



Venture Capital: Funding Alternative for New Enterprises

Presentation By

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JAFCO INVESTMENT (HONG KONG) LTD

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1. Definition: What is Venture Capital

- U.S. – >30 years in existence
- Fairly new term in Asia (until the last 2-3 years)
- Earliest venture capital firm in Asia began in 1963 in Japan
- Refers to investments in young, rapidly growing companies (particularly high-tech related) in the U.S.
- Wider meaning in Asia ----- generally refers to equity investments in growing, unlisted companies.
 - Private Equity
 - Direct Investments
- Serves as an intermediary between investors looking for high returns and entrepreneurs in need of capital

2. Nature of Venture Capital

- VS Debt Financing
- VS Public Market
- Objective: generation of long term capital gains
- Horizon: 2-7 years
- Liquidity: low
- Risk: High
- Instruments: shares, convertible bonds, options, warrants
- Critical factor(s): Management team and market potential, rather than collateral
- Impact on Profit, Balance Sheet

3. Where does the money comes from?

➤ Fund investors:

- Insurance companies
- Pension funds
- University endowment funds
- Family trusts
- Government Treasury / Agencies
- Listed corporations / Private companies
- Wealthy high net worth individuals (>US\$1 million)

4. Revenue Model of Venture Capitalist

- Formation of the Fund : closed-end, structure: L.P./L.L.C.
- The Appointment of the Investment Manager
- Remuneration: ♦ Management Fees
♦ Carried Interests – hurdle rate
- No e-commerce for us!

5. Stages of Investment

- Stage One: Seed / Angel Round
- Stage Two: Start-up / Early stage
- Stage Three: Expansion / Development
- Stage Four: Mezzanine / Bridge
- Stage Five: Buyout / Buyin
- Stage Six: Turnaround / Restructuring
- Stage Seven: Others (pre-IPO, Privatization, straight punt)

6. Geographical Preference

- ◆ China
- ◆ Hong Kong
- ◆ Taiwan
- ◆ South Korea
- ◆ Japan
- ◆ Thailand
- ◆ Malaysia
- ◆ Singapore
- ◆ Indonesia
- ◆ Philippines
- ◆ India
- ◆ Sri Lanka
- ◆ Australia/New Zealand
- ◆ Israel

Forbidden Land

- ◆ Myanmar
- ◆ Vietnam
- ◆ Laos
- ◆ Cambodia
- ◆ Brunei
- ◆ Pakistan
- ◆ North Korea

7. Industry Preference / Classifications

- ◆ Telecom
- ◆ Media
- ◆ IT
- ◆ Leisure/Entertainment
- ◆ Electronics
- ◆ Travel/Hospitality
- ◆ Manufacturing/ Consumer Products
- ◆ Construction/Mining
- ◆ Agriculture/Fisheries
- ◆ Infrastructure/ Transportation
- ◆ Financial Services
- ◆ BioTech/Life Sciences
- ◆ Real Estates

8. Investment Process

·> Sourcing/Marketing

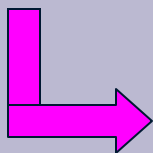


·> Initial evaluation & terms



·> Due diligence

- ◇ viable business plan
- ◇ proprietary technology
- ◇ enforceable legal structure
- ◇ accounting/financial integrity



·> Final negotiation/term sheet

- ◇ Shareholders' Agreement
- ◇ Subscription Agreement

·> Exits:

- ◇ IPOs
- ◇ Sale back
- ◇ Trade sale to Strategic investors
- ◇ Put Option



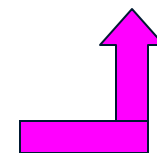
·> Monitoring

- ◇ board seat
- ◇ financial performance



·> Documentation/Completion/Funding

- ◇ legal structure
- ◇ valuation

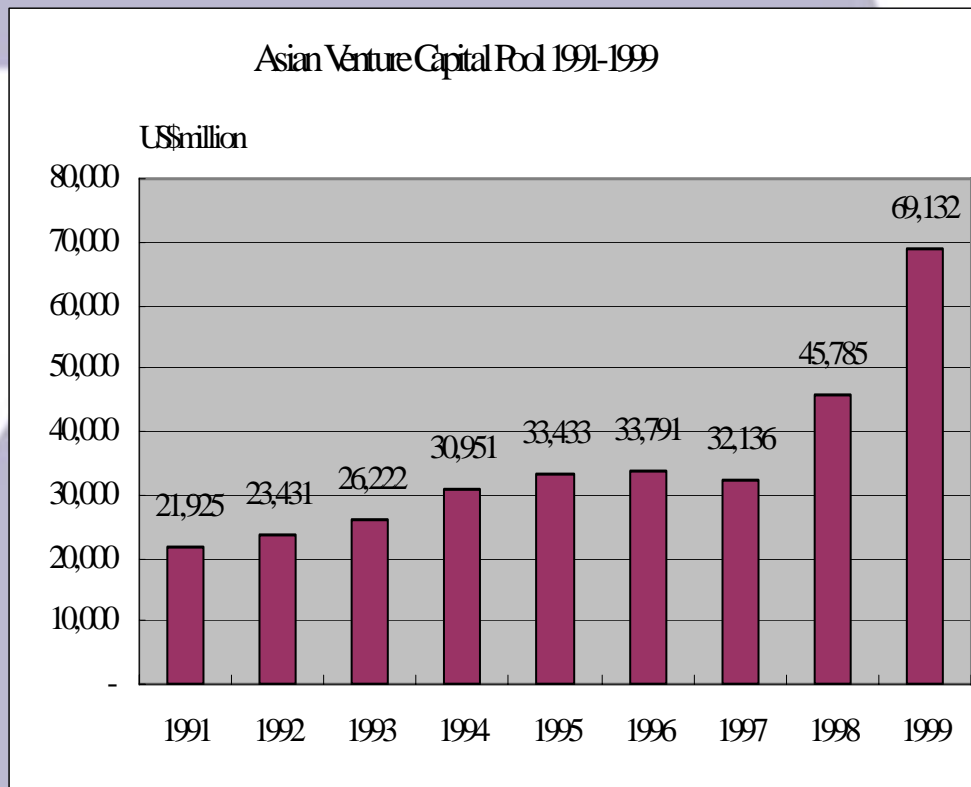


9. Asian Direct Investments Development: Past

- Excessive valuations
- Plenty of capital available
- Weak deal flow but aggressive competition
- Tightly - controlled enterprises → family business → allow only passive investments
- Limited Government support for foreign investors → legal reforms → → corporate governance (transparency)
- Risks associated with currency, political stability and credit

9a. Asian Direct Investments Development: Past (cond't)

Statistics: capital under Management

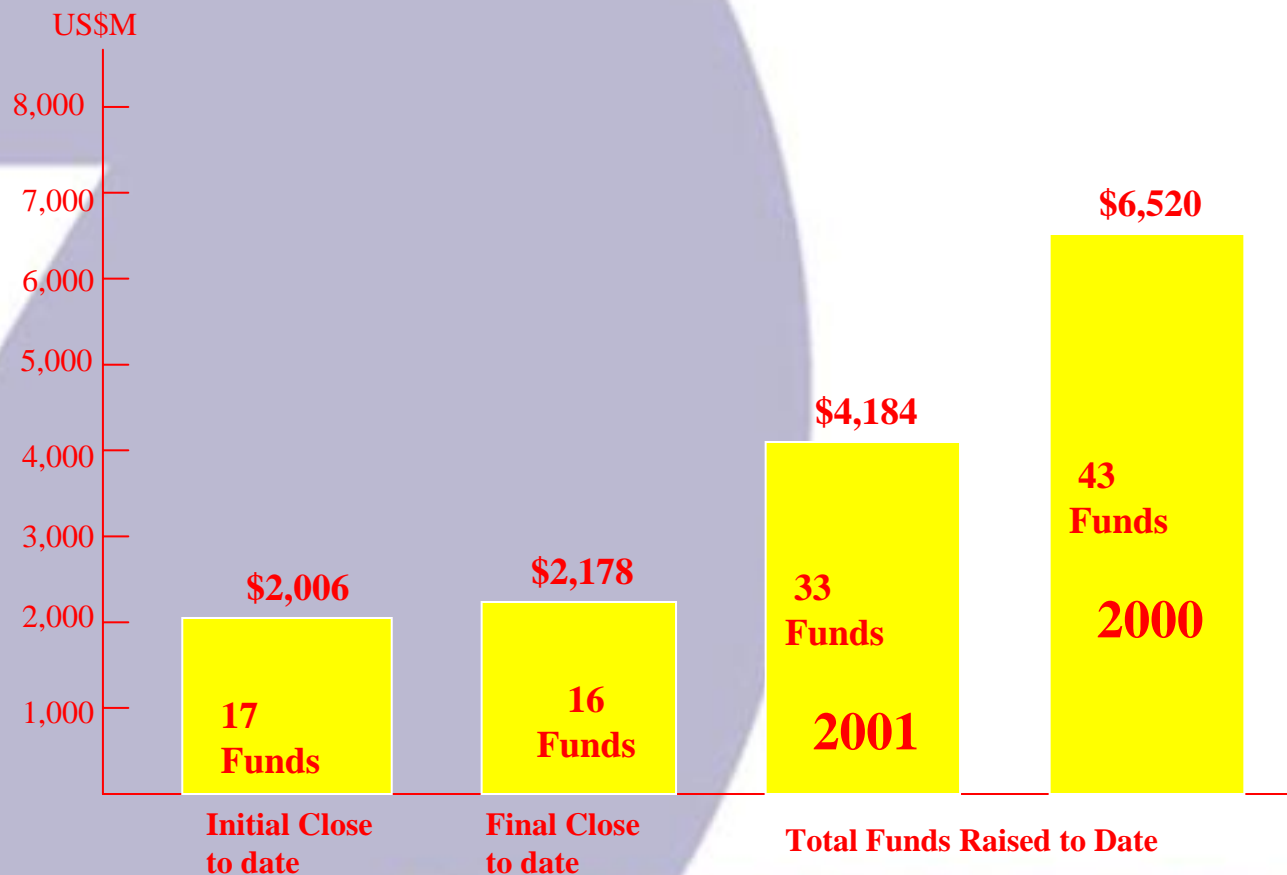


Country	1997	1998	%change	1999	%change
Australia	2,721	3,062	12.5%	3,616	18.1%
Hong Kong/china	10,670	15,442	44.7%	22,288	44.3%
India	1,016	1,053	3.6%	1,826	73.4%
Indonesia	426	328	-23.0%	333	1.5%
Japan	7,722	12,513	62.0%	21,729	73.7%
Korea	1,857	2,995	61.3%	4,986	66.5%
Malaysia	406	460	13.3%	667	45.0%
Myanmar	113	83	-26.5%	36	-56.6%
New Zealand	110	186	69.1%	413	122.0%
Pakistan	6	15	150.0%	57	280.0%
Philippines	169	224	32.5%	292	30.4%
Singapore	4,468	5,258	17.7%	7,791	48.2%
Sri Lanka	71	68	-4.2%	68	0.0%
Taiwan	1,913	3,598	85.4%	4,447	23.6%
Thailand	177	242	36.7%	265	9.5%
Vietnam	292	258	-11.6%	318	23.3%
Total	32,137	45,785	42.5%	69,132	51.0%

Source: AVCJ 2001 Directory

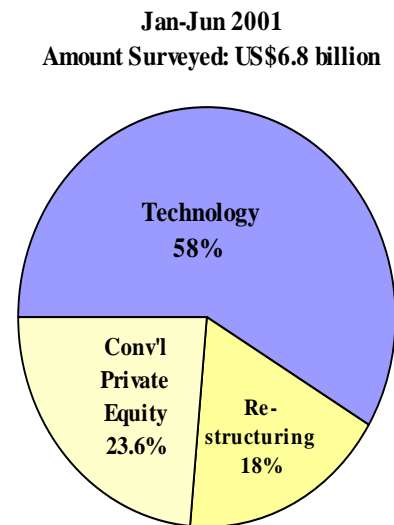
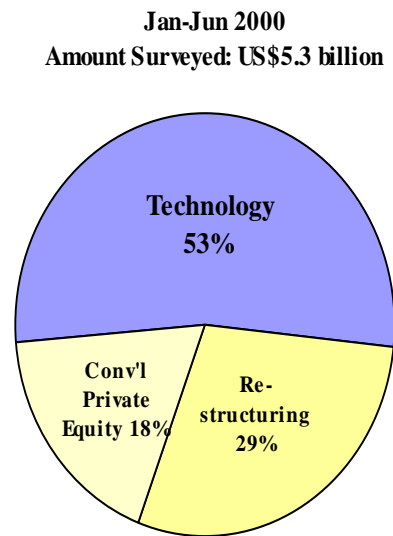
9b. Fund Raising Scoreboard

Funds closed from January to September 2001



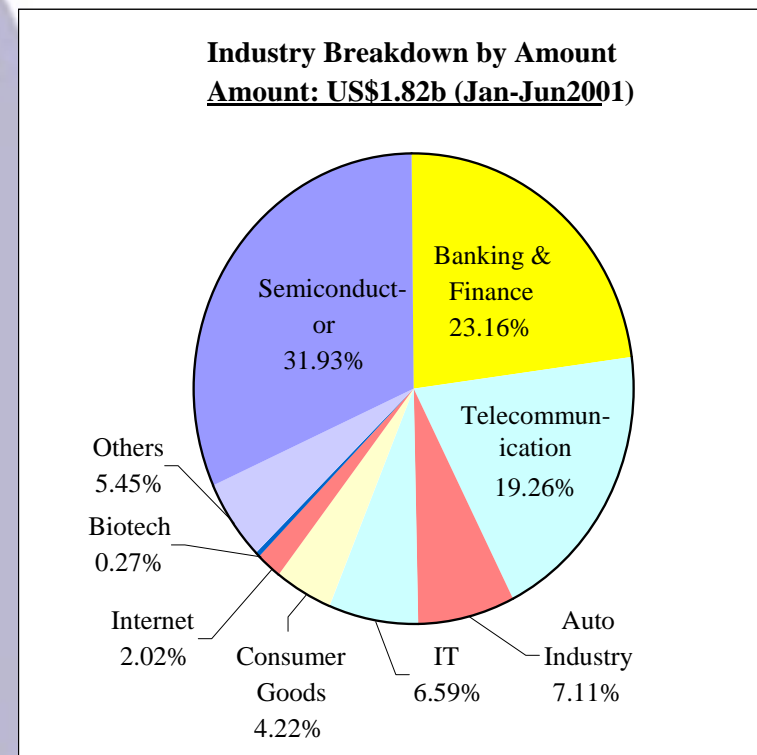
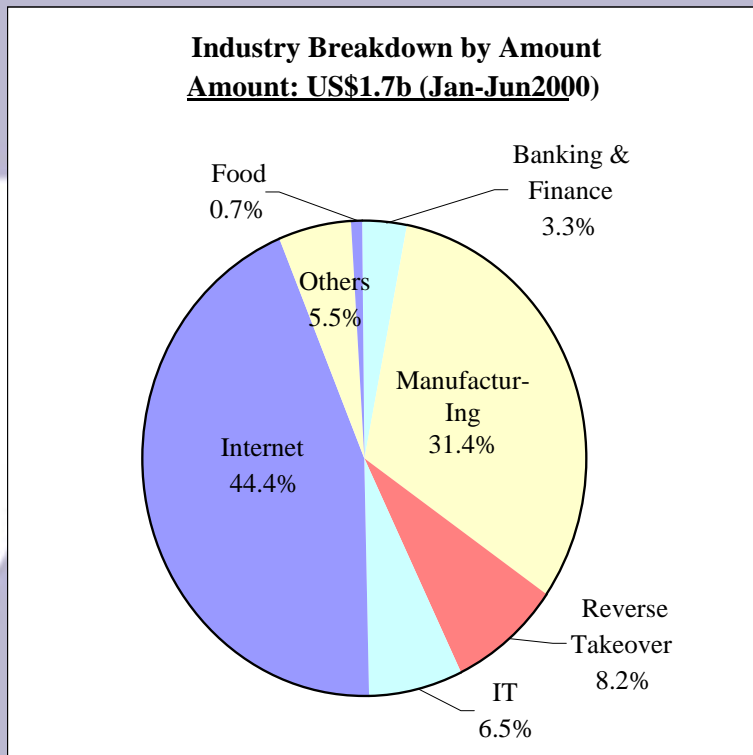
9c. Fund Raising Scoreboard

Distribution of Private Equity Funds (Jan-Jun 00 & 01)



9d. Fund Raising Scoreboard

Regional Private Equity Firms' Investment Profile



10. Extreme Competition

➤ Too many players: Local & Foreign/Domestic & Regional

- ◆ HSBC Private Equity
- ◆ PAMA
- ◆ AIG
- ◆ Morgan Stanley
- ◆ Merrill Lynch
- ◆ Golden Sachs
- ◆ ABN-AMRO Asia
- ◆ ING/Barings
- ◆ Citicorp
- ◆ China Assets
- ◆ ChinaVest
- ◆ JAFSCO
- ◆ Walden
- ◆ Transpac Capital
- ◆ Tech Pacific
- ◆ Intel Capital

➤ Value-added services/advantages

- ◆ Financial and strategic planning
- ◆ Recruitment of key personnel
- ◆ Access to international markets and technology
- ◆ Introduction to strategic partners and acquisition targets
- ◆ Obtain a public listing

10a. Extreme Competition (cond't)

➤ Statistics: No. of Venture Capital firms

Country	1997	1998	% change	1999	% change
Australia	66	85	28.8%	124	45.9%
Hong Kong/china	107	129	20.6%	190	47.3%
India	42	41	-2.4%	44	7.3%
Indonesia	46	46	0.0%	44	-4.3%
Japan	210	231	10.0%	221	-4.3%
Korea	128	123	-3.9%	131	6.5%
Malaysia	19	20	5.3%	28	40.0%
Myanmar	3	2	-33.3%	1	-50.0%
New Zealand	7	13	85.7%	16	23.1%
Pakistan	3	3	0.0%	4	33.3%
Philippines	8	10	25.0%	14	40.0%
Singapore	59	64	8.5%	85	32.8%
Sri Lanka	10	12	20.0%	12	0.0%
Taiwan	74	124	67.6%	132	6.5%
Thailand	7	8	14.3%	15	87.5%
Vietnam	7	7	0.0%	7	0.0%
Total	796	918	15.3%	1068	16.3%

Source: AVCJ 2001 Directory

11. What are VC looking for in return?

- Big equity upside from appreciation in the value of the Company.
- Return target – normally in the range of IRR 15%-25% in Asia.
- Exit for VC to take place either before or at the same time with the entrepreneur.

12. Classic Cases in Hong Kong

- Sing Tao Holdings – Lazard Asia Investment
- Siu Fung Ceramics – Peregrine & Consortium
- Cheung Wah Development – Softbank
- Acme Landis Holdings (i100) – H & Q

"Can you think of any other case in Hong Kong?"

13. Points to Take Home

- Venture Capital has become an alternative class of assets on its own
- Extremely competitive marketplace
- Useful conduit of capital between those who need and those who have
- High risk – high returns (Universal Truth!!!)
- Tough but fun career for those in it!

14. General Information

➤ Industry Associations

- ◆ Asian Venture Capital Journal/AVCJ Holdings

<http://www.asiaventure.com>

mail: avcj@asiaventure.com

- ◆ Hong Kong Venture Capital Association

<http://www.hkvca.com.hk>

mail: enquiry@hkvca.com.hk

➤ Book Recommendation

- ◆ Title: Fundamentals of Venture Capital

- ◆ Author: Joseph W. Bartlett

- ◆ Publisher: Madison Books

- ◆ ISBN# : 1568331266

15. About JAFSCO

- JAFSCO Co. Ltd. – largest venture capital manager in Japan
- Founding shareholders: Nomura, Sanwa Bank, Nippon Life
- Operation since 1973; listed on the Tokyo Stock Exchange
- Offices in the U.S. (Palo Alto, Boston), Europe (London) and Asia (9 offices)
- Over US\$3 billion under management with US\$800 million in Asia Pacific
- Asian's Track record: over 250 companies of which 120 had exited (73 had obtained IPO)
- Nomura – our largest shareholder has over 60 offices in 26 countries

Thank You

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