
INDUSTRY OVERVIEW

INTRODUCTION

CMMC is an independent market research institution that publishes periodic professional research reports on macroeconomics and microeconomics, industries, products, companies and consumer markets. The report that we purchased is a detailed analysis on current situation and prospect of RF cable market in the mobile communications industry in the PRC. It provides an outlook and an assessment of the industry and includes product and market forecasts, industry trends, threats and opportunities, competitive strategies, market share determinations and company profiles.

THE GLOBAL MOBILE COMMUNICATIONS INDUSTRY

The mobile communications industry has been the most dynamic area within the telecommunications industry and its growth speed has far outstripped that of fixed-line communications. Mobile communications has grown to be the most reliable communication service by worldwide users over the last few years. The number of mobile phone subscribers increased rapidly year by year. The rapid growth in recent years has primarily been driven by growth in subscriber numbers in some of the largest and fast-growing markets such as the PRC and India. The PRC is currently the largest mobile communications market in the world by subscriber number. By the end of October 2010, the number of mobile subscribers in the PRC has arrived approximately 842 million.

In terms of protocol, GSM is the most commonly used protocol in Europe and Asia, as well as some emerging markets in Latin America, Eastern Europe, the Middle East and Africa. As 2G networks continue to develop in these regions, both in terms of coverage and capacity, GSM networks and services are expected to continue to grow rapidly. On the other hand, CDMA is more commonly used in North America and certain Asian Pacific countries.

A more advanced generation of wireless voice and data transmission protocol is commonly referred to as the 3G standard, the specifications of which is governed by the International Telecommunication Union, or ITU. There are mainly four recognized technology standards of 3G in the world, commonly known as WCDMA, CDMA2000, TD-SCDMA and Wimax. WCDMA protocol is widely used across the whole Europe and has the most networks among all 3G technology standards. WCDMA supports GSM wireless communication network's upgrade. CDMA2000 protocol is mainly used in USA, Japan and Korea. Companies such as LG, have built CDMA2000 networks. TD-SCDMA protocol is developed by the PRC government [together with members of the TD-SCDMA Industry Association in China], which applies better in nations with large population. China Mobile has obtained the 3G license using TD-SCDMA protocol.

Transmission protocols under the 3G standard have improved the rate of data transmissions beyond that of GSM and CDMA, the traditional 2G protocols, and offer better voice and data capabilities. However, despite of the development of 3G networks and services, 2G networks and services are unlikely to be totally replaced by 3G in the near term, especially in countries like China, India, and other emerging markets in Asia and Africa where mobile penetration is still low. In these regions, 2G networks and services are likely to remain as the core platform of the development of mobile communications industry in the near term.

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THE MOBILE COMMUNICATIONS INDUSTRY IN THE PRC

Along with the rapid development in national economy, globalization and industry policy support from the government, the mobile communications industry in the PRC has grown dramatically over the last few years. By the end of October 2010, the number of mobile subscribers in the PRC has arrived approximately 842 million, increased from 100 million in 2001. The PRC has now become the largest mobile communications market in the world by subscriber number.

In 2008, the PRC completed the reorganization of its telecommunications industry, pursuant to which the number of mobile communications licenses increased from two to three, namely China Mobile, China Unicom and China Telecom. Some of the key components of such reorganization include China Telecom acquiring the CDMA network from China Unicom, and the merger of China Unicom with China Netcom. In January 2009, China announced the grant of three 3G operator licenses for TD-SCDMA, WCDMA and CDMA2000 networks to China Mobile, China Unicom and China Telecom, respectively, which generated a new era of telecommunications industry in the PRC and boosted the capital expenditure in building 3G networks of these operators since 2009. However, the capital expenditure in 3G has slowed down since 2010. According to the information from Ministry of Industry and Information Technology of the PRC, by the end of July 2010, the three telecommunications operators have only invested RMB22,400 million in 3G, or approximately 23.6% of the whole plan of 2010. China Mobile, China Unicom and China Telecom has invested RMB7,800 million, RMB1,800 million and RMB12,800 million, respectively, or approximately 17.3%, 7.8% and 47.4% of their 2010 plan, respectively. The actual capital expenditure investment in the telecommunications industry up to October 2010 had decreased by approximately 12.4% as compared with the same period in 2009.

With the decrease in capital expenditure by the three telecommunications operators, the overall demand for RF cables is likely to go down in 2010. In addition to this, the downtrend in ARPU would prompt further downward pressure on prices of equipments to be acquired for networks expansion. Accordingly, future competition in the RF cable industry in the PRC is expected to be more intense.

THE MOBILE COMMUNICATIONS RF CABLE INDUSTRY IN THE PRC

The development in the mobile communications industry provides the relevant mobile communications RF cable industry a promising market prospect, which is mainly used in transmission of high-frequency signals between antenna and base station equipment for outdoor wireless signal coverage system and indoor wireless signal coverage system in buildings. The evolution from 2G to 3G further requires telecommunications operators to substantially increase their capital expenditure in upgrading their current telecommunications infrastructure and building more infrastructures, such as the base station. Since the attenuation of 3G wireless signal transmission is higher than that of 2G wireless signal transmission, the coverage area of a 3G base station is smaller than that of a 2G base station, under the same power level. Therefore, operators with 2G networks need to build more base stations in rolling-out their 3G networks, while operators currently without mobile networks need to build new base stations. As a key component of the base station, the demand of RF cables has grown substantially.

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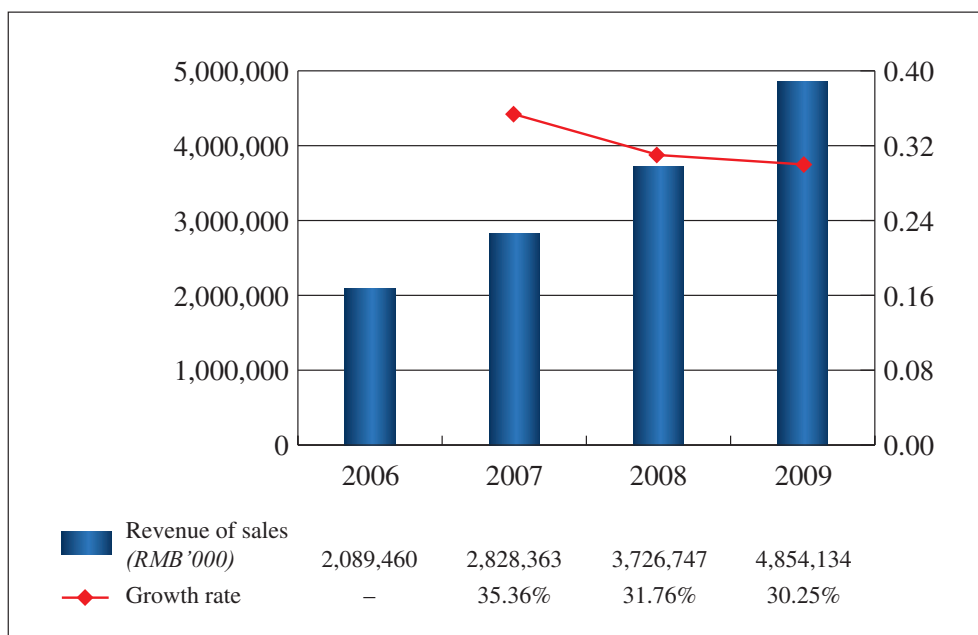
In general, WCDMA or CDMA2000 base stations require a batch of RF coaxial cables to transmit signals between base station equipment and antenna. TD-SCDMA base stations adopt a special solution that, the transmission of signals between base station equipment and antenna is separated into two parts: one part relies on a piece of fibre cable to transmit signals between base station equipment and a special equipment, while another part still relies on a batch of RF coaxial cables to transmit signals between the said special equipment and antenna. By using one single piece of fibre cable in part of the transmission of signals instead of a batch of RF coaxial cables, the production cost of base stations may be reduced and the transmission loss may be reduced. Currently, China Mobile establishes its 3G network using TD-SCDMA protocol, while each of China Unicom and China Telecom establishes its 3G network using WCDMA protocol or CDMA2000 protocol. At the end of June 2010, China Mobile had about 115,000 3G base stations, China Unicom had about 153,000 3G base stations and China Telecom had the widest 3G network coverage in the PRC.

According to CMMC, the mobile communications RF cable industry in the PRC has the following key characteristics:

- i. The quality of domestically produced mobile communications RF cables is equivalent to those famous brands overseas. Domestic mobile communications RF cables have been widely accepted by telecommunications operators and telecommunications equipment manufacturers. In 2009, the market share of domestic mobile communications RF cables in China amounted to approximately 90% of the total.
- ii. The competition in the industry in the PRC is intensive. Along with the development in the construction of mobile communications networks, the market for mobile communications RF cables has been expanding over the recent years and the number of domestic mobile communications RF cable enterprises keeps increasing, as more enterprises are attracted by the market potential geared by 3G development. Therefore, it is expected that the competition in the mobile communications RF cable industry in the PRC will continue to intensify.
- iii. The demand for mobile communications RF cable has grown rapidly at an annual growth rate of 30% during recent years.
- iv. The mobile communications RF cable industry in the PRC is highly concentrated. By the end of 2009, there are totally 32 enterprises in this industry in the PRC, increased from 22 in 2006. Among the 32 enterprises, revenues of the top two enterprises account for 55.5% of the total revenues of the industry in 2009; revenues of the top three enterprises in terms of revenue account for 67.6% of the total revenues of the industry in 2009; revenues of the top five enterprises in terms of revenue account for 88.4% of the total revenues of the industry in 2009.
- v. The mobile communications RF cable industry in the PRC has a relative high technical barrier and capital barrier. It requires RF cable enterprises to keep high and stable quality of their RF cable products, strong research and development capabilities to develop new and advanced products that keep up with the technology development and upgrade in the mobile communications industry. The establishment and operation of a RF cable enterprise involves high investment cost and long terms of occupation of funds by downstream enterprises, namely telecommunications operators and telecommunications equipment manufacturers.

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According to CMMC, the revenue of sales of the RF cable industry in the PRC has kept increasing since 2006. The revenue of sales in 2009 amounted to approximately RMB4,854 million, or a 30.25% growth as compared to 2008. The following chart shows the revenue of sales and its growth rate of the RF cable industry in the PRC from 2006 to 2009.



Source: CMMC

We face competition from existing players and new players in the PRC RF cable market from time to time. However, our Directors believe that our competitive strengths in the PRC RF cable market are as follows:

- We have a comprehensive sales and distribution network;
- We enjoy a good reputation and brand name in the coaxial cable industry;
- We have advanced manufacturing technology and large-scale production capacity;
- We offer a comprehensive range of RF coaxial cables series for mobile communications;
- We have strong research and development capabilities; and
- We have an experienced and professional management team.

With respect to the future, the mobile communications RF cable industry will continue to benefit from the urbanization, the increasing penetration of current 2G networks into remote areas and the rolling-out of 3G networks in the PRC.

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THE MOBILE COMMUNICATIONS INDUSTRY IN INDIA

Being the second biggest mobile communications market after China, India has also experienced fast growth in mobile communications market. India's total mobile subscribers arrived at approximately 670.6 million as at August 2010, with mobile penetration rates reaching 59.6%.

In response to India's auction of its 3G spectrum, many mobile operators had aggressively placed bids for the license to operate in the country. The proposed allocation of 3G spectrum lays the groundwork for the construction of 3G networks across the country, spiking demand for telecommunications equipments.

We face competition from both of international players and Indian local players in the Indian mobile communications market. Our major competitors in India are either private companies or subsidiaries of public companies, the operation and financial information of which are not publicly available or verifiable. Our Directors considers that the prices of our products are more competitive than some of our major competitors and the quality of our products is better than Indian local players. The prices of our products are more competitive than some of the Company's major competitors in India attributable to the reason that the raw materials used by these competitors are imported to India which resulted in a higher cost of the products of these competitors as compared to the Company. The quality of our products is better than Indian local players mainly attributable to the instable power supply in India which resulted in interruption of the operations of manufacturing equipments and thus a higher failure rate of the products. As more telecommunications operators in India tend to purchase locally, we have set up Hengxin (India) and recruited local employees in order to enable us to provide instant response to customers' needs and strengthen post-sale services. However, some of our major competitors have longer presence in India market and its sales and distribution network is more well-established than ours.