

Technology & Telecom Sector

4th Quarter 2006

China Technology & Telecom M&A Quarterly

Highlights

- **3Com buys out Huawei-3Com ("H3C") for US\$882 million**

3Com's purchase of Huawei's 49% interest in the JV emphasizes H3C's strategic importance to 3Com's enterprise networking business.

- **SunGard acquires Shanghai Fudan Kingstar Computer**

Acquisition of the IT services provider gives SunGard access to the fast growing financial institutions segment of the IT services and software market.

- **China Electronics Corp. acquires Philip's mobile phone business**

Philip's finally exits the increasingly difficult handset market after years of losses.

- **Cisco invests US\$50 million into China Communications Services Corporation Ltd. (CCS)**

The Network equipment maker's largest direct investment in China gives it greater access to the large China telecom operator market.

- **Advanced Micro-Fabrication Equipment Inc. raises US\$35 million in Series B Financing**

Investment round into the semiconductor equipment maker was led by Goldman Sachs and included previous investors Walden International, Lightspeed Venture Partners, Redpoint Ventures, Global Catalyst Partners and KT Venture Group.

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Introduction

The purpose of this report is to provide a summary of cross-border Technology & Telecom M&A and private placement activities in the fourth quarter of 2006, highlighting notable selected transactions that are relevant to venture capital, private equity, and strategic buyers/investors. We focus on both financial and strategic buyers/investors acquiring China assets and Chinese corporations acquiring overseas targets. Our review is broken down into the following seven major Technology & Telecom sectors:

- ◆ Semiconductor
- ◆ Network Equipment
- ◆ Telecom Equipment
- ◆ PCs & Peripherals
- ◆ Software & Solutions
- ◆ Outsourcing / Offshoring
- ◆ Telecom Services

However, during the fourth quarter of 2006, there was no notable transaction in the PCs & Peripherals sector.

Semiconductor

In the semiconductor sector, the 4th quarter saw investors move beyond fabless IC design companies and invest in both semiconductor equipment and assembly & testing.

Shanghai-based Advanced Micro-Fabrication Equipment Inc. raised US\$35 million in a Series B financing for the commercialization of its high-performing semiconductor processing solutions, which will offer chipmakers a new, extendible, and more cost-competitive technology source for critical processing steps involved in the production of advanced ICs.

In addition, in attempting to diversify its business model and increase growth, CinTel, which operates primarily in South Korea, Japan and other Asian nations, refocused on the semiconductor production and packaging market with the purchase of 51% of Phoenix Semiconductor (Suzhou). Phoenix has strong revenues and business partners, such as Hynix Semiconductor and other semiconductor manufacturers, which are of strategic value to CinTel.

Selected Semiconductor Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 11, 06	Morningside, GSR ¹	PowerLayer Microsystems (Beijing) Ltd.	5.0	NA	NA	Developer of DTV chipset
Oct 30, 06	CinTel Corp. [OTCBB:CNCN]	Phoenix Semiconductor Telecommunication (Suzhou) ²	16.5	51.0	32.4	Provider of semiconductor packaging, NAND flash memory and LCD assembly services
Oct 10, 06	Bay Partners, Global Catalyst Partners, Goldman Sachs, InterWest Partners, KT Venture, Lightspeed Venture, Redpoint Ventures, and Walden International ¹	Advanced Micro-Fabrication Equipment Inc. ³	35.0	NA	NA	IC manufacturing equipment developer and producer

Network Equipment

3Com bought Huawei Technologies' 49% stake in their China-based joint venture, gaining full ownership of Huawei 3Com and beating out offers from private equity firms Bain Capital, Silver Lake Partners, and Texas Pacific Group. The two companies formed the joint venture in November 2003 to reduce the costs of entry into the market for large business networking equipment dominated by Cisco Systems, Inc. Headquartered in Hong Kong, with principal operations in Hangzhou, China, Huawei 3Com employs 4,800 people worldwide with almost half of its workforce engaged in research and development. Huawei 3Com is an important strategic asset for 3Com and the deal was seen as key to 3Com's battle with Cisco and Nortel in reestablishing itself in the global enterprise networking market.

¹ VC/PE Investors

² Chinese subsidiary of STS Semiconductor & Telecommunications Co. Ltd., a South Korean semiconductor packaging company and unit of media and technology conglomerate the BoKwang Group

³ Series B Financing

Selected Network Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 28, 06	3Com [NASDAQ:COMS]	Huawei-3Com	882.0	49.0	1,800.0	JV between Huawei and 3Com, developer and marketer of network equipment and relevant solutions

Software & Solutions

The Software & Solutions Sector was an active sector in the fourth quarter with transactions involving both financial and strategic investors.

Most notable was SunGard's acquisition of Shanghai Fudan Kingstar to take advantage of growth and liberalization in China's financial services sector. The acquisition of the IT services provider to the finance sector boosts SunGard's efforts to gain a foothold in China. Kingstar sells a range of software products in China to major bond market and gold market trading-and-information systems and SunGard hopes to introduce some of its current product solutions to China through the Kingstar business.

In terms of financial investors, Orchid Asia made a US\$10.5 million investment in United Information Technology (UIT). The Company has developed proprietary iSCSI based Storage Area Networks (SAN) technology and its customers include CCTV, China Telecom, and China Power Group. In addition, Warburg Pincus agreed to sell its 18.81% stake in NASDAQ-listed AsiaInfo, the leading telecommunications network integration services provider in China, to CITIC Capital and Pacific Info. The sale marks Warburg Pincus' final exit from its original investment in AsiaInfo.

One notable outbound M&A deal was CDC Software's acquisition of MVI Technology. MVI Technology is a leading provider of Real-Time Performance Management solutions and services for the food & beverage, consumer products, pharmaceuticals and chemicals industries. The acquisition will expand CDC Software's customer-base in strategic industries and broadens the company's overall offerings with complementary applications and services.

Selected Software & Solutions Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 19, 06	SunGard	Shanghai Fudan Kingstar Computer Co., Ltd.	NA	100.0	NA	Develops software and provides processing products and services for the financial-services, education and public-sector markets in China
Nov 9, 06	Orchid Asia ⁴	United Information Technology Ltd.	10.5	NA	NA	China's leading information management and storage solution provider
Nov 30, 06	CITIC Capital and Pacific Info	AsiaInfo Holdings, Inc. [NASDAQ: ASIA]	38.2	18.81	203.3	China's leading telecommunications solutions company
Oct 9, 06	CDC Software ⁵	MVI Technology	NA	100.0	NA	Provider of Real-Time Performance Management (RPM) solutions and services for food and beverage, pharmaceuticals and chemicals industries

Outsourcing / Offshoring

China Outsourcing/Offshoring Sector continues to attract M&A interest with a number of transactions in the fourth quarter, mostly involving strategic investors.

The most notable transaction was Cisco's US\$50 million investment into Hong Kong listed China Communications Services Corporation Ltd. (CCS). After the investment, Cisco and CCS will jointly provide managed telecommunication services, such as network operation and administration, to enterprise customers in China. Additionally, the two companies will also provide customers with new network solutions, including IP infrastructure, digital video, and 3G platforms and applications.

⁴ VC/PE Investor

⁵ Subsidiary of CDC Corporation

Another company looking at the China IT services market for growth was Hitachi Information Systems, Ltd. The leading provider of information technology (IT) services in Japan invested into Shanghai-based Covics Business Solution Co., Ltd. Hitachi Information Systems is the largest supplier of outsourcing and networking services in Japan. It regards China as a vital market. Last year, approximately US\$50 million of its sales revenues of US\$1.13 billion revenues came from China and the Company expects to obtain over US\$400 million revenues from the China market by 2010.

As well, Insignia Technology Co. bought a majority stake in Microsoft Corp. partner Comtech Global Engineering & Management Services Ltd. The deal will help Insignia expand its network of development centers in China and improve its client structure in the United States.

Finally, HR BPO services provider CDP completed a Series B round of funding from 3 VC investors, demonstrating interest in Chinese companies offering the types of services that were previously predominantly offered by Indian outsourcing services firms. As an early provider of HR BPO in China, CDP provides HR total solutions, including Payroll Outsourcing/Benefits, Outsourcing/HR On-Demand services to MNCs such as SAP, Black & Decker, Ferro, IBM and Infosys, as well as major local enterprises such as China Telecom and Zhejiang Electric Power.

Selected Outsourcing / Offshoring Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 15, 06	Hitachi Information Systems	Covics Business Solution	NA	NA	NA	China's leading wireless solutions and services provider to enterprises in China
Dec 13, 06	Cisco Systems, Inc. [NASDAQ: CSCO]	China Communications Services [HKSE: 552]	50.0	NA	NA	Provider of telecom support services to major Telecom operators in China
Nov 8, 06	Insignia Technology Co., Ltd. [SHSE:600797]	Comtech Global Engineering & Management Services	7.0	51.5	13.59	IT services and outsourcing company
Oct 26, 06	Investor AB ⁶ , Fidelity, Sumitomo Corporation Equity Asia Ltd.	CDP ⁷	10.0	NA	NA	China's leading HR-related BPO services provider

Telecom Equipment

With the top five mobile handset makers now accounting for more than 80% of the market and the industry becoming increasingly harsh for smaller players, Dutch group Philips Electronics decided to exit the mobile phone business entirely after amassing hundreds of millions of Euros of losses over more than a decade. China Electronics Corporation (CEC) purchased Phillips' mobile phone businesses, which currently has an annual turnover of about US\$501 million and 240 employees, mainly in Asia Pacific and Eastern Europe. CEC will also receive a global license to sell mobile phones under the Philips brand name for five years.

Selected Telecom Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Oct 12, 06	China Electronics Corp.	Mobile phone business of Royal Philips Electronic NV [NYSE: PHG]	NA	100.0	NA	Mobile phone business of Philips Electronics

Telecom Services

In the fourth quarter, PCCW was finally able to take over Sunday Communications via the acquisition of the latter's core network and operations. PCCW previously held 79% of Sunday but had been unable to obtain shareholder approval to acquire the company via a purchase of its outstanding shares. Sunday is Hong Kong's smallest mobile network operator.

⁶ Investor Growth Capital Asian Ltd. (IGCA), a wholly-owned subsidiary of Investor AB, directly led the round

⁷ Series B Financing

Selected Telecom Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Oct 1, 06	PCCW [HKSE: 8]	Sunday Communications Ltd. [SEHK: 866]	249.6	100.0 (Assets)	256.7	Provides wireless communications and data services in Hong Kong

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