This section contains information and statistics relating to the PRC economy and the industry in which we operate. Unless otherwise specified, the information and statistics set out in this section have been extracted, in part, from various official government publications. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by the Directors in extracting and reproducing such information and statistics; however, none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors and advisers or any other party involved in the Global Offering make any representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with other information compiled within or outside the PRC. Certain information set forth in this section has been extracted from an industry report we commissioned from Roland Berger, an independent industry consultancy firm. For more information on Roland Berger, please refer to the paragraph headed "Other Information — Roland Berger" in Appendix VI of this prospectus.

We engaged Roland Berger, one of the world's leading strategy consultancy firms to conduct a detailed study of the electrical distribution equipment market in China. For further information on Roland Berger, please refer to the sub-paragraph headed "Roland Berger" in the paragraph headed "Statutory and General Information" in Appendix VI to this prospectus.

The methodology adopted by Roland Berger in preparing the Roland Berger Report can be divided into three phases. During Phase I, Roland Berger defined relevant markets by product, service, system and geographical regions. During Phase II, it carried out market analysis of each of the relevant market segments, with a view to reveal the past and future market segment dynamics. During Phase III, Roland Berger conducted a cross check to verify every individual finding of Phase II.

Certain information set forth in this section and the section headed "Business" of this prospectus has been extracted from the Roland Berger Report. The consultancy fees paid by our Company to Roland Berger in connection with the preparation of the Roland Berger Report is approximately RMB950,000.

We believe that the Roland Berger Report is an appropriate source of information that has been extracted for inclusion in this section and the section headed "Business" of this prospectus and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other parties involved in the Global Offering and no representation is given as to its accuracy.

ENERGY DEMAND AND THE ELECTRICITY MARKET

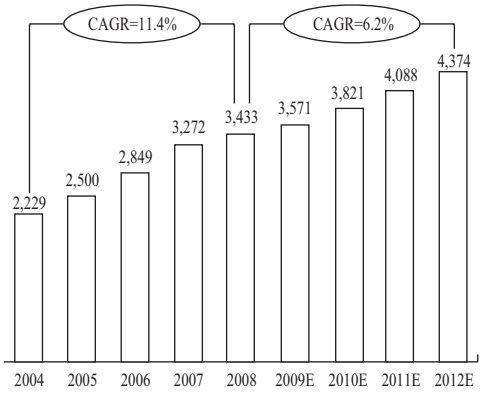
China is the second largest electricity consumer in the world, consuming more than 34 tWh in 2008. Meanwhile, the PRC saw a growth trend in electricity consumption in the past decades, with over 12.1% annual growth rate from 2004 to 2008.[1]

Different regions of China have different levels of demand for electricity. Out of the six major regions of China, east China consumes the largest proportion of electricity in China — approximately 34% of the total in 2008 while northeast China consumes the least proportion of electricity in China — approximately 8% of the total in 2008.

[1] *SERC ("**State Electricity Regulation Commission of China**") (as provided in the Roland Berger Report)*

In 2008, the global financial crisis hit heavily on electricity-dependent industries and the projected growth rate of power consumption is expected to have slowed down to lower than 4% in 2009. However, the long-term annual growth rate will still hold at 6.2% from 2008 to 2012.

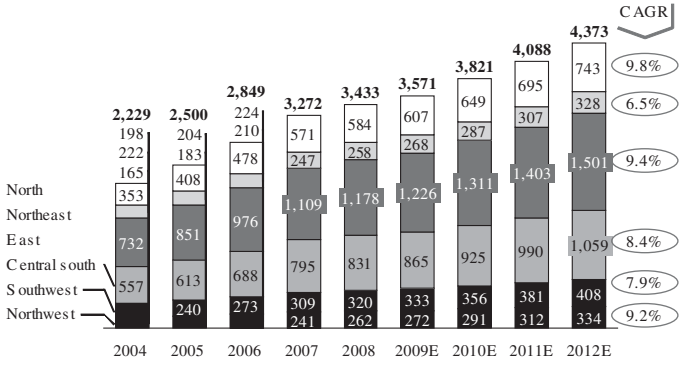
Electricity consumption in China (2004–2012)
(Unit: tWh)



Source: Roland Berger Report

Despite the financial crisis in 2008, northwest China maintained a high growth-rate of electricity consumption, averaging 8.5%.[2] east China maintained a steady growth rate of about 6.2%, while the demand for electricity of north, northeast and northwest China fell sharply to a growth rate of less than 3%. However, from 2009 to 2012, each region of China is projected to sustain a steady growth trend and east China will maintain its position as the largest electricity consumer throughout the next three years.

Electricity consumption by region in China (2004–2012)
(Unit: tWh)



Source: Roland Berger Report

To meet the huge power demand, the PRC government dedicates itself to encouraging state-owned power corporations to build power plants and to enhance their power supply capability. Although there might be occasional power shortages in some local areas, China's energy supply is able to meet its overall energy demand most of the time.

[2] *SERC (as provided in the Roland Berger Report)*

CHINA'S ELECTRICAL DISTRIBUTION MARKET

1. Electrical Distribution Equipment Market

The electrical distribution equipment market signifies the EDS Solutions segment of our business, through integrating the value chain of power utilisation, the electricity system, as a whole, consists of power generation, transmission, transformation, distribution and final consumption by end-users. Specifically, within the electricity network, power transmission refers to the connection of power stations with electrical substations located at far distances via electricity mains, in order that consumption and utilisation of electric power will meet little restriction in geographic coverage. Power transformation, on the other hand, enables the boost or reduction of electric voltage according to functional purpose. Electrical distribution allocates the volume of electricity to be directly transferred to end-users.

Distribution equipment can be categorised into primary equipment, which refers to transformer, switchgear, circuit breaker, ring main units, mutual inductor, transmission line, bus bar, wires and other hardware equipment that serve the basic function of actual transmission, transformation and distribution of electricity, and secondary equipment, which refers to the combination of controlling instruments and the backend software system for the data analysis to provide relay protection, automation and monitoring system that enhance the performance of primary equipment. Switchgear assembly, as one of the most important electrical distribution devices that integrate both primary and secondary equipment, has been used extensively in the coverage of application areas. As a non-standard solution product, switchgear assembly requires a high level of customisation and is normally sold through public tender. At the same time, manufacturers formulate their production plan after they have secured sales orders and therefore there is a very high production/sales rate in the electrical distribution equipment industry.

The market value of the overall electrical distribution equipment market in China, combining MV and LV switchgear assembly markets, increased from 2004 at a CAGR of 16.1% to reach RMB323 billion in 2008. Total market value is expected to maintain the same growth rate in the coming three years. Hence by 2012, the domestic market for switchgear assembly will reach a total size of RMB586 billion.

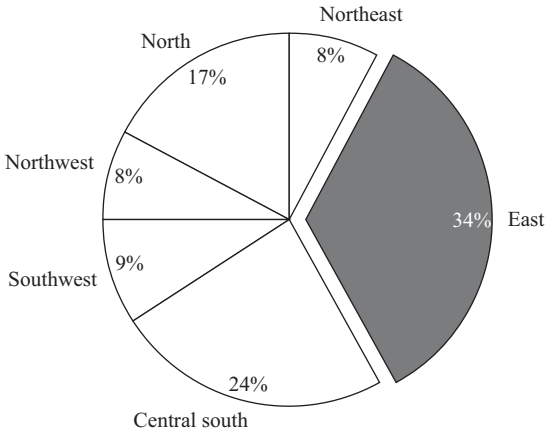
From 2004 to 2008, domestic market of MV switchgear assembly has seen a steady growth of 18.0% to reach a total market value of about RMB127 billion in 2008. From 2004 to 2008, the domestic market for LV switchgear assembly has also experienced a stable growth at 15.0% per year and reached RMB196 billion in 2008.

Prior to 2008, the MV switchgear assembly market has been growing at a higher rate of 18.0% than that of LV switchgear assembly because the former market is usually more directly influenced by government investment while the LV switchgear assembly market corresponds closely to the demand from industrial customers as end-users.

Through 2012, the market of LV switchgear assembly is expected to benefit more from the development of smart grid systems in accordance with the trend that power network development will gradually shift its focus from electricity generation to transmission and distribution. As a result, the growth rate of the MV switchgear assembly market is estimated to be at 14.2%, lower than the 17.2% growth forecasted for the LV switchgear assembly market.

The analysis of the demand for electrical distribution equipment based on geographical area in China demonstrates that east China, being the most important production base of distribution equipment, has grown to be the largest regional market in China by sales revenue.

China's electrical distribution equipment market in sales revenue by regions (2008)



Source: Roland Berger Report

2. Electrical Distribution Automation Market

The electrical distribution automation market signifies the iEDS Solutions segment of our business. Electrical distribution automation systems serve two major groups of customers: electricity system related customers and non-electricity system related customers. Electrical distribution automation devices and software systems that are used at power plants and substations for electricity dispatch are considered electricity system related; while those used for protection and control of residential electricity consumption and for application in a wide range of industries including manufacturing, construction and data process-based telecommunications and financial services are considered non-electricity system related.

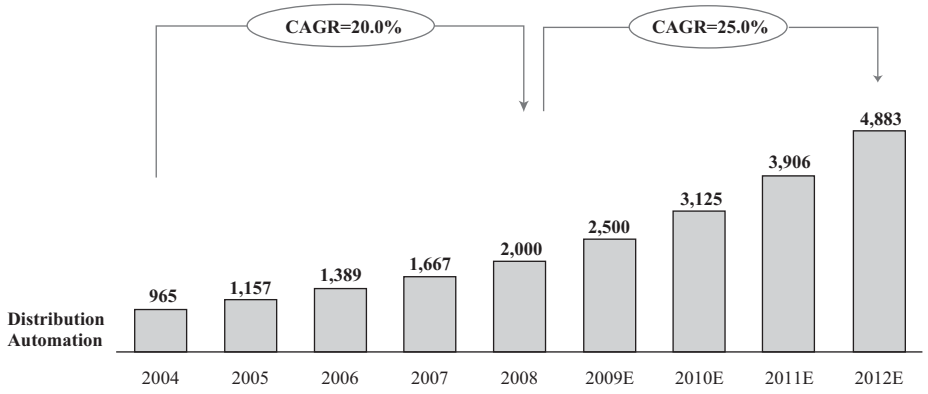
Technically, electricity system related automation solutions require rigid and more advanced application standards and thus have set high market entry barriers. In comparison, demand for non-electricity system related automation varies significantly across different industries and end-customers. High levels of customisation, together with the diversity and complexity of market demand, offer opportunities to a large number of medium-sized and small-sized providers to develop their own areas of expertise.

As an example of the different requirements, banking and retail industries with extensive networks have strict requirements for safe and stable electrical distribution but do not usually have in-house teams dedicated to ensure these requirements are met. Therefore, electrical distribution companies with capabilities in providing electrical distribution automation systems and integrated solutions are in great demand by these organisations.

Currently, the electrical automation market remains highly fragmented with the biggest corporation in the industry occupying less than 1% of the total market size. The involvement of the local companies in the local market is more active than that of the international electricity solutions providers.

Highly segmented and individualised, the market of the non-electricity system related distribution automation devices was estimated at RMB2 billion in 2008 with a 20% yearly growth since 2004 and is expected to further increase at a higher growth rate of 25%. By the end of 2012, overall market size will reach RMB4.9 billion.

China's electrical distribution automation market (2004–2012)
(Unit: million RMB)



Source: *Roland Berger Report*

Note: Only including non-electricity system related automation

Although the market of electrical distribution automation system is in its nascent stage of development in China compared with the MV and LV switchgear assembly market, the former is projected to maintain rapid growth in the near future in accordance with the overall trend of the electrical distribution industry. Specifically, the major factors contributing to growing demand for electrical distribution automation products are as follows:

- Overall market size of electrical distribution equipment is estimated to continue growing at 16.0% till 2012. Newly manufactured devices are expected to generate large demand for automation devices and integrated solutions.

- Demand for higher standard of safety and stability in electrical distribution system requires increasing levels of automation of existing electrical distribution equipment.

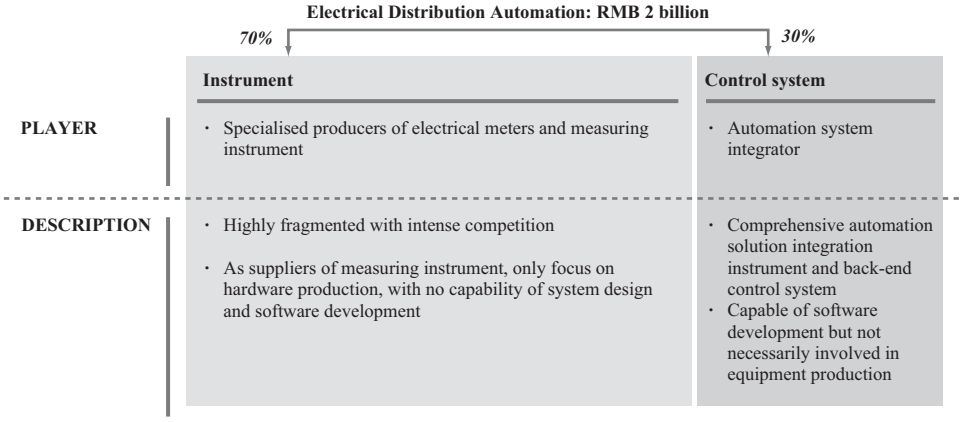
- The PRC government issued the "Measures on Power Factor Regulated Electricity Tariff" (功率因數調整電費辦法) and encouraged industrial companies to take measures to increase efficiency of electricity consumption, which requires higher levels of automation to enhance control over electrical distribution and thus reduce power loss.

- Demand for raising labour productivity can be met by improving automation level of electrical distribution system so as to reduce total staffing level and enhance management efficiency in production control.

- Automation is a prerequisite to realise energy saving and emission reduction, by collecting and analysing data of electricity consumption to identify areas of improvement. Rising costs of raw materials will be a strong incentive for industrial companies to take measures to reduce power consumption by implementing automatically-operated distribution systems.

The electrical distribution automation market is occupied by two major types of companies: namely instrument producers and system integrators, securing 70% and 30% respectively of the total electrical distribution automation market. As a one-stop provider, we operate in the role of an instrument producer as well as the role of a system integrator by offering its iEDS Solutions, which focus on providing automation features for electrical distribution equipment and system.

Overview of China's electrical distribution automation market (2008)



Source: Roland Berger Report

3. Electrical Distribution Service Market

Driven by the global efforts to combat climate change, improvement of energy efficiency by providing custom-made services, monitoring and reducing energy consumption alongside the products have become increasingly popular in recent years. Schneider estimates that around 30% of orders were linked to energy efficiency in 2008. As a result of increasing global concern over environmental protection and the rising cost of raw materials and power, electricity end users become more incentivised to adopt measures to reduce power consumption by implementing automatically operated distribution systems. International players, including Schneider, have explored and recognise this niche market, which has resulted in substantial contribution to their revenue. Schneider has been promoting its energy efficiency services since 2005 and according to the Roland Berger Report, its service revenue has been growing rapidly since, and accounted for 10% of its total revenue in 2009.

We offer services through our EE Solutions in managing equipment maintenance for our customers and offering them a range of other expert value-added services. These services include site and installation audits, diagnostics, installation monitoring, on-site and remote maintenance, training and technical support.

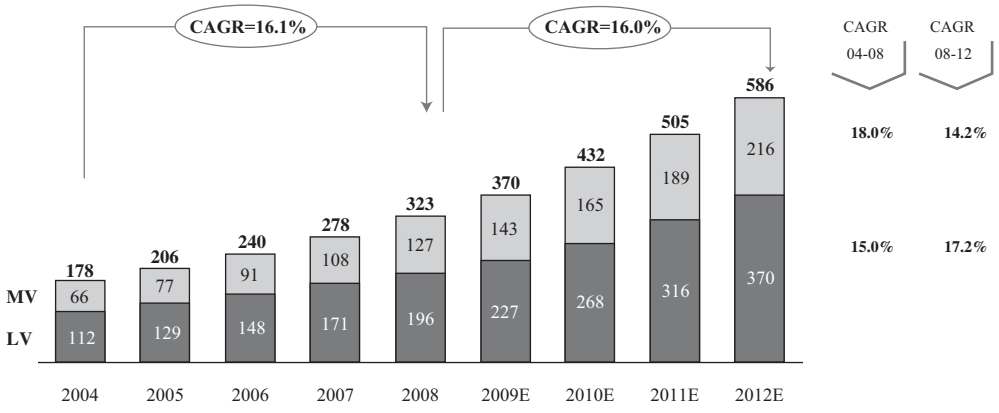
The service market in China is still at an early stage of development since the electrical distribution market is mainly driven by newly built infrastructure and customers treat service as an ancillary matter provided by the electrical distribution equipment providers. But the outlook is promising given the huge market and cultivation of service concepts in China.

FIXED ASSETS INVESTMENT AND ITS IMPACT

1. Fixed Assets Investment in China and its impact on the Electrical Distribution Equipment Market

While demand for electricity is the driver of the demand for electrical distribution equipment, fixed assets investment is the driver for the development of the electrical distribution equipment industry. There is a highly positive correlation between electricity consumptions, fixed assets investment and the growth rate of the electrical distribution equipment market.

China's electrical distribution equipment market by value (2004–2012)
(Unit: billion RMB)

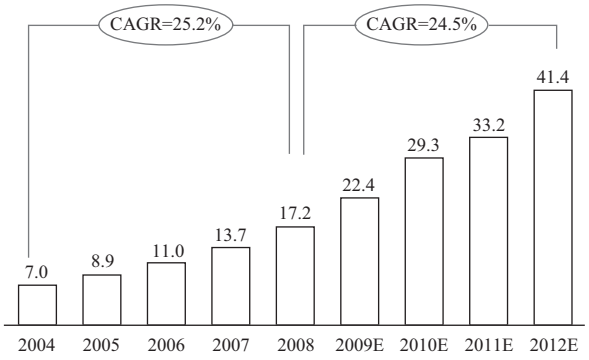


Source: *Roland Berger Report*

Note: Due to the rounding effect, the summation of the numbers of MV and LV switchgear assembly market segments may not be equivalent to the total number shown in the chart above

Fixed assets investment in China has been experiencing fast growth since 2004. The total nominal amount of fixed assets investment reached RMB17.2 trillion in 2008 and the annual growth rate of the value of fixed assets investment was approximately 25.2% from 2004 to 2008. According to the research of the State Information Centre in China, China's fixed assets investment will grow to about RMB22.4 trillion in 2009, RMB29.3 trillion in 2010, and RMB41.4 trillion in 2012.

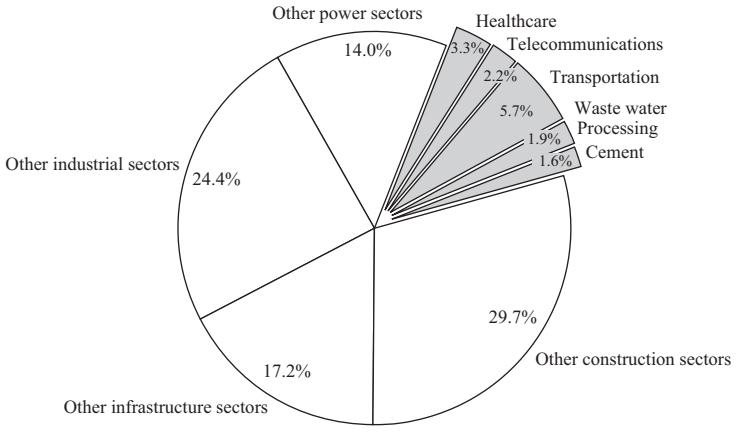
China's fixed assets investment (2004–2012)
(Unit: trillion RMB)



Source: *Roland Berger Report*

The analysis of the overall electrical distribution equipment market by industry sectors shows that healthcare, telecommunications, transportation, waste water processing and cement account for 14.7% of the market. These industry sectors were also those where we have focused on with our EDS Solutions and iEDS Solutions. Below are brief details of fixed investments in these industries.

China's electrical distribution equipment market by industry sector (2008)



Source: Roland Berger Report

Note: Transportation includes railway, port and airport sectors, accounting for 2.5%, 1.6% and 1.6% of the total market respectively

2. Fixed Assets Investment in Different Industries in the PRC

(a) Infrastructure Construction Industry

(i) Railway Industry

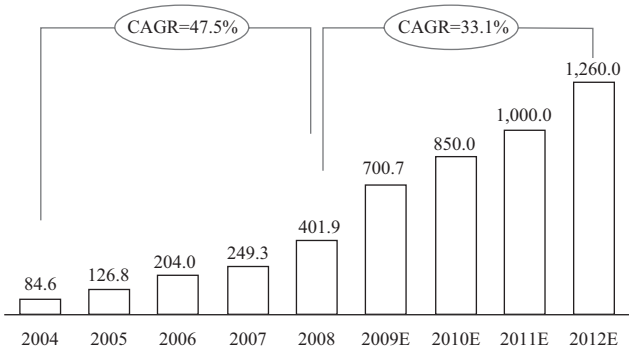
From 2004 to 2008, the PRC government initiated a large amount of fixed assets investment in railway transportation, with annual investment increased from RMB84.6 billion in 2004 to RMB401.9 billion in 2008, amounting to an annual growth rate of 47.5%.

Although China made significant progress improving the transportation system in the past few years, it still has a lot of room for further improvement. In terms of total length of railway lines, China is still far behind developed countries. As for quality of the railway system, China is even further behind.

In 2009, there was an estimated RMB700.7 billion invested in railway construction. New lines laid out were projected to reach 5,148 kilometers and new lines put into operation should be 5,849 kilometers, of which new complex lines laid out were 3,462 kilometers and new complex lines put into operation should be 4,662 kilometers. From 2010 to 2020, the heavy investment in railway construction will continue, although slightly lower than that of 2004–2008.[3] Still, from 2010 to 2012, more than RMB3 trillion will be invested in the railway segment.

[3] *Interview with the Ministry of Railways of China (as provided in the Roland Berger Report)*
[4] *The Ministry of Transport of China*

China's fixed assets investment in railway construction (2004–2012)
(Unit: billion RMB)



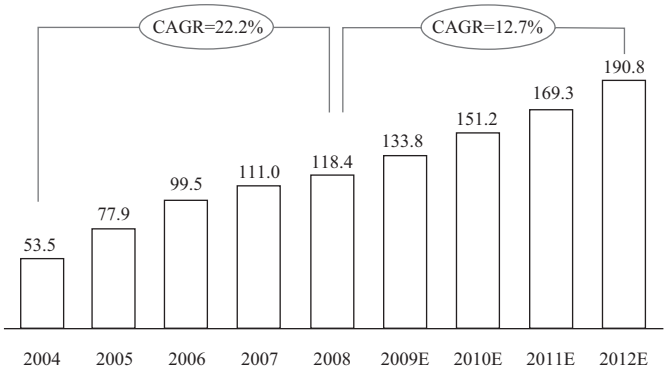
Source: Roland Berger Report

(ii) Port Industry

To meet the great transportation demand for coal and container transportation, the ports in China, whether coastal or inland, have witnessed a period of rapid construction since 1978. From 2004 to 2008, the annual growth rate climbed to nearly 22%. In the case of coastal port investment, the total fixed assets investment for the period from 1997 to 2002 was RMB40 billion and the amount of fixed assets investment in 2004 alone was equivalent to the sum of the fixed assets investment of the previous five years.[4] In 2006, the investment reached RMB60 billion, while in 2007, the investment increased another 33% percent, to RMB80 billion.

The official figure to be released showing the amount of investment in port construction in China is expected to rise in 2010 as compared to 2009. Taking investment in coastal ports for example, according to the 11th Five Year Plan of Transportation, [5] by the end of 2010, the throughput of seaports should reach 4.6 billion tons, representing an increase of more than 0.3 billion tons compared to that of 2008; and the increased throughput for containers should be 79.6 million Twenty-foot Equivalent Units, which is 55% more than that of 2008. To meet the targets set out in the 11th Five Year Plan of Transportation, the official figures to be released regarding fixed assets investment in the construction of coastal port should be at least RMB80 billion per year in 2009 and 2010.

China's fixed assets investment in port construction (2004–2012)
(Unit: billion RMB)



Source: Roland Berger Report

[5] *The Ministry of Transport of China (as provided in the Roland Berger Report)*

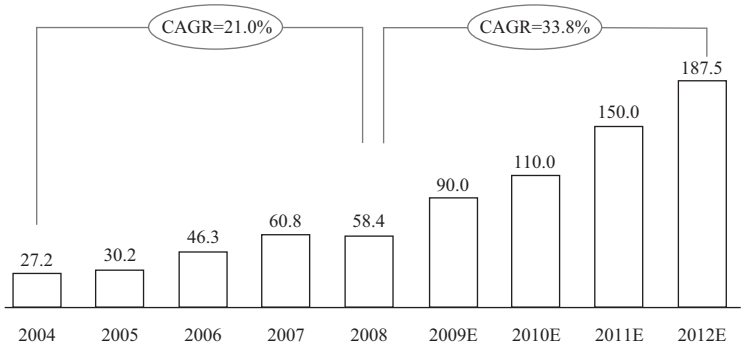
(iii) Airport Industry

Compared with the rapid growth of the aviation and airline industry in the past few years, the supporting airport industry fell behind. Although it achieved large incremental investments each year from 2004 to 2008, with an annual growth rate of 21%, which is even higher than the growth rate of the aviation industry in China, it remains inadequate not only in terms of the scale and quality of each airport, but also in terms of the total number of airports. In addition, there remains a shortage of airports in the under-developed areas.

To further improve the standard of the airports in China, more than RMB450 billion will be invested into the construction of airports within the next few years. More than 60 regional airports will be built during the period from 2009 and 2010, most of which will be located in west China. By the end of 2020, the total number of airports in China will reach 244. This represents a 66% increase from the number of airports in 2006.

In 2009, RMB80 billion to RMB100 billion was invested in airport construction, with a year-on-year growth rate of 55%, which is the highest of the past five years.

China's fixed assets investment in airport construction (2004–2012)
(Unit: billion RMB)



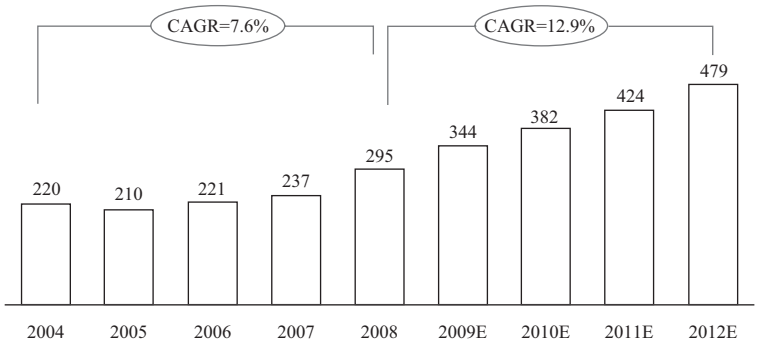
Source: Roland Berger Report

(b) Telecommunications Industry

Between 2004 and 2008, the telecommunications sector saw a steady growth of fixed assets investment, which facilitated the growth of the telecommunications sector. With a CAGR of 7.6% from 2004 to 2008, the telecommunications sector could expect a higher growth rate of fixed assets investment because of the construction of 3G networks from 2009 to 2012. According to the Ministry of Industry and Information Technology of China, the official figure to be released representing the year-on-year growth rate of 15% to 18% could be expected in 2009 with slightly lower rates in 2010, 2011 and 2012 of about 10% to 13%.[6]

[6] *Ministry of Industry and Information Technology of China, 2009; industry expert interviews (as provided in the Roland Berger Report)*

China's fixed assets investment in telecommunications (2004–2012)
(Unit: billion RMB)



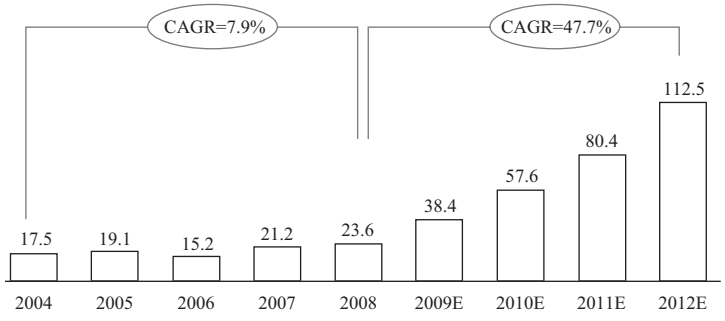
Source: Roland Berger Report

(c) Waste Water Processing Industry

Three factors lead to the fast growth of fixed assets investment in the waste water processing industry in China. Firstly, water shortage has been a problem in China. Out of 100 cities in China, 60 cities face the problem of water shortage. In addition, the overall surface water in the country is moderately polluted. Therefore, waste water treatment is of great importance. Secondly, the PRC government has adopted a policy of reducing chemical oxygen demand, which is an indicator in evaluating the pollution of water. Thus, the development of waste water processing is inevitable. Finally, economic factors such as urbanisation also contribute to the demand for waste water processing.

China is dedicated to increasing investment in the waste water processing segment in the late 11th Five Year Plan period and 12th Five Year Plan period. According to the 11th Plan, China's central and provincial governments would invest RMB156 billion across 2,662 projects involving industrial waste water treatment, municipal waste water treatment and river basin water pollution control by the end of 2010.[7] By the end of 2008, only 868 projects were being put in operation and the accumulative investment was RMB60 billion, accounting for 38.5% of the total amount. More than 61% of the projects will be initiated during the period from 2009 and 2010, involving large amounts of fixed assets investment.

China's fixed assets investment in waste water processing industry (2004–2012)
(Unit: billion RMB)



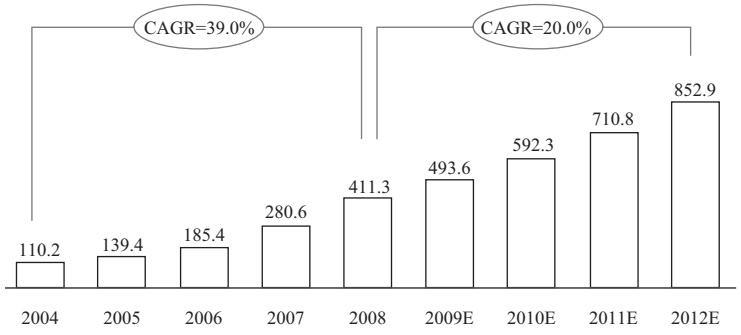
Source: Roland Berger Report

[7] *Ministry of Environmental Protection of China (as provided in the Roland Berger Report)*

(d) Cement & Building Materials Industry

Benefiting from the growth of the infrastructure construction industry, the cement and building material industry also experienced fast growth between 2004 and 2008. In terms of sales value, the cement and building material industry increased from RMB229 billion in 2004 to RMB476 billion in 2008, with an annual growth rate of 20%. Strong development trend attracted considerable fixed assets investment, totaling RMB110.2 billion in 2004 and soaring to RMB411.3 billion in 2008, with an annual growth rate of 39%. The fixed assets investment on infrastructure construction industry is expected to grow by 20% CAGR between the period from 2008 to 2012 and reached RMB852.9 billion in 2012.

China's fixed assets investment in cement & building materials industry (2004–2012)

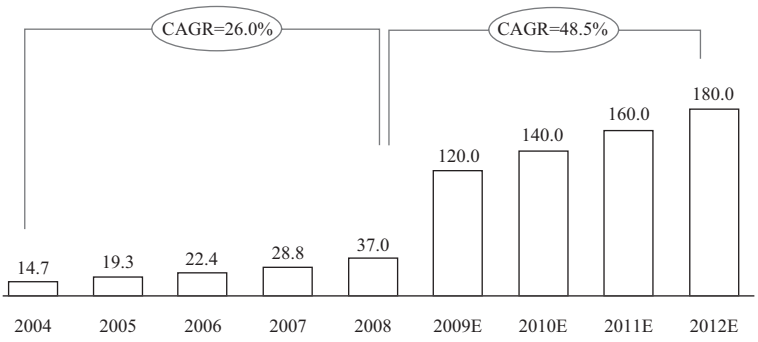


Source: Roland Berger Report

(e) Healthcare Industry

The healthcare industry in China improved its facilities steadily between 2001 and 2008. The total investment in healthcare increased from RMB41.9 billion in 2004 to RMB105.6 billion in 2008, with an annual growth rate of 26.0%. According to the National Development and Reform Commission, about 35% of the total investment was invested in healthcare infrastructure. Although the total number of healthcare institutions has declined as a number of low-end local health centers were eliminated, the number of high-quality healthcare institutions, such as hospitals, experienced a stable growth. The fixed assets investment on healthcare infrastructure is expected to grow between the period from 2008 to 2012 at a CAGR higher than that of the growth between the period from 2004 to 2008.

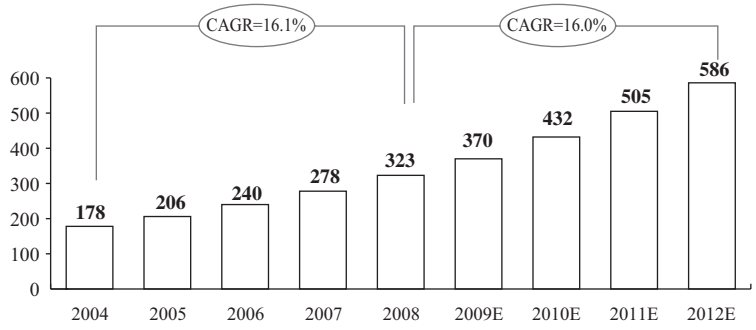
China's fixed assets investment in healthcare infrastructure (2004–2012)
(Unit: billion RMB)



Source: Roland Berger Report

Since electricity consumption is growing at 5.6% from 2009 to 2012 and fixed assets are invested at an average annual growth rate of 24.5%,[8] we can estimate the total electrical distribution equipment market size will be RMB370 billion in 2009, RMB432 billion in 2010, RMB505 billion in 2011 and RMB586 billion in 2012, accounting for 1.72%, 1.57%, 1.52%, 1.42% of the total investment respectively.

China's electrical distribution equipment market size (2004–2012)
(Unit: billion RMB)



Source: Roland Berger Report

INDUSTRY TRENDS AND MARKET ENVIRONMENT

1. Technical and Product Trends for Electrical Distribution Equipment Market

(a) MV electrical distribution equipment

- More new energy-saving products such as transformers with amorphous cores, pre-fabricated substations and combinational transformers will be adopted to improve the operational efficiency of electrical distribution system. In addition, the development in urban and rural grids in response to energy efficiency and consumption reduction requires more advanced energy-saving technology. For example, a new type of transformer with a triangle configuration round section roll-core will be widely used.

- For MV switchgear assembly, the current relay protection equipment, transformer and voltage transformer are designed based on the principle of electromagnetic induction and are more prone to breakdown. In the future, more intelligent PC relay protection devices, photoelectric sensors and electron sensors should be used.

- The size of the switchgear equipment will be generally reduced with the use of 24kV and 40.5kV cubicle type indoor gas insulated switchgear.

(b) LV electrical distribution equipment

- More 660V low-voltage lines are constructed instead of 380V lines. Compared to 380V lines, 660V lines are better in transferring energy and reducing energy loss.

- With the improving quality of components in the electrical distribution system, declining prices and maturing technology, the application of electricity distribution devices will accelerate the development automation in the LV area.

- Intelligent LV air circuit breaker and moulded-case circuit breakers are focused on reducing the flashover distance in pursuit of miniaturisation.

[8] *Roland Berger Report*

2. Industrial Trends for Electrical Distribution Equipment Market

- Following the announcement of the plan for developing smart grids in China by State Grid Corporation of China (國家電網公司) ("**State Grid**") in 2009, State Grid further announced the "Smart Grid Key Equipment (System) Research and Development Plan" (智能電網關鍵設備(系統)研製規劃) (the "**Research and Development Plan**") and the "Smart Grid Technology Standard System Plan" (智能電網技術標準體系規劃) (the "**Standard System Plan**") on 29 June 2010. The Research and Development Plan provides the guidelines for those enterprises engaged in the research, development and manufacture of electrical equipment for smart grid applications including the scopes, objectives and plans in respect of the development and manufacture of various smart grid equipment, while the Standard System Plan provides the guidelines for State Grid to formulate the national and industry standards for the different stages of smart grid implementation, including intelligent electrical generation, intelligent electrical transmission, intelligent electrical transformation, intelligent electrical distribution, intelligent electrical usage and adjustment.

  According to State Grid, the total equipment investment of State Grid in 2010 had reached RMB250 billion, among which less than 10% was injected in the development of smart grids. It was expected that the amount of the investment of State Grid in smart grids will steadily increase in the future and will bring immense business opportunities of more than RMB1 trillion to the related industries. In preparation for the implementation of smart grids, we will further enhance our iEDS Solutions to ensure that our products and solutions are compatible with the standards and requirements for smart grids in China. Further details relating to our research and development plan and strategy for improving our electrical distribution systems for smart grid applications are set out in the paragraphs headed "Our Strategies – Enhancing our iEDS Solutions to prepare for the implementation of smart grids" and "Our Strategies – Furthering our research and development capability" in the "Business" section of this prospectus.

- Many companies specialised in the MV and LV electrical distribution equipment markets are seeking to extend their market to the upstream components market, which require the mastering of core technology in vacuum circuit breakers. To gain access to such core technology, companies specialised in the MV and LV electrical distribution equipment markets can establish long-term relationships with research institutes to raise their research and development capability or acquire other companies with appropriate technology. For example, General Electric cooperated with Shanghai Guangdian Electric Group (上海廣電電氣(集團)股份有限公司) to manufacture vacuum circuit breakers, while China XD Group (中國西電集團) acquired Baoguang Group Co., Ltd. (寶光集團有限公司), one of the largest vacuum vessel manufacturers in China.

- Although the main activities of city power bureaus are to provide electricity and manage local electricity, most of them also manufacture electrical distribution equipment and dominate the local electrical distribution equipment market because of their more capable financial means. Since 2009, city power bureaus have gradually shifted their focus back to their core activities and thus it is expected that more opportunities are available to commercial companies in the electrical distribution equipment market. State Grid has planned to put up projects relating to electrical distribution and transmission for tender, which presents great opportunity for companies unrelated to the government.

- Small companies in the electrical distribution equipment market specialised in low-end technology or non-differentiated products or services will either be eliminated or consolidated due to the increasingly intense market competition. As a result, the number of medium-size companies in the market will increase. Companies specialised in high-end product offerings and integrated solutions can effectively differentiate themselves, and are well positioned to take a larger market share from other competitors.

3. Entry Barriers to the Electrical Distribution Equipment Market

We believe that the main entry barriers for new entrants to the electrical distribution equipment market in China are as follows:

- China's high-end MV and LV electrical distribution equipment market is dominated by leading international players, such as Schneider, ABB, General Electric and Siemens, as well as domestic players, like our Group.

- The manufacture of electrical distribution equipment and systems in the high-end market, especially those with automation technologies and intelligent control functions, cannot be easily carried out by manufacturers without requisite experience and expertise.

- We believe that in general, the supplier-customer relationships in the electricity distribution equipment market are relatively long-term. Such long-term relationships are established through suppliers investing time and resources in understanding customers' requirements amidst a changing environment. Through the provision of after-sales maintenance services to the electrical distribution system, a supplier can further enhance its understanding of, and respond more readily and efficiently to, the new needs and requirements of the customers. New entrants need to invest significantly more resources and time to gain the recognition and confidence to secure contracts with a customer who has established such a long-standing business relationships with its existing supplier. Normally, a customer who has installed an electrical distribution system in its business premises or operation facilities is less likely to engage a new supplier and replace its whole system due to cost factors as it is more cost effective to rely on upgrades. As a result, it is hard for a new entrant to establish its position and gain market share from the predominant players in the market.

- The further development of industry standards and requirements, such as the China Compulsory Certification, in relation to the product quality of electrical distribution systems will raise the cost of production and further increase the entry barrier for new entrants to the electrical distribution equipment market.

- As a top domestic player in the high-end segment of the electrical distribution equipment market in China, we enjoy economies of scale in our production process that we believe can only be achieved and replicated by our competitors through significantly higher investment in resources over a long period of time.