

INDUSTRY OVERVIEW

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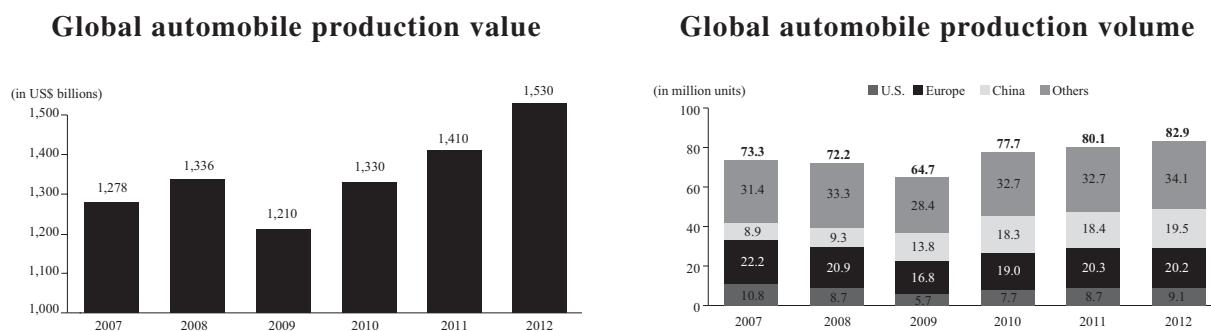
GLOBAL AUTOMOTIVE INDUSTRY OVERVIEW

Overview of the Global Automotive Industry

Total global automobile production value grew from approximately US\$1,278 billion in 2007 to approximately US\$1,530 billion in 2012, representing a CAGR of approximately 3.7%, from 2007 to 2012. Due to the stabilizing world economy, the global automotive market is expected to continue to grow modestly in the near term. Global automobile production value is estimated to reach approximately US\$2,033 billion in 2017, representing a CAGR of approximately 5.9%, from 2012 to 2017.

Total global automobile production volume grew from approximately 73.3 million units in 2007 to approximately 82.9 million units in 2012, representing a CAGR of approximately 2.5%. Global automobile production volume is expected to reach approximately 105.7 million units in 2017, representing a CAGR of approximately 5.0%, from 2012 to 2017. Automobile production volumes in the United States, Europe and China are estimated to grow at CAGRs of 2.7%, 2.7% and 9.1%, respectively, from 2012 to 2017.

The following charts set forth total global automobile production value and volume from 2007 to 2012, respectively:



Source: IPSOS

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Automotive manufacturers continued to shift their production facilities from high-cost regions, such as North America and Europe, to lower-cost regions, such as China, South America and Southeast Asia. China contributed 27% of global vehicle production value in 2012, rising from 12% in 2007.

The following table sets forth the geographical breakdown of global automobile production value in 2007, 2009 and 2012 by selected regions:

Region	2007		2009		2012	
	Amount (US\$ billions)	% of total	Amount (US\$ billions)	% of total	Amount (US\$ billions)	% of total
U.S.	196	15%	128	11%	205	13%
Europe	338	26%	287	24%	369	24%
China	160	12%	251	21%	415	27%
Rest of the World.....	584	47%	544	44%	541	36%
Total	1,278	100%	1,210	100%	1,530	100%

Source: IPSOS

Major Automotive Manufacturers of the Global Automotive Industry

GM was the leader in the global automotive market in 2012, accounting for approximately 11% of global market share in terms of production volume, followed by Volkswagen, which accounted for approximately 10%. Toyota accounted for approximately 10% of global market share in 2012 by production volume, while Hyundai accounted for approximately 8%.

The following table sets forth the top 10 global automotive manufacturers in 2007 and 2012 in terms of production volume:

	2007		2012	
	Amount (million of units)	% of total	Amount (million of units)	% of total
General Motors	9.3	13%	9.4	11%
Volkswagen.....	6.3	9%	8.5	10%
Toyota	8.5	12%	8.4	10%
Hyundai.....	2.6	4%	6.8	8%
Ford	6.2	8%	5.1	6%
Nissan	3.4	5%	4.8	6%
PSA Peugeot Citroën	3.5	5%	3.7	5%
Honda	3.9	5%	3.0	4%
Renault	2.7	4%	2.9	3%
Suzuki	2.6	3%	2.8	3%
Others	24.3	32%	27.5	34%
Total	73.3	100%	82.9	100%

Source: IPSOS

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In 2007, the major Asian automotive manufacturers (including Toyota, Hyundai, Nissan, Honda and Suzuki) accounted for approximately 29% of total global production volume. In 2012, these major Asian automotive manufacturers accounted for approximately 31% of total global production volume.

Growth Drivers of Global Automotive Industry

Increasing Auto Demand in Developing Countries

Although developed countries, such as the United States, have shown signs of recovery in their automotive markets, global sales growth is expected to be primarily driven by demand in developing countries, mainly Brazil, Russia, India, and China (the “BRIC countries”), as well as the rest of Asia, Latin America, the Middle East, Africa and other countries with economies in transitional stages of development. BRIC countries offer the automotive market substantial potential for growth given their large populations, ongoing urbanization and rising purchasing power.

Increasing Globalization and Localization

Automotive manufacturers are taking advantage of globalization and localization by entering new and growing established geographic automotive markets. By localizing automotive components, automotive manufacturers can reduce their manufacturing costs and production lead times. Globalization helps automotive manufacturers to reduce various operational and process costs to remain competitive, but also offers new opportunities for growth.

Growth Drivers of the Automotive Industry in the United States

Automotive manufacturers are required to redesign models to conform to new emission laws due to the global tightening of emission standards. This can trigger the demand for newer and more economical engines, thus increasing research and development spending. Also, the United States government has launched favorable policies over the past few years to stimulate new automotive sales through attractive incentives, such as increased access to credit and favorable tax benefits. For example, the Cash for Clunkers (Car Allowance Rebate System) policy in 2009 in the United States offered vouchers to car buyers to replace their old vehicles with newer, smaller models. Other initiatives designed to stimulate new automotive sales included reductions in the sales tax that customers pay when they buy new automobiles.

Growth Drivers of the Automotive Industry in Europe

Disposable income and car ownership are expected to continue increasing in most European countries, supporting the potential growth of the European automotive market. Furthermore, since passenger vehicles in the new EU member states are often older models, there is a market for the replacement of older automobiles. Also, EU emission standards, which are compulsory in all member states, have forced auto manufacturers to develop green technologies. These standards cover emission of carbon monoxide, nitrogen oxide and other hydrocarbon particulates for both diesel and gas engines. Sulfur emissions were not covered by these emission standards but were addressed through the introduction of low sulfur fuels, which became mandatory in 2005. Under the Euro 5 emission standard implemented in 2009, the

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carbon monoxide emission standard for passenger vehicles less than 2,500 kilograms is 0.5 gallon per kilometer for diesel and 1.0 gallon per kilometer for gasoline.

Growth Drivers of the Automotive Industry in China

High Population and Low Penetration Rate for Passenger Vehicles

Despite the rapid development of the automotive industry in China, the domestic market is still relatively underpenetrated when compared to developed countries. According to the World Bank, passenger vehicle penetration (defined as the number of vehicles per 1,000 people in the population) was approximately 55 in China in 2011, which was significantly lower than that of other developed markets such as Japan and the United States, where penetration reached approximately 453 and 700, respectively, in the same year. Passenger vehicle penetration was approximately 480 in Europe, 202 in Brazil and 14 in India in the same year. In light of the continued growth in disposable income per household, consumer demand for passenger vehicles is expected to increase in China.

Improved Road Infrastructure

The substantial efforts by the PRC government on the construction of transportation infrastructure to stimulate the PRC economy have contributed to a modernized and extensive road system in most areas of China, which has resulted in increased domestic demand for automobiles. The total length of expressways has grown at a CAGR of approximately 12% from 2007 to 2012, from approximately 53,900 km in 2007 to approximately 94,400 km in 2012. The increase in the length of expressways has further facilitated inter-city travel and cargo transportation, which in turn has led to increased automotive sales in the PRC.

Rapid Economic Growth and Rising Urban Middle Class Population

Factors such as urbanization, increased disposable income and increased household savings have also created tremendous opportunities for the automotive market in China as urban residents have sought greater mobility. Domestic urbanization rates in China reached approximately 52.6% in 2012, and are unlikely to decrease before 2017, in part due to processing and service industries (also called secondary and tertiary industries) moving from rural to urban areas in China, which has the effect of leading to further labor migration. Per capita disposable income of urban residents in China increased from approximately US\$1,815 in 2007 to approximately US\$3,907 in 2012, representing a CAGR of approximately 16.6%, from 2007 to 2012. The estimated savings deposits of PRC residents increased from approximately US\$2,271 billion in 2007 to approximately US\$6,335 billion in 2012, representing a CAGR of approximately 22.8%, from 2007 to 2012.

PRC Government Policies Encouraging the Production and Sale of Automobiles

The automotive market in China is highly regulated by the PRC government. On May 21, 2004, the NDRC promulgated the *Automotive Industry Development Policy* for automotive manufacturers, which sought to strengthen the automotive industry in China and enhance the international competitiveness of domestic automotive manufacturers. The PRC government also launched the *Automotive Industry Adjustment and Revival Plan* in 2009 to facilitate the restructuring of the automotive industry by encouraging large-scale domestic automotive companies to implement merger and restructuring initiatives either on a national or provincial/regional basis.

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GLOBAL STEERING SYSTEM INDUSTRY OVERVIEW

The steering system provides driver control over the direction of vehicle travel, providing maneuverability and dynamic road feedback. There are four key types of steering systems: Manual Steering (Manual), Hydraulic Power Steering (HPS), Electric Power Steering (EPS) and Electro-Hydraulic Power Steering (EHPS).

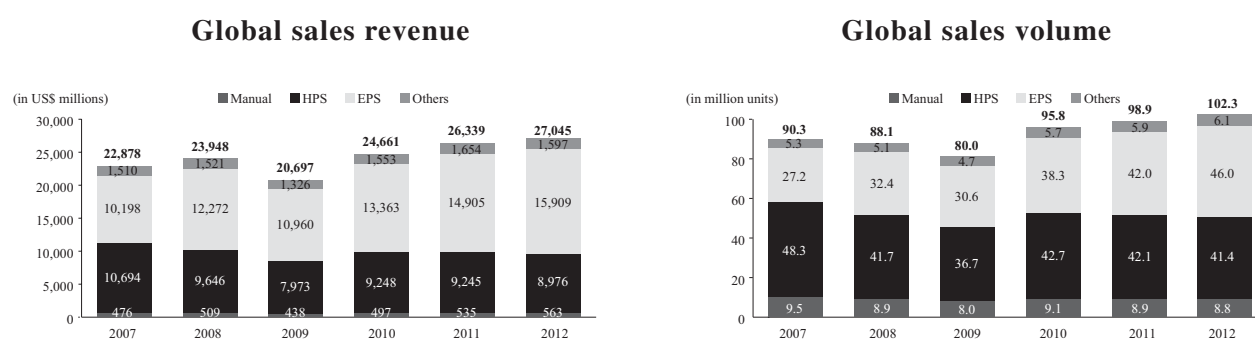
Overview of Global Steering System Industry

The growing global automotive market has fueled continuous demand in steering systems, with global sales revenue and volume increasing from approximately US\$22,878 million and 90.3 million units in 2007 to approximately US\$27,045 million and 102.3 million units in 2012, representing CAGRs of approximately 3.4% and 2.5%, respectively. Sales revenue and volume of global steering system market are estimated to grow at CAGRs of approximately 5.3% and 4.7%, respectively, from 2012 to 2017.

Due to its unique advantages, which include greater control over driving dynamics, energy efficiency, reduced noise levels and reduced assembly time, EPS grew the fastest among all product types at a CAGR of approximately 9.3% and 11.1% in terms of sales revenue and volume from 2007 to 2012, respectively. Sales of EPS have grown from 44.6% of total global steering sales revenue in 2007 to 58.8% in 2012. Sales revenue of EPS is expected to grow at a CAGR of approximately 10.2%, from 2012 to 2017.

Sales revenue of manual steering systems grew at a CAGR of approximately 3.4% from 2007 to 2012, whereas sales revenue of HPS declined at a CAGR of approximately -3.4% during the same period. Sales revenue of manual steering systems and HPS is expected to decline at CAGRs of approximately -13.5% and -5.1%, respectively, from 2012 to 2017.

The following charts set forth the sales revenue and volume of global steering systems by products from 2007 to 2012, respectively:



Source: IPSOS

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From 2007 to 2012, the steering system industry, in particular EPS, grew at a faster rate in developing countries such as China than in developed countries in North America and Europe. The revenue of steering systems and EPS in China accounted for approximately 6% and 2% of global sales in 2007, respectively, and increased to 16% and 9% in 2012, respectively.

The following table sets forth the sales revenue breakdown of global steering systems and EPS in 2007 and 2012 by selected regions, respectively:

Region	Total steering				EPS			
	2007		2012		2007		2012	
	Amount (US\$ millions)	% of total	Amount (US\$ millions)	% of total	Amount (US\$ millions)	% of total	Amount (US\$ millions)	% of total
Europe	6,908	30%	6,922	26%	3,533	35%	5,107	32%
U.S.	4,207	18%	3,898	14%	1,698	17%	2,642	17%
China	1,278	6%	4,353	16%	211	2%	1,503	9%
Rest of the World . . .	10,485	46%	11,872	44%	4,756	46%	6,657	42%
Total	22,878	100%	27,045	100%	10,198	100%	15,909	100%

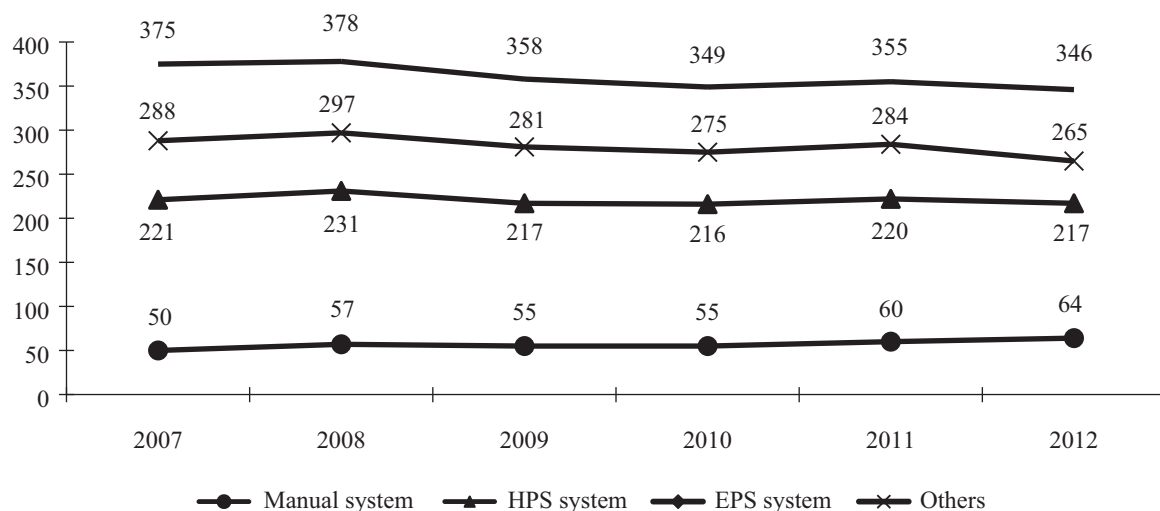
Source: IPSOS

Price Trends of the Global Steering System Industry

The average price of steering systems has been decreasing globally. Manual steering systems were the only product that showed growth in average price from 2007 to 2012, at a CAGR of approximately 5.1%. The average prices of HPS, EPS and other steering systems decreased at CAGRs of approximately -0.4%, -1.6% and -1.7%, respectively, from 2007 to 2012. The average price of steering systems decreased most significantly in 2009, primarily as a result of the global financial crisis, which caused a decrease in raw material prices such as steel and increased demands for higher annual price reductions by OEMs, which is a common practice in the global automotive industry. Manufacturers of steering systems have experienced continued pressure from their OEM customers to further reduce prices. Such price reductions are usually offset by continued technology improvements, production cost reductions and other productivity initiatives.

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The following chart sets forth the average prices of global steering system products from 2007 to 2012:



Source: IPSOS

Future Market Trends of the Global Steering System Industry

Expansion of Global Footprint of Steering System Manufacturers

Along with the effect of globalization, steering system manufacturers are expanding their geographical footprints to serve individual local markets. This helps them to avoid exposure to international currencies and rising logistics costs. It is also costly to ship heavy steering systems long-distance.

EPS System Improvements

The use of EPS systems will continue to expand as system developers continue to increase the maximum output of EPS systems allowing them to be applied to larger vehicles from D segment sedans and SUVs to full-size trucks.

Steering system manufacturers will add more functionality to EPS systems through software algorithms that could be used to offset the effects of wind and other natural obstacles on a vehicle, mitigate hand-wheel vibrations due to chassis disturbances and enable higher compatibility of marketable features such as parking assist.

Switching from HPS to EPS by OEMs

Many local governments, including those in the United States, Europe and China, have enacted regulations and tax incentives to reduce carbon emissions and promote fuel economy, which provide strong incentives for OEMs to use EPS systems for new vehicles.

In addition to fuel consumption reduction, other benefits of EPS systems include the use of fewer components, easier assembly in vehicle integration and shorter development and tuning time. Reduction in weight and increased energy efficiency are also driving the use of EPS systems by OEMs.

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Use of Software and Mechanical Elements to Mimic Hydraulic Steering

EPS systems are evolving rapidly. The pace of innovation has increased as these systems enable automotive manufacturers to simultaneously improve vehicle efficiency, handling, comfort, and safety, all enhancing the driving experience for their full range of vehicle offerings.

The complexities of EPS systems over traditional HPS systems pose new challenges to automotive manufacturers in steering characterization, as they attempt to recreate the traditional “feel” that drivers expect, while adding new functionality and expanded interactions of the steering systems with other vehicle systems. Hence, EPS manufacturers must use software and precision mechanical elements to simulate and enhance the “feel” of HPS systems.

Only the largest global steering suppliers have the ability to provide a full range of technical and customer support to global customers.

Competitive Landscape of the Steering Industry

Key Manufacturers in the Global Steering System Industry

Automotive parts manufacturers, including steering system suppliers, face significant competition in certain areas, including product types, scale of production, operation and sales channels, and established brand products.

Automotive manufacturers have high requirements for steering systems and rigorously evaluate steering system manufacturers on the basis of product quality, price, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, operational flexibility and excellence, customer service and overall management.

Steering system manufacturers with established supply relationships with automotive manufacturers enjoy competitive advantages in the industry as the switching barrier is high for automotive manufacturers. New business opportunities typically arise only when new models are being developed or existing models undergo a design enhancement.

Steering system manufacturers generally have a global presence, with production bases in key markets such as North America and Europe, but also established production plants in low-cost regions, such as China, India and South America. Such production plants are often located near automotive manufacturers. This strategy minimizes production costs, reduces delivery costs and mitigates exposure to currency exchange risks. Each major steering system manufacturer typically relies on a few key OEM customers.

The global steering system market is dominated by the top seven manufacturers, which collectively held approximately 73% of the global steering system market in terms of sales revenue in 2012.

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The following table sets forth the rankings of the major steering system manufacturers across various regions in terms of sales revenue from steering systems in 2012, with the market share of each steering system manufacturer shown in parentheses:

Ranking	Global ⁽¹⁾	U.S. ⁽¹⁾	Europe ⁽¹⁾	China ⁽¹⁾
1	JTEKT (22.4%)	Nexteer (31.1%)	ZF Lenksysteme (42.3%)	ZF Lenksysteme (24.1%)
2	ZF Lenksysteme (18.9%)	JTEKT (21.3%)	TRW Automotive (16.1%)	JTEKT (9.4%)
3	TRW Automotive (9.7%)	ZF Lenksysteme (19.7%)	JTEKT (11.4%)	China Automotive Systems (7.8%)
4	NSK (7.0%)	TRW Automotive (19.4%)	Nexteer (4.5%)	Mando China (7.4%)
5	Nexteer (6.3%)	NSK (6.8%)	NSK (3.8%)	TRW Automotive (4.6%)
6	ThyssenKrupp Presta (5.0%)	Others (1.7%)	Others (21.9%)	NSK (4.0%)
7	Mando Corp. (4.5%)	—	—	Nexteer (3.0%)
8	Others (26.2%)	—	—	Yubei Steering System (2.9%)
9	—	—	—	Others (36.8%)
	Total (100.0%)	Total (100.0%)	Total (100.0%)	Total (100.0%)

Source: IPSOS

Note:

(1) Figures in parentheses above denote market share of steering system manufacturers in their respective regions.

The following table sets forth the market share of global EPS manufacturers in terms of sales revenue from EPS systems in 2012:

Ranking	Company	% of total
1	JTEKT	30.5%
2	ZF Lenksysteme	22.5%
3	NSK Ltd	11.8%
4	TRW Automotive	11.5%
5	Nexteer	4.8%
6	Showa Corporation	3.4%
7	ThyssenKrupp Presta	2.0%
	Others	13.5%
	Total	100.0%

Source: IPSOS

Opportunities and Risks of the Global Steering System Industry

Increased adoption of EPS systems and the development of the domestic automotive industry in developing countries, such as China, India, and Brazil, provide major market growth opportunities for the global steering system industry. The increased awareness of and demand for energy-saving measures, hybrid and electric vehicles and promotion of fuel economy is expected to drive the expansion of the green energy and fuel conserving vehicle market in the future. This trend is expected to promote the growth of EPS systems globally, as these systems are regarded for their energy saving measures.

Geographically, steering system demand in developing countries, such as China, India and Brazil, grew at a faster rate than in developed countries, such as the United States and Europe, from 2007 to 2012. Sales revenue of steering systems in China, India and Brazil accounted for approximately 5.6%, 3.9% and 3.1%, respectively, of global sales revenue in

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2007, which increased to approximately 16.1%, 6.2% and 3.0%, respectively, of global sales value in 2012. Sales revenue of steering systems in the United States and Europe decreased from approximately 18.4% and 30.2%, respectively, of global sales revenue in 2007, to approximately 14.4% and 25.6%, respectively, of global sales revenue in 2012. Future demand for the steering systems is expected to remain strong in developing countries, such as China, India and Brazil, as manufacturers are expected to continue shifting to EPS from HPS and manual systems.

Major risks to the global steering system industry include rising raw material and labor costs, uncertainty in the global economy, as well as increasing competition among steering system manufacturers.

The ongoing sovereign debt crisis in Europe has continued to affect the global economy. Declining global export demand has generally slowed development of the PRC economy and could affect consumer spending on and retail sales of automotives, which could have an adverse effect on automotive production and the market for automotive components, such as steering systems. In addition, increasing competition among suppliers and rising operating costs present significant risks to steering system manufacturers. These general factors could also have an adverse effect on the continued development of the global steering industry.

Barriers to Entry

Intense Competition

The global steering system market is dominated by the top seven manufacturers which shared approximately 73% of the total market revenue in 2012. These manufacturers have secured strong relationships with automotive manufacturers. Steering system manufacturers are competing to remain cost competitive under increasing pressure from OEMs to reduce prices. In recent years, substantially all automotive manufacturers have sought annual price reductions from their global steering suppliers, as well as additional value-added services, which include requiring steering suppliers to pay a “three warranties” service charge for compensation, exchange and withdrawal in an amount generally equal to 1% of the total amount of parts supplied.

In response to these conditions, steering system manufacturers have implemented measures to increase their cost competitiveness, which include building good relationships with suppliers to minimize the costs of materials and efforts to achieve greater integration along the production line from product design to production, while maintaining product quality, ensuring reliability and timeliness of delivery, enhancing the rate of new product development, increasing their global manufacturing presence and improving their customer service.

High Switching Barrier

Because the switching barrier for new steering system manufacturers is high, suppliers with established business partnerships with automotive manufacturers enjoy a competitive advantage as they generally have installed capacities suitable for replacement business.

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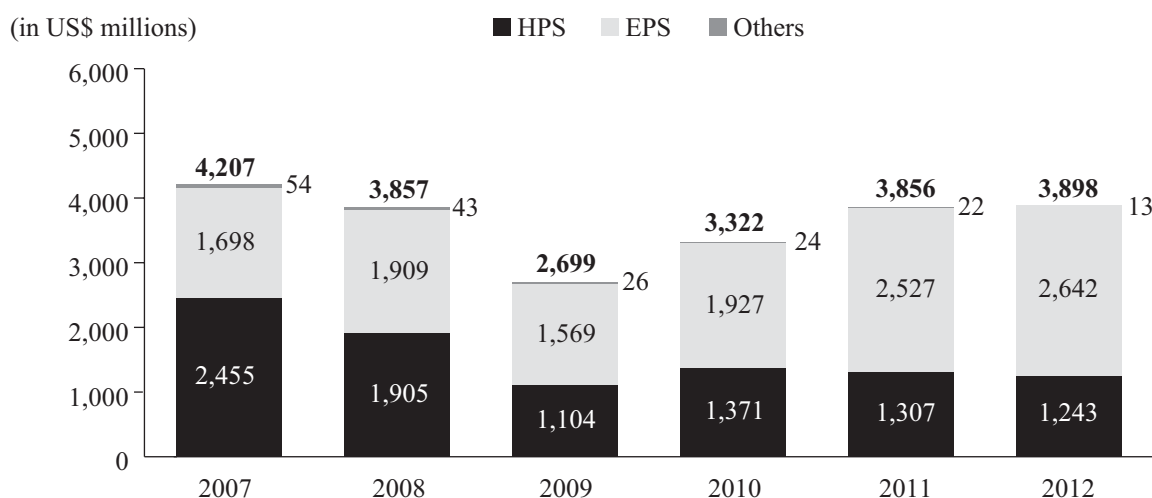
Strong Capital and Technical Capability

The global steering market is capital intensive; high investment is required for continuous testing of new products and development. New entrants with lesser capital structures have limited resources for sustainable development in this industry. Steering system manufacturers must have strong technical and engineering capabilities in vehicle integration and software development. New entrants lacking sufficient capital and technical capability will face difficulties meeting the stringent requirements of world-class automotive manufacturers.

Overview of the Steering System Industry in the United States

Total revenue of the U.S. steering system industry declined from approximately US\$4,207 million in 2007 to approximately US\$3,898 million in 2012, primarily due to a decrease in automotive production in 2009 as a result of the global financial crisis. EPS sales revenue grew at a CAGR of approximately 9.2%, from approximately US\$1,698 million in 2007 to approximately US\$2,642 million in 2012, while HPS and others segments declined. The revenue of the U.S. steering system industry is expected to grow at a CAGR of approximately 2.0% from 2012 to 2017, driven by the increase of automotive production and increased use of EPS. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 7.9% from 2012 to 2017.

The following chart sets forth the sales revenue of steering systems by products in the United States from 2007 to 2012:



Source: IPSOS

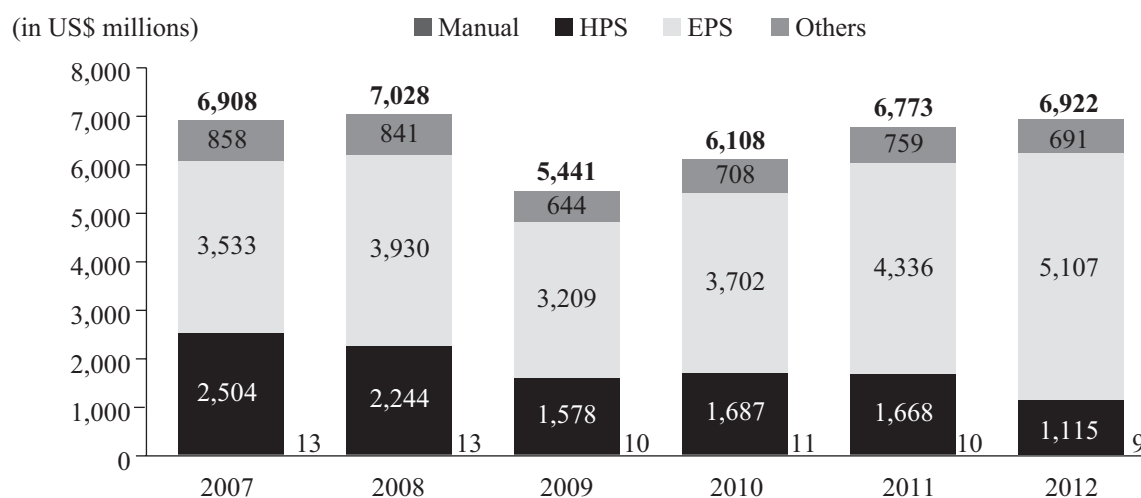
Fuel economy is expected to drive increased adoption of EPS in the United States. Automotive manufacturers in the United States will be required to continue adopting EPS to meet new United States government fuel economy regulations for the 2016 model year when new vehicle fleet averages will be required to reach 35.5 miles per gallon. By replacing HPS with EPS, average fuel economy is generally improved by up to 6%.

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Overview of the Steering System Industry in Europe

The total sales revenue of the European steering system industry increased slightly from approximately US\$6,908 million in 2007 to approximately US\$6,922 million in 2012. The slow growth during the period was primarily due to a reduction in production volume of automobiles. However, EPS sales revenue grew at a CAGR of approximately 7.6%, from approximately US\$3,533 million in 2007 to approximately US\$5,107 million in 2012, while manual, HPS and others sectors declined from 2007 to 2012. The sales revenue of the European steering system industry is expected to grow at a CAGR of approximately 1.9%, from 2012 to 2017. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 5.1%, from 2012 to 2017.

The following chart sets forth the sales revenue of steering systems by products in Europe from 2007 to 2012:



Source: IPSOS

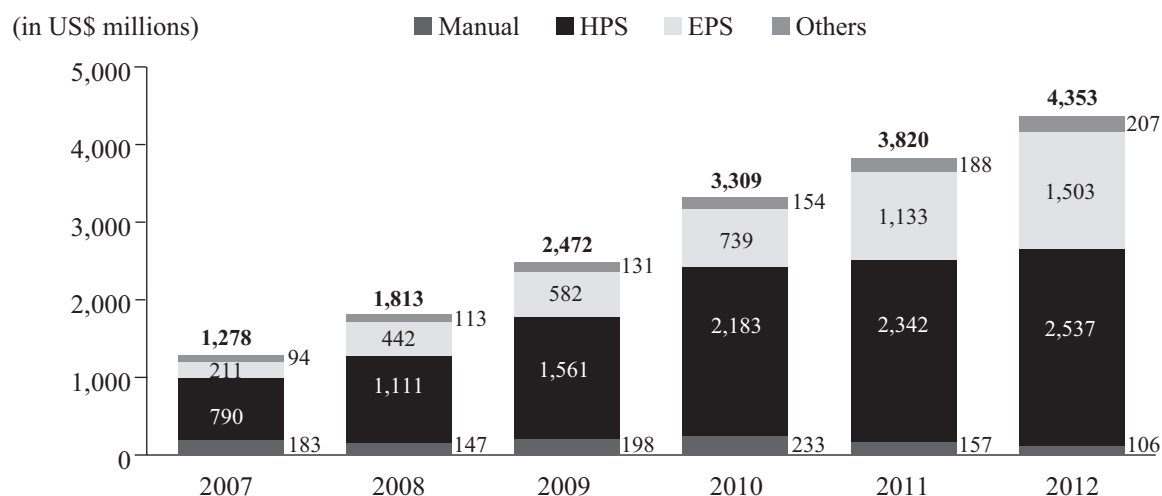
EPS is expected to drive growth in the steering system market in Europe in the next several years, as it affords better reliability, improved vehicle handling, more compact and powerful electric motors, and enhanced battery performance. In addition, higher fuel efficiency standards and environmental regulations should also accelerate the adoption of EPS.

Overview of the Steering System Industry in China

The total sales revenue of steering systems in China increased from approximately US\$1,278 million in 2007 to approximately US\$4,353 million in 2012, representing a CAGR of approximately 27.8%, primarily due to the strong growth of the automotive industry. In particular, EPS sales revenue increased at a CAGR of approximately 48.1%, from 2007 to 2012. The sales revenue of the China steering system industry is expected to grow at a CAGR of approximately 12.4%, from 2012 to 2017, primarily due to continued expansion of its domestic automotive industry. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 25.6%, from 2012 to 2017.

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The following chart sets forth the sales revenue of steering systems by products in China from 2007 to 2012:



Source: IPSOS

China had the highest total vehicle production in terms of passenger and commercial vehicles in 2012, producing approximately 19.5 million units. China's total vehicle production is expected to continue growing at a CAGR of approximately 9.1%, from 2012 to 2017. The size of the PRC automotive market and positive growth trends are expected to provide opportunities for automotive parts manufacturers, including steering system suppliers, and drive the growth of the PRC steering system industry. Low production costs and rapid market response have attracted PRC and foreign joint venture manufacturers to produce automotive parts locally in China. As the technological capabilities of the domestic steering system manufacturers continue to improve, domestically produced steering systems may become substitutes for foreign-manufactured or imported steering systems and are also expected to drive export sales growth in the future. From 2011 to 2012, export sales of domestic steering systems grew approximately 21.0%, which was a growth rate higher than the overall automotive parts industry, which grew approximately 6.0%. PRC-manufactured steering systems were mainly exported to Japan, the United States, Korea, Mexico and India. The continued increase in exports of PRC-manufactured steering systems is expected to drive growth in the PRC steering systems market.

GLOBAL DRIVELINE SYSTEM INDUSTRY OVERVIEW

The driveline system transmits power from the transmission output to the driving wheels of a motor vehicle. Primary components include halfshafts, propeller shafts and related products.

Overview of the Global Driveline System Industry

The global driveline system market slightly declined as a result of the global financial crisis in 2008 and 2009. The global sales revenue of the total driveline system market increased at a CAGR of approximately 0.9% from approximately US\$13,508 million in 2007 to approximately US\$14,134 million in 2012, while sales volume increased at a CAGR of approximately 2.5% from 642 million units in 2007 to 726 million units in 2012. Global

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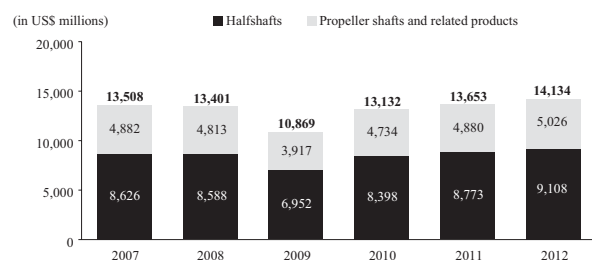
driveline system market sales revenue and volume are estimated to grow at CAGRs of approximately 5.0% and 5.4%, respectively, from 2012 to 2017.

In particular, sales revenues and sales volume of the halfshafts segment increased at CAGRs of approximately 1.1% and 2.9%, respectively, from 2007 to 2012. According to the IPSOS Report, sales of halfshafts accounted for approximately 64% of the total revenue of the global driveline system industry from 2007 to 2012. Sales revenue of the halfshafts segment is expected to grow from approximately US\$9,108 million in 2012 to approximately US\$11,815 million in 2017, a CAGR of approximately 5.3%.

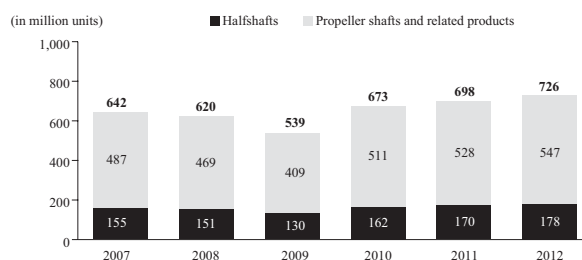
According to the IPSOS Report, sales revenue of propeller shafts and related product segments grew at a CAGR of approximately 0.6%, from 2007 to 2012, and is expected to grow from approximately US\$5,026 million in 2012 to approximately US\$6,249 million in 2017, a CAGR of approximately 4.5%. The sales revenue of propeller shafts and related products grew slowly from 2007 to 2012 primarily due to the effects of the global financial crisis, which resulted in decreased production volumes in 2008 and 2009. Sales revenue of propeller shafts is expected to increase from 2013 to 2017, primarily due to a recovery of consumer confidence as well as stable growth in global vehicle production volumes.

The following charts set forth the sales revenue and volume of global driveline systems by products from 2007 to 2012, respectively:

Global sales revenue



Global sales volume



Source: IPSOS

From 2007 to 2012, the driveline system industry in China grew faster than in developed regions, such as the United States and Europe. Sales revenue of global driveline systems in the PRC accounted for approximately 11% of global sales in 2007, and grew to approximately 22% of global sales in 2012.

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The following table sets forth the sales revenue breakdown of global driveline systems in 2007 and 2012 by regions:

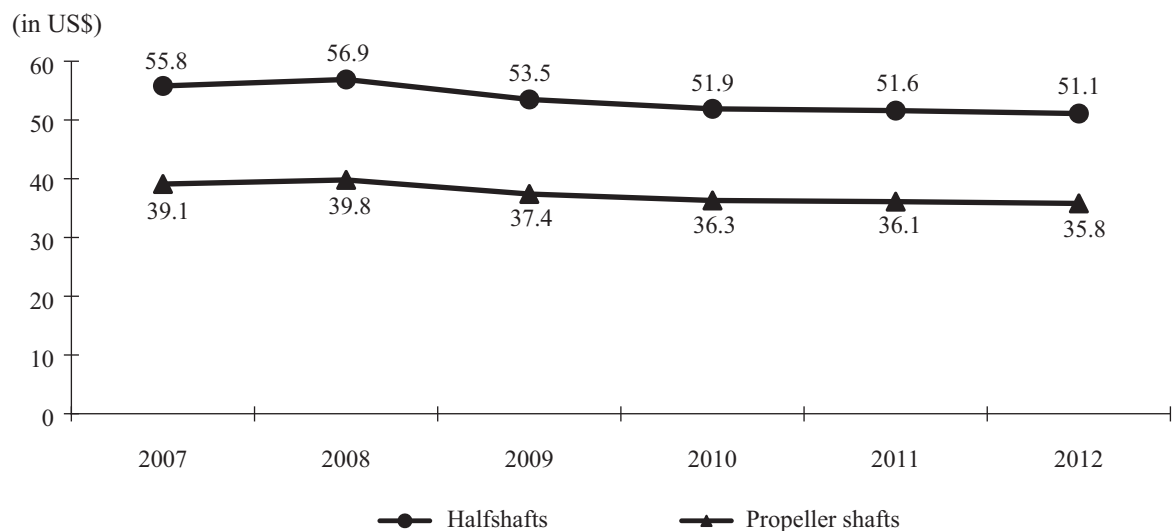
Region	2007		2012	
	Amount (US\$ millions)	% of total	Amount (US\$ millions)	% of total
Europe	4,283	32%	3,653	26%
China	1,487	11%	3,116	22%
U.S.	2,345	17%	1,774	13%
Rest of the World.....	5,393	40%	5,591	39%
Total	13,508	100%	14,134	100%

Source: IPSOS

Price Trends of the Global Driveline System Industry

The average price of driveline components in the global driveline system industry has generally been decreasing, with halfshafts and propeller shafts both decreasing at CAGRs of approximately -1.7% from 2007 to 2012. The average price of driveline components decreased most significantly in 2009, as a result of the global financial crisis, which resulted in a decrease in raw material prices such as steel. In line with the global steering system market, manufacturers of driveline systems have also been under continuing pressure from automotive manufacturers to reduce their prices.

The following chart sets forth the average prices of global driveline system products from 2007 to 2012:



Source: IPSOS

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Future Market Trend of the Global Driveline System Industry

Increased Presence in Rapidly Growing Markets

The automotive market in developing countries, particularly China and India, has been growing rapidly in the past decade. China is now the largest automotive market in the world. To keep pace with customer demand, foreign driveline system manufacturers have been increasing their presence by establishing production bases in these regions to expand their capacity. This trend is expected to sustain in the near term as these regions continue to drive growth in the global automotive industry.

Diverse Product Portfolio with Focus on Sustainability and Environment

In line with government policies for fuel economy, automotive manufacturers and brand owners are continuing to search for fuel savings and reductions in carbon emissions through hybrid and electric drive vehicles.

Adoption of Efficient Transmission Technology

Continuously variable transmission is a transmission that can change through an infinite number of effective gear ratios between maximum and minimum values, as opposed to other mechanical transmissions that only offer a fixed number of gear ratios. The flexibility of a continuously variable transmission allows the input shaft to maintain a constant angular velocity over a range of output velocities. Furthermore, it can also provide better fuel economy than other transmissions by enabling the engine to run at its most efficient revolutions per minute for a range of vehicle speeds. It can also be used to build a kinetic energy recovery system.

Conversion to Hybrid and Electric Transmission Technologies

With the increased adoption of hybrid and electric vehicles, the ongoing conversion from internal combustion transmission technologies to hybrid and electric transmission technologies is expected to continue. Hybrid vehicle transmission efficiency is an important factor contributing to a reduction in fuel consumption and emissions, while electric vehicle transmission efficiency contributes to improved performance, range and battery life.

Increasing Demand from SUVs and Premium Cars

The halfshafts market is generally expected to grow faster than the overall vehicle market as many SUVs are switching to independent rear suspensions while premium cars are moving to all-wheel drive and large, full-size trucks are starting to use constant velocity joints on their propeller shafts which replace traditional universal joints.

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Competitive Landscape of the Driveline Industry

Key Manufacturers in the Global Halfshafts Industry

The driveline industry and, in particular the halfshafts industry, are highly specialized and capital-intensive industries that require specific technical knowledge and production equipment to ensure correct balancing, straightening and modification of products.

Automotive manufacturers have high quality standards for driveline systems and rigorously evaluate driveline system manufacturers on the basis of product quality, price, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, operational flexibility and excellence, customer service and overall management.

Halfshafts manufacturers have established production bases in key markets, such as North America and Europe, as well as additional production plants in low-cost regions, such as China, India and South America. Such production bases are also located near automotive manufacturers, which minimizes production costs, reduces delivery costs and mitigates exposure to currency exchange risks. Each major halfshafts manufacturer typically relies on a few key OEM customers.

The top five driveline system manufacturers in the global market accounted for approximately 63% of the total market value for halfshafts in 2012.

The following table sets forth the rankings of the major halfshafts manufacturers across various regions in terms of sales revenue from halfshafts in 2012, with the market share of each halfshafts manufacturer shown in parentheses:

Ranking	Global ⁽¹⁾⁽²⁾	U.S. ⁽¹⁾⁽²⁾	Europe ⁽¹⁾⁽²⁾	China ⁽¹⁾⁽²⁾
1	GKN (37.7%)	GKN (33.0%)	GKN (49.2%)	GKN (23.5%)
2	NTN (16.0%)	Nexteer (26.0%)	NTN (12.9%)	Wanxiang Qianchao (11.7%)
3	Nexteer (4.8%)	NTN (19.0%)	Neapco Europe (Tedrive) (4.7%)	NTN (6.5%)
4	Wanxiang Qianchao (2.6%)	Neapco (5.2%)	IFA Group (2.5%)	Hunan Dingyuan Automotive Parts (4.3%)
5	Neapco (1.4%)	American Axle & Manufacturing (3.7%)	Korea Flange (KOFKO) (1.5%)	Nexteer (2.5%)
	Others (37.5%)	Others (13.1%)	Others (29.2%)	Others (51.5%)
	Total (100.0%)	Total (100.0%)	Total (100.0%)	Total (100.0%)

Source: IPSOS

Notes:

(1) Only includes sales revenue from halfshafts.

(2) Figures in parentheses above denote market share of halfshafts manufacturers in their respective regions.

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Opportunities and Risks of the Global Driveline System Industry

Hybrid and electric vehicles present major opportunities for the global driveline industry. With the promotion of fuel economy by various policy-makers, there are opportunities for the driveline system industry in the development of compatible applications for hybrid and electric vehicles.

Geographically, demand for driveline systems in developing countries, such as China, India and Brazil, grew at a faster rate than in developed regions, such as the United States and Europe, from 2007 to 2012. Sales revenue of driveline systems in China, India and Brazil accounted for approximately 11.0%, 2.9% and 3.7%, respectively, of global sales revenue in 2007, and increased to approximately 22.0%, 4.9% and 4.0%, respectively, of global sales revenue in 2012. Sales revenue of driveline systems in the United States and Europe decreased from approximately 17.4% and 31.7%, respectively, of global sales revenue in 2007 to approximately 12.6% and 25.8%, respectively, in 2012. As driveline system manufacturers increase their presence in these developing countries, future growth opportunities for the driveline system industry are expected in developing countries as domestic production of automotive vehicles is expected to increase significantly.

Major risks of the global driveline system industry include rising raw material and labor costs and uncertainty in the global economy.

Barriers to Entry

Long-term Relationship with Automotive Manufacturers

The global driveline system market is dominated by a few key manufacturers including GKN plc and NTN Corporation. These manufacturers have typically established long-term relationships with automotive manufacturers.

Driveline system manufacturers that have established business partnerships with automotive manufacturers enjoy a competitive advantage in the industry as the switching barrier is high for automotive manufacturers. New business opportunities generally arise when new models are being developed or existing models undergo a design enhancement. OEM relationships, global presence, and the ability to produce quality parts at high volume for safety and performance also drive major OEMs to choose strategic partners for production of the driveline systems.

Limited Access to Technology and High Investment

There is limited access to technology in the driveline market. The capital investment is also high to build capacity. Furthermore, new driveline manufacturers generally have limited ability to quickly adapt to change in product categories, which allows established manufacturers like GKN plc, NTN Corporation, and Nexteer Automotive Group Limited to sufficiently defend themselves against new entrants.

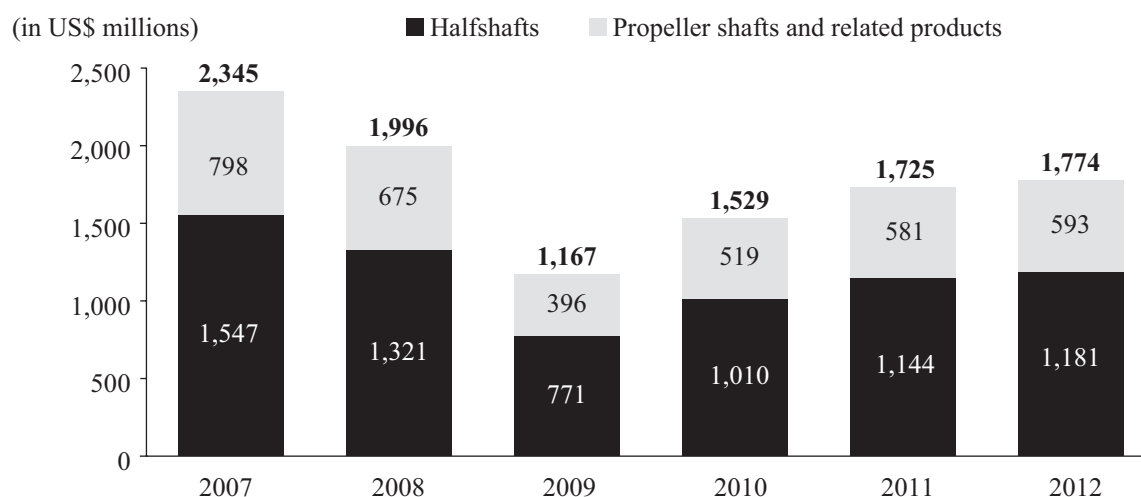
INDUSTRY OVERVIEW

Overview of the Driveline System Industry in the United States

The sales revenue of the driveline system market in the United States declined from approximately US\$2,345 million in 2007 to approximately US\$1,774 million in 2012, while sales volume decreased from approximately 98.2 million units in 2007 to approximately 79.8 million units in 2012.

The decrease in the sales revenue was mainly attributed to the impact of the global financial crisis in 2008 and the earthquake, tsunami and nuclear disaster in Japan, which disrupted the supply of components. The driveline system industry in the United States is expected to increase and grow at a CAGR of approximately 2.8% in terms of sales revenue from 2012 to 2017.

The following chart sets forth the sales revenue breakdown of driveline systems by products in the United States from 2007 to 2012:



Source: IPSOS

Key driveline system manufacturers in the United States are introducing new driveline system technologies to take advantage of all-wheel-drive safety and handling features while minimizing the impact on fuel economy. In looking to save costs, automotive manufacturers have moved towards a modular form of production, where various models share basic components and the supply chain is simplified. In addition, there was increased interest by automotive manufacturers to convert their existing front-wheel-drive platform to an all-wheel-drive hybrid program. With the potential to increase fuel economy by up to 35%, hybrid products (new combinations for front- and all-wheel-drive systems) are expected to drive the development of driveline systems in the United States market in the future.

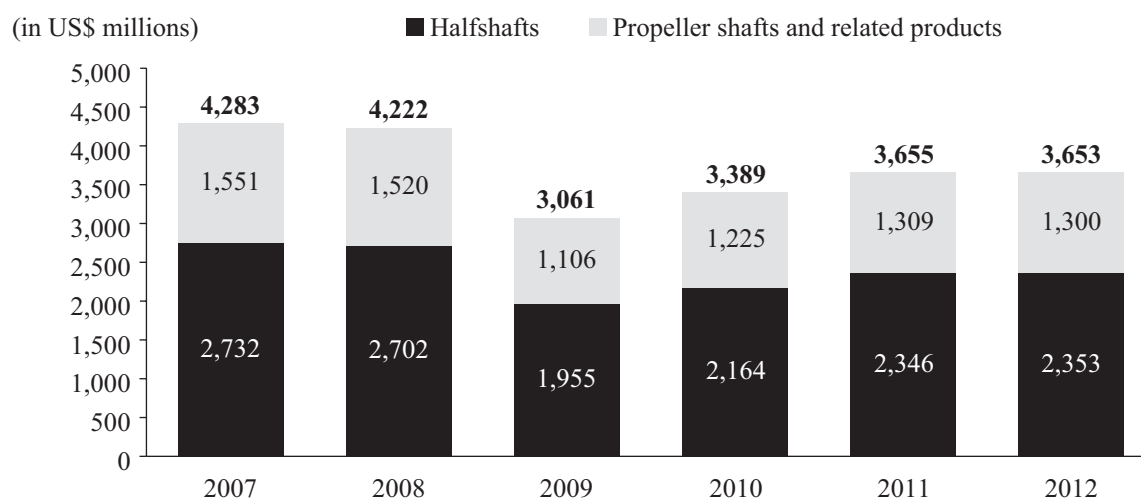
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Overview of the Driveline System Industry in Europe

The sales revenue of driveline system market in Europe decreased from US\$4,283 million in 2007 to US\$3,653 million in 2012, while sales volume decreased from 199.1 million units in 2007 to 182.6 million units in 2012.

The decrease in sales revenue was mainly attributed to the impact of the global financial crisis in 2008. The driveline system market in Europe is expected to grow at a CAGR of approximately 3.3% in terms of sales revenue from 2012 to 2017, with growth driven by hybrid vehicle products and demand for larger (premium) vehicles and light commercial vehicles.

The following chart sets forth the sales revenue of driveline systems by products in Europe from 2007 to 2012:



Source: IPSOS

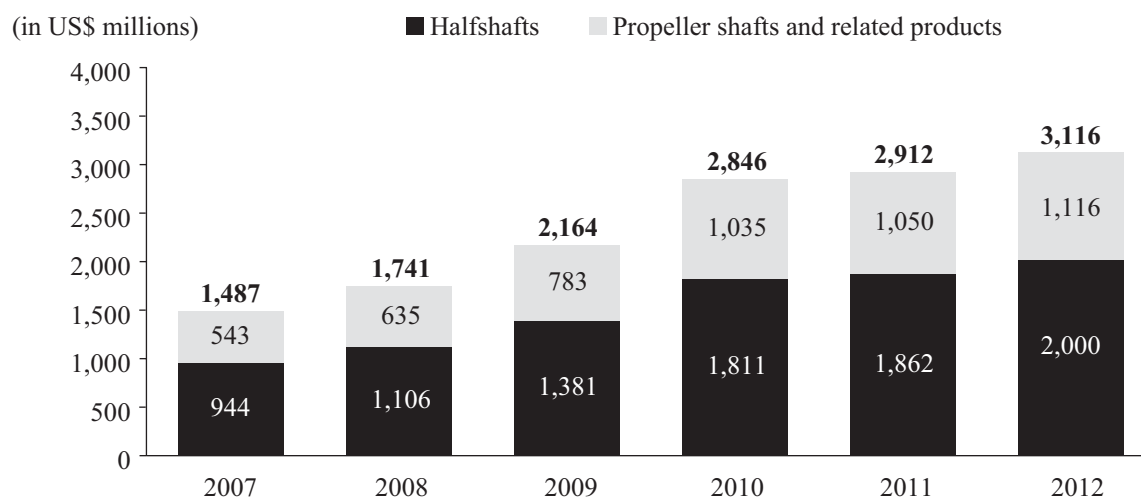
The driveline market in Europe was adversely affected by the global financial crisis in 2009, but demand for hybrid products is expected to continue, which is also expected to support the future development of the driveline system market in Europe. The 130 gram per km and 95 gram per km CO₂ legislations effective in 2015 and 2020, respectively, are expected to drive hybrid product growth in the Europe market.

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Overview of the Driveline System Industry in China

The sales revenue of the driveline system market in China grew rapidly at a CAGR of approximately 15.9% from US\$1,487 million in 2007 to US\$3,116 million in 2012.

The following chart sets forth the sales revenue of driveline systems by products in China from 2007 to 2012:



Source: IPSOS

The expanding domestic market for and increasing production of automotive vehicles in China are key drivers for the growth of the driveline market in China. According to the IPSOS Report, the total number of vehicles produced in China is expected to grow at a CAGR of approximately 9.1% from 2012 to 2017. In addition, the PRC government promulgated the “Eleventh Five-year Plan” for the PRC automotive industry, which included policies to enhance the domestic automotive parts industry through generous government subsidies, performance requirements for foreign investors, technology transfers, discrimination against imported goods, restrictions on raw material exports, and priority support for exports of vehicles and parts. With the rapid growth of the domestic automotive industry, China’s automotive parts industry has also expanded steadily in recent years. With increasingly globalized operations, foreign automotive manufacturers have increased global sourcing for automotive parts, which is also expected to provide growth opportunities for Chinese manufacturers.

Global Steel Price Trends

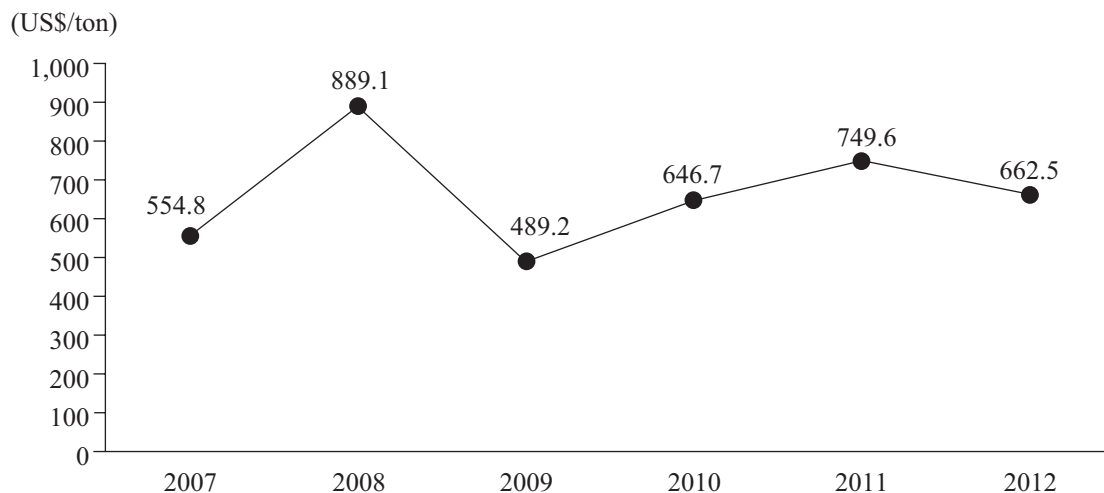
Steel is the major raw material for steering and driveline products, the price of which is highly correlated with macroeconomic conditions. Economic growth across the globe in 2007 and early 2008 spurred a rise in construction activity which caused steel prices to peak in 2008. As the global financial crisis worsened in late 2008 and early 2009, global demand for steel fell while new steel production capacity was coming into the market. Prices reached their bottom in May 2009, falling to a six-year low. Steel prices began to increase in 2010. While most of the global steel industry continued to be adversely affected by recessionary conditions in 2009, steel demand and associated production in Brazil, Russia, India, China and Korea continued to be key drivers of growth in 2010. Growth was largely sustained in 2011 but steel prices began to fall in the second half of 2011 and continued to drift downwards as the global economy slowed

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down and many parts of Europe entered or reentered recession in 2011 and 2012. Steel capacity continues to be reduced in many parts of the world. Prices of raw materials for steel production including iron ore, coking coal and scrap, among other raw materials, fell sharply in 2012 as a slowdown in China's growth reduced demand.

Raw material costs accounted for approximately 75% to 80% of total production cost of steering and driveline components. Despite fluctuations in the price of steel, average prices of steering and driveline components generally remained relatively stable, primarily due to different product unit prices for various specifications and models of steering systems. As such, changes in the model and specification of each steering system resulted in changes to the average product unit prices. In addition, steering system and driveline manufacturers and automotive manufacturers determine the prices of steering and driveline systems annually. When the launch of a new product has passed its price protection period, automotive manufacturers will generally require steering and driveline systems manufacturers to lower prices. As such, mature products generally experience different degrees of price reductions. The combination of rising steel prices in the early product stages with price pressures on later stage products has resulted in downward pressure on the profit margins of steering and driveline system manufacturers in recent years.

The following chart sets forth average global steel prices from 2007 to 2012:



Source: EIU January 2013

INDUSTRY CONSULTANTS AND INFORMATION SOURCES

Overview

We commissioned IPSOS, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the global steering and driveline system industry. Currently, IPSOS has offices in 84 countries with over 16,000 staff globally. IPSOS has been assisting clients with their growth strategies since 1994 and has a strong track record with more than 2,800 consulting engagements covering markets globally.

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IPSOS's independent market research was undertaken through both primary and secondary research obtained from various sources. Primary research involved in-depth interviews with key stakeholders and industry experts, including competitors (steering and driveline system automotive parts manufacturers), automobile manufacturers and assemblers, industry associations and experts, as well as material suppliers and others. Secondary research involved desk research of government departments and statistics, trade and business media, company annual reports and publicity materials, industry reports and analyst reports, industry associations, industry journals, other online sources and data from the research database of IPSOS. Such methodology has guaranteed a multilevel information sourcing process, where information gathered will be able to be cross-referenced to ensure accuracy. Intelligence gathered has been analyzed, assessed and validated using the in-house analysis models and techniques of IPSOS.

Key Assumptions and Parameters

The following assumptions are used in the IPSOS Report:

Firstly, IPSOS has assumed there will not be events such as natural disasters or a wide outbreak of disease which would adversely affect the demand and supply of steering and driveline systems in Europe, the United States, China, Brazil and India.

Secondly, it is assumed a new vehicle requires one steering system, one propeller shaft, two halfshafts and three universal joints.

The following parameters are considered in the market sizing and forecast model of the IPSOS Report:

- Global, Europe, United States, China, Brazil and India GDP growth rates from 2007 to 2012
- Global, Europe, United States, China, Brazil and India population growth rates from 2007 to 2012
- Global, Europe, United States, China, Brazil and India urbanization rates from 2007 to 2012
- Europe, United States, China, Brazil and India inflation rates from 2007 to 2012
- Price of passenger and commercial vehicle — According to historical data from CPCA (全國乘用車市場信息聯席會), imported passenger vehicle prices in China decreased about 1% annually while the price for a local passenger vehicle increased about 1% annually from 2007 to 2011. Because of technological improvement, the average price of a commercial vehicle is expected to increase by 6% annually from 2012 to 2017
- Europe, United States, China, Brazil and India retail sales of passenger and commercial vehicles from 2007 to 2012
- Global, Europe, United States, China, Brazil and India production volume of passenger and commercial vehicles from 2007 to 2012
- Global, Europe, United States, China, Brazil and India total car parc from 2007 to 2012

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- Price of steering system and driveline components including propeller shaft, halfshafts and universal joints
- International trading value of steering wheels, steering columns and steering boxes; parts thereof for the motor vehicles from 2007 to 2012
- International trading value of transmission shafts (including cam shafts and crank shafts) and cranks from 2007 to 2012
- Relevant government policies — According to the 《汽車轉向行業「十二五」發展規劃》, steering system production in China will reach about 28 million, an output value of about RMB30 billion and an export value of about US\$1 billion by 2016

We have extracted certain information from the research report of IPSOS, dated August 9, 2013, in this section as well as in the sections headed “Risk Factors,” “Business,” “Financial Information” and elsewhere in this Prospectus to provide our potential investors with a more comprehensive presentation of the industry in which we operate. We paid a fee of HK\$768,000 to IPSOS for this research report.