ORALABS HOLDING CORP
Form 8-K
January 04, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

January 4, 2007 (December 28, 2006)

Date of Report (Date of earliest event reported):

CHINA PRECISION STEEL, INC.

(Exact name of registrant as specified in charter)

Colorado	000-23039	14-1623047
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

8th Floor, Teda Building, 87 Wing Lok Street, Sheungwan
Hong Kong, The People's Republic of China

(Address of principal executive offices)

86-21-5994-8500

Registrant's telephone number, including area code:

OraLabs Holding Corp.
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement

On March 31, 2006, OraLabs Holding Corp ("OraLabs") entered into a Stock Exchange Agreement (the "Agreement") under which all of the issued and outstanding shares of Partner Success Holdings Limited ("PSHL") would be acquired by OraLabs in consideration for the issuance to the owner of PSHL and his designees (the "PSHL Shareholder") of common stock representing a 94% ownership interest in OraLabs (the "Share Exchange"). OraLabs filed a Current Report on Form 8-K on April 6, 2006 describing the material terms of the Agreement. The Agreement was subsequently amended on July 20, 2006 (the "First Amendment") and on October 12, 2006 (the "Second Amendment"). The Agreement was filed as Exhibit 2.1 to OraLabs' Current Report on Form 8-K filed on April 6, 2006 and is incorporated herein by this reference. The First Amendment was filed as Exhibit 2.1 to OraLabs' Current Report on Form 8-K filed on July 25, 2006 and is incorporated herein by this reference. The Second Amendment was filed as Exhibit 2.1 to OraLabs' Current Report on Form 8-K filed on October 17, 2006 and is incorporated herein by this reference. On December 28, 2006, OraLabs and PSHL held a closing on the Share Exchange (the "Closing").

Pursuant to the Agreement, OraLabs entered into a Redemption Agreement dated December 28, 2006 (the "Redemption Agreement") with its President, Gary H. Schlatter, individually ("Schlatter"), whereby OraLabs redeemed 3,629,350 shares of its outstanding common stock owned by Schlatter in exchange for all of the issued and outstanding shares of OraLabs, Inc., a wholly owned subsidiary of OraLabs. A copy of the Redemption Agreement is attached hereto as Exhibit 10.1 and is incorporated herein by this reference.

On December 27, 2006, OraLabs held its annual meeting of shareholders (the "Annual Meeting"). At the Annual Meeting, shareholders owning a majority of the issued and outstanding shares of OraLabs approved:

- the Share Exchange;
- the Redemption;
- a 2006 Directors Option Plan and the and the issuance to non-employee directors of 300,000 shares of OraLabs common stock;
- the issuance of an undetermined number of shares of OraLabs common stock, shares of preferred stock convertible into OraLabs common stock or warrants to purchase OraLabs common stock, in an aggregate amount of up to 22,600,000 shares of common stock, in connection with potential equity financing from time to time;
- the sale to OraLabs, Inc., the wholly-owned subsidiary of OraLabs, of up to 100,000 shares of OraLabs common stock to satisfy a tax indemnity obligation of OraLabs, Inc. in connection with the closing of the Share Exchange. A copy of the Tax Indemnity Agreement, dated December 28, 2006, is attached hereto as Exhibit 10.2 and incorporated herein by reference;

- the amendment to OraLabs' Articles of Incorporation to change the name of OraLabs to China Precision Steel, Inc. and to increase the number of authorized shares of common stock to 62,000,000;

- the Amendment to OraLabs' Articles of Incorporation to increase the number of authorized shares of preferred stock to 8,000,000;

- The election of Mr. Wo Hing Li and Mr. Hai Sheng Chen as executive directors and Mr. Che Kin Lui, Mr. David Peter Wong, and Mr. Tung Kuen Tsui, the individuals designated by PSHL, as independent non-executive directors of OraLabs;

- The approval of the 2006 Omnibus Long-Term Incentive Plan of OraLabs that will allow the Company to grant an aggregate of 2,165,220 shares of its common stock through stock options and restricted stock awards to qualified key employees; and

- The ratification of the appointment of Murrell, Hall, McIntosh & Co., PLLP as the Company's independent registered public accounting firm for fiscal year 2006.

On December 28, 2006, OraLabs and PSHL closed on the Share Exchange and OraLabs' name was changed to China Precision Steel, Inc. (the "Company"). At the Closing, OraLabs issued to the sole owner of PSHL's common stock and his designees an aggregate of 25,363,002 shares of common stock, which constitutes 94% of its total issued and outstanding common stock. Upon the consummation of the Share Exchange, PSHL became a wholly-owned subsidiary of the Company and the Company now owns 100% of the issued and outstanding shares of PSHL's common stock.

At the Closing, OraLabs, Inc., the wholly-owned subsidiary of OraLabs, purchased 100,000 shares of OraLabs common stock to satisfy a tax indemnity obligation of OraLabs, Inc. in connection with the closing of the Share Exchange and related transactions. Further, prior to closing, OraLabs issued 300,000 shares to OraLabs' non-employee directors, Mr. Michael I. Friess and Mr. Robert C. Gust pursuant to OraLabs 2006 Directors Option Plan.

At the Closing, Mr. Gary H. Schlatter, Mr. Michael I. Friess and Mr. Robert C. Gust resigned as directors of OraLabs and were replaced by Mr. Wo Hing Li and Mr. Hai Sheng Chen, as executive directors, and Mr. Che Kin Lui, Mr. David Peter Wong, and Mr. Tung Kuen Tsui, as independent non-executive directors of the Company. Further, Gary H. Schlatter and Michael I. Friess resigned as officers of OraLabs and Wo Hing Li was appointed the President of the Company and Leada Tak Tai Li the Chief Financial Officer, Secretary and Treasurer of the Company. Further, OraLabs agreed to pay up to $10,000 to PSHL to defer certain costs of the transaction to be incurred by PSHL, all costs and expenses incurred in connection with the Exchange Agreement and the transactions contemplated thereby.

The foregoing summary description of the Agreement and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by the complete text of the Agreement, the First Amendment and the Second Amendment.

Item 2.01. Completion of an Acquisition or Disposition of Assets.

As described more fully under Item 1.01 above, on December 28, 2006, OraLabs acquired 50,000 common shares of PSHL, representing 100% of the issued and outstanding shares of PSHL from the PSHL Shareholders in accordance with the terms of the Agreement. In accordance with the terms of the Agreement, the Company issued to the PSHL Shareholders and designees an aggregate of 25,363,002 shares of OraLabs common stock, which constitutes 94% of the Company's total issued and outstanding common stock.

Further, pursuant to the Redemption Agreement, OraLabs redeemed 3,629,350 shares of its outstanding common stock owned by Schlatter in exchange for all of the issued and outstanding shares of OraLabs, Inc., a wholly owned subsidiary of OraLabs.

THE COMPANY'S BUSINESS

History and Development of the Company

On May 1, 1997, OraLabs, Inc., a privately held company, became a wholly-owned subsidiary of SSI Capital Corp. (the predecessor of the Company) and the name of the Company was changed from SSI Capital Corp. to OraLabs Holding Corp. and OraLabs, Inc. became a wholly owned subsidiary of OraLabs. OraLabs was engaged in the production and sale of consumer products relating to oral care and lip care and to distribute nutritional supplements.

As a result of the Redemption, OraLabs redeemed 3,629,350 shares of its outstanding common stock owned by Schlatter in exchange for all of the issued and outstanding shares of OraLabs, Inc. owned by OraLabs. Upon the consummation of the Share Exchange, PSHL became a wholly-owned subsidiary of the Company and the Company now owns 100% of the issued and outstanding shares of PSHL's Common Stock. The "Company" refers to China Precision Steel, Inc., PSHL, the Company's wholly owned subsidiary, and Shanghai Chengtong Precision Strip Company Limited ("Chengtong"), PSHL's wholly owned subsidiary. "PSHL" refers to Partner Success Holdings Limited and, where the context requires, Chengtong.

PSHL was incorporated as an international business company on April 30, 2002 under the laws of the British Virgin Islands. Chengtong was registered on July 2, 2002 in Jiading District, Shanghai, the People's Republic of China and was granted a fifty-year period of existence until July 1, 2052. Chengtong is a wholly-owned foreign enterprise ("WOFE") of PSHL.

General

The Company is a niche precision steel processing company principally engaged in the production and the sale of high precision cold-rolled steel products and in providing heat treatment and cutting medium and high carbon hot-rolled steel strips and chrome series stainless steel. Specialty precision steel offers specific control of thickness, shape, width, surface finish, and other special quality features that compliment the emerging need for highly engineered end use applications. Precision steel pertains to the precision of measurements and tolerances of the above factors, especially thickness tolerance.

The Company's operations are conducted through PSHL in China. However, the Company intends to expand overseas into Japan, Taiwan, Korea, Thailand, the Philippines, the European Union and the United States in the future. The Company currently has 280 employees, including 24 senior management and technical staff members and leases 20,000 square meters production facilities (including 10,000 square meters of the new Phase 2 production facilities) in Jiading District, Shanghai, on 4 acres of property. During the fiscal years ended June 30, 2006, 2005 and 2004, the Company earned net income of $7,514,101, $6,366,441 and $198,776, respectively. During the quarters ended September 30, 2006 and 2005, the Company earned net income of $2,809,248 and $2,283,122 respectively. At September 30, 2006, the Company had total assets of $63,193,618.

Products

Cold-rolled specialty precision steel is a relatively new industry in China and manufacturers of products that use specialty precision steel products have traditionally imported precision steel products from Japan, Korea, the European Union and the United States. Cold-rolled steel products represent hot-rolled de-scaled (pickled) steel coils which are used as raw materials in the precision steel industry which have been processed by cold reduction through a cold-rolling mill to the desired thinness. The process does not involve heating and the primary feature of cold reduction is to reduce the thickness of the steel coils. However, because the cold reduction operation induces very high strains (work hardening) into the steel sheet, the precision steel sheet not only becomes thinner, but also becomes much harder, less ductile and very difficult to form. Thus cold-reduced steel products are annealed (heated to high temperatures) to become soft and formable. Cold-rolled sheet products are used in a wide variety of end applications such as appliances (refrigerators, washers, dryers, and other small appliances), automobiles (exposed as well as unexposed parts), food packaging materials, electric motors and bathtubs. Cold-rolled sheet products are used in these and many other areas of manufacturing.

Hard-rolled steel represents steel products manufactured from cold reduction to the desired thinness without annealing. The product is very stiff; it is intended for flat work where deformation is very minimal. This type of hard-rolled steel is most often applied to further processing for applications such as continuous galvanizing. Hard-rolled or cold-rolled steel with low carbon represents hard-rolled or cold-rolled steel with carbon content of less than 0.1%. It is a very versatile and useful material, easily machined and worked into complex shapes, and has low cost and good mechanical properties. Hard-rolled or cold-rolled steel with medium carbon represents hard-rolled or cold-rolled steel with carbon content of 0.30%. It is a typical engineered steel product. Hard-rolled or cold-rolled steel with high carbon represents hard-rolled or cold-rolled steel with a carbon content of 0.8% or more. This precision steel product is very hard and also quite brittle and much less ductile than low carbon steel. High carbon steel has good wear resistance, and is used for railways as well as for cutting tools. Acid wash steel is also known as the acid pickling and refers to the process of using liquid acids, for example hydrochloric acid, to remove rust or oxides from the surface of steel. Removing rust prepares the surface for a protective coating.

Products with greater width have more applications and intended uses. Width is an important differentiation factor because certain end products such as washers and automobiles require materials with a certain minimum width. Although materials with smaller width could also be used for these applications through jointing, this increases production cost and thus makes wider products more flexible and cost efficient.

The Company believes that generally, to date, the average quality and standards of China's high precision steel industry lags behind the international norm. Nonetheless, during the last three years, Chengtong believes that it has begun to develop and establish itself as a nationally recognized brand in China, however. Despite having exported some 242 tons of precision steel products to Thailand and the Philippines during the quarter ended September 30, 2006, it is not yet established as an internationally recognized brand for specialty precision steel products. As of November 30, 2006, Chengtong produced approximately 40 high precision steel products covering a range of over one hundred specifications. Currently, Chengtong produces precision steel products which can be categorized into five major categories of products.

As of November 30, 2006, PSHL had an annual production capacity of approximately 250,000 tons. Following the installation of the 1,400mm cold mill after the completion of Phase 2 of the new production facilities in August 2006, an additional 150,000 tons was added to the annual production capacity. It is anticipated that once all of the plant and equipment (1,400mm width cold mill and 1,700mm width cold mill) are installed in the new production facilities, the Company's annual production capacity will increase to 400,000 tons. The new production facilities were completed in August 2006 and have added another approximately 10,000 square meters of production area. In addition, with the completion of the new production facilities, PSHL installed one 1,400mm width cold mill and intends to install another 1,700mm width cold-roll mill on or before June 30, 2007. The new production facilities will focus on the production of high carbon, high strength cold-rolled steel products and the production of more complex precision steel products that can not be manufactured in the Company's current rolling mill. The Company's existing facilities will primarily manufacture low carbon cold-rolled steel products.

The 1,400mm width cold mill has added 150,000 tons to the Company's annual production and when the 1,700mm width cold mill is installed on or before June 30, 2007, this will add another 150,000 tons to the annual production capacity, totaling an additional annual aggregate production capacity of 300,000 tons. The directors of the Company believe that the increased production capacity will be fully utilized within two years after commencement of operation. The Company currently produces extremely thin cold-rolled precision steel strips ranging from 3.0 mm to 0.03 mm. The Company also currently provides heat treatment and cutting of medium and high carbon hot-rolled steel strips and chrome stainless steel series of not exceeding 3.0 millimeters fineness. Currently, the Company's specialty precision products are mainly used in the manufacture of automobile parts and components, food packaging materials, saw blades, textile needles, microelectronics, packing and containers.

As of November 30, 2006 and September 30, 2006, PSHL manufactured approximately 40 different types of precision steel products with a range of over one hundred specifications. The Company's precision steel products can be categorized into the following five major categories:

Categories of Precision Steel Products:	**Functions**
1. Low carbon cold-rolled steel	Food packaging, dry batteries, electronic devices, kitchen tools
2. Low carbon acid wash steel	Food packaging, dry batteries, electronic devices, kitchen tools
3. Low carbon hard-rolled steel	Food packaging, dry batteries, electronic devices, kitchen tools
4. High carbon cold-rolled steel	Automobile components, saw blades, weaving needles, springs
5. High carbon hard-rolled steel	Automobile components, saw blades, weaving needles, springs

Raw Materials

The Company is not dependent on any one single supplier for supply of hot-rolled de-scaled (pickled) coils and steel sheet. Over 40 steelmakers supply hot-rolled de-scaled (pickled) coils and steel sheets to the Company. The major suppliers as of June 30, 2006 are as follows:

Major suppliers	*June 30, 2006*	*% of direct materials consumed*	*June 30, 2005*	*% of direct materials consumed*
BaoSteel Trading Co. Ltd	$ 7,138,845	33%	$ 16,513,238	40%
Ningbo Dongming Co. Ltd	5,902,211	28%	-*	
Shanghai Baixing Co. Ltd	1,642,024	8%	-*	
Shanghai Bao Gang Dev Co. Ltd	1,389,221	6%	-*	
Shanghai Tianxing Co. Ltd	1,025,946	5%	-*	
Shanghai Jiesiyi International Trading	*		4,723,981	11%
China Chengtong Metal (Group)	*		3,156,359	8%
BaoSteel Capital Company	*		2,218,776	5%
Shanghai Jingqi Trading	*		1,225,998	3%
	17,098,247	80%	27,838,352	67%
Other suppliers	4,319,672	20%	13,951,127	33%
	21,417,919	100%	41,789,479	100%

**Not major customers*

The Company does not have any other material contract or agreement or equity relationship, direct or indirect, with BaoSteel Group Corporation.

Based upon information obtained by the Company from the China Metallurgical Industry Planning and Research Institute (“CMI”), in 2006 the price of steel has generally decreased. However, the cost of imported iron-ores has increased substantially. This apparent anomaly was due to excess supplies arising from excess capacities of the steel producers and, as a result of the downwards pressure on the price of steel, the cost of steel rolls have generally decreased in 2005 and 2006. The CMI website may be viewed in English and the website URL is www.metal.net.cn.

The prices of steel rolls are very competitive, very volatile and dependent on supplies and demands. To provide some protection from the pressure and volatility of the market (i.e., to minimize the amount of purchases that the Company must make at high prices during the high demand seasons), the Company makes bulk purchases after taking into account customers' orders on hand whenever steel prices are considered to be lower in the market. As steel rolls have an extremely long shelf-life, obsolescence is not a major concern and the Company may build up its inventory during such periods when prices are low.

When sales orders are executed between the customers and Chengtong, the agreed selling price is based on the cost of raw material at that date, effectively allowing Chengtong to pass incremental cost in raw materials to its customers.

Regulation

The Company is subject to numerous Chinese provincial and local laws and regulations, which may be changed from time to time in response to economic or political conditions and have a significant impact upon overall operations. Changes in these regulations could require the Company to expend significant resources to comply with new laws or regulations or changes to current requirements and could have a material adverse effect on the Company.

The China Central Government has promulgated a series of ongoing macro-control policies which focus on the improvement of the country's investment structure, with the goal to secure a fast and sound development of the national economy. Excessive investment in certain sectors is placed under stringent control on one hand while incentives are given to other sectors.

Renminbi is not a freely convertible currency at this time. Save for receiving its export sales revenues in United States dollars, the Company currently receives all its local sales revenues in Renminbi. If and when the Company needs to make payments of dividends and other expenditures in foreign currencies outside China, conversion of Renminbi into other currencies will be necessary. The Company is able to make payments in foreign currencies (including dividends) on presentation of business documents through banks in the PRC authorized to conduct foreign currency transactions without the prior approval from The PRC State Administration of Foreign Exchange ("SAFE"). The PRC government has indicated that it will consider allowing the free conversion of Renminbi into other currencies. However, there is no assurance that the PRC government will not exercise foreign exchange controls on normal transactions in the future.

The Company is currently subject to numerous Chinese provincial and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. The Company's business and operating results could be materially and adversely affected if the Company were to increase expenditures to comply with any new Chinese environmental regulations affecting its operations. The State Environmental Protection Administration Bureau is responsible for the supervision of environmental protection in, implementation of national standards for environmental quality and discharge of pollutants for and supervision of the environmental management system of the PRC. Environmental protection bureaus at the county level or above are responsible for environmental protection within their jurisdictions.

The laws and regulations on environmental protection require each company to prepare environmental impact statements for a construction project to the environmental protection bureaus at the county level. These must be prepared prior to when the construction, expansion or modification commences.

The “Environment Protection Law” requires production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. The system includes the adopting of effective measures to prevent and control exhaust gas, sewage, waste residues, dust and other waste materials. Entities discharging pollutants must register with the relevant environmental protection authorities.

Penalties for breaching the Environmental Protection Law include a warning, payment of a penalty calculated on the damage incurred, or payment of a fine. When an entity has failed to adopt preventive measures or control facilities that meet the requirements of environmental protection standards, it may be liable to suspension of its production or operations and for payment of a fine. Material violations of environmental laws and regulations causing property damage or casualties may be subject to criminal liabilities. The Company believes that its current production and operating activities of Chengtong are in compliance with the environmental protection requirements of the PRC. The Company has never been penalized as a result of any breach of the laws and regulations on environmental protection.

China Steel Industry

The following industry information has been obtained from various sources. The Company believes it is the most updated information available on this subject and that it is widely available and reliable.

According to the International Iron and Steel Institute, China is the largest steel producing country. In 2005, China produced 349.4 million metric tons of steel, up 24.6% from 2004. Japan, the second largest producer, produced 112.7 metric tons of steel.

Steel products can be categorized as low-end (long products such as pipes, tubes, wires and rods) and high end (flat products such as hot-rolled steel or cold-rolled steel sheets). Based upon information obtained by the Company from the CMI, the Company believes that approximately 65% of China’s steel production are low-end long products and approximately 35% are high-end high value cold-rolled steel sheets. The Company operates in the high-end category of this market with its niche precision steel processing and produces and sells high precision cold-rolled and hot-rolled steel products and provides heat treatment and cutting of medium and high carbon hot-rolled steel strips and chrome series stainless steel.

Based upon information obtained by the Company from the CMI, the Company believes that the estimated market size for cold-rolled steel sheets is approximately 20,000,000 tons, with ultra-thin products making up approximately 2,000,000 tons.

Based upon information obtained by the Company from the CMI, the Company believes that the production of cold-rolled precision steel strips accounted for less than 15% of Chinese demands and, accordingly, imports of stainless steel sheets, galvanized sheets, cold-rolled sheets, cold-rolled silicon steels, and color coated sheets of between 85% to 90% were required to make up the short-fall. The Company believes that the average quality and standards of China's high precision steel industry lags behind the international norm. During the last three years, Chengtong believes that it has begun to develop a nationally recognizable brand in China, however, it has not yet established an internationally recognizable brand for its specialty precision steel products. Export led demands coupled with nationwide demands for automobile parts and components, saw blades, textile needles, microelectronics, packing and containers in China's booming economy had and are expected to continue to require increasing quantities of high precision steel products. Arising from the increasing demands for high precision steel products and limited production in China, the Company believes that China's manufacturers have had to import millions of tons of cold-rolled steel rolls and sheets from Japan, Korea, the European Union and the United States.

Competition

The Company concentrates in the niche ultra-thin cold-rolled precision steel and high-carbon, high strength cold-rolled steel and low carbon super-thin cold-rolled steel processing and is not in direct competition with such local Chinese steelmakers as BaoSteel Group Corporation and Maan Steel Group. The Company is not in direct competition with China's local steelmakers because these companies concentrate on the production of hot rolled de-scaled (pickled) steel coils and steel sheets from iron ores imported from Brazil and Australia. Steel sheets produced by these local Chinese steelmakers are then supplied as raw materials to high precision steel manufacturers such as the Company for cold reduction processing to the desired thickness. Cold-rolled products are then sold to manufacturers/customers in the appliance and automobile industries.

However, its business is in an industry that is becoming increasingly competitive and capital intensive, and competition comes from local manufacturers and importers. Some of the Company's competitors have financial resources, staff and facilities substantially greater than the Company's and the Company may be at a competitive disadvantage compared with larger steel companies. The Company's competitors in China's precision steel market include: China Special Steel Co., Limited, Henan Green Complex Material Co., Limited, Qinghuangdao Longteng Precision Strip Co., Limited and BaoSteel Group Chaoyang Precision Strip Co., Limited. The Company's overseas' competitors include: Ton Yi Industrial Corp., and Shinwha Special Steel Co., Limited. Further, there are additional competitors who are currently constructing mills that will be in competition with the Company both in China and internationally.

BaoSteel Group Chaoyang Precision Strip Co., Limited was a joint venture between a local Chinese company and a subsidiary of BaoSteel Group when it was established. However, the Company understands that four years ago BaoSteel Group sold its equity interest in this joint venture to the local company and this is no longer a subsidiary of BaoSteel Group although the company name remained unchanged. The Company further understands that BaoSteel Group is now focusing on the production of cold-rolled stainless steel products which belong to a different market segment. The management of the Company does not believe that the two companies are in direct competition.

Although there is intense competition in China's steel industry, this impacts mostly low-end steel products. The Company believes that there are only two companies with similar product categories in the PRC, BaoSteel Group Chaoyang Precision Strip Co., Limited and Qinghuangdao Longteng Precision Strip Co., Limited, which produce cold steel rolls with widths of approximately 400mm. Because the Company's cold-rolled steel rolls have a width of around 1,000mm, these products have different applications and are sold in different market segments than that of the Company and are not considered to be direct competitors to the Company.

Intellectual Property

On December 8, 2004, the State Intellectual Property Office in China granted a ten-year patent right to the "Environment-Conscious Mill Bearing with Inner Circulation Lubricant" to Shanghai Chengtong Precision Strip Co., Limited and Shanghai Te'an-Yikai Bearing Co., Limited. The patented bearing is installed in the Company's existing cold-roll mill and, together with the Company's internal know-how complementary to the patented bearing, the Company believes it addresses a number of issues associated with the bearing lubrication in cold-rolling and ensures smooth and effective operation of the cold-roll mill. There is no direct or indirect affiliation between the Company and Shanghai Te'an-Yikai Bearing Co, Limited. The Company and Shanghai Te'an-Yikai Bearing Co., Limited jointly developed the environment-conscious mill bearing with inner circular lubrication project. Shanghai Te'an-Yikai Bearing Co., Limited retains the proprietary right to the technology while the Company has the exclusive right to the application of the technology.

The Company and Chengtong's management has deliberately elected not to register any other patents and internally developed know how because of the uncertainty over the protection of intellectual property rights in China. Chengtong also protects its internally developed know-how and production process (such as system pressure, cleanliness of the lubrication, temperature control, appropriate allocation of oil supply and retrieving which are vital in providing a radical solution t