FINANCIAL INFORMATION

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