

FOLEY EXECUTIVE BRIEFING SERIES



**Eye On China:  
Private Equity Investments In China**



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**Today's Speakers**

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## Agenda

- Current Landscape of PE & VC Investments in China
- Growth Drivers and Opportunities
- Obstacles and Pitfalls
- Evaluate Your Investments in China
- Regulatory Framework & Common Investment Structure
- Practical Strategies



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## Current Landscape of PE Investments

- PE and VC funds, domestic and foreign, continues to flow into China
- 2007 reached record high
  - PE and VC investments in China totaled US\$12.82 billion and US\$3.25 billion respectively
  - 64 new PE funds raised US\$35.58 billion
  - 58 new VC funds raised US\$5.48 billion
  - 94 VC/PE backed IPOs and 30 M&A transactions took place in 2007

Source: The Zero2IPO Research Center



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## Current Landscape of PE Investments

### – 2008 Q1 saw continued robust growth

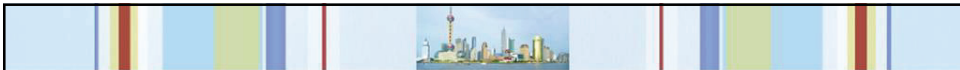
- 16 PE funds targeting Asia (including China) raised US\$20B during this quarter
- 36 Chinese enterprises received US\$2.68B investment from over 30 PE firms
- Exit was not as active as before with only 8 exits occurring in Q1, including three PE-backed IPO events

Source: The "China Private Equity Report Q1 2008" released by The Zero2IPO Research Center



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## Current Landscape of PE Investments

### – 2008 Q1 saw continued robust growth

- 23 new VC funds formed, representing US\$2.26B of capital available for investing in China
- 116 Chinese start-up enterprises received US\$940.73M investment from VC firms
- New industrial trends and features

Source: The "China Private Equity Report Q1 2008" released by The Zero2IPO Research Center



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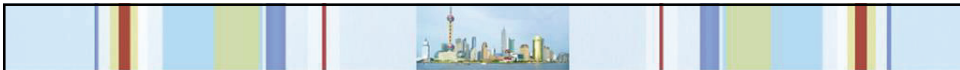
## Current Landscape of PE Investments

- Top Two Fund Focus
  - Buyout
  - Growth capital
  
- Investment candidates
  - Foreign Invested Enterprises (FIEs)
  - Private start-ups by Chinese national
  - Private start-ups by “Sea Turtles” (Returnees)
  - State-owned enterprises



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## Current Landscape of PE Investments

- Chinese Regulations on Foreign Investments and Technology
  - Products and technologies are classified
    - Foreign Investments Industry Guidance Catalogue & Technology Guidance Catalogue
      - » Encouraged
      - » Restricted
      - » Prohibited
      - » All others are “Permitted”
  - Approvals and/or registrations are required
  - Laws and regulations are evolving



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## Current Landscape of PE Investments

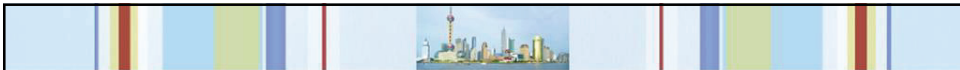
- Industry Focus (based amount invested in 2008 Q1)
  - Traditional – PE 52.9% | VC 16.5%
  - Broad IT – PE 33.5% | VC 39.5%
  - Other Hi-Tech – PE 3.6% | VC 6.6%
  - Services – PE 7.0% | VC 15.5%
  - Bio/Healthcare – PE 3.0% | VC 9.5%

Source: The Zero2IPO Research Center



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## Current Landscape of PE Investments

- Hot Areas in 2008
  - Clean tech
  - Education
  - Healthcare
  - Life Science



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## Current Landscape of PE Investments

– Top 10 VC funds that were most active in China in 2006:


- IDG Technology Venture Investment
- SAIF Partners
- Sequoia Capital China
- Legend Capital
- Granite Global Ventures
- Softbank China Venture Capital
- Walden International
- JAFCO Asia
- Intel Capital China
- CDH Ventures

Source: The Zero2IPO Research Center



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## Growth Drivers and Opportunities

- Sustained macroeconomic growth
- Growing private sector
- Privatization of state-owned sector
- Access to additional sectors by foreign investments due to WTO membership
- Viable exit options (IPO and M&A)
- 2008 Olympics and 2010 World Expo
- Desire by Chinese companies to go global



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## Obstacles and Pitfalls

- Unavailability of reliable financial data
- Need for stronger enforcement of intellectual property rights
- Need for increased corporate governance
- Need for greater clarity and stability on investment regulations and enforcement
- Lack of convertibility of the RMB
- Competition from Chinese domestic PE & VC sector for deals



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## Evaluate Your Investments in China

- Protecting and retaining control of IP
- Level of comfort and trust in local partners
- Understanding of difference in corporate culture, value and management strategy  
Employee base
- Maintaining competitive edge
- Understanding the legal system, language, business and culture
- Investment time horizon
- Regulatory considerations (for certain industries)



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## Regulatory Framework

- Foreign Invested Venture Capital Enterprise Regulations (March 2003)
- “Circular No. 75”: SAFE Circular on Issues Concerning Foreign Exchange Control on Financing and Round-Trip Investment Through Overseas Special Purpose Companies by Domestic Residents (October 2005)
- Operating Procedures Regarding Circular No. 75, issued by SAIC (May 29, 2007)



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## Regulatory Framework

- Amended M&A Regulation on Foreign Investors Acquiring Domestic Enterprises (September 2006)
- Anti-Monopoly Law: The law will take effect on August 1, 2008



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## Common Investment Structure

- Direct acquisition by PE & VC funds of equity interest in expansion or late stage Chinese companies
- Indirect acquisition by PE and VC funds thru offshore SPVs of equity interest in start-ups and early stage companies in China



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## Practical Strategies

- Conduct careful due diligence before acquiring a target in China
- Keep up with evolving legal requirements
- Understand and bridge gaps in culture, value and management strategy
- Manage Investor-Investee Relationship
- Create and readjust “win-win” situation



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