

# Technology & Telecom Sector

1st Quarter 2006

## China Technology & Telecom M&A Quarterly

### Highlights

- 3Com Corporation to purchase an additional 2% in Huawei-3Com, for US\$28.0 million

The purchase increases 3Com's stake to 51%, giving it majority control of the joint venture

- China Mobile completes US\$436.6 million purchase of China Resources Peoples Telephone Corporation

The deal marks China Mobile's the first large-scale acquisition outside Mainland China

- PCCW spends US\$39.2 million acquiring a 50% stake in China Netcom Broadband Co., Ltd.

The transaction establishes the first equally owned JV with an overseas investor in the tightly controlled telecom sector in Mainland China

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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 first 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
- ♦ Services & Solutions
- ♦ Outsourcing / Offshoring
- ♦ Telecom Services

However, during the first quarter of 2006, there were no notable transactions in the PCs & Peripherals sector.

### Semiconductor

Overall M&A activity in the Semiconductor sector slowed after a strong fourth quarter in 2005. Of note was Motorola's investment in Legend Silicon through its venture capital arm Motorola Ventures, which is indicative of Motorola's continuing commitment to the China market. The alliance of the two companies will focus on the design, development, and manufacturing of demodulator chips for emerging mobile TV businesses. This investment is expected to help Motorola gain a strong foothold in mobile TV, seen as the 'Fifth Media' in the 3G era. In another transaction, NASDAQ-listed ATI Technologies acquired Shanghai-based Macrosynergy, immediately obtaining a team of highly skilled engineers and increasing its presence in China.

**Selected Semiconductor Transactions**

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 15, 2006	Motorola Ventures <sup>1</sup>	Legend Silicon Corp. (Beijing)	NA	NA	NA	Developer of chips for wireless digital broadcasting
March 6, 2006	ATI Technologies (NASDAQ listed)	Macrosynergy (Shanghai)	NA	100.0	NA	Developer of multimedia add-in boards and graphic chips for computers
February 22, 2006	Littelfuse, Inc. (NASDAQ listed)	Concord Semiconductor Corp. (Taiwan)	NA	100.0	NA	Designer and manufacturer of TVS diodes and other overvoltage circuit protection products for the automotive, consumer electronics, industrial and telecom markets

### Network Equipment

3Com Corporation, a world leading provider of voice and data networking solutions for enterprises, announced in February 2006 that it has agreed to pay Huawei US\$28.0 million for an additional 2% interest in Huawei-3Com, Ltd. (H-3C), a joint venture formed by 3Com and Huawei in November 2003. During the past two years, H-3C has successfully established a substantial presence in China, and currently holds 31% share of the Chinese LAN switch market<sup>2</sup>. The deal, which results in 3Com owning 51% of H-3C, reinforces the global giant's strategic drive to strengthen its positions in China, the world's fastest growing market.

<sup>1</sup> Private Equity Investor(s)

<sup>2</sup> IDC Q3 2005 APAC LAN tracker

### Selected Network Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
February 2, 2006	3Com Corp. (NASDAQ listed)	Huawei-3Com Technology (Hangzhou)	\$28.0	2.0	\$1,400.0	A China-based joint venture of 3Com and Huawei in LAN switchers manufacturing

### Telecom Equipment

To capitalize on the rapidly emerging 3G telecom market in China, Galaxy View undertook a “backdoor listing” in the U.S. through a reverse takeover by China Digital Communication Group. Sono Digital, the wholly owned subsidiary of Galaxy View and a leading supplier of 3G communications technology and equipment in China, is the key business in this US\$ 8 million stock and cash transaction.

### Selected Telecom Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 22, 2006	China Digital Communication Group (US OTC Traded)	Galaxy View International Ltd. (Shenzhen)	\$8.0	100.0	\$8.0	Supplier of 3G communications technology and equipment in China, through its subsidiary Sono Digital
February 8, 2006	Unnamed strategic investor and value added partner	Qiao Xing Universal Telephone (Guangdong)	\$6.5	NA	NA	China’s leading telecom terminal equipment manufacturer

### Services & Solutions

The currently fragmented online payment sector in China is expected to face more rigid government regulation and experience industry consolidations in 2006. Hong Kong-based PayEase’s acquisition of Yi Zhi Fu, the online payment subsidiary of China handset manufacturer, Capitel Group, signals this consolidation trend.

### Selected Services & Solutions Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 27, 2006	PayEase (Hong Kong)	Yi Zhi Fu (Beijing)	\$2.5	100.0	NA	Online payment software and solutions provider. Unit of Capitel Group
February 28, 2006	Investor Growth Capital <sup>3</sup>	Eastpro Ltd. (Hong Kong)	NA	NA	NA	IT and e-business solutions provider to top international financial institutions and blue-chip companies

### Outsourcing / Offshoring

The global offshore software and IT outsourcing provider Achievo Corporation expanded into the fast-developing Taiwan market through the purchase of VisualSoft Information System Corp. Achievo intends to leverage VisualSoft’s front-end resources in Taiwan and operational resources in Jinan, China, to augment its front and back end capabilities in the US, China, Japan and Germany to serve Taiwanese and global clients.

<sup>3</sup> Private Equity Investor(s)

### Selected Outsourcing /Offshoring Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 20, 2006	Achievo Corp.	VisualSoft Information System Corp. (Taiwan)	NA	100.0	NA	Software and IT outsourcing service provider with expertise in CRM and financial services systems
February 21, 2006	CDC Software <sup>4</sup>	Horizon Companies, Inc. (US)	NA	100.0	NA	A US IT outsourcing company servicing large and medium sized enterprises

### Telecom Services

In the first quarter of 2006, China Mobile completed its purchase of all outstanding shares of China Resources Peoples Telephone at a price of HK\$4.55 per share, for a total consideration of approximately US\$436.6 million. This is the first large-scale acquisition for China Mobile outside the mainland, and enables China Mobile to offer roaming services to its mainland users who travel to Hong Kong by making use of Peoples' mobile phone network and license. Also of note was PCCW's US\$39.2 million purchase of a 50% stake in China Netcom Broadband Co., Ltd. The deal by Hong Kong's biggest fixed line operator creates the first equally-owned joint venture involving an overseas investor in mainland China's tightly controlled telecom sector. This followed PCCW's unsuccessful attempt to privatize Sunday Communications Limited, the Hong Kong mobile operator.

### Selected Telecom Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 28, 2006	China Mobile (HKSE listed)	China Resources Peoples Telephone (Hong Kong)	\$436.6 <sup>5</sup>	100.0	\$436.6	4th largest mobile network operator and service provider in Hong Kong
March 2, 2006	PCCW (HKSE listed)	China Netcom Broadband Corporation Ltd. (Beijing)	\$39.2 <sup>6</sup>	50.0	\$78.4	A subsidiary of China Netcom, providing broadband access and value-added services to 10 cities in China
January 19, 2006	Hutchison Essar <sup>7</sup>	BPL Mobile Cellular (India)	NA	100.0	NA	Indian mobile operator and service provider

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<sup>4</sup> A wholly owned subsidiary of NASDAQ-listed CDC Corporation

<sup>5</sup> Total consideration of HK\$3.38 billion, converted to US\$ at an ex-rate of HK\$7.75:\$1

<sup>6</sup> Total consideration of RMB318 million, converted to US\$ at an ex-rate of RMB8.11:\$1

<sup>7</sup> JV between Hutchison Telecom and Essar Teleholdings

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