
APPENDIX II**ACCOUNTANTS’ REPORT FOR ZHANGJIAGANG RONGLI**

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.

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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 張家港容利再生資源有限公司 (Zhangjiagang Rongli Zaisheng Ziyuan Co., Ltd.) (“Zhangjiagang Rongli”) for the period from 1 December 2006 (date of establishment) to 31 December 2006 and the year ended 31 December 2007 (the “Relevant Periods”), for inclusion in the document of China Metal Recycling (Holdings) Limited (the “Company”) dated [●] June 2009 (the “Document”).

Zhangjiagang Rongli was established in the People’s Republic of China (the “PRC”) on 1 December 2006. It has adopted 31 December as its financial year end date. The principal activities of Zhangjiagang Rongli are collection, processing and sale of recycled scrap metal.

The statutory financial statements of Zhangjiagang Rongli were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.), a certified public accountant registered in the PRC for the Relevant Periods.

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

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

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The Financial Information of Zhangjiagang Rongli for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements for the purpose of preparing our report for inclusion in the document.

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

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Zhangjiagang Rongli as at 31 December 2006 and 2007 and of the results and cash flows of Zhangjiagang Rongli for the period from 1 December 2006 to 31 December 2006 and the year ended 31 December 2007.

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A. FINANCIAL INFORMATION

INCOME STATEMENTS

	Notes	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
		RMB'000	RMB'000
Revenue	7	—	1,210,060
Cost of sales		—	<u>(1,201,273)</u>
Gross profit		—	8,787
Bank interest income		—	10
Distribution and selling expenses		—	(77)
Administrative expenses		(5)	(3,215)
Interest on discounted bills		—	<u>(333)</u>
(Loss) profit before taxation		(5)	5,172
Income tax expense	8	—	<u>(1,701)</u>
(Loss) profit for the period/year	9	<u>(5)</u>	<u>3,471</u>

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BALANCE SHEETS

	Notes	As at 31 December	
		2006	2007
		RMB’000	RMB’000
NON-CURRENT ASSET			
Property, plant and equipment	12	—	1,406
CURRENT ASSETS			
Inventories	13	—	2,759
Trade receivables	14	—	59,230
Amount due from a related company	15	1,950	—
Bank balances and cash	16	45	13,188
		<u>1,995</u>	<u>75,177</u>
CURRENT LIABILITIES			
Trade and other payables	17	—	44,892
Amount due to a shareholder	18	—	5,058
Other borrowing	19	—	5,000
Taxation payable		—	1,500
		<u>—</u>	<u>56,450</u>
NET CURRENT ASSETS		<u>1,995</u>	<u>18,727</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,995</u>	<u>20,133</u>
CAPITAL AND RESERVE			
Paid-in capital	20	2,000	16,667
(Accumulated loss) retained profit		(5)	3,466
TOTAL EQUITY		<u>1,995</u>	<u>20,133</u>

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STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	(Accumulated loss) retained profit	Total
	RMB’000	RMB’000	RMB’000
Injection of capital	2,000	—	2,000
Loss for the period	<u>—</u>	<u>(5)</u>	<u>(5)</u>
At 31 December 2006	2,000	(5)	1,995
Profit for the year	—	3,471	3,471
Injection of capital	<u>14,667</u>	<u>—</u>	<u>14,667</u>
At 31 December 2007	<u>16,667</u>	<u>3,466</u>	<u>20,133</u>

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CASH FLOW STATEMENTS

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
OPERATING ACTIVITIES		
(Loss) profit before taxation	(5)	5,172
Adjustments for:		
Depreciation of property, plant and equipment	—	90
Interest income.	—	(10)
Interest on discounted bills	—	333
Operating cash flows before movements in working capital	(5)	5,585
Increase in inventories.	—	(2,759)
Increase in trade receivables	—	(59,230)
Increase in trade and other payables	—	44,892
Cash used in operations	(5)	(11,512)
PRC Enterprise Income Tax paid.	—	(201)
NET CASH USED IN OPERATING ACTIVITIES.	(5)	(11,713)
INVESTING ACTIVITIES		
(Advance to) repayment from a related company	(1,950)	1,950
Interest received	—	10
Purchase of property, plant and equipment	—	(1,496)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,950)	464
FINANCING ACTIVITIES		
Proceeds from capital injection	2,000	14,667
Advance from a shareholder	—	5,058
Other borrowing raised.	—	5,000
Interest paid	—	(333)
NET CASH FROM FINANCING ACTIVITIES.	2,000	24,392
NET INCREASE IN CASH AND CASH EQUIVALENTS	45	13,143
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	—	45
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash	45	13,188

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Zhangjiagang Rongli was established in the PRC on 1 December 2006. Its immediate holding company is 揚中亞鋼金屬有限公司 (Yangzhong Yagang Metal Co., Ltd.) and the ultimate holding company is Wellrun Limited, a company incorporated in the British Virgin Islands.

The principal operations of Zhangjiagang Rongli are conducted in the PRC. Accordingly, the financial statements of Zhangjiagang Rongli have been prepared in Renminbi which also represents the functional currency of Zhangjiagang Rongli.

The principal activities of Zhangjiagang Rongli are collection, processing and sale of recycled scrap metal.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

Zhangjiagang Rongli has applied consistently throughout the Relevant Periods all of the standards and interpretations issued by the HKICPA that are effective for the Zhangjiagang Rongli’s financial period beginning on 1 January 2007 in the preparation of the Underlying Financial Statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 23 (Revised)	Borrowing Costs ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets ⁵
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate ³
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ³
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ³
HKFRS 8	Operating Segments ³
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁶
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁹
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁸
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ³
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ¹⁰
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners ⁴
HK(IFRIC)-Int 18	Transfers of Assets from Customers ¹¹

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- ¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
- ³ Effective for annual periods beginning on or after 1 January 2009
- ⁴ Effective for annual periods beginning on or after 1 July 2009
- ⁵ Effective from 1 July 2008
- ⁶ Effective for annual periods ending on or after 30 June 2009
- ⁷ Effective for annual periods beginning on or after 1 March 2007
- ⁸ Effective for annual periods beginning on or after 1 January 2008
- ⁹ Effective for annual periods beginning on or after 1 July 2008
- ¹⁰ Effective for annual periods beginning on or after 1 October 2009
- ¹¹ Effective for transfers on or after 1 July 2009

The directors of Zhangjiagang Rongli anticipate that the application of the above new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Zhangjiagang Rongli.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below which conform with the HKFRSs issued by the HKICPA.

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

Revenue recognition

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

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

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

Leasing

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

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

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Property, plant and equipment

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

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

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

Impairment of assets

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

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

Inventories

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

Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally

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recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Financial instruments

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

Financial assets

Zhangjiagang Rongli’s financial assets are classified as loans and receivables.

Effective interest method

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, amount due from a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

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Objective evidence of impairment could include:

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Financial liabilities

Zhangjiagang Rongli’s financial liabilities (including trade and other payables, amount due to a shareholder and other borrowing) are measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhangjiagang Rongli has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference

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between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If Zhangjiagang Rongli retains substantially all the risks and rewards of ownership of a transferred asset, Zhangjiagang Rongli continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

Retirement benefit costs

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade receivables

In determining whether there is objective evidence of impairment loss, Zhangjiagang Rongli takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade receivables is approximately RMB59,230,000.

5. CAPITAL RISK MANAGEMENT

Zhangjiagang Rongli manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Zhangjiagang Rongli’s overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Zhangjiagang Rongli consists of net debt, which includes amount due to a shareholder disclosed in note 18, other borrowing disclosed in note 19, cash and cash equivalents disclosed in note 16, and equity attributable to equity holders of Zhangjiagang Rongli, comprising paid-in capital and retained profit.

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

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6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2006	2007
	RMB’000	RMB’000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,995	72,418
Financial liabilities		
Amortised cost	<u>—</u>	<u>54,604</u>

(b) Financial risk management objectives and policies

Zhangjiagang Rongli’s major financial instruments include trade receivables, amount due from a related company, bank balances and cash, trade and other payables, amount due to a shareholder and other borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

Zhangjiagang Rongli’s maximum exposure to credit risk in the event of the counterparties’ failure to perform their obligations is the carrying amounts of the financial assets as stated in the balance sheets. In order to minimise the credit risk, Zhangjiagang Rongli reviews the recoverable amount of each individual debt at each balance sheet date and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Zhangjiagang Rongli consider that the credit risk is significantly reduced.

Zhangjiagang Rongli has concentration of credit risk as 37.6% and 94.2% of the total trade receivables as at 31 December 2007 was due from the largest debtor and the five largest debtors respectively.

Zhangjiagang Rongli’s concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% of the total trade receivables at the respective balance sheet date.

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

Liquidity risk

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

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The remaining contractual maturity for Zhangjiagang Rongli’s financial liabilities is less than 1 month or repayable on demand.

Interest rate risk

Zhangjiagang Rongli is exposed to cash flow interest rate risk due to the variable-rate bank deposits. Zhangjiagang Rongli does not have any interest rate hedging policy in relation to interest rate risks. However, management monitors interest rate exposure on ongoing basis and will consider hedging significant interest rate changes should the need arise. No sensitivity analysis is presented for cash flow interest rate risk as the directors consider the exposure is limited.

(c) Fair value

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

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

7. REVENUE AND SEGMENTAL INFORMATION

Zhangjiagang Rongli is engaged in the principal business of metal recycling, involving the recycling of scrap metal into recycled ferrous and non-ferrous metals, which are the raw materials for a wide range of metallic end-products. Zhangjiagang Rongli’s products can be broadly classified into two categories:

- (i) ferrous metal, namely iron and steel; and
- (ii) non-ferrous metal, including copper, aluminium, etc.

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

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Zhangjiagang Rongli presents its revenue by the two principal business segments as below:

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
Ferrous metal	—	790,256
Non-ferrous metal	—	419,804
	<u>—</u>	<u>1,210,060</u>

Zhangjiagang Rongli’s revenue was wholly derived from the PRC and its assets and customers are all located in the PRC. Accordingly, no analysis of geographical segment is presented.

8. INCOME TAX EXPENSE

PRC Enterprise Income Tax is calculated at 33% of the estimated assessable profit for the Relevant Periods.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% for Zhangjiagang Rongli from 1 January 2008.

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

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
(Loss) profit before taxation	<u>(5)</u>	<u>5,172</u>
Tax at the PRC Enterprise Income Tax rate of 33%	(2)	1,707
Tax effect of tax loss not recognised	2	—
Utilisation of tax loss previously not recognised	—	(2)
Others	—	(4)
Tax charge for the period/year	<u>—</u>	<u>1,701</u>

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9. (LOSS) PROFIT FOR THE PERIOD/YEAR

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
(Loss) profit for the period/year has been arrived at after charging:		
Directors’ emoluments (note 10)	—	194
Other staff costs	—	690
Retirement benefit scheme contributions, excluding those of directors	—	17
Total staff costs	—	901
Auditor’s remuneration	—	—
Depreciation of property, plant and equipment	—	90

Note: For the year ended 31 December 2007, cost of inventories recognised as an expense approximates cost of sales as shown in the income statements.

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10. DIRECTORS’ AND EMPLOYEES’ EMOLUMENTS

Directors

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

	Period from	
	1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
Fee	—	—
Salaries and other allowances	—	188
Retirement benefit scheme contributions	—	6
	<u>—</u>	<u>194</u>
Executive directors:		
Mr. Wu Yue Xing	—	63
Mr. Hu Wen Hu	—	61
Ms. Xiang Man Qin (note i)	—	35
Mr. Li Dong Hui (note i)	—	35
Mr. Chun Chi Wai (note ii)	—	—
Mr. Jiang Yan Zhang (note ii)	—	—
Mr. Lam Po Kei Kenneth Greg (note ii)	—	—
Mr. Xie Hao Liang (note ii)	—	—
	<u>—</u>	<u>194</u>

Notes:

- (i) Ms. Xiang Man Qin and Mr. Li Dong Hui resigned as directors of Zhangjiagang Rongli on 13 December 2007.
- (ii) Mr. Chun Chi Wai, Mr. Jiang Yan Zhang, Mr. Lam Po Kei Kenneth Greg and Mr. Xie Hao Liang were appointed as directors of Zhangjiagang Rongli on 13 December 2007.

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Employees

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

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
Directors	—	4
Employees	—	1
	<u>—</u>	<u>5</u>

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

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB’000	RMB’000
Salaries and other allowances	—	54
Retirement benefit scheme contributions	—	4
	<u>—</u>	<u>58</u>

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

11. DIVIDENDS

No dividend has been paid or declared by Zhangjiagang Rongli since its date of establishment.

APPENDIX II ACCOUNTANTS' REPORT FOR ZHANGJIAGANG RONGLI

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
Acquired during 2007 and balance at 31 December 2007	555	766	175	1,496
DEPRECIATION				
Provided for 2007 and balance at 31 December 2007	<u>20</u>	<u>54</u>	<u>16</u>	<u>90</u>
CARRYING VALUES				
At 31 December 2007	<u>535</u>	<u>712</u>	<u>159</u>	<u>1,406</u>

After considering the estimated residual values, the above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum after taking into account their estimated residual value:

Plant and machinery	10%
Motor vehicles	20%
Office equipment	20%

13. INVENTORIES

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Finished goods	<u>—</u>	<u>2,759</u>

14. TRADE RECEIVABLES

Zhangjiagang Rongli generally allows an average credit period of 30 to 60 days to its trade customers. The aged analysis of Zhangjiagang Rongli's trade receivables is as follows:

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
0 - 30 days	—	56,079
31 - 60 days	<u>—</u>	<u>3,151</u>
	<u>—</u>	<u>59,230</u>

APPENDIX II ACCOUNTANTS’ REPORT FOR ZHANGJIAGANG RONGLI

Before accepting any new customer, Zhangjiagang Rongli assessed the potential customer’s credit quality and defined credit limits by customer. Limits and scoring attributable to customers are reviewed regularly.

In determining the recoverability of a trade receivable, Zhangjiagang Rongli considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history and substantial subsequent settlement from those customers, no impairment loss was recognised for the Relevant Periods.

At 31 December 2007, the trade receivables are within the credit period granted by Zhangjiagang Rongli.

15. AMOUNT DUE FROM A RELATED COMPANY

The balance represented amount due from a company controlled by a shareholder of Zhangjiagang Rongli and was unsecured, non-interest bearing and repayable on demand. The maximum amount outstanding of RMB1,950,000 at 31 December 2006 was fully settled during the year ended 31 December 2007.

16. BANK BALANCES AND CASH

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

The bank deposits carry floating rate interest of 0.81% (2006: 0.72%) per annum.

17. TRADE AND OTHER PAYABLES

The aged analysis of Zhangjiagang Rongli’s trade payables is as follows:

	As at 31 December	
	2006	2007
	RMB’000	RMB’000
Trade payables:		
0 - 30 days	—	40,945
31 - 60 days	—	3,139
	—	44,084
Other payables:		
Accruals	—	331
Payables for acquisition of property, plant and equipment	—	462
Other taxes payable	—	15
	—	808
	—	44,892

APPENDIX II ACCOUNTANTS' REPORT FOR ZHANGJIAGANG RONGLI

18. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder, Mr. Wu Yue-xing, is unsecured, non-interest bearing and repayable on demand. The amount was subsequently settled in January 2008.

19. OTHER BORROWING

Other borrowing is unsecured, non-interest bearing and repayable on demand.

20. PAID-IN CAPITAL

	RMB'000
<hr/>	
Registered and paid-in capital	
On establishment and balance at 31 December 2006.....	2,000
Injection of capital on 7 September 2007	3,000
Injection of capital on 27 December 2007.....	<u>11,667</u>
At 31 December 2007	<u><u>16,667</u></u>

21. OPERATING LEASE COMMITMENT

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

	Period from 1 December 2006 to 31 December 2006	Year ended 31 December 2007
	RMB'000	RMB'000
Office and factory premises.....	<u>—</u>	<u>130</u>

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

	As at 31 December	
	2006	2007
	RMB'000	RMB'000
Within one year.....	180	180
In the second to fifth year inclusive	720	720
Over five years	<u>1,785</u>	<u>1,605</u>
	<u><u>2,685</u></u>	<u><u>2,505</u></u>

Operating lease payments represent rentals payable by Zhangjiagang Rongli for certain of its office and factory premises. Leases are negotiated for an average term of 15 years with fixed rentals.

APPENDIX II ACCOUNTANTS’ REPORT FOR ZHANGJIAGANG RONGLI

All the leases are entered into with related parties and details are set out in note 23.

22. RETIREMENT BENEFIT PLANS

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

23. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

Class of related party	Nature of transactions	Period from	Year ended
		1 December 2006 to 31 December 2006	31 December 2007
		RMB’000	RMB’000
A related company (note)	Rental expense [#]	—	80
A shareholder	Rental expense [#]	—	50
		<u>—</u>	<u>50</u>

[#] In the opinion of the directors, they are transactions that are expected to continue after 1 January 2008.

(II) Related party balances

The Group had the following balances with related parties:

Class of related party	Nature of balances	As at 31 December	
		2006	2007
		RMB’000	RMB’000
A related company (note)	Non-trade receivable	1,950	—
A shareholder	Non-trade payable	—	5,058
		<u>1,950</u>	<u>5,058</u>

Note: A company wholly owned by a shareholder of Zhangjiagang Rongli.

APPENDIX II**ACCOUNTANTS’ REPORT FOR ZHANGJIAGANG RONGLI**

(III) Compensation of key management personnel

The emolument of directors who are also identified as members of key management of Zhangjiagang Rongli during the Relevant Periods is set out in note 10.

B. DIRECTORS’ REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by Zhangjiagang Rongli to the directors of Zhangjiagang Rongli in respect of the Relevant Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

The statutory financial statements of Zhangjiagang Rongli for the year ended 31 December 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 蘇州勤業會計師事務所有限公司 (Suzhou Qinye Certified Public Accountants Co., Ltd.). No audited financial statements of Zhangjiagang Rongli have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong