Zero2IPO eWeekly 清科投资资讯
Jun. 11 2010 No.0440
http://www.zero2ipo.com.cn/eweekly/0440/en

Voice

Hot News

Zero2IPO Exclusive

Development Forecast of China's E-reader Market and Relevant Investment and Financing Opportunities

>P2

乐淘 letao

Letao Completes Financing above US$10M in 60 days

>P11

Development Forecast of China's E-reader Market and Relevant Investment and Financing Opportunities

Released by Zero2IPO Research Center

According to statistics of Zero2IPO Database , there have been a total of more than 20 investment and M&A deals along the whole industrial chain of China's e-reader market . Most of the deals are M&As aimed at industrial expansion initiated by both upstream hardware vendors and downstream content providers , with relatively fewer deals related to VC/PEs .

An analysis of Investments in China's e-reader market

According to statistics of Zero2IPO Database , there have been a total of three investment deals in China's e-reader market , accounting for a total value of US $ 114 . 00M . Overall , the number of the investment events is relatively small , with relatively low average investment value .

An Analysis of IPOs in China's E-reader Market

As China's booming e-reader market has continued to pick up growth pace since 2009 , Hanwang Technology Co . , Ltd . has emerged as a new rising star that commands attention from the entire e-reader hardware market . On March 3 , 2010 , Hanwang Technology Co . , Ltd . (002362) successfully listed its ordinary shares on the Shenzhen Stock Exchange , rising nearly 96 % on its debut . Hanwang Technology became the first vendor in China's e-reader market to complete a listing by leveraging the strength of its e-reader terminals .

Hanwang Technology raised a total of RMB1 . 13B through its IPO or RMB1 . 08B in net proceeds after deducting issuing costs , higher than the planed RMB830M . According to Hanwang Technology's prospectus , its chairman Liu Yingjian was the actual controlling shareholder and held a 30 % stake in the company and Xu Dongqing held a 18 . 75 % stake before the IPO . Upon the completion of the IPO , their holdings represent 22 . 43 % and 14 . 02 % , respectively , of the company's enlarged share capital , accounting for a combined 36 . 45 % . The other two major shareholders , Shanghai Alliance Investment

Table 1 List of Investment Deals in China's E-reader Market between 2009-2010

Investee	Investor	Date of Investment	Value of Deal(US$M)
Hanwang Technology Co., Ltd.	NewMargin Ventures	03/2003	3.62
Plastic Logic	Amadeus, Intel Capital, Bank of America, BASF Venture Capital GmbH, Quest for Growth	01/2007	100.00
VIVA	Highland Capital Partners, VENTECH, China Broadband Capital Partners	01/2009	10.00

Source: Zero2IPO Database

Ltd. and Institute of Automation under Chinese Academy of Sciences (CAS), hold 25% and 11.25% of the shares in Hanwang Technology, respectively. Other 12 individuals hold a combined 7.448% stake in the company.

An Analysis of M&As in China's E-reader Market

There have been a total of eight M&A events in China's e-reader market since 2009, including AU Optronics's acquisition of SiPix for US $30M through its two subsidiaries Konly Venture and Ronly Venture, KongZhong Corporation's acquisition of Zhulang.com, as well as Shanda Literature Limited's five acquisitions. We find that most of the M&A deals in the e-reader market were related to the content resources, indicating the great importance of content resources for vendors' building of core competitiveness in the mobile reading market.

Table 2 List of M&As in China's E-reader Market during 2009-2010

Time	Events
03/2009	AU Optronics's acquisition of SiPix for US$30M through its two subsidiaries Konly Venture and Ronly Venture
04/2009	Shanda Literature's acquisition of Jushi Wenhua, a Tianjin-based privately-owned company specializing in book concept, publishing and distribution, for an undisclosed amount.
06/2009	Prime View International Co.'s acquisition of E-Ink for US$215M.
08/2009	Shanda Literature's acquisition of Huawen Tianxia (www.zhijibook.com), for an undisclosed amount.
11/2009	KongZhong Corporation announced its acquisition of Internet literature site Zhulang.com for an estimated US$15.74M.
12/2009	Shanda Literature's acquisition of Rongshuxia (www.rongshuxia.com), for an undisclosed amount.
02/2010	Shanda Literature's acquisition of Readnovel.com for an undisclosed amount.
03/2010	Shanda Literature officially announced its acquisition of Xiaoxiang Shuyuan (www.xxsy.net) for an undisclosed amount.

Source: Zero2IPO Database

An Analysis of Investment Opportunities in China's E-reader market

An analysis of investment opportunities in China's e-reader market has been carried out from the following 4 aspects:

(I) E-reader Sales Continue to Rise in China, as Market Revenue Keeps Growing

According to statistics from relevant research organizations, e-reader sales are expected to exceed 3.5M units in China, materializing a total sales revenue of around RMB2.85B, which would be dominated by hardware sales. In addition, as China Mobile Ltd. has already announced its plan to order 1M units of customized e-readers, China Telecom Co. and China Unicom Ltd. are set to follow suit. It is expected that China Unicom will place orders for e-readers in June 2010, mainly concentrated in the 9.7-inch e-readers (or launching iPads in China by directly partnering with Apple Inc.). China Telecom is also expected to place orders for e-reader terminals in December 2010. The sales volume in China's e-reader market is set to rise further by then.

(II) Relatively Low Technical Barriers to Enter E-reader Market

While the e-reader terminal emerges as a new terminal device, the technical barriers to its development are by no means high. The relevant technologies are only in between those for MP3s and MP4s. In general, China's IT vendors have adequate R&D and production capacity for e-readers.

(III) Fast-growing Market Is Expected to Enter A Consolidation Period before A Return to Rational and Steady Growth

It is expected that China's e-reader market, following a rapid development period, will enter its first low season period in later 2011 due to intensified competition, disorder in cooperation along the industrial chain, a lack of content resources, inadequate copyright protection, etc. That would be a period when the "survival of the fittest" theme comes in play and also a critical period for capital inflows.

(IV) China Will Increase Its Support for E-reader Industry; The Market Will See More Standardized Development

China will launch a series of policies to support the development of the e-book reader sector and take eight measures to ensure the orderly development of the market, said Zhang Yijun, Director of the Technology and Digital Publication Department under the General Administration of Press and Publication recently. It is separately learned that the Ministry of Industry and Information Technology and the General Administration of Press and Publication have started their efforts in jointly developing industry standards for the e-readers, mainly involving technical standards for hardware, format standards, content standards, etc. As a result, the e-reader market is likely to see a development environment regulated by multiple parties. A standardized market will help nurture good development environment for competing market participants.

An Analysis of Investment and Financing Risks for China's E-reader Market

While there are some investment opportunities in China's e-reader sector, risks still exist.

(I) E-paper Display Technologies Sector Sees A Relatively High Industrial Concentration Not Conducive to A Decrease in Terminal Prices

Currently, Prime View is a dominant ven-

dor capable of delivering volume production of e-paper in the whole world. According to preliminary statistics, Prime View accounts for up to 90% of global e-paper market and mainly focuses on catering to the production needs of the three major brand terminal makers, namely, Amazon.com Inc., Sony Co., and Hanwang Technology. For some market latecomers, there are obstacles when e-reader components are concerned. However, breakthroughs are expected in the field of e-paper display technologies in 2010. Delta Electronics Inc. and AU Optronics Co. are expected to launch electronic paper products today, which would alleviate the industry constraint characterized by limited supplies in e-paper displays and push the prices of e-reader terminals lower.

(II) China's E-reader Market Sees A Relatively High Concentration in Sales of Brand Products ; It Still Takes Time to Break Concentration

Many vendors have emerged in China's e-reader market . In addition to e-reader makers like Hanwang Technology , Founder Group , Tianjin Jinke Electronics , Huawei Technologies Co . , Teclast Electronics Co . , Ltd . , Beijing Runwei Wangshi Technology Development Co . , Ltd . , iRiver Limited , Mil-lion-e Culture Industrial Co , Sibrary , EDO , Guangzhou E-View Electronics Co . , Ltd . , some IT manufacturers like Lenovo Group Ltd . , Asustek Computer Inc . , LG Electronics Co . , Beijing Huaqi Information Digital Technology Co . , Ltd . (with its flagship brand known as Aigo) , Beijing Newsmy Ideal Digital Technology Co . , Ltd . , and Guangdong Oppo Electronics Industry Co . , Ltd . have also entered the market , shaping up a crowded competitive landscape . However , due to a lack of brand awareness , a relatively modest production , and other factors , many market latecomers saw slightly weaker performance in terms of shipment in Q1'10 . With strong brand awareness in the market , mature sales channels , especially direct sales channels , strong software R&D capabilities , a successful IPO , and other advantages , market pioneer Hanwang Technology accounted for 66 . 04 % of China's total e-reader market sales in Q1'10 . It would take some time to break such a pattern .

(III) There Is A Shortage of Copyrighted Content Resources and A Lack of Uniform Industry Standards .

As handheld terminals designed to fulfill users' reading needs , e-readers see a shortage of copyright content resources , which will become a key factor restraining the development of the sector . As far as China's digital publishing industry is concerned , traditional local publishers with huge copyrighted content resources have reservations regarding digital publishing and are unsatisfied with cooperation models proposed by vendors of e-reader terminals . As a result , some popular and unique content resources have not yet entered the mobile reading market . In addition , terminal manufacturers tend to apply their own content standards for the protection of their copyrighted content resources , which hinders the development of industry standardization .

(IV) Relevant Alternative Products Pose A Threat to E-reader Terminals

The emergence of alternative terminals such as tablet computers and smart phones or evolving performance will have a certain impact on the e-reader market . The tablet computer market in particular is expected to achieve rapid development in 2010 . The emergence of such alternative terminals with stronger performance is likely to present challenges to the development of e-readers . ■

Forming a Foreign-invested RMB Fund in China (I)

Legal Options after Foreign-invested Limited Partnership Becomes Possible

Written by Steven Wei Su, Guo Lian PRC Lawyers

Thanks to the buoyant economy and the strength of the Chinese Renminbi ("RMB") against US dollars, China has been in the spotlight of private equity investment for longer than a decade. There are primarily two private equity deal structures, i.e. offshore deal structure and onshore deal structure. In the past, investors are accustomed to consummating transactions through offshore deal structure to overcome the inconvertibility of RMB and China's market-entry restrictions. However, this structure recently began facing challenges from some Chinese regulatory changes restricting round-trip investment. Meanwhile, the onshore structure is encouraged by high returns from domestic IPO (especially in the GEM market) and various incentives offered by some local governments to attract private equity investors. The change of circumstances has certainly raised the interest of the private equity industry in exploring the prospect of onshore RMB-denominated fund. In fact, some early movers have already established onshore fund structures.

According to a market report, RMB-denominated private equity fund investment achieved US $3 billion closing of deals in China in 2009, which outstripped foreign-currency-denominated funds and took eighty percent of the domestic merger and acquisition transactions. In the first half of 2010, twenty four RMB funds were set up and raised US $1.13 billion capital. Recently, a few leading international funds have announced plans to establish RMB-denominated funds. Blackstone Group, for example, entered into a financial cooperation memorandum with the government of Shanghai Pudong in August 2009, which announced that it plans to establish its first regional RMB-denominated private fund in Shanghai. In January 2010, Carlyle signed a memorandum with Beijing govern ment preparing for establishing its RMB-denominated fund. Encouraging news came in March 2010 which confirms that Carlyle and Fosun estab lished China's first foreign-invested partner ship to run an onshore RMB-denominat ed fund in Shanghai.

Foreign-invested RMB-denominated fund commonly refers to the fund raised by foreign private equity firms within China and abroad and investing through an onshore structure in private equity of PRC enterprises ("RMB Fund"). Besides the above, there are other types of RMB funds operating in China, which are (i) "industrial funds" mainly formed with the state fund and managed by the central and local government; and (ii) domestic private equity investment funds purely funded and managed by domestic investors and fund managers in China. In addition, foreign-invested fund management enterprises may also set up onshore entities to manage RMB Funds to earn fees.

This article reviews China's latest regulatory development in relation to the private equity industry and discusses the legal options available for establishing RMB Funds.

Regulatory Framework in Relation to Onshore RMB Fund

China' regulations and practices relating to onshore foreign-invested RMB funds are still at the early stage of development. There is currently no clear and consistent regulatory system at the national level governing the establishment and operation of RMB Fund. The Chinese law on RMB Fund consists of fragmented policies, ministerial regulations and a large number of local incentive measures issued by some local governments.

On the national level, the laws were a combination of national policies and regulations of the State Council and different regulatory departments, each of which focuses on different issues concerning the private equity investment in China. For example, the Ministry of Commerce ("MOFCOM"), the Ministry of Science, Technology ("MOST") and some other authorities at national level issued in 2001 and then amended in 2003 a set of rules allowing foreign investors to set up the foreign-invested venture capital investment enterprises ("FIVCIE"), pool domestic capital and invest in domestic technology-advanced enterprises. Another national legislation is Provisional Measures on Administration of Venture Capital Investment Enterprises, issued by the National Development and Reform Commission ("NDRC") in conjunction with other ministries in November 2005, which sets out some rules in regard to formation and operation of venture capital investment firms in China and outlines the scope of operation of and national supporting policies available to private equity firms. The NDRC measures also require venture capital funds and relevant management entities established in China to register with NDRC.

Recent national level regulations and policies in relation to RMB Fund include:

i. *Notice on Issues Relating to Approving Foreign-invested Venture Capital Investment Enterprises and Foreign-invested Venture Capital Investment Management Enterprises* issued by MOFCOM on 5 March 2009, which lifted the threshold of its approving authority over establishment of a FIVCIE from US$50 mil to US$100 mil. A similar measure was released by MOST, MOFCOM's co-regulator on FIVCIE. On the same date, MOFCOM also delegated its authorities of approving foreign investors or foreign-invested enterprises ("FIEs") to acquire domestic enterprises with the transaction value less than US$100 mil to its provincial counterparts, provided the industries concerned fall into the "encouraged" or "permitted" category.

ii. *Administrative Measures for Foreign Enterprises and Individuals to Establish Partnership Enterprises in China* ("Measures") issued by the State Council in December 2009, which for the first time allowed foreign investors to directly establish foreign-invested limited liability partnerships ("FILP"). The Measures have provided foreign investors with a familiar legal vehicle to set up RMB Fund.

iii. *Administrative Provisions of Registration of Foreign-Invested Partnership Enterprises* ("Provisions") issued by the State Administration for Industry and Commerce ("SAIC") in January 2010. The Provisions provided the procedure with respect to establishment of a FILP, which eventually made it possible in practice to set up a RMB Fund in the form of FILP.

iv. *Several Opinions on Further Improving the Work of Utilizing Foreign Investment* ("Opinions") issued by China's State Council in January 2010. In the Opinions, the State Council announced that it would continue to encourage investment by onshore foreign-invested venture capital and make use of private equity investment as an effective means of utilizing foreign investment. The State Council also committed to continue to improve the current exit legal system.

On the local level, some municipalities such as Beijing, Shanghai, Tianjin, Chongqing have all introduced different rules and incentive measures to attract investors to establish onshore funds and/or fund management entities. Notwithstanding limitation on applicability, these measures shed light on the local practice. The followings are some examples of the local rules and measures:

Beijing:

i. *Opinions for Promoting the Development of Equity Investment Funds* jointly issued by the Beijing Financial Service Office, the Beijing Bureau of Finance, the Beijing Tax Bureau and the Beijing Administration for Industry and Commerce on 19 January 2009.

ii. *Tentative Measures for the Establishment of Foreign-invested Investment Fund Management Enterprises in Beijing* issued by the Beijing Financial Service Office, Bureau of Commerce of Beijing, the Beijing Development and Reform Commission and the Beijing Administration for Industry and Commerce on 4 January 2010.

(Collectively the "Beijing Regulations")

Shanghai:

gust 2008;

ii. *Measures for Promoting the Development of Equity Investment Enterprises in Pudong New District of Shanghai* issued by the government of the Pudong District of Shanghai in March 2009;

iii. *Tentative Measures for Establishing Foreign-invested Equity Investment Management Enterprises in Pudong New District of Shanghai* issued by the government of the Pudong District of Shanghai in June 2009.

(Collectively the "Shanghai Regulations")

Tianjin:

i. *Opinions on Registration for Private Equity Investment Funds and Private Equity Investment Management Enterprises* issued by the Tianjin Administration for Industry and Commerce in November 2007;

ii. *Tentative Measures on the Registration and Filing of Equity Investment Funds and Equity Investment Management Enterprises in Tianjin* issued by the Tianjin Financial Service Office, the Tianjin Bureau of Finance, the Tianjin Tax Bureau, the Tianjin Administration for Industry

Pursuant to the Shanghai Regulations and Tianjin Regulations a RMB Fund and the related management enterprises may be established either as a company or as a limited liability partnership. In contrast, the Beijing Regulations require a foreign-invested private equity fund management enterprises ("Fund Management Company") be organized in the form of limited liability company, though a RMB Fund may be established as either a limited liability partnership or a limited liability company.

Basic requirements for establishing a RMB Fund in Shanghai under the Shanghai Regulations include:

i. the minimum registered capital of RMB100 mil in cash;

ii. the minimum capital contribution by each individual investor being RMB5 mil;

iii. the registered capital of a domestic fund management enterprise organized in the form of a company with limited liability being RMB1 mil minimum;

iv. the registered capital of a foreign-invested