

OVERVIEW

The laws and regulations governing the production and sale of aluminum extrusion products in the PRC include, among others, the Conditions for Entry into the Aluminum Industry (鋁行業準入條件) (the “Regulation on Entry Conditions”); the Regulations of the PRC on the Administration of Production Licenses for Industrial Products (中華人民共和國工業產品生產許可證管理條例) (the “Production License Regulations”); the Implementing Measures for the Regulation of the PRC on the Administration of Production Licenses for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法) (the “Implementing Measures”); the Standardization Law of the PRC (中華人民共和國標準化法) (the “Standardization Law”); the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”); and the Energy Saving Law of the PRC (中華人民共和國節約能源法) (the “Energy Saving Law”). A summary of the important provisions of the aforesaid laws and regulations relating to the aluminum extrusion industry is set out below.

Entry Conditions

The Regulation on Entry Conditions was promulgated by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員) and came into force on October 29, 2007. The Regulation on Entry Conditions applies to all enterprises involved in bauxite mining, aluminum smelting and aluminum processing in the PRC (except Hong Kong, Macau and Taiwan). It sets out certain conditions that must be satisfied by any enterprise desiring to enter into the aluminum industry, including, among others, conditions with respect to the enterprise’s scale of operation, technical processes, facilities, consumption and comprehensive usage of energy and resources, environmental protection and safe production.

The production of aluminum profiles is a form of aluminum-processing. In accordance with the Regulation on Entry Conditions, newly built aluminum-processing projects must be principally engaged in the production of the following products: aluminum planks, aluminum strips, aluminum foils, extruded aluminum or industrial profiles. The annual production capacity of multiple product comprehensive aluminum-processing projects should be 100,000 tons or more, and the annual production capacity for single product projects must reach the following amounts: 50,000 tons per year for the production of aluminum planks and strips; 30,000 tons per year for the production of aluminum foils; and 50,000 tons per year for the production of extruded aluminum. With respect to production techniques, newly-built aluminum-processing projects must employ continuous processing techniques such as continuous roll-casting and hot rolling. Such techniques embody high levels of efficiency and automation, advanced technology, good product quality and high comprehensive yield rates. The use of processes, such as “the dance duet,” made by rolling machine production is strictly prohibited.

With respect to the production capacity and technical processes, the Regulation on Entry Conditions is only applicable to newly-built and renovated aluminum processing projects that came into operation after the promulgation of the Regulation on Entry Conditions on October 29, 2007. From October 29, 2007 to the Latest Practicable Date, we have not implemented any projects involving newly-built or renovated plants. We have confirmed that any such projects in future will be completed in accordance with the Regulation on Entry Conditions.

REGULATIONS

Production Licenses for Industrial Products

The Production License Regulations were promulgated by the State Council on July 9, 2005 and came into force on September 1, 2005. The Production License Regulations implement a production licensing regime in respect of enterprises involved in the manufacture of major industrial products, including aluminum alloy profiles used in construction. However, the production of our Company's industrial aluminum extrusion products is not subject to the Production License Regulations. Before obtaining a production license, no enterprise may produce any product that is listed in the index of industrial products to which the licensing regime is applicable. Furthermore, no entity or individual may sell or, in the course of business, use any product which is listed in such index but produced without a production license.

The Implementing Measures were promulgated by the AQSIQ on September 15, 2005 and came into force on November 1, 2005. The Implementing Measures set out detailed rules for the production licensing regime for enterprises.

We have obtained the requisite license for the production of aluminum alloy profiles for use in construction in accordance with the Production License Regulations and the Implementing Measures.

Production Standardization

The Standardization Law, which came into effect on April 1, 1989, establishes the legal framework upon which national standards are developed and applied to various businesses and industries in the PRC. Standard GB5237-2004 (Construction Aluminum Alloy Profiles) is a compulsory national production standard as determined by the Standardization Law Administration Authority under the State Council.

The production, sale or import of any product that does not conform to compulsory standards shall be handled by the relevant administrative authorities in accordance with the Standardization Law. Where the Standardization Law is silent on such handling, the local Administration of Industry and Commerce may confiscate the products and any illegal income derived therefrom and impose a fine. In circumstances where serious consequences are incurred and criminal offense is constituted, the liabilities for responsible personnel may be investigated and established in accordance with law.

According to the Standardization Law, the main standards in relation to the production of aluminum alloy profiles are as follows:

Standard GB5237-2004 (Construction Aluminum Alloy Profiles)

The national standard GB5237-2004, which came into force on March 1, 2005, sets out the compulsory regulations related to the basic materials, surface processing and thermal conductivity of aluminum alloy profiles used in construction, and prohibits the production and sale of products that fall short of the compulsory standard.

Standard GB/T6892-2006 (General Industrial Aluminum and Industrial Aluminum Alloy Profiles)

The national standard GB/T6892-2006 is a recommended standard that came into force on February 1, 2007. It sets out the requirements for, and the examination methods and inspection rules related to, general industrial aluminum and industrial aluminum alloy profiles in respect of marks, packaging, transportation, storage and contractual contents of relevant products.

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As of the Latest Practicable Date, we were in compliance with the foregoing and other relevant applicable national standards.

Environmental Protection

The Environmental Protection Law, which was promulgated and came into force in 1989, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The State Environment Protection Administration of China (中國國家環境保護總局), currently renamed as the Ministry of Environment Protection of China (中華人民共和國環境保護部), is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste materials discharged in the PRC.

According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact evaluation must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the State Environment Protection Administration of China shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending upon the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

According to the Environmental Protection Law and other relevant laws and regulations, the construction, renovation and extension of all aluminum-processing projects must strictly conform to all aspects of the environmental impact assessment system. Production and sales activities may only be conducted after the relevant project has been inspected and approved and the requisite Permit for the Discharge of Pollutants has been issued.

In addition, in the production and operation process, aluminum-processing enterprises must comply with the following laws and regulations related to environmental protection: the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); the Law of the PRC on the Prevention and Control of Pollution from Solid Wastes (中華人民共和國固體廢物污染環境防治法); the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法); the Water Law of the PRC (中華人民共和國水法); and the Provisional Measures on Administration of License for the Discharge of Water Pollutants (水污染排放許可證管理暫行辦法).

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In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted advanced technologies and equipment to prevent and reduce pollution. All of our construction and extension projects comply with the relevant environmental impact assessment procedures for construction projects and have undergone inspection and have been approved by the relevant environmental protection authorities. We have reported to and registered with the relevant environmental protection administration departments for pollutants discharge and have obtained the Permit for the Discharge of Pollutants. In the course of production and operation, we have invited the environmental inspection division of Liaoyang City to periodically supervise and inspect the sewage and noise pollution produced by the factory, as well as the smoke and gases discharged from the boilers and oil burners. The discharge of each form of pollutant has complied with the relevant national standards. As of the Latest Practicable Date, we have never received an administrative penalty for breaching environmental protection laws and regulations.

Energy Saving

The Energy Saving Law was revised on October 27, 2007 and came into effect on April 1, 2008. The Energy Saving Law implements an energy saving appraisal and examination system with respect to fixed asset investment projects in the PRC. In cases where a particular project fails to comply with the compulsory energy saving standards, the authorities in charge of the examination and approval or verification of projects shall not approve or certify the construction; the construction unit shall not begin construction on the project; or if completed, the completed construction project shall be prohibited from commencing production or use. The Energy Saving Law also implements a compulsory retirement system for superseded or outdated products, facilities and production techniques that consume excessive amounts of energy.

According to relevant laws and regulations, aluminum-processing materials for newly-built aluminum processing projects must have a combined energy consumption of less than 350 kg/ton coal equivalent, and a combined electricity consumption of less than 1,150 kilowatt-hours per ton. Combined energy consumption in aluminum processing materials of existing projects must not exceed 410 kg/ton coal equivalent and combined electricity consumption must be less than 1,250 kilowatt-hours per ton. Existing enterprises must achieve the energy consumption levels of a newly incorporated enterprise by the end of the Eleventh Five-Year Plan (i.e., 2010) through technology reform.

As of the Latest Practicable Date, the combined energy consumption for our production of aluminum extrusion products was 274.3 kilogram standard coal/ton, which meets the energy consumption level of a newly incorporated enterprise.

Export Related Taxes

According to notices promulgated by the Ministry of Finance of China (中華人民共和國財政部) and the State Administration of Tax of China (中華人民共和國國家稅務總局) in 2006 and 2007 relating to the adjustment of tax rebates for exported products, the PRC government gradually reduced and in some cases discontinued VAT rebates on exports of some low value-added aluminum products (such as un-forged aluminum, non-alloy aluminum profiles and some aluminum alloy profiles), which we produce in limited quantity to satisfy certain customers' requests.

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According to the Notice on the Adjustment of Provisional Duty on Certain Import and Export Products (關於調整部份商品進出口暫定稅率的通知) promulgated by the Customs Tariff Commission of the State Council of China (中華人民共和國國務院關稅稅則委員會) in 2006, exports of nonferrous metal raw products, including electrolytic aluminum, have been subject to customs duty at the rate of 15% since November 1, 2006.

The foregoing adjustment of State policy on tax rebates for exported products has had an effect on our products, resulting in the cancellation of the rebate on export for some of our products according to the relevant provisions. As of the Latest Practicable Date, we were not subject to the 15% export duty imposed on aluminum raw products by the PRC government.

Past Non-Compliance with PRC Laws and Regulations

All of our Group's operations are in China. Our Group is required to conduct its business in compliance with PRC laws and regulations. Save as disclosed below and elsewhere in this prospectus, we were in compliance with all relevant PRC laws and regulations during the Track Record Period.

Bill Financing

In the past, our Group entered into certain bill financing arrangements which were not in compliance with relevant PRC laws and regulations. See the section headed "Business – Bill Financing."

Registered Capital of Zhongwang PRC

There have been seven occasions where former shareholders of Zhongwang PRC failed to make the required contributions for increases in registered capital of Zhongwang PRC on schedule pursuant to approvals obtained from the relevant authorities and the resolutions passed by the board of Zhongwang PRC. Vily Won, Kong Lung and Liaoyang Factory, all being the said former shareholders of Zhongwang PRC (whose interest in Zhongwang PRC was directly or indirectly beneficially owned by Mr. Liu, our Controlling Shareholder), were unable to make their respective contributions due to cashflow difficulties arising from financial commitments related to other business concerns not connected to Zhongwang PRC.⁽¹⁾ The timely contribution by relevant shareholders of the increase in registered capital was also impeded by delays in the delivery by the manufacturers of certain equipment and the late issue of the property rights certificate in respect of factory premises, both of which formed part of the relevant contributions. Vily Won and Liaoyang Factory subsequently paid in full their respective contributions to the registered capital in July 2003 and April 2004, respectively. In May 2007, Zhongwang PRC increased its registered capital to US\$140 million. Kong Lung and Liaoyang Factory failed to contribute their respective portions of the required minimum amount, which was 20%, of the registered capital increase prior to Zhongwang PRC obtaining its business license, as our Company was considering the feasibility of the overall reorganization plan for our Group as well as the time required for the requisite approvals. When ZCIL (HK) acquired 100% equity interest in Zhongwang PRC in May 2008, ZCIL (HK) assumed the full obligation and responsibility to pay the outstanding registered capital from the former shareholders of Zhongwang PRC.

(1) Prior to April 28, 2003, Mr. Liu through Vily Won held 40% of Zhongwang PRC's registered capital, which was transferred to Kong Lung on April 28, 2003. Before the said transfer, Vily Won held the said 40% interest on trust for Mr. Liu and had on occasions failed to make the required capital contribution for the increase in the registered capital of Zhongwang PRC on schedule. After the said transfer, Vily Won had ceased to be a connected person.

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According to applicable PRC laws and regulations, if the shareholders of a foreign-invested enterprise fail to make registered capital contributions in full and on schedule pursuant to approvals obtained from the relevant PRC authorities and the resolutions passed by the board of the foreign-invested enterprise, then the relevant branch of the Administration of Industry and Commerce may, in conjunction with the original approval authority, issue a notice to the shareholders demanding payments of registered capital and stipulating a time limit for such payments. If payments are not made in full on or prior to the stipulated time limit, then, as maximum potential liability for such non-compliance, the original approval authority has the power to revoke the certificate of approval previously issued.

We have obtained no-action letters from Liaoyang Committee of Foreign Economic and Trade (遼陽市對外經濟貿易委員會), being the original approval authority, and Liaoyang Administration of Industry and Commerce (遼陽市工商行政管理局), being the registration authority, on May 8, 2008, stating that they would not take any actions with respect to the delayed payments of registered capital prior to 2004. In addition, on August 11, 2008, Liaoning Provincial Bureau of Foreign Trade and Economic Cooperation Committee (遼寧省對外貿易經濟合作廳) approved an extension of time for ZCIL (HK) to pay the requisite contribution of 20% of the registered capital increase of Zhongwang PRC. Based on previous discussions with local authorities, the Directors believe that the grant of extension was mainly due to the Liaoning provincial government's support of local businesses, such as Zhongwang PRC, which contribute to the success of the economic development of the region by creating job opportunities in the community. The following day, on August 12, 2008, ZCIL (HK) contributed US\$18.5 million, representing 20% of the outstanding contributions in registered capital of Zhongwang PRC due at that time. According to the relevant PRC laws and regulations, the remaining outstanding registered capital contributions of approximately US\$74.2 million must be paid on or prior to May 14, 2009.

Our PRC legal advisor, Commerce & Finance Law Offices, is of the opinion that the failure of Zhongwang PRC's shareholders to make registered capital contributions within the stipulated time limit will neither jeopardize nor have any detrimental effect on the lawful standing and operational qualifications of Zhongwang PRC since its business license and certificate of approval previously issued have not been revoked and remain valid. In addition, the relevant PRC authorities confirmed that they would not take any action with respect to such non-compliance. As of August 2008, there was no outstanding amount of registered capital for which payment was overdue, and the remaining outstanding amount will not become due until May 2009. Based on the foregoing, our Directors believe that the Group's financial position will not be affected, and accordingly we have not made any provision in our financial statements with respect to this non-compliance.

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Social Security and Housing Provident Fund Contributions

Due to differences in local regulations, inconsistent implementation or interpretation by local authorities in the PRC, different levels of acceptance of the social security system by employees, as well as insufficient knowledge on our part of the social security system, since 1998 we have not paid, or have not been able to pay, certain social security contributions and housing provident fund contributions for and on behalf of our employees in the following instances:

- Some employees were, prior to joining us, laid off from state-owned enterprises (國有企業下崗再就業人員) (“former SOE workers”). Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that according to relevant laws and regulations, in the case that contributions of these former SOE workers are paid by their original state-owned enterprise employer, it is not necessary for us to pay their contributions. In addition, “double payment” of contributions is not permitted under the relevant PRC government policies.
- Some employees are from rural areas outside of Liaoyang City (“rural workers”) and their residence registrations are with the villages from which they came. The relevant local government authorities have different policies regarding social security contribution schemes for rural workers, who migrate from place to place, which place hardship on rural workers to transfer their social security registrations to other localities and continue their social security contributions (including recognizing contributions already made under previous registrations). Some of these rural workers are reluctant to participate in social security contribution schemes on the basis that the financial burden of participation outweighs the corresponding benefits, primarily because contributions of pension funds, medical insurance and unemployment insurance are required to be paid by employees as well as employers, and their inability to transfer contributions previously made by them. We estimate that during the Track Record Period approximately 1,125, 628 and 519 workers fell into this category (which accounted for 43.0%, 22.7% and 20.6% of all full-time employees of our Group during the Track Record Period, respectively), representing a total deficit in social security contributions of approximately RMB3.4 million, RMB2.5 million and RMB2.3 million, respectively.
- In relation to temporary employees and new employees who are still under probation, due to the short-term nature of their employment and the high turnover of employees in these categories, it has been difficult in practice to make contributions for these employees. In order to address the effect of the unstable nature of temporary employees’ employment, we may temporarily suspend payment of social security contributions for employees who are on probation. If an employee is retained after the probation period, we will register for social security and back-pay the requisite contributions for the probation period. We estimate that during the Track Record Period approximately 335, 177 and 137 workers fell into this category (which accounted for 12.8%, 6.4% and 5.4% of all full-time employees of our Group during the Track Record Period, respectively), representing a total deficit in social security contributions of approximately RMB1.0 million, RMB0.7 million and RMB0.6 million, respectively.

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- We have not been able to pay housing provident fund contributions for our employees in circumstances where employees have not been willing to make corresponding contributions. Such employee contributions would typically represent a cash payment by the employees of between five to 12 percent of their income. In this connection, our collection procedures and policies in respect of such contribution were also inadequate. We estimate that during the Track Record Period approximately 2,618, 2,767 and 2,516 workers fell into this category (which accounted for 100% of all full-time employees of our Group during the Track Record Period), representing a total deficit in housing provident fund contributions of approximately RMB1.8 million, RMB2.1 million and RMB1.4 million, respectively.

As detailed above, our PRC legal advisor, Commerce & Finance Law Offices, has advised us that we are not in violation of PRC laws and regulations for not paying social security contributions for former SOE workers whose contributions are paid by their former employer. However, we were not in compliance with the applicable PRC laws and regulations for the other three situations mentioned above.

In accordance with applicable laws and regulations, throughout the term of an employee's employment, both employers and employees are under an obligation to make contributions to social security and housing provident funds based on a specified ratio. Employers may not unilaterally pay their portion of the contribution to the relevant authority in circumstances where an employee's portion of the contribution has not been paid.

According to our PRC legal advisor, Commerce & Finance Law Offices, employers who fail to withhold and pay their portion of social security contributions may be notified by the relevant authority to rectify the problem and pay the outstanding contributions within a stipulated deadline. In the case that payment is still not made by the deadline, the relevant authority may charge a late payment fee of 0.2% of the cumulative outstanding amount per day, calculated from the date the relevant social security contribution amount became overdue until the date that full payment is made, and may fine the responsible person or persons up to a maximum of RMB10,000 in total. Employers who fail to withhold and pay their portion of housing provident fund contributions may be notified by the local housing fund administration authorities to register with the authority and ordered to pay any outstanding contributions into a designated account for the benefit of employees. In the case that registration and payment is not made in accordance with any such notice, a fine of up to a maximum of RMB50,000 in total may be imposed upon the employer.

We obtained signed confirmation letters dated May 8, 2008 and January 7, 2009 from the Liaoyang Social Security Bureau (遼陽社會保險事業管理局) and a signed confirmation letter dated January 7, 2009 from the Liaoyang Housing Fund Administration Center (遼陽市住房公積金管理中心), confirming that no rectification notice has been or will be issued to, and no penalty has been or will be imposed on, Zhongwang PRC in respect of any past non-payment of social security or housing provident fund contributions.

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We completed registration applications for the payment of social security and housing provident fund contributions at the Liaoyang Social Security Bureau and the Liaoyang Housing Provident Fund Administration Center on December 8, 2008 and December 26, 2008, respectively. Notwithstanding that our registration applications included a request to complete payment for prior unpaid contributions, according to the signed confirmation letters from the Liaoyang Social Security Bureau and the Liaoyang Housing Fund Administration Centre dated January 7, 2009, at present neither government authority is able to complete procedures for the receipt of payment in respect of outstanding social security and housing provident fund contributions. As a result, there is no possibility that we can make the relevant outstanding social security and housing provident fund contribution payments prior to the Listing. In light of this, we undertake to proceed with the completion of all requisite procedures and to pay all outstanding contributions in respect of all employees who make their own payments of outstanding social security and housing provident fund contributions when the relevant authorities are able to process such a request. However, in reliance on the confirmation letters and on the basis that as of the Latest Practicable Date we had not been subject to any demand from employees, we have not made the relevant overdue payments of social security and housing provident fund contributions on behalf of the employees who have left our Company and those who refused to make their own contributions, some of whom are still currently working with the Group.

Since we cannot rule out the possibility that we may be subject to employee demands to make such past contributions, as of December 31, 2008, we had made provisions in our financial statements of approximately RMB24.8 million in respect of the overdue contributions for the Track Record Period which was calculated based on the relevant prevailing laws and regulations in the PRC. In addition, an indemnity from the Controlling Shareholder has been obtained if the amount of provisions made in respect of the overdue contributions is insufficient to cover the outstanding contributions. Our Directors are of the view that the amount of provisions made in our financial statements in respect of the overdue contributions is sufficient to cover all relevant overdue contributions on the basis that (i) under the relevant PRC laws and regulations, employees who left our Company prior to May 1, 2008 have a period of 60 days to demand us to make payment for their past contributions and employees who left our Company after May 1, 2008 have a period of one year to make a similar demand; (ii) as of the Latest Practicable Date, we had not been subject to any such demand from employees; (iii) we obtained confirmation letters from the relevant PRC authorities confirming that no rectification notice has been or will be issued to, and no penalty has been or will be imposed on, Zhongwang PRC in respect of any non-payment of past contributions; and (iv) an indemnity from the Controlling Shareholder has been obtained in favor of us against any losses, liabilities and expenses, if any, arising from any claim in relation to social security and housing provident fund contributions. Starting in January 2009, Zhongwang PRC commenced withholding the relevant portion from salaries as well as paying the corresponding amount of social security and housing provident fund contributions in respect of all eligible employees.

Save as disclosed above, we were in compliance with all relevant social security and housing provident fund laws and regulations throughout the Track Record Period. As of the Latest Practicable Date, we were not aware of any recent employees' complaints on demands for payment of social security and housing provident fund contributions, nor had we received any relevant legal documentation from the labor arbitration tribunals or the People's Courts regarding social security and housing provident fund contributions disputes.

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Environmental Approvals for Construction Projects

Zhongwang PRC failed to comply with certain environmental approval requirements with respect to certain construction projects and retroactively undertook measures in connection with each such project. Zhongwang PRC subsequently received a certificate and a confirmation letter from the Liaoyang City Environmental Protection Bureau (遼陽市環境保護局) with respect to such past non-compliance with environmental approval requirements. For details, please refer to “Business – Environmental and Safety Regulations.”

Pursuant to the deed of indemnity dated April 17, 2009 and entered into between Mr. Liu and our Company referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus, our Controlling Shareholder, Mr. Liu, has provided an indemnity in favor of our Group from and against all actions, claims, losses, payments, charges, settlement payments, costs, penalties, damages or expenses which our Group may incur, suffer or accrue, directly or indirectly, that may arise from or in connection with any failure by our Group to comply with relevant PRC laws and regulations on or before the Global Offering becomes unconditional. See “Appendix VI – Statutory and General Information – Tax and other indemnity” to this prospectus for more details relating to this indemnity.