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Investment Slowdown in China's Consumer Goods Market in 2011

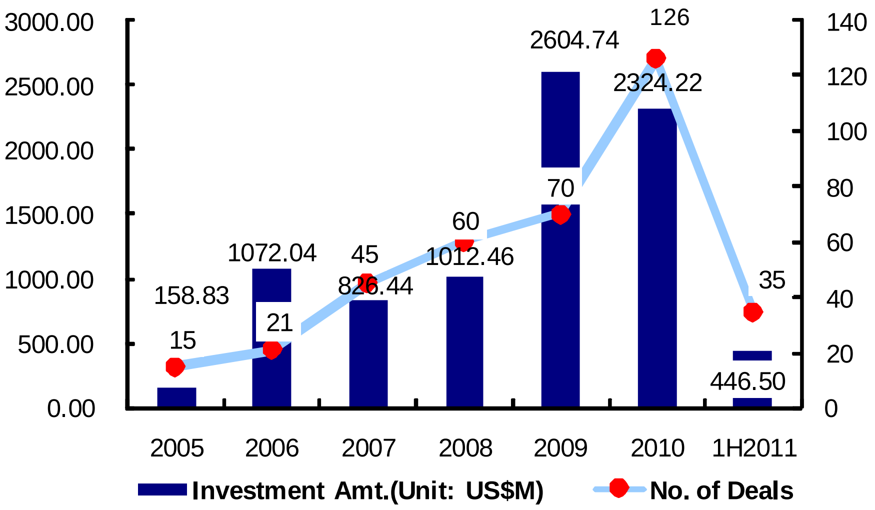
Written By Yolanda Zhang, Analyst with Zero2IPO Research Center

Consumer goods market is a large market closely related with the daily life of common people, which may be significantly impacted by such factors as downward or upward national economic situation, decrease or increase in people's income, decline or rise in population size, and even neonates and aging. Longitudinal sections of food, clothing, shelter and transportation, and transverse flow from raw material planting, procurement, production and circulation are a mirror of consumer goods market. Facing such a huge market, from clothing, shoes and hats to home appliances, from foods and beverages to household articles and, from characteristic restaurants to chain supermarkets, how will capitals perform? And how will they flow?

Consumer Goods Sector Was Attractive for Capital Market during 2009 and 2010 Due to Its Strong Anti-inflation Feature

The latest data from the data bank of Zero2IPO Research Center showed that during 2005 to the first half of 2011, there were 372 investment events disclosed in China's consumer goods sector. And 285 of them disclosed the investment amount of US $8.45B in total or US $29.64M on average. Compared with other industries, Chinese consumer goods industry witnessed frequently investment events, especially from 2008 to 2010 more investment events concentrated in China's consumer goods industry, which was mainly resulted from the fact the investments in some industries were greatly affected by the global financial crisis. In comparison with other industries, the consumer goods industry was more flexible against the financial crisis and inflation and faced relatively little risk in capital investment, which was decided by its traits. In fact, this was the main cause that led to booming investments in China's consumer goods market.

Comparison of Investments in Chinese Consumer Goods Industry in 2005 - H1 2011



Source: Zero2IPO Research Center

Judging from the amount of individual investment disclosed, 37.0% investment deals sized below US $10.00M, but there were still a larger number of investment deals that disclosed huge amounts. On the basis of the statistics of Zero2IPO Research Center, 18 of the investment deals with disclosed investment amount made an individual investment exceeding US $90.00M, accounting for 4.84% of the total. Some of enterprises that obtained an individual investment with huge amount participated in PE or PIPE projects, mainly focusing on the food & drinks industry, such as the investment of SAIF in Huiyuan Juice, investment of Temasek and Hopu in Yurun Food Group, investment of Shenzhen Capital in Hsu Fu Chi, investment of Hopu in Mengniu.

In terms of investment round, investment deals taking place in Chinese consumer goods sector concentrated in round A, with 215 financing events that disclosed a total investment amount of US$3.61B. Some consumer goods enterprises closed a total of 44 round-B financing events, with a total disclosed investment amount of US$1.02B. As for some consumer goods enterprises, there were 17 round-C financing events altogether, disclosing a total investment amount of US$434.00M. Four round-D investment events also took place among some consumer goods enterprises, with the investment amount totaling US$41.27M. Additionally, there were also two events taking place respectively in round E and round F. Apart from them, there were another 88 investment events without disclosing the investment rounds it belong.

From the data released by Zero2IPO Research Center, we learned that during 2005 and H1'11, investment events in part of Chinese consumer goods sectors concentrated in such areas as Shanghai, Jiangsu, Beijing, Guangdong (excluding Shenzhen), Zhejiang, Shenzhen and Shandong. Of them, Fujian attracted a relatively large number of investment events, with a total of 36 disclosed investment events, 30 of which disclosed a total investment amount of US$473.00M in total and US$15.76M on average. In term of the investment amount disclosed, Beijing ranked first with a total investment of US$1.09B and an average one of US$54.56M.

However, as for geographical distribution, the investment events mainly took place in the provinces and cities in South China and East China. But there were still 99 investment deals distributed in such places as Hubei, Liaoning, Chongqing, Guangxi, Helongjiang, Jilin, Jiangxi, Inner Mongolia, Shanxi and so on. This reflects that part of Chinese consumer goods sectors are relatively scattered to some extend.

The data of Zero2IPO Research Center showed that from 2005 to H1'11, the investments in China's consumer goods industry were mainly denominated in RMB. There were 171 RMB-denominated investment events disclosed, and 159 of them disclosed investment amount, i.e. US$3.33B in total and US$20.90M on average. In addition, 124 foreign currency-denominated investments were disclosed, including 122 deals disclosing the investment amount of US$4.92B in total or US$40.35M on average.

Unlike other industries, the majority of investments in Chinese consumer goods sector were RMB-denominated ones. On the one hand, as Chinese consumer goods industry is a traditional market, more enterprises usually choose to go public at home and thus prefer RMB-denominated funds; on the other hand, most of investment events in China's consumer goods market took place from 2008 to 2010 when RMB-denominated funds witnessed a rapid growth and were relatively active in traditional industries.

Investments in Chinese Consumer Goods Market Slowed down in H1'11

The year 2011 saw VCs/PEs paying less attention on Chinese consumer goods market. The major reasons are as follows: First, the food & drinks sector that led investments in consumer goods market was severely spoiled by food safety incidents, which caused credit crisis to Chinese foods and more investment risks; second, some segments of consumer goods market, such as home appliance and automobiles, were too developed to have access to capital; third, capital market was more keen on emerging fields, such as mobile Internet and the Internet of things, but attach less attention to traditional fields. ■

CVCF 2011 @ Hong Kong
China Venture Capital & Private Equity Forum

2011中国创业投资暨私募股权投资香港论坛
China Venture Capital & Private Equity Forum @ Hong Kong

Oct.13th, 2011, Sheraton Hong Kong

Step into Financial Centre in Asia
Concentrate on Opportunities in VC&PE
Focus on the rise of RMB Fund and IPOs
Aim on Making a New Huge Wave of Investment

This October
Zero2IPO
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Yang Guang Plans Setting up A RMB 2B PE Fund

Sep. 8, 2011, China Securities Journal

Yang Guang Co., Ltd. announced the company will cooperate with Kunlun Trust Co., Ltd. to launch "Kunlun Yangguang Houtu Equity Investment Fund" before Nov. 30, 2011, the issuance scale will be not more than RMB2B with the duration for 3 to 5 years.

The Board of Directors of the company will go through the approval procedures of the Board of Directors and shareholder meeting in the wake of the consensus reached by the company and Kunlun Trust to sign the related official agreement concerning the establishment and issuance program of the fund (including fund size, cooperation method and fund investment targets, etc.), as well as the approval or filing for record by the relevant authorities.

On Sep. 1, Wolong Real Estate has announced that the company will subscribe Longxin Investment's shares with RMB100M, accounting for 5% of the total capital contribution.

Teamsun Buys 60% Shares of Guangzhou Carnation at Technology Co., Ltd.

Teamsun Technology Co., Ltd. announced the company intends to buy 60% shares of Guangzhou Carnation Computer Software Co., Ltd. from Guangzhou Yuanyao, Guo Birong and Jia Xiangyi at the price of not more than RMB90M.

Teamsun believes the acquisition of Guangzhou Carnation will continue to upgrade its competition edges in telecommunication industry, greatly uplift its core technical competitiveness in cloud computing area, and further improve the diversity of products and services, especially high-end IT professional services and application software solutions with the characteristics of the industry.

As of Mar. 31, 2011, the total assets of Guangzhou Carnation reached RMB48.56M. Equity transferors also promised the after tax net profit in 2011, 2012 and 2013 will no less than RMB15M, RMB19.5M and RMB25.35M.

JYT Obtains RMB100M Investment from Prax Capital & Lands on SSE

Sep. 8, 2011, PEdaily.cn, Christina Chao

It was reported by PEdaily.cn on Sep. 8,

序号	股东名称	股本性质	本次发行前 持股数量（股）	比例（%）	本次发行后 持股数量（股）	比例（%）
1	[illegible]	社会法人股	287,005,952.00	77.59	287,005,952.00	66.76
2	[illegible]	自然人	32,712,000.00	8.84	32,712,000.00	7.61
3	[illegible]	外资法人股	25,762,120.00	6.96	25,762,120.00	5.99
4	[illegible]	社会法人股	10,304,852.00	2.79	10,304,852.00	2.40
5	[illegible]	社会法人股	5,152,126.00	1.39	5,152,126.00	1.20
6	[illegible]	社会法人股	4,000,000.00	1.08	4,000,000.00	0.93
7	[illegible]	社会法人股	1,030,486.00	0.28	1,030,486.00	0.24
8	[illegible]	自然人	706,380.00	0.19	706,380.00	0.16
9	[illegible]	自然人	706,380.00	0.19	706,380.00	0.16
10	[illegible]	自然人	515,213.00	0.14	515,213.00	0.12
11	[illegible]	自然人	497,222.00	0.13	497,222.00	0.12
12	[illegible]	自然人	497,222.00	0.13	497,222.00	0.12
13	[illegible]	自然人	497,222.00	0.13	497,222.00	0.12
14	[illegible]	自然人	497,222.00	0.13	497,222.00	0.12
	本次发行股份	社会公众股	-	-	60,000,000.00	13.96
	合计		369,885,136.00	100.00	429,885,136.00	100.00

issue price of RMB42 per share and P/E ratio of 53.47 times.

According to the prospectus, on Nov. 17, 2008, JYT issued new shares to Qianyuansheng VC, Suzhou Guorun VC and other shareholders at an issue price of RMB 4.658, among which Qiangyuansheng VC subscribed for 4,293,688 shares with RMB20M and Suzhou Guorun VC 8,587,377 shares with RMB40M.

On December 30, 2008, Prax Capital injected RMB21,468,441 into JYT as newly added registered capital. After the capital increase, Prax Capital held 21,468,441 shares of JYT. The total subscription amount paid by Prax Capital was up to RMB100M with a price of RMB4.658 per share.