
INDUSTRY OVERVIEW

Certain information presented in this section relating to the global and the PRC copper semi-manufacturing industry has been extracted from various official government publications, unless otherwise indicated. Where indicated, certain information presented in this section relating to the global and PRC copper industry has been extracted from Independent Third Party publications. These Independent Third Parties publications are available to the general public and their backgrounds are provided in the body of this section. While the Sponsor, the Underwriters, parties involved in the Global Offering and us have taken reasonable care in the extraction, compilation and reproduction of information and statistics directly or indirectly from official government publications, none of us, the Sponsor, the Underwriters or any parties involved in the Global Offering has independently verified such information or made any representation as to the accuracy of the sources. Such information may not be consistent with other information compiled within or outside the PRC and you should not rely unduly upon it. No publication was commissioned for the purpose of the Global Offering.

AN OVERVIEW OF THE COPPER SEMI-MANUFACTURING INDUSTRY

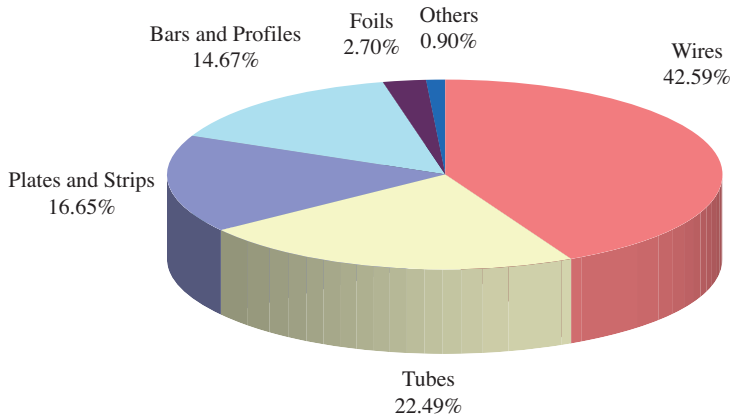
Copper semi-manufactures can be divided into copper and copper-based alloy products. Copper and copper-based alloy have a wide range of applications because of their properties. Copper has good malleability, high electrical and thermal conductivity, satisfactory strength and good corrosion resistance. Copper-based alloy is formed by smelting copper as the base material and other supplementary metals such as tin, zinc and nickel to improve the malleability and functions of copper. It has high electrical and thermal conductivity, satisfactory mechanical performance and is easy to process.

Applications of copper semi-manufactures include power generation and transmission, telecommunication, construction, components in electrical and electronic appliances, computer hardware and IC, machinery and automobiles. They are also the most economical conducting materials and one of the core special materials used in various high technology products.

Based on their shapes, copper semi-manufactures are mainly divided into different types, including copper wires, copper plates and strips, copper tubes, copper bars and profiles, and copper foils.

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The following chart shows a breakdown of China's production of various types of copper semi-manufactures in 2005:



Source: CNMFIA Report

As widely applied materials in various manufacturing industries, copper semi-manufactures have continued to gain importance especially in the PRC, the largest producer and consumer of copper semi-manufactures globally. Driven by the fast-growing electrical, telecommunication, automobile manufacturing and construction sectors, China's copper semi-manufacturing industry experienced fast growth in recent years and is enjoying an increasing global market share. According to the World Metal Statistics, the aggregate output of copper semi-manufactures in the world's major countries (excluding China) in 2006 was approximately 8,015,000 tonnes, and China's output amounted to approximately 5,000,000 tonnes, which was approximately one third of the aggregate of the above output volumes.

As the largest consumer of copper semi-manufactures in the world, China's growth in demand for copper semi-manufactures exceeded the growth rate of its national economy in the past four years. China consumed 3,318,000 tonnes of copper semi-manufactures in 2002, whilst in 2006, the consumption reached 5,598,000 tonnes, equivalent to a CAGR of 14.0% during the four years.

Despite the rapid growth in its production capacity for copper semi-manufactures, China's consumption of the products continued to exceed its supply. In 2006, China produced 5,065,000 tonnes of copper semi-manufactures, whilst its consumption reached 5,598,000 tonnes, leading to a gap of 533,000 tonnes between demand and supply. China's copper semi-manufactures market still calls for higher production volume to meet the excess of demand over supply.

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The table below sets out China's production and consumption volumes of copper semi-manufactures for the period from 2002 to 2006:

China's production and consumption volumes of copper semi-manufactures (unit: tonnes)

	2002	2003	2004	2005	2006	CAGR (%)
Production . . .	2,512,000	3,195,000	4,165,000	4,668,000	5,065,000	19.2
Consumption . .	3,318,000	4,018,000	4,970,000	5,391,000	5,598,000	14.0

Note: Consumption refers to the observable consumption, which is equivalent to the production volume plus net imports. Observable consumption is a common statistical term in the industry as real consumption is relatively difficult to measure.

Source: CNMFIA Report

THE COPPER PLATES AND STRIPS INDUSTRY

Major types of copper plates and strips

Copper plates and strips, a sub-category of copper semi-manufactures, are generally divided into four major types according to their composition, namely bronze copper plates and strips which mainly include tin phosphorous bronze plates and strips, lead frame strips and beryllium plates and strips; silver plates and strips which mainly include nickel silver plates and strips; brass plates and strips; and red copper plates and strips including pure copper plates and strips.

- **Tin phosphorous bronze plates and strips**

Tin phosphorous bronze plates and strips have good elasticity, strength and corrosion resistance. They are primarily used as components in electronic devices, contact plates in telecommunication equipment, wear-resistant parts and diamagnetic parts of high precision instruments and meters, automobile components, and wearing-resistant parts and electrical parts used in machinery. They are economical and the most widely used elastic copper-based alloy materials.

- **Lead frame strips**

Lead frame strips have high electrical and thermal conductivity, high strength as well as corrosion resistance. Lead frame strips are the base raw materials used for making IC and semiconductor separators (such as large-and-mid-scale power tubes, light emitting diode tubes and triode tubes).

- **Beryllium plates and strips**

Beryllium plates and strips have good strength and hardness, excellent thermal conductivity and high corrosion resistance. They are used to make non-sparkling tools for use in oil refineries and other places where sparks constitute a fire hazard.

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- **Nickel silver plates and strips**

Nickel silver plates and strips have a pleasant silvery color, good malleability, good magnetism shield properties, high corrosion resistance and high flexibility. Nickel silver plates and strips are widely used in liquid crystal vibration device covers, shielding for mobile phones, optical instruments, silverware, jewellery, zippers and keys, musical instruments and coins.

- **Brass plates and strips**

Brass plates and strips have excellent dynamics properties, physical properties, high electrical and thermal conductivity, and high corrosion resistance. They are widely used as contact plates and accessories in electronic, telecommunication and household electrical equipment, interior decorations, garment components, water tanks of automobiles, batteries and detonating caps.

- **Red copper plates and strips**

Red copper plates and strips have high electrical and thermal conductivity, high corrosion resistance and satisfactory physical specifications and processing capabilities. They are widely used in dry-type power transformer windings, cables, conducting bars, switches, rectifier slides, radiating fin of automobile water tanks, cooling plates of iron smelting blast furnaces and crystallizers for copper casting.

The table below sets out key features and applications of the above mentioned copper plates and strips:

<u>Type of copper plates and strips</u>	<u>Key features</u>	<u>Examples of application</u>
Tin phosphorous bronze plates and strips	Good elasticity, strength and corrosion resistance	Components in electronic devices, contact plates in telecommunication equipment, wear-resistant parts and diamagnetic parts of high precision instruments and meters, automobile components, wearing-resistant parts and electrical parts used in machinery
Lead frame strips	High electrical and thermal conductivity, high strength and corrosion resistance	IC and semiconductor separators (such as large-and-mid-scale power tubes, light emitting diode tubes and triode tubes)
Beryllium plates and strips	Good strength, hardness, excellent thermal conductivity and high corrosion resistance	Non-sparkling tools for use in oil refineries and other places where sparks constitute a fire hazard

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<u>Type of copper plates and strips</u>	<u>Key features</u>	<u>Examples of application</u>
Nickel silver plates and strips	Pleasant silvery color, good malleability, good magnetism shield properties, high corrosion resistance and high flexibility	liquid crystal vibration device covers, shielding for mobile phones, optical instruments, silverware, jewellery, zippers and keys, musical instruments and coins
Brass plates and strips	Excellent dynamics properties, physical properties, high electrical and thermal conductivity, high corrosion resistance	Contact plates and accessories in electronic and telecommunication and household electrical equipment, interior decorations, garment components, water tanks of automobiles, batteries and detonating caps
Red copper plates and strips	High electrical and thermal conductivity, high corrosion resistance and satisfactory physical specifications and processing capabilities	Dry-type power transformer windings, cables, conducting bars, switches, rectifier slides, radiating fin of automobile water tanks, cooling plates of iron smelting blast furnaces, crystallizers for copper casting

High Precision Copper Plates and Strips

At present, approximately 240 enterprises are engaged in the manufacture of copper plates and strips in China¹. Despite the large number of the market participants, most of them have annual production capacities of less than 10,000 tonnes and manufacture copper plates and strips that do not meet the requirements in respect of the technical specifications under the national standard (GB) which our Directors consider as “high level” or “higher level” among similar products in the PRC market. There are only 10 domestic enterprises, including our Group, which possess the ability to produce high precision copper plates and strips.

High precision copper plates and strips refer to copper plates and strips with higher precision requirements on various technical specifications, such as chemical composition, thickness deviation, shape and surface quality, and mechanical properties including ductibility, hardness and bendability generally and which meet the requirements in respect of the technical and physical specifications under the national standard (GB) which our Directors consider as “high level” or “higher level” among similar products in the PRC market. At present, the most popular products of high precision copper plates and strips in the PRC mainly include high precision tin phosphorous bronze strips, transformer strips, cable strips, lead frame strips, nickel silver strips and super slim water tank strips.

High precision copper plates and strips have specific scope of applications, especially in the information technology, automobile and power industries. They are generally not interchangeable with low-end copper plates and strips. High precision copper plates and strips are also generally distinguishable from low-end copper plates and strips by users in terms of pricing, branding and manufacturers.

Source:

1. CNMFIA Report

Major Applications of Copper Plates and Strips

Below is an illustration of the major applications and drivers of the copper plates and strips industry.

- **Electronic appliance sector**

The wide applications of copper plates and strips in the electronic appliance sector include diode tubes, triode tubes and other semiconductor appliances, lead frame strips used in IC, terminal connectors and electronic contact plates.

China's electronic appliance sector has experienced fast growth in the past two decades. For example, sales revenue of the IC installation sector increased by 48.5% to RMB52.13 billion in 2006 compared with 2005, which far exceeded the growth rate of 19.3% in 2005 compared with 2004². In addition, in 2006, sales revenue of semiconductor separators which are mainly used in the electronic appliance sector reached RMB74.82 billion, representing an increase of 16.2% compared with 2005³.

The wide applications of the copper plates and strips in the electronic appliance sector, coupled with the fast development of the sector, will add strong impetus to the copper plates and strips industry. For instance, it is estimated that the demand for lead frame strips, which are primarily used in the IC installation sector, will increase from 30,000 tonnes in 2006 to 60,000 tonnes in 2010¹, equivalent to a CAGR of 18.9%.

- **Telecommunication industry**

Copper plates and strips are frequently used to manufacture the display systems and shielded system of mobile phones, distribution frame used in communication equipment, contact plates and connectors of program-controlled switchboards and fax machines.

Source:

1. CNMFIA Report
2. "Report on the PRC IC Installation Industry in 2006" published by the Nantong Fujitsu Microelectronics Co., Ltd., an IC assembling and testing manufacturer. The company is a Sino-foreign joint venture established in 1997 in the PRC by Nantong Huada Microelectronics Co., Ltd. and Fujitsu, and a vice-president unit of the China Semiconductor Industry Association's Packaging and Testing Division. This article is extracted from the "Report on the PRC Semiconductor Packaging Industry in 2006" published by the China Semiconductor Industry Association, IC Assembling Division in May 2007.
3. "Report on the PRC IC Installation Industry in 2006" published by the Jiangsu Changjiang Electronics Technology Co., Ltd., a PRC semiconductor packaging manufacturer and a vice-president unit of the China Semiconductor Industry Association's Packaging and Testing Division. This article is extracted from the "Report on the PRC Semiconductor Packaging Industry in 2006" published by the China Semiconductor Industry Association, Separator Assembling Division in May 2007.

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The telecommunication industry in China has been expanding. For instance, the production volume of mobile phones in China reached 480 million units in 2006, representing a CAGR of 41.4% from 120 million units in 2002⁴. The production volume of program-controlled switchboards in 2006 was 74.0 million units, representing a CAGR of 6.0% from 58.6 million units in 2002⁵. Benefiting from the growth of the telecommunication industry, consumption of copper plates and strips is estimated to increase accordingly.

- **Household electrical appliance sector**

Copper plates and strips are widely used in the manufacture of timers in household appliances, relays, switches as well as components and parts of connectors, terminal connectors of LCDs and contact plates of computers.

China is one of the largest producers of various types of electrical appliances in the world, including refrigerators, air-conditioners, washing machines and microwave ovens, color TVs and color LCDs. China's household electrical appliance sector has enjoyed a continuous growth in recent years. For example, in 2006, China's production volume of washing machines was 34.9 million units, representing a CAGR of 21.5% from 16 million units in 2002⁵. In addition, in 2006, China's production volume of computers was 60,273 units, representing a CAGR of 22.7% from 26,622 units in 2002⁵.

Driven by the steady growth of the household appliance market, demand for copper semi-manufactures in the electrical appliance sector increased by an average of 27% each year during the period from 2000 to 2005⁶, and it is estimated that the growth trend of the copper plates and strips industry will remain in the near future.

- **Automobile industry**

Copper plates and strips are widely used in the automobile industry as components of electrical devices, water tanks, connectors and semiconductors in automobiles. For instance, on average, copper semi-manufactures used in a middle-sized automobile amount to 16 kilograms⁷.

Source:

4. "Analysis on the Current Situation and Development of the Mobile Phone Industry in the PRC" by Mr. Qiao Yaoshan, Director of Communications Products and Systems, Electronics Products Management Bureau, Information Industry Department on China EC Net (中電網). According to China EC Net's website, the Internet portal for China's electronics industry was formed in early 2000 and is a provider of electronic market and technology information and e-media and e-commerce services to China's electronics community. It has a registered membership that includes 360,000 electronics engineers.
5. National Bureau of Statistics of China
6. "The Development of the Household Electrical Appliance Sector in the PRC and its Demand for Copper Materials" by Hu Xiaohong, China Household Electrical Appliances Association. According to China National Light Industry Council's website, China Household Electrical Appliances Association was founded in December 1988. It is a non-profit organization formed by enterprises and institutes producing or relevant to household electrical appliance and established under the China National Council of Light Industry. This article is extracted from the Collected Works of China Copper Manufacture Techniques (中國銅加工技術創新文集) published by the CNMFIA in June 2006.
7. "Demand for Non-ferrous Metals from the Development of Automobile Industry in the PRC" by Rong Huikang, China Association of Automobile Manufacturers. According to China Association of Automobile Manufacturers' website, the association was founded in May 1987. It is a non-profit organization formed by enterprises and institutes in the automobile, motorcycle and related industries and approved by the Ministry of Civil Affairs of the PRC. This article is extracted from the Collected Works of China Copper Manufacture Techniques (中國銅加工技術創新文集) published by the CNMFIA in June 2006.

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With the rapid growth of the national economy and consumer spending, China's automobile industry has been experiencing rapid growth in the past decade. In 2006, China produced and sold 7.28 million and 7.22 million automobiles respectively, representing a 27% and 25% increase respectively compared with 2005⁸. It is estimated that China's automobile production volume will reach approximately 8.5 million units in 2007⁸. The fast growing China automobile market and thus the automobile manufacturing industry would further drive the demand of copper plates and strips.

- **Power industry**

Copper plates and strips are widely applied in electricity transmission and distribution and the manufacture of transformer windings and foil winding transformers. They have enjoyed increasingly wide applications in the power industry due to their high electrical conductivity, low electricity consumption, high efficiency and easy maintenance.

The power industry in China has enjoyed a continuous growth. In 2006, China's power generation was 2,824.8 billion Kwh, representing a CAGR of 14.3% from 1,654.0 billion Kwh in 2002⁸. The installed capacity by the end of 2006 was 622,000 MW, representing a 20.3% increase compared with that of 2005⁸. Investments in the power industry are estimated to grow at an annual rate of 20% in the foreseeable future⁸.

Benefiting from the growth of the power industry, consumption of copper plates and strips is estimated to increase accordingly. In 2006, demand for copper plates and strips used in making transformers was 60,000 tonnes, whilst it is expected that such demand will increase to approximately 80,000 tonnes in 2010⁹, representing a CAGR of 7.5%.

WORLD MARKET OF COPPER PLATES AND STRIPS

Globally, copper plates and strips are produced primarily in China, Germany, Japan, the United States and Korea. According to the International Wrought Copper Council, a trade association for the copper fabricating industry founded in 1953, in 2002, the demand for copper plates, sheets and strips in China, Europe, Japan, the United States and Korea was 2,141,000 tonnes, whilst in 2006, such demand had been increased to 2,687,000 tonnes, representing a CAGR of 5.8% during the four years.

Major players in the high precision copper plates and strips industry are mostly multinationals which possess the capabilities to carry out extensive research and development and thus leading to the overall global trend of pursuing high precision copper plates and strips.

Source:

8. "Forecast of the Development and Investments in China's Copper Processing Industry and Copper Products for 2007 and 2008" published in June 2007 by Beijing Zhiduo Xingye Investment Consulting Co., Ltd., an information service provider specializing in market and industry research and the publication of industry research reports.
9. CNMFIA Report

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In recent years China has become the largest producer, consumer and net importer of copper plates and strips in the world. Based on the CNMFIA Report, China's total production and consumption of copper plates and strips in 2006 were approximately 851,000 tonnes and 1,139,000 tonnes respectively, accounting for approximately 22.7% and 29.8% of those of the world respectively. China's net import of the copper plates and strips in 2006 was 239,000 tonnes.

The table below shows the production and consumption volumes of copper plates and strips of the major countries and regions in the world in 2006:

**Production and consumption of copper plates and strips
by major countries and regions in 2006
(unit: tonnes)**

	Production	Market Share	Consumption	Market Share
China	851,000	22.7%	1,139,000	29.8%
Germany	565,000	15.1%	280,000	7.3%
Japan	502,000	13.4%	390,000	10.2%
United States	490,000	13.1%	534,000	14.0%
Korea	210,000	5.6%	173,000	4.5%
Taiwan	197,000	5.3%	74,000	1.9%
Italy	128,000	3.4%	172,000	4.5%
Others	800,000	21.4%	1,056,000	27.8%
World Total	3,743,000	100.0%	3,818,000	100.0%

Source: CNMFIA Report

PRC MARKET OF COPPER PLATES AND STRIPS

Similar to the global market, the strong growth of the various application markets of copper plates and strips has led to the fast development of China's copper plates and strips industry. Today, China is the largest producer and consumer of copper plates and strips in the world. According to the CNMFIA, China's output of copper plates and strips in 2006 accounted for approximately one-fourth of the world's total output of copper plates and strips.

Despite the large number of market participants, most of them are small-sized and low-end product manufacturers, leading to the excessive supply of low-end copper plates and strips. By contrast, China's supply of high precision copper plates and strips relies heavily on import. In 2006, a net of 239,000 tonnes of copper plates and strips were imported by China, which mainly comprised high precision products¹⁰.

In 2002, China produced 439,000 tonnes of copper plates and strips, whilst in 2006, such production volume climbed to 851,000 tonnes, representing a CAGR of 18.0% during the four years.

In line with the growth trend of its copper plates and strips production, China's consumption of copper plates and strips has also grown sharply over the past few years, with the consumption volume increasing from 614,000 tonnes in 2002 to 1,139,000 tonnes in 2006, representing a CAGR of 16.7% during the four years.

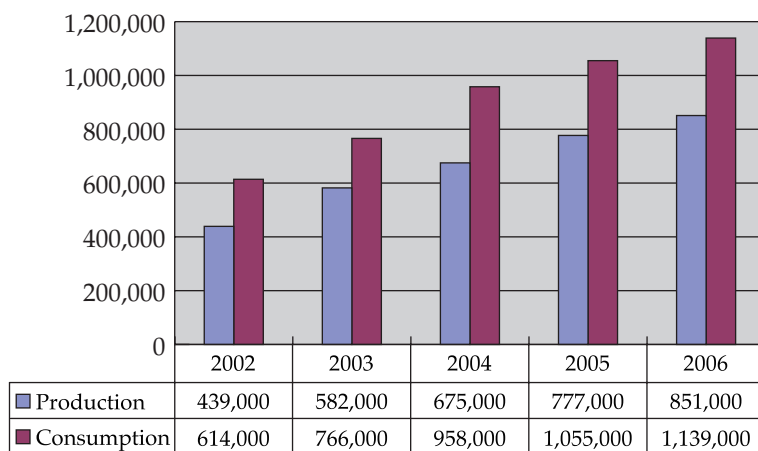
Source:

10. CNMFIA Report

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The chart below shows a comparison between China's production and consumption volumes of copper plates and strips for the period from 2002 to 2006.

**A comparison between China's production and consumption of copper plates and strips
(unit: tonnes)**

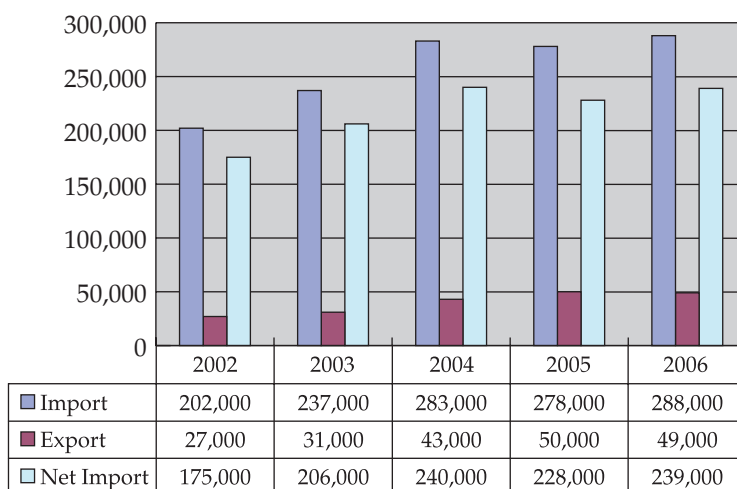


Source: CNMFIA Report

Despite the continuous expansion of the production scale of copper plates and strips in China, demand continues to exceed supply. As the largest importer of copper plates and strips in the world, China's net import of copper plates and strips has increased from 175,000 tonnes in 2002 to 239,000 tonnes in 2006 at a CAGR of 8.1%.

The table below shows China's imports, exports and net imports of the copper plates and strips during the period from 2002 to 2006:

**China's imports and exports of copper plates and strips
(unit: tonnes)**



Source: CNMFIA Report

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At present, China produces approximately 23% and consumes approximately 30% of the copper plates and strips in the world¹¹. Pursuant to the “State Council Notice on Promulgation of Action Outline for Continuing Growth in the Beginning of the 21st Century” 《國務院關於印發中國21世紀初可持續發展行動綱要的通知》 issued by the PRC State Council and came into effect on 14 January 2003, China has formulated plans to use its foreign exchange reserves to establish a strategic resources reserve system in the near future, which will help maintain the healthy growth of the copper plates and strips industry.

At present, approximately 70% of the copper plates and strips manufactured by domestic enterprises are low-end products¹¹. However, there is an increasing demand for high precision copper plates and strips, especially from the growing electronic appliance sector, telecommunication industry and automobile industry. Thus, it is expected that the demand for high precision copper plates and strips will continue to increase in the next few years.

It is expected the gradual consolidation of China’s copper plates and strips industry involves gradual elimination of small-sized copper plates and strips manufacturers which use out-of-date technologies and equipment and generate heavy pollution. By contrast, we believe that manufacturers of high precision copper products with scale production and advanced technologies will be in a more competitive position, and will survive the market consolidation and form the dominant force in the copper plates and strips market.

RAW MATERIALS

The major raw materials used in the manufacture of copper plates and strips comprise cathode copper, tin, zinc, nickel and alloy trimming materials. These materials can be obtained from both domestic and overseas markets. China’s consumption of cathode copper exceeded its production in 2006, with each reaching 3,800,000 tonnes and 3,000,000 tonnes, respectively, based on the information contained in the “2007 Issue 7 of Copper Manufacture Studies”. Cathode copper and alloy trimming materials account for the largest portion of raw materials used in manufacturing copper plates and strips. Prices of alloy trimming materials largely depend on the prices of cathode copper.

Source:

11. CNMFIA Report

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The table below shows changes in cathode copper prices for the period from 2002 to July 2007:

Prices of cathode copper

	LME monthly copper spots	LME three-month copper futures	SHFE monthly copper futures	SHFE three-month copper futures
	<i>(US\$/ton)</i>	<i>(US\$/ton)</i>	<i>(RMB/ton)</i>	<i>(RMB/ton)</i>
2002	1,559	1,578	15,525	15,753
2003	1,779	1,787	18,131	18,161
2004	2,865	2,790	27,554	26,525
2005	3,678	3,504	34,801	33,358
2006	6,271	6,637	62,171	61,617
July 2007	7,971	7,862	64,010	64,860

Note: The SHFE prices of cathode copper for July 2007 were the prices promulgated by the SHFE on 16 July 2007.

Source: 2007 Issue 7 of Copper Manufacture Studies, a PRC copper manufacture industry report published by Beijing Antaika Information Development Co., Ltd. in print since May 2003. The company is an information provider for the mining and metals industries in the PRC and the rest of the world, being 51% owned by the Information Center of China National Nonferrous Metals Industry (also known as Nonferrous Metals Techno-Economic Research Institute).

The rises in prices of the raw materials used in the manufacture of copper plates and strips in the recent years have presented challenges to the market participants. Hence, the best and most efficient use of the recycled copper resources has become an important task faced by the copper plates and strips industry. Based on the information contained in the “2007 Issue 7 of Copper Manufacture Studies”, in 2006, recycled copper used in China amounted to 1,680,000 tonnes, accounting for 56% of the total copper production and 44.2% of the total copper consumption in the country. Copper can be recycled from either the manufacturing process of end-product manufacturers, or from copper-based components of discarded electronic appliances, automobiles, and so on.

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COMPETITION

Market entry criteria

The PRC government has not set any specific market entry threshold for the copper plates and strips industry, and no special governmental approval or permit is required for the entry of this market. In addition, the manufacture of non-high precision copper plates and strips is relatively simple and not capital intensive. As a result, there are more than 240 manufacturers of copper plates and strips. However, the manufacture of high precision copper plates and strips is capital-intensive and it is generally considered that the following factors impede entry into the high precision copper plates and strips industry:

- Demand for relatively large-scale fixed asset investments and high working capital requirement

As a few market participants are holding dominant positions in the market, the market entry threshold for high precision copper plates and strips industry is relatively high. In addition, as raw materials account for a large portion of the industry's production costs, potential market participants must make substantial investments on their equipment as well as a large amount of working capital to fund their normal production and raw material costs, thus impeding the entry of the market by medium or small-sized enterprises.

- Mastery of know-how in the manufacturing process

Know-how used in the manufacturing process is critical for market participants to compete in the high precision copper plates and strips industry. The mastery of know-how calls for a highly experienced workforce to be dedicated to and advanced equipment to be used in the manufacturing process. It therefore presents challenges to the new industry participants as they may lack the relevant know-how required to meet specific requirements of the high precision copper plates and strips industry which is experiencing continuous technology evolution.

Major market players

At present, according to the CNMFIA Report, approximately ten domestic manufacturers including our Group have the ability to manufacture high precision copper plates and strips. In 2006, only seven of them produced more than 10,000 tonnes of high precision copper plates and strips, of which our Group ranked the second with an annual production output of 40,993 tonnes.