
INDUSTRY OVERVIEW

This section contains information derived from various sources. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters or any of their respective directors, affiliates or advisers, nor any other parties involved in the Global Offering and no representation is given as to its accuracy or correctness. The information may not be consistent with the information from other sources.

Certain information and statistics are extracted from a market research report published on 24 October 2011 by IBISWorld, an independent market research institution. This report from IBISWorld is not commissioned by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters or any of their respective directors, affiliates or advisers. The information extracted from this report from IBISWorld reflects an estimate of the market conditions based on IBISWorld's research and analysis. The information extracted from this report should not be viewed as a basis for investments from IBISWorld, and references to this report should not be considered as IBISWorld's opinion as to the value of any security or the advisability of investing in our Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, the same has not been independently verified, and there is no representation as to the accuracy of such statements or information. The information and statistics may not be consistent with other information and statistics compiled within or outside China.

OVERVIEW

Wires and cables are widely used in multiple segments of a national economy. They not only provide important support to various industries, national defense and significant construction projects, but also form the foundation for the functioning of modern economies and societies.

China's wire and cable manufacturing industry ranks No.1 in the world in terms of industry revenue, industry output and growth rate for the past few years, according to the Directives for the Enhancement of Wire and Cable Products' Qualities published on 28 October 2011 by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部).

The wire and cable manufacturing industry in China is in a growth phase, fundamentally driven by the fast growth of the PRC's economy as well as the PRC's accelerating trends of industrialisation and urbanisation.

INDUSTRY OVERVIEW

In particular, we believe that the following factors have driven the growth of China's wire and cable industry in the past and will continue to play important roles in the future:

- growing demand for electricity as a result of continuous rapid economic growth, evidenced by the growth of electricity generated in China at a CAGR of approximately 12% in the 1998-08 period (as compared to a CAGR of approximately 1% for the US and a CAGR of approximately 2% for Europe in the same period), according to the National Bureau of Statistics of China;
- continuous investment and construction of the national power grid driven by urbanisation, evidenced by an increase of approximately 39.4% in the urban population from 2001 to 2010, according to the National Bureau of Statistics of China;
- extension of the national power grid to cover remote rural areas;
- replacement and upgrade of the existing national power grid;
- rapid development of renewable energy, whereby the traditional electricity production and transmission that was based on a few very large sources of energy and their connection to the grid is increasingly replaced by renewable energy where the sources are small and widely disseminated; and
- expanding industrial applications and development of various industries, including oil and gas, transportation, metals and mining, construction and others.

These drivers lead us to believe that the China market for cable and wires will continue to grow significantly in the near future.

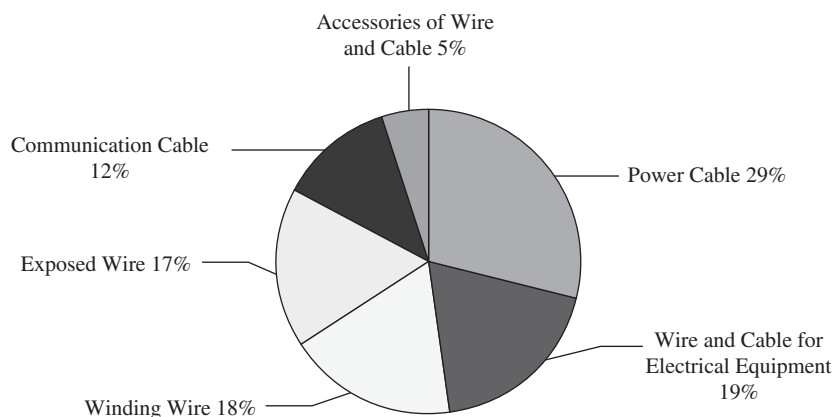
Product Segmentation

The major products and services in the wire and cable industry of China include: (1) power cables; (2) wires and cables for electrical equipment; (3) winding wires; (4) exposed wires; (5) communication cables; and (6) accessories of wire and cable. Power cable, being this industry's largest product segment, is estimated to account for approximately 29% of total industry revenue in 2011. Power cables are generally used in transmitting electricity of

INDUSTRY OVERVIEW

voltages between 220V and 500kV. The following chart illustrates the expected product segmentation of the wire and cable industry in China in 2011:

Products Segmentation of the Wire and Cable Manufacturing Industry in China

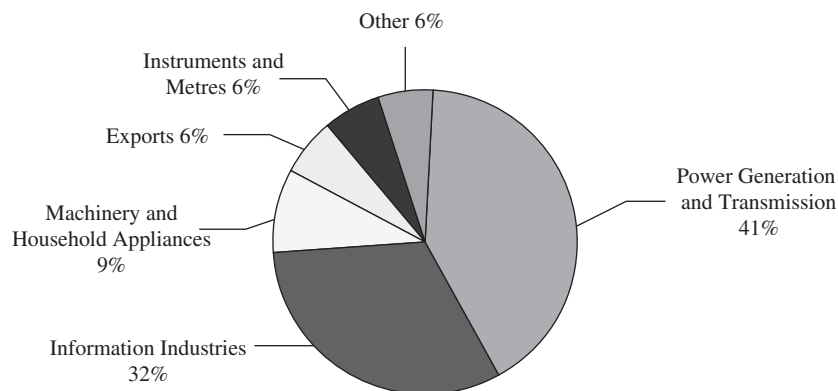


Source: IBISWorld

Major Market Segments

The majority of the industry's products sold are used in power generation and transmission industries. This segment is estimated to account for approximately 41% of the industry revenue in 2011. The construction of power generation plants and electricity transmission networks in China consumes large volumes of wires and cables. The following chart illustrates the expected major market segments of the wire and cable manufacturing industry in China in 2011:

Major Market Segments of the Wire and Cable Manufacturing Industry in China



Source: IBISWorld

INDUSTRY OVERVIEW

A Fragmented Market with Consolidation Opportunities

The wire and cable industry in China is fragmented with many manufacturers. It was estimated by IBISWorld that there would be approximately 4,680 enterprises in the wire and cable manufacturing industry in China at the end of 2011. Most manufacturers are small to medium sized and tend to focus on particular wire and cable products or markets. Only a few large manufacturers can manufacture an extensive range of wire and cable products. While the market share of the largest manufacturer was just approximately 2.5% in 2010, larger manufacturers have demonstrated increasing advantages over smaller manufacturers, making consolidation a natural trend for this sector in the near future. The PRC government has also indicated its support for industry consolidation led by reputable companies within the sector and various policies have been issued to strengthen the supervision of quality of cable products and to support companies with high quality products.

The table below sets forth the top five manufacturers of wire and cable in China with their respective market shares by revenue, among which we ranked third in 2010:

Market Share of Top Five Manufacturers of Wire and Cable in China

<u>Rank</u>	<u>Company name</u>	<u>Market share</u>
		2010
1	Far East Holdings Group Co., Ltd.	2.5%
2	Wanda Group Company	2.1%
3	Jiangnan Cable ⁽¹⁾	1.4%
4	Baosheng Group	1.3%
5	Suli Group	1.1%

Source: IBISWorld

Note:

(1) Our PRC subsidiary

Entry Barriers

The PRC government published the Guidance Catalogue for Industrial Structure Adjustment (2011) (產業結構調整指導目錄(2011年本)) (the “Guidance Catalogue”), which became effective on 1 June 2011. Under the Guidance Catalogue, the wire and cable industry, has been categorised as one of the “restricted industries” that are restricted from issuing new China Compulsory Certification (中國國家強制性產品認證證書), or CCCs, the compulsory safety and quality mark required for products sold in China. CCCs obtained for wire and cable products (except the special wire and cable that is used for new energy, information industry, aeronautics and astronautics, rail traffic, oceanographic engineering), on or before 31 May 2011 are still effective and are renewable on expiry, but applications for new CCCs or for new types of products not covered by existing CCCs on or after 1 June 2011 will not be accepted.

INDUSTRY OVERVIEW

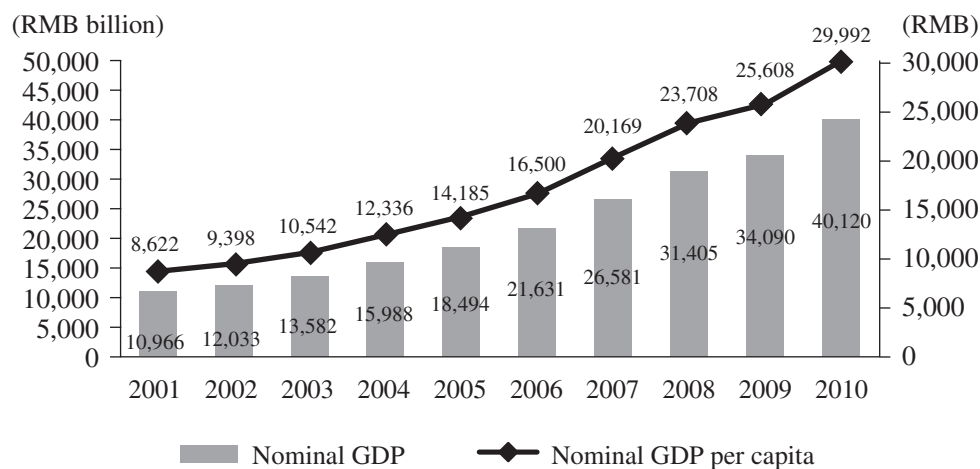
Moreover, there are various barriers to grow and become one of the top manufacturers in this industry including, brand recognition, proven quality, solid track record, sizable manufacturing capacity, adequate research and development capability, established sales network and customer base, ability to manufacture products in accordance with customers' specifications, as well as sufficient capital and financial strength.

THE PRC ECONOMY

Growth of the PRC economy

The PRC economy has been growing rapidly since the implementation of market liberalisation policies by the PRC government in the late 1970s. Economic growth was further reinforced by the launch of special economic zones along coastal areas in the early 1990s and by China's entry into the World Trade Organisation in 2001. According to the National Bureau of Statistics of China, the nominal GDP increased from approximately RMB10,966 billion in 2001 to approximately RMB40,120 billion in 2010, representing a CAGR of approximately 15.5%. The nominal GDP per capita increased from approximately RMB8,622 in 2001 to approximately RMB29,992 in 2010, representing a CAGR of approximately 14.9%.

Nominal GDP and Nominal GDP Per Capita in the PRC



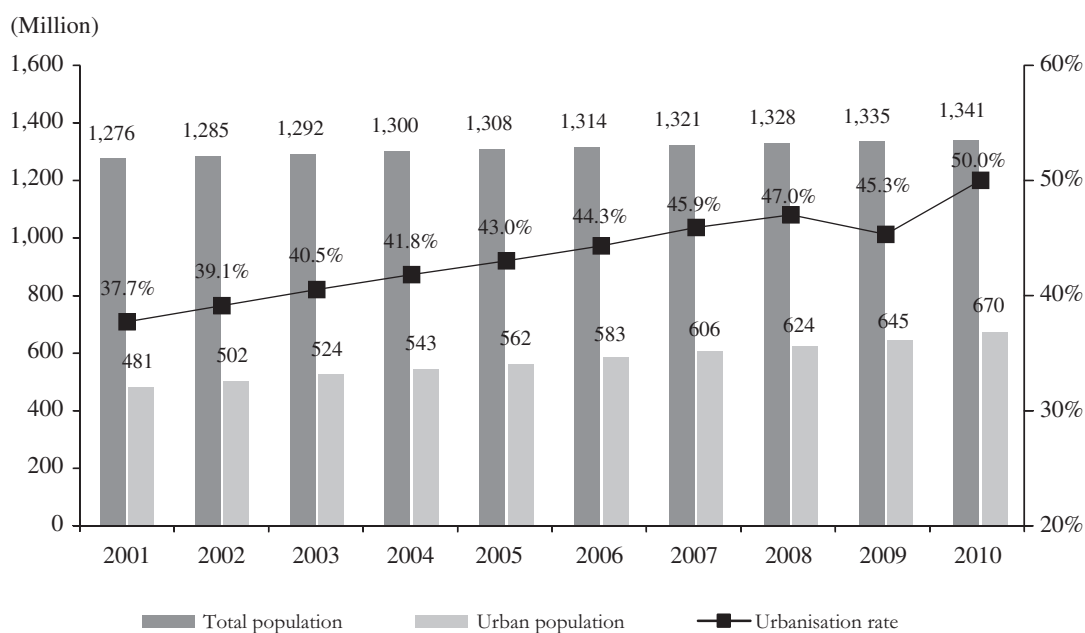
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

Accelerating Urbanisation

The urbanisation process of the PRC has been driven by the rapid economic growth. Population in urban areas has expanded with the influx of people from rural and less developed areas. According to the National Bureau of Statistics of China, from 2001 to 2010 the total urban population in the PRC increased by approximately 189.1 million or approximately 39.4%. In 2010, the total urban population was approximately 669.8 million and accounted for approximately 50.0% of the total population (up from approximately 37.7% in 2001). The chart below shows the total population, the urban population and the urbanisation rate from 2001 to 2010 in the PRC.

Total Population, Urban Population and Urbanisation Rate in the PRC



Source: National Bureau of Statistics of China

ELECTRICITY PRODUCTION, CONSUMPTION AND TRANSMISSION IN THE PRC

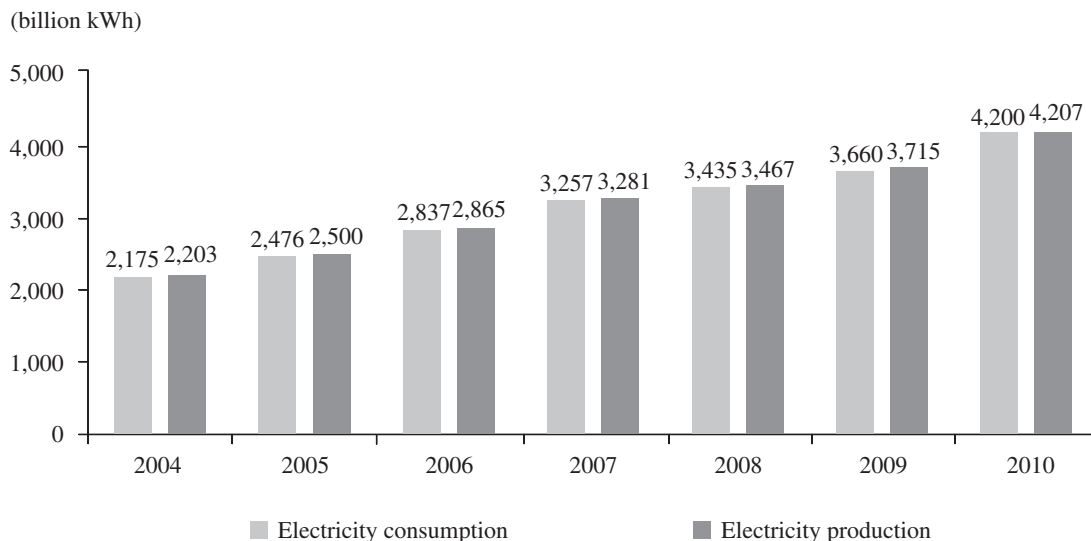
Electricity Production and Consumption

In line with the growth in the PRC economy and the PRC urban population, the electricity consumption level in China also shows an increasing trend. From 2004 to 2010, the total electricity consumption in the PRC increased by approximately 2,025 billion kWh, or approximately 93.1%, and the CAGR for the period was approximately 11.6%. In 2010, the total electricity consumption was approximately 4,200 billion kWh. To match its rapidly increasing electricity consumption, the country has been investing heavily in its power generation facilities. According to China Electric Council, the total installed electricity generation capacity increased to approximately 966 million kW at the end of 2010 from approximately 874 million kW in 2009.

INDUSTRY OVERVIEW

The chart below shows the total electricity consumed and produced from 2004 to 2010 in the PRC.

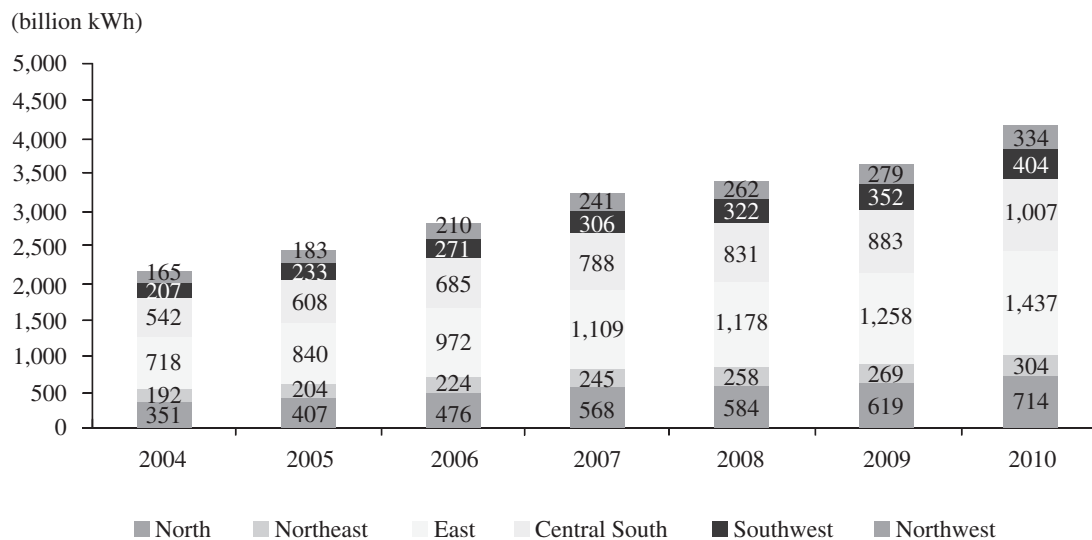
Electricity Consumption and Production in the PRC



Source: National Bureau of Statistics of China

In terms of regional electricity consumption, all regions have shown an upward trend, with the CAGR from 2004 to 2010 at approximately 12.6%, 8.0%, 12.3%, 10.9%, 11.7% and 12.4% in the North, Northeast, East, Central South, Southwest and Northwest regions, respectively.

Electricity Consumption by Region in the PRC



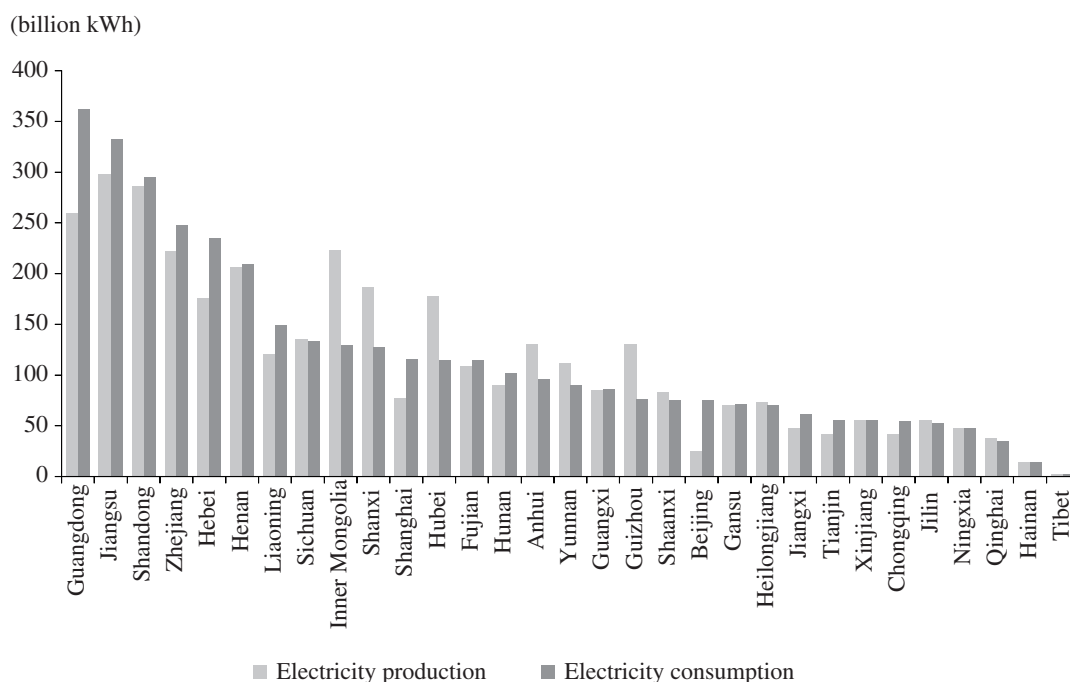
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

Electricity Transmission

Electricity produced in the PRC relies on the national power grid to be transferred across the country. Disparity between electricity consumption and production can be substantial in regions where economic activities (and therefore electricity consumption) are particularly strong, such as Guangdong, Beijing and Shanghai, and where coal or water resources (and therefore electricity production) are particularly abundant, such as Inner Mongolia, Shanxi and Hubei (where the Three Gorges Dam is located). The chart below sets forth the electricity consumption and production by region in China in 2009.

Electricity Production and Consumption by Region in 2009



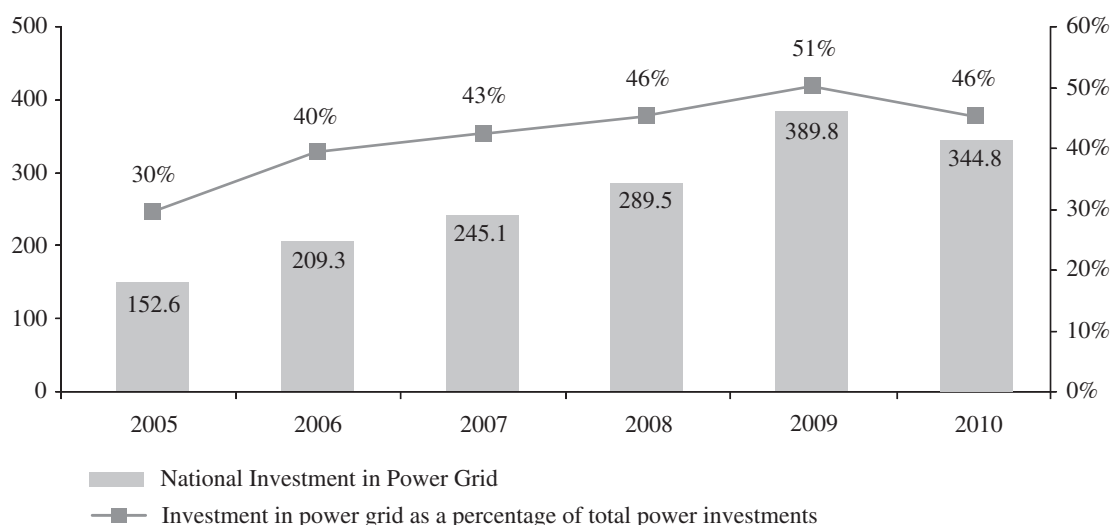
Source: National Bureau of Statistics of China, China Electricity Council

INDUSTRY OVERVIEW

The PRC has been continuously investing in its national power grid to match the increasing energy needs of its expanding economy. The chart below sets forth the PRC's investment in power grid in absolute terms and as a percentage of total investment in the power space (including investment in power generation infrastructure) between 2005 and 2010. An increasing amount and proportion of national investment has been directed to expand and upgrade the PRC's power grid. It is believed that such investment in the national power grid will continue in the future.

National Investment in Power Grid in the PRC

(RMB billion)



Source: China Electricity Council

China's 12th Five-Year Plan (2011-2015)

In March 2011, China's National People's Congress approved the Guiding Principles of China's 12th Five-Year Plan for National Economic and Social Development (the "12th Five-Year Plan"). According to the 12th Five-Year Plan, the PRC government will accelerate the construction of modern electricity network, further increase the volume of electricity transferred from western China to eastern China, improve the regional backbone electricity network, and promote smart grid development in the five years between 2011 and 2015 (the "12th Five-Year Period").

During the 12th Five-Year Period, a key initiative of the National 12th Five-Year Plan is to expand and upgrade China's high voltage power infrastructure. The PRC government plans to construct several high voltage and ultra high voltage electricity grids across various regions of China with a target of establishing a total of 200,000 km of electricity grid during this period. Smart grid construction will also take place during the 12th Five-Year Period and approximately RMB1,600 billion is expected to be invested by the State Grid Corporation Group for the construction of smart grid infrastructure to enhance power supply through advanced grid technology. For the development of rural power infrastructure, the State Grid

INDUSTRY OVERVIEW

Corporation Group is planning to invest approximately RMB410 billion within the next five years; and China Southern Power Grid Corporation is planning to invest approximately RMB111.6 billion during the same period, for an aggregate of approximately RMB521.6 billion in planned investment in the next five years.

According to China Electricity Council, the PRC government plans to spend approximately RMB5.3 trillion in the power industry during the 12th Five-Year Period, implying an increase of approximately 66.0% against the five years between 2006 and 2010 (the “11th Five-Year Period”). Out of the RMB5.3 trillion investment, approximately RMB2.55 trillion will be spent on power grid construction and the rest will be spent on power plant construction. Comparing with the actual investment in power grid construction of RMB1.48 trillion during the 11th Five-Year Period, this implies a significant growth rate of approximately 72.5%.

IBISWorld believed that the major power cable manufacturers in China will benefit from this trend. Their revenue growth will be enhanced by the increasing demand of power cables in next five years.

PRICES OF KEY RAW MATERIALS – COPPER AND ALUMINIUM

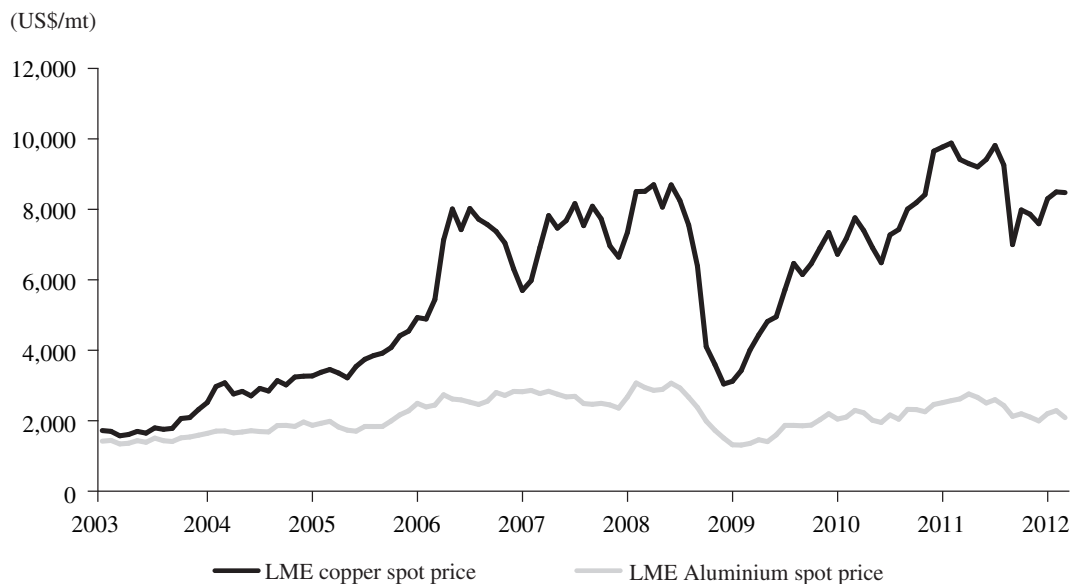
The wire and cable manufacturing industry is a major consumer of copper and aluminium, which are the fundamental raw materials for wires and cables production.

Copper prices have been volatile over the last several years. Due to inadequate supply of copper concentrate (the raw materials used in the production of copper) and as a result of inflation and strikes at copper mines, LME copper spot prices increased from approximately US\$1,700 per metric tonne in January 2003 to approximately US\$8,000 per metric tonne in May 2006, representing an increase of approximately 370.6%. Subsequently, as a result of deteriorating global demand amid the global financial crisis, copper spot price dropped by approximately 65.5% from approximately US\$8,700 in June 2008 to approximately US\$3,000 in December 2008. From 2009 to 2010, with a number of economic stimulus measures announced by various governments, including PRC, the US, Japan and Germany, LME copper spot price increased by more than 215%. On 14 February 2011, copper spot prices recorded an all-time high of US\$10,180 per metric tonne. Due to the European debt crisis and deep concerns about the prospects of the global economy, copper prices dropped significantly from August to October 2011, and reached an annual low of US\$6,722 per metric tonne on 20 October 2011, even though they have rebounded thereafter, copper prices remain volatile.

INDUSTRY OVERVIEW

Aluminium prices have been presenting less volatility. LME aluminium spot prices have been roughly fluctuating within the range of US\$1,250-3,300 per metric tonne since 2003. As with copper prices, aluminium prices have also dropped amid the global financial crisis, even though they have rebounded thereafter, aluminium prices remain volatile.

Spot Price Histories of Copper and Aluminium – LME⁽¹⁾



Source: Bloomberg, as of 31 March 2012

Note:

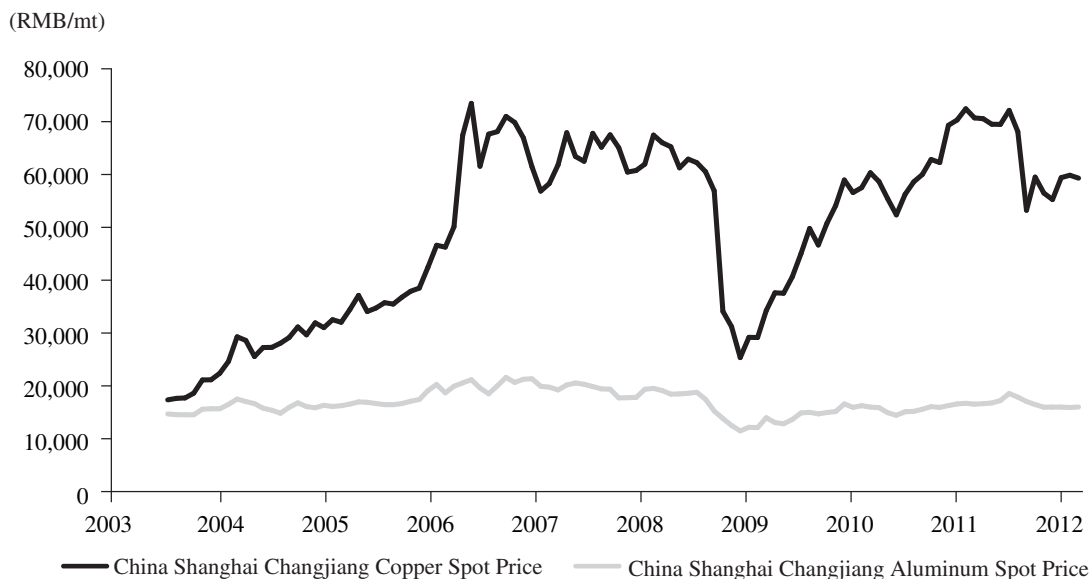
- (1) This represents the closing spot prices of copper and aluminium at the end of each month covered in the period, 1 January 2003 to 31 March 2012.

China is one of the major copper consumption countries in the world. China's spot copper prices have shown a similar trend to LME spot copper prices. But China's spot copper price reached its all-time high of RMB82,450 per metric tonne on 12 May 2006 due to strong domestic demand.

INDUSTRY OVERVIEW

China's spot aluminium prices have shown a similar trend to LME spot aluminium prices as well.

Spot Price Histories of Copper and Aluminium – China⁽²⁾



Source: Bloomberg, as of 31 March 2012

Note:

(2) This represents the closing spot prices of copper and aluminium at the end of each month covered in the period, 1 June 2003 to 31 March 2012. (The earliest data available is on 2 June 2003.)

IBISWorld

IBISWorld is an independent market research company that publishes professional research reports on industries across all major sectors. The report quoted in this Industry Overview section provides detailed analysis on the wire and cable manufacturing industry in the PRC.