

Innovation and PE Markets

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Who Are We?

- The leading provider of information on China's venture capital, private equity and M&A markets.
- Private placement, M&A advisory services & conferences

Our Research Methodologies

- Quarterly surveys with >95% of the most active VCs
- Extensive interviews
- Creating the China "Venture Database"



Who is the best example of Innovation In China

- Lenovo?
- Huawei?
- Haier?
- Gome?
- We have so many market leaders but no one wins in Innovation.
We lack the core technology.



Who is the best in terms of Innovation

Company	Mkt. Cap. (\$)	Stock Price (\$)	Revenue (\$)	Profit (\$)	Net Profit Margin
Netease	2.25B	17.15	199.8M	115.4M	57.8% in 2005 48.9% in 2004 56.7% in 2003
BAIDU	2.94B	87.75	39.6M	5.9M	14.9% in 2005 10.8% in 2004
Shanda	1.16B	16.28	235 M	20M in 2005 73M in 2004 33m in 2003	8% in 2005 46% in 2004 43% in 2003
Focus Media	3.02B	57.76	68M	23M	34.5% in 2005 1.2% in 2004 0.6% in 2003

Mkt. Cap. & Stock Price: Sep 15. 2006
Revenue & Profit: FY2005

Who is the best in terms of Innovation

Company	Mkt. Cap. (\$)	Stock Price (\$)	Revenue (\$)	Profit (\$)	Net Profit Margin
Lenovo	26.04B (HK\$)	3.06 (HK\$)	103B (HK\$)	173m in 2005 120m in 2004 (HK\$)	0.1% in 2005 5% in 2004
Tencent	32.76B (HK\$)	18.58 (HK\$)	176.8M	60.1M	34.03%
China Medical	587.15M	21.46	26M	14M	53.8%
SunTech	4.00B	26.80	85M 2004	19.7M	23% in 2004

Mkt. Cap. & Stock Price: Sep 15, 2006
Revenue & Profit: FY2005

Innovation

- In the past, Trade – Manufacturing - Technology (R&D)
 - Levono Group, Huawei, etc,...

- Now: Successful companies in China
 - Business Model:
 - Copy US. Model: Netease, baidu, 51job, ...
 - China Unique Model: Kongzhong, Linktone, Focus Media
 - R&D:
 - Low Tech, not technology Innovation, but market adjustment
 - The same in IC industry
 - The new stars still lack core technology, but they start to think and act



Why we lack innovation

- Time to build the whole industry and time to build the whole culture.
- Money to support these innovation
 - Who support Chinese High-tech companies?
 - Not the government,
 - Not the banks,
 - But foreign VC and PE investors



New stars in China New Economy



SAIF
(Shanghai)



DFJ, IDG, TDF, etc
(Beijing)



IDG, Carlyle
(Shanghai)



DFJ
(Beijing)



Acer
(Shanghai)



Doll Capital
(Shanghai)



SoftBank, UCI, CDH, DFJ, TDF
(Shanghai)



IDG, etc.
(Shanghai)



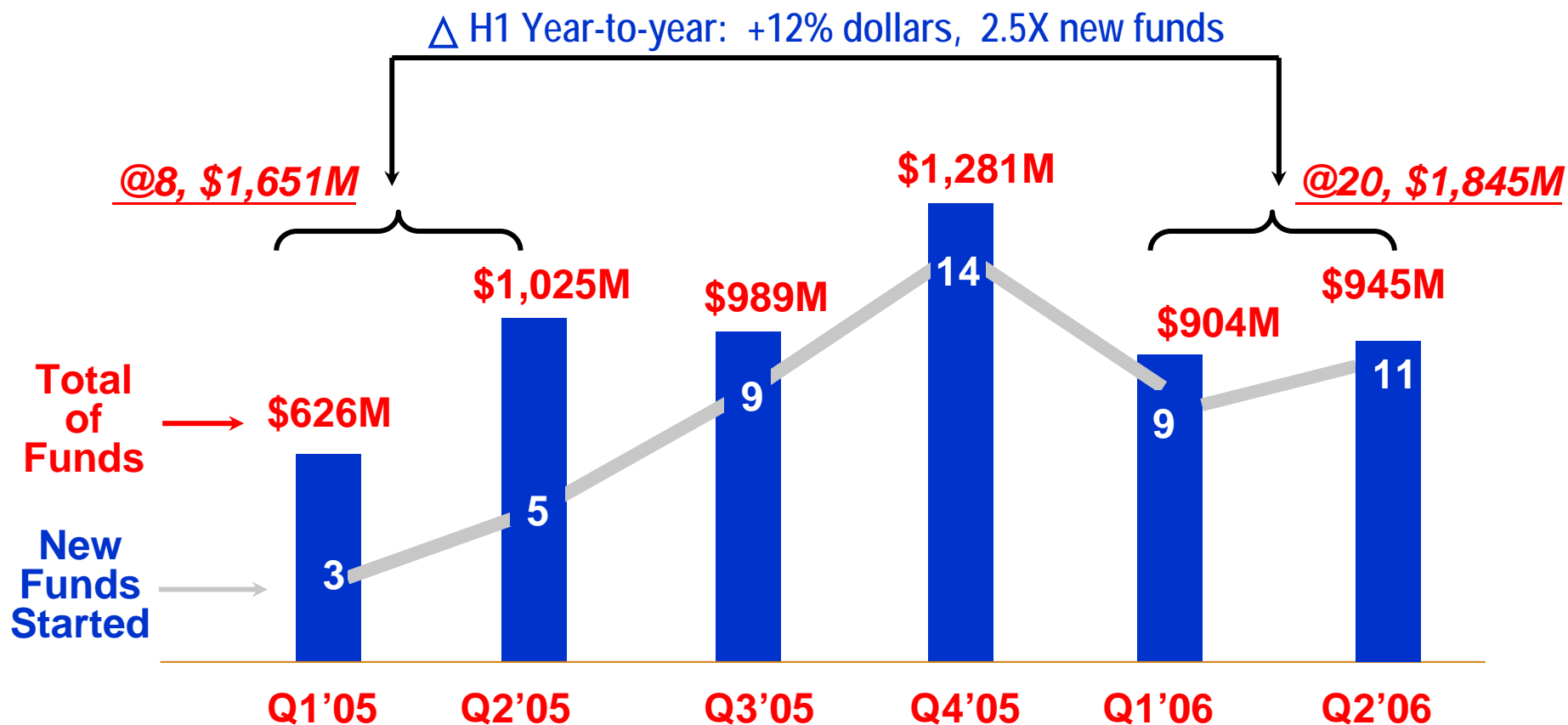
Legend Capital
(Beijing)

China Venture Capital

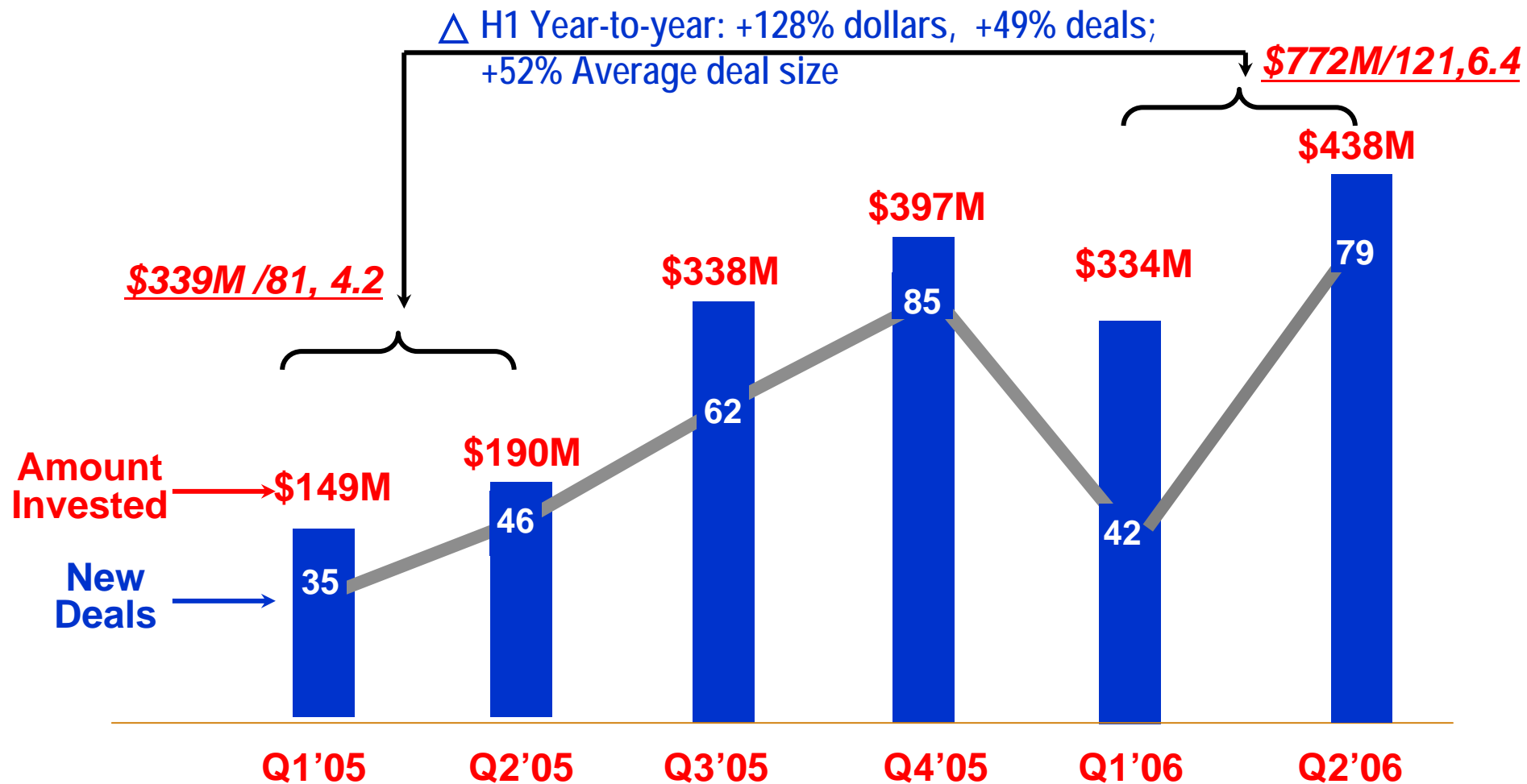
H1 2006



VC Fund Raising Continues Strong

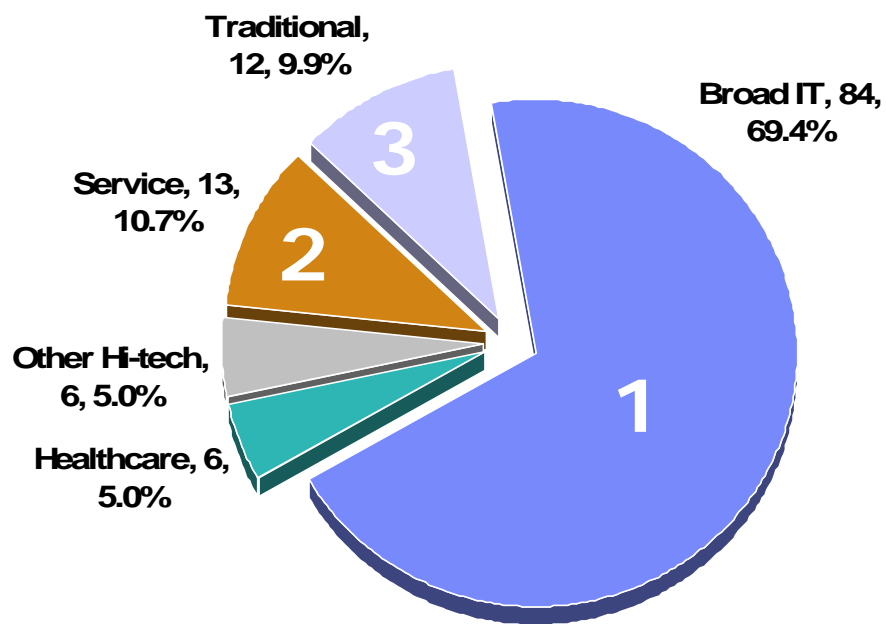


... and the Money is Being Put to Work

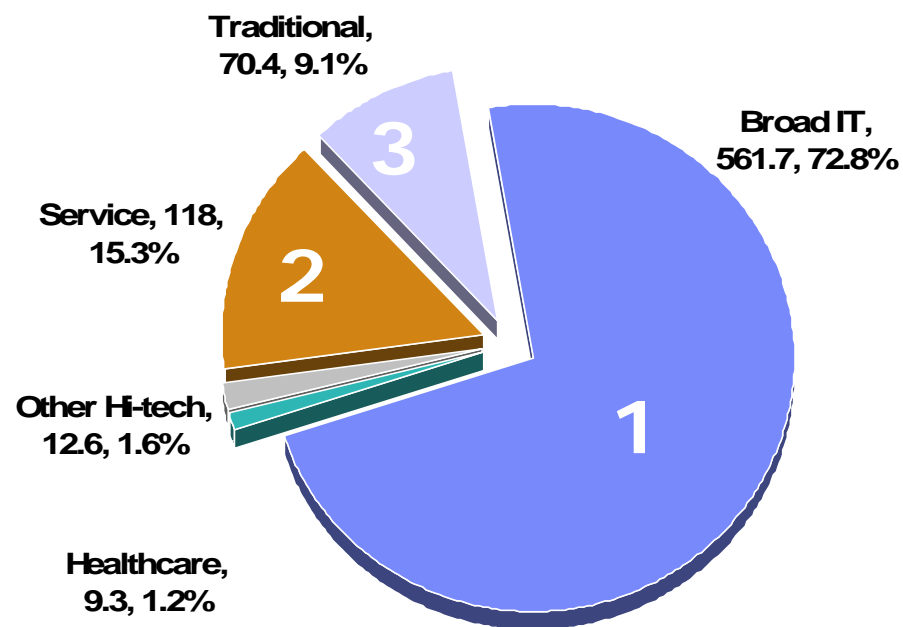


H1 Overall Industry Breakdown

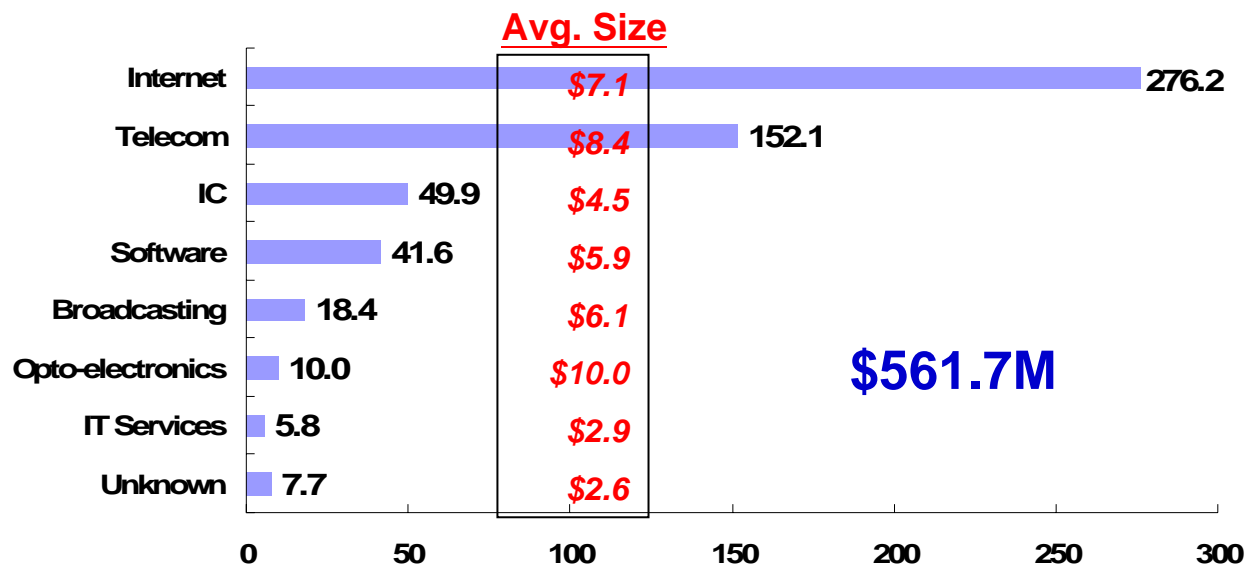
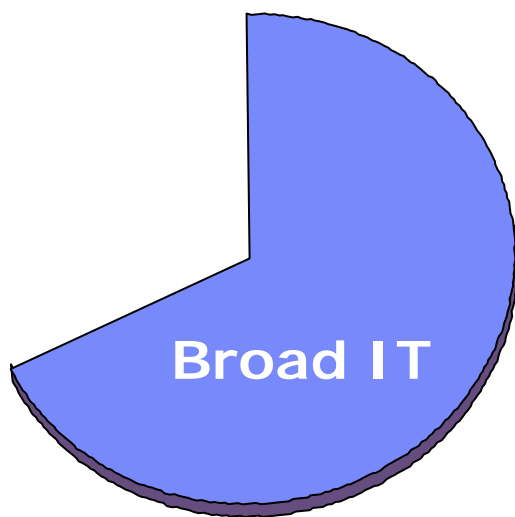
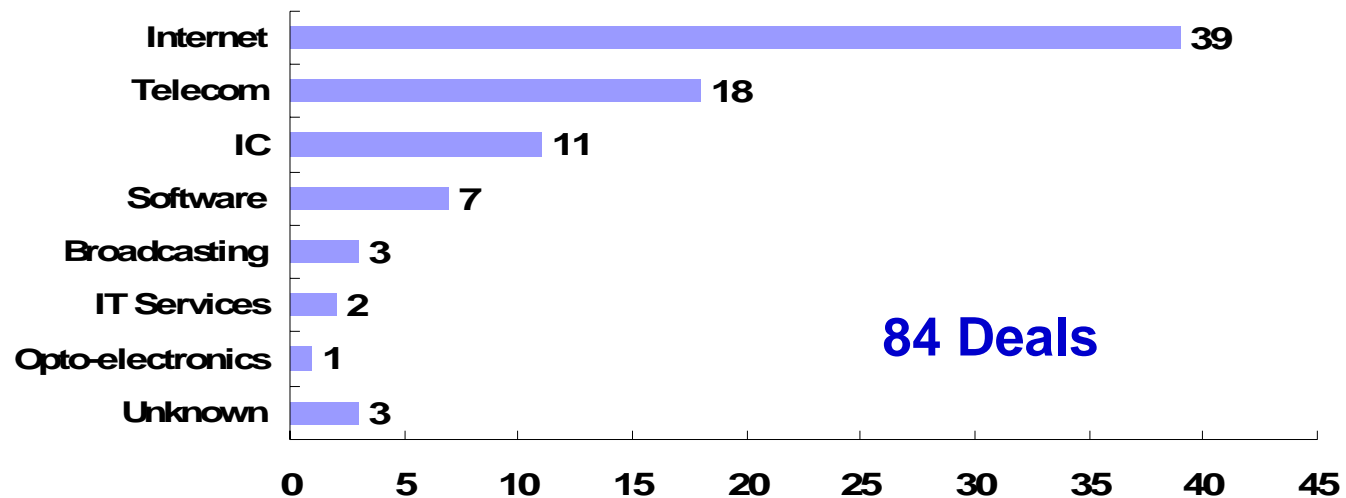
Number of Deals



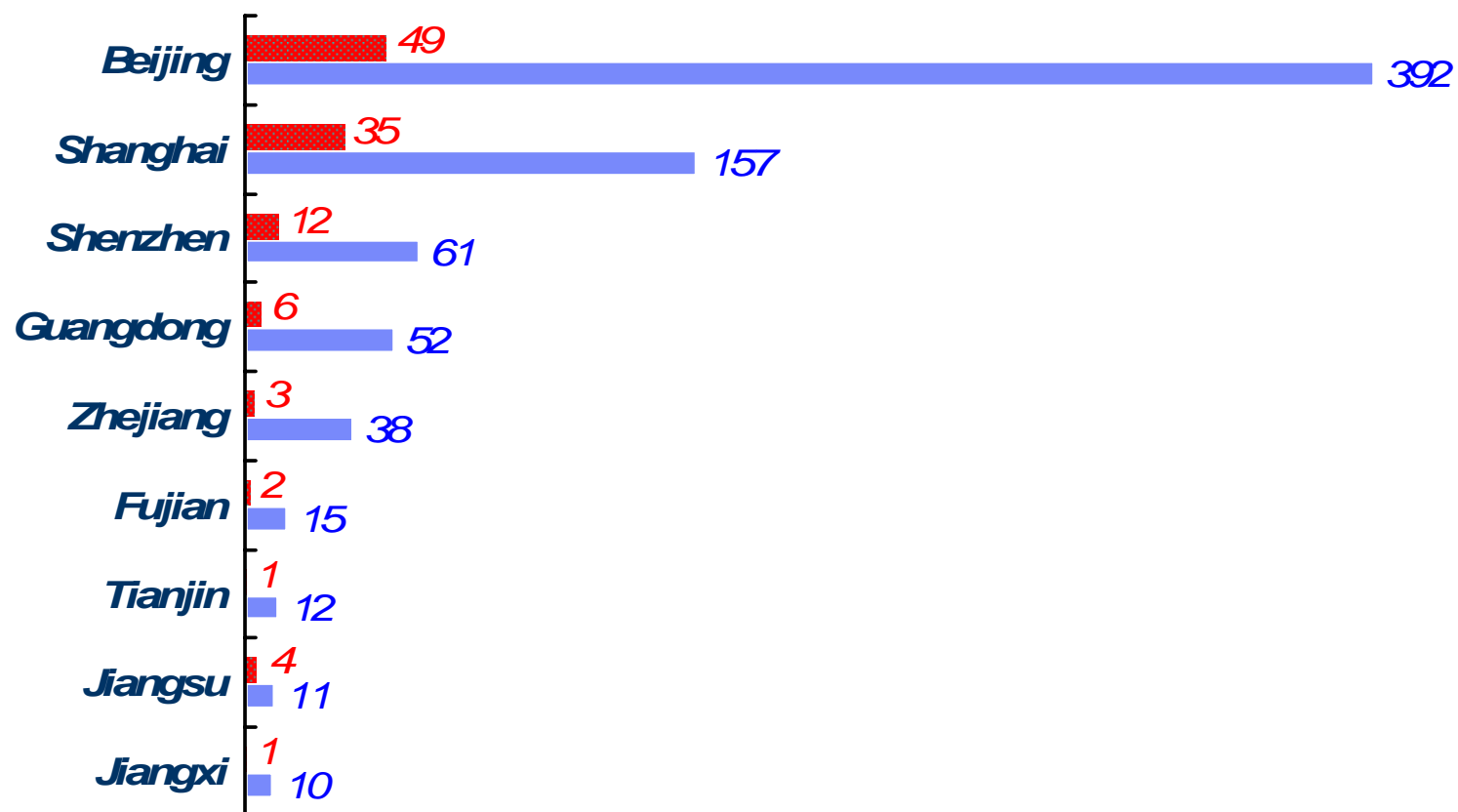
Amount Invested(in \$MM)



H1 Information Technologies

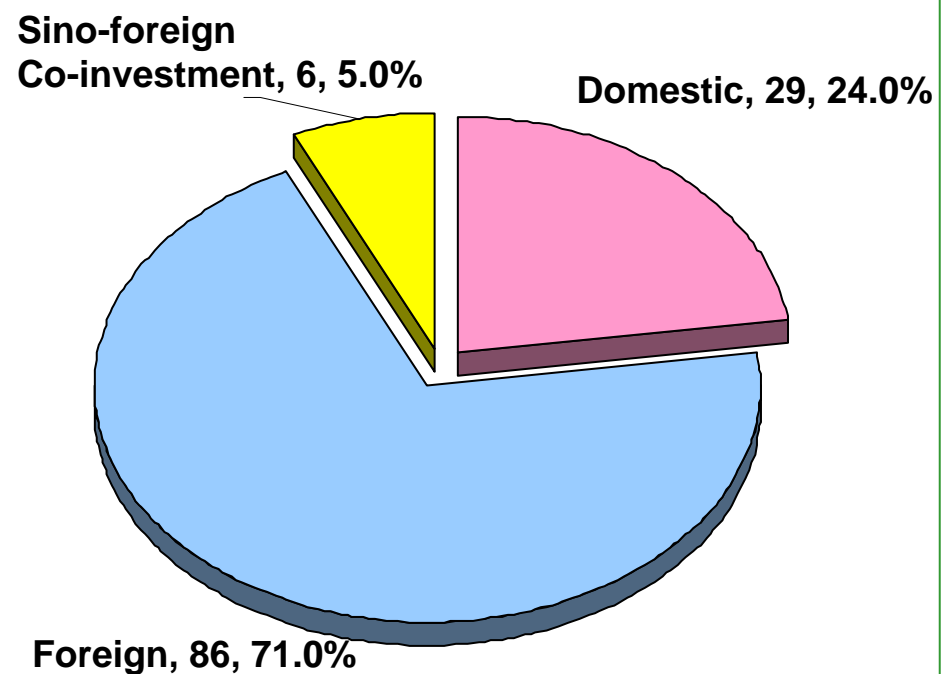


H1 Geographical Distribution

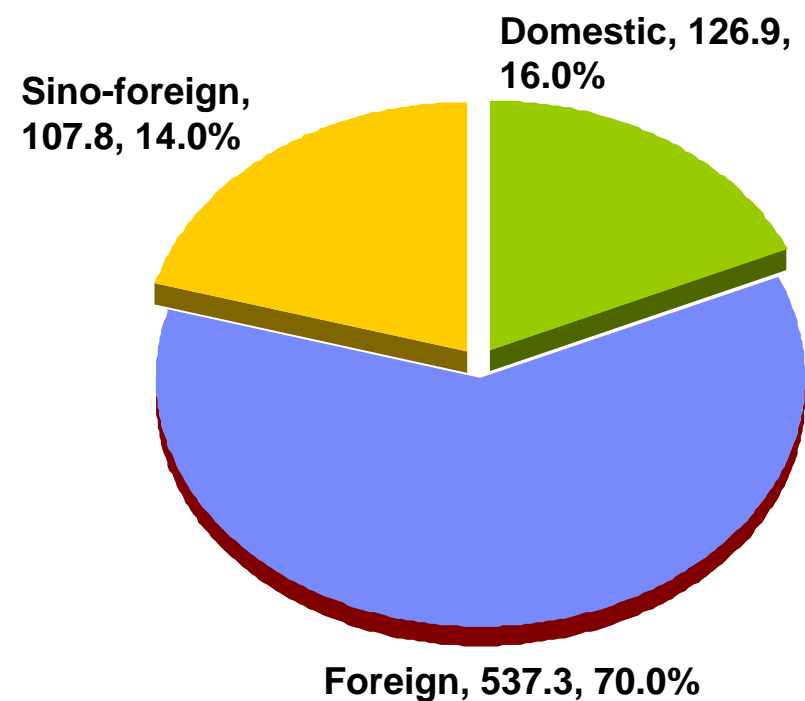


Who is Making the H1 Investments?

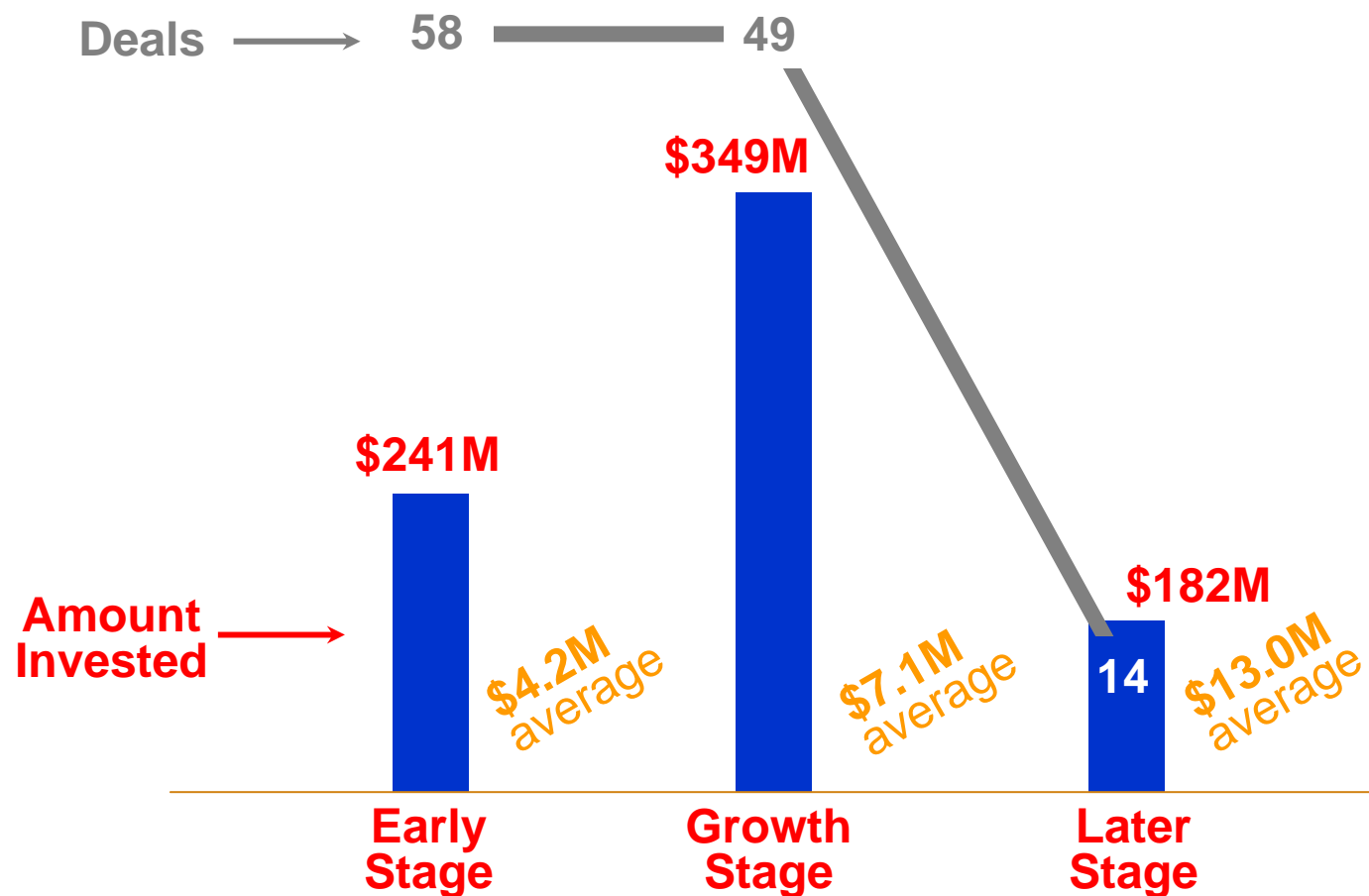
Number of Deals



Amount Invested (in \$MM)



H1 Investment Stage Distribution



China Private Equity

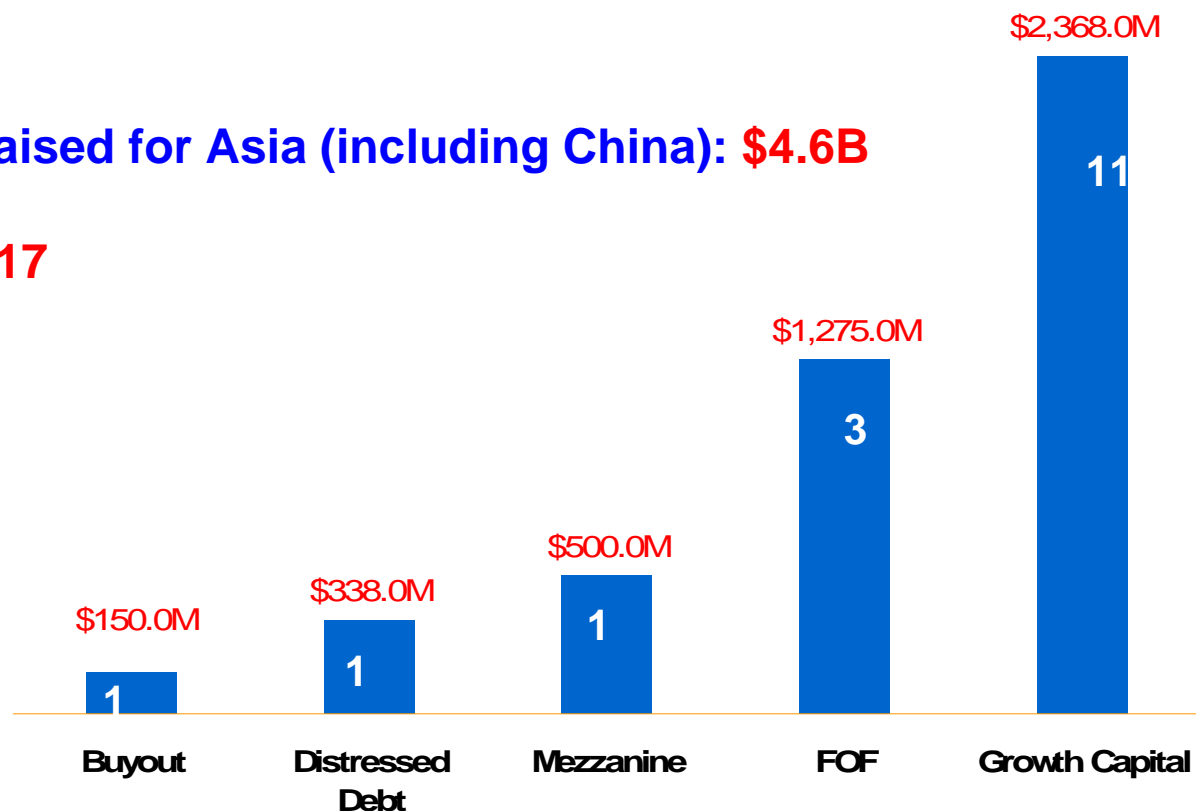
H1 2006



PE Fund Raising Levels Up

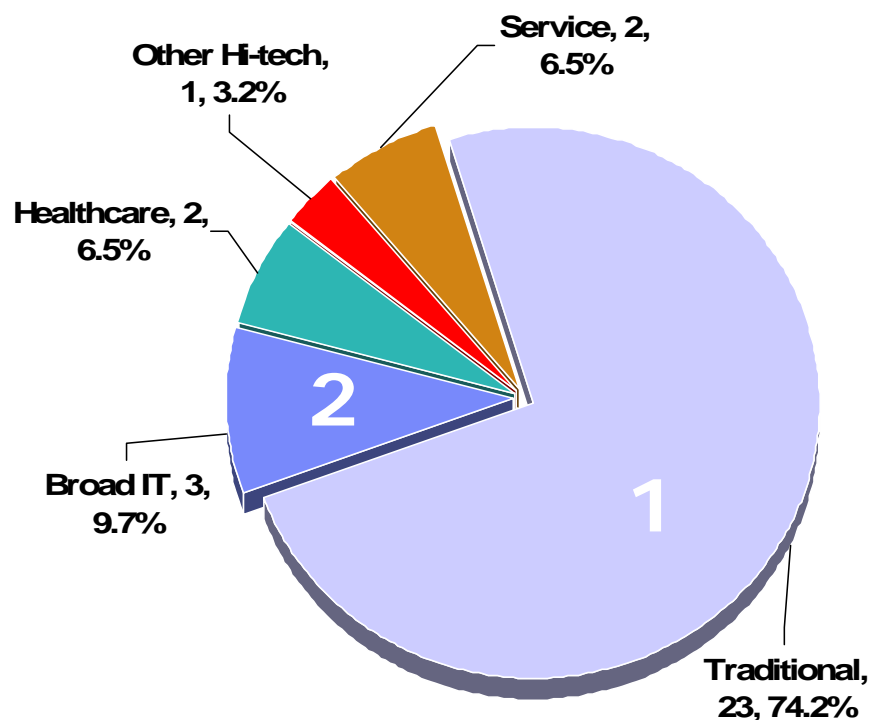
Total Amt. Raised for Asia (including China): **\$4.6B**

New Funds: **17**

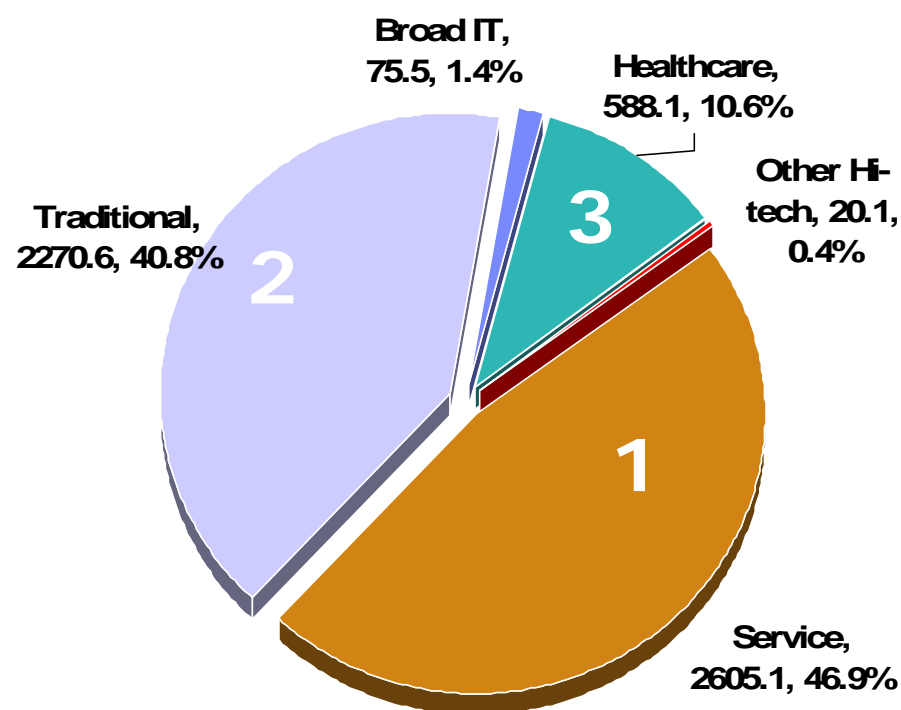


H1 Overall Industry Breakdown

Number of Deals: **31**

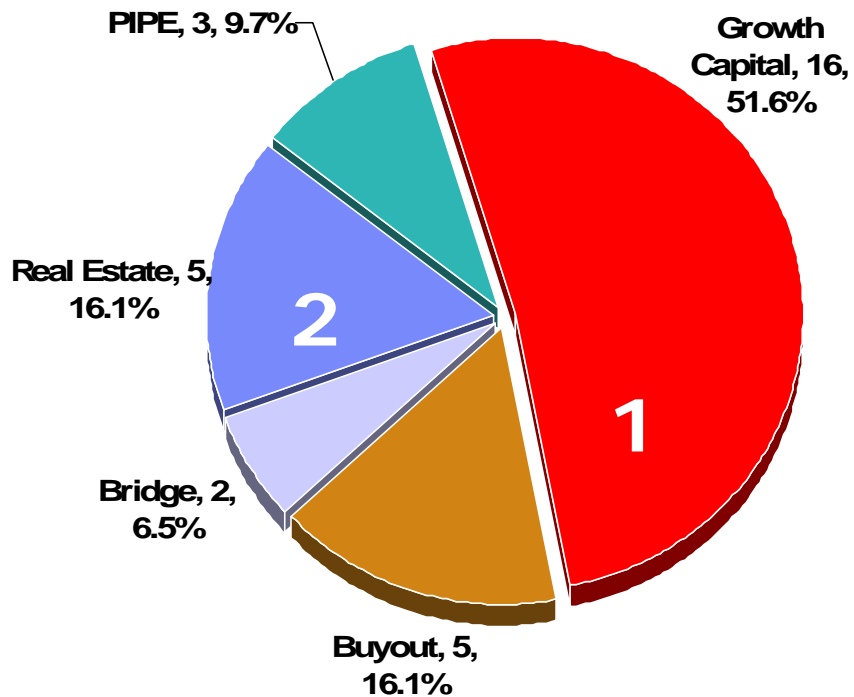


Amount Invested: **\$5.56 Billion**

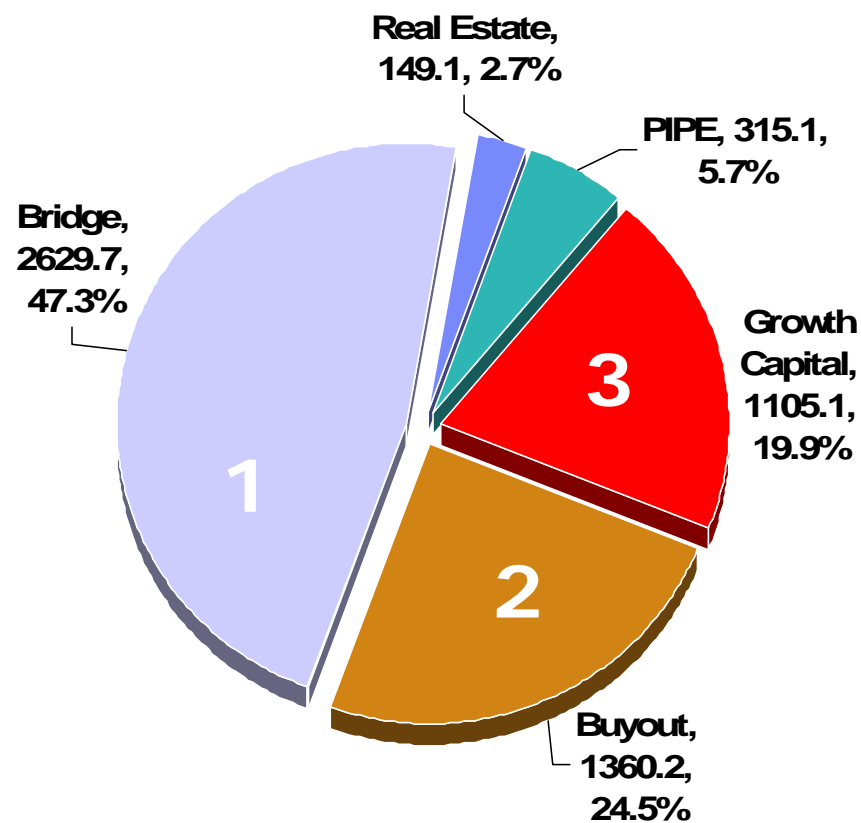


H1 Investment Strategy

Number of Deals

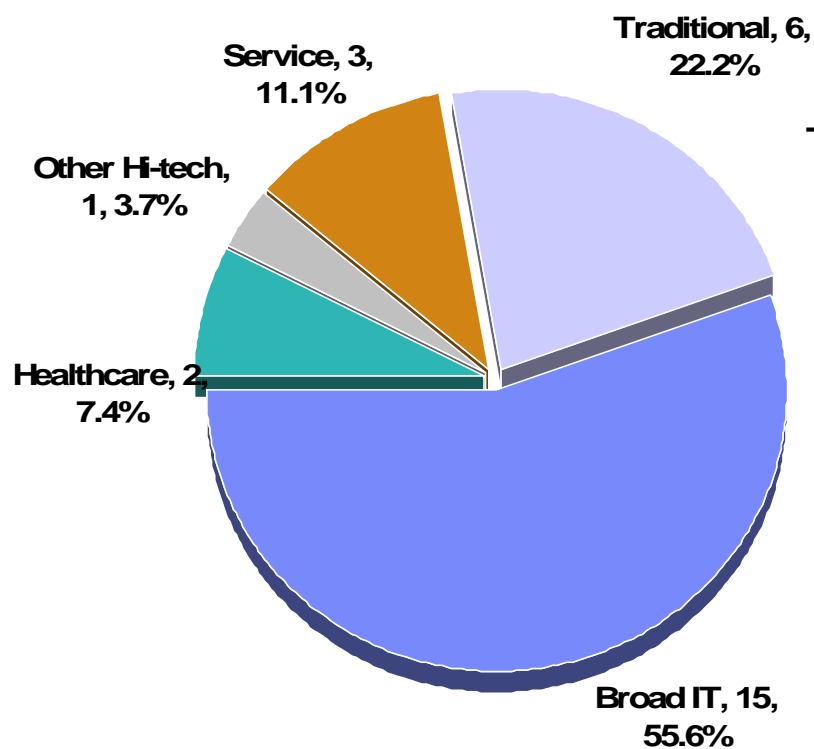


Amount Invested (in \$MM)



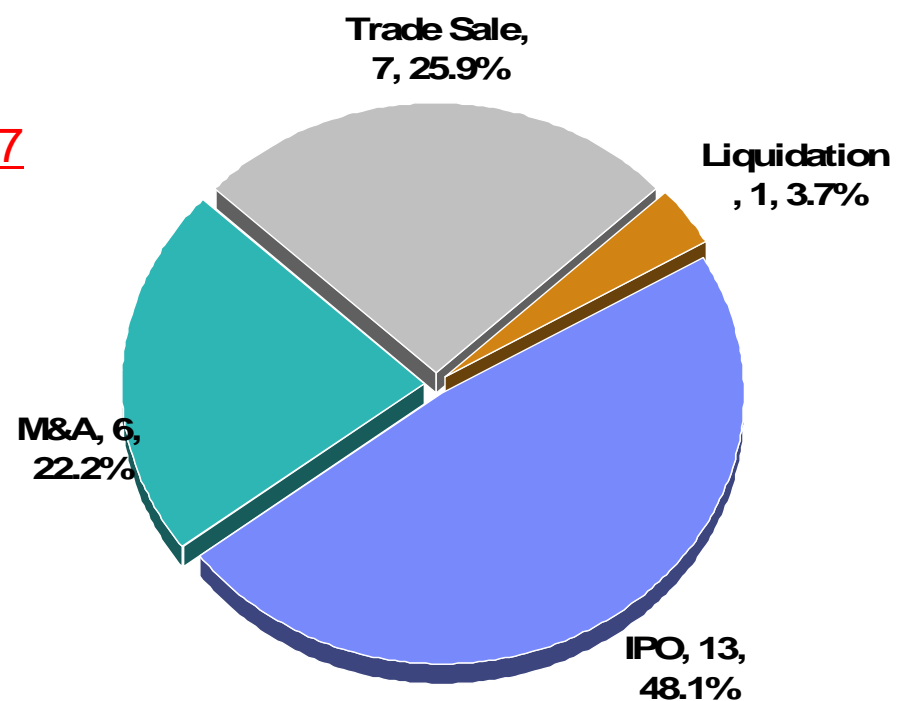
H1 VC/PE Backed Exits

Breakdown by Industry



Total: 27

Breakdown by Exit Option



H1 VC/PE-backed Overseas IPOs (1)

Company	Offer Date	Market	Industry	Investors
Efuture Information Technology INC. (富基旋风科技)	03/23/2006	NASDAQ	Software	Shanghai New Margin (VC); ChinaEquity Investment (VC)
China Grentech Corp Ltd. (国人通信)	03/29/2006	NASDAQ	Telecom	Actis China (PE); JAFCO (VC) Standard Chartered Private Equity (PE);
Biosino Bio-Technology And Science Inc. (中生北控生物科技)	02/27/2006	HK GEM	Healthcare	Shanghai New Margin (VC)
Shanghai Turbo Enterprises Ltd. (上海动力发展)	01/16/06	SGX	Traditional	East Gate Capital (VC)
Star Pharmaceutical Ltd. (斯达制药)	02/15/06	SGX	Healthcare	Aventures 1 (VC)
Bank of China (中国银行股份)	06/01/2006	HKSE	Services	RBS China (PE), UBS (PE), Asia Financial Holdings (PE), Asia Development Bank (PE)

H1 VC/PE-backed Overseas IPOs (2)

Company	Offer Date	Market	Industry	Investors
Sino-Environment (中华环保)	04/28/2006	SGX	Environmental	Capital Guru (VC), Acelevel (PE)
Midsouth Holdings (中南控股)	05/05/2006	SGX	Traditional	WL Asia (PE), Good Speed (PE), Harbour Full (PE)
China Precision Technology (中兴精密技术)	05/08/2006	SGX	Traditional	ACIF (PE), Aventures (PE)
Oriental Century (东方纪元)	06/01/06	SESDAQ	Services	APL (VC), UOBVSL (PE), UOBCI (PE), HL Bank Nominees (PE)
Jilin Oifeng Chemical Fiber (吉林奇峰化纤)	06/21/2006	HKSE	Traditional	Ronsace (PE)
Tianjin Port Development Holdings (天津港发展控股)	05/24/06	HKSE	Traditional	Tsinlien Venture Capital (VC)

H1 VC/PE-backed Domestic IPOs

Company	Offer Date	Market	Industry	Investors
Coship Electronics (深圳同洲电子有限公司)	06/12/2006	Shenzhen SME Board	IT	Fortune Venture Capital (VC), Capital Group (VC), IER Venture Capital (VC), High- tech investment Guarantee (PE)

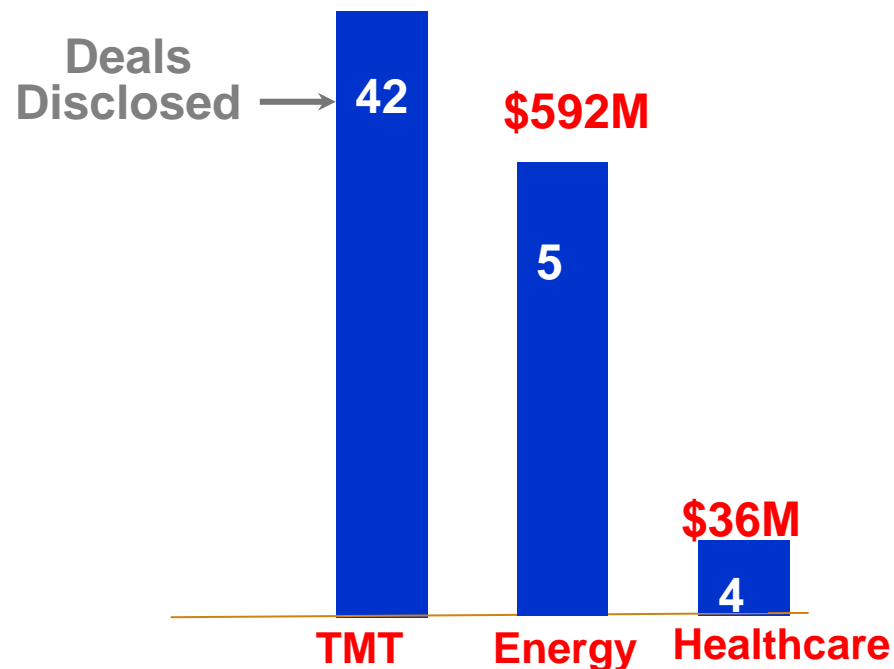
China Merger & Acquisition

H1 2006



H1 Overall Industry Breakdown

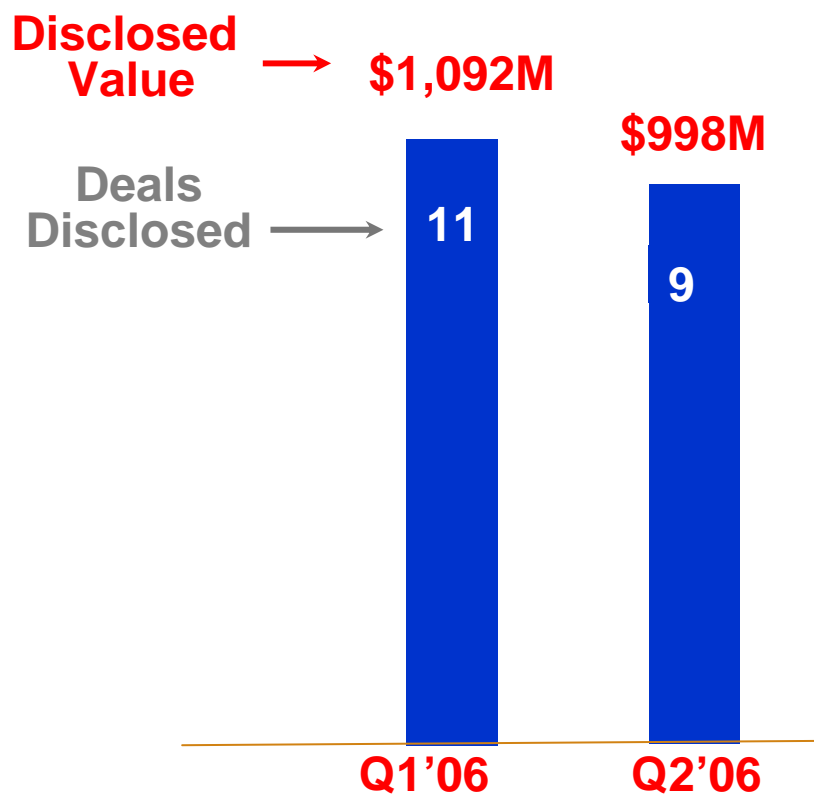
Amount Disclosed → \$706M



	Disclosed Value (US\$M)	Total M&A Deals	Deals with Disclosed Values
TMT	706.47	42	25
Healthcare	36.03	4	4
Energy	592.36	5	4

Total: USD1.335Billion, 51

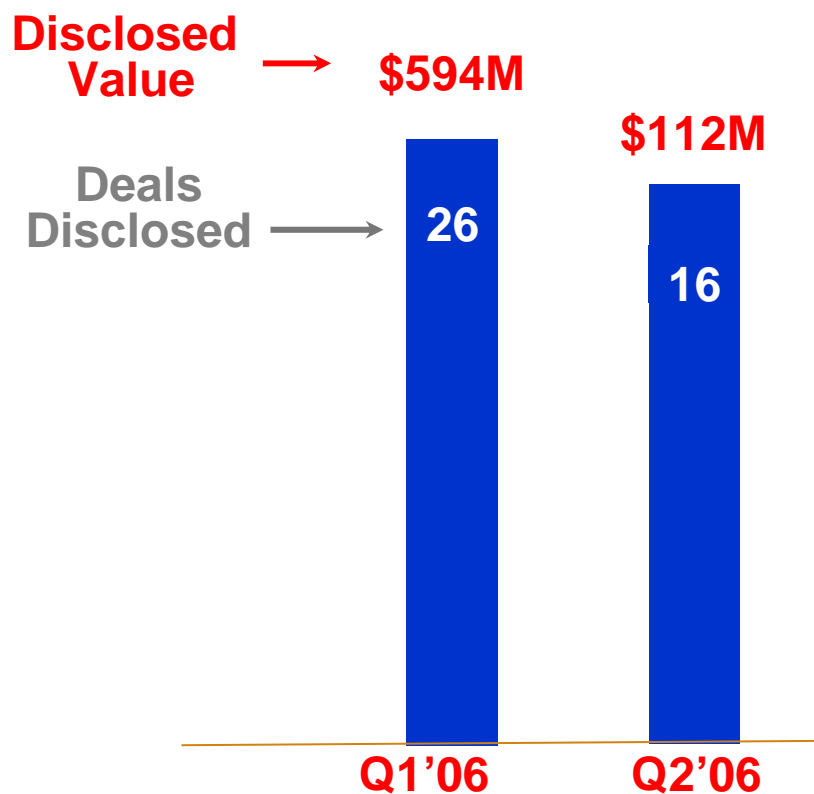
H1 Cross-border Deals



	Disclosed Value (US\$M)	Total Deals	Deals with Disclosed Values
Q1	1,091.95	12	9
Q2	998.45	9	4

Total: USD2.090Billion, 21

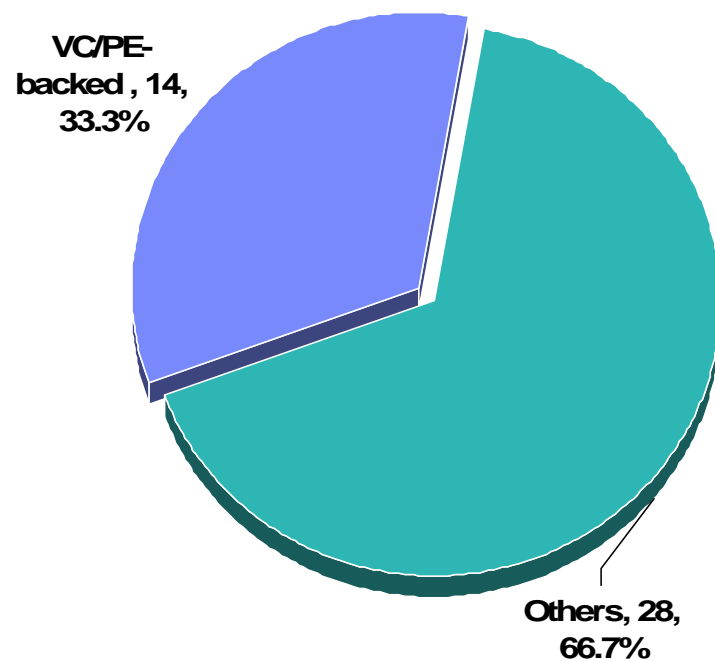
H1 TMT Deals



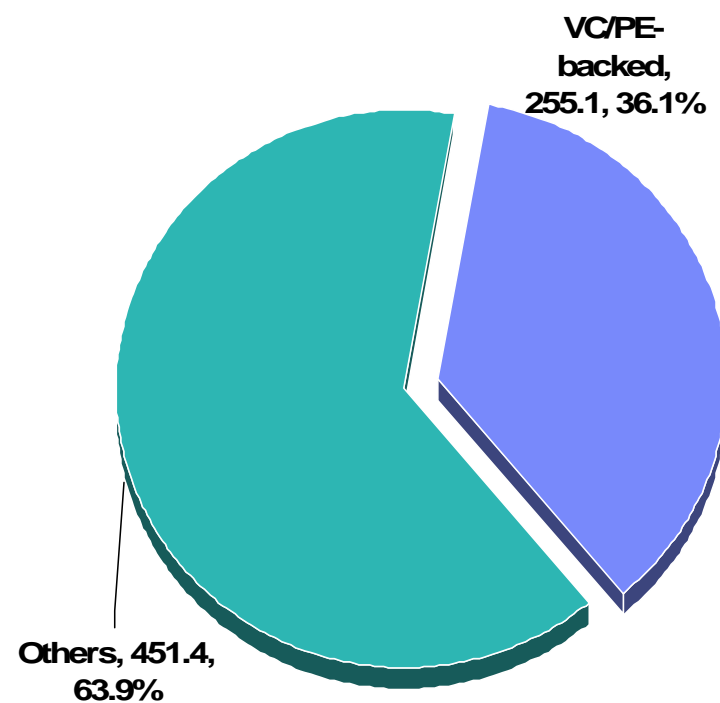
	Disclosed Value (US\$M)	Total Deals	Deals with Disclosed Values
Q1	594.17	26	18
Q2	112.3	16	7

H1 TMT VC/PE-backed Deals

Number of Deals



Amount Invested (\$MM)



Summary (1)

China Venture Capital Market

More funds raised

- ◆ Presumes more investments in the next half, and
- ◆ Leads to more intensive competition for good deals, and
- ◆ Ultimately bid up venture value.

Focus remains in TMT but will have more non-TMT deals.

Domestic VC will wake up and be more active

China Private Equity Market

China has become one indispensable of international private equity houses, resulting in...

- ◆ More establishments of Asia, China in particular, funds. And...

More investments will go to...

- ◆ Growth Capital,
- ◆ (Financial) Services sector,
- ◆ The restructuring process of SOEs.

Risk: Policy influence.

Summary (2)

China M&A Market

Traditional & TMT sectors are most attracted and expected to be so in the next half.

Cross-border M&A is hot and expected to be so in the next half. More foreign companies will be targeted by Chinese companies.

Privatizing SOEs will continue to drive the market.

China VC/PE-backed IPOs

HK main board has been attractive and expected to be so in the next half.

AIM will emerge as the hot market in the next half.

Nasdaq is expected to perform well in the next half.

NYSE will attract more companies.

TSE, not yet but will soon.

SZ-SME Board, will be a good competitor and attract more eyes.



What we need to trigger the next wave of innovation

- Government:
 - Less “一刀切” policy, create a good culture in the whole society. But more new laws to support the healthy growth of Chinese financial institutions.
- Investors and enterprises:
 - Give them more time, Let the market runs by its own. In a good environment, to pursue more profit, they will chase to innovation, either for technology or for the market.
- Most of foreign VC firms and PE firms are operated by Chinese, and they will be backbone of China local PE or VC firms. Using foreigners' money to cultivate our own teams and our own innovations, why not?



Thank You!

