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Fushi International, Inc. (FSIN-OTC:BB)

Meeting Rising Demand for Bimetallic Conductor Wires as a Lower Cost Substitute for Single Metal Products

Recent Price: \$6.00

Market Data

Market Capitalization (mln)	\$134.10
Enterprise Value (mln)	\$145.50
Fully Diluted Shares (mln)	22.35
*including outstanding options and warrants, if exercised	
Float (mln)	17.35
Avg. Volume (90 day, approx.)	500
Institutional Ownership (%)	21.6
Insider Ownership (%)	77.0
Exchange	OTC-BB

Company Overview

Fushi International is a manufacturer of bimetallic composite wire products, primarily including copper clad aluminum wires (CCA) and copper clad steel wires (CCS). CCA combines the conductivity and corrosion resistance of copper with the relatively lighter weight and lower cost of aluminum. It is a cost effective substitute for single metal copper wire in a wide array of applications. With its proprietary patented "rolling bond welding" manufacturing technology, this company is the largest domestic Chinese manufacturer of bimetallic composite products, and aims to continue sales growth through increasing market share in the fast-growing domestic market as well as expanding international sales.

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Summary and Investment Opportunity

- Users Substituting Bimetallic Conductors in Place of Single Metal Wires**
Fushi International is benefiting from a secular trend of increasing demand for its copper clad aluminum (CCA) conductor wire products due to the considerable rise in copper prices and increasing adoption of CCA as a viable and low cost substitute for single metal copper wire in a wide variety of applications.
- Rapid Sales and Profit Growth**
Fushi has recently expanded its ISO 9001 quality rated manufacturing capabilities and is poised to continue its brisk sales growth through expanding orders to existing customers, supplying new customers in China, and expanding its presence overseas for export sales by leveraging its high quality product and lower China-based production costs.
- Improving Margins Through Product Line Expansion**
Through an extensive research and development program, Fushi possesses a strong and promising pipeline of new proprietary products to help grow sales in higher margin product areas.
- Secular Growth of Telecommunications and Information Technology**
The largest domestic Chinese application markets for CCA products are wireless telecommunication and base station subsystems, which together have an estimated annual consumption of 20,000 tons, and are anticipated to experience a 25% annual growth rate over the coming years.
- China's Economic Expansion and Modernization**
As a result of the relatively underdeveloped state of infrastructure in China and massive ongoing infrastructure construction, much of which requires wire and cable, China is one of the world's fastest growing markets for bimetallic composite products in the world, including much latent demand for copper clad steel (CCS) for use in modernizing power cables and building electrified railroads.



Company Overview

Fushi International, Inc. is a manufacturer of bimetallic composite wire products, primarily including copper clad aluminum wires (CCA) and copper clad steel wires (CCS). Fushi's bimetallic composite wire products are produced using its proprietary patented "rolling bond welding" manufacturing technology, which was included as a research project under the National Torch Program in the People's Republic of China. This proprietary technology allows the company to produce high quality award winning products that deliver stable conductivity performance. With a significant internal research and development unit, Fushi is distinctive in that it seeks to continuously improve its current product specifics while developing new goods and technologies.

The majority of Fushi's sales are made to finished cable manufacturers, which are increasingly seeking ways to achieve cost reduction through the use of bimetallic products, such as those produced by Fushi, rather than using single metal copper wire. As the largest domestic Chinese manufacturer of bimetallic composite products, and having recently completed a large capacity expansion, the company is aiming to continue sales growth through increasing market share in the fast-growing PRC market as well as expanding international sales initiatives.

Industry Background

Copper Clad Aluminum Wire

Copper clad aluminum (CCA) is a bimetallic wire consisting of an aluminum core covered by a concentric copper cladding. CCA combines the light weight, high flexibility, and relatively low cost of aluminum with the conductivity and corrosion resistance of copper. It is widely used in applications requiring the conductivity of copper while retaining the lightweight advantages of aluminum. It is a cost effective substitute for single metal copper wire in a wide array of applications such as coaxial cable for cable television, signal transmission lines for telecommunication networks, distribution lines for electricity, and wire components for electronic instruments and devices.

Since television and communication networks have high frequency transmission signals that are transmitted on the surface layer, CCA is an ideal inner conductor for television cables and is used extensively in overhead coaxial cable for high frequency television signals. CCA wire is also widely used in telephone and electrical power applications, large capacity communication networks, telephone conductor antenna cables, control signal cables, and other applications.

Because of its high performance attributes, lower production cost, and lighter weight, CCA wire is also increasingly replacing solid copper or aluminum in other applications. For example, it is used to replace copper as a grounding conductor on structures and underground powers lines to combat corrosion and theft problems. It is also replacing aluminum in overhead power lines in corrosive environments.

Copper Clad Steel Wire

Copper clad steel (CCS) is a bimetallic composite in which concentric copper cladding is metallurgically bonded to a steel core. CCS combines the strengths of steel with the conductivity and corrosion resistance of copper. CCS wire is used where strengths greater than that possessed by copper are required, and some reduction in conductivity is acceptable. For example, it is widely used in the telecommunications industry for telephone and coaxial television drop wire, in the railroad industry for conductor lines, in the manufacturing industry for patch cords in electronic components, and in the electric utility industry for grounding conductors.

Manufacturing Process

The manufacture of bimetallic wire is a well-established process; however, new techniques are continuously being developed. Plating, cladding, drawing, rolling, and press fitting are all common methods for producing bimetallic wire. The first generation production process for bimetallic wire mainly involved plating, which was the principal method used in the 1960s and 1970s. Today, plating is being replaced by second-generation cladding and drawing processes, as well as rolling and press-fitting processes. Cladding and drawing methods require a more difficult mechanical assembly process, but the yield on finished products is higher. In rolling and press fitting, special equipment is required as the copper needs to be heated and the conditions for metallurgy are very strict.

Manufacturing and utilization of bimetallic wire in the PRC began in the 1990s. Bimetallic products, especially those utilizing the cladding and drawing processes, began replacing solid copper wire in many applications during this period, and have resulted in widespread use in the PRC of bimetallic composite products.

The PRC Bimetallic Composite Products Market

As a result of the relatively underdeveloped state of infrastructure in China and the massive ongoing infrastructure construction, much of which requires wire and cable, the PRC is one of the world's fastest growing markets for bimetallic composite products in the world. According to statistics released by the PRC Ministry of Information Industry and the National Cable and Wire Industry Association in China, the PRC represented approximately 7% of the worldwide market for bimetallic composite wires in 2004, with domestic sales of approximately \$104 million, or approximately 25,000 tons.

According to China Wire & Cable Network, the largest domestic Chinese application markets for CCA products are wireless telecommunication and base station subsystems; which together have an estimated annual consumption of 20,000 tons, and are anticipated to experience a 25% annual growth rate, primarily due to continuously rising copper prices and the increasing usage of CCA as a viable and low-cost substitute for single copper wire. For comparison, Fushi's own surveys estimate consumption of CCA in the U.S. to average approximately 30,000 tons per annum in recent years.

Usage and Demand for CCA Wires

1. *Coaxial Cable for Cable Television and Broadcasting—Domestic Consumption.* The increase in the demand for cable television has led to a significant increase in demand for CCA wire. According to statistics issued by the PRC's Wire and Cable Industry Association, there are currently over 400 million TV sets and over 100 million cable television subscribers in China. Committed to further developing the domestic broadcasting networks, the Chinese government's Tenth Five-Year Plan, which set goals for improvement from 2001 to 2005, targeted domestic demand for CATV to generate approximately 700-800 thousand kilometers of cable wire every year. According to the PRC Electronic Components Association, the use of CCA conductors is expected to increase at an annual rate of 8% in terms of volume.

2. *Coaxial Cable for Cable Television and Broadcasting—Export Sales.* According to the PRC Electronic Components Association, CCA wires manufactured for export by PRC domestic wire manufacturers are almost equivalent to domestic demand, resulting in a total of approximately 1,300 to 1,500 thousand kilometers of cable television wire production per year in the PRC.

3. *Mobile Communication (RF Cable).* The technologies used in mobile communication base stations that comply with international standards and all inner conductors of radio frequency cables use CCA conductors. The increasing density of mobile communication base stations resulting from higher capacity requirements is reducing the radius between base stations from nine kilometers to three kilometers. This translates into a three to four fold increase in the demand for CCA composite conductors used as connecting cables between antennas of base stations, transmitters, and receivers. This would indicate an increase in domestic demand for CCA composite conductors from the original annual demand of about 4,000 tons per year to 14,000 tons per year.

4. *Comprehensive Wiring.* The use of CCA wires in comprehensive wiring, including connecting wires for automobiles, indoor wideband connecting wires, indoor electrical wires, connecting wires for instruments and electronic devices, and high-frequency connecting wires, saves copper in addition to resolving the issue of greater contact resistance. Wiring companies in China are increasingly replacing pure copper conductors with CCA conductors in their wiring projects, which has created a large potential market for CCA products. According to the China Electronic Components Association, each year wiring companies consume over 3,000 tons of CCA conductor wire.

Usage and Demand for CCS Wires

1. *Electrified Railroads.* The PRC Ministry of Railroads recently announced that the Sixth General Speed-up Project is about to be launched, in which some legacy railroads will be renovated and expanded, new roads will be built, and a large number of special passenger railroads, intercity railways, and advanced rail networks will be constructed. According to statistics released by relevant government departments, the total mileage of electrified railroads in China is expected to reach 26,000 kilometers by 2010. By that time, the four main artery railroads, Beijing-Shanghai, Beijing-Harbin, Beijing-Guangzhou and Longhai will be completely electrified and interconnected, and China's first high-speed rail, the Beijing-Shanghai line, will have commenced construction. During the Tenth Five-Year Plan period, more than 5,000 kilometers of electric railroad track were targeted to be laid. The new edition of the 'Technological Policies for Railroads' targets a maximum speed of 350 kilometers per hour for passenger trains. According to the technical requirements, when the speed per hour of a passenger train reaches 300 kilometers, the contact conductor must be CCS conductor, which translates into an additional large potential market for CCS products. Assuming a conservative estimate of the annual construction of electrified railroad mileage of 1,000 kilometers per year, the amount of contact conductor wire required would be approximately 2,600 tons.

2. *Power Cables.* Presently, CCS conductor has replaced pure copper or pure aluminum conductors as the inner conductor in the field of power cables in most developed countries. This has not yet happened in the PRC, and therefore represents a large potential future market.

3. *Radio Frequency (RF) Cables.* As per Fushi's estimates, the total demand for CCS conductor in radio frequency cable for the electronics industry and the electric light source industry is expected to exceed 6,000 tons per year during the next five years.

Business Description

Organization

Fushi International is a U.S.-listed and Nevada-incorporated entity. As a holding company, it does not directly conduct any business operations, and its sole holding is 100% of Diversified Product Inspections, Inc. (DPI), a Delaware corporation, which in turn also has no direct business operations. DPI's sole holding is 100% of Dalian Diversified Product Inspections Bimetallic Cable Co., Ltd. (Dalian DPI), which is an entity organized under the laws of the People's Republic of China (PRC) as a wholly foreign-owned enterprise. Dalian DPI is the operating entity that conducts the business of manufacturing and sales of bimetallic products. Dalian DPI purchased the majority and leases the remainder of the assets of Dalian Fushi Bimetallic Manufacturing Co., Ltd. (Dalian Fushi), a limited liability company organized under the laws of the PRC, and what is essentially the predecessor company of Dalian DPI. Through a series of Restructuring Agreements, Dalian DPI has acquired substantially all of the assets and business of Dalian Fushi and has control over Dalian Fushi's remaining operations and financial affairs, including its trade name of "Fushi" and patents.

Fushi has no operations or offices in the U.S. All of its operations are conducted in the PRC and more than 90% of its net sales are generated within the PRC. In 2005, Fushi relocated its manufacturing activities to a newly constructed facility, occupying 103,605 square meters, which is 25 times larger than the original factory. With this move, the number of production lines increased from 5 to 20.

Fushi currently has about 186 full time employees, of whom 24 are managerial, administrative, finance, and accounting staff, 27 are engineers and research and development staff, 15 are sales and marketing professionals, and 120 are manufacturing personnel. Additionally, the company has a number of interns and interim staff, and also employs temporary workers and contractors as necessary. Currently, Fushi has about 52 temporary staff for product delivery, cafeteria workers, and security guards.

Sales, Marketing, and Orders

Currently, the vast majority of Fushi's sales are made to customers within the PRC. In China, all marketing and sales are conducted by the company's in-house staff. The in-house sales and marketing team is responsible for maintaining existing customer relationships as well as developing new ones. So far, sales to customers located outside of the PRC make up a small percentage of total sales. Fushi has signed letters of intent with several independent foreign agents to market its products overseas in an effort to expand international sales and marketing.

Fushi's largest customers normally sign purchase orders indicating the specifications of the products they will purchase currently and projecting their estimated purchases for each specified product over the following months or year. Fushi is then able to better plan and schedule its manufacturing activities based upon this sales information. Typically, purchase orders are placed 7 to 15 days prior to the delivery date. In some cases, the order lead time may be as short as three days. Recently, the actual purchases by most of Fushi's largest regular customers have exceeded the annual projections. To help meet customers' excess purchase requirements, the company normally maintains an inventory of 15 days of demand of standard or regular sized CCA products. The sales price is determined at the time of actual delivery. In some cases, the purchase orders contain a formula to calculate the final sales price based upon the number of units of each product in the order, which is adjusted according to the market price of copper and aluminum at the time of delivery.

Sales are normally made on a cash basis at delivery. In some instances, such as for new customers, Fushi requires up to 80% down payment at the time of the order. For its major customers with established creditworthiness, Fushi does extend trade credit. These customers are typically larger communications equipment providers that place large orders on a regular basis. These credits normally extend from 30 to 90 days, and result in an upward adjustment to the final selling price based upon the time duration of the receivable.

Products

Although Fushi produces both CCA and CCS products, CCA is the company's principal product and comprises the overwhelming majority of its sales. Because CCA has wider applications and relatively standard specifications, it is easier to achieve large-scale production for each specification. Fushi commenced production of CCS products in 2003, the sales of which represent only a small portion of total annual sales.

CCA wire is produced by fusing a core of aluminum wire with an external copper cladding using Fushi's proprietary and patented metallurgical "rolling bond welding" techniques. Measured by the copper layer thickness, CCA can be divided into two types, 10% and 15%. The 10% type is primarily used in high frequency signal transmission, while the 15% type is used in generators and other non-signal transmission applications. Both the 10% and 15% CCA can be fabricated in various diameters. The typical diameters of the company's CCA products range from 7.50 mm down to 1.66 mm, which are the normal specifications that customers require. However, Fushi has the capability to manufacture products with diameters as low as 0.09 mm, if requested by customers. Measured by the production stage of the manufacturing process, CCA can also be classified into hard-drawn and annealed types of CCA. Hard-drawn CCA is used where strength is required, such as for electronic instruments and devices. CCA without final annealing or at the intermediate annealing stage is typically sold to customers who plan to do further processing, such as to draw the wire down to a smaller size. Of the company's 20 production lines, 18 are dedicated to CCA production, resulting in an annual production capacity of approximately 10,000 tons.

CCS production uses the same proprietary and patented metallurgical "rolling bond welding" techniques to bond copper cladding to the steel core. Owing to Fushi's superior technology, the company's CCS products have not experienced any separation, cracks, or peeling even in the most stringent destructive tests. CCS is commonly produced to specifications of 21%, 30%, and 40% International Annealed Copper Standard (IACS) composite conductivity, each with copper thickness amounts of 6%, 14%, and 20% of the wire radius, respectively. Thicker copper cladding results in better direct current (DC) conductivity. The steel core can be specified in varying strengths according to the requirements of the customers and their applications. The most common sizes of CCS are 2.50 mm and 0.81 mm. As with CCA, Fushi can draw CCS wire down to as narrow as 0.09 mm. Since CCS has more specifications than CCA, it has been more difficult for Fushi to achieve large-scale production for each specification. Two production lines are allocated for CCS manufacturing, with an annual production capacity of approximately 1,200 tons. However, these two production lines can also be utilized for CCA production when needed, because both CCA and CCS use the same "rolling bond welding" technique.

Fushi has developed a new product pipeline which includes Copper Clad Aluminum and Magnesium Alloy (CCA-M), CCA Fine Wires of 0.20mm and 0.51mm diameters (CCA Fine Wires), CCS Plated by Tin, and CCS Plated by Silver. Copper Clad Aluminum and Magnesium Alloy (CCA-M) can be produced in diameters from 0.08mm to 0.18mm. This product is primarily used in electric shielding nets and transformer windings applications. After introducing this product to the market, Fushi has received positive customer feedback, indicating potentially strong market demand. Since this product carries substantially higher profit margins than most of the company's other products, management hopes to increase production to ten manufacturing lines with an annual output of approximately 3,600 tons.

CCA Fine Wires may be used as enamel-insulated wire to replace electromagnetic wire in aviation devices and instruments applications. Management anticipates annual output for this new product to reach 1,800 tons. CCA Fine Wires also carry a higher profit margin than most of Fushi's other products. CCS Plated by Tin and CCS Plated by Silver are able to resist high temperatures and are largely used in corrosive, hot, or inclement environments, such as for military use. Management plans on being able to increase annual output of these products to approximately 100 tons.

Patents and Accolades

Fushi is the registered owner of five patents issued by the Patent Office of the State Intellectual Property Office of the PRC, covering the company's modified bond-welding technology and related devices and machines, including a newly developed press cladding device for large scale CCA and CCS production, with diameters which exceed 7mm. The manufacturing equipment for this type of large-scale production is still in the developmental stage.

The company has also made one international patent application under the International Patent Cooperation Treaty, which covers Fushi's bond-welding manufacturing method for cuponal busbar. Fushi is currently at the stage of developing production devices for this new product. Cuponal busbar offers economic and weight saving advantages over solid copper, while retaining the surface properties of copper busbar, thus it would be possible to substitute a copper bar with a cuponal bar of equal dimensions, while reducing material costs. Cuponal has wider applications than CCA and is

extensively used in electronic items and household appliances. Management believes that the company will be able to commence production of cuponal busbar sometime in the latter half of 2006.

Biennially, Fushi submits its products to third party governmental testing centers, including the Quality Test Center of Information Transmittal Wire of the Ministry of Information Industry of the PRC, and the Dalian Institute of Product Quality Supervision and Inspection, for full physical and electrical properties tests. Fushi's products have passed these tests in the past, with test reports that showed their products meet and exceed American Society for Testing and Materials' (ASTM) standard #B566-93 for copper and bimetallic copper wire. ASTM is a non-profit industry-wide organization which publishes standards, methods of testing, recommended practices, definitions, and other related materials. As a result of strict quality control standards, Fushi's production facility has been certified under ISO 9001 quality standards.

Aside from Fushi's patented and proprietary "rolling bond welding" manufacturing technology being included as a research project under the National Torch Program of the PRC, the company was also recognized by the Dalian Municipal Government as a "New- and High-Technology" enterprise. Meanwhile, its CCA products were awarded a "Famous Products" award, and its trade name "Fushi" was awarded a "Famous Mark" award, both by Liaoning Province.

Customers

Fushi is highly dependent upon the power and communications industries, including both telecommunications and cable television, for its customer base. The company's target markets are manufacturers of finished wire and cable products. In most cases, Fushi's customers incorporate its wire products into end products that they subsequently supply to their own customers. With over 50 regular customers, both in the PRC and overseas, 32 were active customers at year-end 2005.

These customers include some of the leading global brands in the coaxial cable industry, such as Andrew Corporation (ANDW-NASDAQ), one of the largest communication cable manufacturers in the world. As a result, historically the company's sales have been very concentrated among its top five customers, which accounted for 73% of net sales in 2003 and 75% in 2004. In order to reduce this concentration, management has actively sought to expand its customer base, and as a consequence of a widening product line, the top five customers made up only 41% of net sales in 2005.

Fushi's top five largest customers in the years ended December 31, 2003, 2004, 2005 were as follows:

	2003	2004	2005
Five Largest Customers by Net Sales			
Andrew s Corporation	14%	21%	8%
Zhuhai Hansheng Industrial Co., Ltd.	14%	19%	12%
Jiangxi Lianchuang Photoelectricity Science Company	18%	16%	10%
Shantou Jinqiao Cable Co., Ltd.	17%	9%	7%
ACOME Xintai Cable Co., Ltd.	n/a	10%	4%
Datang Telecom	10%	n/a	n/a
Total	73%	75%	41%

Although Fushi generally does not enter into long-term contracts with its customers, it will enter into master orders or conclude letters of intent with some of its larger customers to document a long-term buying relationship. Over the past three years, management has developed long-term relationships with key wire and cable customers such as Andrew Corporation, ACOME Xintai Cable Co., Ltd., and Zhuhai Hansheng Industrial Co., Ltd.

Geographically speaking, the vast majority of Fushi's sales are to customers based in the PRC, including the PRC subsidiaries of Andrew Corporation. Although the company anticipates that most sales will continue to be within China, it is actively seeking to expand its international marketing and distribution efforts, in part because of the lower production costs the company offers to overseas customers, owing to the lower costs of labor and manufacturing in China relative to the rest of the world. International sales have thus far increased from 0% of total sales in 2004 to 1.3% in 2005. Most of those export sales were to Finland.

Future Plans

Fushi's overall business objectives are to increase market share and become a leading producer in the bimetallic wire industry. To achieve these objectives, management is focusing on increasing sales volume to utilize its expanded

manufacturing capacity to meet existing demand, address emerging market opportunities, and make inroads into the competitors' market share. Specifically, it has begun to expand its direct sales and distribution network within China, as well as its network of exclusive distributors throughout the North American, Asia-Pacific, and European regions. The company plans to eventually set up direct sales offices in the United States to manage sales and distribution in the Americas.

Management also aims to further expand and diversify the company's customer base, so that sales will be less concentrated, and to enhance the product portfolio to shift towards more higher-margin products. With respect to financial management, the company is implementing more advanced information technology, financial reporting, and other management information systems to improve revenue performance, asset utilization, operating efficiency, cost controls, and therefore profitability and return on assets.

Since business trends in 2006 appear likely to continue to be strong, Fushi believes that the bimetallic market can continue to experience significant growth. Raw material prices, however, have been a key area of interest and company management plans to implement pricing strategies to be able to respond to raw material price movements in a more timely manner to improve gross and operating margins. In addition, Fushi is actively reviewing potential strategic investments, acquisitions, and alliances in the pursuit of increasing market share and expanding production capacity.

Key Management

Mr. FU Li, Chairman and Chief Executive Officer

Mr. Fu serves as Chairman and Chief Executive Officer. He is a founder of Dalian Fushi and has been the Chief Executive Officer since the company commenced operations in 2001. Prior to founding Dalian Fushi, Mr. Fu founded and managed Dalian Fushi Enterprise Group Co., Ltd., a holding company owning various subsidiaries in the hotel, process control instrumentation, international trade, automobile maintenance, and education businesses. Mr. Fu graduated from the PLA University of Science and Technology with a degree in Engineering.

Mr. YANG Yue, President and Director

Mr. Yang serves as President and Director of Fushi International. He has served as the President of Dalian Fushi since November 2004. Mr. Yang is also the Founder of Forward Investment Co., Ltd., and has served as its Chairman since 2000. Prior to that, Mr. Yang worked for Liaoning Province Economic & Trade Collaboration Enterprise Group as an Executive Vice President from 1994 to 1998 and the Export Department of Liaoning Province Chemicals Import & Export Corporation as a Business Manager from 1990 to 1994. Mr. Yang graduated from Shenyang Finance University with a degree in International Trade.

Mr. Chris WANG Wenbing, Chief Financial Officer

Mr. Wang serves as Chief Financial Officer. He has served as Chief Financial Officer of Dalian Fushi since March 2005. Prior to this, Mr. Wang served as an Executive Vice President of Redwood Capital, Inc. from November 2004 to March 2005, with a specific focus on providing strategic and financial advisory services to China based clients seeking access to the U.S. capital markets. He previously served as Assistant Vice President of Portfolio Management at China Century Investment Corporation from 2002 to 2004. Mr. Wang began his investment banking career at Credit Suisse First Boston (HK) Ltd. in 2001. From 1999 to 2000, Mr. Wang worked for VCChina as a Management Analyst. Mr. Wang graduated from Simon Business School of the University of Rochester with a Master of Business Administration degree, and is a Level III candidate of the Chartered Financial Analyst (CFA) Program.

Mr. YANG Xishan, Executive Vice President of Research & Development and Chief Engineer

Mr. Yang has served as the Executive Vice President of R & D and Chief Engineer of Dalian Fushi since its inception in 2001. He has over 40 years of working experience in the communication electronics industry, and has previously held executive management positions with a number of electronics enterprises. Having focused on the development, design, and processes of metallic and bimetallic cable production, Mr. Yang holds several patents for the design of the modified cladding and drawing processes for CCA and CCS production used by Dalian Fushi, and has extensive experience in production management. Mr. Yang graduated from Harbin Industrial University with a graduate degree in Engineering.

Ms. XU Chunyan, Supervisor Director

Ms. Xu has served as the Supervisor Director of Dalian Fushi since 2001. Previously she served as Chief Accountant at the Dalian Personnel Bureau and as a Finance Manager of a Chinese public company. Ms. Xu has many years of experience in industrial accounting, public company accounting, and accounting management.

Financial Description

Fushi first achieved profitability in 2002, shortly after its inception in 2001. Since 2002, Fushi has experienced consistent sales and profit growth. Over the past few years, the bimetallic market has continued to be quite strong, experiencing accelerated growth primarily as a result of expanded applications and a steadily increasing copper price. Fushi benefited from these industry trends, with its net sales increasing +115% to \$33.71 million in 2005 from \$15.66 million in 2004. The increase in net sales primarily resulted from increased sales of CCA, Fushi's principal product. CCA accounts for approximately 98% of net sales. Compared to 2004, the sales volume of CCA grew by about +79% and the average selling price for CCA increased by about +18%. The company is benefiting from a secular trend of increasing demand for CCA due to the considerable rise in copper prices causing consumer substitution in a wide variety of applications of single copper wire for CCA.

Over the same time period, operating income increased by +111% to \$9.96 million, and net income increased by +105% to \$7.80 million, which comes to \$0.50 per share in 2005. Despite strong growth in overall profits, the company experienced a decrease in profit margins. This was mainly due to increased cost of goods sold resulting from a significant increase in copper prices, though partially offset by the positive contribution from higher margin CCA-M and CCA Fine Wires products that were introduced in the second half of 2005. During 2005, average selling prices across all products increased by about +18%, while the average cost of sales increased by about +32%, resulting in an overall decrease in gross profit margins to about 37% in 2005 from 43% in 2004. However, Fushi was able to improve its operating efficiency and achieve cost savings to largely offset the fall in gross profit margin; thus, its operating margin was maintained at about 30%.

Copper prices are a critical factor affecting the results of Fushi's operations since it is one of the most important raw materials that the company uses to make its products, and the company's bimetallic products target existing customers of pure copper products as a viable and cost effective substitute to pure copper; thus, increases in copper prices prompt more potential customers to switch to bimetallic products, such as Fushi's.

The following table details sales by revenue, volume, and unit selling price:

	2004		2005		Y/Y Change
By Revenue					
CCA	\$ 15,613,605	99.7%	\$ 32,973,493	97.8%	111.2%
CCA-M		0.0%	\$ 697,455	2.1%	
CCS	\$ 48,888	0.3%	\$ 38,480	0.1%	-21.3%
Total	\$ 15,662,493	100.0%	\$ 33,709,428	100.0%	115.2%
By Volume (Tons)					
CCA	4,446	99.5%	7,949	98.0%	78.8%
CCA-M	-	0.0%	146	1.8%	
CCS	22	0.5%	16	0.2%	-27.3%
Total	4,468	100.0%	8,111	100.0%	81.5%
Average Selling Price (\$/Ton)					
CCA	3,512		4,148		18%
CCA-M			4,777		
CCS	2,222		2,405		8%

Fushi has a solid balance sheet and is in a liquid cash position. The company ended 2005 with a cash balance of \$6.16 million. As of March 31, 2006, the company showed an even stronger cash position of \$8.45 million. Also as of the end of the first quarter of 2006, Fushi had a current ratio of 1.6, indicating that the company should be able to meet short-term obligations, even in light of increasing working capital needs relating to the company's expansion efforts.

Recently, at the end of 2005, the company completed a second tranche financing via a share offering, raising \$12.0 million in gross proceeds at \$2.82 per share. The financing had net proceeds of \$11.2 million. In conjunction with the share placement, the company issued 2.125 million warrants with a conversion price of \$3.67. These are callable by the company at a share price of \$10.00. As part of the private placement, management committed to a "make-good" provision stating their intention of attaining at least \$10.7 million in net profit for the year 2006. This would be about \$0.48 in earnings per share. The "make-good" provision stipulates that if this profit goal is not attained, investors who

participated in the private placement will be entitled to a disbursement of 3 million shares of the collective 14.7 million shares management currently owns. Management committed to this provision based on its confidence in the underlying prospects of its business.

Fushi's independent auditor is Jimmy C.H. Cheung & Company, independent certified public accountants, based in Hong Kong, and a member firm of Kreston International, a United Kingdom based organization of 482 independent certified public accountancy firms in 72 countries. This firm has been working with Fushi for several years and well understands the company's financials.

Key Partners and Competitors

Partners

Fushi's most important partners are its raw material suppliers. Raw materials used in Fushi's production include copper strip, aluminum bar, steel wire, plastic bags, corrugated paper, wire rotating machines, steel ramming stretch oils, petroleum, cleansing agents, engine oil, gear oil, caustic soda, aluminum drawing oil, copper wiredrawing fluid, various lubricants, and other industrial materials. However, the principal raw materials are aluminum bar and copper strip, each of which historically accounts for more than 40% of total annual raw materials purchases in terms of value. No other raw material exceeds 2% of the company's total annual raw materials purchases. Measured by tonnage, aluminum bar is Fushi's largest raw material purchase, with an annual purchase of approximately 5,000 tons, as compared to about 1,800 tons of copper strip.

All of the principal raw materials are generally available in the market and the company has never experienced any shortages of raw materials in the past; thus management does not believe that it will experience any raw material shortages in the future. However, the company has historically relied on two key suppliers, Harbin Electric Wire Co. and Shanghai Jutai Copper Co., for the procurement of its two most important raw materials, copper strip and aluminum bar. These two suppliers combined accounted for approximately 96% of the company's total raw material purchases in 2004, and 87% in 2003. Management addressed this high degree of concentration in 2005, and was able to reduce the combined purchases to 41% in 2005; based on costs, this consisted of approximately 24% of total raw materials from Harbin Electric Wire Co., and 17% from Shanghai Jutai Copper Co.

Aside from Shanghai Jutai Copper Co., with which Fushi has a good relationship, the company also purchases copper from Beijing Copper Co., Luoyang Copper Co., and Shengyang Copper Co. Aside from Harbin Electric Wire Co., Fushi also purchases aluminum bars from Wuxi Hua Neng Electric Co. Fushi does not have formal long-term purchase contracts with its suppliers and does not use forward commodity price hedges. Thus, the company is exposed to the risk of fluctuating raw material prices.

Competitors

The bimetallic wire production industry is characterized by a concentration of manufacturers. Fushi's largest competitor both domestically in China as well as overseas is the Dofasco Tubular Products (Dofasco) division of Dofasco, Inc. (DFS.TO-Toronto Stock Exchange), formerly known as Copperweld, which maintains an approximate 70% market share both in the PRC and worldwide. Aside from Dofasco, the major domestic PRC competitor is Dalian Tongfa New Materials Science and Technology Co., Ltd. (Dalian Tongfa). Fushi estimates that Dalian Tongfa produced approximately 1,800 tons of products in 2004, compared to Fushi's 3,600 tons, making Fushi the largest native Chinese producer of bimetallic wires in the PRC. Management believes that it can differentiate itself from Dalian Tongfa with superior product quality, more timely delivery, and attractive pricing. Other smaller domestic competitors include Jiangsu Sanmu and Changzhou Yingte.

China relies on imports for over 70% of its bimetallic composite wires. All bimetallic composite products imported into the PRC must meet the U.S. ASTM B566 standard, which Fushi's products meet or exceed. Fushi may have some advantages over foreign competitors in that its cost structure is lower because its manufacturing facilities are located in China, where labor and property costs are lower than most parts of the world. Also, Fushi is able to provide products and technical services with shorter delivery times to domestic customers in China. In addition, management asserts that many of its customers believe that its products are superior to most of the competition's products in terms of evenness and consistency.

Conclusion

In just a few years, Fushi International has established itself as the leading domestic Chinese producer of bimetallic composite wires with its patented and proprietary manufacturing processes, and is poised to rapidly expand sales of its products with the recent completion of its new manufacturing facility. The current as well as latent demand for bimetallic composite wires in the PRC, coupled with the accelerating substitution demand from single metal wire users, should enable Fushi to achieve explosive sales growth. Management's focus on cost controls, increasing efficiency, and use of capital will likely result in profit growth keeping pace.

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Analyst Highlight

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In addition to his position as a Senior Research Analyst at Harbinger Research, Mr. Hua is currently Managing Director of MAP Capital Advisors, where he manages an Asia focused long-short equity fund. Previously, Mr. Hua was a founding member and Director of Investments of Axiom International Investors, an equity management firm which achieved \$800 million in Assets Under Management during his tenure, where he managed the development of the research process and directly covered Asia and global technology equities. Mr. Hua has also held positions as a Securities Analyst for PIMCO Advisors, and as an Associate at Merrill Lynch Asset Management.

Mr. Hua received his M.B.A. and B.S.E. in Finance, with honors, from the Wharton School of the University of Pennsylvania, as well as his A.M. and B.A. with honors in International Studies, also from the University of Pennsylvania. Mr. Hua is a CFA charter holder and a member of the CFA Institute, the Los Angeles Society of Financial Analysts, and the New York Society of Securities Analysts.

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