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Venture-backed IPOs and the Exiting of Venture Capital in China⁺

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Seton Hall University

This paper documents the dramatic improvement in institutional, legal and regulatory environment for the exiting of foreign venture capital in China. It also discusses the recent developments, advantages and disadvantages of various China venture-backed IPO listing channels, including overseas listing through the main board and high-tech trading board in the United States (via New York Stock Exchange and NASDAQ), Hong Kong (via Hong Kong Stock Exchange and Hong Kong Growth Enterprise Market) and Singapore (via Singapore Exchange and SESDAQ), and domestic listing (via Shenzhen Small and Medium Enterprise Board). Finally, this paper examines the venture capital funding and IPO offering details, and the short-run and long-run performance of the U.S.-listed China Venture-backed IPOs between 2000 and 2005.

I. Introduction

China has become an increasingly important market for global venture capital (VC) firms that are looking for innovative growth enterprises to invest. With the world's largest population, fastest economic growth engine, and an aggressive agenda of market transformation and global integration, China has been highly regarded as a promising "dream land" for venture capital investments. The earliest effort in promoting venture capital in China can be traced back to mid 1980s, primarily driven by the central government's desire to foster a high-tech industry in China [Xiao (2002), and Ewing (2004)]. However, the domestic

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government-based venture capital firms were inefficient and inexperienced with the disbursement and management of risk capital. In the 1990s, foreign venture capital started to make slow inroads to China, attracted by the tremendous growth opportunity but pushed back by the weak institutional/legal framework, a difficult exit environment, and the Asian financial crisis.

Starting 1999, venture capital activities in China began to show significant growth due to a more accommodating regulatory environment, the expected entry to WTO, the development of various feasible exiting channels for VC in China, and a decline in the number of worthy venture investment opportunities in developed countries. As shown in Chart 1, a record US\$1.78 billion of venture capital was disbursed to 324 Chinese companies in 2006, representing more than four times the VC investments in China five years ago. Statistics from Zero2IPO, a leading research and advisory firm for venture capital in greater China area, show that 70% of the No. of VC deals and 82% of the dollar amount of VC funding in China were from a foreign source (see Table I). In addition, 17 and 28 China venture-backed companies launched their Initial Public Offerings (IPOs) in Shenzhen Small and Medium Enterprise (SME) Board, New York Stock Exchange (NYSE), NASDAQ, Hong Kong Stock Exchange (HKSE), Hong Kong Growth Enterprise Market (HKGEM), Singapore Exchange (SGX), and SESDAQ, in 2005 and 2006, respectively (see Table II). The effective exiting of venture capital from Chinese portfolio companies to the public equity markets further injects liquidity into the China VC industry and stimulates global interests in the emerging China market.

This rest of this paper is organized as follows. Session II discusses the exiting mechanism and regulatory framework for venture capital in China. Section III compares various listing options for China venture-backed IPOs. Finally, section IV empirically examines the short-run and long-run performance of China Venture-backed IPOs listed on NASDAQ and NYSE.

II. Exiting Mechanism and Regulatory Framework for VCs in China

Exit or divestment can be accomplished by a number of means such as IPOs or M&As. Studies of the U.S. market [Barry et al (1990), Lerner (1994), Gompers (1996), Brav et al. (1997), and Xu (2004)] suggest that the most profitable venture capital exit has, on average, been disproportionately by way of an IPO. Between 2000 and 2006, 526 U.S. venture-backed companies exited through IPOs, accounting for 46% of the number of U.S. IPOs during the same period. The NASDAQ was founded in 1971 as the first electronic stock market in the world, providing venture capitalists with a public equity market to exit their investments in start-ups. The success of the high tech companies introduced in NASDAQ further stimulated the venture capital cycle and innovative enterprises. Black and Gilson (1998), among many others, argue that an active well-developed stock market is critical for the venture capitalists to the exit their investments in successful portfolio companies, and therefore, is necessary for the development of a healthy and vibrant venture capital industry.

Venture capital exit from China investments to the public equity market was extremely difficult in China in the 1990s. The two domestic stock exchanges in China, the Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE), are oriented toward state-owned companies. Furthermore, to be considered for listing on SHSE or SZSE, companies have to post three consecutive years of profits, which creates a serious barrier for private equity to exit. In addition, according to the 1994 China's Company Law, venture capital investment in a company falls under the "legal person shares" category when the investee company goes public in China. In a developed stock market such as the U.S., venture capitalists' shares in an IPO are typically subjected to a lock-up period of 180 days, after which the venture capitalists may

freely liquidate the shares or distribute the shares to partners. But in the shareholding system in China, the transfer and trading of legal person shares are largely restricted. They can only be disposed in a restricted private sale, typically associated with low liquidity and unfair price. This discourages the exiting of venture capital investments in China through domestic listing. Another obstacle for foreign venture capital investment in China is foreign exchange control, which requires foreign investors to obtain government agency approval to convert the proceeds of stock sales to foreign currencies before they remit outward [Xu (2001)].

Since 1999, foreign VCs have setup offshore Special Purpose Vehicles (SPVs) in tax havens such as Cayman Islands, British Virgin Islands, and Bermuda that allow them to exit their investments on a China VC-backed company through an IPO on a foreign stock exchange. The use of offshore SPVs controlled by domestic enterprises involves “round-trip investments” -- transfers of assets or capital from China to offshore, and reinvestments or loans back into China. It has served as a popular way of structuring foreign direct investment, including foreign venture capital investment in recent years. Through such structure, foreign VCs gain greater flexibility and liquidity in the exiting of venture capital to overseas public equity capital, and also enjoy substantial tax break on the investment returns. For example, among the 18 China Venture-backed IPOs listed on NASDAQ between 2000 and 2005, 13 of them were incorporated in Cayman Islands or British Virgin Islands, while others were incorporated in the U.S. or Hong Kong. Furthermore, many of the China IPOs listed in Hong Kong and Singapore were also incorporated in tax heavens such as Bermuda and Cayman Islands.

In January and April of 2005, China’s State Administration of Foreign Exchange (SAFE) issued the “PRC State Administration of Foreign Exchange Circular on Relevant Issues in Improving the Administration of Foreign Exchange of Mergers and Acquisitions by Foreign Investors” (Circular No. 11) and the “PRC State Administration of Foreign Exchange Circular on Several Issues on Registration of Overseas Investments by PRC Resident Individuals and Foreign Exchange Registration of Mergers and Acquisitions by Foreign Investors” (Circular No. 29) [King & Wood (2006)]. These two circulars required PRC residents to gain full and rigorous SAFE approval for registering an offshore SPV and those who are establishing, restructuring or listing companies to be subject to China’s domestic tax code. The enforcement of these regulatory actions halted the establishment of offshore SPVs that allowed foreign VC to exit their investments and brought a near stop on foreign venture capital flow into China in the first half of 2005. Later in October 2005, the SAFE amended Circulars 11 and 29, and issued a new initiative, Circular 75, that clarified the administrative procedure for the establishment of offshore SPVs by domestic residents and the subsequent re-investment by offshore SPVs in China, restored the VC exit channels, and helped the VC investment to rebound in the later part of 2005 and year 2006. The release and subsequent amendment of Circulars 11 and 29, and the final issuance of Circular 75, demonstrated the instability of regulations in China, and at the same time, also demonstrated the desire of the Chinese government to modify regulations to foster venture capital activity in China.

In addition to supporting venture capital exiting abroad, China has also taken bold steps in building a stronger and more comprehensive legal foundation to ensure more flexibility and greater protection for foreign venture capital investments. According to the 2003 Venture Capital Regulations (“Regulations in the administration of foreign-invested venture capital enterprises”), China now allows foreign VCs to enter the China market using various operating models, such as wholly foreign owned enterprises (China-based foreign funds), limited partnerships (between domestic funds and China-based foreign funds), or joint ventures (between domestic firms and foreign firms) [Burke (2003)]. The 2003 VC regulations provide

for a five-year investment horizon, require a minimum US\$1 million per investor and a minimum US\$10 million per VC fund, and streamline the approval process for foreign VC investments in China.

China's 1994 Company Law has also been revised three times, in 2000, 2004 and 2006, and the 1986 PRC Law on Wholly Foreign Owned Enterprises was revised in 2000. The newly revised 2006 Company Law substantially reduces the minimum required registered capital to incorporate, enhances the recognized contribution of intangible assets (such as intellectual property rights), and lowers the entry barriers for venture-backed entrepreneurial activities in China [Wilson and Tao (2006)]. On the other hand, the new Company Law strengthens the requirement for corporate governance and internal control mechanism within a company, which lowers the information asymmetry between entrepreneurs and venture capitalists, and helps to prepare China VC-backed firms to conform to international listing standards.

III. Evaluating Various Listing Venues for China Venture-backed IPOs

The exiting of venture capital through IPOs on domestic exchanges such as SHSE and SZSE is infeasible since both of these two exchanges are oriented toward large state-owned companies. In 2000, China planned to launch new trading boards to help high-tech companies raise public equity capital. Unfortunately, the much anticipated high-tech trading board was not launched as scheduled due to a deep global correction in the high-tech sector starting April 2000.

The lack of domestic VC exiting channel has prompted foreign VCs to look to overseas stock markets for listing. However, an approval from the China Securities Regulatory Commission (CSRC) would be required for any China-domiciled company to list shares abroad. Through the establishment of offshore SPVs as described in the previous section, foreign venture capitalists have been able to exit a China VC investment through an overseas listing. On top of the list is the U.S. public equity market, including NASDAQ (the world's most visible high-tech stock market) and NYSE (the world's largest stock exchange). Advantages of a U.S. listing include direct access to the vast pool of global capital (leading to a lower cost of capital), greater appeal to institutional investors due to the enhanced trading liquidity and rigorous disclosure mandated by a U.S. listing, and increased visibility and marketing leverage for the listed firm due to broader international media coverage (by television, newspapers, online sources and financial data systems). As shown in Panel A of Table III, U.S. listing from China initially concentrated on the listing of large state-owned enterprises on NYSE prior to 2000; the number of China IPOs on NASDAQ rose to twice the number of China IPOs on NYSE as high-tech China shares took the lead since 2000. On the other hand, 18 of the 34 China IPOs on NASDAQ between 2000 and 2006 were backed by venture capital, while only 3 of the 17 China IPOs on NYSE during the same period were VC-backed (see Panels A and B of Table III). In addition, between 2000 and 2005, there were 116 international IPOs listed on NYSE and NADAQ, 35% of which were China IPOs [NASDAQ (2006)].

However, an overseas listing on U.S. exchange also comes with many issues. Disadvantages of a U.S. listing include higher floatation costs (underwriting, legal, accounting, investor relations, etc), rigorous initial listing requirements (with respect to size, shareholder base, and financial performance), extensive disclosures and reporting requirements mandated by the SEC, and costly compliance with the Sarbanes-Oxley (SOX) Act on corporate governance and internal control mechanism.

The SOX was passed in 2002 in the wake of corporate accounting scandals, initially with a good intention to strengthen the corporate governance and internal control mechanism of public companies to ensure greater investor protection. Section 404 of SOX requires the CEO

and the CFO to provide periodical assessment on the effectiveness of their company's internal controls over financial reporting and accountants to audit such assessments. However, the regulatory burden and extra costs imposed by the SOX have been detrimental to the global competitiveness of U.S. stock exchanges [Greifeld (2006)]. As an example, the London Stock Exchange hosted more IPOs and raised more IPO capital than U.S. stock exchanges in 2005 and 2006, and the amount of IPO capital raised in Hong Kong Stock Exchange also exceeded that of the U.S. Stock Exchanges in 2006. Many international companies, including China VC-backed companies, have looked beyond the U.S. stock exchanges for stock listing to avoid the high cost of SOX compliance.

Other popular overseas listing locations for Chinese companies include stock markets in Hong Kong and Singapore, the two major Asian financial centers that have close cultural ties with China. Both markets include main boards (HKSE and SGX) and NASDAQ-style high-tech boards (HKGEM and SESDAQ). As a special administration region (SAR) of China, Hong Kong offers an established capital market with the closest location, language, cultural, and regulatory ties with mainland China. Hong Kong is also the most desirable marketplace for listings of Chinese companies that try to avoid the high cost of compliance that comes with a U.S. listing. There are two types of mainland China shares listed in Hong Kong: those issued by companies incorporated in mainland China are called "H-Shares", while those issued by Hong Kong-incorporated mainland China enterprises are called "Red-Chips". Between 1993 and 2006, there were 146 and 50 China IPOs (including H-shares and "Red-Chips") listed on HKSE main board and HKGEM, respectively (see Panel A of Table IV). Currently, China shares represent 48% of the market capitalization in HKSE and 18% in HKGEM. Debuts of IPOs by the Industrial and Commercial Bank of China (partly funded by private equity from Goldman Sachs) and the Bank of China (partly funded by private equity from RBS China, Asia Financial Holdings, UBS AG, and Asian Development Bank) on HKSE in 2006 represented the two largest overseas China IPOs in history [Geiger(2006)]. Similar to Hong Kong, Singapore offers a well-developed capital market with little cultural or language barrier (since majority of the businesses in Singapore are conducted by ethnic Chinese) and low compliance cost. In 2006, Singapore hosted the largest number of China Venture-backed IPOs among all overseas listing locations (see Table II and Chart 2). Between 1993 and 2006, 113 China IPOs have been launched on Singapore Exchange and SESDAQ (see Panel B of Table IV), with 102 of these IPOs listed after 1999.

In addition to overseas listing, China's domestic listing environment has also been substantially improved. The long-awaited secondary board for the listing of high-tech enterprises was finally launched in Shenzhen Stock Exchange in May 2004 [Chen (2004)]. The new trading board, called "Small and Medium Enterprises Board" (hereafter "SME Board"), is an important capital market for the listing of high-tech private enterprises that would otherwise be excluded from the consideration of domestic listing. The SME board is currently a segment within Shenzhen Stock Exchange with similar listing requirement (including three years of profit record) but a more tailored supervisory system, with the possibility of developing into a NASDAQ style new market in the future. The development of the Shenzhen SME board has broadened the choices for venture capital exiting in China as a number of VC-backed companies have chosen to list their IPO shares on the new Board. It is widely expected that more Chinese firms will choose domestic listing due to the higher overseas listing cost and improved domestic listing environment.

IV. An Examination of China Venture-backed IPOs in the U.S.

Due to the limitation of information and data on non-U.S. markets, this section will focus on performance of the twenty China Venture-backed IPOs that were launched on NASDAQ and NYSE between 2000 and 2005. The two primary sources of data are Venture Economics (on the details on the venture funding and the IPO) and Bloomberg (on the post-IPO market data). Tables V and VI provide the detailed information on the listed company, venture funding, and public offering. These twenty ventured-backed companies are all located in the three venture capital “hot beds” in China (Beijing, Shanghai, and Guangdong). Majority of these Chinese firms were backed by three or more foreign venture capital funds and have a strong focus on information technology. On average, the IPO age is 2.4 years since the first round of venture funding and 4.7 years since the founding date of the company, reflecting the fast development of these high-tech enterprises and recent success of venture capital cycle in China. The average China VC-backed company received 2.35 rounds and \$140 million of venture capital funding prior to its IPO listing in the U.S.

The top five lead underwriters for these China Venture-backed IPOs are Credit Suisse First Boston, Goldman Sachs, Merrill Lynch, Morgan Stanley and J.P. Morgan. All of these IPOs involved more than one investment bank in the underwriting syndicate. Table VII provides the empirical evidence on the offer details, short-term performance and long-term performance of these China Venture-backed IPOs. The average IPO offering amount was US\$180 million and the average post IPO company valuation was at US\$760 million. These IPOs were significantly underpriced as measured by a mean (median) 43% (5.16%) first day return (from the offering price to the first day closing price). When I compared each IPO's first day return with the average of all U.S. IPOs in the same listing month, I found that the mean first day return of China Venture-backed IPOs was twice the mean for comparable U.S. IPOs, but the median first day return was only 39% of the median for comparable U.S. IPOs. The first day performance of China Venture-backed IPOs in U.S. widely varied with a standard deviation of 103%, ranging from 354% for Baidu.com (BIDU) to -16% for Vimicro (VIMC). As for the longer-term performance, I calculated the annualized return for each China Venture-backed IPO from the IPO date to November 21, 2006 for and compared it with the annualized return on the NASDAQ composite index during the same period. In general, there is evidence of underperformance by these IPOs relative to the NASDAQ composite in the longer term, as shown by a 2.4% lower mean annualized return and a 33.5% lower median annualized return. However, due to the small sample size and the high standard deviation in these comparisons, these results should be interpreted with caution.

In summary, this paper documents the dramatic improvement in the legal and regulatory environment for the exiting of foreign venture capital in China. It also discusses the development, advantages and disadvantages of various China venture-backed IPO listing channels, including domestic listing via the Shenzhen SME board, overseas listing through the main board and high-tech trading board in the United States, Hong Kong and Singapore. Finally, this paper examines the venture capital funding and IPO offer details, and the short-run and long-run performance of China Venture-backed IPOs listed on NASDAQ and NYSE. Future research on the relative return and liquidity performance of overseas-listed China Venture-backed IPOs among the U.S., Hong Kong and Singapore markets would be highly warranted.

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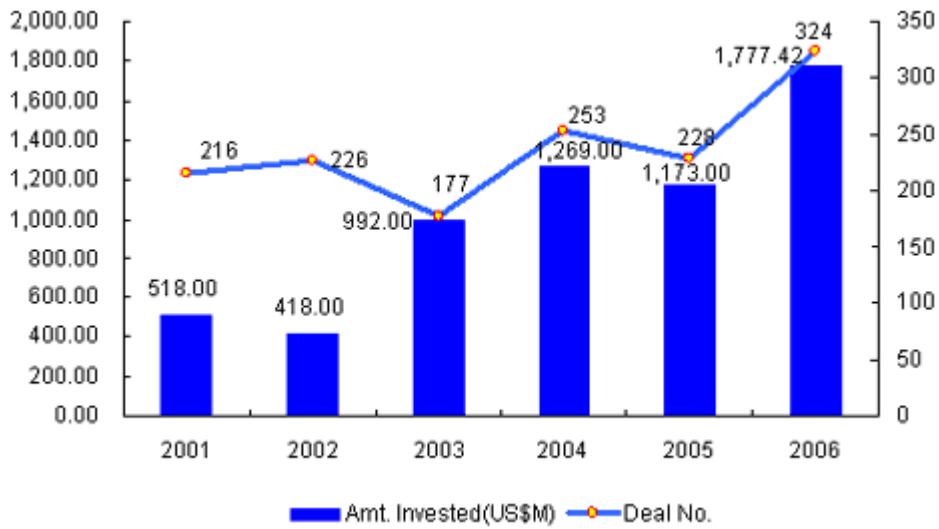
Zero2IPO, 2006, *China Venture Capital Annual Report 2006*, <http://www.zero2ipo.com.cn/en/>.

Table II
Sources of Venture Capital Investments (2006)

| Source of Investments | No. of Deals | % | Amount Invested | % |
|-----------------------|--------------|--------|-----------------|--------|
| Domestic | 9 | 29.80% | 309.62 | 18.30% |
| Sino-Foreign | 8 | 2.60% | 125.96 | 7.40% |
| Foreign | 206 | 67.50% | 1255.58 | 74.20% |

Source: Zero2IPO - China Venture Capital Annual Report 2006

Chart 1
Venture Capital Investments in China (2001-2006)



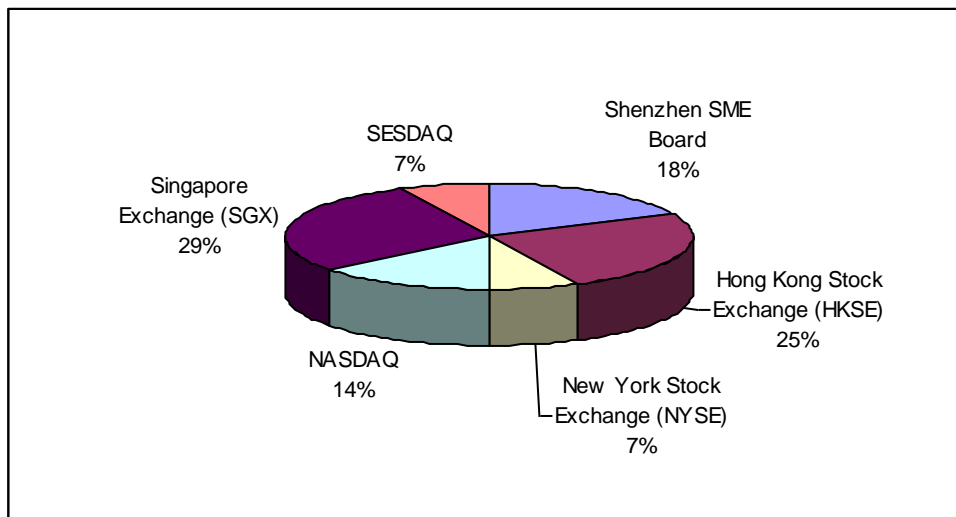
Source: Zero2IPO - China Venture Capital Annual Report 2006

Table II
A Summary of 28 China Venture-backed IPOs in 2006

| Market | Market Location | No. of China Venture-backed IPOs |
|---------------------------------|------------------------|---|
| Shenzhen SME Board | Mainland China | 5 |
| Hong Kong Stock Exchange (HKSE) | Hong Kong SAR, China | 7 |
| New York Stock Exchange (NYSE) | U.S. | 2 |
| NASDAQ | U.S. | 4 |
| Singapore Exchange (SGX) | Singapore | 8 |
| SESDAQ | Singapore | 2 |

Source: Zero2IPO - China Venture Capital Annual Report 2006

Chart 2
Distribution of China Venture-backed IPOs by Listing Location (2006)



Source: Zero2IPO - China Venture Capital Annual Report 2006

Table III
Number of China IPOs in the U.S.

Panel A. All IPOs

| Year | NASDAQ-listed China IPOs | NYSE-listed China IPOs | All US-listed China IPOs | All US-listed IPOs |
|-----------|-----------------------------|---------------------------|-----------------------------|-----------------------|
| 1990-1999 | 3 | 11 | 14 | 5105 |
| 2000 | 5 | 4 | 9 | 406 |
| 2001 | 0 | 2 | 2 | 83 |
| 2002 | 0 | 1 | 1 | 70 |
| 2003 | 3 | 2 | 5 | 68 |
| 2004 | 9 | 3 | 12 | 216 |
| 2005 | 10 | 1 | 11 | 194 |
| 2006 | 7 | 4 | 11 | 198 |
| 2000-2006 | 34 | 17 | 51 | 1235 |
| 1990-2006 | 37 | 28 | 65 | 6340 |

Panel B. Venture-backed IPOs

| Year | NASDAQ-listed China Venture- backed IPOs | NYSE-listed China Venture- backed IPOs | All US-listed China Venture- backed IPOs | All US-listed Venture-backed IPOs |
|-----------|--|--|--|---|
| 1990-1999 | 0 | 0 | 0 | 1774 |
| 2000 | 4 | 0 | 4 | 265 |
| 2001 | 0 | 0 | 0 | 41 |
| 2002 | 0 | 0 | 0 | 22 |
| 2003 | 1 | 0 | 1 | 29 |
| 2004 | 7 | 2 | 9 | 93 |
| 2005 | 6 | 0 | 6 | 56 |
| 2006 | 4 | 2 | 6 | 57 |
| 2000-2006 | 18 | 3 | 21 | 563 |
| 1990-2006 | 18 | 3 | 21 | 2337 |

Source: NASDAQ; NYSE; Venture Economics.

Table IV
Number of China IPOs in Hong Kong and Singapore

Panel A. Number of China IPOs in Hong Kong

| Year | H-Shares | | Red-Chips | |
|-----------|--|--|--|--|
| | Hong Kong Stock Exchange (HKSE) Main Board | Hong Kong Growth Enterprise Market (HKGEM) | Hong Kong Stock Exchange (HKSE) Main Board | Hong Kong Growth Enterprise Market (HKGEM) |
| 1993 | 6 | | 4 | |
| 1994 | 8 | | 6 | |
| 1995 | 1 | | 2 | |
| 1996 | 6 | | 6 | |
| 1997 | 15 | | 11 | |
| 1998 | 2 | | 1 | |
| 1999 | 3 | | 4 | |
| 2000 | 3 | 3 | 2 | |
| 2001 | 3 | 5 | 3 | 1 |
| 2002 | 4 | 12 | 1 | |
| 2003 | 10 | 8 | 1 | 1 |
| 2004 | 8 | 9 | 4 | 2 |
| 2005 | 9 | 3 | 4 | |
| 2006 | 17 | 6 | 2 | |
| 1993-2006 | 95 | 46 | 51 | 4 |

Source: Hong Kong Stock Exchange and Hong Kong Growth Enterprise Market.

Notes: H-Shares: Issued by China-incorporated Enterprises, listed in Hong Kong

Red-Chips: Issued by Hong Kong-incorporated China Enterprises, listed in Hong Kong

Panel B. Number of China IPOs in Singapore

| Year | # of China IPOs | Year | # of China IPOs |
|----------------|-----------------|----------------|-----------------|
| 1993 | 1 | 2000 | 1 |
| 1994 | 1 | 2001 | 3 |
| 1995 | 1 | 2002 | 0 |
| 1996 | 1 | 2003 | 13 |
| 1997 | 2 | 2004 | 34 |
| 1998 | 1 | 2005 | 27 |
| 1999 | 4 | 2006 | 24 |
| SUM(1993-1999) | 11 | SUM(2000-2006) | 102 |

Source: Singapore Exchange and SESDAQ

Table V
Chinese Venture-backed IPOs Listed in the U.S. (2000-2005)

| Ticke r | Company Name | Location | Company Website | IPO Date (YYYYMMDD) | Underwriting Syndicate | |
|------------|---|-----------|----------------------------|---------------------|--|--|
| | | | | | Book Manager | Co-managers |
| ACTS | Actions Semiconductor Co., Ltd. | Guangdong | www.actions.com.cn | 20051130 | Credit Suisse First Boston Corp | CIBC World Markets Inc; WR Hambrecht & Co LLC |
| ASIA | AsiaInfo Holdings, Inc. | Beijing | www.asiainfo.com | 20000303 | n.a | n.a |
| BIDU | Baidu.com, Inc. | Beijing | www.baidu.com | 20050805 | Credit Suisse First Boston Corp | Piper Jaffray Cos |
| CN | China Netcom Corporation, Ltd. | Beijing | www.china-netcom.com | 20041116 | JP Morgan & Co Inc; Thomas Weisel Partners LLC; Friedman Billings Ramsey Group; Allen & Co Inc | Pacific Crest Securities Inc |
| CNTF | China Techfaith Wireless Communication Technology Limited | Beijing | www.techfaithwireless.com | 20050506 | Merrill Lynch & Co Inc | CIBC World Markets Inc |
| CTRP | Ctrip.com International, Ltd. | Shanghai | www.ctrip.com | 20031209 | Merrill Lynch Pierce Fenner & Smith | SoundView Technology Group Inc; US Bancorp Piper Jaffray Inc |
| FMCN | Focus Media (China) Holdings Co., Ltd. | Shanghai | www.focusmedia.com.cn | 20050713 | Goldman Sachs & Co;Piper Jaffray Cos | CIBC World Markets Inc |
| HRAY | Hurray! Solutions Ltd. | Beijing | www.hurray.com.cn | 20050204 | Citigroup; ThinkEquity Partners | Piper Jaffray Cos |
| JOBS | 51Job, Inc. (AKA: 51Net.com) | Shanghai | www.51job.com | 20040929 | Morgan Stanley; CLSA Asia-Pacific Markets Ltd | Piper Jaffray Cos; UBS Investment Bank |
| JRJC | China Finance Online (DBA: CF99) | Beijing | www.chinafinanceonline.com | 20041015 | JP Morgan & Co Inc; Jefferies Broadview | WR Hambrecht & Co LLC |
| KONG | KongZhong Corporation (FKA: Communication Over The Air Inc) | Beijing | www.kongzhong.com | 20040709 | UBS Investment Bank; Banc of America Securities LLC | CIBC World Markets Inc |
| LONG | eLong.com | Beijing | www.elong.net | 20041028 | Deutsche Bank Securities Corp.; Allen & Co Inc | WR Hambrecht & Co LLC |
| LTON | Linktone Ltd. | Shanghai | www.linktone.com | 20040304 | Credit Suisse First Boston Corp; JP Morgan & Co Inc; Piper Jaffray Cos | CLSA Asia-Pacific Markets Ltd |
| NINE | Ninetowns Digital World Trade Holdings Limited | Beijing | www.ninetowns.com | 20041203 | JP Morgan & Co Inc | Lehman Brothers; Jefferies & Co Inc |
| NTES | NetEase.com, Inc. (DBA: 163.com) | Beijing | www.netease.com | 20000630 | CIBC World Markets Inc; JP Morgan Securities (Asia) Ltd (Hong Kong | Piper Jaffray Cos; First Shanghai Sec Ltd |
| SINA | Sina.com | Shanghai | www.sina.com | 20000413 | n/a | n/a |

Table V
(continued)

| | | | | | | |
|------|---|----------|-------------------|----------|---|--|
| SMI | Semiconductor Manufacturing International Corp. (AKA: SMIC) | Shanghai | www.smics.com | 20040317 | Credit Suisse First Boston Corp; Deutsche Bank Securities Corp. | Needham & Co Inc; SG Cowen Securities Corp; ThinkEquity Partners; Thomas Weisel Partners LLC; WR Hambrecht & Co LLC; Hongkong & Shanghai Banking Corp Ltd; Bear Stearns & Co Inc |
| SNDA | Shanda Interactive Entertainment (AKA: Shanda Networking) | Shanghai | www.shanda.com.cn | 20040513 | Goldman Sachs & Co | Credit Lyonnais Securities (Asia) Ltd; CIBC World Markets Inc; Hongkong & Shanghai Banking Corp Ltd; Bear Stearns Asia Limited; Piper Jaffray Inc |
| SOHU | Sohu.com | Beijing | www.sohu.com | 20000712 | CSFB Hong Kong | BOCI Asia Ltd |
| VIMC | Vimicro Corporation | Beijing | www.vimicro.com | 20051115 | Morgan Stanley | Needham & Co Inc; Piper Jaffray Cos |

*Note: Include all US-listed Chinese Venture-backed IPOs up to year-end 2005; sorted by the stock's ticker symbol.
Source: Venture Economics; company websites.*

Table VI
China Venture-backed IPO Firm Characteristics and Venture Funding Details

| Ticker | Date 1 | Industry | Venture Capital Firms | Venture Capital Funds | Date 2 | # | Amt (mil) |
|--------|----------|--|--|--|----------|---|-----------|
| ACTS | 20011201 | Customized Semiconductors | GIC Special Investments Pte Ltd.; Intel Capital; New Enterprise Associates; Northern Light Venture Capital; RimAsia Capital Partners | GIC Special Investments Pte. Ltd. - Direct Investment Fund; Intel Capital - Unspecified Fund; New Enterprise Associates -Unspecified Fund; Northern Light Venture Fund, L.P.; RimAsia Capital Partners - Direct Investment Fund | 20050901 | 1 | 95.89 |
| ASIA | 19930601 | Internet Backbone Infrastructure | Fidelity Investments; NewMargin Venture Capital; Warburg Pincus LLC | Fidelity Investments - Unspecified Fund; NewMargin Fund; Warburg Pincus Ventures, L.P. ; Warburg Pincus Ventures International, L.P. | 19971201 | 3 | 12.14 |
| BIDU | 20000101 | Internet Search Software and Engines | Bridger Capital Corporation; Draper Fisher Jurvetson ePlanet Ventures, L.P.; IDG Technology Venture Investment, Inc (IDGVC); Integrity Partners; Peninsula Capital Partners LLC; Suez Asia Holdings Pte Ltd.; Undisclosed Corporate Investor; Venture TDF Pte Ltd. | Bridger Capital Corporation; Draper Fisher Jurvetson ePlanet Ventures, L.P.; Pacific Technology Venture Fund-China; IDG Technology Ventures Investment – China; Integrity Partners - Unspecified Fund; Peninsula Capital Partners - Unspecified Fund; China Equity Associates L.P.; Undisclosed Corporate Investor; Venture TDF - Unspecified Fund | 20000201 | 3 | 26.2 |
| CN | 19991022 | Internet Access Services and Service Providers | Bank of China; Construction Bank of China; Goldman, Sachs & Co.; Individuals; Michael Dell; The News Corporation Limited | GS Capital Partners III, L.P.; Individuals; News Corporation Limited, The - Direct Investment Fund | 20010219 | 1 | 325 |
| CNTF | 20020701 | Wireless Communications Components | GSIF Corporation; HSBC Pte Equity (Asia) Ltd (FKA: HSBC Private Equity Mgt.); Intel Capital; Qualcomm Ventures; Undisclosed VC Firm | Global Strategic Investment Fund (GSIF); HSBC Technology Fund Ltd; Intel Capital - Unspecified Fund; Qualcomm Ventures - Unspecified Fund; Undisclosed VC Investor | 20040427 | 1 | 14 |
| CTRP | 19990101 | Travel Agencies and Services | The Carlyle Group; China Enterprise Investment Management Limited; IDG Technology Venture Investment, Inc (IDGVC); Orchid Asia Group Management, LTD; SOFTBANK China Venture Capital; Shanghai Industrial Holdings Ltd.; Shanghai Info-Tech Venture Capital Co., Ltd.; Undisclosed Investor; Undisclosed VC Firm | Carlyle Asia Venture Partners I, L.P.; China Enterprise Development Fund; Pacific Technology Venture Fund-China; IDG Technology Venture Investment, Inc - Unspecified Fund; IDG Technology Ventures Investment – China; Orchid Asia II, L.P.; SOFTBANK China Venture Capital.-Unspecified Fund; Shanghai Industrial Holdings Ltd. -Direct Investment Fund; Shanghai Info-Tech Venture Capital Co. - Unspecified Fund; Undisclosed Investor; Undisclosed VC Investor | 20000301 | 3 | 25.77 |
| FMCN | 20030601 | Advertising and Public Relations | 3i Group PLC; CDH China Management Co., Ltd. (AKA: CDH Investments); China Merchants & Fortune Asset Management Ltd.; Draper Fisher Jurvetson ePlanet Ventures, L.P.; Goldman, Sachs & Co.; SOFTBANK China Venture Capital; Undisclosed Non VC Firm; Undisclosed VC Firm; United Capital Investment Group (China) Ltd; Venture TDF Pte Ltd.; WI Harper Group | 3i Asia Pacific Technology Fund; 3i Group PLC - Unspecified Fund; CDH China Fund, L.P.; China Merchant and Fortune Technology Fund 1; Draper Fisher Jurvetson ePlanet Ventures -Unspecified Fund; Goldman Sachs & Co.-Unspecified Fund; SOFTBANK China Venture Capital.- Unspecified VC Investor; Undisclosed VC Investor; United Capital Investment Group Ltd -Unspecified Fund; Venture TDF-Unspecified Fund; Springboard-Harper Technology Funds; Intl Network Capital Global Funds | 20030101 | 4 | 98 |
| HRAY | 19990901 | Wireless Communications Services | 3i Group PLC; Granite Global Ventures; Institutional Venture Partners; Mayfield Fund Undisclosed VC Firm; Venture TDF Pte Ltd. | 3i Technologieholding GmbH - Unspecified Fund; Granite Global Ventures; Institutional Venture Partners VIII, L.P.; Mayfield XI Undisclosed VC Investor; Venture TDF - Unspecified Fund | 20030616 | 2 | 33 |
| JOBS | 19990101 | Consulting Services | DCM - Doll Capital Management; Undisclosed VC Firm | Doll Capital Management - Unspecified Fund; Doll Technology Investment Fund II (AKA: DCM II); DCM III; Undisclosed VC Investor | 20000607 | 3 | 14.26 |
| JRJC | 19981101 | Finance/Insurance/Real Estate Services | IDG Technology Venture Investment, Inc (IDGVC); Vertex Management Pte, Ltd. | IDG Technology Venture Investment, Inc - Unspecified Fund; Vertex Technology Fund III Ltd. | 20000501 | 1 | 0.51 |
| KONG | 20020501 | Wireless Communications Services | Draper Fisher Jurvetson ePlanet Ventures, L.P.; Undisclosed VC Firm | Draper Fisher Jurvetson ePlanet Ventures, L.P.; Undisclosed VC Investor | 20020901 | 2 | 3.55 |
| LONG | 20010401 | Other Aggregation/Portal/Exchange Sites | Blue Ridge Capital; Tiger Technology Performance, LLC; Undisclosed Corporate Investor | Blue Ridge Capital - Unspecified Fund; Tiger Technology Private Investment Partners, L.P.; Undisclosed Corporate Investor | 20030829 | 2 | 75 |

Table VI (continued)

| Ticker | Date 1 | Industry | Venture Capital Firms | Venture Capital Funds | Date 2 | # | Amt (mil) |
|--------|----------|---|---|---|----------|---|-----------|
| LTON | 19991001 | Wireless Communications Services | Acer Technology Ventures; Index Corporation; Individuals; Lunar Group; Mitsubishi Corporation; Temasek Holdings Pte. Ltd.; undisclosed Corporate Investor | Acer Technology Ventures - IP Fund One, L.P.; Index Corporation-Unspecified Fund; Individuals; Lunar Group - Unspecified Fund; Mitsubishi Corporation - Unspecified Fund; Temasek Capital - Direct Investment Fund; Undisclosed Corporate Investor | 19991001 | 4 | 51 |
| NINE | 19950322 | ERP/Inventory Software | AIG Investment Corp (Asia) Ltd; FAT Capital Management Company, Ltd.; Japan Asia Investment Company Limited (JAIC); Suez Asia Holdings Pte Ltd. | AIG Asian Opportunity Fund; Titan I Venture Capital Company, Ltd.; Titan II Venture Capital Company, Ltd.; MMFI-CAPI Venture Investment Limited; China Equity Associates L.P. | 20030901 | 1 | n/a |
| NTES | 19970601 | Consumer Info/Content | BPEP International; Goldman, Sachs & Co.; Mobius Venture Capital (FKA: SOFTBANK Venture Capital); News Corporation Limited, The | Baring Asia Private Equity Fund; Goldman Sachs & Co. - Unspecified Fund; Mobius Venture Capital - Unspecified Fund; News Corporation Limited; Direct Investment Fund | 19991201 | 2 | 22 |
| SINA | 19970701 | Internet Search Software and Engines | Chase Manhattan Capital Corp.; Creative Technology Ltd; Crosslink Technology Partners; Crystal Internet Venture Fund, L.P.; Dell Ventures ; Economic Development Board of Singapore; Flatiron Partners; Goldman, Sachs & Co.; Mobius Venture Capital; Pacific Century Group Ventures Ltd.; Singapore's Economic Development Board; Stone Group Corporation; Sumitomo Corporation; Trend Micro, Inc.; UOB Venture Management Pte Ltd. ; Undisclosed VC Firm;Walden International ; WaldenVC | Chase Manhattan Capital Corp.; Creative Technology Ltd - Direct Investment Fund; Crosslink Technology Partners; Crystal Internet Venture Fund; Dell Ventures - Unspecified Fund; Economic Development Board of Singapore; Flatiron Fund, LLC; Goldman Sachs Private Equity Partners 1999; Mobius Venture Capital-Unspecified Fund; Pacific Century Group Ventures-Unspecified Fund; Singapore's Economic Development Board; Stone Group Corp.; Sumitomo Corp. Unspecified Fund; Trend Micro, Inc.; UOB Venture Investments II Ltd.; Undisclosed VC Investor; Walden Intl.-Unspecified Fund; Walden Investors | 19981001 | 4 | 88.86 |
| SMI | 20000401 | Semiconductor Fabrication Equip. & Wafer Products | AsiaVest Partners, TCW/YFY Ltd; Cadence Design Systems, Inc. (FKA: Ecad, Inc.); Creative Technology Ltd; DCM - Doll Capital Management; Flextronics International Ltd.; Goldman, Sachs & Co.; H&Q Asia Pacific; Hotung International Company, Ltd.; Motorola Ventures; New Enterprise Associates; Oak Investment Partners; Shanghai Industrial Holdings Ltd.; Temasek Holdings Pte. Ltd.; Undisclosed Corporate Investor; Undisclosed VC Firm; Vertex Management Pte, Ltd; Walden International | Taiwan Special Opportunities Fund III; Cadence Design Systems Inc. (FKA: Ecad I - Unspecified Fund; Creative Technology Ltd - Direct Investment Fund; DCM III; Flextronics, Inc. - Direct Investment Fund; Goldman Sachs Capital Partners 2000 (Fund IV); Goldman Sachs & Co. - Unspecified Fund; Asia Pacific Growth Fund III; H&Q Asia Pacific, Ltd - Unspecified Fund; Hotung International Company, Ltd. - Unspecified Fund; Motorola Ventures - Unspecified Fund; New Enterprise Associates 10, L.P.; Oak Investment Partners - Unspecified Fund; Shanghai Industrial Holdings Ltd. - Direct Investment Fund; Shanghai Industrial Holdings Ltd - Unspecified Fund; Temasek Capital - Direct Investment Fund; Undisclosed Corporate Investor; Undisclosed VC Investor; Vertex China Technology Ltd.; Vertex Management - Unspecified Fund; Seed Ventures III Ltd.; Pacven Walden Ventures V, L.P. | 20010601 | 5 | 1674 |
| SNDA | 19991201 | Recreation/Entertainment/Music/Movies | SAIF Partners | SOFTBANK Asia Infrastructure Fund | 20030301 | 1 | 40 |
| SOHU | 19960101 | Communications Info/Content | Harrison Capital; IDG Technology Venture Investment, Inc (IDGVC); Intel Capital; Morningside Technologies Inc.; Pacific Century CyberWorks Ltd.; Undisclosed VC Firm | Harrison Capital; Pacific Technology Venture Fund-China; Intel Capital - Unspecified Fund; Morningside Technologies Inc. - Direct Investment Fund; Pacific Century CyberWorks Ltd. - Direct Investment Fund; Undisclosed VC Investor | 19980401 | 3 | 39.15 |
| VIMC | 19991001 | Customized Semiconductors | Capital Group; Fujitsu Microelectronics Inc.; General Atlantic LLC; Undisclosed VC Firm | Capital Group - Unspecified Fund; Fujitsu Microelectronics Inc; General Atlantic LLC; Undisclosed VC Investor | 20041012 | 1 | 24.32 |

Note: Date 1 refers to the company's founding date (in YYYYMMDD format); date 2 refers to the date of first round venture capital financing; # refers to the total number of venture capital financing rounds. Source: Venture Economics; Bloomberg.

Table VII
China Venture-backed IPO Offer Details, Underpricing
(First Day Return from the Offer Price), and Annualized Return Since IPO

| Ticker | IPO Date | No. of Shares Offered in IPO (mil) | Dollar Amount Offered in IPO (mil USD) | Post Offer Valuation (mill USD) | Offer Price (USD) | First-Day Closing Price (USD) | Underpricing (%)= First Day Return from Offer Price | | | Annualized Return since IPO (up to November 21, 2006) (%) | | |
|--------------------|----------|------------------------------------|--|---------------------------------|-------------------|-------------------------------|---|--|----------------------------|---|----------------------------|----------------------------|
| | | | | | | | This IPO (A) | US Average for all IPOs in the IPO month (B) | Difference between A and B | This IPO (C) | NASDAQ Composite Index (D) | Difference between C and D |
| ACTS | 20051130 | 5.20 | 41.70 | 688.00 | 8.00 | 8.00 | 0.00 | 19.40 | -19.40 | 12.64 | 9.74 | 2.90 |
| ASIA | 20000303 | 5.00 | 120.00 | 732.80 | 24.00 | 99.56 | 314.84 | 85.00 | 229.84 | -20.82 | -98.82 | 78.00 |
| BIDU | 20050805 | 4.00 | 109.10 | 872.60 | 27.00 | 122.54 | 353.85 | 10.60 | 343.25 | 206.76 | 15.93 | 190.80 |
| CN | 20041116 | 7.50 | 142.50 | 603.10 | 19.00 | 24.90 | 31.05 | 16.90 | 14.15 | 42.21 | 37.86 | 4.40 |
| CNTF | 20050506 | 8.70 | 141.80 | 141.80 | 16.20 | 15.32 | -5.43 | 6.10 | -11.53 | -34.81 | 41.60 | -76.40 |
| CTRP | 20031209 | 4.20 | 75.60 | 540.60 | 18.00 | 33.94 | 88.56 | 9.30 | 79.26 | 83.40 | 97.86 | -14.50 |
| FMCN | 20050713 | 10.10 | 171.70 | 171.70 | 17.00 | 20.20 | 18.82 | 13.50 | 5.32 | 174.15 | 20.43 | 153.70 |
| HRAY | 20050204 | 6.90 | 70.50 | 224.20 | 10.20 | 10.25 | 0.49 | 6.50 | -6.01 | -15.01 | 37.44 | -52.40 |
| JOBS | 20040929 | 5.30 | 73.50 | 750.30 | 14.00 | 21.15 | 51.07 | 11.50 | 39.57 | 9.49 | 79.77 | -70.30 |
| JRJC | 20041015 | 6.20 | 80.60 | 1291.30 | 13.00 | 11.70 | -10.00 | 13.30 | -23.30 | -37.49 | 71.00 | -108.50 |
| KONG | 20040709 | 10.00 | 100.00 | 342.50 | 10.00 | 10.10 | 1.00 | 5.20 | -4.20 | -6.41 | 76.15 | -82.60 |
| LONG | 20041028 | 4.60 | 62.10 | 385.30 | 13.50 | 14.40 | 6.67 | 13.30 | -6.63 | 1.17 | 57.74 | -56.60 |
| LTON | 20040304 | 6.10 | 86.00 | 350.20 | 14.00 | 17.42 | 24.43 | 7.50 | 16.93 | -27.94 | 67.12 | -95.10 |
| NINE | 20041203 | 9.60 | 105.60 | 105.60 | 11.00 | 11.40 | 3.64 | 15.20 | -11.56 | -36.94 | 30.66 | -67.60 |
| NTES | 20000630 | 4.50 | 69.80 | 466.60 | 15.50 | 12.13 | -21.77 | 46.30 | -68.07 | 27.05 | -94.59 | 121.60 |
| SINA | 20000413 | 3.20 | 54.40 | 230.30 | 17.00 | 20.69 | 21.69 | 35.60 | -13.91 | 8.22 | -94.09 | 102.30 |
| SMI | 20040312 | 103.00 | 1803.00 | 6646.70 | 17.50 | 15.52 | -11.31 | 7.50 | -18.81 | -32.62 | 88.09 | -120.70 |
| SNDA | 20040513 | 13.90 | 152.40 | 152.40 | 11.00 | 11.97 | 8.82 | 9.20 | -0.38 | 18.35 | 84.93 | -66.60 |
| SOHU | 20000712 | 4.60 | 59.80 | 405.90 | 13.00 | 13.00 | 0.00 | 68.10 | -68.10 | 11.04 | -95.18 | 106.20 |
| VIMC | 20051115 | 8.70 | 87.00 | 87.00 | 10.00 | 8.36 | -16.40 | 19.40 | -35.80 | 15.27 | 11.78 | 3.50 |
| Average | | 11.57 | 180.36 | 759.45 | 14.95 | 25.13 | 43.00 | 20.97 | 22.03 | 19.89 | 22.26 | -2.39 |
| Median | | 6.15 | 86.50 | 395.60 | 14.00 | 14.86 | 5.16 | 13.30 | -6.32 | 8.86 | 37.65 | -33.45 |
| Standard Deviation | | 21.69 | 383.57 | 1419.18 | 4.77 | 30.27 | 102.94 | 21.67 | 97.79 | 65.76 | 65.97 | 94.78 |

Source: Venture Economics; Bloomberg; Yahoo-Finance; <http://bear.cba.ufl.edu/ritter/>