OVERVIEW

We are engaged in the manufacture of advanced steel flow control products which are used in the continuous casting process to protect, control and regulate the flow of molten steel. Our products include Ladle Shrouds, Stoppers, Tundish Nozzles and Subentry Nozzles. During the Track Record Period, the revenue generated from the sales of our advanced steel flow control products, amounted to approximately RMB40.0 million, RMB67.2 million and RMB156.9 million, respectively.

Our products are specifically designed for use at the stage of continuous casting. Continuous casting is the process whereby molten steel is continuously fed into a water-cooled crystalliser and cast into a semi-finished slabs or billets for subsequent rolling in the rolling mills into various kinds of steel products.

According to the ACRI Report, steel flow control products for the continuous casting process can be broadly grouped into "high-end" and "average" products. Products which do not fall into the "high-end" category are grouped as "average" products. Quantitative parameters used by ACRI in determining whether a steel flow control product is "high-end" are set out below:

Product		**Specifications**
Ladle shrouds	:	Bore size of 80 mm or above with alumina content of 60% or above
Stoppers	:	Length of 1,100 mm or above with alumina content of 59% or above
Tundish nozzles	:	Ratio of outside diameter in the seat end over the outside diameter in the opposite end should be less than 1, and with a sliding plate with modulus of rupture of not less than 10 MPa with alumina content not less than 80%
Subentry nozzles	:	End closest to the tundish bottom should have an outside diameter of not less than 150mm and the zirconia and hafnia content of the slagline should not be less than 80%

According to the ACRI Report, the classification of "high-end" and "average" steel flow control products is widely accepted and recognised in the PRC industry. However, there is currently no national standard or requirement which is applicable to such classification.

"High-end" steel flow control products are mainly used by steel manufacturing companies for slab casters while "average" steel flow control products are mainly used for billet casters. Slab casters require steel flow control products which are larger in size and more complicated in design as higher molten steel flow rate is involved and more modern tube changer systems are adopted. On the other hand, billet casters typically require steel flow control products which are smaller in size, simpler in design, and relatively easier to be manufactured.

All of our products, namely Ladle Shrouds, Stoppers, Tundish Nozzles and Subentry Nozzles, are classified as "high-end" products according to the specifications of "high-end" products defined by ACRI. They have the characteristics of high erosion resistance and high stability and they usually have a longer life cycle when compared to the "average" products. All of our products are mainly used by our customers for their slab casters.

According to the ACRI Report, we have a market share of approximately 19% in the "high-end" steel flow control products market in the PRC in 2009 based on our actual annual production volume. We are the second largest "high-end" steel flow control products manufacturer in the PRC while Vesuvius Advanced Ceramics (Suzhou) Co. Ltd. is the largest.

As at the Latest Practicable Date, we had an annual production capacity of approximately 8,200 tonnes of advanced steel flow control products and the utilisation rate of our production plant had reached 100%. Our production capabilities are supported by our advanced production equipment and specialised production techniques designed to produce consistently high quality products. We develop our own tooling sets, which are made from specialised resin, for our products to ensure better quality and enhance our production efficiency. We also develop tooling sets for special shapes to meet our customers' specific demands and new mixtures of raw materials to improve anti-oxidation behaviour.

During the Track Record Period, all of our products were sold in the PRC. As at the Latest Practicable Date, most of our customers were members of major steel manufacturing groups in the PRC, including Baosteel Group, Hebei Steel Group, Wuhan Steel Group and Shandong Steel Group. We commenced our business with Baosteel Group and Wuhan Steel Group in 2007, and with Hebei Steel Group and Shandong Steel Group in 2009. For the three years ended 31 December 2009, sales to Baosteel Group amounted to approximately RMB14.6 million, RMB11.3 million and RMB27.0 million respectively, while sales to Wuhan Steel Group amounted to approximately RMB13.3 million, RMB11.9 million and RMB16.8 million respectively. For the year ended 31 December 2009, sales to Shandong Steel Group amounted to approximately RMB12.0 million while sales to Hebei Steel Group amounted to approximately RMB1.9 million. We have well-established relationships with our customers. As at the year ended 31 December 2009, we had maintained two years of relationship with our top five largest customers on average.

Since 2007, we have enjoyed a rapid growth. Our turnover has grown from approximately RMB40.0 million for the year ended 31 December 2007 to approximately RMB156.9 million for the year ended 31 December 2009, representing a CAGR of approximately 98.1%. Our net profit has grown from approximately RMB13.4 million for the year ended 31 December 2007 to approximately RMB70.1 million for the year ended 31 December 2009, representing a CAGR of approximately 128.7%. The increase in our turnover and net profit during the Track Record Period were primarily due to (i) our increased marketing efforts to solicit new customers, (ii) increase in our sales volume to both recurring and new customers (from approximately 1,027 tonnes in 2007 to approximately 3,972 tonnes in 2009); (iii) change in product mix and the increase in the sales volume of Subentry Nozzles, from approximately 40.8% of total revenue in 2007 to approximately 44.0% of total revenue in 2009, that had gross profit margins of approximately 60.5% in 2007, approximately 61.8% in 2008 and approximately 69.6% in 2009 which were one of the highest among the Group's products; and (iv) higher operating efficiencies achieved through economies of scale resulting from the increase in sales volume. Our number of customers increased from 7 in 2007 to 20 as at the Latest Practicable Date. The number of recurring customers in 2008 and 2009 was 7 and 11 respectively, while the number of recurring customers as at the Latest Practicable Date was 18.

China has been the world's leading producer of crude steel since 1996. In 2007, 2008 and 2009, China's annual production of crude steel amounted to approximately 489 Mt, 500 Mt and 568 Mt, respectively, representing about 36.3%, 37.6% and 46.6% of the world's total production of crude steel. According to Steel Statistical Yearbook 2009 published by the World Steel Association on 3 March 2010, among the crude steel products produced in China in 2007 and 2008, approximately 474 Mt and 484 Mt, representing over 96.9% and 96.6%, respectively, were continuously cast slabs and billets.[1,2,3]

With our market position and solid customer base, we are confident in further penetrating the existing domestic steel flow control products market and increasing our market share in the PRC. We believe we are also well-positioned to capture new business opportunities within the expanding PRC market and to expand our business to overseas markets such as Western Europe, Korea and Taiwan. We currently have one production line with an annual production capacity of approximately 8,200 tonnes of advanced steel flow control products and the utilisation rate of our production plant had reached 100%. In view of the orders we have already received in 2010 and the anticipated growth in demand for our products, we plan to construct a new production plant to expand our production capacity. The new production plant will house an additional production line and will increase our production capacity by an additional 8,600 tonnes. This new production plant is expected to be completed by the end of 2011 and will commence production in 2012. The proposed additional annual production capacity is expected to be utilised to meet the future demand of our existing and potential future customers in the PRC, and the potential future customers in the overseas market. As stated in paragraph headed "Business strategies" in the section headed "Business" in this prospectus, we will continue to promote our advanced steel flow control products by broadening our customer base and expanding overseas market. For expanding our PRC market, we will continue to strengthen our marketing efforts and promote our products to potential customers in other potential markets in the PRC not yet covered by our network. Our customer base has grown from 18 as at 31 December 2009 to 20 as at the Latest Practicable Date in the PRC. For expanding our overseas market, we have entered into the Carboref MOU with Carboref to sell our products in Europe and the Sinosteel Agreement with Sinosteel to market and sell our products in Taiwan and Korea. Prior to completion of the aforesaid new production plant, we plan to expand our business by utilising our existing production capacity and targeting product mix with higher profit margins.

Sources:

1 Steel Statistical Yearbook 2008, World Steel Association.

2 World Steel in Figures 2009, World Steel Association.

3 World Crude Steel Production, World Steel Association.

COMPETITIVE STRENGTHS

We believe that our success to date and potential for future long-term growth can be attributed to our following strengths:

Leading manufacturer of highly customisable advanced steel flow control products in the PRC with high turnover and competitive pricing

We are currently one of the leading manufacturers of the advanced steel flow control products based in the PRC. As the production plants of steel manufacturing companies are different from each other and vary significantly in accordance with their scale of operation and end usage of steel, all of our products are customised to the exact requirements of our customers to suit their specific needs and precise parameters of their respective production equipment. To cater for such level of sophistication and customisation for our customers, we have fitted our production facilities with custom-made equipment, with the key equipment imported from Germany. We have also employed specialised production techniques based on our proprietary know-how to ensure the timely delivery of high quality steel flow control products on a consistent basis.

In order to maintain and enhance our level of technological capability and efficiency, we are committed to invest in advanced production equipment and machineries and improve our technological know-how. During the Track Record Period, we had invested a total of approximately RMB6.6 million on our machineries and the upgrading of our production techniques. The revenue generated from the sale of our advanced steel flow control products amounted to approximately RMB156.9 million in 2009. We have a market share of approximately 19% in the "high-end" steel flow control products in the PRC in 2009 based on our actual annual production volume.

In addition, a key feature of steel flow control products in general is that they are "consumable" in nature. For example, a typical ladle shroud usually can only be used for 3 to 10 hours depending on the practice of the relevant steel plants and the design of the relevant steel ladle and tundish; while a typical stopper, a typical tundish nozzle and a typical subentry nozzle can be used for 2 to 15 hours. To the best of our knowledge, the pricing of our products is also generally more competitive than that of our competitors who are selling similar types of products of comparable quality due to our ability to control costs effectively and employ the latest production techniques to improve our efficiency. As a result, we believe that we are able to secure a high and consistent level of demand for our products from our existing and new customers who demand high quality products with competitive pricing as our reputation as an established and reliable supplier of high quality advanced steel flow control products grows.

In view of the above factors, we are confident that our Group is well positioned to supply to those customers who require high quality advanced steel flow control products. Our advanced production capabilities, extensive experience and leading market position in the manufacturing of advanced steel flow control products would provide us with a strong foundation to further develop our products and expand our customer base.

Commitment to produce high quality products

We are committed to producing high quality and customised products for our customers and have placed strong emphasis on product quality in our production process by implementing comprehensive quality control procedures at each stage of our main production process. In September 2009, we have been accredited with ISO 9001 quality management system certification by the Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) in respect of our manufacture and service of alumina carbon isostatic products (being the formal name of our products) (in permission scope), which is valid until September 2012. Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) was established by China Household Electric Appliance Research Institute with the approval of the Certification and Accreditation Administration of the PRC and China National Accreditation Service for Conformity Assessment. It is a third party certification organisation which possesses independent legal entity qualification. We believe that our stringent quality control standards can enhance our market reputation and strengthen our customers' confidence in our products. Our quality control department will conduct regular internal audits to ensure compliance with the above standard.

We develop our own moulds, which is made of a kind of specialised resin, for our products. Usually, moulds are made of rubber or plastic materials, which are less costly than resin. However, we use resin to develop our moulds to ensure better quality and enhance our production efficiency in addition to ensuring more detailed specifications of our products as mentioned above. Resin, which is more elastic than rubber and plastic materials, could be used to develop various kinds of moulds, in particular moulds suitable for products which require detailed specifications. By using moulds with higher elasticity, fewer fractures would occur resulting in less processing procedures for our products. This enhances the efficiency of our production process and the quality of our products. Besides, resin is more resistant to wear-and-tear and thus more durable than mould made of other materials. Hence, our moulds could be used for a longer period of time and which in turn would be cost-saving.

High profit margin

For the three years ended 31 December 2009, our Group's net profit margins were approximately 33.5%, 37.2%, and 44.7%, respectively. This is calculated after taking into account the depreciation arising from our capital expenditures of property, plant and equipment, which amounted to RMB4.2 million, RMB4.5 million and RMB4.6 million for the three years ended 31 December 2009, respectively, which are expected to be relatively higher at the initial stages of our Group's development. With a low cost structure, our Group has a significant degree of flexibility in determining its market strategy in the event of increased competition or unforeseeable market changes in the future. Further, our Group specialises in producing only one type of refractory products, i.e. "high-end" steel flow control products. Due to the unique importance of "high-end" steel flow control products in the steel casting process and the higher technology requirements of their production, the gross profit margin for producing "high-end" steel flow control products is relatively higher.

Commitment to enhance research and development capability

Apart from maintaining the quality of our products, we have also demonstrated our ability to improve our existing products and introduce new products to satisfy customers' needs. We have set up a research and development team to design new products and improve our existing products and develop production technologies that will enable us to improve our production efficiency and enhance our product quality. We also cooperate with academic institutions for research and development of our products.

In October 2007, we entered into a framework cooperation agreement with IMUST for the development of our products. Pursuant to the development agreement entered into between the School of Metallurgy of IMUST and Sinoref (Yixing) in November 2007, IMUST agreed to cooperate with Sinoref (Yixing) in the development of CSP Subentry Nozzles (CSP浸入式水口) (the "**CSP Project**"). In accordance with such agreement, Sinoref (Yixing) would provide relevant information to IMUST for preparation of the design of the CSP Subentry Nozzles at a fee of RMB200,000. Sinoref (Yixing) would enjoy the exclusive right to the intellectual property rights of the new product.

In January 2010, we obtained the patent registration (in respect of utility) for the new product, Subentry Nozzle for thin slab casting process (薄板坯浸入式水口) developed under the CSP Project. Improvements have been successfully made to our Subentry Nozzles and the new product further stabilises the molten steel flow and enhances the quality of steel produced by our customers. Such new product is well received by our customers and we successfully marketed them to customers in Jiuquan, Baotou, Lianyuan, Wuhan and Maanshan in the PRC.

Towards the end of 2009, we applied for registration for two other patents (in respect of both invention and utility) on a new design of thin slab casting Subentry Nozzle. This new design, which has been developed under another project between IMUST and us, could enhance the consistency of temperature of molten steel in the mould, improve the performance of our products and better regulate the molten steel flow for the production of slabs with better quality.

In March 2010, we applied for registration for a new product 複合式棒頭結構塞棒 (Compound-head structured Stopper). This new design enabled our products to have stronger resistance to scrubbing and molten steel erosion during the continuous casting process. We also applied for registration of a new product 一種內裝浸入式水口 (A built-in Subentry Nozzle) (in respect of utility). This new design can prevent oxidation of the neck of the Subentry Nozzle and provide stronger erosion resistance.

In May 2010, we obtained the patent registration (in respect of utility) for our new product 可控制流入氣體的整體式塞棒 (Mono block Stopper with controlled gas flow).

Pursuant to another development agreement entered into between IMUST and Sinoref (Yixing) in December 2008, IMUST agreed to cooperate with Sinoref (Yixing) in a project to improve the Meishan #2 Casting Machine Subentry Nozzles (梅山#2鑄機浸入式水口優化項目). In accordance with such agreement, Sinoref (Yixing) would provide relevant information to IMUST for preparation of the design of a new product at a fee of RMB150,000. Sinoref (Yixing) would enjoy the exclusive right to the intellectual property rights of such new product.

We believe that the thin strip casting technology, currently the latest continuous casting process, may shape the future development of the continuous casting industry. Steel manufacturing companies in China would increasingly employ this technology in their manufacturing processes. To strengthen our research and development capability in this area, we entered into a cooperation agreement with Shanghai University in February 2010 for the joint research and development of steel flow distributors and side dams, which are two of the major new products for this casting process. Our steel flow control products, Ladle Shrouds and Stoppers, are also components required for thin strip casting process. To the best of our knowledge, Shanghai University has a team of scientists and engineers who have been working in this field for a substantive period of time and they have developed and obtained at least five relevant patents. Pursuant to the agreement with Shanghai University, Shanghai University is responsible for product design and laboratory tests, while we are responsible for pilot scale manufacturing and field tests. Shanghai University and us will each bear their own costs incurred in relation to this cooperation agreement. According to such agreement, intellectual property rights derived from the project will be jointly owned by both parties. We have also agreed to pay 10% of the sales revenue of the relevant products developed under the project to Shanghai University. The term of engagement of Shanghai University and our Company will end in October 2010 and April 2011 respectively. We believe that we are the forerunner in the development and production of this category of products and the successful development and sales of these products will add to our competitive edge.

Strong relationships with key customers supported by personalised on-site services and timely technical support

Our management focuses on maintaining good relationships with our customers. Our customers are members of major steel manufacturing groups in the PRC and they include Baosteel Group, Hebei Steel Group, Wuhan Steel Group and Shandong Steel Group, which are prominent players in the steel industry in China and worldwide. We have maintained well-established relationships with our customers, some of which have been doing business with us since we commenced our business operations in 2007.

One of our business strategies is to assign our customer services manager to station at the production plant of each of our customers to provide personalised on-site after-sale services and technical assistance to them. As at 31 December 2009, our sales team consisted of 17 customer services managers, and they are broadly divided into three groups based on different regions in China, namely, the Northern region, the Eastern region and the South Western region; and each region is headed by a regional manager. Through our customer services managers who possess specialised technical knowledge, we can provide immediate and direct responses to our customers on-site and address most of their concerns and technical enquiries. Where there are enquiries that they could not address on-site, our customer services managers can easily and quickly access our chief technical officer or other members of our research and development team to provide the relevant solutions to our customers in a timely manner. Further, by assigning our staff to station at our customers' production plants, we can be more familiar with our customers' production facilities and equipment as well as their needs so that more practical solutions or suggestions on improvements to their production process could be made.

We believe that with our quality products and pragmatic and responsive customer services, we have successfully built up and maintained strong relationships with our customers. Our established customer base is a clear demonstration of our capabilities and enhances our ability to attract new customers.

With a solid customer base and close relationships with our customers, we are also able to gain further insights into our customers' requirements as well as the development trend of the steel industry, which in turn can help us develop our products and design our expansion plans more effectively.

Experienced and dedicated management team

The founders of our Group, Mr. Xu and Dr. Zhang, have been engaging in the advanced steel flow control products business for more than 25 years. Their combined experience and knowledge of the industry have been fundamental to our Group in building a solid foundation for the subsequent development of our advanced steel flow control products business. Mr. Xu, our chairman, chief executive officer and executive Director, was trained in 洛陽耐火材料研究院 (Luoyang Institute of Refractories Research*), the largest research institution under the then Ministry of Metallurgical Industry. He had also been a plant technical manager for 10 years before he started his own business in 1995. Mr. Xu has extensive experience in the areas of production, technical management, sales management as well as financial management. Dr. Zhang, our chief technical officer and executive Director, has been working on steel flow control products since 1982 after his graduation from 武漢鋼鐵學院 (Wuhan Institute

of Steel and Iron Technology), the former Wuhan University of Science and Technology. Through his research experiences in 洛陽耐火材料研究院 (Luoyang Institute of Refractories Research*), and his working experiences in Vesuvius International Inc. and a member of Minerals Technologies Inc., both being international recognised companies in the industry of steel flow control products and monolithic products for steel industry respectively, Dr. Zhang has gained extensive technical knowledge and management experience in the industry. The other members of our management team also possess extensive operating experience and industry knowledge of steel flow control products business. Most of our senior management team members have joined us since the establishment of our Company. We believe that our management team's in-depth knowledge of the steel flow control products industry can enable us to respond efficiently to various challenges from the changing market conditions and consolidate our Group's position in the industry.

BUSINESS STRATEGIES

With our market position and solid customer base, we believe we are well-positioned to further expand into the PRC market and to capture new business opportunities. We aim to continue to build on our leading position in the PRC and to expand our business to overseas markets such as Western Europe, Korea and Taiwan. Other than increasing the sales of our existing steel flow control products, it is also one of our growth strategies to expand the range of our products offered to our customers and they include steel flow distributors and side dams for use in the thin strip casting process and monolithic materials, which are not steel flow control products. Monolithic materials can have a variety of applications in different steel casting processes, including in steelmaking furnaces, ladles and tundishes.

To achieve this, we plan to implement the following business strategies:

Expand production capacity to increase market penetration

We currently have one production line with an annual production capacity of approximately 8,200 tonnes of advanced steel flow control products and the utilisation rate of our production plant had reached 100%. In view of the orders we have already received in 2010 and the anticipated growth in demand for our products, we plan to expand our production capacity by constructing a new production plant which is expected to start construction during 2011. The new production plant will house an additional production line and is expected to be completed by the end of 2011. This new plant will provide an additional annual production capacity of 8,600 tonnes of advanced steel flow control products. With the expected increase of our production capacity, we target to further extend our sales coverage in the PRC market as well as to the overseas market.

Broaden customer base and expand to overseas market

We will continue to promote our advanced steel flow control products and broaden our customer base. We believe that reputation and image is essential to our business and a strong and reputable customer base is also important as it demonstrates our capabilities and distinguishes us from other suppliers in the market. We will continue to build up our reputation and image for hi-tech, quality and safe products and will maintain and continue to develop our customer base. We will continue to strengthen our marketing efforts in the PRC and promote our products to potential customers in

other potential markets in the PRC not yet covered by our network. We currently plan to expand our sales team by hiring 10 more sales managers in 2010 and 2011 to cover newly developed customers and two more technical managers in 2010 to assist the customer services managers. We also target to establish two new representative offices in the south western China region and northern China region respectively. On-the-job training programs in technical institutions for our sales team will be enhanced. Further, we also plan to advertise in industry-wide newsletters, magazines and participate in industry exhibitions and conferences in China and overseas.

Other than the PRC market, we are also actively looking at opportunities to expand our business to other countries. As part of our expansion strategy, we have entered into the Carboref MOU on 13 January 2010 to appoint Carboref as our sales agent for all types of our products in Europe. Pursuant to the Carboref MOU, Carboref will promote and sell our products to major steel manufacturing companies in Europe, starting with Germany and the United Kingdom, and we will manufacture the advanced steel flow control products according to the specifications of Carboref and deliver such products in accordance with the schedule required by each individual purchase order. The sales agent status of Carboref is not exclusive, but we have agreed to appoint Carboref as an exclusive sales agent in Germany and the United Kingdom for a period of one year commencing from the date of the Carboref MOU. We have agreed to give better trade terms to Carboref. There are no specific clauses in relation to profit sharing arrangement and termination in the Carboref MOU. The Carboref MOU is not legally binding on both parties. An order has been placed by Carboref for our products for trial purposes in January 2010.

In addition, we have also entered into the Sinosteel Agreement with Sinosteel on 13 February 2010 to market and sell all types of our products in Taiwan and Korea. Pursuant to the Sinosteel Agreement, we will use best endeavours not to appoint other sales agent for sales in Taiwan and Korea for a period of one year commencing from the date of the Sinosteel Agreement. However, if we can locate a sales agent which is proved to be more capable than Sinosteel, we are entitled to appoint that sales agent provided that we have notified Sinosteel two months in advance and the business obtained by Sinosteel before the appointment of the new sales agent belongs to Sinosteel. We have agreed to give better trade terms to Sinosteel, the details of which shall be set out in individual purchase orders. If Sinosteel received price quotations or orders from regions other than Taiwan and Korea, we have agreed to give Sinosteel better trade terms on such orders provided that there shall be no conflicts with other sales agent of us. There are no specific clauses in relation to profit sharing arrangement and termination in the Sinosteel Agreement. The Sinosteel Agreement is not legally binding on the parties.

As at the Latest Practicable Date, no commercial order had been placed under the Carboref MOU or the Sinosteel Agreement. The trading terms under these agreements are subject to discussion and negotiation between our Group and the respective counterparties when orders are placed. Going forward, it is our intention to continue engaging overseas major traders or agents to promote and market our products to oversea markets. We will also pro-actively looking for partnership or suppliership opportunities with overseas steel manufacturing companies to directly penetrate the oversea markets. At the same time, we will strengthen our relationship with Carboref and Sinosteel, and our cooperation with Casco (USA) Inc. for trials on their thin strip casters. We also plan to establish representative offices in Taiwan, Korea and Western Europe in 2010 and 2011 to expand our business to the overseas markets.

Develop new products via acquisition or construction of new production facilities to increase our product range

We intend to increase the product range by developing monolithic materials via acquisition of production plant or side dams via construction of new production plant.

We intend to acquire a plant for the production of monolithic materials. Monolithic materials are refractory products but not steel flow control products. They are essential materials used in steelmaking furnaces, ladles and tundish applications in conventional continuous casting, thin slab casting and thin strip casting. Our Group had been focusing on the production of steel flow control products in the Track Record Period and we did not engage in the production of monolithic materials. Our Directors believe that as monolithic materials can be used in a broad spectrum of applications; the production of these materials will increase our Group's range of product offerings. Further, as monolithic materials can also be used by our Group's existing customers, our Group can further strengthen our businesses with our existing customers by providing a wider range of products to them.

We also intend to acquire land and construct a new plant for the production of side dams for the use of thin strip casting process. Thin strip casting process is currently the latest continuous casting process with lower investment, lower operation cost, lower energy consumption and lower carbon dioxide emission as compared to conventional continuous casting and thin slab casting. The steel cast through this process, namely ultra thin cast steel, has better mechanical properties than traditional hot coils and is very close to the properties of cold rolled steel. Such casting process requires two tundishes resulting in the utilisation of more advanced steel flow control products, which is advantageous to our Group's sales. Our Directors believe that there is a substantial growth potential for the thin strip casting process which will translate into an increasing demand for the related advanced steel flow control products.

We have entered into a cooperation agreement with Casco (USA) Inc., the non-exclusive agent of marketing and selling CASTRIP Technology licences in China and related matters for Castrip LLC in the PRC in relation to the supply of products for CASTRIP Technology. CASTRIP Technology is a thin strip casting process. Pursuant to such cooperation agreement, Casco (USA) Inc. agreed to form a strategic partnership with us by procuring exclusively from us the monolithic materials, steel flow distributors and side dams.

Enhance our expertise and technical know-how on the development of new products

We intend to invest additional resources to further strengthen our research and development capabilities and to improve our expertise and technical know-how in relation to product knowledge and production techniques of advanced steel flow control products. The primary focus of our research and development will be placed on enhancing the quality of our products whilst improving the production techniques and efficiency and reducing costs of our production process.

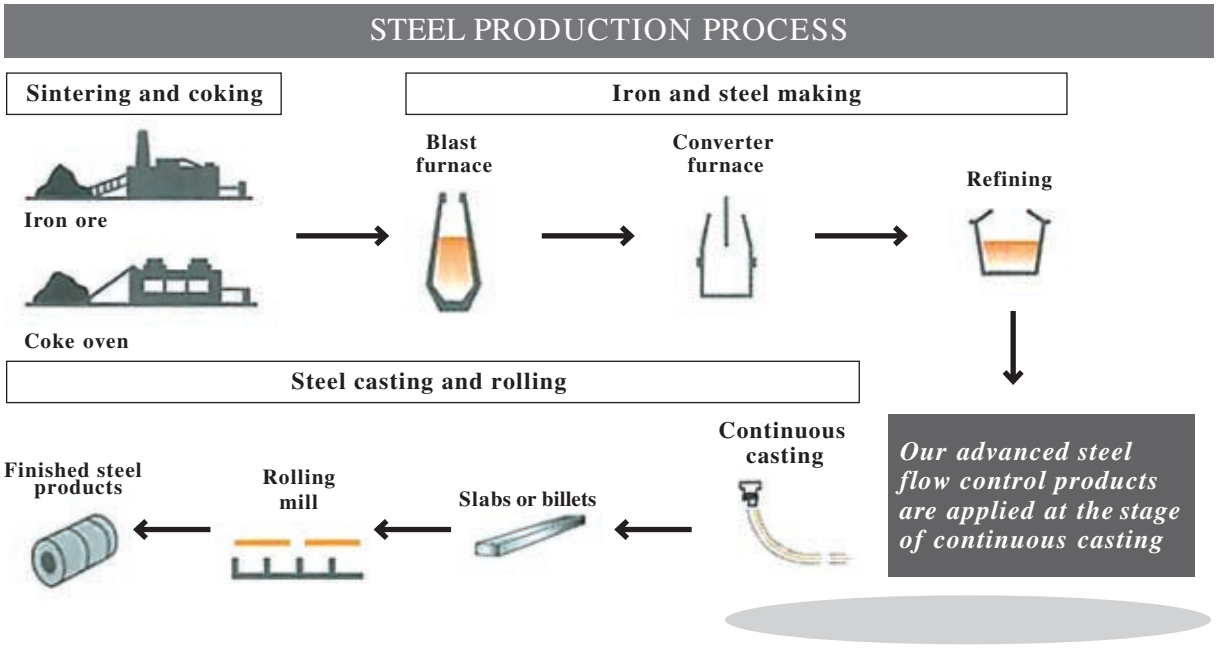
We will continue to cooperate with universities and other academic and research institutions to keep abreast of the latest technical know-how and expertise. In respect of the conventional casting process, we will focus on improving the thermal shock resistance and anti erosion properties of our products to further improve the life-span and purity of steel. In respect of advanced continuous casting process, we will further work with our customers to develop optimised solutions to their CSP (Compact Strip Casting Process) and BSP (Benxi Strip Casting Process) processes in terms of both geometric design and material development. In respect of thin strip casting, we have entered into a cooperation agreement with Casco (USA) Inc., the non-exclusive agent of marketing and selling CASTRIP Technology licences in China and related matters for Castrip LLC in China. Pursuant to such cooperation agreement, Casco (USA) Inc. agreed to form a strategic partnership with us by procuring exclusively from us the monolithic materials, steel flow distributors and side dams.

In February 2010, we have also entered into a cooperation agreement with the Shanghai University for the joint research and development of steel flow distributors and side dams, being two of the key new products for the thin strip casting process, which is currently the latest continuous casting technology. We plan to produce steel flow distributors at our existing production plant and acquire land to construct a new plant for the production of side dams utilising the proceeds from the Global Offering if suitable opportunities arise (as detailed in the section headed " Future plans and use of proceeds from the Global Offering"). To the best of our knowledge, Shanghai University has a team of scientists and engineers who have been working in this field for a substantive period of time and the team has developed and obtained at least five relevant patents. In the agreement with Shanghai University, we will work with their team in product development and to manufacture these products to be used in the thin strip casters of the steel manufacturing companies.

PRODUCTS

Our products are specifically designed for use during the stage of continuous casting of steel production for steel oxidation protection and control of steel flow and are one of the most crucial components to be used in the continuous casting process.

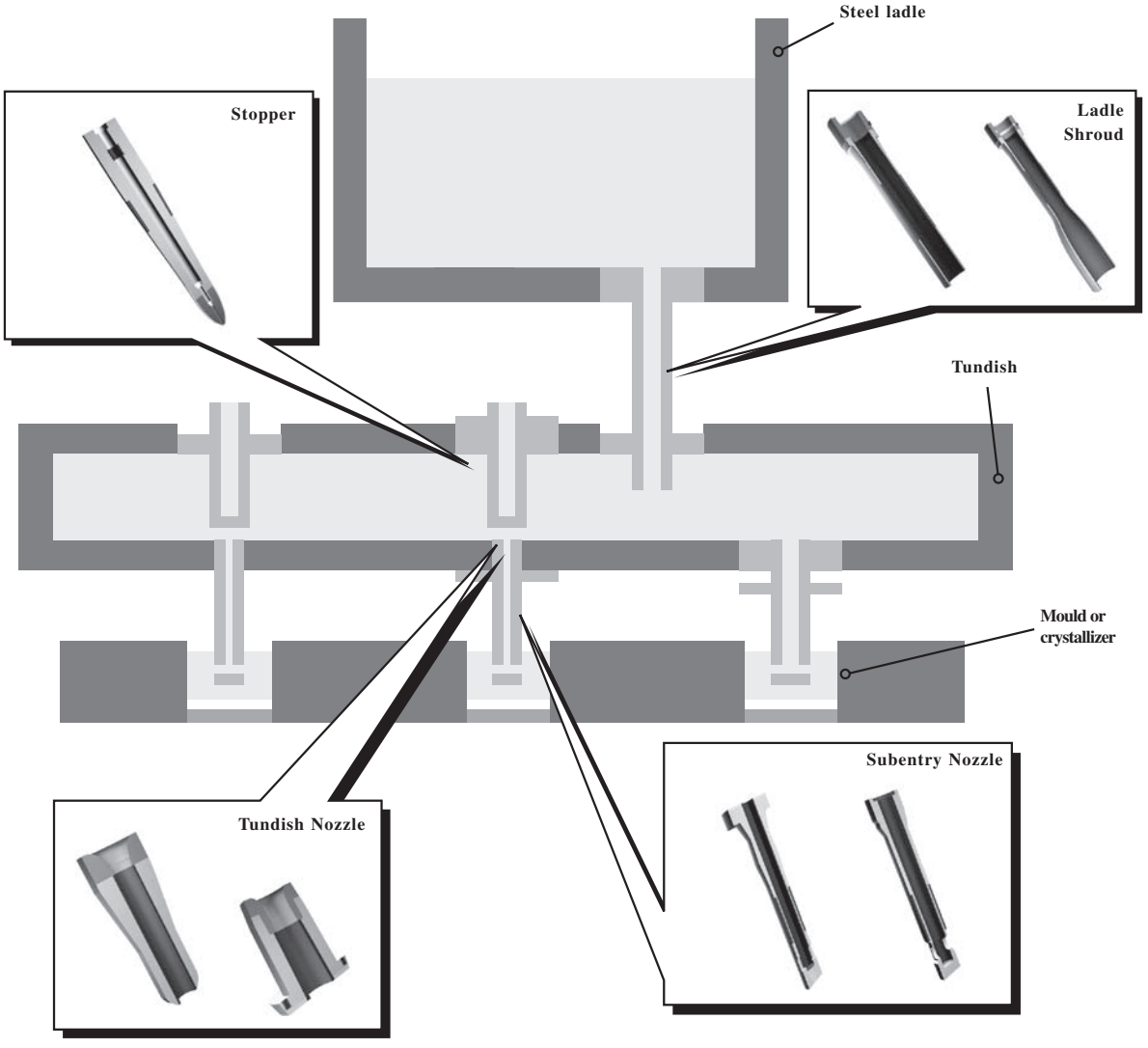
As illustrated in the diagram below, the major processing stages of steel production include sintering and coking, iron and steel making, and steel casting and rolling. Continuous casting is the process whereby molten steel is continuously fed into a water-cooled crystalliser and cast into a semi-finished slabs or billets for subsequent rolling in the rolling mills into various kinds of steel products.



A prominent feature of our products is that they are consumables and must be regularly replaced. A typical ladle shroud can be used for 3 to 10 hours depending on the practice and design of the customer's production facility; while a typical stopper, a typical tundish nozzle and a typical subentry nozzle can be used for 2 to 15 hours. Although the life span of advanced steel flow control products are short, they form a critical part in the steel production process. During casting process, molten steel has to go through these products, which help to protect, control and regulate steel flow.

Our products have different mixtures of materials and specifications, such as porosity and density. We normally design each of the Ladle Shroud, Stopper, Tundish Nozzle and Subentry Nozzle for a majority of our customers so that they can combine to use all of our products in their continuous casting process.

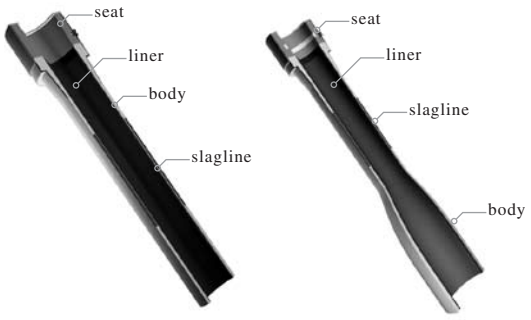
The following diagram illustrates the part of the continuous casting process where our advanced steel flow control products are applied:



Category of our products

Our products are broadly categorised as follows:

1. Ladle Shrouds



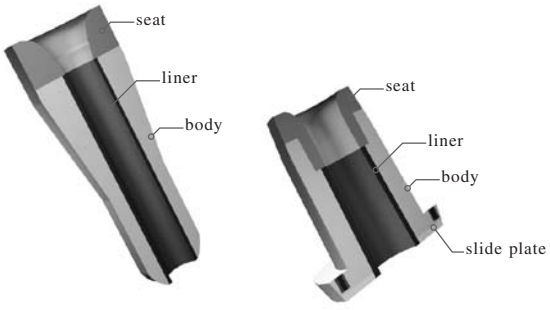
A Ladle Shroud mainly comprises four parts, namely the seat, the liner, the body and the slagline. The main function of a Ladle Shroud is to protect the steel stream from splashing and oxidation as it flows from the steel ladle to the tundish. We manufacture different types of Ladle Shroud with customised argon sealing and/or bell design for our customers. To enhance durability of our Ladle Shrouds, we apply specialised materials at the seat which has high exposure to oxygen burning. We also utilise a special mixture of materials for the liner to prevent gouging. A mixture of zirconia or magnesia is used for the slagline to protect our Ladle Shrouds from chemical corrosion caused by tundish powder. As at the Latest Practicable Date, our Group had developed more than 10 patterns of Ladle Shrouds to suit different designs of steel ladle and tundish of our customers.

2. Stoppers

A Stopper, mainly comprises three parts, namely the body, the slagline and the nose, is one of the important steel flow regulation components. As a Stopper regulates molten steel flowing into the mould, it is exposed to vigorous thermal shock. The nose of a Stopper has to be specially designed to avoid molten steel erosion. As a Stopper is immersed in the tundish,

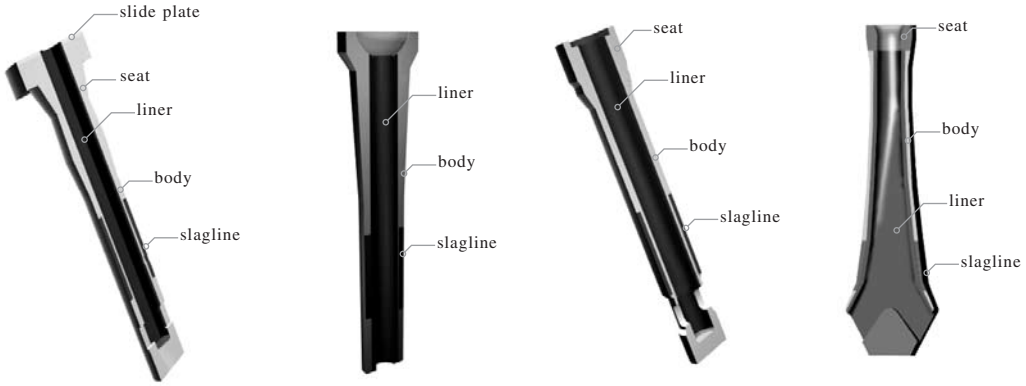
its slagline has to be strong enough to withstand possible chemical corrosion caused by tundish powder. Further, in order to prevent oxygen ingression, argon has to be introduced to a Stopper. Our Group manufactures different types of Stoppers with customised specifications for our customers to suit the different designs of their tundish. During our manufacturing process, different mixtures of aluminia or magnesia are applied to the nose of our Stoppers for our customers to cast various types of steel. As at the Latest Practicable Date, our Group had developed more than 30 patterns of Stoppers.

3. Tundish Nozzles



A Tundish Nozzle mainly comprises four parts, namely the seat, the liner, the body and/or the slide plate. Tundish Nozzles are placed at the bottom of the tundish, being a linkage between a Stopper and a Subentry Nozzle and some are used for slab casters which have tube changers. Similar to the nose of a Stopper, the seat of a Tundish Nozzle has to be specially designed to prevent erosion caused by molten steel. Besides, argon has to be introduced to the body of the Tundish Nozzle to avoid aluminum in molten steel from clogging. Our Group manufactures different types of Tundish Nozzle with customised specifications for our customers. As at the Latest Practicable Date, our Group had developed more than 20 patterns of Tundish Nozzle.

4. Subentry Nozzles



Among our advanced steel flow control products, Subentry Nozzle is one of the most complicated and important parts within the continuous casting process and it is employed between the tundish and the mould. Subentry Nozzle mainly comprises four parts, namely the seat, the liner, the body and the slagline. Generally, a Subentry Nozzle is installed to prevent oxidation in the continuous casting process.

The commercialisation of the thin slab casting technology in the steel casting process has led to an increase in the demand for subentry nozzles with better specifications and designs of Subentry Nozzles. Our Group manufactures a wide variety of Subentry Nozzles with customised specifications for our customers. As at the Latest Practicable Date, our Group had developed more than 50 patterns of Subentry Nozzles.

Comparison among our products

The following table sets out some general information about our advanced steel flow control products as at 31 December 2009:

	Ladle Shroud	**Stopper**	**Tundish Nozzle**	**Subentry Nozzle**
Number of patterns	10	35	25	55
Average life-span *(hours)*	3 to 10	2 to 15	2 to 15	2 to 15

The following table shows our turnover and average selling price by product type during the Track Record Period:

	Year ended 31 December								
	2007			**2008**			**2009**		
Turnover	*RMB (million)*	*%*	**Average selling price** *RMB*	*RMB (million)*	*%*	**Average selling price** *RMB*	*RMB (million)*	*%*	**Average selling price** *RMB*
Subentry Nozzle	16.3	40.8	1,511	28.3	42.1	1,610	69.0	44.0	1,664
Stopper	11.6	29.0	1,098	19.1	28.4	1,098	45.7	29.1	1,192
Tundish Nozzle	6.3	15.8	1,128	14.1	21.0	1,328	33.0	21.0	1,361
Ladle Shroud	5.8	14.4	1,151	5.7	8.5	1,187	9.2	5.9	1,174
Total	**40.0**	**100.0**		**67.2**	**100.0**		**156.9**	**100.0**	

During the Track Record Period, the proportion in the sales of our Subentry Nozzles, Stoppers, Tundish Nozzles and Ladle Shrouds changed from representing approximately 40.8%, 29.0%, 15.8% and 14.4% of our total sales for the year ended 31 December 2007 to approximately 44.0%, 29.1%, 21.0% and 5.9% of the total sales for the year ended 31 December 2009. Our Directors decided to increase the proportion of Subentry Nozzles in our product mix because this product has a higher gross profit margin and a higher average selling price.

PRODUCTION

We believe that our ability to produce high quality products is crucial to maintaining our competitiveness. We also believe that by placing emphasis on our research and development and by using advanced production equipment and machineries during our production process, we can ensure consistency and quality of our products. We have implemented stringent quality control procedures to ensure high quality of our advanced steel flow control products.

Production facilities and capacities

We manufacture our advanced steel flow control products in our wholly-owned production plant situated on a parcel of land with a total site area of approximately 37,704.3 sq.m., located at Zhuqiao Industrial Zone, Yixing, Jiangsu Province, the PRC.

Operating at full capacity, our production line is able to operate on a continuous basis, with three work shifts per day, subject to regular inspection and maintenance work that last for about two days in aggregate each month and an annual maintenance lasting for approximately 24 days. As at 31 December 2007, 2008 and 2009, we had 62, 67 and 102 production and supporting staff to support our manufacturing operation. Details of our production line are set out as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
Annual production capacity *(tonnes)*	6,400	6,700	8,200
Actual annual production volume *(tonnes)*	1,081	1,688	4,254
Average capacity utilisation rate *(%)*	16.9	25.2	51.9

Notes:

1. The designed production capacity for our production line is calculated on the basis of 330 days per year and the figures are estimates based on equipment manufacturers' specifications, historical figures and other data we believe to be reliable. However, actual production capacity may differ from estimated capacity due to variation in product mix and other factors.

2. Our average capacity utilisation rate for each of the three years ended 31 December 2009 is calculated based on the actual production volume of our products for each of the three years ended 31 December 2009 divided by the production capacity of our production line as at 31 December 2007, 2008 and 2009 respectively.

For the year ended 31 December 2009, our annual average utilisation rate was approximately 51.9%. The number of customers increased from 11 as of 31 December 2008 to 18 as of 31 December 2009 and 20 as at the Latest Practicable Date. The sales to our existing customers (those 11 customers as of 31 December 2008) increased from approximately RMB67.2 million in 2008 to approximately RMB117.9 million in 2009. In order to meet the increasing customers' demand from our new customers and existing customers, the actual annual production volume steadily increased throughout 2009 and our average utilisation rate increased to above 90% as of 31 December 2009. With the new sales

orders from the 2 new customers in 2010 and the increasing demand from our existing customers, as at the Latest Practicable Date, the utilisation rate of our production plant had reached 100%. In anticipation of the growing demand for our products, we plan to expand our production capacity by constructing a new production plant which is expected to start construction during 2011. The new production plant will house an additional production line and is expected to add to us an additional annual production capacity of 8,600 tonnes of advanced steel flow control products. As at the Latest Practicable Date, our Group had not entered into any contract in relation to the construction of such new production plant.

Our Group's annual actual production volume grew from approximately 1,081 tonnes in 2007 to 1,688 tonnes in 2008, and grew further to approximately 4,254 tonnes in 2009 and the utilisation rate of our production plant had reached 100% as at the Latest Practicable Date. Our Group was able to meet at least 95% of the agreed sales amount in all the framework contracts for the three years ended 31 December 2009. Moreover, as at the Latest Practicable Date, our Group had already received sales order through the framework contracts of approximately RMB340 million for 2010, the sales volume of which amounted to approximately 8,200 tonnes.

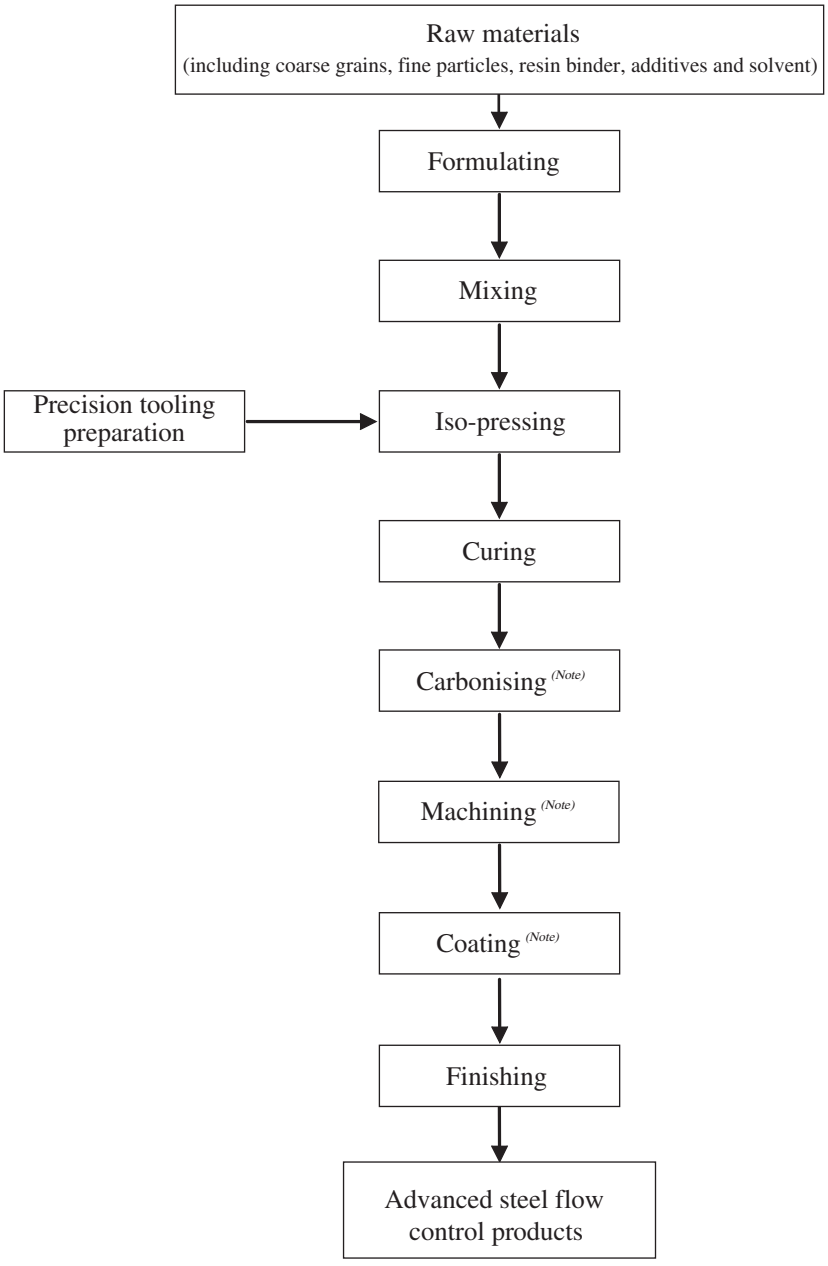
Some of the major equipment used in our production is as follows:

Production area	**Equipment**	**Principal specifications**	**Place of manufacture**
Mixer area	Mixing system	10,000 tonnes/year	China
Press area	Iso pressing system	8,100 tonnes/year	Germany
After press area	Carbonisation kiln	8,300 tonnes/year	China
After press area	Precision lathe	8,200 tonnes/year	China

We have a comprehensive maintenance system for our production plant and equipment, including scheduled downtimes for maintenance and repairs, and regular inspection of our production facilities and equipment in order to ensure our production line runs smoothly and operates at optimal levels. Our production line is subject to on-going maintenance checks. We had not experienced any material or prolonged interruptions to our facilities due to equipment or machinery failure during the Track Record Period.

Production process

Our production process complies with international quality control standards. The following flow chart illustrates the typical production process of our advanced steel flow control products:



Note: For Stoppers and Ladle Shrouds, the coating process will take place prior to the carbonising process as these products usually do not need to go through the machining process.

Materials sorting and formulating

As one of the initial steps in preparation for our production process, different kinds of materials are gathered for our production staff to prepare various mixtures according to different formulations. Chemical components, quality, quantity and appearance of each type of materials will be examined to ensure certifiable standards.

Raw materials could, to a very large extent, determine the physical and chemical behaviour of our final products. We perform extensive inspection of our raw materials. We use our testing equipment to check the particle size distribution, moisture content and perform chemical analysis of our raw materials before they are sent to our warehouse. For some raw materials, further checking of the PH value, free flowing density and tapped densities will be performed.

Each mix used in the production of our products has a different mixture of chemicals according to its application environment. Extensive work has been done to optimise the specifications of a mix to meet the requirements of relevant physical and chemical properties required by our customers.

Mixing

Appropriate mixtures of materials formulated by our production staff are placed into the mixer for mixing. Mixing is a process whereby raw materials, including special additives and resin binder particles, are evenly dispered around bigger particles to form a homogenious microstructure.

During the mixing process, solvent will be added and the mixture mass is further pelletised to form a final mix. Our automated mixing system will control the mixing process, which includes feeding pre-weighed raw materials, controlling the temperature and humidity of the environment, and adding solvent and the final mix to ensure all the batches of materials are mixed according to the same set of parameters. As a safety precaution, we have installed an alarm system in the mixing system so that a mix will be discharged automatically if the temperature of solvent the reaches the flash point.

After the mixes are prepared, a period of not less than ten days of aging is necessary to ensure the homogeneous distribution of solvent via capillary action. This is to further improve the consistency of each individual pellet.

The core equipment of our mixing system is assembled in China. Our mixing facility has an annual capacity of 10,000 tonnes of mixes.

All mixes will have to pass through various quality control tests, such as tests on moisture content, particle size distribution and compression ratio. Only mixes which match with our specifications will be used in the next stages of our processing.

Precision tooling preparation

A tooling set has to be prepared to fit the design of our products. Our tooling set typically involves several parts, the bag (typically made of a form of resin), the mandrel and the filling devices. The bag is a core part of a tooling set. Our bag is made with high precision to avoid fractures in our products. The mandrel is the part that will form the space where steel flow through when the products are used. The filling devices are designed to allow the correct amount of mixes to be placed in the right position. Normally, we will have different tooling sets for various models of our products.

Iso-pressing

The iso-pressing process involves several sequential processes which include further blending of the aged mixes, filling of the mixes into the tooling sets, pressing and demoulding.

Further blending of the aged mixes is critical as it ensures that different batches of mixes are further homogenised to ensure the consistency of quality of our final products. Our filling operation is highly automatic. The mixes which are filled into our tooling sets are processed precisely at the same magnitude, frequency and time duration. Pressing is performed in an isostatic manner where every point of the mixes is under the same pressure in order to form uniform and identical products. Demoulding is the process where all the parts of a tooling set is taken away carefully from the body of the mould for further processing.

At this stage of the processing, the mixes are very sensitive to temperature and humidity, and fluctuation in temperature or humidity may affect the physical and chemical properties of our end products, such as lower strength, higher porosities and poorer microstructure. Hence, our iso-pressing process is performed in an enclosed workshop with precisely controlled constant temperature and humidity.

All of our semi-finished products are checked to make sure that they are within the required dimension.

Curing

Our semi-finished products will then have to be cured, through heating in an enclosed oven, to enhance their strength. Temperature, ramp speed and time are precisely controlled through our automated system.

Curing at elevated temperatures, through a series of chemical reactions, transforms the resin binder in our semi-finished products into a three-dimensionally cross-linked, insoluble and infusible state and the carbonisation process can be initiated later on.

Carbonising

Cured semi-finished products are treated under controlled atmosphere at high temperature to allow various chemical reactions to further take place. During this process, if the atmosphere is not well controlled, the semi-finished products may be oxidised or poorly carbonised. Temperature,

ramp speed and time are also factors that may influence the final properties of our products and therefore, all such factors have to be controlled precisely according to our production procedures. After carbonisation, the residual carbon left by the resin binder forms an interwoven continuous three dimensional carbon link binding all the other particles into one product body.

Carbonising at high temperature removes hydrogen from the resin binder in our products to achieve a solid structure with desired physical and chemical properties for the steel making applications. Strength, density and porosities are tested for these semi-finished products after carbonising to ensure they are within our specifications.

Machining

For Tundish Nozzles and Subentry Nozzles, dimensional precision has to be maintained to fit into our customers' mechanical systems at their site. Since our tooling design can guarantee a near net shape forming, the process of machining in our production process is minimised.

Coating

Protective materials is applied to our semi-finished products during coating to make sure the three dimensional carbon structure in our composite products is not oxidised at high temperature when our products are in contact with molten steel. The coating material is a highly complicated slurry mixture of mainly borosilicates. At the appropriate temperature and concentration, the coating material is applied to the semi-finished products through flooding or dipping depending on the type of products. Our semi-finished products are dried to remove all water that remains after coating.

For Stoppers and Ladle Shrouds, the coating process will take place prior to the carbonising process as these products usually do not need to go through the machining process.

Finishing

Several steps are involved in this process. For Ladle Shrouds, canning is necessary to make sure argon can flow freely into the bore where molten steel flows through when they are installed in our customers' plants. For Stoppers, a further coating of non-sticking nature at high temperature will be applied to the nose part to make sure it is not stuck with the tundish bottom when used in our customers' plants.

For Subentry Nozzles, a blanket of thermal insulating layer is applied onto their coated surface to keep them warm for a short period of time after preheating and before used in the casting process. This will help eliminate potential thermal shock when molten steel is poured into the tundish.

Final dimensions of our products have to be checked precisely so that they will fit the different specifications required by our customers.

After the above steps, our products will be packed with shock reducing packaging materials into rigid boxes and ready for delivery.

PROCUREMENT

Raw materials and suppliers

The principal raw materials used in our production are fused alumina, calcined alumina, calcia stablised zirconia, graphite and resin binder. We obtain these materials from both domestic and overseas suppliers. Further, we develop our own moulds for our advanced steel flow control products. The principal raw material used in the manufacture of our moulds is a specialised resin which is sourced from the United States.

We strive to obtain high quality raw materials for the production of our advanced steel flow control products, and we believe that this differentiates our products from those of our competitors. During the Track Record Period, to ensure we have a stable supply of quality raw materials, we sourced some of our principal raw materials from suppliers overseas although the procurement costs for such materials were higher when compared to sourcing from local suppliers in the PRC. For the three years ended 31 December 2009, approximately 14.7%, 19.6% and 8.3% of our raw materials, in terms of total procurement costs for raw materials, were sourced from overseas suppliers.

Our procurement standards are determined by our stringent quality control procedures. Raw materials will be tested and inspected when they are delivered to us and for those that do not pass our standards will be returned to the suppliers. Moreover, we also have supplier investigation and evaluation procedures in place to ensure the quality of our suppliers and to constantly monitor their performance. A supplier evaluation checklist, which includes background information, production capacity and volume, product quality and relevant experience, will have to be completed for each potential supplier before they are included in our qualified suppliers. For existing qualified suppliers, they are also subject to ongoing evaluation and a supplier evaluation checklist has to be completed annually or semi-annually for reviewing their performance and quality. We have developed stable relationships with most of our key suppliers. As at the Latest Practicable Date, we had maintained business relationships with some of our major suppliers for over three years.

To ensure a stable supply of our raw materials, it is our practice to maintain at least two qualified suppliers for each of our principal raw materials. During the Track Record Period, we had a total of 26, 30 and 35 suppliers, respectively. During the Track Record Period, our five largest suppliers accounted for approximately 44.6%, 42.0% and 58.0%, respectively of the total purchase of raw materials and our largest supplier accounted for approximately 12.1%, 12.1%, and 18.6% respectively, of the total purchase of raw materials. We consider that there is no over-reliance on any individual supplier.

We do not have long term supply agreements with all of our suppliers. We usually enter into annual purchasing agreements with our suppliers and make purchase orders for each type of raw materials from time to time. Payments to our suppliers are made by cash before delivery, by cash against delivery or are settled with a credit term of up to 30 days. Delivery and related transportation is usually arranged by our suppliers who will bear the risks associated with the delivery of our raw materials, such as transportation accidents, delivery delays or losses.

None of our Directors or their respective associates, and none of our existing Shareholders who (to the best knowledge of our Directors) own more than 5% of the issued share capital of our Company immediately after completion of the Global Offering and taking no account of any Shares which may be taken up under the Global Offering, have any interest in any of our five largest suppliers during the Track Record Period. As at the Latest Practicable Date, we had not any outstanding material disputes with our existing suppliers.

Inventory control

Our inventory mainly consists of finished products and raw materials, which are stored in our warehouses located within our production plant. Our policy is to maintain a safety inventory level of raw materials of approximately 30 days' production volume to avoid disruption of production in case of any delays in delivery of raw materials by our suppliers.

It is our policy to keep our inventory level at low level while keeping a safety inventory level of approximately 30 days' sales volume, and hence we rarely face the problem of obsolete stock. No provision for obsolete inventories was made during the Track Record Period. Nevertheless, stock control procedures have been implemented by us to keep the occurrence of obsolete stock to the minimum level.

QUALITY CONTROL

We have a strict quality control system covering each of our production processes as illustrated in the paragraph headed "Production process" above, from procurement of raw materials to the delivery of products to our customers. If the raw materials supplied to our Group do not meet our internal standards, they will be returned to our suppliers.

In September 2009, we have been accredited with ISO 9001 quality management system certification by the Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) in respect of our manufacture and service of alumina carbon isostatic products (being the formal name of our products) (in permission scope), which is valid until September 2012. Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) was established by China Household Electric Appliance Research Institute with the approval of the Certification and Accreditation Administration of the PRC and China National Accreditation Service for Conformity Assessment. It is a third party certification organisation which possesses independent legal entity qualification.

ISO 9001 is a set of standards and guidelines relating to quality management systems, and represents an international consensus on good quality management practices. ISO 9001 is maintained by International Organisation for Standardisation, and is administered by accreditation and certification bodies. Our quality control department will conduct regular internal audits to ensure compliance with the above standard. Our certification to ISO 9001 standard certifies that consistent business process are being applied, and provides an objective standard against which third parties can assess the quality of our management and production process. Our quality management system meets both the domestic and international standards of quality assurance and attests to the superior quality of our products.

For each of the three years ended 31 December 2009, our quality control team comprised two, two, and four employees, respectively. Our quality control team closely monitors our production process. We perform regular inspections and examinations to ensure that our end products achieve our targeted quality standards and to avoid sub-standard products being delivered to customers.

During the Track Record Period, we had not failed in any external inspection carried out by independent third parties, nor received any complaints from our customers regarding the quality of our products.

SALES AND MARKETING

Customers

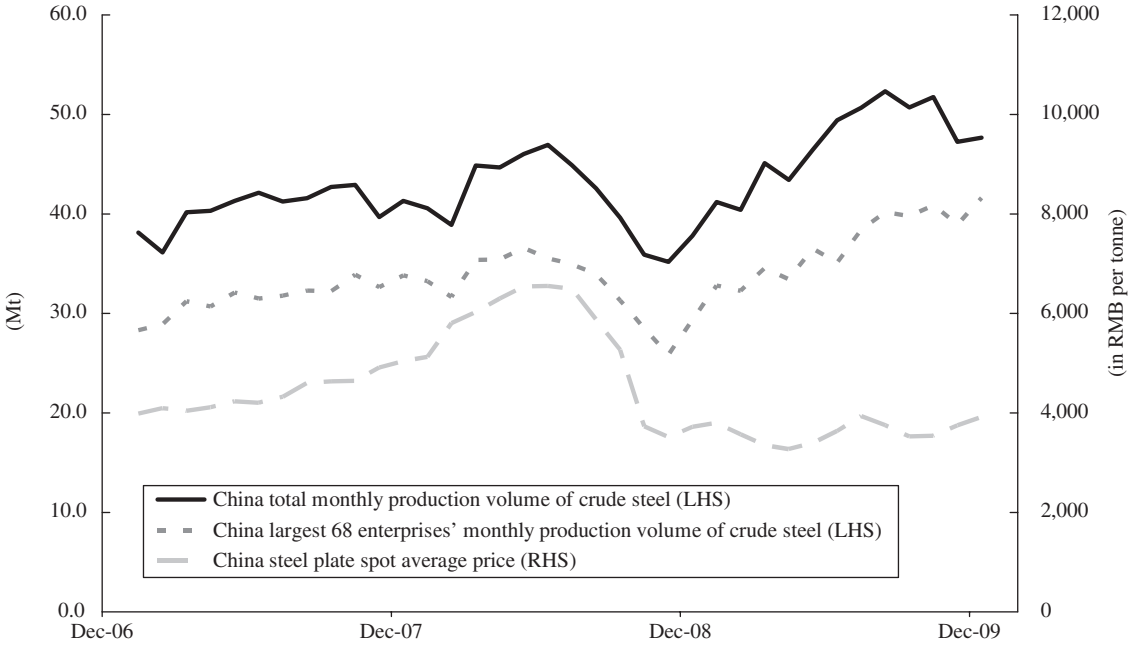
For each of the three years ended 31 December 2009, our total turnover amounted to approximately RMB40.0 million, RMB67.2 million and RMB156.9 million, respectively, representing a CAGR of approximately 98.1% from 2007 to 2009. During the Track Record Period, all of our advanced steel flow control products were sold in the PRC. Many of our customers are members of major steel manufacturing groups in the PRC, including Baosteel Group, Hebei Steel Group, Wuhan Steel Group and Shandong Steel Group. The number of our customers increased from 7 in 2007 to 18 in 2009 and 20 as at the Latest Practicable Date. Our Group's total sales to the selected major steel manufacturing groups in the PRC during the Track Record Period are set out below:

RMB ('million)	**For the year ended 31 December**		
Customer name	**2007**	**2008**	**2009**
Baosteel Group	14.6	11.3	27.0
Wuhan Steel Group	13.3	11.9	16.8
Shandong Steel Group	–	–	12.0
Hebei Steel Group	–	–	1.9

Sales to our top five largest customers amounted to approximately RMB38.2 million, RMB49.9 million and RMB75.3 million, representing approximately 95.5%, 74.2% and 48.0% of our total revenue for each of the three years ended 31 December 2009 respectively. During the same period, our largest customer accounted for approximately 36.4%, 16.8% and 12.3%, respectively of our total revenue. Our sales are denominated in RMB.

As the cost for steel flow control products only forms an insignificant part of the total costs for steel manufacturing companies, steel manufacturing companies generally opt to source their required steel flow control products only from reliable and reputable suppliers. Further, as such advanced steel flow control products are an essential part used in the steel casting process while their cost in the whole steel production process is relatively insignificant, our Directors are of the view that steel price movement during the Track Record Period did not have a strong correlation with demand for our products from our customers.

The following chart shows (i) the total monthly production volume of crude steel in the PRC; (ii) the PRC's largest 68 enterprises' monthly production volume of crude steel; and (iii) China steel plate spot average price, during the Track Record Period:



Source: Bloomberg

With reference to the chart set out above, the total crude steel production volume in the PRC was generally in a trend similar to that of the steel price movement during the Track Record Period. The China's steel price increased by approximately 35.0% year-on-year from RMB3,733 per tonne as at 31 December 2006 to RMB5,040 per tonne as at 31 December 2007, and then decreased by approximately 26.2% year-on-year to RMB3,720 per tonne as at 31 December 2008 and then increased by approximately 5.3% year-on-year to RMB 3,918 per tonne as at 31 December 2009.

Despite the steel price movement in the PRC, our sales revenue and sales volume increased during the Track Record Period. The increase in sale volume of our products was mainly due to the increase in the number of our customers from 7 in 2007 to 11 in 2008 and to 18 in 2009 and the increase in total sales to our existing customers. The sales to our existing customers (those 7 customers as of 31 December 2007) increased from approximately RMB40.0 million in 2007 to approximately RMB51.6 million in 2008. The sales to our existing customers (those 11 customers as of 31 December 2008) increased from approximately RMB67.2 million in 2008 to approximately RMB117.9 million in 2009.

During the Track Record Period, our Group had, however, experienced fluctuation in sales to two of our customers, namely, Baosteel Group and Wuhan Steel Group with a decrease of approximately 22.6% and 10.5% respectively between 2007 and 2008 and an increase approximately of 138.9% and 41.2% respectively between 2008 and 2009. Since the sales to all other customers increased during the Track Record Period and the amount of increase in revenue from other customers outweighed the amount of decrease in revenue from Baosteel Group and Wuhan Steel Group between 2007 and 2008, our Group's sales revenue increased during the Track Record Period.

None of our Directors or their respective associates, and none of the existing Shareholders who (to the best knowledge of our Directors) own more than 5% of the issued share capital of our Company immediately after completion of the Global Offering and taking no account of any Shares which may be taken up under the Global Offering, have any interest in any of our five largest customers during the Track Record Period.

Our management believes that with our solid customer base and established business relationships with these prominent players in the steel industry, we are able to gain further insights into our customers' requirements as well as the development trend of the steel industry, which in turn can help us develop our products and design our expansion plans more effectively.

Payment terms

During the Track Record Period, credit terms granted to our customers are up to 90 days. The credit term granted to each customer vary, depending on its business relationship with us, its creditworthiness and settlement record. A majority of our customers settle their payments by cash or banker's notes (銀行承兑匯票).

To ensure timely settlement of our accounts receivables, we have designated staff to follow up with our customers on outstanding payments. For customers showing slow repayment, reminder will be prepared and submitted to our sales team and appropriate course of action will be taken. During the Track Record Period, we had not provided for any significant bad debts or doubtful debts.

Sales team

Our sales team consists of 23 employees. For the purposes of effective management, we have broadly divided our sales team in China into three regions, namely, the Northern region, the Eastern region and the South Western region. We have three regional sales managers who are responsible for managing and overseeing our sales in their respective designated region. All of our regional sales managers have established experiences in sales and marketing. Within each of these three regions, we have an additional seven, five and five customer services managers, respectively.

Our customer services managers are assigned to station at the production plants of our customers to provide on-site after-sale services and technical assistance.

Our sales team will report to us our customers' requirements and collect market data for our analysis. Based on our customers' feedback and the statistics and information collected by our sales team, we are able to continuously improve and develop new products for our customers and identify suitable regions and markets for our products.

We also provide on-the-job training to our sales team from time to time to enhance their capabilities and competence. In addition, we hold technical and sales training sessions annually to enhance the product knowledge of our sales staff and their understanding of our customers' needs. We also provide information to them on the latest development and technologies in our industry during such trainings.

The following table shows the geographical division of our sales team in China and the number of our sales staff stationed in each region as at 31 December 2009:

Region	Location	Regional sales manager	Customer services manager
Northern China	Beijing, Jilin Henan, Inner Mongolia Hebei, Tianjin Shandong, Shanxi Liaoning, Xinjiang Gansu	1	7
Eastern China	Shanghai Jiangsu Zhejiang Anhui	1	5
South Western China	Hubei, Chongqing Sichuan, Fujian Yunnan, Guangdong Hunan, Guangxi Jiangxi	1	5

Our management together with our sales team will identify and approach potential customers. After the initial meeting with a potential customer, our sales team will hold meetings with such customer and conduct on-site inspection at the customer's production facilities. Various discussions will also be held on matters such as the required product-type, designs and specifications. Upon obtaining necessary information on the type of products required by a potential customer, we will enter into a framework contract with such customer. Under a typical framework contract, we will manufacture a small quantity of products according to the standards and specifications required by the potential customer and usually, a few sets of such products will be provided to the customers for trial at no cost. Typically, the trial will take around two to thirty days to complete.

Upon completion of the trial phase, the technical and production staff of the potential customer will evaluate every aspect of our products and prepare an evaluation report. If it is successful, the customer will sign a purchase contract. Typically, the first 2 to 30 sets of products are used under intensive technical supervision from our technical personnel.

The entire process from identifying a potential customer to becoming its qualified supplier usually takes, on average, one to three months. During the Track Record Period, we had not experienced any major difficulties in any of the trial phase that we did and we had been successful in being selected as a qualified supplier of each of our potential customers that we approached.

We do not enter into any long term sales contracts with any of our customers but we generally enter into a one-year framework contracts with our customers. As the framework contract is customer-specific, the terms of which differ for individual customer. Terms such as product return policy and termination also differ in each case. However, a one-year framework contract typically specifies the total amount and the unit price of products to be purchased by our customers. There are also no specific clauses in relation to renewal in a typical one-year framework contract. Our business with our customers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from our customers on a monthly basis based on the framework contracts with them. We believe this is the commercial practice in our industry in China.

Pricing policy

The prices at which we sell our advanced steel flow control products are determined through negotiation with our customers to arrive at a price acceptable to both parties based on the market price of similar products and taking into consideration our cost structure. Based on information available, we believe that prices of our products are lower than those of our overseas competitors, but higher than those of our domestic competitors.

Products returns

During the Track Record Period, we had not experienced any material product returns or made any product recalls due to any quality defects or harmful chemicals or substances.

Marketing and promotion

We participate in exhibitions organised by industry players from time to time. For instance, we joined the "2009年薄板坯連鑄連紮國際研討會" organised by The Chinese Society for Metals (中國金屬學會) and The Chinese Academy of Engineering Production Technology Committee (中國工程院產業科技委員會) as exhibitor in May 2009. As our Group's products are solely sold to steel manufacturing companies, we do not rely heavily on public advertising and promotional activities. We build up our customer base by solid track records and reputation in the industry and through referrals from existing customers. Our sales and marketing staff is mainly responsible for the overall supervision of a sales cycle, which includes, preparing quotations, taking sales orders, coordinating workflow with production team and settling payments. We intend to participate in more promotional events organised by our industry players in the future to further enhance our reputation and customer base.

To further promote our corporate image, we joined the ACRI as a member in March 2010. ACRI is a national association representing the refractory materials industry, with members including researchers, research institutions, entrepreneurs and enterprises from the refractory materials industry. The association was set up in 1990 and is supervised by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (國務院). This association is also a member of the China Iron and Steel Association.

In addition, we, from time to time, organise presentations with steel manufacturing companies which are our potential or existing customers. For instance, we held a technical meeting in Jiuquan, Gansu Province, the PRC in 2009. Through these technical presentations and discussions, our reputation could be promoted and customers' awareness of our Group as well as our products could be enhanced.

RESEARCH AND DEVELOPMENT

We recognise the importance of our research and development in order to provide high-quality products and we have been consistently dedicated to improve the quality of our products. Our costs for research and development mainly represents the salaries for a director of our Company, Dr. Zhang, and other staffs of the research and development team of our Group. Besides normal daily operation, Dr. Zhang spends about half of his time on the research and development work of our Group. Our total staff costs of the research and development team for 2007, 2008 and 2009 were approximately RMB638,000, RMB819,000 and RMB837,000 respectively. In addition, our Group collaborated with IMUST to carry out certain research and development work for our products and the manufacturing technique and the Group paid RMB200,000 in 2007 and RMB150,000 in 2008 to IMUST.

As at the Latest Practicable Date, our research and development team consisted of seven members, with Dr. Zhang being our chief technical officer. Among those members, Dr. Zhang holds a degree of Doctor of Philosophy awarded by the department of Materials and Metallurgical Engineering of Queen's University at Kingston, Canada, and Mr. Tang Jishan (唐繼山), one of our senior management staff, holds a master's degree in Metallury of Iron and Steel awarded by Wuhan University of Science and Technology and three members hold bachelor's degree. Our research and development team primarily focuses on five main areas, namely to (i) improve and enhance the efficiency of our manufacturing

processes; (ii) develop new mixtures of raw materials to enhance product quality; (iii) design better or new products and technologies for customers; (iv) gather market intelligences and closely monitor the technology trend in our industry globally; and (v) provide technical services and on-site training for our sales staff.

During the past years, we achieved various technological developments. We have developed a special machine to reduce the alumina carbon layer thickness thus increase the thickness of zirconia layer to give longer service life-span for our Subentry Nozzles. We have also developed some tooling sets for special shapes to meet our customers' specific demands and a new mix to improve anti-oxidation behaviour.

We also cooperate with other academic institutions for research and development of our products. In October 2007, we entered into a framework cooperation agreement with IMUST, a university in the PRC, for the development of our products. Pursuant to such agreement, the parties agree to exchange ideas on a regular basis on new product development and IMUST will be responsible for the research and development of new products. Fees, duration, rights to intellectual property and other specific terms will be negotiated by the parties and will be set out in the separate development agreements to be signed for each individual project. The parties have agreed to keep the research results in strict confidence within a period to be mutually agreed by the parties.

Pursuant to the development agreement entered into between IMUST and Sinoref (Yixing) on 2 November 2007, IMUST agreed to cooperate with Sinoref (Yixing) in the development of CSP Subentry Nozzles (開發CSP浸入式水口項目) ("**CSP Project**"). In accordance with such agreement, Sinoref (Yixing) would provide relevant information to IMUST for preparation of the design of the CSP Subentry Nozzles at a fee of RMB200,000. IMUST shall complete the design of the CSP Subentry Nozzles within six months from the date of the agreement. Sinoref (Yixing) would enjoy the exclusive right to the intellectual property rights of the new product. Prior to our obtaining the patent registration, both parties shall keep the contents of the agreement in strict confidence, and shall take all necessary measures to prevent information leakage. The co-operation in the CSP Project is exclusive for both parties. There are no specific clauses in relation to termination in the agreement.

In January 2010, we obtained the patent registration (in respect of utility) for the new product Subentry Nozzle for thin slab casting process (薄板坯浸入式水口) developed under the CSP Project. Improvements have been successfully made to our Subentry Nozzle and the new product further stabilises the steel flow and enhances the quality of steel for our customers. Such new product is highly welcomed by our customers. Pursuant to another development agreement entered into between IMUST and Sinoref (Yixing) on 16 December 2008, IMUST has agreed to cooperate with Sinoref (Yixing) in a project to improve the Meishan #2 Casting Machine Subentry Nozzles (梅山#2鑄機浸入式水口優化項目). In accordance with such agreement, Sinoref (Yixing) would provide relevant information to IMUST for preparation of the design of the new product at a fee of RMB150,000. IMUST shall complete the design of the new product within six months from the date of the agreement. Sinoref (Yixing) would enjoy the exclusive right to the intellectual property rights of the new product. Prior to our obtaining of the patent registration, both parties shall keep the contents of the agreement in strict confidence, and shall take all necessary measures to prevent information leakage. The co-operation in this project is exclusive for both parties. There are no specific clauses in relation to termination in the agreement.

Through our work with IMUST, a new CSP Subentry Nozzle with improved mould surface temperature distribution was also being developed and two patent (in respect of both invention and utility) applications were submitted for approval in December 2009.

In March 2010, we applied for registration for two new products 複合式棒頭結構塞棒 (Compound-head structured Stopper) and 一種內裝浸入式水口 (A built-in Subentry Nozzle).

Our research and development team works closely with IMUST through discussions and exchanging ideas on new products and further development and improvement on existing products that meet consumers' demands. We will continue to cooperate with IMUST or other universities, academic or research institutes from time to time to further strengthen our capabilities in developing new products and enhancing our production technologies.

Our research and development manager visits our customers and provides training to our on-site sales staff. The training by our technical personnel has been proven to be valuable to our sales team and has enhanced the efficiency and effectiveness of our services.

Our research and development team also focuses on the international industry trends. Recent development of thin strip casting technology has been closely monitored. This is the latest technology in the continuous casting industry with lower investment, lower operation cost, lower energy consumption and lower carbon dioxide emission as compared with conventional continuous casting and thin slab casting. The steel cast through this process is called ultra thin cast steel. It has better mechanical properties than traditional hot coils and is very close to the properties of cold rolled steel. This process requires two tundishes and thus more advanced steel flow control products are necessary. Our steel flow control products, Ladle Shrouds and Stoppers are also components required for thin strip casting process.

We have entered into a cooperation agreement with Casco (USA) Inc., the non-exclusive agent of marketing and selling CASTRIP Technology licences in China and related matters for Castrip LLC in the PRC in relation to the supply of products for CASTRIP Technology. CASTRIP Technology is a thin strip casting process. Pursuant to such cooperation agreement, Casco (USA) Inc. agreed to form a strategic partnership with us by procuring exclusively from us the monolithic materials, steel flow distributors and side dams. We agreed to give Casco (USA) Inc. the best price comparable to the price of our products of similar quality. We also agreed tentatively that the sales amount will not exceed RMB25 million for each type of products each year under normal operating conditions. Further, we agreed to spend 3% of the sales amount derived from the cooperation with Casco (USA) Inc. on research and development activities upon commencement of business, and we will give a further 10% of such sales amount to Casco (USA) Inc. as technical supervision fee.

In order to develop our business in supplying steel flow control products to thin strip casting technology, we are working closely with Shanghai University (上海大學). We have entered into an agreement with Shanghai University on 4 February 2010 for the joint research and development of steel flow distributors and side dams for the thin strip casting process. Pursuant to such agreement, we shall prepare a task list for both parties to perform in developing a new product. In principle, Shanghai University will be responsible for product design and laboratory test while we will be responsible for pilot scale manufacturing and field tests. For a successful development, Shanghai University will

provide technical support to us in the manufacture of such product. Each party will be responsible for preparing progress reports for each stage for project appraisal and patent application. Further, each party shall bear their own costs incurred for the project, and Shanghai University shall be entitled to receive 10% of the revenue generated from the sale of the product(s) jointly developed by the parties. The intellectual property rights arising from the project will be jointly owned by Shanghai University and us. Shanghai University shall finish its tasks within eight months from the date of the agreement, while we shall finish our tasks within six months from the day on which Shanghai University finished its obligations. Each party agreed that they will keep the information obtained from the other party in strict confidence, and the senior staffs and research and development team members are required to sign separate confidentiality agreement. The co-operation with Shanghai University is exclusive to both parties. There are no specific clauses in relation to termination in the agreement. We plan to produce steel flow distributors at our existing production plant and acquire land to construct a new plant for the production of side dams utilising the proceeds from the Global Offering if suitable opportunities arise (as detailed in the section headed "Future plans and use of proceeds from the Global Offering").

EMPLOYEES

As at 31 December 2007, 2008 and 2009, we had 85, 96 and 153 employees respectively. The following table shows a breakdown of our employees by department as at 31 December 2009:

Department	**Number of employees**
Management	2
Procurement	4
Sales	23
Production	102
Quality control	4
Corporate administration	7
Finance	4
Research and development	7
Total	**153**

We provide training to our staff to enhance their technical and product knowledge including industry quality standards, safety standards and sales skills. We carry out staff evaluation to assess their performance.

We contribute to social insurance scheme in accordance with PRC laws and regulations. Based on the confirmation issued by Yixing Labour and Social Protection Bureau (宜興市勞動及社會保障局), our PRC Legal Advisers confirmed that we have complied with the PRC labour law and regulations in material aspects.

We maintain good working relationships with our staff. Our Directors believe that our working environment and benefits offered to our employees have contributed to building good staff relations and retention. As at the Latest Practicable Date, we had not experienced any strikes or any labour disputes with our staff which had any material impact on our business.

AWARDS AND ACCREDITATION

We have received the following awards and accreditations:

Year of grant	Award/Certificate	Awarding body
2008	Wuxi Work Safety Type A Enterprise (無錫市安全生產A類企業)	Wuxi Administration of Work Safety (無錫市安全生產監督管理局) *(Note 1)*
2009	Environmental Advanced Unit (環境創優先進單位)	Chinese Communist Jiangsu Yixing Economic Development Zone Working Committee (中共江蘇宜興經濟開發區工作委員會) *(Note 1)* and Jiangsu Yixing Economic Development Zone Administrative Committee (江蘇宜興經濟開發區管理委員會) *(Note 1)*
2009	ISO 9001 quality management system certification	Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) *(Note 2)*
2010	Environmental Advanced Unit (環境創優先進單位)	Chinese Communist Jiangsu Yixing Economic Development Zone Working Committee (中共江蘇宜興經濟開發區工作委員會) *(Note 1)* and Jiangsu Yixing Economic Development Zone Administrative Committee (江蘇宜興經濟開發區管理委員會) *(Note 1)*
2010	Technology Innovation Enterprise (科技創新型企業)	Chinese Communist Jiangsu Yixing Economic Development Zone Working Committee (中共江蘇宜興經濟開發區工作委員會) *(Note 1)* and Jiangsu Yixing Economic Development Zone Administrative Committee (江蘇宜興經濟開發區管理委員會) *(Note 1)*
2010	Advanced Enterprise Award (工業先進企業)	Chinese Communist Jiangsu Yixing Economic Development Zone Working Committee (中共江蘇宜興經濟開發區工作委員會) *(Note 1)* and Jiangsu Yixing Economic Development Zone Administrative Committee (江蘇宜興經濟開發區管理委員會) *(Note 1)*
2010	Outstanding Supplier (優秀供貨商)	Anyang Steel Equity Company Limited (安陽鋼鐵股份有限公司) *(Note 3)*

Notes:

1. It is a local government body in the PRC.

2. Beijing BTIHEA Certification Co., Ltd. (北京博天亞認証有限公司) was established by China Household Electric Appliance Research Institute with the approval of the Certification and Accreditation Administration of the PRC and China National Accreditation Service for Conformity Assessment. It is a third party certification organisation which possesses independent legal entity qualification.

3. Anyang Steel Equity Company Limited (安陽鋼鐵股份有限公司) is one of our customers.

4. Other than the ISO9001 quality management system certification obtained by our Group in September 2009 which is valid until September 2012 and Wuxi Work Safety Type A Enterprise (無錫市安全生產A類企業) obtained by our Group in November 2008 which is valid until November 2010, all the above awards and accreditation are valid for one year from the respective year of grant.

INSURANCE

We maintain insurance policies which cover our production plants and equipment, and our inventories. However, we do not have insurance on third party liability or product liability with respect to the products sold by us. We believe that the product liability risk is mitigated by the quality control procedures adopted by our Group. During the Track Record Period, we had not experienced any material claims from third parties as a result of the quality of our products.

Social insurance is provided for our employees including insurance for retirement, unemployment, sickness and injury as required by the PRC social security regulations, our Directors believe that the coverage is adequate for our Group's operation. As at the Latest Practicable Date, we had not been the subject of any insurance claims which are material to us.

Based on the confirmation issued by Yixing Labour and Social Protection Bureau (宜興市勞動及社會保障局) on 12 March 2010, our PRC Legal Advisers confirmed that we have complied with the PRC labour law and regulations in respect of the social insurance in material aspects.

SAFETY

In November 2008, we were accredited as Wuxi Work Safety Type A Enterprise (無錫市安全生產A類企業) by Wuxi Administration of Work Safety (無錫市安全生產監督管理局). Such accreditation is valid for two years until November 2010. The factors taken into account by the Administration of Work Safety for granting the accreditation include the number of accidents happened in a production plant and the compliance of relevant safety standards of an enterprise. To ensure our production facilities comply with the applicable safety standards, our production line is regularly inspected by our safety committee. As at the Latest Practicable Date, we had been in compliance with all applicable safety laws, rules, regulations and standards in the PRC and we had obtained all necessary licences in relation to safety in relation to our operation.

We have set up a safety committee and it consists of 14 members, including Mr. Jiang Panyuan (蔣盤元) (one of our senior management staff) as the safety supervisor. About one to two employees are assigned to monitor the safety measures of each production area. Our safety committee is established to, among other matters, ensure all relevant safety and labour protection rules and regulations are complied with, carry out regular safety management inspection in our production plant and to formulate internal safety rules and standards for employees.

Our production staff who is responsible to operate our machineries is required to attend trainings. Training sessions are provided on production facilities on operation techniques and related requisite safety standards. During the Track Record Period, we had not experienced any material or prolonged stoppage of production due to machinery failure and there was no major accident causing death or serious bodily injury during our production process.

INTELLECTUAL PROPERTY RIGHTS

Our Group owns two trademarks for its trade names and two patents (both in respect of utility) for the new product 薄板坯浸入式水口 (Subentry Nozzle for thin slab casting process) developed under the CSP Project and 可控制流入氣體的整體式塞棒 (Mono block Stopper with controlled gas flow) respectively in the PRC. We have also applied for patent registrations (both in respect of invention) for the same products 薄板坯浸入式水口 (Subentry Nozzle for thin slab casting process) developed under the CSP Project and 可控制流入氣體的整體式塞棒 (Mono block Stopper with controlled gas flow) respectively, two patents (in respect of invention and utility) for a new type of Stopper, three patents (two in respect of utility and one in respect of invention) for two new design of Subentry Nozzle in the PRC. CSP technology ("**CSP Technology**") is the thin slab casting process which was invented by SMS GmbH. The products which our Group produce and has applied for patent registrations are a type of Subentry Nozzle to be used in the CSP Technology and a new design of Stopper. As our Group is not using the CSP Technology, our Directors and the PRC Legal Advisers both confirm that the production of CSP Subentry Nozzle does not infringe the right of CSP Technology.

Further details of the intellectual property rights of our Group are set out in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this prospectus.

We have confidentiality protection arrangements in place to protect our trade secrets, including the requirement for our technical and management personnel and personnel involved in outsourced technical institutions such as IMUST to enter into confidentiality agreements to ensure that our trade secrets are not passed onto any third party. Dr. Zhang left the Vesuvius group in 2002 and founded our Group in 2005. Dr. Zhang has confirmed that the non-competition undertaking under his employment agreement with the Vesuvius group had been expired before he founded our Group. He has also provided full indemnity to cover any losses resulting from any successful claim(s) of infringement of intellectual property rights taken out by the Vesuvius group relating to his previous employment with the Vesuvius group which might arise in the future.

During the Track Record Period, our Group did not violate any third party intellectual property rights and our intellectual property rights had not been infringed by any third parties.

ENVIRONMENTAL PROTECTION

We recognise the importance of environmental protection and follow the relevant laws and regulations in the PRC in our production process. We were accredited as an Environmental Advanced Unit (環境創優先進單位) in 2009 and 2010 by Chinese Communist Jiangsu Yixing Economic Development Zone Working Committee (中共江蘇宜興經濟開發區工作委員會) and Jiangsu Yixing Economic Development Zone Administrative Committee (江蘇宜興經濟開發區管理委員會).

To comply with the applicable rules and regulations in the PRC, we have implemented measures for solid waste treatment and fume waste treatment. In respect of solid waste, we have engaged relevant waste treatment company to collect our solid waste for use as raw materials at minimal value and no cost is incurred by our Group. For fume waste treatment, we use incinerators in our production plant to turn fume into non-pollutant gas before discharge. For the year ended 31 December 2009, the amount we spent on fume waste treatment was approximately RMB110,000. We will continue to implement such measures of solid and fume waste treatment in the future. Our Directors expect that we will not incur any cost in relation to the solid waste treatment in the future, while we expect our annual cost of fume waste treatment would increase to more than RMB400,000 taking into account the expected expansion of our production capacity and on the assumption that the production facilities are running at full capacity.

During the Track Record Period, we had not breached any environmental protection laws and regulations in the PRC and were not subject to any material claim or penalty in relation to environmental protection. Our Directors confirm that we have been in compliance with all applicable environmental protection laws and regulations in the PRC.

COMPETITION

Our Group specialises in the manufacture of advanced steel flow control products. We face competition from local, as well as foreign, steel flow control product manufactures in the PRC. Market participants in the steel flow control products market in the PRC are normally competing on product quality, price and after-sales customer services.

Although our Group has a shorter operating history than our competitors, we believe we possess advanced production facilities and stringent production and quality control procedures which distinguish us from our local competitors. We are able to manufacture products that are comparable to the quality of those of the global players in the PRC. Our Group, as domestic manufacturer, could maintain lower costs and more competitive prices for our products relative to our competitors which are global industry players within the PRC.

We provide strong after-sales services to and maintain close relationship with our customers. Our sales managers have built strong contacts with our customers at their production plants through the provision of daily on-site services, while Mr. Xu and Dr. Zhang, with more than 25 years of experiences working in this field, have maintained solid relationship with our customers at the management level.

Some of our competitors manufacture a whole spectrum of refractory products for the steel making industry. We believe that we are more focused and committed to expand and develop advanced steel flow control products to meet our customers' growing needs. With our dedication and concentration of resources, we believe that we are well-positioned to compete effectively in the PRC and that our strengths and strategies will distinguish us from our competitors. A discussion of our competitive strengths is set out in the paragraph headed "Competitive strengths" in this section.

Our products are made of the precise mixture of specialised materials and are customised to meet the specific requirements of each customer. Such level of customisation and specialisation in the steel flow control products coupled with the experience and technical knowhow of management and staff and on-site customised after-sales service are necessary in order for major steel manufacturing companies to choose us as one of their qualified suppliers for their advanced steel flow control products.

The supplier selection processes of steel manufacturing companies are relatively long and potential suppliers are required to undergo multiple product trials. The entire process for our Group from identifying a potential customer to becoming its qualified supplier usually takes, on average, one to three months. At the onset, upon obtaining the necessary information on the type of steel flow control products required by a potential customer, our Group will manufacture a small quantity of the products according to the standards and specifications required by the potential customer and usually, a few sets of such products will be provided to the customers for trial at no cost. Typically, the trial will take around two to thirty days to complete. Upon completion of the trial phase, the technical and production staff of the potential customer will evaluate every aspect of our products and prepare an evaluation report. Only upon the satisfactory conclusion of the aforesaid evaluation report, the customer will sign a purchase contract.

There is no special regulatory barrier to enter into the steel flow control products manufacturing industry as there is no particular licence or permit required for this industry in the PRC. However, with the nature of the steel flow control product industry, in particular, the high level of customisation required and the stringent supplier selection process of the steel manufacturing companies, it will not be easy for new entrants to attain a sizeable revenue and scale of operation within a short period of time while our Group has already built up the scale for our business.

Our Controlling Shareholders and our Directors do not have any interest in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with our Group's business.

PROPERTIES

As at the Latest Practicable Date, Sinoref (Yixing) owned a parcel of land (the "Land"), with a total site area of approximately 37,704.3 sq.m., located at Zhuqiao Industrial Zone, Yixing, Jiangsu Province, the PRC. The three buildings with total floor area of 10,949.49 sq.m. erected on the Land are owned by Sinoref (Yixing). Our PRC Legal Advisers confirmed that, as at the Latest Practicable Date, we had obtained all necessary land use right certificates and building ownership right certificates for our properties. Details of our properties are set out in Appendix IV to this prospectus.

REGULATORY COMPLIANCE

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had duly obtained all approvals, permits, consents, licences and registrations relating to our incorporation and necessary for the conduction of our business and all of them are presently in force. Our PRC Legal Advisers have also confirmed that, we do not contravene any of the material laws and regulations in the PRC. Please refer to the section headed "Regulations" in this prospectus for the laws and regulations applicable to our operations in the PRC.