

## China Software Market Monthly

October 2008



## Contents

<b>1 Overview of China Software Industry in the Month of Oct 2008 .....</b>	<b>4</b>
1.1 Industry Movements .....	4
Building up of Shenzhen Software Industry Base with Total Investment of CNY3 billion. ....	4
Local Government Strong Supports Nine Software Outsourcing Companies in ChengDu .....	4
Shanghai Leads Software Export in China.....	5
1.2 Data & Charts .....	5
China's Software Revenue Structure by Sectors, Jan-Aug, 2008.....	6
China's Software Revenue Structure by Region, Jan-Aug, 2008 .....	6
Revenue Structure of Software Industry, Jan-Oct 2008 .....	7
Market Scale and Growth of China Integrated Circuit Market, 2008-2012 .....	7
Sales Revenue and Y-o-Y Growth of Software Industry, 2004- Sep 2008 .....	8
Revenue Structure of Software Industry by Regions, Jan-Sep 2008.....	8
Export Value and Growth of Software, 2004-Sep 2008 .....	9
Market Scale of China Offshore Outsourcing Software, 2007-2008Q3 .....	9
1.3 Industry Development Trend .....	9
Domestic Anti-virus Software Providers Targets on Foreign Markets, especially the Japan .....	9
IDC Issued Report on Asia/Pacific (Excluding Japan) Content Management Software Market, 2008-2012 Forecast and 2007 Market Sizing .....	10
Increasing Advantages of Chinese Management Software Manufactures, Breaking Manufacturing ERP Monopolization .....	11
<b>2. Outsourcing Software Companies' Development in China.....</b>	<b>12</b>
Japan Biggest SNS Mixi Formally Issued Chinese Edition .....	12
UFIDA Signed E-bank Cooperative Agreement with ICBC .....	12
ICBC Signed E-bank Strategic Agreement with Kingdee .....	13
Rising Formally Launched Cloud Security 2.0, Blocking Virus at Internet Access .....	13
Kingsoft Antivirus Got Authoritative Approval of World Top Antivirus Institute Again..	13
Microsoft Starts up FY2009 University Recruitment Formally.....	14
Kingsoft Starts up Mass Recruitment after being Listed .....	14
Avocent CEO Visit China: Attach Great Importance to Opportunities in China .....	15
Baidu Appoints Li Yinan (Former Vice President of Huawei) as CTO .....	16
Google Holds Advertisers Summit, Launched Chinese Edition Google Ad Manager .....	16
<b>3 Investment and M&amp;A .....</b>	<b>17</b>
Bentley Invests in China's Infrastructure Software Market .....	17
UFIDA Acquires Beijing Founder Chunyuan Technology for CNY380 million.....	17
UFIDA Acquires TurboCRM.....	18
ChinaSoft Invests in Wuhan DM .....	18
Insigma Adds Funding to Shanghai Wicresoft .....	19

<b>4 Exhibitions &amp; Events.....</b>	<b>21</b>
IBM China Informix User Group (CIUG) Set up .....	21
2008 the 6th Beijing OpenOffice.org Global Open Source Conference to be Open .....	21
The 1st China Software Channel Conference (Shanghai) to be Open on Oct 21, 2008	21
Successful Tour Exhibition of China-made CAD Solution .....	22
China's MVP Open Day, 2008 .....	24
 <b>5 Analysis of Key Enterprises .....</b>	 <b>25</b>
UFIDA .....	25
Yuanguang Software.....	26
Insigma Technology.....	27
Neusoft .....	28

## 1 Overview of China Software Industry in the Month of Oct 2008

### 1.1 Industry Movements

#### **Building up of Shenzhen Software Industry Base with Total Investment of CNY3 billion.**

Date: Oct 16, 2008, Source: Xinhuanet

Shenzhen Software Industry Base was to start up in Shenzhen Hi-tech Industry Park on Oct 14, 2008, and the total investment amounted to CNY3 billion.

According to Shenzhen Hi-tech Industry Office, Shenzhen Software Industry Base is planned, designed and invested by Shenzhen Municipality, covering a land area of 150,000 square meters and a construction area of 631,700 square meters.

The output value of software industry in Shengzhen had reached CNY86 billion in china, accounting for 15% of national total; and the software export value was US \$4.5 billion, accounting for 45% of national total.

#### **Local Government Strong Supports Nine Software Outsourcing Companies in ChengDu**

Date: Sep 25, 2008, Source: ccidnet

Chengdu Hi-Tech Industrial Development Zone Commission signed with nine software & service outsourcing enterprises the *Agreement on Cultivating Advantageous Growth Companies*, including NTS Technology (Chengdu) Co., Ltd, Dreamwork Net Co., Ltd, IPGoal Microelectronics (Sichuan) Co., Ltd, Sichuan Enrising Information Technology Co., Ltd, Sichuan Greatwall Aircomfigures Digital Technology Co., Ltd, Chengdu Sicent Technology Co., Ltd, Chengdu Aurora Technology Development Co., Ltd, Chengdu Forward Technology Limited and Chengdu Feiyuxing Technology Development Co., Ltd, giving the great support in terms of capital, talents and financing.

According to the agreement, the hi-tech district will integrate advantageous source within three years to promote the company to be the famous brand in the industry. Meanwhile, the companies have made commitments to achieve a growth of 50% for sales proceeds in next three years and will not move their headquarters then.

## Shanghai Leads Software Export in China

Date: Oct 23, 2008, Source: Jiefang Daily

The total sales revenue of China's software industry was CNY583.4 billion in 2007, up by 22% year-on-year, and its scale had surpassed India.

Shanghai's software export reached USD490 million during Jan to Sep, 2008, accounting for 22% of national total.

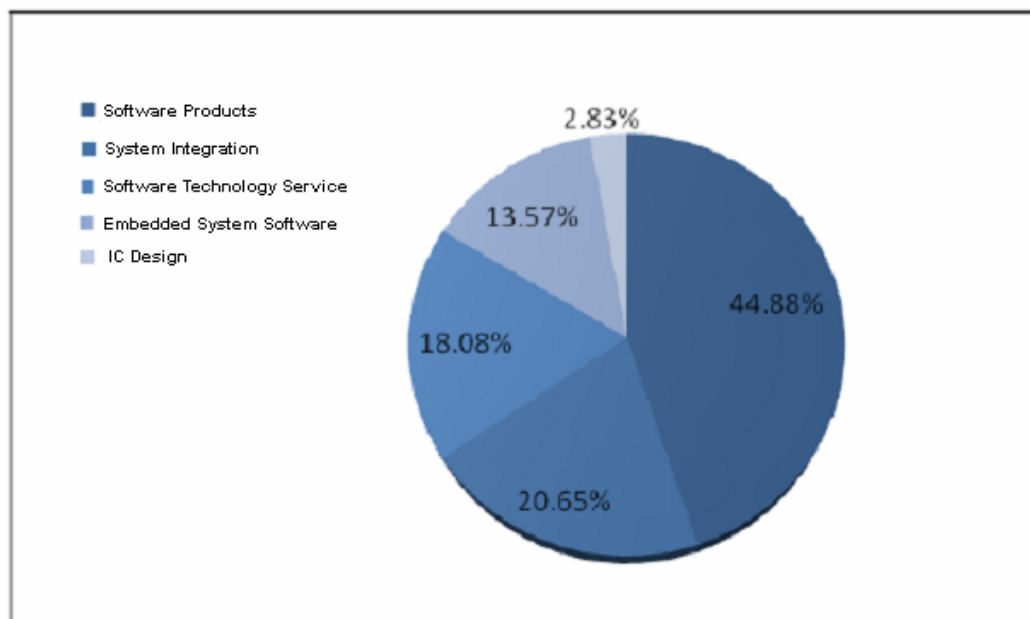
Considering the software industry, China central government has launched many preferential policies for the purpose of preferable development environment and encouraged to develop service outsourcing especially the offshore software outsourcing since the year of 2000. China's software (excluding embedded software) export value was totaled at US \$2 billion in 2007, up by 65% year-on-year.

Shanghai's software industry has been developing rapidly since 2000. Its sales revenue had increased to CNY 80.2 billion in 2007 from CNY4.8 billion in 2000, the profit margin rose to 15.1% from 2.6%, and the software export ascended to US\$1.19 billion from US\$530 million. Presently, Shanghai has 204,000 software employees, and 68% of which are with bachelor degree or above. In addition, there are more than 1,300 software companies in Shanghai, and above 200 companies engaging in software export. Among the 163 key software companies all over China, 23 of which are located in Shanghai.

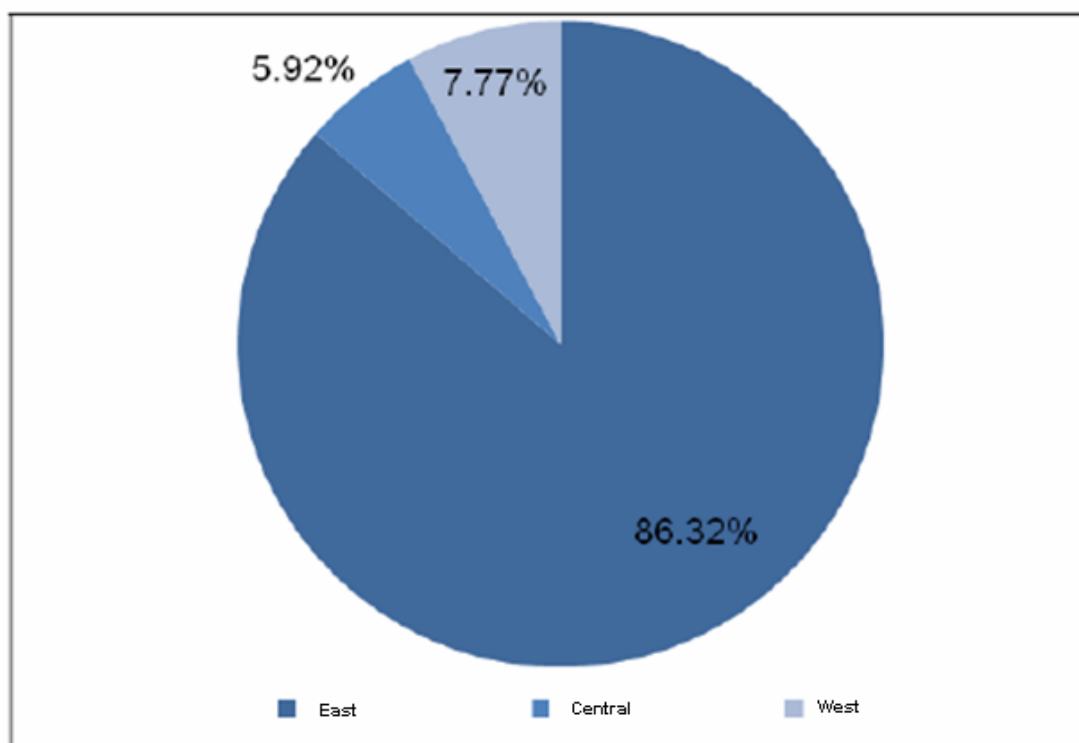
### 1.2 Data & Charts

Viewing software industry revenue in Jan.-Aug 2008, software products was still the main source of revenue, and the software & technology service saw the most remarkable growth. Elaborately, the revenue from software sale amounted to CNY219.03 billion, up 33.3% year-on-year, and accounting for 44.9% of total software revenue; the revenues from system integration and the embedded system software hit CNY100.76 billion and CNY66.22 billion respectively, up 27.4% and 26.6% compared to the same period a year earlier; and the revenue from IC design was CNY13.8 billion, up 19% year-on-year, 13.4 percentage points lower than the growth rate of the whole software industry; the software & technology service obtained CNY88.25 billion, rising 43.9% year-on-year, 11.7 percentage points higher than the growth rate of the whole industry, and its ratio reached 18.1%, 1.5 percentage points higher than the same period of previous year. In addition, software outsourcing service proceeded CNY10 billion at a growth rate of 79.1%.

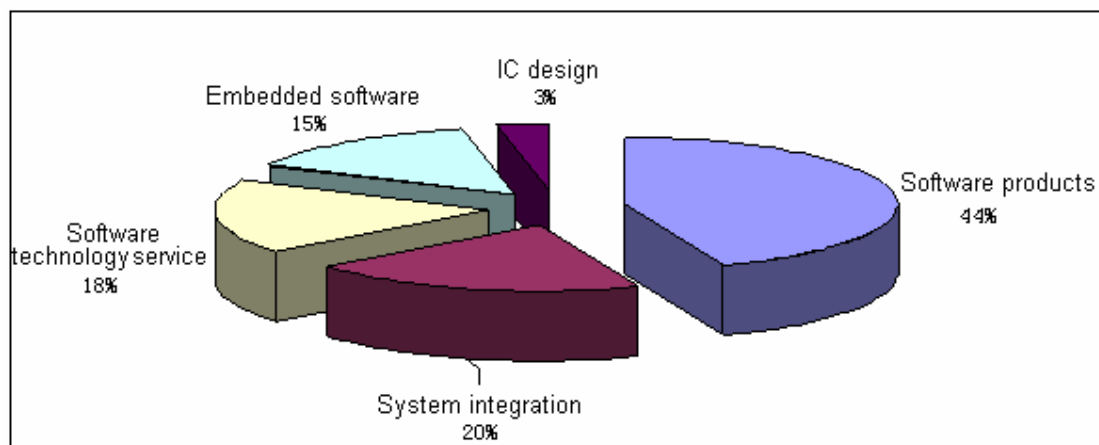
### China's Software Revenue Structure by Sectors, Jan-Aug, 2008



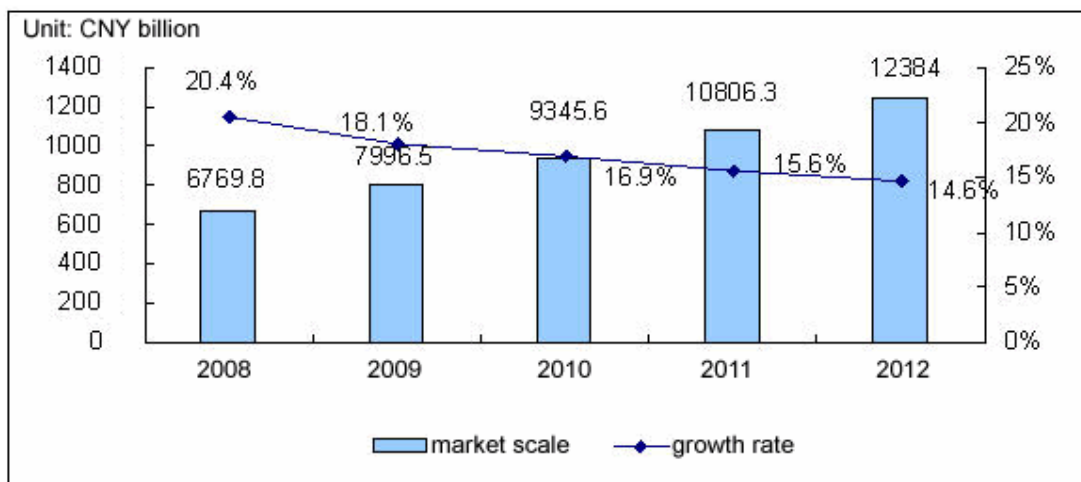
### China's Software Revenue Structure by Region, Jan-Aug, 2008

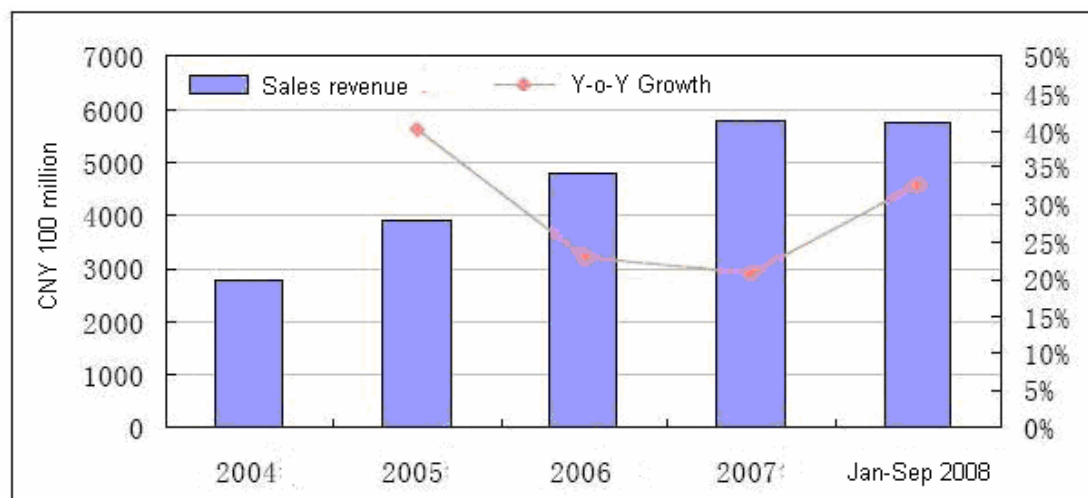
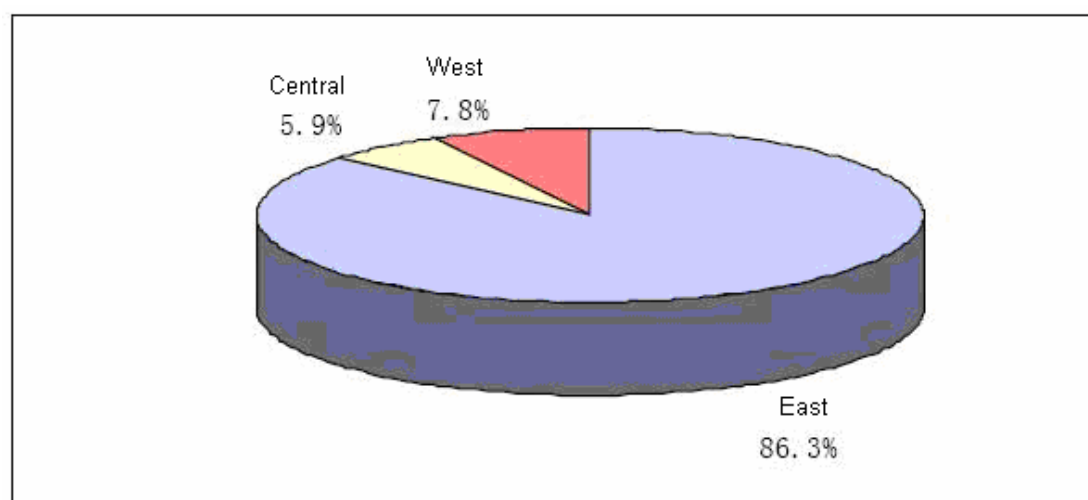


## Revenue Structure of Software Industry, Jan-Oct 2008



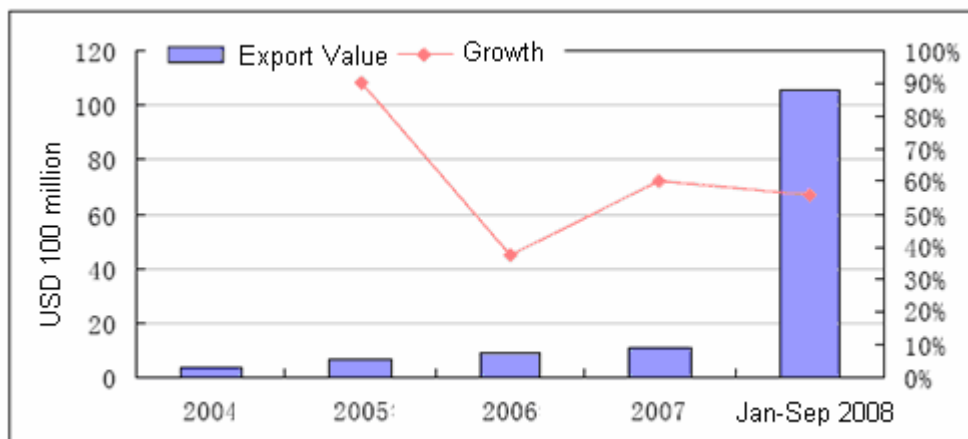
## Market Scale and Growth of China Integrated Circuit Market, 2008-2012



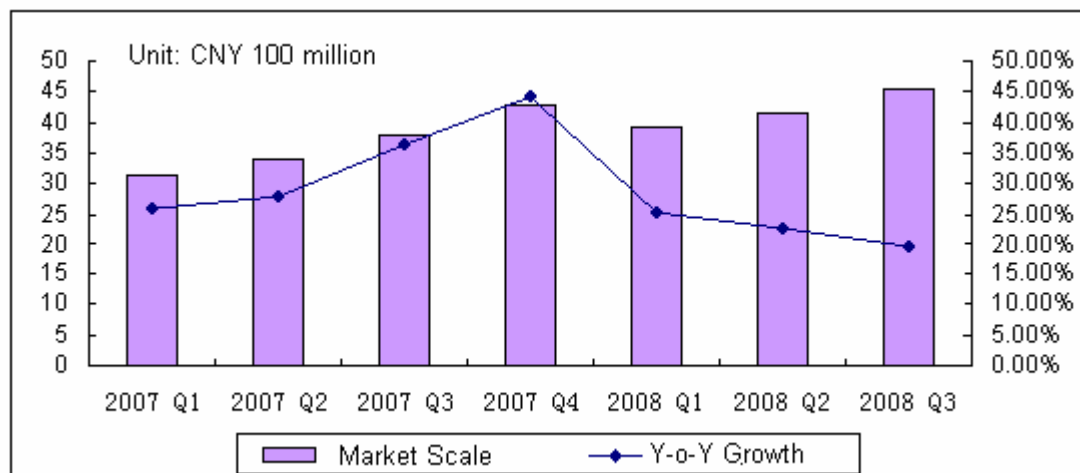
**Sales Revenue and Y-o-Y Growth of Software Industry, 2004- Sep 2008****Revenue Structure of Software Industry by Regions, Jan-Sep 2008**



### Export Value and Growth of Software, 2004-Sep 2008



### Market Scale of China Offshore Outsourcing Software, 2007-2008Q3



## 1.3 Industry Development Trend

### Domestic Anti-virus Software Providers Targets on Foreign Markets, especially the Japan

Date: Oct 14, 2008, Source: Information Times

Rising announced it recently that its anti-virus software sales had been ranked among the top three in Japanese market. Rising, Kingsoft and Jiangmin have taken 70% in all of domestic anti-virus software market shares. For the three companies, Japanese market is one of the key markets for exploration.

Apart from Rising, Kingsoft and Jiangmi, the international providers like Symantec and Trend Micro are also playing actively in Chinese anti-virus software market. It is reported that Rising overseas markets are composed mainly of software sales regions such as Japan, North America, Europe, Australia, and Russia. In addition, Jiangmin has sales agencies in Japan, Spain, Germany, Singapore, Italy and Hungary.

In domestic market, anti-virus software sale is usually done via the traditional modes like setting up general agent, and regional agent, or entering supermarket and convenience store, which means more cost for producers. However, in the international market, the manufacturers would prefer the localized sales pattern on account of varied market situations, like choosing a powerful local partner, OEM or E-commerce.

Rising announced to enter Japan market at the end of 2002, and successively launched many unique versions like Hello Kitty, and KingOEM. With the great efforts in the past six years, its accumulative sales have amounted to over 1 million sets. According to statistics from BCN, Rising enjoyed a market share of 10.9% for the first time in Japan in June, 2008, ranking the top three among 20 anti-virus products or plus.

### **IDC Issued Report on Asia/Pacific (Excluding Japan) Content Management Software Market, 2008-2012 Forecast and 2007 Market Sizing**

According to the report of Asia/Pacific (Excluding Japan) Content Management Software Market, 2008-2012 Forecast and 2007 Market Sizing issued by IDC on Oct 15, 2008, EMC ranked first in China's content management market in 2007.

IDC statistics also shows that the content management market in Asia Pacific is expected to grow steadily in next few years, from USD180 million in 2007 to USD360 million in 2012, and the CAGR will be 14.77%. Australia and South Korea, as the mature IT markets, will still be the leaders in the content management market, but closely followed by China and India. China's content management market increases a CAGR of 17.99%, above the Asia-Pacific's average level.

According to a survey conducted by IDC in the first half of 2008, nearly 60% of the sampled 434 end-users expressed that they would invest content management software. However, it was only above 30% in the similar investigation in 2007. IDC believed two reasons for the users to urgently invest content management solutions; first, it is the call of the increasing laws and regulations, second, it aims to optimize business flow and make it more automatic through content management function.

## **Increasing Advantages of Chinese Management Software Manufactures, Breaking Manufacturing ERP Monopolization**

Date: Oct 15, 2008, Source: Beijing Business Today

The manufacturing ERP was monopolized by transnational management software giants in the past years, yet the gap between domestic and foreign counterparts is bridging. Now, Chinese providers of management software become increasingly competitive, and they also have had more mature products in the manufacturing ERP.

CCWresearch reported that SAP ranked first with 23.4% market share in the manufacturing ERP industry, followed by Digital China with 14.1%. Of all the brands, SAP, Digital China and Oracle ranked the top three, while Digital China, Ufida and Kingdee were the top three among Chinese providers.

According to the statistics of CCWresearch, Chinese market of management software was sized by CNY24.85 billion in 2007, up 20.2% year-on-year, of which, ERP accounted for 59.3%. In addition, China's manufacturing ERP accounted for 56.2% in ERP market in 2007, and its applications valued at CNY8.29 billion.

## **2. Outsourcing Software Companies' Development in China**

### **Japan Biggest SNS Mixi Formally Issued Chinese Edition**

Date: Oct 21, 2008     Source: Sohu IT

Japan biggest social networking site Mixi launched Chinese edition recently with Mixiu as its Chinese name; which meant a new overseas competitor in the cut-throat competitive SNS market in China.

At present, MIXI is the second biggest website following Yahoo in Japan; its monthly page view hit 11.8 billion, ranking 42nd in the world. As the largest SNS website in Japan, MIXI mainly provides SNS service like diary, information, comments, album etc. It was listed in Sep 2006 in Japan, its current market value surpasses US\$2 billion. Since its inception, MIXI has developed 15 million users in the three years, around 70% of whom are "active" (they logged in within the last 3 days). Except Yahoo, it possesses most commercial ad value in Japan.

In Feb 2008, Mixi announced to get prepare for entry into China; its principal showed great interest in the rapidly developing Chinese internet market.

Mixi, launched in 2004, was originally named as eMercury. Since its excellent service such as diary and the like, users are greatly allured and they can update their diaries at any time anywhere via cell phone.

### **UFIDA Signed E-bank Cooperative Agreement with ICBC**

Date: Oct 17 2008     Source: China Securities Journal

UFIDA signed e-bank strategic cooperative agreement with ICBC and they will jointly launch two new types of software on online inter-bank capital management and online financial service for large-sized companies.

Inter-bank capital management platform is provided by UFIDA and ICBC for big clients, providing such services as capital accounts management, capital budgeting and settlement management and financial accounting management.

Online financial software can provide clients with online capital management, finance management and purchase, sales and inventory management, quite suitable for medium and small-sized companies.

## **ICBC Signed E-bank Strategic Agreement with Kingdee**

Date: Oct 16 2008 Source: CSDN

On Oct 16 2008, ICBC signed E-bank strategic cooperation agreement with Kingdee in Beijing. Vice president, ZhangFurong of ICBC and Chairman, XuShaochun of Kingdee signed at the signing ceremony, representing their companies.

They will together roll out two new types of software on online inter-bank capital management and online financial service for large companies.

Online financial affairs software can provide online finance management and purchase, sales, inventory management for individuals and companies by [www.youshang.com](http://www.youshang.com) (controlled by Kingdee). The software will be embedded in ICBC e-bank and e-bank of companies to provide one-stop financial service for clients.

## **Rising Formally Launched Cloud Security 2.0, Blocking Virus at Internet Access**

Date: Oct 09, 2008 Source: [www.ccidnet.com](http://www.ccidnet.com)

Along with public test of RAV 2009, *Rising Cloud Security 2.0* was launched formally, directly solving the biggest threat-Web Page with Trojan Horse Virus. This software can automatically block Trojan Horse Virus at the entry port.

It is known that more than 90% Trojan Horse viruses spread via adhering the web page, and they can update in dozens of minutes.

*Rising Cloud Security 2.0* can automatically diagnose and collect the webpage with Trojan Horse Virus, and when it detects the virus, it can block downloading the virus, at last the diagnostic information will be sent back to the technology platform for further analysis. This module has been added in RAV2009, formally named as Trojan Horse Virus Block-Website Block. After one-month test, it can collect thousands of web pages with the virus per day.

## **Kingsoft Antivirus Got Authoritative Approval of World Top Antivirus Institute Again**

Date: Oct 07, 2008 Source: China News Press

Recently, the authoritative international antivirus research institute, Virus Bulletin issued the latest VB 100 test result. Kingsoft Antivirus gained authentication for the third time.

It is known that Sep VB 100 test took the newest edition of Microsoft, windows server 2008 as testing platform. Kingsoft Antivirus 2008 successfully passed the test with 100% diagnostic rate, and 0.0% misdiagnosis rate, which recognized all viruses via the two modes: manual scan and real-time monitoring.

Established in 1989, as the global noted antivirus research institute, Virus Bulletin introduced VB 100 test successfully in the year of 1998. VB 100 tests various antivirus products under different environments and then reflects their protective capacity objectively.

## **Microsoft Starts up FY2009 University Recruitment Formally**

Date: Oct 16, 2008 Source: CSDN

At present, Microsoft China has over 3,000 researchers and engineers, and has set up research parks in Beijing, Shanghai and Shenzhen successively and fostered a complete innovative chain covering basic research, technology incubation, products development and strategic cooperation.

In the evening of Oct 13, ZhangYaqin, president of Microsoft China, discussed future technology innovation and IT industry development opportunities with thousands of college students at Rulun Lecture Hall, Remin University of China. FY2009 recruitment in the universities started up immediately.

Meanwhile, Microsoft showcased some latest innovation achievements such as Microsoft Surface, Microsoft virtual astronomical telescope, Olympic navigation service etc.

Soon after, Microsoft will carry recruitments in some universities in Shanghai, Hangzhou, Xi'an and Dalian, etc.

## **Kingsoft Starts up Mass Recruitment after being Listed**

Date: Oct 10 2008 Source: CSDN

In the afternoon of Oct 9 2008, Kingsoft announced that it would recruit 500 employees in China's noted universities.

This campus recruitment including job vacancies such as programming, devising, art design, marketing etc., of which above 90% will involve R&D. Kingsoft will have almost 2,500 staff members after the recruitment, including 1,500 R&D talents who account for above 60%.

In 2007, Kingsoft revealed in its prospectus that it would invest HKD191.5 million in recruiting more university graduates and veteran researchers.

The two core businesses are software and networks games; it has developed WPS Office, Kingsoft Powerword, Kingsoft Antivirus, Gods of Honor etc. Moreover, it owns www.iciba.com and www.xoyo.com, and it has set up branches in Zhuhai, Beijing, Chengdu, Dalian, Shenzhen cities, Japan and Vietnam etc.

## Avocent CEO Visit China: Attach Great Importance to Opportunities in China

Date: Oct 10, 2008 Source: CSDN



On Oct 9 2008, Avocent, IT operating Management Company announced that it would hold the opportunities in China brought by the increasing demand for IT management system.

Avocent CEO, Michael J. Borman emphasized to provide better service for clients who demand new IT solutions.

As the fastest growing economy, China will be a strategic market for Avocent. Chinese companies' increasing demand for data and software application is boosting demand for data center and IT operation management. Meanwhile, Chinese companies will also face the challenges brought by explosive growth of data service centers and applications.

Borman said that Asia-Pacific Regions is always an important and rising market of Avocent; in the second quarter of 2008, Avocent operating revenue hit the record high by reaching US\$159.2 million, sales revenue in Asia-Pacific Region rose by 49% year-on-year.

## **Baidu Appoints Li Yinan (Former Vice President of Huawei) as CTO**

Date: Oct 6, 2008      Source: InvestToChina.com

On Oct 6 2008, Baidu (NASDAQ: Baidu) announced to appoint Li Yinan as CTO of the company, effective from that day.

Li Yinan is an IT Legend in China. He entered Huazhong University of Science and Technology and got his master's degree. After graduation, he joined in Huawei and began his magic career. A half year later, he was promoted to vice general manager of Huawei central research department; two years later he became the president of research department. In his 27 years old, he became the vice president of Huawei and managed more than 5,000 employees,

Inspired by Huawei's carveout spirit, he set up Harbor Network Co., Ltd and gained outstanding achievements in the year of 2000. Then in 2006, Li Yinan joined Huawei again and assumed chief telecom scientist. He has rich experience in technical team management and extraordinary career; therefore, he is the best CTO for Baidu.

In March and April of 2008, Baidu CFO, Li Xinzhe and COO, Ye Peng assumed office successively.

## **Google Holds Advertisers Summit, Launched Chinese Edition Google Ad Manager**

Date: Oct 24, 2008      Source: Beijing Business Today

Yesterday, Google 2008 Advertisers Summit held in Beijing. Google AdSense has been in China for three years. Meanwhile, Google formally launched Chinese Edition *Google Ad Manager*, which can help advertiser manage more conveniently and follows the ad effect.

Since entry into China in 2005, Google AdSense has become the biggest online advertising alliance in China. ZhouWenbiao, Director of Online Sales and Operation Department of Google Asia-Pacific said, "Google will realize localization of payment soon, being helpful to shorten payment period and improve users' satisfaction." He also added, "in the future Google will provide more products and functions for local clients, and will improve advisers' yields to the maximum.



### 3 Investment and M&A

#### **Bentley Invests in China's Infrastructure Software Market**

Date: Oct 31, 2008      Source: Xinhua.net

Bentley Systems Inc, the world's leading infrastructure software solution provider announced on Oct 30 in Beijing that in light of the strategy for developing Chinese market, Bentley will acquire more local Chinese software enterprises.

Bentley acquired 3 software companies in the past 18 months, disclosed Lei Xun, President of Bentley Greater China Region. "The acquisition targets at the enterprises whose products are tailored for China or the companies in line with the global strategy of Bentley," said Lei.

He highlighted the information that China will make huge investment in railway construction, saying Bentley has strength in this field and shows intention into it.

Bentley then unveiled the latest research result for Chinese users-derivative component, a software that can improve the efficiency of program design remarkably.

Bentley entered the Chinese market in 1997. At present, some big companies and design institutions such as FAW VW, Shanghai VW, and Sinopec Engineering Incorporation etc are using the products of Bentley.

#### **UFIDA Acquires Beijing Founder Chunyuan Technology for CNY380 million**

Date: Oct 27, 2008      Source: InvestToChina.com

UFIDA invest CNY380 million to acquire the 100% stake of Founder Chunyuan that were previously held by 18 natural entities including Yang Ying and Yang Yan etc, and Founder Investment Co., Ltd. After the acquisition, UFIDA completely holds Founder Chunyuan.

Beijing Founder Chunyuan Technological Development Co., Ltd is a limited company that registered in Beijing on March 29, 2001. The company involves mainly in the research, development, sales and services for GRP (Government Resource Planning) Software. The equity structure is composed of: the 18 natural entities including Yang Ying and Ying Yan etc hold 85%, and Founder Investment 15%.

As of Dec 31, 2007, the total assets, liabilities, and owner equity of Founder Chunyuan got to CNY114.31 million, CNY50.00 million and CNY64.32 million respectively. The company's prime operating revenue and net profits amounted to CNY125.61 million and CNY41.15 million separately in 2007.

The acquisition will further reinforce the company's competitiveness in financial application software and technology, enrich the expertise in the financial informatization market, and enhance the advantage of talents. UFIDA has further strengthened the core competitiveness in the financial informatization market and expanded its market shares, consolidating its leadership in this regard.

The acquisition will benefit the revenue growth and profitability of main business.

## **UFIDA Acquires TurboCRM**

Date: Oct 27, 2008 Source: InvestToChina.com

To expand CRM software business, UFIDA plans an input of CNY45 million to acquire partial assets of TurboCRM Beijing and TurboCRM Shanghai.

TurboCRM Beijing is a foreign-funded enterprise that registered with a capital of US\$1 million in Beijing on September 13, 2000, and it is specialized in the R&D, sales and service of CRM software.

TurboCRM Shanghai is a foreign-funded enterprise established with a registered capital of US\$200,000 in Shanghai on April 24, 2001. It mainly engages in the R&D, sales and service of CRM software.

As of Dec 31, 2007, TurboCRM Beijing and TurboCRM Shanghai had owned the consolidated assets of CNY9.484 million, liabilities of CNY3.926 million, and owner equity of CNY5.558 million. In 2007, two companies' combined main operating revenue and net profits reached CNY12.7359 million and CNY978, 600 respectively.

## **ChinaSoft Invests in Wuhan DM**

Date: Oct 16, 2008 Source: InvestToChina.com

ChinaSoft (Stock Code: 600536) plans to invest CNY30.2712 million in Wuhan Dameng Database Co., Ltd (DM). After the funding, the registered capital of Wuhan DM will increase to CNY36.37 million of which ChinaSoft the No.1 shareholder accounts for 34.01% or CNY12.37 million.

Wuhan DM, set up with a registered capital of CNY24 million in 2000, mainly embarks upon system integration, database management system, the R&D and technical service of network engineering business, as well as the production and sales of computer software.

By August 31, 2008, Wuhan DM had owned total assets of CNY35.4555 million, according to the audit result of Reanda Certified Public Accountants. The revenue and net profits in Jan-Aug of 2008 amounted to CNY14.1504 million and CNY2.9231 million respectively.

The net assets of Wuhan DM reach CNY58.7617 million as estimated.

The investment in Wuhan DM will optimize the structure of China-made software products, thus cultivating a complete software product chain and developing an integrated application platform. In addition, the investment is good for ChinaSoft to further optimize the industry structure, promote the core competitiveness, and prompt the business to be transferred to medium and up streams.

## **Inigma Adds Funding to Shanghai Wicresoft**

Date: Oct 7, 2008    Source: InvestToChina.com

Under the Added Funding Share Expansion Agreement Inigma (Stock Code: 600797) signed jointly with Microsoft, Shanghai Union and Speedy, Inigma and Speedy will inject US\$14.81 million and US\$9.38 million into Shanghai Wicresoft. Inigma will be the majority shareholder with 27.82% stake after the deal is done.

Shanghai Wicresoft is the joint venture registered in the People's Republic of China on May 22, 2002, with registered capital of US\$4 million.

Shanghai Wicresoft is a new comprehensive software enterprise taking IT outsourcing and service as its main operation, which was jointly set up by Union Investment and Microsoft. It's one of the key software enterprises in China and one of the most important investment projects by Microsoft in China. Shanghai Wicresoft always focuses on the information technology outsourcing (ITO) and business process outsourcing (BPO). It's one of the key software contractors for Microsoft in China.

The concrete services of Shanghai Wicresoft include customer service, B2B sales support, dealership management, telephone sales and marketing, IT service support center, IT platform backing service, IT service management, software development, technical support, and third-party product etc.

By June 30, 2008, the total assets, liabilities, and net assets of Shanghai Wicresoft had reached CNY261.5755 million, CNY145.182 million, and CNY116.394 million respectively. The revenue and net profits for January to June hit CNY154.59 million and CNY14.381 million separately. (Note: the above data has not been audited)

All the shareholder equity of Shanghai Wicresoft by the benchmark day March 31, 2008 was CNY203.8 million, according to an estimation report.

## 4 Exhibitions & Events

### IBM China Informix User Group (CIUG) Set up

Date: Oct 21, 2008, Source: CSDN

IBM Informix China User Summit was held in Shenzhen on Oct 18, 2008, during which IBM Informix global top management had shared the latest strategies and technologies of IBM in the fields of information management, and database software with Chinese clients and partners.

Meanwhile, China Informix User Group (CIUG) was set up formally.

As a strategic factor in IBM information management software combination, Informix Dynamic Server (IDS) plays an increasingly important role in IBM RDBMS revenue growth. Up to the end of first half of 2008, Informix had successively achieved the double-digit growth, and its user amount also had reached the unprecedented size.

CNIUG is the local branch of International Informix User Group, IIUG, which is one of IBM largest user groups for software, and its member amount has doubled in a short several years, reaching 25,000. In addition, the monthly click-through rate has been above one million.

### 2008 the 6th Beijing OpenOffice.org Global Open Source Conference to be Open

Date: Oct 7, 2008; Source: CSDN

The 6th Beijing OpenOffice.org Global Open Source Conference will be opened in Beijing during Nov 5-7, 2008. Then the open source experts all over the world and main force in the community will gather in Beijing to share open source technology outcome, advocate utilizing the open source technology progress and improving software technology level via forum, lectures and the other interactive forms.

### The 1st China Software Channel Conference (Shanghai) to be Open on Oct 21, 2008

Date: Oct 10, 2008; Source: CSDN

The 1st China Software Channel Conference (Shanghai), jointly held by China Software Industry Association and CSDN, will prelude in Shanghai Inter-continental Hotel at 1:00 p.m. on Oct 21, 2008.

Many international and domestic well-known software companies like Microsoft, Tencent, Newgrand, Mailtech, GoldenPack, Sagetech, VRV, and Boke will participate. Then, the best and latest channel policies will be brought to the channel sellers in East China via on-spot lectures and interaction.

The conference had been successfully held in Beijing and Guangzhou on Apr 25, 2008 and Sep 18, 2008 respectively. More than 800 people and 429 manufacturers had attended the Beijing station, and in Guangzhou, over 500 persons and 332 companies. In addition, over 1,500 pairs had reached the cooperative agreement in two stations.



Beijing



Guangzhou

Beijing: <http://www.soft6.com/cscs/2008/bj/>

Guangzhou: <http://www.soft6.com/cscs/2008/gz/>

## **Successful Tour Exhibition of China-made CAD Solution**

Date: Oct 24, 2008; Source: ccidnet

For further integrating the advantageous resources of domestic CAD software manufacturers, pushing the favorable market change and accelerating industry revitalization, nine Chinese CAD software makers gathered in Beijing to establish China-made CAD software alliance on May 27, 2008.

Then during the period from June to September of 2008, domestic CAD software solution tour exhibition all over China held by the alliance had started up successively in 13 large and medium-size cities. As the third largest software after operating system and office software, CAD software has been increasingly applied in such fields as project survey & design, machinery manufacturing and electrics & electronics.

It was reported that over 3,000 clients had contacted CAD platform+ secondary development software solutions with independent intellectual property.





Proposal Signed by Copyright Bureau, Industry Association and Company Leaders

Over 30 leading companies from China and the world like Emerson, Thorn Lighting, Alstom Sizhou Electric Power Equipment ( Qingdao ) Co., Ltd, Changjiang & Jinggong, Xi'an Silver Bus and Dongfeng Group had participated the tour exhibition, they had exchanged their experiences.

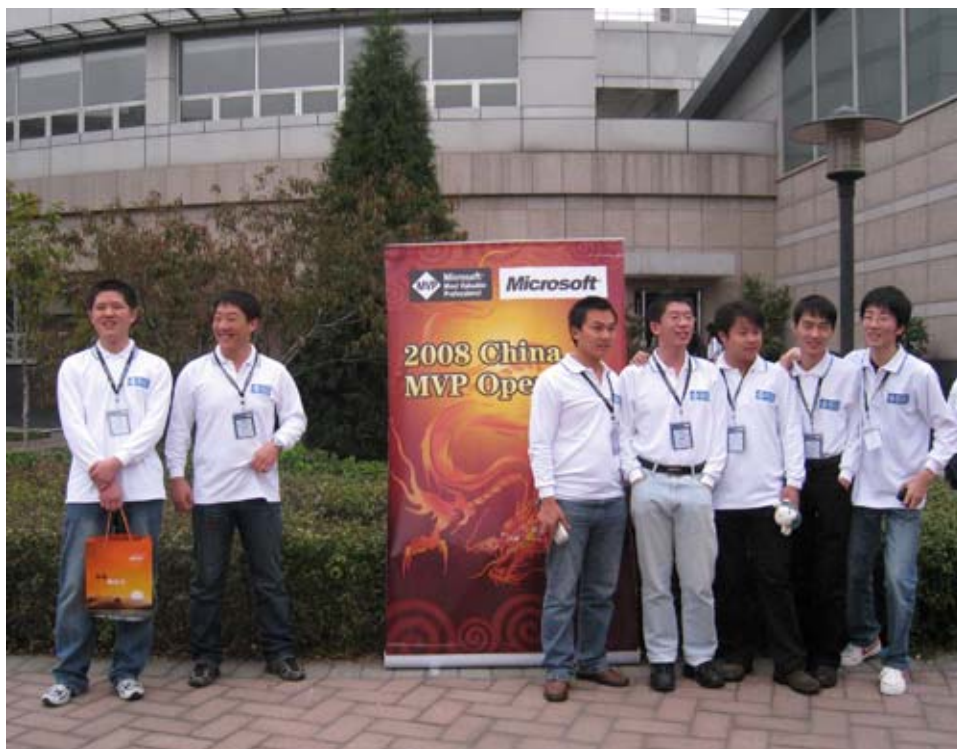


Zhongwang had signed strategic cooperation agreement with Shimao Property Holdings and Jiangsu Zhongda New Material Group Co.,Ltd respectively

## China's MVP Open Day, 2008

Date: Oct 20, 2008; Source: CSDN

2008 China MVP Open Day was held in Beijing Tangshan Holiday Center on Oct 18, 2008, and above 100 Microsoft MVP had taken part in the conference. During which, they not only exchanged the technology experiences on Microsoft technology forum, but also discussed the development of other technology resource platform and third-party technology website, contributing a lot to the development and popularization of Microsoft technology.





## 5 Analysis of Key Enterprises

### UFIDA

UFIDA Software released the third quarter report of 2008. In the first three quarters, the company's revenue rose 27% year on year to CNY1.019 billion, gross profit increased 26% to CNY904 million, but the net profit dropped 54% to CNY103 million.

The NC revenue growth that is driven by group control demands and the rapid U8 business growth that was brought by the company revenue expansion strategy have contributed to the fast increase of overall revenue of the company in the first three quarters. A slight drop in gross profit margin resulted from the outsourcing strategy. Mainly due to the loss of stock and fund investment, the net profit of the company plummeted compared with the same period of last year.

#### Revenue Expansion Strategy still Effective

The company witnessed a higher-than-ever revenue growth of 27% in the first three quarters. We estimate that the revenue growths of NC, U8, and Tong series products for the first three quarters are about 40%, 25% and 20% respectively. The high rapid NC revenue increase was brought mainly by the group's enhancing the management & control demand, while the growth of U8 business is primarily fueled by the strategy of channel optimization and revenue expansion. We predict the sales growth of Tong Series software will be comparatively slow.

Considering the further possible slowdown of macro-economy, we predict the revenue growth of all the product lines will drop next year. The revenue growth of NC products (U8 + U9) will still reach 25% next year, as the demands from group clients may continue to increase. The U9 products, as expected, will see a faster growth of revenue with sales to be increased somewhat in 2009, against the operating revenue of CNY30 million in 2008. U9 and U8 products do not share many client groups.

#### Outsourcing Reduces Gross Margin, Securities Investment Results in Loss

The comprehensive gross margin for the first three quarters was down about 0.7 percentage point year on year, which was caused mainly by project outsourcing, the company explained. With the continuous increase of distribution and service outsourcing ratios, the gross margin is forecast to show a downward trend.

The loss of securities investment has led to the drop in net profit margin. As a result, the total profits of the company decreased by CNY60 million. In comparison, the proceeds from securities investment in the same period of last year amounted to CNY140 million.

### **Asset Acquisition Increases Profits**

The company indicates in the statement that it has invested CNY380 million to acquire 100% stake in Founder Chunyuan and CNY45 million to obtain 100% stake in TurboCRM Beijing and TurboCRM Shanghai. Founder Chunyuan is specialized in financial software. The core product is the state treasury unified payment system, taking more than 70% market shares. The revenue and net profit of Founder Chunyuan for 2007 were CNY126 million and CNY41.15 million respectively. Hence, we predict the acquisition of Founder Chunyuan would increase the net profit of 2009 for UFIDA by over 10%.

TurboCRM is mainly present in CRM software. The consolidated revenues and net profits of TurboCRM in 2007 arrived at CNY12.74 million and CNY0.98 million respectively. Therefore, the acquisition of TurboCRM's shares will not influence the sales of UFIDA a great deal.

### **Yuanguang Software**

In Jan.-Sep 2008, the total revenue of Yuanguang Software rose 64.14% year on year to CNY137 million and the operating profits increased 25.26% to CNY28.67 million. The earning per share was CNY0.25.

From July to September, the company's revenue rocketed to CNY49.49 million, up 79.32% year on year.

### **Revenue Jumps, Gross Margin down slightly**

The company involves in the development and sales of financial software for electric power industry. The key businesses cover the sales, technical service, and system integration of financial software and customized software products etc. During the reporting period, the projects with raised funds began bringing profits to the company. In the meantime, part of customized software projects which were initiated in 2007 generated revenue this year and boosted the overall revenue.

### **Expense Drops**

The company executed an excellent expense control though the operation scale was enlarged. The expense rate for the third quarter was down 6.68 points year-on-year to 50.41%. Of which, the sales expense ratio decreased 1.28 points to 19.23%; the management expense ratio dropped 5.95 points to 32.25%; and the finance expense ratio rose 0.55 points to -1.07%.

### **Possibly Good Outlook**

The company now accounts for 80% in the market shares of financial software for electric power industry, highlighting its competitive edge. As completion of projects with raised funds help extend the product line and further optimize the business structure, its leadership in financial and management software for electric power industry will be reinforced. It will turn into a provider of application solutions for electric power industry. The further informatization of electric power industry, headed by the SG186 program, will further enlarge the market demands of financial and management software for power industry. The operation revenue of the company is forecast to increase 30% annually in the coming years.

## **Insigma Technology**

From January to September 2008, the total revenue of Insigma Technology rose 4.80% year on year to CNY3.87 billion and operation profits were down 28.14% to CNY91.39 million.

### **Strategic Direction gradually Clear: Software Outsourcing & Service Becomes Key Business**

The company mainly engages in general contracting of network equipment terminal and machinery, and software outsourcing. In 2008, the company gradually spun off non-IT business and developed software outsourcing and service as its core business. The clear operation strategy benefits the improvement of operation efficiency. In the third quarter, the company saw a steady growth of software outsourcing and service business and the share in total revenue also increased; the revenue generated from general contracting business of machinery decreased apparently.

In the first three quarters, the network equipment terminal business was still the key source of revenue. Due to huge funds needed and low gross margin, the company will not make big investment in this regard. In the years to come, the network equipment terminal business of the company shows an upward trend along with the increasing market demand for network equipment.

The reasons for the drop in net profits during the first three quarters are as the following:

First, the investment gains of the company dropped by CNY62.31 million in the third quarter compared with the same period of last year

Second, the increase of calculated dead account preparation has resulted in the asset loss of CNY8.61 million year-on-year.

### **Comprehensive Gross Margin up slightly**

The gross margin of the key business for the third quarter was 12.04%, up nearly 1.0% year on year.

The key reasons for the slight increase of gross margin are as the following: the company transferred to focus on software sourcing and service business whose gross margin is higher than that of the other businesses, boosting the overall profitability; the expense rate for the third quarter remained stable-about 9.34%, down 0.06 points year on year.

### **General Contracting Business of Machinery May Be Spun off**

The revenue generated from flue gas desulfurization projects decreased 22.4% year on year in the first half of 2008, mainly because the contract value reduction resulted from project construction delay and recession of electric power industry.

### **Tap Overseas Software Outsourcing Market**

The company transferred 51.5% stake that it held in COMTECH to Shanghai Wicresoft. In the meantime, the company injected an additional US\$14.81 million (or equally RMB currencies) to Shanghai Wicresoft. After the additional funding and share expansion are completed, the company holds 27.82% stake in Shanghai Wicresoft, becoming the majority shareholder of the latter. The funding is helpful for the company to set up a software outsourcing platform that is centered at Shanghai Wicresoft and faces the IT clients from Europe and America. Thus, the company has laid a sound foundation for further expansion of overseas IT client sources, integration of business channel for Wicresoft, and promotion for the use of software technology and resources of the company.

### **Neusoft**

From January to September 2008, the total revenue of Neusoft rose 14.03% year on year to CNY2.497 billion and operation profits hiked 15.87% year on year to CNY340 million. The diluted EPS was CNY0.31.

### **Steady Growth of Operating Revenue & Net Profits**

The company embarks upon businesses like system integration, software outsourcing, and medical system etc. In the third quarter, the company witnessed an excellent development of domestic software business. The business growth in the high-end fields such as electric power, telecommunication, and government etc boosted the operation revenue to grow steadily. The operating revenue of medical system business is basically the same as that of last year, due to the stable sales of four imaging equipment of CT, MRI, X-ray, and B ultra-sound scan. In addition, the company has swept the most market shares in software outsourcing for several consecutive years. The orders from Toshiba and Alpine etc secure the growth of this business.

### **Comprehensive Gross Margin Hikes, Expense Ratio Remains Stable**

The gross margin of key business for the third quarter increased 5.6 points year-on-year to 37.3%. The big hike of gross margin mainly resulted from the stable market shares seized by the company in the domestic software business after the previous low-price expansion.

During the reporting period, the company promoted the profitability of domestic software business through lifting unit price and boosting the overall gross margin. The expense ratio remained basically stable-22.13%, up 0.13 percentage point year on year.

### **Enjoy Obvious Strengths of Domestic Software Business in Telecommunication and Social Security Industries**

The market shares of the company increased continuously after years' expansion. Because the users of such products are critical about the data continuity and the coincidence of system interface standards, an original provider will be the first choice of users while upgrading their systems. This plays a key part in the steady growth and industry leadership of the company. Meanwhile, as the reshuffling of telecom enterprises progresses, the increasing demands of telecom operators for BSS system will bring a bright prospect for the system integration business of the company.

### **Software Outsourcing Business Maintains Fast Development**

The company took 6.97% shares in the domestic software outsourcing market in the first half of 2008, ranking No.1 for several straight years. At present, the company has about 5,000 staff of software outsourcing business. The staff number may rise 30% annually in the coming three years. The software outsourcing business of the company is forecast to keep an average growth rate of about 30% from 2008 to 2010, as the revenue growth is proportional to the staff number growth and to a big company, the former is slightly higher than the latter.