OVERVIEW

We are the largest scrap metal recycling company in China based on our revenue of HK$6.5 billion for the year ended 31 December 2008, according to a survey conducted by the China Association of Metal Scrap Utilization, or CAMU, among its members.* We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual labour to separate the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. Our products are used by metal manufacturers in China in the production of new crude steel and other non-ferrous metals. These materials, in turn, are used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

We have recycling facilities in key metal producing regions in China with high demand for recycled scrap metal. Our current recycling facilities are located in Guangdong Province, Jiangsu Province and Hong Kong, with a total designed annual production capacity of approximately 1.6 million metric tons. We are in the process of establishing new recycling facilities in Tianjin, Zhejiang Province and Jiangsu Province, which we expect to complete by the end of the third quarter of 2009. These facilities are expected to almost double our designed annual production capacity to approximately 3.1 million metric tons. In addition, in 2010 we plan to open a new recycling facility in Hubei Province in central China with a designed annual production capacity of approximately 0.5 million metric tons. We expect to incur capital expenditures of approximately HK$134.0 million in 2009 primarily in connection with the establishment of these new facilities. By establishing a network of operations in multiple key metal producing regions in China, we are able to efficiently allocate resources and capitalise on pricing differences between regions for raw materials and recycled scrap metal. Our facilities also have convenient access to waterways, which provide a low cost and efficient means of transportation for both raw materials and recycled scrap metal.

China has experienced significant growth in the consumption of steel in the past few years due to China's rapid development and industrialisation. From 2003 to 2007, consumption of steel in China grew at a CAGR of 13.9%. Steel is produced by either refining iron ore in a blast furnace or melting recycled scrap steel in an electric arc furnace. The electric arc furnace process uses scrap steel as the primary raw material for the production of new crude steel. The blast furnace process uses iron ore as the primary raw material for production, and uses scrap steel to cool the molten metal to add efficiency to the production process. The electric arc furnace process has significant advantages over the blast furnace process, including consuming less energy, creating less pollution and reducing demands on natural resources by using recycled scrap as the principal raw material. According to CAMU, the electric arc furnace process consumes approximately 60% less energy and

* Information regarding our ranking in the metal recycling industry in China is based on a confirmation from CAMU. CAMU members include large scrap steel recycling companies and other enterprises engaged in metal recycling in the PRC. CAMU regularly conducts surveys among its members in which members provide data on volume, sales and other operating information requested by CAMU. To our Directors' knowledge, no other industry statistics with respect to ranking in the PRC metal recycling industry are available. Our Chairman, Chief Executive Officer and Controlling Shareholder, Mr. Chun Chi-wai, is a standing committee member of CAMU, but he was not involved in compiling the ranking confirmation by CAMU.

approximately 40% less water and discharges approximately 97% less waste. Due to these benefits, there has been a trend towards electric arc furnace steelmaking, and in 2005 the PRC Government adopted a Steel Policy which has as one of its principal goals an increase in the role of scrap steel in the production of steel in China. We believe these factors create strong growth opportunities in our industry.

China has also experienced significant growth in the consumption of copper and other non-ferrous metal in the last few years. From 2004 to 2007, consumption of copper and other non-ferrous metal in China grew at a CAGR of 20.4%. However, copper resources are in relatively short supply in China, with domestic copper ore resources characterised by small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs. As a result, we expect demand for secondary copper, which are concentrates produced from scrap copper, in China to strengthen over time. Our production facilities are located in areas with significant demand for scrap copper and other non-ferrous scrap metal, including the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the "2008 Report for China's Copper Market" by CBI China, approximately 75.6% of China's total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our principal suppliers include private enterprises in the PRC engaged in the business of collecting unprocessed scrap metal and foreign scrap metal collection companies. We produce quality recycled scrap metal products that have the metal content, size and shape to meet customer specifications and market demand. Our customers are primarily large steel and copper manufacturers in the PRC, both private enterprises and state-owned entities, and scrap metal resellers. During the Track Record Period, our business relied to a significant extent on a limited number of major customers and suppliers. However, we have successfully expanded both our customer and supplier bases in recent periods to lessen our reliance on major customers and suppliers. For example, the number of major customers increased from one in 2005 to 16 in 2008, and the number of major raw material suppliers increased from three in 2005 to 21 in 2008. For the years ended 31 December 2006, 2007 and 2008, sales to our five largest customers in the aggregate accounted for approximately 97.3%, 99.3% and 73.2% of our total revenue, respectively, and purchases from our five largest suppliers represented approximately 71.0%, 64.1% and 42.6% of our total purchases of raw materials, respectively.

We generated revenue of HK$1,090.3 million, HK$1,942.4 million and HK$6,526.6 million, respectively, in 2006, 2007 and 2008, representing a CAGR of 144.7%. The increase in revenue from 2006 to 2007 was primarily due to an increase in sales volume of non-ferrous metal and an increase in the average sales price per metric ton of our products. Sales of scrap copper and other non-ferrous scrap metal increased from approximately 56.0% of our total revenue in 2006 to approximately 64.9% of our total revenue in 2008. The results for the year ended 31 December 2008 reflect our acquisition of Zhangjiagang Rongli in January 2008, the opening of new production facilities in Guangzhou and Tianjin in 2008 and increased sales to external customers by our Macau subsidiary in 2008.

We have also significantly enhanced our profitability during the Track Record Period, generating a profit for the year of HK$95.4 million, HK$178.7 million and HK$307.9 million in 2006, 2007 and 2008, respectively, representing a CAGR of 79.7%. Our gross margin was 10.9%, 12.4% and 7.6% in 2006, 2007 and 2008, respectively. The decrease in our gross margin in 2008 was primarily due to the acquisition of Zhangjiagang Rongli, which has historically had a lower gross margin than the Group due to the relatively small size of its production facility. With limited operating space, Zhangjiagang Rongli's operations in 2008 were primarily focused on collecting scrap metal that required limited processing, like simple separation and cutting, which resulted in lower value being added in the recycling process and therefore lower gross margins. In December 2008, we relocated Zhangjiagang Rongli's operations to a larger facility with a view to improving its operating efficiency and operating results. Separate financial information for Zhangjiagang Rongli for the period ended 31 December 2007 is included in Appendix II to this document.

The recent disruptions in the credit markets have not had a significant impact on the financing of our operations, which we have financed primarily through cash generated from operations and existing cash and bank balances, including proceeds from the Senior Notes we issued in October 2007, capital contributions from our Controlling Shareholder and, to a lesser extent, bank borrowings. As of 31 December 2008, approximately 21.1% of our total assets was financed by bank borrowings and discounted bills. As of the Latest Practicable Date, the Directors confirmed that we had not received demands for repayment of any outstanding indebtedness prior to its stated maturity, nor had we experienced disruptions in the availability of financing on satisfactory terms under our existing credit facilities.

The recent downturn in the United States and other major economies, and the slowing growth in the PRC, has had a significant impact on commodity prices, including the prices of steel, copper and other metals. This has resulted in a decrease in the price of both the raw materials we purchase and the recycled scrap metal products we sell. For example, the price of scrap steel in the PRC decreased from RMB4,000 per metric ton in July 2008 to RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. Our exposure to fluctuations in metal prices is primarily the risk of price changes between the time we commit purchase orders with suppliers and the time we confirm sales with customers. Our results for 2008 were adversely affected in part by the rapid decline in metal prices in the second half of the year. In response to the decline in metal prices, we adopted tighter inventory management policies to reduce the time between the purchase of raw materials and sales to our customers. We shortened our average inventory turnover days from 15 days for the six months ended 30 June 2008 to 12 days for the year ended 31 December 2008 through improved coordination amongst our purchasing, production and sales functions. Approximately 97.1% of our inventory as of 31 December 2008 had been sold to customers by 31 March 2009. As of the Latest Practicable Date, we had not experienced a significant pileup of inventory.

Since the onset of the global financial crisis, there has been a general tightening of credit with customers and suppliers, and we as well as our suppliers have been placing greater emphasis on timely collection of receivables. Our turnover days of average trade receivables and bills receivable increased slightly from 47 days for the six months ended 30 June 2008 to 52 days for the year ended 31 December 2008, while our turnover days of average trade payables decreased from 19 days for the six months ended 30 June 2008 to 14 days for the year ended 31 December 2008. However, our working capital turnover days have been relatively stable during this period, increasing slightly from 43 days for the six months ended 30 June 2008 to 50 days for the year ended 31 December 2008. As a result, the Directors believe there has been no significant impact on our cash flow position since 30 June 2008.

Although metal prices have declined, demand for our recycled scrap metal products has remained relatively stable as of the Latest Practicable Date. Our Directors believe this is due to the sharper decrease in the cost of scrap steel compared to the cost of iron ore since the middle of 2008, which encourages the use of scrap steel in steel production, as well as a general trend towards electric arc furnace steelmaking in the PRC. The Directors expect demand for recycled scrap metal in the PRC to continue to be relatively stable over the next few quarters as a result of continued economic growth in the PRC, the recently announced stimulus measures in the PRC and the trend towards electric arc furnace steelmaking. Accordingly, the Directors do not expect the recent disruptions in the credit markets, the economic downturns or the declines in metal prices to have a significant impact on our expansion plans. Nevertheless, we intend to monitor these developments and their impact on our industry and business, and adjust our expansion plans to the extent we believe it to be appropriate. We cannot assure you that developments in the financial markets, the downturn in the United States or other major economies or the slowdown in the PRC economy will not have a material adverse effect on our business, financial condition or results of operations.

COMPETITIVE STRENGTHS

We are the largest scrap metal recycling company in China, based on revenue for 2008 according to CAMU, and have broad geographic coverage

The scrap metal recycling industry in China is highly fragmented and there are only a few large-scale competitors. We believe our large size gives us competitive advantages in our industry, including the ability to:

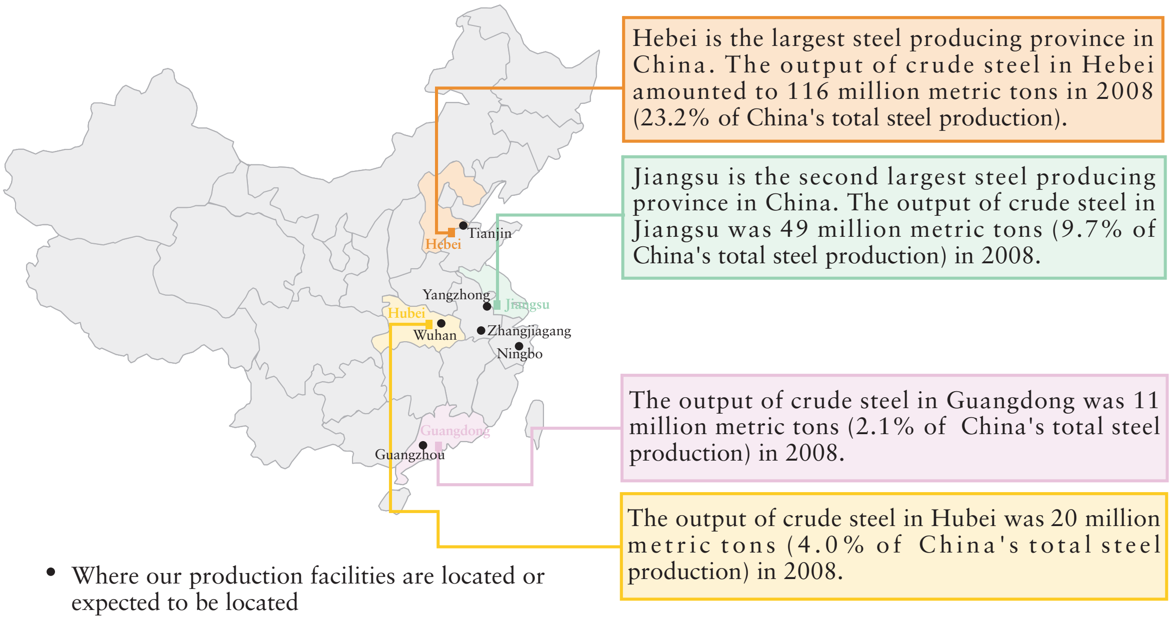
- ➢ attract quality customers that require high volumes and a reliable source of recycled scrap metal;
- ➢ negotiate favourable terms with suppliers of raw materials and customers;
- ➢ invest in advanced equipment to improve our operating efficiency and our profitability;
- ➢ utilise our financial resources, geographic diversity and industry expertise to effectively consolidate smaller metal recycling companies; and
- ➢ enjoy economies of scale.

In addition, our broad geographic coverage allows us to better allocate our resources and leverage our purchasing and sales networks to take advantage of differences between regions in the prices for raw materials and demand for recycled scrap metal.

Our production facilities are strategically located in areas with high demand for recycled scrap metal, strong supply of raw materials and convenient access to water transportation

Currently, our principal production facilities are located in Guangzhou, Zhangjiagang and Hong Kong, supplying products to meet high demand for recycled scrap metal from large PRC steel and non-ferrous metal manufacturers. We are in the process of opening additional production facilities in Ningbo, Yangzhong and Tianjin which we expect to complete by the end of the third quarter of 2009, with a total designed annual production capacity of approximately 1.5 million metric tons.

We also plan to open an additional production facility in Wuhan in Hubei Province in 2010. These new production facilities, like our existing production facilities in Guangzhou and Zhangjiagang, will be strategically located in areas where demand for scrap metal is high and there is a strong supply of raw materials. Our current and future production facilities are illustrated in the map below:



Source: The Information Center of Metallurgical Industry of PRC Information Department

Our production facilities are also located in areas with high demand for recycled scrap non-ferrous metal. According to the "2008 Report for China's Copper Market" by CBI China, the production of secondary copper in the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta accounted for approximately 75.6% of China's total production of secondary copper in 2008. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China's copper processing enterprises in 2008 were located in these three areas.

Our production facilities have convenient access to waterways, which are an important means of transportation for both raw materials and recycled scrap metal. Our Guangzhou Asia Steel facility is located adjacent to a pier which has two berths, each capable of accommodating ocean-going vessels of up to 5,000 dwt. We also plan to build a pier with two berths next to our planned Yangzhong production facility, with each berth capable of accommodating ocean-going vessels of up to 50,000 dwt. We expect to complete construction of the Yangzhong pier in 2010.

We have a strong profile of quality customers and an expanding procurement network

Large metal manufacturers in China generally prefer to purchase from sizable scrap metal providers like us to ensure a stable long-term supply of quality recycled scrap metal. After years of operation, we have established a strong profile of quality customers, including three out of the four largest steel manufacturers in Guangdong Province. These customers are in close proximity to our production facilities in Guangzhou, which enables us to deliver our products to them promptly and also lowers our transportation costs.

Prior to 2006, we sold recycled scrap metal primarily to Guangzhou Zhujiang Steel Co., Ltd. (廣州珠江鋼鐵有限責任公司) (GZS). In recent years, we have expanded our customer base to include a number of other large metal manufacturers in the PRC, including Guangzhou Iron and Steel Corporation Ltd. (廣州鋼鐵股份有限公司), Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) and Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司), each a state-owned enterprise, and Lianzhong Stainless Steel Corporation (聯眾(廣州)不銹鋼有限公司), a private enterprise. We began selling our products to Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司), the purchasing division of Jiangsu Shagang Group Co., Ltd. (江蘇沙鋼集團有限公司), in the Jiangsu Province in 2007. In addition, our acquisition of Zhangjiagang Rongli in 2008 has provided us access to two of the largest steel manufacturers in the Zhangjiagang area, Jiangyin Xingcheng Special Steel Co., Ltd. (江陰興澄特種鋼鐵有限公司), and Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司).

We have also established a strong procurement network. Our principal suppliers include private enterprises in the PRC that are in the business of collecting scrap metal, as well as overseas suppliers in the United States, Europe, Australia, Japan, Hong Kong and Taiwan. We have entered into a number of five-year contracts with our major suppliers in the PRC whereby the suppliers have agreed to supply at least 17,000 metric tons of unprocessed scrap metal to our Guangzhou Asia Steel production facility each month. These long-term contracts allow us to secure a stable supply of price competitive raw materials. We also have a collection center in Hong Kong which supplied approximately 5,800 metric tons of scrap metal per month to our Guangzhou Asia Steel facility in 2008.

We are an efficient recycled scrap metal producer and utilise advanced equipment to produce quality scrap metal products

We produce quality recycled scrap metal using both heavy equipment and manual labour. We believe we are among the most automated scrap metal recycling companies in China. Our total capital investments in equipment and machinery during the Track Record Period amounted to approximately HK$38.0 million. In 2007, we were the only metal recycling company selected by the China Association of Metal Scrap Utilization as the Role Model to develop large-scale and automated steel recycling operations in southern China. This selection was based on a variety of criteria, including scale and efficiency of operations, service quality, integrity, quality management, environmental protection and industrial safety.

We use an automated shredder and metal separation system at our Guangzhou Asia Steel facility. The shredder and metal separation system are capable of processing 80 to 120 metric tons of scrap metal per hour and are able to separate non-ferrous metal efficiently and effectively. We believe such automated heavy equipment has significantly enhanced our operating efficiency and increased our production capacities, enabling us to keep pace with rising demand for recycled metal in recent years. We plan to install similar equipment at our planned Ningbo and Wuhan facilities.

In addition, the pier next to our Guangzhou Asia Steel production facility, which is operated through our 45%-owned affiliate, Guangzhou Zhujiang Port, helps lower our logistics costs and enhance our operating efficiency. We also plan to build a pier next to our planned Yangzhong production facility.

We have an experienced and dedicated senior management team

We have an experienced and dedicated senior management team which includes our founder, Mr. Chun Chi-wai, 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. Mr. Chun Chi-wai has over 15 years of experience in the metal recycling industry, and each of Mr. Jiang Yan-zhang and Mr. Wu Yue-xing has over 25 years of experience in the operation of metal production. Since our establishment in 2000, Mr. Chun Chi-wai has been leading us through the growth and expansion of our business. The other members of management of our principal production facilities also have extensive experience in metal recycling. Through our management's leadership and its efforts to continually enhance and streamline our production processes, we have become the largest scrap metal recycling company in China based on revenue in 2008, according to CAMU. The majority of our senior management team has been serving us or our subsidiaries since our establishment.

BUSINESS STRATEGIES

Our goal is to maximise shareholder value and enhance our market position in the scrap metal recycling industry in China. To achieve this, we plan to continue to capitalise on opportunities to leverage our competitive strengths and implement the following strategies:

Strengthen our leading position in southern China, and capitalise on our advanced equipment and experience to expand in northern, eastern and central China

To strengthen our leading position in southern China, we recently completed the construction of a new production facility adjacent to our Guangzhou Asia Steel production facility, with a designed annual production capacity of approximately 0.5 million metric tons. We are leveraging our experience in southern China to expand our presence into eastern, northern and central China.

By the end of the third quarter of 2009, we plan to complete new production facilities in Ningbo and Yangzhong, with a total designed annual production capacity of approximately 1.0 million metric tons, and in Tianjin, with a designed annual production capacity of approximately 0.5 million metric tons. We also plan to build a pier with two berths, each capable of accommodating vessels of up to 50,000 dwt, next to our planned production facility in Yangzhong. We expect to commence construction of the pier and complete it in 2010.

We have leveraged our leading position in southern China to expand our customer base, adding affiliates of Foshan Nanhai Chengqun Resources Recycling Co., Ltd. (佛山市南海區成群物資回收有限公司), a scrap metal reseller, Guangzhou Nanfang Nonferrous Metal Co., Ltd. (廣州南方有色金屬有限公司) and Guangzhou Metallurgy Industrial Co., Ltd. (廣州冶金實業有限公司) as new customers in 2006, and Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司), the purchasing division of Jiangsu Shagang Group Co., Ltd. in the Yangtze River Delta region, as a new customer in 2007. We have also expanded our customer base through our acquisition of Zhangjiagang Rongli, adding Jiangyin Xingcheng Special Steel Co. Ltd. (江陰興澄特種鋼鐵有限公司) and Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司) as customers in 2008. We believe our recent customer additions and the acquisition of Zhangjiagang Rongli provide a strong customer base for our expansion.

We also intend to capitalise on our expertise to open a new production facility in 2010 in Wuhan, Hubei Province in central China, with a designed annual production capacity of approximately 0.5 million metric tons.

Enhance our operating efficiency by further investment in advanced equipment

We believe that the use of advanced equipment, such as the automated shredder and eddy current separator at our Guangzhou Asia Steel facility, has significantly increased our operating efficiency. We also believe it distinguishes us from many other scrap metal recycling companies which rely primarily on manual labour. We plan to continue to invest in advanced equipment to further increase our operating efficiency at our existing facilities and in connection with our expansion plans. For example, we plan on installing automated shredders with eddy current separators at our planned production facilities in Ningbo and Wuhan.

Expand our customer base and our supply network

We have historically focused our production on recycled scrap ferrous metal, and began producing recycled scrap non-ferrous metal in 2006 as a strategic decision to expand our product range and customer base. We intend to continue to expand our customer base by producing both recycled scrap ferrous metals and recycled scrap non-ferrous metal to capitalise on our increasing production capability and the relatively high prices of recycled scrap non-ferrous metal, and by expanding our sales activities as we grow our business. We also intend to expand our supplier network in northern, eastern and central China. We believe that an extensive supplier network will provide us with reliable quantities of raw materials and significant cost savings.

Further develop our management team and recruit and retain quality staff

We believe that our management and skilled workers are crucial to our long-term growth. We intend to actively recruit and hire additional qualified managerial staff and skilled workers in connection with our expansion into northern, eastern and central China. We also plan to utilise some of our experienced managers and engineers from our existing production facilities and offices to facilitate the establishment of our new production facilities. At the same time, we intend to continue to actively recruit qualified managerial staff and skilled workers for our existing operations to manage our growth. We also intend to implement our Share Option Schemes for qualified employees, and to enhance our current training and promotional opportunities in order to retain quality staff.

Expand our capacity or regional coverage through selective acquisitions

Our industry is highly fragmented, with many smaller metal recycling companies that may be unable to compete successfully and that may become potential acquisition targets. Although we have no specific acquisition targets as of the Latest Practicable Date, as a leader in the PRC scrap metal recycling industry, we intend to selectively pursue strategic acquisition opportunities which complement or enhance our business. We may pursue acquisition opportunities to, among other things, expand our capacity or regional coverage, expand our customer or supplier networks or for other strategic purposes.

OUR PRODUCTS AND BUSINESS ACTIVITIES

We purchase scrap steel, scrap copper and other scrap metal from both overseas and domestic suppliers and use heavy equipment and manual labour to recycle scrap metal by separating the scrap into its various metal components and produce recycled scrap metal products that meet our customers' needs in terms of size, purity and other requirements. We also resell a portion of the scrap metal we purchase without further processing if it meets our customers' requirements. The scrap metal that we recycle comes from a variety of sources, including scrap metal from household appliances and the construction and manufacturing industries. Our recycled scrap metal products include:

- ➢ **Recycled scrap ferrous metals:** mainly iron and steel; and
- ➢ **Recycled scrap non-ferrous metals:** mainly copper, aluminium and stainless steel.

In the early years of our operations, we focused on building up our production scale and improving our cash position. As such, our products were limited primarily to recycled scrap ferrous metals. As we gradually increased our production capacity and strengthened our cash position, we made a strategic decision in 2006 to increase production of recycled scrap non-ferrous metals such as copper, aluminium and stainless steel to diversify our product range.

The following table sets forth our sales volume and revenue for sales of recycled scrap ferrous and non-ferrous metal for each of the periods indicated:

	Year ended 31 December											
Product	2006				2007				2008			
	Sales Volume (metric tons)	%	Sales (HK$'000)	%	Sales Volume (metric tons)	%	Sales (HK$'000)	%	Sales Volume (metric tons)	%	Sales (HK$'000)	%
Ferrous metals	263,093	95.7	479,481	44.0	296,886	93.1	703,032	36.2	605,385	84.6	2,291,541	35.1
Non-ferrous metals	11,760	4.3	610,857	56.0	22,136	6.9	1,239,368	63.8	110,055	15.4	4,235,053	64.9
Total	274,853	100.0	1,090,338	100.0	319,022	100.0	1,942,400	100.0	715,440	100.0	6,526,594	100.0

Products

Recycled scrap ferrous metals

Recycled scrap ferrous metals, primarily iron and steel, are generally sold to steel manufacturers for further processing into steel products used in the production of a wide range of end products, including construction materials, heavy equipment, automobiles, aircraft, ships and household appliances.

The following table sets forth our main recycled scrap ferrous metal products:

Type of ferrous metal	Specifications [1]	
No. 1 heavy melting steel 	Wrought iron and/or steel scrap, 1/4 inch and over in thickness	Individual pieces not over: ➢ 60 x 24 inches ➢ 36 x 18 inches, or ➢ 60 x 18 inches
No. 2 heavy melting steel 	Wrought iron and steel scrap, black and galvanised, 1/8 inch or over in thickness	Maximum size: ➢ 36 x 18 inches, or ➢ 60 x 18 inches
Shredded scrap 	Homogeneous iron and steel scrap, magnetically separated, originating from automobiles, unprepared No. 1 and No. 2 steel, miscellaneous baling and sheet scrap	Average density of 50 or 70 pounds per cubic foot

(1) Specifications based on the Scrap Specifications Circular 2007 by the Institute of Scrap Recycling Industries, Inc.

Recycled scrap non-ferrous metals

Recycled scrap non-ferrous metals, primarily copper, aluminium and stainless steel, are sold to copper, aluminium and stainless steel manufacturers for further processing into copper, aluminium and stainless steel products to be used in the manufacture of construction materials, household appliances, wire and other products.

The following table sets forth our main recycled scrap non-ferrous metal products:

Type of non-ferrous metal	Specifications (1)	
No. 1 copper		
Barley No. 1 copper wire 	No. 1 bare, uncoated, unalloyed copper wire, not smaller than No. 16 B&S wire gauge	Green copper wire and hydraulically compacted material subject to agreement
Berry No. 1 copper wire 	Clean, untinned, uncoated, unalloyed copper wire and cable, not smaller than No. 16 B&S wire gauge, free of burnt wire which is brittle	Hydraulically briquetted copper subject to agreement
Candy No. 1 heavy copper 	Clean, unalloyed, uncoated copper clippings, punchings, bus bars, commutator segments, and wire not less than 1/16 of an inch thick, free of burnt wire which is brittle; may include clean copper tubing	Hydraulically briquetted copper subject to agreement
No. 2 copper		
Birch No. 2 copper wire 	Miscellaneous, unalloyed copper wire having a nominal 96% copper content (minimum 94%)	Free of the following: excessively leaded, tinned, soldered copper wire; brass and bronze wire; excessive oil content, iron, and non-metallics; copper wire from burning, containing insulation; hair wire; burnt wire which is brittle; should be reasonably free of ash; hydraulically briquetted copper subject to agreement

Type of non-ferrous metal	Specifications [(1)]	
Cliff No. 2 copper 	Miscellaneous, unalloyed copper scrap having a nominal 96% copper content (minimum 94%)	Free of the following: excessively leaded, tinned, soldered copper scrap; brasses and bronzes; excessive oil content, iron, and non-metallics; copper tubing with other than copper connections or with sediment; copper wire from burning, containing insulation; hair wire; burnt wire which is brittle; and should be reasonably free of ash, hydraulically briquetted copper subject to agreement
Other Non-Ferrous Metal		
Zorba Shredded Non-ferrous Scrap (predominantly aluminium) 	Made up of a combination of the non-ferrous metals: aluminium, copper, lead, magnesium, stainless steel, nickel, tin and zinc, in elemental or alloyed (solid) form	Material generated by eddy current, air separation, flotation, screening, other segregation technique(s), or a combination thereof; free of radioactive material, dross, or ash; may be screened to permit description by specific size ranges
Sabot Stainless Steel Scrap 	Clean 18-8 type stainless steel clips and solids containing a minimum 7% nickel and 16% chrome	Particulars concerning physical description, grading, additional analysis and preparation subject to agreement

(1) Specifications based on the Scrap Specifications Circular 2007 by the Institute of Scrap Recycling Industries, Inc.

Production Facilities

The following table sets forth information about our existing and planned production facilities as of the Latest Practicable Date (unless otherwise indicated):

	Existing production facilities					Planned production facilities	
	Southern China			Eastern China	Northern China	Eastern China	Central China
Production facilities	Guangzhou Asia Steel	Guangzhou Yatong	Huan Bao Steel (Hong Kong)	Zhangjiagang Rongli	Tianjin Yatong	Yangzhong Yagang and Ningbo Yagang	Wuhan Yagang
Period operations commenced	April 2003	November 2007(1)	July 2005	January 2007(2)	June 2008(3)	third quarter 2009 (estimated)	2010 (estimated)
Approximate area (m^2)	52,000	34,500(4)	9,200	66,000	105,000	232,000	118,000
Approximate designed annual production capacity(5) (metric tons)	500,000	500,000	200,000	400,000	500,000	1,000,000	500,000
Number of employees(6)	117	32	11	22	7	3	—
Major equipment:	Installed	Installed	Installed	Installed	Planned	Planned	Planned
Shredders	1 (120 mts/hr)	—	—	—	—	1 (150 mts/hr)	1 (150 mts/hr)
Gantry cranes	2	2	—	—	2	4	2
Lifting cranes	3	—	1	—	—	5	—
Shears	5	15	1	10	15	10	5
Grapplers	10	5	4	3	10	10	5
Balers	2	—	1	2	2	2	2
Wire strippers	34	30	—	—	30	30	30
Actual production volume (metric tons)(7)	2006: 234,000 2007: 274,000 2008: 212,000	2007: 15,000 2008: 105,000	2006: 81,000 2007: 74,000 2008: 83,000	2008: 327,000	2008: 2,000	—	—
Utilisation rates(7)	2006: 47% 2007: 55% 2008: 42%	2007: 18% 2008: 21%	2006: 100% 2007: 100% 2008: 42%	2008: 82%	2008: 8%	—	—
Piers	2 berths, each with a capacity of 5,000 dwt(8)	—	—	—	—	2 berths, each with a capacity of 50,000 dwt (application pending)	—

(1) Guangzhou Yatong commenced operations in November 2007. Zhongshan Yatong is expected to commence operations in the third quarter of 2009 to operate a scrap metal collection facility for Guangzhou Yatong. See the section headed "Southern China — Guangzhou Yatong" below.

(2) Acquired by the Group in January 2008.

(3) We began limited operations in Tianjin in June 2008 and expect to complete this facility in the third quarter of 2009. See the section headed "Northern China — Tianjin Facility" below.

(4) Includes a scrap metal collection facility of approximately 30,000 square metres. Zhongshan Yatong entered into the formal land grant contract for this site on 3 April 2009. See the section headed "Southern China — Guangzhou Yatong" below.

(5) Approximate designed annual production capacity figures are estimates based on equipment manufacturers' specifications, historical experience, storage area and other data we believe to be reliable. However, actual production capacity may differ materially from estimated capacity due to equipment defects or breakdowns, variations in raw materials or other factors.

(6) Our Guangzhou Asia Steel facility generally recycles scrap metal that requires higher levels of processing and labour, such as shredding and cutting larger pieces of scrap. In addition, newer facilities, such as Guangzhou Yatong and Tianjin Yatong, generally employ fewer employees during their initial stages of operations.

(7) For the years ended 31 December 2006 and 2007, our Huan Bao Steel facility had a designed annual production capacity of approximately 70,000 metric tons. Utilisation rates were calculated by dividing actual production volume by the designed annual production capacity during the period.

(8) Pier operated by our 45% owned affiliate Guangzhou Zhujiang Port.

Southern China

Guangzhou Asia Steel

We have two production facilities in Guangzhou. Our subsidiary, Guangzhou Asia Steel, began operations in 2003 and is located in Miaotou Industrial District in Huangpu, at the confluence of the Pearl River and the northern tributary of the Dongjiang River. This site has convenient access to waterways as well as railways and highways. It covers an area of approximately 52,000 square metres, which includes a covered warehousing area and an outdoor yard providing storage capacity of up to approximately 64,000 metric tons. We originally entered into a contract with the People's Government of Nangang Town on the transfer of this land in November 2001. However, the original contract was not a formal land transfer contract. We entered into a formal land transfer contract for this site with the People's Government of Nangang Town in April 2004, which adopted some articles from the 2001 contract, and the land use right certificate, with a term of 50 years, was issued in July 2004. Since the People's Government of Nangang Town delivered the land to Guangzhou Asia Steel in 2001 according to the 2001 contract, Guangzhou Asia Steel was admitted by Nangang Government to occupy the land and commence operations there from 2003.

Guangzhou Asia Steel currently has a designed annual production capacity of approximately 500,000 metric tons. We have been operating an automated shredder for our production in this facility since the later half of 2003. The shredder is able to process large pieces of scrap metal such as scrap vehicles, washing machines, refrigerators and air conditioners, all of which are difficult and time-consuming to shred using manual labour. With a designed production capacity of approximately 80 to 120 metric tons of scrap metal per hour, the shredder has significantly increased our operating efficiency. In addition, the shredding plant includes an electromagnetic drum to separate the ferrous and non-ferrous metals, and an eddy current separator to separate the non-ferrous metal and non-metal materials.

Our production at this facility increased from approximately 218,000 metric tons in 2004 to approximately 274,000 metric tons in 2007, and was approximately 212,000 metric tons in 2008. For 2006, 2007 and 2008, the utilisation rate of this facility was approximately 47%, 55% and 42%, respectively. Other equipment used in production at our Guangzhou Asia Steel facility includes two 15-metric ton gantry cranes, three lifting cranes, five hydraulic shears, ten grapplers, two balers and 34 wire strippers of various sizes.

Guangzhou Yatong

In May 2007, we formed Guangzhou Yatong as a wholly owned subsidiary of Asia Steel (Development) to establish our second production facility in Guangzhou. This production facility is located opposite to our Guangzhou Asia Steel facility and has a designed annual production capacity of approximately 500,000 metric tons.

Our Guangzhou Yatong facility occupies a site area of approximately 4,000 square metres. We lease this site under a lease with a three year term commencing on 1 February 2008. We commenced operations at this facility in November 2007. Our production at this facility in 2008 was approximately 105,000 metric tons, and the utilisation rate in 2008 was approximately 21%. Equipment used in production at our Guangzhou Yatong facility includes two gantry cranes, 15 hydraulic shears, five grapplers and 30 wire strippers of various sizes.

Guangzhou Yatong currently focuses on local sourcing and collection of unprocessed scrap metal. However, we plan to apply for a scrap metal import license for Guangzhou Yatong in the second half of 2009. Our PRC counsel has confirmed that there should be no legal impediment for Guangzhou Yatong to obtain such a license.

In September 2008, we established Zhongshan Yatong as a wholly owned subsidiary of Asia Steel (Development) to operate a scrap metal collection facility for Guangzhou Yatong in Zhongshan, Guangdong Province. On 3 April 2009, we entered into a formal land grant contract with Zhongshan State-owned Land and Resources Bureau relating to the acquisition of a site of approximately 30,000 square metres. The consideration for this land use right is approximately RMB 11.7 million. We have paid all consideration for the acquisition of this land and we expect to obtain the title certificate in the third quarter of 2009. After we obtain the title certificate of this land, we intend to apply for the requisite approvals, such as the approval on the environmental assessment report, required for the operation of the facility and we expect to complete this facility in the third quarter of 2009.

Guangzhou pier

Access to stable and convenient port services is important to our success since water transportation is a significant and cost effective means of transporting scrap metal. As part of our logistics strategy, we operate a 42,000 square metre pier through Guangzhou Zhujiang Port, which leases the port facility from GZS. The lease has a term of five years commencing from March 2003 and has been renewed for another two years to March 2010. The lease for the port facility does not have an automatic renewal clause. If the lease is not renewed in 2010, there are other port facilities that we could utilise in close proximity to our Guangzhou Asia Steel facility. We hold a 45% equity interest in Guangzhou Zhujiang Port. The remaining equity interest is held by GZS, which holds a 45% equity interest, and Guangzhou Iron and Steel Corporation Ltd., which holds a 10% equity interest. We believe that by operating a pier through Guangzhou Zhujiang Port in close proximity to our Guangzhou production facilities, we are able to reduce transportation costs and enhance our control over the transportation of raw materials as well as the delivery of finished products. Guangzhou Zhujiang Port is managed by an independent entity. Currently, the pier principally services our own transportation needs and the needs of the other two shareholders of Guangzhou Zhujiang Port on a "first come, first served" basis. There is no agreement governing the rights, obligations and usage by the three owners of Guangzhou Zhujiang Port. Our usage of Guangzhou Zhujiang pier was 10% or less of the total usage during the Track Record Period.

The pier is approximately 500 metres from our Guangzhou Asia Steel production facility and has a coast line of approximately 800 metres. It has two berths, each capable of accommodating ocean-going vessels of up to 5,000 dwt. For 2006, 2007 and 2008, the actual loading and unloading capacity utilised was approximately 1.5 million metric tons, 1.8 million metric tons and 1.5 million metric tons, respectively. The pier is open to foreign registered vessels and is also equipped with customs and border control and China Certification and Inspection Group facilities, which can process international shipments.

Hong Kong facility

Huan Bao Steel has entered into an agreement with Asia Wing Tat whereby Huan Bao Steel engaged Asia Wing Tat to provide cargo handling services with a designated area of approximately 1,800 square metres in the Yau Tong area for a term commencing from 1 January 2009 to 30 June 2009. The agreement will constitute exempt continuing connected transactions after the [●]. Further details of the agreement are disclosed in the section headed "Connected Transactions — Continuing Connected Transactions" of this document. We have also entered into an agreement with an independent third party in January 2008, and an addendum thereto in April 2008, to provide container and breakbulk cargo storage services with a designated area of approximately 7,400 square metres for an initial term expiring in February 2011, with an option to renew for an additional two years. The Tuen Mun facility has a designed annual production capacity of approximately 200,000 metric tons. The principal equipment used in our Hong Kong facilities, including Yau Tong and Tuen Mun, includes one lifting crane, one hydraulic shear, one baler and four grapplers. We relocated a significant portion of our operations in Yau Tong to the larger Tuen Mun facility in 2008.

In Hong Kong, we mainly collect unprocessed scrap metal from numerous small collectors. Such collectors transport the collected scrap metal by trucks to our facilities at Yau Tong and Tuen Mun. After preliminary handling, which mainly consists of sorting the scrap metal to remove loose non-metal substances and potentially harmful objects and cutting the scrap metal into smaller pieces, we ship a majority of such scrap metal to our Guangzhou production facilities for further processing. We sell the remaining scrap metal from Hong Kong to other companies, mainly in Taiwan. We believe such arrangements allow us to have access to raw materials outside China and to maintain cost-effectiveness by keeping the principal production process in China. To facilitate transportation of scrap metal from our Hong Kong facility, we own two 3,000-metric ton barges and lease a 1,000-metric ton vessel in Hong Kong.

Central Steel Macau

China relies in part on imported scrap metal to satisfy its demand. In 2005 we established Central Steel Macau, which is located in the Macau Special Administrative Region, as our sourcing arm to source scrap metal from international markets for our operations in the PRC. Central Steel Macau also sells scrap metal directly to external customers if the scrap metal sourced by Central Steel Macau meets the needs of customers in terms of size, purity and other requirements. Sales by Central Steel Macau to external customers in 2006, 2007 and 2008 accounted for approximately 32.9%, 53.3% and 44.7%, respectively, of the Group's total revenue and approximately 3.2%, 5.7% and 8.0%, respectively, of the Group's total sales by volume. Central Steel Macau primarily sourced scrap copper and other scrap non-ferrous metal from overseas markets during the Track Record Period due to the relative shortage of such materials in the PRC. Because scrap non-ferrous metal had a higher sales price per metric ton than scrap steel during the Track Record Period, Central Steel Macau's revenue from sales to external customers represented a relatively low percentage of the Group's total sales by volume but a relatively high percentage of the Group's total revenue during the Track Record Period.

Central Steel Macau has an employee in the United States that is responsible for overseeing the collection of scrap metal from local suppliers and inspecting the scrap metal to ensure that it meets the requirements of our customers. The scrap metal sourced by Central Steel Macau often has already been separated from other materials by the local suppliers. If scrap metal sourced in overseas markets meets customer requirements, no further processing at our facilities in the PRC is required and the scrap metal can be sold directly to our customers in the PRC. Otherwise, further processing is conducted in the PRC by our PRC subsidiaries. Central Steel Macau also works to expand our overseas supplier network, arranges logistics and financing, coordinates export and import documentation and provides sales and marketing support. Central Steel Macau shares the same customer base as our other subsidiaries in the PRC.

Central Steel Macau operates as an offshore institution that is exempt from Macau income tax for income generated through offshore business. For additional information, please see the section headed "Financial Information — Taxation — Macau Complementary Tax." The Directors confirm that transactions between Central Steel Macau and our other subsidiaries during the Track Record Period were at prevailing market rates.

Eastern China

Zhangjiagang facility

To expand our business and operations into eastern China, in January 2008 we injected capital into Zhangjiagang Rongli to acquire a 70% equity interest using a portion of the proceeds from the sale of our Senior Notes. This acquisition allowed us to strategically expand our scrap metal recycling business into Jiangsu Province, which was the second largest crude steel producing province in China in 2008. In addition, since Zhangjiagang Rongli has extensive customer and supplier networks in Jiangsu Province that have been developed by its general manager, Mr. Wu Yue-xing, over his 25 years of experience in scrap steel recycling, this acquisition has enabled us to significantly expand our customer and supplier profiles in eastern China. We expect our Ningbo facility, once complete, to be our main production facility in eastern China, and we intend to capitalise on Zhangjiagang Rongli's existing customer and supplier networks to build an integrated operation there. We have retained members of Zhangjiagang Rongli's senior management and are capitalising on their knowledge of the local scrap metal industry and their customer and supplier relationships.

In December 2008, we completed the relocation of Zhangjiagang Rongli's facility in Zhangjiagang to a new site of approximately 66,000 square metres that we use under a service agreement with Jiangyin Dongjiang Port Co., Ltd., a third party independent of the Group. The new site is larger than the site previously occupied by Zhangjiagang Rongli and has convenient access to water transportation. The service agreement has an initial term of three years expiring 30 June 2011, subject to termination after one year with two months advance written notice by us or six months advance written notice by the other party. The services provided by Jiangyin Dongjiang Port Co., Ltd. include loading and uploading of goods, transporting the goods to a stack yard, provision of equipment and maintenance of the stack yard. The service fee includes a fixed fee of RMB2.0 million per year and a variable fee of RMB20 per metric ton of loaded and unloaded scrap metal, with a minimum variable fee of RMB3.4 million per year. Under the service agreement, we are entitled to install our equipment and have our employees work at this site, and we are responsible for the safety and cleaning of the site and are required to pay utility fees incurred in connection with our operations there. The scrap metal recycling activities at this facility are conducted by employees of Zhangjiagang Rongli.

Our facility in Zhangjiagang has a designed annual production capacity of approximately 400,000 metric tons. Zhangjiagang Rongli's production in 2008 was approximately 327,000 metric tons, and its utilisation rate in 2008 was approximately 82%. The principal equipment at our Zhangjiagang facility, which is owned by Zhangjiagang Rongli, includes ten hydraulic shears, three grapplers and two balers.

Planned Yangzhong facility

In December 2006, we established Yangzhong Yagang as a wholly owned subsidiary of Asia Steel (Investments) to operate a facility in Yangzhong, Jiangsu Province. Our Yangzhong facility occupies a site of approximately 190,000 square metres. We entered into a land grant contract with the land bureau of Yangzhong City for this site in April 2008 with a term of 50 years, and we obtained the land use right certificate for this site in August 2008. The Yangzhong facility and the Ningbo facility together are expected to have a designed annual production capacity of approximately 1.0 million metric tons. The total capital expenditures for 2009 in respect of our Yangzhong facility (excluding the pier described below) are expected to be approximately HK$11.0 million, which we intend to finance with a portion of the proceeds from the Senior Notes and the [●] and internal resources. We began work on the Yangzhong facility in April 2008 and expect to complete it by the end of the third quarter of 2009 provided we obtain the required construction permit in a timely manner.

This site also includes a coastline of approximately 450 metres. We intend to apply for a construction permit to construct a pier at this facility and for other approvals such as the environmental assessment report and scrap metal import license for the operation of the facility. We expect to commence the construction of the pier and complete it in 2010. The total capital expenditures for the pier are expected to be approximately HK$146 million, which we intend to finance by internal resources and a portion of the proceeds from the [●]. Prior to completion of the pier, we intend to rely on land transportation and public piers in the vicinity for transporting scrap metal to and from this facility.

In addition to the construction permit, the other types of approvals required for the construction and operation of the pier include the harbour operation permit, the pier construction planning permit, the inspection and acceptance permit and the approval on the environmental impact assessment. We expect to obtain all the required approvals for the pier by 2011.

Planned Ningbo facility

In September 2008, we established Ningbo Yagang as a wholly owned subsidiary of Yangzhong Yagang to further expand our operations in eastern China. We entered into a lease agreement in February 2009 to operate a new facility at the Ningbo Recycling Resources Processing Park in Ningbo, Zhejiang Province. The Ningbo Recycling Resources Processing Park includes a number of enterprises engaged in the import and dismantling of scrap equipment. As a result, we believe it will provide a good source of raw materials. We expect to begin operations at this facility in the third quarter of 2009. This site covers an area of approximately 67,000 square metres, with a usable area of approximately 43,000 square metres, and the lease agreement pursuant to which we will operate this facility has a term of 20 years. The site consists of two plots of land owned by Ningbo Xinghe Recycling Metals Co., Ltd. (寧波星河再生金屬有限公司) and Ningbo Zhenglian Recycling Metals Co., Ltd. (寧波正聯再生金屬有限公司), which are independent third parties of the Group. The fee is RMB5.0 million per year, to be revised every three years with the rate of revision not exceeding five percent. with additional charges based on the volume of imported scrap metal.

Under the lease for this facility, the lessors are responsible for applying for the construction permit to construct the production facility and for other approvals such as the environmental assessment report for the operation of the facility. We expect construction of the production facilities to be completed and all required approvals for operation to be obtained in the third quarter of 2009. If the lessors fail to deliver the leased land and the facilities pursuant to the stipulations in the lease agreement, the lessors are liable to Ningbo Yagang for liquidated damages equal to five percent of the annual rent under the lease agreement.

The Ningbo facility and the Yangzhong facility together are expected to have a designed annual production capacity of approximately 1.0 million metric tons. In 2007, we entered into an agreement to purchase an automated shredder for a consideration of US$5.7 million, which we plan to install at the Ningbo facility. The shredder is expected to have a designed production capacity of approximately 120 to 150 metric tons per hour. We expect the automated shredder to be delivered and commence operations in the third quarter of 2009. The shredding plant will include an electromagnetic drum to separate the ferrous and non-ferrous metals, and an eddy current separator to separate the non-ferrous metal and non-metal materials. We intend to equip this facility with other heavy equipment as well. The total capital expenditures for 2009 in respect of the Ningbo facility are estimated to be approximately HK$70.0 million, which we expect to finance partly with internal resources of the Group and partly with a portion of the proceeds of the [●].

Northern China

Tianjin facility

To expand our operations into northern China, in June 2007 we entered into a joint venture agreement with Lester Metal, Inc. (萊斯特金屬製品有限公司), which we refer to as Lester Metal, to establish a new production facility in Tianjin. We currently hold a 90.385% equity interest in Tianjin Yatong, with Lester Metal owning the remaining 9.615% equity interest. Lester Metal is a U.S. metal recycling company.

The production facility in Tianjin has a designed annual production capacity of approximately 500,000 metric tons. The main equipment to be used at our Tianjin facility includes two gantry cranes, 15 hydraulic shears, ten grapplers, two balers and 30 wire strippers.

We currently have land use rights at this site for an area of approximately 10,000 square metres and 95,000 square metres for a term expiring in 2056 and 2058, respectively. We commenced collecting and reselling scrap metal at this site in the second quarter of 2008, although we have not yet entered into long-term agreements with customers or suppliers for this facility. We have obtained a scrap metal import license of restricted category for the import of scrap copper from old electronic machines, which is under the name of Tianjin Yatong. This import license has an authorised quantity of 800,000 kilograms. We are entitled to apply for additional import licenses for scrap copper in 2009 with a total authorised quantity of 4,000,000 kilograms. We are applying for a construction permit to construct the production facilities and for other approvals such as the environmental assessment report for the operation of the facility. We expect to complete construction of the production facilities and obtain all required approvals for operation in the third quarter of 2009. The total capital expenditures for 2009 in respect of our Tianjin facility are expected to be approximately HK$20 million, which we expect to finance with internal resources and a portion of the proceeds from the Senior Notes and the [●].

Tianjin Yatong has a board consisting of four directors, of which we appoint three directors and Lester Metal appoints one director. The general manager was appointed by the Group. If we or Lester Metal intends to transfer our equity interest in Tianjin Yatong, the other shareholder has a right of first refusal to purchase such interest.

Central China

Planned Wuhan facility

To expand our operations into central China, we established Wuhan Yagang, a Sino-foreign joint venture enterprise, with Wuhan Jin Huan in September 2008. We hold a 70% equity interest in Wuhan Yagang and Wuhan Jin Huan holds a 30% equity interest. Wuhan Jin Huan is an independent third party except for its investment in Wuhan Yagang and is considered a connected person by reason of its substantial shareholding in Wuhan Yagang. Wuhan Jin Huan is an investment holding company whose shareholder is experienced in the metal refining and metal recycling industries in Wuhan. On 17 October 2008, we entered into a land use agreement with the Office of Dongxihu Government with respect to the use of a plot of industrial land of approximately 118,000 square metres for construction of Wuhan facility, and have paid a deposit of RMB6.0 million for this land. Under this agreement, the Office of Donxihu Government has agreed to help arrange the bidding and auction within nine months of the date of the agreement. The timing of the signing of land grant contract is subject to the bidding and auction procedures arranged by the Administration of State-owned Land and Resources of Wuhan Government. However, we have not entered into a formal land grant contract with the relevant land bureau and cannot assure you that we can obtain the required land use rights in a timely manner or at all. If we are unable to acquire the land for which we have paid the deposit, the deposit is refundable. After we enter into the formal land grant contract with the land bureau, we intend to apply for a construction permit to construct the production facilities and for other approvals such as the environmental assessment report and a scrap metal import license for the operation of the facility. We expect to complete construction of the production facilities and obtain the required approvals in the second half of 2010.

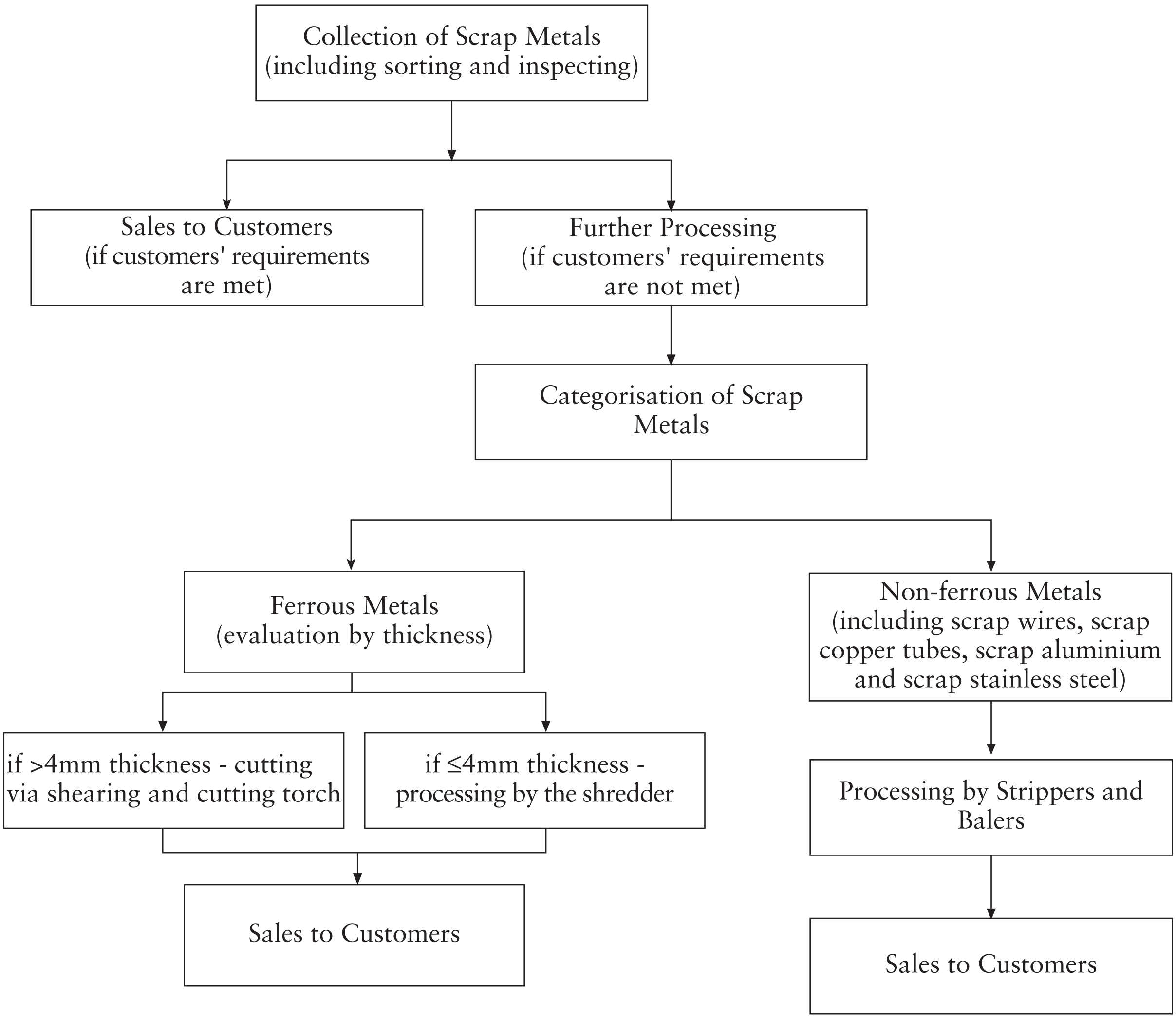
The planned new production facility in Wuhan is expected to have a designed annual production capacity of approximately 500,000 metric tons. The main equipment expected to be used at our Wuhan facility will include an automated shredder similar to the one to be installed at our planned Ningbo facility, as well as other heavy equipment. We expect the new Wuhan production plant to commence commercial operations in 2010. The total capital expenditures for 2009 in respect of the Wuhan facility are expected to be approximately HK$23.0 million, which we expect to finance with internal resources and a portion of the proceeds from the [●].

Production Process and Transaction Flow

We produce recycled scrap ferrous metal and recycled scrap non-ferrous metal using both heavy equipment and manual labour. Recycling scrap metal consists of a variety of steps, including collecting, inspecting, sorting, stripping, shearing, cutting, shredding and baling. The precise steps involved depend on the types and condition of the raw materials that we source. For some materials, a number of these steps are required to produce recycled scrap metal that meets the requirements of our customers. For other materials, only a few of theses steps are required.

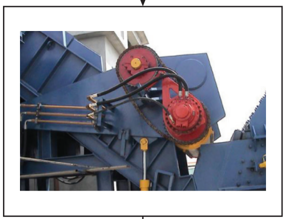
For ferrous scrap metal, we primarily use heavy machinery such as a shredder or hydraulic shear to break large pieces of scrap metal into smaller pieces. In the shredding process, the ferrous metal is separated from other materials by an automated electromagnetic drum. For non-ferrous scrap metal, we primarily use lighter machinery, such as wire strippers to strip plastic coating off copper wires and balers to press the non-ferrous metal in bales for delivery to customers. We also recover non-ferrous scrap metal through the use of an eddy current separator in the shredding process, which separates non-ferrous metal from non-metal materials. The non-ferrous metal is then manually separated into copper, aluminium and other non-ferrous metal primarily based on color and weight of the extracted metal pieces. This manual separation process requires minimal training and, as a result, we do not believe it will be difficult to hire any additional employees that may be required to perform the separation process to support growth in our sales of recycled scrap non-ferrous metal.

The following flow chart provides the major steps and divisions involved in the production process for our recycled scrap metals.

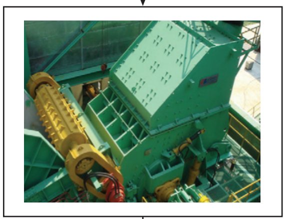


The following chart illustrates the principal steps involved in the production of recycled scrap ferrous metals (mainly shredded scrap steel) using a shredder, as well as the separation of scrap non-ferrous metals:

FEEDING
A crane or forklift feeds unprocessed scrap metal such as household appliances onto the conveyor belt.



COMPRESSING
Scrap metal is compacted before feeding into the hammer mill for shredding.



SHREDDING
The hammers inside the shredder shear the scrap metal. Water is sprayed into the shredder to prevent it from overheating during its operation.

DUST REMOVAL
Air cyclones remove rust, plastics, dirt, rubber and paint from the compressed scrap. Dust produced during shredding and separation is also removed by means of centrifugal force.

SEPARATING
Ferrous and non-ferrous metals are separated by means of an electromagnetic drum.

OUTPUT
Recycled scrap contains mainly iron, steel and non-ferrous metal. Non-ferrous metal is separated from non-metal materials by means of an eddy current separator. Recovered non-ferrous metal is separated by our employees into copper, aluminium and other types of non-ferrous metal.

The recycled non-ferrous metal and shredded ferrous scrap metal are sent to our warehouses on-site for temporary storage before delivery to our customers.

Although we obtain non-ferrous scrap metal as part of the shredding process, the principal steps involved in the production of recycled scrap non-ferrous metal include:

➢ **Collecting:** scrap non-ferrous metal is purchased from our suppliers or obtained as output from our shredder, and stockpiled in the production plant's raw material yards. We don't separately track the volume of scrap non-ferrous metal obtained from suppliers compared to the shredder.
➢ **Separating:** scrap non-ferrous metal is separated manually into product category.
➢ **Processing:** scrap non-ferrous metal such as copper wires and cables are processed using a wire stripper to strip off their plastic coating.
➢ **Compressing:** the processed scrap non-ferrous metal is separately packed into bundles using a baler and stored in our warehouses awaiting delivery to our customers.

We rely on electricity to operate equipment at our production facilities. Our customers also are dependent on electricity to convert our recycled scrap metal into steel and other products. Accordingly, the successful operation of our customers' business and our production facilities requires a reliable supply of electricity. 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. However, we have not experienced any material disruptions in the supply of electricity during the Track Record Period.

Our sales staff at our various production facilities made regular contacts with customers to track market demand and to determine their specific requirements and production schedules. We sell products to some of our major customers under annual contracts where volume is indicated and pricing is determined on a monthly basis. We sell products to other customers based on quarterly, monthly or spot contracts. Our customers generally submit orders to our production facilities in the regions where they are located, and we generally fill orders from inventory at the local production facilities. However, for customers with port loading facilities, their orders may be fulfilled from our production facilities in other regions that have convenient access to water transportation.

We ship our products to customers with annual contracts on a daily or weekly basis as per our customers' instruction, and invoice these customers on a monthly basis. We ship products to other customers promptly after we accept the orders and invoice these customers promptly following shipment of our products. Invoices are settled by the customers with our local production facility by bank transfer or bills of exchange in accordance with the credit terms we have agreed upon with the customers. We generally assign bills of exchange to local banks for cash advances promptly after receiving the bills from the customers.

Scrap metal is sourced by our staff at the local production facilities as well as by our Macau and Hong Kong offices. We purchase scrap metal from suppliers either under long-term contracts or on a spot basis. Pricing is generally determined at the time of purchase. Our suppliers invoice us on a monthly basis or promptly after shipping the scrap metal to us.

Sales and Marketing

We operate our sales network through our production facilities in China and Hong Kong, and our office in Macau. As of the Latest Practicable Date, our sales and marketing team consisted of 44 dedicated members, including 33 in Guangzhou, six in eastern China, two in northern China, one in Hong Kong and two in Macau. The sales teams in China and Hong Kong are responsible for coordinating with our PRC customers, and our Macau staff focuses on both overseas and PRC customers. Members of our sales team contact our customers to negotiate sales orders and prices and provide after-sales services, including delivery logistics and handling questions and feedback on our products. The sales team members in China and Hong Kong also visit customers to provide administrative and logistical support where necessary.

Raw Material Supplies

Raw materials for our production primarily include scrap metal from household appliances and the construction and manufacturing industries. We have a strong supply network in both China and foreign countries and regions including the United States, Europe, Australia, Japan, Macau, Hong Kong and Taiwan.

The following are our principal sources of raw materials:

SCRAP FROM HOUSEHOLD APPLIANCES

SCRAP FROM THE CONSTRUCTION INDUSTRY

SCRAP FROM MANUFACTURING INDUSTRIES

Our PRC, Hong Kong and Macau suppliers are private enterprises engaged in the business of collecting unprocessed scrap metal. Due to transportation constraints, these suppliers generally sell the unprocessed scrap metal they collect within a limited area. In the PRC, we deal with various district or regional scrap metal collectors (either sole proprietors or companies) located in or near our operations. Dealings with individuals during the Track Record Period were negligible. Our foreign suppliers include major companies engaged in the business of scrap metal trading, such as Jason Metal Recycle Corp. and Lane Tone International Material Inc. in the United States, which is a connected person of our Group and our largest supplier for the year ended 31 December 2008. Our Macau office is responsible for coordinating with our foreign suppliers. To facilitate sourcing of raw materials in the United States, we have a designated representative in the United States who is responsible for liaising with potential suppliers.

We acquired a 70% equity interest in Zhangjiagang Rongli, Jiangsu Province, in January 2008, which allows us to strategically enhance our foothold in the scrap metal recycling industry and to expand our supplier network in eastern China.

In addition, we have entered into five-year supply contracts with five PRC suppliers between January 2006 and September 2007. Under these supply contracts, each supplier is required to supply us with a minimum of 3,000 to 5,000 metric tons of unprocessed scrap metal each month at the then-prevailing market price. We enter into quarterly, monthly or spot contracts specifying the detailed terms of each particular shipment such as quantity, price and shipping terms. We also purchase from smaller suppliers on a spot basis. We do not have long-term contracts with our foreign suppliers. While we believe that we have established good business relationships with our suppliers, our business with them has been, and we expect will continue to be, conducted on the basis of actual purchase orders placed by us from time to time. During the Track Record Period, none of our major suppliers have failed to meet our purchase orders or have terminated their business relationship with us.

Our PRC and foreign suppliers generally grant us credit periods of approximately 15 to 45 days. We typically pay our suppliers through telegraphic transfers or letters of credit. During the Track Record Period, all purchases from our PRC suppliers were settled in Renminbi and all purchases from foreign suppliers were settled in U.S. dollars or Hong Kong dollars.

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, all of our five largest suppliers are independent third parties and none of our Directors, their respective associates or any shareholders who own more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our five largest suppliers during the Track Record Period. During the years ended 31 December 2006, 2007 and 2008, imported scrap metal accounted for 67.0%, 79.5% and 43.7%, respectively, of our total purchases of scrap metal.

Customers

Our customers are primarily large steel and copper manufacturers and scrap metal resellers in the PRC. Prior to 2006, we sold our recycled steel products primarily to GZS. In recent years, we have expanded our customer base to include a number of other large steel manufacturers, such as those set out in Section I of the table below. These steel manufacturers are all located within a 50-kilometer radius of our Guangzhou production facilities.

We have leveraged our leading position in southern China to expand our customer base, including those set out in Section II of the table below. We have also expanded our customer base through our recent acquisition of Zhangjiagang Rongli, adding customers of Zhangjiagang Rongli into our enlarged customer base, including those set out in Section III of the table below. We also sell some of our products to Taiwan through our Hong Kong subsidiary. We believe our customer additions and the acquisition of Zhangjiagang Rongli provide a strong customer base for our expansion.

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 Group and us, see the section headed "Connected Transactions."

The following table sets forth information regarding our major customers:

	Customers	Region of customers	Description	Year becoming customer	Principal materials purchased from us
Section I					
A.	Guangzhou Zhujiang Steel Co., Ltd. GZS[1] (廣州珠江鋼鐵有限責任公司)	Southern China	Steel manufacturer	Prior to 2006	Ferrous metal
B.	Guangzhou Iron and Steel Corporation Ltd.[1] (廣州鋼鐵股份有限公司)		Steel manufacturer	2006	Ferrous metal
C.	Lianzhong Stainless Steel Corporation (聯眾(廣州)不銹鋼有限公司)		Stainless steel manufacturer	2007	Ferrous metal
Section II					
A.	Foshan Nanhai Chengqun Resources Recycling Co., Ltd. (佛山市南海區成群物資回收有限公司)	Southern China	Scrap metal reseller	2006	Non-ferrous metal
B.	Guangzhou Metallurgy Industrial Co., Ltd.[1] (廣州冶金實業有限公司)	Southern China	Non-ferrous metal manufacturer	2006	Non-ferrous metal
C.	Guangzhou Nanfang Nonferrous Metal Co., Ltd.[1] (廣州南方有色金屬有限公司)	Southern China	Non-ferrous metal manufacturer	2006	Non-ferrous metal
D.	Zhangjiagang Sha Jing Iron and Steel Co., Ltd. (張家港沙景鋼鐵有限公司)	Eastern China	Purchasing division of Jiangsu Shagang Group Co., Ltd.	2007	Ferrous metal
Section III					
A.	Jiangyin Xingcheng Special Steel Co., Ltd. (江陰興澄特種鋼鐵有限公司)	Eastern China	Steel manufacturer	2008	Ferrous metal
B.	Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司)	Eastern China	Steel manufacturer	2008	Ferrous metal

(1) Subsidiaries of GSEG Group. GSEG Group is a connected person of our Group.

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. While we believe that we have established good business relationships with our major customers, our business with them has been, and we expect will continue to be, conducted on the basis of actual purchase orders received from them from time to time.

With the exception of members of the GSEG Group, all of our five largest customers during the Track Record Period were independent third parties and none of our Directors, their respective associates or any shareholders who own more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our five largest customers during the Track Record Period. For the relationship between members of the GSEG Group and our Group, please refer to the section headed "Connected Transactions — Continuing 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 - (i) Sale of recycled metal."

Terms of Sales and Credit Policy

We sell products to some of our major customers under annual contracts where volume is indicated and pricing is determined on a monthly basis. We sell products to other customers based on quarterly, monthly or spot contracts. For quarterly and monthly sales, the selling price is generally determined monthly based on the market price. We generally grant credit periods to our customers for trade receivables of approximately 30 to 90 days. We generally grant longer credit periods to buyers of recycled scrap non-ferrous metal. In addition, the credit periods are generally longer for sales financed with bills of exchange, usually up to 180 days, although the bills may be discounted and transferred to a bank to receive payment prior to maturity. Our customers generally pay by cheque, telegraphic transfers or letters of credit. Our policy is to make full provision for trade receivables that are overdue for more than 365 days.

In 2007, we experienced longer credit periods and delays in receiving payment from some of our customers. This was due in part to measures adopted by the PRC Government to control the growth of credit and lending in the banking system in response to concerns over the high rate of growth in industrial production and bank credit in China. Such measures adversely affected the liquidity of our customers and their ability to make timely payments to us. As of 31 December 2007, we experienced larger receivable amounts and longer receivable periods from our customers as compared to 31 December 2006. As of 31 December 2007, we had trade receivables of HK$749.3 million, of which HK$191.0 million were 31 to 60 days, HK$120.3 million were 61 to 90 days and HK$106.3 million were over 90 days. To minimise credit risk, we implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that timely follow-up action is taken to recover overdue amounts. These measures contributed to a decrease in our turnover days of our average trade receivables and bills receivable from 97 days in 2007 to 52 days in 2008. As of 31 December 2008, we had trade receivables of HK$772.3 million, of which HK$316.6 million were 31 to 60 days, HK$27.0 million were 61 to 90 days and HK$3.4 million were over 90 days.

Distribution Process

We distribute products from our production facilities primarily over land in trucks or via waterways in barges and other vessels. As of the Latest Practicable Date, we had a fleet of approximately 15 trucks, with an aggregate daily loading capacity of 1,500 metric tons, which are used for distribution of products from our Guangzhou production facilities. We also use independent trucking companies and other transportation service providers to ship our products on a quarterly, monthly or as-needed basis.

Products from our Guangzhou production facilities are also distributed via waterways through the Guangzhou Zhujiang Port facility, which allows us to reduce our distribution costs and help ensure timely loading. We intend to build another pier next to our planned production facility in Yangzhong in Jiangsu Province. We also own two barges, each with a loading capacity of 3,000 metric tons, and lease a third vessel with a loading capacity of 1,000 metric tons. We use these vessels primarily for shipping scrap metal from our Hong Kong facility to our facilities in Guangzhou for further processing.

Our distribution and selling expenses accounted for approximately 0.2% of our total revenue in each of the years ended 31 December 2006 and 2007 and approximately 0.1% of our total revenue for the year ended 31 December 2008.

INVENTORY MANAGEMENT

We monitor the inventory levels of our raw materials and finished products to balance our production needs and our exposure to changes in metal prices. We generally maintain an inventory of scrap metals sufficient for approximately 15 to 30 days of sales.

As of 31 December 2006, 2007 and 2008, our inventory was approximately HK$65.2 million, HK$144.7 million and HK$257.5 million, respectively. Our average inventory turnover days during the years ended 31 December 2006, 2007 and 2008 were 18 days, 23 days and 12 days, respectively. The decline in our inventory turnover days in 2008 was primarily due to tighter inventory management policies in 2008 in response to the global financial crisis. Also, in 2008 we had a write-down of inventories of HK$10.0 million due to the decline in copper prices. We have not made any other provisions for inventory obsolescence during the Track Record Period as our raw materials and products, primarily scrap metal, are not susceptible to obsolescence by passage of time.

AWARDS AND CERTIFICATION

We have received a number of awards and certifications from various PRC Government authorities and other associations. The more significant awards and certifications are summarised as follows:

Time of grant	Awards/Certificates	Issuing Organisation
June 2007	Role model of processing and distribution centre for scrap steel and iron in southern China (華南廢鋼鐵加工配送中心示範基地)	China Association of Metal Scrap Utilization (中國廢鋼應用協會)
December 2006 ...	2006 outstanding supplier award (2006年度優秀供應商)	GZS

Time of grant	Awards/Certificates	Issuing Organisation
August 2006	ISO 14001:2004 for environmental management system in the manufacture and processing of scrap steel and metal	Guangdong Zhongjiang Certification Co., Ltd.
June 2006	Guangdong Province Clean Production Enterprise (廣東省清潔生產企業)	The Economic and Trade Commission of Guangdong Province (廣東省經濟貿易委員會); Guangdong Environmental Protection Bureau (廣東省環境保護局) and Guangdong Science & Technology Bureau (廣東省科學技術廳)
January 2006	ISO 9001:2000 for quality management system in the manufacture and processing of scrap steel and metal	Beijing Daluhangxing Quality Certification Center
April 2005	AAA Grade China Quality Credit Enterprise (AAA級中國質量信用企業)	China Quality Credit Appraise (中國質量信用評價中心)
March 2005	2004 Guangdong Province environmentally-friendly enterprise — mainstay enterprise (2004年度廣東省環保產業 — 骨幹企業)	Guangdong Province Environmental Protection Enterprise Association (廣東省環境保護產業協會)

QUALITY CONTROL

Pursuant to our internal quality control procedures, we assess our raw material suppliers every year in accordance with specified criteria on pricing, quality of raw materials supplied, the source of the scrap metal and quality of services. Before commencing a relationship with a new supplier, we check the supplier's background and business reputation through meetings, discussions and other available information to assess whether it is qualified and suitable to be a new supplier of the Group. Where scrap metal is purchased from individual collectors, we also record their name and identification number in the event we are required to assist in tracing an individual collector in connection with an enquiry by the police relating to the supplied materials, although we have not received any such enquiries.

Before raw materials are accepted for use in our production process, the raw materials are physically inspected for dangerous or suspicious materials and a sample of each type of raw material is physically examined to determine metal content. We also inspect raw materials to determine whether they contain significant amounts of chemical residuals or other environmental pollutants, which are to be removed from the raw materials by our suppliers or others in the supply chain before delivery to us, and to verify compliance with environmental protection control standards for imported solid wastes as raw materials based on the national standards of the PRC (中華人民共和國國家標準 — 進口可用作原材料的固體廢物環境保護控制標準). Our suppliers are responsible for removing fluorocarbons and other hazardous materials, as well as larger pieces of plastic, from raw materials provided to us. If upon inspection we discover the existence of enclosed objects that may contain fluorocarbons or other hazardous materials, we return the enclosed objects to the supplier. Smaller pieces of plastic, including wire coatings, are collected and sold.

As part of our compliance program relating to national standards, our PRC facilities use a quality control manual to guide inspection of raw materials upon delivery before they are accepted. As of the Latest Practicable Date, the total number of staff in our quality control department was 18. No illegal items or substances have been discovered in raw materials purchased by us or reported to the relevant governmental authorities during the Track Record Period. In 2006, however, Asia Steel (H.K.) imported scrap metal into Hong Kong and then sold the materials to a third-party customer. After the materials had left our control, the customer added waste vehicles to the materials and then exported those materials to Guangdong Province, which constituted a violation of the regulations governing the import of waste vehicles into the PRC. As a result of such customer conduct, Asia Steel (H.K.)'s license from the PRC Government to export scrap materials to the PRC was temporarily suspended from June 2006 to July 2008, when it was reinstated. The suspension did not result in any penalties or fines and did not have a material effect on our business or results of operations as we were able to export scrap metal to the PRC through another subsidiary, Huan Bao Steel, which also has a license from the PRC Government to export scrap materials to the PRC. We did not pursue legal action against the customer. After this incident, we changed our policy so that we do not provide customers with pre-shipment inspection certificates (裝運前驗證), but require them to obtain their own certificates after they have taken possession of the materials.

In January 2006, Guangzhou Asia Steel obtained ISO 9001:2000 certification, an international standard used to measure product quality which requires the implementation of a quality control system throughout the various stages of production, including production process, inspection and service of finished products.

In August 2006, Guangzhou Asia Steel obtained ISO 14001:2004 certification, an international standard used to measure the impact of an operation on the environment, taking into account compliance with applicable laws, regulations and other environmentally oriented requirements from time to time.

Guangzhou Asia Steel have compiled a "Quality Assurance Handbook" in accordance with ISO 9001 and ISO 14001 requirements, which sets forth standardised requirements and procedures regarding quality control and environmental protection.

Our ISO certifications are valid from 2006 to 2009. ISO certification is not required under our agreements with our customers or by the PRC Government. However, we believe ISO certification is beneficial to us and we intend to continue to operate our business in accordance with our quality control manual and the other requirements of ISO certification. Mr. Jiang Yan-zhang, our chief operating officer, is responsible for formulating and implementing our quality control measures to ensure ongoing compliance with ISO certification requirements. He has over 37 years of experience in the business of metal production.

As of the Latest Practicable Date, we had not received any material complaints or claims in relation to the products sold that would affect our financial position or results of operations.

MAINTENANCE

As of the Latest Practicable Date, we had approximately 20 staff members responsible for regular repairs and maintenance of our equipment and machinery at our production facilities, including the shredder, and our delivery trucks. Maintenance staff members undergo training conducted by equipment suppliers before undertaking repair and maintenance work in our production facilities. The maintenance staff carries out regular weekly inspections and maintenance of our shredder in accordance with our maintenance manual. These inspections and maintenance include testing the proper functioning of the shredder and rotating the hammers inside the shredder regularly to reduce wear and tear. We also undertake an overhaul for the shredder each year, during which time the shredder is shut down for approximately ten days. Other machinery and equipment is also subject to inspection and maintenance, generally once a month. We plan to extend our rigorous maintenance program to our new production facilities. We have not experienced any incidents leading to material disruptions to our operations during the Track Record Period.

EMPLOYEES

As of the Latest Practicable Date, we had 475 employees. The following table sets forth the number of employees in our different departments.

Department	Total
Administration	74
Executive management	19
Finance	32
Production (including maintenance and logistics)	280
Purchasing	22
Sales and marketing	44
Others	4
Total	475

We incurred labour costs 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. However, since the labour costs are a relatively small component of our overall cost structure, we do not expect the new Labor Contract Law to have material impact on our business or results of operations.

INSURANCE AND SAFETY MEASURES

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. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. Certain types of liabilities which are beyond our control are generally not insured because they are either uninsurable or the costs involved to insure against such risks are not commercially reasonable in our view. Neither do we carry insurance coverage against war or acts of terrorism. We believe that our insurance coverage is in line with industry practice in China. We have not experienced any material industrial accidents during the Track Record Period.

Our safety measures include regular training and occupational safety gear for our staff, protective devices and warning signage on production equipment and a dedicated safety officer to monitor safety measures and conduct safety training. Our employees generally are not exposed to significant amounts of hazardous materials in connection with the recycling process.

PROPERTIES

As of the Latest Practicable Date, we held land use rights for production facilities of approximately 52,000 square metres in Guangzhou, 105,000 square metres in Tianjin and 190,000 square metres in Yangzhong. We have also entered into the formal land grant contract for a site of approximately 30,000 square metres in Zhongshan and we expect to obtain the title certificate for this site in the third quarter of 2009. In addition, we operated production facilities of approximately 4,000 square metres in Guangzhou under a lease with a third party and 9,200 square metres in Hong Kong under licenses with third parties. We also leased approximately 67,000 square metres in Ningbo, with a usable area of approximately 43,000 square metres, for production facilities, and owned or leased office, dormitory and car parking spaces in Hong Kong, Guangzhou, Zhangjiagang, Yangzhong, Tianjin and Macau.

The Guangzhou facility comprises seven buildings with a total gross floor area of approximately 12,000 square metres, which were present on the property when we acquired it. These buildings have been used by us on a temporary basis as office and warehouse space. We have recently relocated the office to an office space in Huangpu District, Guangzhou. We intend to demolish these buildings by the end of 2009. We intend to use this land for storage purposes. As a result, these buildings are not crucial to our operations and we do not intend to apply for the building ownership certificates for such buildings. Further, since the seven buildings are erected on the Guangzhou facility, the land use rights of which we own, we are entitled to occupy and use such buildings. The estimated demolition cost for the seven buildings is approximately RMB0.2 million. The leased office in Huangpu District, Guangzhou is crucial to our operation. The registration of the lease agreement of this property was completed in July 2008.

Regarding the leased office and dormitory spaces in Zhangjiagang with a total gross floor area of approximately 800 square metres and the leased office in Tianjin with a total gross floor area of approximately 300 square metres, the lease agreements have not been registered with the relevant governmental authorities. Such leased property in Zhangjiagang is used on a temporary basis as we have relocated our operation in Zhangjiagang to a new site. Therefore, we do not consider it necessary to register the lease agreement for such existing property. As advised by our PRC legal advisors, Jun He Law Offices, non-registration of these lease agreements will not affect their legality or validity and our rights as lessees under the lease agreements are still legally recognised and protected under PRC laws.

In December 2008 we completed the relocation of our facility in Zhangjiagang to a site of approximately 66,000 square metres that we use under a service agreement with Jiangyin Dongjiang Port Co., Ltd., a third party independent of the Group. The service agreement has an initial term of three years expiring 30 June 2011, subject to termination after one year with two months advance written notice by us or six months advance written notice by the other party. The services are provided by Jiangyin Dongjiang Port Co., Ltd. (江陰市東江港務有限公司) and include loading and uploading of goods, transporting the goods to a stack yard, provision of equipment and maintenance of the stack yard. The service fee includes a fixed fee of RMB2.0 million per year and a variable fee of RMB20 per metric ton of loaded and unloaded scrap metal, with a minimum variable fee of RMB3.4 million per year. This is a services agreement under which we pay fees to Jiangyin Dongjiang Port Co., Ltd. in exchange for services rather than a lease agreement under which fees are paid for the right to occupy land.

We entered into a lease agreement in February 2009 to operate a new facility at the Ningbo Recycling Resources Processing Park in Ningbo, Zhejiang Province. This site covers an area of approximately 67,000 square metres, with a usable area of approximately 43,000 square metres, and the lease agreement pursuant to which we will operate this facility has a term of 20 years. The site consists of two plots of land owned by Ningbo Xinghe Recycling Metals Co., Ltd. and Ningbo Zhenglian Recycling Metals Co., Ltd. The registration of the lease for this site was completed in February 2009.

Our Controlling Shareholder, Mr. Chun Chi-wai, has undertaken to indemnify us against any fines, expenses, penalties, losses and damages suffered by us that may arise from any property claim affecting the properties owned, rented or otherwise occupied by us that are listed in Appendix V to this document.

Vigers Appraisal and Consulting Limited, an independent property valuation firm, has valued our property interests as of 31 March 2009. The text of Vigers Appraisal and Consulting Limited's letter, a summary of valuation and valuation certificates are included in Appendix V to this document.

ENVIRONMENTAL MATTERS

According to PRC environmental laws and regulations, we are required to adopt effective measures to prevent and control pollution to the environment during the course of our operations. We monitor compliance with applicable environmental regulations relating to noise and solid waste discharge and have established an environmental control system pursuant to the requirements of ISO 14001:2004 standards. In 2005, the Environmental Protection Enterprise Association of Guangdong Province (廣東省環境保護產業協會) pronounced Guangzhou Asia Steel as an environmentally friendly enterprise in Guangdong Province, and in 2006 Guangzhou Asia Steel received ISO 14001:2004 certification for our environmental management standards in processing scrap metals.

We are also required to carry out an environmental impact assessment before commencing construction of production facilities, and to install equipment to reduce pollution in accordance with relevant environmental standards. The scrap metal recycling process involves sorting, cutting, shredding, shearing, stripping and baling. Sorting consists of sorting by size and type of metal included in the scrap metal, as our suppliers generally have already sorted out a significant portion of the non-metal components. Any remaining non-metal components included in the scrap metal is separated either manually, for example by stripping plastic coating from copper cable, or through the shredding process and the operation of the electromagnetic drum and eddy current separator. No chemical solvents are used in the process. The principal environmental impact is the discharge of dust and sound generated in the physical or mechanical breaking process. Substantially all materials output from the recycling process are sold, including the non-metal components. The principal solid waste produced during the recycling process is dust, which is collected by a dust filtering sub-system of the shredder and disposed of through the urban department of the local government. We have also installed water drainage and filtering systems in our Guangzhou facility for the waste minimisation control for our operations and to process rainwater passing through the stored scrap metal, and we plan to install similar systems in our facilities in Tianjin, Yangzhong and Wuhan. The costs for compliance with environmental laws and regulations were not material during the Track Record Period.

In Hong Kong, environmental laws and regulations applicable to the activities of Huan Bao Steel are principally the Waste Disposal Ordinance (Chapter 354, Laws of Hong Kong) and the Noise Control Ordinance (Chapter 400, Laws of Hong Kong). The handling of scrap metal in Hong Kong falls within the ambit of the purpose of reprocessing, recycling and recovery operations as well as for reuse, and as such, no permits under the Waste Disposal Ordinance for importing and exporting the scrap metal to and from Hong Kong are required. As regards the Noise Control Ordinance, noise generated by Huan Bao Steel at its facilities in Yau Tong, Kowloon and Tuen Mun is within the levels specified by the Technical Memorandum for the Assessment of Noise from Places other than Domestic Premises, Public Places or Construction Sites issued under the Noise Control Ordinance, and Huan Bao Steel has not been served with any noise abatement notices by the Environmental Protection Department.

We, as well as all organisations in Macau, including Central Steel Macau, have to comply with the environmental principles of environment protection policy according to the Macau Ordinance, in respect of noise, pollution and construction nuisance. However, Central Steel Macau, which is the overseas scrap metal sourcing arm for our PRC business, does not collect or recycle scrap metal in Macau. Therefore, the environmental regulations are not applicable to Central Steel Macau.

We are required to comply with the following domestic regulations relating to environmental protection and safety in the PRC: (a) the Environmental Protection Law of the PRC; (b) the Environmental Impact Assessment Law of the PRC; (c) the Law on the Prevention and Control of Solid Waste Pollution; (d) the Law on the Prevention and Control of Water Pollution; (e) the Law on the Prevention and Control of Air Pollution; (f) the Law on the Prevention and Control of Noise Pollution; and (g) Safety Production Law of the PRC.

Our chief operating officer, Mr. Jiang Yan-zhang, is responsible for formulating and implementing our quality control measures to ensure ongoing compliance with the applicable environmental standards in the PRC. Before joining us, he has served various management positions in Guangdong Shaogang Company Group for 33 years, including the manager of the scrap steel department and the safety and environmental department.

Our environmental protection activities mainly focus on the initial selection of the site for our production facilities, site formation and installation of sound panels and dust removal devices for shredders. We seek to select sites that are away from the residential areas. Site operations are subject to initial and subsequent annual assessment by our environmental protection department. During the Track Record Period, we have passed all annual assessments by governmental environmental protection departments, which is a condition for our continuous operation and renewal of scrap metal import licences. Between annual assessments, we focus primarily on maintenance and implementation of measures to ensure compliance with environmental protection rules and regulations.

We have complied in all material respects with the relevant environmental laws and regulations during the Track Record Period. We have not experienced any material discharge of contaminants into the environment nor incurred any penalties or fines as a result of violation of environmental rules or regulations during the Track Record Period. In addition, we believe we have conducted all required environmental impact assessments before commencing construction of production facilities, and have obtained all required permits and environmental approvals for our existing production facilities. Our Directors are not aware of any non-compliance with relevant environmental regulations by our suppliers during the Track Record Period and up to the Latest Practicable Date, and our PRC legal counsel, Jun He Law Offices, have confirmed that we have complied with the relevant environmental protection laws and regulations in the PRC during this period.

REGULATION

Scrap metal recycling companies in China are subject to laws and regulations governing various aspects of their operations, including the import of solid waste and the handling of waste vehicles and disused vessels. Under the PRC's Law on Prevention and Control of Environmental Pollution by Solid Waste and related regulations, waste materials are classified into various categories that have differing restrictions and licensing requirements for import. Scrap iron, steel and copper in fragments generally falls within the automatic category of solid waste usable as raw materials and is eligible for import under the automatic licensing administration. Scrap wires, appliances and electrical equipment, which are imported for the purpose of recycling iron, steel and copper in such wires, appliances and equipment, falls within the restrictive category of solid waste usable as raw materials and is eligible for import under the restricted licensing administration.

The disposal and recycling of waste vehicles and disused vessels are strictly regulated in China, and only companies that have been authorised by the economic and trade commission of the local government in the PRC are permitted to recycle waste vehicles, and only companies that have been authorised by the local environmental protection authority or port supervision authority in the PRC may recycle disused vessels. We did on occasion acquire waste vehicle scraps prior to the Track Record Period. However, these waste vehicle scraps had been crushed and stripped of their engines, airbags and other components that contain potentially hazardous materials. As a result, these waste vehicle scraps were not deemed to be waste vehicles for purposes of the PRC regulations. During the Track Record Period, our principal source of raw materials has been scrap metal from household appliances and the construction and manufacturing industries, not vehicles or vessels. Our raw materials may at times include pieces of scrap metal that were originally part of vehicles or vessels, but our Directors confirm that the Group neither disassembles waste vehicles or disused vessels, nor purchases raw materials from disassemblers of vehicles or vessels. Our policy is to purchase raw materials from suppliers that are properly authorised and admitted by the relevant government authority, and our Directors confirm that the Group has been in compliance with this policy during the Track Record Period and up to the Latest Practicable Date.

To apply for a solid waste import license, we are required to submit the application form, the effective business license of the importer, the certificate of incorporation of the overseas supplier, the customs declaration registration certificate of the importer and the annual report on the environmental risks of imported waste to the Ministry of Environmental Protection. Since the quantity and category of imported waste on each import license are fixed, the solid waste import license should be applied for from time to time based on the requirement of our operations. We can apply for additional import licenses if required. Such solid waste import licenses are effective for no more than one year (ending on 31 December of each year).

The solid waste import licenses we hold are under the names of Guangzhou Asia Steel and Tianjin Yatong, which have the required capacity and is authorised by the Ministry of Environmental Protection to process and dispose of the imported scrap metals. We have been granted all the solid waste import licenses that we applied for during the Track Record Period, and our PRC counsel has confirmed in its legal opinion that the Group has complied with the PRC laws and regulations governing the import of solid waste. As of the Latest Practicable Date, we held 11 valid import licenses of automatic import category, which are under the name of Guangzhou Asia Steel, and an additional valid import license of restricted category, which is under the name of Tianjin Yatong. Our current automatic import licenses each have an authorised quantity of 10.0 million kilograms of scrap steel, and our restricted import license has an authorised quantity of 800,000 kilograms of scrap copper from old electronic machines. All our import licenses will expire on 31 December 2009. If we were unable to obtain import licenses in the future, we would source raw materials from suppliers in the PRC, which could include suppliers that have imported the raw materials into the PRC under import licenses obtained by such suppliers. We believe we have obtained all material approvals, permits, licenses and certificates required for our operations. We are not required to obtain licenses or approvals for scrap metal sourced from suppliers within the PRC.

Our PRC suppliers are not required to apply for licenses to supply scrap metal sourced in China. Our foreign suppliers are required to obtain a license of registration for overseas supplier enterprise of imported scrap materials from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC for the purpose of exporting scrap materials to China. The foreign supplier should (1) be duly incorporated and legally existing, (2) be familiar with the environmental protection laws, regulations and standards of environmental protection control in the PRC, (3) have facilities and testing capacity on environmental protection control, (4) have established a certified quality assurance or environmental quality control system, (5) have stable sources of supply, (6) have implemented environmental protection control measures on the sources of supply, and (7) have no record of being involved in any major quality issues related to safety, hygiene and environmental protection in the past three years.

COMPETITION

The scrap metal recycling industry in China is highly fragmented and competitive, and we compete with numerous other companies for both raw materials and sales of recycled scrap metal. We compete with large steel manufacturers that have their own scrap steel processing and production lines, as well as a number of specialised scrap steel companies that have emerged in recent years. According to CAMU, in 2008 there were approximately 15 scrap steel companies with designed annual production capacity of more than 200,000 metric tons and production facilities of 50 to 1,000 acres.

Competition for raw materials is primarily based on price and proximity to the source of raw materials. Competition for sales of recycled scrap metal is primarily based on price and quality of the recycled scrap metal, the level of service in terms of capacity, reliability and timely delivery, proximity to customers and the availability of scrap metal and scrap metal substitutes.

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. However, many of these local metal recycling companies have small production capacity and relatively low efficiency.

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.

We also face competition from companies in China that import recycled scrap metal from overseas markets such as the United States, Australia and Europe. Further appreciation of the Renminbi, which may have the effect of lowering the cost of imported recycled scrap metal, may intensify such competition.

While we believe that the size of our operations, our use of advanced equipment, our geographic diversification and our experience in the industry allow us to compete effectively, we cannot assure you that we will be able to continue to compete successfully in our existing markets or in the new markets where we are expanding.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we have registered the trademarks “ ” and “ ” in Hong Kong. Details of our intellectual property rights are set forth in the paragraph headed “Intellectual property rights of the Group” in Appendix VII to this document.

During the Track Record Period, we did not have any pending or threatened claims against us, nor has any claim been made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

LEGAL PROCEEDINGS

We confirm that there are no pending or threatened litigation or other proceedings that may, and we are not involved in any litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, materially and adversely affect our business, financial condition or results of operations.

COMPLIANCE

We confirm that as of the Latest Practicable Date, save as disclosed in this document, we have obtained all licenses, permits, approvals and certificates necessary to conduct our business operations and have complied with all applicable laws, rules and regulations in all material respects.