



Catching Capital Investment Momentum in Early 2011; Identifying "New Gold Mines" in China's E-commerce

>>P2

Hot News

- P4 51wan.com Completes Round B Financing
- P4 Shenzhen Capital Invests RMB8.3B in Total
- P4 Qihoo Establishes RMB1B Innovation Investment Fund
- P5 CICC Direct Investment Raises RMB5B to Build M&A Fund
- P5 Morgan Stanley Invests US\$50M in Yongye International
- P6 Vivo Ventures Announces Appointments of Two New Managing Partners
- P6 Beyond Fund Invests in Kedi Dairy, Its 4th Deal in Modern Agriculture
- P7 OkBuy Completes Series C Financing from DFJ and Tencent

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>>P2

Catching Capital Investment Momentum in Early 2011; Identifying "New Gold Mines" in China's E-commerce

Written By Yolanda Zhang , Analyst with Zero2IPO Research Center

The investment frenzy in China's e-commerce sector in 2009 has been well extended into today. According to Zero2IPO Research Center, 125 investment deals have been disclosed in China's e-commerce market from 2009 to now and the disclosed investment amount is US \$1.19B. The ever-growing number of investment deals and amount and shift of investments in expansion-stage enterprises to early-stage ones have stirred the concerns within the industry. Whether it is a real prosperity in the market or a false revelry of capital? Whether the bubble emerges or not? All of those issues have become the ones needed to be contemplated in China's e-commerce

market and capital market in a sober and objective manner. From January to mid-May 2011, China's e-commerce market once again witnessed the frenzy in investments. Therefore, providing insights into the capital market may become a way to guide the market development.

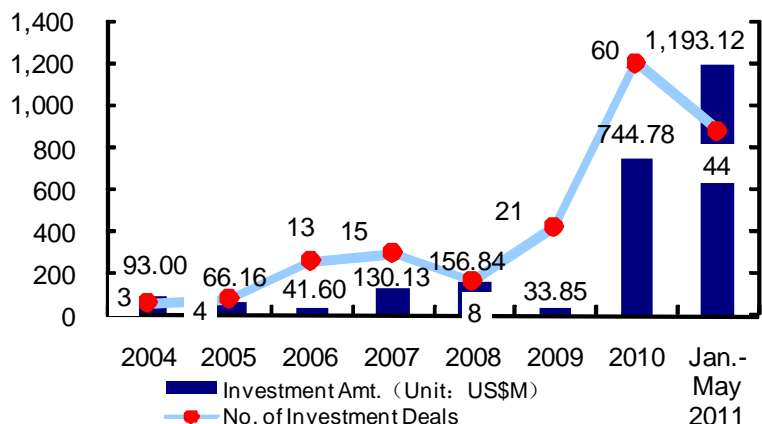
Early 2011 Witnesses Frantic Investments in China's E-commerce Market

China's Internet commerce era has come rapidly with the flourishing e-commerce market. According to the data of Zero2IPO

Research Center, during this period, 44 investment deals were recorded in China's e-commerce sector with US \$1.19B investment amount disclosed, hitting a new high. To be sure, such a high investment amount could be attributed to the large-amount single investments of such enterprises as 360buy.com, lashou.com, Okbuy.com and Vipshop.com. That being said, the excessive investment deals directly indicated the frenzy and restlessness of capital market towards China's e-commerce market.

Zero2IPO Research Center believes that China's e-commerce market still have ample room to develop with the rapid expansion of offline market share, ever-maturing Internet consumer groups, rapidly rising segmented fields, such as luxury products, ladies' dress, men's clothing, underwear, bags and accessories, foods and cosmetics and participation of traditional businesses of various kinds in this market. Although bubble may be seen indistinctly in e-commerce market, it's better to explore into the ways to utilize capital to promote its development rather than waiting for the burst of bubble. In this sense, it appears more important to look into the direction of e-commerce market.

Comparison of Scales of Investments in Chinese E-commerce Market in 2004 - May 2011



Source: Zero2IPO Research Center

Research Center, in 2010, 60 investment deals were reported in China's e-commerce market (mainly including online retail, B2B, E-payment and e-commerce service provider link), 56 of which concentrated in the B2C sector which becomes the leader in the Internet industry. From January to mid-May 2011, China's e-commerce market still maintained its flourishing momen-

Investment Trend I: Capital Favors "Tao Brands" and Makes Presence

Tao Brands refer to those ones gaining development through the operations at the online shops of Taobao.com and establishment of their own brands and brand systems. Tao Brands embrace a whole new opportunity for development and are well-recognized and received among investors, as e-commerce enjoys series of investments and the all-inclusive operational modes of large e-commerce enterprises of various kinds further upgrade. Mbaobao could be touted as the vanguard among Tao Brands. In 2011, investors scramble to inject capital in Tao Brands. Apart from Mbaobao which gained financing once again, Olomo.com, Pba.cn, Sportica.cn, Justonline.cn and Handuyishe.taobao.com all obtained financing. Most of Tao Brands completed Series A financing, and some of them will garner capital again with the in-depth exploration of the capital into some leading Tao Brands. However, Tao Brands still need to be studied on whether they have vigor and vitality to operate independently for their high dependency on the development of Taobao.com or shop owners.

In addition, Zero2IPO Research Center argues that Tao Brands securing investments are mainly clothing enterprises and it is projected that auto products and accessories, home improvement accessories and other Tao

Brands will attract the attention of capital thanks to their higher prices of single deals and ever-growing transaction amount.

Investment Trend II: E-commerce Outsourcing Service Provider Becomes Favorite Investee for Capital

E-commerce outsourcing service providers have attracted attention from capital. The data of Zero2IPO Research Center indicates that from 2010 to now four e-commerce outsourcing service providers have attained financing, including Yiji Technology, Jumbomart.cn, 1858.com and so on, although the market remains in its incipient stage with fewer market players. Zero2IPO Research Center projects that peripheral enterprises are expected to enjoy larger growth spaces. On the one hand, as traditional enterprises venture into the e-commerce market and the operational mode of traditional industries and Internet mode differ from each other, it will become a better solution to tentatively outsource e-commerce so as to speed up the layout of e-commerce sector, in addition to large-scale capital M&As; on the other hand, players at China's e-commerce market are diversified and complicated and intense market competition definitely calls for a professional team to provide services. For e-commerce outsourcing service providers, this represents an exciting historical opportunity; also, it contains a new cash cow for capital.

Investment Trend III: E-commerce Enterprises Featured by "Light" Warehousing Will Become Ones of the Targets for Large-scale Internet Investments and M&As

At present, some large Internet companies in China, such as SNDA, Tencent and Sohu, have not formulated their own e-commerce business lines. They urgently need to lay out the market as the Internet commerce era approaches. Some heavy warehousing e-commerce companies feel the pinch from large e-commerce companies and need huge capital input. When it comes to sub-industry breakdown, light warehousing e-commerce enterprises in the fields of tourism, sales of air tickets and insurance will become one of primary targets for investments or M&As.

Investment Risks behind US \$10.00M -grade Financing Can Not Afford to be Neglected

Zero2IPO Research Center believes that the rapid development of e-commerce in China makes Chinese investors no longer sober-minded. In order to seize projects, they even invest over US \$10.00M while ignoring the typical features of various segment fields, which may trigger the issues like overvaluation and drive up the hidden risks of e-commerce investments. ■

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2011 China Venture Capital & Private Equity Forum @ Europe will lead you on a fantasy journey in Zurich. One day forum will cover most of the hot topics on investment market in China. There will be more than 30 industries titans share experience with you. Investment issues and opportunities will be discussed in depth.

51wan.com Completes Round B Financing

Jun. 2, 2011, Yahoo! Tech, Wang Hongming

Liu Yang, President of 51wan.com, a web site under the flag of web game enterprise XY. Brothers, said on Jun. 1, the capital raised in round B financing has been in place with joint contribution from Ventech and JAFCO Aisa.

Liu Yang, however, did not disclose the specific amount raised. She also told that the capitals from Ventech and JAFCO Asia were equal in value.

51wan.com accomplished its round A financing in 2008 with US \$2M raised from Sequoia Capital. Liu Yang said that there



was no investor following in the round B.

France-based Ventech was created in 1998 and manages 4 funds globally with the total capital size of US \$730M. The fund focuses on early stage investments in the areas of information technology, digital media, life science and construction of communication infrastructure. It has been appraised as the "Best-performed VC in France" for consecutive years. JAFCO Asia was created in Singapore and Hong Kong respectively in 1990 and 1992 and manages a number of PEs with the total capital size over US \$850M.

Shenzhen Capital Invests RMB8.3B in Total

Jun. 2, 2011, PEdaily.cn, Christina Chao

Shenzhen Capital recently released on its official web site that its total investments have accumulated to RMB8.3B with 351 projects invested, covering such areas as IT/CMOS chips, optical, mechanical & electronic integration/advanced manufacturing, consumer goods/logistics/chain services, medical biotechnology, energy/environmental protection, new materials/chemicals, internet/new media, etc. Among them, 7 projects were newly invested in May.

According to the statement, the companies

getting investments from Shenzhen Capital in May include Brigates Microelectronics (KunShan) Co., Ltd., Hubei Huabo Machinery & Electric Co., Ltd., Wuxi Little Swan High-Grade-Casting Co., Ltd., Beijing Cycle Century Digital Technology Co., Ltd., Shenzhen Collection Enterprises Co., Ltd., Wuhan Guoce Hengtong Intelligent Instruments & Apparatus Co., Ltd. and CBA Sports International Limited.

Qihoo Establishes RMB1B Innovation Investment Fund

Jun. 1, 2011, Beijing News, Yang Miao

Qihoo 360 Technology Co., Ltd. held its first Internet Openness Conference on May 31 and announced its "360° Openness Plan". Chairman Zhou Hongyi announced the creation of RMB1B Innovation Investment Fund. According to Mr. Zhou, the chances are that China will produce



more profitable companies, but it's less likely that a company will emerge as a world-class one within five years like Facebook because its openness has created a sound industrial chain. For that matter, he called on the "magnates" of Chinese Internet industry to establish an open platform, rather than building a closed garden under the pretext of openness.

Mr. Zhou indicated in his keynote speech that China's Internet industry has "wholesaled and listed" many companies, but compared with American counterparts, the discrepancy lies in the poor innovation vigor and vitality. He believed that many Chinese Internet companies hope to make themselves independent kingdoms, so China may witness the emergence of many profitable companies, but it's impossible for them to become world-class companies within five years as Facebook "because its openness has created a sound industrial chain." ■

CICC Direct Investment Raises RMB5B to Build M&A Fund

Jun. 1, 2011, China Business News, Jiang Fei



CICC Jiacheng is the only company that has obtained the approval from regulators as the pilot company to raise funds. This means that apart from "proprietary trading" in equity investment, brokers could raise and manage funds coming from a third party, which represents new sources for profits.

Recently, Chen Shiyu, Managing Director of CICC and Director of the Direct Investment Division, disclosed that CICC's direct investment company has gained the first qualification as a pilot to raise funds and is preparing for a RMB fund totaling RMB5B. It's said that CICC is the one and only company obtaining the pilot qualification. CICC has a long history in equity investment and CDH Investment, a famous domestic equity investment organization, is developed from the Direct Investment Division of CICC.

Morgan Stanley Invests US \$ 50M in Yongye International

Jun. 1, 2011, PEdaily.cn, Christina Chao

Yongye International announced on May 31 that Morgan Stanley Private Equity Asia agreed to invest US \$ 50M in it which will be earmarked for expanding production capacity, repaying bank loans and addressing other general corporate purposes.

As per the transaction terms, Yongye International undertakes to deliver certain net profit targets in the coming years. If failed, Morgan Stanley will be entitled to acquire the additional common stocks from major shareholders of the Company.

As part of the agreement, Homer Sun, Managing Director of Morgan Stanley Private Equity Asia will join the BOD of the Company,



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