of the default, and the action which Wellrun or our Company proposes to take with respect thereto.

Such information rights will be extinguished when the Exchangeable Notes are exchanged into Shares upon the [●] and all the secured liabilities under the Exchangeable Notes have been paid and discharged in full.