投资界 PEdaily.cn
电子周刊 MAGAZINE
NO.0476
2011-03

China State-funded VC:
How Far Can You Go?

>>P2

Hot News

Zbird.com Finishes Round C Financing

>>P6

China State-funded VC: How Far Can You Go?

Written By Zero2IPO Research Center

The development of local venture capital is "government-driven" oriented. In the initial stage, people have limited knowledge of venture capital, and private capital's participation in VC was lack of motive power and passion. The number of wealthy families and individuals in China was relatively limited then, and institutional investors cannot participate in the VC subject to policy constraints. Such situation determined that it was necessary for the government to have a hand in venture capital directly. Venture capital is offered through the establishment of state-funded VC to address China's absence of local VC institutions in the VC industry, and to achieve the transformation from scratch.

Zero2IPO Research Center, a famous VC and PE research institute in Greater China, released the China State-funded VC Restructuring Report 2011, which introduced the background, development and current condition of state-funded VC institutions, analyzed the reason for denationalization of state-funded VC institutions in details and introduced the three major operation process of restructuring state-funded VC firms in practice.

State-funded VC leads local VC developing from nothing

The development of China's local VCs started from 1984. The central and local governments took VC investments as complementary measures for "reform on fiscal allocation system of research institutions and small and medium-sized technology enterprises". In line with the development guideline of national "Torch Plan", the State Council approved the establishment of China Venturetect Investment Corporation (CVIC) jointly funded by the National Science and Technology Commission and Ministry of Finance, which became the first domestic VC firm in China. Since then, sci-tech administrative systems of local governments set up the "National Science and Technology Venture Capital Development Center" and "science and technology venture capital organization", which went against the operational principle of VC investments, most of these intuitions shrunk, or were merged or acquired by private institutions.

In 1997, inspired by China's strategy of developing the country through science and technology, the Ministry of Science and Technology and other relevant departments began to carry out the systematic study on VC system construction. Against this background, a number of VC institutions were established and funded by state or local governments as well as state-owned enterprises or listed companies, including Beijing High Technology Venture Capital Co., Ltd. (former Beijing High Technology Industry Investment Co., Ltd.), and Beijing Venture Capital Co., Ltd (BVCC) funded by Beijing government in October 1998. In May 1998, to implement the national development strategy of "promoting the transformation of scientific and technological achievements", Shanghai Municipal Government issued the Provisions of Shanghai Municipal Government on Promoting the Conversion of New Advanced Technological Achievements (hereinafter as the "18 provisions"). To promote the reform of government investments in science and technology, and to speed up the conversion of high-tech achievements and implementa-

Table 1 Classification of State - funded VC Institutions

Type	Typical VC Institution	Establishment Time
Local public finance initiated	Shanghai Venture Capital Co., Ltd.	1999
	Jiangsu Hi-Tech Venture Capital Company	1992
	Guangzhou Venture Capital Co., Ltd.	1999
State-owned business, high-tech development zone enterprises, listed companies or private enterprises funded	Shenzhen Venture Capital Co. Ltd. 【now named Shenzhen Venture Capital Group Co. Ltd.】	1999
	Beijing Venture Capital Co., Ltd.	1998
	Zhejiang Venture Capital Co., Ltd.	1993
	Tianjin TEDA Venture Capital Co., Ltd.	2000
State controlling listed companies initiated	Legend Capital	2001
	HongTa Venture Capital Investment Co., Ltd.	2000
	Neusoft Venture Capital Co., Ltd.	2000
	Shanghai Shenneng Venture Capital Co., Ltd.	2000
Overseas state-owned business funded	China Merchants Technology	1999
	China Everbright Limited	2004
Colleges initiated	Tsinghua Venture Capital Co. Ltd. 【now named Tsinghua Science Park Venture Capital】	1999
	Shenzhen Leaguer Venture Capital Co., Ltd 【now named Shenzhen Leaguer Venture Capital Management Co., Ltd】	1999
	Peking Univ. China Merchants Investment 【now named China Science & Merchants Venture Capital Management Co., Ltd.】	2000

Source: Zero2IPO Research Center

tion of policy, the Shanghai Municipal Government formally approved the establishment of Shanghai Venture Capital Co., Ltd. in August 1999.

In December 1998, the State Development and Planning Committee proposed the issue of "setting up GEM stock market (ChiNext) as soon as possible" to the State Council. ChiNext market was first formally proposed. Stimulated by this positive factor, the second boom ushered in the establishment of local VCs. However, going through the rapid deterioration of Global GEM market trend represented by NASDAQ, the development of ChiNext began to become complicated and confusing. During this period, local VC institutions shrunk seriously, some of institutions were transformed or even shut down.

According to different initiators of state-funded VC, it can be roughly divided into five categories:

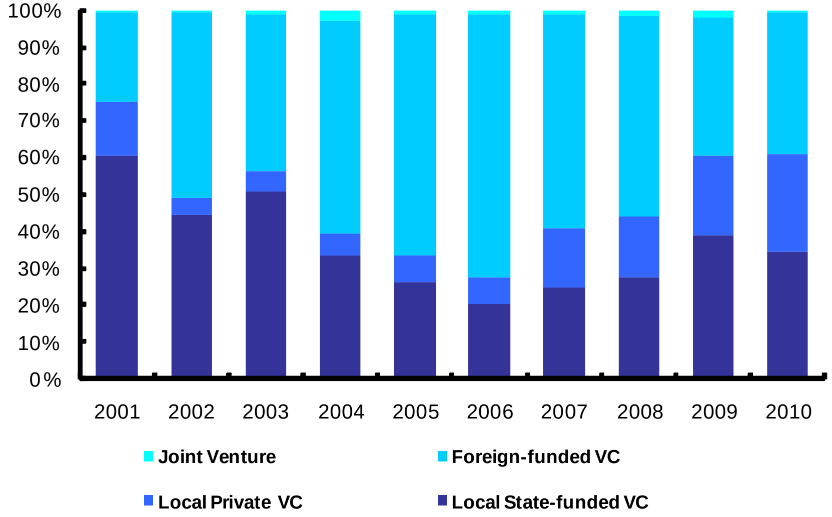
Operation of state-funded VCs

Throughout the development from 2001 to 2010, the number of local investment deals and amount show the trend of U-shaped changes in 2006 as a division point. At early stage, the VC development was mainly driven by government support. 2000 is the year of upsurge of establishment of local venture capital companies, the government capital (including national and local government funds, state-owned holding enterprises, universities and research institutes, etc.) was the main source of funding for local VCs. Some birth defects of funding and management system, as well as untainted ChiNext dampened the enthusiasm of VC institutions, therefore, many local VC institutions could not continue to development during this period. Since 2006, with the full implementation of domestic equity division reform, introduction of SMEB and ChiNext, and clear support policies from the state as well as the investment of capital of private enterprises and individuals into the VC field, the local VCs have grown again. From the external factors, the pace of foreign capital VCs has slowed down since the end of 2008 affected by the financial crisis, which created an excellent opportunity for the development of local VCs. The proportion of local VC investment deals was more than 60.0% from 2009 to 2010, ahead of foreign capital in terms of the number (See Figure 1 and Figure 2).

Over the years, the biggest challenge for local VC development is the exit mechanism. The exit of local VC mainly takes domestic IPO as its main channel; however, the shortage of ChiNext early years made the local VC exit become limited to a great extent. With the overall implementation of equity division reform and launch of Shenzhen SMEB and opening of ChiNext, the perfection of domestic capital market structure opened up the local VC exit channel. The new mode of "local fundraising-local investment-local exit" has been formed, and China's local VC regained confidences and became enthusiastic. Especially in recent years, the exit deals of local VCs have been far more than their foreign peers, the local VCs have embracing a "golden harvest" era (See Figure 3).

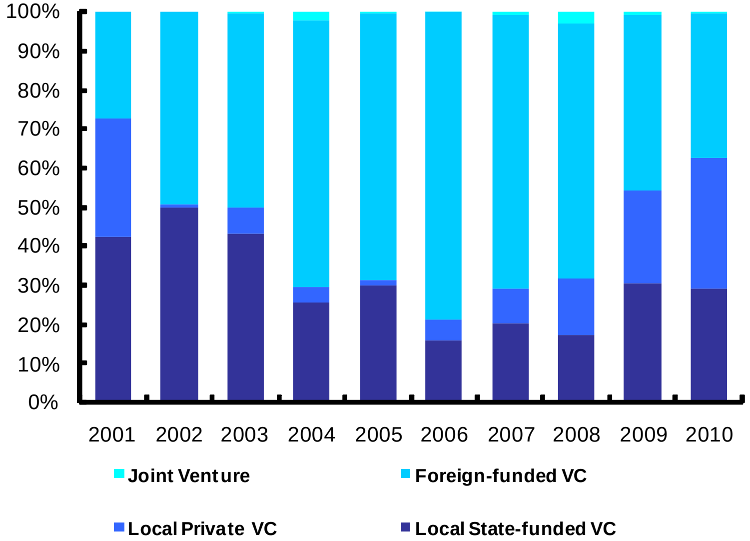
On June 19, 2009, the Ministry of Finance, SASAC, CSRC, and National Council for Social Security Fund jointly issued a document, the Implementing Measures for the Transfer of Some State-owned Shares from Domestic Securities Market to National Social Security Fund (No. 94 [2009] of the Ministry of Finance), launching the reform of transfer of some state-owned shares to social security fund, and obtained the approval of the State Council. One of core measures is that after the equity division reform in June 2006, the IPOs or listings of any limited liability companies with state-owned shares in the domestic security market, unless otherwise provided by the State Council, shall transfer 10% of actual shares issued to the social security fund. After the issuance of the "Implementation Measures", heated discussions were triggered among insiders. There is nothing to be said against the significan-

Figure 1 Proportion of Investment Deals Conducted by Local State-funded VCs between 2001-2010 (By No. of Deals)



Source: Zero2IPO Research Center

Figure 2 Proportion of Investment Deals Conducted by Local State-funded VCs between 2001-2010 (Unit: US$M)

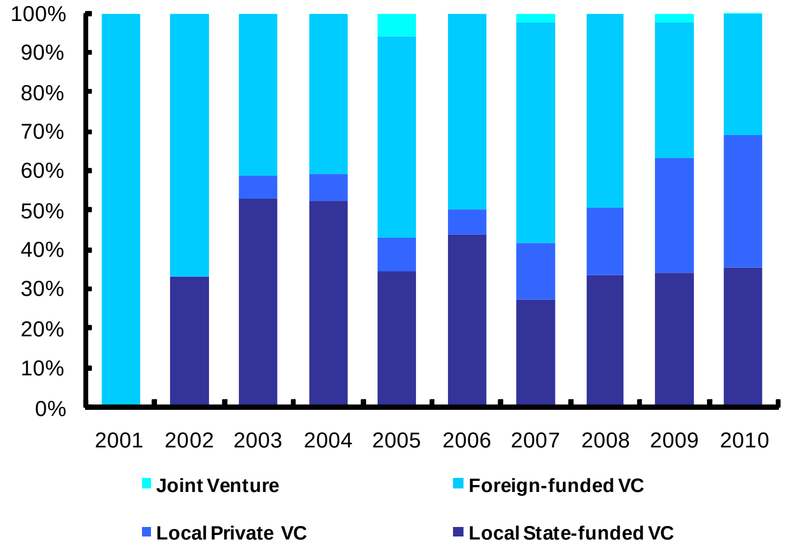


Source: Zero2IPO Research Center

ce of transfer of state-owned shares to the social security fund, but the transfer measures do not accord with situation that China implements technological innovation and supports the development of VC institutions. It will have a tremendous impact on China's state-owned VC institutions and is not conducive to give play to the guidance role of state-owned venture capital to support the development of high-tech SMEs.

In recent years, more and more state-owned VC institutions began to make a step towards privatization. Some old state-owned VC firms have completed the transformation of "privatization". Viewed from historical development, there were some problems in the operation of VC market for the single state capital or dominated state-owned capital, such as poor investment decision-making efficiency, inadequate incentives, and lack of interest protection mechanisms, making state-funded VCs cannot enhance its competitiveness restricted by policies and systems. Therefore, marketization and privatization are its better direction of development for Chinese VC industry, and many state-owned VC institutions are also looking forward to the introduction of private capital.

Figure 3 Proportion of Exits Conducted by Local State - funded VCs between 2001 - 2010



Source: Zero2IPO Research Center

2011
CVCF
@ Europe
Zero2IPO-China Venture Capital & Private Equity Forum

The 3rd China Venture Capital & Private Equity Forum @ Europe

2011第三届
中国创业投资暨私募股权投资
欧洲论坛

June 24th, 2011, Zurich, Switzerland

2011年6月24日，瑞士 苏黎世

主办单位 Organizers: Zero2IPO 清科集团 Zero2IPO Group   b-to-v where brains meet ventures

银牌赞助商 Silver Sponsor: VICKERS VENTURE PARTNERS

了解中国、欧洲投资现状，把握中国、欧洲投资机会！

Boost your knowledge about China Venture Capital & Private Equity. Seize the investing opportunities in China.

2011年中国创业投资暨私募股权投资论坛欧洲论坛将带您在童话与现实并存、艺术与商业共荣的苏黎世开始一场奇幻旅程。一天的论坛将涉及到诸多关于中国及欧洲投资市场的热门话题。我们将邀请来自中国及欧洲30余位行业权威人士与您一起共同探讨与预测行业走向，分析与把握投资机会。

2011 China Venture Capital & Private Equity Forum @ Europe will lead you on a fantasy journey in Zurich. One day forum will cover most of the hot topics on investment market in China. There will be more than 30 industries titans share experience with you. Investment issues and opportunities will be discussed in depth.

Zbird.com Finishes Round C Financing

Mar.9, 2011, PEdaily.cn

The domestic diamond jewelry e-commerce company, Shanghai Diamond Bird Trading Co., Ltd. (hereinafter as "Zbird") recently obtained the third round of venture capital. The investors are FountainVest and Ceyuan Ventures.

Zbird.com got its first capital injection from Capital Today in May 2007 with an amount of US $5M. In October 2008, Zbird.com obtained the second round investment of RMB100M from Capital Today and Ceyuan Ventures.

Relevant official of brand department of Zbird.com said that RMB100M funding would be used for the construction of the national

experience stores. At present, Zbird.com is expanding stores at the speed of opening one store in two months. It is expected to reach 12 stores by the end of the year, and will cover all major cities nationwide in the next two years.

Zbird.com was established in 2002, is the first professional jewelry brand engaging in online sales of diamond.

CDH Plans to Acquire Sinomem at a Cost of RMB350M

Mar.9, 2011, Zaobao.com

Stimulated by the news that CDH China Management proposed to make a 100% take-over at a cost of RMB351.25M, the value of Sinomem soared 25.7% yesterday.

Via Clean Water Investment, CDH's SPV registered in Cayman Islands, CDH proposed to entirely acquire Sinomem with a price of RMB0.7 per share. Once the deal is completed, the latter will be delisted from Singapore Exchange. Doctor Lan Weiguang and Chen Ni, founders of Sinomen with a total stake of 56.05%, have agreed to

the main complaints of the company is its low transaction volume on the Singapore Exchange and it will then go public on the Hong Kong Stock Exchange some time later.

Edan Instrument's IPO Application Passes Review

Mar. 9, 2011, PEdaily.cn

The China Securities Regulatory Commission announced on the evening of March 8 that the IPO application of Edan Instruments, Inc. has passed review. Edan Instruments plans to circulate 25 million shares of RMB common shares, representing 25% of the total share capital after placement. The proceeds will be used in the expansion of