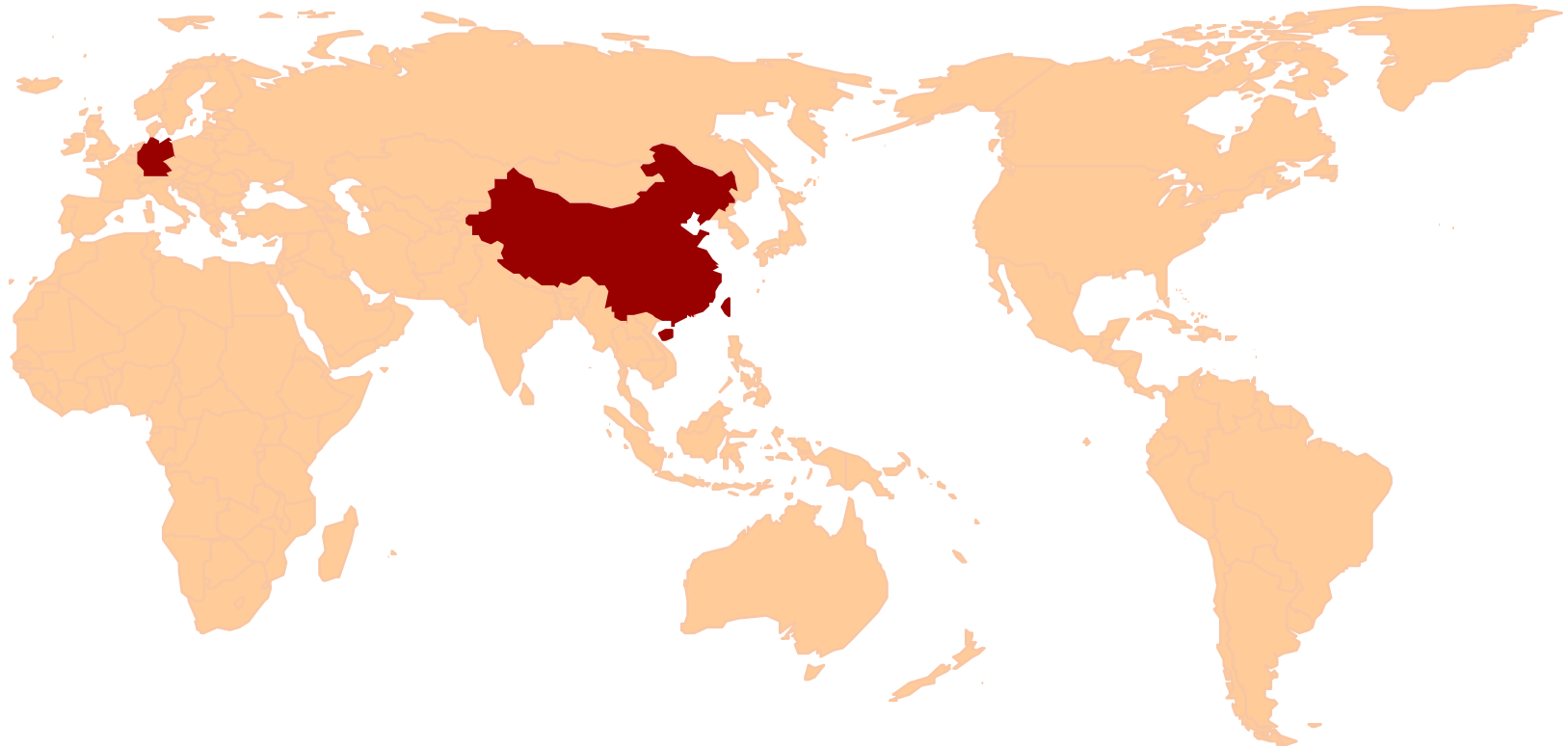


MSM
MANDARIN STRATEGY MANAGEMENT
CONSULTING GMBH



MSM –
YOUR STRATEGIC PARTNER FOR CHINA

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



1	Overview China's economic development
2	China's Railway Industry (Outlook)
3	China's Rolling Stock Industry
4	About MSM

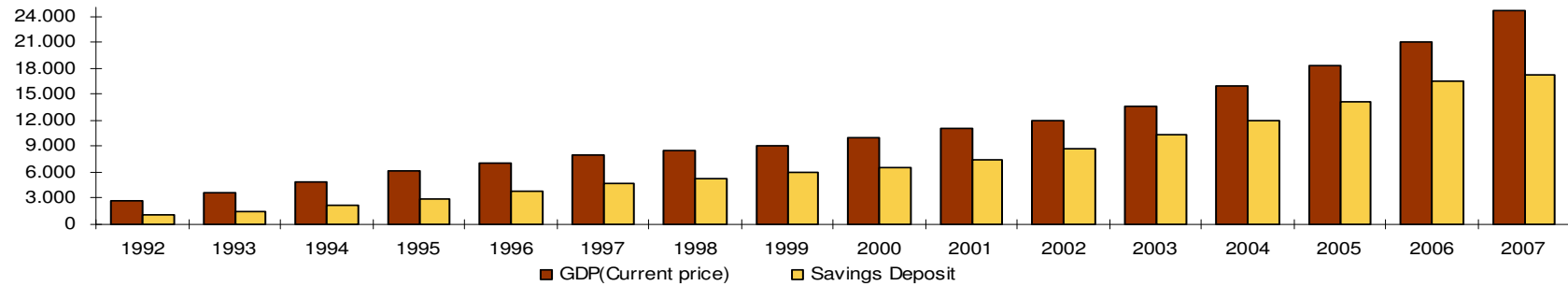
MSM overview of the Chinese economy

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

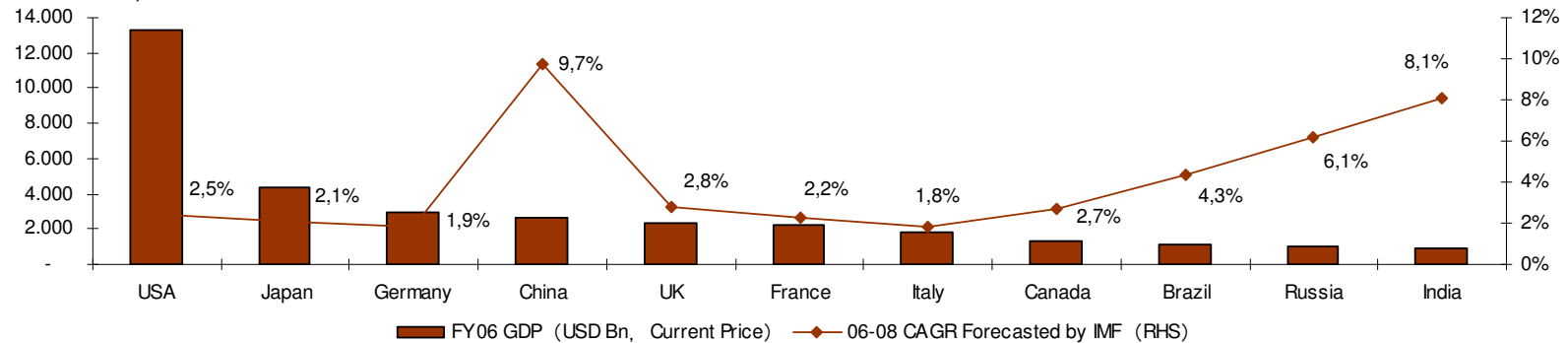
Strong GDP growth and rising household wealth in 1992—2007

Unit: RMB Bln.



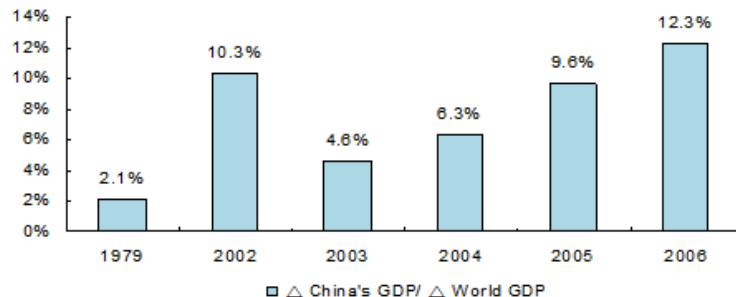
China's growth will continue to outpace other large economies in the next two years

Unit: US \$ Bln.



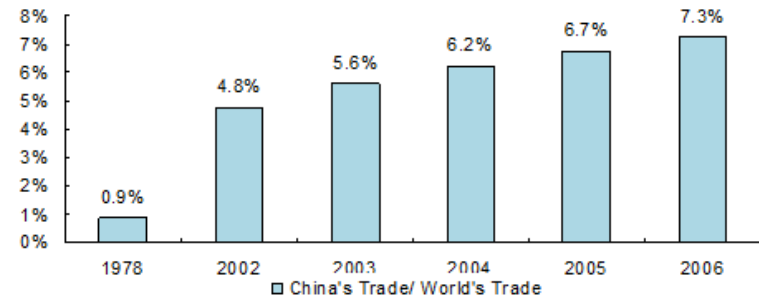
... with increasing influence on the world economy

China Contributes More to the World Economy



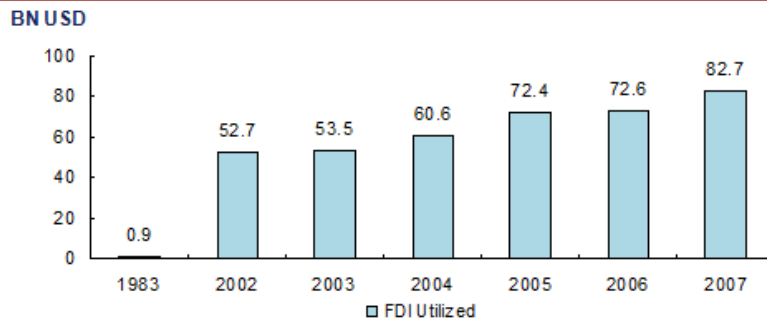
Source: World Bank, CICC Research

China's Trade is Taking Bigger Proportion



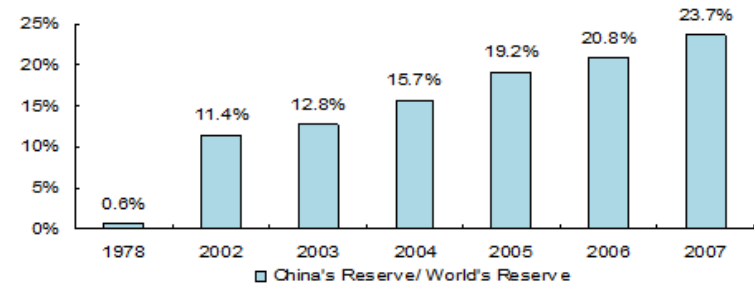
Source: IMF, CICC Research

More FDI is Attracted into China



Source: CEIC

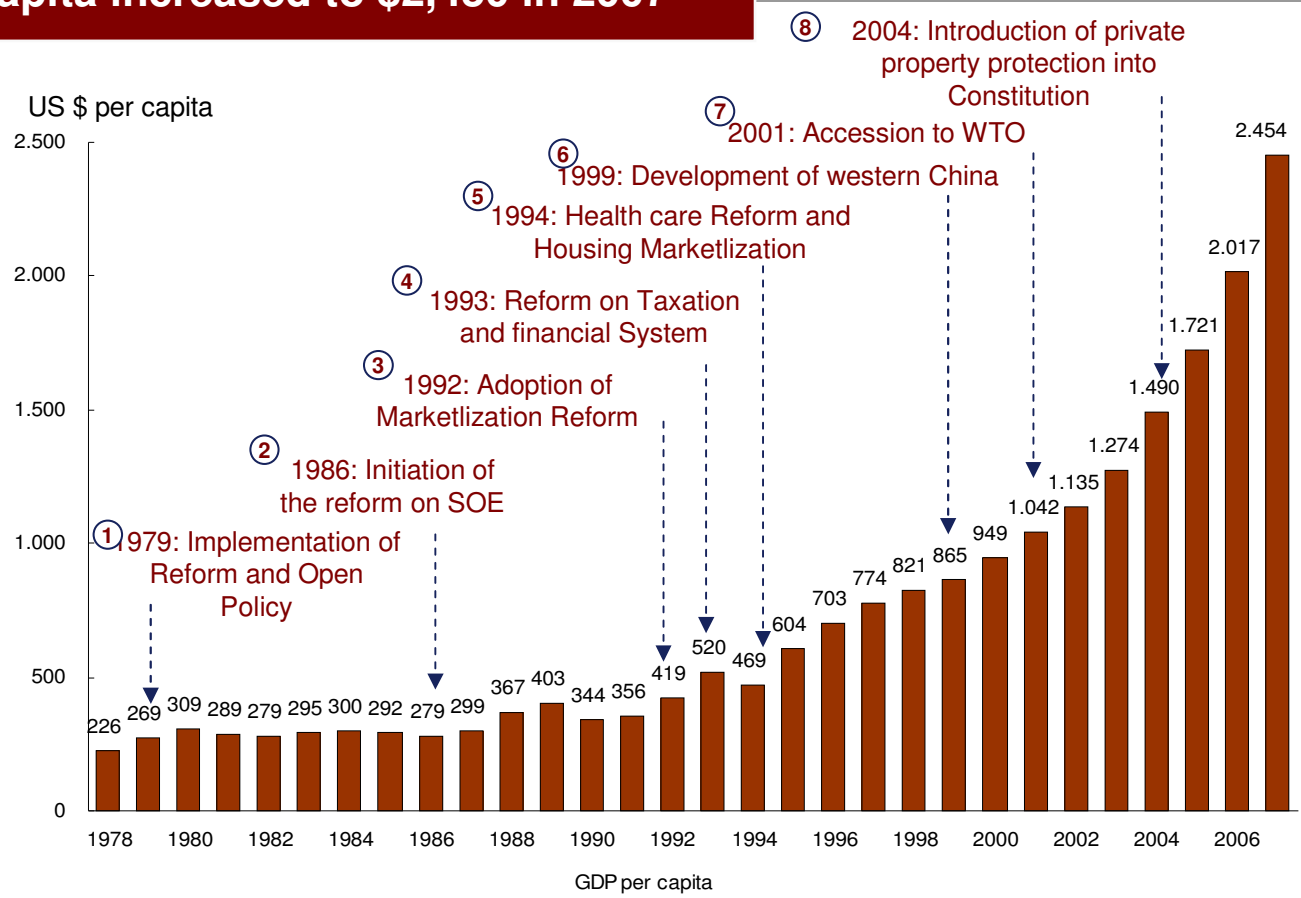
China's Reserve is now the Largest in the World



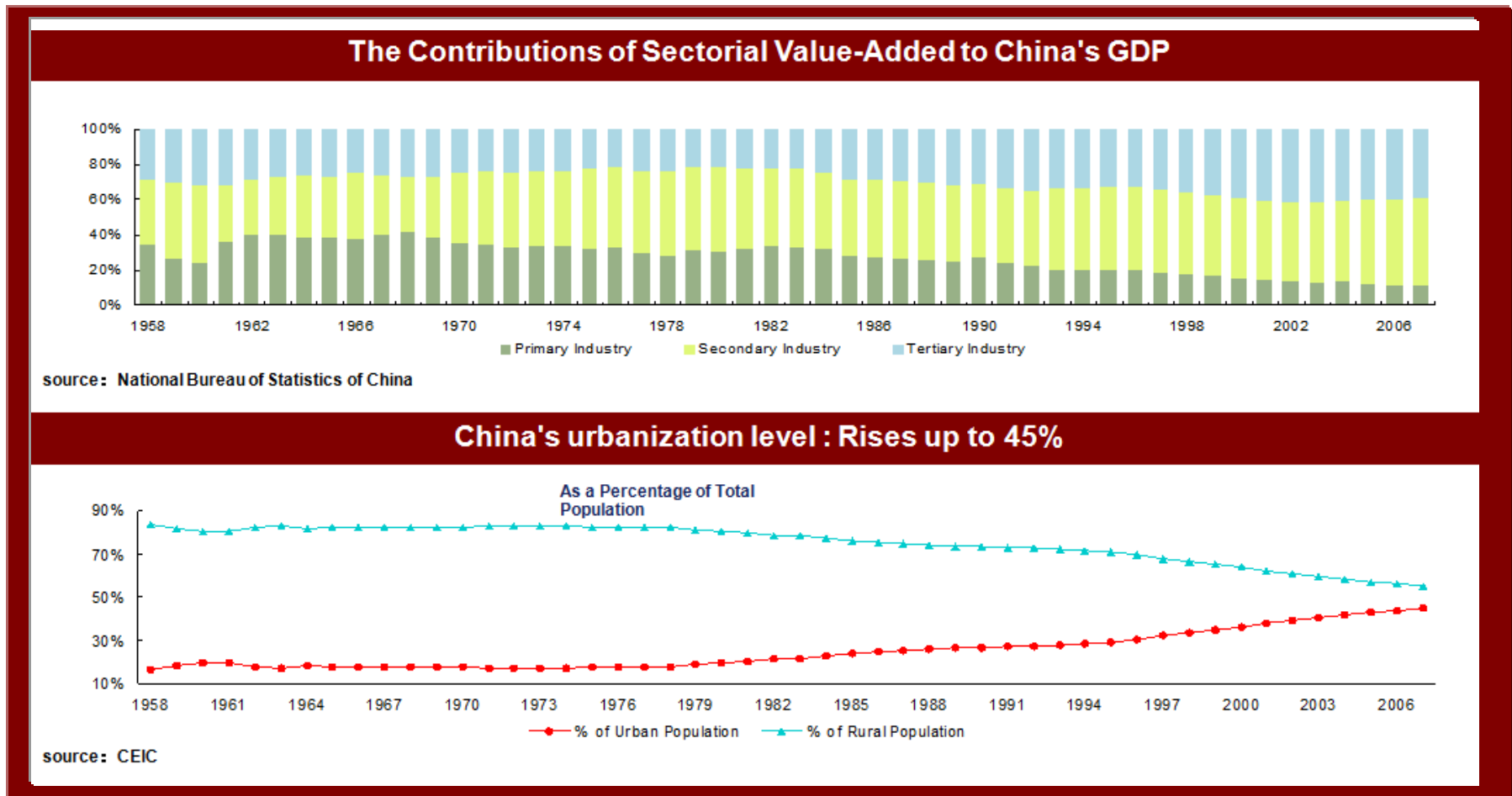
Source: IMF, CICC Research

Market-oriented reform has been progressing steadily

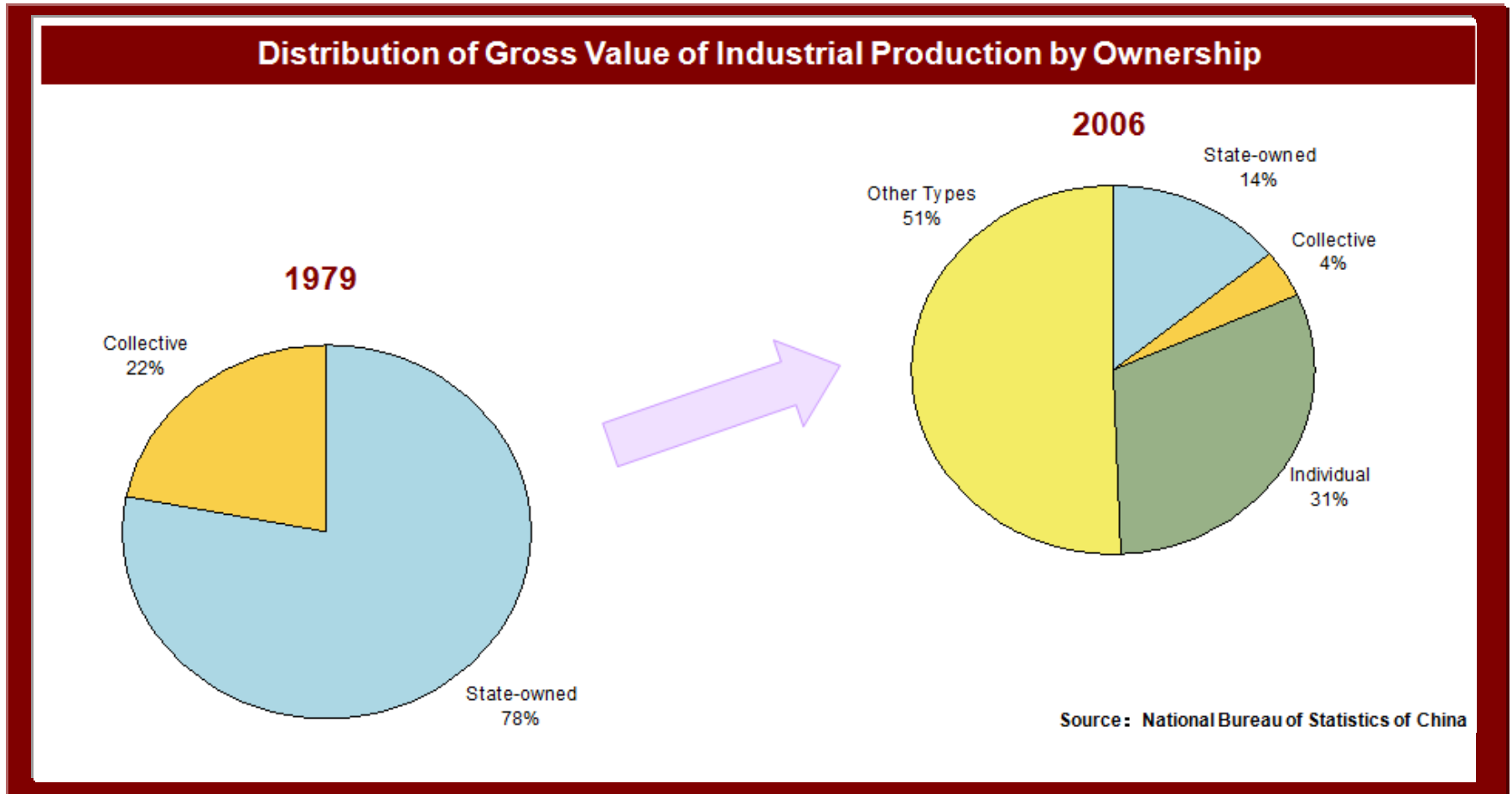
GDP per capita increased to \$2,450 in 2007



... achieving higher level of industrialization and urbanization

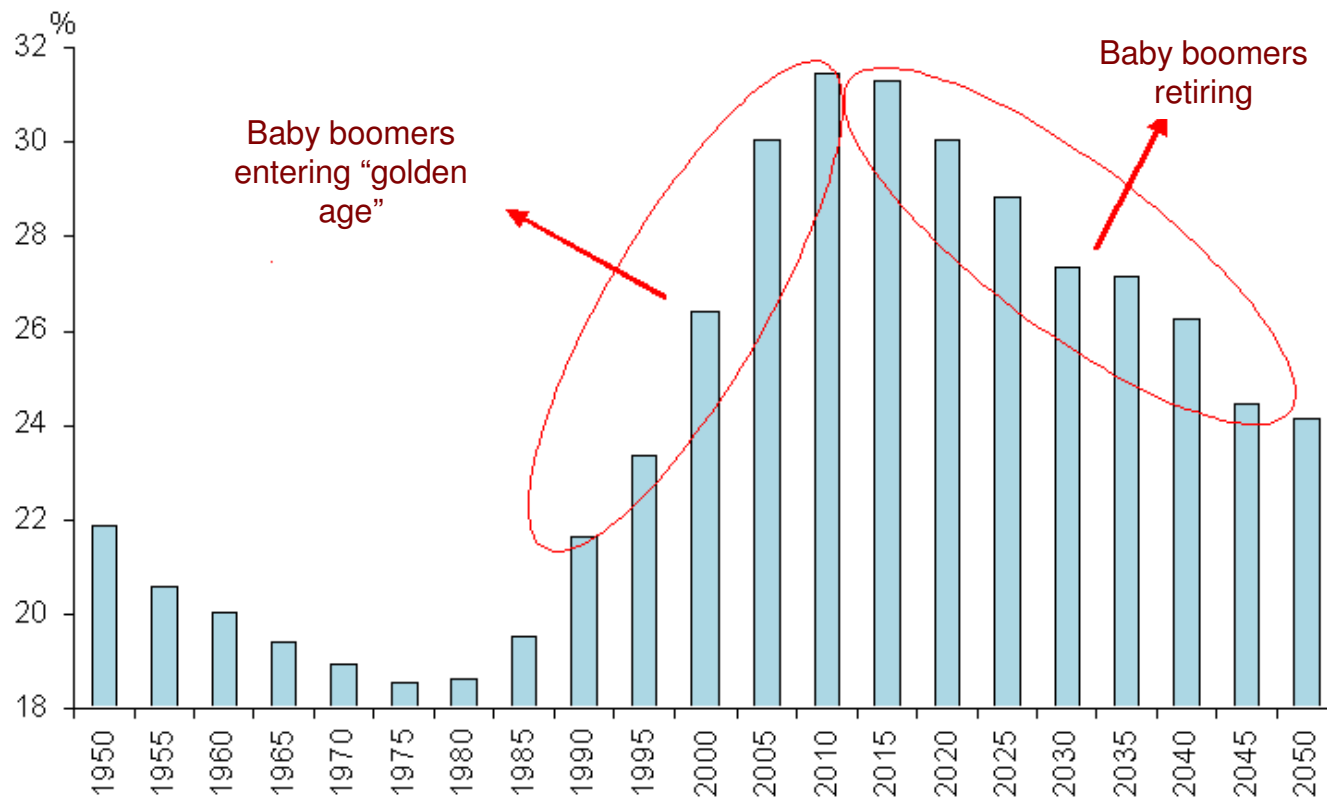


... and profound progress in ownership diversification and SOE reform



China's demographic trend changes and will challenge future growth

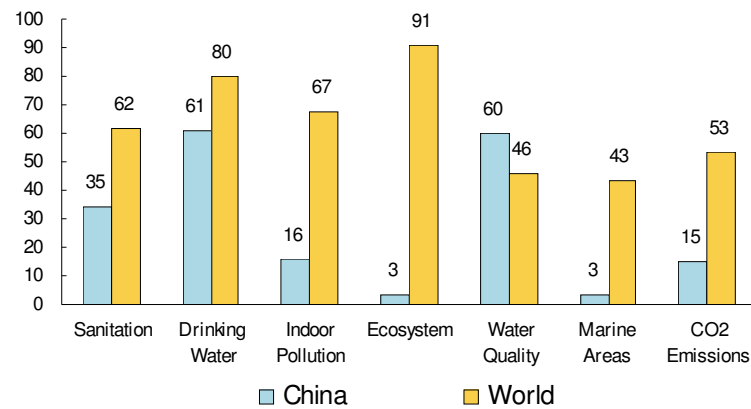
The percentage of Age 35-54 group in population



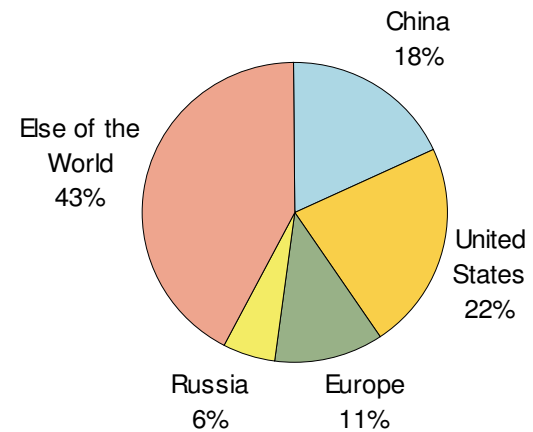
Environmental challenges of China's economic development

China's environmental performance 2007-2008

Environmental Performance Index 2008



CO2 emission Proportion

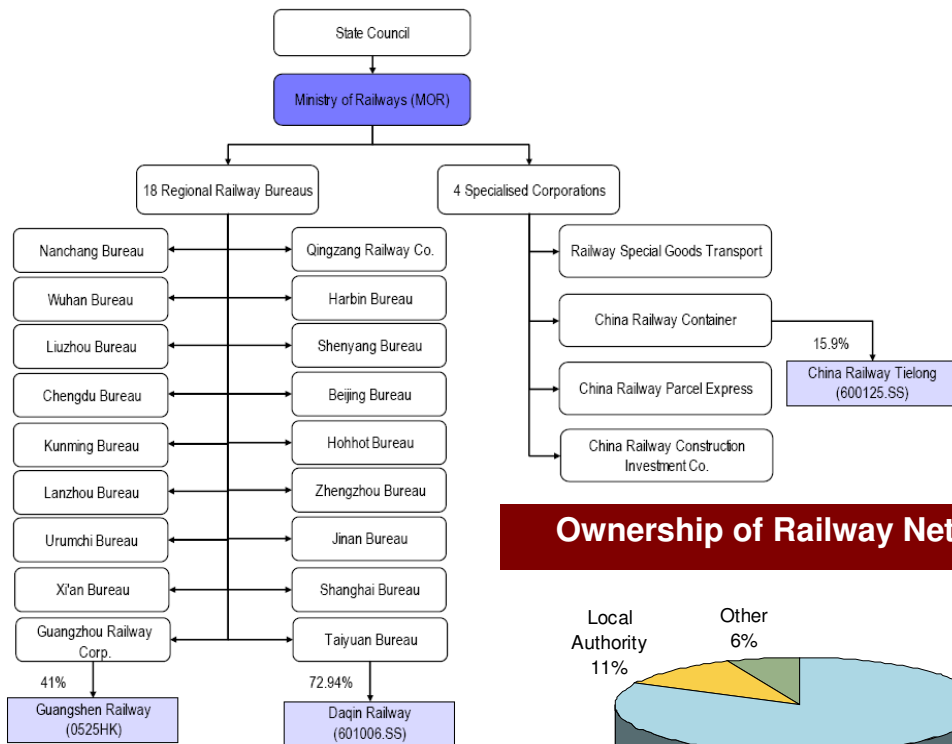




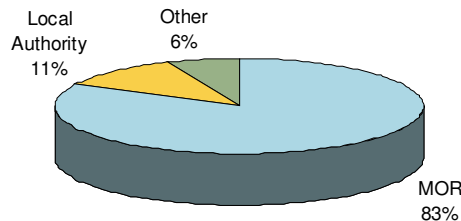
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Overview of China's Railway System

Structure of China's Railway System



Ownership of Railway Network



- As a legacy of planned economy, China's railway system is centrally managed by Ministry of Railway (MOR)
- MOR owns majority of the national railway network, and operates through a group of operation entities
- Under the legacy scheme, the railway sector has been focusing on the public interests, rather than its own profit

Source: MOR, CICC Research

China has the 3rd longest railway network in the world

China's Railway Network Map



Key Stats

Total Track Length (2006)	77,084 KM
Annual Passenger Turnover (2007)	722 Billion person-km
Annual Freight Turnover (2007)	2,379 Billion ton-km

Source: MOR, CICC research

- China has the 3rd longest railway network in the world, totaling 77,084km as of 2006
- China's railway network covers all the provinces and almost all the cities, mainly consisting of 8 north-south lines and 8 east-west lines
- Railway infrastructures are distributed unevenly in China, with more concentration in the north-eastern, central-northern, and central areas

China railway shows significant potential for growth

Comparison of railway key indicators of major countries

	Double track rate (%)	Electrification rate (%)	Network density		Railway turnover as % of total turnover		Transportation density	
			Land area (thd km/sqr km)	Population (thd km/person)	Freight (%)	Passenger (%)	Freight (thd ton.km/km)	Passenger (thd person.km/km)
U.S.	<i>n.a.</i>	<i>n.a.</i>	29.1	0.96	42.4%	<i>n.a.</i>	9,199	<i>n.a.</i>
Germany	51.7%	55.7%	97.4	0.42	18.4%	7.1%	2,207	2,016
France	55.2%	50.0%	53.0	0.49	15.8%	8.3%	1,543	2,531
Japan	41.1%	61.1%	53.0	0.16	3.9%	26.8%	1,107	12,079
Russia	50.0%	49.6%	5.0	0.59	39.0%	39.8%	19,514	1,842
China	33.9%	26.7%	7.9	0.06	49.7%	34.7%	27,474	8,036
India	25.8%	27.9%	19.2	0.06	30.0%	39.6%	6,030	8,562

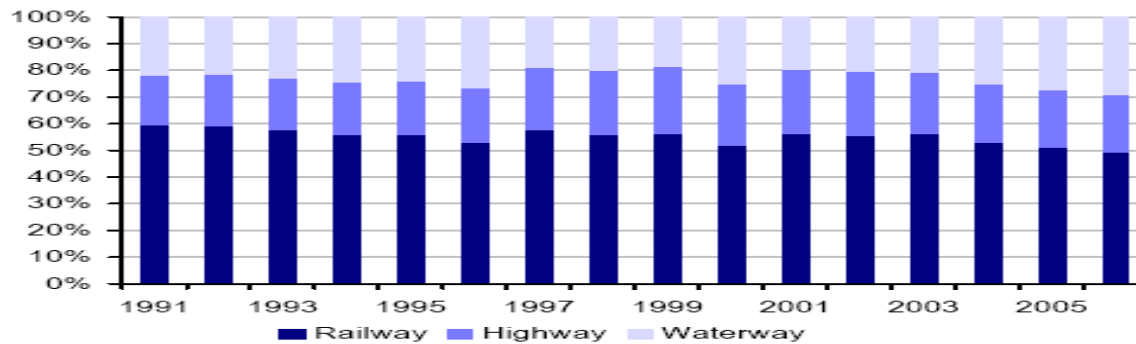
Note: China data is 2005 data, others are 2004 data

- China's railway system is among the busiest in the world
 - No.1 in freight transport density
 - No.3 in passenger travel density
- In terms of network infrastructure build-out, China is lagging behind developed countries

Source: MOR, CICC Research

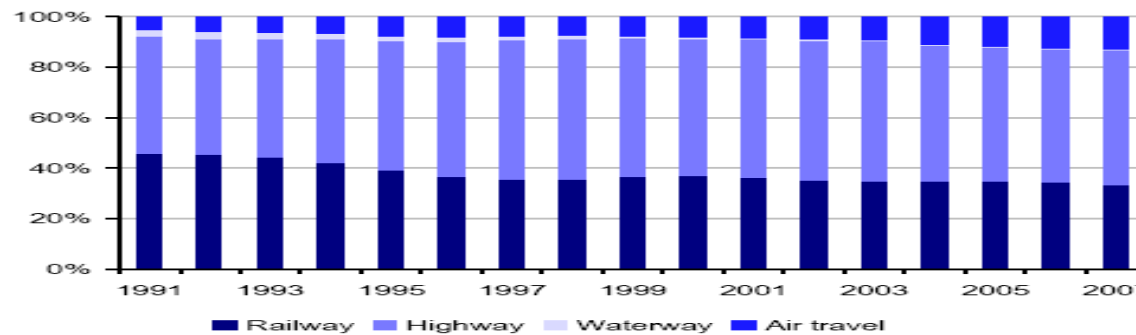
Railway is a significant part of China’s transport market

Freight Transport Market Share



■ In 2006, railway system has about 50% market share for freight transport and 30% passenger travel, respectively

Passenger Travel Market Share



Source: MOR, CICC Research

Insufficient capacity remains a bottleneck

Cargo Demand Meet Ratio (2006)

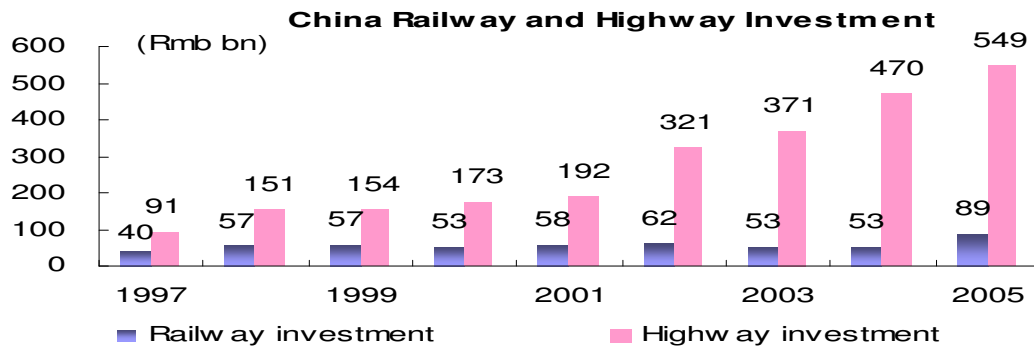
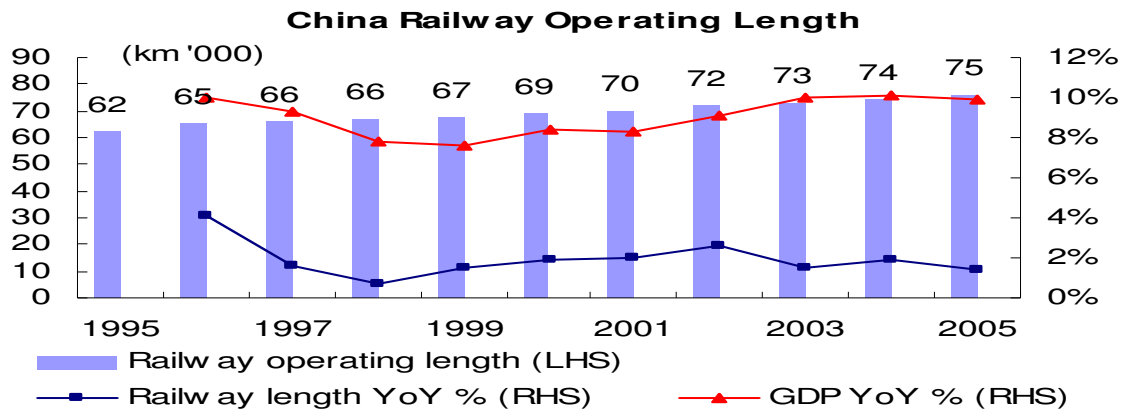
(Unit: Car Load) Railway Bureau	Daily Cargo Transport Demand	Daily Cargo Loading Capacity	Cargo Demand Meet Ratio
Harbin bureau	198,292	109,826	55%
Shenyang bureau	15,614	12,020	77%
Taiyuan bureau	53,361	17,492	33%
Huhhot bureau	6,718	4,500	67%
Zhengzhou bureau	13,970	7,219	52%
Wuhan bureau	4,686	4,046	86%
Xi'an bureau	9,153	3,262	36%
Nanchang bureau	4,468	3,961	89%
Guangzhou railway corp.	4,677	4,048	87%
Liuzhou bureau	4,644	3,706	80%
Kunming bureau	3,983	2,121	53%
Lanzhou bureau	5,577	2,892	52%
Qingzang railway company	16,842	8,757	52%

Source: MOR, CICC Research

- For regions with high portion of coal transport lines, such as Taiyuan and Xi'an, their capacity today meets only one-third of the total cargo demand.

Insufficient investments in China's railway industry

Operating length of and investment in railways



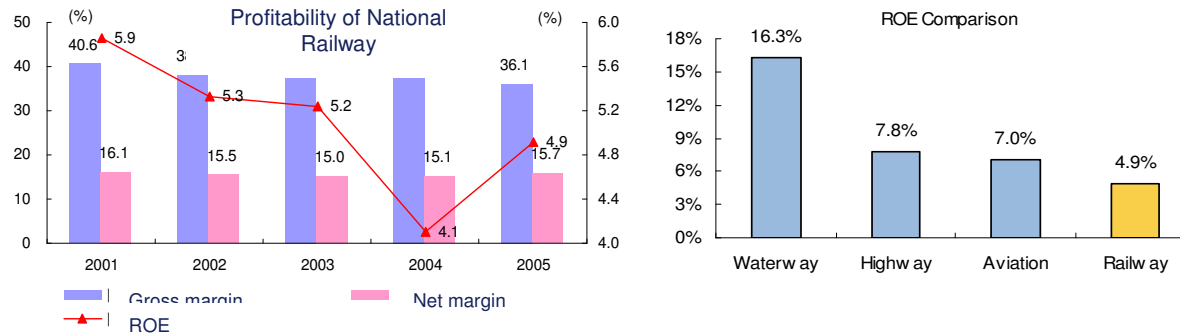
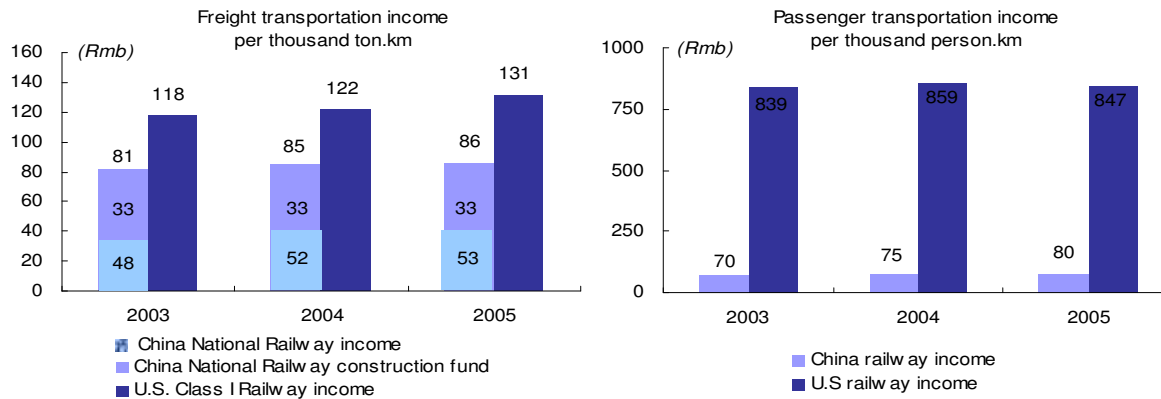
Source: MOR, CEIC, CICC Research

- Historically, investment in railway has been lagging behind highway investment and overall economic growth
- The funding shortage calls for sector reform and more government investment

Low tariff has limited Railway's profitability

Low profitability due to low tariffs

Unit revenue of state-owned railways in China and the US



Source: CICC Research, MOR, Association of American Railroads

- Railway tariffs are strictly administered by the government, which is biased towards the public interest
- As a result, the sector's profitability is significantly lower than the other transport sectors

For the next 5 years, the government plans to increase investment in Railway significantly

Chinese Government's 11th Five-Year CAPEX Plan

(RMB bn)	Railway	Highway	Waterway	Urban Rail
2001	58	192	12	n.a.
2002	62	321	17	n.a.
2003	53	371	30	n.a.
2004	53	470	41	n.a.
2005	88	549	69	n.a.
10th Five-Year Total	315	1,903	169	109
11th Five-Year Total	1,250	3,300	520	500
Increase	297%	73%	208%	359%

MOR's Goals for 2010

Infrastructure Goals	<ul style="list-style-type: none"> ➤ Increase the total track length to more than 90,000 km. ➤ Double-track ratio and the electrification ratio to 45%
Operation Goals	
Passenger Travel	➤ 800bn person-kilometers
Cargo Capacity	➤ 3.5bn tons
Cargo Transport	➤ 2,700bn ton kilometers
Railway Container Transport	➤ 10mn TEU by 2010 and containerization ratio of 10% by 2020
Coal Transport	➤ Total capacity to 1.8bn tons

Source: China Transportation Yearbooks, MOR

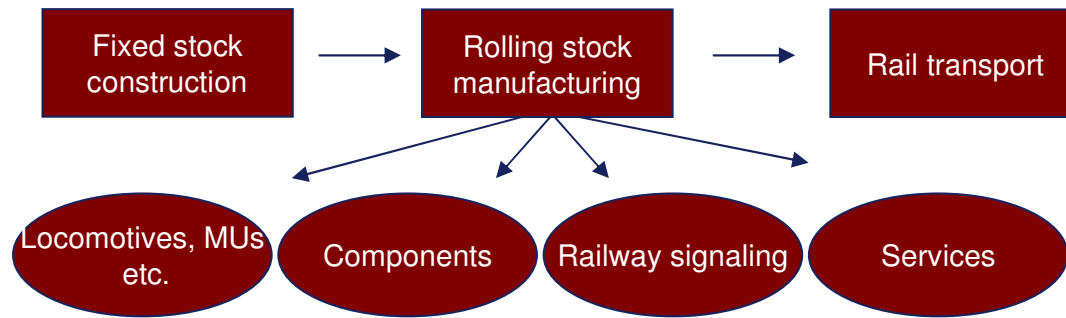
- The insufficient railway capacity has been a major constraint to the national economic development, and the government has devised the 11th five-year development plan for the sector, targeting the total investment of Rmb1.25 trillion in the railway system



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CSRG & CNRG: Manufacturers of Rolling Stock Unit & Components

Rolling stock manufacturing: a key link in the value chain of the rail transport industry



Full-line manufacturers	Signaling system producers	Rolling stock unit and component manufacturers
Bombardier	Alcatel	CSRG, CNRG
Alstom	Ansaldo STS	Kawasaki
Siemens	Invensys	Talgo

Source: CICC Research

- There are three types of manufacturers in the global rolling stock industry: full-line manufacturers, signaling system producers and manufacturers of rolling stock units and components.
- Full-capability manufacturers provide rolling stock units, maintenance services, rolling stock components and parts, signaling systems and related services. The three major full-capability manufacturers in the world are Bombardier, Alstom and Siemens.
- Signaling system producers specializes in building and maintaining railway signaling systems.
- CSRG is a rolling stock unit and component manufacturer.
- As a capital-intensive industry, the rolling stock industry poses high entry barriers given the large initial investment.

Rolling Stock Industry in China: Duopoly vs. Strong Clients

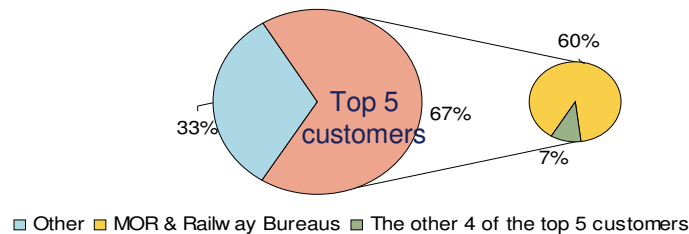
CSRG and CNRG have few competitors in China – but rivals’ market shares are small

Segment	Competitors	Market share
Freight wagons	Beifang Chuangye Jinxi Axle Chongqing Heavy-duty Casting & Forging	10%
Locomotives	None	0
Passenger cars	None	0
Components	Jinxi Axle Taiyuan Heavy Industry North Heavy Industries Chongqing Heavy-duty Casting & Forging	50%(In the axle market)

Source: Company filings. CICC Research

Most of CSRG and CNRG’s revenues are generated by sales to MOR. Other customers are small and less concentrated.

CSRG 2006 Revenue Breakdown by Source

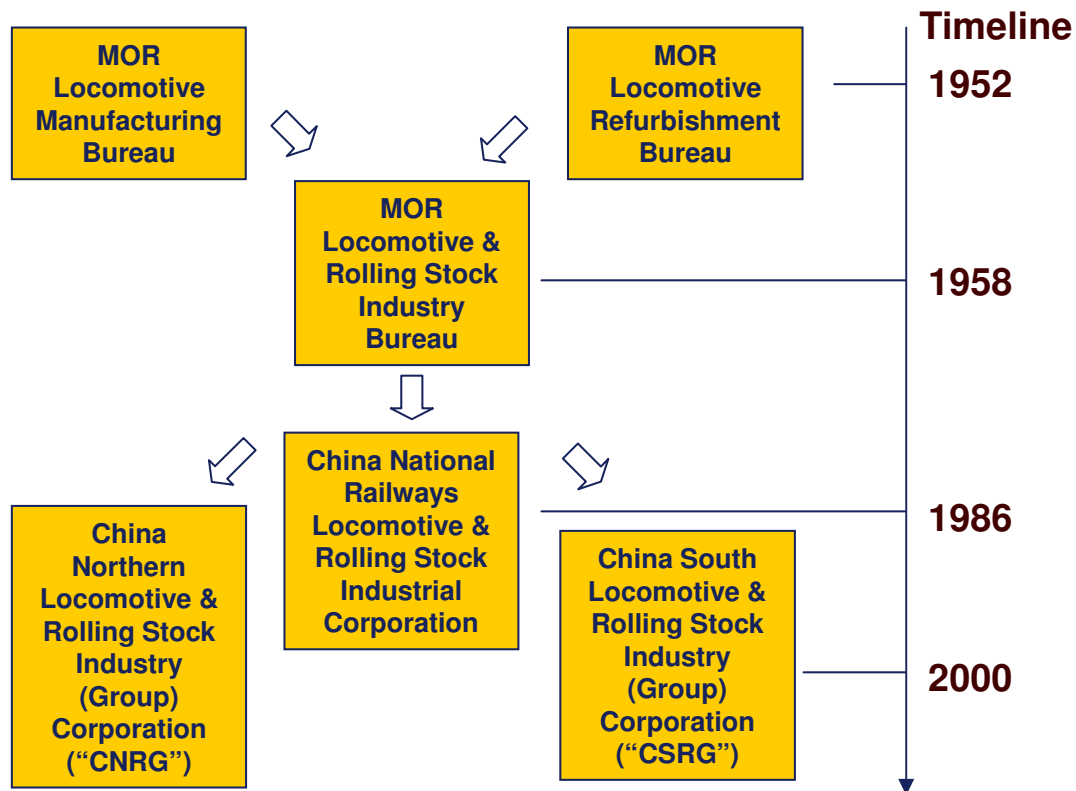


Source: CICC Research

- CSRG and CNRG are the absolute duopolists in the locomotive and passenger car segments.
- High entry barriers: Due to Ministry of Railway (“MOR”)’s stringent technological requirements and standards (TB Standards), any entrant into the rolling stock industry will have to be certified by the MOR.
- Competition in the freight wagon segment and the component & parts segment is relatively more intense.
- On the other hand, MOR is the single largest customer to CSRG and CNRG, contributing 60% of the two groups’ revenues, while the other customers are small and less concentrated. Therefore, MOR has very strong negotiating power with its rolling stock purchases.

CSRG & CNRG: companies spun-off from MOR

MOR Locomotive & Industrial Corporation was spun off from MOR and reincorporated as China National Railways Locomotive & Rolling Stock Industrial Corporation in 1986

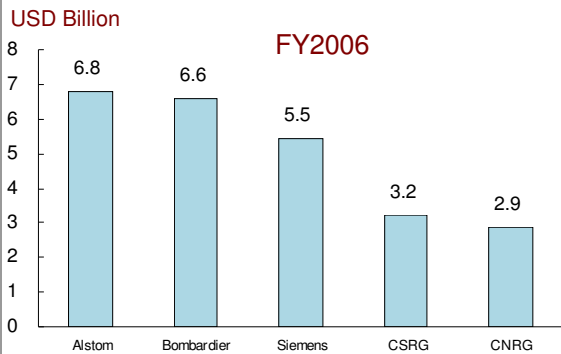


- In 1958, MOR Locomotive Manufacturing Bureau and MOR Locomotive Refurbishment Bureau were merged to form the MOR Locomotive and Rolling Stock Industry Bureau. In 1986, the Bureau was spun off from MOR as China National Railways Locomotive & Rolling Stock Industrial Corporation ("LORIC"). In 2000, LORIC was split up into CSRG and CNRG.

Source: Company websites, CICC Research

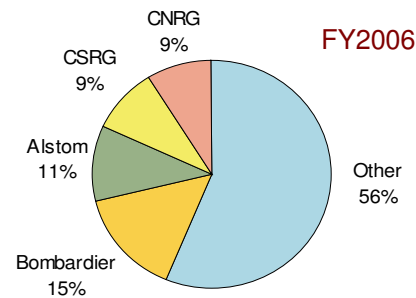
CSRG & CNRG: strong manufacturers of whole units with less developed auxiliary businesses

Revenues lagging behind globally leading players



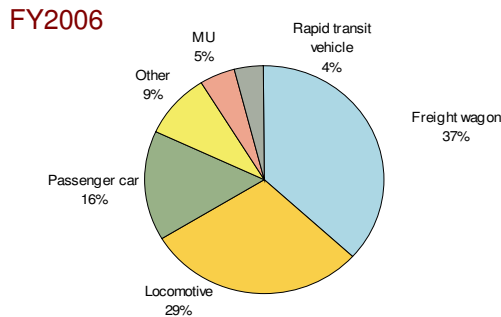
Source: Company filings. CICC Research.

CSRG & CNRG accounting for 20% of the global market for rolling stock whole units by revenue



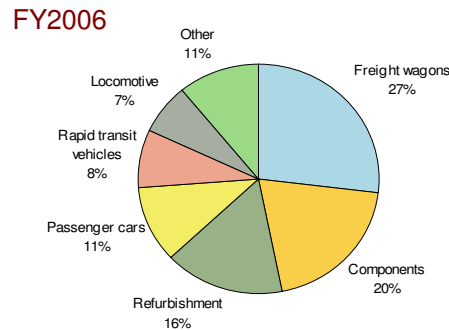
Source: Company filings. CICC Research

Rolling stock units accounting for 80% of CSRG's revenues



Source: Company filings. CICC Research

More diversified breakdown of CNRG's revenues



Source: Company filings. CICC Research

- CSRG and CNRG's revenues are lagging behind those of Alstom, Bombardier and other globally leading players.
- CSRG and CNRG are strong in manufacturing whole units of rolling stock, with revenues accounting for 20% of the global market for whole units.
- CSRG relies heavily on whole unit production, with over 80% market shares by revenue in the freight wagon, locomotive and passenger car segments.
- CNRG is relatively more diversified. While revenue from whole units represents ~55% of its total revenues, revenue contributions from other segments, e.g. components and parts and refurbishment, were also strong.

CSRG vs. CNRG: similar strategies; homogeneity in business

Rolling stock manufacturing: a key link in the value chain of the rail transport industry

	Technology	Key Clients	CAPEX	Growth Plan
CSRG	Mainly manufactures locomotives and passenger cars; up to international technological level in the 1990s; few auxiliary businesses except refurbishment	MOR is the single largest customer to CSRG and CNRG. Both groups have become quasi in-house suppliers to MOR. Oftentimes, MOR imports advanced models and licenses the technologies to either one of the two groups to manufacture the models. The two groups can only make a slight profit out of such production.	Electric locomotives, especially the high-speed, heavy-hauling types; MUs; freight wagons (“first-class manufacturing bases in the world”); rapid transit vehicles (“largest manufacturing bases in China ”)	Increase input in R&D; develop globally-leading R&D and manufacturing systems; improve overall competitiveness; aim at becoming an “industry-leading global rolling stock supplier ”
CNRG	Mainly manufactures freight wagons; stronger auxiliary businesses than CSRG, with significant revenue contributions from the component and refurbishment businesses		Heavy-duty freight wagons; electric locomotives; MUs	Achieve “first-class” in China in 3 key areas; improve global competitiveness; develop new growth points; improve business mix and resource allocation; aim at becoming a globally renowned industry group

- MOR is the single largest customer to CSRG and CNRG, resulting a high level of homogeneity between the businesses.

Source: Company filings. CICC Research.

CSRG & CNRG’s financials pale against those of globally leading rolling stock manufacturers

CSRG & CNRG vs. globally leading rolling stock manufacturers

RMB billion	CSRG	CNRG	Siemens	GE	Alstom
Total assets	32.3	30.3	885.2	5554.2	210.4
Net assets	11.7	8.9	261.9	948.7	24.2
Revenues	25.6	22.9	651.8	1193.4	145.3
EBITDA	4	4	30.7	165.4	4.6
EBITDA margin	1.6%	1.6%	4.7%	13.9%	3.2%
ROA	1.2%	1.2%	3.5%	3.0%	2.2%
ROE	3.4%	4.1%	11.7%	17.4%	18.9%
Debt-to-asset	63.8%	70.5%	70.4%	82.9%	88.5%
Asset turnover	79.4%	75.6%	73.6%	21.5%	69.0%

■ CSRG and CNRG still lag behind globally leading rolling stock manufacturers in terms of key profitability ratios.

Source: Company filings, CICC Research



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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


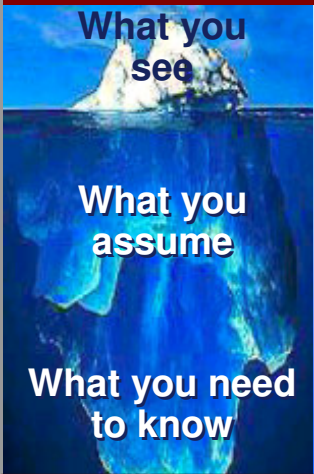
Case Example

	1 	2 	3 	4 
	Develop common understanding	Definition of vision, ambition and goals	Development and evaluation of strategic options	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 - 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 	 <table border="1" data-bbox="1310 581 1982 1052"> <tr> <td data-bbox="1310 581 1360 688">What you see</td> <td data-bbox="1360 581 1982 721"> <p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p> </td> </tr> <tr> <td data-bbox="1310 721 1360 867">What you assume</td> <td data-bbox="1360 721 1982 867"> <p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p> </td> </tr> <tr> <td data-bbox="1310 867 1360 1052">What you need to know</td> <td data-bbox="1360 867 1982 1052"> <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> </td> </tr> </table> <p data-bbox="999 1052 1982 1117" style="text-align: center;">Results and Benefits</p> <ul style="list-style-type: none"> ▪ Intercultural change ▪ Performance measurement tools ▪ Intercultural & internal communication concept ▪ Train-the-trainer & coaching concepts 	What you see	<p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p>	What you assume	<p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p>	What you need to know	<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>
What you see	<p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p>						
What you assume	<p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p>						
What you need to know	<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>						

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

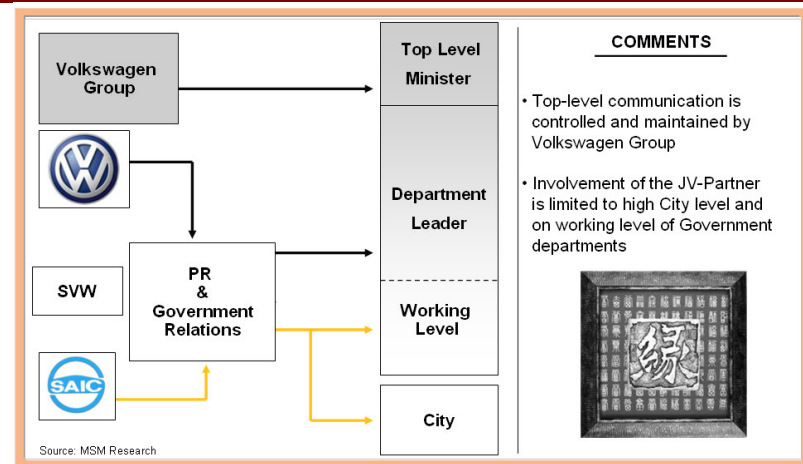
- Understanding the main drivers
- Building up personal networks
- Set-up Communication strategy and action plans
- Monitoring system
- Pro-active Lobbying
- Build up internal attention to GR

Communication Policy

- Control external communication
- Provide aligned internal communication procedures

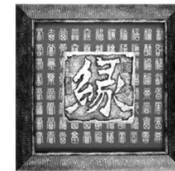


Case Example



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 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

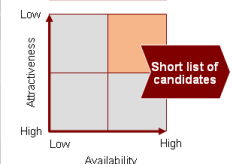
Screening criteria

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	< 10 mill.	10 – 50 mill.	100 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

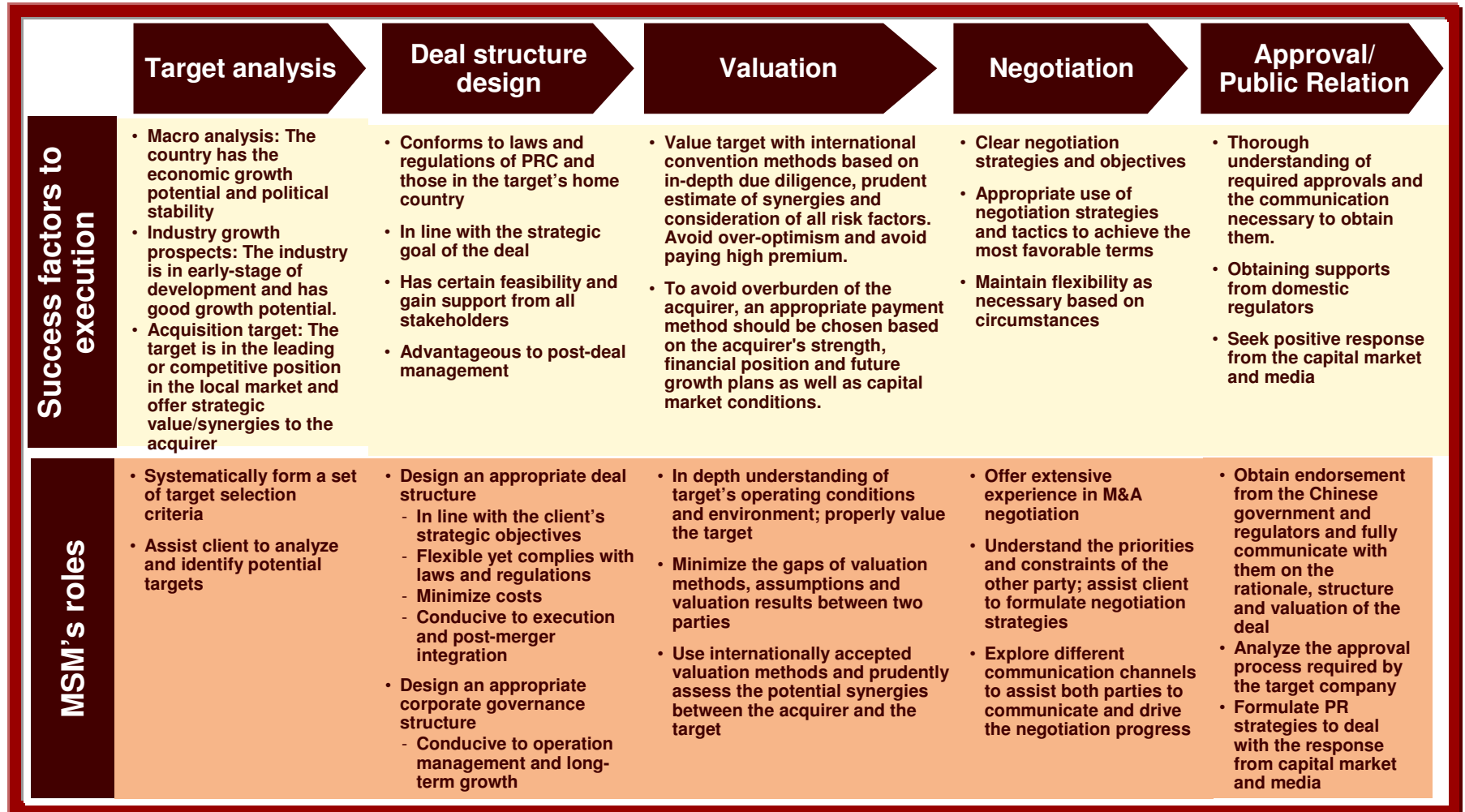
MSM has a deep understanding of its clients interests, the Chinese M&A environment and broad experiences of the approval process in China



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



M&A service overview/approach



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





MSM contacts



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