

# **Chinese Company Exit Opportunities:** Current U.S. Technology IPO and Cross Border M&A Environment

2005 China Venture Capital Annual Forum  
December 14, 2005



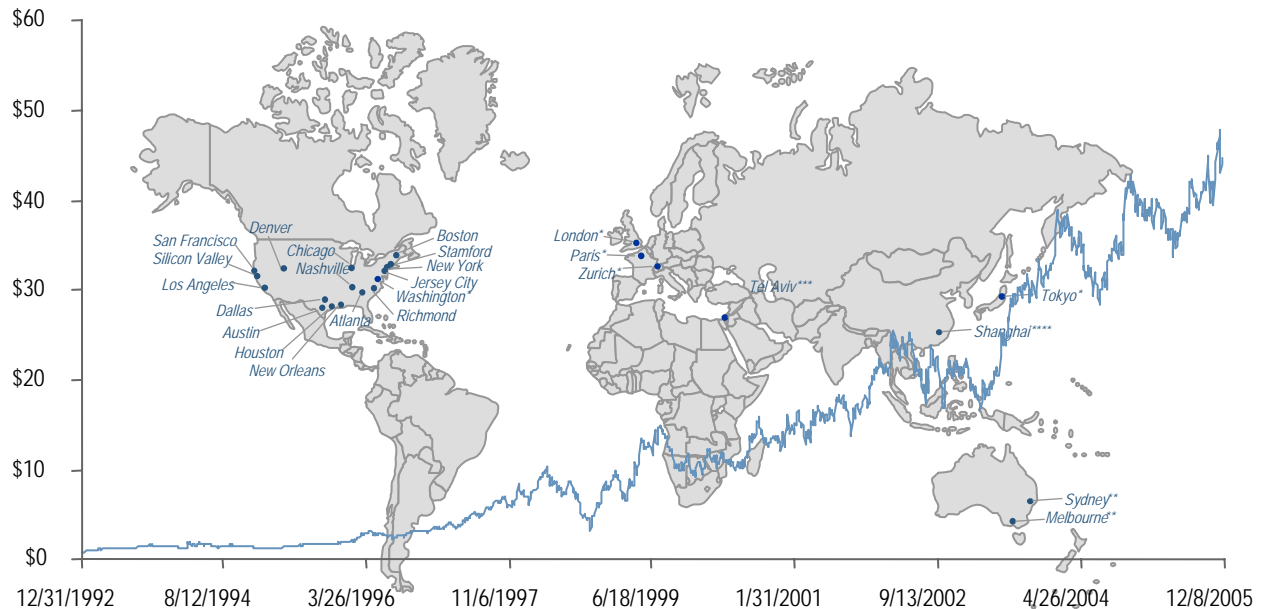
# Global Investment Banking Franchise



In the last five years ending with 2004 Jefferies Broadview advised on:

- A leading institutional brokerage and investment banking firm – led by one of the most powerful capital markets trading platforms in the industry
- Principal operating subsidiary of Jefferies Group, Inc. (NYSE: JEF), a holding company with an equity market capitalization of over \$2.5 billion and 2,000 employees in more than 20 offices worldwide

- 376 technology transactions globally worth approximately \$58.2 billion
- 133 cross border transactions
- 101 public-to-public transactions



\* Offices of Jefferies Group, Inc. subsidiaries: Jefferies International Limited, Quarterdeck Investment Partners, LLC, or affiliate Broadview International, LLC.  
 \*\* Sydney and Melbourne Offices of Australian affiliate, Burdett Buckridge Young Limited.  
 \*\*\* Tel Aviv Office of Israeli affiliate, Leumi & Co. Investment House.  
 \*\*\*\* Office scheduled to be opened in Q106.



# Jefferies Broadview Delivers The Full Spectrum Of Products And Services To Technology Clients

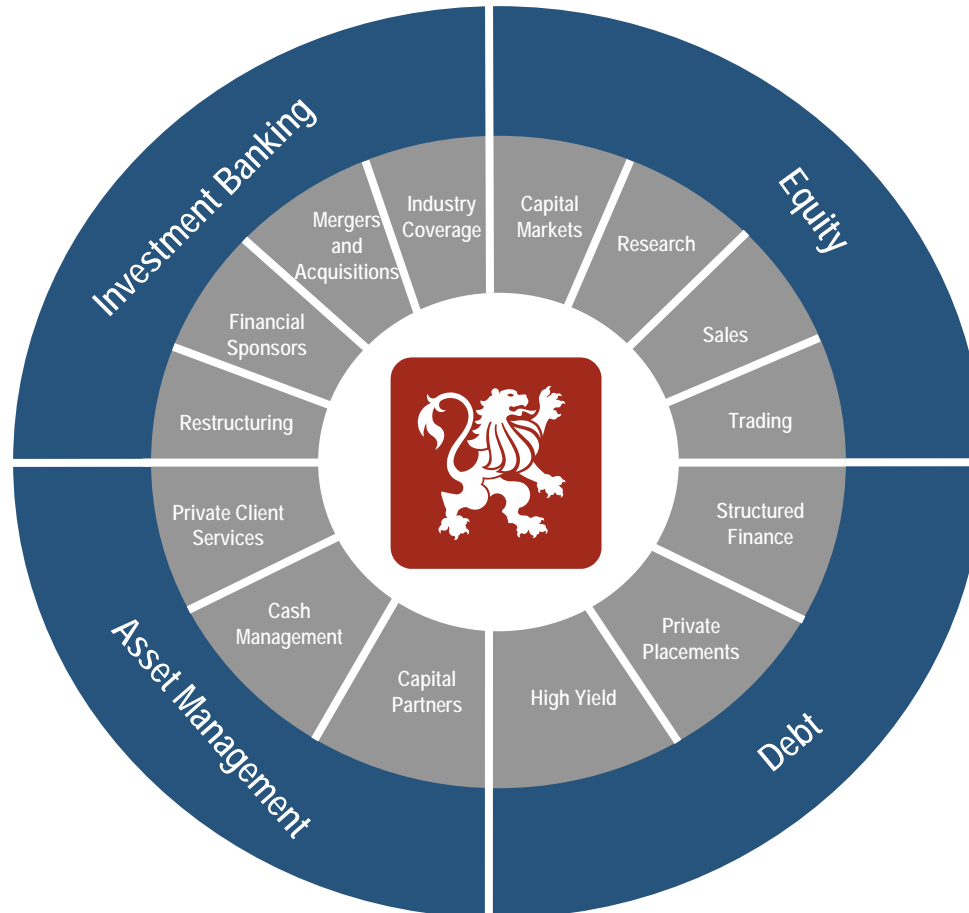
## Investment Banking

- Leading banking franchise focused on high growth companies with over **400 Investment Bankers (nearly 100 in technology) in over 20 offices worldwide**
- Equity Offerings – Completed over 175 public equity offerings since 2000
- **M&A - Ranked #1 in technology M&A** advisory assignments in 2004<sup>(1)</sup>
- Private Equity - Regular dialogue and relationships with over 250 financial sponsors
- Restructuring - Restructured approximately \$150 billion in securities and liabilities

## Asset Management

- Private Client Services / Cash Management – advisory, portfolio management and customized financial solutions
- Jefferies Capital Partners - more than \$685 million in private equity funds under management

Offers A Full Suite Of Investment Banking Products And Services To Serve High Growth Companies Throughout The Corporate Lifecycle



## Equity

- Over 135 account executives cover over 2,000 institutional accounts; make markets in over 4,000 stocks
- **#1 volume trader of NASDAQ and OTC stocks in 2004;** handle over 10% of NYSE volume; top 5 trader in nearly 2,000 NASDAQ stocks
- Over 90 research analysts covering over 600 companies

## Debt

- Dedicated high yield team of over 40 experienced senior professionals
- Integrated sales, trading, research, capital markets and banking functions
- **#1 underwriter of mid-cap high yield,** led by team that joined Jefferies Broadview from Drexel Burnham

# Jefferies Broadview Is The Investment Bank Of Choice For Growth Companies

“There is a hole in the marketplace where the Four Horsemen have gone. Jefferies has a chance to fill it. They always had great trading and great distribution. Now they’ve got the whole puzzle.”

— Sandy Robertson,  
founder Robertson Stephens  
New York Times (12/19/03)

- Jefferies Broadview’s team of nearly 100 Bankers is one of the largest dedicated to the technology industry
- #1 Technology M&A Advisor in 2005<sup>1</sup>
- #3 Sales and trading platform for NASDAQ stocks<sup>2</sup>
- #1 Provider of Single B debt<sup>3</sup>

## 2005 Technology M&A League Table<sup>1</sup>

Financial Advisor	# of Deals	Rank
Jefferies & Company	28	1
Morgan Stanley	27	2
CSFB	27	2
Goldman Sachs	25	4
Citigroup	21	5

## 2005 NASDAQ Trade Volume<sup>2</sup>

Broker	Rank
UBS	1
Bear Stearns and Company	2
Jefferies & Company	3
Citigroup	4
Merrill Lynch	5
Morgan Stanley	6

## 2005 Single B Debt Under \$150MM<sup>3</sup>

Broker	Proceeds (\$MM)	Rank
Jefferies & Company	400.5	1
Bear Stearns and Company	245.0	2
Banc of America Securities LLC	242.2	3
Lehman Brothers	228.0	4
JP Morgan	107.3	5
Citigroup	88.3	6

(1) Source: MergerMarket. All announced deals with transaction value of less than \$1 billion for 1/1/05-9/30/05. Includes domestic, cross border, trans-Atlantic, private, public, acquisitions, divestment, merger, demerger deals, full credit to each advisor. Includes computer software, computer hardware, semiconductors, industrial electronics, Internet / ecommerce, and telecommunications hardware

(2) Source: Autex. Data Ranking amongst investment banks. Based on total volume traded of Nasdaq National, Small Cap and Bulletin Board Markets as a percentage of total volume.

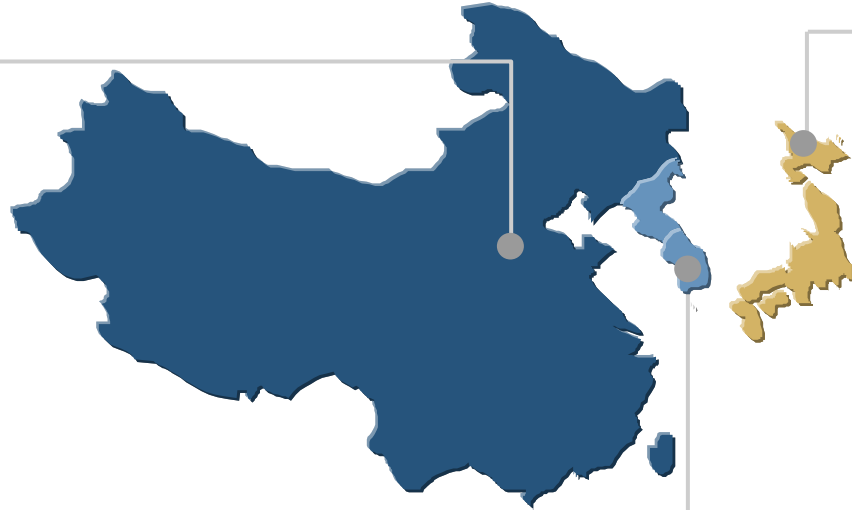
(3) Source: SDC. Excludes split rated, mortgage and asset-backed securities. Full credit to lead manager, equal if joint.

# Significant Experience In Asia



Greater China

<p>has agreed to a management-led buyout to delist the Company from the Hong Kong GSE. The buyout is sponsored by</p> <p>Och-Ziff Capital Management HK\$ 882,000,000</p>	<p>\$106,000,000 Initial Public Offering Co-Manager</p>	<p>China Finance Online Co. Limited \$80,600,000 Initial Public Offering Co-Manager</p>
<p>*  \$71,454,555 Initial Public Offering Lead Book Runner</p>	<p>*  \$1,803,000,000 Initial Public Offering Joint Book Runner</p>	<p>*  \$92,479,037 Initial Public Offering Sole Book Runner</p>
<p> has sold certain assets to </p> <p>\$62,000,000</p>	<p> has divested its Handset Division to </p> <p>\$165,100,000</p>	<p> has divested certain manufacturing assets to </p> <p>Confidential</p>
<p> has sold certain mobile computing assets to </p> <p>\$30,000,000</p>	<p> has restructured its Digital Media Business and Merged its Graphics Business with  formerly the graphics unit of </p> <p>Confidential</p>	



Japan

<p> has agreed to be acquired by Access Co. Ltd. \$324,000,000 Financial Advisor to the Seller</p>	<p> has been acquired by </p> <p>Confidential</p>	<p> has been acquired by C BIRD \$90,000,000 Financial Advisor to the Seller</p>
<p> has divested the Remote Special Services Test Product Line to </p> <p>\$26,000,000</p>	<p> has been acquired by ICP Inc. Confidential</p>	<p> has made a minority investment in Unics Co. Ltd. Confidential</p>
<p> has sold a minority interest to </p> <p>Confidential</p>	<p> has been acquired by </p> <p>\$24,000,000</p>	<p> has acquired </p> <p>Confidential</p>
<p> has sold a minority stake to </p> <p>Confidential</p>	<p> has acquired </p> <p>\$38,000,000</p>	<p> has acquired </p> <p>\$450,000,000</p>
<p> has made a minority investment in SunUpDesign Systems, Inc. Confidential</p>	<p>Kingston Technology Corporation has been acquired by Softbank Confidential</p>	<p> has been acquired by Softbank \$30,000,000</p>



Korea

<p> has completed a Series C Round of Financing Private Capital National Semiconductor Pericom Semiconductor and other investors \$37,000,000</p>	<p> has divested its broadcasting equipment subsidiary TV/COM International, Inc., to </p> <p>Confidential</p>	<p> has been acquired by </p> <p>Confidential</p>	<p> has been acquired by </p> <p>\$60,000,000 Initial Public Offering Sole Book runner</p>
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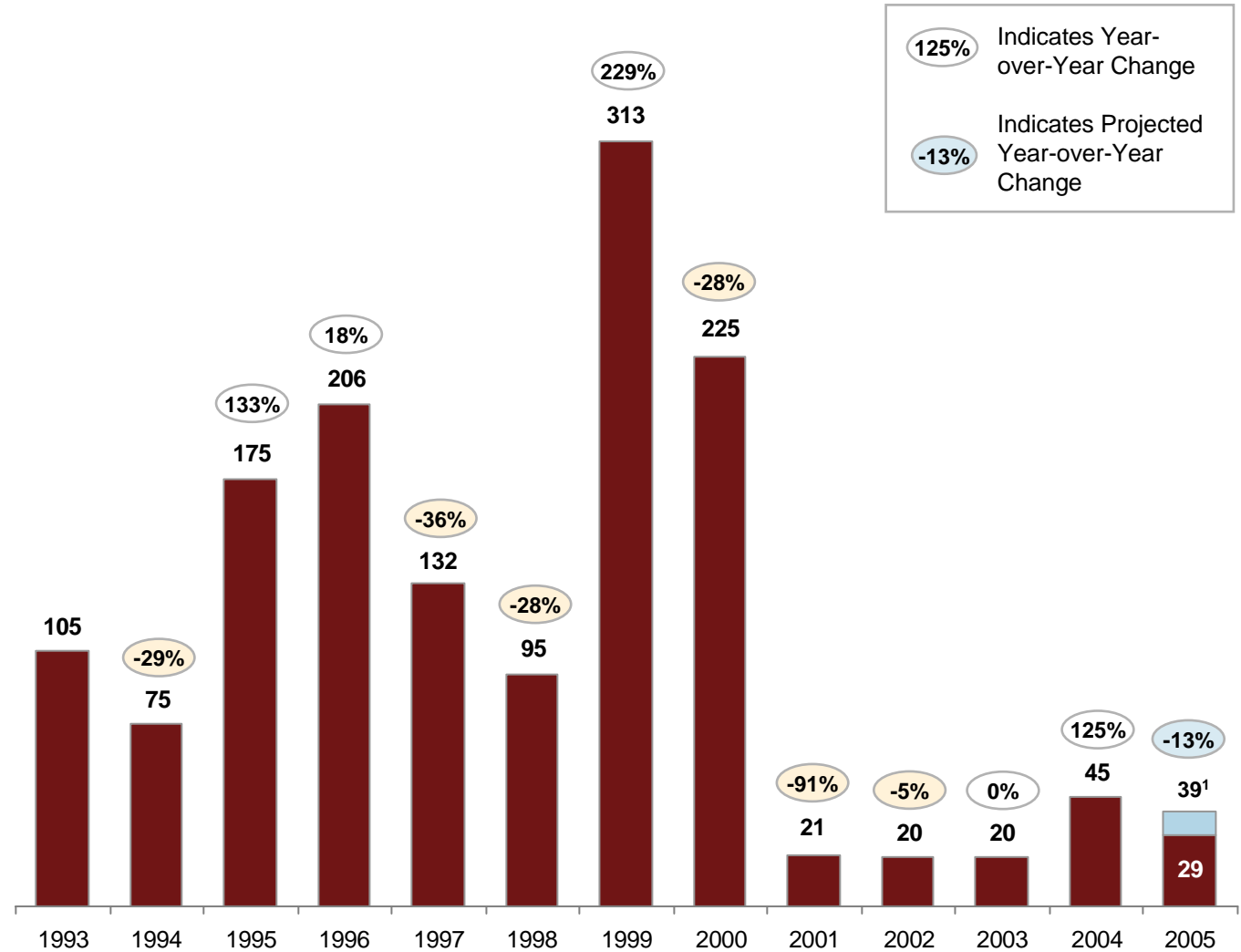
\* Transaction completed by team at previous employer

# Current U.S. Technology IPO and Cross Border M&A Environment

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# US Technology IPO Activity Is Down In The Nine Months Of 2005 Compared To The Prior Year

US IPOs >\$15MM



Source: Jefferies Broadview's IPO Database. Based on IPOs priced 1993-6/30/2005 where the capital raised was \$15MM or greater.

<sup>1</sup> Extrapolation from 1st 9 month data

Data excludes Print Media and Telecommunications and IP Services transactions

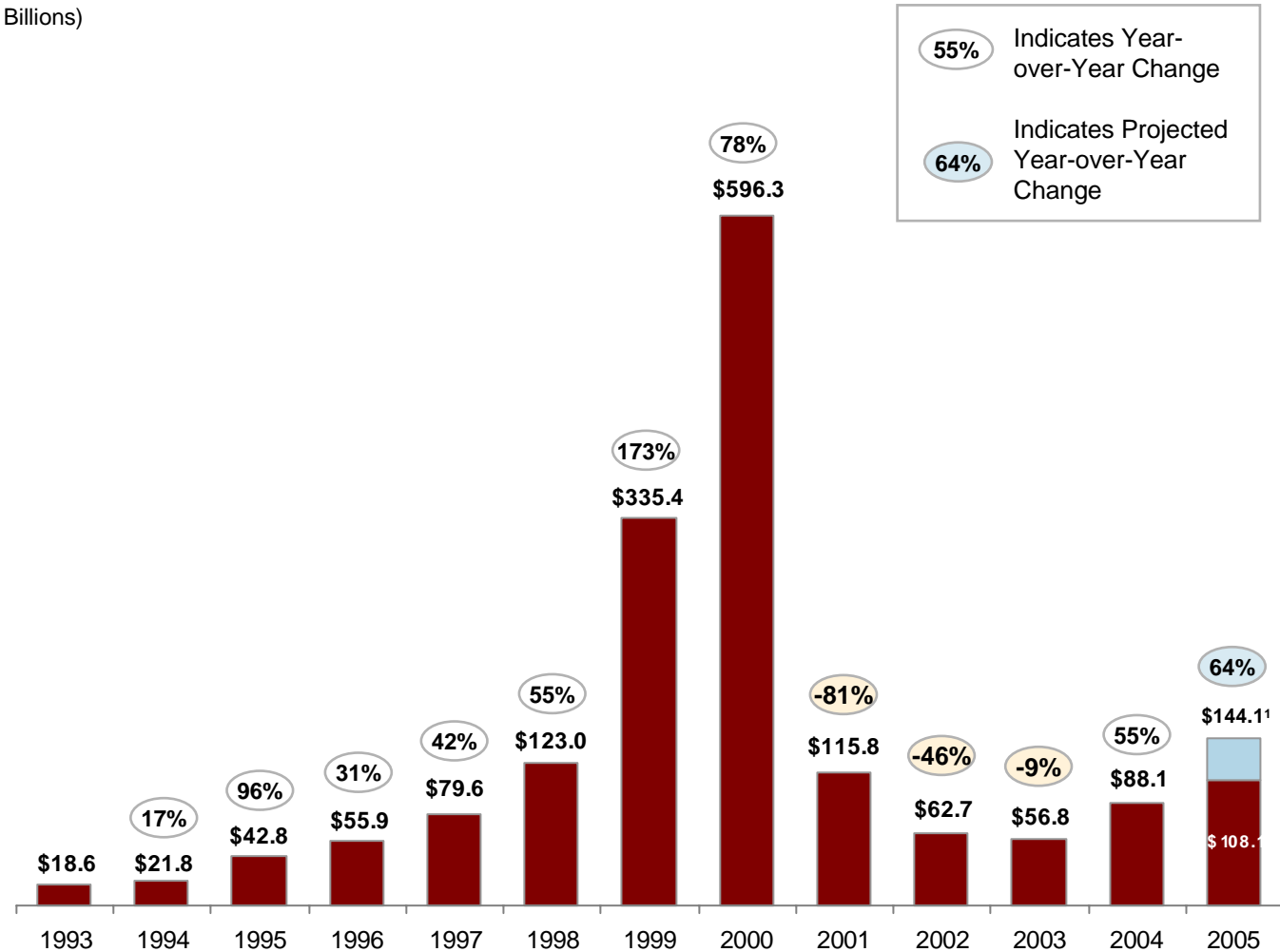
# Chinese Technology Capital Markets Activity In The U.S. Has Dropped As Well In 2005 Compared To 2004

(\$Millions)

Issue Date	Name	Offering Type	Offering Amount	TTM Revenue	Quarters of Profitability	TTM EBITDA Margin	% Change From Offering <sup>1</sup>	TMC / TTM Revenue	TTM P/E
11/29/05	Actions Semiconductor	IPO	\$72.0	\$141.9	6	52%	1%	4.37 x	9.78 x
11/14/05	Vimicro	IPO	87.0	66.6	9	15%	(14%)	3.97 x	45.95 x
8/9/05	China Medical	IPO	110.4	26.3	19	65%	112%	11.35 x	28.68 x
8/5/05	Baidu.com	IPO	109.1	16.8	6	34%	189%	NM	NM
7/13/05	Focus Media Holding	IPO	197.5	43.8	8	42%	82%	22.08 x	36.23 x
5/5/05	China Techfaith Wireless	IPO	141.8	59.0	6	47%	(6%)	14.60 x	31.30 x
2/3/05	Hurray!	IPO	70.5	54.4	6	37%	(11%)	2.85 x	NM
12/16/04	Ctrip.com	Follow-On	92.8	36.6	10	44%	12%	18.29 x	52.92 x
12/14/04	The9	IPO	103.3	3.4	7	11%	(9%)	92.11 x	76.96 x
12/2/04	Ninetowns	IPO	105.6	21.1	15	66%	(53%)	14.14 x	23.70 x
11/10/04	China Netcom Group	IPO	1,141.1	7,663.4	14	52%	44%	1.74 x	9.70 x
10/27/04	eLong	IPO	62.1	13.3	0	4%	(23%)	20.48 x	NM
10/22/04	Shanda	Convertible Debt	275.0	102.7	10	43%	NA	27.70 x	57.12 x
10/15/04	China Finance	IPO	80.6	3.5	8	1%	(51%)	37.08 x	77.84 x
10/7/04	Hutchison Telecom.	IPO	808.7	1,597.8	2	27%	76%	3.32 x	67.84 x
9/28/04	51job	IPO	73.5	45.9	10	25%	(2%)	21.14 x	143.43 x
7/8/04	Kongzhong	IPO	100.0	14.3	5	41%	12%	12.67 x	30.00 x
5/13/04	Shanda	IPO	152.4	72.6	8	43%	47%	26.27 x	59.82 x
3/12/04	SMI	IPO	1,712.9	365.8	1	48%	(58%)	7.89 x	NM
3/5/04	TOM Online	IPO	175.0	77.1	4	30%	34%	5.60 x	13.90 x
3/4/04	Linktone	IPO	86.0	15.5	4	31%	(27%)	3.94 x	22.60 x
	High		1,712.9	7,663.4	19	66%	189%	92.11 x	143.43 x
	Median		105.6	45.9	7	42%	(1%)	13.41 x	36.23 x
	Low		62.1	3.4	0	4%	(58%)	1.74 x	9.70 x

# The Aggregate Value Of North American Technology M&A Transactions Announced In The First Nine Months Of 2005 Is Greater Than The Amount Announced In Each Of The Prior Three Years

North American M&A Transactions  
(\$ Billions)



Source: Jefferies Broadview's Global Mergers and Acquisitions Database. Data includes mergers, acquisitions, majority stake purchases, purchases of remaining interests and large investments by non-financial buyers of North American technology companies. Large investments are defined as purchases valued at more than \$100MM or of more than 20% of equity. Minority stake purchases by financial buyers and product deals are excluded from the data.

<sup>1</sup> Extrapolation from 1st 9 month data

Data excludes Print Media and Telecommunications and IP Services transactions

# While The Cross Border M&A Market In China Is Nascent, Deal Frequency Is On The Rise

## Representative Chinese Technology M&A/Strategic Investments

(\$Millions)

### Key issues

- Few “willing” sellers
- Price expectations
- Post-acquisition management and integration
- Cultural fit

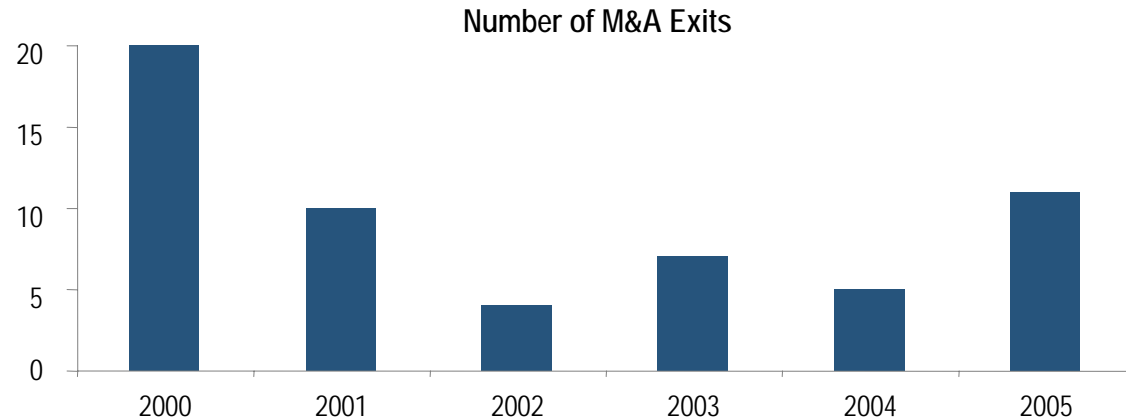
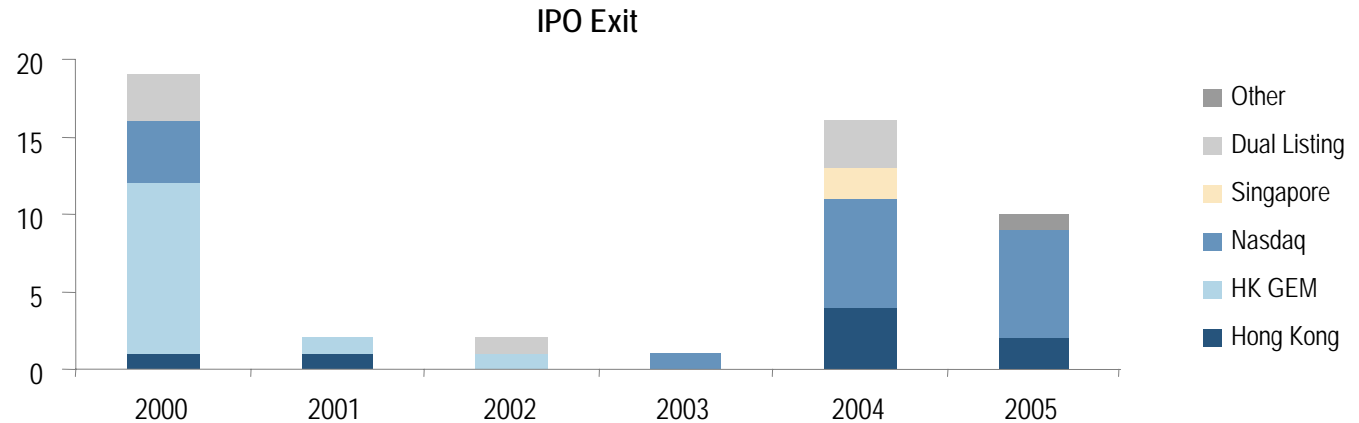
Date Announced	Target Name	Acquiror Name	Transaction Value	M&A Type
11/11/05	Superdata Software	Och-Ziff Capital Management	\$114.0	Management Buyout
10/28/05	Huawei-3com	3Com	28.0	Acquisition
9/27/05	Chinasoft International	Microsoft and International Finance	35.0	Minority Investment
9/2/05	Langchao	Microsoft	25.0	Minority Investment
8/10/05	Alibaba.com	Yahoo!	1,000.0	Minority Investment
7/13/05	Soufun	Trader Classified Media	22.5	Minority Investment
6/30/05	Dalian Hi-Think Computer Tech	Microsoft	NA	Minority Investment
6/21/05	Longshine	Amdocs	30.0	Acquisition
4/21/05	PCHome	CNET Networks	11.0	Acquisition
3/30/05	Three-Five System	International DisplayWorks	10.4	Acquisition
2/3/05	ChinaHR	Monster.com	50.0	Minority Investment
1/25/05	PRCInvestment.com	Reed Elsevier	Conf.	Acquisition
1/25/05	ChinaEdu	McGraw-Hill Education	18.0	Minority Investment
1/13/05	C-Valley	THQ Wireless	Conf.	Minority Investment
1/3/05	HandInfo Group	MFORMA Group	NA	Acquisition
12/27/04	Digital Media Group	NTT DoCoMo	4.2	Minority Investment
12/16/04	eLong	IAC/InterActiveCorp	320.6	Control Investment
11/25/04	Konka	Thomson	18.9	Minority Investment
10/26/04	ChinaLOOP	Acxiom	NA	Acquisition
10/14/04	Zhongguancun On Line	CNET Networks	15.0	Acquisition
10/14/04	Fengniao Photography On Line	CNET Networks	1.0	Acquisition
10/12/04	Magus Soft	MFORMA Group	NA	Acquisition
8/19/04	Joyo.com	Amazon.com	75.0	Acquisition
6/21/04	Ctrip.com	Rakuten	109.6	Minority Investment
6/15/04	Baidu.com	Google	10.0	Minority Investment
11/21/03	3721 Network Software	Yahoo!	120.0	Acquisition
6/11/03	EachNet.com	eBay	150.0	Acquisition

# Overall, While Chinese Technology IPO Activity Has Declined Cross Border M&A Is Becoming An Increasingly Viable Exit Opportunity

**In 2004, Nearly 50% Of Chinese Technology Companies Listed Solely On The NASDAQ**

## Exit Strategy

	IPO	M&A
2000	19	20
2001	2	10
2002	2	4
2003	1	7
2004	16	5
2005	10	11
<b>Total</b>	<b>50</b>	<b>57</b>



Dual Listing includes all companies listed on more than 1 exchange

Other includes Shenzhen, Tokyo, Shanghai and New York

Source: SDC. Excludes transactions where IPO gross proceeds and M&A deal values were < \$25MM

# SAFE Circulars 11, 29, 75: Impact On Exit Potential For Chinese Companies?

- Issued on October 21, 2005 and effective November 1, 2005, Circular 75 supersedes both Circular 11 and Circular 29

	Circular 11 and 29	Circular 75
<b>SPVs and Roundtrip Investment</b>	<ul style="list-style-type: none"> <li>Attempts to control and limit the practice of roundtrip investment</li> </ul>	<ul style="list-style-type: none"> <li>Officially sanctions offshore equity financing through SPVs and roundtrip investments</li> </ul>
<b>SAFE Approvals</b>	<ul style="list-style-type: none"> <li>Requires PRC residents obtain SAFE approval to establish/obtain control of a foreign company as well as to exchange domestic assets or equity interest for assets or stock of a foreign company</li> </ul>	<ul style="list-style-type: none"> <li>Requires PRC residents to only register with SAFE; no need to obtain SAFE approval</li> </ul>
<b>Foreign Exchange Registrations and Disclosures for Proposed Offshore Investment</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Initial foreign exchange registration (disclosures, approval certificates) required for PRC residents to establish/obtain control of SPV</li> <li>PRC residents must file an amendment to the foreign exchange registration if they contribute to an SPV the assets or equity interest in a PRC company or when offshore financing is raised after having contributed assets/equity to the SPV</li> <li>Requires the PRC company receiving roundtrip investment or shareholder loans from an SPV to go through foreign exchange registration</li> <li>Material changes to capital structure of SPV not involving a roundtrip investment require amendments to foreign exchange registration</li> </ul>

**Net Impact to Chinese Entrepreneurs:** Circular 75 permits continued access to offshore financing with **limited** red tape

## Summary: What Does All This Mean For Chinese Technology Companies Looking To The U.S. For An Exit?

- The Nasdaq has experienced a decline in the number of Chinese technology listings
  - GEM, AIM, Singapore and Mothers exchanges represent real alternatives with less stringent listing requirements
  - Sarbanes-Oxley
  - Business models unique to China with few Nasdaq comparables
- However, the Nasdaq is still the preferred destination for technology companies worldwide
  - Research analysts and investors understand technology
  - Liquidity second to none
  - Significant branding opportunity / signal to market
- Overseas investors, particularly in the U.S., are increasingly looking to make acquisitions and strategic investments in China – and in several cases at “IPO-level” valuations!
- Investors and entrepreneurs should look to cross border M&A as a viable exit opportunity
  - China is top strategic priority for many international firms
  - Being a public company is only the “beginning” for key management / founders
- SAFE Circular 75 should be seen as a positive development and confirmation of the Chinese government’s dedication to promoting growth in the private sector

## Contact Information

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