RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

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

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

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

Our expansion plans may not be successful

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

Our expansion plans involve significant risks and uncertainties, including:

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

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

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

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

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

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

Our operations are heavily dependent on our key management

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

We rely on a few major customers

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

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

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

We rely on our major suppliers

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

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

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

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

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

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

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

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

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

Our business requires significant capital investments

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

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

A material disruption of our operations could adversely affect our business

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

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

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

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

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

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

We may experience difficulties in recruiting or retaining key personnel

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

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

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

Rising interest rates would increase our borrowing costs

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

Our interests may conflict with those of our joint venture partners

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

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

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

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

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

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

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

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

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

We are subject to foreign exchange exposure

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to risks related to transportation systems

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

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

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

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

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

➢ determining the issuance of new securities;

➢ approving or disapproving mergers, acquisitions and disposals of our assets or businesses; and

➢ taking other actions that require shareholder approval.

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

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

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

RISKS RELATING TO OUR INDUSTRY

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

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

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

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

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

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

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

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

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

We operate in a highly competitive industry

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

Our business is subject to seasonality

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

RISKS RELATING TO THE PRC

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

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

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

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

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

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

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

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

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

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

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

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

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

Preferential tax treatments of PRC subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATING TO THE SHARES

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

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

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

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

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

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

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