*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte.
德勤

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35/F One Pacific Place
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[DATE]

The Directors
China Metal Recycling (Holdings) Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding China Metal Recycling (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008 (the "Relevant Periods"), for inclusion in the document of the Company dated [●] 2009 (the "Document").

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 18 July 2007. Pursuant to a group reorganisation, as more fully explained in the section "History and Development" in the document (the "Group Reorganisation"), the Company became the holding company of the Group on 30 September 2007.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries comprising the Group:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | | % | % | |
| Asia Steel (Holdings) Limited ("Asia Steel (Holdings)") | British Virgin Islands 20 July 1999 | US$200 | 100 | — | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | | % | % | |
| Asia Steel (H.K.) Limited ("Asia Steel HK") (note 1) | Hong Kong 6 December 2000 | HK$78,100,000 | — | 100 | Investment holding |
| Asia Steel (Investments) Limited (note 2) | Hong Kong 11 August 1999 | HK$100,000 | — | 100 | Investment holding |
| Asia Steel (Development) Limited (note 2) | Hong Kong 4 June 1999 | HK$100,000 | — | 100 | Investment holding |
| Huan Bao Steel Limited (note 1) | Hong Kong 7 August 1998 | HK$10,000 | — | 100 | Investment holding and collection, processing and sale of recycled scrap metal |
| Central Steel (Macao Commercial Offshore) Limited ("Central Steel") (note 1) | Macau 21 March 2005 | MOP100,000 | — | 100 | Metal trading |
| 揚中亞鋼金屬有限公司 (Yangzhong Yagang Metal Co., Ltd.) ("Yangzhong Yagang") (note 3) | The People's Republic of China (the "PRC") 15 December 2006 | US$20,000,000 | — | 100 | Investment holding and collection, processing and sale of recycled scrap metal |
| 天津亞銅鋼鐵有限公司 (Tianjin Yatong Steel Co., Ltd.) ("Tianjin Yatong") (note 3) | The PRC 16 August 2006 | US$13,000,000 (note 6) | — | 90.385 | Collection, processing and sale of recycled scrap metal |
| 廣州亞銅金屬有限公司 (Guangzhou Yatong Metal Co., Ltd.) ("Guangzhou Yatong") (note 3) | The PRC 25 May 2007 | US$3,500,000 | — | 100 | Collection, processing and sale of recycled scrap metal |
| 廣州亞鋼鋼鐵有限公司 (Guangzhou Asia Steel Co., Ltd.) ("Guangzhou Asia Steel") (note 4) | The PRC 15 May 2001 | US$4,500,000 | — | 75 | Collection, processing and sale of recycled scrap metal |
| 張家港容利再生資源有限公司 (Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.) ("Zhangjiagang Rongli") (note 5) | The PRC 1 December 2006 | RMB16,667,000 | — | 70 | Collection, processing and sale of recycled scrap metal |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | | % | % | |
| 中山亞銅金屬材料有限公司 (Zhongshan Yatong Metal Materials Co., Ltd. ("Zhongshan Yatong") (note 3) | The PRC 3 September 2008 | US$10,000,000 (note 6) | — | 100 | Inactive |
| 寧波亞鋼金屬有限公司 (Ningbo Yagang Metal Co., Ltd.) ("Ningbo Yagang") (note 3) | The PRC 4 September 2008 | RMB20,000,000 | — | 100 | Inactive |
| 武漢亞鋼金屬有限公司 (Wuhan Yagang Metal Co., Ltd.) ("Wuhan Yagang") (note 4) | The PRC 10 November 2008 | US$12,000,000 (note 6) | — | 70 | Inactive |

Notes:

(1) Deloitte Touche Tohmatsu is the statutory auditor for the Relevant Periods.

(2) Deloitte Touche Tohmatsu is the statutory auditor of these entities for each of the two years ended 31 December 2008 while their statutory financial statements for the year ended 31 December 2006 were audited by Simon Chan & Co., certified public accountants in Hong Kong.

(3) These entities are wholly-foreign owned enterprises established in the PRC.

(4) These entities are Sino-foreign owned enterprises established in the PRC.

(5) This entity is a limited company in the PRC acquired by the Group in January 2008.

(6) Capital injections to these entities are not completed as at the date of this report. The unpaid capital for Tianjin Yatong, Zhongshan Yatong and Wuhan Yagang amounted to US$1,999,986, US$8,500,000 and US$12,000,000, respectively.

The financial year end date of the companies now comprising the Group is 31 December.

As at the date of this report, the Company has interest in the following associate:

| Name of associate | Form of business structure | Place and date of establishment | Proportion of nominal value of registered capital held indirectly by the Company | Principal activities |
|---|---|---|---|---|
| 廣州珠鋼碼頭有限公司 (Guangzhou Zhujiang Steel Port Co., Ltd.) ("Guangzhou Zhujiang Steel Port") | Sino-foreign owned enterprise | The PRC 28 February 2003 | 45% | Construction of terminals, loading and unloading of cargoes, and warehousing |

No audited statutory financial statements have been prepared for the Company and Asia Steel (Holdings) since their respective dates of incorporation as there is no statutory requirement to do so. No statutory financial statements have also been prepared for Zhongshan Yatong, Ningbo Yagang and Wuhan Yagang since their first statutory financial statements will be closed at 31 December 2009. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies since their respective dates of incorporation/establishment to 31 December 2008 and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

The statutory financial statements of the Group's subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by:

| Name of subsidiary | Periods covered | Certified Public Accountants |
|---|---|---|
| Yangzhong Yagang | 15 December 2006 (date of establishment) to 31 December 2007 | 揚中正信會計師事務所有限公司 (Yangzhong Zhengxin Certified Public Accountants Co., Ltd.) ("Yangzhong Zhengxin") |
| | Year ended 31 December 2008 | Yangzhong Zhengxin |
| Tianjin Yatong | 16 August 2006 (date of establishment) to 31 December 2007 | 天津東南會計師事務所有限公司 (Tianjin Southeast Certified Public Accountants Co., Ltd.) |
| | Year ended 31 December 2008 | 天津中興財有限責任會計師事務所 (Tianjin Zhong Xing Cai Certified Public Accountants) |
| Guangzhou Yatong | 25 May 2007 (date of establishment) to 31 December 2007 | 廣東粵信會計師事務所有限公司 (Guangdong Yuexin Certified Public Accountants Co. Ltd.) ("Guangdong Yuexin") |
| | Year ended 31 December 2008 | Guangdong Yuexin |
| Guangzhou Asia Steel | Year ended 31 December 2006 | 深圳大華天誠會計師事務所有限公司 (Shen Zhen Da Hua Tian Cheng Certified Public Accountants Co., Ltd.) |
| | Each of the two years ended 31 December 2008 | Guangdong Yuexin |
| Zhangjiagang Rongli | 1 December 2006 (date of establishment) to 31 December 2007 | 蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.) ("Suzhou Qinye") |
| | Year ended 31 December 2008 | Suzhou Qinye |

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A below. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007 and 2008, and of the Company as at 31 December 2007 and 2008 and of the consolidated results and cash flows of the Group for the Relevant Periods.

## A. FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENTS

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | Notes | 2006 | 2007 | 2008 |
| | | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 7 | 1,090,338 | 1,942,400 | 6,526,594 |
| Cost of sales | | (971,752) | (1,701,013) | (6,031,534) |
| Gross profit | | 118,586 | 241,387 | 495,060 |
| Other income | 8 | 2,607 | 11,975 | 21,998 |
| Distribution and selling expenses | | (1,991) | (3,832) | (7,804) |
| Administrative expenses | | (11,745) | (20,306) | (49,756) |
| Change in fair value of derivative financial instruments | | 2,730 | (6,446) | 16,181 |
| Finance costs | 9 | (13,999) | (39,419) | (147,413) |
| Share of result of an associate | | 4,047 | 3,710 | 2,654 |
| Profit before taxation | | 100,235 | 187,069 | 330,920 |
| Income tax expense | 10 | (4,855) | (8,342) | (23,007) |
| Profit for the year | 11 | 95,380 | 178,727 | 307,913 |
| Attributable to: | | | | |
| Equity holders of the Company | | 46,626 | 137,691 | 294,431 |
| Minority interests | | 48,754 | 41,036 | 13,482 |
| | | 95,380 | 178,727 | 307,913 |
| Dividends | 13 | 16,879 | 90,000 | — |
| | | HK$ | HK$ | HK$ |
| Earnings per share | 14 | | | |
| - basic | | 9.34 | 0.26 | 0.42 |
| - diluted | | N/A | 0.26 | 0.42 |

## CONSOLIDATED BALANCE SHEETS

| | Notes | As at 31 December 2006 | 2007 | 2008 |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 15 | 47,444 | 50,070 | 82,537 |
| Investment properties | 16 | — | — | 1,770 |
| Prepaid lease payments - non-current portion | 17 | 19,111 | 18,764 | 97,989 |
| Interest in an associate | 19 | 61,330 | 62,941 | 67,046 |
| Investment in Zhangjiagang Rongli | 39 | — | 12,412 | — |
| Deposits paid for acquisition of land use rights | | 1,000 | 47,872 | 12,500 |
| Deposits paid for acquisition of property, plant and equipment | | — | 2,858 | 15,304 |
| | | 128,885 | 194,917 | 277,146 |
| CURRENT ASSETS | | | | |
| Inventories | 20 | 65,186 | 144,691 | 257,536 |
| Trade and other receivables and deposits | 21 | 173,943 | 803,715 | 835,573 |
| Bills receivable | 22 | 107,594 | 40,689 | 304,601 |
| Prepaid lease payments - current portion | 17 | 1,278 | 1,355 | 3,460 |
| Amount due from an associate | 19 | — | 7 | 54 |
| Amounts due from minority shareholders of subsidiaries | 23 | 79 | 3,265 | — |
| Amount due from a controlling shareholder | 24 | — | — | 771 |
| Deposit paid to a related party | 25 | — | — | 115 |
| Derivative financial instruments | 26 | 5,967 | — | 1,446 |
| Taxation recoverable | | 1,990 | 1,108 | 2,182 |
| Pledged bank deposits | 27 | 55,053 | 117,772 | 72,455 |
| Restricted bank deposits | 28 | — | — | 3,631 |
| Bank balances and cash | 28 | 43,299 | 277,798 | 343,293 |
| | | 454,389 | 1,390,400 | 1,825,117 |

| | Notes | As at 31 December | | |
|---|---|---|---|---|
| | | 2006 | 2007 | 2008 |
| | | HK$'000 | HK$'000 | HK$'000 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 29 | 101,446 | 421,908 | 52,330 |
| Discounted bills | 30 | 107,594 | 28,333 | 304,601 |
| Amount due to an associate | 19 | 734 | — | — |
| Amounts due to minority shareholders of subsidiaries | 31 | — | — | 1,286 |
| Amount due to a director | 32 | — | — | 2,219 |
| Derivative financial instruments | 26 | — | 3,913 | 127 |
| Secured bank borrowings - due within one year | 33 | 141,676 | 167,057 | 128,664 |
| Secured guaranteed senior notes | 34 | — | — | 696,724 |
| Taxation payable | | 753 | 2,206 | 8,369 |
| | | 352,203 | 623,417 | 1,194,320 |
| NET CURRENT ASSETS | | 102,186 | 766,983 | 630,797 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 231,071 | 961,900 | 907,943 |
| NON-CURRENT LIABILITIES | | | | |
| Secured bank borrowings - due after one year | 33 | 20,000 | 22,468 | 10,909 |
| Secured guaranteed senior notes | 34 | — | 624,718 | — |
| Deferred taxation | 35 | 565 | 577 | — |
| Other long-term payable | 36 | 1,000 | 851 | 682 |
| | | 21,565 | 648,614 | 11,591 |
| NET ASSETS | | 209,506 | 313,286 | 896,352 |
| CAPITAL AND RESERVES | | | | |
| Share capital | 37 | 40,559 | — | — |
| Reserves | | 59,665 | 278,527 | 831,554 |
| Equity attributable to equity holders of the Company | | 100,224 | 278,527 | 831,554 |
| Minority interests | | 109,282 | 34,759 | 64,798 |
| TOTAL EQUITY | | 209,506 | 313,286 | 896,352 |

**BALANCE SHEETS**

| | Notes | As at 31 December 2007 | As at 31 December 2008 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| NON-CURRENT ASSET | | | |
| Investment in a subsidiary | 18 | 272,518 | 428,324 |
| CURRENT ASSETS | | | |
| Amount due from a subsidiary | 18 | 444,592 | 623,225 |
| Other receivables | 21 | — | 20 |
| Bank balances | 28 | 48,774 | 7,023 |
| | | 493,366 | 630,268 |
| CURRENT LIABILITIES | | | |
| Other payables | 29 | 858 | 889 |
| Amount due to a subsidiary | 18 | 85 | — |
| Secured guaranteed senior notes | 34 | — | 696,724 |
| | | 943 | 697,613 |
| NET CURRENT ASSETS (LIABILITIES) | | 492,423 | (67,345) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 764,941 | 360,979 |
| NON-CURRENT LIABILITY | | | |
| Secured guaranteed senior notes | 34 | 624,718 | — |
| NET ASSETS | | 140,223 | 360,979 |
| CAPITAL AND RESERVES | | | |
| Share capital | 37 | — | — |
| Reserves | 38 | 140,223 | 360,979 |
| TOTAL EQUITY | | 140,223 | 360,979 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Exchange reserve | Retained profits | Total | Minority interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2006 | — | — | — | 531 | 27,998 | 28,529 | 40,700 | 69,229 |
| Exchange difference arising on translation to presentation currency | — | — | — | 992 | — | 992 | 1,526 | 2,518 |
| Share of exchange reserve of an associate | — | — | — | 397 | — | 397 | 367 | 764 |
| Total income recognised directly in equity | — | — | — | 1,389 | — | 1,389 | 1,893 | 3,282 |
| Profit for the year | — | — | — | — | 46,626 | 46,626 | 48,754 | 95,380 |
| Total recognised income for the year | — | — | — | 1,389 | 46,626 | 48,015 | 50,647 | 98,662 |
| Capital contribution from shareholders of a subsidiary | 40,559 | — | — | — | — | 40,559 | 37,440 | 77,999 |
| Dividends recognised as distribution | — | — | — | — | (16,879) | (16,879) | — | (16,879) |
| Dividends paid to minority interests | — | — | — | — | — | — | (19,505) | (19,505) |
| At 31 December 2006 | 40,559 | — | — | 1,920 | 57,745 | 100,224 | 109,282 | 209,506 |
| Exchange difference arising on translation to presentation currency | — | — | — | 8,524 | — | 8,524 | 1,646 | 10,170 |
| Share of exchange reserve of an associate | — | — | — | 1,277 | — | 1,277 | — | 1,277 |
| Total income recognised directly in equity | — | — | — | 9,801 | — | 9,801 | 1,646 | 11,447 |
| Profit for the year | — | — | — | — | 137,691 | 137,691 | 41,036 | 178,727 |
| Total recognised income for the year | — | — | — | 9,801 | 137,691 | 147,492 | 42,682 | 190,174 |
| Acquisition of additional equity interest in Asia Steel (Holdings) from a minority shareholder by the founder shareholder | — | — | 120,811 | — | — | 120,811 | (120,811) | — |
| Effect of the Group Reorganisation | (40,559) | — | 40,559 | — | — | — | — | — |
| Capital contribution from a minority shareholder of a subsidiary | — | — | — | — | — | — | 6,266 | 6,266 |
| Dividends recognised as distribution | — | — | — | — | (90,000) | (90,000) | — | (90,000) |
| Dividends paid to minority interests | — | — | — | — | — | — | (2,660) | (2,660) |
| At 31 December 2007 | — | — | 161,370 | 11,721 | 105,436 | 278,527 | 34,759 | 313,286 |

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Exchange reserve | Retained profits | Total | Minority interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Exchange difference arising on translation to presentation currency | — | — | — | 23,145 | — | 23,145 | 3,651 | 26,796 |
| Share of exchange reserve of an associate | — | — | — | 1,451 | — | 1,451 | — | 1,451 |
| Total income recognised directly in equity | — | — | — | 24,596 | — | 24,596 | 3,651 | 28,247 |
| Profit for the year | — | — | — | — | 294,431 | 294,431 | 13,482 | 307,913 |
| Total recognised income for the year | — | — | — | 24,596 | 294,431 | 319,027 | 17,133 | 336,160 |
| Issue of share (note 37 (iv)) | — | 234,000 | — | — | — | 234,000 | — | 234,000 |
| Acquisition of a subsidiary (note 39) | — | — | — | — | — | — | 9,006 | 9,006 |
| Capital contribution from a minority shareholder of a subsidiary | — | — | — | — | — | — | 3,900 | 3,900 |
| At 31 December 2008 | — | 234,000 | 161,370 | 36,317 | 399,867 | 831,554 | 64,798 | 896,352 |

The capital reserve of the Group represents the aggregate of:

(i) the reserve of approximately HK$120,811,000 arising on the acquisition of remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui Cham To ("Mr. Tsui"), a minority shareholder, by Mr. Chun Chi Wai ("Mr. Chun"), the founder shareholder of the Company, in June 2007 and representing the unaudited consolidated net assets value of Asia Steel (Holdings) attributable to Mr. Tsui as at 30 June 2007 reclassified from minority interests as deemed contribution by Mr. Chun; and

(ii) the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Company upon the Group Reorganisation and the nominal value of the Company's shares issued in exchange of approximately HK$40,559,000.

## CONSOLIDATED CASH FLOW STATEMENTS

| | Notes | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2006 | 2007 | 2008 |
| | | HK$'000 | HK$'000 | HK$'000 |
| OPERATING ACTIVITIES | | | | |
| Profit before taxation | | 100,235 | 187,069 | 330,920 |
| Adjustments for: | | | | |
| Amortisation of prepaid lease payments | | 1,254 | 1,315 | 2,061 |
| Depreciation of property, plant and equipment | | 7,293 | 8,274 | 11,012 |
| Depreciation of investment properties | | — | — | 29 |
| Finance costs | | 13,999 | 39,419 | 147,413 |
| Interest income | | (1,238) | (4,324) | (6,657) |
| Loss on disposal of property, plant and equipment | | 5 | 7 | 45 |
| Share of result of an associate | | (4,047) | (3,710) | (2,654) |
| Write-down of inventories | | — | — | 10,000 |
| Operating cash flows before movements in working capital | | 117,501 | 228,050 | 492,169 |
| Increase in inventories | | (36,155) | (79,505) | (119,910) |
| (Increase) decrease in trade and other receivables and deposits | | (117,194) | (629,772) | 31,153 |
| Decrease (increase) in bills receivable | | 37,605 | 66,905 | (263,912) |
| Net movement in derivative financial instruments | | (5,967) | 9,880 | (5,232) |
| Increase in amount due from a related company | | — | — | (115) |
| Increase (decrease) in trade and other payables | | 44,578 | 324,129 | (422,886) |
| Cash generated from (used in) operations | | 40,368 | (80,313) | (288,733) |
| Hong Kong Profits Tax paid | | (1,083) | (1,624) | — |
| Hong Kong Profits Tax refunded | | — | 1,132 | 481 |
| PRC Enterprise Income Tax paid | | (3,198) | (5,503) | (21,823) |
| PRC Enterprise Income Tax refunded | | — | — | 1,035 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | | 36,087 | (86,308) | (309,040) |

| | Notes | Year ended 31 December 2006 | 2007 | 2008 |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| INVESTING ACTIVITIES | | | | |
| (Increase) decrease in pledged bank deposits | | (34,421) | (62,719) | 45,317 |
| Purchase of property, plant and equipment | | (8,523) | (9,029) | (38,330) |
| Deposits paid for acquisition of land use rights | | (1,000) | (46,872) | (12,500) |
| (Increase) decrease in amounts due from minority shareholders of subsidiaries | | (79) | (3,186) | 3,265 |
| Dividend received from an associate | | 4,377 | 3,376 | — |
| Interest received | | 1,238 | 4,324 | 6,657 |
| Proceeds on disposal of property, plant and equipment | | 12 | — | 587 |
| Investment in Zhangjiagang Rongli | 39 | — | (12,412) | — |
| Deposits paid for acquisition of property, plant and equipment | | — | (2,858) | (15,304) |
| Advance to an associate | | — | (7) | (47) |
| Acquisition of land use rights | | — | — | (33,991) |
| Increase in restricted bank deposits | | — | — | (3,631) |
| Advance to a controlling shareholder | | — | — | (771) |
| Acquisition of a subsidiary | 39 | — | — | 14,030 |
| NET CASH USED IN INVESTING ACTIVITIES | | (38,396) | (129,383) | (34,718) |

| | Notes | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2006 | 2007 | 2008 |
| | | HK$'000 | HK$'000 | HK$'000 |
| FINANCING ACTIVITIES | | | | |
| New bank borrowings raised | | 478,192 | 515,637 | 356,240 |
| Increase in unsecured loans from shareholders of a subsidiary | | 7,352 | — | — |
| Repayment of bank borrowings | | (378,788) | (486,461) | (392,546) |
| Dividends paid | | (36,384) | (92,660) | — |
| (Decrease) increase in discounted bills | | (31,138) | (79,261) | 276,268 |
| Interest paid | | (13,999) | (18,421) | (75,407) |
| Decrease in amounts due to minority shareholders of subsidiaries | | (4,096) | — | (4,033) |
| Repayment to an associate | | (1,057) | (734) | — |
| Proceeds from issue of guaranteed senior notes | | — | 624,000 | — |
| Capital contribution from a minority shareholder of a subsidiary | | — | 6,266 | 3,900 |
| Transaction cost on issue of secured guaranteed senior notes | | — | (20,280) | — |
| Proceed from issue of share | | — | — | 234,000 |
| Advance from a director | | — | — | 2,219 |
| NET CASH FROM FINANCING ACTIVITIES | | 20,082 | 448,086 | 400,641 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 17,773 | 232,395 | 56,883 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 25,314 | 43,299 | 277,798 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 212 | 2,104 | 8,612 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | 43,299 | 277,798 | 343,293 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated by Wellrun Limited, a company wholly-owned by Mr. Chun (the controlling shareholder of all group entities throughout the Relevant Periods or since their establishment/acquisition by Mr. Chun to 31 December 2008, where this is a shorter period), on 18 July 2007 and the Company effected the Group Reorganisation on 30 September 2007 to acquire the entire interest in Asia Steel (Holdings), the then holding company of the group entities. Prior to June 2007, Mr. Chun and Mr. Tsui were the shareholders of Asia Steel (Holdings) whose shareholdings were 52% and 48%, respectively. In June 2007, Mr. Chun acquired the remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui (the "Transaction") and Asia Steel (Holdings) becomes a company wholly-owned by Mr. Chun.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the Relevant Periods include the results and cash flows of the companies now comprising the Group and are prepared by applying the principles of merger accounting as stated in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or up to the effective date of disposal where this is a shorter period, except that the results attributable to Mr. Tsui prior to the Transaction were treated as minority interests.

The consolidated balance sheet of the Group as at 31 December 2006 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as of that date in accordance with the then effective interest held by Mr. Chun at the balance sheet date. The consolidated balance sheets of the Group as at 31 December 2007 and 2008 have been prepared on the basis of consolidation as set out in note 3.

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

Two subsidiaries, Asia Huan Bao Steel Limited and its subsidiary, Asia Wing Tat Recycling Limited, were disposed of to the director, Mr. Chun, on 29 December 2006. The consideration for the disposals, which was determined based on the consolidated net assets value of Asia Huan Bao Steel Limited at 29 December 2006 under HKFRSs, amounted to approximately HK$174,000. The subsidiaries disposed of did not have significant contribution to the Group's results and cash flows for the Relevant Periods.

The functional currency of the Company is United States dollar. The Financial Information is presented in Hong Kong dollar for the convenience of the shareholders as the Company is going to be listed in Hong Kong.

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all the new and revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning on 1 January 2008.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations that are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 1 (Revised) | Presentation of Financial Statements[3] |
| HKAS 23 (Revised) | Borrowing Costs[3] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[4] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[3] |
| HKAS 39 (Amendment) | Eligible hedged items[4] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[3] |
| HKFRS 3 (Revised) | Business Combinations[4] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments[3] |
| HKFRS 8 | Operating Segments[3] |
| HK(IFRIC) - Int 9 & HKAS 39 (Amendments) | Embedded Derivatives[5] |
| HK(IFRIC) - Int 13 | Customer Loyalty Programmes[6] |
| HK(IFRIC) - Int 15 | Agreements for the Construction of Real Estate[3] |
| HK(IFRIC) - Int 16 | Hedges of a Net Investment in a Foreign Operation[7] |
| HK(IFRIC) - Int 17 | Distribution of Non-cash Assets to Owners[4] |
| HK(IFRIC) - Int 18 | Transfers of Assets from Customers[8] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 July 2008
7 Effective for annual periods beginning on or after 1 October 2008
8 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below which conform with HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of businesses, other than involving entities under common control, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Freight income included in other income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in the consolidated income statements on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

The results and assets and liabilities of the associate are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment (see the accounting policy in respect of "impairment losses" of assets below).

Where a group entity transacts with the associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Property, plant and equipment

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

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

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

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

**Prepaid lease payments**

Prepaid lease payments are up-front payments to acquire leasehold land interest. The prepaid lease payments are stated at cost and are charged to the consolidated income statements over the period of the lease or the operating license of the relevant entity on a straight-line basis, whichever is shorter, subject to a cap of 50 years.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statements in the year in which the item is derecognised.

**Impairment losses**

At each balance sheet date, the Group reviews the carrying amounts of its assets (including goodwill arising from investment in an associate) to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the consolidated income statements in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

The Group's financial assets are classified as loans and receivables and derivative financial instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, amount due from an associate, amounts due from minority shareholders of subsidiaries, amount due from a controlling shareholder, deposit paid to a related party, amounts due from subsidiaries, pledged bank deposits, restricted bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities other than derivative financial instruments (including trade and other payables, discounted bills, amount due to an associate, amounts due to minority shareholders of subsidiaries, amount due to a director, secured bank borrowings, amount due to a subsidiary and other long-term payable) are measured at amortised cost, using the effective interest method.

Guaranteed senior notes

Guaranteed senior notes issued by the Group contain both liability and conversion option components. Conversion option component is not accounted for separately if the amount involved is insignificant. At the date of issue, the guaranteed senior notes (including both the liability and conversion option components) are recognised at fair value.

In subsequent periods, the guaranteed senior notes are carried at amortised cost using the effective interest method. Transaction costs that relate to the issue of the guaranteed senior notes are included in the carrying amount of the guaranteed senior notes and amortised over the period of the guaranteed senior notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

## 4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

**Estimated impairment of trade receivables**

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, 2007 and 2008, the carrying amounts of trade receivables of the Group are approximately HK$129,334,000, HK$749,300,000 and HK$772,256,000, respectively.

## 5. CAPITAL RISK MANAGEMENT

The Group and the Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group and the Company's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group and the Company consists of net debt, which includes the borrowings disclosed in notes 30, 31, 32, 33, 34 and 36, cash and cash equivalents disclosed in note 28, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on recommendations of the directors, the Group and the Company will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | THE GROUP | | | THE COMPANY | |
|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 December | |
| | 2006 | 2007 | 2008 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | | |
| Loans and receivables (including cash and cash equivalents) | 336,245 | 1,189,617 | 1,497,723 | 493,366 | 630,248 |
| Derivative financial instruments | 5,967 | — | 1,446 | — | — |
| **Financial liabilities** | | | | | |
| Amortised cost | 342,351 | 1,250,371 | 1,173,701 | 624,803 | 696,724 |
| Derivative financial instruments | — | 3,913 | 127 | — | — |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, amount due from/to an associate, amounts due from/to minority shareholders of subsidiaries, amount due from a controlling shareholder, deposit paid to a related party, derivative financial instruments, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, discounted bills, amount due to a director, secured bank borrowings, other long-term payable and secured guaranteed senior notes. The Company's major financial instruments include amount due from/to a subsidiary, bank balances and secured guaranteed senior notes. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### *Credit risk*

At the respective balance sheet date, the Group and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheets.

In order to minimise the credit risk, management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and bill receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 67.3%, 61.2% and 39.4% of the total trade and bills receivables as at 31 December 2006, 2007 and 2008 was due from the Group's largest debtor and 99.9%, 99.9% and 92.3% of the total trade and bills receivables as at 31 December 2006, 2007 and 2008 was due from the five largest debtors, respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group's customer base has been diversified and became less concentrated during the Relevant Periods.

The Company's amount due from a subsidiary amounted to approximately HK$444,592,000 and HK$623,225,000 as at 31 December 2007 and 31 December 2008, respectively exposed the Company to the concentration of credit risk on one single counterparty.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for over 90% of the total trade receivables at the respective balance sheet date.

The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

### *Liquidity risk*

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group and the Company's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and other source of fundings and considers the risk is minimal.

The Group relies on bank borrowings and guaranteed senior notes as significant sources of liquidity while the Company relies on guaranteed senior notes as significant source of liquidity. Details of these are set out in notes 33 and 34.

The following tables detail the Group and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

*Liquidity and interest risk tables*

**THE GROUP**

| | Weighted average effective interest rate | Less than 3 months or on demand | 3 - 6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2006 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2006** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | — | 71,347 | — | — | — | 71,347 | 71,347 |
| Discounted bills | — | 91,994 | 15,600 | — | — | 107,594 | 107,594 |
| Amount due to an associate | — | 734 | — | — | — | 734 | 734 |
| Secured bank borrowings | | | | | | | |
| - fixed rate | 5.80 | 74,402 | 20,560 | — | 21,266 | 116,228 | 113,916 |
| - variable rate | 7.39 | 27,260 | — | 21,593 | — | 48,853 | 47,760 |
| Other long-term payable | — | — | — | — | 1,000 | 1,000 | 1,000 |
| | | 265,737 | 36,160 | 21,593 | 22,266 | 345,756 | 342,351 |

| | Weighted average effective interest rate | Less than 3 months or on demand | 3 - 6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2007 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2007** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | — | 406,944 | — | — | — | 406,944 | 406,944 |
| Discounted bills | — | 28,333 | — | — | — | 28,333 | 28,333 |
| Secured bank borrowings | | | | | | | |
| - fixed rate | 5.82 | 118,212 | — | 36,060 | 29,613 | 183,885 | 177,231 |
| - variable rate | 7.30 | 12,357 | — | — | — | 12,357 | 12,294 |
| Other long-term payable | — | — | — | — | 851 | 851 | 851 |
| Secured guaranteed senior notes | 19.36 | — | 26,520 | 26,520 | 747,677 | 800,717 | 624,718 |
| | | 565,846 | 26,520 | 62,580 | 778,141 | 1,433,087 | 1,250,371 |
| **Derivatives settled net** | | | | | | | |
| Foreign currency forward contracts | — | — | — | 3,913 | — | 3,913 | 3,913 |

| | Weighted average effective interest rate | Less than 3 months or on demand | 3 - 6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2008 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2008** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | — | 28,616 | — | — | — | 28,616 | 28,616 |
| Discounted bills | — | 155,406 | 149,195 | — | — | 304,601 | 304,601 |
| Amounts due to minority shareholders of subsidiaries | — | 1,286 | — | — | — | 1,286 | 1,286 |
| Amount due to a director | — | 2,219 | — | — | — | 2,219 | 2,219 |
| Secured bank borrowings | | | | | | | |
| - fixed rate | 4.78 | 60,516 | — | — | — | 60,516 | 59,802 |
| - variable rate | 5.37 | 36,805 | 26,698 | 6,897 | 11,495 | 81,895 | 79,771 |
| Secured guaranteed senior notes | 19.36 | — | 747,677 | — | — | 747,677 | 696,724 |
| Other long-term payable | | — | — | — | 682 | 682 | 682 |
| | | 284,848 | 923,570 | 6,897 | 12,177 | 1,227,492 | 1,173,701 |
| **Derivatives settled net** | | | | | | | |
| Copper future contracts | — | 127 | — | — | — | 127 | 127 |

**THE COMPANY**

| | Weighted average effective interest rate | Less than 3 months or on demand | 3 - 6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2008 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2007** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Amount due to a subsidiary | — | 85 | — | — | — | 85 | 85 |
| Secured guaranteed senior notes | 19.36 | — | 26,520 | 26,520 | 747,677 | 800,717 | 624,718 |
| | | 85 | 26,520 | 26,520 | 747,677 | 800,802 | 624,803 |

| | Weighted average effective interest rate | Less than 3 months or on demand | 3 - 6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at 31.12.2008 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2008** | | | | | | | |
| **Non-derivative financial liability** | | | | | | | |
| Secured guaranteed senior notes . . . . . . . | 19.36 | — | 747,677 | — | — | 747,677 | 696,724 |

### *Market risk*

There has been no change to the Group and the Company's exposure to market risk or the manner in which it manages and measures the risk.

#### *(i) Currency risk*

The Company has no significant exposure to foreign currency risk and no analysis is therefore presented. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | | Assets | | |
|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 December | | |
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| United States dollar ("USD") . | 76,854 | 53,497 | 43,049 | 3,666 | 6,017 | 43,604 |
| Renminbi ("RMB") . . . . . . . | — | — | — | — | — | 13,533 |
| Hong Kong dollar ("HKD") . | 19,855 | 69,939 | 14,110 | 16,690 | 4,784 | 663 |

In addition, the Group was exposed to fluctuations in foreign exchange rates (mainly USD/HKD, see note 26) in relation to its foreign currency forward contracts outstanding as at 31 December 2007.

The Group and the Company currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will use foreign currency forward contracts to hedge the significant foreign currency exposure.

#### Sensitivity analysis

The Group is mainly exposed to the foreign currencies of USD, RMB and HKD when such currencies are different from the functional currencies of the corresponding group entities.

The following table details the Group's sensitivity to a 5% appreciation and depreciation in the above foreign currencies against the functional currencies of the corresponding group entities, except for HKD against USD since the two currencies are pegged in the market. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% increase in foreign currency rates. The sensitivity analysis includes mainly trade receivables, bank balances, trade payables, amounts due to minority shareholders of subsidiaries and bank borrowings where the denomination of these balances are in the above foreign currencies. A positive/negative number below indicates a decrease/an increase in profit before taxation where the USD, RMB and HKD strengthen 5% against the functional currency of the corresponding group entity. For a 5% weakening of the above foreign currency against the functional currency of the corresponding group entity, there would be an equal and opposite impact.

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Decrease (increase) in profit before taxation: | | | |
| USD against RMB | 2,696 | 2,666 | 827 |
| RMB against USD | — | — | (677) |
| HKD against RMB | — | 3,497 | 250 |
| | 2,696 | 6,163 | 400 |

In respect of the foreign currency forward contracts, a 0.5% increase or decrease is used when reporting currency risk arising from forward contracts internally to key management personnel as HKD is pegged to USD and represents management's assessment of the reasonably possible change. The Group's sensitivity to 0.5% increase in the forward foreign exchange rate of the forward contracts as at 31 December 2007, assuming other variables are stable, is that the Group's profit before taxation for the year then ended would be increased by approximately HK$3,748,000. For a 0.5% decrease in the forward foreign exchange rates of the forward contracts, there would be an equal and opposite impact on the Group's profit before taxation.

*(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and secured guaranteed senior notes (see notes 33 and 34 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 33 for details of these borrowings) and bank deposits.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2008 would decrease/increase by HK$399,000 (2007: HK$61,000 and 2006: HK$239,000).

No sensitivity analysis has been prepared for variable-rate bank deposits as the directors of the Company consider the exposure is limited.

*(iii) Other price risk*

The Group is exposed to other price risk through its copper future contracts as at both 31 December 2006 and 2008. Management manages this exposure by a team of specialists, who closely monitors the future markets and the position of the Group and will take necessary action to minimise the risk to the Group. The Group's other price risk is mainly concentrated on future prices quoted in the relevant exchanges.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risk of copper future contracts at the relevant balance sheet dates. A 5% increase or decrease is used when reporting other price risk internally to key management personnel and represents management's assessment of the reasonably possible change.

If the quoted price of the future contracts had been 5% higher/lower and all other variables were held constant, the Group's profit before taxation would increase/decrease by approximately HK$2,799,000 and HK$847,000 for the year ended 31 December 2006 and 2008, respectively.

**(c) Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

➢ the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

➢ the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

## 7. REVENUE AND SEGMENTAL INFORMATION

**Business segments**

The Group is engaged in the principal business of metal recycling, involving the recycling of scrap metal into recycled ferrous and non-ferrous metals, which are the raw materials for a wide range of metallic end-products. The Group collects scrap steel, scrap copper and other scrap metals and processes them using advanced equipment to produce quality recycled scrap metals. From time to time, the Group also sells scrap metals collected directly to customers when the quality of such scrap metals meets certain required standards. The metals can be broadly classified into two categories:

(i) ferrous metal, namely iron and steel; and

(ii) non-ferrous metal, including copper, aluminium, etc.

The two principal metals processed/sold by the Group are the basis on which the Group reports its primary segment information. However, in the opinion of directors of the Company, it is not practical and meaningful to present such segment information except for revenue, because it would involve indefinite assumptions on the allocation of cost of materials and assets used for production in preparing those information.

The Group presents its revenue by the two principal business segments as below:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Ferrous metal | 479,481 | 703,032 | 2,291,541 |
| Non-ferrous metal | 610,857 | 1,239,368 | 4,235,053 |
| | 1,090,338 | 1,942,400 | 6,526,594 |

**Geographical segments**

The following tables provide an analysis of the Group's identifiable assets, and additions to property, plant and equipment by the geographical area in which the assets are located:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Carrying amount of segment assets: | | | |
| The PRC, other than Hong Kong and Macau | 278,978 | 350,362 | 855,153 |
| Hong Kong | 14,242 | 17,073 | 71,363 |
| Macau | 76,727 | 637,434 | 614,884 |
| Total segment assets | 369,947 | 1,004,869 | 1,541,400 |
| Unallocated | 213,327 | 580,448 | 560,863 |
| Consolidated total assets | 583,274 | 1,585,317 | 2,102,263 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Additions to property, plant and equipment: | | | |
| The PRC, other than Hong Kong and Macau | 5,344 | 6,159 | 36,997 |
| Hong Kong | 3,976 | 2,372 | 5,686 |
| Macau | 1 | — | 1 |
| | 9,321 | 8,531 | 42,684 |

Since over 90% of the Group's sales are delivered to the PRC at customers' instruction, no analysis by the geographical location of the Group's customers is presented.

## 8. OTHER INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Freight income | 11 | — | — |
| Interest income | 1,238 | 4,324 | 6,657 |
| Net exchange gain | 1,341 | 7,649 | 14,365 |
| Rental income | 2 | — | 401 |
| Others | 15 | 2 | 575 |
| | 2,607 | 11,975 | 21,998 |

## 9. FINANCE COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 13,999 | 18,421 | 22,367 |
| Effective interest expense on secured guaranteed senior notes | — | 20,998 | 125,046 |
| | 13,999 | 39,419 | 147,413 |

## 10. INCOME TAX EXPENSE

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| The charge comprises: | | | |
| Hong Kong Profits Tax | | | |
| Current year | 847 | 620 | — |
| Underprovision in prior years | 351 | 1 | 10 |
| PRC Enterprise Income Tax | | | |
| Current year | 3,198 | 7,703 | 24,607 |
| Under(over)provision in prior years | — | 6 | (1,033) |
| | 4,396 | 8,330 | 23,584 |
| Deferred taxation (note 35) | | | |
| Current year | 459 | 12 | (544) |
| Effect of change in tax rate | — | — | (33) |
| | 459 | 12 | (577) |
| | 4,855 | 8,342 | 23,007 |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for each of the two years ended 31 December 2007. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2008.

Pursuant to the relevant laws and regulations in the PRC, Guangzhou Asia Steel is exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The basic tax rate is 27% for each of the two years ended 31 December 2007 since it is located in an approved economic zone in the PRC. The first profit-making year of Guangzhou Asia Steel is the year 2004.

The basic tax rate of Guangzhou Yatong is 27% for the year ended 31 December 2007 since it is also located in an approved economic zone in the PRC. It was approved by the relevant PRC tax authority for an exemption of PRC Enterprise Income Tax for the period from 25 May 2007 (date of establishment) to 31 December 2007.

The basic tax rate of Yangzhong Yagang, Tianjin Yatong and Zhangjiagang Rongli is 33% up to 31 December 2007.

Pursuant to the relevant PRC tax laws and regulations, a foreign investment equity joint venture engaged in wharf construction and having an operating period over 15 years could be exempted from the PRC Foreign Enterprise Income Tax ("FEIT") for five years starting from its first profit-making year, followed by a 50% reduction for the next five years ("5+5 holidays") subject to the approval by the provincial tax authority. Guangzhou Zhujiang Steel Port, an associate of the Group rented a wharf and made improvement on the wharf. All the operating income for the years from 2006 to 2008 was derived from the rented wharf. Guangzhou Zhujiang Steel Port has obtained a written approval YueGuoShuiHan [2005] No.445 issued by Guangdong State Tax Bureau on the 5+5 holidays on the basis of the abovementioned circumstances. The first profit-making year of Guangzhou Zhujiang Steel Port is the year of 2004 and Guangzhou Zhujiang Steel Port was exempted from FEIT for the years from 2006 to 2008.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 27% or 33% to 25% for subsidiaries in the PRC from 1 January 2008. Specifically, Guangzhou Asia Steel was allowed under the New Law to enjoy the last year of 50% tax deduction in 2008 based on the new rate of 25%. Guangzhou Zhujiang Steel Port was exempted from FEIT through 2008. It will then be subject to FEIT of 10% for 2009, 11% for 2010, 12% for 2011, 12.5% for 2012 and 12.5% for 2013. Beginning in 2014 and thereafter, it will be subject to the statutory income tax rate of 25%.

Under Decree-Law no. 58/99/M, Central Steel, a Macau company incorporated under that Law (called "58/99/M Company") is exempted from Macau Complementary tax (Macau income tax) as the 58/99/M Company does not sell its products to a Macau resident company during the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the profit before taxation per the consolidated income statements as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Profit before taxation | 100,235 | 187,069 | 330,920 |
| PRC Enterprise Income Tax rate | 33% | 33% | 25% |
| Tax at the PRC Enterprise Income Tax rate | 33,078 | 61,733 | 82,730 |
| Tax effect of expenses not deductible for tax purpose (note) | 1,335 | 11,312 | 38,618 |
| Tax effect of income not taxable for tax purpose | (151) | (1,497) | (1,616) |
| Tax effect of share of result of an associate | (1,336) | (1,224) | (664) |
| Tax effect of tax exemption granted to PRC subsidiaries | (4,777) | (13,020) | (8,676) |
| Tax effect of tax exemption granted to a Macau subsidiary | (21,869) | (46,633) | (94,851) |
| Tax effect of tax losses not recognised | 314 | 364 | 8,282 |
| Utilisation of tax losses previously not recognised | (223) | — | — |
| Effect of different tax rates of subsidiaries operating in Hong Kong or the PRC | (1,867) | (2,700) | 240 |
| Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate | — | — | (33) |
| Under(over)provision in prior years | 351 | 7 | (1,023) |
| Tax charge for the year | 4,855 | 8,342 | 23,007 |

Note: Expenses not deductible for tax purpose mainly included non-deductible professional expenses, effective interest expense on secured guaranteed senior notes and loss on derivative financial instruments.

Details of deferred taxation are set out in note 35.

## 11. PROFIT FOR THE YEAR

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Profit for the year has been arrived at after charging (crediting): | | | |
| Directors' emoluments (note 12) | 431 | 431 | 3,141 |
| Other staff costs | 8,352 | 11,382 | 18,168 |
| Retirement benefit scheme contributions, excluding those of directors | 863 | 1,250 | 2,056 |
| Total staff costs | 9,646 | 13,063 | 23,365 |
| Auditor's remuneration | 500 | 1,000 | 2,680 |
| Amortisation of prepaid lease payments | 1,254 | 1,315 | 2,061 |
| Depreciation of property, plant and equipment | 7,293 | 8,274 | 11,012 |
| Depreciation of investment properties | — | — | 29 |
| Loss on disposal of property, plant and equipment | 5 | 7 | 45 |
| Operating lease rentals paid in respect of rented premises | 1,470 | 2,122 | 14,702 |
| Write-down of inventories | — | — | 10,000 |
| Net exchange gain | (1,341) | (7,649) | (14,365) |

Note: For each of the Relevant Periods, cost of inventories recognised as an expense approximates cost of sales as shown in the consolidated income statements.

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors

Details of the emoluments paid to the directors for the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Fee | — | — | — |
| Salaries and other allowances | 430 | 430 | 3,132 |
| Retirement benefit scheme contributions | 1 | 1 | 9 |
| | 431 | 431 | 3,141 |
| Executive directors: | | | |
| Mr. Chun | 431 | 431 | 431 |
| Mr. Jiang Yan Zhang | — | — | 202 |
| Mr. Wong Hok Leung | — | — | 2,508 |
| Non-executive directors: | | | |
| Mr. Chan Iu Seng * | — | — | — |
| Mr. Chan Kam Hung * | — | — | — |
| Mr. Leung Chong Shun * | — | — | — |
| Ms. Lai Wun Yin | — | — | — |
| | 431 | 431 | 3,141 |

* Independent non-executive directors

### Employees

Of the five highest paid individuals of the Group for the Relevant Periods, the number of directors and employees are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Directors | 1 | 1 | 2# |
| Employees | 4 | 4 | 3 |
| | 5 | 5 | 5 |

# It includes a director who was appointed on 28 May 2008 and received emoluments of approximately HK$219,000 for the period from 1 January 2008 to 27 May 2008 as an employee.

The remuneration of the above directors are set out above. The remuneration of the remaining individuals for the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Salaries and other allowances | 2,129 | 1,934 | 2,238 |
| Retirement benefit scheme contributions | 37 | 41 | 41 |
| | 2,166 | 1,975 | 2,279 |

Note: The emolument of each of the above employees is below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

## 13. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. During the Relevant Periods, dividends were paid by Asia Steel HK to its then shareholders prior to the Group Reorganisation.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

## 14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods is based on the following data:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share | 46,626 | 137,691 | 294,431 |
| Number of shares for the purposes of basic and diluted earnings per share | 4,990,854 | 533,375,488 | 699,999,388 |

The number of shares for the purposes of basic earnings per share has been determined assuming the capitalisation issue as detailed in Appendix VII of the document occurred in the first day of the Relevant Periods. The computation of dilutive earnings per share for the years ended 31 December 2007 and 2008 does not take into account the Warrants as set out in note 34 as the Warrants are not dilutive.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Construction in progress | Motor vehicles | Leasehold improvement | Machinery, furniture, fixtures, and equipment | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | |
| At 1 January 2006 | 11,360 | — | 12,128 | 460 | 31,739 | 55,687 |
| Exchange realignment | 66 | — | 492 | — | 1,542 | 2,100 |
| Additions | — | 3,624 | 358 | — | 5,339 | 9,321 |
| Transfer | — | (3,624) | — | — | 3,624 | — |
| Disposals | — | — | — | — | (17) | (17) |
| At 31 December 2006 | 11,426 | — | 12,978 | 460 | 42,227 | 67,091 |
| Exchange realignment | 606 | — | 855 | — | 2,257 | 3,718 |
| Additions | — | 335 | 2,340 | 301 | 5,555 | 8,531 |
| Disposals | — | — | — | — | (11) | (11) |
| At 31 December 2007 | 12,032 | 335 | 16,173 | 761 | 50,028 | 79,329 |
| Exchange realignment | 732 | 120 | 1,081 | 28 | 3,080 | 5,041 |
| Acquisition of a subsidiary (note 39) | — | — | 757 | — | 739 | 1,496 |
| Additions | 3,895 | 8,592 | 2,753 | 2,487 | 23,461 | 41,188 |
| Disposals | — | — | (4,300) | — | (2) | (4,302) |
| Reclassified as investment properties (note 16) | (1,940) | — | — | — | — | (1,940) |
| At 31 December 2008 | 14,719 | 9,047 | 16,464 | 3,276 | 77,306 | 120,812 |
| DEPRECIATION | | | | | | |
| At 1 January 2006 | 1,352 | — | 4,350 | 60 | 6,021 | 11,783 |
| Exchange realignment | 36 | — | 223 | — | 312 | 571 |
| Provided for the year | 588 | — | 2,427 | 51 | 4,227 | 7,293 |
| At 31 December 2006 | 1,976 | — | 7,000 | 111 | 10,560 | 19,647 |
| Exchange realignment | 139 | — | 528 | — | 675 | 1,342 |
| Provided for the year | 617 | — | 2,622 | 64 | 4,971 | 8,274 |
| Eliminated on disposals | — | — | — | — | (4) | (4) |
| At 31 December 2007 | 2,732 | — | 10,150 | 175 | 16,202 | 29,259 |
| Exchange realignment | 185 | — | 677 | — | 953 | 1,815 |
| Provided for the year | 698 | — | 2,375 | 219 | 7,720 | 11,012 |
| Eliminated on disposals | — | — | (3,670) | — | — | (3,670) |
| Reclassified as investment properties (note 16) | (141) | — | — | — | — | (141) |
| At 31 December 2008 | 3,474 | — | 9,532 | 394 | 24,875 | 38,275 |
| CARRYING VALUES | | | | | | |
| At 31 December 2006 | 9,450 | — | 5,978 | 349 | 31,667 | 47,444 |
| At 31 December 2007 | 9,300 | 335 | 6,023 | 586 | 33,826 | 50,070 |
| At 31 December 2008 | 11,245 | 9,047 | 6,932 | 2,882 | 52,431 | 82,537 |

After considering the estimated residual values, the above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 20 - 50 years or over the lease term of the relevant land, whichever is shorter |
| Motor vehicles | 20% |
| Leasehold improvement | 4% or over the term of the relevant lease, whichever is shorter |
| Machinery, furniture, fixtures and equipment | 10% - 20% |

**16. INVESTMENT PROPERTIES**

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2006, 31 December 2006 and 2007 | — |
| Reclassified from property, plant and equipment (note 15) | 1,940 |
| At 31 December 2008 | 1,940 |
| DEPRECIATION | |
| At 1 January 2006, 31 December 2006 and 2007 | — |
| Reclassified from property, plant and equipment (note 15) | 141 |
| Provided for the year | 29 |
| At 31 December 2008 | 170 |
| CARRYING VALUES | |
| At 31 December 2006 and 2007 | — |
| At 31 December 2008 | 1,770 |

The fair value of the Group's investment properties (including the corresponding leasehold land interests with a carrying amount of approximately HK$3,256,000) at 31 March 2009 was HK$9,700,000. The fair value has been arrived at based on a valuation carried out by Vigers Appraisal and Consulting Limited, independent professional valuers not connected with the Group and whose address is 10th Floor, The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong. The valuation was determined by reference to recent market prices for similar properties. In the opinion of the directors of the Company, the valuation at 31 March 2009 is not materially different from that at 31 December 2008.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the cost model and are classified and accounted for as investment properties.

The above investment properties are erected on lands held under long leases in Hong Kong and are depreciated on a straight-line basis over approximately 46 years.

## 17. PREPAID LEASE PAYMENTS

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| The prepaid lease payments comprise leasehold lands: | | | |
| - in Hong Kong held under long leases | 3,399 | 3,328 | 3,256 |
| - in the PRC held under medium leases | 16,990 | 16,791 | 98,193 |
| | 20,389 | 20,119 | 101,449 |
| Analysed for reporting purposes as: | | | |
| Current asset | 1,278 | 1,355 | 3,460 |
| Non-current asset | 19,111 | 18,764 | 97,989 |
| | 20,389 | 20,119 | 101,449 |

The above leasehold lands are amortised over the following years:

| | |
|---|---|
| Long lease | 50 years |
| Medium lease | 20 years |

## 18. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE FROM/TO A SUBSIDIARY

| | As at 31 December | |
|---|---|---|
| | 2007 | 2008 |
| | HK$'000 | HK$'000 |
| Unlisted investment, at cost | 161,370 | 161,370 |
| Deemed capital contribution | 111,148 | 266,954 |
| | 272,518 | 428,324 |

The amount due from/to a subsidiary is unsecured and non-interest bearing. In the opinion of the directors of the Company, the amount will be repayable within one year from the respective balance sheet date. For initial recognition purpose, an effective interest rate of 20% (2007: 20%) per annum was used to determine the fair value of the amount due from a subsidiary at the respective date of advancement.

## 19. INTEREST IN AN ASSOCIATE/AMOUNT DUE FROM/TO AN ASSOCIATE

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Cost of unlisted investment in an associate (note) | 53,519 | 53,519 | 53,519 |
| Share of post-acquisition reserves, net of dividends received | 7,811 | 9,422 | 13,527 |
| | 61,330 | 62,941 | 67,046 |

Note: Included in the cost of unlisted investment in an associate at each of the reporting dates is goodwill arising on acquisition of approximately HK$9,237,000.

The amount due from/to an associate is unsecured, non-interest bearing and repayable on demand.

The summarised financial information in respect of the Group's associate is set out below:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Total assets | 130,655 | 130,062 | 139,505 |
| Total liabilities | (14,893) | (10,720) | (11,040) |
| Net assets | 115,762 | 119,342 | 128,465 |
| The Group's share of net assets of an associate | 52,093 | 53,704 | 57,809 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 29,494 | 32,718 | 36,348 |
| Profit for the year | 8,993 | 8,245 | 5,897 |
| The Group's share of result of an associate for the year | 4,047 | 3,710 | 2,654 |

## 20. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Raw materials | 64,089 | 131,135 | 215,675 |
| Finished goods | 1,097 | 13,556 | 41,861 |
| | 65,186 | 144,691 | 257,536 |

Included in finished goods above as at 31 December 2008 is an amount of approximately HK$20,765,000 representing inventories carried at net realisable value. The remaining inventories are stated at cost.

## 21. TRADE AND OTHER RECEIVABLES AND DEPOSITS

The Group generally allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of the Group's trade receivables is as follows:

| | THE GROUP | | | THE COMPANY | |
|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 December | |
| | 2006 | 2007 | 2008 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade receivables: | | | | | |
| 0 - 30 days | 61,526 | 331,659 | 425,213 | — | — |
| 31 - 60 days | 33,837 | 190,972 | 316,600 | — | — |
| 61 - 90 days | 33,971 | 120,346 | 27,002 | — | — |
| 91 - 120 days | — | 27,382 | 3,185 | — | — |
| 121 - 180 days | — | 77,742 | — | — | — |
| Over 180 days | — | 1,199 | 256 | — | — |
| | 129,334 | 749,300 | 772,256 | — | — |
| Other receivables and deposits: | | | | | |
| Advances to staff | 486 | 106 | 119 | — | — |
| Deposits and prepayments | 12,571 | 8,437 | 18,099 | — | 20 |
| Deposits paid for purchase of raw materials | 26,019 | 45,192 | 39,601 | — | — |
| Other taxes recoverable | 5,133 | — | 5,070 | — | — |
| Others | 400 | 680 | 428 | — | — |
| | 44,609 | 54,415 | 63,317 | — | 20 |
| | 173,943 | 803,715 | 835,573 | — | 20 |

The above trade and other receivables of the Group that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HKD equivalent of | | |
|---|---|---|---|
| | USD | RMB | HKD |
| | HK$'000 | HK$'000 | HK$'000 |
| As at 31 December 2006 | 299 | — | 16,684 |
| As at 31 December 2007 | — | — | — |
| As at 31 December 2008 | 30,187 | 13,533 | — |

Before accepting any new customer, the Group assess the potential customer's credit quality and define credit limits by customer. Limits and scoring attributable to customers are reviewed regularly.

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history and substantial subsequent settlement from those debtors of the Group which are past due but not impaired for the Relevant Periods, the directors consider that no allowance is required.

**Aging of trade receivables which are past due but not impaired**

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| 31 - 60 days | 33,837 | 190,972 | 316,600 |
| 61 - 90 days | 33,971 | 120,346 | 27,002 |
| 91 - 120 days | — | 27,382 | 3,185 |
| 121 - 180 days | — | 77,742 | — |
| Over 180 days | — | 1,199 | 256 |
| | 67,808 | 417,641 | 347,043 |

The Group does not hold any collateral over the above balances.

## 22. BILLS RECEIVABLE

The amount represents bills receivable already discounted to banks with recourse with a maturity period of less than 180 days. These receivables are not matured at the respective balance sheet date and the management considers the default rate is low based on past experience that the Group seldom encounters default on bills. The Group retains all the risks and rewards of such discounted bills receivable and accordingly, the Group continues to recognise the full carrying amount of such bills receivable and has recognised the cash received on such discount as secured discounted bills in note 30.

## 23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

These receivables arose from temporary fund transfers which are non-trade in nature. The amounts are unsecured, non-interest bearing and repayable on demand. During the year ended 31 December 2008, the amounts were fully settled.

## 24. AMOUNT DUE FROM A CONTROLLING SHAREHOLDER

The receivable arose from temporary fund transfers which are non-trade in nature. The amount is unsecured, non-interest bearing and repayable on demand. [The outstanding balance as at 31 December 2008 which was also the maximum amount outstanding during the year then ended has been fully recovered as at the date of this report.]

## 25. DEPOSIT PAID TO A RELATED PARTY

The amount represents a rental deposit paid to secure the lease agreement entered into between the Group and a related party as the landlord.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not under hedge accounting:

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Fair value of: | | | | | | |
| Copper future contracts ....... | 5,967 | — | — | — | 1,446 | 127 |
| Foreign currency forward contracts. | — | — | — | 3,913 | — | — |
| | 5,967 | — | — | 3,913 | 1,446 | 127 |

The Group uses copper future contracts and foreign currency forward contracts to reduce its exposure to the price risk of copper and the foreign exchange risk.

The copper future contracts are actively traded in the market and measured at their fair values at each reporting date, with gain or loss recognised directly in the consolidated income statements.

The foreign currency forward contracts are measured at their fair values at each reporting date. Their fair values are determined based on forward rate obtained from banks for equivalent instruments at each reporting date.

Major terms of these contracts are set out below:

At 31 December 2006:

| Quoted price | Standard trading unit | Unit bought | Maturity |
|---|---|---|---|
| **Copper future contracts** | | | |
| USD0.2871 per pound. . . . . . . . . . . . . . . . | 25,000 pounds | 100 | 31 March 2007 |

At 31 December 2007:

| Notional amount | Maturity | Exchange rates |
|---|---|---|
| **Foreign currency forward contracts** | | |
| 9 contracts in total of HK$696,600,000 . . . | 24 September 2008 | Sell USD/buy HK$ at 7.74 |
| 3 contracts in total of HK$30,378,154 . . . . | Ranged from 22 August 2008 to 27 October 2008 | Sell RMB/buy HK$ at 0.9348 to 0.9473 |
| 3 contracts in total of USD3,618,020 . . . . . | Ranged from 19 September 2008 to 27 October 2008 | Sell RMB/buy USD at 7.22 to 7.29 |

At 31 December 2008:

| Quoted price | Standard trading unit | Unit bought | Maturity |
|---|---|---|---|
| **Copper future contracts** | | | |
| RMB24,267 per ton . . . . . . . . . . . . . . . . . | 5 tons | 65 | 15 January 2009 |
| USD1.85 per pound. . . . . . . . . . . . . . . . . . | 25,000 pounds | 5 | 27 March 2009 |
| Ranged from USD3,130 to 4,240 per ton . | 25 tons | 11 | Ranged from 4 February 2009 to 16 March 2009 |

## 27. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure the general banking facilities granted to the Group or as custom security. All deposits are pledged to secure short-term facilities and therefore, classified as current assets.

The pledged bank deposits of the Group carry interest at the following fixed interest rates:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Range of interest rates per annum. . | 2.07% to 3.8% | 2.25% to 4.05% | 1.00% to 4.80% |

## 28. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with maturity of three months or less.

Restricted bank deposits represent deposits placed with the financial institutions to secure the margin accounts of the Group for trading copper futures in the relevant financial institutions.

The above bank balances and cash and restricted bank deposits of the Group that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HKD equivalent of USD | HKD |
|---|---|---|
| | HK$'000 | HK$'000 |
| As at 31 December 2006. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 3,367 | 6 |
| As at 31 December 2007. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 6,017 | 4,784 |
| As at 31 December 2008. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 13,417 | 663 |

The bank deposits of the Group and the Company carry floating rate interest at the following rates:

| | THE GROUP | | | THE COMPANY | |
|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 December | |
| | 2006 | 2007 | 2008 | 2007 | 2008 |
| Range of interest rates per annum . . . . . . . . . . | 0.5% to 3.8% | 0.81% to 4.8% | 0.01% to 4.8% | 3% to 3.25% | 0.01% to 3% |

## 29. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables is as follows:

| | THE GROUP | | | THE COMPANY | |
|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 December | |
| | 2006 | 2007 | 2008 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade payables: | | | | | |
| 0 - 30 days | 27,453 | 195,592 | 12,425 | — | — |
| 31 - 60 days | 41,120 | 54,586 | 5,729 | — | — |
| 61 - 90 days | 380 | 63,904 | 1,122 | — | — |
| 91 - 120 days | — | 59,250 | 520 | — | — |
| 121 - 150 days | — | 24,702 | — | — | — |
| Over 150 days | — | 7,014 | 195 | — | — |
| | 68,953 | 405,048 | 19,991 | — | — |
| Other payables: | | | | | |
| Accruals | 4,259 | 4,867 | 7,008 | 858 | 889 |
| Construction cost payable | 148 | — | — | — | — |
| Payables for acquisition of property, plant and equipment | 2,394 | 1,896 | 2,085 | — | — |
| Deposits received from customers | 25,128 | 3,953 | 15,829 | — | — |
| Other taxes payable | — | 4,602 | 4,224 | — | — |
| Others | 564 | 1,542 | 3,193 | — | — |
| | 32,493 | 16,860 | 32,339 | 858 | 889 |
| | 101,446 | 421,908 | 52,330 | 858 | 889 |

The above Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HKD equivalent of USD | HKD |
|---|---|---|
| | HK$'000 | HK$'000 |
| As at 31 December 2006 | — | 12,364 |
| As at 31 December 2007 | 14,118 | — |
| As at 31 December 2008 | 1,404 | — |

### 30. DISCOUNTED BILLS

The amounts represent the Group's bank borrowings secured by bills discounted to banks with recourse (see note 22). The ranges of effective interest rates per annum in respect of the Group's discounted bills with recourse are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Effective interest rates per annum | 2.76% to 5.02% | 2.70% to 5.80% | 3.85% to 6.04% |

### 31. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The payables arose from temporary fund transfers, which are non-trade in nature. The amounts are unsecured, non-interest bearing and repayable on demand. [The amounts have been fully settled as at the date of this report].

### 32. AMOUNT DUE TO A DIRECTOR

The payable arose from temporary fund transfers, which are non-trade in nature. The amount is unsecured, non-interest bearing and repayable on demand. [The amount has been fully settled as at the date of this report].

### 33. SECURED BANK BORROWINGS

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Fixed-rate borrowings: | | | |
| Bank loans | 113,916 | 177,231 | 59,802 |
| Variable-rate borrowings: | | | |
| Bank loans | 1,512 | — | 76,437 |
| Bank overdrafts | 24,805 | 7,248 | 3,334 |
| Trust receipt loans | 21,443 | 5,046 | — |
| | 161,676 | 189,525 | 139,573 |

The maturity of the above loans and overdrafts is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| On demand or within one year | 141,676 | 167,057 | 128,664 |
| In more than one year but not more than two years | 20,000 | 12,255 | 10,909 |
| In more than two years but not more than three years | — | 10,213 | — |
| | 161,676 | 189,525 | 139,573 |
| Less: Amount repayable on demand or due within one year shown under current liabilities | (141,676) | (167,057) | (128,664) |
| Amount due after one year | 20,000 | 22,468 | 10,909 |

The Group's variable-rate borrowings are mainly subject to interest at Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus a spread, ranging from 1.75% to 3%, Prime Rate of the relevant bank in Hong Kong or 105% or 110% of The People's Bank of China Base Lending Rate, for the Relevant Periods. The ranges of effective interest rates per annum on the Group's bank borrowings are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Effective interest rates: | | | |
| Fixed-rate borrowings | 5% to 7.02% | 5.03% to 8.02% | 3.77% to 7.84% |
| Variable-rate borrowings | 6.86% to 8.25% | 6.25% to 7.75% | 2.73% to 6.74% |

The above Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HKD equivalent of USD | HKD |
|---|---|---|
| | HK$'000 | HK$'000 |
| As at 31 December 2006 | 76,854 | 7,491 |
| As at 31 December 2007 | 39,379 | 69,939 |
| As at 31 December 2008 | 38,220 | 14,110 |

## 34. SECURED GUARANTEED SENIOR NOTES

On 23 October 2007 (the "Issue Date"), the Company issued US$80,000,000, 8.5% guaranteed senior notes to a group of institutional investors not related to the Group at a par value of US$500,000 each ("Notes"). The Notes bear coupon interest at 8.5% per annum, payable semi-annually in arrears and are denominated in USD. The Notes are secured by substantially all the assets of the Group outside of the PRC and the entire issued shares of the Company and certain subsidiaries of the Company. The Notes are also guaranteed by certain subsidiaries of the Company. Under the indenture governing the Notes ("Indenture"), the Company is required to redeem the Notes in cash on 23 October 2009, being the maturity date of the Notes, or [●], whichever is the earlier. The above pledges and guarantees will also be released upon the completion of [●]. The redemption is at the Notes redemption price equal to 100% of the principal outstanding amount of the Notes as of the date fixed for redemption, together with accrued interest to the next interest payment date.

In connection with the issuance of the Notes, the Company also issued one warrant per Note totalling 160 warrants ("Warrants") to the holders of the Notes. The Warrants entitled the holders to put the Warrants to the Company at the agreed Warrants redemption price (see the table set out below) upon (i) a primary public offering of the [●] of shares of the Company on an internationally recognised stock exchange acceptable to the holders of the Notes, which included the Stock Exchange (the "Qualified IPO"); (ii) if [●] shall not occur on or before the date that is 24 months after the Issue Date; or (iii) if any event of default as detailed in the Indenture shall occur under the Notes (such date that is the earlier to occur of (i) and (ii)) (hereinafter (i) to (iii) are referred to as "Warrants Redemption Date"). On the Warrants Redemption Date the Company agrees to, and shall, redeem the Warrants for a price equal to the Warrants redemption price as set out below.

At the election of each holder of the Warrants, the Warrants may be either (a) cash settled or (b) equity settled, during the 24 month's after the Issue Date upon the Qualified IPO in the following manner:

### (a) Cash settled of Warrants

The Company shall redeem the Warrants for a price equal to the redemption price as follows:

| *Warrants Redemption date* | *Warrants Redemption price* |
|---|---|
| On or before the date that is 6 months after the Issue Date | Number of Warrants x USD500,000 x 4.25% |
| After the date that is 6 months after the Issue Date but on or before the date that is 12 months after the Issue Date | Number of Warrants x USD500,000 x 8.86% |
| After the date that is 12 months after the Issue Date but on or before the date that is 18 months after the Issue Date | Number of Warrants x USD500,000 x 15.57% |

| *Warrants Redemption date* | *Warrants Redemption price* |
|---|---|
| After the date that is 18 months after the Issue Date but on or before the date that is 24 months after the Issue Date | Number of Warrants x USD500,000 x 21.72% |
| On the date that is 24 months after the Issue Date | Number of Warrants x USD500,000 x 19.28% |

**(b) Equity settled of Warrants**

Within the 24 months after the Issue Date, holders of the Warrants are entitled to receive shares of the Company in lieu of cash for the above mentioned amounts calculated with reference to the offer price under the Qualified IPO.

The Notes are accounted for as financial liabilities, which are carried at amortised cost using the effective interest method.

In the opinion of the directors of the Company, the redemption feature of the Warrants also represents the borrowing cost of the Notes, which will be incurred through with the passage of time. As a result, it is taken into account in the calculation of effective interest of the Notes. In addition, the directors of the Company consider that the value of the conversion options adhered to the Warrants is insignificant as at the date of issue and the subsequent balance sheet dates.

The movements of the secured guaranteed senior notes of the Group and the Company are as follows:

| | **HK$'000** |
|---|---|
| Issue of secured guaranteed senior notes, net of direct issue costs | 603,720 |
| Interest charge | 20,998 |
| At 31 December 2007 | 624,718 |
| Interest charge | 125,046 |
| Interest paid | (53,040) |
| At 31 December 2008 | 696,724 |

The effective interest rate applied is 19.36% per annum.

## 35. DEFERRED TAXATION

The deferred tax liabilities and assets recognised by the Group and movements thereon during the Relevant Periods are as follows:

| | Accelerated tax depreciation | Tax losses | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2006 | 106 | — | 106 |
| Charged for the year | 459 | — | 459 |
| At 31 December 2006 | 565 | — | 565 |
| Charged for the year | 12 | — | 12 |
| At 31 December 2007 | 577 | — | 577 |
| Charged (credited) for the year | 366 | (910) | (544) |
| Effect of change in tax rate | (33) | — | (33) |
| At 31 December 2008 | 910 | (910) | — |

At 31 December 2006, 2007, 2008, the Group had unused tax losses of approximately HK$915,000, HK$2,016,000 and HK$40,661,000, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of HK$5,516,000 of such losses for the year ended 31 December 2008. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$29,200,000 as at 31 December 2008 that will expire in 2013. Other losses may be carried forward indefinitely.

Under the New Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied. Deferred tax has not been provided for in the Financial Information in respect of the temporary differences attributable to such profits amounting to approximately HK$85,814,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 36. OTHER LONG-TERM PAYABLE

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Total other long-term payable | 1,200 | 1,064 | 909 |
| Less: current portion included in trade and other payables | (200) | (213) | (227) |
| | 1,000 | 851 | 682 |

The amount represents payable for acquisition of property, plant and equipment which is unsecured, non-interest bearing and repayable by instalments in ten years commencing from the year 2003.

## 37. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$ |
| Authorised: | | |
| Ordinary shares of HK$0.1 each on incorporation (note i) | 3,800,000 | 380,000 |
| Ordinary shares of HK$0.0001 each: | | |
| Subdivision of 1 share of HK$0.1 each into 1,000 shares of HK$0.0001 each (note iii) | 3,796,200,000 | — |
| At 31 December 2007 and 31 December 2008 | 3,800,000,000 | 380,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.1 each: | | |
| On incorporation (note i) | 1 | 0.1 |
| Issue of shares on 30 September 2007 (note ii) | 99 | 9.9 |
| | 100 | 10 |
| Ordinary shares of HK$0.0001 each: | | |
| Subdivision of 1 share of HK$0.1 each into 1,000 shares of HK$0.0001 each (note iii) | 99,900 | — |
| At 31 December 2007 | 100,000 | 10 |
| Issue of share on 1 February 2008 (note iv) | 1 | 0.0001 |
| At 31 December 2008 | 100,001 | 10.0001 |

| | HK$'000 |
|---|---|
| Shown in the Financial Information as at 31 December 2007 and 31 December 2008 | — |

Notes:

(i) The Company was incorporated on 18 July 2007 with an authorised share capital of HK$380,000. At the time of incorporation, 1 ordinary share of HK$0.1 was issued at par to the subscriber to provide the initial capital to the Company.

(ii) On 30 September 2007, 99 ordinary shares of HK$0.1 each were allotted and issued at par pursuant to the Group Reorganisation.

(iii) Pursuant to a resolution passed on 23 October 2007, each issued and unissued shares of the Company of HK$0.1 each was subdivided into 1,000 shares of HK$0.0001 each.

(iv) On 1 February 2008, 1 ordinary share of HK$0.0001 was allotted and issued to the then existing shareholder for a consideration of US$30,000,000 (equivalent to approximately HK$234,000,000).

The new share ranks pari passu in all respects with other shares in issue.

The share capital at 31 December 2006 shown on the consolidated balance sheets represented the share capital of Asia Steel HK attributable to Mr. Chun. The movement of share capital is as follows:

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$1 each: | | |
| At 1 January 2006 | 520 | — |
| Capitalisation of shareholder's loan on 27 December 2006 | 40,559,480 | 40,559 |
| At 31 December 2006 | 40,560,000 | 40,559 |

## 38. RESERVES OF THE COMPANY

| | Share premium | Capital reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Reserve arising on acquisition of subsidiaries | — | 161,370 | — | 161,370 |
| Loss for the period | — | — | (21,147) | (21,147) |
| At 31 December 2007 | — | 161,370 | (21,147) | 140,223 |
| Issue of share (note 37(iv)) | 234,000 | — | — | 234,000 |
| Loss for the year | — | — | (13,244) | (13,244) |
| At 31 December 2008 | 234,000 | 161,370 | (34,391) | 360,979 |

The capital reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation and the nominal value of the Company's shares issued for the acquisition.

## 39. INVESTMENT IN ZHANGJIAGANG RONGLI/ACQUISITION OF A SUBSIDIARY

In December 2007, the Group injected RMB11,667,000 (equivalent to approximately HK$12,412,000), representing 70% of the enlarged capital, to Zhangjiagang Rongli as capital injection. Since the control over Zhangjiagang Rongli was successfully achieved on 1 January 2008, the Group accounted for the acquisition on that date by using the purchase method of accounting. The retained profits prior to 1 January 2008 of approximately HK$3,687,000 belong to the original shareholders pursuant to the relevant agreement signed.

The net assets acquired in the transaction are as follows:

| | Acquiree's carrying amount before combination and fair value |
|---|---|
| | HK$'000 |
| Net assets acquired: | |
| Property, plant and equipment | 1,496 |
| Inventories | 2,935 |
| Trade receivables | 63,011 |
| Bank balances and cash | 14,030 |
| Trade and other payables | (53,139) |
| Amount due to a shareholder | (5,319) |
| Taxation payable | (1,596) |
| | 21,418 |
| Minority interests | (9,006) |
| Total consideration satisfied by capital injection in December 2007 | 12,412 |
| Cash inflow arising on acquisition: | |
| Bank balances and cash acquired | 14,030 |

Zhangjiagang Rongli incurred a loss of approximately HK$2,064,000 for the year ended 31 December 2008.

If the acquisition had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been approximately HK$3,190 million and profit would have been approximately HK$182 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

## 40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, loans from shareholders of a subsidiary with an amount of approximately HK$77,999,000 was capitalised as capital of a subsidiary of the Company.

In June 2007, Mr. Chun, the Group's controlling shareholder, has acquired the remaining 48% equity interest in Asia Steel (Holdings) from Mr. Tsui. An amount of approximately HK$120,811,000, representing the unaudited consolidated net assets value of Asia Steel (Holdings) attributable to Mr. Tsui as at 30 June 2007, was reclassified from minority interests to capital reserve as deemed contribution by Mr. Chun.

## 41. PLEDGE OF ASSETS

The Notes issued by the Company in 2007 as disclosed in note 34 were secured by the entire issued shares and the assets of the Company and certain of its subsidiaries. These pledges will be released upon the completion of the [●] or/and the redemption of the Notes.

Save as disclosed above, the Group also had the following assets pledged to banks to secure the general banking facilities granted to the Group or as custom security during the Relevant Periods:

| | As at 31 December | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Property, plant and equipment | 1,788 | 1,751 | 1,706 |
| Prepaid lease payments | 19,967 | 19,705 | 2,853 |
| Trade receivables | 20,000 | — | — |
| Bills receivable | 107,594 | 28,333 | 304,601 |
| Inventories | 3,405 | — | — |
| Bank deposits | 55,053 | 117,772 | 72,455 |
| | 207,807 | 167,561 | 381,615 |

## 42. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

Minimum lease payments paid under operating leases during the Relevant Periods are as follows:

| | THE GROUP | | |
|---|---|---|---|
| | Year ended 31 December | | |
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Office and factory premises | 1,470 | 2,122 | 14,702 |

The Group had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

| | THE GROUP | | |
|---|---|---|---|
| | As at 31 December | | |
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Within one year | 299 | 10,209 | 21,308 |
| In the second to fifth years inclusive | 936 | 5,493 | 49,320 |
| Over five years | 11,580 | 11,012 | 78,395 |
| | 12,815 | 26,714 | 149,023 |

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for terms of fifteen to twenty years and rentals are fixed during the lease period.

### The Group as lessor

Property rental income earned during the Relevant Periods are as follows:

| | THE GROUP | | |
|---|---|---|---|
| | Year ended 31 December | | |
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Rental income | 2 | — | 401 |

As at 31 December 2008, the Group's investment properties have committed tenant for the next fifteen months.

The Group had contracted with tenants for the following future minimum lease payments:

| | THE GROUP | | |
|---|---|---|---|
| | As at 31 December | | |
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Within one year | — | — | 567 |
| In the second to fifth years inclusive | — | — | 118 |
| | — | — | 685 |

## 43. CAPITAL COMMITMENTS

| | THE GROUP | | |
|---|---|---|---|
| | As at 31 December | | |
| | 2006 | 2007 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 |
| Capital expenditure contracted for but not provided in the Financial Information in respect of: | | | |
| - acquisition of property, plant and equipment | 113 | 149 | 32,274 |
| - addition of construction in progress | — | 2,390 | 3,239 |
| - acquisition of land use rights | 29,000 | 28,723 | 30,180 |
| | 29,113 | 31,262 | 65,693 |

## 44. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

## 45. RELATED PARTY DISCLOSURES

### (I) Related party transactions

During the Relevant Periods, the Group had the following transactions with related parties:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| **Class of related party** | **Nature of transactions** | **2006** | **2007** | **2008** |
| | | **HK$'000** | **HK$'000** | **HK$'000** |
| An associate of the Group | Port loading charges paid# | 3,021 | 1,533 | 32 |
| | Dividend income received# | (4,377) | (3,376) | — |
| A company wholly-owned by Mr. Chun | Rental expenses paid# | — | — | 283 |
| Minority shareholders of subsidiaries | Dividend paid# | 19,505 | 2,660 | — |

# In the opinion of the directors, they are transactions that may continue after [●].

In addition, Mr. Chun and Mr. Tsui provide unlimited personal guarantees and pledged certain bank deposits to banks to secure general banking facilities granted to the Group. The personal guarantee provided by Mr. Tsui has been released during the year ended 31 December 2007 while the guarantee given by Mr. Chun and the bank deposits pledged under his name will be released prior to the completion of [●].

At 31 December 2006, the Group had given a guarantee to a bank to secure the general banking facilities granted to an associate. The extent of utilisation at 31 December 2006 amounted to approximately HK$6,195,000. Such guarantee was released during the year ended 31 December 2007 upon the settlement of the relevant bank borrowing.

### (II) Related party balances

The Group had the following balances with related parties:

| | | As at 31 December | | |
|---|---|---|---|---|
| **Class of related party** | **Nature of balances** | **2006** | **2007** | **2008** |
| | | **HK$'000** | **HK$'000** | **HK$'000** |
| An associate of the Group . . | Non-trade payable | (734) | — | — |
| | Non-trade receivable | — | 7 | 54 |
| Mr. Chun . . . . . . . . . . . . . . | Non-trade payable | — | — | (2,219) |
| Wellrun Limited . . . . . . . . . . | Non-trade receivable | — | — | 771 |
| A company wholly-owned by Mr. Chun . . . . . . . . . . . | Deposit paid | — | — | 115 |

### (III) Compensation of key management personnel

The emolument of directors who are also identified as members of key management of the Group during the Relevant Periods is set out in note 12.

## B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

## C. SUBSEQUENT EVENTS

[●]

No other significant events took place subsequent to 31 December 2008.

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong