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Archives

New Issue America

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Exchange Traded  
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## China's Venture Capital Industry Still Flush With Cash

BY REINHARDT KRAUSE  
INVESTOR'S BUSINESS  
DAILY

Posted 2/20/2009

Raising funds is a problem for many U.S. venture capital firms, but not yet in China.

China's economic growth has slowed, but VCs are upbeat about Internet startups in the country, especially in the online games and e-commerce sectors. And with China's government turning green, VC firms say cleantech is rising.

There's still plenty of oomph in China's VC market, says research firm Zero2IPO. In the first 11 months of 2008, domestic and foreign firms raised \$7 billion to create 110 new funds, it says. In that span, VC firms in China invested \$3.7 billion in startups, up 14% from the year-earlier period. In the U.S., venture investments fell 8% in 2008, the first decline since 2003.

"The investment mood in China is cautiously optimistic," said Jenny Lee, managing partner at China's GGV Capital. "Many venture capital firms in China have either just raised new funds or still have dry powder left in their current funds."

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But as elsewhere, China's market for initial public offerings is frozen, making VC companies edgy about their moneymaking exit strategies.

"We are going to see a slowdown in investment," said Gil Forer, global director of venture capital initiatives at consulting firm Ernst & Young. "There aren't going to be many IPOs."

On the other hand, there's the commitment to clean energy. "The fundamentals driving cleantech in China aren't going to disappear," Forer said. "China is innovating in renewables and energy efficiency. The government's commitment brings confidence to the sector."

VC firms have long favored TMT — technology, media and telecom — companies in China. VC firms cashed in when Internet companies **Baidu**, ([BIDU](#)) **Alibaba**, **Ctrip** ([CTRP](#)) and **Shanda Interactive** ([SNDA](#)) went public in the U.S. and Asia.

In 2006-07, venture funding in China surged even in nontech, consumer-driven industries like pig farms, says David Chao, general partner at venture firm DCM.

But VCs now are cautious. While VCs earlier this decade raked in profits when startups went public on China's soaring domestic exchanges, VCs, private equity firms and hedge funds that rushed to invest in pre-IPO companies got burned when China's exchanges imploded last year. VC investments targeting domestic listings will likely slow, Chao says.

Still, he expects Internet startups to continue to attract VC funds.

"E-commerce and online gaming are taking off in China," he said.

China's GSR Ventures, a partner of Silicon Valley's Mayfield Fund, acquired a stake in 3-D online gaming startup iLemon Group in January. PPS.tv, an online video site, raised \$20 million from LB Investment, Qiming Venture Partners and other investors in October.

Wireless startups are also hot, Chao says.

Mobile search firm Yeti Group landed \$12 million from iD TechVentures and Axa Private Equity in November. Phone maker **Nokia** ([NOK](#)) took a stake in wireless ad startup Madhouse the same month.

DCM and Silicon Valley-based VC giant Sequoia Capital have both targeted chip startups. DCM's deals include Analogix Semiconductor.

In 2008, chip investment in China rose 64% to \$115 million, says Thomson Reuters.

But cleantech is the hottest.

"A lot of cleantech-focused funds were established in the last two years," said Shaun Rein, managing director of Shanghai-based China Market Research Group. One was Cybernaut Investment, a partner of Silicon Valley-based New Enterprise Associates.

### Intel's Among Investors

Venture firms have invested about \$10 billion in cleantech startups worldwide since 2000, with about 70% of that going to U.S. startups and less than 10% going to China, according to Qiming Venture.

In the first nine months of 2008, venture capitalists invested \$165 million in Chinese cleantech startups, up from \$29 million a year earlier, Ernst & Young says.

In 2008, VC and private equity firms made 27 green investments in China, up from 16 in 2007, says research firm Cleantech Group.

In October, U.S.-based chipmaker **Intel** ([INTC](#)) invested in two Chinese cleantech startups, NP Holdings and Trony Solar Holdings.

China has churned out some solar firms that have done U.S. IPOs, including **Suntech Power Holdings**. ([STP](#)) And some of the biggest VC deals in China last year involved solar firms ENN, Yingli, Himin and Shunda, says Cleantech Group.

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It's not just solar energy that's attracting investment. Venture capitalists are looking at Chinese startups developing clean-coal technologies to generate electricity, energy-efficient building materials and waste disposal.

VC firms track government subsidies. China's government says it will spend \$300 billion on renewable energy over the next decade.

"We pay a lot of attention to changes in government policies, support and regulations. This is especially true for cleantech and renewables," said GGV's Lee.

GGV has invested in Internet firms like Tudou.com, a video-sharing Web site, and travel specialist Hubs-One. But cleantech is coming on, Lee says. GGV tracks "environmentally friendly companies that can help China manage issues related to pollution, waste disposal and overcrowding in the top cities," Lee said.

China is the world's biggest consumer of coal for producing electricity. Coal-fired plants are a major source of China's air pollution.

China passed the U.S. as the world's largest producer of greenhouse gas emissions in 2008. The government is pouring money into clean-coal technologies, says Andrew Chung, a principal at Lightspeed Venture Partners.

"Wind, clean coal, waste-to-fuel technologies and energy-efficient building materials" are potential hot areas for VCs, Chung says.

There are drawbacks, though. Many emerging cleantech technologies are capital intensive, he says



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