



ChinaVenture
投中集团

China's Private Equity Market Report Q3 2008

Analysts

Frank Yu

Jennifer Tan

Mark Xue

Suryanto Gobeawan

Wesley Lee

Young Zhang

Statutory Findings

PE investments in Q3 2008 totalled US\$2.117 Million decreasing by 17.1%.

Manufacturing and IT Services sectors each witnessed 4 deals, outperforming other sectors.

The Real Estate sector became a hotspot, securing US\$793 Million distributed over 2 deals.

Domestic PE firms completed 2 deals increasing by 81.8% quarter on quarter.

Warburg Pincus L.L.C. stood first by number of PIPE deals and investment amount.

Morgan Stanley contributed the largest investment amount.

Contents

1.	Analysis by PE Investment Scale in Q3 2008	1
2.	Industrial Distribution of PE Investment in Q3 2008	3
	2.1 Overview	3
	2.2 Analysis by Hotspot Sectors	5
3.	Analysis by Investment Strategy	7
	3.1 Overview	7
	3.2 Growth Capital	9
	3.3 Buyout	11
	3.4 PIPE	12
4.	Analysis by Stage	13
5.	Geographical Distribution	15
6.	Analysis by Investor Type	17
7.	About CVSource	19
8.	About ChinaVenture	19

List of Charts & Graphs

Figure 1	1 PE Investments from Q1 2008 to Q3 2008	2
Figure 2.	1-1 Industrial Distribution by No. of Deals in Q3 2008	4
	1-2 Industrial Distribution by Investment Amount in Q3 2008	5
	2-1 Average Deal Size Representation from Q4 2007 to Q3 2008	6
Figure 3.	1-1 No. of Deals Distribution by Strategy from Q1 2008 to Q3 2008	8
	1-2 No. of Deals Distribution by Strategy in Q3 2008	8
	1-3 Investment Amount Distribution by Strategy in Q3 2008	9
	2-1 Top 3 Sectors Favoured by Growth Capital by Deal Number in Q3 2008	10
	2-2 Top 3 Sectors Favoured by Growth Capital by Investment Amount in Q3 2008	11
Figure 4	1 No. of Deals Distribution by Stage in Q3 2008	12
	2 Investment Amount Distribution by Stage in Q3 2008	13
Figure 5	1 Top 3 Regions by No. of Deals in China's PE Market in Q3 2008	15
	2 Top 3 Regions by Investment Amount in China's PE Market in Q3 2008	15
Figure 6	1 No. of Deals by Investor Type from Q1 2008 to Q3 2008	16
	2 No. of Deals Distribution by Investor Type in Q3 2008	17
	3 Investment Amount Distribution by Investor Type in Q3 2008	17

List of Tables

Table 1	1 PE Investments from Q1 208 to Q2 2008.	1
Table 2	1-1 Industrial Distribution of PE Investments in Q3 2008	4
	1-2 Industrial Distribution by Investment Amount & No. of Deals in Q3 2008	5
Table3	1-1 PE Investments by Strategy in Q3 2008	
	2-1 Industrial Distribution of Growth Capital Investments in Q3 2008.	10
	3-1 Industrial Distribution of Buyout Investments in Q3 2008	11
	4-1 Industrial Distribution of PIPE Investments in Q3 2008	11
Table 4	1 PE Investment by Stage in Q3 2008	12
Table 5	1 Geographical Distribution of PE Investments in Q3 2008	14
Table 6	1 PE Investments by Investor Type in Q3 2008	16

1. Analysis by PE Investment Scale in Q3 2008

PE investments decreased significantly in Q3 2008. 19 deals secured an aggregate of US\$2.117 Billion representing a 42.4% decrease in deal number and a 17.1% decrease in investment amount quarter over quarter. The average deal size stood at US\$111 Million rising by 43.9% quarter on quarter (Table1-1).

PE Investments from Q1 2008 to Q3 2008

Time	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
2008Q1	27	2308.70	85.51
2008Q2	33	2554.71	77.42
2008Q3	19	2117.30	111.44
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table1-1 PE Investments from Q1 2008 to Q2 2008

Out of the 19 deals, most of the deals were worth between US\$10-30 Million and US\$50-70 Million. The number deals surpassing the hundred-Million bar decreased to 4 (Figure1-1). In terms of investment firms, Warburg Pincus L.L.C outperformed the rest, contributing 4 deals including 2 PIPE deals. Morgan Stanley topped the contribution level with US\$77 Million (Figure1-1).

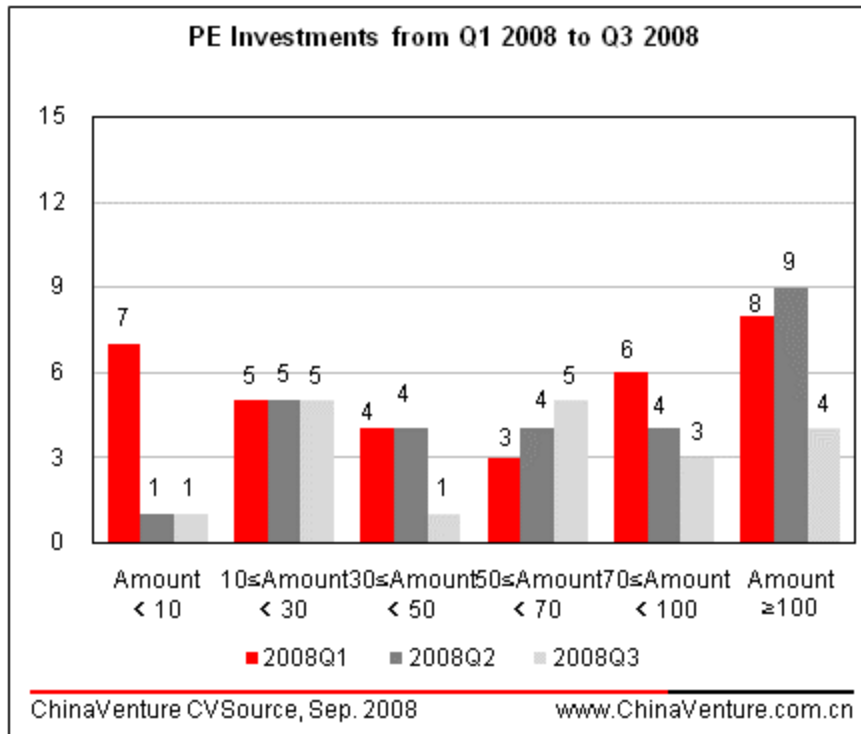


Figure1-1 PE Investments from Q1 2008 to Q3 2008¹

¹ Investment Amount (US\$M)

2. Industrial Distribution of PE Investment in Q3 2008

2.1 Overview

The 19 deals were secured across 9 sectors in Q3 2008. The Manufacturing and IT Services sectors performed best, attracting 4 deals. Medical & Healthcare, Energy & Mining, Real Estate sectors each witnessed 2 deals. In terms of investment amount, IT and Manufacturing sectors were active, each securing over US\$300 Million. This quarter sees Real Estate sector being the highest collector in terms of investment amount, garnering US\$793 Million.

The average deal size was topped by the Real Estate sector with an aggregate of US\$396 Million, which is mainly due to Morgan Stanley's investment of US\$77 Million into a real estate company. The Manufacturing sector came in second with an average deal size of US\$112 Million. Out of the 4 manufacturing deals, 2 deals were closed with each invested value of less than US\$70 Million (Table2.1-2).

10% of the total deal number was made up of IT Services, Manufacturing, and Medical & Healthcare sectors (Figure2.1-2). The Real Estate sector yielded the highest investment amount, representing 37.4% of the total. Observations revealed that the investment amount in the Real Estate sector had been the largest since Q1 2008 (Figure2.1-2).

Industrial Distribution of PE Investments in Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
IT Services	4	353.68	88.42
Manufacturing	4	446.70	111.67
Medical & Healthcare	2	113.00	56.50
Energy & Mining	2	209.50	104.75
Chain Operation	2	29.57	14.78
Real Estate	2	792.86	396.43
Media & Entertainment	1	20.00	20.00
Internet	1	65.00	65.00
Chemicals	1	87.00	87.00
Total	19	2117.30	111.44

ChinaVenture CVSource, Sep. 2008 www.ChinaVenture.com.cn

Table2.1-1 Industrial Distribution of PE Investments in Q3 2008

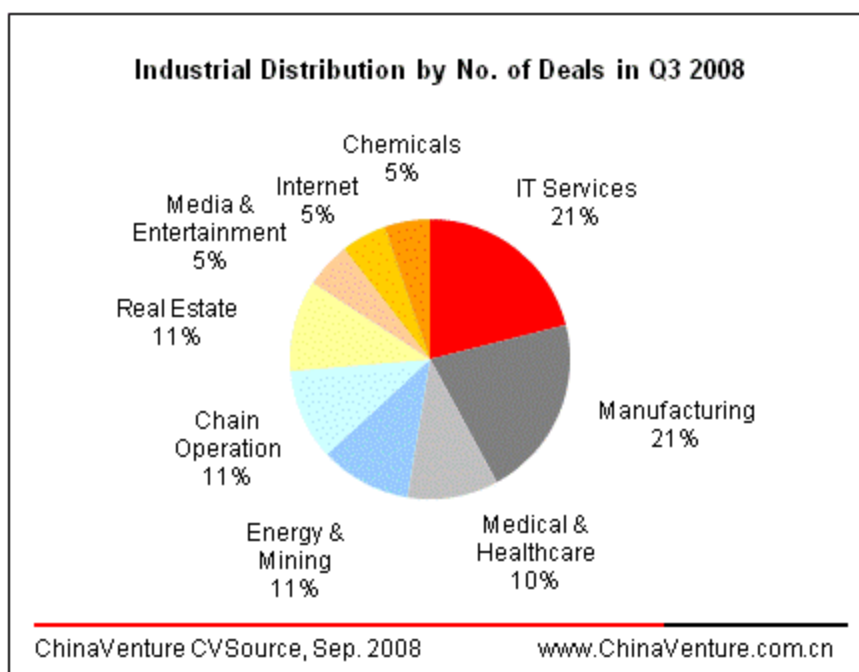


Figure2.1-1 Industrial Distribution by No. of Deals in Q3 2008

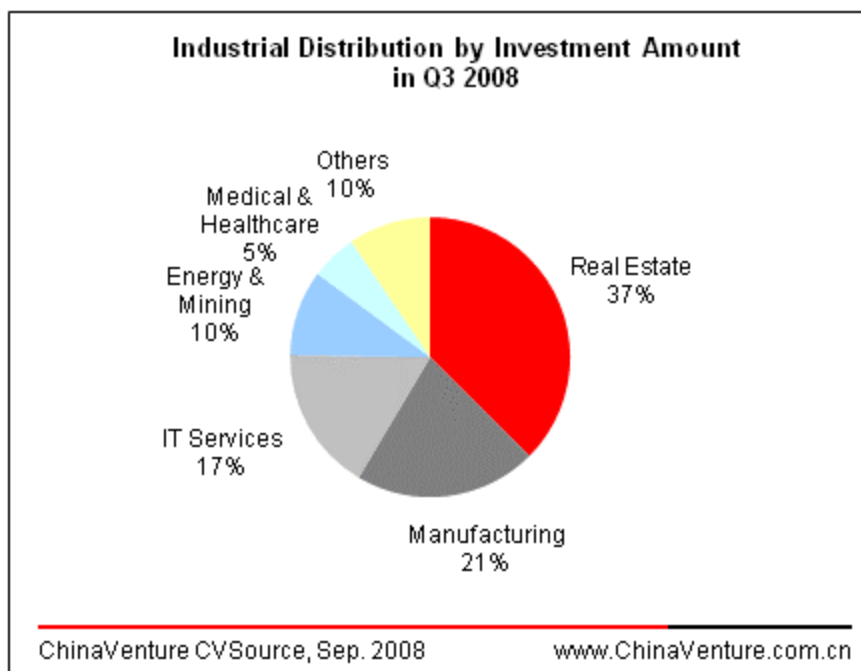


Figure2.1-2 Industrial Distribution by Investment Amount in Q3 2008

Industrial Distribution by Investment Amount & No. of Deals in Q3 2008

Investment Amt. (US\$M)	No. of Deals			
	Manufacturing	IT	Medical & Healthcare	Energy & Mining
Amount < 10	1	-	-	-
10 ≤ Amount < 30	-	1	-	-
30 ≤ Amount < 50	-	1	-	-
50 ≤ Amount < 70	1	1	3	-
Amount ≥ 70	2	1	-	2
Total	4	4	3	2

ChinaVenture CVSource, Sep. 2008 www.ChinaVenture.com.cn

Table2.1-2 Industrial Distribution by Investment Amount & No. of Deals in Q3 2008

2.2 Analysis by Hotspot Sectors

One of the biggest aluminum manufacturers in China, Liaoning Zhongwang Group Co., Ltd. received US\$300 Million. The enterprise produces aluminum for residential construction and industrial uses.

The investment amount in the IT Services sector amounted to US\$354 Million, surging by 248.7% quarter on quarter. Digital China Holdings Limited, a leading IT distribution and services company, with Suzhou Ventures Group Co., Ltd. established the jointly invested Digital China Information Technology Services Company Limited. The establishment of the joint venture indicates that the development of Digital China's IT service business has stepped up to a new stage. Suzhou Ventures Group invested RMB500 Million focusing on key employee incentive projects and M&A.

Hony Capital invested in Huahai Medical Info-Tech Co., Ltd. which engages in the R&D and production of medical treatment digitalization and information technology products. Huahai's PACS are widely used in approximately 300 hospitals in China.

The high cost of land purchase and sluggish real estate market impacted cash flow of real estate companies, driving them to seek PE investments. The average deal size for the Real Estate sector had been increasing remarkably from Q4 2007, and has reached US\$396 Million in Q3 2008 (Figure2.2-1). This indicates PE firms are optimistic about China's Real Estate market in the long run despite the global economic downturn.

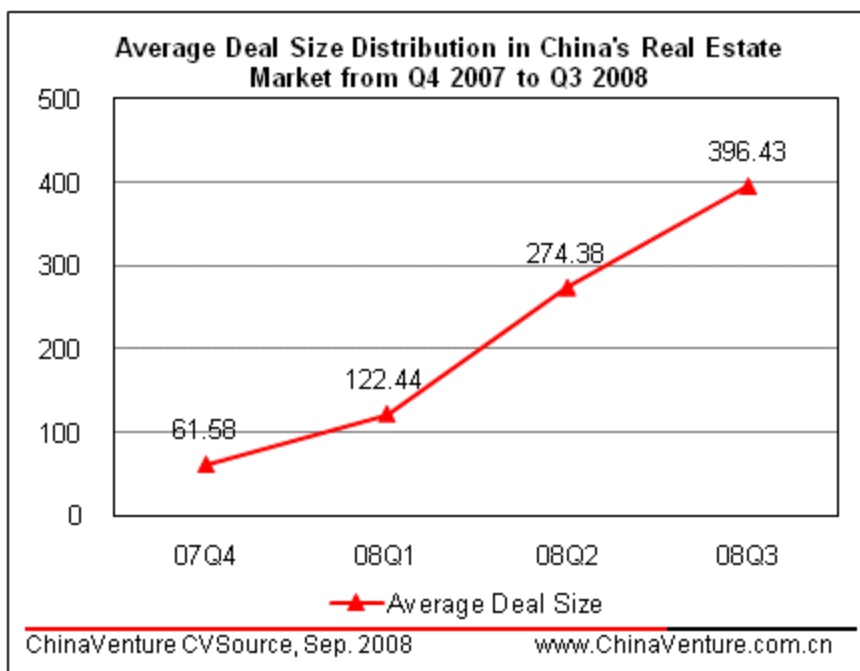


Figure2.2-1 Average Deal Size Representation from Q4 2007 to Q3 2008²

² Average Deal Size (US\$M)

3. Analysis by Investment Strategy

3.1 Overview

Out of 19 deals disclosed in Q3 2008, Growth Capital spread US\$1.747 Billion over 13 deals representing 80.4% of all dollars and 65.0% of all deals. PIPE injected US\$108 Million into 4 deals, representing the same level as Q3 2007 by number of deals and a 72.7% decrement in investment amount quarter on quarter. 2 Buyout deals were closed, raising US\$263 Million. The number of Buyout deals was basically the same as last quarter, and the investment amount dropped by 72.7% quarter on quarter (Table3.1-2, Figure3.1-2 & Figure3.1-3). Growth Capital experienced the largest average deal size of US\$134 million, followed by Buyout's US\$131 Million and PIPE's US\$26.89 Million.

PE Investments by Strategy in Q3 2008

Strategy	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Growth Capital	13	1746.88	134.38
PIPE	4	107.57	26.89
Buyout	2	262.86	131.43
Total	19	2117.31	111.44
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table3.1-1 PE Investments by Strategy in Q3 2008

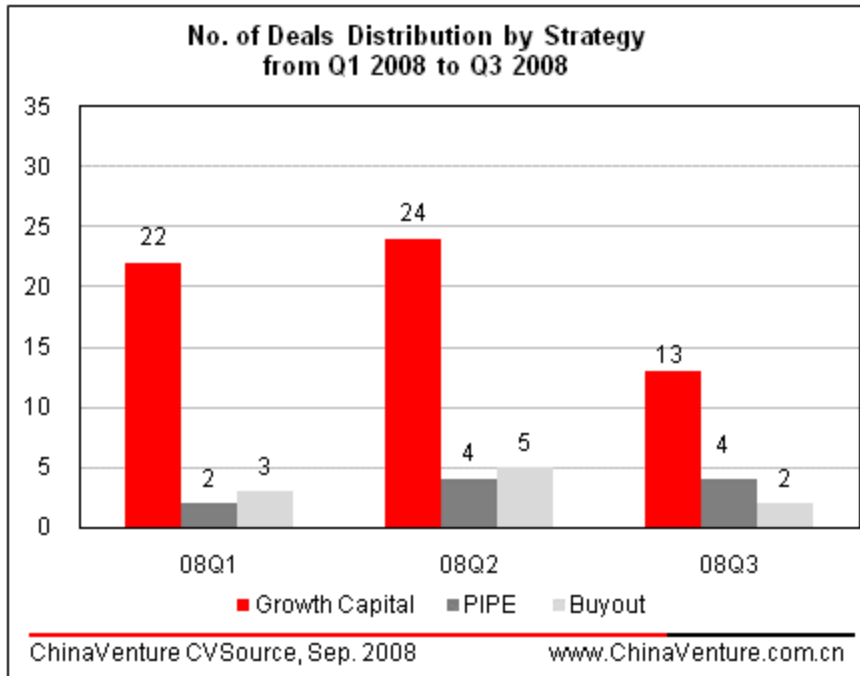


Figure3.1-1 No. of Deals Distribution by Strategy from Q1 2008 to Q3 2008

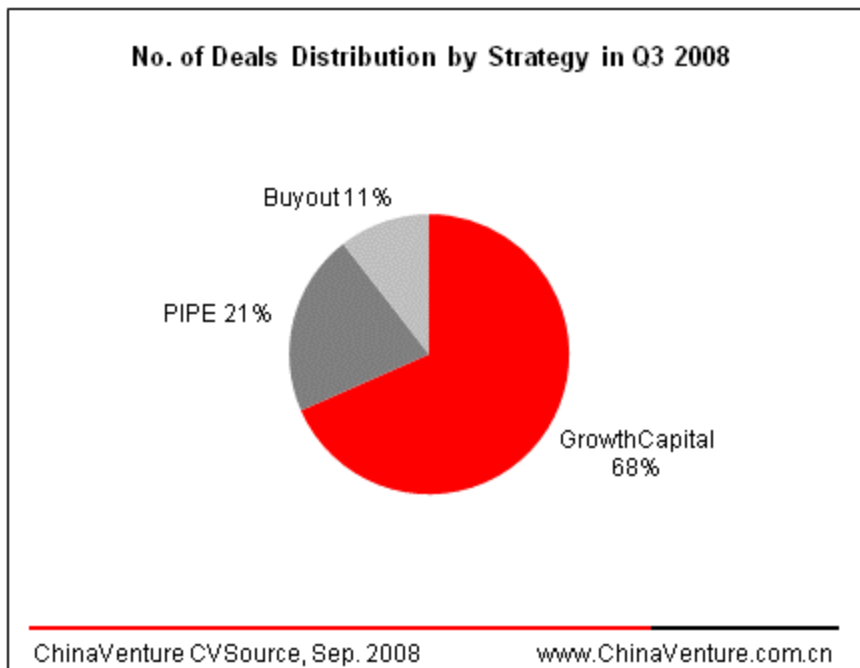


Figure3.1-2 No. of Deals Distribution by Strategy in Q3 2008

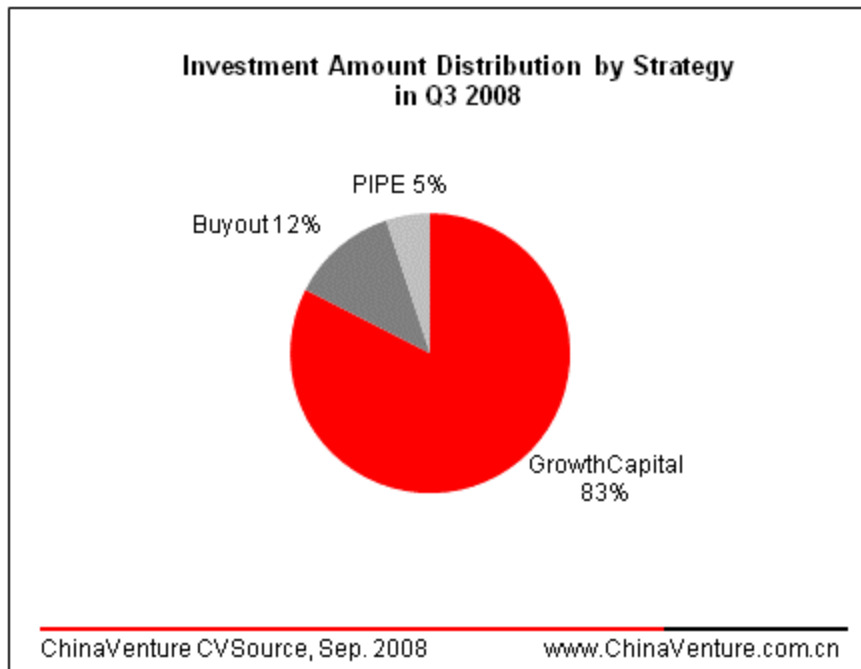


Figure3.1-3 Investment Amount Distribution by Strategy in Q3 2008

3.2 Growth Capital

Growth Capital focused on Manufacturing, Energy & Mining, and IT Services sectors in Q3 2008. All of Manufacturing, and Energy & Mining deals were closed by Growth Capital funds (Table3.2-1).

Industrial Distribution of Growth Capital Investments in Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Manufacturing	4	446.70	111.67
Energy	2	209.50	104.75
IT Services	2	98.68	49.34
Medical & Healthcare	1	50.00	50.00
Real Estate	1	770.00	770.00
Media & Entertainment	1	20.00	20.00
Chemicals	1	87.00	87.00
Internet	1	65.00	65.00
Total	13	1746.88	134.38
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table3.2-1 Industrial Distribution of Growth Capital Investments in Q3 2008

Out of the 2 deals in the Energy & Mining sector, an Energy company, Wuxi Qiaolian Windtech Co., Ltd. received US\$70 Million. Daye Nonferrous Metals Co., Ltd, a Mining company, secured US\$1 Billion. Daye is specialized in manufacturing, mining, smelting and processing of both raw copper and processed copper; ranked 5th in the industry.

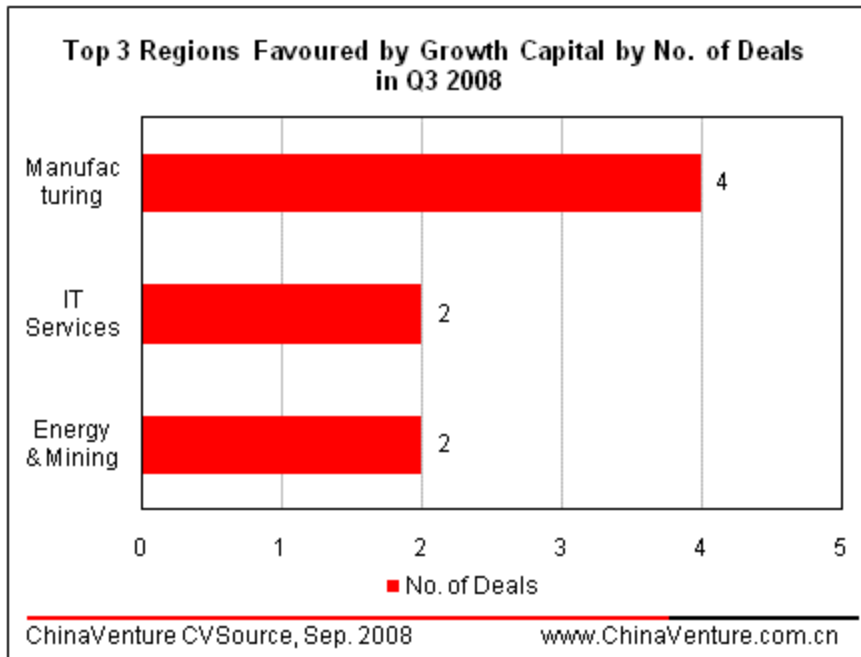


Figure3.2-1 Top 3 Sectors Favoured by Growth Capital by No. of Deals in Q3 2008

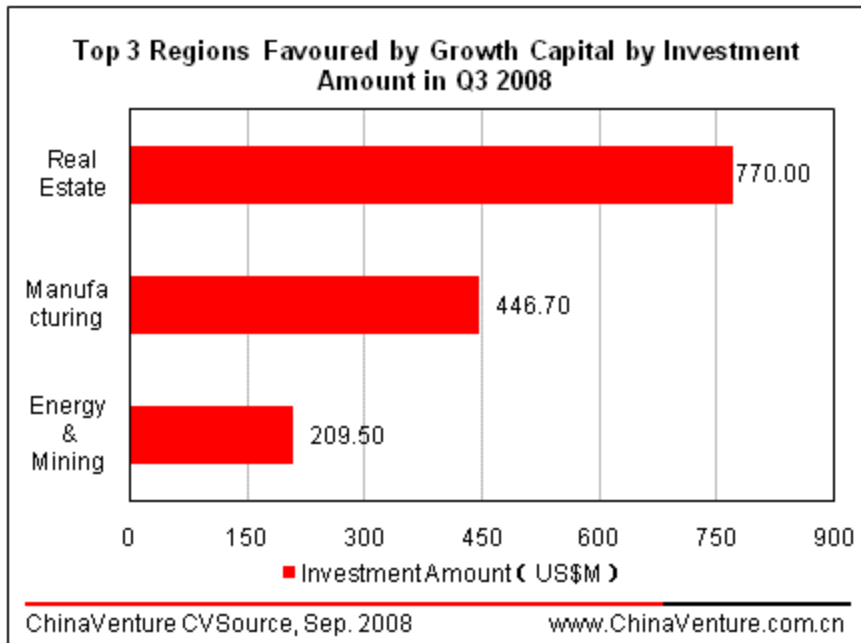


Figure3.2-2 Top 3 Sectors Favoured by Growth Capital by Investment Amount in Q3 2008

3.3 Buyout

A total of 2 Buyout deals were distributed in IT Services and Real Estate sectors in Q3 2008. An investment firm bought over an IT company worth US\$240 Million (Table3.3-1).

Industrial Distribution of Buyout Investments in Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)
IT Services	1	240.00
Real Estate	1	22.86
Total	2	262.86
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn

Table3.3-1 Industrial Distribution of Buyout Investments in Q3 2008

3.4 PIPE

4 PIPE transactions were distributed in Chain Operation, IT Services, and Medical & Healthcare sectors in Q3 2008. The Medical & Healthcare sector secured the largest investment amount (Table3.4-1). Warburg Pincus L.L.C. has invested US\$63 Million into a New York listed pharmaceutical company. Warburg's investment in this quarter reached US\$73.21 Million, accounting for 68.1% of total PIPE investment.

Industrial Distribution of PIPE Investments in Q3 2008

Sector	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Chain Operation	2	29.57	14.78
Medical & Healthcare	1	63.00	63.00
IT Services	1	15.00	15.00
Total	4	107.57	26.89
ChinaVenture CVSource, Sep. 2008		www.ChinaVenture.com.cn	

Table3.4-1 Industrial Distribution of PIPE Investments in Q3 2008

4. Analysis by Stage

Maturity stage deal number and investment amount remained the largest in Q3 2008. 13 maturity stage deals secured US\$1.576 Billion. However, the number of maturity stage deals fell quarter on quarter, indicating PE firms do not favor pre-IPO enterprises (Figure3.1-1).

PE Investment by Stage in Q3 2008

Stage	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Maturity	13	1575.77	121.21
Growth	4	448.68	112.17
Development	2	92.86	46.43
Total	19	2117.30	111.44

ChinaVenture CVSource, Sep. 2008 www.ChinaVenture.com.cn

Table4-1 PE Investment by Stage in Q3 2008

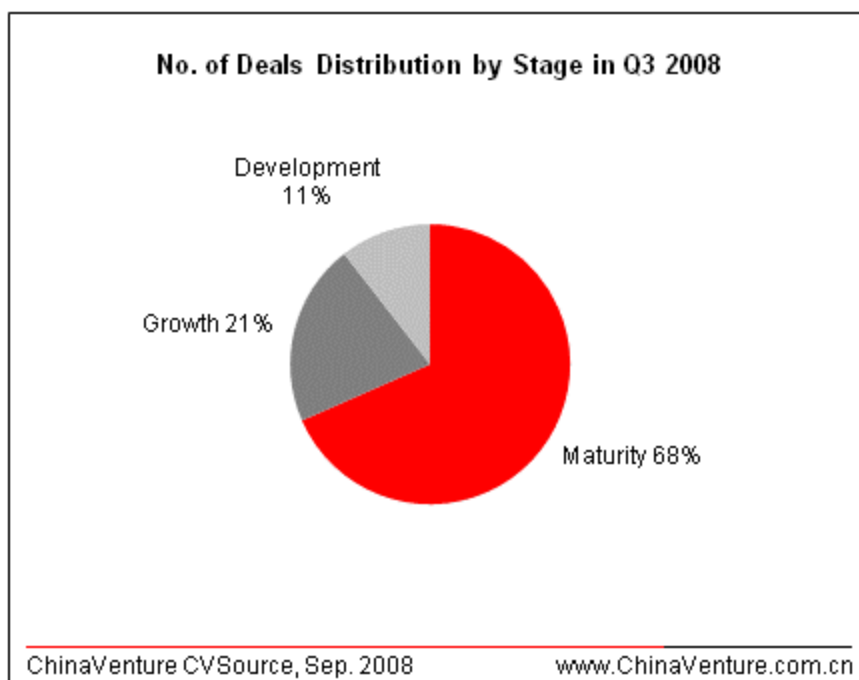


Figure4-1 No. of Deals Distribution by Stage in Q3 2008

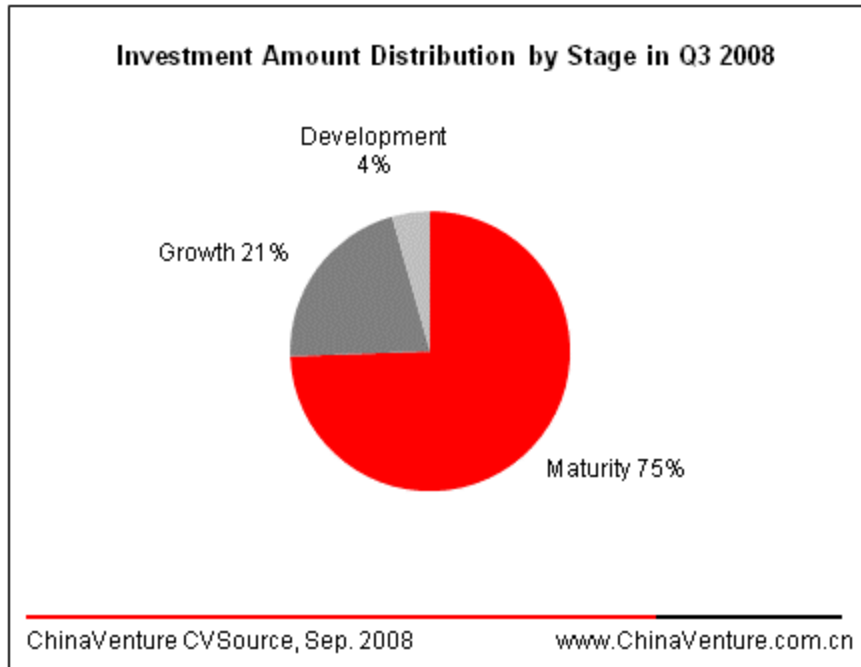


Figure4-2 Investment Amount Distribution by Stage in Q3 2008

5. Geographical Distribution

19 PE deals were conducted in 12 regions in Q3 2008. PE investments are still concentrated in Beijing and Shanghai. Beijing took the lead by securing US\$399 Million over 5 deals. Shanghai stood second capturing 3 deals with a total of US\$1173 Million (Table5-1).

Geographical Distribution of PE Investments in Q3 2008

Region	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Beijing	5	398.68	79.74
Shanghai	3	172.86	57.62
Jiangsu	2	120.00	60.00
Guangdong	1	770.00	770.00
Henan	1	6.70	6.70
Hubei	1	139.50	139.50
Shenzhen	1	40.00	40.00
Chongqing	1	90.00	90.00
Zhejiang	1	10.21	10.21
Fujian	1	19.36	19.36
Shannxi	1	50.00	50.00
Liaoning	1	300.00	300.00
Total	19	2117.30	1623.12
ChinaVenture CVS, 2008.09		www.ChinaVenture.com.cn	

Table5-1 Geographical Distribution of PE Investments in Q3 2008

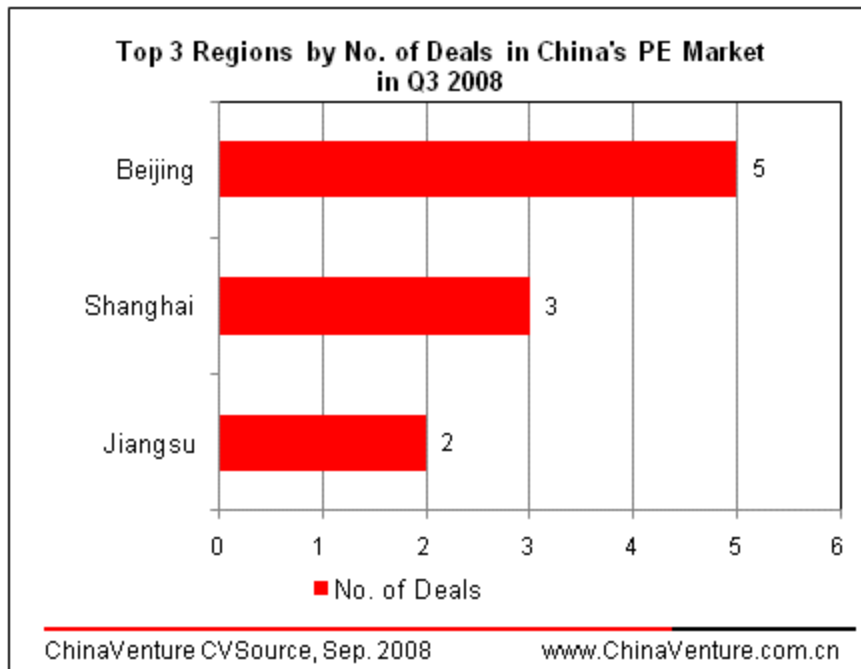


Figure5-1 Top 3 Regions by No. of Deals in China's PE Market in Q3 2008

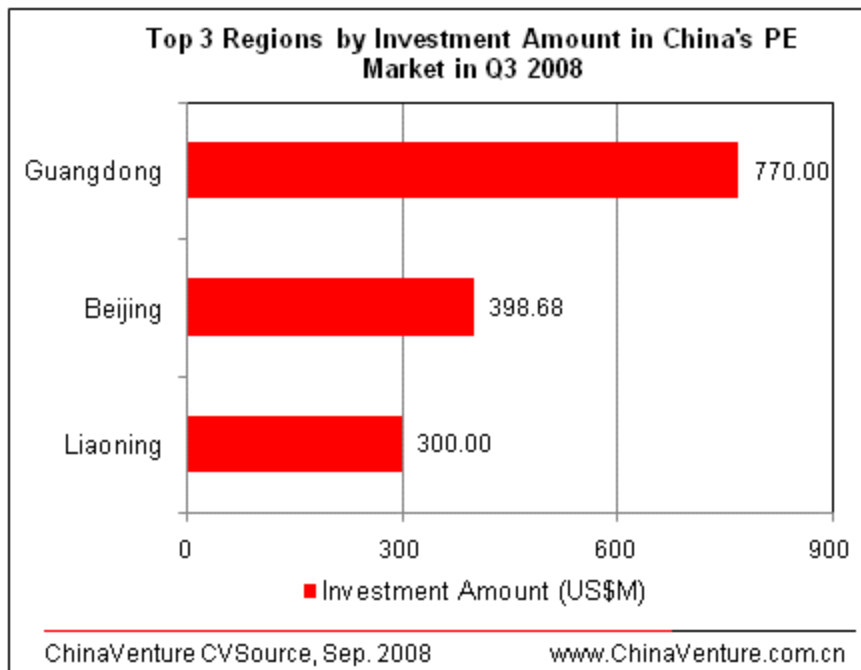


Figure5-2 Top 3 Regions by Investment Amount in China's PE Market in Q3 2008

6. Analysis by Investor Type

China's domestic PE firms contributed US\$146 Million over 2 deals in Q3 2008. The weightage of the number of deals fell to 10.5% and that of investment amount decreased to 7.0% (Table6-1, Figure6-1 & Figure6-2). The average deal size of Chinese PE firms surged by 124.8%, and that of foreign PE firms' increased by 16.10% quarter on quarter.

PE Investments by Investor Type in Q3 2008

Representation	No. of Deals	Investment Amount (US\$M)	Average Deal Size (US\$M)
Overseas	17	1971.11	115.95
Domestic	2	146.20	73.10
Total	19	2117.30	111.44

ChinaVenture CVSource, Sep. 2008 www.ChinaVenture.com.cn

Table6-1 PE Investments by Investor Type in Q3 2008

The significant decrease in the number of deals reveals PE firms' wait-and-see attitude. Many Chinese investment firms entered PE market favoring pre-IPO projects in 2007. However, they are faced with great pressure generated by the stock market slump.

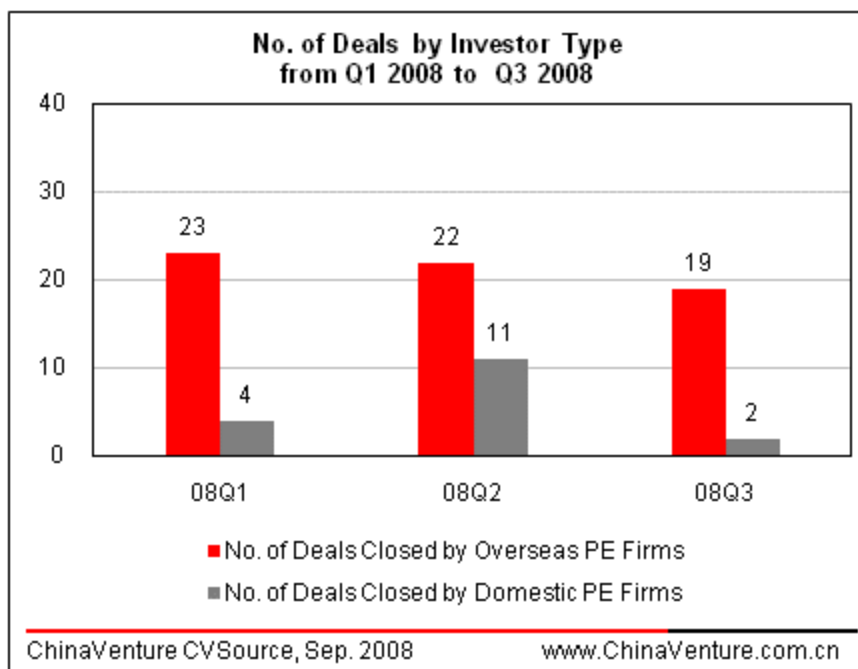


Figure6-1 No. of Deals by Investor Type from Q1 2008 to Q3 2008

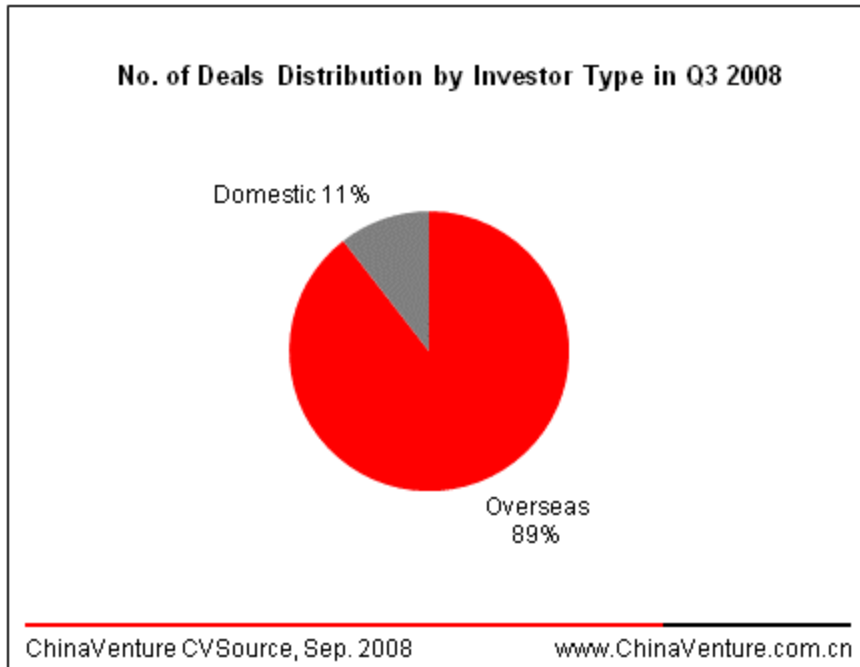


Figure6-2 No. of Deals Distribution by Investor Type in Q3 2008

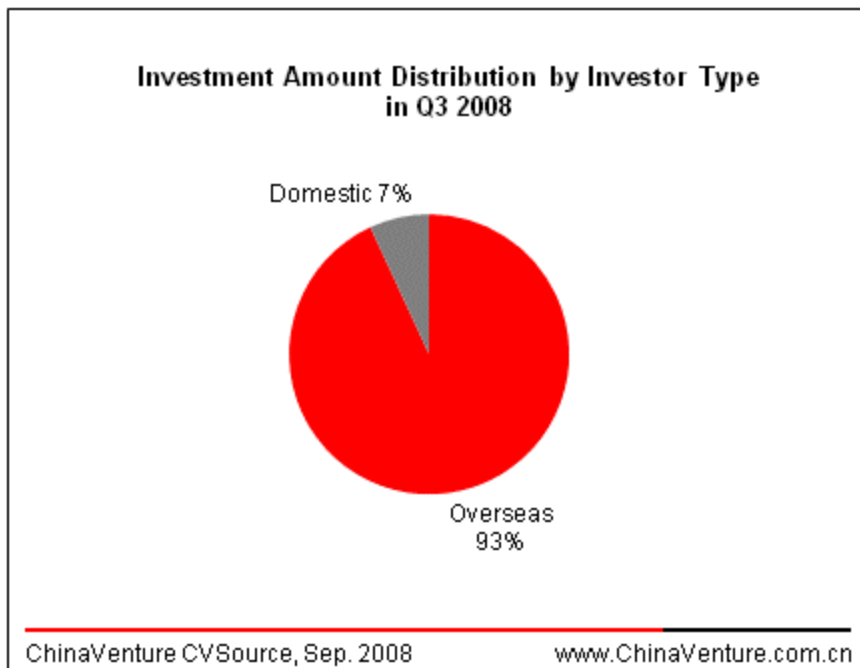


Figure6-3 Investment Amount Distribution by Investor Type in Q3 2008

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.

ChinaVenture Investment Consulting, Ltd.

Rm.801, Building C, SOHO New Town, 88 Jianguo Rd., Chaoyang District, Beijing, P.R.
China

Tel: +86-10-59799690

Fax: +86-10-85893650-60