

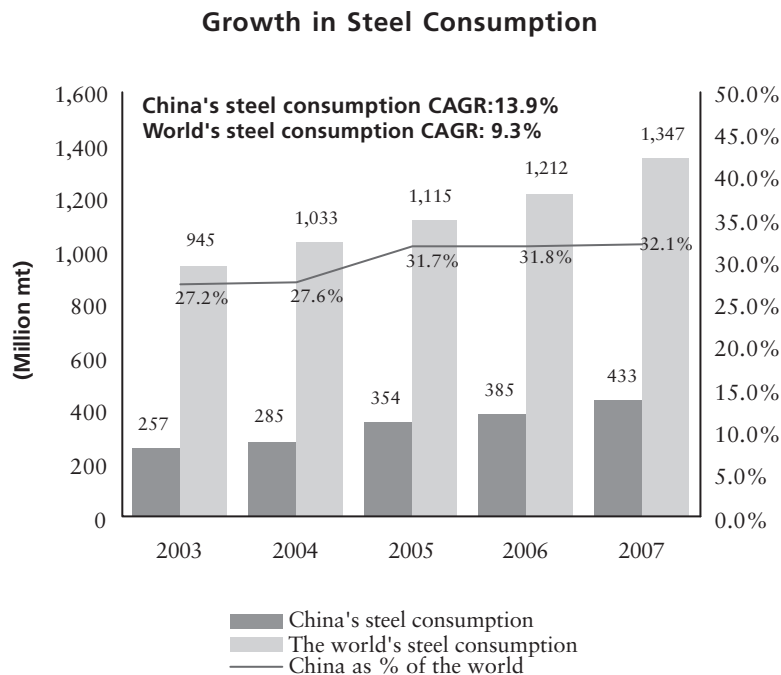
## INDUSTRY OVERVIEW

### STEEL INDUSTRY IN CHINA

China is the largest steel producing country in the world. Due to robust domestic demand, the country’s crude steel output has increased significantly in recent years. According to the World Steel Association, crude steel production in China increased from approximately 222.4 million metric tons in 2003 to approximately 500.9 million metric tons in 2008, representing a CAGR of approximately 17.6%. China accounted for approximately 37.7% of the world’s total steel output in 2008.

China is also the largest steel consuming country in the world. Domestic consumption for crude steel reached approximately 432.9 million metric tons in 2007, accounting for approximately 32.1% of the world’s total consumption during that year. From 2003 to 2007, steel consumption in China grew at a CAGR of approximately 13.9%, significantly higher than world steel consumption, which grew at a CAGR of approximately 9.3% over the same period.

The following chart sets forth the growth in steel consumption in China and the world during the period from 2003 to 2007:



Source: World Steel Association report

According to the Information Center of Metallurgical Industry of PRC Information Department, steel consumption in China increased by approximately 4.6% year over year to approximately 453 million metric tons in 2008. The growth rate slowed down due to the global economic downturn.

China’s economy has been growing rapidly since the PRC Government introduced economic reforms in the late 1970s. Notwithstanding the recent global economic downturn, we believe China’s economic growth and fixed asset investments will continue to be the major drivers of growth in steel demand and production, as well as demand and production of related metals, such as iron and stainless steel, in China.

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## INDUSTRY OVERVIEW

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The competitive landscape in the steel industry in China includes the following:

- The steel industry competition in China is not concentrated within a few large players, but is among thousands of small players, according to China Iron & Steel Association. In recent years, although leading players increased the production volumes through mergers and acquisitions, the concentration ratio of the industry has not improved. The production volumes of the top ten steelmakers accounted for only approximately 35.8% of the total output in China in 2007. As of 2007, only 23 steelmakers have production volume of larger than 5 million metric tons, and only ten steelmakers have production volume of larger than 10 million metric tons. One of the goals of the Steel Policy is to promote consolidation in the steel industry. Under the Steel Policy, the number of steel smelters should be reduced significantly in China with the top ten steelmakers accounting for over 50% of total national output by 2010 and over 70% by 2020;
- Substitution with renewable materials and scrap steel recycling are encouraged to reduce the use of iron ore, and the Steel Policy seeks to achieve sustainable development and a goal of zero discharge. Meanwhile, the National Development and Reform Commission has stated that encouraging recycling is one of the main measures to save energy and reduce discharge; and
- The steel industry in China has high entry barriers, which is primarily because (a) steelmaking is a capital intensive industry, with specialised fixed assets that in turn increase exit costs; (b) technology involved in the steelmaking process requires specialised personnel, and competition requires significant expenditures for research and development to maintain high quality products; and (c) the steel manufacturing industry is subject to significant regulations, which impose greater burdens on smaller entities with limited resources.

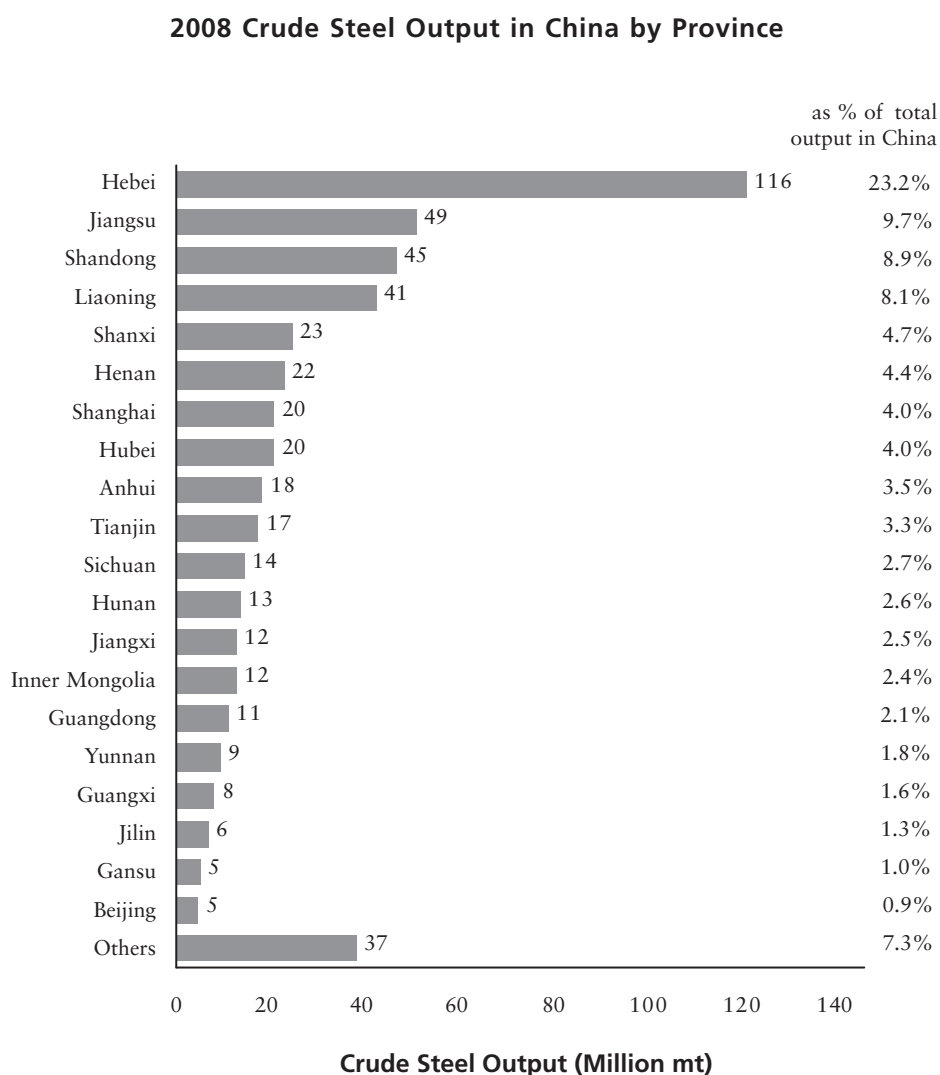
The production of steel in China varies significantly by region. Hebei Province was the largest producer of crude steel in China in 2008, with an output of approximately 116 million metric tons, representing approximately 23.2% of China’s total crude steel production. Jiangsu Province ranked second, with an output of approximately 49 million metric tons, representing approximately 9.7% of China’s total crude steel production in 2008, and Shandong Province ranked third, with an output of approximately 45 million metric tons, representing approximately 8.9% of China’s total crude steel production in 2008.

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## INDUSTRY OVERVIEW

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The following chart sets forth crude steel production in China by region in 2008:




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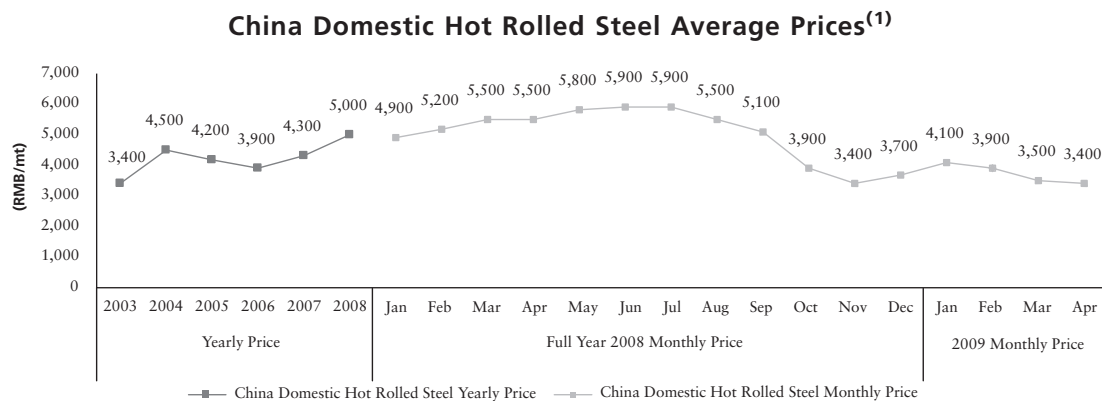
Source: The Information Center of Metallurgical Industry of PRC Information Department

## INDUSTRY OVERVIEW

### China Steel Prices

Due to the growth in steel consumption in China, the China domestic hot rolled steel average price increased from approximately RMB3,400 per metric ton in 2003 to approximately RMB5,000 per metric ton in 2008, representing an increase of approximately 47.1%. In the first half of 2008, the growth trend continued, up from approximately RMB4,900 per metric ton in January 2008 to approximately RMB5,900 per metric ton in July 2008, representing an increase of approximately 20.4%. However, since July 2008, due to the deterioration of the world economy, the China domestic hot rolled steel average price decreased by approximately 42.4% to approximately RMB3,400 per metric ton in November 2008, and only recovered approximately 8.8% from November to RMB3,700 per metric ton in December 2008, due in part to a RMB4 trillion economic stimulus measure announced by the PRC Government on 9 November 2008. In the first quarter of 2009, the price further increased by approximately 10.8% in January to approximately RMB4,100 per metric ton, but decreased over the next three months to approximately RMB3,400 per metric ton in April 2009.

The following chart sets forth the China domestic hot rolled steel average prices during the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:



Source: Bloomberg (Antaike Information Development Co., Ltd.)

(1) This represents the arithmetic average of daily prices for the years and months indicated.

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## INDUSTRY OVERVIEW

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### GROWING IMPORTANCE OF SCRAP STEEL

There are two common methods for producing steel: electric arc furnace steelmaking and blast furnace/converter steelmaking. In electric arc furnace steelmaking, the principal raw material is scrap steel, which is heated along with other materials using electric current to form steel. In blast furnace/converter steelmaking, the principal raw material is iron ore. It is heated in a blast furnace and then the impurities are removed using a converter. Scrap steel is also used in the blast furnace steelmaking process, where it is used to cool the molten metal to add efficiency to the production process.

By using recycled scrap steel rather than iron ore, the electric arc furnace process helps to make efficient use of existing resources and reduces the industry’s reliance on iron ore. It also requires less energy and produces less waste. The key advantages of using scrap steel and electric arc furnaces rather than iron ore and blast furnaces/converters to make steel include the following:

- the electric arc furnace process requires approximately 60% less energy and approximately 40% less water than the blast furnace process, according to the China Association of Metal Scrap Utilization’s report dated May 2007;
- the electric arc furnace process discharges approximately 86% less exhaust gas, approximately 76% less sewage and approximately 97% less waste than the blast furnace process, according to the China Association of Metal Scrap Utilization’s report dated May 2007; and
- electric arc furnace facilities are generally less expensive to build and can be built more quickly than blast furnace/converter facilities.

As a result, in recent years there has been a trend towards electric arc furnace steelmaking as governments focus on efficient resource utilisation and environmental protection. According to the China Iron and Steel Association, electric arc furnace production represented approximately 30.9% of the world’s total steel production in 2007. However, only approximately 11.9% of China’s total steel production was from electric arc furnaces in 2007.

We believe the role of electric arc furnace steelmaking in China will increase in the future due to the advantages of the electric arc process, which were highlighted in the Steel Policy. We believe the Steel Policy has had, and will continue to have, a significant impact on the development of China’s iron and steel industry. One important message of the Steel Policy was the concept of sustainable development and recycling in the steel industry. Among other things, the Steel Policy aimed to enhance awareness of environmental protection and improve the utilisation rate of natural resources, such as iron ore, minimise energy consumption, as well as promote recycling and reduce the discharge of exhaust gas, sewage and waste.

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## INDUSTRY OVERVIEW

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Some of the key components from the Steel Policy that we believe will benefit the scrap metal recycling industry include the following:

- Goals of the Policy — Under Chapter I, Article 5, the goals of the policy include:
  - Evaluating the level of environmental protection and resource utilisation to save energy and lower consumption, consistent with the concept of sustainable development and recycling;
  - Evaluating the discharge of waste gases, water and rubbish to strive for a goal of zero discharge; and
  - Promote iron and steel factories that utilise recycled materials.
- Industrial Technical Policies — Under Chapter IV, Article 19, the Steel Policy encourages the growth of a specialised group of steelmakers that utilise scrap steel as the principal raw material in steel manufacturing.
- Focus on Economic Use of Steel Products — Under Chapter VIII, Articles 31 and 35, the Steel Policy seeks to increase awareness of the economic importance of steel, encourage the substitution of renewable materials and increase the use of recycled scrap steel in the steel making process.

Iron ore is a natural resource that is limited and non-renewable. Because China’s iron ore output has been insufficient to meet demand for iron and steel production in recent years, China has increasingly relied upon the import of iron ore. According to the China Steel Industry Yearbook, pig iron output from the import of iron ore rose from approximately 45.1 million metric tons in 2000 (accounting for approximately 34.4% of the country’s total output of pig iron in 2000) to approximately 247.2 million metric tons in 2007 (accounting for approximately 51.9% of the country’s total output of pig iron in 2007). The PRC Government has expressed concerns over the industry’s reliance on iron ore and has been promoting alternative methods of steel production, including the use of electric arc furnaces to produce steel from scrap steel. According to the Steel Policy, China will “gradually reduce the proportion of iron ore consumed and increase the importance of scrap steel” in the production of steel.

Through regulatory and policy actions such as the Steel Policy, the PRC Government has placed greater emphasis on the use of electric arc furnace steelmaking as it focuses on efficient resource utilisation and environmental protection in connection with the development of the domestic steel industry. Because scrap steel is the principal raw material used in electric arc furnace steelmaking, we believe the Steel Policy and the advantages of electric arc furnace process will result in continued strong demand for recycled scrap steel in the Chinese market.

Although there are a number of advantages to electric arc furnace steelmaking, it can have a significant impact on the environment, primarily noise pollution, as well as gas and metal dust emissions. In addition, there can be indirect environmental effects associated with electricity production.

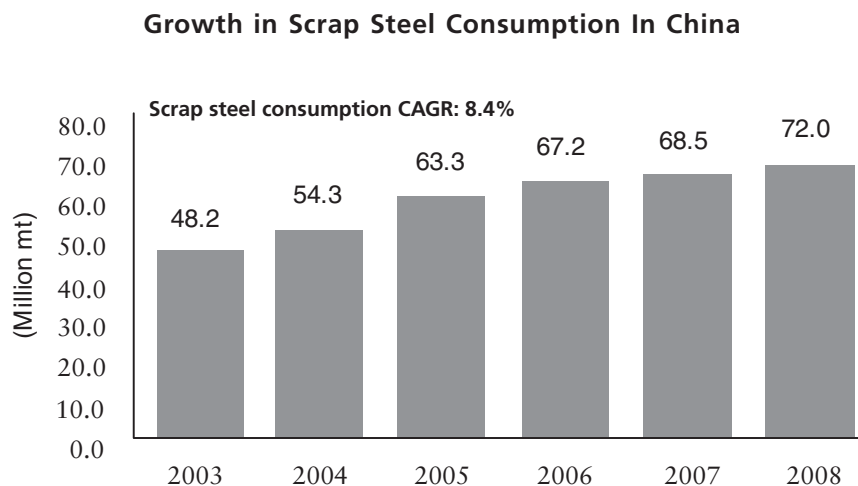
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## INDUSTRY OVERVIEW

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### SCRAP STEEL INDUSTRY IN CHINA

The growth in China’s steel output and consumption in recent years has had a significant effect on demand for scrap steel in China. Scrap steel consumption in China increased from approximately 48.2 million metric tons in 2003 to approximately 72.0 million metric tons in 2008, representing a CAGR of approximately 8.4%. The following chart sets forth the growth in scrap steel consumption in China during the period from 2003 to 2008:



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Source: *China Association of Metal Scrap Utilization report titled “The Impact of the Global Financial Crisis on the Chinese Scrap Steel Market and the Outlook of the Market in 2009”*

## INDUSTRY OVERVIEW

The following table sets forth the top 15 scrap steel users in China in 2008:

### Top 15 Scrap Steel Users in China (2008)

Steel Mills	Total Scrap Steel Consumed (’000s mt)
Jiangsu Shagang Group Co., Ltd.*	4,098
BaoSteel Group Corporation	3,951
Wuyang Iron and Steel Co., Ltd. <sup>(1)</sup>	2,134
Wuhan Iron and Steel (Group) Corporation	2,028
Magang (Group) Holding Co., Ltd.	2,011
Anshan Iron and Steel Group Corporation <sup>(2)</sup>	1,497
Guangxi Liuzhou Iron and Steel (Group) Company	1,402
Tianjin Pipe (Group) Corporation	1,379
Taiyuan Iron and Steel (Group) Company Ltd.	1,338
Nanjing Steel Group Company Ltd.	1,199
Shougang Group	1,163
Jiangsu Yonggang Group Co., Ltd.*	1,125
Jiangyin Xingcheng Special Steel Co., Ltd.*	1,093
Xinjiang Bayi Iron and Steel Co., Ltd.	1,070
Hangzhou Iron and Steel Group Company	1,055

Source: China Association of Metal Scrap Utilization

\* Customers of the Group

<sup>(1)</sup> Member of Hebei Steel Group

<sup>(2)</sup> Member of An-ben Group

Although scrap steel consumption in China has grown from 2003 to 2008, the amount of scrap steel used for each metric ton of steel produced, or the scrap unit consumption, has decreased over the same period from approximately 217 kilograms per metric ton in 2003 to approximately 144 kilograms per metric ton in 2008. We believe this was due to a combination of a dramatic increase in overall steel production, coupled with several factors that adversely affected the supply of scrap steel in China during these periods, including low steel reserves and greater manufacturing efficiencies.

➤ **Low steel reserves** — The amount of domestic steel available for recycling is largely a function of the amount of steel in products or other applications nearing the end of their useful lives. Much of China’s steel reserves, or the steel in use in China today, has only recently been put into use. For example, according to the China Iron and Steel Association, the accumulated steel product consumption in China from 1949 to 2007, or the total volume of steel products consumed during that period, was approximately 4.13 billion metric tons, of which approximately 2.23 billion metric tons, or approximately 54%, was consumed in the period from 2001 to 2007.

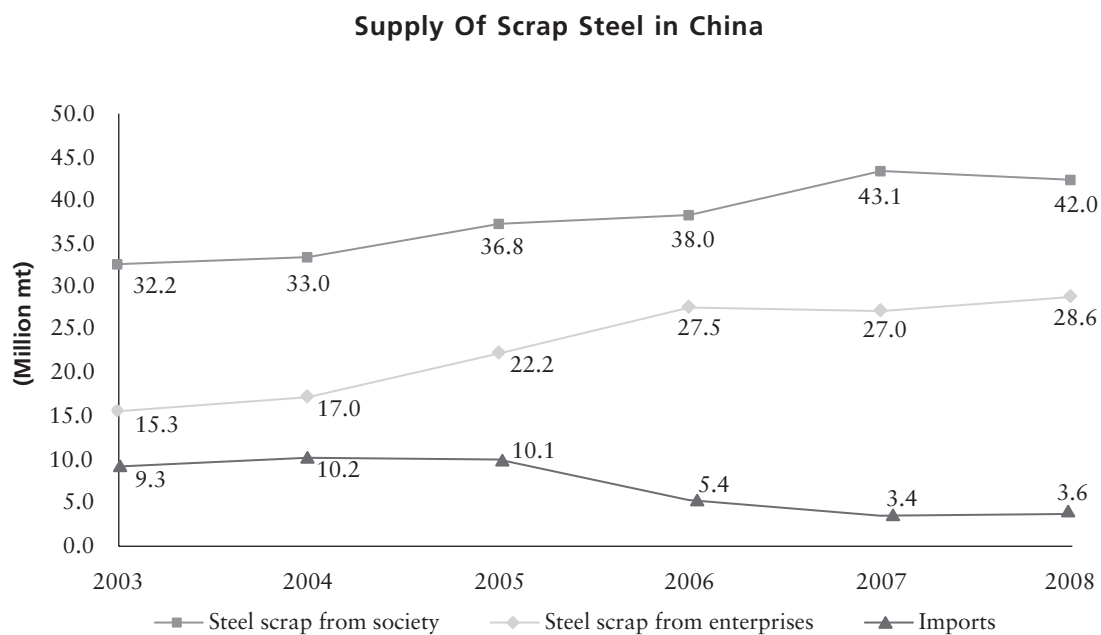


## INDUSTRY OVERVIEW

As a result, many of the steel products in use in China today have yet to reach the end of their useful lives. However, that is expected to change in the next few years, as many of the products put into use in China over the last few years with relatively short life spans, such as vehicles and home appliances, as well as buildings and other infrastructure projects with longer life spans that were built during the early stages of China’s industrialisation, are expected to reach the end of their useful lives, providing a significant source of domestic scrap steel available for recycling.

- **Enhancements in production technology have led to less scrap steel from steel manufacturers** — China’s steel production technology has become increasingly efficient, with the combined steel product yield rate, which is a measure of the amount of scrap steel created in the steel production process, reaching approximately 95.7% in 2006, according to China Association of Metal Scrap Utilization. As a result, the amount of scrap steel created by steel companies per metric ton of steel produced has decreased.

The following chart sets forth the supply of scrap steel in China from society at large, enterprises and imports during the period from 2003 to 2008:



Source: China Association of Metal Scrap Utilization report titled “The Impact of the Global Financial Crisis on the Chinese Scrap Steel Market and the Outlook of the Market in 2009”

We expect the increasing focus on environmental matters and efficient utilisation of resources, as reflected in the Steel Policy, will further strengthen demand for scrap steel in domestic steel production in China. With the expected increase in steel available for recycling as steel products in China reach the end of their useful lives, scrap steel recycling companies with strong domestic supply networks should be particularly well positioned to capitalise on these trends.

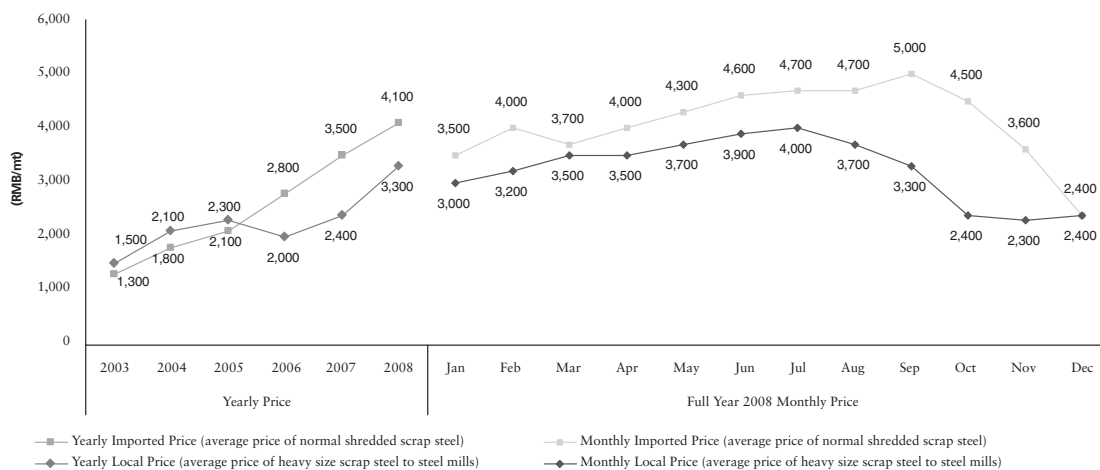
## INDUSTRY OVERVIEW

On 9 November 2008, the PRC Government announced ten economic stimulus measures featuring spending of RMB4 trillion in 2009 and 2010, focusing on accelerating infrastructure construction, rural area development and accelerating the reconstruction of regions affected by the earthquake in 2008. According to the executive meeting of the Chinese State Council on 26 November 2008, the PRC Government planned to release policies focusing on the recovery of nine industries, including steel, automotive and shipbuilding. We expect these measures will benefit the scrap steel industry in China over the next few years.

### Prices of scrap steel

Prices of scrap steel are highly correlated to the price of steel. According to the China Association of Metal Scrap Utilization, the spread between hot rolled coil prices and average scrap steel prices in China remained relatively stable over the past few years. As a result, factors that affect the price of steel in China, such as the reduction in export tax incentives in 2006, often have a similar impact on the price of scrap steel in China, which is evident by the inversion of the imported prices and local prices in 2006 and 2007. In the first half of 2008, the local prices increased at a higher rate compared to 2007 while the imported prices increased at a relatively smaller rate. However, both prices decreased sharply due to the economic deterioration during the second half of 2008, suggesting a convergence between the two prices. The imported prices decreased from approximately RMB5,000 per metric ton in September 2008 to approximately RMB2,400 per metric ton in December 2008, representing a decrease of approximately 52.0%; the local prices decreased from approximately RMB4,000 per metric ton in July 2008 to approximately RMB2,400 per metric ton in December 2008, representing a decrease of approximately 40.0%. The following chart sets forth the imported and the local scrap steel prices during the period from 2003 to 2008 and the monthly price for 2008:

**Scrap Steel Prices: Imported vs. Local**



Source: China Association of Metal Scrap Utilization report

Unlike other metals, such as copper, there is no established benchmark price for crude steel. However, we believe, based on our Directors’ industry experience, that the price of scrap steel is typically lower than the price of crude steel.

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## INDUSTRY OVERVIEW

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### Competitive environment

The scrap metal recycling market in China is highly fragmented. According to data from the China Association of Metal Scrap Utilization, there were 464 small steel recycling enterprises in China in 2007. Many participants are individual entrepreneurs operating simple equipment with low production volume and efficiency. These small enterprises generally are at a competitive disadvantage to larger enterprises that have greater financial and other resources. Smaller enterprises such as sole proprietors often lack the resources to invest in heavy equipment, such as a shredder, to improve the efficiency of their operations and produce large volumes of recycled scrap metal. They may also lack the management resources and controls necessary to comply with environmental regulations and policies.

The success of scrap metal recycling companies is also driven by proximity to important metal producing regions and efficient transportation systems. Many scrap metal recycling companies are located in the coastal provinces of northern, southern and eastern China due to the relatively high concentration of metal manufacturers and well-developed transportation systems and shipping conditions in these regions.

We believe the keys to competing successfully in the Chinese scrap steel recycling industry include:

- **Large scale, efficient operations** — One of the goals of the Steel Policy is to promote consolidation in the steel industry, which is expected to reduce the number of small steel manufactures and enhance the role of large providers. These customers require a reliable source of high volumes of recycled scrap steel for their operations. Companies that utilise advanced recycling equipment and machinery are better able to serve these customers.
- **Strong domestic supply networks** — In recent years, prices for scrap steel in China have been generally lower than in international markets. As a result, reliable access to domestic scrap steel is critical to being able to compete successfully.
- **Established customer relationships with large steel manufacturers** — As the Chinese steel industry undergoes consolidation, scrap steel recycling companies with established relationships with large steel manufactures will be well positioned to capitalise on the consolidation.
- **Presence in key steel producing regions and access to waterways** — Companies located in key steel producing regions should benefit from the continued growth in the Chinese steel industry, and companies with convenient access to waterways can benefit from low cost and efficient means of transport for both raw materials and recycled scrap steel.

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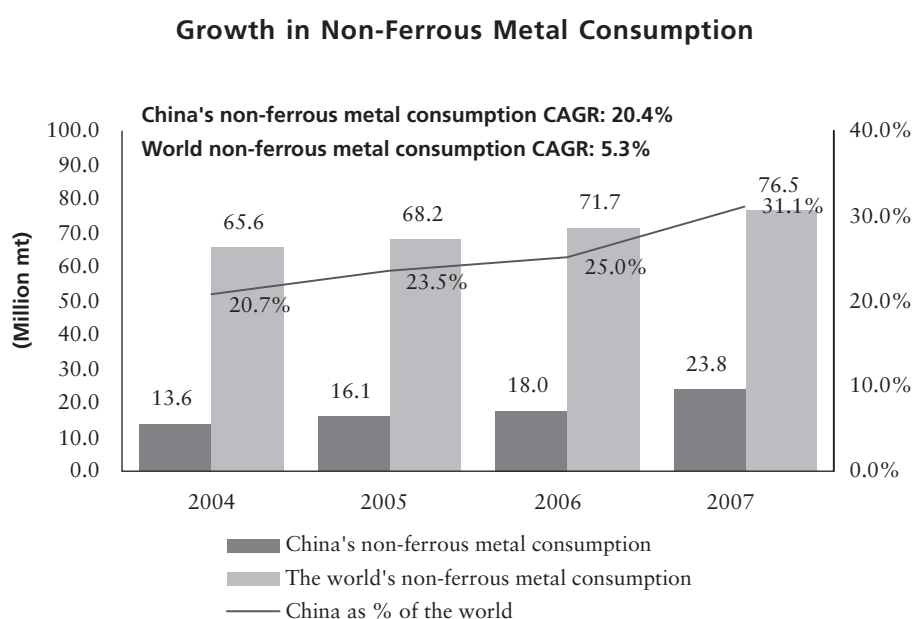
## INDUSTRY OVERVIEW

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### NON-FERROUS METAL INDUSTRY IN CHINA

China is the largest non-ferrous metal consuming country in the world. Due to strong domestic demand, the country’s non-ferrous metal consumption increased from approximately 13.6 million metric tons in 2004 to approximately 23.8 million metric tons in 2007, representing a CAGR of approximately 20.4%. World consumption of non-ferrous metals over the same period grew at a CAGR of approximately 5.3%. China consumed approximately 20.7% of the world’s output of non-ferrous metal in 2004 and approximately 31.1% in 2007.

The following chart sets forth the growth in non-ferrous metal consumption in China and the world during the period from 2004 to 2007:



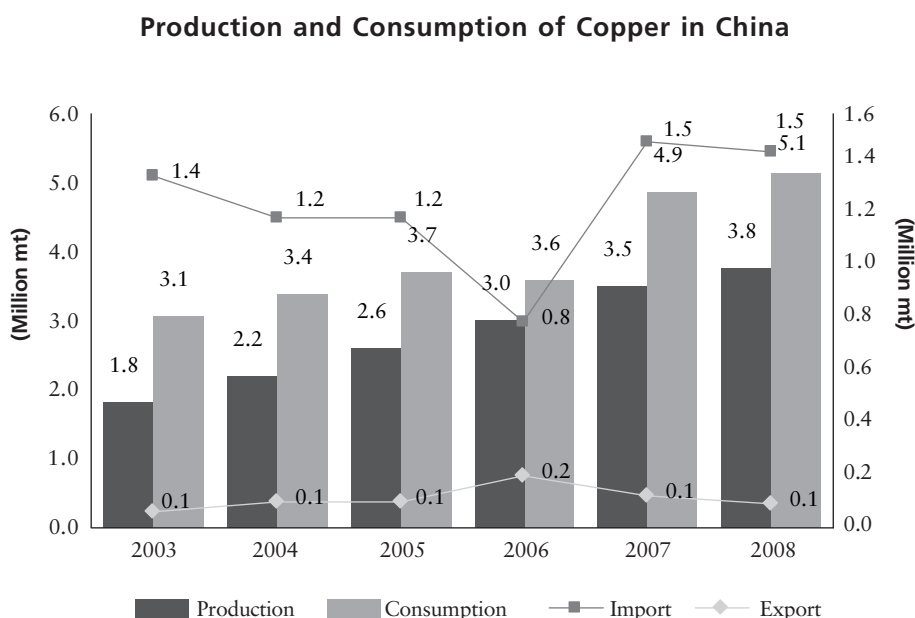
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Source: *The Yearbook of Nonferrous Metals Industry of China 2008*

## INDUSTRY OVERVIEW

### Copper

Although domestic copper output has grown significantly in recent years, domestic consumption of refined copper in China exceeded domestic production from 2003 to 2008. The following chart sets forth the production, consumption, import and export of refined copper in China during the period from 2003 to 2008:



*Source: The Yearbook of Nonferrous Metals Industry of China 2008, Emerging Markets Information Service*

The rapid growth of China’s copper consumption from 2003 to 2007 was primarily due to the economic development, industrialisation and urbanisation in China, combined with the movement of production from developed countries to China. In 2008, copper consumption in China continued to grow. However, the growth slowed down and the market demand remained soft for the year due to the global economic downturn, which resulted in decreased demand for consumer products, particularly for export, and construction-related products, and a downturn in the real estate market in China.

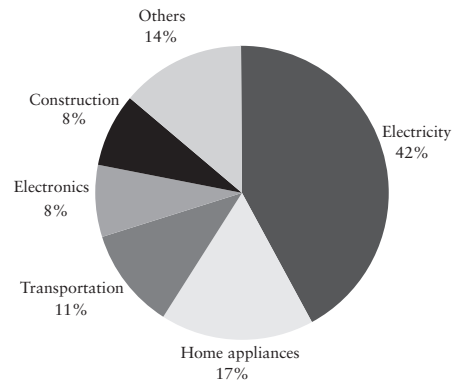
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## INDUSTRY OVERVIEW

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The following chart sets forth the structure of copper consumption in China for 2008:

**Structure of Copper Consumption in China for 2008**



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Source: China Nonferrous Metals Industry Association

While the current economic downturn has had a negative impact on copper consuming industries, we expect copper consumption in China to continue to grow along with continued economic growth and urbanisation in China.

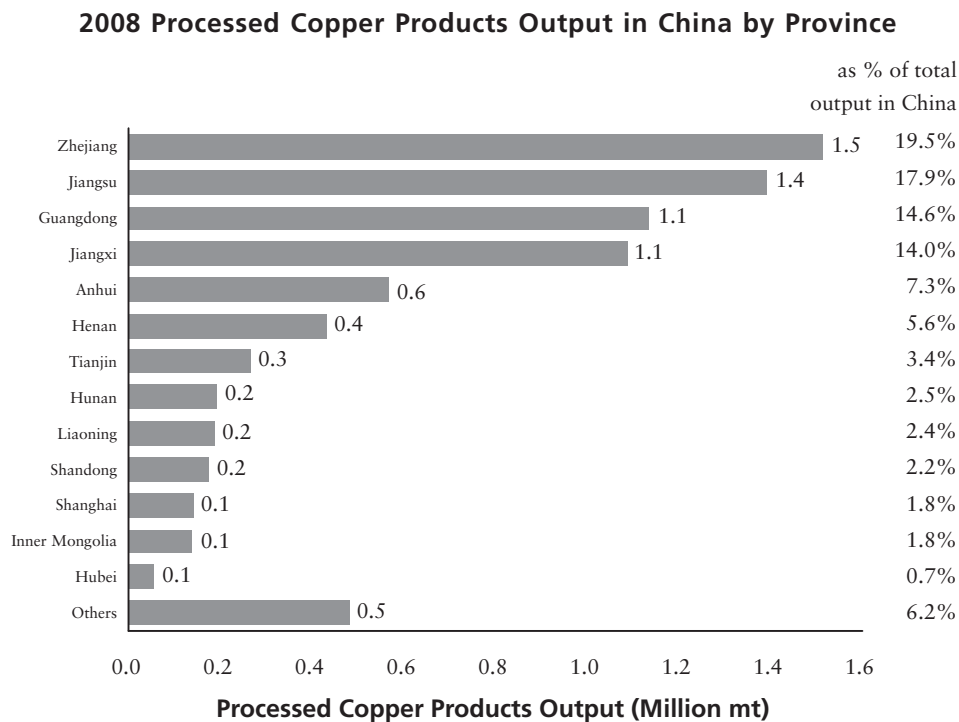
The PRC Government has also introduced a series of policies to assist in the development of various industries that consume copper, including the following:

- **Electricity Distribution.** From 2003 to 2007, the electricity distribution network in China has been growing at an average annual rate of approximately 11.6%. The economic stimulus measures announced by the PRC Government on 9 November 2008 are expected to further expand the PRC’s electricity distribution network. Together with the existing development plans, it is expected that investment in the electricity distribution network will reach approximately RMB1.1 trillion in 2009 and 2010.
- **Home Appliances.** According to a joint announcement of the Ministry of Finance, the Ministry of Commerce and the Ministry of Industry and Information Technology in the PRC in November 2008, a policy encouraging the use of home appliances in rural areas will be implemented in 14 provinces effective from 1 December 2008, and will cover most rural areas in China effective from 1 February 2009. The policy is expected to be implemented nationwide for a tentative period of four years. Qualifying individuals who purchase color TVs, refrigerators, handsets and washing machines will be eligible for subsidies, which are expected to significantly increase demand for these products.

The production of processed copper products in China reached approximately 7.8 million metric tons in 2008, representing an increase of approximately 17.2% from 2007.

## INDUSTRY OVERVIEW

The following chart sets forth the processed copper products production in China by region in 2008:



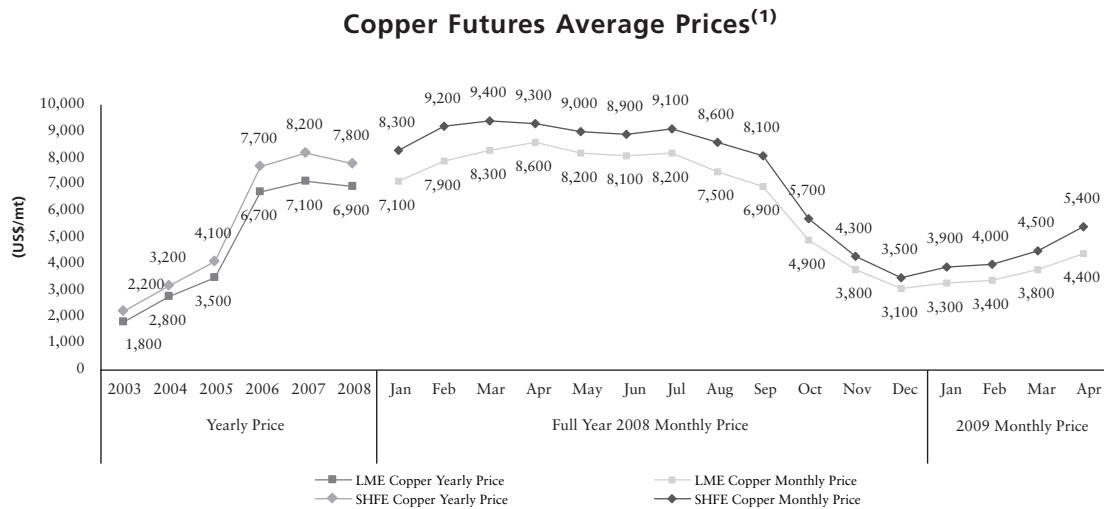
*Source: China Nonferrous Metals Industry Association*

Due to an inadequate supply of copper concentrate (the raw material used in the production of copper) and as a result of inflation, depreciation of the U.S. dollar and strikes at copper mines, LME copper prices increased from approximately US\$1,800 per metric ton in 2003 to approximately US\$7,100 per metric ton in 2007, representing an increase of approximately 294.4%. In the first half of 2008, the growth trend continued, up from approximately US\$7,100 per metric ton in January to US\$8,200 per metric ton in July, representing an increase of approximately 15.5%. However, since July 2008, due to the deterioration of the world economy, LME copper prices decreased approximately 62.2% to a low of approximately US\$3,100 per metric ton in December 2008. Although SHFE copper prices have been consistently higher than LME copper prices, the two prices followed the same trend. SHFE copper prices increased from approximately US\$2,200 per metric ton in 2003 to approximately US\$8,200 per metric ton in 2007, representing an increase of approximately 272.7%. SHFE copper prices reached their peak price of approximately US\$9,400 per metric ton in March 2008. However, since July 2008, SHFE copper prices decreased approximately 61.5% to a low of approximately US\$3,500 per metric ton in December 2008.

In the first four months of 2009, LME copper prices increased approximately 41.9% compared to the December 2008 price, to approximately US\$4,400 per metric ton in April 2009. In the first four months of 2009, due in part to the economic stimulus measures announced by the PRC Government on 9 November 2008, SHFE copper prices increased approximately 54.3% compared to the December 2008 price, to approximately US\$5,400 per metric ton in April 2009.

## INDUSTRY OVERVIEW

The following chart sets forth the average prices of three-month copper futures on the LME and SHFE during the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:

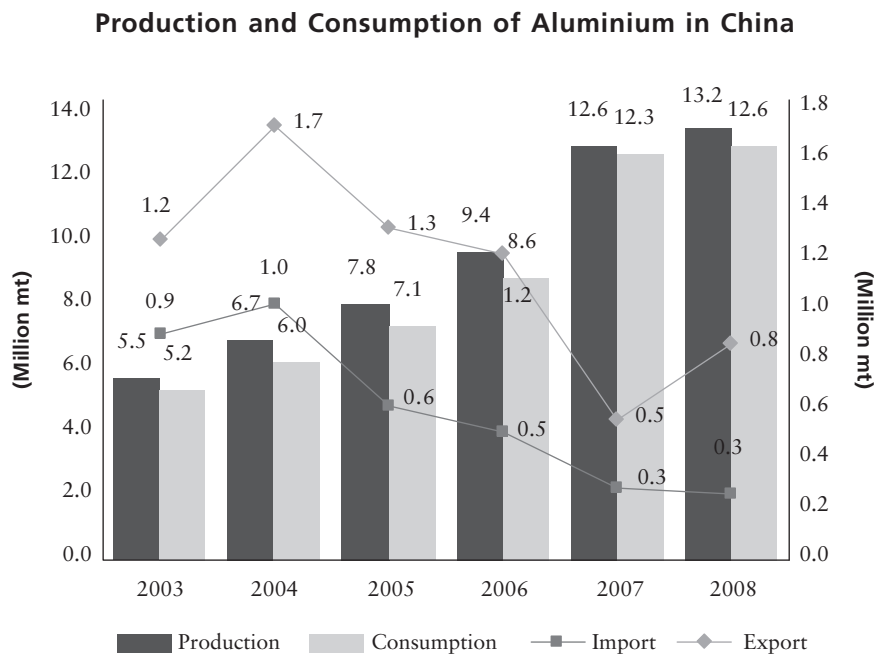


Source: Bloomberg (LME, SHFE)

(1) This represents the arithmetic average of daily prices for the years and months indicated.

### Aluminium

From 2003 to 2008, production of primary aluminium in China exceeded domestic consumption. The rapid growth of China’s economy has driven aluminium consumption in a wide range of industries, including construction, transportation, packaging, aviation and aerospace. The following chart sets forth the production, consumption, import and export of aluminium in China during the period from 2003 to 2008:



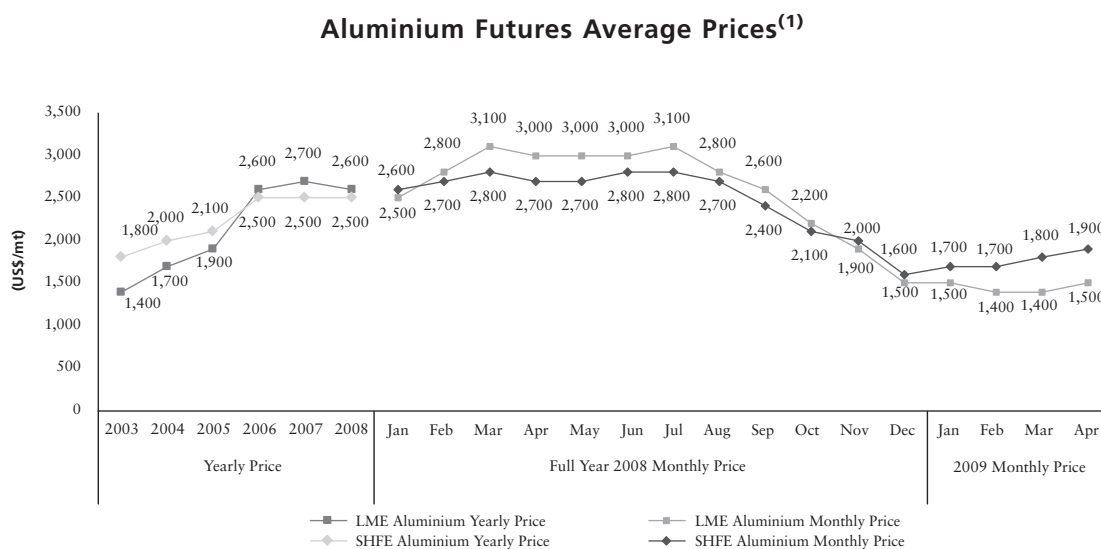
Source: The Yearbook of Nonferrous Metals Industry of China 2008, Emerging Markets Information Service



## INDUSTRY OVERVIEW

International aluminium prices also increased in recent years until July 2008. The average price of three-month primary aluminium futures on the LME increased from approximately US\$1,400 per metric ton in 2003 to approximately US\$2,700 per metric ton in 2007. In 2006, due to the appreciation of RMB, local and international prices converged. In 2007, due to the increase of PRC aluminium export taxes from 5% to 15% on 1 November 2006, the local price remained flat. In the first half of 2008, both LME and SHFE aluminium prices continued to increase. The LME prices increased from approximately US\$2,500 per metric ton in January to approximately US\$3,100 per metric ton in July, and the SHFE prices increased from approximately US\$2,600 per metric ton in January to approximately US\$2,800 per metric ton in July, representing increases of approximately 24.0% and 7.7% for LME and SHFE prices, respectively. However, since July 2008, due to the deterioration of the world economy, LME and SHFE aluminium prices decreased approximately 51.6% and 42.9%, respectively, to a low of approximately US\$1,500 per metric ton and approximately US\$1,600 per metric ton, respectively, in December 2008. LME aluminium prices remained low in the first four months of 2009. However, due in part to the economic stimulus measures announced by the PRC Government on 9 November 2008, SHFE aluminium prices increased approximately 18.8% compared to the December 2008 price, to approximately US\$1,900 per metric ton in April 2009.

The following chart sets forth the average prices of three-month aluminium futures on the LME and SHFE for the period from 2003 to 2008 and the monthly price for 2008 and the first four months of 2009:



Source: Bloomberg (LME, SHFE)

(1) This represents the arithmetic average of daily prices for the years and months indicated.

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## INDUSTRY OVERVIEW

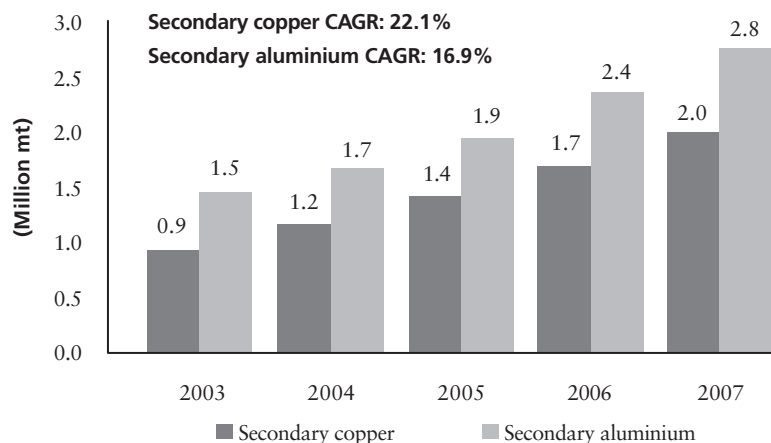
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### SCRAP NON-FERROUS METAL INDUSTRY IN CHINA

Secondary production refers to the production of non-ferrous metal using scrap non-ferrous metal. The secondary non-ferrous metal production volume in China increased from approximately 2.6 million metric tons in 2003 to approximately 5.3 million metric tons in 2007, representing a CAGR of approximately 19.5%, according to the China Nonferrous Metal Industry Association. Secondary copper is one of the largest components of the secondary non-ferrous metal segment. The production volume of secondary copper increased from approximately 0.9 million metric tons in 2003 to approximately 2.0 million metric tons in 2007, representing a CAGR of approximately 22.1%. Similarly, the production volume of secondary aluminium increased from approximately 1.5 million metric tons in 2003 to approximately 2.8 million metric tons in 2007, representing a CAGR of approximately 16.9%.

The following chart sets forth the secondary copper and aluminium production volumes in China during the period from 2003 to 2007:

**Secondary Copper and Aluminium Production Volumes in China**



Source: China Nonferrous Metal Industry Association

In 2007, according to the 2007 China Recycled Metal Industry Development Report, China imported approximately 7.7 million metric tons of scrap non-ferrous metal from more than 120 countries and regions, representing an increase of approximately 13.8% from the previous year. Imported scrap copper amounted to approximately 5.6 million metric tons and imported scrap aluminium amounted to approximately 2.1 million metric tons, representing increases of approximately 13.0% and 18.4%, respectively, from the previous year. Guangdong Province and Zhejiang Province are the two largest importing provinces of non-ferrous metal in China, representing approximately 40.7% and 39.6%, respectively, of total scrap non-ferrous metal imports in China in 2007.

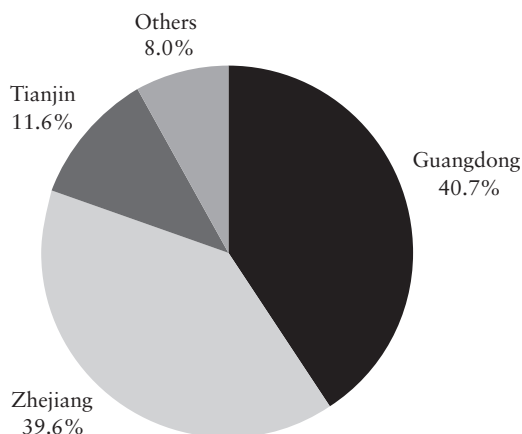
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## INDUSTRY OVERVIEW

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The following chart sets forth non-ferrous metal imports by region in China for 2007:

**Scrap Non-Ferrous Metal Imports in China by Region for 2007**



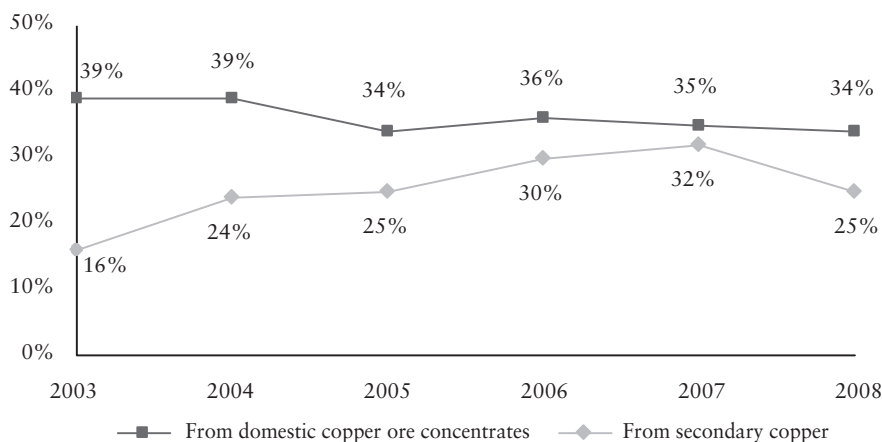
Source: China Nonferrous Metal Industry Association report titled “China Recycled Metal Industry Development 2007”

### Scrap copper industry

Copper is in relatively short supply in China, with the per capita reserves of copper resources accounting for approximately 18% of world per capita reserves in 2008, according to CBI China. Copper resources in China are characterised by relatively small scale mines, low grade ore, ore deposits mined for other minerals and high exploration costs.

The following chart sets forth the percentage of copper cathode produced in China in 2003 to 2008 from domestic copper ore concentrates and secondary copper:

**Copper Cathode Production in China**



Source: National Bureau of Statistics of China, China Nonferrous Metals Industry Association

## INDUSTRY OVERVIEW

Prior to 2008, the percent of copper cathode produced in China from secondary copper had been increasing. In 2008, the percent of copper cathode produced from secondary copper decreased due to the reduced difference in prices between scrap copper and copper cathode. Such reduced price difference to a certain extent discouraged the use of secondary copper as it would lead to a relatively lower profit margin as compared with using copper ore concentrates in the production of copper cathode. However, as existing copper ore resources are expected to decrease due to continuing mining, supply of copper ore concentrates are expected to tighten, which is expected to strengthen demand for secondary copper in copper production in the future.

According to the Yearbook of Nonferrous Metals Industry of China 2008, the main suppliers of scrap copper include China, Germany, Japan, Russia and Belgium. Global scrap copper recovery reached approximately 2.5 million metric tons in 2007, compared to approximately 1.7 million metric tons in 2003, representing a CAGR of approximately 10.1%. China was the largest source of scrap copper throughout that period, with scrap copper recovery in China growing at a CAGR of approximately 27.8% from 2003 to 2007.

The following table sets forth the rankings by country of global scrap copper recovery for the period from 2003 to 2007:

### Global Scrap Copper Recovery

	2003	2004	2005	2006	2007	2007 as % of world	CAGR
	('000 mt)						
1 China .....	426	620	744	999	1,136	45.3%	27.8%
2 Germany .....	311	369	344	350	364	14.5%	4.0%
3 Japan .....	173	196	199	219	245	9.8%	9.1%
4 Russia .....	150	150	160	160	160	6.4%	1.6%
5 Belgium .....	200	130	97	96	96	3.8%	-16.8%
Others .....	447	472	510	523	507	20.2%	3.2%
World Total .....	1,707	1,937	2,054	2,347	2,508	100.0%	10.1%

*Source: The Yearbook of Nonferrous Metals Industry of China 2008*

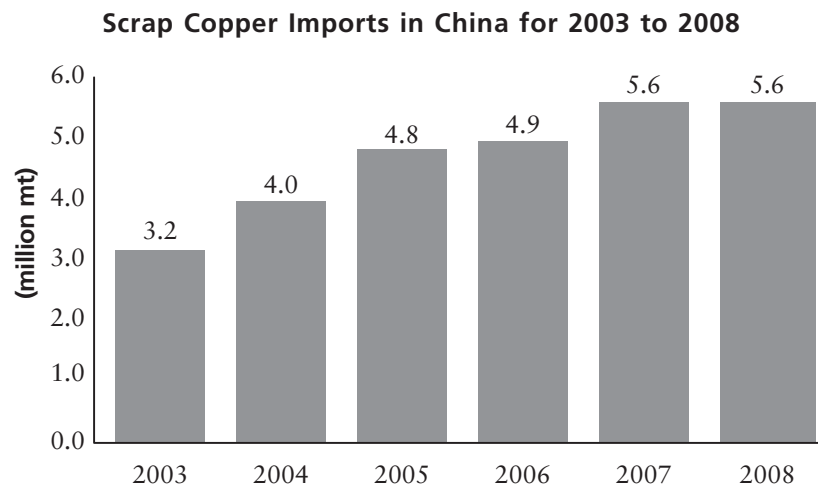
China is a major importer of scrap copper. According to the General Administration of Customs of China, in 2008, the import of scrap copper for copper refining exceeded 5 million metric tons.

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## INDUSTRY OVERVIEW

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The following chart sets forth scrap copper imports in China for 2003 to 2008:



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Source: General Administration of Customs of China

China has seen the formation of three major areas for the disintegration, processing and consumption of scrap copper: the Yangtze River Delta, the Bohai Sea Ring Area and the Pearl River Delta. According to the “2008 Report for China’s Copper Market” by CBI China, approximately 75.6% of China’s total production of secondary copper in 2008 was produced in these three areas. In addition, approximately 83.0% of the copper processed in China in 2008 was processed in these three areas, and approximately 79.4% of China’s copper processing enterprises in 2008 were located in these three areas, particularly in Jiangsu, Zhejiang and Shanghai.

### Scrap aluminium industry

According to the Yearbook of Nonferrous Metals Industry of China 2008, the main suppliers of scrap aluminium include the United States, Japan, Germany, Italy and Norway. Global scrap aluminium recovery reached approximately 8.8 million metric tons in 2007, compared to approximately 7.7 million metric tons in 2003, representing a CAGR of approximately 3.6%. The United States ranked first in terms of the total global output, and Norway had the highest growth in output from 2003 to 2007.

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## INDUSTRY OVERVIEW

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The following table sets forth the amount of global scrap aluminium recovery for the period from 2003 to 2007:

### Global Scrap Aluminium Recovery

	2003	2004	2005	2006	2007	2007 as % of world	CAGR
	('000 mt)						
1 United States .....	2,930	2,977	3,019	3,023	2,888	32.8%	-0.4%
2 Japan .....	1,261	1,015	1,039	1,070	1,145	13.0%	-2.4%
3 Germany .....	680	655	712	796	836	9.5%	5.3%
4 Italy .....	590	611	654	666	705	8.0%	4.6%
5 Norway .....	257	349	362	349	348	4.0%	7.9%
Others .....	1,933	1,953	1,976	1,961	2,882	32.7%	10.5%
World Total .....	7,651	7,560	7,762	7,865	8,804	100.0%	3.6%

*Source: The Yearbook of Nonferrous Metals Industry of China 2008*

### REGULATORY ENVIRONMENT/TAX POLICY

The PRC Government also encourages the development of the scrap metal recycling industry. After the accession to the World Trade Organization, the PRC Government adopted a favourable policy of zero tariffs on scrap steel imports and implemented a quota-free policy on the volume of imports via self-registration. In order to facilitate and regulate the domestic scrap steel recycling market, the PRC Ministry of Finance and the State Administration of Taxation studied and reviewed six ministries of the State Council and six renewable resource utilisation associations to further revise China’s taxation policy on waste and old materials to encourage development of the scrap steel recycling industry.

In addition, the PRC Ministry of Finance and State Administration of Taxation increased the export tax rebate for some products effective 1 April 2009. The rebate for some steel and non-ferrous metal products increased to 13% effective 1 April 2009. We expect these measures will benefit the scrap metal industry in China over the next few years.