

# Linear Capital Newsletter - 25Q3

Dec 4, 2025

Dear Friends & Partners,

Thank you for being supportive along the way. Sorry it's been a bit late for Q3, but still we are more than happy to share our recent thoughts and recent activities.

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## --- Observation and Insights ---

### Slowing Growth, Surprising Export Resilience

China's economic recovery entered a more nuanced and complex phase in the third quarter. GDP growth slowed to 4.8% year-on-year—the weakest pace in a year, though it landed squarely within expectations. This moderation keeps the country on track for its annual target of ~5% but also highlights an increasing reliance on external demand to offset still-fragile domestic spending.

Indeed, September's data epitomized the economy's dichotomy: retail sales grew by a tepid 3.0%, a ten-month low, even as industrial output climbed a robust 6.5%. The silver lining, glinting brightly, was trade. Exports surged over 8% in September—the fastest jump since March—handily beating forecasts. This strength, driven by Chinese firms deftly pivoting to new markets in Asia, Africa, and Europe, provided an unexpected and welcome boost.

In short, the Q3 macro picture was a study in contrasts: solid headline growth anchored by resilient manufacturing and trade, but underpinned by uneven, two-speed dynamics between an export-powered industrial sector and softer consumer demand at home. In our Q2 letter, we foresaw a "bifurcated" picture; the Q3 data has now confirmed this judgment with undeniable force. The old growth engines, like real estate and its related fixed-asset investments, are sputtering out. In their place, technology and high-end manufacturing, representing the "new quality productive forces," are becoming the new main sail, propelling China's economic vessel forward with unprecedented strength.

Our task is no longer to survive the storm, but to navigate this foggy, divergent sea, precisely identifying and harnessing the most powerful new currents. This requires us to

be more focused than ever, to distinguish what is short-term noise from what is a long-term signal.

## **AI-First Consumer Electronics and Regional Dynamics**

Shenzhen, along with neighboring cities like Dongguan, has reinforced its position as the undisputed epicenter of "AI-first" consumer electronics, where the increasingly mature integration of software and hardware is enabling a new generation of smarter devices. China's deep hardware capabilities and engineering talent in this domain represent a core competitive advantage. A vivid example this quarter was the inauguration of the world's first AI "6S" store in Shenzhen's Longgang district—a facility providing unified services from product Showcase to Startup incubation all under one roof. By offering R&D labs, rapid prototyping, and AI software studios in tandem, Shenzhen is streamlining the path from idea to product, significantly lowering the barrier to entry for AI hardware startups and cementing the city's status as a global hub for AI-driven gadget innovation.

This hardware-centric momentum in Shenzhen is now perfectly complemented by Shanghai's emerging role in design and user experience. Shanghai, and the creative cluster of cities around it like Hangzhou, has been carving out a reputation for tech products that are as design-forward as they are high-tech. This year, the city hosted marquee events like the Appliance & Electronics World Expo, themed "AI for All," which showcased tens of thousands of smart living products. From sleek AI-infused home appliances to fashionably designed AR glasses, many of China's most aesthetically pleasing tech innovations are emerging from Shanghai's fertile mix of creative talent and tech savvy.

These two great tech hubs, Shenzhen and Shanghai, are not in competition. Rather, they are performing two different but complementary acts in the grand play of China's AI strategy. The twin engines of Shenzhen's engineering and Shanghai's design are driving the maturation of AI-first electronics—one building the intelligent hardware ecosystem, the other refining the consumer experience—together propelling Chinese consumer tech to new heights of sophistication.

## **The Rise of Agentic, Emotionally Intelligent AI**

A notable tech theme this quarter was the growing buzz around "agentic AI"—applications that are not only autonomous but also interactive and emotionally attuned. Unlike traditional software or even earlier-generation chatbots, these AI "agents" can perceive, reason, plan, and act largely on their own, collaborating with humans in a more dynamic fashion. Crucially, they are beginning to add a layer of emotional intelligence to their interactions.

We believe this marks a paradigm shift in the evolution of AI: a progression from

Generative AI to Agentic AI, which will ultimately fuse with Emotional AI to create an entirely new species—what we call the "Perceptive Teammate."

Imagine a future where AI is no longer just a passive tool executing commands, but a partner capable of sensing the emotional state of a team. For example:

- In customer service, it could detect the frustration in a client's voice and dynamically adjust its communication strategy, or know when to escalate the call to a human supervisor.
- In a medical setting, it could analyze a patient's voice and biometric data to assess their anxiety level and suggest the doctor adjust their communication style accordingly.
- In team collaboration, it could notice the signs of fatigue after team members have worked late for consecutive nights and proactively suggest to a manager that task priorities be adjusted to prevent burnout.

This transformation of AI from "tool" to "teammate" will unlock a whole new market for software and services centered on "human-machine collaborative intelligence." This isn't just about efficiency; it's about creating a more empathetic and psychologically safe work environment. This is the next grand theme we are actively seeking to invest in.

## Venture Funding Thaws—Cautiously

After a prolonged venture capital winter, we observed the tentative signs of spring in Q3's fundraising climate. Investor sentiment in early-stage tech has warmed considerably from a year ago, fueled by the excitement around AI breakthroughs. This renewed capital flow is evident on the ground. Notably, we've seen next-round term sheets landing before the previous rounds have even closed—a behavior absent for the past three years. Three of our new portfolio companies in the AI sector, for example, received competing follow-on offers and closed an additional round merely 3-6 months after their initial funding—a rare flash of 2019-era exuberance.

That said, our optimism remains measured. The late-quarter data suggests the funding rebound, though real, is uneven and could cool again toward year-end. Globally, much of Q3's capital went into a few mega-deals and AI "giants," while the volume of smaller deals actually eased slightly from Q2, hinting at persisting caution. In our conversations with fellow VCs, the consensus is that Q4 will be more muted, with focus returning to quality and due diligence. For us, the takeaway is clear: rational optimism. We're encouraged to see confidence returning, but we are braced for a gradual recovery, with bumps along the way.

From another perspective, this environment presents a unique opportunity for a fund like ours. The market is undergoing a "purifying fire," weeding out the "tourist-like" speculators who lack a clear thesis. This is causing capital to concentrate more rapidly into funds with deep industry knowledge, a firm investment logic, and clear themes.

## U.S.–China Tensions: Rhetoric vs. Reality

Geopolitical frictions between the U.S. and China persisted through Q3, creating plenty of noise but, in our view, limited substantive change to long-term investment fundamentals. This quarter, the dynamic was defined by a sophisticated, tit-for-tat exchange of regulatory power. In late September, Washington unveiled its "50% Affiliates Rule," a form of "penetrating regulation" that extends export controls to any foreign entity that is 50% or more owned by a party on a restricted list. In response, Beijing expanded its export controls on rare earth metals, introducing a "0.1% rule" that asserts jurisdiction over foreign-made products containing even trace amounts of Chinese-origin rare earths. Washington, in turn, countered with high-profile deliberations over new tariffs and semiconductor restrictions. At face value, it felt like an escalation.

However, look past the headlines, and a more nuanced dance comes into focus. Both governments continued high-level dialogues, and plans were laid for a possible Xi–Trump meeting at the APEC summit. This suggests neither side wants a complete breakdown. We interpret the heightened rhetoric as, ironically, a signal that both sides recognize the high stakes and prefer managed competition over uncontrolled conflict. A comprehensive grand bargain remains unlikely, but so does a drastic severing of economic ties. For investors, the implication is to brace for volatility in the news flow but maintain perspective. Thus far, 2025's louder quarrels have produced more headlines than structural shifts—a trend we think will continue.

## The Unavoidable Mandate: AI-lize Everything

If one overarching theme has defined our world this year, it is the breathtaking acceleration of AI adoption. In Q3, this trend only intensified—an "AI-lization" of everything. The clear message is that AI is no longer confined to tech giants; it's permeating the mainstream.

However, a key insight from our front-line vantage point is that adopting AI successfully requires more than a patchwork of new tools—it demands rethinking workflows from the ground up. The transformative gains come when processes are rebuilt to be AI-native. The startups making the biggest leaps are those born with this AI-centric philosophy. They aren't simply layering AI onto legacy operations; they are architecting their businesses around it. We've seen this in action: AI-native startups are doing with five people what traditional firms do with fifty. Because their operating system – from product to culture – is built around what AI enables. It's early, but the gap is widening fast.

Our takeaway for our portfolio is that now is the time to proactively reinvent workflows, even if parts of the business don't yet feel affected. The late adopter's fallacy is assuming "if it's not broken, no need to fix it." We encourage founders to ask: "If I were starting this operation fresh today with AI at my disposal, how would I design it?" The process isn't easy—it's a bit like rebuilding a plane mid-flight—but the alternative is being

outcompeted.

All the output that AI provides should become part of your input, but you cannot listen only to the AI. You must treat AI as an advisor who is omniscient but fallible—one you can consult at any time. This critical mode of interaction is the best, and perhaps only, way to truly engage with AI.

We must adapt to this AI-shaped future. The future is arriving faster than we think. Those who move early will shape it. Those who hesitate will be shaped by it. As always, we choose the former.

Best regards,

Harry

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### --- Investments ---

#### **We closed 1 new deal in Q3 2025.**

- NaukNauk
  - NaukNauk is a global UGC content and consumer platform designed for Kidults—adults who embrace playful, childlike creativity. By leveraging AI-powered creation tools, it inspires users to express themselves, fosters a highly engaging community, and aims to expand to a broader global audience.
  - The Kidulting trend is rapidly accelerating worldwide, as more adults seek to reconnect with their “inner child” through play, imagination, and creative expression. This represents a vast and largely untapped market. If NaukNauk succeeds in delivering a delightful and distinctive user experience that drives organic, viral growth, it has the potential to become a major global community platform—with influence comparable to Instagram in international markets.

#### Highlights of Holdings

- We have 5 portfolio companies that completed subsequent financing in Q3 2025, with total new money of US\$123.2M raised.
- Linear Angel Round Project [Tars](#) completed a \$122 million Angel+ round of financing. The round was led by Meituan Strategic Investment, with Linear Capital and others continuing to invest.
- Linear Angel Round Project [Green Synergy](#) announced the completion of a nearly 100 million yuan Pre-A round of financing. The funds will be used for the construction of its first self-operated factory with an annual SAF production capacity

of several thousand tons after it starts production, as well as to supplement the cash flow for daily operations. Linear Capital made a full pro-rata follow-on investment.

- Linear Pre-A Round Lead Project [Rino.ai](#) has completed its B+ Round of financing, with the total amount of B-round financing accumulating to nearly 500 million yuan. SF Express and Linear Capital continue to increase their investment.
- Linear Angel Round Project [Mindverse](#) founder Dr. Tao Fangbo was interviewed by LatePost, sharing insights on AI self-training and AI social network experiments.
- Linear Angel Round Project [WEFLY](#) successfully completed the first flight of its independently developed 2-ton full-size 5-seater manned eVTOL model W280 in Suzhou.
- Linear Pre-Seed Round Lead Project [RIVR](#) announced a partnership with Europe's largest food delivery platform Just Eat Takeaway.com to introduce RIVR's fully automatic delivery robots into the European market.
- Linear Seed Round Lead Project [Bot Auto](#) announced the first real-road test where the truck completed all operations autonomously without human intervention.
- Linear Seed Round Project [Final Round AI](#) founder Michael was a guest on the LateTalk podcast, sharing thoughts on product inspiration, controversy response, team building, and the future of AI recruitment.

### --- Other Updates from the Linear Family ---

#### Contact and Media Reports about Linear Capital

- Linear Capital revamped the design of its [Official Website](#).
- Linear Capital was honored as "Top 10 Most Active Early-Stage Investment Institutions" by the [The First New Voice](#) in Q2 2025.
- Linear Capital received multiple honors in the [TMTPOST](#) 2025 H1 list, including "Top 20 Early-Stage Investment Pioneers", "Top 10 Exit Pioneers", and "Top 20 in Embodied AI/Robotics Field".
- Linear Capital was honored in the [Qimingpian](#) 2025 China Equity Investment Series Mid-Year List as "Top 8 Best Early-Stage Comprehensive List" and "Top 16 Best Early-Stage Active List".
- Linear Capital was honored as "Top 30 AI Best Investment Institutions" in the [JAZZYEAR](#) 2024-2025 China Technology Industry Investment List, and Linear Capital's founder and CEO was selected in "Top 20 AI Best Investors".
- Linear Capital was honored as "Top 14 2025 Early-Stage Fund Best Return" in the 2025 [china-fof.com](#) Special List.
- Linear Capital received multiple honors in the [36Kr](#) 2025 Industrial Investment Institution List, including "Embodied Intelligence Industry Investment Institution &

Investor", "Artificial Intelligence Industry Investment Institution & Investor", and "New Productivity Industry Investment Institution & Investor".

- Linear Capital's founder and CEO was selected in the [The First New Voice](#) Third AI Innovation Pioneer—2025 China AI Industry Innovation Pioneer List as "AI Industry Pioneer Investor Top 30".
- Linear Capital was honored in the [Cyzone](#) list as "2025 Most Admired Early-Stage Investment Institutions Top 50" and "2025 Most Admired Venture Capital Institutions - AI Field".
- Linear Capital was honored as "2025 Yangtze River Delta Region Best Early-Stage Fund Top 10" in the [china-fof.com](#) 2025 Yangtze River Delta Region Best Investment Institution List.
- Linear Earliest Round Project [GritWorld](#) has completed a Series B3 financing of tens of millions of US dollars to accelerate the research and development of AI-native 3D graphics engines.
- Linear Angel Round Project [GUANGLI](#) founder and CEO Zhang Zhuopeng was interviewed by 36Kr, discussing product insights and the AR industry.
- Linear Seed Round Project [Tophant](#) has completed a new round of 200 million yuan in bridge strategic financing, preparing for larger-scale capital plans and IPO processes in the future.
- Linear Angel Round Project [Deep Material \(Chuangcai\)](#) completed a tens of millions of yuan Series A series financing and released its self-developed hardware-software integrated material intelligent agent (DM Agent).

## Events We Hosted and Joined

- Linear Capital organized a gathering during the [WAIC Summer Night](#) on the eve of the World Artificial Intelligence Conference, facilitating exchanges on AI applications, technology trends, and entrepreneurial stories with AI entrepreneurs, practitioners, and enthusiasts.
- Linear Capital hosted a visit from the [Penn Venture Club](#), where partner Yang Jun held Q&A sessions and in-depth discussions with nearly thirty students from the University of Pennsylvania.