

Technology & Telecom Sector

2nd Quarter 2006

China Technology & Telecom M&A Quarterly

Highlights

- SK Telecom acquires 6.7% of China Unicom for US\$1 billion

Deal is viewed as a stepping-stone for SK Telecom to eventually take a more meaningful stake in Unicom

- Siemens Communications to acquire 100% of Photonic Bridges Inc., a Shanghai based optical networking company

Deal provides Siemens with a source of Metro Optical Networking products and R&D to support its global communications portfolio

- Huawei Technologies to acquire the Router and Optical Networks businesses of Harbour Networks

Deal resolves the yearlong IPR dispute between Huawei and Harbour Networks, which has been an obstacle in previous attempted transactions

- Worksoft Creative Software Technology Ltd. raises US\$30 million venture capital round

Software and solutions outsourcing provider marks the first direct investment in China by Sequoia Capital's US arm

- Montage Technology and Fangtek Ltd. both close private placement rounds

China fabless IC design continues to be an attractive sector for both strategic and financial investors

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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 second 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

Semiconductor

The IC design sector continues to attract investment from both venture capital and strategic investors. Montage Technology, which designs chips used in computer servers and workstations, received new funding of an undisclosed amount from Intel Capital's USD\$200 million China Technology Fund. Fangtek Ltd, a developer of MIDI and MP3 audio chips, successfully raised US\$12 million through its Series C preferred stock financing. The funding will help accelerate the development and production of Fangtek's new generation mobile multimedia processors featuring MP4, H.264, MP3, AAC/WMA and TV-out.

Selected Semiconductor Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 26, 2006	Intel Capital ⁽¹⁾	Montage Technology (Shanghai)	NA	NA	NA	Mixed-signal fabless IC design company
June 14, 2006	Qiming, DFJ, IDG, New Frontier, LG, Kibo Technology ⁽¹⁾	Fangtek (Shanghai)	12.0	NA	NA	Mobile multimedia IC solutions developer

(1) Private Equity Investor(s)

Network Equipment

China's top network equipment provider Huawei Technologies reported that it would acquire the majority of the assets of Harbour Networks, a company founded in 2000 by Li Yinan, a Former Vice President of Huawei Technologies. Under the agreement, Harbour will transfer part of its Routers and Optical Networks businesses to Huawei, including all related IPRs and employees. The deal will solve the IPR conflict between Huawei and Harbour and will give Harbour's investors an exit after the failure of its Nasdaq IPO plan in 2004 and its recent discussions with Siemens.

Selected Network Equipment Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 7, 2006	Huawei Technologies Co., Ltd.	Harbour Networks Holdings Ltd. (Beijing)	NA	NA ⁽¹⁾	NA	Develops and distributes IP-based data networking equipment in China

(1) Asset acquisition

Telecom Equipment

Siemens Communications acquired Shanghai-based Photonic Bridges, its OEM partner in China. The deal is expected to strengthen Siemens Metro Networking business, after merging all of Photonic Bridges products into Siemens' global portfolio. ModeLabs Group acquired Innovi Technologies Ltd, a Hong Kong-based developer of Bluetooth products for US\$20.6 million in cash and US\$ 9 million in ModeLabs Group shares. The acquisition enables ModeLabs Group to leverage Innovi's know-how in the design of Bluetooth products. Luminent, a leading US provider of network equipment and services, and optical components, acquired HuaGong Genuine Optics, the second largest fiber optic transceiver manufacturer in the world, to optimize its cost structure and increase its global customer base.

Selected Telecom Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 23, 2006	Luminent, Inc	HuaGong Genuine Optics Tech Co., Ltd. (Wuhan)	NA	100.0	NA	Develops, manufactures and distributes optoelectronic devices and modules used in digital and analog optical communications and the sensing areas
May 16, 2006	Siemens Communications	Photonic Bridges, Inc. (Shanghai)	NA	100.0	NA	Provides end-to-end networking solutions, products, and services for the metro optical networking and broadband access networks industries
May 10, 2006	Modelabs SA [ENXTPA: MDL]	Innovi Technologies (Hong Kong)	29.6	100.0	29.6	World's leading Bluetooth solutions and products developer, provider and distributor under proprietary brand name Bluetrek
May 02, 2006	Neophotonics Corp.	Photon Technology Co., Ltd. (Shenzhen)	NA	100.0	NA	The leading fiber-optic components and broadband optical transmission equipment manufacturer in China

PCs & Peripherals

Thin Film Transistor Liquid Crystal Display (TFT-LCD) remains a hot investment area in the Hardware Sector. Japan's Daiwa SMBC agreed to invest US\$25 million for a 3.6% stake in SVA Optronics, a Chinese maker of TFT-LCD panels for computers and TVs. The investment is part of a greater capital injection of over US\$180 million into SVA-NEC, which aims to expand its current capacity with two new TFT-LCD production lines. The deal will assist SVA in upgrading its production lines so that they are more competitive against both local players such as BOE Technology and foreign producers, such as Samsung Electronics, LG.Philips LCD Co. and Taiwan's AU Optronics.

Selected PCs & Peripherals Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 09, 2006	Daiwa Securities SMBC	SVA Optronics Co., Ltd (Shanghai)	25.0	3.6	694.0	Producer of TFT-LCD panels for computers and TVs

Software & Solutions

Second quarter M&A activities in the Software and Solutions Sector more than quadrupled compared to last quarter. Investors acquired companies that focus on application functionality and quality services. One active buyer was AsiaInfo, which acquired two companies this quarter: Shanghai E-mice and Beijing GCTech. The acquisition of Shanghai E-mice will likely deepen AsiaInfo's relationships with provincial mobile operators, while the acquisition of Beijing GCTech will likely strengthen its ties to China Telecom and China Netcom. In addition, Siemens consolidated its position with a company that possesses good local know-how and sound technical knowledge in the system integration of process analytics devices into overall solutions and plants; whereas Telvent strengthened its presence in China through its investments in Beijing Blue Shield High & New Tech Co., Ltd., a solution provider focused on traffic management and consulting to the airport and seaport security industries.

Selected Software & Solutions Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 26, 2006	Intel Capital ⁽¹⁾	Star Softcomm (Beijing)	NA	NA	NA	Provides end-to-end PC manageability solutions to OEMs, enterprises, and service providers
June 6, 2006	Hitachi Systems & Services Ltd. [TSE:3735]	Innovation Software Technology Co., Ltd. (Beijing)	0.6	5.0	12.5	Develops and distributes software and solutions for FSI, Government, and manufacturing sectors

Selected Software & Solutions Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 26, 2006	AsiaInfo Holdings Inc. [NasdaqNM: ASIA]	E-mice (Shanghai)	4.1	NA	NA	Develops information system solutions for IT and telecom industries; strong in CRM systems
May 25, 2006	AsiaInfo Holdings Inc. [NasdaqNM: ASIA]	GCtech Co., Ltd. (Shanghai)	3.5	NA ⁽²⁾	NA	Outsources telecom network applications implementation services
May 23, 2006	Siemens (China) Ltd.	Eastime Automation Engineering Co., Ltd.	NA	100.0	NA	Local process analytics engineering company
April 26, 2006	Telvent [NASDAQ: TLVT]	Blue Shield High & New Tech Co., Ltd. (Beijing)	NA	80.0	NA	China's leading IT services and solutions provider for traffic management & consulting, and airport/seaport security
May 22, 2006	AllianceBernstein L.P., bScope Partners, Georgian Pine Investments, Gobi Partners, Miven Venture Partners, NTT DoCoMo Inc., Oak Investment ⁽¹⁾	Lingtu Software Co., Ltd. (Beijing)	30.0	NA	NA	Geographic positioning software and solutions developer for digital mapping, mobile LPS, and social traffic systems
May 19, 2006	Charles River Ventures, WI Harper ⁽¹⁾	Maxthon International Ltd.	NA	NA	NA	Internet browser developer
May 2, 2006	China Healthcare Holdings Ltd. [HKSE: 673]	Harvest Network Technology Co., Ltd. (Shanghai)	4.8	70.0	6.9	Develops and provides B2C e-payment solutions and services

(1) Private Equity Investor(s)

(2) Asset acquisition

Outsourcing / Offshoring

Worksoft raised US\$30 million in a Series B venture capital financing round led by Sequoia Capital and existing investors, DCM-Doll Capital Management and Legend Capital. The transaction was an endorsement of the company's vision to be the market leader among China's outsourcing firms. In addition, Achievo acquired Shanghai Wintech Software to expand into the Japanese market.

Selected Outsourcing /Offshoring Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 30, 2006	Chinasoft International Ltd [HKSE: 8216]	Cyber Resource	4.7	50.0	9.4	Domestic specialized software outsourcing business provider
May 30, 2006	Doll Capital, Legend Capital, Sequoia Capital ⁽¹⁾	Worksoft Creative Software Technology Ltd. (Beijing)	30.0	NA	NA	China's leading enterprise software and solutions outsourcing company
April 24, 2006	Achievo	Wintech Software Co., Ltd. (Shanghai)	NA	100.0	NA	Offers software quality assurance, application management, hosting, and other IT services to Japanese companies

(1) Private Equity Investor(s)

Telecom Services

In the second quarter of 2006, Hutchison Telecommunications International Ltd. (HTIL) entered into an agreement to buy a 5.1% stake in Hutchison Essar (HEL) from Hinduja Group for US\$450 million. Upon completion, the acquisition will increase the economic interest of HTIL in HEL to 67% from its previous level of 61.9%. Also in June, SK Telecom (SKT) announced its plan to invest US\$1 billion in the form of convertible debt for a 6.7% stake in China Unicom (CU) – implying a 25% premium to CU's current market price. Through this investment, SKT is aiming to save on joint handset sourcing costs,

enhance growth, and turnaround CU's operations. SKT's investment is viewed as a stepping-stone to eventually taking a more meaningful stake in CU. SKT may also benefit from CU's potential restructuring which involves splitting GSM and CDMA into separate entities in the long-term.

Selected Telecom Services Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 30, 2006	Hutchison Telecommunications International Ltd. [SEHK: 2332]	Hutchison Essar Ltd. (Ahmedabad, India)	450.0	5.1	8,806.3	JV between Max India and Hutchison Telecom; provides telecommunication services in India
June 21, 2006	SK Telecom [KOSE: A017670]	China Unicom [SEHK: 762] (Beijing)	1,000.0	6.7	14,992.5	China's leading integrated telecom operator and services provider
June 8, 2006	Ashmore Emerging Markets Liquid Investment, Spinnaker Global Opportunity, Clearwater Capital ⁽¹⁾	Asia Netcom (Hong Kong)	402.0	100.0	402.0	Operates an extensive telecommunications network infrastructure in the Asia Pacific region

(1) Private Equity Investor(s)

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