

China and the Opportunities for the EU Investors



**Mr. Jin Haitao, Chairman of the Board
Shenzhen Capital Group Co. Ltd
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Contents

- ◆ **China Macro-Economy**
- ◆ **China Venture Capital Market**
- ◆ **China Venture Capital Market is Booming**
- ◆ **Opportunities for the EU Investors**
- ◆ **Who Are We?**

China Macro-Economy

Expanding GDP

China's economy has been sustaining its strong momentum of growing. Its GDP in 2005 reached 18.23 trillion RMB (2.31 trillion USD), showing a 9.9% increase over that in 2004. Between January and October 2006, the growth of China's economy over the same period of last year recorded a rate of 10.7%, amounting to 14.15 trillion RMB (1.79 trillion USD) in GDP.

Growing Investment

Total domestic investments in fixed assets made in 2005 was 8.8 trillion RMB (1.14 trillion USD), indicating an increase of 25.7% over 2004. As of September 2006, this figure reached 6.19 trillion RMB (0.78 trillion USD), saying an increase by 28.2% over the same period in 2005.

(Data source: National Bureau of Statistics of China)

China Macro-Economy

Strong Industry

The added value of China's industry in the first 10 months of 2006 rose by 17.2% over the same period in 2005, to 6.2 trillion RMB (0.79 trillion USD). The product/sale ratio is 97.8%, the same as that of 2005.

Up-going Consumption and Foreign Trade

In 2005, the total domestic sales of consumer products by retail was 6.72 trillion RMB (0.85 Trillion USD), growing by 12.9% over 2004. Indicating an increase of 23.2% over 2004, the yearly turnover of import and export in 2005 reached a record high level of 1.42 trillion in US, to which the export section contributed 762 billion USD--a growth by 28.4%, while the import section contributed the remaining part of 660.1 billion, a rise by 17.6%.

(Data source: National Bureau of Statistics of China)

China Macro-Economy

Healthy Financial Market

Money Market:

During January and August 2006, China's financial market was running smoothly. As of August, the supply balance of M2 was 32.79 trillion RMB, while that of M1 staying at 11.48 trillion RMB, indicating an increase of 0.6% and 4.1% over the same period of last year respectively. When interest rate moderately went low, the balance of loans made by financial institutions rose to 12.88 trillion RMB, an increase of 16.1% over the same period in 2005. As of September, China's foreign currency reserve climbed to 987.9 billion in US, 153.1 billion more than that by the end of 2005.

(Data source: People's Bank of China)

China Macro-Economy

Healthy Financial Market

Business Financing:

In the first half of 2006, capital flow by means of loan-making and issuance of stocks, public bonds and corporate bonds, into non-financial sectors, including families, enterprises and governmental departments, reached 2.57 trillion RMB, 42% more than that in the same period of last year. The distribution ratio between loans, stocks, public bonds and corporate bonds is 86.8:5.6:1.4:6.1.

(Data source: People's Bank of China)

China Venture Capital Market

Maturing Domestic Venture Capital Firms

1. Number of VC firms: 319
2. Money under management: 63.16 billion RMB
3. Investment deals done: 3916. 2435 of which are hi-tech related, occupying a share of 63% in total.
4. Money invested: 32.61 billion RMB. 14.91 of which flew into hi-tech sector, 46% of total amount.
5. Investment distribution by industry: Manufacturing and Services (47%), IT (21%), Bio-pharmacy (12%) and others (20%)

(Data source: Ministry of Science and Technology of China)

China Venture Capital Market

Shenzhen, a City of Venture Capital

1. As of June 2006:
2. 197 VC-related firms registered in Shenzhen, 93 of which are VC investment firms, 85 of which are VC fund management firms and 19 of which are service agencies.
3. Money under management: 25 billion RMB
4. Investment deals done: 800 plus
5. Money invested: more than 15 billion RMB

(Data source: Office of Financial Management, Shenzhen Government)

China Venture Capital Market

Influx of Foreign VC Capitals

1. Since 1990's, major international private equity firms have been continuously entering China's venture capital market, including IDGVC, SAIF (Softbank), CDH, Carlyle, Goldman Sachs and Sequoia. They mainly focus on growing/maturing projects in IT sector, traditional sector and emerging service industry. The average single-deal sum of investment they have made so far usually exceeds ten million USD.
2. In 2005, investment deals done by foreign VC firms in China totaled 740 million USD, representing a market share of 68.86%.
3. Also in 2005, among 228 investment deals done by VC firms, 126 of which were done by foreign VC firms, indicating a market share of 55.26%.
4. Last year, investment capital newly incremented by foreign VC firms in China reached 338.2 million USD, five times as much as that of the domestic VCs.

(Data source: China Venture)

China Venture Capital Market is Booming

China Government has announced and put into effect “The Provisional Regulation on the Management of Venture Capital”, providing VC activities with legal support.

The stock market reform to resolve problems caused by split of stock right is completing, providing venture capital with a clear channel to exit via China’s public capital market. As of November 6,2006, companies listed on China stock market are:

- ✓ Main board: 840 companies on Shanghai Stock Exchange, market value at 4.95 trillion RMB; 553 companies on Shenzhen Stock, market value at 1.40 trillion RMB.
- ✓ SME board: 76 companies on Shenzhen Stock Exchange's SME board, market value at 122.21 billion RMB.
- ✓ The 3rd board: equity transfer proxy system.
- ✓ Property right trading bourses

China Venture Capital Market is Booming

Cross-border stock replacement permitted by China Central Government, clearing obstacles for domestic firms to go public on overseas markets.

Corporate Law and Securities Law were newly amended, permitting entrepreneurs to draw down their registered capital by divided installments and the VC firms to install capital by commitment.

Healthy financial situation enables VCs to expand investment capacity and to promote rate of return.

- ✓ Local governments encouraged to establish Venture Capital Mother Funds;
- ✓ Commercial banks allowed to offer financing services to VC firms;
- ✓ Insurance companies and securities firms permitted to hold stake in VC firms;

VC firms to enjoy tax benefits.

China Venture Capital Market is Booming

Downstream market of venture capital becomes active while the stock market gets bullish with higher P/E for new IPOs.

Since this May to November 6, 2006, 26 SMEs got listed on Shenzhen Stock Exchange's SME board, and:

Average P/E: 24.24; Lowest P/E: 13.72;

Highest P/E: 40.81; Average P/E by first trading day closing: 47;

Average scope of price rise: 101.2%

Extremely active subscription to new IPOs, 625 times more than offering on average.

Average turnover ratio reaching 75% on the first trading day, average daily turnover ratio of SME board being 5%.

Low issuing cost: an average of 6% of money raised on SME board compared to 20% on Hong Kong Stock Exchange's main board, 10-15% on its SME board, and 20% on NYSE, 18% on Nasdaq, 15-20% on AIM in UK.

China firms Warmly Welcomed on Global Market

China Venture Capital Market is Booming

Downstream market of venture capital becomes active while the stock market gets bullish with higher P/E for new IPOs.

China firms have been following its footsteps since Tsingtao Beer went public in Hong Kong in July, 1993. As of now, most of China firms have chosen Hong Kong, USA and Singapore markets as listing places. By June 2006, 537 China firms have done IPOs on overseas markets, raising 68.6 billion USD, and contributing a market value of 530 billion USD.

China firms doing overseas IPOs in Past 4 years				
Year	2003	2004	2005	2006
				(Jan-Jun)
IPOs Done	48	84	70	40
Money Raised	7	11.15	21.23	13.8

PE at IPO On Different Markets (2005)	
Hong Kong, China	13.22
USA	45.65
Singapore	6.83

Firms Preferred By Different Markets	
Hong Kong, China	SOEs and Chain Service Businesses
USA	Internet firms, new services and productions
Singapore	SMEs

Besides the above mentioned three overseas markets, there will be more China firms to get listed on stock markets in London, Tokyo, Frankfurt, Australia, Canada and Korea.

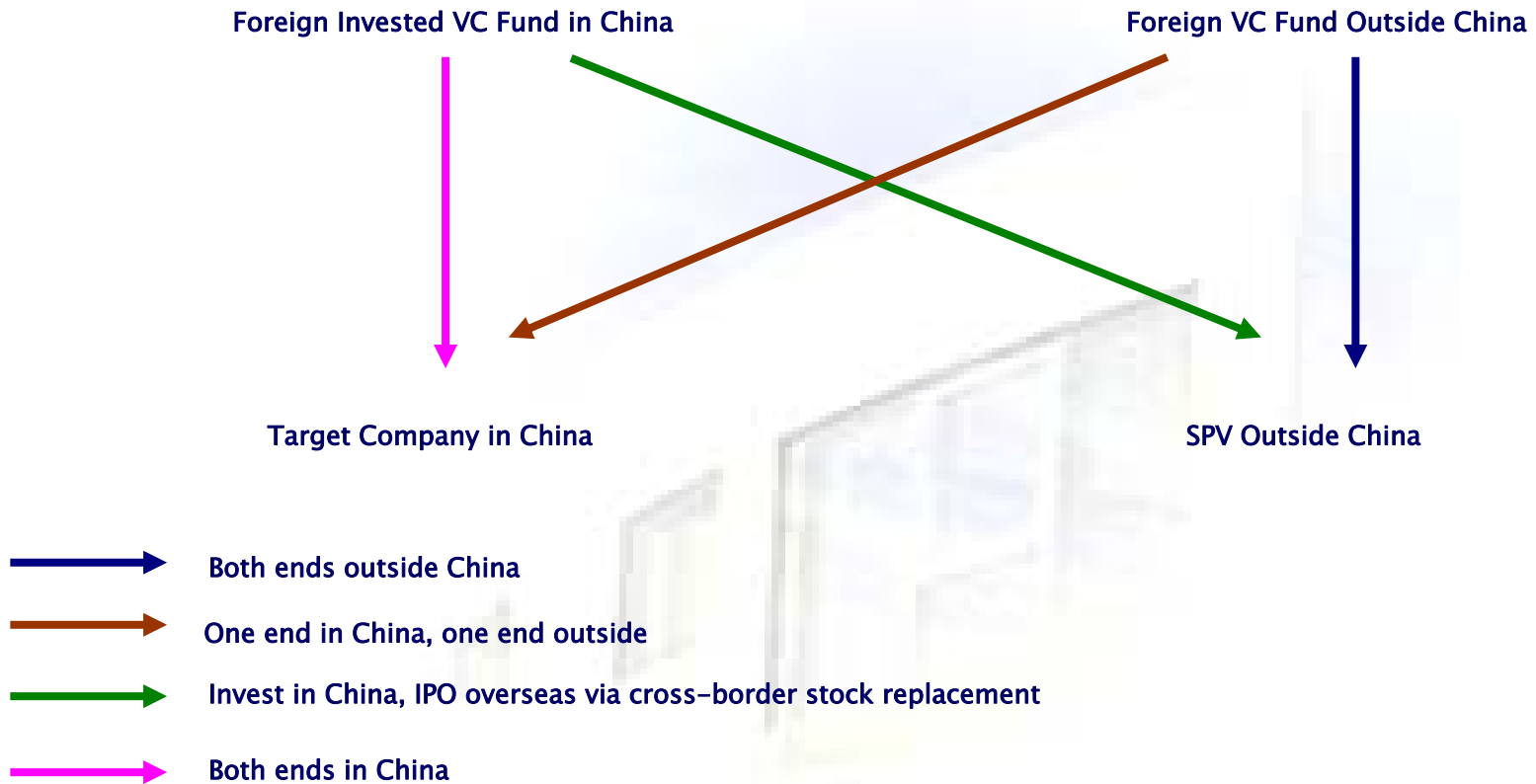
Opportunities for the EU Investors

1. Getting into China market

- ✓ Establishing offshore venture capital fund focusing on China;
- ✓ Establishing in China a foreign invested VC firm(JVC/Pure Foreign) as a legal person entity;
- ✓ Establishing in China a foreign invested VC firm(JVC/Pure Foreign) as a non-legal person entity;

Opportunities for the EU Investors

2. Start to Invest



Opportunities for the EU Investors

3. Get Exit

- ✓ Exit via overseas IPO;
- ✓ Exit via domestic IPO in China, and remit the profit outside China legally;

Opportunities for the EU Investors

4. Capital Investment Combined with Tech-intro

- ✓ Since EU is the largest source country esp. Germany for China's technology introduction (between Jan.-Sept, 2006, China has signed 7.54 billion USD worth of tech-intro contracts with EU), EU investors can invest by means of introduction of technologies that meet the needs of China and to play win-win games by focusing on China market research and hi-tech products development and manufacturing.
- ✓ Comprehensive Partnership with Deutsche Börse AG helps us to find a quick process for oversea IPO Exits and M&As through the European main Capital Market – Fankfurt, the Heart of Euro Zone.
- ✓ As the first Chinese Listing Partner of Deutsche Börse AG, opened SCGC welcomes and will support every cooperation opportunity of all European partners who are interested in investing in China.

Opportunities for the EU Investors

5. Contact

- ✓ Contact SCGC headquarters in Shenzhen;
- ✓ Contact SCGC European partner – Deutsche Börse AG in Germany. The two parties have established comprehensive partnership to open more channels for investors from EU to China.

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Who Are We? – Shenzhen Capital Group!

SCGC is the largest and strongest domestic VC firm in China.

- ✓ Registered capital: 1.6 billion RMB;
- ✓ Investment money under management: 4 billion RMB;
- ✓ Funds under management: 14 plus 10 in raising;
- ✓ Strong investment capability: about 100 portfolio in the past 7 years

The Best VC in China

- ✓ 19 IPOs in 6 years (China, USA, China Hong Kong, Singapore and Australia);
- ✓ Average annual venture capital investment by RMB return at 20.45%;
- ✓ Average annual investment return by foreign currency funds above 35%

Who Are We? – Shenzhen Capital Group!

National-wide Business Network

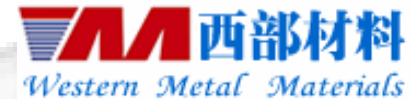
- ✓ SCGC has branches or offices in 9 major cities in China and has established sound partnerships in Greater China region.

Talented Team

- ✓ 30% of SCGC's investment team members are PHD degree holders, 70% hold master degree;
- ✓ 40% of SCGC's investment team members have oversea(work/study) experiences. SCGC investment team also has foreign members on board.
- ✓ Most of SCGC's investment managers are ex top officers of business and financial institutions;
- ✓ Strong research. SCGC has the only one post-doctoral research institute in China's VC industry.

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Cases:



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感謝您的關注！

Thank You