



## RESTRUCTURING IMMINENT

February 2008

The basis for the telecom industry's restructuring appears to have been agreed, and non too soon for the fixed-line operators, which continue to haemorrhage subscribers – losing more than 4mn between them in December 2007 alone. China Mobile's vulnerability to increased competition is now becoming a concern, with the Ministry of Information Industry (MII) likely to structure Industry regulations so as to improve the odds for the newcomers to the cellular market.

### Fixed: Subscriber Loss Accelerating

- China Netcom Lost 2.5mn Subs In December
- China Telecom Lost 1.5 mn Subs In December
- Overall Loss Of 8.4 mn Subs in H2 2007
- Strong Broadband and VAS Not Enough To Compensate

### Restructuring: Changes Appear To Be Agreed

- Unicom To Be Broken Up
- Telecom To Get CDMA Network
- Netcom To Get GSM
- Mobile To Acquire TieTong Fixed Line Business

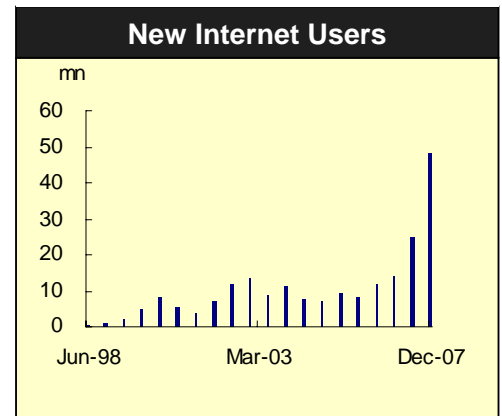
### Cellular: Penetration Now At 41%

- China Mobile's Position Still Strengthening
- China Unicom Share Of New Subscribers Down To 17%
- Roaming Fees Under Reveiw
- Apple Ends iPhone Talks With China Mobile

### Recommendations: Competition Set To Squeeze Cellular

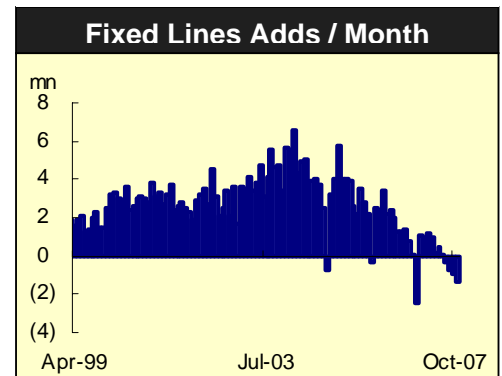
- Cellular Companies: To Be Hit By 3G Competition: Sell
- Fixed Line: Benefiting From Restructuring Sentiment: Hold
- PCCW: Underlying Turnaround Continues: Long-term Buy

### Internet Use Accelerating



Source: CNNIC

### Fixed Line Shrinking



Source: CEIC

### Recommendations

- China Mobile: Sell
- China Unicom: Sell

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