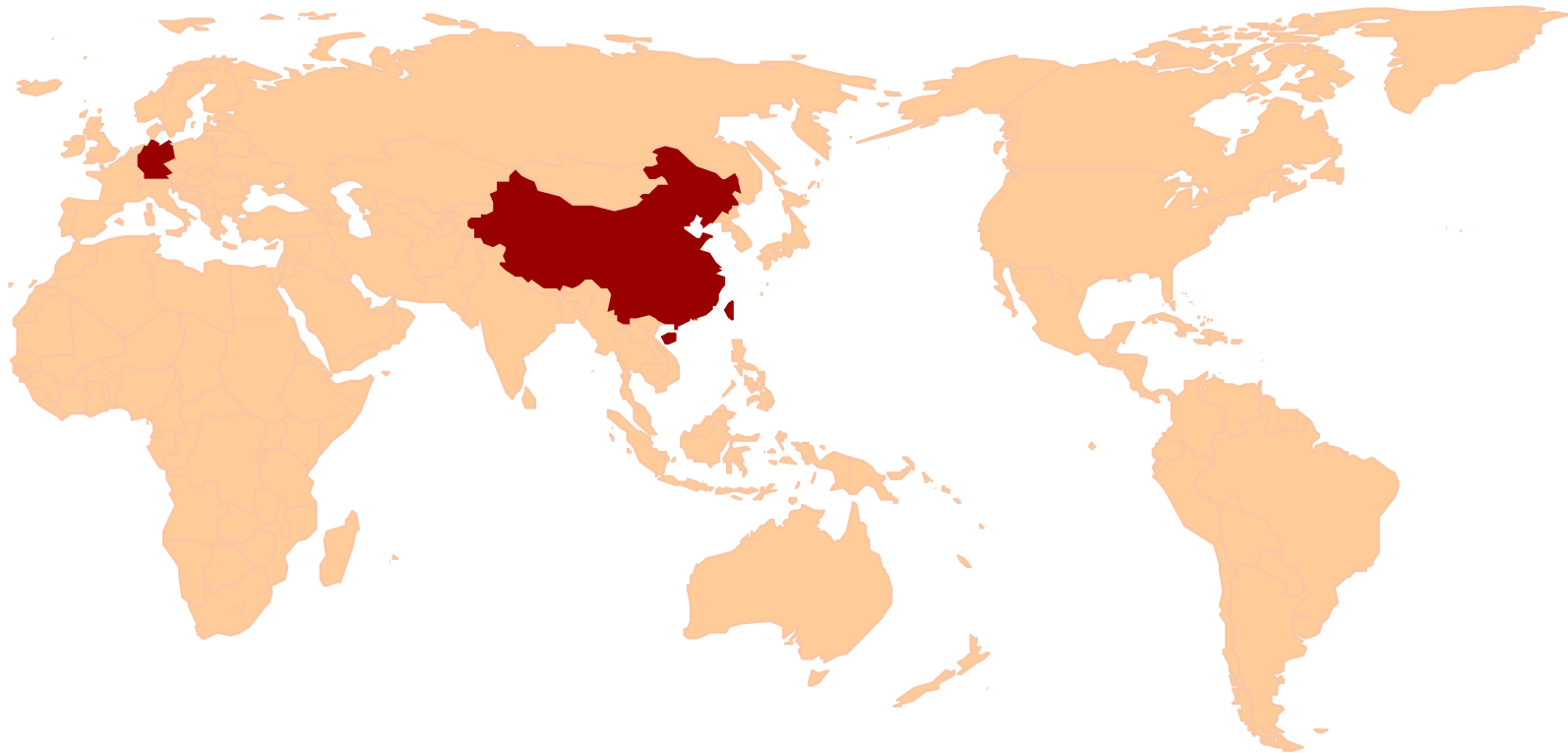


MSM

MANDARIN STRATEGY MANAGEMENT
CONSULTING GMBH



**MSM –
YOUR STRATEGIC PARTNER FOR CHINA**

Industry Up-date/I. 2008
China's Telecom Industry

1	Overview China's economic development
2	Industry Introduction (Outlook)
	China's Telecom Industry
	Mobile Sector
	Fixed-Line Sector
3	About MSM

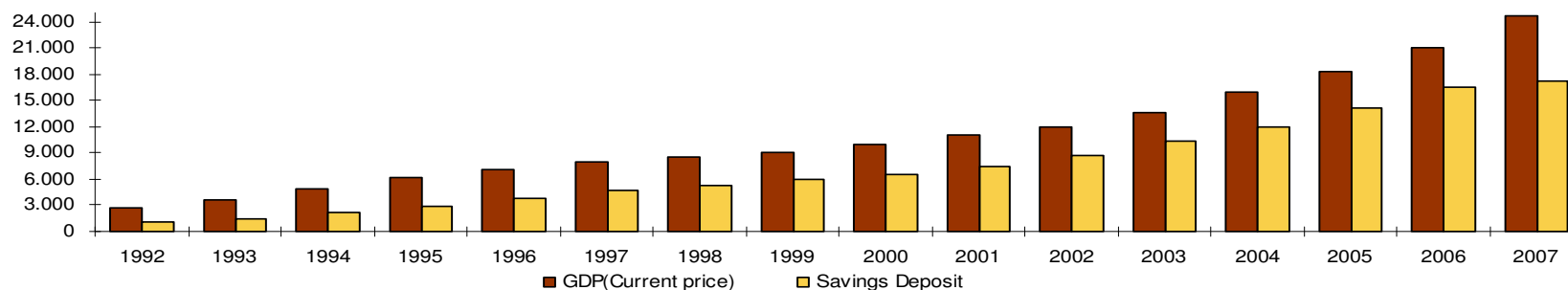
MSM overview of the Chinese economy

<p>GIANT EMERGING ECONOMY</p>	<ul style="list-style-type: none"> ■ GDP (purchasing power parity) - 6,992 Bln USD (2007 est.) – Rank No. 2 ■ GDP 2007 (official exchange rate) 3,251 Bln USD ■ GDP per Cap.: 2,454 USD ----- With the largest population 1.3Bln
<p>FAST GROWING OUTPUT</p>	<ul style="list-style-type: none"> ■ GDP real growth: 11.4% ----- Compared to world: 5.2% in 2007 est. ■ Real domestic demand growth ----- 9.5% in 2007
<p>STRONGER CURRENCY</p>	<ul style="list-style-type: none"> ■ Regime: Managed Exchange-Rate System ■ RMB has appreciated 15% against U.S. Dollar since July 2005 ■ Spot Rate: 7.05 RMB/USD 10.99 RMB/Euro (20 Mar. 2008)
<p>MAJOR PLAYER IN GLOBAL TRADE</p>	<ul style="list-style-type: none"> ■ Trade Surplus: 262 Bln USD ■ Export: 1,218 Bln USD -----Share in world 2006: 8.02%, Rank: No.3 ■ Import: 956 Bln USD ----- Share in world 2006: 6.38%, Rank: No.3 ■ FDI: 82.7 Bln USD, Total Reserve: 1,530 Bln USD

China's strong economic growth will continue

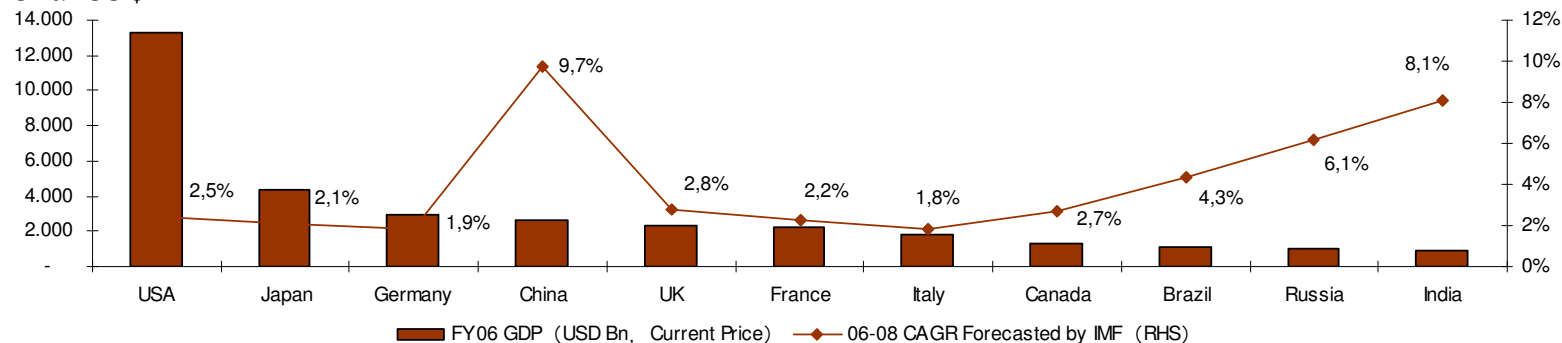
Strong GDP growth and rising household wealth in 1992—2007

Unit: RMB Bln.



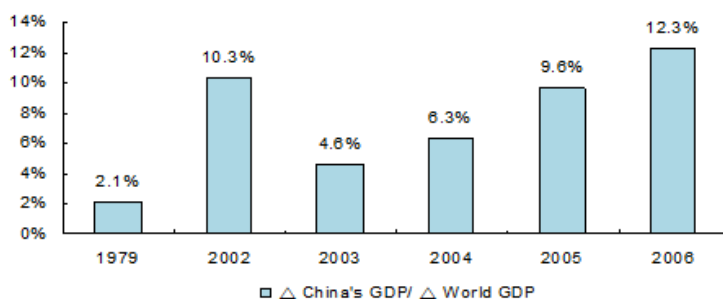
China's growth will continue to outpace other large economies in the next two years

Unit: US \$ Bln.

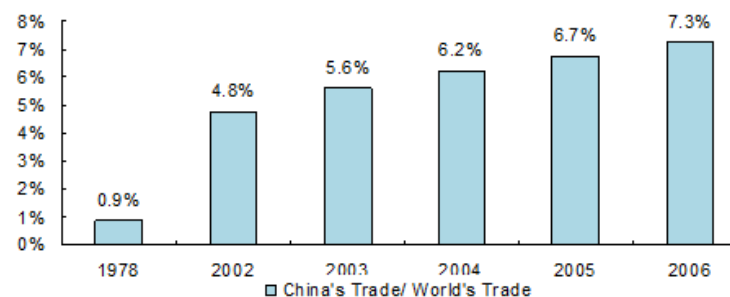


... with increasing influence on the world economy

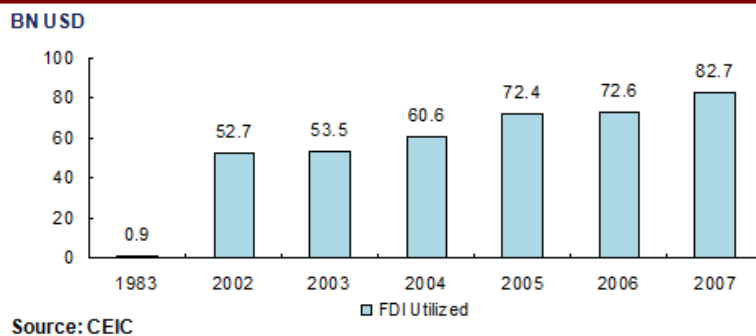
China Contributes More to the World Economy



China's Trade is Taking Bigger Proportion



More FDI is Attracted into China

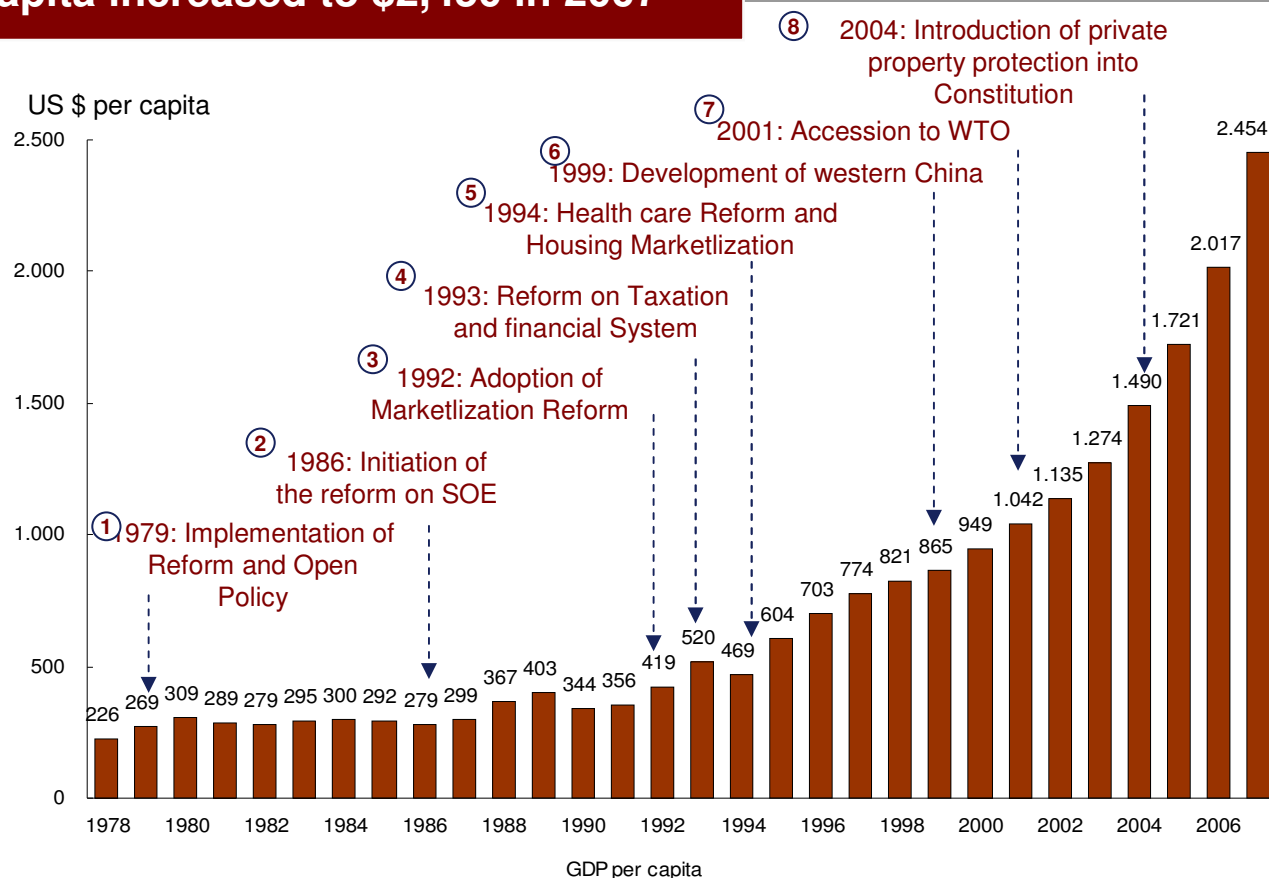


China's Reserve is now the Largest in the World

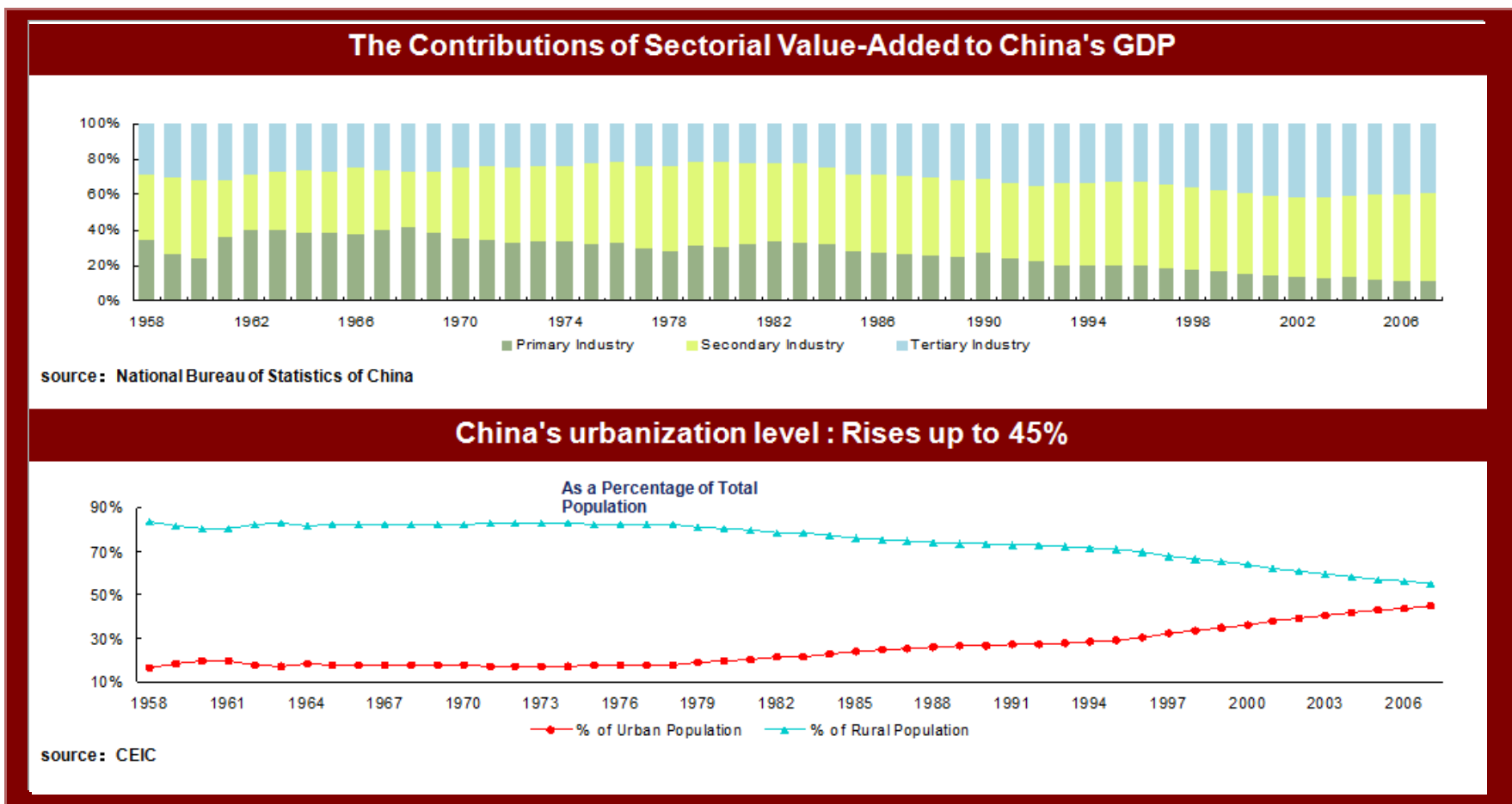


Market-oriented reform has been progressing steadily

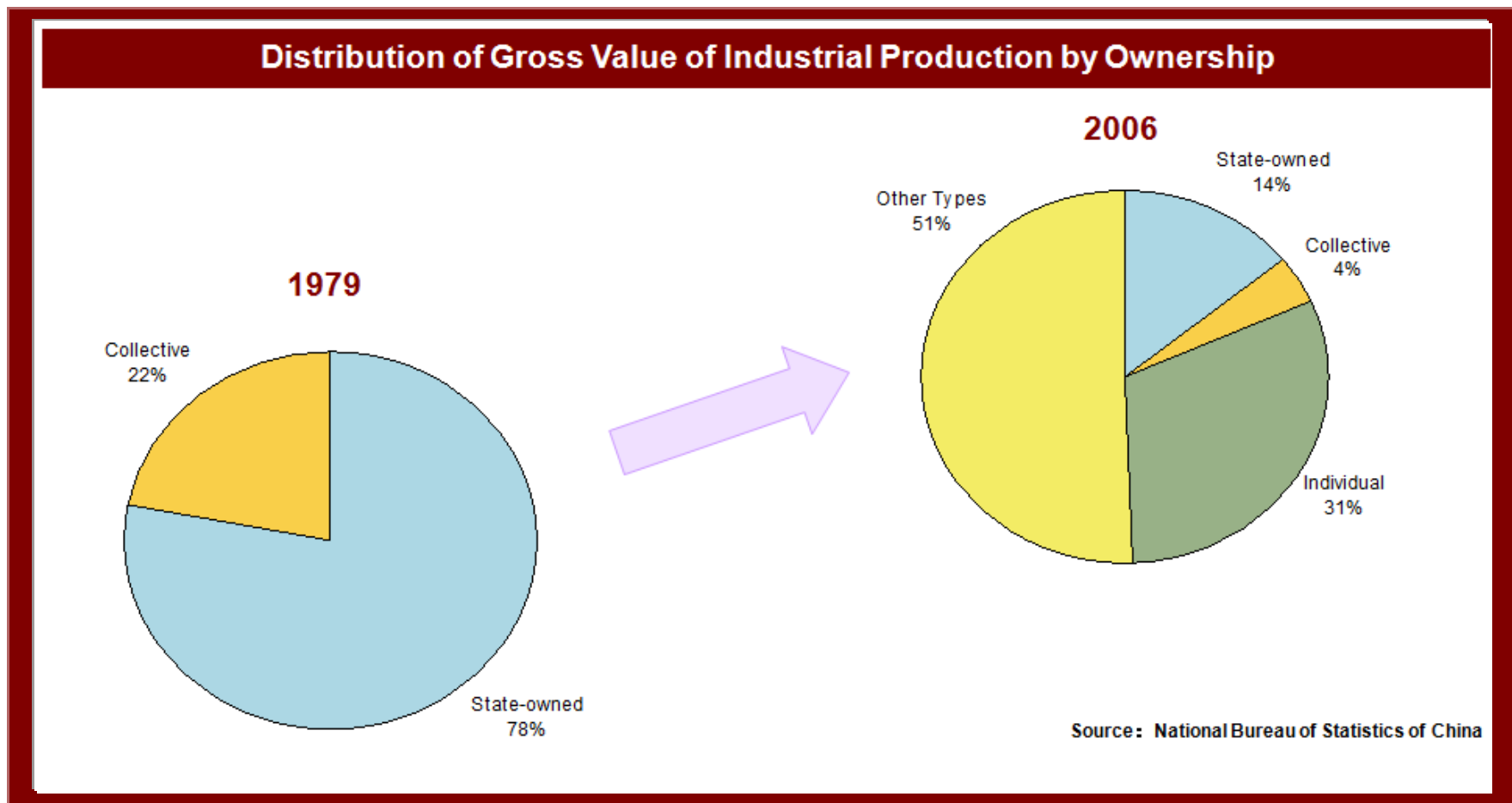
GDP per capita increased to \$2,450 in 2007



... achieving higher level of industrialization and urbanization

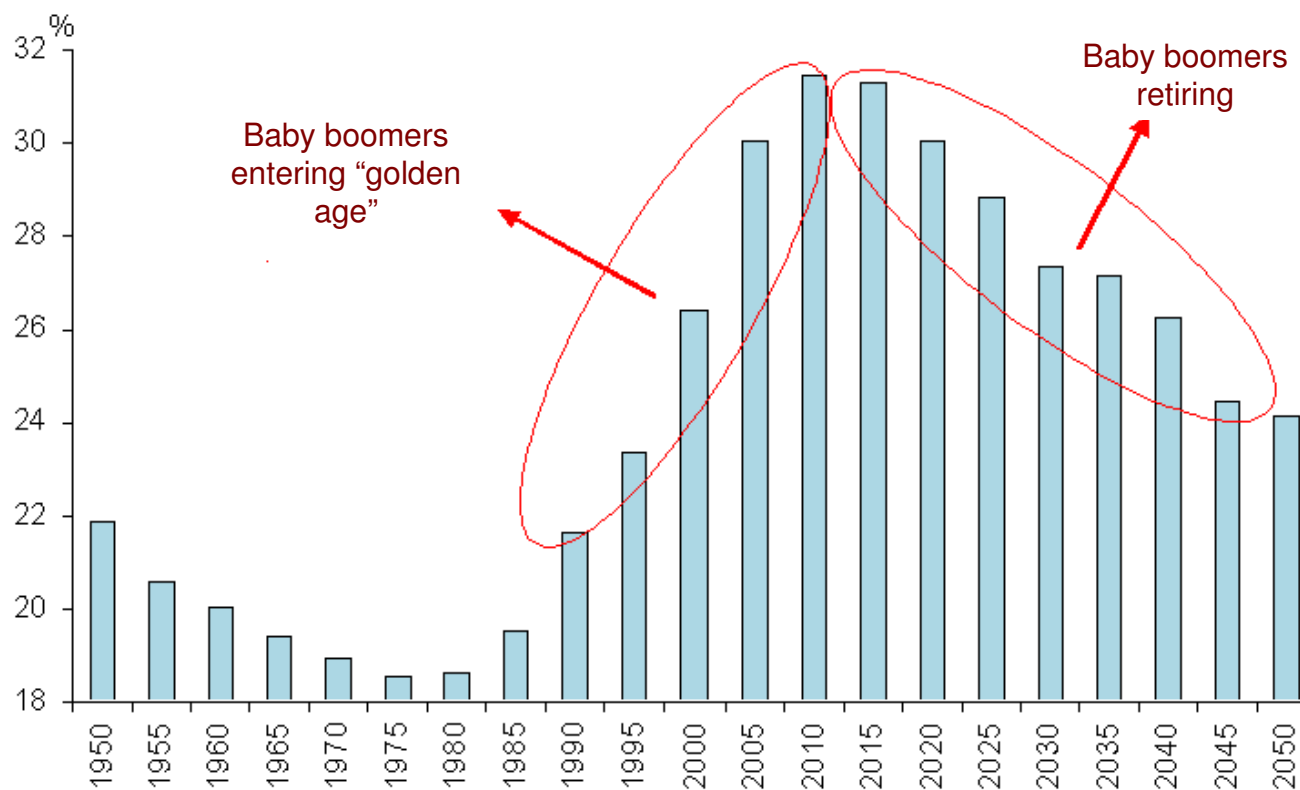


... and profound progress in ownership diversification and SOE reform



China's demographic trend changes and will challenge future growth

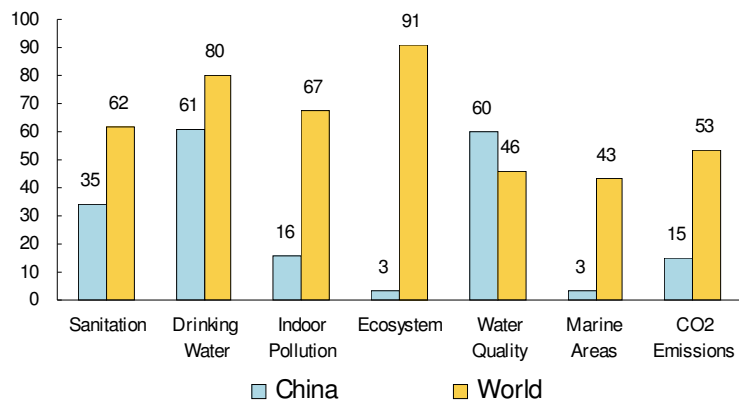
The percentage of Age 35-54 group in population



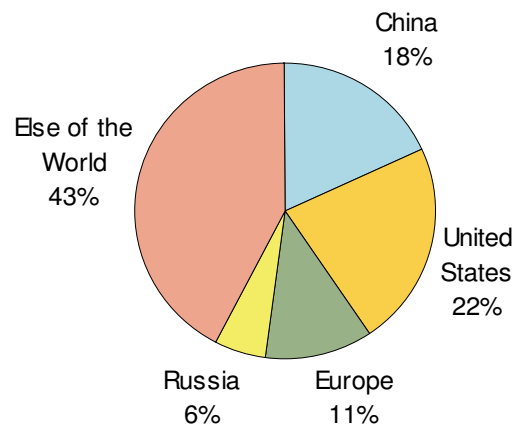
Environmental challenges of China's economic development

China's environmental performance 2007-2008

Environmental Performance Index 2008




CO2 emission Proportion



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Overview of China's telecom industry

Ministry of Industry and Informatisation

Service Provider	 中国移动通信 CHINA MOBILE	 China unicom中国联通	 中国电信 CHINA TELECOM	 CNC 中国网通 <small>北京2008年奥运会合作伙伴 OFFICIAL PARTNER OF THE BEIJING 2008 OLYMPIC GAMES</small>
Services	GSM	GSM, CDMA, fixed line long- distance	Fixed Line, Broadband & Other Data Svc	Fixed Line, Broadband & Other Data Svc
Service Regions	National	National	Southern 21 Provinces	Northern 10 Provinces
'07 Subscribers (Million)	369.3	162.5	Fixed Line: 220.3 Broadband: 35.67	Fixed Line: 110.8 Broadband: 19.77
'07 Revenue (RMB Billion)	357.0	99.5	175.4	82.5
'07 EBITDA (RMB Billion)	194.0	32.4	86.0	41.24
'07 Net Profit (RMB Billion)	87.2	9.3	22.5	10.6

Source: Company Data, MOR, CICC Research

- At present, China's telecom industry mainly consists of four players, featuring duopolies in both the mobile and fixed-line markets
- China Mobile leads the competition with about half of the total revenue and EBITDA in 2007

China's obligation for industry opening under the WTO agreement

Foreign ownership restrictions for China's telecommunications

Service	2003	2004	2005	2006	2007
Wireline	Not applicable	25%	25%	35%	49%
- Region (city)	Not allowed	3	3	17	Nationwide
Wireless		49%	49%	49%	49%
- Region (city)	17	17	17	Nationwide	Nationwide
Value-added	50%	50%	50%	50%	50%
- Region (city)	Nationwide	Nationwide	Nationwide	Nationwide	Nationwide
Paging	50%	50%	50%	50%	50%
- Region (city)	Nationwide	Nationwide	Nationwide	Nationwide	Nationwide

Source: World Trade Organization, company data

	China Mobile	China Unicom	China Telecom	China Netcom
Strategic Foreign Investor	None	SK Telecom Co. Ltd.	None	Telefonica International S.A.
Ownership	N.A.	6.6%	N.A.	5.0%

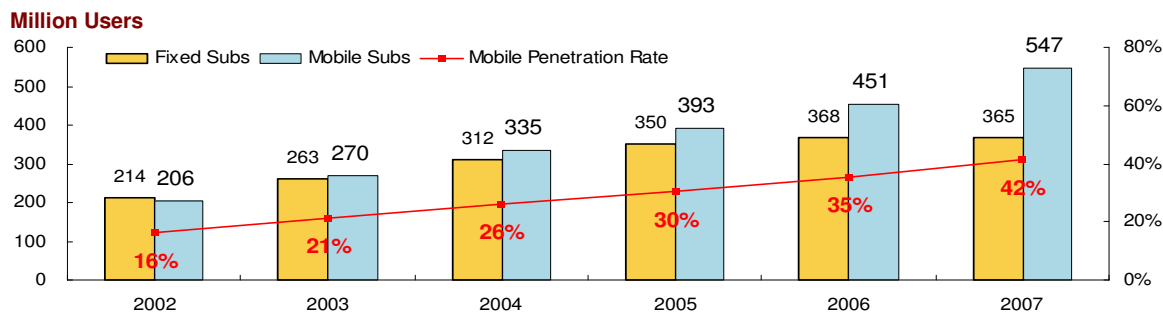
Source: China Statistical Yearbook, CEIC

- Under the WTO agreement, China is committed to open its telecom industry gradually
- SK Telecom Co. Ltd and Telefonica International S.A. are strategic investors in Unicom and Netcom, respectively

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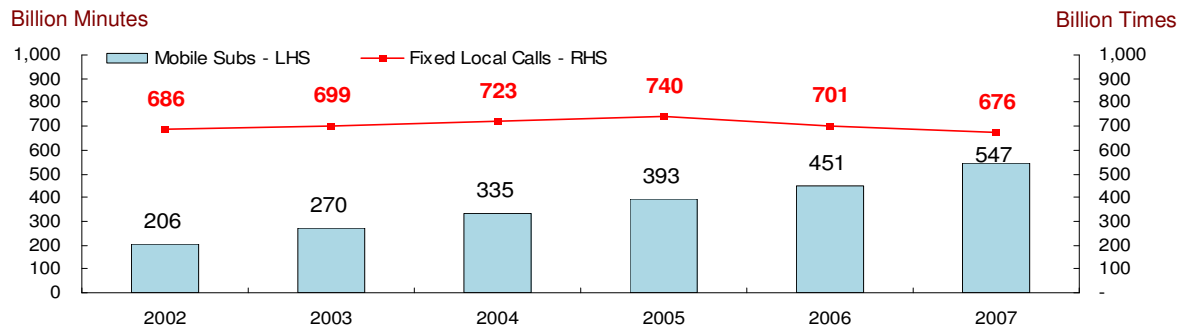
Remarkable growth in mobile subscriber and usage

Mobile/Fixed Subscriber Growth and Penetration Rate



- China's mobile sector has seen remarkable growth, reaching 547 million subs by the end of 2007, with a penetration rate of 42%;
- Mobile voice traffic has also seen steady growth, enforcing the mobile substitution effects

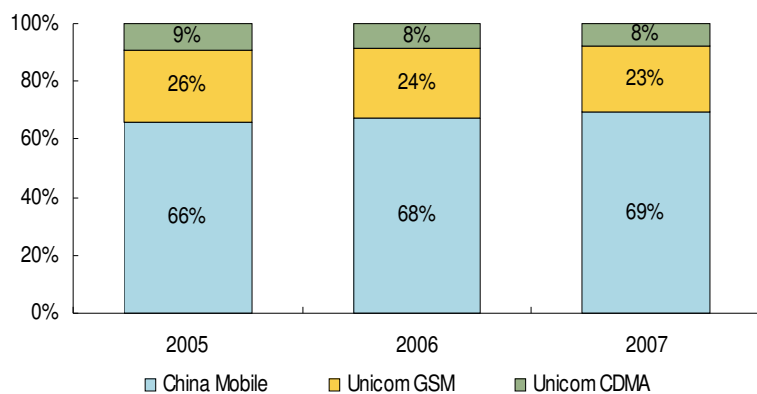
Mobile/Fixed Local Voice Traffic



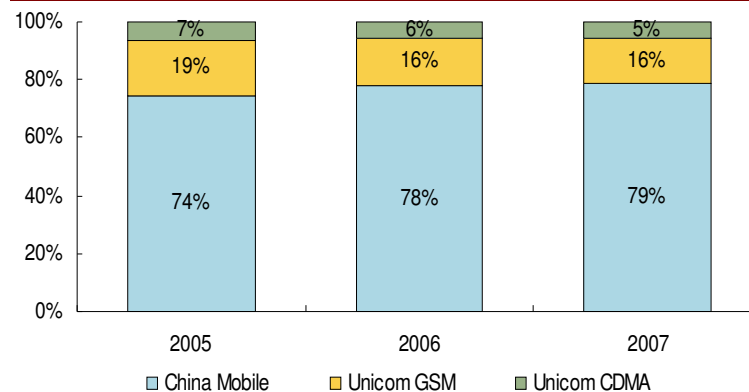
Source: MII

China Mobile leads the competition

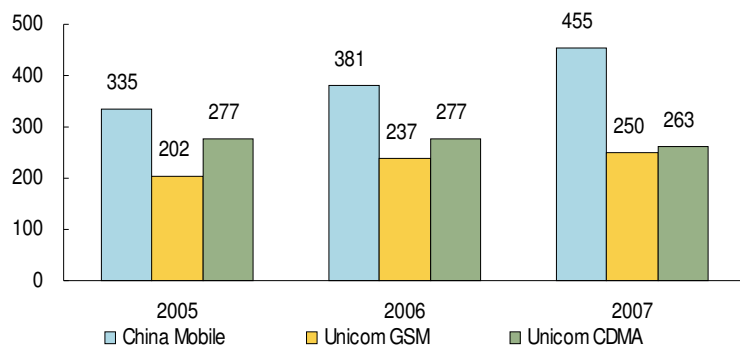
Total Subscriber Market Share



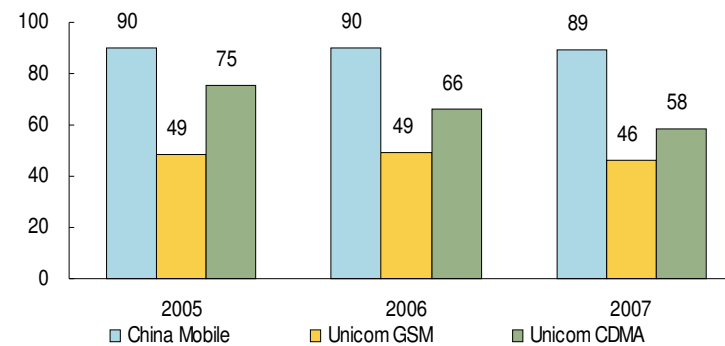
Net Additional Subs Market Share



Avg MOU



ARPU

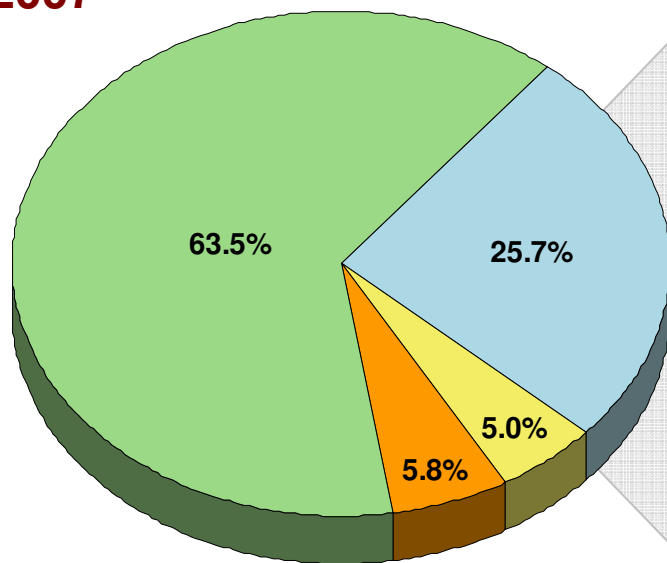


Source: CICC Research

Value-added services being a significant growth driver

China Mobile's Revenue Composition

2007



- Monthly Fees
- Usage Fees
- Value-added Business
- Others

ARPU (RMB)

2007	2006	2005
89	90	90

Voice Value-Added Services Revenue

5.4%	5.6%	5.4%
------	------	------

SMS Revenue

11.8%	10.9%	10.2%
-------	-------	-------

Non-SMS Data Business Revenue

8.5%	7.0%	5.0%
------	------	------

Value-Added Business Revenue

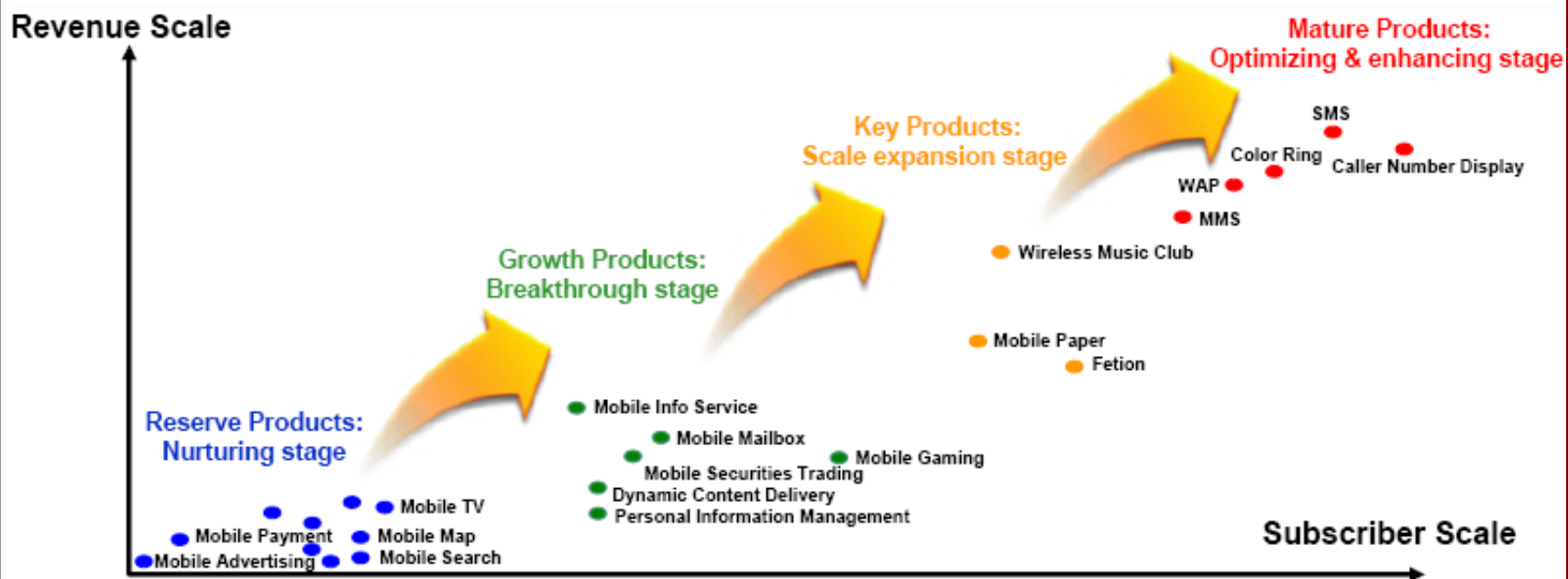
<u>25.7%</u>	<u>23.5%</u>	<u>20.6%</u>
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Source: Company Data

Value-added mobile services in China

China Mobile's value-added product portfolio

- China's mobile service providers are building a strong product pipeline for future growth



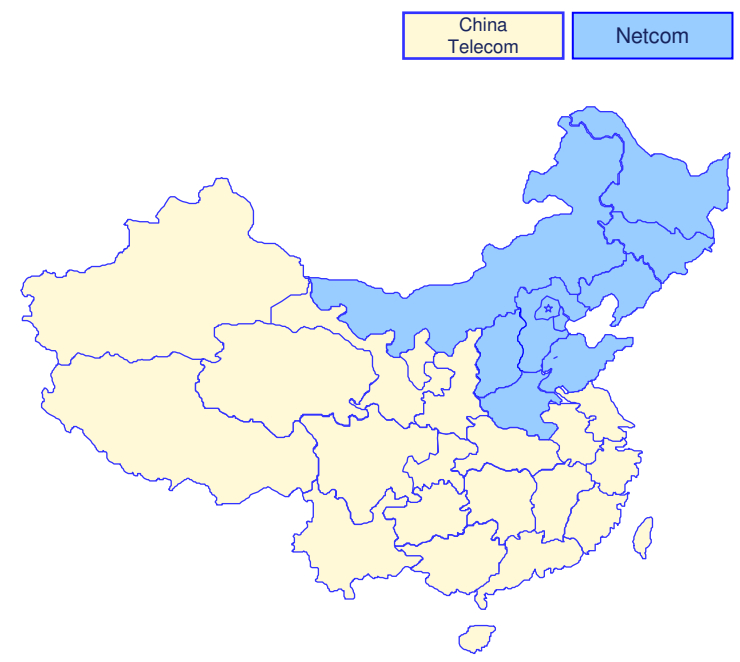
Source: China Mobile Company Report

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Service region division

China Telecom and Netcom's Service Regions

- China Telecom retained the fixed-line networks in 21 southern & western provinces, and its assets constituting 70% of the bandwidth of nationwide inter-provincial fiber-optic network
- China Netcom was established with the fixed-line networks in 10 northern provinces, and its assets constituting 30% of the bandwidth of nationwide inter-provincial fiber-optic network

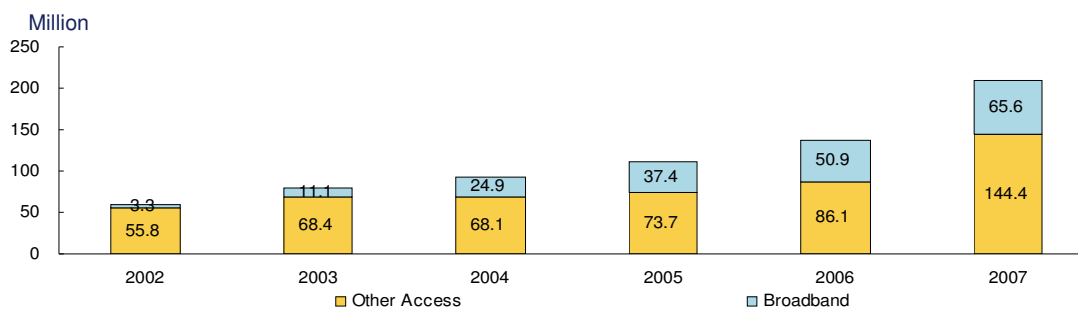


- After China's telecom restructuring in 2002, China's fixed line market was divided into two separate service regions, served by China Telecom and Netcom, respectively

Sources: MII

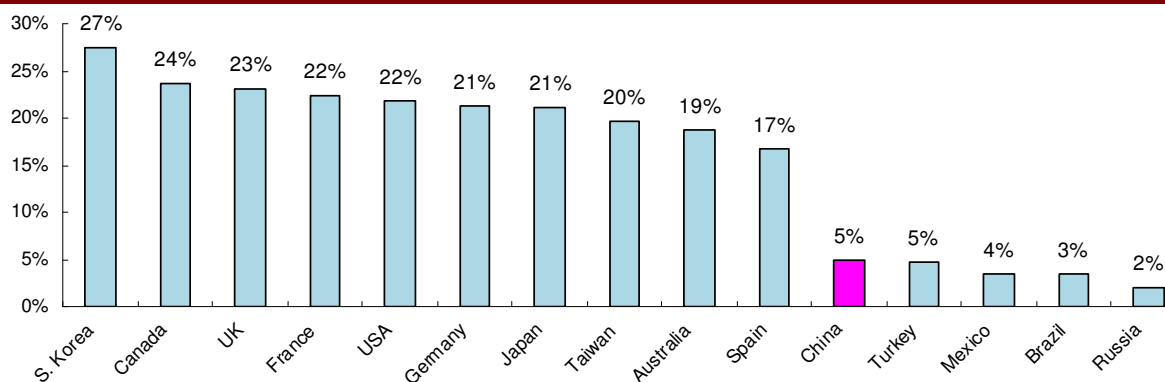
Broadband growth potential

China's Internet Access Subscribers



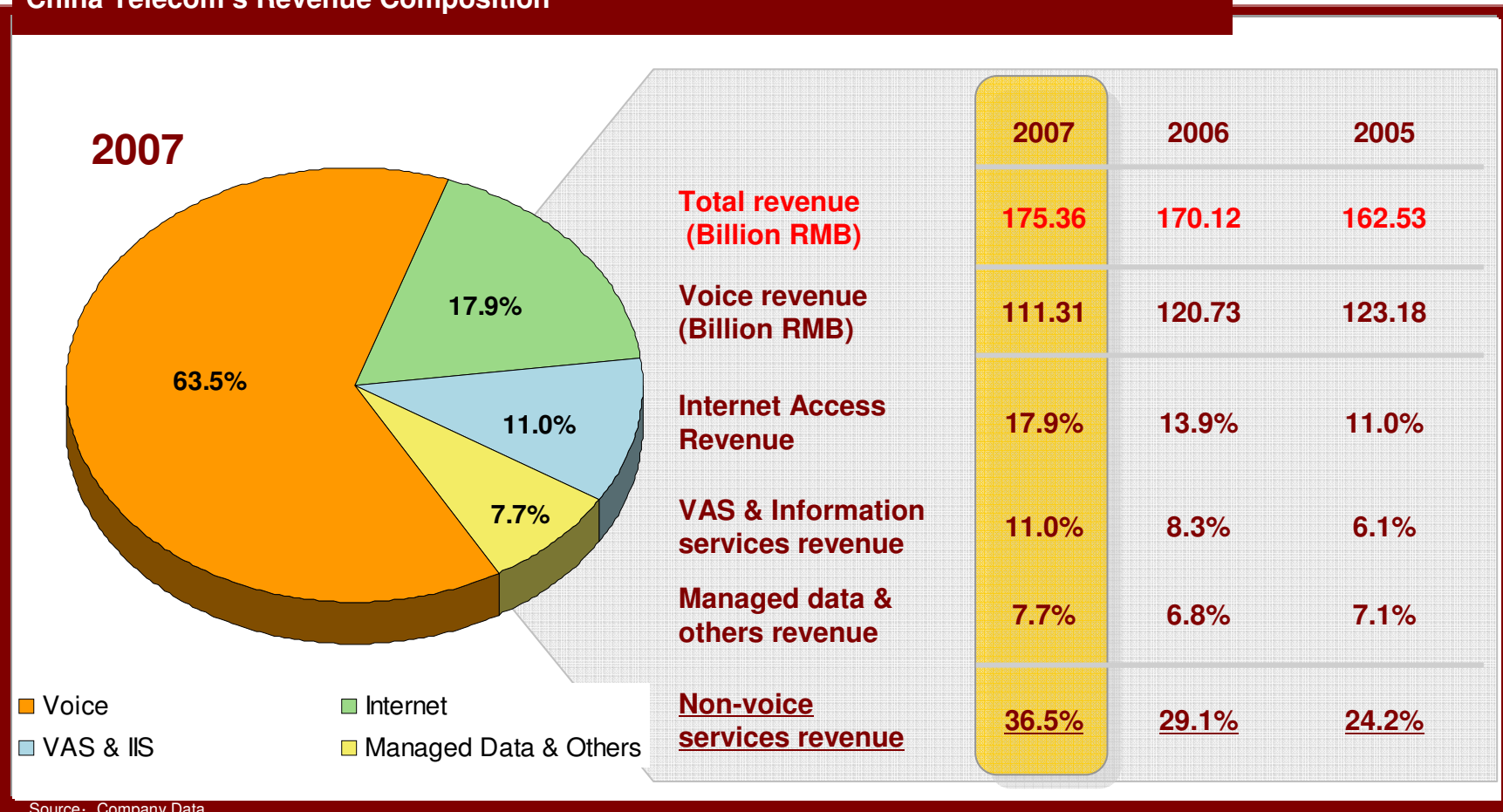
- China's broadband subscribers have grown from 3 million in 2002 to 65.6 million in 2007
- With a low penetration rate of 5%, China's broadband market still has tremendous growth potential

Broadband Penetration Rate of Major Countries (2007)



Non-voice services' growth offsets the slowdown in voice services

China Telecom's Revenue Composition



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Our value proposition is the key to your success



**Our value proposition
is to work as an ...**



independent management consultancy that ...
tackles the strategic challenges from a pragmatic and
operational point of view ...
understands the strategic impact of Asia and China ...
brings innovative thinking to work ...
has a high industry expertise, and ...
works "side by side" to make change happen.




MSM has successfully developed several China strategies for leading European companies

Strategy Development

- Market potential and competitor analysis
- Key success factor evaluation and corporate performance assessment
- Business unit strategy and corporate portfolio valuation along strategic fit and market attractiveness
- Development of organizational design and business unit alignment and transformation
- Development of management leadership principles
- Process mapping



Case Example

	1 Develop common understanding	2 Definition of vision, ambition and goals	3 Development and evaluation of strategic options	4 Development of strategic master plan
Steps	<ul style="list-style-type: none"> ■ Understand starting situation – focus on the Chinese market ■ Review drivers of the business for the Lanxess business units ■ Understand the implications on Lanxess 	<ul style="list-style-type: none"> ■ Review ideal business models for market expansion ■ Identify the gaps between ideal business models and Lanxess ■ Draft realistic vision and ambition for Lanxess 	<ul style="list-style-type: none"> ■ Develop strategic options for the Lanxess business units <ul style="list-style-type: none"> - I - II ■ Evaluate and detail attractive options ■ Strategy Selection 	<ul style="list-style-type: none"> ■ Develop long-term transformation concept ■ Define plan of strategic measures ■ Implement <p style="margin-left: 20px;">Optional: Post integration support</p>
Goal	Development of a common information basis for the China venture	Definition of Lanxess's ambition in expanding in the Chinese market	Selection of strategy leading to sustainable success	Elaboration of action plans

Results and Benefits

- China strategy and positioning
- Organizational redesign with improved performance
- Cooperation structure and partnership options for joint market entry / new business/ acquisition / Greenfield approach

The strong intercultural differences call for a solid and well organized integration management system

Intercultural integration Management	Case Example
<ul style="list-style-type: none"> ■ Understanding the key cultural challenges ■ Change Management ■ Internal cultural & communication issues ■ Identification & selection of foreign service employees ■ Cultural integration of joint venture partners ■ Preparation & training measures ■ International personnel development programs ■ Re-integration procedures for foreign experts 	<div style="display: flex;"> <div style="flex: 1;">  </div> <div style="flex: 2; background-color: #e0f0ff; padding: 5px;"> <p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p> <p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p> <p>Personal views, mental models, estimations e.g. "younger employees need to learn first before promotion; females could not lead unit xyz, "I don't care about budgets"</p> </div> </div> <div style="background-color: #ffff00; text-align: center; padding: 5px; margin-top: 5px;"> <p>Results and Benefits</p> </div> <ul style="list-style-type: none"> ■ Intercultural change ■ Performance measurement tools ■ Intercultural & internal communication concept ■ Train-the-trainer & coaching concepts

MSM’s unique network and experience in government relations & lobbying are the key to success for your enterprise in the PR China





Gov. Relations & Communication



Government Relations

- Understanding the main drivers
- Building up personal networks
- Set-up Communication strategy and action plans
- Monitoring system
- Pro-active Lobbying
- Build up internal attention to GR

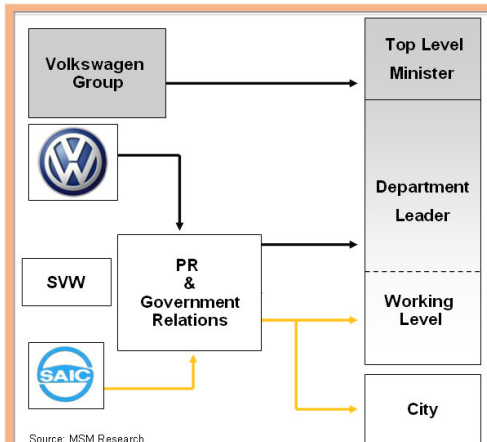
Communication Policy

- Control external communication
- Provide aligned internal communication procedures


Case Example



Source: MSM Research

COMMENTS

- Top-level communication is controlled and maintained by Volkswagen Group
- Involvement of the JV-Partner is limited to high City level and on working level of Government departments



Results and Benefits

- Clear GR & communications Roadmap & Action-plan
- CEO coaching & preparation of key staff
- Communication rules and responsibilities
- China Government Relations and Lobbying strategy
- GR- building & Monitoring system
- Pro-active lobbying & Joint initiatives

MSM supports it’s clients during the whole M&A process from preparation, target identification, negotiations, transitional- & post merger integration (PMI)

MSM’s M&A support

Wholistic side-by-side approach

- Understand the market/sector
- Understand the demographical, political and logistic requirements and circumstances
- Screen for potential partners
- Conduct feasibility study and commercial due diligence
- Understand administrative measures and processes in China
- Identify and negotiate transitional management and general HR implications
- Set-up appropriate government relations
- PMI



Case Example

A structured, parallel screening process guarantees transparency and speed of transactional phase

Illustrative

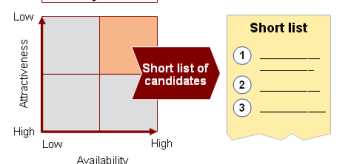
Screening criteria

Long list of candidates

We will apply OBO Bettermann's selection criteria to the priority matrix

Criteria	Attractiveness		
	low (1)	medium (2)	high (3)
Production	no	< 30 kt	> 30 kt
Critical size	< 10 mill.	10 – 50 mill.	100 mill.
System approval	no	n.a.	yes
R&D teams	no	n.a.	yes

Priority matrix



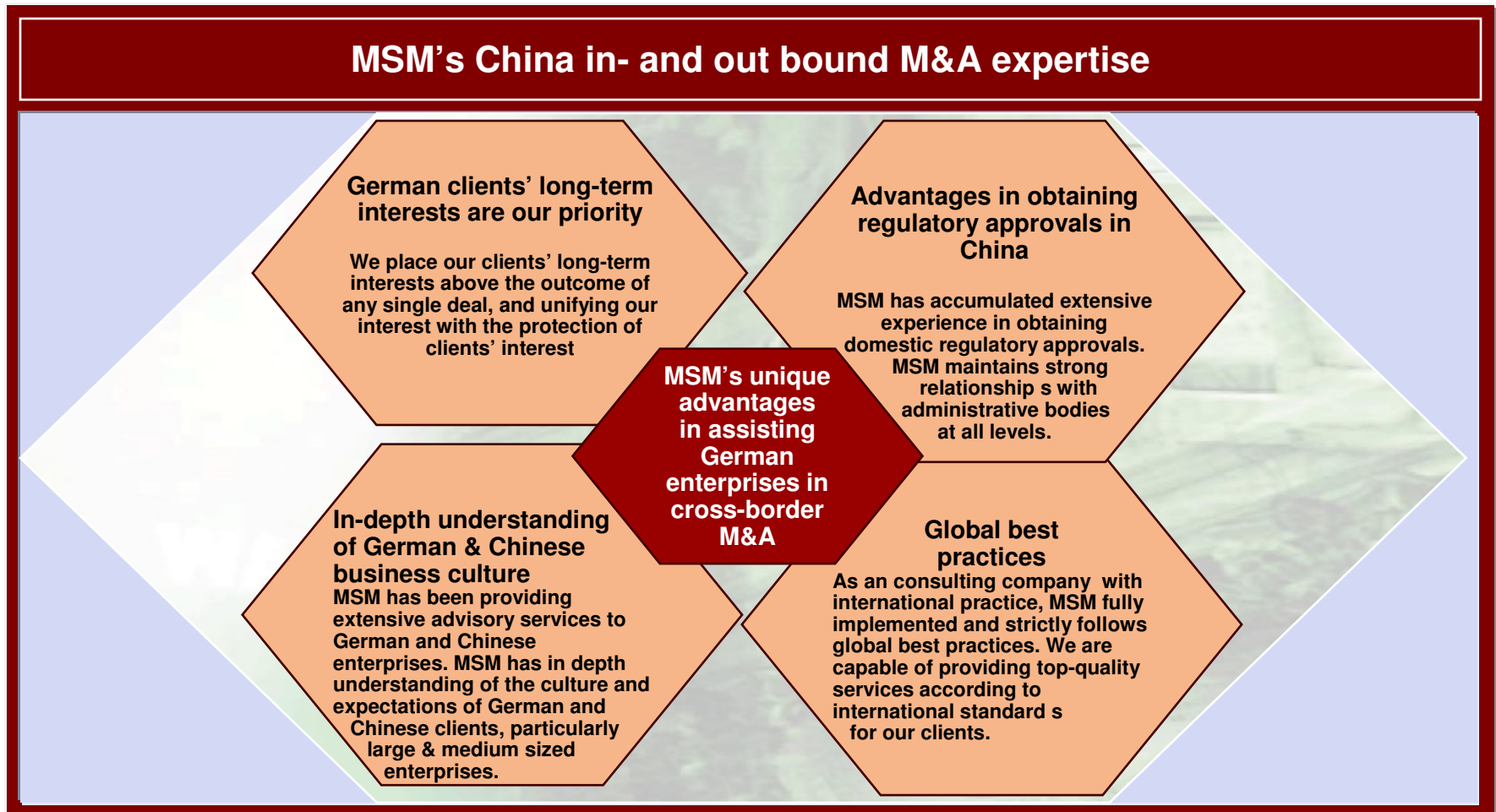
- MSM is able to make first (confidential) contact with attractive candidates
- MSM does offer also the full range of M&A related services

Source: MSM

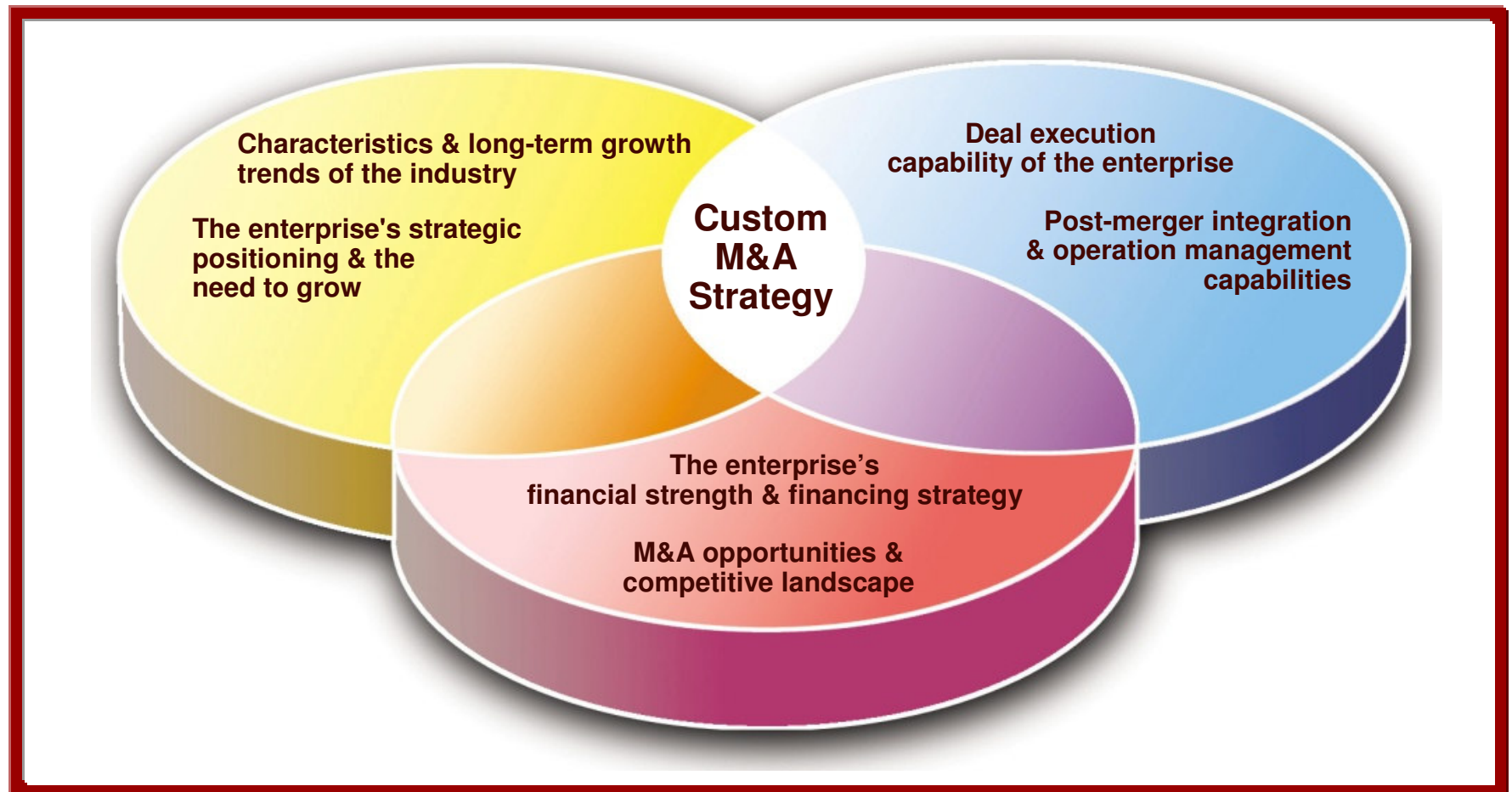
Results and Benefits

- Clear and actual information from key experts of the relevant Chinese authorities, institutions & industries
- Reliable preparation, support for negotiations
- Trustworthy feasibility study & due diligence
- Understand administrative measures and processes

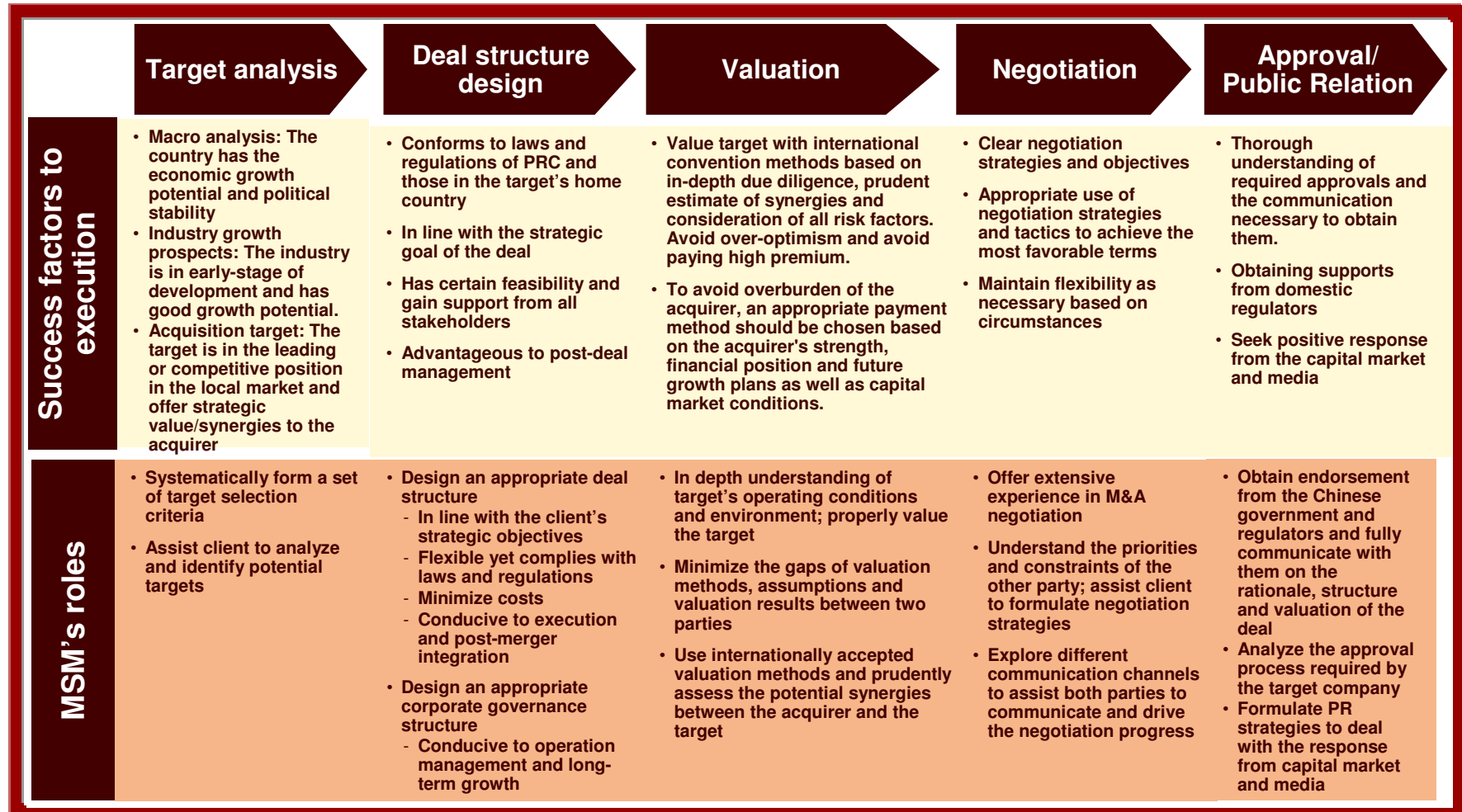
MSM has a deep understanding of its clients interests, the Chinese M&A environment and broad experiences of the approval process in China



Development of sustainable M&A strategies need to be based on a broad understanding



M&A service overview/approach



MSM’s top consultants have extensive experience helping companies enter the China market, or conduct China related businesses





MSM contacts



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