

## CHINA

### Construction Bank to Go Public

China's first large state run bank, China Construction Bank is set to go public in the first half of next year. The success of this IPO will be an excellent indicator of how much effort China is putting in to cleaning up its inefficient and at times corrupt banking system. If successful, this sale could pave the way for the anticipated IPOs of several other large state run Chinese banks. Banks such as, Bank of China, Bank of Communications, and China Minsheng Bank are all likely candidates for future sale. The success of the China Construction IPO will be a catalyst for all other bank IPOs that follow and vice



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versa. To ensure these IPOs are successful, officials have been spending the assets of cash rich state enterprises to ensure their continued success. Another method being used by Chinese officials to ensure that these IPOs go smoothly is by making sure the shares end up in "safe hands," closely held by companies run by former government officials, further ensuring Chinese officials continued tight control over the banking system. Another trend we are seeing is Chinese companies buying into these state-run privatization deals as many are cash rich, with few opportunities to invest this surplus cash.

### Chip Ruling to Help Valley

The semiconductor market is China's most booming industry. China has agreed to no longer offer tax benefits for domestic chip companies. This has cost the United States companies more money to export to China; an extra 14 percent more. Silicon Valley companies have denounced this for years. Since China's settlement, the United States will drop their complaint. A case filed at the World Trade Organization ended after this agreement was made.

Many American companies export products to China every year. This settlement was important to the United States in order to continue being a market leader in this sector. The United States is China's largest foreign supplier. Importers have had to pay a 17 percent sales tax all these years, while chip maker companies who manufactured in China enjoyed 14 percent rebates. The United States felt this was unfair. However, China argued that any company could produce and design chips in China, and felt there was no discrimination. China's argument conflicted with international rules that it agreed upon when joining the World Trade Organization. The rule states that countries may not tax imports more than their domestically produced equivalence.

China will no longer offer rebates and tax refunds for companies who designed semiconductor chips in China. Most of the semiconductors are imported in China now. The tax rebates had helped the semiconductor industry grow in China.

The United States' deficit with China has grown enormously to a fifty percent increase since 2001 when the Bush administration came into office. The deficit is now at \$120 billion, showing the United States is buying more than others. Now with the elections coming closer, this topic is a major issue and debate among the politicians.

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## **CHINA Cont.**

### **Advances in RFID Technology**

The Chinese have always been at the cutting edge in terms of electronics as well as semiconductors. They may also be at the helm of the new RFID revolution. RFID or radio frequency identification is a computer based, supply management tool, that helps retailers better manage their inventory among other things. This allows them to cut costs and increase profits. Another example of RFID technology would be Fast-pass, the "chips" attached to a car's windshield that allow toll collection without the driver stopping. Some speculate that RFID could in time replace bar codes in the retail arena. At its most basic level, RFID is a more advanced form of bar code, allowing the retailer to track inventory by radio frequency from afar. Not surprisingly, Wal-Mart has been on the forefront in developing these technologies. Wal-Mart is mandating that their suppliers use this new technology as a condition of doing business with the retailer. With China being Wal-Mart's biggest supplier, it is no wonder China is pushing to develop this technology as well. In fact, China will host the world's first RFID conference this October. It is only a matter of time before RFID makes it way to a retailer near you.

## **ASIA**

### **ZenTouch Vs IPOD**

Creative Labs (symbol: CREAM), best known for its PC SoundBlaster audio cards, is looking to challenge larger rival Apple and its popular IPOD digital music player. Creative, with sales for fiscal year ending this past June 2004 of \$814.9 million, up a total of 16% y/y. Profits came in at \$134.25 million for the same fiscal year, up more than 5 excess from \$23.4 a year earlier.

Creative was founded in 1981 in Singapore and expanded to the United States in 1988. The company will be one of the first to add video to its audio players when it introduces their Zen Personal media center later this year. Last month, Creative countered Apple's next generation IPOD at \$300, 20 gig units with a 12-hour battery life with the Zen Touch, a \$269, 20 gig units with a 24 hour battery life. It also plans on launching an unprecedented major marketing and advertising campaign for its products, including MP3 players, something it hasn't done as much of as some of its competitors in the past. In spite of all this, taking on IPOD amid fierce competition will be tough. SONY and Rio have both recently introduced portable MP3 players to compete with Apple and Creative, numbers 1 and 2 respectively in market share. Creative Labs' answer to this, a better product line, better price for storage value, ability to play several music formats, work with several online music stores, unlike the rival IPOD.

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