



**Statistics & Analysis of China's VC/PE Investments
In Telecom & VAS - 2009**

January 2010

Key Findings

- 24 VC deals garnered USD 114 million, a 4.35% Y/Y increase in the deal number and a 45.2% Y/Y slide in the amount, with the average amount of USD 4.75 million down 47.5% from the previous year, suggesting that the market stagnated at a low level
- Wireless VAS remained the hottest for VC investors, grabbing 70.45 million in 15 deals, while Series A-round investment retained its dominant market share by raking in USD 77.64 million through 16 deals
- Telecom & VAS pocketed a total amount of USD 107 million in two PE deals, down 62.2% and 50.0% respectively from the previous year in the deal number and amount, suggesting the market stagnated at a low level, while Wireless VAS and Terminals each closed one PE deal, being worth USD 14 million in total
- IPO market picked up since Q3, and hit a two-year high of the financing amount in Q4, ending up with a total amount of USD 407 million for the whole year
- M&A market gained steam, as demonstrated by 18 deals (incl. 13 ones with disclosed amounts) involving an amount of USD 1.262 billion
- Two VC/PE-backed M&As took place in Telecom & VAS in 2009 – Lenovo China's acquisition of Hony Capital's full stake in Lenovo Mobile, and Dun & Bradstreet's buyout into Roadway Interaction Marketing Co., Ltd., a leading database operator

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1. Overview of VC/PE Investments - 2009

1.1 VC Investments

A total of 24 VC deals in Telecom & VAS, the same in the number as last year, were disclosed in 2009, and garnered a total amount of USD 114 million, posting a 45.2% drop in the investment amount from the previous year. Overall, due to impacts of the financial crisis, domestic VC market in Telecom & VAS continued to slump off its peak hit in Q3/2008, with both the deal number and the amount slid sharply in the fourth quarter, but by the second half of 2009, the market began to budge out of the trough, and then picked up stably.

Except four big deals in the range of USD 10-20 million, most were less than USD 5 million each, accounting for 70% among all the deals in Telecom & VAS.

Telecom & VAS garnered a 5.6% share in the total deal number, and a 3.0% share in the total investment amount for the sector, with the 24 disclosed deals for 2009 being spread in three subsectors: Wireless VAS, Telecom Technology and Terminals.

Wireless VAS was favored by VC investors, as demonstrated in the deal number, the total amount and the average amount, with its 15 deals ending up with USD 70.45 million, accounting for 62.5% and 61.7% of their respective total, and its average size of deals being USD 6.56 million.

Series A-round investments constituted the bulk of the domestic VC market in the sector, with the 16 disclosed deals securing a combined amount of USD 77.64 million, accounting for 66.7% and 68.0% of their respective total.

Most VC deals in Telecom & VAS this year were targeted at development-stage upstarts - 21 deals splashed out a total of USD 103 million into upstarts, making up 87.5% and

90.4% of their respective total in the sector. According to ChinaVenture's statistics, development-stage upstarts have been the strongest magnet for VC investors.

Beijing, Shanghai, Shenzhen and Zhejiang remained the most active areas in attracting VC capital in 2009. Beijing led the pack by striking seven deals worth USD 44.28 million, while Shanghai ranked second by closing four deals worth USD 11.78 million, closely followed by Shenzhen, which secured a slightly less amount in the same number of deals.

Chinese investors secured more deals (13 ones) but far less amount than their foreign peers, suggesting the average amount for their deals is yet to be increased.

1.2 PE Investments

According to ChinaVenture's CVSource statistics, two PE deals in Telecom & VAS were disclosed in 2009, a 50.0% drop from the previous year, and garnered a total amount of USD 14.12 million, a sharp decline of 94.6%, with the average amount being USD 7.06 million, posting a fall of 89.1%. Overall, China's PE market in Telecom & VAS this year was characterized by fewer, smaller deals against the previous years.

The two disclosed PE deals in 2009 fell in two subsectors: Wireless VAS and Terminals.

The two disclosed PE deals in Telecom & VAS in 2009 were backed respectively from Growth Capital and PIPE.

The two disclosed PE deals in Telecom & VAS in 2009 were targeted at respectively profitability and expansion-stage upstarts.

The two disclosed PE deals in Telecom & VAS in 2009 took place respectively in Sichuan and Beijing.

The two disclosed PE deals in Telecom & VAS in 2009 were clinched respectively by one Chinese investor and one foreign investor.

1.3 IPOs

Six enterprises in Telecom & VAS managed to stage their IPOs in 2009, pooling a combined amount of USD 407 million, with the average amount being USD 67.88 million. These statistics showed that the IPO market in Telecom & VAS experienced a robust recovery both in the IPO number and the fundraising amount over time since the second half of 2009, with three IPOs in the third quarter and four in the fourth.

The Shenzhen Stock Exchange and the ChiNext Board brought about USD 251 million and USD 29 million respectively to four debutants, accounting for 61.7% and 7.1% of the total fundraising amount, while the HKEx pooled a combined amount of USD 128 million for the two other debutants, making up 31.4% of the total.

Among the six IPOs in Telecom & VAS taking place in 2009, there were four VC/PE-backed transactions in a total amount of USD 301 million, with their book ROIs in the range of 2-3 times. The four IPOs were distributed evenly, both in the deal number and the financing amount, in two subsectors: Telecom Technology and Terminals.

1.4 M&As

18 M&As in Telecom & VAS in 2009, including 13 ones with disclosed amounts, involved USD 1.262 billion. Of which, there were cross-border M&As and nine domestic ones, with the involved amount for each deal averaging at USD 53.22 million.

Compared with 2008, the number of M&As in Telecom & VAS this year shot up 63.7%, while the involved amount up a staggering 428.4%. The latest statistics show that the M&A transactions in this sector rallied steadily since 2008, and then went on for a surge by Q3/2009 before stabilized in the fourth quarter. Therefore, the M&A market is expected to maintain its relatively strong momentum in 2010.

Two VC/PE-backed M&As took place in Telecom & VAS in 2009 – Lenovo China's

acquisition of Hony Capital's full stake in Lenovo Mobile, and Dun & Bradstreet's buyout into Roadway Interaction Marketing Co., Ltd., a leading database operator. Among all the subsectors, Telecom & VAS ranked third and fourth respectively in the VC/PE-backed M&A number and the involved amount- USD 2 billion.

2. Analysis of VC Investments - 2009

2.1 Analysis by Number and Amount

China's VC market in Telecom & VAS in 2009 witnessed 24 disclosed deals, the same number as that of last year, but garnered a total amount of USD 114 million, down 45.2% year on year, with the average amount being USD 4.75 million, recording a drop of 47.5%(as shown in Table 2.1-1 and Figure 2.1-1).

Overall, due to impacts of the financial crisis, domestic VC market in Telecom & VAS continued to slump off its peak hit in Q3/2008, with both the deal number and the amount slid sharply in the fourth quarter, but by the second half of 2009, the market began to budge out of the trough, and then bounced back stably over time, despite the overall investment amount far below the height reached in 2008 (as shown in Figure 2.1-1).

Quarterly Scales of VC Investments in Telecom & VAS in 2009

Quarter	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Q1/09	4	31.43	7.86
Q2/09	4	17.81	4.45
Q3/09	9	15.71	1.75
Q4/09	7	49.15	7.02
Total	24	114.10	4.75
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 2.1-1: Quarterly Scales of VC Investments in Telecom & VAS in 2009

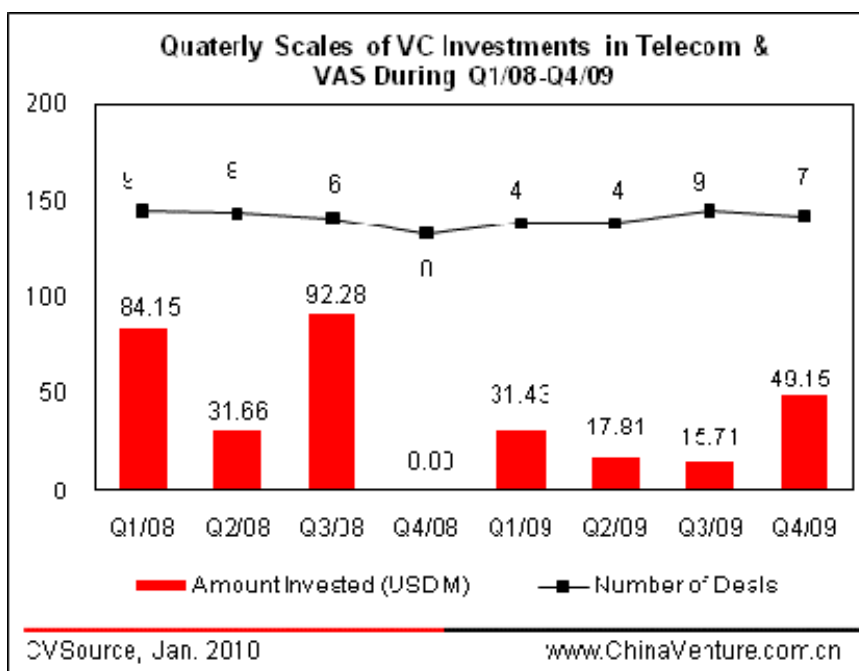


Figure 2.1-1: Quarterly Scales of VC Investments During Q1/08-Q4/09

Except four big deals in the range of USD 10-20 million and one deal of more than USD 20 million, most were smaller in size, less than USD 5 million each, accounting for 70% among all the deals in Telecom & VAS (as shown in Figure 2.1-2).

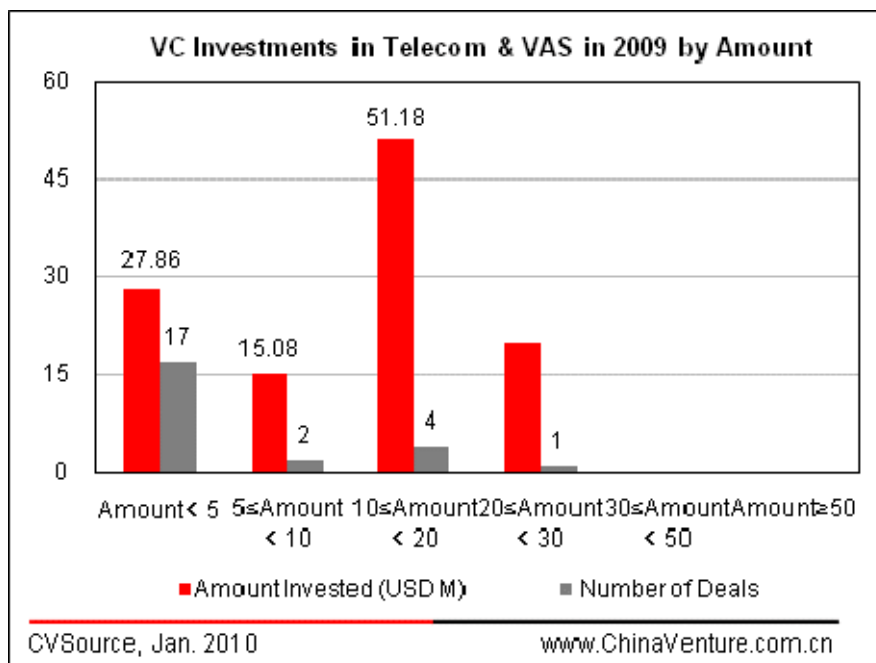


Figure 2.1-2: VC Investments in Telecom & VAS in 2009 by Amount

2.2 Analysis by Subsector

Telecom & VAS garnered a 5.6% share in the total deal number, and a 3.0% share in the total investment amount for the sector, with the 24 disclosed deals for 2009 being spread in three subsectors: Wireless VAS, Telecom Technology and Terminals (as shown in Table 2.2-1).

Wireless VAS was favored by VC investors, as demonstrated in the deal number, the total amount and the average amount, with its 15 deals ending up with USD 70.45 million, accounting for 62.5% and 61.7% of their respective total, and its average size of deals being USD 6.56 million (as shown in Table 2.2-1, Figure 2.2-1 and Figure 2.2-2).

Scales of VC Investments in Telecom & VAS in 2009 by Subsector

Level I	Level II	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Telecom & VAS	Wireless VAS	15	70.45	4.70
	Telecom Technology	6	39.35	6.56
	Terminals	3	4.31	1.44
Total		24	114.11	4.75
CVSource, Jan. 2010			www.ChinaVenture.com.cn	

Table 2.2-1: Scales of VC Investments in Telecom & VAS in 2009 by Subsector

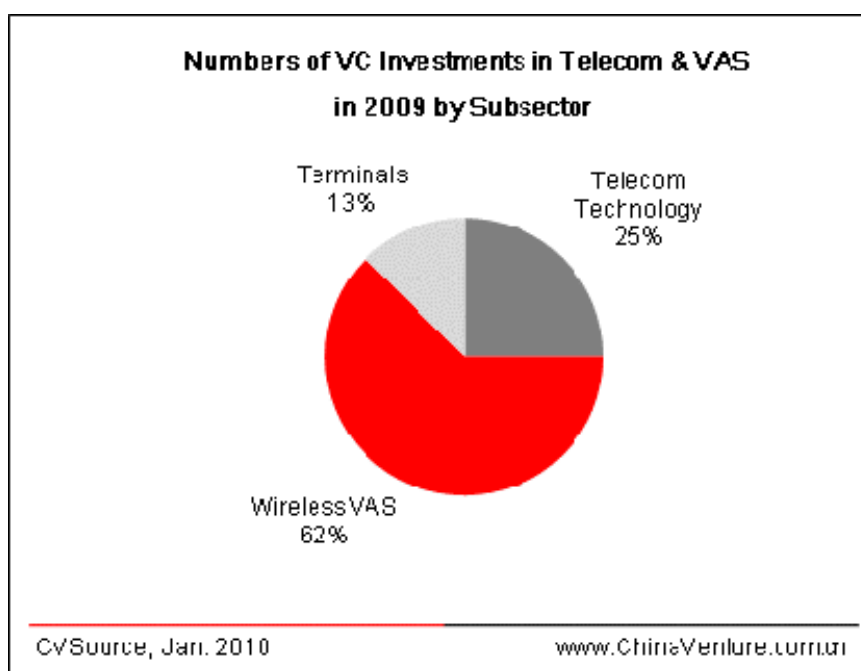


Figure 2.2-1: Numbers of VC Investments in Telecom & VAS in 2009 by Subsector

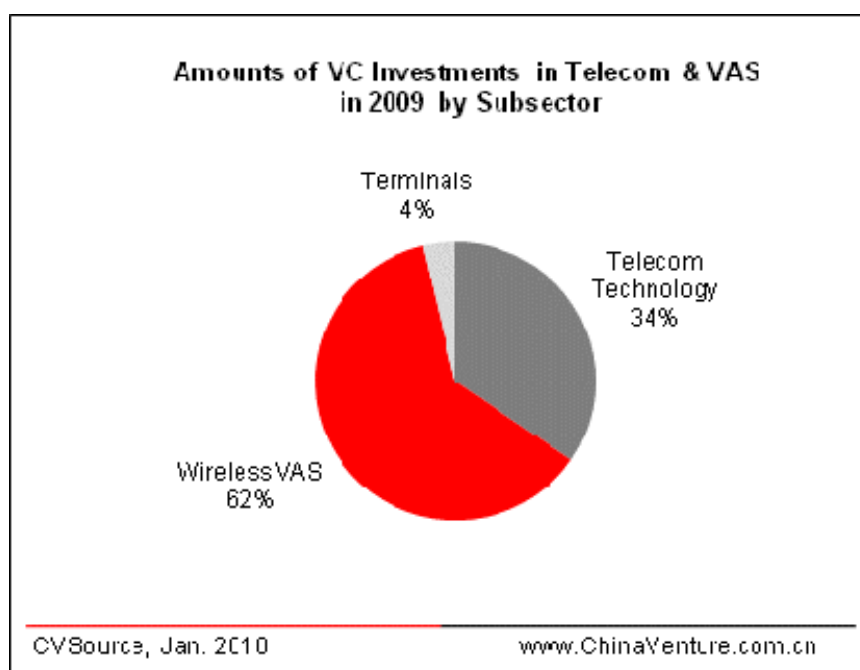


Figure 2.2-2: Amounts of VC Investments in Telecom & VAS in 2009 by Subsector

2.3 Analysis by Round

Series A-round investments constituted the bulk of the domestic VC market in the sector, with the 16 disclosed deals securing a combined amount of USD 77.64 million, accounting for 66.7% and 68.0% of their respective total.

VC Investments in Telecom & VAS in 2009 by Round

Round	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Series- A	16	77.64	4.85
Series-B	7	34.47	4.92
Series-C	1	2.00	2.00
Series-D	0	0.00	0.00
Total	24	114.11	4.75
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 2.3-1: VC Investments in Telecom & VAS in 2009 by Round

2.4 Analysis by Stage

Most VC deals in Telecom & VAS this year were targeted at development-stage upstarts - 21 deals splashed out a total of USD 103 million into upstarts, making up 87.5% and 90.4% of their respective total in the sector.

Scales of VC Investments in Telecom & VAS in 2009 by Stage

Stage	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Development Stage	21	103.18	4.91
Expansion Stage	3	10.94	3.65
Profitability Stage	0	0.00	0.00
Early Stage	0	0.00	0.00
Total	24	114.12	4.76
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 2.4-1: Scales of VC Investments in Telecom & VAS in 2009 by Stage

According to ChinaVenture's statistics, development-stage upstarts have been the strongest magnet for VC investors (as shown in Table 2.4-1, Figure 2.4-2, Figure 2.4-2 and Figure 2.4-3).

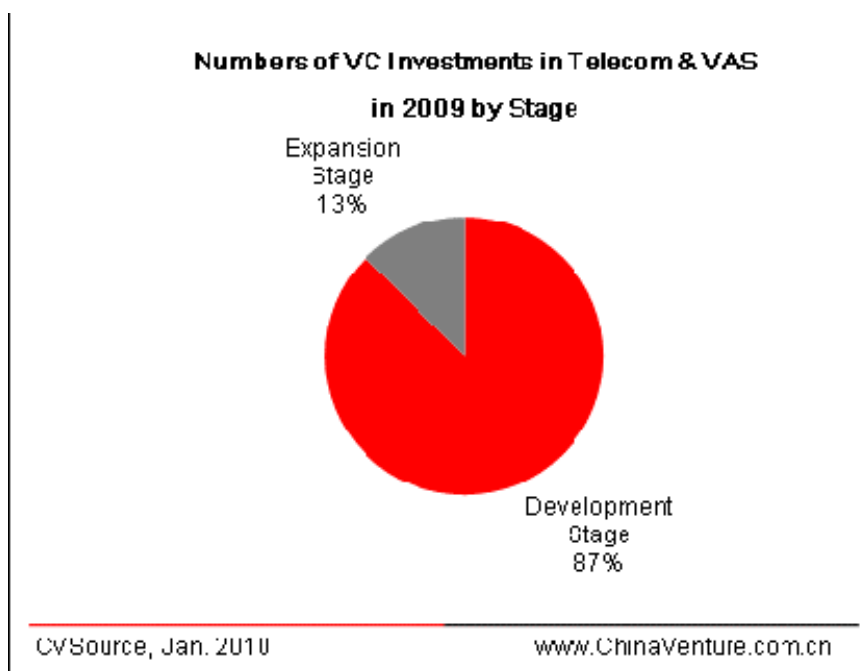


Figure 2.4-1: Numbers of VC Investments in Telecom & VAS in 2009 by Stage

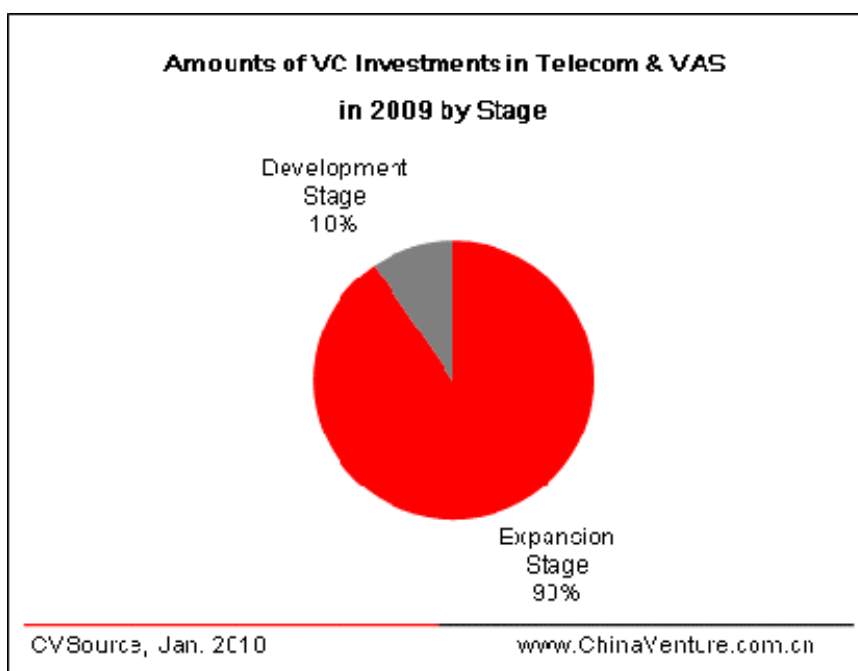


Figure 2.4-2: Amounts of VC Investments in Telecom & VAS in 2009 by Stage

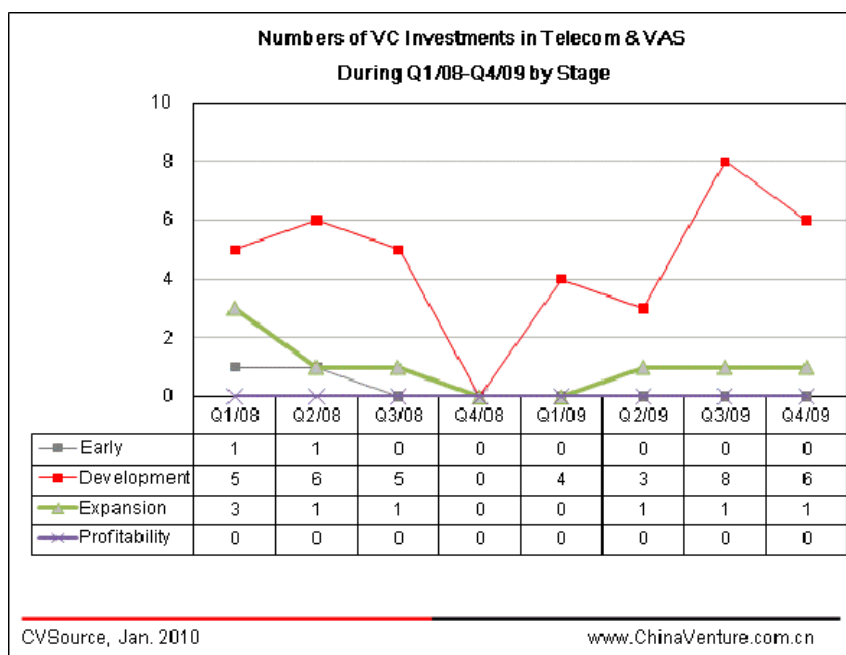


Figure 2.4-3: Numbers of VC Investments During Q1/08-Q4/09 by Stage

2.5 Analysis by Region

Beijing, Shanghai, Shenzhen and Zhejiang remained the most active areas in attracting VC capital in 2009. Beijing led the pack by striking seven deals worth USD 44.28 million, while Shanghai ranked second by closing four deals worth USD 11.78 million, closely followed by Shenzhen, which secured a slightly less amount in the same number of deals.

Chinese investors secured more deals (13 ones) but far less amount than their foreign peers, suggesting the average amount for their deals is yet to be increased (as shown in Table 2.5-1).

VC Investments in Telecom & VAS in 2009 by Region

Region	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Beijing	7	44.28	6.33
Shanghai	4	11.78	2.94
Shenzhen	4	8.12	2.03
Zhejiang	3	13.21	4.40
Guangdong (excl. Shenzhen)	2	13.81	6.91
Jiangsu	2	3.50	1.75
Shaanxi	1	0.24	0.24
Others	1	19.18	19.18
Total	24	114.11	0.80
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 2.5-1: VC Investments in Telecom & VAS in 2009 by Region

2.6 Analysis by Investor

Chinese investors secured more deals (13 ones) but far less amount than their foreign peers, suggesting the average amount for their deals is yet to be increased (as shown in Table 2.6-1, Figure 2.6-1 and Figure 2.6-2).

Scales of Chinese Vs. Foreign VC Investments in Telecom & VAS in 2009

Investor	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Chinese	13	29.58	2.28
JVs	2	15.00	7.50
Foreign	9	69.53	7.73
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 2.6-1: Scales of Chinese Vs. Foreign VC Investments in 2009

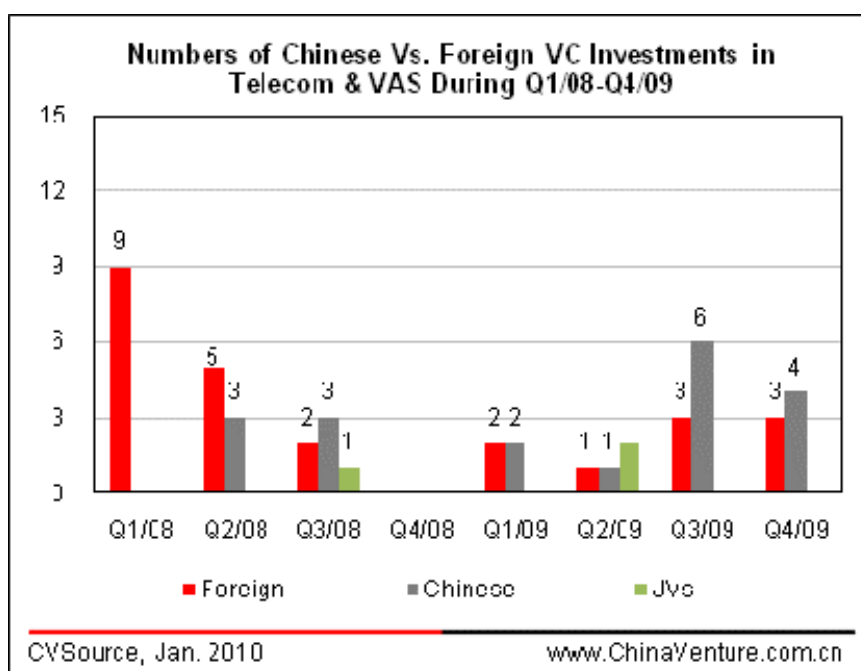


Figure 2.6-1: Numbers Chinese Vs. Foreign VC Investments During Q1/08-Q4/09

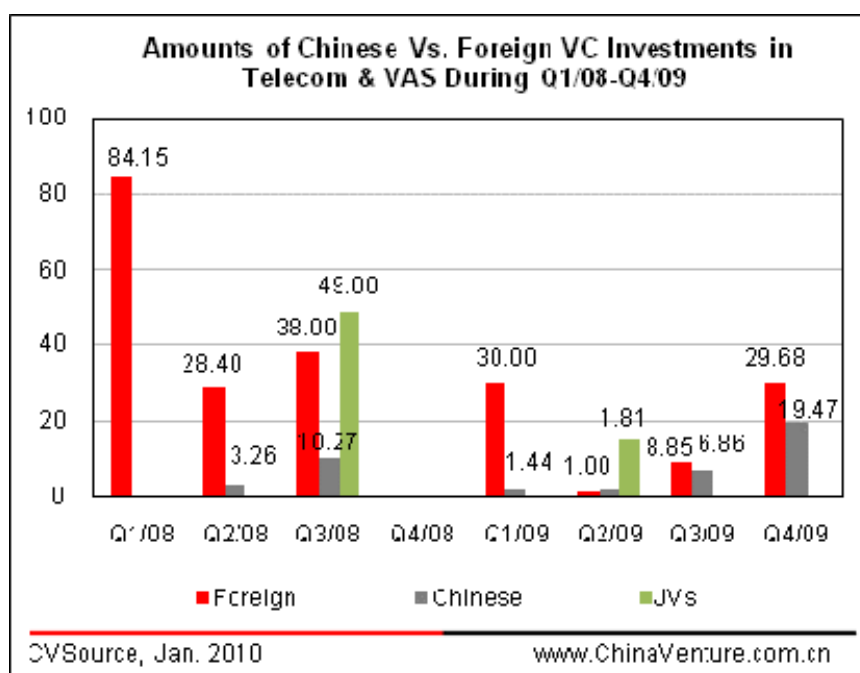


Figure 2.6-2: Amounts of Chinese Vs. Foreign VC Investments During Q1/08-Q4/09

3. Analysis of PE Investments - 2009

3.1 Analysis by Number and Amount

According to ChinaVenture's CVSource statistics, two PE deals were disclosed in Telecom & VAS in 2009, dropping 50.0% compared with the previous year, and garnered a total amount of USD 14.12 million, a sharp decline of 94.6%, with the average amount being USD 7.06 million, posting a fall of 89.1% (as shown in Table 3.1-1 and Figure 3.1-1). Overall, China's PE market in Telecom & VAS this year was characterized by fewer, smaller deals against the previous years.

Quarterly Scales of PE Investments in Telecom & VAS in 2009

Quarter	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Q1/09	1	7.32	7.32
Q2/09	0	0.00	0.00
Q3/09	0	0.00	0.00
Q4/09	1	6.80	6.80
Total	2	14.12	7.06
CVSource, Jan.2010		www.ChinaVenture.com.cn	

Table 3.1-1: Quarterly Scales of PE Investments in Telecom & VAS in 2009

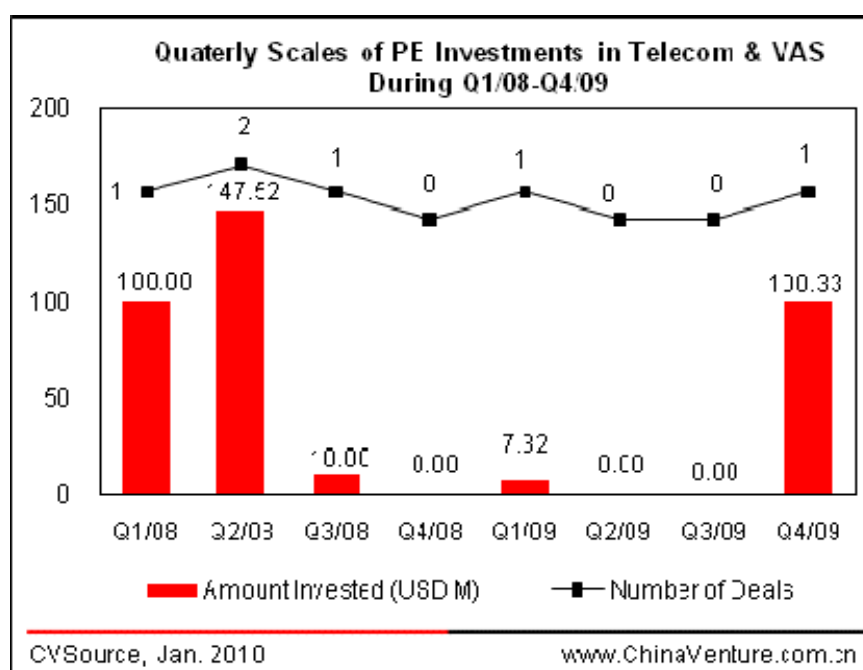


Figure 3.1-1: Scale of PE Investments in Telecom & VAS During Q1/08-Q4/09¹

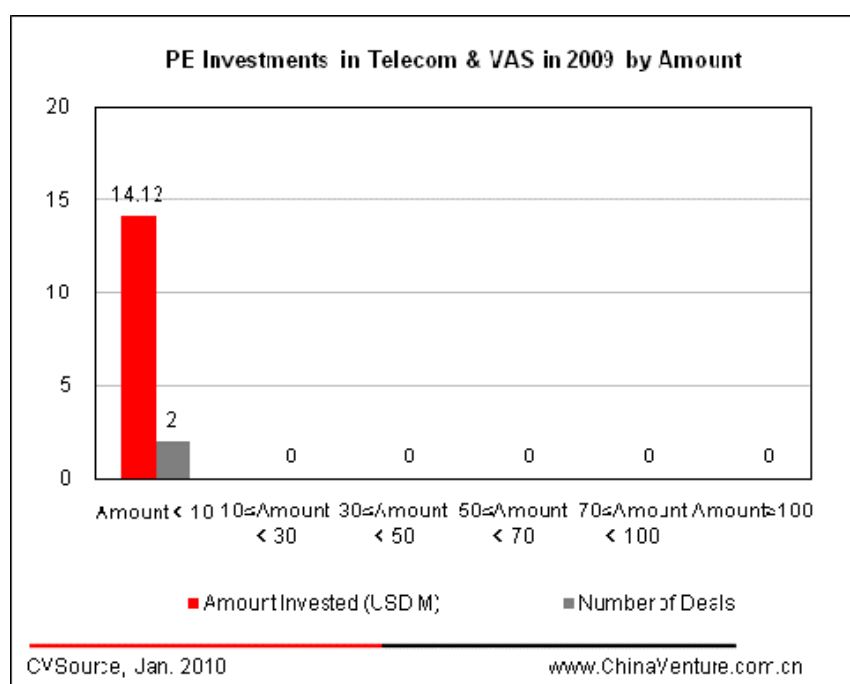


Figure 3.1-2: PE Investments in Telecom & VAS in 2009 by Amount

¹ Except where otherwise noted, the amount unit of the Figures and Tables herein is in million.

3.2 Analysis by Subsector

The two disclosed PE deals in 2009 fell in two subsectors: Wireless VAS and Terminals (as shown in 3.2-1).

Scales of PE Investments in Telecom & VAS in 2009 by Subsector

Level I	Level II	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Telecom & VAS	Wireless VAS	1	7.32	7.32
	Terminals	1	6.80	6.80
Total		2	14.12	7.06
CVSource, Jan. 2010			www.ChinaVenture.com.cn	

Table 3.2-1: Scales of PE Investments in Telecom & VAS in 2009 by Subsector

3.3 Analysis by Type

The two disclosed PE deals in Telecom & VAS in 2009 were backed respectively from Growth Capital and PIPE.

Scales of PE Investments in Telecom & VAS in 2009 by Type

Type of Investment	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Growth Capital	1	7.32	7.32
PIPE	1	6.80	6.80
Total	2	14.12	7.06
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 3.3-1: Scales of PE Investments in Telecom & VAS in 2009 by Type

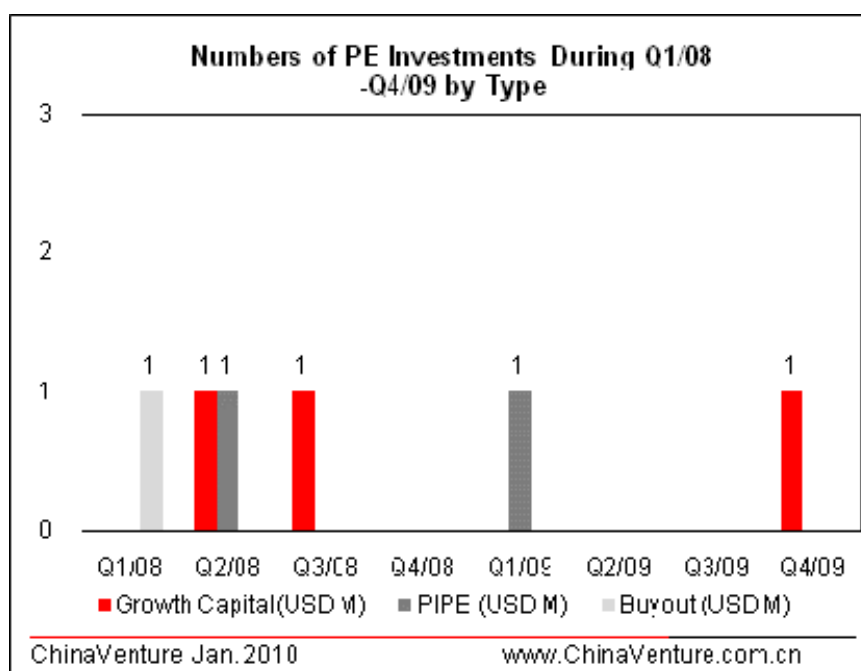


Figure 3.3-1: Numbers of PE Investments During Q1/08-Q4/09 by Type

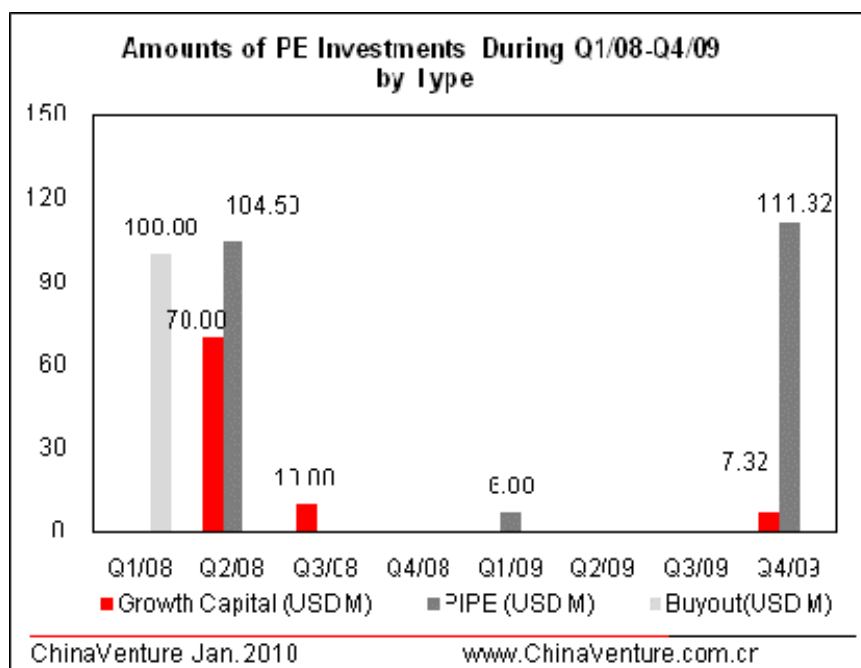


Figure 3.3-2: Amounts of PE Investments During Q1/08-Q4/09 by Type

3.4 Analysis by Stage

The two disclosed PE deals in Telecom & VAS in 2009 were targeted at respectively profitability and expansion-stage upstarts (as shown in Table 3.4-1).

Scales of PE Investments in Telecom & VAS in 2009 by Stage

Stage	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Profitability Stage	1	6.80	6.80
Expansion Stage	1	7.32	7.32
Total	2	14.12	7.06
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 3.4-1: Scales of PE Investments in Telecom & VAS in 2009 by Stage

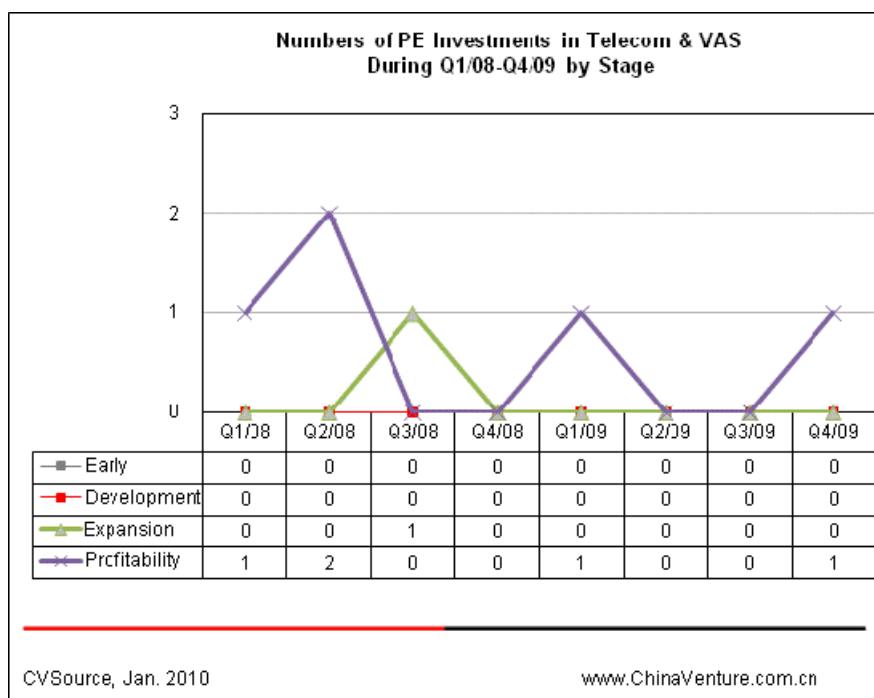


Figure 3.4-1: Numbers of PE Investments During Q1/08-Q4/09 by Stage

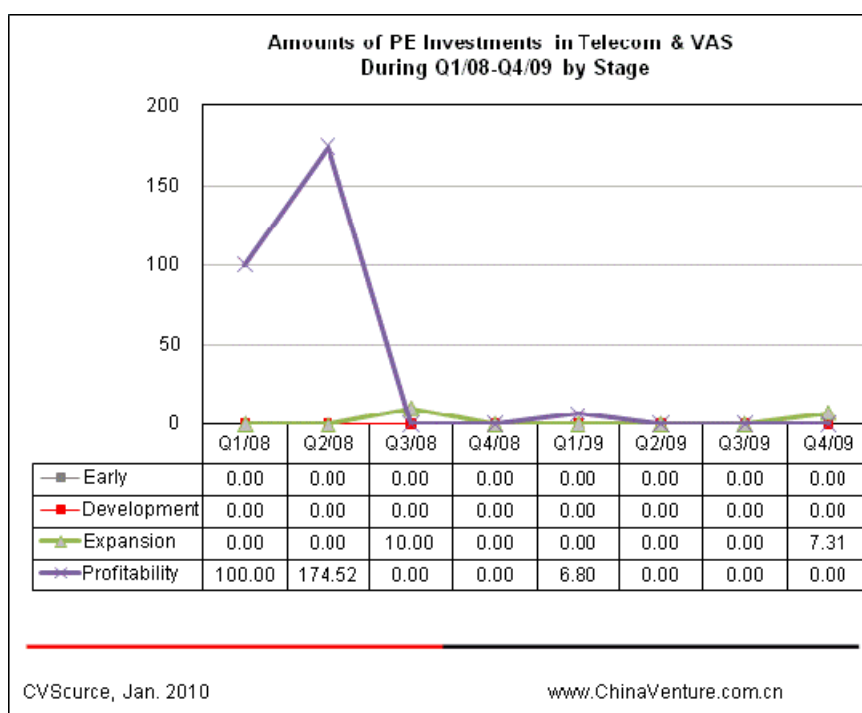


Figure 3.4-2: Amounts of PE Investments During Q1/08-Q4/09 by Stage

3.5 Analysis by Region

The two disclosed PE deals in Telecom & VAS in 2009 took place respectively in Sichuan and Beijing (as shown in Table 3.5-1).

PE Investments in Telecom & VAS in 2009 by Region

Region	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Sichuan	1	7.32	7.32
Beijing	1	6.80	6.80
Total	2	14.12	7.06

CVSource, Jan. 2010 www.ChinaVenture.com.cn

Table 3.5-1: PE Investments in Telecom & VAS in 2009 by Region

3.6 Analysis by Investor

The two disclosed PE deals in Telecom & VAS in 2009 were clinched respectively by one

Chinese investor and one foreign investor (as shown in Table 3.6-1, Figure 3.6-1 and Figure 3.6-2).

Scales of Chinese Vs. Foreign PE Investments in Telecom & VAS in 2009

Investor	Deals	Investment Amount (USD M)	Average Amount of Deals (USD M)
Foreign	1	6.80	6.80
Chinese	1	7.32	7.32
Total	2	14.12	7.06
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 3.6-1: Scales of Chinese Vs. Foreign PE Investments in 2009

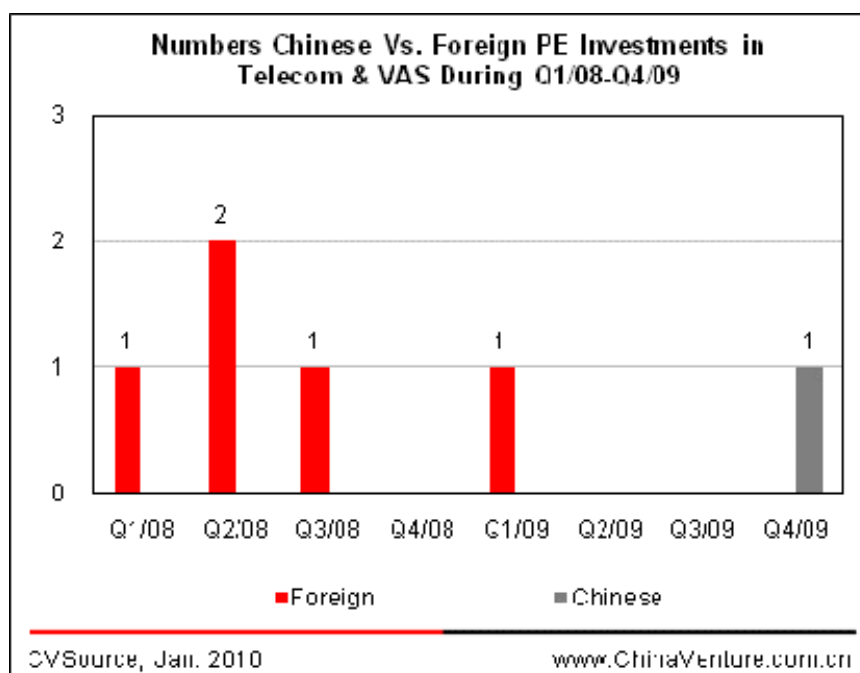


Figure 3.6-1: Numbers of Chinese Vs. Foreign PE Investments During Q1/08-Q4/09

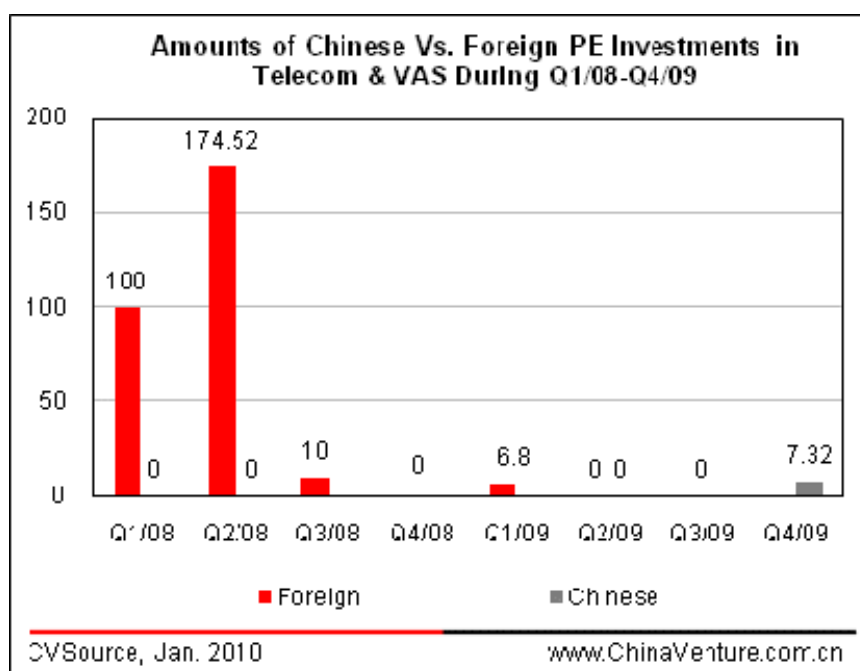


Figure 3.6-2: Amounts of Foreign Vs. Chinese PE Investments During Q1/08-Q4/09

4. Analysis of VC/PE Exits - 2009

4.1 Analysis of IPOs

4.1.1 Analysis by Number and Amount

Six enterprises in Telecom & VAS managed to stage their IPOs in 2009, pooling a combined amount of USD 407 million, with the average amount being USD 67.88 million. More specifically, the four domestic IPO issuers grabbed USD 279 million, averaging out at USD 69.87 million, while the remaining two overseas debutants USD 128 million (as shown on Table 4.1.1-1).

These statistics showed that the IPO market in Telecom & VAS experienced a robust recovery both in the IPO number and the fundraising amount over time since the second half of 2009, with three IPOs in the third quarter and four in the fourth (as shown on Figure 4.1.1-1).

Scales of IPOs in Telecom & VAS in 2009

Capital Market	IPOs	Financing Amount (USD M)	Average Financing Amount (USD M)
Domestic	4	279.47	69.87
Overseas	2	127.80	63.90
Total	6	407.27	67.88
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 4.1.1-1: Scales of IPOs in Telecom & VAS in 2009

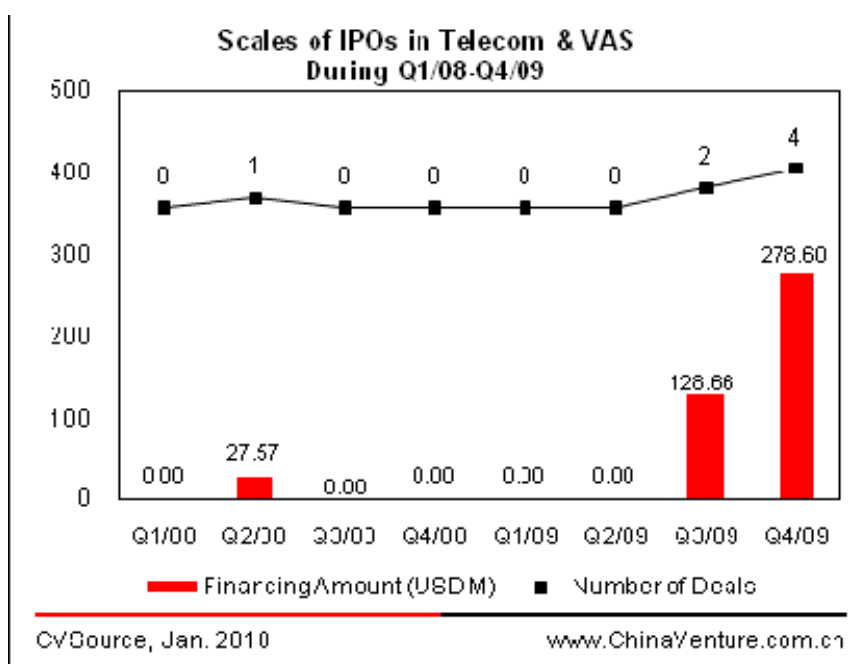


Figure 4.1.1-1: Scales of IPOs in Telecom & VAS During Q1/08-Q4/09

The Shenzhen Stock Exchange and the ChiNext Board brought about USD 251 million and USD 29 million respectively to four debutants, accounting for 61.7% and 7.1% of the total fundraising amount, while the HKEx pooled a combined amount of USD 128 million for the two other debutants, making up 31.4% of the total (as shown in Table 4.1.1-2, Figure 4.1.1-2 and Figure 4.1.1-3).

Amounts of IPOs in Telecom & VAS in 2009

Bourse	IPOs	Financing Amount (USD M)	Average Financing Amount (USD M)
SZSE	3	250.69	83.56
HKEx	2	127.80	63.90
ChiNext	1	28.78	28.78
Total	6	407.27	67.88
CVSource, Jan. 2010		www.ChinaVenture.com.cn	

Table 4.1.1-2: Amounts of IPOs in Telecom & VAS in 2009

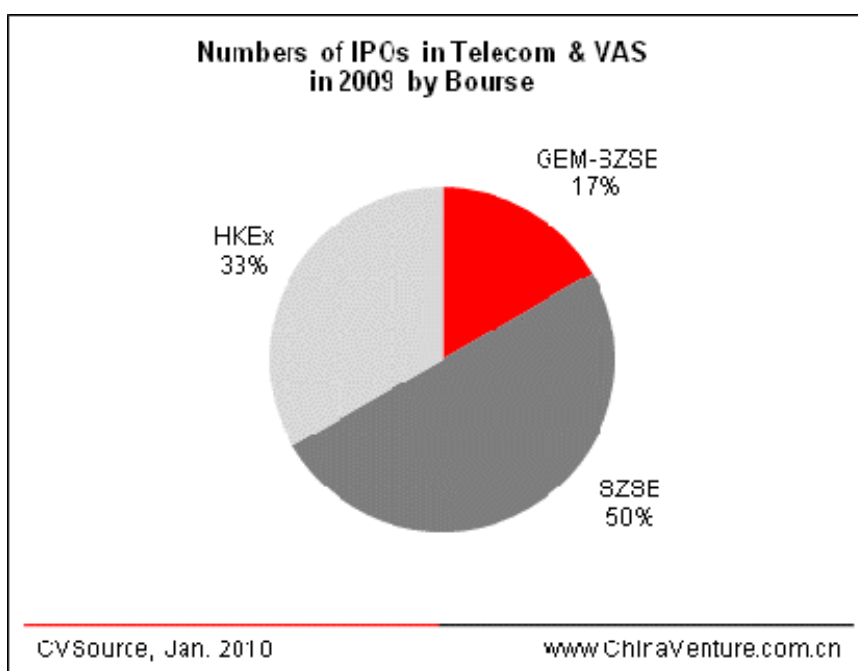


Figure 4.1.1-2: Numbers of IPOs in Telecom & VAS in 2009 by Bourse

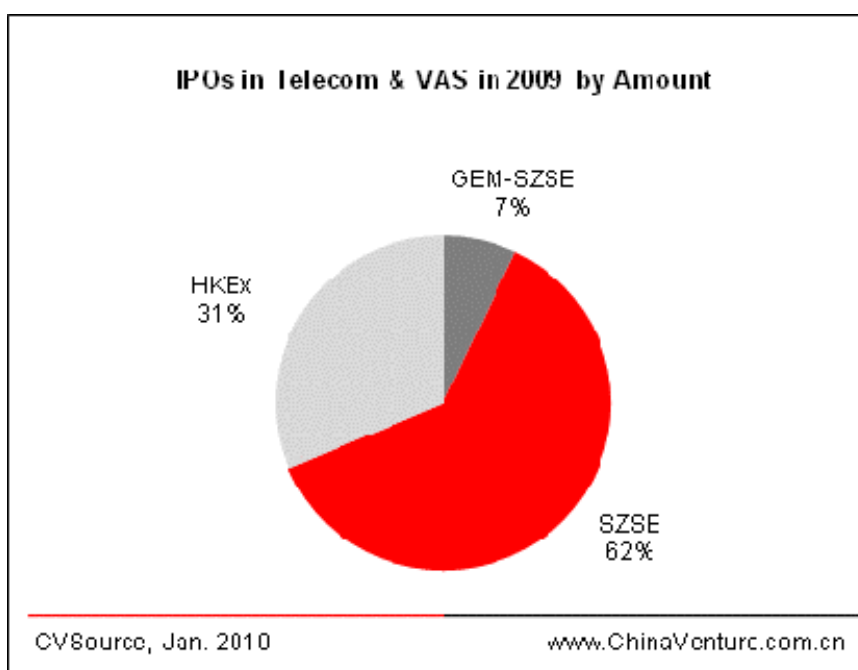


Figure 4.1.1-3: Amounts of IPOs in Telecom & VAS in 2009 by Bourse

4.2.1 Analysis of VC/PE-backed IPOs

Among the six IPOs in Telecom & VAS taking place in 2009, there were four VC/PE-backed transactions in a total amount of USD 301 million, with their book ROIs in

the range of 2-3 times (as shown in Figure 4.1.2-1 and Figure 4.1.2-2).

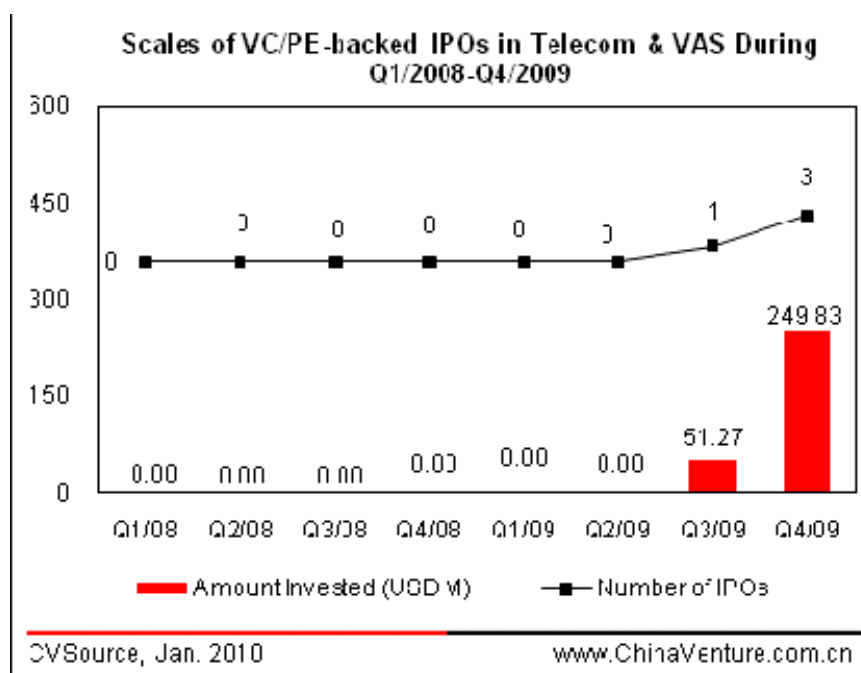


Figure 4.1.2-1: Scales of VC/PE-backed IPOs in Telecom & VAS During Q1/08-Q4/09

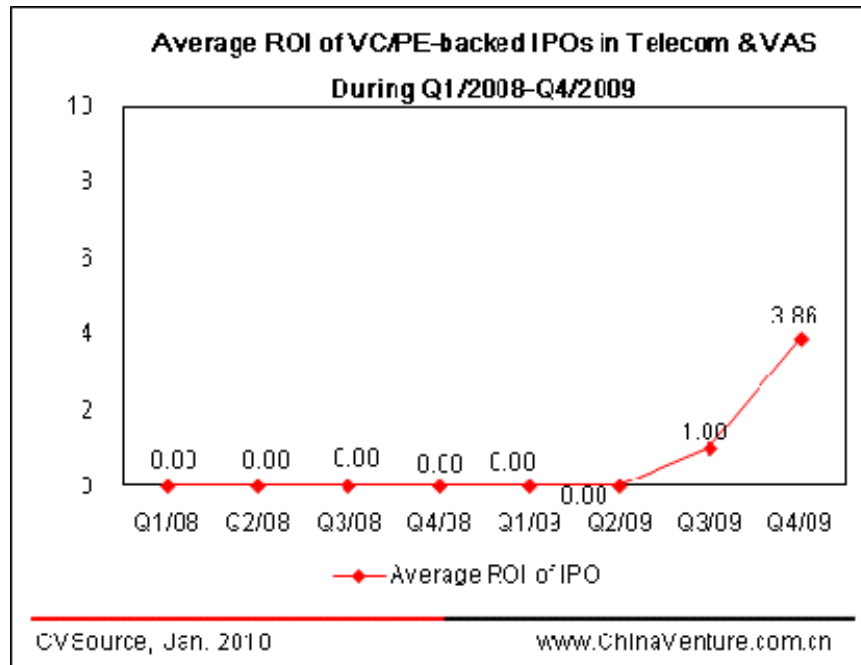


Figure 4.1.2-2: Average ROI of VC/PE-backed IPOs During Q1/08-Q4/09

The four IPOs were distributed evenly, both in the deal number and the financing amount, in two subsectors: Telecom Technology and Terminals (as shown in Table 4.1.2-1)

Scales of VC/PE-backed IPOs in Telecom & VAS in 2009 by Subsector

Level I	Level II	IPOs	Financing Amount (USD M)	Average Financing Amount (USD M)
Telecom & VAS	Telecom Technology	2	173.30	86.65
	Terminals	2	127.80	63.90
CVSource, Jan. 2010			www.ChinaVenture.com.cn	

Table 4.1.2-1: Scales of VC/PE-backed IPOs in Telecom & VAS in 2009 by Subsector

4.2 Analysis of M&As

4.2.2 Analysis by Number and Amount

18 M&As in Telecom & VAS in 2009, including 13 ones with disclosed amounts, involved USD 1.262 billion. Of which, the nine cross-border M&As (incl. five with disclosed amounts) averaged out at USD 167 million, while the nine domestic ones (incl. eight with disclosed amounts) at USD 53.22 million (as shown in Table 4.2.1-1 and Figure 4.2.1-1).

Compared with 2008, the number of M&As in Telecom & VAS this year shot up 63.7%, while the involved amount up a staggering 428.4%. The latest statistics show that the M&A transactions in this sector rallied steadily since 2008, and then went on for a surge by Q3/2009 before stabilized in the fourth quarter. Therefore, the M&A market is expected to maintain its relatively strong momentum in 2010 (as shown in Figure 4.2.1-1).

Scales of M&As in Telecom & VAS in 2009

Type of M&As	Deals	Deals with Disclosed Amounts	Disclosed Amounts of M&As (USD M)	Average Amounts of M&As (USD M)
Cross-border M&A	9	5	836.41	167.28
Domestic M&A	9	8	425.75	53.22
Total	18	13	1,262.16	97.09
CVSource, Jan. 2010			www.ChinaVenture.com.cn	

Table 4.2.1-1: Scales of M&As in Telecom & VAS in 2009

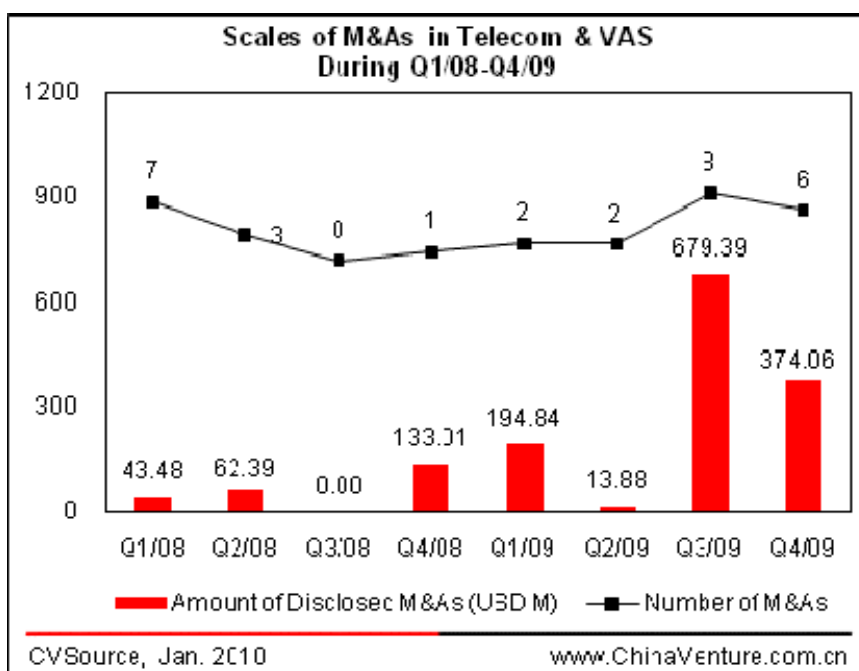


Figure 4.2.1-1: Scales of M&As in Telecom & VAS During Q1/08-Q4/09

4.2.3 Analysis of VC/PE-backed M&As

Only two VC/PE-backed M&As took place in Telecom & VAS in 2009 – Lenovo China's acquisition of Hony Capital's full stake in Lenovo Mobile, and Dun & Bradstreet's buyout into Roadway Interaction Marketing Co., Ltd., a leading database operator (as shown in Table 4.2.2-1 and Figure 4.2.2-1).

Among all the subsectors, Telecom & VAS ranked third and fourth respectively in the VC/PE-backed M&A number and the involved amount- USD 2 billion.

Scales of VC/PE-backed M&As in Telecom & VAS in 2009

Level I	Level II	Deals	Deals with Disclosed Amounts (USD M)	Disclosed Amounts of M&As (USD M)
Terminals	1	1	200.00	200.00
Wireless VAS	1	0	0	0
CVSource, Jan. 2010			www.ChinaVenture.com.cn	

Table 4.2.2-1: Scales of VC/PE-backed M&As in 2009

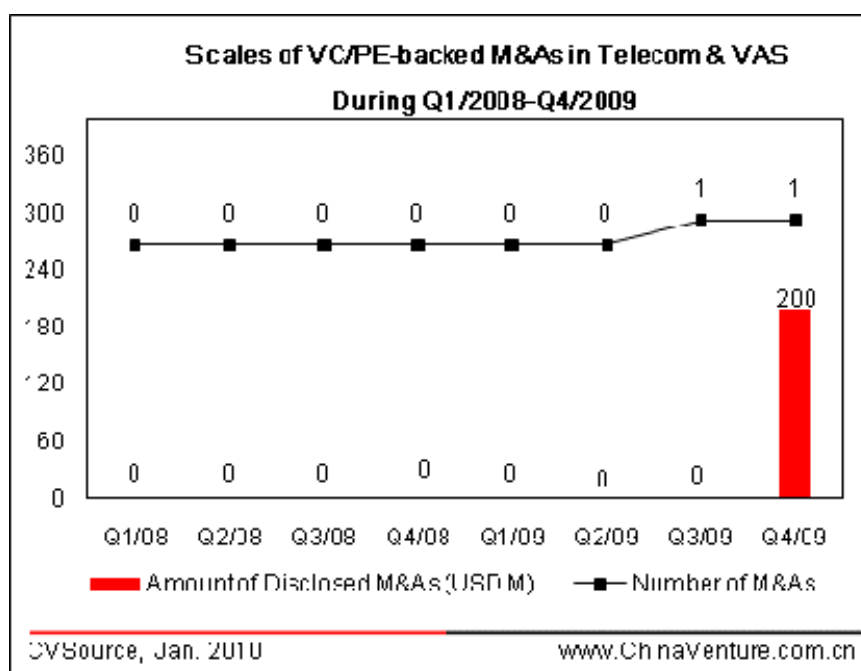


Figure 4.2.2-1: Scales of VC/PE-backed M&As During Q1/08-Q4/09

5. Major Events – 2009

- **3G Licenses Ushered in an Investment Spree in Telecom**

On Jan. 7, 2009, the Ministry of Industry and Information Technology granted 3G licenses to China Mobile, China Telecom and China Unicom, approving them to engaging in the 3G technological standards (TD-SCDMA, CDMA2000 and WCDMA) mobile telecom operations respectively.

The massive investment spree presents ample business opportunities. According to the two-year preliminary business plans for the operators, a total amount of RMB 280 billion will be spent on their 3G network construction from 2009 to 2010, with the installment for 2009 totaling RMB 135-165 billion.

- **Lenovo Acquired Hony Capital's Equity Stakes in Lenovo Mobile**

On Nov. 27, 2009, Lenovo Group announced its decision to acquire Hony Capital and other investors' all the equity stakes in Lenovo Mobile Communication Technology Ltd. ("Lenovo Mobile" for short) for a price of USD 200 million paid in cash and Lenovo shares. Hony Capital is a member enterprise of Lenovo Group focusing on M&A transactions. On the strength of its well-experienced management team, solid financial standing, extensive network of business channels, and strong cooperative relationships with local telecom operators, Lenovo Mobile is among the top three on domestic mobile phone market, and the top one among domestic brands.

- **VIVA Obtained Capital Injection From Highland Capital and Ventech**

Beijing VIVAME Technology Co., Ltd. ("VIVA" for short), a mobile new media entity, confirmed today that it had gotten its Series A round joint investment worth USD 10 million from Highland Capital, Ventech Fund and Chairman Tian Suning of China Broadband Capital Partners, and all the proceeds available from the investment will go for its 3G

product R&D and cooperative operations with operators. Established in January 2007, VIVA is a mobile new media platform technology & operation service provider, with its business scope covering mobile TV, mobile magazines and mobile radio. Having played a role in AsiaInfo's financing and public listing as well as CNC establishment, Mr. Han Ying, Founder of VIVA, left CNC in 2006 and ventured into a new field: Mobile New Media. In his opinion, with the advent of 3G and mobile broadband internet communication technologies, Mobile New Media will emerge as a new communication model for providing personalized communication services.

- **Telstra Bought into Two Chinese Media Service Providers**

Australian telecom operator Telstra was reported to take a 67% equity stake in two Chinese media service providers for a price of AUD 302 million (USD 190 million). One of the acquired was China M, an online content provider targeting mobile phone subscribers, and the other was Sharp Point, a technical supporter to China Mobile's music platform.

Along with growing commercial applications of 3G technologies, venture capitalists have shed off their indifferent or wait-and-see attitude towards the SP sector, and are poised to wade into it. Telstra's acquisition of domestic service providers was simply a strong signal that the sector is warming up over time.

With 3G technology gaining traction, service providers may see their business booming again, and their networks of distribution channels expanding. For example, if a 3G application is adopted on multiple networks rather than one, of course, there will be reduced R&D risks and higher profitabilities for the service providers. Additionally, relatively favorable industry policies help carve out more growth potentials and opportunities for small and medium-sized service providers, as a result, waves of massive investments in media service sector are expected to be in the offing.

- **Lijing Raised USD 20 Million From WhiteHorse**

Lijing (Beijing) Innovation & Technology Co., Ltd. received WhiteHorse Capital Partners'

USD 20 million in initial investment on March 12, 2009 for forging the would-be largest video ad platform for mobile phone sets in the world: GETTINGIN System, an independently developed, proprietary high-tech product. According to CEO Xi La of Lijing, The platform technology for running 3G mobile video ads can deliver on the most important features of mobile phones in the Personal Info Center - 5G Media. The system will offer added-value services to operators, and re-forge their business models and profit models. That is to say, the market value of mobile advertising was brought into relief with 3G technological advancements. According to the latest statistics, the global market for mobile advertising has expanded as of 2007 to USD 1 billion, while that for other media at USD 600 billion.

- **Reshuffles Loom in Mobile Retail Chain Sector With Xieheng's Acquisition**

Shanghai Xieheng M-phone Chains Co., Ltd., one of leading mobile phone retailers in China, was gobbled down by Beijing Pypo Tech Group Co., Ltd. for a price of RMB 170 million. But the brand name: "Xieheng" per se remained the property of existing shareholders. Founded by Sichuanese teachers and students in 2001 in Shanghai, Xieheng is a national retail chain of mobile telecom devices, having a distribution network of more than 400 outlets through a dozen of subsidiaries and a stunning record of RMB 2.8 billion in the annual sales revenue.

Acquisition isn't strange to Xieheng. For example, as early as in 2007, its 18 Beijing storefronts were divested off to D.phone. All these moves were widely seen by industrial insiders as a bout of asset reorganizations in the lead-up to the planned public listing. In a sign, a venture capitalist has already offered a fund in the order of RMB 20-30 million.

- **Kongzhong Received USD 6.8 Million Capital Injection From NGP**

Kongzhong, a wireless mobile data provider, announced on March 19 that it received USD 6.8 million from Nokia Growth Partners, the VC arm of Nokia. According to the agreement, Kongzhong offers its five-year-term convertible senior notes for the injected capital from

NGP Fund, which has the rights to buy KongZhong's another 2 million ADS shares at the offering price of USD 5.0 apiece in the next five years.

- **IDGVC Invested USD 20 Million Into One Net Entertainment**

According to China Techfaith, IDGVC and Infiniti Capital agreed on injecting RMB 20 million into its spinoff-One Net Entertainment, a specialist in wireless gaming applications.

Dong Defu, Chairman & CEO of Techfaith, said: "We are happy with the progress in the gaming sector, and welcoming to the investment from IDG and Infiniti. With its solid footing in the sector, One Net Entertainment will use the money for aggressive expansion."

- **Jiuzhou Acquired Amoi for a Price of RMB 135 Million**

He Linhu, Vice-General Manager of Jiuzhou Electric Group, confirmed to a reporter from *the National Business Daily* that the joint venture between his Group and China Technology had acquired Amoi Mobile Phone for a price of RMB 135 million on Nov. 20 at the second public auction in Xiamen. In his opinion, it was really a low auction price. He added that Amoi was a stronger brand, and possessed some advanced technologies. Its insolvency is due to poor management, and so will not do much damage to its assets.

6. ChinaVenture's Insights

- Compared with 2008, the VC/PE market in Telecom & VAS as a whole in 2009 slumped both in the deal number and the investment amount. Nevertheless, as opposed to the bleak scene of foreign VC investments, Chinese investors closed more, bigger deals, suggesting their optimistic attitude towards domestic VC market prospects. So, we expect that this momentum may extend well into 2010.
- In contrast to the sluggish VC/PE market, IPO and M&A markets in Telecom & VAS rebounded rapidly since the third quarter, and rose to a two-year high by the fourth quarter. The bigger VC/PE-backed M&A transactions this year included Lenovo China's acquisition of Hony Capital's full stake in Lenovo Mobile and Dun & Bradstreet's buyout into Roadway. These high profile deals helped break the stagnation in M&A market, laying down a solid foundation for 2010.
- Commercial application of 3G technology in 2009 played a significant role in maintaining a stable, sustained economic growth in the coming years. According to forecasts, 3G users will peaked within the next 2-3 years, and half of mobile phone users may convert to mobile internet ones within the next 5 years. In 2009, almost all the VC institutions had waded into 3G field, and some investors even selected it as their key target, for example, Qiming Venture Partners, Granite Global Ventures, BlueRun Ventures and Redpoint Ventures. Therefore, Telecom & VAS sector is expected to see more M&As and IPOs in 2010.
- 3G technologies have significant implications for three market segments: technical networks, terminals and applications. Most venture capitalists tend to dismiss technical network since there is no much space for expansion left, but are very bullish about the prospects of the other two segments.
- In the market segment of 3G Application, the Mobile QQ user base has swelled to 100

million, as opposed to no more than 50 million downloads for even the most popular wireless application. Additionally, with the advent and development of 3G technology, a wide range of other mobile applications will also gain ground, including mobile films and mobile newspapers. For example, mobile newspaper has become a leading source of profits for various Japanese press agencies. Mobile gaming, especially mobile online gaming, is promising to reap a bumper harvest sooner than expected, as mobile internet subscribers has exploded to 120 million by 2009, mobile online game players increased by 16% to 3.3 million by the first quarter of 2009, and the mobile online gaming market expanded to RMB 45 million, posting a year-on-year increase of 40%. According to executives from online gaming operators, China's mobile online gaming market has built a critical mass for change. Inspired by Wistone's over USD 10 million capital injection, more and more mobile online gaming firms turn to venture capital, a harbinger of a booming market in 2010.

- The developmental trend of Terminals market segment will have a far-reaching influence on the Telecom & VAS sector. Just before the end of 2009, a few epic events took place in China's Telecom & VAS market: Jiuzhou and China Tech's RMB 135 million acquisition of Amoi, BlackBerry's RMB 150 million LP Fund, Warburg Pincus's USD 70 million equity participation in K-Touch, PE institutions' tender offer for Huawei's mobile phone division (delayed due to several reasons). All these moves were in line with the need of 3G-related resource integration in Terminals market segment. As a result, with help of flexible sales models, for example, bundling terminal devices with 3G service operators, Terminals market will certainly have a long-term prospect.

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