

## RULES AND REGULATIONS

### PRC RULES RELATING TO QUALIFICATION, PERMITS OR LICENCES REQUIRED FOR OUR BUSINESS

According to the relevant PRC laws and regulations, all solid wastes imported into China that can be used as raw materials are classified into three categories, namely prohibited, restricted and automatic licensing for import. Mixed Metal Scrap that is necessary for our operation is classified as restricted for import. Aluminium scrap, copper scrap and steel scrap are classified as automatic licensing for import.

Application for import permits of aluminium scrap, copper scrap and steel scrap classified as automatic licensing items for import shall be directly submitted to the MEP with relevant documents.

Enterprises importing solid wastes that can be used as raw materials and are restricted for import such as motor scrap, electric wire and cable scrap, hardware and electrical appliance scrap are subject to strict regulations. In accordance with the “Provisional Regulations on Environmental Protection in relation to Wastes Importation《廢物進口環境保護管理暫行規定》(Huankong (環控) [1996] No. 204, implemented on 1 April 1996), only Designated Processing Units approved by the MEP are allowed to be engaged in the recycling of imported hardware and electrical appliance scrap, electric wire and cable scrap and motor scrap and have to pass examination for the import of such scrap. Furthermore, approvals must be obtained from the relevant authorities in respect of import of hardware and electrical appliance scrap, electric wire and cable scrap and motor scrap every year. According to the assessed annual production capacity and the actual production of each of the Designated Processing Units, the provincial-level environmental protection authorities designate the annual approved volume for the Designated Processing Unit. Although the annual proposed volume in principle shall not exceed the actual import volume of the previous year, the MEP will also decide the final approved import volume according to the proposed annual approved volume and the assessment result. However, there is no compulsory requirement from the MEP stating that the proposed volume shall not exceed the actual import volume for the previous year.

MEP has implemented an assessment system on Designated Processing Unit of hardware and electrical appliance scrap, wire and cable scrap and motor scrap and requires such entities to pass the annual assessment conducted by the municipal-level and provincial-level environmental protection authorities entrusted by MEP. According to the assessment criteria issued by the MEP, the provincial-level environmental protection authorities shall assess entities on a total of 37 items in 7 aspects, including scrap management filing conditions, on-site inspection of the imported scrap that can be used as raw materials, products and non-recyclable scrap, production sites, management personnel and staff, machinery and equipment, organisation and management system, as well as environmental protection management measures. Entities which fail to reach a total score of 80 will be denied of the qualification as a Designated Processing Unit whereas those existing Designated Processing Units which are far below standard are at the verge of elimination.

The Restricted Import Licence, which is issued by the MEP and valid to the end of the year of issuance, stipulates the import volume of the restricted import solid waste that can be used as raw materials (限制進口類可用作原料的固體廢物) is normally measured in tonnes. Entities should renew their Restricted Import Licence annually before expiration. Only the Designated Processing Units approved by the MEP are eligible to apply.

According to the relevant PRC laws and regulations, domestic consignees (i.e. purchasers of foreign imported scrap materials) must register with the AQSIQ and obtain the Consignee Registration Licence issued by AQSIQ. CT Metals, CT Foundry and CT Metals (Ningbo) have obtained the Consignee Registration Licence and they are entitled to purchase scrap materials from approved foreign entities.

During the Track Record Period, our Group has complied with all the relevant PRC laws and has obtained the relevant permits for the import of Mixed Metal Scrap and all the qualifications and licenses required for its business operation.

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### ENVIRONMENTAL REGULATIONS

Our business is subject to the relevant PRC environmental protection laws and regulations. The prevailing laws and regulations governing our production operations laws and include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法), the Law of the PRC on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), Provisional Environmental Protection Administrative Measures and Supplementary Provisions for Import of Waste (《廢物進口環境保護管理暫行規定及其補充規定》), Measures on the Administration of Automatic Monitoring on Pollution Sources《污染源自動監控管理辦法》), Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》), the Law of the PRC on Appraisal of Environment Impacts (《中華人民共和國環境影響評價法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) and the Water Law of the PRC (《中華人民共和國水法》). Pursuant to the applicable regulations of the PRC, an environmental impact report should be made in respect of the construction projects that may lead to material environmental impacts whereas an environmental impact evaluation report should be made for conducting analysis and specific evaluation in respect of the construction projects with slight environmental impacts. Such environmental impact report or environmental impact evaluation report should be approved by the competent environmental protection authorities to which the relevant construction units have submitted their applications for approval. If the environmental evaluation documents have not been reviewed by the stipulated approval authorities or have not been approved upon review, no construction approval shall be granted by the relevant authorities and no construction should be commenced by the construction units. The environmental protection authorities shall also be entitled to conduct follow-up inspection on the environmental impacts incurred by the construction projects upon commencement of operation or utilisation. If the construction units fail to comply with the stipulated procedures for the approval of the evaluation documents of the construction projects and commence operation without permission, the relevant environmental protection authorities shall have the right to order the termination of the project and require the post fulfillment of the formalities upon expiry date. The maximum penalty for those who do not comply with the post fulfillment requirement of the formalities before the expiry date is RMB200,000.

Pursuant to the relevant laws and regulations of water pollution prevention and control measures in China, any enterprises that discharge industrial waste water, directly or indirectly, to the sewage system, and those who can only discharge waste water or polluted water after obtaining the Pollutants Discharge Permit in accordance with regulations should apply for the Pollutants Discharge Permit. Pursuant to the relevant laws and regulations of atmospheric pollution and control in China, the relevant local government in the atmospheric pollutants' total discharge control areas approves and issues the major Atmospheric Pollutants Discharge Permit in accordance with the conditions and procedures stipulated by the State Council. The MEP stipulates that unified approvals and issue of the Atmospheric or Water Pollutants Discharge Permit should be made by each environmental protection department of all levels.

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The subsidiaries of our Group operating in the PRC comprising CT Metals, CT Foundry and CT Metals (Ningbo) have complied with the aforesaid laws and regulations and prepared the relevant environmental impact evaluation documents for the “recycling, demolition and sales project of motor scrap and electrical appliance scrap”, the “0.3mm copper wire and special copper technical reform project with an annual production capacity of 20,000 tonnes”, the “production line project with an annual production capacity of 120,000 tonnes of aluminium-alloy ingots”, and the “technical reform project of refining 6,500 tonnes of recycled aluminium-alloy ash”, and obtained relevant approvals from relevant environmental protection administration departments as well. CT Metals has obtained the Temporary Pollutants Discharge Permit of Zhejiang Province on 1 July 2009. CT Foundry has obtained the Temporary Pollutants Discharge Permit of Zhejiang Province of CT Foundry on 1 July 2009. According to the “*Statement of Circumstances of the Policies, Laws and Regulations regarding the Administration of Pollutants Discharge Permit in Zhejiang Province*” issued by Taizhou Environmental Protection Bureau Luqiao Branch on 7 April 2010, in order to improve the regulation and administration of the Pollutants Discharge Permit, the Environmental Protection Bureau of Zhejiang Province has submitted the draft “*Administrative Regulation(s) of Pollutants Discharge Permit in Zhejiang Province (Draft for Examination and Review)*” to the People’s Government of Zhejiang Province in November 2009. Our PRC legal adviser understands and has advised that the Legislative Office of the Zhejiang Province is still collecting views from the public and the proposed regulation has not been put into effect. Our PRC legal adviser advised that, during this interim period, Taizhou Environmental Protection Bureau Luqiao Branch only issues Temporary Pollutants Discharge Permit according to the “*Administrative Rules for Application of Pollutants Discharge Permit in Taizhou (Tentative)*” and no permanent permit can be obtained due to the aforesaid administrative reason.

According to the certificate issued by Ningbo Metal Recycling Park on 9 March 2010, the procedures for submitting the environmental impact report in relation to the metal recycling project with an annual processing capacity of 70,000 tonnes undertaken by CT Metals (Ningbo) and, the obtaining of the relevant approval from the environmental protection administration department by CT Metals (Ningbo) are being handled by the Ningbo Metals Recycling Park. Pursuant to Article 6 of the “*Trial Administrative Implementation Rules of Pollutants Discharge Permit in Zhenhai District*” (Ningbo City (Zhen Zheng Ban Fa (2008) No. 157)), for any enterprise which is required to be regulated under the Pollutants Discharge Permit, the Environmental Protection Bureau of such district shall give notification in writing to such enterprise and shall make public announcement. We have not received any written confirmation from the Environmental Protection Bureau. In addition, the name of CT Metals (Ningbo) is also not shown on the list of application for Pollutants Discharge Permit in Zhejiang District on the official website of the Environmental Protection Bureau of Zhenhai district of Ningbo City. Based on the above, our PRC legal adviser has advised that CT Metals (Ningbo) is accordingly not required by the relevant environmental protection administration department to apply for a pollutants discharge permit. According to the opinion in relation to the environmental protection issued by Taizhou Environment Protection Bureau Luqiao Branch on 22 February 2010, CT Metals and CT Foundry have complied with the relevant national environmental protection laws and regulations during their operation and production, they have implemented the environmental protection measures in accordance with relevant environmental protection requirements and during the recent three years, there is no environmental pollution accident occurred and they have never been imposed any penalty. According to the opinion in relation to the environmental protection issued by Ningbo Environment Protection Bureau Zhenhai Branch on 1 March 2010, CT Metals (Ningbo) has, since its establishment in September in 2008, complied with the relevant environmental protection laws and regulations, there is no violation of any environmental protection laws and regulations and it has never been imposed of any administrative penalty in relation to environmental protection.

As disclosed above, the Group has complied with all existing laws and regulations in China and continuing compliance with such laws and regulations in the form as they currently exists will not impose a material burden upon the Group.

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### **PRODUCTION SAFETY**

Pursuant to the relevant PRC production safety laws and regulations, production-operation units with over 300 employees should establish production safety management departments or designate personnel especially for production safety management. Production-operation units must provide working protective gear with national or industrial standards for their employees and supervise and educate their employees to wear and use the gear in accordance with the relevant instructions. Production-operation units shall make appropriations for the expenses for purchasing the working protective gears and offering production safety training. Production-operation units must contribute to the work-related injury social insurance in accordance with the laws and settle the premiums for their employees. Departments responsible for production safety supervision and management shall be entitled to conduct supervision and inspection of production-operation units in respect of their implementation of relevant production safety laws, regulations and national or industrial standards and request for instant rectification or rectification within a limited period or give administrative penalties in respect of any non-compliance situations during the inspections. Generally the maximum penalty for non-compliance with the relevant production safety laws and regulations resulting in production incidents is approximately RMB100,000. However, in the event of accident which is deemed as extraordinarily major accident, the maximum penalty imposed upon the entity suffering from and responsible for the accident is RMB5,000,000. Should any production-operation units fail to establish production safety management departments or designate personnel especially for production safety management in accordance with the regulations, the relevant competent authorities shall order for rectification within a limited period; and those that fail to make the rectification before the end of the period shall be ordered to terminate their production and operation for rectification and shall be liable to a penalty of not more than RMB20,000.

The subsidiaries of our Group, CT Metals, CT Foundry and CT Metals (Ningbo), have complied with the aforesaid laws and regulations, employed relevant safety officers at every industrial zone. CT Metals, CT Foundry and CT Metals (Ningbo) have also provided working protective gear for workers and settled the premiums of work-related injury insurance.

### **MERGER AND ACQUISITION REGULATION**

Under the provisions of “Securities Law of the PRC (中華人民共和國證券法)” effective from 1 January 2006, domestic enterprises which directly or indirectly issue securities overseas or listed for trading in overseas markets must obtain approvals from securities supervisory and administrative authorities of the State Council according to the requirements of the State Council. The M&A Rules contain provisions regarding “foreign investors merge and acquire domestic companies through equity-settled payment transactions” which requires that an offshore company holding interests of special purpose vehicles formed for overseas listing purposes shall obtain approvals from securities supervisory and administrative authorities of the State Council. On 21 September 2006, CSRC has announced such assessment procedures on its website and specified documents required. However, according to the “continuous implementation of administrative approved projects according to laws and administrative regulations” and the “State Council determination to retain administrative approved projects according to regulatory documents except law and administrative regulations” issued by the Central People’s Government of the People’s Republic of China in its Official Web Portal on 25 June 2007, offshore listing transactions of special purpose vehicles are not included in either of the above two administrative approved projects. Therefore, application of the M&A Rules is subject to the interpretation of relevant regulatory authorities. In light of: (1) Hefast having completed the acquisition of its 100% interests in CT Metals and CT Foundry before the implementation of the M&A Rules; (2) the consideration paid by Hefast to acquire interests in CT Metals and CT Foundry having been settled in cash and there was no cross-border share swap; (3) the implementation of the M&A Rules is subject to the interpretation of the relevant supervisory and administrative authorities, our PRC legal adviser is of the view that our Company is not required to obtain any approval from CSRC for the Global Offering. However, if CSRC or other Chinese regulatory authorities subsequently decide that our Company must obtain approval from CSRC prior

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to its listing, our Company and its domestic subsidiaries may be subject to regulatory penalties. Regulatory authorities may impose fines on our Company and our domestic subsidiaries, restrict the operational rights of our Group within China, extend or restrict the transfer of capital raised or other policies that may affect the business, finance, reputation and prospects of our Group. Meanwhile, if our Company and our subsidiaries are required to obtain approval from CSRC in the future, our Company and our subsidiaries may not be able to obtain such waivers. Uncertainties concerning the assessment requirements of the CSRC might affect the share price of our Company.

### RECYCLING ECONOMY LAW

On 29 August 2008, the Recycling Economy Promotion Law of the PRC (《中華人民共和國循環經濟促進法》) (the “Recycling Economy Law”) was approved in the fourth meeting of the 11th National People’s Congress Standing Committee of the PRC, which regulates the waste reduction, recycling and reuse of resources in production, circulation and consumption processes. Its ultimate objective is to maximise the economic, social and environmental interests with a lower development cost. The Recycling Economy Law stipulates provisions in respect of the following six aspects: the planning system of the recycling economy; the control of resources wastage and the overall volume control system of the discharge of pollutants; the evaluation and examination system of the recycled economy; responsibility extension system focusing on the manufacturers; system of major control over enterprises with high energy consumption and high water consumption; and strengthening of economic measures.

The Recycling Economy Law introduces several specific incentive measures, mainly: (1) special funds set up by the government for recycling economy development for the purpose of supporting the research and development, pilot projects and promotion of technology and products of the recycling economy; (2) the financial support arranged by the government and the relevant authorities for the self-motivated research, pilot application and industrialised development of the major technology projects of the recycling economy; (3) the coordination mechanism and the financial assistance of the relevant authorities for the introduction, assimilation, absorption and innovation of major technologies and equipment; (4) the tax preferences granted by the State to industrial activities conducive to promoting recycling economy development; and (5) priority in credit loans given and backup financial services provided by the financial institutions as for the projects in compliance with the State’s industry policy and conducive to the conservation of energy, water, land, and materials or to the comprehensive utilisation of resources.

The Recycling Economy Law also states certain provisions in respect of waste recovery. Reuse and recycling of wastes shall ensure the safety of products, meet the State’s requirements on product quality and prevent pollution. In accordance with the Recycling Economy Law, dismantling and recycling of special products, such as waste electrical appliances or electronic products, scrapped motor vehicles or vessels, waste tires, waste lead-acid batteries, etc., shall follow the laws and administrative regulations. For those salvaged electrical appliances or electronic products that need dismantling and recycling for use, they shall be sold and delivered to enterprises qualified to do so. Companies which intend to engage in dismantling and recycling of waste electrical appliances or electronic products shall follow the Recycling Economy Law, the Measures on Prevention and Control of Pollution Caused by Disused Electronic Waste (《電子廢物污染環境防治管理辦法》) and the relevant complementary laws and regulations promulgated by the PRC relevant authorities.