

Technology & Telecom Sector

3rd Quarter 2006

China Technology & Telecom M&A Quarterly

Highlights

- **Advanced Analog Technologies Inc. (AATI) acquired IPCore's Power Management business**

US\$22 million acquisition highlights the current strong interest amongst strategic buyers in finding good analog and power management IC design firms in China.
- **VeriSilicon raised US\$14.8 million Series C round to acquire DSP unit of LSI Logic Corp.**

Acquisition by the Shanghai-based ASIC design firm strengthens its digital signal processing (DSP) design capabilities.
- **US\$25 million investment into SVA-NEC, a Shanghai-based TFT-LCD maker**

Investment illustrates the continuing migration of TFT-LCD panel production to China in the increasingly competitive TFT-LCD industry.
- **Kingsoft raised US\$72 million from GIC, Intel Capital and New Horizon Evergreen**

Software and online game company Kingsoft raised funds to prepare itself for an overseas listing next year.
- **Intel Capital invested US\$ 40 million in Neusoft Group China**

Deal is Intel Capital China's largest investment in China to date.

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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 third 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 third quarter of 2006, there were no notable transactions in the Network Equipment sector.

Semiconductor

Power Management and Analog IC design capabilities in general remain areas of great interest for multinational fabless design companies looking at China. In September, Advanced Analogic Technologies Inc. (AATI), a Nasdaq-listed power management semiconductor developer, purchased the analog power management semiconductor business (AP Semi) of Shanghai-based IPCore Technologies Corporation, for approximately US\$22 million in cash. As AP Semi develops key components for many of the same mobile consumer electronics markets AATI currently targets, the acquisition will allow AATI to immediately expand its engineering team and customer base.

In the digital IC design area, VeriSilicon, a Shanghai-based ASIC design foundry, raised \$14.8 million in its Series C financing co-led by Austin Ventures and Sierra Ventures. The company used the funding to finance the acquisition of the assets of the Digital Signal Processor (DSP) unit of LSI Logic Corp. LSI Logic's strategy is now to focus on information storage and consumer electronics markets and its DSP unit was seen as a non-core business. However, after the sale, LSI Logic will continue to license and use select ZSP cores from VeriSilicon. The acquisition further strengthens VeriSilicon's DSP design capabilities.

Selected Semiconductor Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 6, 2006	Advanced Analogic Technologies Inc. [NASDAQ: AATI]	IPCore's power management analog business	22.0	NA	NA	IPCore's power management analog business, including its subsidiary Analog Power Semiconductor Corp.
July 5, 2006	Austin Ventures, Sierra Ventures	VeriSilicon Holdings Co., Ltd.	14.8	NA	NA	Fabless and chipless application-specific IC foundry
July 5, 2006	VeriSilicon Holdings Co. Ltd.	Digital Signal Processor unit of LSI Logic Corporation [NYSE: LSI]	13.0	NA ⁽¹⁾	NA	ZSP-based digital & signal processor IC developer and manufacturer

(1) Asset acquisition

Telecom Equipment

DCWireless Technology, a Beijing-based wireless handset design house, has received financial backing from Easton Capital in September. Terms of the investment were not disclosed, but there are already several notable players in this sector.

Selected Telecom Equipment Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 21, 2006	Easton Capital	DCWireless	NA	NA	NA	Wireless phone designer

PCs & Peripherals

TFT-LCD production continues to migrate to China, attracting continued foreign investment into the Chinese industry. Japan's Daiwa SMBC has agreed to invest US\$25 million into Chinese TFT-LCD maker SVA Optronics, in exchange for a 3.6 percent stake in SVA-NEC, a joint venture between Chinese household appliance and electronic components maker SVA Group, and Japan's Nippon Electronic Glass Co. Ltd. (NEC). The investment is part of a greater capital injection of over 20 billion yen (\$180 million) into SVA-NEC, which aims to expand its current capacity with two new TFT-LCD production lines.

Selected PCs & Peripherals Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 9, 2006	Daiwa Securities SMBC	SVA Optronics Co., Ltd. (Shanghai)	25.0	3.6	694.0	Producer of TFT-LCD panels

Software & Solutions

Although cross-border M&A activity in the Software & Solution Sector has decreased compared to the second quarter, foreign interest in this space is still evident with Intel Capital particularly active this quarter.

One notable transaction was Chinese software and online game company Kingsoft's US\$72 million pre-IPO fundraising round from GIC, Intel Capital and the New Horizon Evergreen Investment Company. Kingsoft management plans to use the proceeds to position the company for a US\$100 million overseas listing next year. In addition, it is believed that Lenovo used this financing round to exit its 35% stake in Kingsoft. According to a company insider, Kingsoft is not currently a strategic focus for Lenovo, and the new shareholding base should provide better strategic support to the company.

Apart from its participation in the Kingsoft transaction, Intel Capital also agreed to invest US\$40 million in Neusoft Group Ltd from its Intel Capital China Technology Fund, making this transaction the fund's largest investment in China to date.

Selected Software & Solutions Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 27, 2006	Intel Capital	Neusoft Group Ltd.	40.0	NA	NA	Largest specialized vendor of solutions, digital products and services in China
September 18, 2006	Monotype Imaging Inc.	China Type Design Ltd.	NA	100.0	NA	Typeface design and production company
September 12, 2006	CDC Software ⁽¹⁾	Brilliant Training and Consulting	NA	100.0	NA	Australian CRM and BI solutions and IT services provider
August 28, 2006	China Digital Media	Arable Media Ltd	NA	Minority	NA	Hong Kong developer of middleware software and applications for digital TV set-top-box and digital broadcasting system
August 18, 2006	GIC ⁽²⁾ , Intel Capital, New Horizon ⁽³⁾	Kingsoft	72.0	NA	NA	Online game, office software and IT SCM software developer and marketer
July 10, 2006	Sino Express Travel Ltd [OTCBB: SXPT]	Travel Information Systems Ltd ⁽⁴⁾	1.06	100.0	1.06	Financial information database provider mainly serving domestic securities and investment firms

(1) Enterprise software division within CDC Corporation [NASDAQ: CHINA]

(2) Government of Singapore Investment Corporation, the private equity arm of the Singapore Government

(3) New Horizon Evergreen Investment Company

Outsourcing / Offshoring

There was significant interest in the China Outsourcing/Offshoring Sector in the third quarter, with both inbound and outbound M&A activities. In fact, one of the larger VC investments this year in the sector took place in the quarter. In July, HiSoft Technology International announced the completion of Series-B financing from an investment group including Granite Global Ventures and DFJ. Although the company did not disclose the amount invested, it is believed to be above US\$30 million.

The business of providing outsourcing services to Japanese corporate clients continue to grow, with companies like HiSoft and Neusoft (mentioned in the previous section) developing or expanding development centers in places such as the port city of Dalian, where Japanese companies including Hitachi, Matsushita, NEC and Song have operations and where there is a large Japanese-speaking population. In fact, capturing outsourcing opportunities was the main rationale for two of the outbound M&A transactions in the third quarter. The first was Inspur Group's acquisition of Japan-based Shinwa's software business. To date, Inspur has successfully acquired four software-outsourcing companies in Japan and China since it was engaged in this sector. The second transaction was Sinocom Software Group's acquisition of Japanese software systems integrator MIS Co.

Selected Outsourcing /Offshoring Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
August 6, 2006	Achievo	Beijing Beifang Xinyu Information Technology Co., Ltd.	NA	100.0	NA	Provider of software development and IT services to Japanese companies with offshore outsourcing services in China
August 1, 2006	Sinocom Software Group Ltd	MIS Co Ltd	1.1	75.0	1.4	Japanese provider of software integration solution and distributor of software products
July 26, 2006	Inspur Group	Shinwa's software business	NA	NA	NA	IT outsourcing division of Japanese company Shinwa, specialized in traffic, finance, manufacturing and education sectors
July 12, 2006	Granite Global, Draper Fisher Jurvetson, Mitsubishi UFJ, Sumitomo Equity Asia	HiSoft	>30.0 ⁽¹⁾	NA	NA	A fast-growing IT outsourcing and off-shoring services provider to finance, high tech manufacturing, software product, life science and retailing companies in China
July 4, 2006	Chinasoft International [HKSE: 8216]	Opportune Technology's outsourcing service ⁽²⁾	3.0	NA	NA	Mobile and embedded software and solutions outsourcing company

(1) Based on market report

(2) Focuses on Microsoft Corp's MED (Mobile and Embedded Division) Business

Telecom Services

There was one notable transaction in the Telecom Services Sector this quarter.

Selected Telecom Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 21, 2006	Vesta Corporation	Unimobile	NA	100.0	NA	Leading provider of prepaid mobile top-up services in Beijing

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