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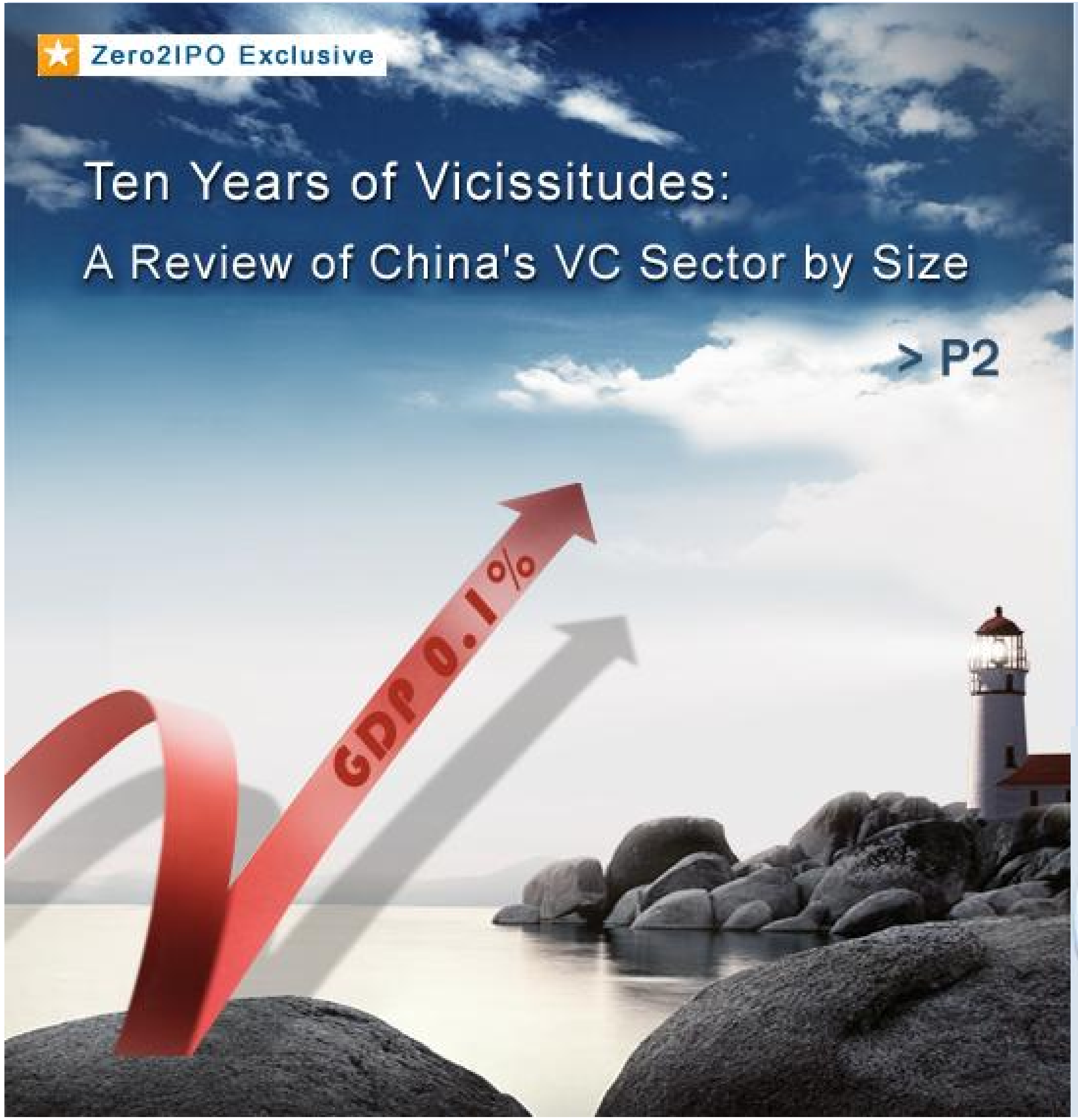
## Hot News






Inbank Media Raises RMB100M in Second-Round Financing to Prepare for Listing on NASDAQ

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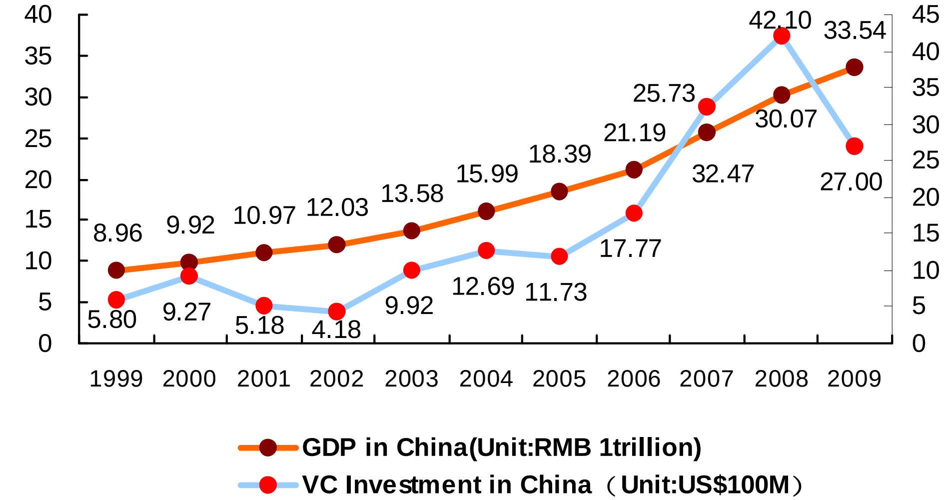
# Ten Years of Vicissitudes: A Review of China's VC Sector by Size

*Written By Yonge Qian,*
*Zero2IPO Research Center*

## China's VC Sector Once Sized at nearly 0.1% of GDP

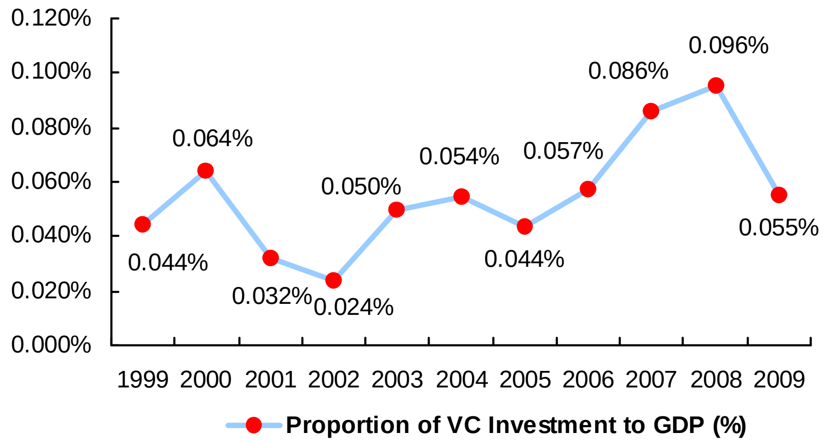
Over the past decade, China has successfully maintained an annual GDP growth of 10.0% on average, achieving a generally-recognized economic growth, and has gradually become an outstanding representative of the new forces in the international community. The long-term optimistic trend of China's economic fundamentals has resulted in the vibrant development of many sectors, including VC. The data from Zero2IPO Research Center shows that from 1999 to 2009, China's VC sector has seen the swift growth with a CAGR of 12.4%, presenting a positive correlation with the GDP growth. The year 2005 represented a turning point for China's VC sector. That year, the entire sector stepped into the stage of explosive development. At the same

Chart 1 Year-on-year Comparison of GDP and VC Investment in China between 1999-2000



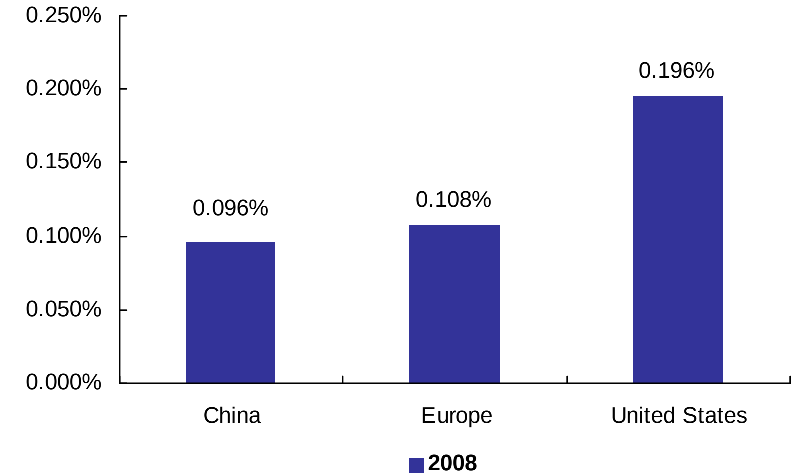

Source：National Bureau of Statistics of China, Zero2IPO Research Center

Chart 2 Year-on-year Comparison of Proportions of VC Investment to GDP in China between 1999-2009



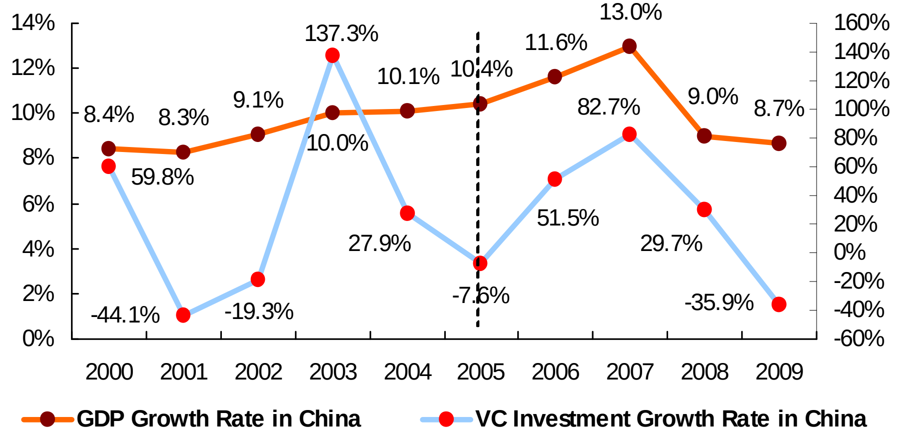

Source：National Bureau of Statistics of China, Zero2IPO Research Center

Chart 3 Proportions of VC Investment to GDP in 2008 by Region




Source：NVCA, EVCA, Zero2IPO Research Center

Chart 4 Year-on-year Comparison of Annual Growth Rates of GDP and VC Investment in China between 2000-2009

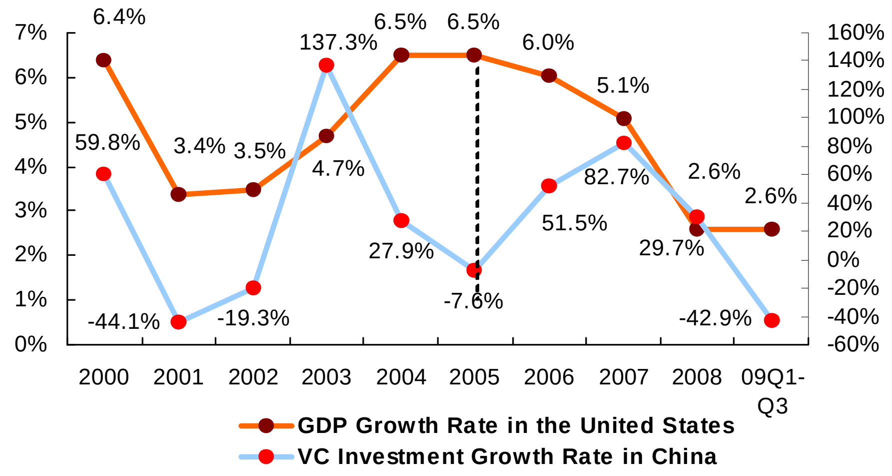



Source: National Bureau of Statistics of China, Zero2IPO Research Center

year, No. 75 document of the State Administration of Foreign Exchange gave foreign VC firms a green light to invest in Chinese enterpri- ses registered overseas and resumed the overseas listing of red chip stocks; the promulgation of the Interim Measures on the Management of Venture Capital improved China's legal system for the VC sector, which attracted more and more overseas VC institutions; and China Securities Regulatory Commission (CSRC) issued the Notice of China Securities Regulatory Commission on Piloting the Share-trading Reform of Listed Companies, indicating the establishment of the multilevel capital market and broadening the exit channels of VC investments.

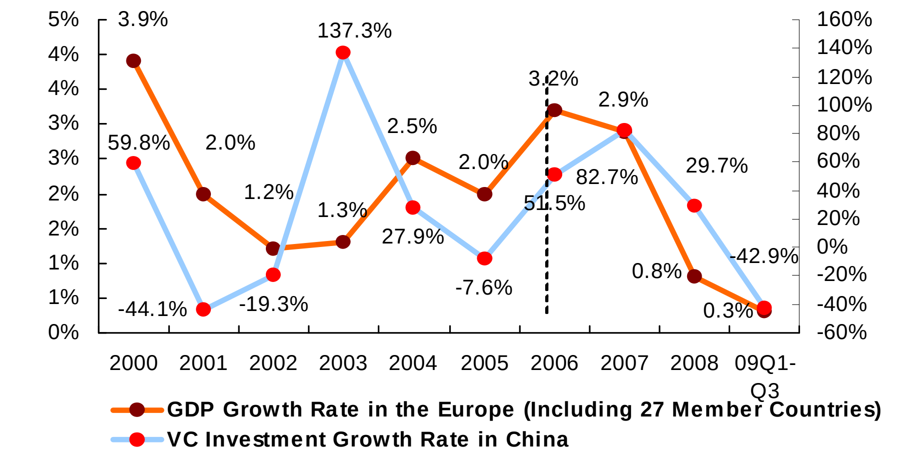
The contribution of the VC sector to the real economy has aroused more and more attention from all sectors of the society while the sector itself has developed by leaps and bounds. According to the data of the National Bureau of Statistics and Zero2IPO Research Center, we have concluded that China's VC sector has taken up a rising proportion in the GDP, once peaking at 0.096% in 2008. In the international market in 2008, this figure was 0.196% in the United States and 0.108% in Europe,

Chart 5 Comparison of Annual Growth Rates of GDP in the United States and VC Investment in China between 2000-Q3'2009



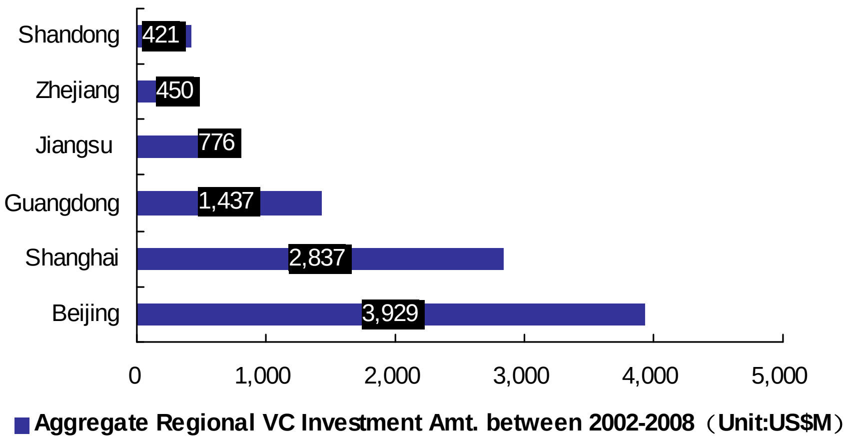

Source: U.S. BEA, Zero2IPO Research Center

Chart 6 Comparison of Annual Growth Rates of GDP in Europe and VC Investment in China between 2000-Q3'2009



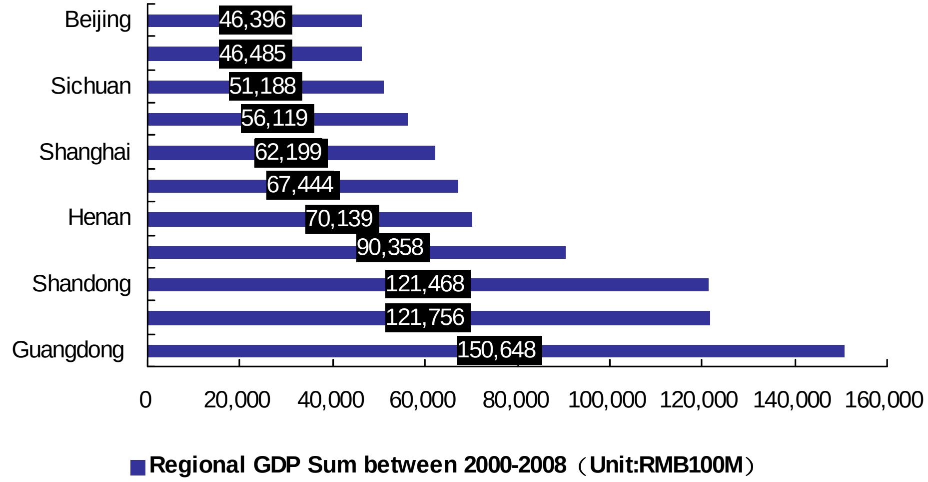

Source: Eurostat, Zero2IPO Research Center

Chart 7 Top Six Regions Securing the Largest VC Investment in China between 2002-2008



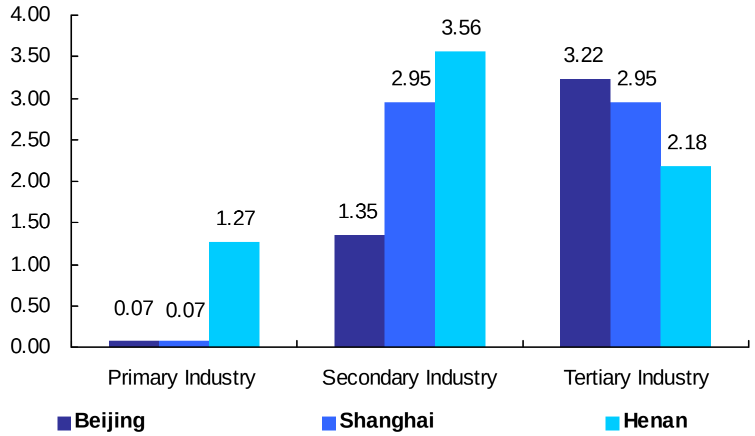

Source：Zero2IPO Research Center

Chart 8 Top Eleven Regions Securing the biggest GDP Sum in China between 2000 - 2008




Source：National Bureau of Statistics of China, Zero2IPO Research Center

Chart 9 Industry Breakdown of Total Output Value of Beijing, Shanghai and Henan between 2000-2007 (Unit: RMB 1trillion)




Source：National Bureau of Statistics of China, Zero2IPO Research Center

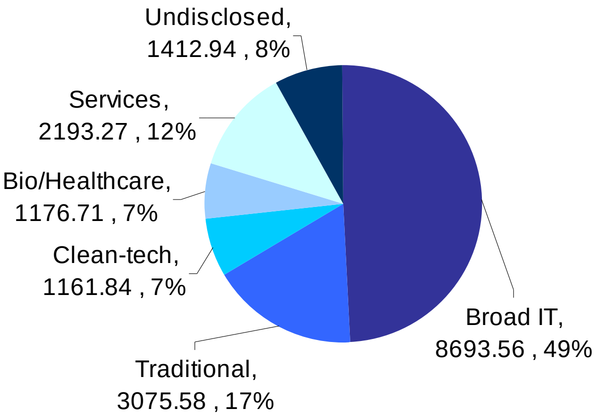
according to the data of the VC associations in the United States and Europe. The experience of the mature markets suggests that even in face of the uncertain international economic climate, China's VC sector will still embrace a considerable space of growth in the next ten years.

## China's VC Sector Subject to Reduced Impact of the International Market

To further define the relationship between China's VC sector and GDP, we have compared the annual growth rate of China's VC sector and the GDP annual growth rate to find that the former showed an irregular correlation with the latter before 2005, but started to coincide with the latter after 2005.

The reason behind such change is that most of the VC funds in China came from overseas investors, and the right to make a decision of investment was controlled by foreign partners. As a result, China's VC sector was vulnerable to the impact of the international market. To verify the objectivity of the conclusion, we have carried out a comparable research on the United States and Europe. The result indicates that the GDP annual growth rates in the United States and Europe exhibited a rather

Chart 10 Industry Breakdown of China's VC Investment between 1999-2009 (Unit: US$M)




Source: Zero2IPO Research Center

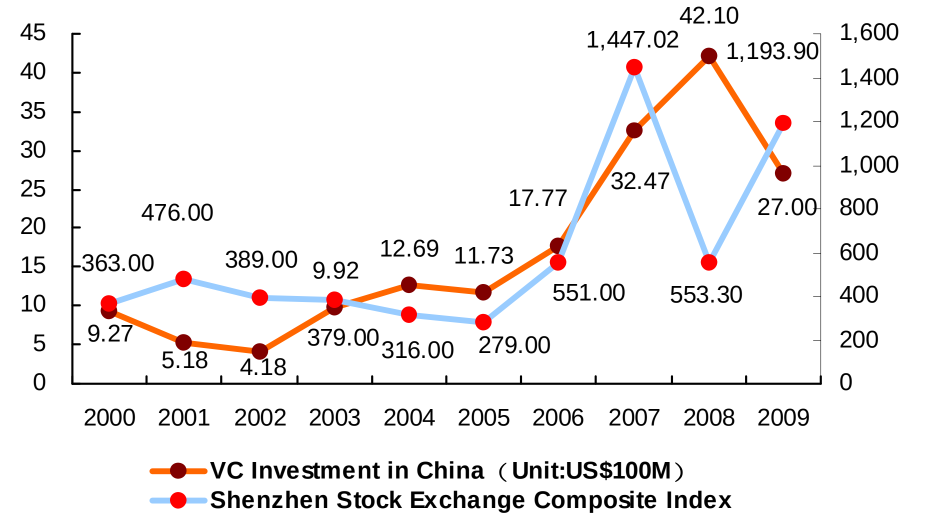
identical trend with the annual growth rate of the VC investment in China before 2005, while both demonstrated an irregular correlation after 2005.

In recent years, China's VC sector has become less influenced by the international market, indicating domestic and overseas investors have stepped up their confidence in China's market. This has verified the survey conclusion published by Deloitte and Touche LLP early last year that China has become the most attractive investment market worldwide. With the rapid development of RMB-denominated funds and the good performance of the domestic economy, we expect China's VC sector will be subject to the impact of the international market less and less.

## Regional Distribution of China's VC Investments Closely Linked to Regional Economy

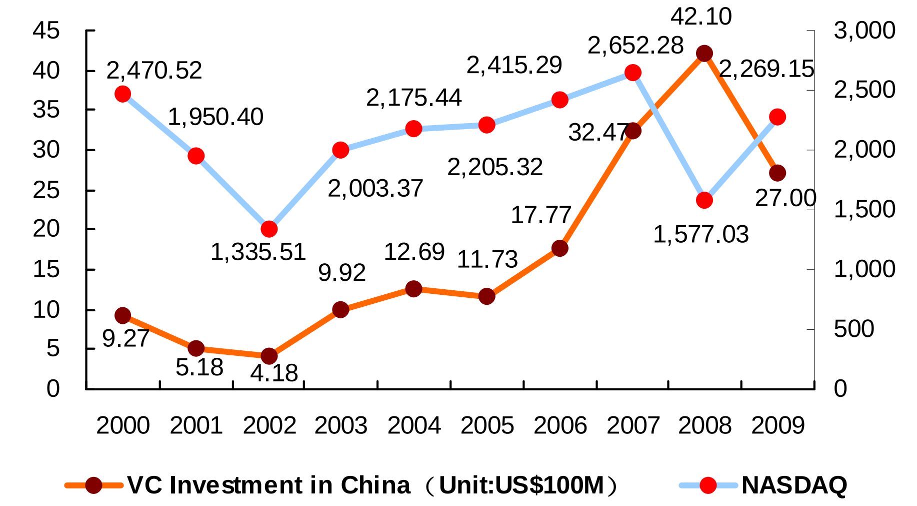
According to the data from Zero2IPO Research Center, the top six regions of VC investment in China were Beijing, Shanghai, Guangdong, Jiangsu, Zhejiang and Shandong from 2002 to 2008. While the data of the National Bureau of Statistics revealed that the top four regions in terms of the sum of the GDP from 2000 to 2008 all fell into the top six regions of the VC investment as

Chart 11 Year-on-year Comparison of VC Investment in China and Shenzhen Stock Exchange Composite Indexes between 2000-2009




Source: Shenzhen Stock Exchange, Zero2IPO Research Center

Chart 12 Year-on-year Comparison of VC Investment in China and NASDAQ between 2000-2009




Source: NASDAQ, Zero2IPO Research Center mentioned above. This proves that the geographical distribution of China's VC investment is closely linked to the regional economy.

However, Beijing and Shanghai have overtaken the other four economic powers to become the regions with the most active VC investment in China. Why? To answer this question, we have particularly compared the industrial structure of both municipalities with that of Henan Province, which ranks 5th by the sum of the GDP. The result shows that both municipalities highlight the development of the tertiary industry, with an obvious scale advantage. In comparison, Henan Province depends more on the primary industry and the secondary industry to drive the economy. In addition, the governments in Beijing and Shanghai have acted earlier than Henan Province to issue policies in support of the VC sector.

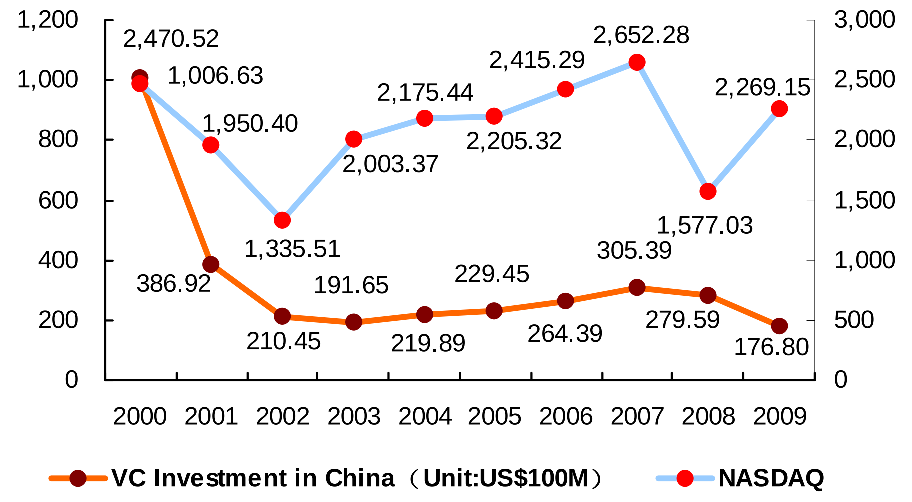
The development of the tertiary investment can attract a large quantity of VC investments. Data from Zero2IPO Research Center shows that from 1999 to 2008, the VC investment was mainly channeled into the tertiary industry, including Broad IT, Services, Bio/Healthcare and Clean-tech, which received nearly 80.0% of the total VC investment. According to the future national economic strategy published by the Chinese government at the end of 2009, we forecast that China's VC sector will continuously benefit from the drive of the state policy to upgrade the industrial structure and expand the domestic demand in the short and medium term.

## Stock Market: Barometer of China's VC Sector

Just like the real economy, the virtual economy also displays the strong correlation with the VC investment. According to the data from Zero2IPO Research Center, before the outbreak of the current financial crisis, China's VC investment has rendered an obviously similar trend with that of the Shenzhen Stock Exchange Composite Index since 2000. At the same time, we have not found that the VC investment evidently precede or follow the stock market in time. When comparing China's VC investment and the trend of the Nasdaq index, we have reached the similar conclusion.

The VC investment in the United States displays a trend relatively consistent with the NASDAQ index, and both declined in 2007. Different from the United States, however, China's VC investment showed a downward trend only one year after the outbreak of the financial tsunami. This may reveal two facts: On the one hand, China's VC sector does remain at the stage of fast development, presenting a time lag in terms of the impact from the international market; and on the other hand, the strong performance of China economy serves as an important factor that supports the investors' confidence in China's VC sector.

Chart 13 Year-on-year Comparison of VC Investment in the United States and NASDAQ between 2000-2009




Source: NASDAQ, Zero2IPO Research Center

# VC/PE-related Chinese Enterprises' Exits Are Densely Materialized via IPOs; Return on Investment Being Various

*Written By Leaf Zhang,*
*Zero2IPO Research Center*

In 2009, Chinese enterprises launched a new surge of listings at home and abroad, backed up by the recovery of various national economies, the continuous rebound of the capital markets, the resumption of IPOs on the domestic A-share market and the launch of ChiNext, the Chinese GEM market. Throughout the year, a total of 176 enterprises got their shares traded on 12 domestic and overseas bourses, raising US $54.65B. As more Chinese enterprises issued new stocks, Chinese enterprises' VC/PE-related IPOs increased. In the full year, 77 Chinese enterprises with VC/PE investment went public, accompanied by the active exits of VC/PE investors. Due to different industries and listing destinations of the invested enterprises, the VC/PE investors have reaped the obviously varying returns and exhibited different characteristics.

## VC/PE Exits: Distinct Channels, Varying Returns

In 2009, VC/PE funds were involved in 158 IPO exit events, including 87 ones for VC funds and 71 ones for PE funds. By market distribution, VC funds and PE funds varied greatly, where VC funds mainly exited via the domestic market, evidenced by the fact that 80.7% of the 87 exit events occurred on the SMEB and the newly launched ChiNext; PE funds mainly chose to exit investment via the overseas markets, proved by the fact that 73.3% of the exit events were found on the overseas markets. In particular, the HKMB saw 39 events or 69.6% of the total, serving as the main exit battlefield. The major reason behind such differential exit distribution was that most of the PE funds remaining active in the Chinese mainland are still foreign-funded ones at present, and they prefer the overseas markets due to the familiarity with the overseas capital markets, the convenience of dollar settlement and other factors. However, as the financing and investment of RMB-denominated funds created by foreign institutions are surging, foreign PE institutions are expected to embrace a new prospect of domestic exits. After the invested enterprises have gone up on the ChiNext, Warburg Pincus and Intel are expected to exit smoothly after the lock-up periods expire.

Table 1 VC/PE-related Domestic and Overseas Exits in 2009 by Market

| Listing Market | | VC Fund | PE Fund | Total |
|---|---|---|---|---|
| Domestic Market | ChiNext | 33 | 11 | 44 |
| | SMEB | 34 | 5 | 39 |
| | **Subtotal** | **67** | **16** | **83** |
| Overseas Market | HKMB | 15 | 39 | 54 |
| | NYSE | 0 | 12 | 12 |
| | NASDAQ | 4 | 1 | 5 |
| | SEX | 0 | 2 | 2 |
| | FWB | 1 | 1 | 2 |
| | **Subtotal** | **20** | **55** | **75** |
| **Total** | | **87** | **71** | **158** |

Source: Zero2IPO Research Center

By the return on investment, the VC funds and PE funds also varied greatly due to different listing destinations of their invested enterprises. In general, the average return on investment and the average annual earnings ratio created by the domestic markets were both higher than those of the overseas markets; the average returns on investment on the domestic markets for VC funds and PE funds did not differ greatly, but PE funds, the direct investment funds under the flag of securities companies in particular, enjoyed an obviously higher average annual earnings ratio than VC funds as a result of the investment in the late stage; and in the case of overseas exits, VC funds outperformed PE funds in terms of the average return on investment and average annual earnings ratio.

Specifically, the ChiNext and SMEB in Shenzhen offered the highest average return on investment at obtained the fattest average return on investment from the HKMB, standing at 2.30 times. To specific, the return on investment for VC funds was 2.96 times and that for PE funds was 2.24 times. Other markets came after the HKMB. When it comes to the average annual earnings ratio, the overseas markets tended to be at a relatively lower level and more indistinctive, far lagging behind that of the domestic markets. The return on investment is calculated on the book value at present. Considering the lock-up period varies between the domestic markets (usually one to three years) and the overseas markets (usually half a year), the actual return on investment will still be further verified by time and market.

## Local Institutions' Domestic Exits Warms up Cutting the First Slice of the Pie Presented by the ChiNext

Table 2 Return on Investment (X) of VC/PE-related Domestic and Overseas Exits in 2009

| Listing Market | | VC Fund | PE Fund | Total |
|---|---|---|---|---|
| Domestic Market | ChiNext | 6.29 | 8.36 | 7.19 |
| | SMEB | 6.19 | 4.17 | 5.44 |
| | **Average** | **6.23** | **6.26** | **6.24** |
| Overseas Market | HKMB | 2.96 | 2.24 | 2.30 |
| | SEX | 0 | 2.00 | 2.00 |
| | NYSE | 0 | 1.73 | 1.73 |
| | FWB | 1.63 | 1.63 | 1.63 |
| | NASDAQ | 1.48 | 1.13 | 1.43 |
| | **Average** | **2.47** | **2.15** | **2.18** |
| **Average** | | **4.36** | **2.43** | **2.76** |

Source: Zero2IPO Research Center

Table 3 Average Annual Earnings Ratios of VC/PE-related Domestic and Overseas Exits in 2009

| Listing Market | | VC Fund | PE Fund | Total |
|---|---|---|---|---|
| Domestic Market | ChiNext | 134.6% | 524.4% | 182.2% |
| | SMEB | 98.6% | 79.1% | 90.6% |
| | **Average** | **114.2%** | **223.1%** | **127.1%** |
| Overseas Market | HKMB | 94.5% | 53.3% | 57.9% |
| | NYSE | 0 | 39.5% | 39.5% |
| | FWB | 38.9% | 38.9% | 38.9% |
| | SEX | 0 | 30.6% | 30.6% |
| | NASDAQ | [illegible] | [illegible] | [illegible] |