

ASIAN TECHNOLOGY NEWSLETTER

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INTRODUCTION

We hope you find the *Asian Technology Newsletter* informative.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions, divestments, JVs and other strategic alliances in Asia.

BDA has focused on the Technology sector since our founding in 1996 and is well placed to assist clients from our offices in New York, London, Tokyo, Seoul, Shanghai and Hong Kong.

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Andrew Huntley
Managing Director

CHINA/HK

Agilent Technologies announced that Agilent Ventures has invested in **Acer Technology Ventures Asia Pacific Ltd. (AcerVC) IPF III**, a fund focused on making venture capital investments in China. The fund will be investing in technology-based private companies in China that are focused on developing products and services for domestic and global markets. (November 2, 2004)

AsialInfo Holdings, a provider of software, solutions and services to telecom operators and enterprises in China, acquired the non-telecom related IT services business of **Lenovo Group** in a stock transaction valued at RMB300m (US\$36.3m). A new division of AsialInfo Holdings, **Lenovo-AsialInfo Technologies (Lenovo-AsialInfo)**, has been formed from the combination of the assets acquired and AsialInfo enterprise information solutions (EIS) business unit. The new division will combine Lenovo consultants and software engineers with AsialInfo existing product offerings and R&D capabilities to offer IT solutions including security products and business intelligence, e-government and financial solutions to Chinese enterprises in multiple vertical industries. (October 25, 2004)

China Digital completed the acquisition of Billion Electronics and its wholly-owned principal operating subsidiary, **Shenzhen EJinie Technology Development Company (SETD)**. The purchase price for the acquisition was US\$11.5m paid for through a combination of cash and stock. SETD is expected to be immediately accretive to revenue

of RMB17.5m (US\$2.1m) in fiscal year 2003. Based in Shenzhen, China, SETD is one of the largest battery shell manufacturers in China for steel and aluminum shells for Lithium-ion batteries and aluminum battery caps, which are widely used in digital mobile devices such as digital cameras, cell phones, MP3 players, laptop computers and PDAs. (November 21, 2004)

China Unicom has been approved by the PRC government to acquire 49% of Companhia de Telecomunicacoes de Macao, the largest telecom operator in Macao. The shares are currently held by **Cable & Wireless** (51%), **Telecommunication International** (28%), **Zhongxinfutai** (20%) and the Macao SAR government (1%). It is still unclear whether the acquisition will be done by the mainland-based **China Unicom Group** or its listed affiliate in Hong Kong. (November 24, 2004)

Cisco Systems will open a research and development center in Shanghai. The new facility will represent an initial US\$32m investment over the next five years, and the company expects to hire approximately 100 employees over the next 18 months to focus on research and development. The center is expected to open in the third quarter of 2005. (September 27, 2004)

eLong, an online travel services retailer, acquired an 80% stake in **Ray Time**, a marketing and hospitality planning service provider for luxury hotels in China. Ray Time is also the only non-hotel member of CFHC (China Famous Hotel Corporation). Ray

Time has more than 100,000 members who receive free or preferential service at more than 40 five-star hotels across China. After the acquisition, Ray Time members will become members of eLong members-only travel club. The merger is expected to stimulate eLong ticket sales prior to the Spring Festival holidays in February 2005. (November 29, 2004)

Fairchild Semiconductor formed a strategic partnership with **Tsinghua University** in Beijing. As a result, Fairchild established two integrated circuit (IC) research and development labs, one in Shanghai and one in Beijing, staffed by design engineers from Tsinghua University. Employees at these Fairchild labs will be focused on developing and designing new products to support the focus of the company to optimize system power in multiple end market applications. Fairchild

business in China has grown rapidly since the company established operations in 1997. Today Fairchild is the leading power components supplier in China, with a 12% market share. In 2003, Fairchild generated US\$623m of sales in Asia. (November 22, 2004)

Fairchild Semiconductor entered into five-year foundry agreement with **Jilin Sino-Microelectronics** (JSMC) to manufacture select MOSFET and bipolar power products. JSMC will utilize its recently completed wafer fab in Jilin and will provide additional capacity for Fairchild power products to support its customer growth. Fairchild recently announced the expansion of its Mountaintop, Pennsylvania, US plant, dedicated to power components, and is ramping production at its new Suzhou, China assembly and test facility. (October 19, 2004)

Great Wall Computer formed a JV with **IBM** to make and sell server-based applications and components. The new partnership replaces the former partnership of Great Wall with IBM due to the IBM/Lenovo transaction. The JV is named **International System Technology Company (ISTC)** and headquartered in Shenzhen, the manufacturing base of Great Wall Computer. The JV will provide IBM eServer X series products to the Asia-Pacific region and manufacture IBM eServer P series products. The JV is expected to generate annual sales volume of more than US\$1bn. IBM and Great Wall Computer hold 80% and 20%, respectively, of the shares in the JV. (December 13, 2004)

Harcourt Companies, an investment holding and development company, acquired 90% of **Control Tech Electrics Technology Company** for RMB16.2m (US\$1.96m) payable in 8,516,902 restricted common shares of Harcourt. The management team of Control Tech holds the remaining equity interest. Control Tech is a distributor and service provider in China and the sole distributor and marketing partner of Radvision in China, specializing in the distribution of video and audio conferencing equipment and multimedia communication systems, as well as related after-sale services. (November 1, 2004)

Hitachi Ltd will invest an additional ¥800m (US\$7.7m) in its JV in China that assembles and markets large television sets through a Chinese subsidiary. The capital increase is intended to enable **Hitachi Fujian Digital Media Co** in Fuzhou, Fujian Province, to boost production capacity of plasma and projection TVs. (December 14, 2004)

IBM announced the sale of its PC division to China-based **Lenovo** for US\$1.75bn. Under the deal, IBM will also take an 18.9% stake in Lenovo. Lenovo will pay US\$1.25bn, of which US\$650m is in cash and US\$600m in securities, for the IBM PC unit and assume US\$500m of debt.

The JV is expected to ship around 12m units, based on 2003 numbers, and have annual revenue from PC sales of US\$12bn. Lenovo is currently the ninth largest PC maker worldwide. The transaction will make Lenovo the third-largest PC maker in the world, behind Dell and Hewlett-Packard. The acquisition is expected to be completed in the second quarter of 2005.

Lenovo will be the preferred supplier of PCs to IBM and will be allowed to use the IBM brand for five years under an agreement that includes the *Think* brand. The combined JV will have roughly 10,000

IBM employees in its PC group and 9,200 employees at Lenovo. Lenovo, formerly known as Legend, is the largest PC maker in China and was founded in 1984 as a distributor of IT products. Over the years it started its own PC business, growing into the No. 1 spot in China. It also sells products ranging from cellular phones to supercomputers. (December 8, 2004)

Johnson Electric of Hong Kong acquired 51% of Israeli start-up **Nanomotion** for US\$20m in cash. Nanomotion develops and manufactures motors with the ability to achieve precise positioning, and markets them to the semiconductor and medical equipment industries. Nanomotion provides precise systems solutions for the electronics and semiconductor industry, medical equipment and automation. The acquisition will enable Johnson Electric to further expand into the consumer solutions market including scanners, cameras and mobile telephones. (October 31, 2004)

PalmSource acquired **China MobileSoft Limited (CMS)**, a leading Chinese mobile phone software company in Nanjing, China. PalmSource will issue 1,570,000 shares of common stock for the outstanding equity and rights to acquire equity in CMS. The transaction is subject to CMS shareholder approval and is anticipated to close by February 28, 2005. The acquisition of CMS is expected to further extend the leadership position of PalmSource as a software provider for phones and mobile devices worldwide and should provide PalmSource with one of the broadest lines of mobile software in China. (December 9, 2004)

Shandong Langchao Group, a provider of enterprise software applications in China, signed a memorandum of understanding (MOU) with **Microsoft**, to establish a strategic partnership and strengthen cooperation between the two companies. The two sides will jointly develop

software application systems for Chinese users and OEMs in China. A formal agreement will be signed within six months. (November 12, 2004)

Siemens China entered into a JV with **Huawei Technologies** named TDTech, to develop, produce and sell 3G-based products. The JV will be headquartered in Beijing and will be capitalized with US\$100m. The JV is expected to provide its first batch of national 3G standard base station products by 2005. Starting December of 2004, the two companies will carry out spot tests of the Chinese 3G standard TD-SCDMA. (November 30, 2004)

SRS Labs and **Skyworth Group**, based in China, formed a partnership to develop new audio technology in a new jointly staffed application laboratory located in Shenzhen. The new application center gives the Skyworth Group access to SRS Labs in Hong Kong and Shenzhen-based engineering staff as well as its portfolio of patented audio, voice and surround sound technologies, which has been licensed by more than 200 manufacturers worldwide and included in over 500m hardware and software products to date. Skyworth will provide the facility and staff for the audio laboratory, as well as provide customer feedback and industry perspective from the fast growing China consumer electronics market. The two companies will also work together to promote SRS Labs Circle Surround(R) technology as the standard surround encode/decode format for China. (November 4, 2004)

STMicroelectronics formed a JV with **Shanghai High Definition Digital Innovation Ltd** (HDIC), a company of the Shanghai Jiaotong University that develops technologies for digital TVs. The JV, 65% owned by ST, is based in Shanghai, China. HDIC will contribute its existing MBT system technology of TV middleware for the Chinese market and head-end software for TV operators. The JV will develop, market, and sell middleware software for digital TV

and STB for the Chinese and worldwide markets. The JV will primarily focus on the Chinese DTV market, but will also develop non-Chinese versions of middleware, such as open cable access platform (OCAP) for the US market and multimedia home platform (MHP) for European markets. Subject to regulatory approvals, the JV should begin operations by the end of 2004. (October 18, 2004)

Thomson formed a partnership with Chinese television and mobile phone manufacturer, **Konka**, for the supply of TV components. As part of the agreement, Thomson will acquire an 8% stake in Konka, of which 4.8% is subject to approval by the relevant Chinese authorities. Thomson is also currently in initial discussions with other interested parties, both industrial and financial, to gain a better hold on the displays market. (November 23, 2004)

Tom Online announced a partnership with **Skype**. Skype will allow Tom.com users to use Internet telephony to make calls internationally. TOM-Skype is a downloadable communication software based on peer-to-peer technology, which allows individual computers connected to the internet to send data to each other. Skype has been downloaded more than 34m times, with over 15m registered users in 212 countries and a concurrent user base of more than one million. (November 16, 2004)

INDIA

Nokia plans to set up a manufacturing facility in India to better meet the growing demand for mobile phones. The company will invest US\$100m to US\$150m along with its key suppliers over four years once the final investment decisions are made by the first quarter of 2005. Nokia plans to ramp up production gradually and hopes to employ 2,000 people in full production phase. Nokia has five production facilities globally. In India, Nokia currently has sales, marketing, customer care and research units. (December 2, 2004)

SAP AG, the global German leader in business software solutions, will invest an additional Euro 20m (US\$26.6m) to expand its India development facility. The additional investment will go toward increasing headcount to 3,000 people by 2006 from 1,300 currently. During the first two phases, SAP invested Euro 20m to set up the India facility at Whitefield on the outskirts of Bangalore. The fresh investment in expanding the facility will make SAP Labs India the largest development centre outside Germany. (November 23, 2004)

A consortium comprising **Singapore Technologies Telemedia** and **TM International**, the international arm of **Telekom Malaysia Bhd**, acquired a 47.7% in cellular operator in India, **IDEA Cellular** for US\$390m. Under the terms of the agreement, the consortium would acquire the entire stake from **Cingular Wireless** and simultaneously infuse additional capital into IDEA. The consortium is structured as a JV with ST Telemedia and TM International holding 60% and 40% stakes, respectively. The transaction is expected to be completed in the first quarter of 2005 and will make ST/TM the single largest shareholder of IDEA. Other Indian shareholders will collectively own a majority 51% stake including the Aditya Birla Group with 26.3% and Tata Industries with 24.7% equity. The JV and the Indian shareholders have also entered into an option agreement that enables Tata Industries and the Aditya Birla Group to sell to the consortium their shares in IDEA in the future. (December 11, 2004)

US-based **Synfora**, a provider of synthesis technology, set up an R&D centre in Bangalore to take advantage of local talent and software skills in product development. The company expects 70% of product development to take place there in the next five years. (December 13, 2004)

Tata Consultancy Services (TCS), the largest software company in India, established a partnership with **TongYang Systems**, a South Korean company to tap the Korean IT market. The agreement

is part of the strategy of TCS to target the South Korean market, specially the banking, finance and insurance industries. With the partnership, both the companies will be in a position to execute larger projects that need localisation in Korea and local support. (November 26, 2004)

JAPAN

HanbitSoft Inc, a major Korean online game developer will set up a JV with **Hitachi Ltd** to launch online game operations in Japan in 2005. The new firm will be based in Tokyo with capitalization of Y350m (US\$3.3m). HanbitSoft will hold a 71% stake in the JV, with Hitachi taking the remainder. The JV is expected to release a Japanese-language version of *Granado Espada*, a multiplayer online game, in the second quarter of 2005, followed by *Neo Steam*, another multiplayer online game, in the following quarter. The JV hopes to attract 300,000 paid members in the Japanese market by 2008 and target sales of Y7bn (US\$68.0m). (November 21, 2004)

KDDI Corp. formed an alliance with UK based **BT Group Plc** to offer international data communications services to corporate clients. KDDI will manage BT Group frame relay, Internet protocol virtual private networks (IP-VPNs), and other data communications services in the Japanese market. The two companies also plan to set up a JV in Japan by late 2005 to operate information systems linking client head offices with their domestic and overseas branches and factories. (November 8, 2004)

KLA-Tencor, a supplier of yield management and process control systems for the semiconductor industry, acquired the wafer inspection systems business of **Inspex Inc**, a US company owned by Photonics Management Corp, which is a subsidiary of **Hamamatsu Photonics KK** of Japan. The assets acquired by KLA-Tencor include all patents, technology, software, spare parts and inventory related to Inspex wafer inspection business. The

acquisition does not include other Inspex assets, such as the data management software business, which was acquired by a separate party earlier in 2004. Under the agreement, existing Inspex customers will retain access to support for their installed base of tools and KLA-Tencor will be required to maintain support for a minimum of four years and offer a comprehensive scope of global services, including 24/7 customer response centers, flexible support programs, and time and materials services. (October 28, 2004)

NTT DoCoMo Inc will expand its i-mode Internet-capable cell phone services into Britain and Ireland in the latter half of 2005 through a licensing contract with British cell phone company **mmO2 PLC**. Under the contract, NTT DoCoMo Inc will also launch a mobile data service business based on the i-mode system in Germany in the spring of 2006. (November 30, 2004)

KOREA

EaglePicher Inc signed an agreement to acquire a controlling interest in **Kokam Engineering Co Ltd** of Korea, a manufacturer of advanced rechargeable lithium-ion battery technology. The transaction is expected to close in December 2004. Additionally, EaglePicher signed an exclusive agreement to license Kokam technology for government applications worldwide. EaglePicher will sell Kokam products globally outside of North Asia for industrial, commercial, and selected defense applications. In addition, Kokam will distribute selected EaglePicher-branded products in North Asia. Headquartered in Seoul, Kokam has 175 employees and two battery manufacturing operations in Korea. (October 8, 2004)

KT Freetel (KTF), the Korean cell phone service operator, set up a JV with **Dentsu Inc**, a leading Japanese advertising agency, to plan and sell cellular-phone-bound ads in Korea. KTF will have a 51% stake in the venture, which will be capitalized with Y500m (US\$4.7m). **Phoenix Communicat-**

- ionsInc, a JV of Dentsu and the **Bokwang group**, a midsize Korean conglomerate, will hold 25%. A fund managed by Dentsu.com Inc, a venture capital firm of the Dentsu group, will have a 14% interest. The parties forecast sales to be Y1.3bn (US\$12.4m) for the fiscal year ending November 30, 2005. The firm will handle chiefly ad space of KTF and relay the business to Phoenix and other ad agencies. (October 17, 2004)

LG IBM PC Co Ltd, a personal computer JV between LG Electronics and IBM Korea, will disband. The separation of the businesses will take effect as of January 1, 2005. The two companies set up the JV in 1996, 49% owned by LG with IBM retaining the remainder and was capitalized with W24.3bn (US\$21.2m). The JV sold IBM products such as ThinkPads, eServers and xServers. LG served as a sales channel and a supply chain for IBM, though the JV also sold LG-branded PCs. (September 16, 2004)

Samsung Networks, an IP communications service provider in Korea, and **Singapore Telecommunications Limited (SingTel)** entered into a IP-VPN distribution agreement. The partnership enables Samsung Networks to resell SingTel IP-VPN services in South Korea. Through SingTel regional network, Samsung Networks can offer its Korean customers IP-VPN services and connectivity within and outside of Asia. (December 13, 2004)

Shanda, the Chinese games developer, acquired a 29% stake in **Actoz Soft Company**, a developer, operator and publisher of online games based in Korea. The all cash purchase transaction from shareholders of Actoz was for US\$91.7m. The transaction solidifies an alliance between one of the largest operators of online games in China and a leading supplier of online game content to the China market. Actoz owns 50% of the copyright for *The Legend of Mir II*, which is the most popular online game in China, and also owns all or a portion of the copyrights for several other online games that are operated in China, including the *Legend of*

Mir III. Shanda operates *Mir II* in China along with a number of other online games. The strategic investment will help to secure an extension of its license to operate *Mir II* in China. (November 29, 2004)

SINGAPORE

NTT DoCoMo Inc. acquired **Inter-touch (BVI) Ltd**, a Singapore-based Internet access provider for hotels, for US\$70m. The acquisition is aimed at expanding NTT DoCoMo communications services and enhancing convenience for travelers either on business or for holidays. The Singapore company provides high-speed broadband connectivity to 155 hotels in 28 countries. (November 5, 2004)

TAIWAN

Matsushita Electronic Components Co Ltd will begin producing compact PCBs in Taiwan in April 2005. Currently, the company produces a combined 28,500 sq. meters of PCBs a month at its Kadoma factory in Osaka Prefecture and its Matsusaka plant in Mie Prefecture. In addition, the company will set up a dedicated line with a monthly output capacity of 5,000 sq. meters at a Matsushita Electric (Taiwan) Co Ltd factory. All output there will be sold in Taiwan. Matsushita Electronics plans to build a new factory in Taiwan or China in fiscal 2006 to raise overseas output capacity to 10,000 sq meters a month. (September 16, 2004)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact Charles Maynard in Tokyo, Euan Rellie in London, Andrew Huntley in New York, Jeffery Wang in Shanghai or Paul DiGiacomo in Hong Kong.

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