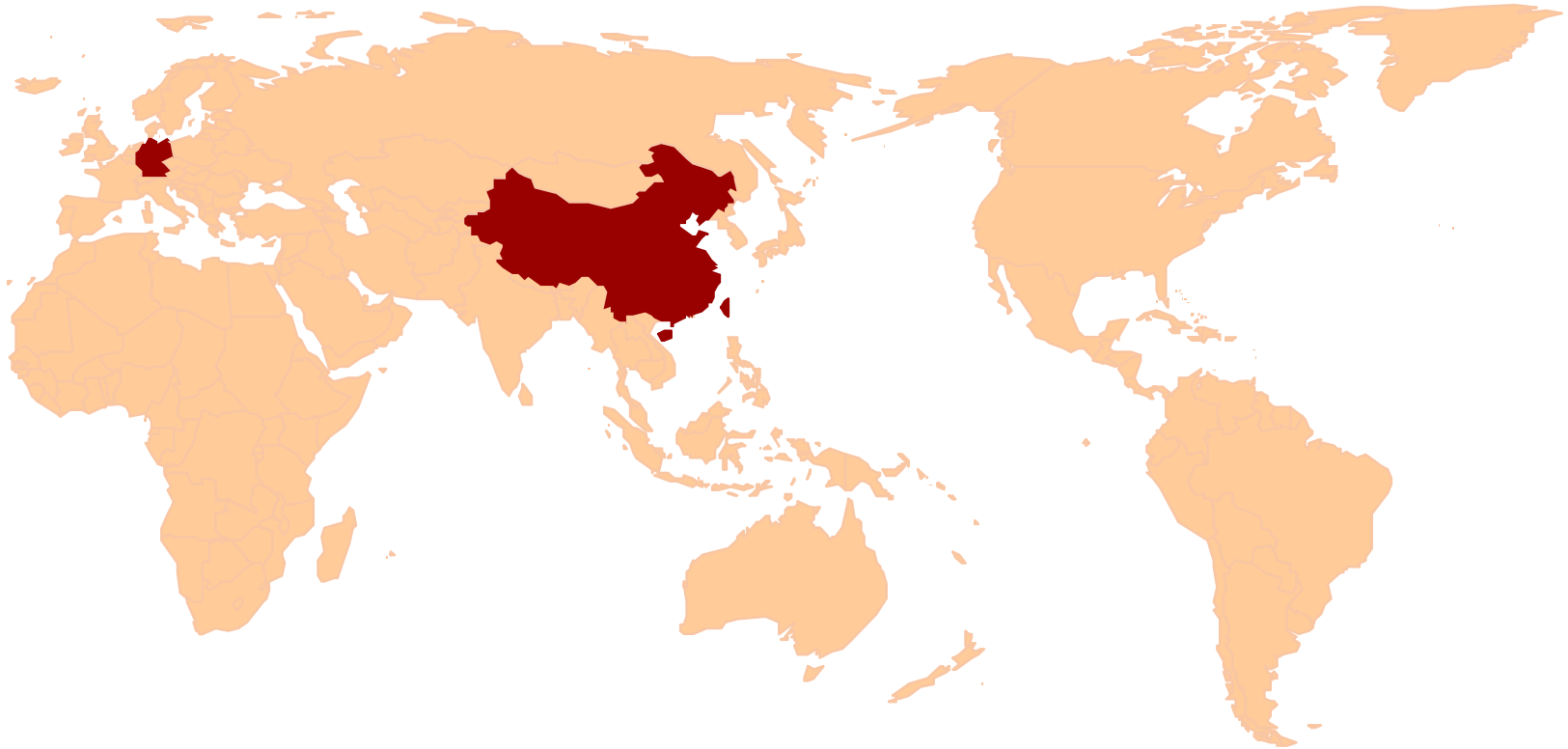


MSM
MANDARIN STRATEGY MANAGEMENT
CONSULTING GMBH



**MSM –
YOUR STRATEGIC PARTNER FOR CHINA**

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

1

Overview China's economic development

2

China's chemical industry (Outlook)

3

About MSM

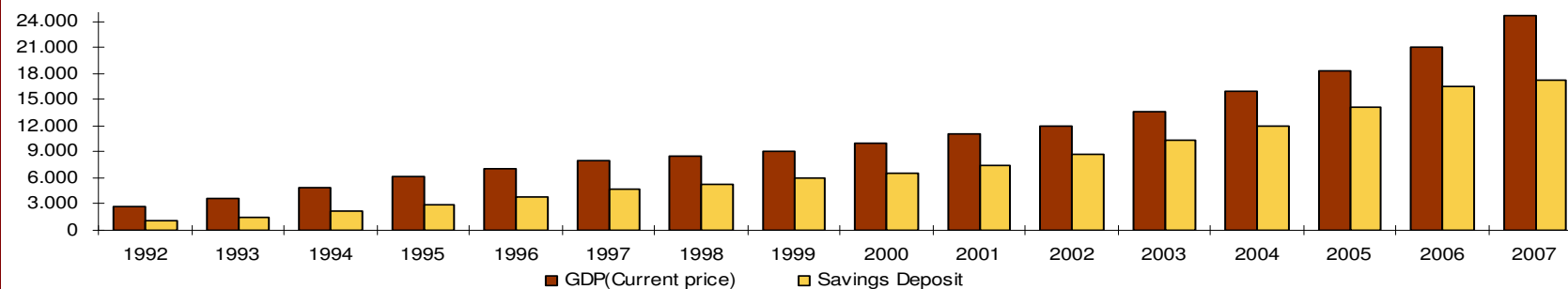
MSM overview of the Chinese economy

GIANT EMERGING ECONOMY	<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
FAST GROWING OUTPUT	<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
STRONGER CURRENCY	<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)
MAJOR PLAYER IN GLOBAL TRADE	<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

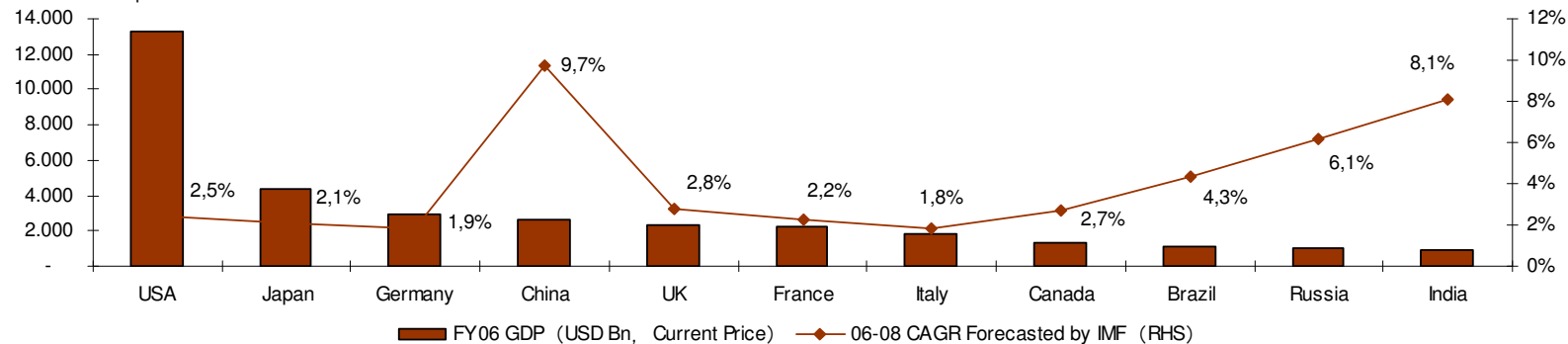
Strong GDP growth and rising household wealth in 1992—2007

Unit: RMB Bln.



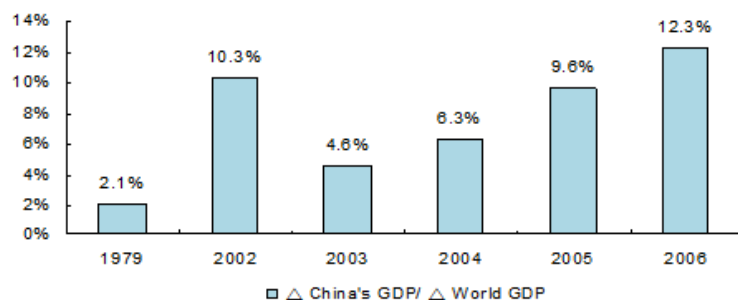
China's growth will continue to outpace other large economies in the next two years

Unit: US \$ Bln.



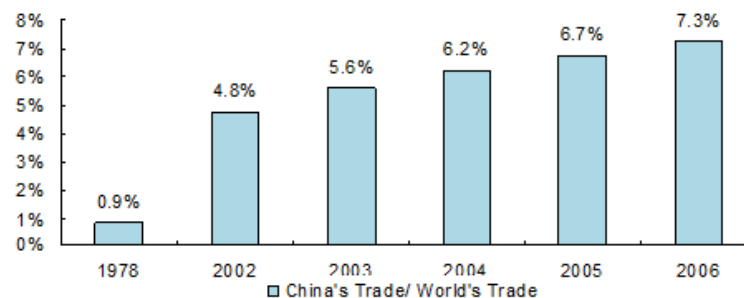
... with increasing influence on the world economy

China Contributes More to the World Economy



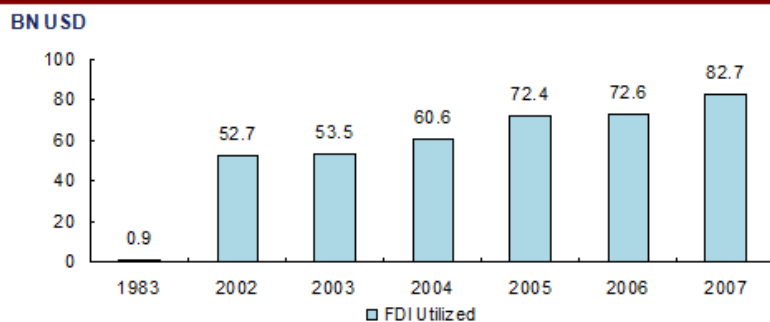
Source: World Bank, CICC Research

China's Trade is Taking Bigger Proportion



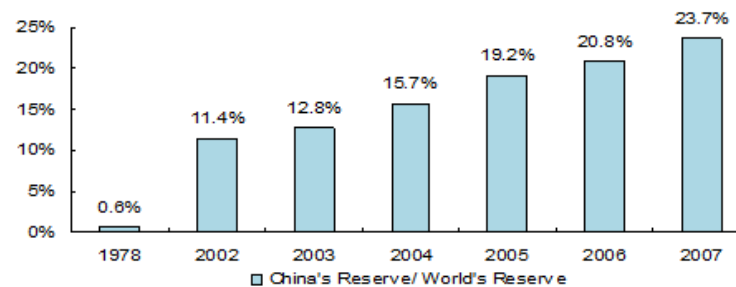
Source: IMF, CICC Research

More FDI is Attracted into China



Source: CEIC

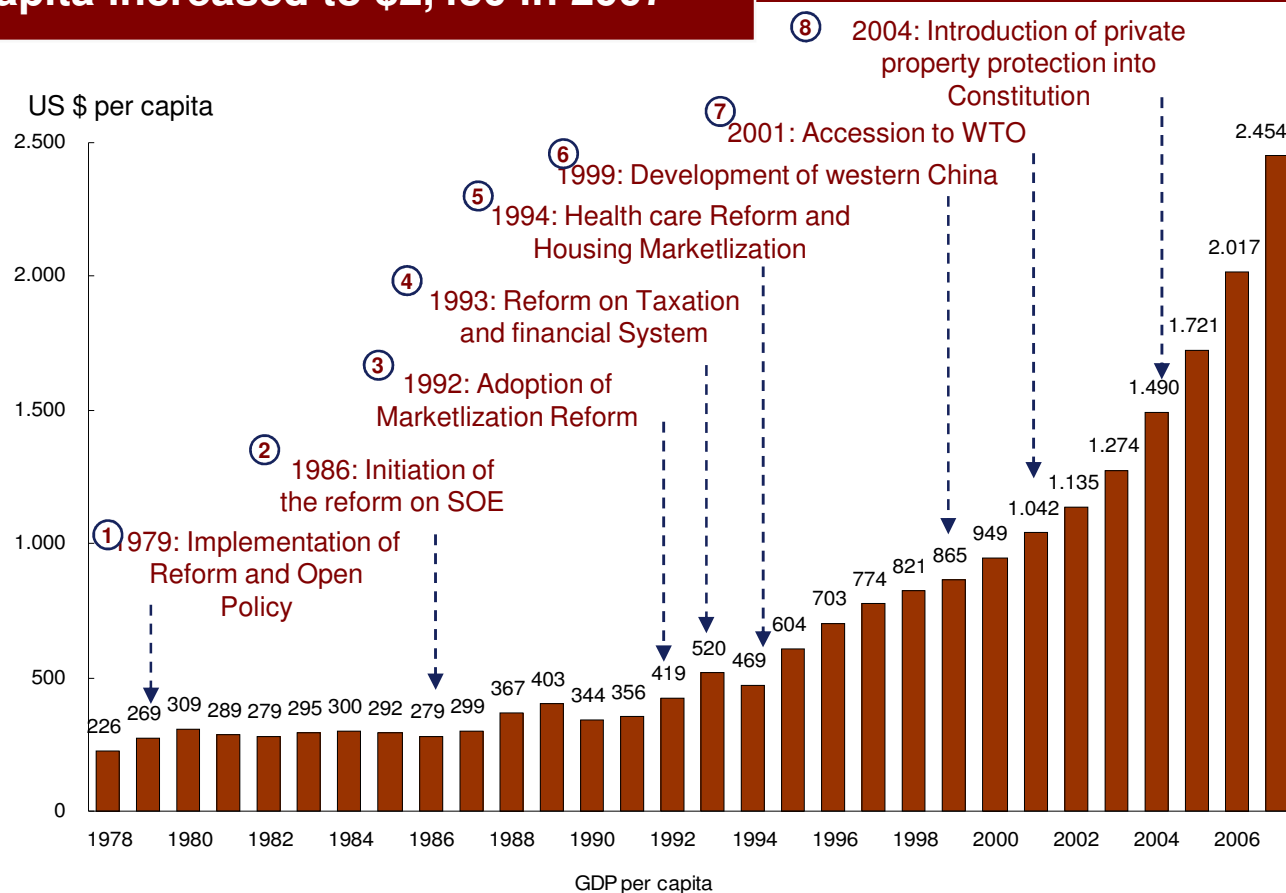
China's Reserve is now the Largest in the World



Source: IMF, CICC Research

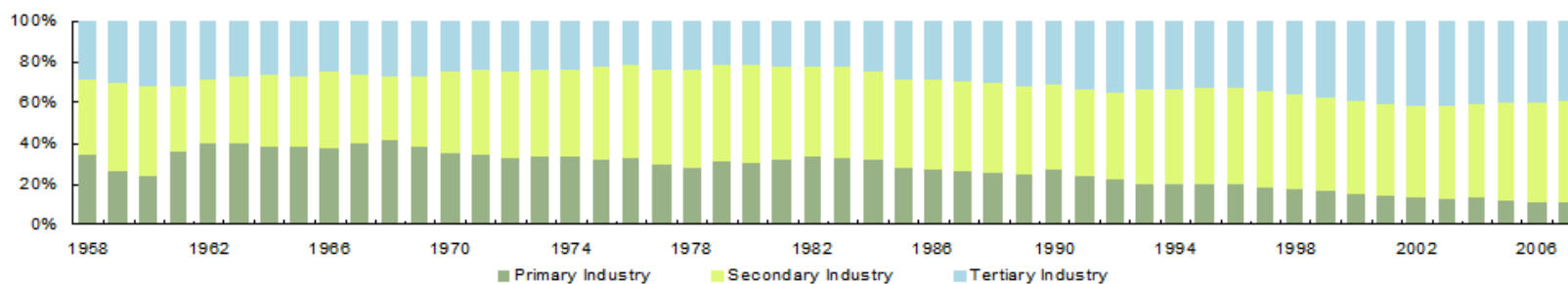
Market-oriented reform has been progressing steadily

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



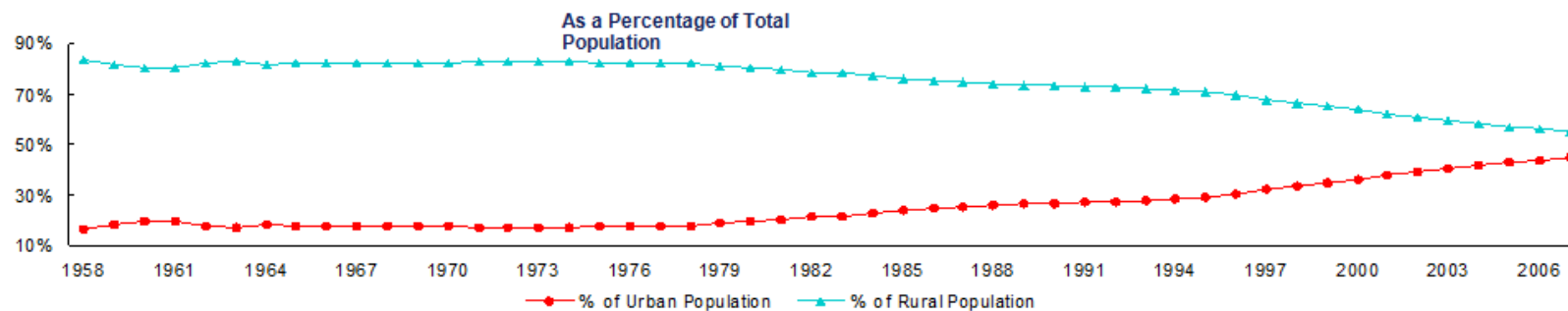
... achieving higher level of industrialization and urbanization

The Contributions of Sectorial Value-Added to China's GDP



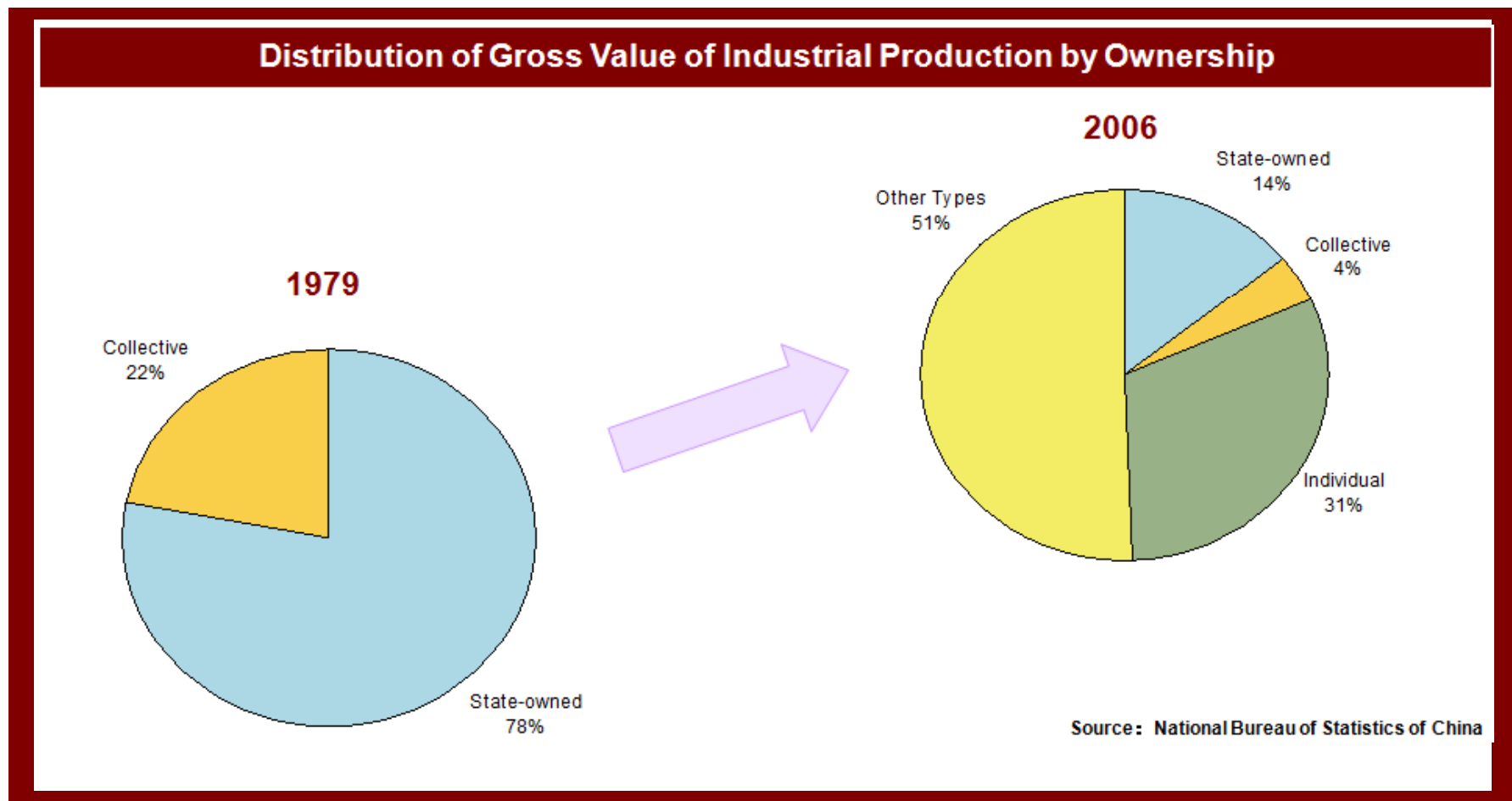
source: National Bureau of Statistics of China

China's urbanization level : Rises up to 45%



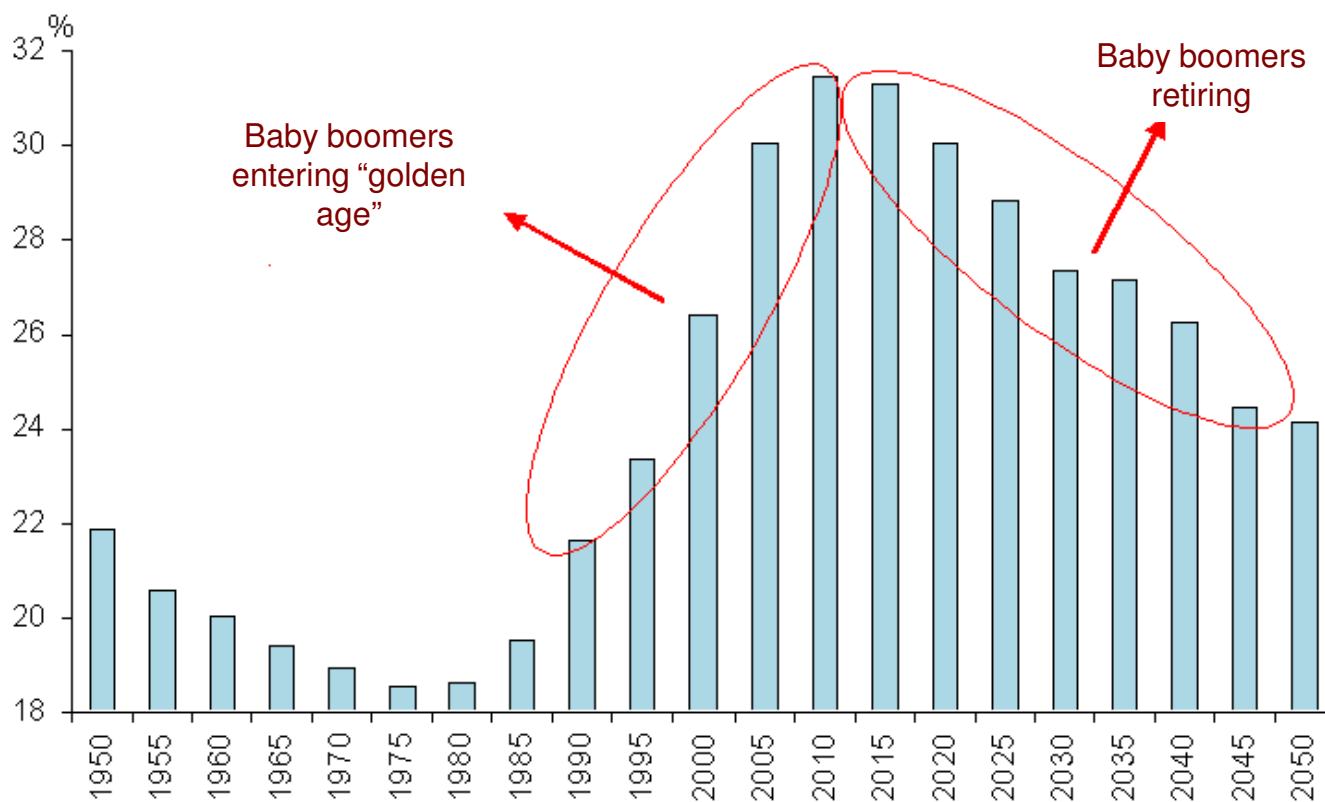
source: CEIC

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



China's demographic trend changes and will challenge future growth

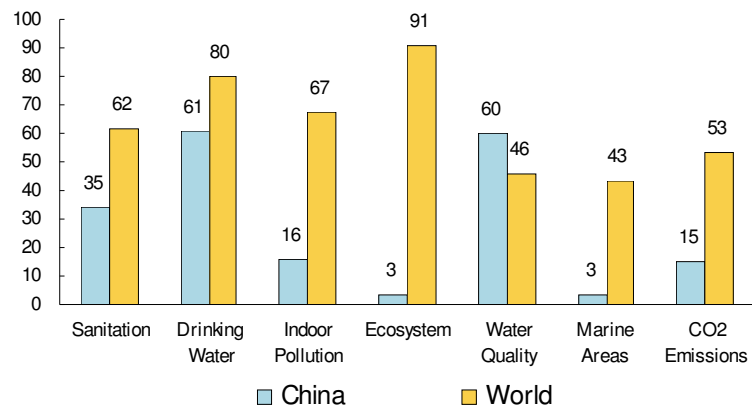
The percentage of Age 35-54 group in population



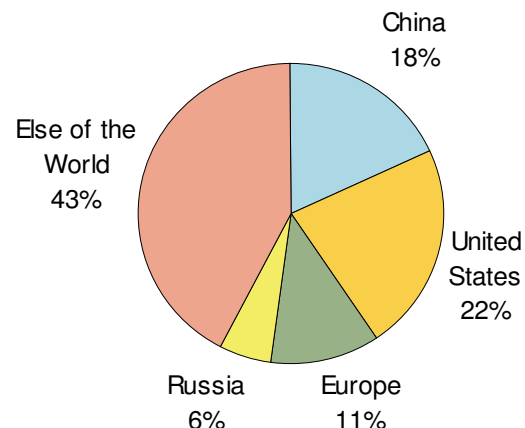
Environmental challenges of China's economic development

China's environmental performance 2007-2008

Environmental Performance Index 2008



CO2 emission Proportion



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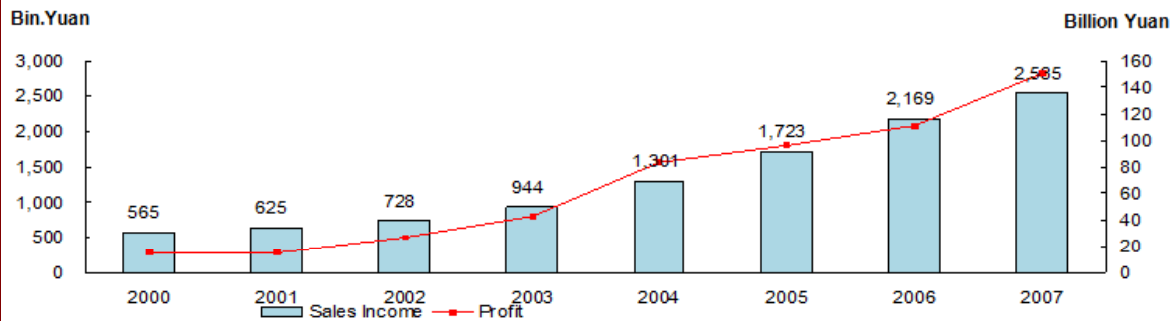
China's chemical industry (Outlook)

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About MSM

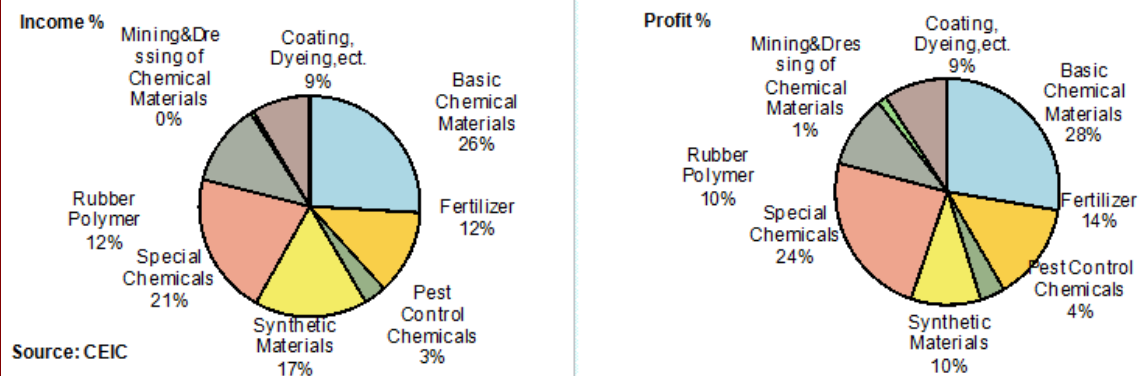
China's chemical industry shows steady and rapid growth

Revenue and profit growth in chemical industry



Source: CEIC

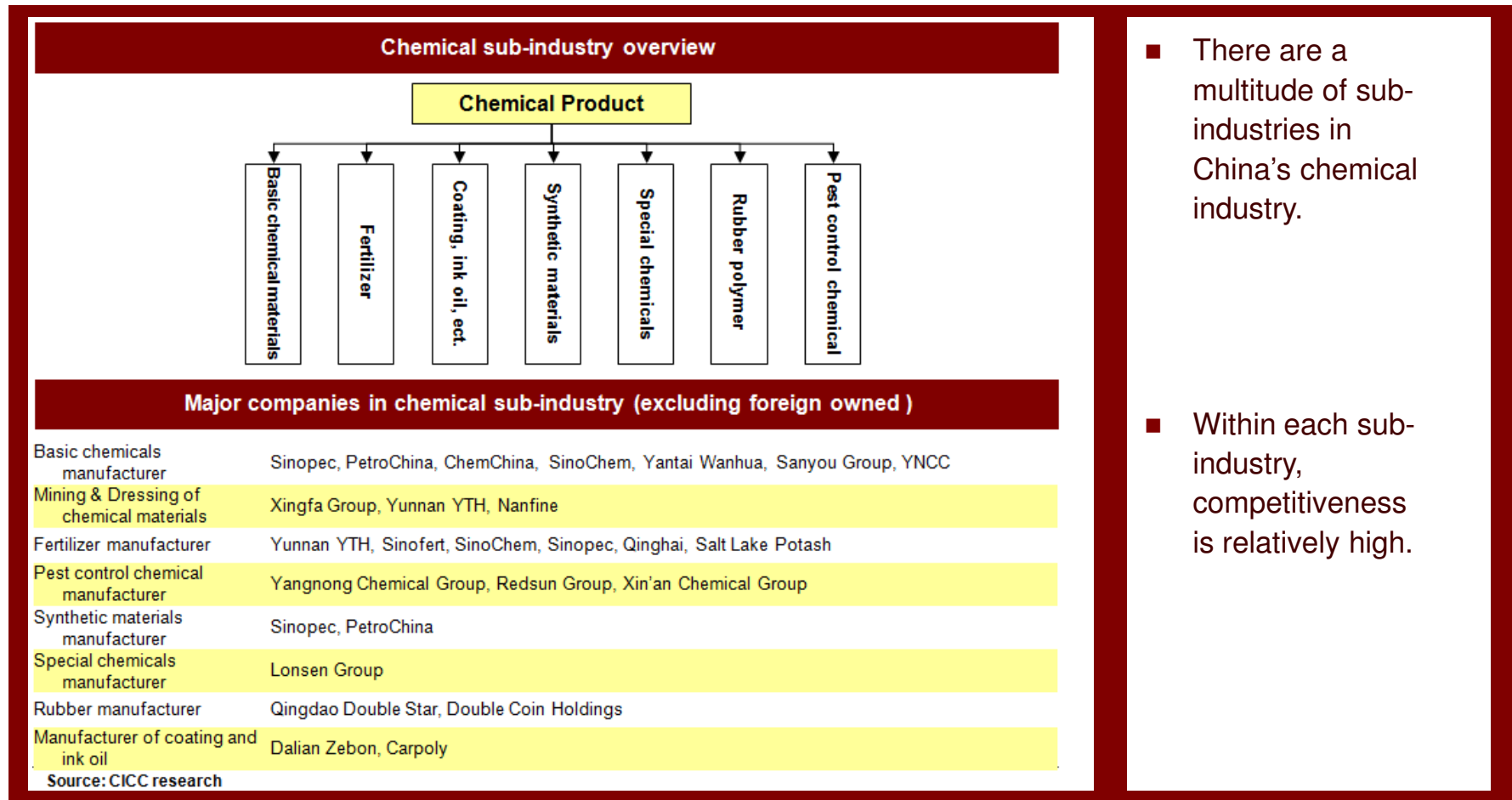
Revenue and profit % of each chemical subsidiary in overall industry



Source: CEIC

- In the past few years, chemical industry in China enjoyed high growth, with CAGR reached around 25% between 2000 and 2007.
- There are numerous subsidiaries in chemical industry, among which basic chemical materials and special chemicals represent approx. 50% of the total revenue and the profit of the whole industry.

Highly competitive chemical industry



China's chemical industry still has growth potential

% of major chemicals in the global production												
Thousand ton	Calcined Soda	Carbinol	PVC	MDI	TDI	BDO	Organo-silicone	Urethane Elastic Fibre	PEMEG	Bisphenol A	Phenol	Glycol
China Production	18,170	8,000	11,000	660	290	146	435	200	120	165	560	1,700
World Production	45,000	42,930	52,000	3,960	2,100	1,620	2,170	450	572	4,120	8,440	18,000
Net Import to China	-1,667	937	946	370	162	75	276	-8	40	359	284	4,060
China's % in World Production	40.4%	18.6%	21.2%	16.7%	13.8%	9.0%	20.0%	44.4%	21.0%	4.0%	6.6%	9.4%

Source: CPCIA

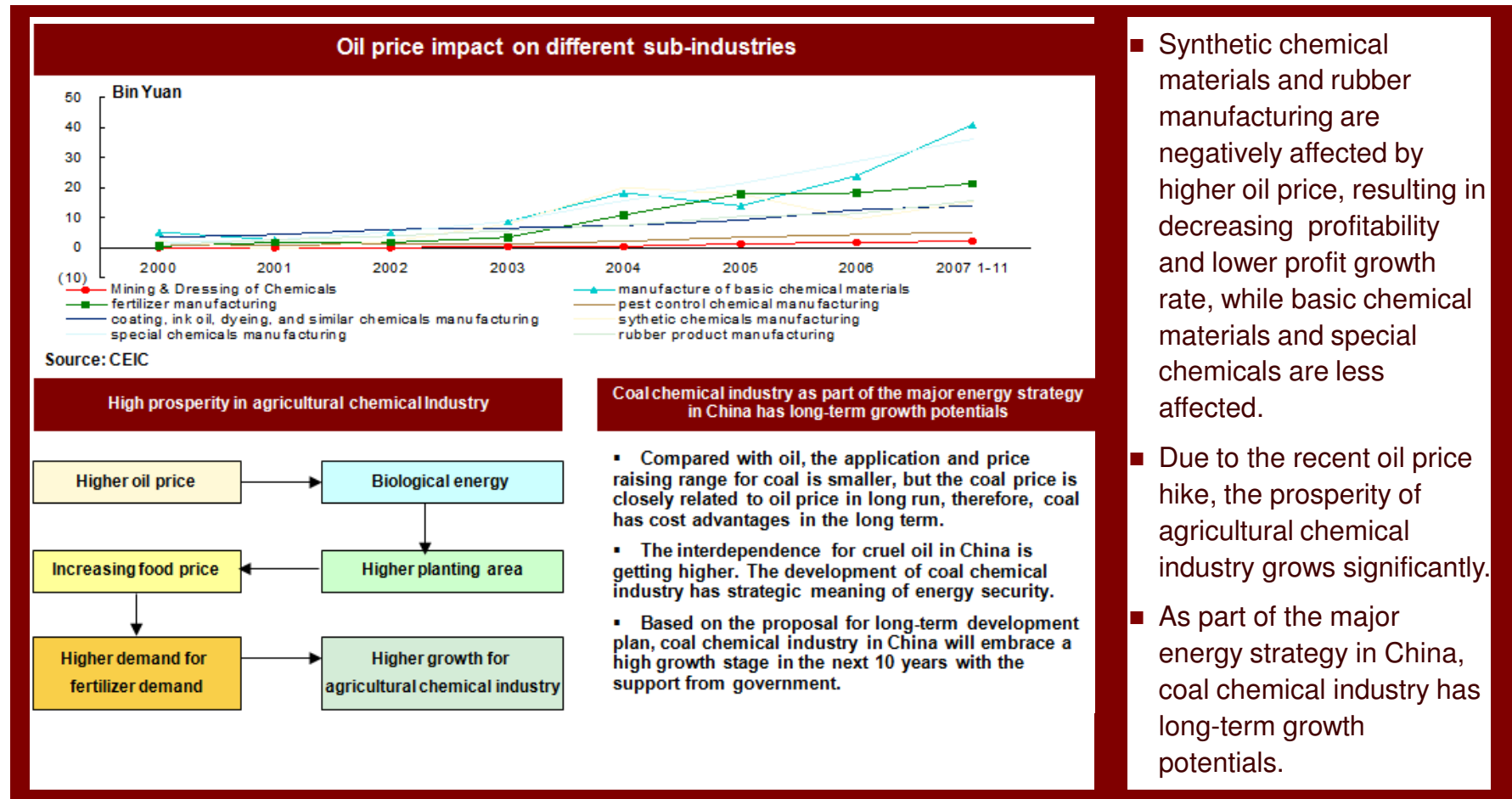
Almost all global chemical companies have invested in China



Source: CICC research

- Currently China's chemical production represent only about 20% of the world's total production. As investment in China's chemical industry continues to improve, China still has a lot of potential in chemical production.
- Based on CMAI estimation, basic chemical production in China will double from 2006 to 2015, and the self-sufficiency rate will improve to around 85% from 70% currently, with production CAGR reached 10%.

Oil price impact on China's chemical industry



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About MSM

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


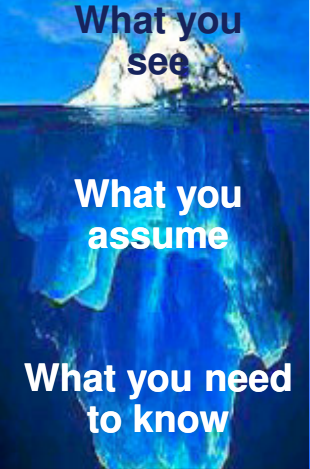
Case Example

	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 Optional: Post integration support
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 		<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>
<p>Results and Benefits</p>		<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

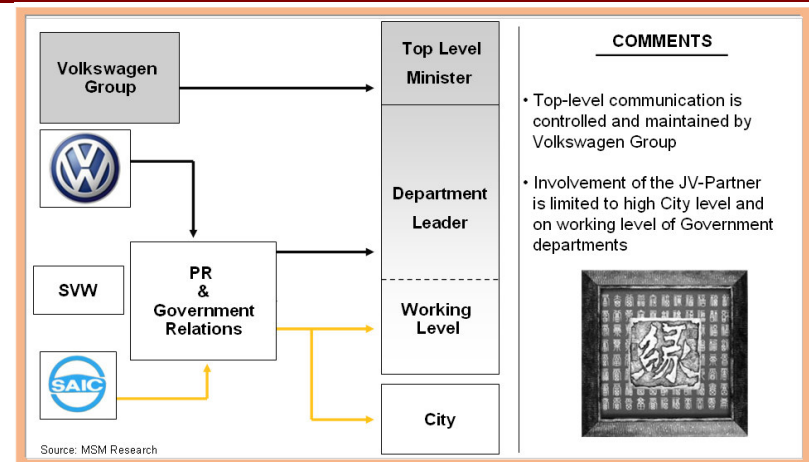
- Understanding the main drivers
- Building up personal networks
- Set-up Communication strategy and action plans
- Monitoring system
- Pro-active Lobbying
- Build up internal attention to GR

Communication Policy

- Control external communication
- Provide aligned internal communication procedures



Case Example



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 its 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

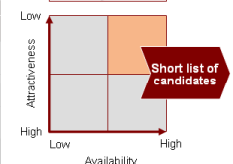
Screening criteria

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	< 1U mill.	1U – 5U mill.	10U mill.
System approval	no	n. a.	yes
R&D teams	no	n. a.	yes

Priority matrix



Short list

- 1 _____
- 2 _____
- 3 _____

- 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

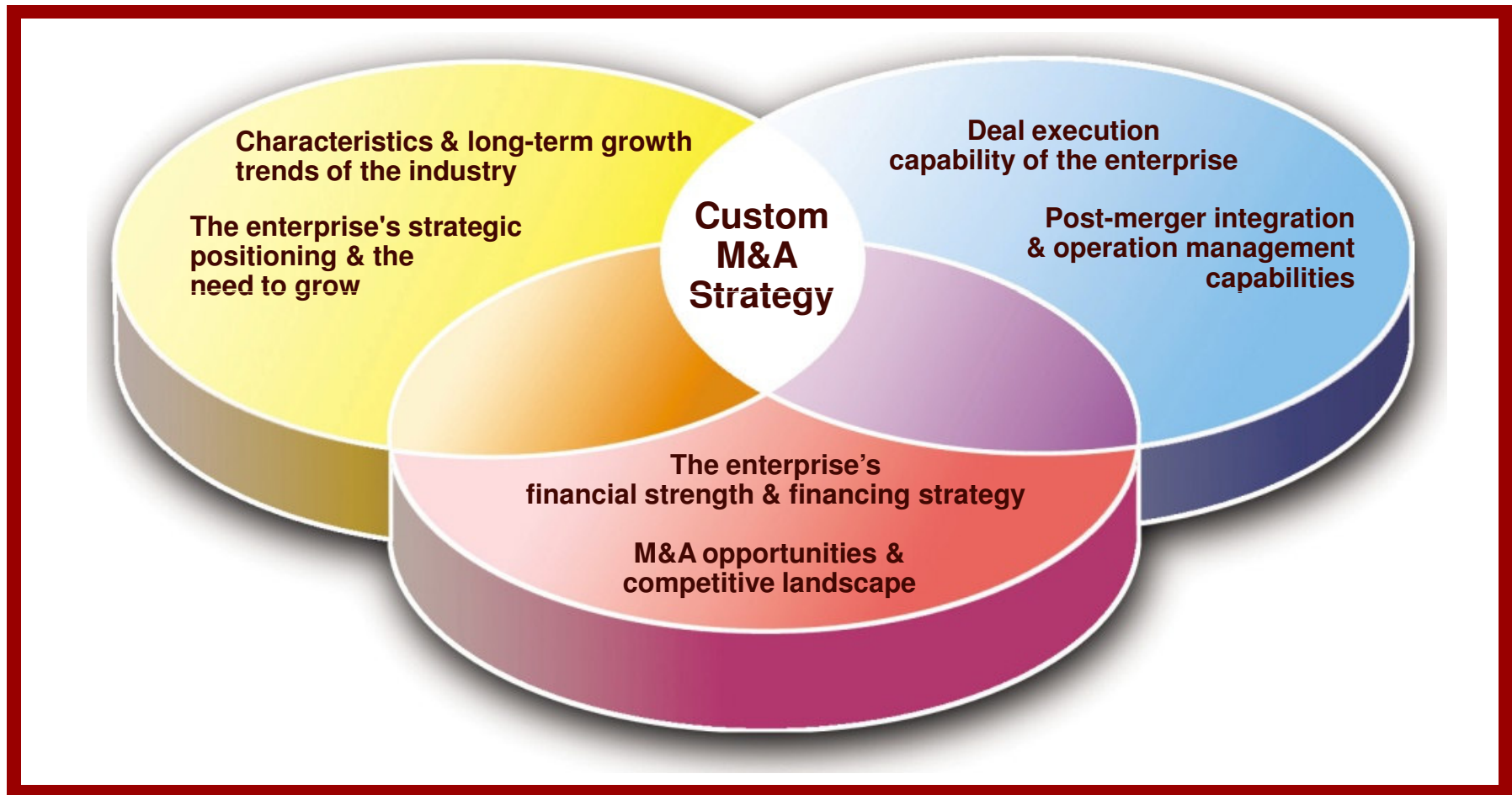
Results and Benefits

- 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

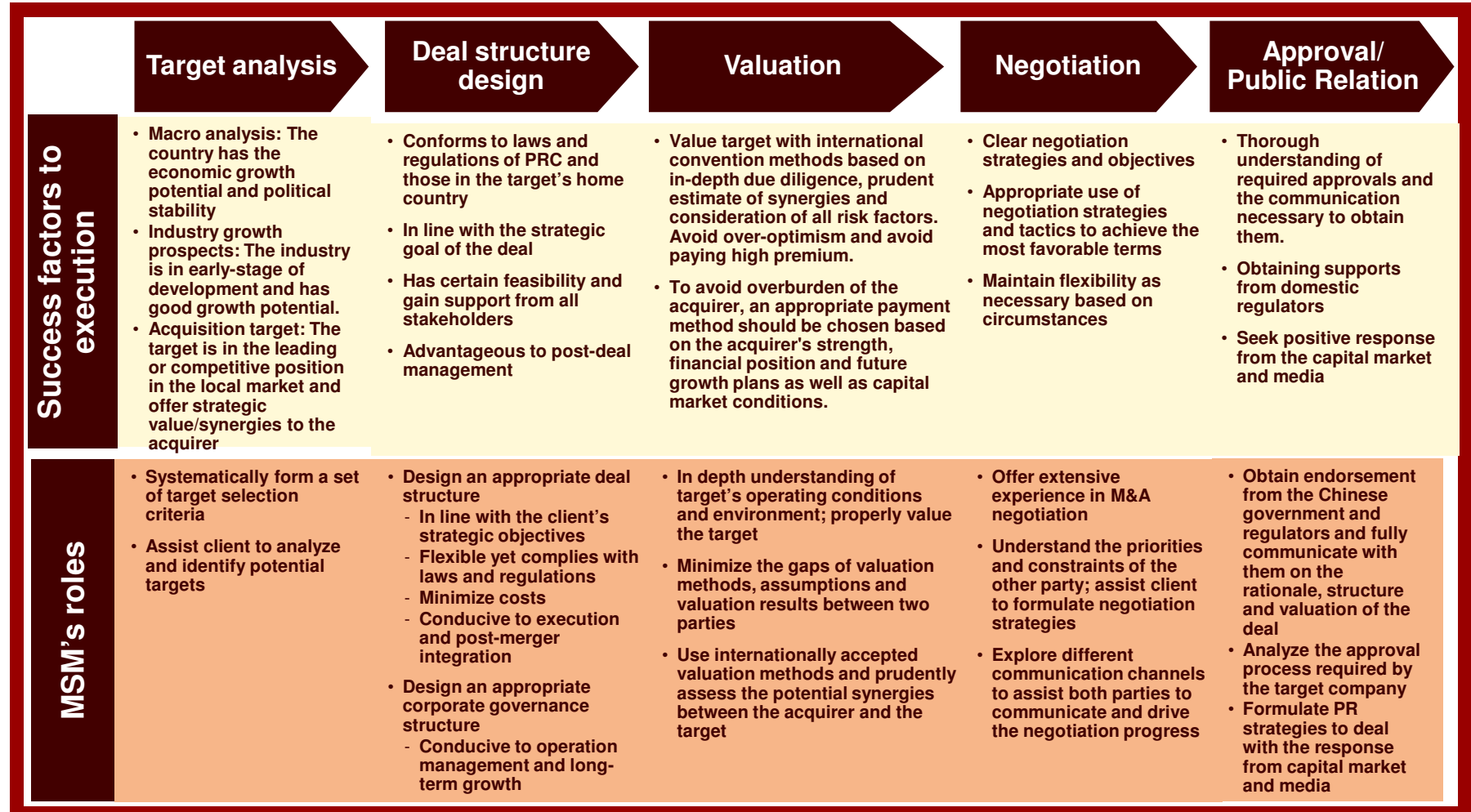
MSM has a deep understanding of its clients interests, the Chinese M&A environment and broad experiences of the approval process in China



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



M&A service overview/approach





MSM contacts



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