Jiuding Capital: Private Equity Firm with Chinese Characteristics

It was the evening on December 9th, 2010. The 10th China Venture Capital & Private Equity Annual Forum was held in Shanghai, attracting the attention of thousands of professionals in the industry. A number of awards were presented at the forum to recognize the best performing private equity (PE) firms of the year. The biggest winner of the night, garnering four awards, was a newly incorporated domestic PE firm—Kunwu Jiuding Capital Co., Ltd (Jiuding Capital). As Zhongzhi Zhao, a partner of Jiuding, went on stage to accept the awards on behalf of the firm, he reflected on Jiuding’s rapid growth and a number of challenges going forward.

Jiuding Capital, founded in 2007, was a latecomer to China’s PE industry. It nevertheless surprised the market with dramatic growth and dazzling investment results. As of June 2010, the firm had 260 employees and 10 RMB-denominated funds with approximately 3 billion RMB under management. In November 2010, Jiuding launched its first US dollar-denominated fund—China Growth Fund. In March 2011, the firm started the preparation for another 1 billion RMB fund—Chunqiu Jiuding.

By April 2011, Jiuding had invested in over 60 companies and had successfully listed a number of them on the Chinese capital markets, including Jiangshan Chemical (~9.12x returns), Geeya Technology (~6.86x returns), Gold Cup Cable (~6.62x returns), Gifore Agricultural Machinery (~19.87x returns), and Huifeng Agrochemical (~9x returns).

While outstanding performance enabled Jiuding to quickly establish a foothold in China’s PE community, the firm nevertheless generated much debate among industry insiders about its investment practice—known as the “PE factory” model where investment activities were carried out in a way similar to large-scale industrial production. In particular, concerns were raised about whether or not Jiuding’s business model was sustainable in the next ten years, given the fast-changing landscape of China’s PE industry.

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1 Four awards included: “Top Privately-run PE Firm of the Year 2010”, “Top 10 PE Firms of the Year (ranked No. 4)”, “Most Active PE Firm of the Year”, and “Top 10 PE Investors of the Year” awarded to Zhongyi Zhao.

2 Gifore Agricultural Machinery Chain Co., Ltd (Ticker: 300022), the largest B2C distributor of agricultural equipment and agricultural machinery in China, was one of Jiuding’s most successful investments. Jiuding invested in Gifore in April 2009 and subsequently helped transform the company from a small regional business to a leading company in the agricultural equipment sector. In addition to capital injection, Jiuding also provided a number of value-added services to Gifore, including the recruitment of a new CFO, the implementation of an ERP system, and the completion of 8 M&A transactions.
The Rise of Domestic PE Firms in China

China’s PE market has grown rapidly over the past decade and is now an international investment hotbed. According to Zero2IPO Research Center, a well-known PE/VC research institution in China, PE fundraising had grown from 1,298 million USD in 2002 to 11,169 million USD in 2010, climbing at a 29% CAGR. Number of new funds increased from 34 in 2002 to 158 in 2010 (see Exhibit 1 for China’s PE/VC fundraising statistics between 2002 and 2010). Investment amount experienced comparable growth in the same period, from 992 million USD in 2003 to 5.4 billion USD in 2010 (see Exhibit 2 for China’s PE/VC investment statistics between 2003 and 2010).

Prior to 2008, China’s PE market was dominated largely by global firms with US dollar-denominated funds. Early entrants included foreign giants such as CVC capital, Carlyle Group, and TPG-affiliated Newbridge Capital. They saw the emerging economy of China as the next frontier for private equity investment and brought with them unparalleled funding, international connections and expertise that many Chinese entrepreneurs craved. Since the beginning, foreign investors have been primarily focused on the telecommunication, media and technology (TMT) sector, despite of government rule that banned foreign participation in this area. To circumvent regulatory restrictions, deals were typically structured via a Variable Interest Entity (VIE) arrangement combined with an overseas listing exit strategy. Sohu (an internet portal), Baidu (an internet search engine) and Suntech Powers (a solar manufacture) were early examples of successful investments made by foreign PE firms that resulted in superior financial returns.

In contrast, domestic PE firms with RMB-denominated funds were much less active before 2008, due largely to organizational challenges and limited onshore exit options. Since 2008, however, foreign capital has been feeling increasing competition from Chinese investors with the gradual improvement of policy environment and capital markets (as detailed below). RMB-denominated funds have become the new driving force behind China’s PE industry, representing approximately 65% of overall capital commitments in 2010 (see Exhibit 3 for statistics on US dollar-denominated funds vs. RMB-denominated funds).

Amendment to the Partnership Enterprise Law

Private equity funds were pools of capital invested by professional managers. Although other structures existed, it was common practice for a PE fund to be organized as a limited partnership. Under this arrangement, the liability of each limited partner (LP) was confined to his

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3 These statistics include venture capital investments.
4 According to the Foreign Investment Industrial Guidance Catalogue issued by China’s National Development and Reform Commission and Ministry of Commerce, direct foreign investment in a given industry was classified as either “encouraged”, “restricted” or “prohibited”. Foreign investment in the TMT sector was prohibited.
5 In essence, a VIE refers to a structure whereby an entity established in China that is wholly or partially foreign owned (the “Controlling Company”) has de facto control (through a series of contractual relationships) over an operating company (the “Operating Company”) which holds the necessary license(s) to operate in an FDI restricted/prohibited sector. The first well known VIE structure was that of Sina.com in its 2000 listing on the NASDAQ.
6 Popular destinations for an overseas listing were U.S., Hong Kong and Singapore, respectively.
or her capital commitment to the fund. However, this organizational structure was not permitted under the Partnership Enterprise Law of China promulgated in 1997. The law also stipulated that only natural persons were eligible to be partners. In addition, a corporate-level income tax was levied on the revenue of the partnership enterprise, while the partners were taxed on their personal income as well.

The inflexibility of the Partnership Enterprise Law greatly impeded the development of domestic PE firms. On June 1st, 2007, a new Partnership Enterprise Law was enacted with a number of significant amendments to the previous one. The highlight was the introduction of limited partnership enterprise (LPE). A LPE may consist of 2 to 50 partners, among which there shall be at least one GP and LP. The LPs bear the liabilities for the partnership's debts to the extent of their capital contributions. Legal persons and other organizations were now allowed to become investors, which significantly broadened private equity investor base. In addition, the LPEs were treated as pass-through entities for income tax purposes, resolving the double marginalization problem.7

The amended Partnership Enterprise Law provided a strong impetus for the development of onshore private equity. Jiuding Capital was among the first domestic PE firms to adopt the limited partnership structure.

Launch of the ChiNext

Limited onshore exit options was another impediment facing domestic PE firms. Prior to 2004, China’s capital markets were open primarily to the state-owned enterprises (SOEs). Very few private companies were able to meet the stringent listing requirements prescribed by the China Securities Regulatory Commission (CSRC). In 2004, the CSRC launched the Small and Medium-sized Enterprise (SME) Board as an initial attempt to provide capital market access for private companies. However, the SME board was primarily targeted at mature enterprises and was not intended for growth companies.

The launch of ChiNext – China’s NASDAQ-style stock exchange for entrepreneurial companies – in November 2009 marked an important milestone for fostering the development of domestic PE industry.8 ChiNext was intended to provide a financing platform for high growth companies that had innovative technology and could meaningfully contribute to China’s indigenous technology initiatives. ChiNext had particular preference for companies with one or more of the following characteristics: high technology, high growth, new economy, new service, new agriculture, new energy, new material, and/or new business model. Compared to the main board and the SME board, ChiNext had more relaxed listing requirements while the approval process was considered to be more efficient, making it the ideal IPO market for companies receiving pre-IPO venture financing.9 Over 100 entrepreneurial companies were listed on

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8. ChiNext was also known as the Growth Enterprise Market (GEM).
9. Main financial requirements for listing on ChiNext included: net assets no less than RMB 20 million; profitable in the last two consecutive years, with aggregate net profits no less than RMB 10 million and in continued growth; Or profitable in the latest year with net profits no less than RMB 5 million. The revenue for the latest year is not
ChiNext within the first year of its launch, among which 60% were backed by domestic RMB funds. The average price-to-earnings ratio on ChiNext was significantly higher than that of the other two boards, making it the most preferred exit route for domestic PE investors (see Exhibit 4 for comparison between main board, SME board and ChiNext).

**Jiuding Capital**

*Management Team*

Jiuding was founded by Gang Wu and Xiaojie Huang in 2007. Both founders were natives of the Sichuan province and had attended the graduate school of People’s Bank of China (PBOC)—dubbed as the “Whampoa Military Academy” of China’s financial industry. After graduation, Gang Wu remained on the school’s staff while Xiaojie Huang left to work for the CSRC. They witnessed the rising of China’s PE market and decided to grasp the opportunity.

Jiuding’s core management team quickly expanded to 12 professionals who had sound knowledge of China’s financial sector and deep functional expertise on the IPO procedure (see Exhibit 5 for background of the core management team). “Our partners had extensive prior experience working with companies during the IPO process. Some of them used to work at the CSRC screening companies for IPO applications. As such, they know very well whether a company is qualified for an IPO and are highly familiar with the technical aspects of a public offering. This is one of our core competencies,” said Gang Wu.

*Fundraising*

Despite its brief history, Jiuding had successfully raised 10 RMB-denominated funds in the past five years (see Exhibit 6 for list of Jiuding’s funds). The lion’s share of capital came from private business owners and high net worth individuals in China. This was typical of the current landscape of China’s LP community, where non-institutional investors such as corporations and wealthy individuals were the main providers of capital. According to a survey report by ChinaVenture, a leading PE/VC research institution in China, corporations and high net worth individuals accounted for 86.9% of active Chinese LPs in 2009 (see Exhibit 7 for China’s LP composition in 2009).

Chinese LPs, being new players in the market, were generally less sophisticated than their foreign peers and were less accustomed to the idea of entrusting their capital to fund managers for a lengthy period of time. As such, they tended to demand a shorter investment horizon and a faster return of capital and profits. As a result, most domestic PE funds were set up for a life span of 5 to 7 years, significantly shorter than the fund length of 10 to 12 years that were prevailing in the western markets. “Take the newly established Chunqiu Jiuding fund as an example. The fund has a duration of 5 years with the option to extend twice for a period of one year each time. We plan to complete all investments within the first 2 years and exit them in the next 3 years,” said Zhongyi Zhao.

*Note:* less than RMB 50 million, with the income growth rate no less than 30% for two years.
The compensation structure of GPs was also designed differently to cater towards the preferences of Chinese LPs. Instead of charging annual management fees, Jiuding only charged its LPs a one-time fee equal to 3% of their committed capital.\(^\text{10}\) “We wish to send out a signal to our investors that we have tremendous confidence in our investment capabilities and performance,” said Gang Wu.

While most foreign LPs took a passive approach to managing their private equity investments, Chinese LPs generally played an active role in the funds they invested in and were expected to have a say in how their capital was deployed. This phenomenon was driven by several factors. First, China’s legal and credit systems were largely underdeveloped, resulting in a lack of trust between LPs and GPs. Second, given the brief history of China’s PE industry, few domestic GPs were experienced investment professionals with a proven track record. As a result, it was difficult for investors to fully entrust their money to these fund managers. Third, in addition to capital injection, many Chinese LPs were also able to contribute to the fund non-financial resources such as industry expertise and social network. At Jiuding, the LPs were allowed to engage in deal sourcing through their personal network and were given the ultimate investment decision power.

**Investment Philosophy**

“Our investment philosophy can be best described as maximizing return while maintaining a relatively low risk,” said Zhongyi Zhao, “We adopt a very prudent investment style and do not pursue high risk high return deals. We would rather miss an opportunity than to make a wrong investment.”

For Jiuding, the ideal investment targets were late-stage entrepreneurial companies that were near an IPO. “On one hand, late-stage companies entail significantly lower investment risk than early-stage companies. On the other hand, the valuation gap between China’s first and secondary market is sufficiently large to allow for a tremendous return even on those late-stage investments,” explained Gang Wu. “We have been able to identify many under-valued companies, especially in second and third tier cities of China. We could go in at a price-to-earnings ratio of 10, and two years later list them on ChiNext at a price-to-earnings ratio of 70. Finding high-quality late-stage companies and getting them listed quickly are the key to Jiuding’s success.”

Jiuding had a stringent set of investment criteria. First, the company must have shown a clear intention to go public in the near future and do not have significant material problems that would disqualify itself from an IPO. Second, the company must be a leader in its niche market and demonstrate strong potential for rapid and sustainable growth. Third, the company must have a viable business model and a reasonable length of operating history to prove that it can withstand macro-economic and business-cycle fluctuations.

For every investment, Jiuding would typically acquire 10% to 30% shareholdings of the target company. While Jiuding’s partners did not interfere with the daily operation of their investments, it was customary to charge LPs an annual management fee equal to 2-2.5% of the committed capital.
portfolio companies, they nevertheless monitored company performance and participated in major 
strategic decisions through board meetings.

**Investment Model**

While Jiuding adopted a prudent investment philosophy, its business model was nevertheless 
considered by many to be highly aggressive. Since its inception, Jiuding had developed strategies 
to compete with foreign players and to differentiate itself from local competitors. The firm 
pioneered the so-called “PE factory” model, which in many ways subverted the traditional private 
equity business model. Inspired by the “mass-production” manufacturing processes, the “PE 
factory” model was intended to achieve economies of scale and investment efficiency through 
large-scale deal sourcing and highly standardized decision making. “We believe investing in 
late-stage companies is more of a science than an art,” said Zhongyi Zhao, “These companies have 
mature business model and formalized operation. They also have substantial amount of tangible 
assets and well-prepared financial statements. All of these have made it possible for us to adopt a 
systematic and streamlined approach to the investment decision process.”

**Deal Sourcing**

To achieve comprehensive deal coverage, Jiuding leveraged a high-touch deal sourcing 
model that spanned 5 industries, 50 regions and 500 strategic partnerships with various local 
institutions (known as the “5+50+500” model). Together, they formed an inter-connected project 
network that enabled Jiuding to conduct blanket searches for potential deals.

**Vertical Dimension: Five Industries**

Jiuding focused on five particular industries – consumer products, medicine, agriculture, 
advanced manufacturing and emerging industries (see Exhibit 8 for Jiuding’s industry preference 
and selected portfolio companies in each industry). These industries shared the following common 
characteristics:

- **Traditional industries**

  Jiuding favored traditional industries over emerging industries for several reasons. First, 
  traditional industries such as retail, manufacturing, and consumer products were easily understood 
  by investors and consumers. “We never invest in companies that we do not understand,” said 
  Zhongyi Zhao. Second, traditional businesses typically have an existing consumer base and stable 
  cash flows, leading to lower investment risk. Third, despite technology advances in recent years, 
  Jiuding believed that traditional industries would remain as the key pillar of China’s economy in 
  the long run.

- **Consumption-related**

  Domestic consumption has gradually replaced export as the main driver of China’s GDP 
growth. This was due largely to the accelerated urbanization process and consumption upgrade in 
recent years. Since 2009, The Chinese government has implemented a series of favorable policies
to stimulate domestic consumption, including raising minimum wages, extending tax cuts, extending subsidies for purchases of automobiles and home appliances, and promoting rural consumption. The rising Chinese middle class had led to increased purchasing power and higher demand for consumer and industrial goods, making companies in those markets attractive investment targets.

- Little cyclicality effect

Jiuding preferred companies with unique competitive advantages, such as strong brand name and/or stable sales and distribution system, that would enable them to withstand macro-economic fluctuations.

Horizontal Dimension: 50 regions

While most PE firms were managed by a handful of investment professionals and were careful in expanding their geographic presence, Jiuding had expanded its operation aggressively in the last few years, opening more than 50 regional offices across the country with over 260 staff. Most of them were local hires responsible for deal sourcing in their respective regions by leveraging their local knowledge and contacts. The allocation of staff in each regional office was determined by the region’s percentage-point contribution to the national GDP. “Suppose we have 100 staff in total. Given that Guangdong’s GDP accounts for 10.3% of the national total, we would allocate about 11 employees to our Guangdong office. Similarly, given that Jiangsu accounts for 9.7% of the national GDP, we would allocate 10 employees to our Jiangsu office,” explained Zhongyi Zhao.

Companies identified by the local offices would enter Jiuding’s centralized project database and were subsequently classified as either type A, B or C. Type A companies were those that have met Jiuding’s investment criteria in every aspect. Type B companies were those that have met most of Jiuding’s investment criteria. Type C companies were those that did not meet Jiuding’s investment criteria at all and were later removed from the database. Type A and B projects were then assigned a more detailed label such as A0/1/2/3 or B0/1/2/3, to indicate the current status of the project. For example, 0 meant initiating contact with the company, 1 meant initiating due diligence, etc.

500 Strategic Partnerships

Over the years, Jiuding had established more than 500 strategic partnerships with various regional institutions that worked closely with local companies. These institutions included accounting firms, law firms, industry associations, as well as government agencies such as the tax bureau. These local institutions were important sources of deal flows and helped Jiuding achieve good regional penetration.

Investment Decision Process

A distinctive aspect of Jiuding’s “PE factory” model was its highly standardized and streamlined investment decision process. Jiuding believed that this model would enable the firm to
maximize investment efficiency while minimize investment risk.

While Jiuding adopted a decentralized approach to deal sourcing, decision making was nevertheless highly centralized. Every investment had to go through a four-step approval process (as detailed below). To ensure independence and objectivity, each step was carried out by a different Jiuding team.

**Step 1: Initial Screening**

An extensive and detailed due diligence was performed on each potential investment. The investigation was conducted mostly in-house and took on average 14 to 21 days.

Jiuding had developed an internal due diligence protocol that prescribed the scope and process of investigation. Areas of investigation included business model, financial records, management team composition and background, shareholder structure, customer relationship, and legal status etc. A cross-validation of information was conducted with third-party accounting and law firms as well as with company constituencies such as employees, customers, suppliers, and competitors through interviews.

Once comprehensive company information was collected, a three-layer risk assessment was then conducted on management team, company operation, and financial status, respectively. Jiuding firmly believed that people were the backbone and personality of a business and were the most important determinant of business success. Assessment of operational risk included a close examination of R&D, purchasing, manufacturing, marketing, and logistics. Financial risk was analyzed through a careful review of the company’s financial statements.

**Step 2: Project Review by the GPs**

Projects passing the initial screening were then sent to the Selection Committee for internal review. The Selection Committee was composed of a project leader, a partner in charge of risk control, and three external reviewers. At the beginning of each review session, committee members were randomly assigned into two groups – one group in favor of the project and the other group opposing the project. The group in favor of the project would elaborate on the investment value of the project while the other group would elaborate on the investment risk. In the second half of the session, two groups would swap sides and make arguments the other way around. This process gave each committee member an opportunity to fully evaluate the project. The review process would end with a vote by committee members. Only projects winning at least 4 out of 5 votes could proceed to the next step.

**Step 3: Negotiation of Investment Terms**

Once the project passed the internal review, the next step was to negotiate investment terms with the target company. The negotiation team would typically include one independent partner and one partner whom had previous contact with the company.

**Step 4: Voting by the LPs**
At Jiuding, final investment decisions were made by the LPs. This was in strong contrast to the practice of most foreign PE firms where GPs were given the final decision making power. At Jiuding, a project could not be approved of investment unless the capital contribution of LPs voting in favor of the project exceeded two thirds of the fund size. “The active involvement of LPs would pressure our GPs to make decision in the best interest of our investors. We often ask ourselves whether the project passing the internal review can be endorsed by the LPs at the end,” said Zhongyi Zhao.

To further align the interests between LPs and GPs, Jiuding required that all people involved in the project, including members of the Selection Committee voting in favor of the project, must make personal investments in the project. In particular, partner leading the due diligence process must make a personal commitment of 100,000 RMB.

Portfolio Management

In addition to being a source of funding, Jiuding also offered an array of value-added services and in-depth support to its portfolio companies. Each staff at the Post-investment Service Department (PSD) worked closely with 10 portfolio companies to monitor their performance and to assist them in a wide range of activities such as the hiring of key personnel, organizational restructuring prior to the IPO, and the filing of IPO-related documents.

To promote interaction among portfolio companies, Jiuding launched the “Jiuding Business School”, a platform for senior management of invested companies to exchange ideas and share resources. “We wish to create a positive synergy among our portfolio companies,” said Zhongyi Zhao.

Going Forward

As a “dark horse” in China’s PE industry, Jiuding had successfully established a strong foothold in the market in just a few years. Nevertheless, the fast-changing landscape of the industry and increasing competition from domestic and foreign players have pressured Jiuding to constantly think about how to best position the firm for future growth and expansion.

Sustainability of Jiuding’s Business Model

Since its inception, Jiuding had focused solely on late-stage investments. The success of this investment strategy hinged critically on the large valuation gap between the primary and secondary markets in China. In recent years, however, the quantum of funds raised and the number of investors chasing deals has increased competition and consequently inflated primary market valuation. At the same time, the secondary markets, especially ChiNext, had undergone a major retreat since late 2010. The scale of the retreat has been phenomenal. The ChiNext had shed a third of its value, sliding from a high of 1239.6 on December 20, 2010 to a record low of 783.86 in intraday trading on June 23, 2010. Approximately 54.3% of the stocks on the ChiNext had fallen below their issue price. The board’s average price-to-earnings ratio had declined from 80 at...
the beginning of the year to around 40. Many believed the decline represented the bursting of a bubble as investors returned from overheating to rationality, and was likely to continue given the global economic outlook. The regulatory bodies have also been more cautious in approving listings, rejecting approximately 20% of the IPO applications. In addition, a backlog estimated at two years has now accumulated among companies planning to IPO on ChiNext.

The narrowing valuation gap between the primary and secondary markets and the limited capacity of ChiNext to accommodate the growing number of pre-IPO companies have called Jiuding’s current investment practice into question. Realizing aforementioned issues, Jiuding had contemplated alternative investment strategies going forward, including venture capital investments in early-stage entrepreneurial companies. In fact, Jiuding first attempted venture capital investment in 2008 with Shanchuan Juice, a manufacture of soft drinks in China. The company was founded in 2006 by the former president of China’s Juice Association and had its own production base and a stable distribution channels. Unfortunately, company performance soon fell short of expectation due to internal management issues and deteriorating external market environment. Jiuding exited the investment at the end through a combination of trade sale and management buyback. “It is difficult to apply the PE factory model to early-stage investments. Without standardized due diligence and decision-making process, risk control became a prominent issue,” said Gang Wu.

Launch of the US dollar-Dominated Funds

Managing US dollar-denominated funds was another possible direction for Jiuding’s future business expansion. It would allow Jiuding to broaden its investor base and tap into foreign capital markets. In October 2010, Jiuding completed the fundraising of 123.5 million USD for its first US dollar-denominated fund – China Growth Fund. Investors of the fund included Singapore-based Vertex Venture Holdings, SSG Capital, Jade Invest and Auda International.

The China Growth Fund primarily targeted Chinese companies that were interested in an overseas listing. “Launching USD funds is an important step for us towards globalization. A truly internationalized PE firm must build both domestic and international investment platforms,” said Xiaojie Huang.

After the 10th China Venture Capital & Private Equity Annual Forum concluded, Zhongyi Zhao and his colleagues took a walk along the Bund of Shanghai, the city’s most famous attraction. It was one of those rare evenings where they did not have to work late in the office. The future looked bright for Jiuding, but what was the best way to capitalize on the firm’s rapid success?
Study Questions:

1. What are the key drivers of the rapid growth of China’s RMB fund market in recent years?

2. What are the distinctive characteristics of Chinese LPs?

3. What are the strengths and weaknesses of Jiuding’s “PE factory” model? Is this model sustainable in the long run?

4. How should Jiuding pursue growth and business expansion in the future?
Exhibit 1 China PE Fundraising Activities, 2002-2010

Source: Zero2IPO Research Center

Exhibit 2 China PE/VC Investment Activities, 2003-2010

Source: Zero2IPO Research Center
Exhibit 3  Comparison of US Dollar-denominated Funds vs. RMB-denominated Funds in China’s PE/VC Market, 2004-2010

Source: Zero2IPO Database

Exhibit 4  Comparison of Shenzhen Main Board, SME Board and ChiNext

<table>
<thead>
<tr>
<th>Number of Listed Companies (as of December 31)</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main board</td>
<td>467</td>
<td>485</td>
</tr>
<tr>
<td>SME board</td>
<td>327</td>
<td>531</td>
</tr>
<tr>
<td>ChiNext</td>
<td>36</td>
<td>153</td>
</tr>
</tbody>
</table>

Note: ChiNext was launched on Oct. 30th, 2009

<table>
<thead>
<tr>
<th>Market Capitalization (RMB Millions, as of December 31)</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main board</td>
<td>2,865,111.86</td>
<td>3,261,700.45</td>
</tr>
<tr>
<td>SME board</td>
<td>750356.50</td>
<td>1,615,032.26</td>
</tr>
<tr>
<td>ChiNext</td>
<td>29,897.03</td>
<td>200,564.10</td>
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Average Price-to-Earnings Ratio (as of December 31)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main board</td>
<td>43.04</td>
<td>35.43</td>
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<tr>
<td>SME board</td>
<td>51.01</td>
<td>56.93</td>
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<tr>
<td>ChiNext</td>
<td>105.38</td>
<td>78.53</td>
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Source: Shenzhen Stock Exchange

Exhibit 5 Background of Jiuding’s Core Management Team

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<thead>
<tr>
<th>Name</th>
<th>Background</th>
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</thead>
<tbody>
<tr>
<td>WU, Gang</td>
<td>Ph.D. in Finance, CPA. Former Director of the China Securities Regulatory Commission.</td>
</tr>
<tr>
<td>HUANG, Xiaojie</td>
<td>Ph.D. in finance. Former Deputy Director of the People's Bank of China; Assistant to the Dean of the Graduate School of the People's Bank of China</td>
</tr>
<tr>
<td>CAI, Lei</td>
<td>MBA. Former General Manager of the Strategic Investment Division, Dickon Group (a large pharmaceutical company); Former General Manager of the Trust &amp; Research Department, China Railway Engineering Corporation</td>
</tr>
<tr>
<td>TAN, Zhengyu</td>
<td>Master of Management, CPA. Former Deputy General Manager of the Investment Banking Division of HuaXi Securities, Former Vice President of the Investment Banking Division of Guosen Securities.</td>
</tr>
<tr>
<td>WU, Qiang</td>
<td>Ph.D. in Management, CPA. Former Deputy General Manager of the Capital Market Division of Hongyuan Securities; Former Vice President of the Investment Banking Division of Essence Securities.</td>
</tr>
<tr>
<td>ZHAO, Zhongyi</td>
<td>Ph.D. in finance. Former General Manager of the Strategic Investment Division of Tomorrow Group; Former Deputy General Manager of the Human Resources Department and General Manager of the Investment Banking Division of Far East Securities.</td>
</tr>
<tr>
<td>YU, Bo</td>
<td>Master of Science in Pharmaceutical Science. Former Director of the State Food and Drug Administration; Former General Manager of EmedChina; Secretary General of the National Medicine Elite Club.</td>
</tr>
<tr>
<td>Name</td>
<td>Education/Professional Background</td>
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</tr>
<tr>
<td>MA, Xianming</td>
<td>Ph.D. in economics. Former President of Shanghai Lingyun Zhensheng Co., Ltd.; Former Professor of Accounting at Shanghai National Accounting Institute; Accounting advisor to the CSRC, Former President of Hainan Yedao Group.</td>
</tr>
<tr>
<td>GAO, Lei</td>
<td>MBA. Former Senior Manager at China Construction bank; Former General Manager of the Banking Division of China Merchants Bank; Secretary General of China Expert Committee of the Financial Planning Standards Board</td>
</tr>
<tr>
<td>FU, Linjun</td>
<td>Master of Science. Former Investment Manager at Shenzhen Tsinghua Leaguer Venture Capital Co., Ltd.; Former Investment Director and Executive Director of Shenzhen Cowin Capital Co., Ltd..</td>
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<tr>
<td>ZHANG, Lei</td>
<td>MBA. Former Deputy General Manager of the Wealth Management Advisory Division of First-Trust Fund Management Co., Ltd., and General Manager of the Institutional Wealth Management Division of China Asset Management Co., Ltd..</td>
</tr>
<tr>
<td>DENG, Jianxin</td>
<td>Master of Accountancy. Former Partner of Pan-China Certified Public Accountants Co., Ltd., Former Global Partner of Deloitte, and member of the 8th and 9th IPO Review Committee of CSRC.</td>
</tr>
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Source: Compiled by authors from public information
### Exhibit 6  PE Funds Managed by Jiuding, 2007-2010

<table>
<thead>
<tr>
<th>No.</th>
<th>Fund Name</th>
<th>Date</th>
<th>Fund Size (RMB Millions)</th>
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<tr>
<td>1</td>
<td>Beijing Zhengdao Jiuding Venture Capital Co., Ltd.</td>
<td>2007-04</td>
<td>170</td>
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<tr>
<td>2</td>
<td>Shanghai Kunwu Jiuding Investment Development Center (Limited Partnership)</td>
<td>2007-11</td>
<td>300</td>
</tr>
<tr>
<td>3</td>
<td>Beijing Xiaqi Jiuding Investment Center (Limited Partnership)</td>
<td>2008-04</td>
<td>500</td>
</tr>
<tr>
<td>4</td>
<td>Chengdu Xingbang Jiuding Investment Center (Limited Partnership)</td>
<td>2008-06</td>
<td>300</td>
</tr>
<tr>
<td>5</td>
<td>Beijing Shangqi Jiuding Investment Center (Limited Partnership)</td>
<td>2009-05</td>
<td>310</td>
</tr>
<tr>
<td>6</td>
<td>Xiamen Baojia Jiuding Investment Management Center (Limited Partnership)</td>
<td>2009-08</td>
<td>500</td>
</tr>
<tr>
<td>7</td>
<td>Guolian Kunwu Jiuding (Wuxi) Investment Center (Limited Partnership)</td>
<td>2009-08</td>
<td>200</td>
</tr>
<tr>
<td>8</td>
<td>Xiamen Longtai Jiuding Investment Center (Limited Partnership)</td>
<td>2009-11</td>
<td>125</td>
</tr>
<tr>
<td>9</td>
<td>Jiaxing Jiahao Jiuding Investment Center (Limited Partnership)</td>
<td>2009-12</td>
<td>220</td>
</tr>
<tr>
<td>10</td>
<td>Suzhou Zhouyuan Jiuding Investment Center (Limited Partnership)</td>
<td>2010-05</td>
<td>998</td>
</tr>
<tr>
<td>11</td>
<td>China Growth Fund (USD Fund)</td>
<td>2010-11</td>
<td>0.12 Billion USD</td>
</tr>
</tbody>
</table>

Source: Zero2IPO Database and public information
Exhibit 7  The LP Composition of China PE Industry, 2009

Source: 2010 Report on Domestic LPs, China Venture Capital Association
## Exhibit 8  Jiuding’s Industry Preference and Selected Portfolio Companies

<table>
<thead>
<tr>
<th>Industry</th>
<th>Description</th>
<th>Selective Portfolio Companies</th>
</tr>
</thead>
</table>
| Consumer products         | Consumer products and distribution channels (16 portfolio companies by the end of 2010) | ![Chengdu Hongqi Chain Stores co., Ltd.](image1)  
                          Academician  
                          The largest supermarket chain in west China with over a thousand stores under management  
                          ![Beijing Lancy Industry Co., Ltd.](image2)  
                          The famous high-end women wear brand  
                          ![Jingya Food Co., Ltd.](image3)  
                          A leading high-end seafood restaurant chain operator                                                                                     |
| Medicine                  | Pharmaceutical products, medical apparatus and equipment, medical institutions (16 portfolio companies by the end of 2010) | ![Haikou Qili Pharmaceutical Co., Ltd.](image4)  
                          The leading antibiotic provider in China  
                          ![Zhuhai Ebang Pharmaceuticals Co., Ltd.](image5)  
                          A leading producer of antibiotics and medicines for cardiovascular and cerebrovascular diseases  
                          ![Shanxi Powerdone Pharmaceuticals Co., Ltd.](image6)  
                          A leading pharmaceutical company in China                                                                                               |
| Agriculture               | Agriculture, including pre-production, in-production and post-production agricultural sectors (11 portfolio companies by the end of 2010) | ![Gifore Agricultural Machinery Chain Co.](image7)  
                          The largest agricultural machinery chain in China  
                          ![Jiangsu Huifeng Agrochemical Co., Ltd.](image8)  
                          China’s leading antibiotic and biopharmaceutical manufacturer  
                          The company will be listed on SME Bo  
                          ![Guangxi Tianyuan Biochemistry Co., Ltd.](image9)  
                          The second largest pesticide manufacturer and also the largest rice pesticide manufacturer in China                                                                 |
| Advanced manufacturing    | New equipment, new energy, new materials etc. (21 portfolio companies by the end of 2010) | ![Goldcup Electric Apparatus Co., Ltd.](image10)  
                          The largest wire and cable manufacturer in Central China  
                          ![Henan Billions Chemicals Co., Ltd.](image11)  
                          The second largest manufacturer of zincium products in China  
                          ![Linoya Electronics Co., Ltd.](image12)  
                          China’s largest wire and cable manufacturer                                                                                               |
<table>
<thead>
<tr>
<th>Emerging industry</th>
<th>New scientific achievements and technologies (15 portfolio companies by the end of 2010)</th>
</tr>
</thead>
</table>
|                   | **Chengdu Geeya Technology Co., Ltd.**  
A specialized manufacturer and supplier of digital TV equipment and system (600020.SH) |
|                   | **MegeEyes Information Technology Co., Ltd.**  
China’s market leader in network video  |
|                   | **Chengdu Juntong Communication Co., Ltd.**  
The largest maintenance service supplier for mobile communication systems in west China  |

Source: Company website