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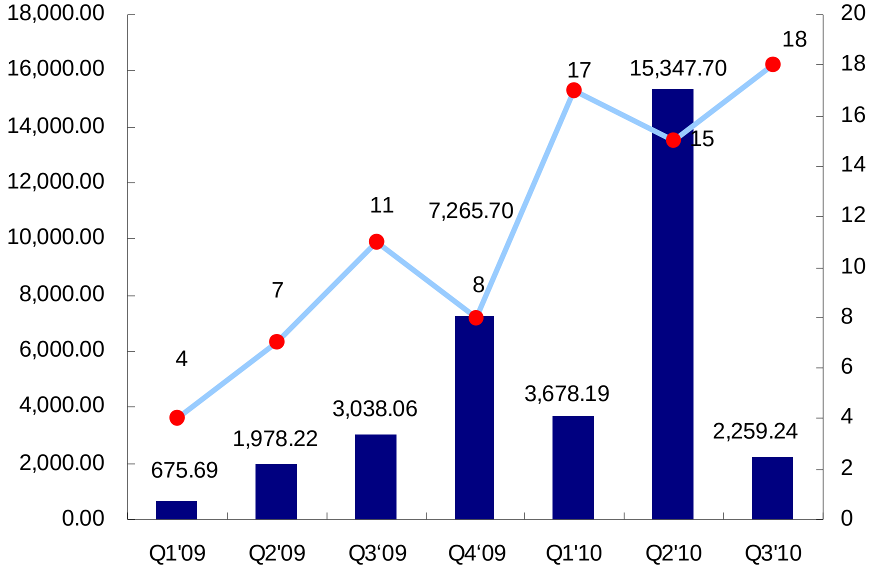
71 Companies Secured US $1.93B Investment in Q3'10; Unprecedented Increase in the Enthusiasm for Investment in the PE Market

Written by Fiona Fu, Zero2IPO Research Center

According to China Private Equity Report Q3 2010, recently released by Zero2IPO Research Center, a leading VC/PE research, consulting and investment institution in the Greater China region, there was an unprecedented increase in the enthusiasm for investment in China's PE market, with the number of newly raised funds and investment deals hitting the highest record in a single quarter since Zero2IPO started to issue PE investment data in 2006.

As the statistics of Zero2IPO Research Center suggests, the number of newly raised PE funds available for investment in Asia (including Chinese mainland) continued to grow in Q3'10, when 18 funds were raised, breaking the previous record of 17 funds that were raised in a single quarter. The amount of capital made available for the 18 funds reached US $2.259B, in which RMB-denominated funds overwhelmingly dominated the market, with the 17 RMB-denominated funds raising US $1.88B in total. As to investment, the rising trend of investment activity was encouraging in Q3 and 73 domestic companies secured investment from PE investment institutions, 34.0% higher than the previous record in the history-53 investment deals in Q4'06. 61 deals whose amount was disclosed raised US $1.93B and the investment amount grew slowly. Meanwhile, the strategies of the investment deals tended to diversify in Q3'10 with a significant increase in the proportion of PIPE (Private Investment in Public Equity), M&A and real estate investment from H1'10. In Q3'10, the exit activities continued to grow steadily, with IPO remaining the major exit option, and the proportion of exit deals of domestic market growing significantly.

Chart 1 Quarter-on-quarter Comparison on Fundraising Amount of New PE Funds (Q1'09-Q3'10)



Source: Zero2IPO Research Center

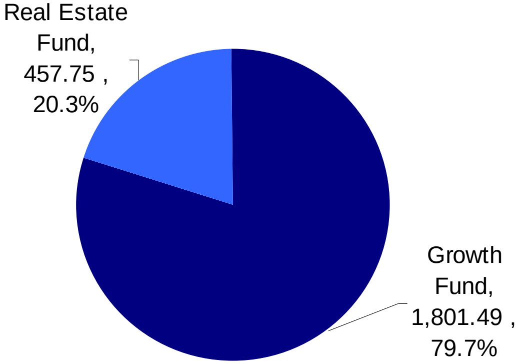
The Institutions Remained Enthusiastic about Fundraising, with Fundraising Amount Falling Obviously

In Q3'10, the number of newly raised PE funds available for investment in Asia (including Chinese mainland) continued to grow and 18 funds were raised, up 20.0% QoQ and 63.6% YoY. However, the amount of funds raised in Q3'10 declined sharply: US $2.26B was raised, down 85.3% QoQ and 25.6% YoY. The reasons behind this fall are as follows: 1) as there were large scale M&A funds made available in the previous quarter, the total fundraising amount surged, resulting in obvious drop in Q3'10; 2) the recovery in the major developed economies was weak, the fundraising progress of PE funds available for investment in the Chinese market was slow, and large foreign currency funds were absent; 3) although fundraising of RMB funds accelerated, their size was generally small. Moreover, the foreign investors have just started to participate in the establishment of RMB funds. Fundraising and operation of such funds remained in the infant stage and there was no driving force to establish large funds.

By fund type, the growth funds still held the dominant position in Q3'10, and 13 funds raised US $1.80B. In comparison with the previous quarter, the proportion of funds available for investment in the real estate sector increased, and five funds, including the only USD fund-Gateway Capital Real Estate Fund III, raised a total of US $458M.

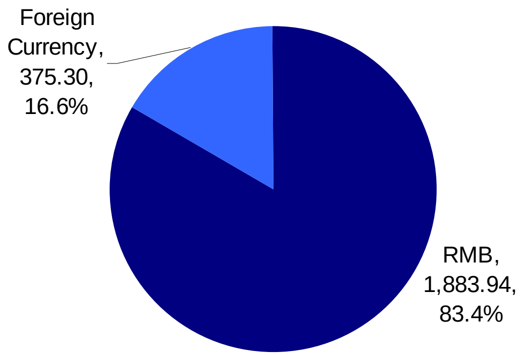
In addition to the above-mentioned funds whose amount made available is identified; Zero2IPO also summarized the newly created funds in China's PE market since 2010. In Q3'10, 10 new funds were created with target fundraising amount up to US $6.97B, including eight RMB funds and two foreign currency funds. With the acceleration of fundraising and increase in the amount of capital available for investment, it is predicted that the institutional investors will be faced with greater pressure as the competition for projects in China's PE market intensifies in the next few years.

Chart 2 Distribution of New Funds in Q3'10 by Fund Type (By Amt. Raised, US$M)



Source: Zero2IPO Research Center

Chart 3 Distribution of New Funds in Q3'10 by Currency (By Amt. Raised US$M)

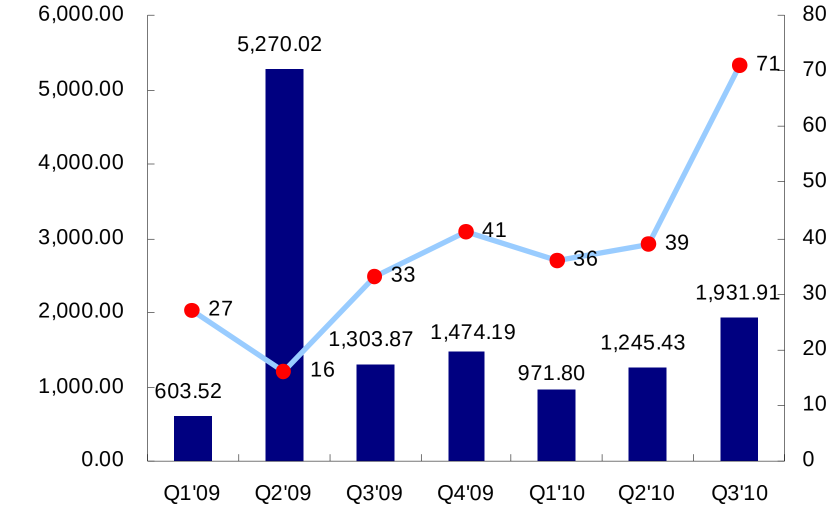


Source: Zero2IPO Research Center

The Institutions Are Enthusiastic about Creating RMB Funds; the Average Fundraising Amount Decreased

In terms of the current type of the funds, the difference between the number of the RMB funds and that of the USD funds was widened in Q3'10, 17 out of the 18 newly raised funds were RMB funds, raising US $1.88B in total. Although the number of funds grew 41.7% from the previous quarter, the fundraising scale grew slowly; in particular, the average size of RMB funds independently created by domestic institutions dropped significantly from Q1'10. In contrast, the foreign PE investment institutions showed growing enthusiasm for participating in creating RMB funds, as is especially true of this quarter; for instance, the two largest RMB funds-Blackstone China Development Investment Fund and Carlyle Beijing RMB Fund were created jointly by foreign investment institutions and local governments of China. Moreover, the funds that were announced to be created but were

Chart 4 Quarter-on-quarter Comparison on Investment Amt. of PE Funds (Q1'09-Q3'10)



Source: Zero2IPO Research Center

not made available also included three RMB funds jointly created by domestic and foreign investment institutions.

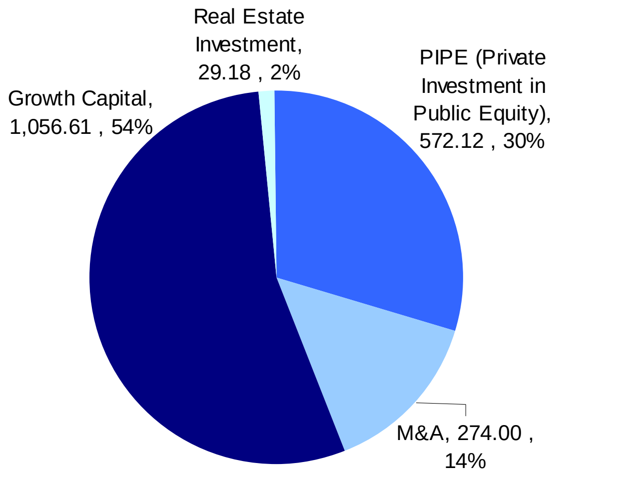
The Investment Activity Grew Remarkably; the Growth Rate of Transaction Scale Was Small

With the fundraising activity in the domestic PE investment market growing steadily this year, the amount of capital of the institutions available for investment increased, and China's PE investment market was bustling with activities. 71 investment deals occurred in Q3'10, with the transaction amount reaching nearly US$1.93B, up 82.0% QoQ and 55.1% YoY respectively. Although the rise in investment activity and transaction scale were encouraging, Zero2IPO Research Center found that the amount of individual deals remained small in Q3'10: the average investment amount of the 61 deals whose amount was disclosed was approximately US$32M, down 23.7% from the previous quarter, and there were 29 deals whose investment amount was less than US$10M, representing nearly half of the total number of deals.

The Foreign Investment Institutions Adopted Flexible Investment Strategies; M&A Opportunities Emerged with the Release of New Policies

As to the investment of China's PE investment market in H1'10, the investment strategies of the institutions were far from being diversified with the proportion of growth capital investment deals reaching up to 82.7%. In Q3'10, the investment institutions appeared to be more diversified in using the strategies, and the 71 investment deals included 59 growth capital investment deals, six PIPE (Private Investment in Public Equity) deals, and three M&A and real estate investment deals respectively. By the type of institution, the foreign investment institutions were more flexible in selecting the investment strategies based on their advantages in capital size and investment experience, and the six PIPE investment deals and two M&A deals were initiated by the

Chart 5 Distribution of PE Investments by Investment Strategy in Q3'10 (By Investment Amt., US$M)



Source: Zero2IPO Research Center

foreign investment institutions. In September 2010, the State Council issued the Opinions on Promoting M&A and Restructuring of the Enterprises, which is expected to bring more opportunities for investment institutions to participate in M&A projects.

Bio/Healthcare Became the Undisputed Hot Industry; PE Quickened the Pace of Entering the Financial Field

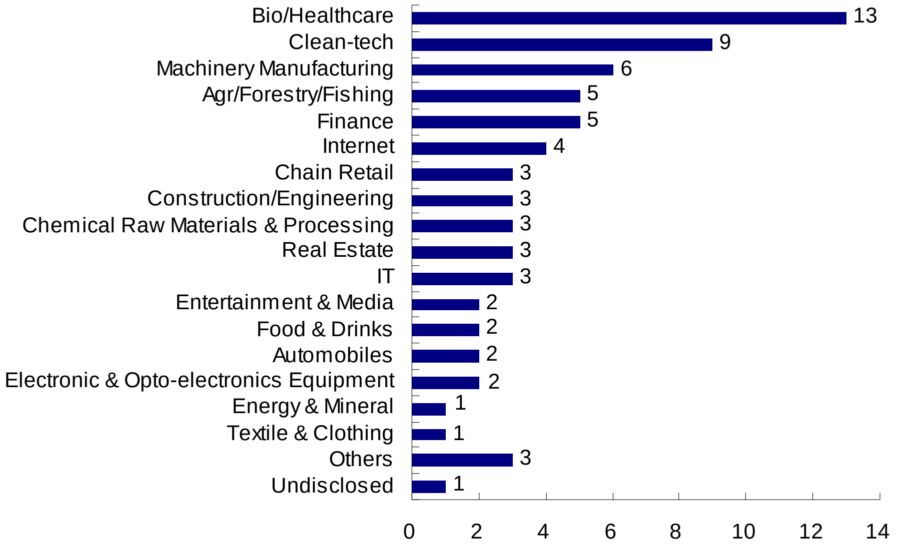
The 71 investment deals of Q3'10 were distributed in 18 Grade-1 industries and several industries, including bio/healthcare, clean-tech, agr/forestry/fishing, and finance, broke the previous record of number of investment deals in a single quarter.

In terms of the number of companies securing investment, bio/healthcare continued to be the hottest industry with 13 companies receiving investment; however, the investment size was small, the total investment amount of 11 deals whose amount was disclosed reached approximately US $1.60B, and pharmaceuticals remained the most favored Grade-2 industry under bio/healthcare, with the total number of investment deals and investment amount reaching 53.8% and 63.4% of the total of the industry respectively. Clean-tech stood in the second place in terms of number of deals with nine investment deals raising US $1.12B, including five investment deals in the clean energy industry, and two investment deals in new materials and environmental protection industries.

By investment amount, the Internet and machinery manufacturing stood in the first two places receiving US $490M and US $424M respectively. The largest investment deals were found in both industries in Q3'10, with the Internet industry having one large amount M&A deal and PIPE deal respectively.

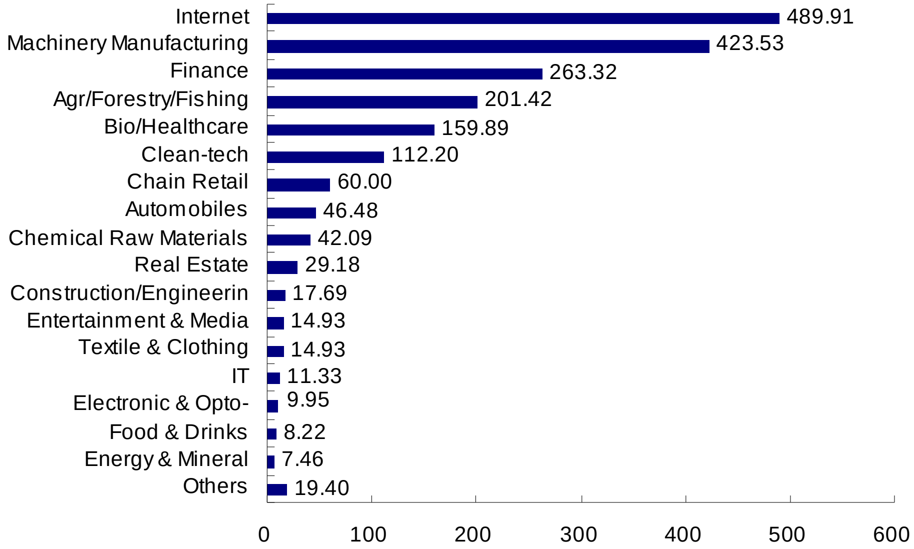
Of particular note is that the PE investment institutions quickened their pace of entering the finance industry in Q3'10, which stood in

Chart 6 Industry Breakdown of Chinese PE Investments in Q3'10 (By No. of Deals)



Source: Zero2IPO Research Center

Chart 7 Industry Breakdown of Chinese PE Investments in Q3'10 (By Investment Amt., US$M)



Source: Zero2IPO Research Center

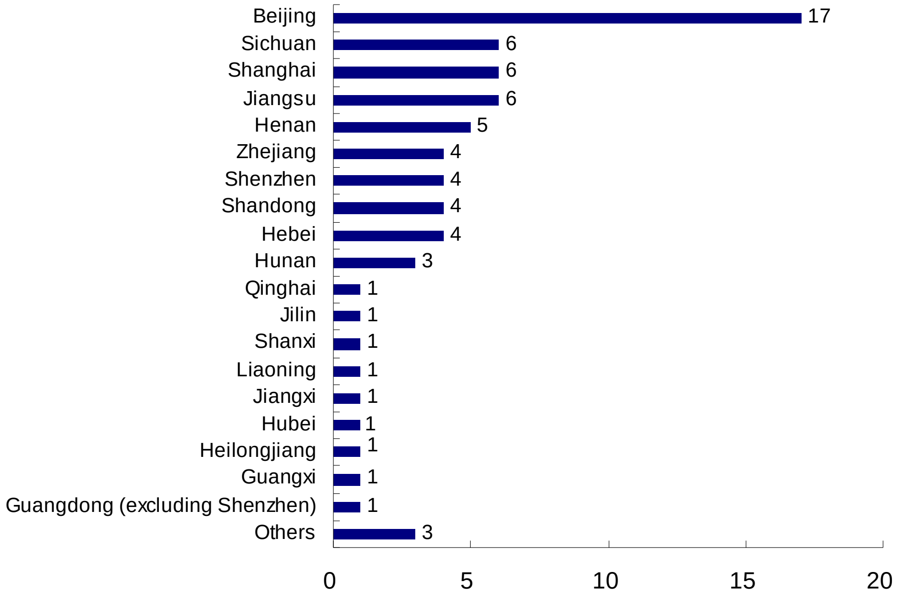
the fourth place in terms of number of investment deals and the third place in terms of investment amount with five companies receiving a total investment of US $ 263M in total. In comparison with last year when large commercial banks were favored, companies that received more investment in Q3'10 were mostly regional and urban commercial banks and financial institutions. The PE investment institutions have stepped up their efforts in entering the finance industry in response to the policies released by the State encouraging the private investors to enter the financial field and promote financial development in the rural areas this year.

Moreover, the investment institutions also paid growing attention to agr/forestry/fishing in Q3'10. Thanks to the PIPE deal in which Carlyle invested in Orient Success International, the total investment amount of five investment deals in Q3'10 reached US $ 201M, and the number of investment deals and investment amount broke the previous record of the industry in a single quarter.

Beijing Topped the List in Regional Distribution with Sichuan and Henan Moving Forward in Ranking

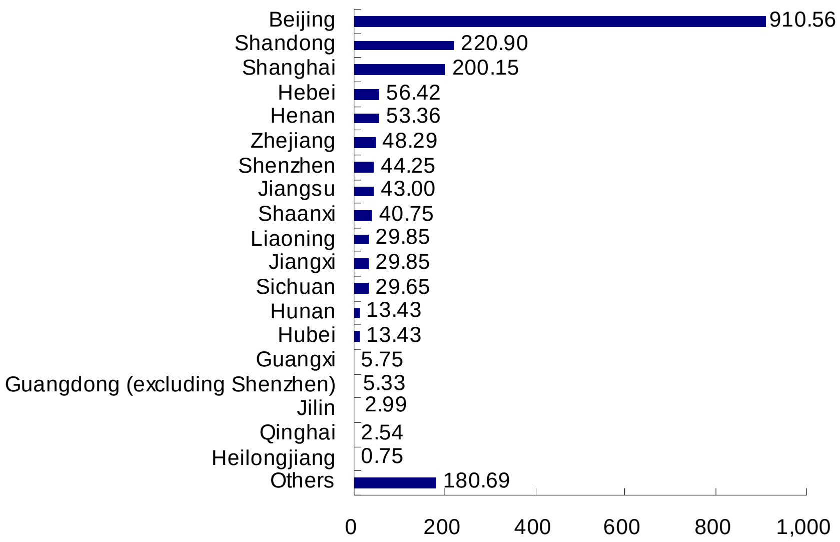
In Q3'10, Beijing, Sichuan, Henan and Hebei broke the record of number of investment deals in a single quarter. Similar to previous regional distribution of investment, Beijing still topped the list in terms of number of deals and investment amount in Q3'10, with 17 companies receiving nearly US $ 911M investment in total, and the investment deals were mostly concentrated in high-tech industries, IT and Internet, and clean-tech and bio/healthcare accounted for 58.8% and 51.4% of the total of the region in terms of total number of investment deals and investment amount respectively. The deal in which multiple institutions invested in China National Investment & Guaranty

Chart 8 Geographic Breakdown of PE investment in Q3'10 (By No. of Deals)



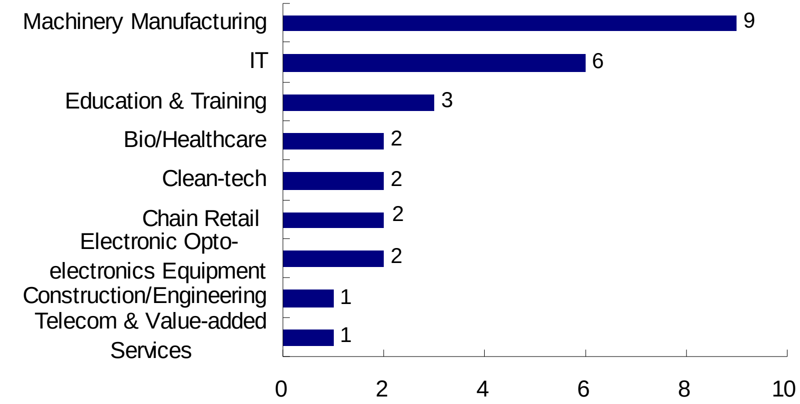
Source: Zero2IPO Research Center

Chart 9 Geographic Breakdown of PE investment in Q3'10 (By Investment Amt., US$M)



Source: Zero2IPO Research Center

Chart 10 Industry Breakdown of PE Exits in Q3'10 (By No. of Deals)



Source: Zero2IPO Research Center

Co., Ltd. was the largest investment in Beijing in Q3'10.

In Q3'10, Sichuan and Henan also showed good performance with obvious increases in the number of companies receiving investment than before, and Henan stood in the fifth place in terms of investment amount among the regions with the large investment deal in which multiple institutions invested in China Aviation Lithium Battery Co., Ltd.

Domestic and Foreign Investment Institutions Shared the IPO Deals; Exit Deals in the Machinery Manufacturing Industry Maintained the Momentum of the Previous Quarter

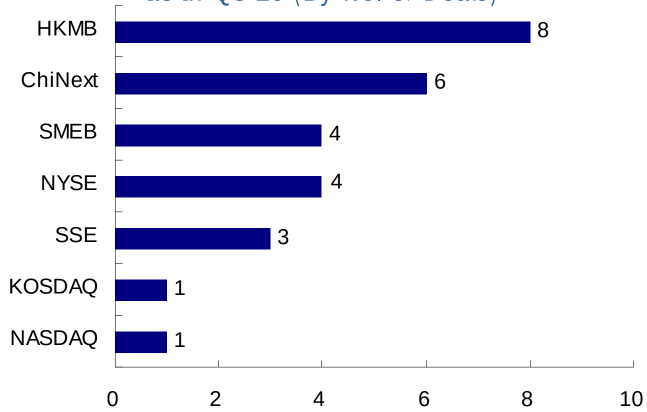
In Q3'10, 28 PE investment funds exited, with IPO remaining the main exit option-27 exit cases occurred, in addition to one exit through trade sale. By institution type, of the 28 exit deals, there were 15 deals concluded by the domestic investment institutions and 13 deals by the foreign investment institutions.

In Q3'10, the 28 exit deals were distributed in nine industries. At the top of the list of number of exit deals was the machinery manufacturing industry, which stood in the second place in industry distribution of exits in H1'10 with seven exit deals. In this quarter, the industry showed stronger performance than that of H1'10 with nine funds exited, including eight domestic IPO exits and one exit through trade sale. IT stood in the second place in the number of exit deals with six investment institutions exiting from the target companies, including five PE institutions behind China ITS (Holdings) Co., Ltd.

As to the IPO market of the target companies, the domestic and overseas markets held nearly equal shares: among the 27 IPO exit deals, 14 occurred in the overseas markets and 13 in domestic markets. Following the sluggishness in H1'10, the number of funds exiting through listing of the target companies in ChiNext increased in Q3'10 and six PE investment funds exited, involving six listed companies. Moreover, in August 2010, Zhengzhou Coal Mining Machinery Group Co., Ltd. went public on Shanghai Stock Exchange and several investment institutions exited, including three PE investment funds and the PE exit of the market performed better than H1'10.

It should be noted that in September 2010, Shenglong Solar was listed on KOSDAQ and its investor Korea Investment Partners Co. Ltd. exited, becoming the first exit of PE investment institutions after a Chinese company went public on the market. ■

Chart 11 Market Breakdown of IPO-backed Exits in Q3'10 (By No. of Deals)



Source: Zero2IPO Research Center

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But brand-new scenery

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See investment elite, industry leaders
Discerning, calculating, and decision-making
Seize opportunities in changing situation
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Grasp investment momentum
Engage in the game of new pattern
And embrace the forthcoming decade in triumph

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