

2010

China Venture Capital Report Q2 2010

Chapter 1 Review of China's VC Market in Q2'10

In Q2'10, the world's economy continued to recover at a slower pace. The sovereign debt crisis and liquidity contraction in the Euro zone, dependence of economic growth of the countries on the macro policies, and the high financial deficits of the high-income countries all cast shadow over the global economic recovery. During this process, the vigor of the emerging market economies in Asia brought hope for the promising prospects of global economy; in particular, China remained in the spotlight of global economy.

In this quarter, the number of newly raised funds in Chinese VC market equaled that of the previous quarter, with the amount of funds raised growing remarkably, and the enthusiasm to raise RMB funds being dampened slightly. The rising trend in the total investment amount was encouraging, and the investment amount and number of investment deals both reached their highest level since Q4'08. The Internet sector became the focus of investment again and the bio/healthcare sector drew extensive attention. The number of exit deals grew slightly and IPOs remained active. According to the statistics of Zero2IPO Research Center, in Q2'10, the domestic and overseas VC institutions raised 30 new funds in total, and the amount of newly added capital available for investment in Chinese mainland reached US\$3.82B; there were 172 investment deals and the total amount of the 139 investment deals whose amount was disclosed reached US\$918.91M. 66 deals out of the 73 VC deals were exited through IPOs.

1.1 China's VC Market Environment

1.1.1 Global Economy Recovers Steadily; Growth Rate of China's Economy Slows Down

In Q2'10, the recovery of the US economy slowed down, evidenced by a low consumer

Chapter 2 Fundraising on Chinese VC Market

2.1 Overall Analysis

Since 2009, China's VC market has showed a steady growth along with economic recovery and investment climate improvement. In Q2'10, the number of funds dropped a bit from the previous quarter, but the amount raised increased by leaps and bounds. H1'10 saw 61 new funds raising a total of US\$5.83B which is available for the investment in Chinese mainland, higher than the highest in H1'08 and on a par with the entire year of 2009.

In Q2'10, new funds launched by foreign and domestic VC institutions numbered 30, down 3.2% quarter-on-quarter but up 57.9% year-on-year. The amount raised accordingly reached US\$3.82B, a quarter-on-quarter increase of 89.6% or year-on-year increase of 175.2%, coming back to the level before the outbreak of the financial crisis.

Table 2.1.1 Quarter-on-Quarter Comparison of Fundraising between Q1'08-Q2'10

Quarter	Amt. Raised (US\$M)	Change Ratio	No. of New Funds	Change Ratio
Q1'08	2,271.50	-	24	-
Q2'08	3,038.45	33.8%	42	75.0%
Q3'08	592.21	-80.5%	21	-50.0%
Q4'08	1,407.90	137.7%	29	38.1%
Q1'09	985.50	-30.0%	16	-44.8%
Q2'09	1,386.21	40.7%	19	18.8%
Q3'09	1,664.13	20.0%	26	36.8%
Q4'09	1,820.02	9.4%	33	26.9%
Q1'10	2,012.48	10.6%	31	-6.1%
Q2'10	3,815.46	89.6%	30	-3.2%

Source: Zero2IPO Research Center 2010.07

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Chapter 5 Newly Raised Funds in Q2'10

Notes: 1. The cases described in this chapter mainly took place in China.

2. The information below comes from Zero2IPO Research Center. Some information that cannot be disclosed is expressed with N/A.

Case 1

Time	Fund Name	GP	Amt. Raised (US\$M)	Focus
2010-4	Xuzhou Hi-tech Venture Capital Fund	Xuzhou Hi-tech Venture Capital Co., Ltd.	8.84	Equipment manufacturing, new energies and energy-saving technologies, electronic information technologies, biomedical technologies and application, resource and environmental technologies & modern services

Xuzhou Hi-tech Venture Capital Fund, the first VC fund in Xuzhou City, was launched in April 2010.

Jointly sponsored by Govtor Capital, Jiangsu Nhwa Pharmaceutical Group Co., Ltd. and Xuzhou Guosheng Investment Holding Co., Ltd., the fund aims to support the development of local hi-tech startups, focusing on equipment manufacturing, new energies and energy-saving technologies, electronic information technologies, biomedical technologies and application, resource and environmental technologies, modern services, modern agriculture and enhancement of traditional industries with high and new technologies. With an initial size of RMB60.00M, the fund will strive to raise RMB200.00M in the two years ahead.

Case 2

Time	Fund Name	GP	Amt. Raised (US\$M)	Focus
2010-4	Zhejiang Sinowisdom	Zhejiang Sinowisdom Investment Management Co., Ltd.	17.67	N/A

Chapter 8 China's LP Market: Current Status & Investment Channel

China's VC/PE industry is now embracing a new development opportunity, catalyzed by a host of factors such as the race to optimize the policy environment for PE investing, launch of ChiNext in October 2009, rapid expansion of domestic LP group and emergence of domestic brand LPs. The vibrant development of RMB funds has become the highlight of this stage, while the convenient investment circulation mechanism featuring "local fundraising, local investing and local exit" is expected to become a dominant mode in China's VC/PE market. In this context, on one side, fund shortage has bottlenecked the development as many VC/PEs hope to set up RMB-denominated funds; and on the other side, the potential investors in RMB funds such as overseas large institutional investors, domestic banks and insurance companies and wealthy people hold piles of cash but lack suitable investment channels. The poor linkage between investing channels and financing channels has become a significant factor that hinders the development of China's VC/PE market. For this reason, effectively building a communication channel between GPs and LPs is a necessary way for VC/PE institutions to enhance the fundraising efficiency and fulfill common interests of various investors and fundraisers.

The funding source is essential to the financing of all VC/PE funds. The success for the fundraising of a fund directly depends on when a newly established fund wins the recognition and commitment of capital injection from LPs. Therefore, it is very necessary to analyze the current status and trend of China's LP market and understand the status quo of the fundraising for RMB funds in China. According to the present status of the VC/PE market, foreign LPs still come under the strict regulation of China's relevant departments about their investments in RMB funds and cannot initiate investment programs on a large scale, while local LPs are growing rapidly although they are still immature.

Chapter 9 Outlook of China's VC Market in H2'10

At present, the global economy is gradually recovering, with a not strong foundation of recovery, unbalanced process and significant uncertainties. The sovereign debt risks of certain countries keep growing, and the problems of some critical financial institutions are exposed. The global economy is also characterized by a significant fluctuation for the exchange rate of major currencies, the unstable international financial market, the high fluctuation for the price of bulk commodities, and mounting protectionism in various forms. This indicates that the far-reaching consequences of the global financial crisis have not been eliminated, and the systematic and structural risks of global economy are still obvious.

As the European sovereign debt crisis is escalating, the export of some export-oriented, emerging market economies is faced with severe challenges, and their growth rate is more likely to slow down. As a result of rapid economic recovery and high food prices, the inflation rate of emerging market economies in Asia, represented by India and Vietnam, rose to a historical high level, and the inflow of plenty of cross-border capital aggravated inflation pressure and rising trend of asset prices. For other emerging market economies whose foundation of recovery is not firm, care shall be taken to avoid the problem of inadequate momentum of economic recovery due to too early exits.

In contrast, since the outbreak of the global financial crisis, China has implemented a series of stimulus package and policy measures. In 2009, China's GDP grew by 8.7%, making its due contribution to regional and global economic recovery; since early 2010, China's economy kept up the trend of steady and rapid development and its GDP rose by 11.1% in H1'10, up 3.7% from the same period of the previous year. From the perspective of demand that boosts economic growth, the role of internal and external demands in driving and coordinating economic growth was growing; in H1'10, the fixed asset investment of the whole society increased by



China Venture Capital Research Series

China Venture Capital Research Series includes quarterly and annual reports. Based on the survey of more than 700 active VC funds in China, the series cover all aspects of China venture capitals, including fundraising, investment, exit, etc. In addition, the series also provide ample description and analysis on highlighted industries and forecast of future stars.



China Private Equity Research Series

China Private Equity Research Series includes quarterly and annual reports launched from 2006. The series reveals activities of private equity funds in fundraising, investment, exit, etc. In addition, they provide detailed studies on hot issues, such as China policy and regulatory environments, privatization of State-owned enterprises, case study and syndication investment of private equity funds. It provides the in-depth analysis on some hot spots, such as RMB funds, real estate private equity funds, FOFs, rendering professional information with high reference value.



China Merger and Acquisition Research Series

China Merger and Acquisition Research Series launched in 2006 include quarterly and annual reports. The series traces deals of TM, Bio/Healthcare, Clean Energy and the Cross-bordered, especially, VC-related deal.



China Enterprise IPO Research Series

IPO research Series includes quarterly and annual reports focusing on both Chinese enterprises' overseas IPOs and domestic IPOs. Venture capital / private equity-backed companies debuting in global capital markets and Chinese capital markets are especially focused. The series provides comprehensive analysis and statistics on offering terms, backed VC funds and exit information, industry sector, case studies, prospective events of the next quarter, etc.

China Special Issue Series

Zero2IPO Research Center has launched a series of 20-plus special issues on hot spots since 2009, including the *Study on Registration and Fundraising of RMB Funds*, *Study on China Venture Capital and Private Equity Public Policy*, *Study on Direct Investment*, the development of *Buyout Fund Research*, *Special Issue on FOFs*, etc. The series is essential for industry insiders for reference.



Zero2IPO Database

Zero2IPO Database is the single source for hundreds of thousands of accurate, comprehensive and timely information concerning limited partners, investment institutions, funds, management team, and their portfolio companies, as well as industry information, laws and regulations and news in the venture capital and private equity industry of Chinese mainland.

Investment Institutions: 1200+	Funds: 1500+
Investment Cases: 4000+	LPs: 600+
M&A Cases: 2000+	IPO Cases: 2000+
Enterprise Profile: 35000+	Intermediary Agencies: 900+
Investor Profile: 6000+	Entrepreneur Profile: 40000+
Policies and Regulations: 3000+	Research Reports: 5000+

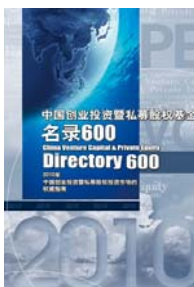
We keep updating Zero2IPO Database, launch online Zero2IPO Database service and provide in-depth, timely, all-inclusive information for our customers who can access the data they want at any time.



China Industry Investment Research Series

China Industry Investment Research Series is serial reports targeting at more than 20 sub-industries, including Internet, telecommunication value added service, new media, clean-tech, bio/healthcare, etc. The research covers the current situations, main players, investment, M&As, IPOs and the analysis on classic cases and key enterprises in the sub-industries. We hope this series will help investors have a clear picture of the investment climate in their concerned industries.

China Venture Capital & Private Equity Directory



China Venture Capital & Private Equity Directory includes more than 600 foreign and domestic firms operation in China and covers all-around information of these VC funds, such as the capital under management, investment sector, investment stage, portfolio companies and detailed contact information. The directory is updated annually.

Custom Research

Zero2IPO Research Center also provides custom research in the areas covering portfolio optimization, limited partner investment consultation, due diligence, analysis on regional venture capital and private equity, enterprise investment decision support, research on promising general partners, study on return on investment of general partners, etc.

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Introduction to Survey and Report Compilation

Zero2IPO Research Center has been launching Zero2IPO China Venture Capital Quarterly Surveys since Q12001 by collecting real-time data from 1,000 local and foreign VC funds operating in Mainland China. The quarterly report is an informative, reliable and up-to-date source for professionals in VC industry to trace the development of China venture capital industry.

The conclusion and data in the report were mainly based on China venture capital quarterly survey. The report presents readers with informative, precise analysis, and objective conclusions.

About Zero2IPO Research Center

Founded in November 2001, Zero2IPO Research Center (hereinafter referred to as "the Center") is dedicated to providing professional research reports and customized researches on various sectors for venture capital and private equity funds, governmental authorities, intermediary agencies and venture companies. Its scope of research covers venture capital, private equity, initial public offering, merger & acquisition as well as market research for high-tech sector. By far, the Center has been crowned as the most authoritative research institute in China.

In addition, the Center has launched Zero2IPO Database with both Chinese and English versions and China VC&PE Directory. Zero2IPO Database has collected detailed data about the venture capital and private equity investment sectors in China since 2000. The data includes information about Chinese venture capital market, Chinese private equity market, Chinese merger & acquisition market as well as events, entities, figures and companies related to listing of Chinese enterprises at home and abroad. We maintain prompt online update of this database to push users to the forefront of opportunities and challenges, and give them an in-depth understanding of the ever-changing investment environment in China.

About Zero2IPO Group

Founded in 1999, Zero2IPO is a leading integrated service provider in the China venture capital and private equity industry. Now, Zero2IPO has become an unbeatable dealflow and networking source in China.

Zero2IPO's mission is to be the preferred service provider to businesses in the venture capital and private equity industry by offering an unparalleled knowledge and expertise to our clients and partners. To ensure this, Zero2IPO provides a broad and deep array of services enabling entrepreneurs and investors to reach the next level of success.

What We Do

Financial Advisory Services: Financial Advisory Services (FAS) represents high-potential, high-growth China enterprises seeking venture capital or private equity funding. Through its extensive investors network worldwide, FAS channels over US\$200M to startups each year. These companies are distributed across a broad spectrum of industries, including biotechnology, health care services, telecommunications, media, education, internet and e-commerce.

Financial Information Services: Financial Information Services (FIS) releases annual, quarterly and customized research reports covering China venture capital, private equity, M&A, and IPOs. Also known as the Zero2IPO Research Center, FIS is viewed as the most trustworthy information source in the industry. FIS reports are used by investors, LPs, investment banks, auditing firms, law firms and entrepreneurs worldwide. Each year, FIS publishes the China venture capital ranking results which are widely accepted and quoted among these professionals.

Media & Network Services: Media & Network Services (MNS) strives to provide a networking platform for entrepreneurs and investors. Since 2000, MNS has organized more than twenty China Venture Capital & Private Equity Forums and over sixty Z-club activities. Each year, over 5000 participants attend these conferences and club events held in Beijing, Shanghai, Tokyo, London, and Silicon Valley. Together, the China Venture Capital & Private Equity Forums and Z-Club events constitute the largest networking platform for investors and entrepreneurs in China.

Zero2IPO Capital: Formed in 2006, Zero2IPO Capital is a venture capital arm of the Group targeted at high-potential, high-growth China enterprises. Leveraging Zero2IPO's vast network in China, Zero2IPO Capital does not compete with other venture funds, but rather pursue a two-prong investment strategy, i.e. to co-invest with active venture capital firms in growth and late stage companies and to lead or co-lead in early stage startups in China.

Zero2IPO Group is headquartered in Beijing with offices in Shanghai, Shenzhen, Hong Kong, and Silicon Valley.



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