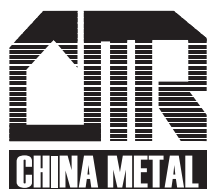

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Metal Recycling (Holdings) Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CHINA METAL RECYCLING (HOLDINGS) LIMITED

中國金屬再生資源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00773)

CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

VEDA | CAPITAL
智 略 資 本

A letter from the Board is set out on pages 3 to 7 of this circular.

A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 8 to 9 of this circular. A letter from Veda Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions is set out on pages 10 to 16 of this circular.

5 January 2012

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DEFINITIONS

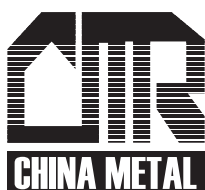
In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2009 Sales Agreements”	a series of agreements entered between the Company and certain subsidiaries of GSEG;
“associate”	has the same meaning as given to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	China Metal Recycling (Holdings) Limited 中國金屬再生資源(控股)有限公司, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“connected person”	has the meaning as given to it under the Listing Rules;
“Continuing Connected Transactions”	the continuing connected transactions under the GMI Sales Agreement;
“Director(s)”	the director(s) of the Company;
“GMI”	Guangzhou Metallurgy Industrial Co. Ltd. (廣州冶金實業有限公司), a company incorporated in the PRC, which is a subsidiary of GSEG and is principally engaged in metallurgy and sale of metal products;
“GMI Sales Agreement”	the agreement dated 12 December 2011 between GMI and the Company in relation to the sale of scrap metal products by the Company to GMI and its associates;
“Group”	the Company and its subsidiaries;
“GSEG”	Guangzhou Iron & Steel Enterprises Holdings Limited, a company incorporated in the PRC which is interested in approximately 72.4% of GZS and is a large-scale state-owned enterprise in Guangzhou with the responsibility for managing various state-owned iron and steel enterprises principally engaged in metallurgy and process and sale of metal products in an administrative capacity;
“Guangzhou Asia Steel”	Guangzhou Asia Steel Co., Ltd., a 75% non wholly owned subsidiary of the Company;
“GZS”	Guangzhou Zhujiang Steel Co., Ltd, a subsidiary of GSEG and an indirect 25% substantial shareholder of Guangzhou Asia Steel and is principally engaged in manufacture and sale of metal products;

DEFINITIONS

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors, which has been appointed by the Board to advise the Independent Shareholders on the Continuing Connected Transactions;
“Independent Financial Adviser” or “Veda Capital”	Veda Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions;
“Independent Shareholders”	the shareholders of the Company other than GSEG and its associates;
“Latest Practicable Date”	30 December 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules; and
“%”	per cent.

LETTER FROM THE BOARD



CHINA METAL RECYCLING (HOLDINGS) LIMITED

中國金屬再生資源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00773)

Executive Directors:

Chun Chi Wai (秦志威)

(Chairman and Chief Executive Officer)

Fung Ka Lun (馮嘉倫)

(Group Finance Director and Group Vice President)

Jiang Yan Zhang (姜延章)

(Chief Operating Officer)

Non-Executive Director:

Lai Wun Yin (黎煥賢)

Independent Non-Executive Directors:

Chan Kam Hung (陳錦雄)

Leung Chong Shun (梁創順)

Yan Qi Ping (閻啟平)

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

***Principal Place of Business in
Hong Kong:***

Room 3003A-5, 30/F

The Centrium

60 Wyndham Street

Central

Hong Kong

5 January 2012

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 12 December 2011 in respect of the entering into of the GMI Sales Agreement.

The purpose of this circular is:-

- (i) to give further information on the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions;

LETTER FROM THE BOARD

- (ii) to set out the opinion of the Independent Financial Adviser in respect of the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions; and
- (iii) to set out the recommendation of the Independent Board Committee in respect of the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions.

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the prospectus of the Company dated 10 June 2009. The Stock Exchange has granted to the Company on 20 May 2009 a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rule 14A.48 for the transactions under, the 2009 Sales Agreements. Reference is also made to the announcement of the Company date 15 October 2010 in respect of, among others, the revised annual caps of the 2009 Sales Agreements. The 2009 Sales Agreements are due to expire on 31 December 2011. Accordingly, the Company proposes to continue such continuing connected transactions for a further term of three years and entered the GMI Sales Agreement.

GMI Sales Agreement

On 12 December 2011, the Company and GMI entered into the GMI Sales Agreement pursuant to which the Company and its subsidiaries will sell recycled scrap metal products to GMI and its associates, including GSEG and its subsidiaries.

GMI is a subsidiary of GSEG and is a connected person of the Company for the purpose of the Listing Rules.

Prior to the listing of the shares of the Company on the Stock Exchange, the Group has entered into the 2009 Sales Agreements with subsidiaries of GSEG for the sale of recycled metal to the subsidiaries of GSEG, subject to the annual sale price payable by the purchasers to the Group would not exceed HK\$3,300 million, HK\$4,900 million and HK\$5,500 million for the three years ending 31 December 2011, respectively. On 15 October 2010, the Company announced that the annual cap under the 2009 Sales Agreements for the two years ended 31 December 2010 and 2011 were increased to HK\$6,000 million and HK\$7,200 million, respectively.

The Company proposes to continue with such continuing connected transactions by entering the GMI Sales Agreement, which will replace the 2009 Agreements and serve as the single master contract for the supply of recycled metals to GMI and its associates, including GSEG and its subsidiaries, for a term of three years subject to the annual cap set out below:

	For the financial year ended 31 December		
	2012	2013	2014
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Annual transaction amount under the GMI Sales Agreement	8,000	9,000	10,000

LETTER FROM THE BOARD

The recycled metals to be sold under the GMI Sales Agreement will be based on comparable market rates of products of similar nature and on normal credit terms that the Company would grant to its customers.

The historical sales by the Company to GSEG and its subsidiaries for the three years ended 31 December 2009, 2010 and 2011 were as follows:

	For the financial year ended 31 December		
	2009	2010	2011
	HK\$' million	HK\$' million	HK\$' million
Annual cap	3,300	6,000 <i>(Note 1)</i>	7,200 <i>(Note 1)</i>
Actual transaction amount	2,254	5,666	4,860 <i>(Note 2)</i>

Notes:

1. The original annual cap were HK\$4,900 million and HK\$5,500 million respectively. The annual caps were increased as per announced by the Company in its announcement dated 15 October 2011.
2. The actual transaction amount was up to 31 October 2011.

The annual caps were determined on the basis of the prevailing market rate and on normal commercial terms, having taken into account: (i) the historical amount of recycled scrap metal sold by the Company to GSEG and its subsidiaries, (ii) the expected increase in demand for the Group's products, (iii) potential fluctuations in the cost of scrap metal; and (iv) the possibility of any appreciation in the value of Renminbi against the Hong Kong dollar.

The increases in the annual caps of the GMI Sales Agreement over that of the 2009 Sale Agreements were attributed to the expected growth in the sales of recycled metals over the period covered by the GMI Sales Agreement. Owing to the development of the Group's collection resources in Southern China and the accumulation of scrap metal reserves due to the economic growth in the PRC, it is also expected the Group's production capacity in Southern China would increase. Moreover, the PRC Government has nominated the "energy conservation and environmental protection" sector as one of the key strategic industries for development under the 12th Five-Year Plan. In this connection, it is anticipated that more renewable resources would be used and the supply of the Group's products to GSEG will correspondingly increase. In addition, the Renminbi has appreciated against the Hong Kong dollar in the past few years. The increases in the annual cap has also taken into consideration the effect of further appreciation of the Renminbi against the Hong Kong dollar.

GMI is a subsidiary of GSEG. GSEG is a large-scale state-owned enterprise located in Guangzhou with the responsibility of managing various state-owned iron and steel enterprises principally engaged in metals manufacturing and trading in an administrative capacity. It is beneficially interested in approximately 72.4% in GZS, which is principally engaged in manufacture

LETTER FROM THE BOARD

and sale of metal products and is an indirect substantial shareholder in Guangzhou Asia Steel, a non wholly-owned subsidiary of the Company. GZS, and in turn GSEG and GMI, are therefore connected persons of the Company for the purpose of the Listing Rules and the GMI Sales Agreement constitute continuing connected transactions for the Company.

GSEG was the Group's largest customer in the years ended 31 December 2006 and 2008. Since 2006, the Group has continuously been supplying recycled scrap metal to members of the GSEG Group, which settled the invoices of the Group on a timely basis. The Directors (including the independent non-executive Directors) consider that it is in the interests of the Company and the Shareholders to continue the relationship with members GSEG and enter into the GMI Sales Agreement.

LISTING RULES IMPLICATIONS

The Company is principally engaged in the business of metal recycling, processing and marketing of metals, including ferrous and non-ferrous metals, collects scrap steel, scrap copper and others scrap metals to produce quality recycled scrap metals.

The Directors consider that the GMI Sales Agreement has been entered into after arm's length negotiations, are under normal commercial terms and are in the usual and ordinary course of businesses of the Group. The Directors (including the independent non-executive Directors) therefore consider that the terms of the GMI Sales Agreement (including the annual caps) are fair and reasonable and the entering into of the GMI Sales Agreement are in the interests of the Group and the Shareholders as a whole.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the GMI Sales Agreement will exceed 5% on an annual basis, the GMI Sales Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No Director is interested in the Continuing Connected Transactions. GMI, GSEG and its associates are not interested in any shares of the Company, no Shareholder is required to abstain from voting for the resolutions to approve the continuing connected transactions under the GMI Sales Agreement should an extraordinary general meeting is held to approve the transactions. Accordingly, the Company has applied to the Stock Exchange and has received a waiver in accordance with Rule 14A.43 of the Listing Rules from the requirement to hold a general meeting to approve the Continuing Connected Transactions on the basis of a written certificate dated 12 December 2011 given by Wellrun Limited, which is beneficially interested in approximately 51.20% of the issued share capital of the Company.

LETTER FROM THE BOARD

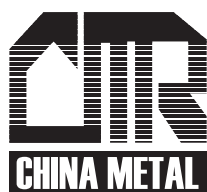
OTHERS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 8 to 9 of this circular and the letter of advice from Veda Capital in relation to the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions.

Your attention is also drawn to the general information set out in the appendix of this circular

By Order of the Board
China Metal Recycling (Holdings) Limited
中國金屬再生資源(控股)有限公司
Chun Chi Wai
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA METAL RECYCLING (HOLDINGS) LIMITED

中國金屬再生資源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00773)

5 January 2012

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 5 January 2012 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Veda Capital, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions as set out on pages 10 to 16 of the Circular and the letter from the Board set out on pages 3 to 7 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Veda Capital as stated in its letter of advice, we consider that the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. As disclosed in the “Letter from the Board” section of the Circular, the Company has applied and received a waiver from the requirement to hold a general meeting to approve the Continuing Connected Transactions based on a written certificate given by Wellrun Limited, which is

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

beneficially interested in approximately 51.20% of the issued share capital of the Company. Had a general meeting be held to approve the Continuing Connected Transactions, we would have recommended the Independent Shareholders to vote in favour of approving the Continuing Connected Transactions.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
China Metal Recycling (Holdings) Limited**
中國金屬再生資源(控股)有限公司

Chan Kam Hung

Leung Chong Shun

Yan Qi Ping

Independent Non-executive Directors

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the GMI Sales Agreement and the annual caps in relation to the Continuing Connected Transactions prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F., COSCO Tower
183 Queen's Road Central, Hong Kong

5 January 2012

*To the Independent Board Committee and the Independent Shareholders
of China Metal Recycling (Holdings) Limited*

Dear Madam or Sir,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) in the circular to the Shareholders dated 5 January 2012 (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 12 December 2011, the Company and GMI entered into the GMI Sales Agreement pursuant to which the Company and its subsidiaries will sell recycled scrap metal products to GMI and its associates. GMI is a subsidiary of GSEG and is a connected person of the Company for the purpose of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors has been established to advise whether the GMI Sales Agreement and the annual caps (the “**Annual Caps**”) in relation to the Continuing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the GMI Sales Agreement and the Annual Caps are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM VEDA CAPITAL

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Directors and the management. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the GMI Sales Agreement and the Annual Caps, we have taken into consideration the following factors and reasons:

Background and reasons for the Annual Caps

The Company is principally engaged in the business of metal recycling, processing and marketing of metals, including ferrous and non-ferrous metals, collects scrap steel, scrap copper and others scrap metals to produce quality recycled scrap metals.

On 12 December 2011, the Company and GMI entered into the GMI Sales Agreement pursuant to which the Company and its subsidiaries will sell recycled scrap metal products to GMI and its associates. GMI is a subsidiary of GSEG and is a connected person of the Company for the purpose of the Listing Rules. GSEG is a large-scale state-owned enterprise located in Guangzhou with the responsibility of managing various state-owned iron and steel enterprises principally engaged in metals manufacturing and trading in an administrative capacity. It is beneficially interested in approximately 72.4% in GZS, which is principally engaged in manufacture and sale of metal products and is an indirect substantial shareholder in Guangzhou Asia Steel, a non wholly-owned subsidiary of the Company. GZS, and in turn GSEG and GMI, are therefore connected persons of the Company for the purpose of the Listing Rules and the GMI Sales Agreement constitute continuing connected transactions for the Company.

LETTER FROM VEDA CAPITAL

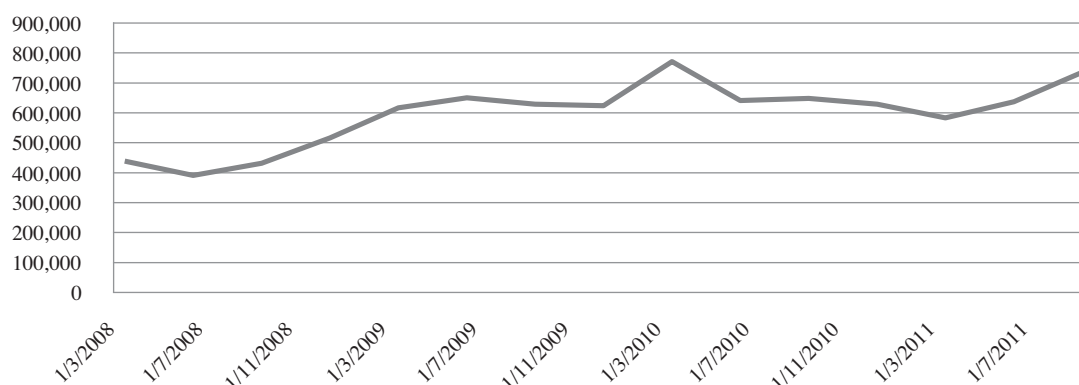
As mentioned in the annual report of the Company for the year ended 31 December 2010, the PRC State government has set the “energy conservation and environmental protection” sector as the top strategic industry for development under the 12th Five-Year Plan (the “**Plan**”). The Plan put prominent focus on both climate change and environmental issues. According to the Copenhagen Accords, China has committed that its carbon emissions per unit of GDP in 2020 would be reduced by 40% to 45% with reference to the 2005 level. Steel industry being one of the major carbon producers has been one of the industries to lead the change. National Development and Reform Commission of China has set a target for scrap steel usage as a percentage of steel production from currently at around 14% to reach 20% under the Plan period. As such, the Company expects steady growth in demand for the Group’s products and proposed to increase the Annual Caps. The Directors consider that the Continuing Connected Transactions contemplated under the proposed Annual Caps under the GMI Sales Agreement are conducted by the Company in its usual and ordinary course of business, are carried out on an arm’s length basis and on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Having considered that (i) the substance of the Continuing Connected Transactions is in line with the principal activities of the Company; and (ii) the Plan proposed by the PRC State government supports the business of recycled metals, we are of the view that the Continuing Connected Transactions are fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders as a whole.

The Company advised that copper and steel are the major recycled metals selling to GSEG. We have reviewed the total demand in the PRC and historical prices of copper and steel for the three preceding years since 2008 as sourced from Bloomberg and observed that although there were fluctuations for the demand and prices for copper and steel. In general, copper experienced a steady increasing trend and steel experienced lower level of fluctuations and was maintained within a steady range of demand and pricing. Set out below are the graphs extracted from Bloomberg:

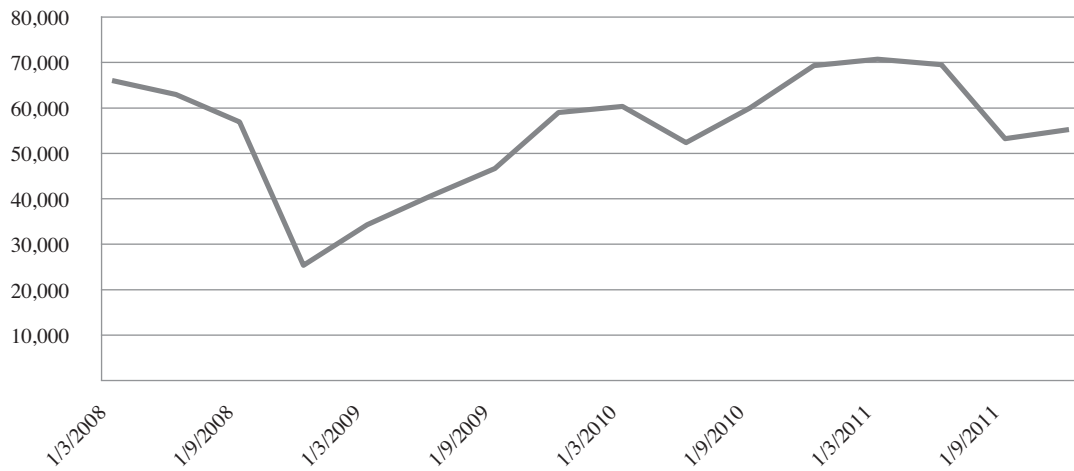
Copper

Total Copper Demand in PRC (tonnes)



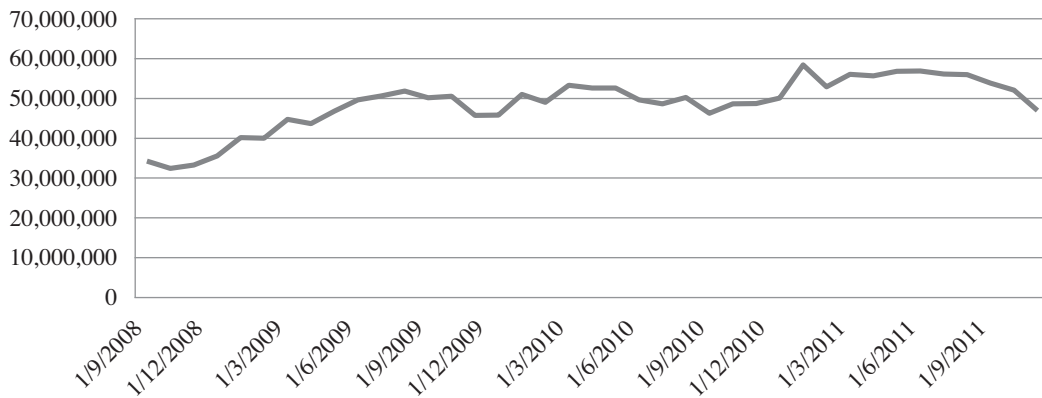
LETTER FROM VEDA CAPITAL

Shanghai Copper Spot Price (RMB)

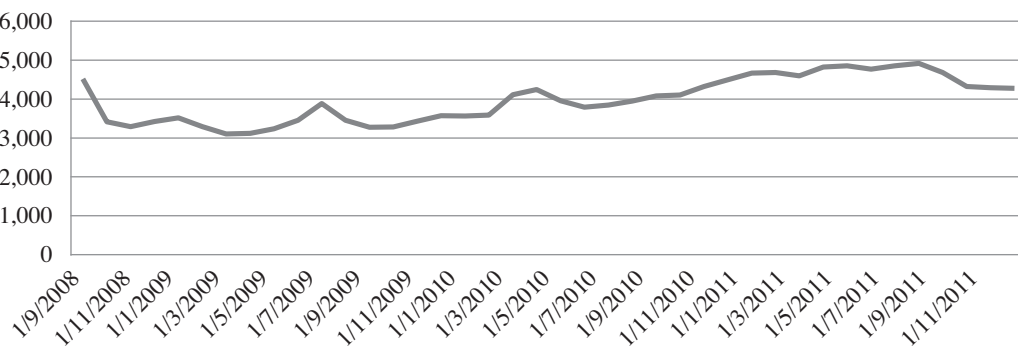


Steel

Total Steel Demand in PRC (tonnes)



Steel Pricing (RMB)



LETTER FROM VEDA CAPITAL

Pricing basis

The Company confirms that the sale of recycled scrap metal products to GMI and its associates by the Group shall be on normal commercial terms (or on terms no less favourable to the Group than terms available from the independent customers of the Group)

We have reviewed sample copies of the sale contracts for the two years ended 31 December 2009 and 2010 and 10 months ended 31 October 2011 respectively in respect of the transactions contemplated under the GMI Sales Agreement and similar transactions entered into between the Group and customers who are independent third parties as defined under the GEM Listing Rules (the “**Independent Third Parties**”) and noted that the pricing per unit metal to GMI and its associates are comparables to those offered to the Independent Third Parties. In addition, given that (i) the independent non-executive Directors will, pursuant to Rule 14A.37 of the Listing Rules, review, amongst other things, whether the GMI Sales Agreement are conducted on normal terms, or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those offered to the customers of the Group who are Independent Third Parties; and (ii) the auditors of the Company will, pursuant to Rule 14A.38 of the Listing Rules, review for the purpose of confirming whether the continuing connected transactions entered into between the Group and GMI and its subsidiaries are conducted in accordance with the GMI Sales Agreement, we are of the opinion that (a) the GMI Sales Agreement is fair and reasonable and on normal commercial terms; and (b) adequate measures have been in place, as required under the said Listing Rules above, to monitor the GMI Sales Agreement in order to protect the interests of the Company and the Independent Shareholders.

Basis of the Annual Caps

Set out below is the historical sales by the Company to GSEG and its subsidiaries for the three years ended 31 December 2009, 2010 and 2011 and the proposed Annual Caps for the continuing connected transactions pursuant to the GMI Sales Agreement.

Year	For the year ended 31 December (HK\$ 'million)			For the year ending 31 December (HK\$ 'million)		
	2009	2010	2011	2012	2013	2014
Actual transaction amount	2,254	5,666	5,832 ^(Note 2)	—	—	—
Annual cap	3,300	6,000 ^(Note 1)	7,200 ^(Note 1)	8,000	9,000	10,000
				(“2012 Cap”)	(“2013 Cap”)	(“2014 Cap”)

Notes:

- The original annual caps were HK\$4,900 million and HK\$5,500 million respectively. The annual caps were increased as per announced by the Company in its announcement dated 15 October 2010.

LETTER FROM VEDA CAPITAL

2. Based on the actual transaction amount of approximately HK\$4,860 million for the ten months ended 31 October 2011, it is estimated that the sales by the Company to GSEG for the year ended 31 December 2011 would reach approximately HK\$5,832 million.

As advised by the Company, the Annual Caps were determined on the basis of the prevailing market rate and on normal commercial terms, having taken into account: (i) the historical amount of recycled scrap metal sold by the Company to GSEG and its subsidiaries, (ii) the expected increase in demand for the Group's products, (iii) potential fluctuations in the cost of scrap metal; and (iv) the possibility of any appreciation in the value of Renminbi against the Hong Kong dollar.

As advised by the Company, in general, there are more sales in the second half year than the first half year. As noted from the annual report of the Company for the year ended 31 December 2010, the revenue for the two years ended 31 December 2009 and 2010 were approximately HK\$9,063 million (the "**2009 Revenue**") and approximately HK\$ 22,508 million (the "**2010 Revenue**") respectively. As stated in the interim report 2010 of the Company, the revenue for the six months ended 30 June 2009 and 2010 were approximately HK\$3,667 million and approximately HK\$8,685 million respectively and represented approximately 40.46% (the "**2009 1H Sale Percent**") of the 2009 Revenue and approximately 38.59% (the "**2010 1H Sale Percent**") of the 2010 Revenue.

Based on the average of the 2009 1H Sale Percent and the 2010 1H Sale Percent of approximately 39.52% and the revenue for the six months ended 30 June 2011 of approximately HK\$25,335 million as set out in the interim report 2011 of the Company, the revenue for the year ending 31 December 2011 is derived to be approximately HK\$64,101 million (the "**2011 Revenue**"). Based on the ten-month sales by the Company to GSEG of approximately HK\$4,860 million, it is estimated that the total sales to GSEG would be amounted to approximately HK\$5,832 million (the "**2011 GSEC Sale**") for the year ending 31 December 2011. The 2011 GSEC Sale contributes to approximately 9.10% of the 2011 Revenue (the "**2011 GSEG Sale Percent**").

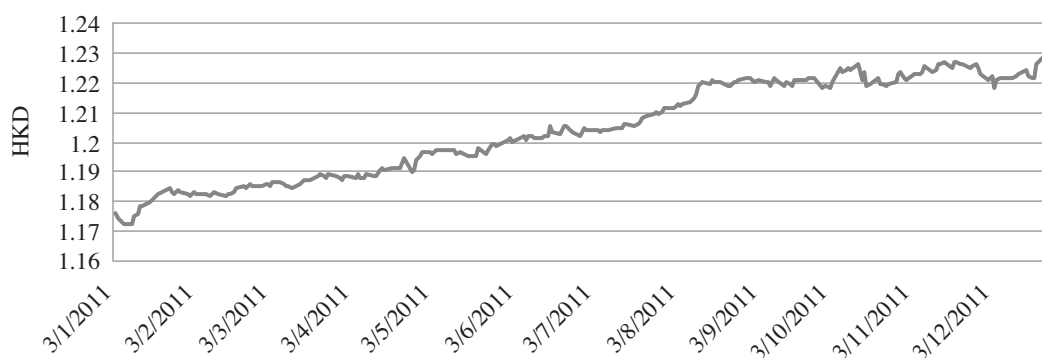
The Company advised that due to internal structural changes of GSEG during 2011, the percentage of total sales to GSEG to total revenue of the Group were substantially decreased during the year. As mentioned in the Board Letter, in view of the expected growing demand in scarp metal in the PRC owing to the development of the Group's collection resources in Southern China and the accumulation of scrap metal reserves due to the economic growth in the PRC and as encouraged by the Plan proposed by the PRC State government, the Company expects a steady growth in demand for the Group's products. Despite the operation of GSEG is expected to be back to normal in 2012, the Company has considered potential fluctuations in cost of scrap metals which would have corresponding effects on the selling price of the Group's products and conservatively estimated the 2012 Cap slightly higher than the annual cap of 2011 of HK\$7,200 million.

Based on the 2010 Revenue and actual sales by the Company to GSEG of approximately HK\$5,666 million in 2010 ("**2010 Sale**"), the 2010 Sale contributes to approximately 25.17% (the "**2010 GSEG Sale Percent**") of the 2010 Revenue. The average of 2010 GSEG Sale Percent and 2011 GSEG Sale Percent is approximately 17.13% (the "**Average GSEG Sale Percent**"). The Company advised that taken into account of the steady growth in demand for the Group's products in the PRC, the PRC inflation rate and increasing exchange rate of Hong Kong dollar against Reminbi, the Company has taken a conservative estimation of an annual growth rate of 5% ("**Revenue Annual Growth Rate**") and based on the 2011 Revenue, total revenue of the Company in 2012 is expected to be approximately HK\$67,306 million ("**2012 Revenue**"). In view that the 2012 Cap is approximately 11.89% to the 2012 Revenue which is lower than the Average GSEG Sale Percent, we consider the 2012 Cap fair and reasonable.

LETTER FROM VEDA CAPITAL

We observed that as shown in the below table, the exchange rate of Hong Kong dollar per Renminbi has been on an increasing trend over the year 2011 at an average appreciation rate of approximately 0.33% and the exchange rate has been increased by approximately 0.68% in December 2011. According to the National Bureau of Statistics of China, the PRC composite consumer price index has recorded an increase of approximately 5.5% for the eleven months ended 30 November 2011 as compared with the same period in 2010. In view of the increasing trend of the exchange rate of Hong Kong Dollar over Reminbi and the PRC inflation rate, we consider the estimated Revenue Annual Growth Rate fair and reasonable.

Currency Rate HKD against RMB1



Based on the above estimations, it is expected that the revenue generated by the Company in year 2013 and 2014 would be approximately HK\$70,671 million (“**2013 Revenue**”) and HK\$74,205 million (“**2014 Revenue**”) respectively. In view that the 2013 Cap and 2014 Cap represents approximately 12.74% to the 2013 Revenue and approximately 13.48% to the 2014 Revenue respectively, which are below the Average GSEG Sale Percent. We consider the 2013 Cap and 2014 Cap fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

RECOMMENDATION

Taking into consideration of the above-mentioned principal factors and reasons, we consider that the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the Continuing Connected Transactions and the Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company

Name of director	Capacity in which interests are held	Number of issued ordinary shares held	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Chun Chi Wai	Interest of controlled corporation (<i>Note</i>)	584,050,381	51.20%
	Beneficial owner	1,089,000	0.10%
Ms. Lai Wun Yin	Interest of spouse (<i>Note</i>)	585,139,381	51.30%

Note: Mr. Chun Chi Wai, as the sole beneficial owner of Wellrun Limited, is deemed to be interested in the 584,050,381 ordinary shares held by Wellrun Limited. Ms. Lai Wun Yin, pursuant to the SFO. Ms. Lai Wun Yin is the spouse of Mr. Chun Chi Wai and is deemed to be interested in the shares held by Mr. Chun Chi Wai.

(ii) Long positions in the underlying shares of the Company

Name of director	Capacity in which interests are held	Number of options/ underlying shares held	Exercise period	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Chun Chi Wai	Beneficial owner	1,930,502	22 June 2010 - 18 June 2017	0.17%
	Beneficial owner	1,930,502	23 June 2011 - 18 June 2017	0.17%
	Beneficial owner	1,930,502	23 June 2012 - 18 June 2017	0.17%
	Interest of spouse (<i>Note</i>)	643,500	22 June 2010 - 18 June 2017	0.06%
	Interest of spouse (<i>Note</i>)	643,501	23 June 2011 - 18 June 2017	0.06%
	Interest of spouse (<i>Note</i>)	643,501	23 June 2012 - 18 June 2017	0.06%
Mr. Fung Ka Lun	Beneficial owner	1,144,164	1 November 2010 - 23 December 2017	0.10%
	Beneficial owner	1,144,165	1 November 2011 - 23 December 2017	0.10%
	Beneficial owner	1,144,165	1 November 2012 - 23 December 2017	0.10%
Mr. Jiang Yan Zhang	Beneficial owner	514,801	23 June 2011 - 18 June 2017	0.05%
	Beneficial owner	514,801	23 June 2012 - 18 June 2017	0.05%

Name of director	Capacity in which interests are held	Number of options/ underlying shares held	Exercise period	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Ms. Lai Wun Yin	Beneficial owner	643,500	22 June 2010 - 18 June 2017	0.06%
	Beneficial owner	643,501	23 June 2011 - 18 June 2017	0.06%
	Beneficial owner	643,501	23 June 2012 - 18 June 2017	0.06%
	Interest of spouse (<i>Note</i>)	1,930,502	22 June 2010 - 18 June 2017	0.17%
	Interest of spouse (<i>Note</i>)	1,930,502	23 June 2011 - 18 June 2017	0.17%
	Interest of spouse (<i>Note</i>)	1,930,502	23 June 2012 - 18 June 2017	0.17%
Mr. Chan Kam Hung	Beneficial owner	128,700	22 June 2010 - 18 June 2017	0.01%
	Beneficial owner	128,700	23 June 2011 - 18 June 2017	0.01%
	Beneficial owner	128,700	23 June 2012 - 18 June 2017	0.01%
Mr. Leung Chong Shun	Beneficial owner	128,700	22 June 2010 - 18 June 2017	0.01%
	Beneficial owner	128,700	23 June 2011 - 18 June 2017	0.01%
	Beneficial owner	128,700	23 June 2012 - 18 June 2017	0.01%
Mr. Yan Qi Ping	Beneficial owner	128,700	8 June 2011 - 7 June 2018	0.01%

Name of director	Capacity in which interests are held	Number of options/ underlying shares held	Exercise period	Percentage of the issued share capital of the Company as at the Latest Practicable Date
	Beneficial owner	128,700	8 June 2012 - 7 June 2018	0.01%
	Beneficial owner	128,700	8 June 2013 - 7 June 2018	0.01%

Note: Mr. Chun Chi Wai and Ms. Lai Wun Yin are husband and wife and therefore are deemed to be interested in the options held by each other.

(iii) *Long positions in the shares and underlying shares of associated corporation of the Company*

Name of director	Capacity in which interests are held	Name of associated corporation	Number of issued ordinary shares held	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Chun Chi Wai	Beneficial owner (<i>Note</i>)	Wellrun	1	100%

Note: As Wellrun owns more than 50% interest of the Company, Wellrun is an associated corporation of the Company under the SFO. Wellrun is also a controlled corporation of Mr. Chun Chi Wai under the SFO. The entire issued share capital of Wellrun is owned by Mr. Chun Chi Wai, who is a director of the Company and the sole director of Wellrun.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the directors of the Company nor any of their spouse or minor children was granted or held options to subscribe for shares in the Company or any of its associated corporation (within the meaning of Part XV of the SFO), or had exercised such rights.

(b) Particulars of Directors' Service Contracts

As at the Latest Practicable Date, there was no existing or proposed service contract between any of Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

(c) As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group; and
- (iii) save as disclosed, none of the Directors is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

3. Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of ordinary shares	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Wellrun	Beneficial owner (<i>Note (i)</i>)	584,050,381	51.20%
Paul G. Desmarais	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
Nordex Inc.	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
Gelco Enterprises Ltd.	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
Power Corporation of Canada	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
Power Financial Corporation	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
IGM Financial Inc.	Interested in controlled corporations (<i>Note (ii)</i>)	79,994,800	7.02%
Norges Bank	Beneficial Owner	68,638,400	6.02%
JP Morgan Chase & Co.	Beneficial Owner	29,400	0.00%
	Custodian	68,470,503	6.00%
Atlantis Capital Holdings Limited	Beneficial Owner	59,876,800	5.25%

Notes:

- (i) Wellrun is the controlled corporation of Mr. Chun Chi Wai, who is a director of the Company and the sole director of Wellrun.

- (ii) According to the disclosure of interest notices filed by Paul G Desmarais, Gelco Enterprises Ltd., IGM Financial Inc., Nordex Inc., Power Corporation of Canada and Power Financial Corporation, each of these companies and Paul G Desmarais was deemed to be interested in 79,994,800 shares of the Company. Among these 79,994,800 shares, 3,250,000 shares were directly held by Mackenzie Financial Capital Corporation. Mackenzie Financial Capital Corporation was a wholly-owned subsidiary of Mackenzie Financial Corporation. Mackenzie Financial Corporation was a wholly-owned subsidiary of Mackenzie Inc. which was, in turn, a wholly-owned subsidiary of IGM Financial Inc. of which Power Financial Corporation held approximately 57.35% shareholding interests. 171263 Canada Inc., a wholly-owned subsidiary of Power Corporation of Canada, owned approximately 66.08% shareholding interests in Power Financial Corporation. Gelco Enterprises Ltd. owned approximately 53.62% voting shareholding interests in Power Corporation of Canada. Nordex Inc., a company which was owned as to 68.00% by Paul G. Desmarais, owned approximately 94.95% shareholding interests in Gelco Enterprises Ltd.

Save as disclosed above, the Directors are not aware of any persons who was, as at the Latest Practicable Date, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in general meeting of any member of the Group or in any options in respect of such capital.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2010, being the date of which the latest audited financial statements of the Company were made up.

5. EXPERT'S QUALIFICATION AND CONSENT

Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Veda Capital	a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Veda Capital did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2010, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. GENERAL

- (a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited located at Butterfield House, 68 Port Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands
- (c) The branch share registrars and transfer office of the Company in Hong Kong is Tricor Investor Services Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours from the date of this circular up to and including 31 January 2012:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 8 to 9 of this circular;
- (b) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 10 to 16 of this circular;
- (c) the written consent from Veda Capital referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix;
- (d) a copy of the GMI Sales Agreement; and
- (e) this circular.