



ChinaVenture
投中集团

China's Venture Capital Market Report Q3 2008

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Statutory Findings

Total Investment amount reached **US\$1.026 Billion**, rising by 51.8% quarter over quarter.

TMT and Non-TMT sectors each closed 43 deals.

The Internet sector secured US\$267 Million, surpassing other industries.

The Medical & Healthcare sector witnessed 8 deals, surging by 60.0% quarter over quarter.

E-commerce & Online Video became investment hotspots.

4 **Pharmaceutical** deals received US\$49.63 Million in funding, being favored by VC firms.

China's domestic VC firms contributed 24 deals, representing 27.9% of total number of deals. The proportion decreased by 13.6% quarter over quarter.

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1. Analysis by Investment Scale in China's VC Market in Q3 2008

1.1 Analysis by Deal Number & Investment Amount

China's venture capital market maintained a stable development in Q3 2008, witnessing an increase in deal number and investment amount quarter on quarter while a decrement is observed year on year. The total number of deals closed was 86 increasing by 4.9% quarter on quarter but decreasing by 21.1% year on year. Total investment amount stood at US\$1.026 Billion, increasing by 51.8% quarter on quarter while decreasing by 6.8% year on year (Figure1.1-1). Amid global capital market turmoil, some financial service giants had filed for bankruptcy. Meanwhile, China's domestic economy had to be regulated. Under such circumstances, investment firms are becoming more prudent about their investments.

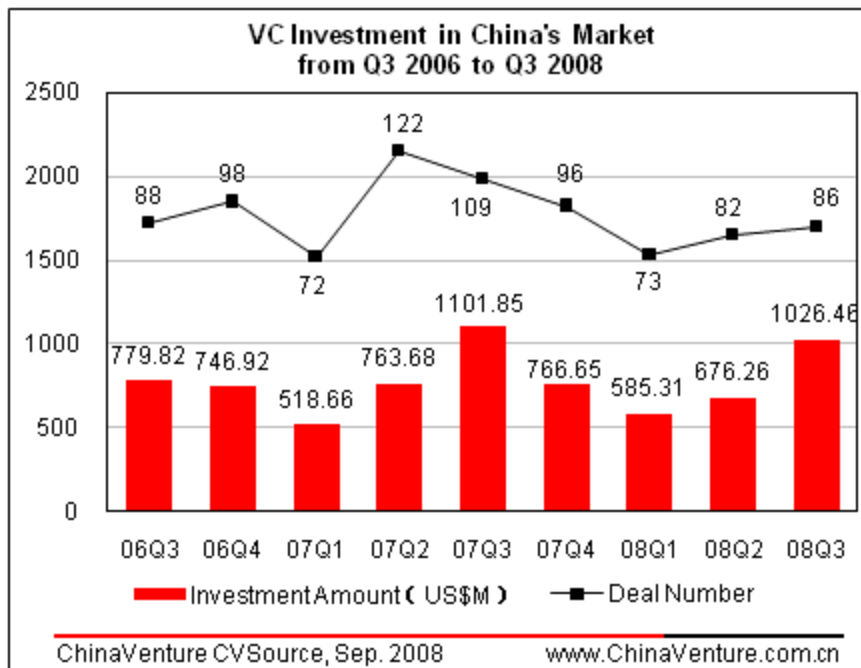


Figure 1.1-1 VC Investment from Q3 2006 to Q3 2008

1.2 Analysis by Single Investment Amount

The average deal size in China's VC market increased, reaching US\$11.94 Million, and representing a 44.7% increase month on month and an 18.1% increase year on year (Figure1.2-1).

Out of the 86 deals disclosed, 23 deals were worth between US\$5 Million and US\$10

Million was 23, accounting for 26.7%. 9 deals were closed with investment between US\$10-20 Million, representing 10.5%. The single investment amount of another 9 deals was between US\$30 Million and US\$50 Million, representing another 10.5%. 8 deals experienced single investment amount of US\$20-30 Million, making up 9.3% (Figure1.2-2).

Investors will focus mainly on early stage projects as pre-IPO projects were impacted by the sluggish secondary market. ChinaVenture forecasts average deal size would be more likely to decrease in the future.

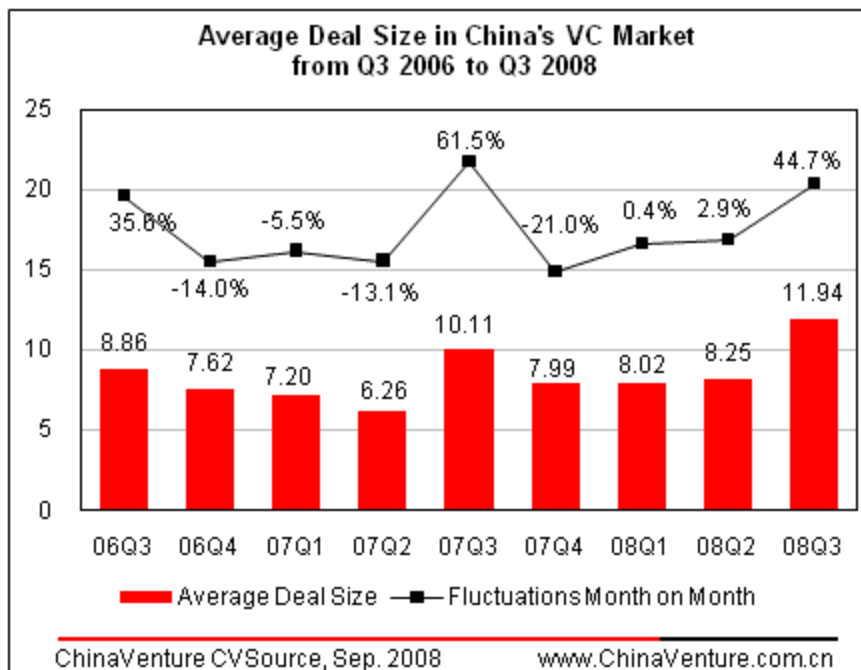


Figure1.2-1 Average Deal Size from Q3 2006 to Q3 2008

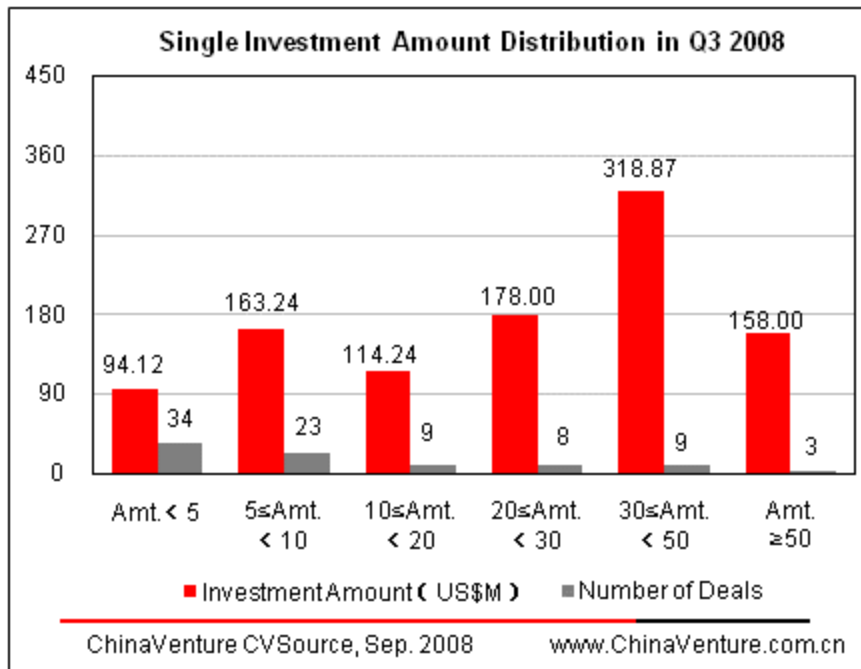


Figure1.2-2 Single investment Amount Distribution in Q3 2008

1.3 Analysis by Deal Number & China Business Climate Index

According to data from National Bureau of Statistics of China, China Business Climate Index was expected to reach 137.9 point in Q3 2008 after a slight rebound from Q1 2008, indicating the role of regulation such as tight monetary policy and credit loan control. More government regulations are favorable to small and medium sized enterprises, enhancing their profitability, and market confidence (Figure1.3-1).

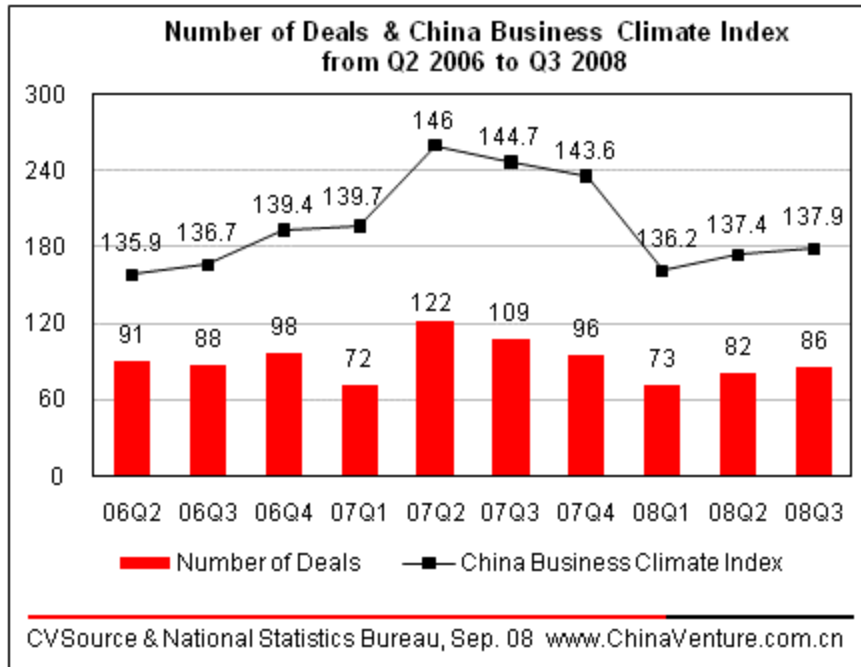


Figure1.3-1 Number of Deals & China Business Climate Index from Q2 2006 to Q3 2008

2. Industrial Distribution of VC Investment in Q3 2008

2.1 TMT & Non-TMT Sector

TMT and Non-TMT sectors each witnessed 43 deals in Q3 2008 (Table2.1-1). The TMT sector secured US\$575 Million, representing 56.1% of the total investment amount while the Non-TMT sector garnered US\$451 Million, accounting for 43.9% of the total investment amount. The average deal size in both sectors rose significantly. Remarkably, the TMT sector witnessed an average deal size of US\$13.38 Million, hitting an all-time high (Figure2.1-1). This could be attributed the recent development of TMT companies.

The average deal size in the TMT sector hit a new high mainly due to the development of TMT companies. Meanwhile, online video companies and online community companies are in need of more capital to cultivate the market.

VC Investment in TMT & Non-TMT Sectors in Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
TMT	43	575.45	13.38
Non-TMT	43	451.01	10.49
Total	86	1026.46	11.94
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table2.1-1 VC Investment in TMT & Non-TMT Sector in Q3 2008

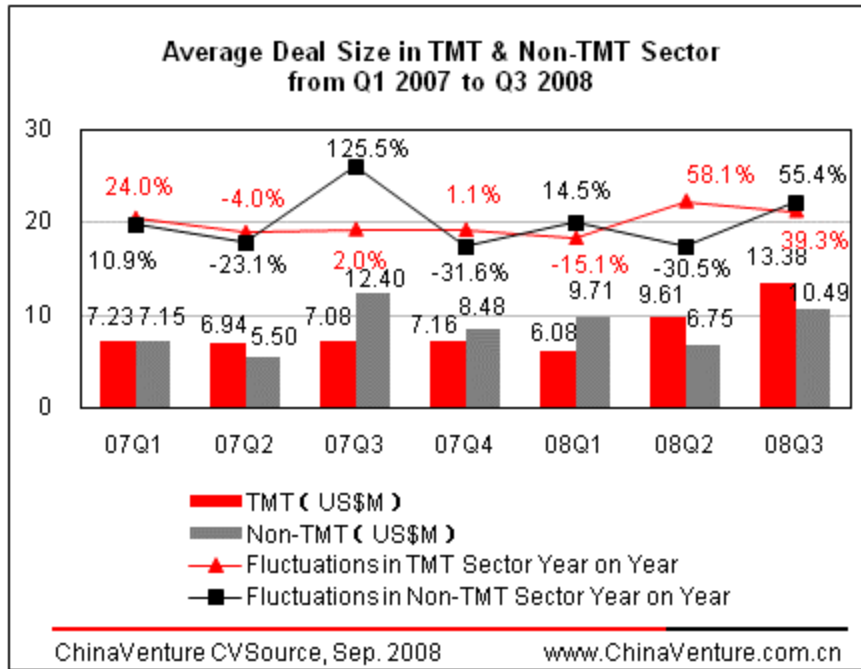


Figure2.1-1 Average Deal Size in TMT & Non-TMT Sectors from Q1 2007 to Q3 2008

2.2 Investment Hotspot

86 deals were secured in 15 sectors in Q3 2008. Internet, IT Services, Medical and Healthcare sectors formed the key investment sectors.

20 Internet deals secured US\$267 Million, representing a 4.8% decrease in deal number while a 10.5% increase in investment amount is observed quarter on quarter. The IT Services sector had a positive month with US\$98.97 Million piping into 8 deals, representing a 34.5% increase in investment amount but saw a 52.9% decline in deal number quarter on quarter 8 deals were closed in the Medical and Healthcare sector, raising US\$62.95 Million, representing a 60.0% increase in deal number and a 33.4% increase in investment amount quarter on quarter (Table2.2-1).

VC Investment Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Internet	20	266.93	13.35
Manufacturing	9	50.68	5.63
IT Services	8	98.97	12.37
Media & Entertainment	8	97.92	12.24
Medical & Healthcare	8	62.95	7.87
Value-added Telecom	7	111.63	15.95
Energy	6	64.89	10.82
Education	6	73.89	12.31
Tourism	3	9.82	3.27
Chain Operation	3	72.37	24.12
Finance	3	51.40	17.13
Agriculture, Livestock & Forestry	2	32.79	16.40
Furniture & Construction Materials	1	15.00	15.00
Chemicals	1	10.24	10.24
Research & Consulting	1	7.00	7.00
Total	86	1026.46	11.94
ChinaVenture CVSource, 2008.09		www.ChinaVenture.com.cn	

Table2.2-1 VC Investment in Q3 2008

2.2.1 Industrial Distribution of Deal Number and Investment Amount from Q3 2006 to Q3 2008

The number of deals in the Internet sector reaches 20 in Q3 2008. Overall, the number of deals in IT Services industry continued to fall since Q4 2007. Only 8 IT Services deals were closed in Q3 2008, hitting a two-year low. The number of the Medical and Healthcare deals was approximately 8 since Q3 2006 (Figure2.2.1-1). Investment amount in the Internet sector soared since Q1 2008, reaching US\$267 Million in Q3 2008. The investment amount in the Media and Entertainment sector fluctuated between 2006 and 2007, but rose steadily in 2008 (Figure2.2.1-2).

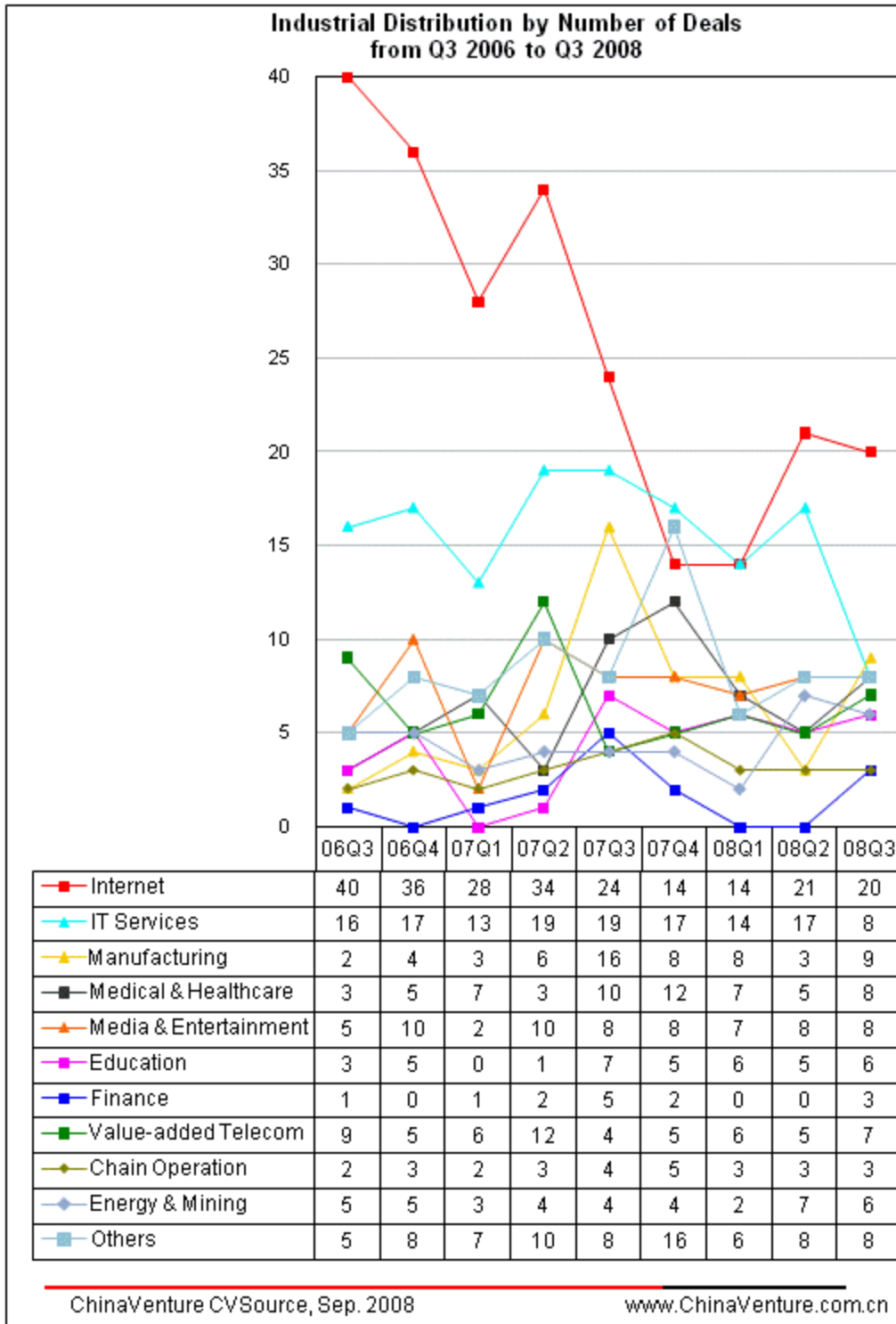


Figure2.2.1-1 Industrial Distribution by Number of Deals from Q3 2006 to Q3 2008

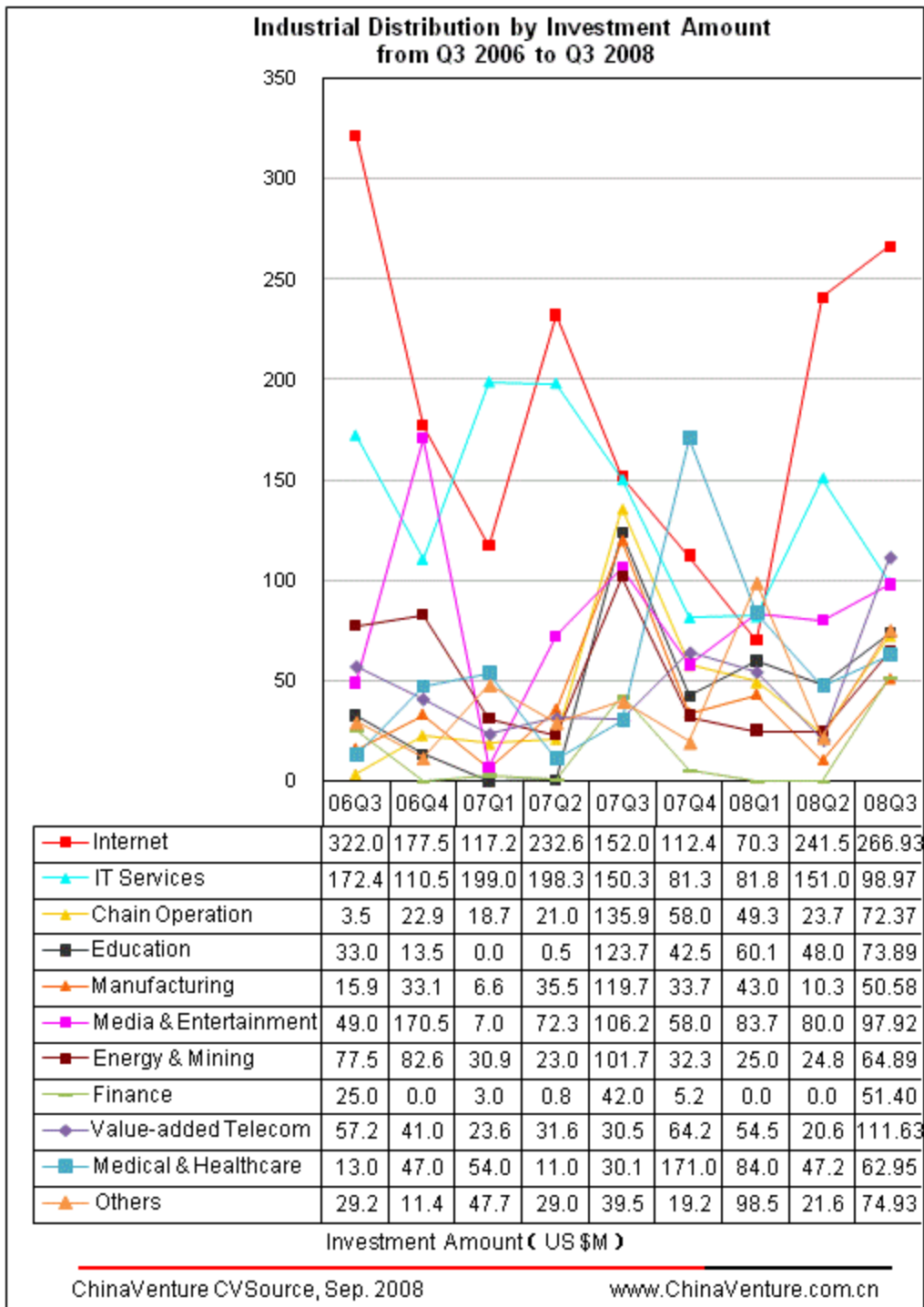


Figure 2.2.1-2 Industrial Distribution by Investment Amount from Q3 2006 to Q3 2008

2.2.2 Industrial Distribution of Deal Number and Investment Amount in Q3 2008

The number of Internet, Manufacturing and IT Services deals each accounted for 10% and above of the total in Q3 2008. The Internet sector gained approximately 23% of total

numbers of deals (Figure2.2.2-1). The proportion of the IT Services deals nosedived to 10% while the Medical and Healthcare sector deals increased slightly to 9%.

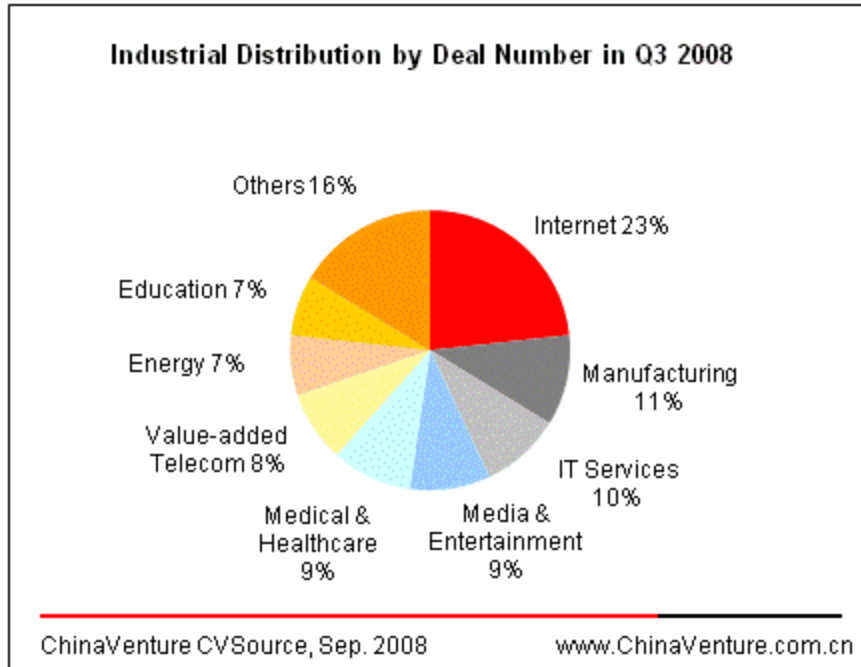


Figure2.2.2-1 Industrial Distribution by Deal Number in Q3 2008

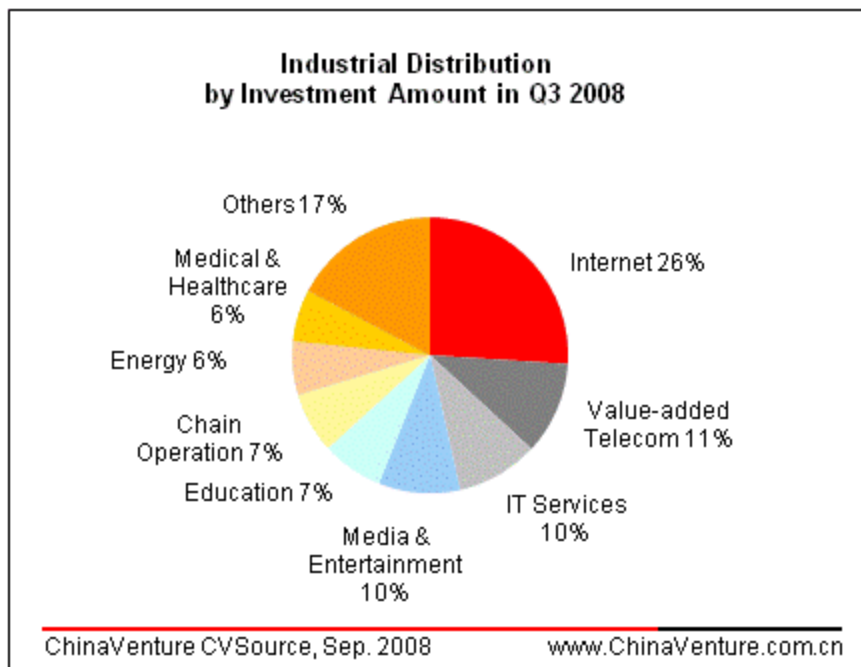


Figure2.2.2-2 Industrial Distribution by Investment Amount from Q3 2006 to Q3 2008

2.2.3 Investment Distribution across Key Sectors

VC investment in the Internet sector features diversified amount in Q3 2008. The highest single investment amount was US\$30 Million. 6 deals were closed at the range of US\$5-10 Million (Table2.2.3-1). Internet, IT Services, Energy & Mining sectors each experienced deals closed at US\$50 Million and more (Figure2.2.3-1). With particular reference, KU6.com commenced Series B funding, raising US\$50 Million. ET Solar Group Co., Ltd. has received US\$50 Million from Shanghai NewMargin Ventures Co. Ltd. and Tsinghua Capital. Also, a semi-conductor manufacturer has secured a large amount of capital. The single investment amount in the Medical and Healthcare sector was relatively low, and half of the deals were closed at US\$5 million and below (Table2.2.3-1).

Industrial Distribution by Investment Amount¹ in Q3 2008

No. of Deals Investment Amt.	Internet	IT Services	Tele com	Media & Entertain.	Energy & Mining	Edu.	Medical & Healthcare
Amount < 5	5	2	3	2	4	3	5
5 ≤ Amount < 10	6	4	2	3	1	-	1
10 ≤ Amount < 20	2	1	-	1	-	1	1
20 ≤ Amount < 30	4	-	-	-	-	2	1
30 ≤ Amount < 50	2	-	2	2	-	-	-
Amount > 50	1	1	-	-	1	-	-
ChinaVenture CVSource, Sep. 2008				www.ChinaVenture.com.cn			

Table2.2.3-1 Industrial Distribution by Investment Amount in Q3 2008

2.3 Industrial Analysis

2.3.1 VC Firms Industry Preference

E-Commerce, Online Video and Online Community became investment hotspots in Q3 2008. Out of the 20 Internet deals, 5 E-Commerce deals secured US\$62.16 Million, accounting for 25.0% of the total deal number and 23.3% of the total investment amount (Figure2.3.1-1). Liba.com, an E-Commerce business offering information services for furniture and construction materials suppliers had gained an investment. The business model of Liba.com is based on the commission gained, expressed as a fraction of the

¹ Investment Amount (US\$M)

amount of deals secured. The success of its business model largely depends on the number of users, bargaining power with suppliers, and the single order amount.

4 Online Video deals secured US\$97.6 Million, accounting for 20.0% of total Internet deals and 36.6% of total investment amount. Remarkably, the average deal size for Online Video reached US\$24.4 Million, doubled than that of the TMT sector (US\$11.02 Million) (Figure 2.3.1-2). Online Video companies find it hard to attain higher margins due to high cost (server and band width) and lack of a business model which conforms to China's national conditions. Meanwhile, they have to attract more investments to stand out amongst the intensified competition.

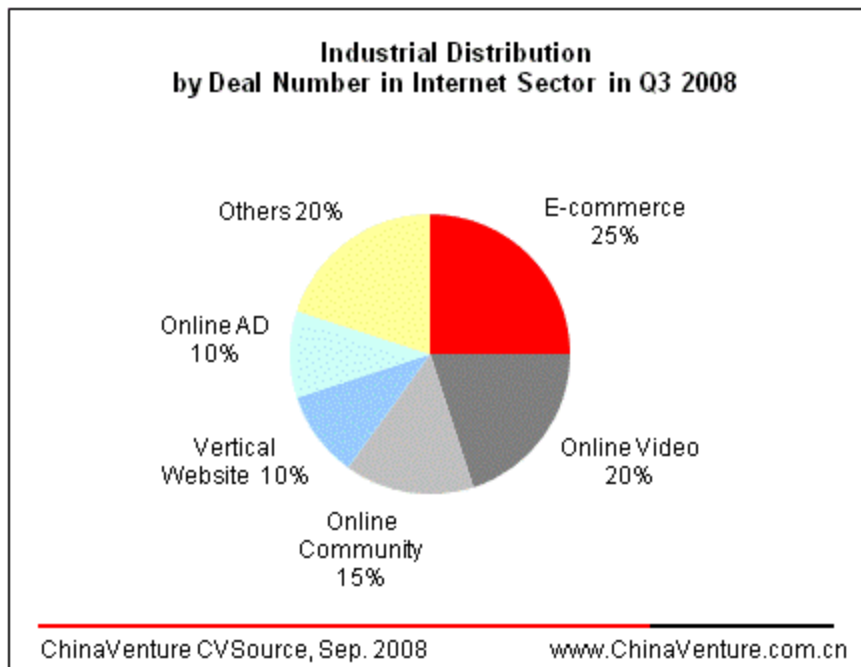


Figure 2.3.1-1 Industrial Distribution by Deal Number in Internet Sector in Q3 2008

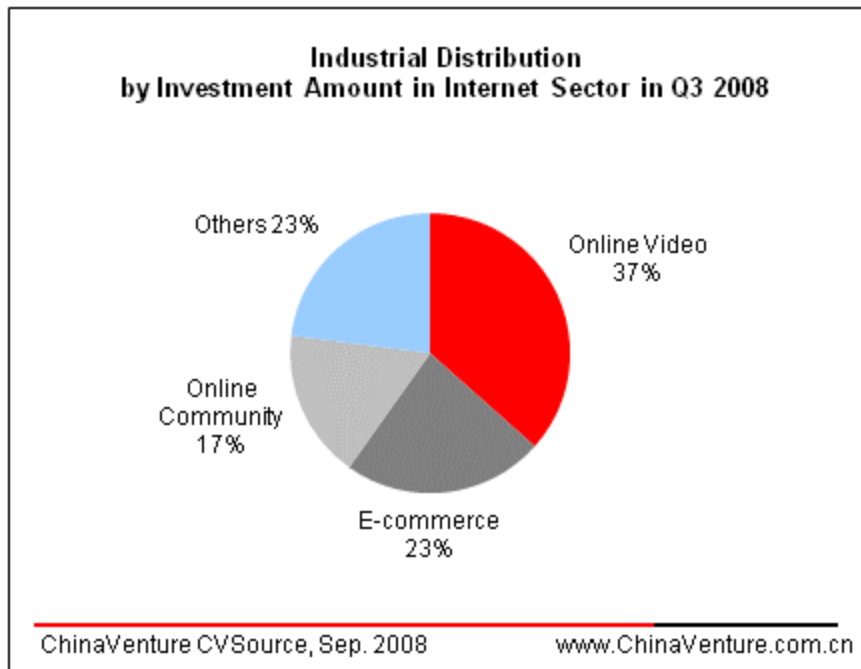


Figure2.3.1-2 Industrial Distribution by Investment Amount in Internet Sector in Q3 2008

2.3.2 Pharmaceutical Was Favoured by VC Firms

Pharmaceutical became the hotspot in the Medical and Healthcare sector in Q3 2008. Out of the 8 Medical and Healthcare deals, 4 Pharmaceutical deals secured US\$49.63 Million, representing 50.0% of the total number of deals and 78.8% of the total investment amount (Figure2.3.2-2).

Morningside Ventures and Lilly Asian Ventures became the third round of investors of a Shanghai-based CRO enterprise. With increasing costs as a reason, developed countries opt to outsource non-core technology to the less developed countries. WuXi AppTec Co., Ltd. debuted in New York Stock Exchange in August 2007.

More CRO companies will secure investment as China's CRO market develops. Meanwhile, ChinaVenture forecasts that more VC firms will focus on the Medical Equipment industry due to the market demand, government policy support, and market valuation.

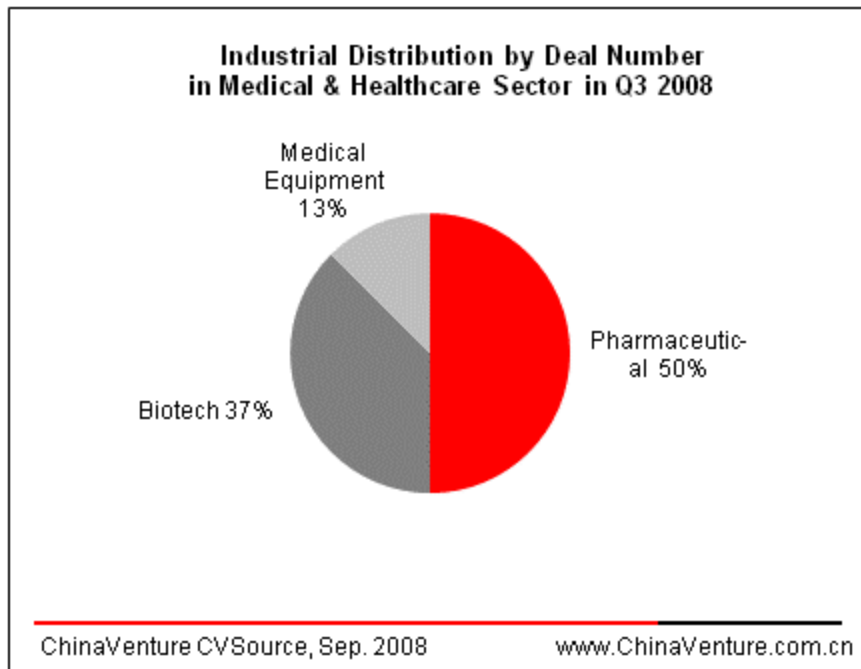


Figure2.3.2-1 Industrial Distribution by Deal Number in Medical & Healthcare Sector in Q3 2008

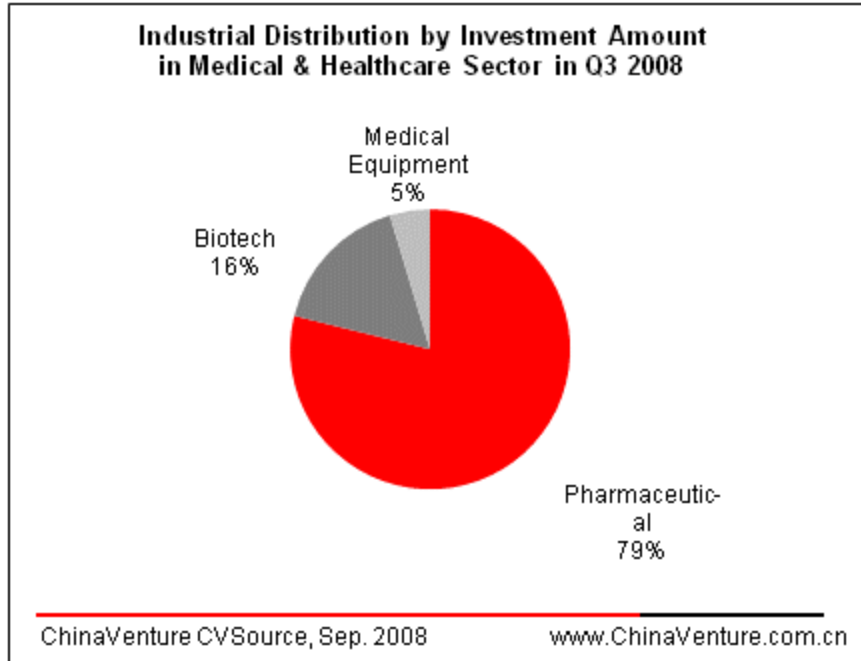


Figure2.3.2-2 Industrial Distribution by Investment Amount in Medical & Healthcare Sector in Q3 2008

3. Analysis by Stage

As observed, VC firms continue to prefer high growth enterprises due to the sluggish secondary market. The number of growth and maturity stage deals increased in Q3 2008. 39 growth stage deals secured US\$586 Million, representing a 21.9% increase in deal number and a 77.5% increase in investment amount quarter on quarter. The number of growth stage deals surged by 143.8% against Q3 2006, and rose by 18.2% over Q3 2007. The number of maturity stage deals surged by 143.8% against Q3 2006, and rose by 18.2% over Q3 2007. The number of maturity stage deals was 11, an increment of 450.0% as compared to Q1 2008. Only 5 seed stage deals were closed, accounting for 6.0% of total deal number (Figure3-1 & Figure3-2).

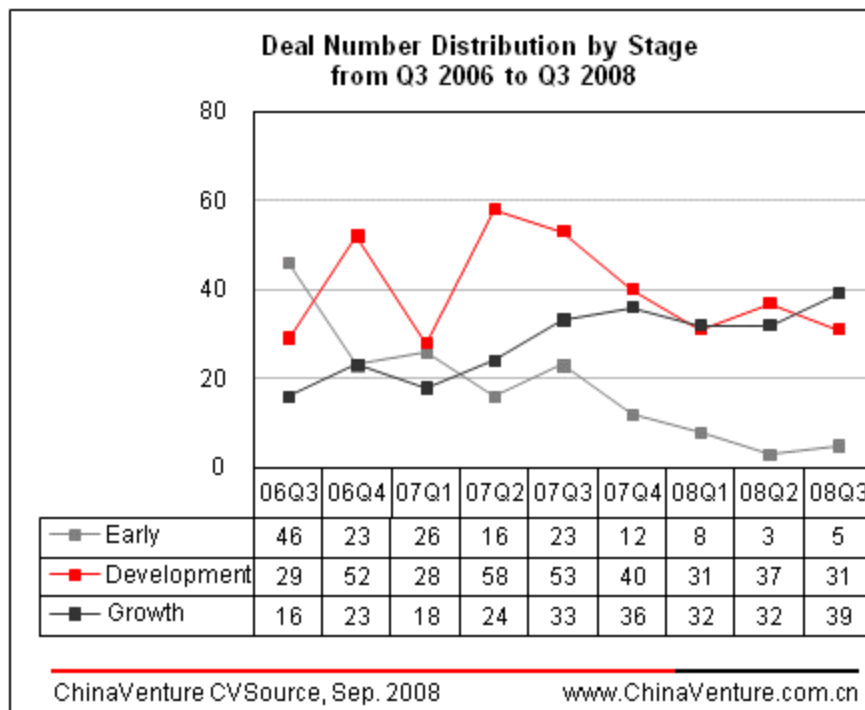


Figure3-1 Deal Number Distribution by Stage from Q3 2006 to Q3 2008

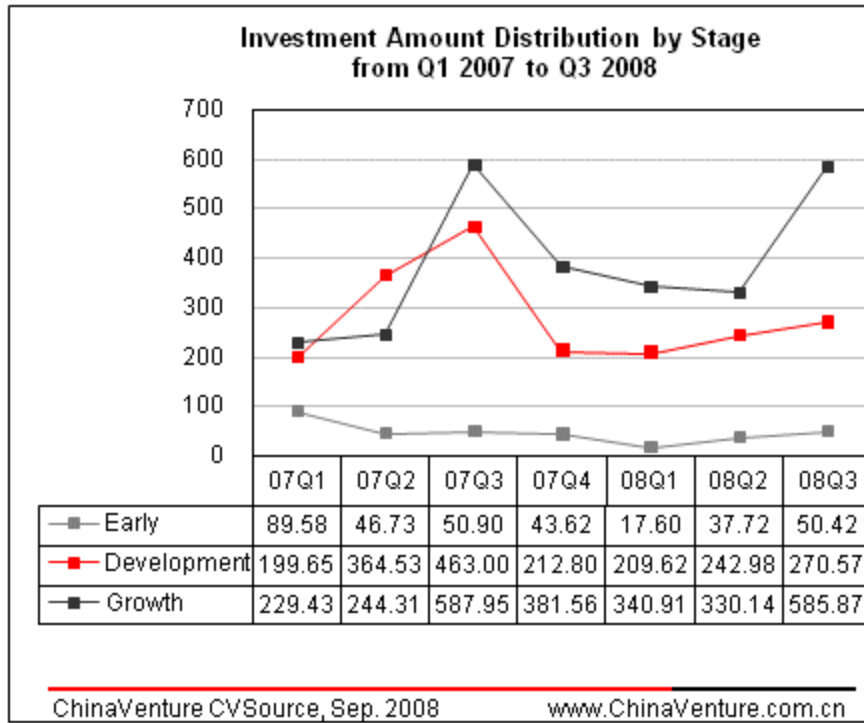


Figure3-2 Investment Amount Distribution by Stage from Q1 2007 to Q3 2008

4. Analysis by Series

VC investment in Series A financing amounted to US\$576 Million spreading over 63 deals, focusing on the growth and maturity stage (Table4-1). Investors preferred to invest in mature enterprises without financial investors, and were prudent about injecting additional capital so as to diversify risks.

VC Investment by Series in Q3 2008

Series	Number of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
A	63	575.68	9.14
B	14	252.55	18.04
C	8	168.23	21.03
D	1	30.00	30.00
Total	86	1026.46	11.94
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table4-1 VC Investment by Series in Q3 2008

5. Geographical Distribution

Economically developed regions such as Beijing, Shanghai and Jiangsu gained most VC investments. VC investments into Beijing-based companies totaled US\$374 Million over 27 deals. Shanghai stood second, securing US\$211 Million over 17 deals followed by Jiangsu which witnessed US\$88.42 Million funding into 9 deals. The combined investment amount in these three regions accounted for 65.6% of the total VC investments. The average deal size in Chongqing and Guangdong was US\$16.71 million and US\$15.33 million respectively, exceeding that in Beijing.

Geographical Distribution

Region	Number of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Beijing	27	374.12	13.86
Shanghai	17	211.07	12.42
Jiangsu	9	88.42	9.82
Guangdong	8	122.61	15.33
Zhejiang	6	50.43	8.41
Shenzhen	5	33.54	6.71
Sichuan	4	20.99	5.25
Chongqing	3	50.14	16.71
Shanxi	2	5.58	2.79
Jiangxi	1	30.00	30.00
Hainan	1	20.00	20.00
Shandong	1	8.40	8.40
Xinjiang	1	8.37	8.37
Hubei	1	2.79	2.79
Total	86	1026.46	11.94
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table5-1 Geographical Distribution

6. Analysis by VC Representation

The proportion of domestic VC investments decreased quarter on quarter. The number of deals made by domestic VC firms decreased by 13.6% and that of the investment amount's dropped by 6.0%. Domestic VC firms contributed US\$148 Million over 24 deals, representing 14.5% of the total investment amount and 27.9% of the total number of deals (Table6-1 & Figure6-3). Overseas VC firms conducted 62 deals, injecting an aggregate of US\$878 Million, representing 72.1% of the total number of deals and 85.5% of the total investment amount (Table6-1 & Figure6-1). The average deal size for both Chinese and overseas VC firms rose. Overseas VC firms witnessed an average deal size of US\$14.16 Million, edging out local firms (US\$6.19 Million).

Overseas & Domestic VC Investment in Q3 2008

Presentation	Number of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Overseas	62	878.00	14.16
Domestic	24	148.46	6.19
Total	86	1026.46	11.94
ChinaVenture CVSource, 2008.09		www.ChinaVenture.com.cn	

Table6-1 Overseas & Domestic VC Investment in Q3 2008

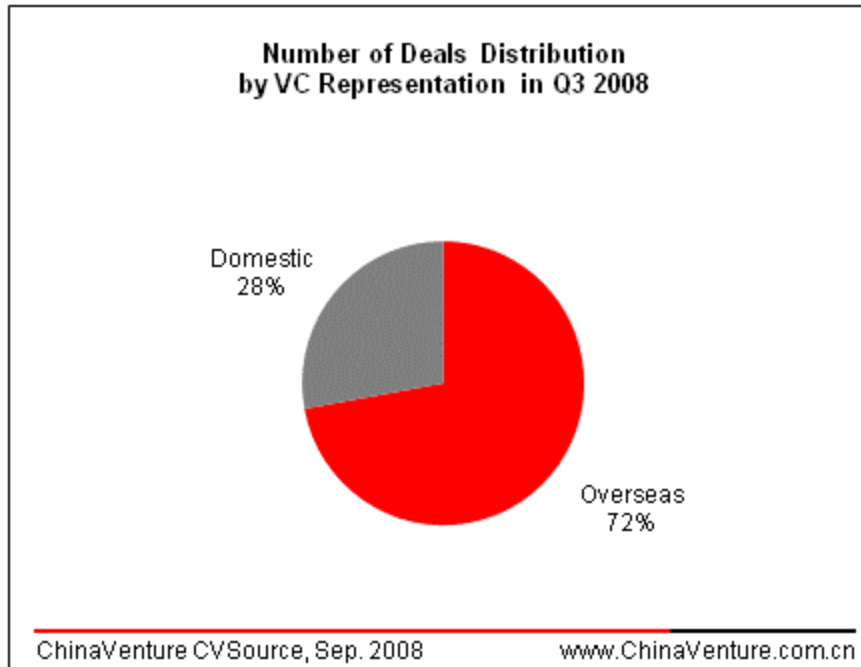


Figure6-1 Number of Deals Distribution by VC Representation in Q3 2008

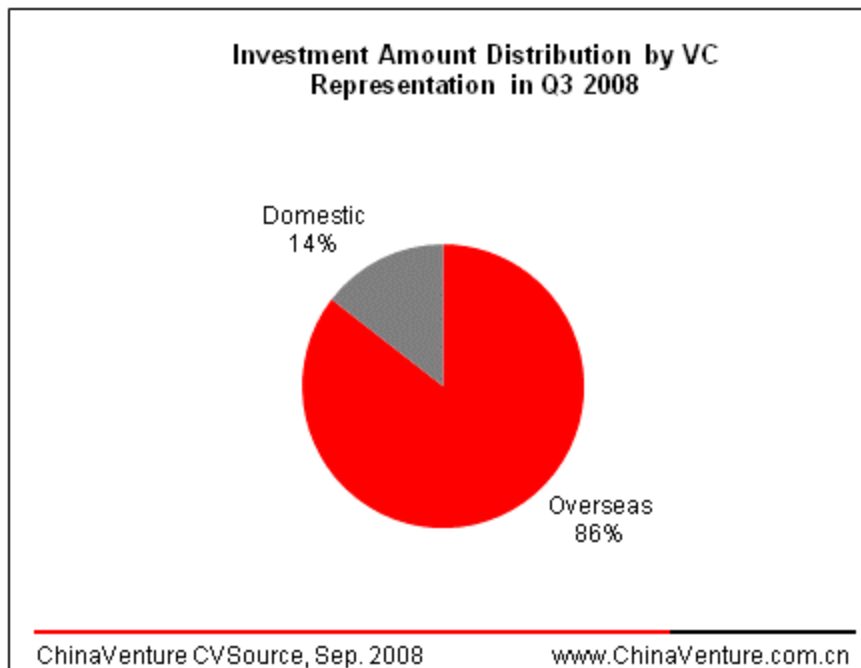


Figure6-2 Investment Amount Distribution by VC Representation in Q3 2008

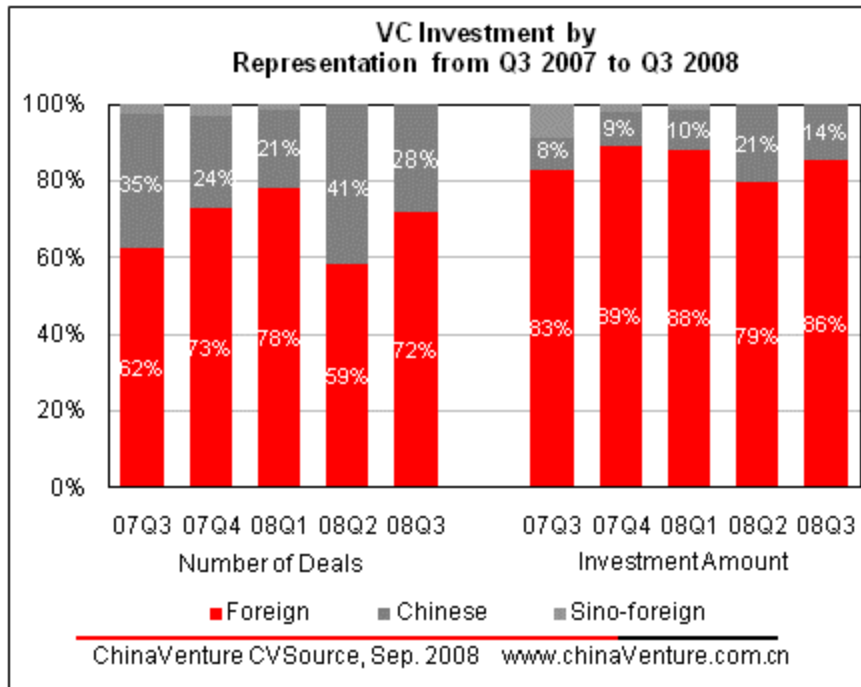


Figure6-3 VC Investment by Representation from Q3 2007 to Q3 2008

7. About CVSource

Developed by ChinaVenture, CVSource is an online database on China venture capital and private equity industry. The development of CVSource lasted two years and it was officially released to public in January 2008. Focusing on China equity market, CVSource covers the entire value chain of China venture capital and private equity industry providing detailed data and information on LPs, funds, investment firms, investment professionals and companies active in China as well as related financing, M&A and IPOs.

8. About ChinaVenture

ChinaVenture is a leading investment research and consulting firm which provides 3rd party transaction, comprehensive statistics and customized consulting to VC/PE firms, investment banks, and enterprises active in China. ChinaVenture also supports media platform and organizes investment conferences. ChinaVenture was established in 2003 and has offices in Beijing and Shanghai.

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