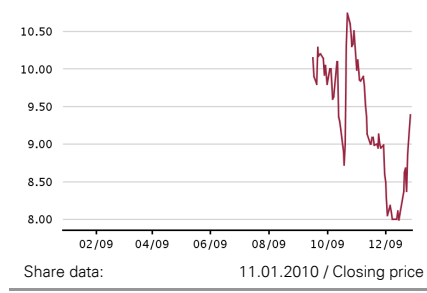


<b>Buy</b>	Initial Coverage
<b>PT EUR 12.50</b>	(old: n.a.)

<b>Price</b>	EUR 9.39
<b>Bloomberg</b>	V33G
<b>Reuters</b>	V33G
<b>Sector</b>	Telecommunications Provider

**Vtion develops and markets wireless data card solutions for PCs and laptops for all established interface standards as well as for all wireless standards which are in operation in China.**



<b>Market cap:</b>	EUR 164 m
<b>Enterprise Value (EV):</b>	EUR 138 m
<b>Book value:</b>	EUR 46.7 m
<b>No. of shares:</b>	11.5 m
<b>Trading volume Ø:</b>	EUR 0.4 m

**Shareholders:**

Avill HoldingsLtd.	46.8 %
SCGC Capital Holding Company	10.6 %
Hong Kong Vtion Wireless Tech Comp. Ltd.	6.3 %
Besto Holdings Ltd.	3.1 %
Sunshine Century Investment Ltd.	1.9 %

**Calendar:**

BPC Figures 2009	04/22/10
Figures Q1	05/20/10
AGM	06/22/10
Figures Q2	08/19/10

Change	2009E		2010E		2011E	
	old	Δ%	old	Δ%	old	Δ%
<b>Sales</b>	66.6	-	79.8	-	85.6	-
<b>EBIT</b>	21.0	-	23.0	-	24.6	-
<b>EPS</b>	1.39	-	1.65	-	1.77	-

Analysis: SES Research  
Date of publication: 12.01.2010  
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## Leading position for wireless data cards in China - 3G expansion as catalyst

Vtion develops and markets wireless data card solutions for PCs and laptops for all established interface standards as well as for all wireless standards which are in operation in China. Vtion is one of the top three suppliers in China with a market share of ~25%. Wireless data cards are connected to a PC or a laptop via interfaces such as USB or PCI to establish a mobile internet access.

### The strongly growing demand for wireless data card solutions in China is a result of

- ...the expansion of the 3G network in China which was initiated in 2009. China Telecom already has an almost nationwide 3G network in China at the end of 2009e. China Unicom and China Mobile plan that they will have an almost nationwide network by the end of 2011e. The number of 3G users is expected to increase from 18 m at the end of 2009e to 187 m at the end of 2011e.
- ...a further increasing number of mobile penetration: The number of users of mobile communication is expected to amount to 719 m in 2009 (55% of the population). The number of users should grow by almost 10% p.a. to 865 m by 2011e.
- ...a high growth of internet users: The internet community looks set to increase from 382 m users in 2009e to 672 m in 2012e.
- ...the still low spread of wireless data card solutions. 10 m users of wireless data cards are expected at the end of 2009. This corresponds to a penetration of 1.4% based on users of mobile communication.

**The market for data cards currently has oligopolistic structures.** The three main mobile operators (China Mobile, China Unicom and China Telecom) procure 80% of the quantity of the three main suppliers (ZTE, Huawei and Vtion). This starting situation, which is excellent for Vtion, should remain stable until 2011e due to the required high quality standards, certification processes, the comprehensive contractual relationships and collaborations.

**Vtion looks set to increase the quantity of sold data cards by 30% from 1.5 m p.a. to 2.5 m between 2009e and 2011e.** A sales increase of 18% p.a. to EUR 85 m is expected by 2011e due to the expected price declines of 10% p.a. As a result of the outsourced production the costs are largely variable and Vtion has a lean structure. Expected declining unit costs given rising production quantities as well as economies of scale via the other cost components are expected to lead to a stable EBIT margin of ~28% p.a. by 2011.

The PT of EUR 12.50 is based on a DCF model. The undervaluation is supported by a PER 2010e of 5.4 as well as an EV/EBIT 2010e of 5.0. The **initial rating** is **BUY** given an upside of 38%.

Fiscal year ending: 31.12.	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	10.0	29.0	39.2	66.6	79.8	85.6
<i>Change Sales yoy</i>	n.a.	189.9 %	35.1 %	70.0 %	19.8 %	7.3 %
<b>Gross balance</b>	3.5	11.7	16.1	23.3	27.2	29.3
<i>Gross margin</i>	34.9 %	40.3 %	41.1 %	35.0 %	34.1 %	34.2 %
<b>EBITDA</b>	2.6	9.3	12.8	21.3	23.5	25.2
<i>EBITDA-margin</i>	25.7 %	32.2 %	32.6 %	29.6 %	29.5 %	29.4 %
<b>EBIT</b>	2.5	9.2	12.6	21.0	23.0	24.6
<i>EBIT-margin</i>	25.3 %	31.9 %	32.2 %	29.1 %	28.8 %	28.7 %
<b>Net income</b>	2.1	9.2	12.4	17.6	19.0	20.4
<b>EPS</b>	0.18	0.80	1.08	1.39	1.65	1.77
<b>Free Cash Flow per share</b>	0.01	0.69	1.24	-0.33	1.23	1.58
<b>Dividend</b>	0.00	0.00	0.00	0.00	0.00	0.00
<i>Dividend Yield</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>EV/Sales</b>	13.4	4.6	3.4	2.1	1.5	1.2
<b>EV/EBITDA</b>	52.2	14.4	10.5	6.5	5.3	4.2
<b>EV/EBIT</b>	52.9	14.5	10.6	6.6	5.4	4.3
<b>PER</b>	52.2	11.7	8.7	6.8	5.7	5.3
<b>ROCE</b>	43.4 %	75.7 %	43.5 %	43.1 %	38.3 %	30.7 %
<b>Adj. Free Cash Flow Yield</b>	1.2 %	6.2 %	8.8 %	13.6 %	18.2 %	22.9 %

Per Share figures in EUR, other figures in EUR m., price: EUR 9.39

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- **Mobile internet in China: Dynamic market with excellent growth prospects**
  - **Strong partnerships to the network operators as basis of the competitive quality**
  - **High volume growth of wireless data cards provides for visible sales growth until 2011e**
  - **Strong market position , diverse product range as well as economies of scale secure high returns by 2011e**
- 

## Background

Vtion develops and markets wireless data card solutions for PCs and laptops for all established interface standards as well as for all mobile standards which are in operation in China.

Wireless data cards are connected with a PC or a laptop via interfaces such as USB or PCI. A connection to the corresponding network of the mobile operator (issuer of the card) is established with the help of the data card in order to access the internet.

Additionally, Vtion started a portal called Mobile Business Club in 2006 which supports business travellers in China (sales 9M/09: EUR 1.9 m).

Vtion generated sales of EUR 47.7 m (yoy +47%) in the first nine months of 2009 and sold 1.13 m data cards (yoy +137%). The average revenues per data card were EUR 40.50 in the first nine months.

## Dynamically growing mobile and internet market

A high mobile and internet penetration as well as increasing laptop sales are the prerequisite for a high growth potential of wireless data cards in China.

718 m users of wireless communication are expected in China at the end of 2009. Thus, the market has grown by 16% between 2006 and 2009e. A doubling of users is expected by 2015/16e due to a penetration of 55% expected by the end of the year. Compared to this, the number of 3G users of 18.1 m (2.5%) expected by the end of 2009e is still low and can be neglected. This can be put down to the fact that Chinese providers has not started to establish 3G networks before 2009.

**The internet and laptop markets will grow dynamically in addition to the mobile market, which is important for the mobile data cards:**

- **A growth of the 3G users from 18.1 m to 187 m** is expected between 2009e and 2011.
- **The number of internet users** looks set to increase **by 21% p.a. from 382 m to 674 m** between 2009e and 2012e.
- **The number of sold laptops should rise from 17.5 m in 2009e to 58.7 m in 2013e.** Overall, 179 m sold laptops are expected between 2009e and 2013e.

**Vtion is well positioned in the market for wireless data cards due to the current market structure.** Currently, ca. 90% of the demand results from the 3 national network operators China Unicorn, China Mobile and China Telecom. The three network operators, in turn, allocate roughly 80% of the required quantity of data cards to the three suppliers ZTE, Huawei and Vtion due to the high requirements of certification and quality. As a rule, one provider is not awarded an order of more than 30% of the required quantities. **Therefore, not only the demand side has an oligopolistic**

**structure, but also the supply side despite the fact that it is a product with commodity character.** The virtually oligopolistic market structure is expected to decelerate the expected price decline of wireless data cards and should maintain Vtion's market share of roughly 25% on a stable level.

Vtion's **good market positioning can mainly be put down** to the company's **early positioning at the network operators** compared to competitors in addition to the requirements in terms of certification and quality: Furthermore, Vtion was one of the early-movers in the industry.

- **China Unicom:** Vtion was selected as top-tier supplier for 2.0 and 2.5 data cards between 2002 and 2008 and largest supplier of data cards for China Unicom. At the end of 2008, Vtion was chosen as top-qualified supplier for 3G data cards based on the WCDMA standard by China Unicom in addition to Huawei. Furthermore, Vtion signed a contract to cooperate with China Unicom to sell and distribute iPhone packages in the Fujian region.
- **China Telecom:** Vtion was chosen as top-tier supplier by China Telecom on a national level in addition to ZTE and Huawei in 2007 as well as in 2008. Additionally, Vtion was able to sign a framework agreement with China Telecom based on the CDMA 2000 standard for 9 provinces.
- **China Mobile:** China Mobile was Vtion's largest customer in 2008 with a sales share of 54%. Vtion is a member of the TDMA/CDMA industrial alliance, which is important for the relation with China Mobile.

Furthermore, Vtion is well networked with the political decision makers in addition to the good relations to the network operators.

**Vtion is characterised by the following aspects in addition to the high market potential and the strong partnerships to the network operators:**

- **Diversified product range:** Currently, the company sells 35 different wireless data cards, which cover all mobile standards and all interfaces. Thus, Vtion has one of the most diverse product ranges of the sector.
- **Outsourced diversified production:** Vtion focuses on the product design, the development and particularly the marketing as well as the brand establishment. The production is outsourced. Therefore, Vtion is flexible and fluctuating quantities of demand can be well cushioned.
- **Special focus on after sales services of end customers:** Vtion's most important competitors (Huawei and ZTE) maintain a little distinctive service network in China. In addition to a 24/7 hotline Vtion operates an on-site service in important cities in order to exchange e.g. faulty data cards.
- **Expansion of the value chain:** Vtion expands the business model in many different ways in addition to design, development and sale of wireless data cards. For instance, the portal [www.mbevip.com](http://www.mbevip.com) was initiated in 2006. The portal offers business travellers comprehensive services around the business trip. The membership is based on a subscription model. 230 k subscribers are expected at the end of 2009. Vtion started the sale of bundled products in cooperation with China Telecom in autumn 2009. The wireless data cards will be linked to a tariff of China Telecom for the wireless internet access. Vtion receives approx. 20% of the generated sales.

The medium-term risks for the high returns result from the fact that mobile data cards are products with commodity character:

- **Price risks:** The average price per sold data card is expected to be ~ EUR 40 for Vtion in 2009e. The average prices should decline given increasing data card penetration. The price decline might be higher than the volume growth in the medium term.
- **Risk of substitute products:** Substitutes such as integrated laptop solutions might impact the market potential for wireless data cards negatively. However, due to the

fact that 3 different network technologies are in operation in China, embedded solutions might not come to the mass market.

- **Low barriers to market entry in terms of technology:** The current market structure (placing of 80% of the quantity of demand to three suppliers) as well as Vtion's market strength are considerable barriers to market entry. However, the barriers to market entry are low from a technological point of view. This might lead to the network operators working together with additional suppliers in the medium term.

## Visible sales growth until 2011e due to strongly growing demand

**Sales almost quadrupled from EUR 10 m to EUR 40 m between 2006 and 2008.** The EBIT quintupled from EUR 2.5 m to EUR 12.8 m in the same period.

**The strong development continued in the first nine months of 2009.** The main driver was the introduction of the 3G networks. The number of sold wireless data cards increased by 137% to 1.13 m and sales grew by 62% to EUR 47.7 m. A sales increase of 76% to 69 m is expected for the full year 2009e.

A growth of the sales volume by 44% to 2.19 m wireless data cards is expected in 2010e and by 16% to 2.55 m wireless data cards in 2011e due to the expected ongoing high demand for wireless data cards driven by the intent of network operators to quickly fill the newly established 3G networks. The expected sales growth is lower than the volume growth as a result of the expected annual price declines of roughly 10%. The lower 3G penetration rate in China as well as Vtion's positioning in terms of sales speak in favour of a visible sales growth until 2011e.

Any sales contribution of the agreement about the iPhone distribution with China Unicom are not included in the sales model.

### Sales Planning Vtion

	2008	2009e	2010e	2011e
<b>Sold units</b>	<b>606,870</b>	<b>1519,980</b>	<b>2190,381</b>	<b>2551,000</b>
change yoy	199.9%	150.5%	44.1%	16.5%
Average unit price in Yuan	n.a.	383.0	336.0	307.2
change yoy	n.a.	#DIV/0!	-12.3%	-8.6%
<b>Sales in Yuan</b>	<b>n.a.</b>	<b>582.2</b>	<b>736.0</b>	<b>783.7</b>
Yuan/EUR	n.a.	9.2	9.6	9.6
<b>Average unit price in EUR</b>	<b>59.65</b>	<b>41.81</b>	<b>35.00</b>	<b>32.00</b>
change yoy	n.a.	-29.9%	-16.3%	-8.6%
<b>Sales in EUR</b>	<b>36.2</b>	<b>63.6</b>	<b>76.7</b>	<b>81.6</b>
Sales Other	3.0	3.0	3.1	4.0
<b>Total Sales</b>	<b>39.2</b>	<b>66.6</b>	<b>79.8</b>	<b>85.6</b>
change yoy	35.2%	69.8%	19.8%	7.4%

Sources: Vtion (historical data), SES Research (estimates)

## EBIT margin of ~28% can be defended until 2011e

**The fixed costs are low due to the outsourced production and the operating leverage is therefore limited.** The production costs are expected to develop largely proportionately to sales and remain on a constant level of ~65% between 2009e and 2010e. On the one hand, the production costs per unit should decline for the contract manufacturer due to increasing sales figures. On the other hand, the costs for outsourced development orders increase disproportionately low to sales. Both effects are expected to compensate for the expected price decline of 10% p.a. Both effects look set to lead to a constant EBIT margin of ~28% until 2011e.

According to Vtion the oligopolistic structure on the demand and supplier side should

remain constant in the next two years. This can mainly be put down to considerable certification processes and quality standards which suppliers of wireless data cards have to pass. Additionally, the good network of the three main suppliers ZTE, Huawei and Vtion is expected to decelerate the increase of the number of suppliers.

As the three network operators are the principal customers the distribution costs (2.4% of sales in 2009e) should develop constantly to sales and are expected to remain on a low level until 2011e.

Due to...

- high quantity growth given simultaneously clearly lower price depression,
- variable cost structures and
- oligopolistic market structures

the company should be able to defend the EBIT margin of ~28% in 2009e - 2011e. Furthermore, as already explained earlier, Vtion has an advantage compared to many smaller competitors as the company has already established good relations to the network operators and has passed all necessary quality and certification processes.

### Attractive free cash flow development until 2011e

Due to the high sales expansion in 2009e the working capital is expected to increase strongly and, thus, a slightly negative free cash flow per share of - EUR 0.33 should be generated. The free cash flow is expected to increase to EUR 1.23 per share in 2010e due to the deceleration of the sales growth given a constant working capital ratio.

<b>Cash Flow Development</b>				
in EUR m	2008	2009e	2010e	2011e
Cash Flow from operating activities	14.2	-3.1	14.9	19.2
Liquid funds	30.3	26.5	40.7	58.8
Free Cash Flow	14.2	-3.8	14.1	18.2
Free Cash Flow per share in EUR	1.24	-0.33	1.23	1.58

Sources: Vtion (historical data), SES Research (estimates)

### Attractive upside of 38% - PER 2010e of 5

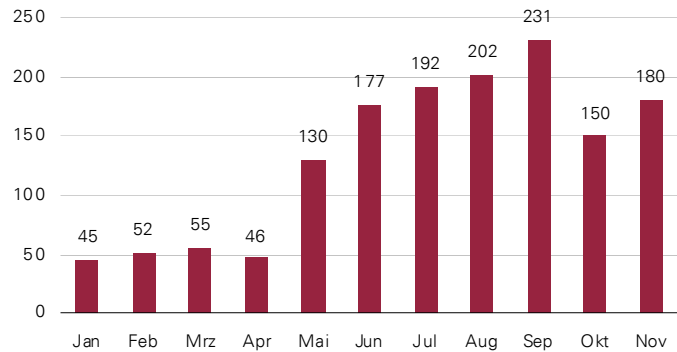
The DCF model (PT: EUR 12.50) as well as the FCFY 2010e of EUR 15.70 point to a clear undervaluation of the share. The undervaluation is underpinned by an EV/EBIT multiple of 4.7 in 2010e as well as a PER 2010e of 5.2.

### Monthly publication of the sales figures as decisive catalyst

Vtion publishes its sales figures of the data cards on a monthly basis. The figures should be an important catalyst for the share and improve the transparency. The network operators are expected to initiate increasingly marketing campaigns for their new 3G networks in 2010e in order to rapidly establish the 3G customer base.

**Sales of mobile data cards**

2009; in k units



Source: Vtion

Furthermore, additional cooperation agreements with the network operators should follow which might serve as a further catalyst.

**Interesting investment possibilities in a dynamic market potential**

Vtion represents an investment possibility in a company...

- with a strong positioning in a dynamic growth market (3G expansion in China)
- which currently has oligopolistic market structures
- with a solid balance sheet (equity ratio: 58%, liquid funds: 34%)
- with an interesting multiple valuation (PER 2010e: 5.0, EV/EBIT: 4.5)
- with an attractive ROCE > 25% until 2011e – given a current market capitalisation of 1.5x the book value.

- **High market potential for wireless data cards in China**
- **Competitive strength results from the strong contractual relationships to the network operators**
- **Expansion of the value chain provides for additional sales potential**
- **High risks for the sustainability of returns in the medium term**

### High market potential for mobile data cards in China

The demand for the wireless data cards of Vtion mainly depends on the following factors:

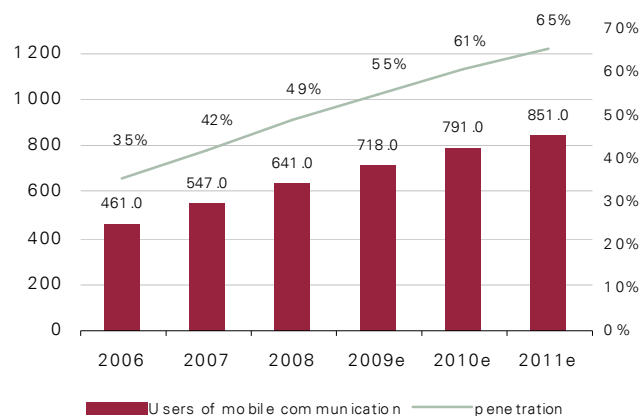
- Mobile penetration
- Internet penetration
- Coverage of 3G mobile networks
- PC and laptop sales

Additionally, wireless data cards are substitutes for broadband internet accesses via fixed line solutions. The worse the supply with low-cost broadband fixed line internet accesses, the higher the potential demand for mobile internet access solutions. The demand for wireless data cards in China is driven by the already high number of users of mobile communication, its further growth, the expected high growth rate of internet users and by PC and laptop sales.

**Mobile penetration in China:** 720 m users are expected in China at the end of 2009. This corresponds to a penetration rate of 55% based on the population. An increase to 850 m users or a penetration rate of 65% is expected by 2011e.

#### Users of mobile communication in China

in m



Sources: Network operators China, Vtion

The expected increase by 130 m users corresponds to an average growth of 8.6% p.a. The largest provider at mid-year 2009 was China Mobile with a market share of 73%.

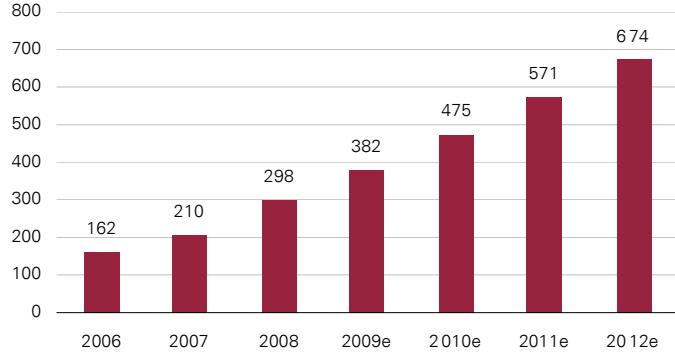
**Internet penetration in China:** In absolute terms, China had the largest internet community worldwide with 300 m internet users. However, the penetration rate (23%) is low compared to other countries. An increase of the number of users to 674 m is expected by 2012e (penetration: 52%). The rising internet penetration is expected to



be a central driver for the demand for wireless data cards.

**Development of internet users in China**

in m Users

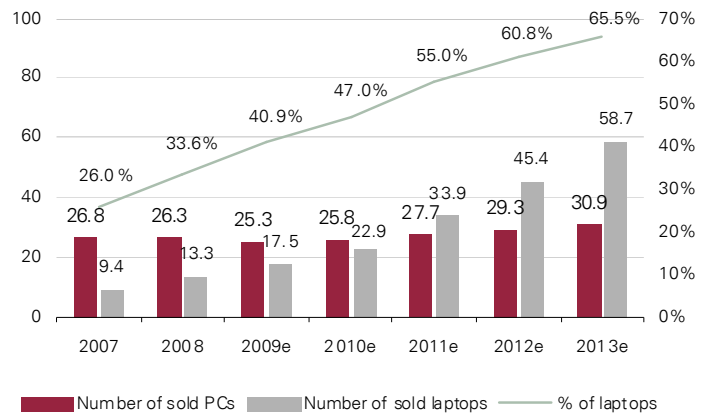


Sources: CNNIC (historic numbers), "Annual Report on Chinese Internet 2007-2008" from Analysis International 2009 (forecast), Vti

**PC and laptop sales in China:** The PC and laptop penetration is the third most important driver of demand for wireless data cards in addition to the number of mobile users and the number of internet users. Roughly 26 m PCs were sold in China in 2007 and 2008 respectively. An annual average growth of 3.3% to 30.9 m is expected by 2013e. In contrast, an annual average growth of 34.5% to 58.7 m is expected for the laptop sales between 2008 and 2013e.

**Sales of PCs and laptops in China**

in m.



Source: Vtion

**3G mobile networks:** The era of 3G was initiated in China at the beginning of 2009. All three network operators have started the build-up and expansion of the networks. The three network operators should have reached a 3G coverage in the most important 238 cities by the end of 2009. China Telecom has almost reached a nationwide 3G network coverage in China at the end of 2009.

With the rapid, nationwide introduction of 3G networks the providers lay the technical basis for the rapid expansion of mobile internet access offers and, therefore, a rapid expansion of wireless data cards. Additionally, the network operators should be highly interested in a rapid expansion of 3G services in order to fill the new network capacities.

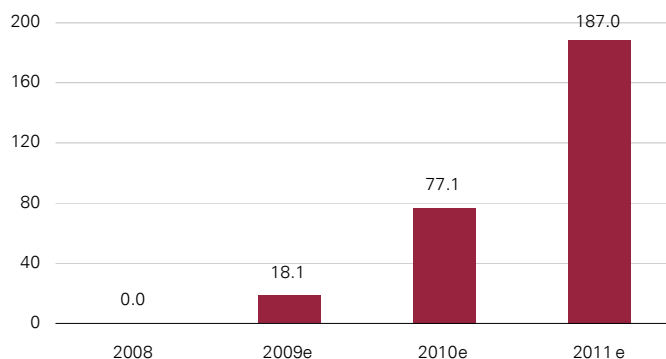
Thus, the basis for a strong increase of the demand for wireless data cards is provided due to the rapid and nationwide 3G expansion and the interest of providers to fill the networks soon.

### **The number of users of mobile communication is expected to continue to increase rapidly**

The already high mobile penetration of ~55% at the end of the year 2009 as well as the rapid nationwide 3G network expansion are the basis to increase the 3G user base. 187 m users will utilise 3G capable end devices (mobile phones, smartphones, data cards etc.) at the end of 2011e. This would mean that already 22% of all mobile users in China would be 3G customers in 2011e.

#### **Users of 3G mobile communication in China**

in m.



Source: Analysis International

An estimate for the development of wireless data card market can be derived from the expected developments for internet, mobile and 3G user numbers as well as for the annual sales volume of PCs and laptops.

Vtion sold 625 k wireless data cards in Q3/09. 84% thereof were 3G data cards. The expected number of 3G users is taken as a basis in order to estimate the market potential of wireless data cards. **If, for instance, 15% of the 187 m users of 3G expected for 2011e used wireless data cards, this would result in 28 m wireless data cards to be sold by 2011.**

### **Strong partnerships as a basis for dominant market position**

The supply side of the market for wireless data cards in China has a heterogeneous structure. Currently, roughly 80 suppliers of wireless data cards are active on the Chinese market. The largest buyers are the three mobile network operators China Mobile, China Unicom and China Telecom. **Approx. 80% to 90% of the demand of the three network operators is served by three large suppliers:** Huawei Technologies Co. Ltd., Zhong Xing Telecommunication Equipment Co. Ltd. and Vtion

**due to the high quality standards and certification processes.** The remaining 10%–20% are divided up between a large number of suppliers.

Thus, the partial market of demand for wireless data cards of network operators is characterised by an oligopolistic market on the supply side (Huwei, ZTE, Vtion) as well as on the demand side (China Mobile, China Unicom and China Telecom). Vtion had a market share of approx. 25% in 2008 and was the second largest provider of mobile data cards in China.

**The dominating market position of Vtion results from the diverse contracts which Vtion concluded with the three large network operators.**

### China Unicom

Vtion was chosen as top-tier supplier for 2.0 and 2.5 data cards between 2002 and 2008. Vtion was the largest supplier for wireless data cards for China Unicom in this period. Vtion was chosen as top-qualified supplier for 3G data cards on national level at the end of 2008. Thus, Vtion will be one of the largest suppliers of 3G data cards based on the WCDMA standard for China Unicom also in future. An agreement on the sale of the iPhone in the Fujian province was signed. Vtion will sell combined products consisting of an iPhone, an internet access product as well as a wireless data card. The table below shows the different iPhone package options.

Vtion - iPhone Sales Package Options			
Name	Price (RMB)	Item	Amount
Diamond Package	9999	iPhone	3GS 16G
		3G Voice (Preferred Number)	186 yuan/month x24 months 3G 186 Package
		2G Voice x2	Free 400 minutes of local outbound calling
		156 Data Card Package	Local 80 Hours/Month x24 Months Roaming 500M/Monthx24 Months
Platinum Voice Package	4666	3G Voice (Preferred Number)	156 Yuan/Month x24 Months 3G 156 Package
		2G Voice x2	Free 400 minutes of local outbound calling
		156 Data Card Package	Local 80 Hours/Month x24 Months, Roaming 500M/Monthx24 Months
Platinum Data Package	4666	3G Voice (Preferred Number)	96 Yuan/Monthx24 Months 3G 96 Package
		2G Voice x2	Free 400 minutes of local outbound calling
		156 Data Card Package	Local 160 Hours/Month x24 Months, Roaming 1G/Monthx24 Months

Source: vtion

### China Telecom

Vtion was chosen as top-tier supplier on national level in 2007 and 2008. Huwei and ZTE were chosen in addition to Vtion. Additionally, Vtion was able to sign a framework contract with China Telecom on the delivery of wireless data cards based on the CDMA2000 standard for 9 provinces. China Telecom was Vtion's largest customer in the first nine months of 2009.

### China Mobile

China Mobile was Vtion's largest customer in 2008 (sales share of 54%).

From the point of view of Vtion's management the market structure is not expected to change considerably in the medium term. According to Vtion the three network operators are expected to pursue the majority of the wireless data card business with the three established suppliers Huwei, ZTE and Vtion.

**The excellent relations and Vtion's long-term partnerships to the mobile network operators represent one of the main assets of the company.** This can mainly be put down to the good network of the management as well as the supervisory board within

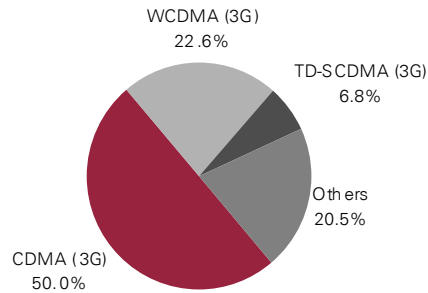
the Chinese mobile sector, but also to the important political decision makers.

In addition to the sales channel of mobile network operators Vtion sells the products to wholesalers and directly to end customers.

1.13 m wireless data cards were sold in the first nine months of 2009. The following charts show the sales by mobile standard as well as by the mobile providers.

**Sales of mobile data cards by mobile communication standard**

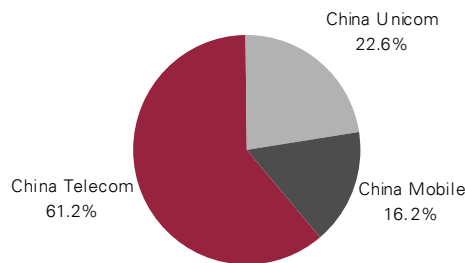
Q1-Q3 2009; total amount: 1,130 m



Sources: SES, Vtion

**Sales of mobile data cards by providers**

Q1-Q3 2009; total amount: 1,130 mln



Sources: SES, Vtion

The competitive advantages for Vtion result from the long-standing and strong business relations to the mobile network operators:

**Products and solutions for all network technologies and all interfaces**

Vtion is one of the few suppliers of wireless data cards who produces all established PC and notebook interfaces such as PCMCIA, USB, mini USB, express card 34/54 and PCI mini for all 3G network technologies (China Unicom: WCDMA, China Telecom: CDMA2000, China Mobile: TD-SCDMA). The interfaces result in advantages compared to competitors as Vtion can act as “full-range trader”.

### Focus on product design, development, sales as well as customer service

Vtion has outsourced the production of the data cards since the company's foundation.

Vtion focuses on the design and the development of the specifications. On this basis the wireless data cards are either developed by internal development capacities or by placing an external development order.

Additionally, Vtion offers buyers of wireless data cards a comprehensive customer service via hotline. Vtion has an own service network in the important large cities which can provide customers with secondary cards.

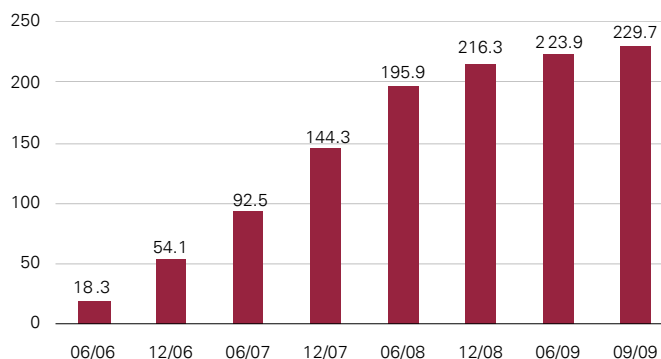
### Expansion of the value chain provides for additional sales potential

#### Portal for business travellers: [www.mbevip.com](http://www.mbevip.com)

Vtion started the internet service Mobile Business Club in 2006 in addition to the sale and marketing of wireless data cards. The portal offers business travellers services around the business trip such as the search for flights and hotels, video conferences etc. The service ([www.mbevip.com](http://www.mbevip.com)) had 230k subscribers at the end of Q3/09. The annual subscription amounts to an average of ~ EUR 10 (SESe). The service generated sales of EUR 2 m in the first nine months of 2009. This corresponds to a sales share of 4% of the Vtion group.

#### Business Club paying members

in k



Source: Vtion

### Introduction of bundled products

Vtion group has signed a framework agreement with China Telecom on the marketing of bundled products in the Fujian province. Vtion combines mobile 3G data cards with a contract on an internet access here. Vtion assumes to be able to conclude a further framework agreement on combined products also with China Unicom. Vtion receives a remuneration to the tune of roughly 20% of the revenues which are generated via the internet.

### Risks for the sustainability of the sales growth and the high returns

Vtion generated an EBIT margin of ~31% in 2007 and 2008 respectively. The ROCE was 75% in 2007 and 43.5% in 2008. A high EBIT margin of 29% and a ROCE of 41.5% are expected to be generated in 2009.

The ROCE looks set to continue to decline due to the expected profit retention.

A constant EBIT margin development is assumed until 2011e. Vtion would generate an attractive top line growth with expected +16% in 2010e and +7% in 2011e.

However, the medium-term sales growth as well as the stability of the high returns are subject to the following risks:

- **Demand side with oligopolistic structure:** The three mobile network operators are expected to remain the most important sales channel for wireless data cards in the medium term. Currently, all three suppliers pursue the strategy to assign 80% to 90% of the required wireless data cards to the three producers Vtion, ZTE and Huawei. As a rule, a supplier is not assigned an order of more than 30% of the required quantity. The providers might increasingly assign orders to suppliers which have no or only limited volume so far due to the increasing penetration rate of wireless data cards and resulting higher demand.
- **Price risks:** The average price per sold data card for Vtion should be ~ EUR 40 in 2009e. The average prices are expected to decline given increasing data card penetration. The price decline looks set to be higher than expected in the medium term.
- **Risks of substitute products:** Substitutes such as integrated laptop solutions might impact the market potential for wireless data cards negatively. However, the fact that three different mobile standards are operated in China argues against this. Furthermore, the providers should be interested economically to put the focus on the marketing of data cards.
- **Lower barriers to market entry in terms of technology:** The current market structure (90% of the demand is assigned to the three suppliers) as well as Vtion's market strength represent considerable barriers to market entry. However, a wireless data card looks set to develop rapidly into a product with commodity character. Therefore, the barriers to market entry in terms of technology should be low.
- **Longer product life cycle:** Wireless data cards are expected to have a rather long product life cycle (SESe: ~3 years). Therefore, an increased demand for the purchase of a substitute is not expected before 2012e.

However, the risks should take a back seat as a result of the enormous growth potential of the Chinese mobile data card market as well as Vtion's excellent positioning.

- **High growth of sold quantities of wireless data cards expected in 2010e and 2011e**
- **Price decline of ~10% p.a. expected due to the commodity character of the product**
- **Short balance sheet with a cash share of 34% of the balance sheet total**
- **Strong increase of the operating cash flow expected in 2010e**

The following table summarises the most important figures of the P&L account:

<b>Consolidated Profit &amp; Loss Vtion</b>				
in EUR m	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Sales</b>	<b>39.2</b>	<b>66.6</b>	<b>79.8</b>	<b>85.6</b>
change yoy	35.1%	70.0%	19.8%	7.3%
<b>EBIT</b>	<b>12.6</b>	<b>19.4</b>	<b>23.0</b>	<b>24.6</b>
margin	32.2%	29.1%	28.8%	28.7%
<b>EBT</b>	<b>12.4</b>	<b>20.0</b>	<b>24.0</b>	<b>25.9</b>
margin	31.6%	30.0%	30.1%	30.2%
<b>Net income</b>	<b>12.4</b>	<b>16.0</b>	<b>19.0</b>	<b>20.4</b>
margin	31.6%	24.0%	23.8%	23.8%

Sources: Vtion (historical data), SES Research (estimates)

### Sales model

A price/quantity model is the basis for the sales estimate. The estimates for the volume growth are moderate as the wireless data card market is still very young and the market will not develop into a mass market before the next years. So, it is assumed that the number of sold wireless data cards will increase by 29% p.a. from 1.51 m to 2.55 m sold units between 2009 and 2011. 187 m 3G users are expected for the Chinese market in 2011e. 6.25 m data cards of Vtion are expected to be sold between 2009e and 2011e. Only just 3.4% of all 3G users would utilise a Vtion data card based on the expected number of 3G users at the end of 2011e.

An average price per data card of CNY 383 (EUR 41) is expected for the fiscal year 2009. A decline of the average price by 10% p.a. to CNY 307 (EUR 32) is expected by 2011.

A lower sales contribution in relation to the group sales (sales 2010e: EUR 3.1 m; sales 2011e: EUR 4.0 m) is expected for the other sales revenues which mainly consist of the portal service Mobile Business Club.

**Sales Planning Vtion**

	2008	2009e	2010e	2011e
<b>Sold units</b>	<b>606,870</b>	<b>1519,980</b>	<b>2190,381</b>	<b>2551,000</b>
change yoy	199.9%	150.5%	44.1%	16.5%
Average unit price in Yuan	n.a.	383.0	336.0	307.2
change yoy	n.a.	n.a.	-12.3%	-8.6%
<b>Sales in Yuan</b>	<b>n.a.</b>	<b>582.2</b>	<b>736.0</b>	<b>783.7</b>
Yuan/EUR	n.a.	9.2	9.6	9.6
<b>Average unit price in EUR</b>	<b>59.65</b>	<b>41.81</b>	<b>35.00</b>	<b>32.00</b>
change yoy	n.a.	-29.9%	-16.3%	-8.6%
<b>Sales in EUR</b>	<b>36.2</b>	<b>63.6</b>	<b>76.7</b>	<b>81.6</b>
Sales Other	3.0	3.0	3.1	4.0
<b>Total Sales</b>	<b>39.2</b>	<b>66.6</b>	<b>79.8</b>	<b>85.6</b>
change yoy	35.2%	69.8%	19.8%	7.4%

Sources: Vtion (historical data), SES Research (estimates)

**Cost ratios**

The production costs are the largest cost position. The production costs are expected to be at 65.0% of sales in 2009. They mainly include the costs for the outsourced production, the procurement of material as well as the development costs. The ratio of production costs to sales is expected to remain constant until 2011e. Declining unit costs by rising quantities as well as economies of scale in the outsourced development look set to compensate for the expected price decreases.

The other costs are rather low. The administration costs are estimated to be 4.5% of sales in 2009e and the sales costs should amount to 2.4% of sales.

The following table shows the expected cost ratios between 2009 and 2011e.

**Cost ratios Vtion**

in % of Sales	2008	2009e	2010e	2011e
Cost of sales	58.9%	65.0%	65.9%	65.8%
Sales and marketing	3.5%	2.4%	2.6%	2.8%
General and administration	6.6%	4.5%	4.0%	4.0%

Sources: Vtion (historical data), SES Research (estimates)

**High EBIT margin expected by 2011e**

The table above underpins that a constant EBIT margin of 28% is expected by 2011e. The assumption is subject to the following risks:

- **Price decline is higher than expected:** The competition might intensify in the upcoming quarters, so the actual price decline might be higher than anticipated in the model.
- **Wireless data card develops into a commodity product:** The development and production process of wireless data cards is little complex. Therefore, the number of suppliers might continue to increase. The Chinese network operators might add further suppliers in addition to the established ones Vtion, Huawei and ZTE and, therefore, reduce the business of the three established companies.

**However, the high market potential of wireless data cards (penetration based on users at the end of 2009: 1.4%) as well as the good positioning (expected market share in 2009e: ~ 25%) should put the risks in the rear.**



### Balance sheet with high share of liquid funds and accounts receivable

A balance sheet total of 87.5 m is expected at the end of 2009. The assets are expected to be EUR 1.6 m or 1.8%. The low share of assets in the balance sheet total can be put down to the fact that the production of the data cards is outsourced and correspondingly the company does not need any production capacities.

The two largest positions of the balance sheet total are trade accounts receivable as well as liquid funds. Trade accounts receivable to the tune of 29 m (35.3% of the balance sheet total) and liquid funds of EUR 26.5 m (32.1%) are expected as of the cut-off date (December 31, 2009).

The expected equity ratio is 56.6% of the balance sheet total after the IPO. The company currently has no interest-bearing liabilities.

#### Balance sheet Vtion

2009e; in % of balance sheet total

<b>Fixed assets</b>	<b>2.0%</b>	<b>Total equity</b>	<b>56.6%</b>
<b>Current assets</b>	<b>98.0%</b>	<b>Liabilities</b>	<b>43.4%</b>
Liquid assets	32.1%	Accounts payable	24.3%
Accounts receivable	35.3%	other Liabilities	19.1%
other current assets	30.6%		

Sources: Vtion (historical data), SES Research (estimates)

### Considerable increase of the cash flow expected in 2010e

The operating cash flow is expected to decline from EUR 14.2 m in 2008 to EUR minus 3.1 m in 2009. The expected high sales growth of 70% is attended by a corresponding increase of the working capital. The working capital was EUR 3 m or 7.7% of sales in 2008. An increase of the working capital to 23 m or 33% of sales is expected in 2009. The increase of the working capital is a result of the high growth in 2009.

A deceleration of the sales growth to +19.8% is expected in 2010e. As the working capital ratio is expected to remain constant in 2010e, the operating cash flow should increase to 14.1 m.

#### Cash Flow Development

in EUR m	2008	2009e	2010e	2011e
Cash Flow from operating activities	14.2	-3.1	14.9	19.2
Liquid funds	30.3	26.5	40.7	58.8
Free Cash Flow	14.2	-3.8	14.1	18.2
Free Cash Flow per share in EUR	1.24	-0.33	1.23	1.58

Sources: Vtion (historical data), SES Research (estimates)

- All three valuation models indicate an undervaluation
- The medium-term risks of the business model can be best reflected with the DCF model
- PT of EUR 12.50 based on the DCF model
- FCFY points to a valuation between EUR 15.20 and EUR 17.10

## Free Cash Flow Yield

The adjusted free cash flow yield assumes that investors seek to purchase assets (here the enterprise value) at such a price that the free cash flow return (free cash flow = net income + depreciations - maintenance capex + taxes - (1-t)\* interest) on the EV exceeds their opportunity costs of 10%.

### Free Cash Flow Yield - Vtion

Figures in EUR m	2005	2006	2007	2008	2009e	2010e	2011e	
Net Income	0.0	2.1	9.2	12.4	16.0	19.0	20.4	
+ Depreciation + Amortisation	0.0	0.0	0.1	0.2	0.3	0.6	0.6	
- Net Interest Income	0.0	-0.1	-0.1	-0.2	0.6	1.0	1.3	
+ Taxes	0.0	0.4	0.0	0.0	4.0	5.0	5.5	
- Maintenance Capex	0.0	1.0	1.0	1.0	1.0	1.0	1.0	
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>= Adjusted Free Cash Flow</b>	<b>0.0</b>	<b>1.6</b>	<b>8.3</b>	<b>11.8</b>	<b>18.7</b>	<b>22.5</b>	<b>24.2</b>	
Adjusted Free Cash Flow Yield	0.0%	1.2%	6.2%	8.8%	13.6%	18.2%	22.9%	
Hurdle rate	10%	10%	10%	10%	10%	10%	10%	
<b>= Enterprise Value</b>	<b>134.0</b>	<b>134.0</b>	<b>134.0</b>	<b>134.0</b>	<b>137.8</b>	<b>123.7</b>	<b>105.5</b>	
<b>= Fair Enterprise Value</b>	-	<b>15.7</b>	<b>83.3</b>	<b>117.6</b>	<b>187.1</b>	<b>225.4</b>	<b>241.7</b>	
- Net Debt (Cash)	-30.3	-30.3	-30.3	-30.3	-26.5	-40.7	-58.8	
- Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>= Fair Market Capitalisation</b>	-	<b>46.0</b>	<b>113.7</b>	<b>147.9</b>	<b>213.7</b>	<b>266.1</b>	<b>300.5</b>	
No. of shares (m)	18	18	18	18	18	18	18	
<b>= Fair value per share (EUR)</b>	-	<b>2.63</b>	<b>6.50</b>	<b>8.45</b>	<b>12.21</b>	<b>15.20</b>	<b>17.17</b>	
premium (-) / discount (+) in %	-	-72.0%	-30.8%	-10.0%	30.0%	61.9%	82.9%	
<b>Sensitivity Fair value per Share (EUR)</b>								
	13%	-	2.42	5.40	6.90	9.74	12.23	13.98
	12%	-	2.48	5.70	7.33	10.43	13.06	14.87
	11%	-	2.55	6.06	7.84	11.24	14.03	15.92
Hurdle rate	<b>10%</b>	-	<b>2.63</b>	<b>6.50</b>	<b>8.45</b>	<b>12.21</b>	<b>15.20</b>	<b>17.17</b>
	09%	-	2.73	7.02	9.20	13.40	16.64	18.71
	08%	-	2.85	7.69	10.13	14.88	18.42	20.62
	07%	-	3.01	8.54	11.33	16.79	20.72	23.09

Source: Vtion (historical data), SES Research (estimates)

The FCFY 2010e and 2011e results in a fair value per share between EUR 15.20 and EUR 17.10. However, as a declining margin level is expected after 2011e, the method tends to fade down the medium to long-term risks of the business model. Therefore, the model is less appropriate as a basis for the PT.

## DCF model

The medium-term sales and EBIT development is subject to the already mentioned risks of the price decline for wireless data cards as well as a change of the market structure. The risks were accounted for by assuming a moderate sales growth of 5% p.a. beginning from 2013. Additionally, it is assumed that the EBIT margin will decline gradually to 25% by 2015e and to 10% by 2022e.

Furthermore, the working capital ratio was maintained at a constant level (35%). The working capital ratio is expected to decrease given a moderate sales development.

The WACC of 11.25% results from the following model parameters:

- BETA: 1.35
- Terminal growth rate: 2.5%
- Risk-free return: 4.0%
- Market return: 9.0%

### DCF Model - Vtion

Figures in EUR m	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Sales	66.6	79.8	85.6	90.7	95.3	100.0	105.0	110.3	115.8	121.6	127.7	130.9	134.1	137.5
Change	70.0%	19.8%	7.3%	06%	05%	05%	05%	05%	05%	05%	05%	03%	03%	03%
EBIT	19.4	23.0	24.6	25.4	25.7	26.0	26.3	26.5	26.6	26.8	26.8	26.2	20.1	15.1
EBIT-Margin	29.1%	28.8%	28.7%	28.0%	27.0%	26.0%	25.0%	24.0%	23.0%	22.0%	21.0%	20.0%	15.0%	11.0%
Tax rate	20.0%	20.8%	21.3%	00%	00%	00%	00%	00%	00%	00%	00%	00%	00%	00%
NOPAT	15.5	18.2	19.3	25.4	25.7	26.0	26.3	26.5	26.6	26.8	26.8	26.2	20.1	15.1
Depreciation	0.3	0.6	0.6	0.9	1.0	1.0	1.6	1.7	1.7	1.8	1.9	2.0	2.0	2.1
in % of Sales	0.5%	0.7%	0.7%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Change in Liquidity from														
- Working Capital	-20.0	-4.6	-1.8	-1.9	-0.7	-0.7	-2.2	-1.3	-1.3	-1.3	-2.0	0.3	-1.0	-1.1
- Capex	-0.7	-0.8	-1.0	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
Capex in % of Sales	1.1%	1.0%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (WACC-Model)	-4.9	13.3	17.1	23.1	24.6	24.8	24.0	25.2	25.3	25.4	24.8	26.4	19.1	14.1

### Model parameter

Debt ratio	000%	Beta	001
Costs of Debt	n.a.	WACC	011%
Market return	009%		
Risk free rate	004%	Terminal Growth	003%

### Valuation (mln)

Present values 2022e	143.7
Terminal Value	46.1
Liabilities	0.0
Liquidity	30.3
<b>Equity Value</b>	<b>220.1</b>
No. of shares (mln)	018
<b>Value per share (EUR)</b>	<b>12.58</b>

### Sensitivity Value per Share (EUR)

Terminal Growth								Delta EBIT margin							
WACC	002%	002%	002%	003%	003%	003%	003%	WACC	-02 pp	-01 pp	-01 pp	00	+01 pp	+01 pp	+02 pp
012%	11.44	11.49	11.54	11.59	11.65	11.71	11.78	012%	10.69	10.99	11.29	11.59	11.89	12.20	12.50
011%	11.87	11.93	12.00	12.06	12.13	12.20	12.28	011%	11.11	11.42	11.74	12.06	12.38	12.70	13.02
011%	12.11	12.17	12.24	12.31	12.39	12.47	12.56	011%	11.33	11.66	11.98	12.31	12.64	12.97	13.30
<b>011%</b>	12.36	12.43	12.50	<b>12.58</b>	12.66	12.75	12.84	<b>011%</b>	11.56	11.90	12.24	<b>12.58</b>	12.92	13.25	13.59
010%	12.61	12.69	12.77	12.86	12.95	13.05	13.15	010%	11.81	12.16	12.51	12.86	13.21	13.56	13.91
010%	12.89	12.97	13.06	13.15	13.25	13.36	13.48	010%	12.07	12.43	12.79	13.15	13.51	13.87	14.24
010%	13.48	13.57	13.68	13.80	13.92	14.05	14.19	010%	12.63	13.02	13.41	13.80	14.18	14.57	14.96

Source: SES Research

The DCF model results in a fair value of EUR 12.50

### **Conclusion**

Both approaches indicate an undervaluation of the Vtion share. The DCF model is the basis for the PT of EUR 12.50 as the DCF model can best reflect the medium-term risks of the business model. The undervaluation is underpinned by a P/E ratio of 5.5 for 2010e.

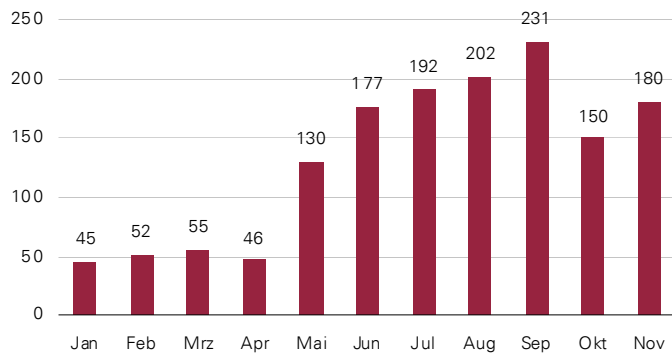
- **Regular publication of the sold quantities of data cards underpins the expected growth dynamic**
- **3G network expansion in China as possible additional catalyst**
- **3G user figures as indicator for the demand potential for wireless data cards**
- **Additional cooperation agreements expected with network operators**

**Publication of sales figures on a monthly basis indicate growth dynamic**

Vtion publishes the sales figures of wireless data cards on a monthly basis. Therefore, the expected growth dynamic in 2010e and 2011e is regularly underpinned.

**Sales of wireless data cards**

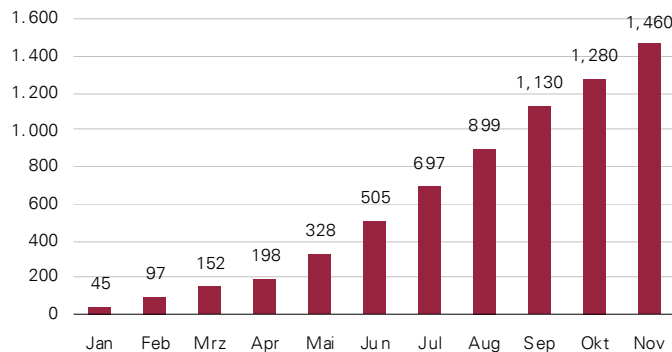
2009; in k units



Source: Vtion

**Accumulated sales of wireless data cards**

2009; in k units



Source: Vtion

**Progress in the expansion of the 3G network in China should support the investment case**

The mobile network operators in China have ambitious targets regarding the expansion of the 3G network. China Telecom is expected to have reached an almost nationwide network coverage already at the end of 2009. The other two providers China Mobile and China Unicom intend to have an almost nationwide network by the end of 2011e. The progress in the expansion of the network might serve as additional catalyst for the share.

**Number of 3G users in China as basis for the growth potential**

In addition to the progress of the expansion of the 3G network the number of 3G users of the mobile network operators should act as driver for the share. An increase of 3G users from 18 m to 187 m is expected by 2011e.

**Further cooperation agreements with the network operators expected**

Vtion has several contracts with network operators China Unicom, China Mobile and China Telecom on qualifications, procurement contracts and regions (see section of competitive quality) so far. It is assumed that Vtion will conclude further contracts with the network operators in the next months in order to expand the competitive strength as well as the partnerships.

- **The No.2 on the Chinese market for wireless data cards**
- **Considerable licence agreements concluded with Qualcomm**
- **The three network operators as main customers**

### Company background

Vtion develops and markets wireless data card solutions for PCs and laptops for all established interface standards as well as all mobile standards which are in operation in China.

Wireless data cards are connected with a PC or a laptop via interfaces such as USB or PCI. A connection to the corresponding mobile network of the mobile provider (issuer of the cards) is established with the help of the data card in order to gain access to the internet.

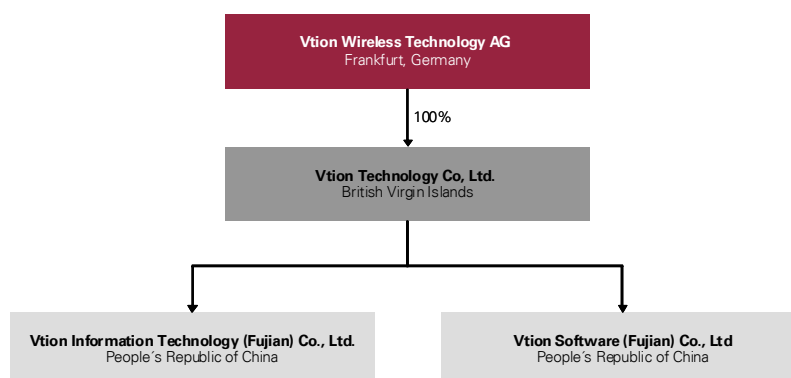
Additionally, Vtion started a portal which is called Mobile Business Club in 2006 which supports business travellers in China (sales 9M/09: EUR 1.9 m).

Vtion generated sales of EUR 47.7 m (yoy +47%) in the first nine months and sold 1.13 data cards (yoy +137%). The average revenues per card were EUR 40.50 in the first nine months.

### Group structure

Vtion Wireless Technology AG („Vtion“) was founded on October 1, 2007 as German public limited company, headquartered in Frankfurt and is the listed holding company. The public limited company holds 100% of the Vtion Technology Company, Ltd. which is the sole owner of the Vtion Information Technology (“Vtion IT”) and Vtion Software (both located in Fujian, China). The operating business is bundled in both companies. Vtion IT was already founded in 2002. The company operates the business with data cards (currently approx. 95% of sales revenues).

#### Vtion group structure



Source: Vtion

### Products

Currently, Vtion has 35 different data cards for the mobile standards GSM/GPRS/EDGE, WCDMA, CDMA2000 as well as TD-SCDMA in its product range and covers all mobile technologies which are operated in China. The product line covers all relevant interfaces: PCMCIA, USB/Mini USB, Express 34/PCI Express Mini.

### Licences

The expansion of mobile networks of all three carriers to the so-called networks of the third generation („3G“) is pursued on the basis of CDMA technology from the US producer Qualcomm as well as on the basis of the 3G technology TD-SCDMA developed in China. For the technologies to be applied in wireless data cards, the producers of such wireless data cards have to conclude licence agreements with the patentees of the corresponding technologies. Vtion's licence portfolio currently comprises the following agreements:

- **CDMA Modem Card – Licence contract with Qualcomm:** On April 11, 2008, Vtion concluded a licence agreement with Qualcomm which authorises Vtion to integrate CSMA, WCDMA and CDMA2000 technologies in modem cards and to sell and to produce them. In addition to a one-off fee of USD 1 m the licence price is 5% to 6.5% per sold card.
- **Software licence contracts with Qualcomm:** On May 27, 2008, Vtion concluded an agreement with Qualcomm on 2 software licences authorising the company to use miscellaneous CDMA software technologies (one-off fee of USD 0.2 m).
- **MSM6290 WCDMA modem cards licence contract with Qualcomm:** On March 31, 2009, the licence portfolio was expanded by an agreement on MSM6290 W-CDMA modem cards of Qualcomm. The agreement allows Vtion to use and distribute W-CDMA modem cards in data cards and modules.
- **Supply agreement with Qualcomm:** A contract with a term of five years was signed with Qualcomm Singapore on July 23, 2008, which stipulates the delivery of components based on the CDMA technology.
- **Supply agreement with Beijing Wei Ke Hua RuiTechnology Co. Ltd. (WKHR):** A further supply contract was concluded with WKHR, located in China. The agreement grants Vtion the access to 3G mobile technology developed in China.

### Demand

The three network operators China Telecom, China Mobile and China Unicom are the largest customers of Vtion. Vtion sold a total of 1.13 m wireless data cards in China in the first nine months of 2009. Approx. 51.6% or 583 k thereof were sold to China Telecom, 15.5% or 175 k to China Mobile as well as 13.6% or 154 k to China Unicom. So, 80.7% of the sold quantities of data cards were directly ordered by the providers in the first 9 months. 18.6% were sold to independent retailers and 0.7% was sold via direct sales channels.

### Value chain

Vtion's value chain can be divided into 6 steps:

- **Step 1: Product design and product specification:** In a first step Vtion analyses the technological trends particularly in the mobile communication, the mobile internet as well as the interface technologies. The specifications for the future products are determined on the basis of these results.
- **Step 2: Development of data cards based on the design and the specification:** Based on the specification new wireless data cards are developed by internal development capacities as well as by awarding of development contracts to external service providers.
- **Step 3: Production:** The production of data cards is completely outsourced to the production service providers. This is advantageous as the company can flexibly react to demand fluctuations and can rapidly ramp up the units without having to create comprehensive own production capacities.
- **Step 4: Sale and marketing:** The contracts with the three mobile network operators China Unicom, China Telecom and China Mobile represent Vtion's main competitive advantage. Certain quality standards and guidelines have to be fulfilled in order to become preferred supplier for wireless data cards of the network operators. Currently, the three suppliers Vtion, Huawei Technologies Co. Ltd. and Zhong Xing Telecommunications Equipment Co. deliver 85% to 90% of the data



cards demanded by the three network operators.

- **Step 5: Value-added service:** In addition to the development, production and marketing of mobile data cards Vtton is building up an own end customer portal business. The portal business club is specialised in business travellers in China and offers comprehensive data services around the business trip.
- **Step 6: Customer support:** Vtton maintains an on-site service in currently 20 cities in addition to the operation of a hotline for end customers, which have acquired Vtton data cards.

**History**

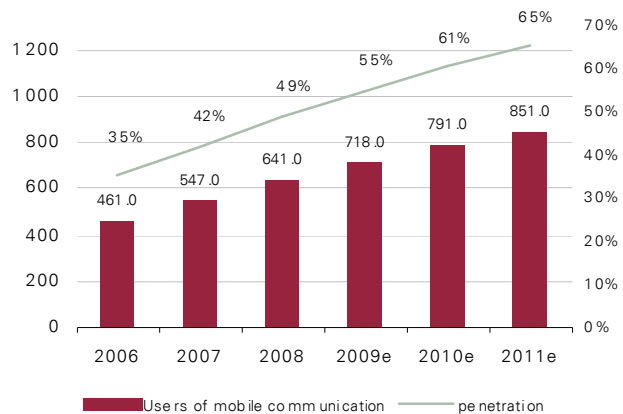
The Fujian Vtton Technology Co. Ltd. was founded in 2002. The first CDMA 1x mobile phone card was introduced to the Chinese market in May 2003. Vtton became a central company for high & new tech in August 2006 within the scope of the Chinese high technology subsidy programme. Additionally, a number of new and innovative wireless data cards were introduced in 2006. The main contracts with Qualcomm were signed in 2008. The stock exchange trading of the Vtton share started on October 1, 2009.

**Telecommunication market China**

Approx. 720 m users of mobile communication are expected in the People’s Republic of China at the end of 2009. This corresponds to a penetration rate of 55% based on the population. An increase of 850 m users or a penetration rate of 65% is expected by 2011e.

**Users of mobile communication in China**

in m



Source: Network operators China, Vtton

Today’s structure of the Chinese mobile communication market is based on the reorganisation of the telecommunication market in 2008. According to the plan for 2008, there should be three more or less equal suppliers which have nationwide networks. Mobile networks of the third generation were started in 2009 in the first provinces. As measured by users of mobile communication China Mobile is the largest provider in China with 493 m users. However, China Telecom, which has a rather low number of users will operate an almost nationwide 3G network in China by the end of the year.

The following chart gives an overview of the three mobile network operators in China.

**Mobile network operators in China**

	China Mobile	China Unicom	China Telecom
Mobile customers in m	508.36	142.80	46.78
Market share in %	73%	20%	7%
Mobile communication standard	TD-SCDMA	WCDMA	CDMA 2000 EVDO+
3G expansion	nationwide network coverage planned by 2011	almost nationwide network coverage planned by 2011 (96%)	Almost nationwide network coverage already at the end of 2009
Public ownership	74.25%	70.47%	70.89%

Source: SES Research, Companies

**Management**

**Executive Board**

Mr. Chen Guoping is the CEO and founder of Vtion. In 2005 he was one of the winners of the "National Outstanding Manager" Award in China.

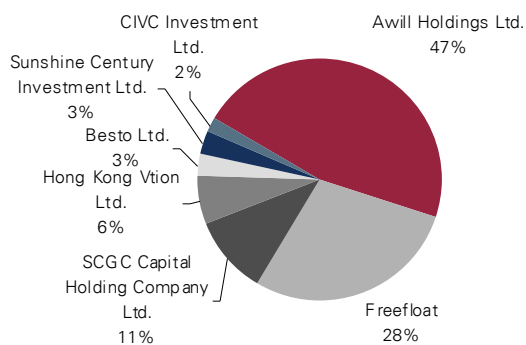
Mr. He Zhihong (CTO) had various work experience in the Chinese wireless telecommunication industry before he joined Vtion.

Mr. Chen Huan (CFO) did a Master of Commerce at the University of Sydney. Before he joined Vtion, he gathered 10 years of work experience in various positions such as Senior Auditor of Arthur Andersen, Manager of IFM Consulting Firm and CFO of Vesta (China)

**Shareholder structure**

**Shareholder structure**

As of: 11/2009



Source: Vtion

**Consolidated Profit & Loss Vtion**

in EUR m

	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	<b>10.0</b>	<b>29.0</b>	<b>39.2</b>	<b>66.6</b>	<b>79.8</b>	<b>85.6</b>
Cost of sales	6.5	17.3	23.1	43.3	52.6	56.3
<b>Gross balance</b>	<b>3.5</b>	<b>11.7</b>	<b>16.1</b>	<b>23.3</b>	<b>27.2</b>	<b>29.3</b>
Research and development	0.0	0.0	0.0	0.0	0.0	0.0
Sales and marketing	0.5	0.9	1.4	0.0	2.1	2.4
General and administration	0.5	1.3	2.6	3.0	3.2	3.4
Other operating income/expenses	0.0	-0.2	0.5	0.7	1.0	1.1
Unfrequent items	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>EBITDA</b>	<b>2.6</b>	<b>9.3</b>	<b>12.8</b>	<b>21.3</b>	<b>23.5</b>	<b>25.2</b>
Depreciation of fixed assets	0.0	0.0	0.1	0.2	0.2	0.3
<b>EBITA</b>	<b>2.5</b>	<b>9.3</b>	<b>12.7</b>	<b>21.1</b>	<b>23.3</b>	<b>24.9</b>
Amortisation of intangible fixed assets	0.0	0.1	0.1	0.2	0.3	0.3
Impairment charges and amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>2.5</b>	<b>9.2</b>	<b>12.6</b>	<b>21.0</b>	<b>23.0</b>	<b>24.6</b>
Interest income	0.0	0.2	0.3	0.6	1.0	1.3
Interest expenses	0.1	0.3	0.5	0.0	0.0	0.0
Financial result	-0.1	-0.1	-0.2	0.6	1.0	1.3
<b>Recurring pretax income from cont. operations</b>	<b>2.5</b>	<b>9.1</b>	<b>12.4</b>	<b>21.6</b>	<b>24.0</b>	<b>25.9</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>2.5</b>	<b>9.1</b>	<b>12.4</b>	<b>21.6</b>	<b>24.0</b>	<b>25.9</b>
Taxes total	0.4	0.0	0.0	4.0	5.0	5.5
<b>Net income from continuing operations</b>	<b>2.1</b>	<b>9.2</b>	<b>12.4</b>	<b>17.6</b>	<b>19.0</b>	<b>20.4</b>
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income before minorities</b>	<b>2.1</b>	<b>9.2</b>	<b>12.4</b>	<b>17.6</b>	<b>19.0</b>	<b>20.4</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>2.1</b>	<b>9.2</b>	<b>12.4</b>	<b>17.6</b>	<b>19.0</b>	<b>20.4</b>

Sources: Vtion (historical data), SES Research (forecasts)

**Consolidated Profit & Loss Vtion**

in % of Sales

	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	65.1 %	59.7 %	58.9 %	65.0 %	65.9 %	65.8 %
<b>Gross balance</b>	<b>34.9 %</b>	<b>40.3 %</b>	<b>41.1 %</b>	<b>35.0 %</b>	<b>34.1 %</b>	<b>34.2 %</b>
Research and development	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Sales and marketing	4.7 %	3.3 %	3.5 %	0.0 %	2.6 %	2.8 %
General and administration	4.9 %	4.5 %	6.6 %	4.5 %	4.0 %	4.0 %
Other operating income/expenses	0.0 %	-0.7 %	1.2 %	1.0 %	1.3 %	1.3 %
Unfrequent items	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
<b>EBITDA</b>	<b>25.7 %</b>	<b>32.2 %</b>	<b>32.6 %</b>	<b>32.0 %</b>	<b>29.5 %</b>	<b>29.4 %</b>
Depreciation of fixed assets	0.3 %	0.1 %	0.2 %	0.3 %	0.3 %	0.3 %
<b>EBITA</b>	<b>25.4 %</b>	<b>32.1 %</b>	<b>32.4 %</b>	<b>31.8 %</b>	<b>29.2 %</b>	<b>29.1 %</b>
Amortisation of intangible fixed assets	0.1 %	0.2 %	0.2 %	0.3 %	0.4 %	0.4 %
Impairment charges and amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>25.3 %</b>	<b>31.9 %</b>	<b>32.2 %</b>	<b>31.5 %</b>	<b>28.8 %</b>	<b>28.7 %</b>
Interest income	0.3 %	0.8 %	0.7 %	0.9 %	1.3 %	1.5 %
Interest expenses	1.0 %	1.1 %	1.2 %	0.0 %	0.0 %	0.0 %
Financial result	-0.7 %	-0.3 %	-0.5 %	0.9 %	1.3 %	1.5 %
<b>Recurring pretax income from cont. operations</b>	<b>24.6 %</b>	<b>31.5 %</b>	<b>31.6 %</b>	<b>32.4 %</b>	<b>30.1 %</b>	<b>30.2 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBT</b>	<b>24.6 %</b>	<b>31.5 %</b>	<b>31.6 %</b>	<b>32.4 %</b>	<b>30.1 %</b>	<b>30.2 %</b>
Taxes total	4.0 %	-0.1 %	0.0 %	6.0 %	6.3 %	6.4 %
<b>Net income from continuing operations</b>	<b>20.6 %</b>	<b>31.6 %</b>	<b>31.6 %</b>	<b>26.4 %</b>	<b>23.8 %</b>	<b>23.8 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income before minorities</b>	<b>20.6 %</b>	<b>31.6 %</b>	<b>31.6 %</b>	<b>26.4 %</b>	<b>23.8 %</b>	<b>23.8 %</b>
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>20.6 %</b>	<b>31.6 %</b>	<b>31.6 %</b>	<b>26.4 %</b>	<b>23.8 %</b>	<b>23.8 %</b>

Sources: Vtion (historical data), SES Research (forecasts)

**Balance sheet Vtion**

in EUR m

	2006	2007	2008	2009E	2010E	2011E
<b>Assets</b>						
Intangible assets	0.1	0.6	0.8	1.1	1.4	1.8
thereof other intangible assets	0.1	0.6	0.8	1.1	1.4	1.8
thereof Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.1	0.2	0.5	0.5	0.5	0.4
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fixed assets</b>	<b>0.2</b>	<b>0.8</b>	<b>1.2</b>	<b>1.6</b>	<b>1.9</b>	<b>2.3</b>
Inventories	1.6	2.3	4.9	13.3	16.0	17.1
Accounts receivable	2.6	10.1	6.4	29.2	35.0	37.5
Other Assets	1.2	1.1	8.2	12.0	13.0	13.5
Liquid assets	1.6	12.2	30.3	26.5	40.7	58.8
<b>Current assets</b>	<b>7.1</b>	<b>25.8</b>	<b>49.8</b>	<b>81.0</b>	<b>105</b>	<b>127</b>
<b>Total assets</b>	<b>7.2</b>	<b>26.6</b>	<b>51.0</b>	<b>82.6</b>	<b>107</b>	<b>129</b>
<b>Liabilities and shareholders' equity</b>						
Subscribed capital	2.9	10.0	11.5	11.5	11.5	11.5
Additional paid-in capital	0.3	0.0	7.6	7.6	7.6	7.6
Surplus capital	0.7	0.8	13.2	29.1	48.1	68.5
Other equity components	0.0	-0.4	3.3	-1.5	-1.5	-1.0
Book value	3.9	10.4	35.6	46.7	65.7	86.6
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>3.9</b>	<b>10.4</b>	<b>35.6</b>	<b>46.7</b>	<b>65.7</b>	<b>86.6</b>
Provision for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.2	3.0	3.8	3.8	3.8	3.8
Financial liabilities	1.8	5.2	0.0	0.0	0.0	0.0
Accounts payable	0.5	4.7	8.3	20.1	24.0	25.8
Other liabilities	0.9	3.3	3.3	12.0	13.0	13.0
<b>Liabilities</b>	<b>3.3</b>	<b>16.2</b>	<b>15.4</b>	<b>35.9</b>	<b>40.8</b>	<b>42.6</b>
<b>Total liabilities and shareholders equity</b>	<b>7.2</b>	<b>26.6</b>	<b>51.0</b>	<b>82.6</b>	<b>107</b>	<b>129</b>

Sources: Vtion (historical data), SES Research (forecasts)

**Balance sheet Vtion**

in % of Balance Sheet Total

	2006	2007	2008	2009E	2010E	2011E
<b>Assets</b>						
Intangible assets	0.7 %	2.2 %	1.5 %	1.3 %	1.3 %	1.4 %
thereof other intangible assets	0.7 %	2.2 %	1.5 %	1.3 %	1.3 %	1.4 %
thereof Goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Property, plant and equipment	1.5 %	0.7 %	1.0 %	0.6 %	0.5 %	0.3 %
Financial assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Fixed assets</b>	<b>2.2 %</b>	<b>2.9 %</b>	<b>2.4 %</b>	<b>2.0 %</b>	<b>1.7 %</b>	<b>1.7 %</b>
Inventories	22.5 %	8.7 %	9.6 %	16.1 %	15.0 %	13.2 %
Accounts receivable	36.8 %	38.1 %	12.5 %	35.3 %	32.9 %	29.0 %
Other Assets	16.9 %	4.3 %	16.0 %	14.5 %	12.2 %	10.5 %
Liquid assets	21.9 %	46.0 %	59.5 %	32.1 %	38.2 %	45.5 %
<b>Current assets</b>	<b>98.0 %</b>	<b>97.1 %</b>	<b>97.6 %</b>	<b>98.1 %</b>	<b>98.3 %</b>	<b>98.3 %</b>
<b>Total assets</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Liabilities and shareholders' equity</b>						
Subscribed capital	40.8 %	37.6 %	22.5 %	13.9 %	10.8 %	8.9 %
Additional paid-in capital	3.5 %	0.0 %	14.9 %	9.2 %	7.2 %	5.9 %
Surplus capital	10.3 %	2.9 %	25.8 %	35.3 %	45.2 %	53.0 %
Other equity components	0.0 %	-1.4 %	6.6 %	-1.8 %	-1.4 %	-0.8 %
Book value	54.6 %	39.1 %	69.8 %	56.6 %	61.7 %	67.0 %
Minority Interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Total equity</b>	<b>54.6 %</b>	<b>39.1 %</b>	<b>69.8 %</b>	<b>56.6 %</b>	<b>61.7 %</b>	<b>67.0 %</b>
Provision for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Provisions	2.2 %	11.3 %	7.5 %	4.6 %	3.6 %	2.9 %
Financial liabilities	24.3 %	19.5 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	7.1 %	17.8 %	16.2 %	24.3 %	22.5 %	20.0 %
Other liabilities	12.1 %	12.3 %	6.5 %	14.5 %	12.2 %	10.1 %
<b>Liabilities</b>	<b>45.7 %</b>	<b>60.8 %</b>	<b>30.2 %</b>	<b>43.4 %</b>	<b>38.3 %</b>	<b>33.0 %</b>
<b>Total liabilities and shareholders equity</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Sources: Vtion (historical data), SES Research (forecasts)

**Statement of Cash Flows Vtion**

in EUR m

	2006	2007	2008	2009E	2010E	2011E
Net income	2.1	9.2	12.4	16.0	19.0	20.4
Depreciation of fixed assets	0.0	0.0	0.1	0.2	0.2	0.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.1	0.1	0.2	0.3	0.3
Increase/decrease in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other costs affecting income / expenses	-0.1	-0.2	1.5	0.0	0.0	0.0
<b>Cash Flow</b>	<b>2.0</b>	<b>9.0</b>	<b>14.0</b>	<b>16.3</b>	<b>19.5</b>	<b>21.0</b>
Increase / decrease in inventory	-0.5	-0.7	-2.6	-8.4	-2.7	-1.1
Increase / decrease in accounts receivable	-1.3	-7.5	3.8	-22.8	-5.8	-2.5
Increase / decrease in accounts payable	-0.3	4.2	3.4	11.8	3.9	1.8
Increase / decrease in other working capital positions	0.2	2.9	-4.4	0.0	0.0	0.0
Increase / decrease in working capital	-2.0	-1.1	0.2	-19.4	-4.6	-1.8
<b>Cash flow from operating activities</b>	<b>0.1</b>	<b>7.9</b>	<b>14.2</b>	<b>-3.1</b>	<b>14.9</b>	<b>19.2</b>
CAPEX	0.0	0.0	0.0	-0.7	-0.8	-1.0
Payments for acquisitions	-0.1	-0.7	-0.5	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-0.5</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-1.0</b>
Change in financial liabilities	1.2	3.4	-5.5	0.0	0.0	0.0
Dividends paid	-1.5	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	9.1	0.0	0.0	0.0
Others	0.1	0.1	-0.8	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-0.2</b>	<b>3.5</b>	<b>2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Change in liquid funds	-0.2	10.7	16.5	-3.8	14.1	18.2
<b>Effects of exchange rate changes on cash</b>	<b>-0.1</b>	<b>0.0</b>	<b>1.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Liquid assets at end of period</b>	<b>-0.3</b>	<b>12.2</b>	<b>30.3</b>	<b>26.5</b>	<b>40.7</b>	<b>58.8</b>

Sources: Vtion (historical data), SES Research (forecasts)

## Financial Ratios Vtion

	2006	2007	2008	2009E	2010E	2011E
<b>Operational Efficiency</b>						
Total Operating Costs / Sales	9.6 %	8.4 %	8.9 %	5.9 %	5.3 %	5.5 %
Sales per Employee	77,543	150,254	174,116	n.a.	n.a.	n.a.
EBITDA per Employee	19,915	48,358	56,711	n.a.	n.a.	n.a.
EBIT-margin	25.3 %	31.9 %	32.2 %	29.1 %	28.8 %	28.7 %
EBITDA / Operating Assets	66.5 %	118.4 %	367.7 %	86.0 %	85.6 %	86.1 %
ROA	1278.3 %	1197.3 %	995.4 %	991.4 %	1024.2 %	903.5 %
<b>Efficiency of Capital Employment</b>						
Plant Turnover	90.1	161	79.5	127	164	199
Operating Assets Turnover	2.6	3.7	11.3	2.9	2.9	2.9
Capital Employed Turnover	1.7	1.6	1.0	1.3	1.1	0.9
<b>Return on Capital</b>						
ROCE	43.4 %	75.7 %	43.5 %	43.1 %	38.3 %	30.7 %
EBITDA / Avg. Capital Employed	44.0 %	76.4 %	44.0 %	43.8 %	39.2 %	31.5 %
ROE	52.4 %	88.1 %	34.8 %	34.2 %	28.9 %	23.5 %
Net Profit / Avg. Equity	104.8 %	127.9 %	53.9 %	38.8 %	33.8 %	26.7 %
Recurring Net Profit / Avg. Equity	104.8 %	127.9 %	53.9 %	38.8 %	33.8 %	26.7 %
ROIC	35.4 %	49.2 %	31.4 %	31.6 %	27.3 %	22.5 %
<b>Solvency</b>						
Net Debt	0.2	-7.0	-30.3	-26.5	-40.7	-58.8
Net Gearing	4.5 %	-67.7 %	-85.2 %	-56.8 %	-61.9 %	-67.9 %
Book Value of Equity / Book Value of Debt	224.4 %	200.7 %	n.a.	n.a.	n.a.	n.a.
Current ratio	2.3	2.0	4.3	2.5	2.8	3.3
Acid Test Ratio	1.7	1.5	2.9	1.9	2.2	2.6
EBITDA / Interest Paid	24.9	29.9	26.5	n.a.	n.a.	n.a.
Interest Cover	36.2	97.3	60.3	n.a.	n.a.	n.a.
<b>Cash Flow</b>						
Free Cash Flow	0.1	7.9	14.2	-3.8	14.1	18.2
Free Cash Flow / Sales	0.6 %	27.3 %	36.3 %	-5.7 %	17.7 %	21.2 %
Adj. Free Cash Flow	1.6	8.3	11.8	18.7	22.5	24.2
Adj. Free Cash Flow / Sales	10.6 %	27.7 %	28.8 %	22.1 %	22.0 %	21.8 %
Free Cash Flow / Net Profit	3.2 %	86.5 %	114.6 %	-23.8 %	74.5 %	89.2 %
Interest Received / Avg. Cash	2.1 %	3.1 %	1.3 %	2.1 %	3.0 %	2.6 %
Interest Paid / Avg. Debt	5.9 %	9.0 %	18.6 %	n.a.	n.a.	n.a.
Dividend Payout Ratio	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Fund Management</b>						
Investment ratio	0.0 %	0.0 %	0.0 %	1.1 %	1.0 %	1.2 %
Maint. Capex / Sales	10.0 %	3.4 %	2.6 %	1.5 %	1.3 %	1.2 %
Capex / Dep	0.0 %	0.0 %	0.0 %	210.2 %	143.2 %	166.9 %
Avg. Working Capital / Sales	39.9 %	20.2 %	15.5 %	21.6 %	33.5 %	34.9 %
Trade Creditors / Trade Debtors	517.0 %	214.0 %	77.0 %	145.3 %	145.8 %	145.3 %
Inventory turnover (days)	59.0	29.0	45.5	73.0	73.0	73.0
Receivables collection period (DSOs)	96.6	128	59.3	160	160	160
Payables collection period (days)	18.7	59.6	77.1	110	110	110
Cash conversion cycle (days)	137	97.0	27.7	123	123	123
<b>Valuation</b>						
P/B	41.8	15.8	4.6	3.5	2.5	1.9
EV/sales	13.4	4.6	3.4	2.1	1.5	1.2
EV/EBITDA	52.2	14.4	10.5	6.5	5.3	4.2
EV/EBIT	52.9	14.5	10.6	6.6	5.4	4.3
EV/FCF	n.m.	16.9	9.4	n.m.	8.7	5.8
P/E	52.2	11.7	8.7	6.8	5.7	5.3
P/CF	81.1	18.2	11.7	10.1	8.4	7.8

Sources: Vtion (historical data), SES Research (forecasts)

**Free Cash Flow Yield - Vtion**

Figures in EUR m	2005	2006	2007	2008	2009e	2010e	2011e	
Net Income	0.0	2.1	9.2	12.4	16.0	19.0	20.4	
+ Depreciation + Amortisation	0.0	0.0	0.1	0.2	0.3	0.6	0.6	
- Net Interest Income	0.0	-0.1	-0.1	-0.2	0.6	1.0	1.3	
+ Taxes	0.0	0.4	0.0	0.0	4.0	5.0	5.5	
- Maintenance Capex	0.0	1.0	1.0	1.0	1.0	1.0	1.0	
+ Others	00	00	00	00	00	00	00	
<b>= Adjusted Free Cash Flow</b>	<b>0.0</b>	<b>1.6</b>	<b>8.3</b>	<b>11.8</b>	<b>18.7</b>	<b>22.5</b>	<b>24.2</b>	
Adjusted Free Cash Flow Yield	0.0%	1.2%	6.2%	8.8%	13.6%	18.2%	22.9%	
Hurdle rate	10%	10%	10%	10%	10%	10%	10%	
<b>= Enterprise Value</b>	<b>134.0</b>	<b>134.0</b>	<b>134.0</b>	<b>134.0</b>	<b>137.8</b>	<b>123.7</b>	<b>105.5</b>	
<b>= Fair Enterprise Value</b>	<b>-</b>	<b>15.7</b>	<b>83.3</b>	<b>117.6</b>	<b>187.1</b>	<b>225.4</b>	<b>241.7</b>	
- Net Debt (Cash)	-30.3	-30.3	-30.3	-30.3	-26.5	-40.7	-58.8	
- Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>= Fair Market Capitalisation</b>	<b>-</b>	<b>46.0</b>	<b>113.7</b>	<b>147.9</b>	<b>213.7</b>	<b>266.1</b>	<b>300.5</b>	
No. of shares (m)	18	18	18	18	18	18	18	
<b>= Fair value per share (EUR)</b>	<b>-</b>	<b>2.63</b>	<b>6.50</b>	<b>8.45</b>	<b>12.21</b>	<b>15.20</b>	<b>17.17</b>	
premium (-) / discount (+) in %	-	-72.0%	-30.8%	-10.0%	30.0%	61.9%	82.9%	
<b>Sensitivity Fair value per Share (EUR)</b>								
	13%	-	2.42	5.40	6.90	9.74	12.23	13.98
	12%	-	2.48	5.70	7.33	10.43	13.06	14.87
	11%	-	2.55	6.06	7.84	11.24	14.03	15.92
Hurdle rate	<b>10%</b>	-	<b>2.63</b>	<b>6.50</b>	<b>8.45</b>	<b>12.21</b>	<b>15.20</b>	<b>17.17</b>
	09%	-	2.73	7.02	9.20	13.40	16.64	18.71
	08%	-	2.85	7.69	10.13	14.88	18.42	20.62
	07%	-	3.01	8.54	11.33	16.79	20.72	23.09

Sources: Vtion (historical data), SES Research (estimates)

**DCF Model - Vtion**

Figures in EUR m	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Sales	66.6	79.8	85.6	90.7	95.3	100.0	105.0	110.3	115.8	121.6	127.7	130.9	134.1	137.5
Change	70.0%	19.8%	7.3%	06%	05%	05%	05%	05%	05%	05%	05%	03%	03%	03%
EBIT	19.4	23.0	24.6	25.4	25.7	26.0	26.3	26.5	26.6	26.8	26.8	26.2	20.1	15.1
EBIT-Margin	29.1%	28.8%	28.7%	28.0%	27.0%	26.0%	25.0%	24.0%	23.0%	22.0%	21.0%	20.0%	15.0%	11.0%
Tax rate	20.0%	20.8%	21.3%	00%	00%	00%	00%	00%	00%	00%	00%	00%	00%	00%
NOPAT	15.5	18.2	19.3	25.4	25.7	26.0	26.3	26.5	26.6	26.8	26.8	26.2	20.1	15.1
Depreciation	0.3	0.6	0.6	0.9	1.0	1.0	1.6	1.7	1.7	1.8	1.9	2.0	2.0	2.1
in % of Sales	0.5%	0.7%	0.7%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Change in Liquidity from														
- Working Capital	-20.0	-4.6	-1.8	-1.9	-0.7	-0.7	-2.2	-1.3	-1.3	-1.3	-2.0	0.3	-1.0	-1.1
- Capex	-0.7	-0.8	-1.0	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.0	-2.1
Capex in % of Sales	1.1%	1.0%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (WACC-Model)	-4.9	13.3	17.1	23.1	24.6	24.8	24.0	25.2	25.3	25.4	24.8	26.4	19.1	14.1

**Model parameter**

Debt ratio	000%	Beta	001
Costs of Debt	n.a.	WACC	011%
Market return	009%		
Risk free rate	004%	Terminal Growth	003%

**Valuation (mln)**

Present values 2022e	143.7
Terminal Value	46.1
Liabilities	0.0
Liquidity	30.3
<b>Equity Value</b>	<b>220.1</b>
No. of shares (mln)	018
<b>Value per share (EUR)</b>	<b>12.58</b>

**Sensitivity Value per Share (EUR)**

**Terminal Growth**

WACC	002%	002%	002%	<b>003%</b>	003%	003%	003%
012%	11.44	11.49	11.54	11.59	11.65	11.71	11.78
011%	11.87	11.93	12.00	12.06	12.13	12.20	12.28
011%	12.11	12.17	12.24	12.31	12.39	12.47	12.56
<b>011%</b>	12.36	12.43	12.50	<b>12.58</b>	12.66	12.75	12.84
010%	12.61	12.69	12.77	12.86	12.95	13.05	13.15
010%	12.89	12.97	13.06	13.15	13.25	13.36	13.48
010%	13.48	13.57	13.68	13.80	13.92	14.05	14.19

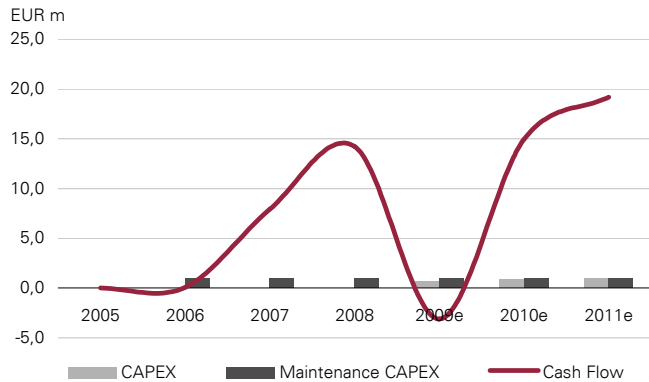
**Delta EBIT margin**

WACC	-02 pp	-01 pp	-01 pp	<b>00</b>	+01 pp	+01 pp	+02 pp
012%	10.69	10.99	11.29	11.59	11.89	12.20	12.50
011%	11.11	11.42	11.74	12.06	12.38	12.70	13.02
011%	11.33	11.66	11.98	12.31	12.64	12.97	13.30
<b>011%</b>	11.56	11.90	12.24	<b>12.58</b>	12.92	13.25	13.59
010%	11.81	12.16	12.51	12.86	13.21	13.56	13.91
010%	12.07	12.43	12.79	13.15	13.51	13.87	14.24
010%	12.63	13.02	13.41	13.80	14.18	14.57	14.96

Source: SES Research



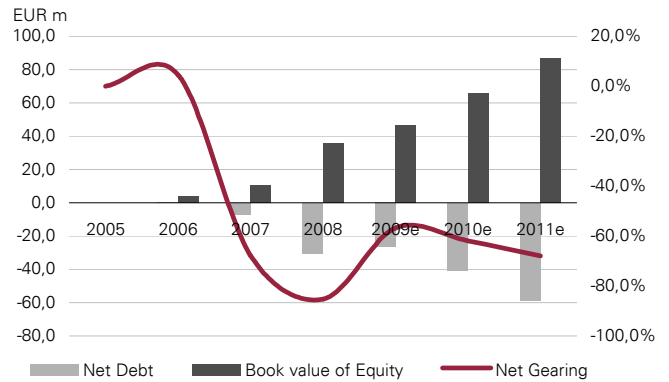
**CAPEX and Cash Flow - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Low Capex ratio as there are no own production capacities
- Cash Flow impacted in 2009e by expansion of working capital

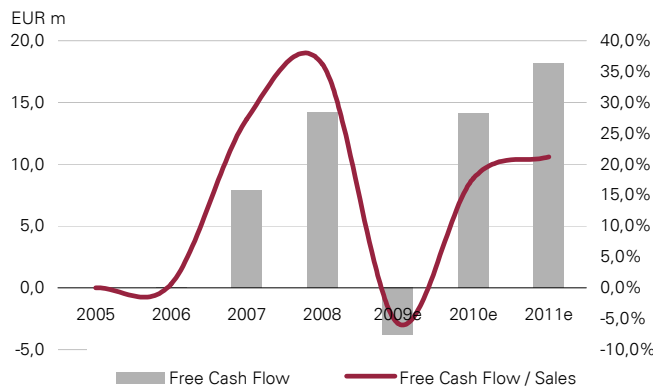
**Balance Sheet Quality - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Short balance sheet with high share of cash

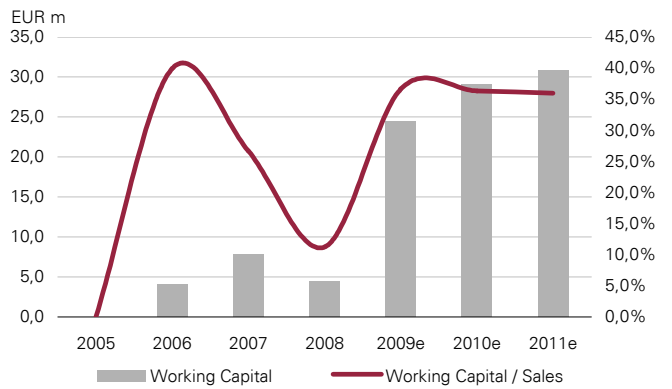
**Free Cash Flow Generation - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Negative free cash flow in 2009e due to working capital expansion
- Normalisation of working capital development from 2010e on
- High free cash flow generation from 2010e on

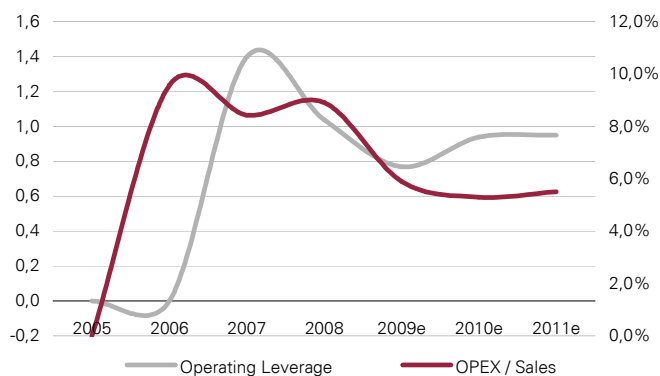
**Working Capital - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Normalisation of working capital development in 2010e

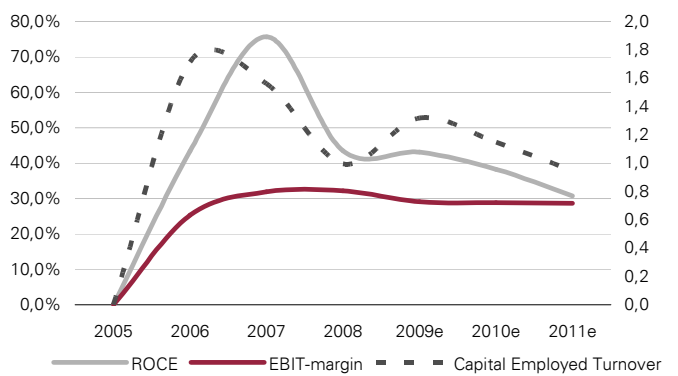
**Operating Leverage - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Operating leverage limited

**ROCE Development - Vtion**



Sources: Vtion (historical data), SES Research (forecasts)

- Constant EBIT margin between 2009e and 2011e
- Declining ROCE due to equity retention

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- B **Buy**: The price of the analysed equity security is expected to rise over the next 12 months.
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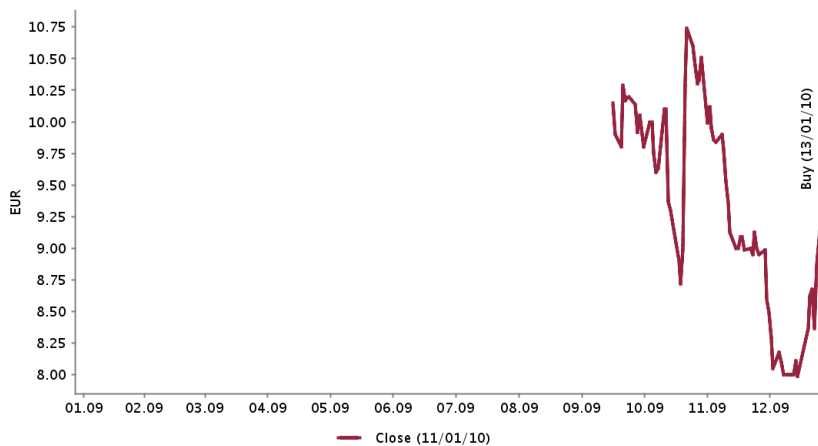
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Rating	Number of stocks	% of Universe
Buy	110	54%
Hold	61	30%
Sell	18	9%
Rating suspended	15	7%
<b>Total</b>	<b>204</b>	

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Hold	34	26%
Sell	5	4%
Rating suspended	10	8%
<b>Total</b>	<b>129</b>	

**Price and Rating History**  
Vtion Wireless Technology AG as of 12/01/10



The charts have markings if SES Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

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