

Year 2000-2001 in Review

Chairman Richard Roque

Last year, Venture Capital (taken in a broad sense which includes Private Equity) took a preeminent role in many countries in Asia as it has in much of the developed world. The technology boom spurred by investments by venture capital firms combined with a euphoric stock market catapulted the industry to new heights. However, we have also seen recently how fast many of these technology companies have fallen. Not a few commentators have announced the beginning of the end for the Venture Capitalists. Well, such attitude is symptomatic of the extreme swings of the pendulum. However as the saying goes: "In every crisis there are opportunities". Moreover taking things with a broader perspective the importance of venture capital industry role in society and especially in the Asian continent is just emerging in this new millennium.

Promotion

Here in our home base Hong Kong, there continues to be a strong interest in venture capital. In fact, our industry has gained even more importance given the objectives of making and maintaining the SAR as a world city and Asia's financial centre. At the local level there were a number of magazine interviews including that of Central Magazine, Hong Kong Economic Journal and Digihall with KO Chia, Marc Saal & myself, while Roger Marshall, Monique Lau, Jean Eric Salata were featured in SCMP in a special supplement. There were also radio interviews.

HKVCA also actively supported the "Internet Commerce Expo Hong Kong 2000" and the "International Conference Hi-Tech Investment and Commercialization", where I spoke on behalf of HKVCA, the "Genetic Technology Seminar" and also the "TechWorld 2001 Business Matching" where we served on the Honorary Advisory Committee. We were co-organizers of the Joint Seminar "Business Financing – a Continuing Challenge" in which Roger Marshall also spoke.

PRC Relations

For China, venture capital is seen as an important factor in the building up of both a broad technology base and a vibrant private sector. In many parts of China, there has been a proliferation of "incubators", all of which will need further rounds of funding from venture capitalists. We are also seeing the mushrooming of local venture capital companies and associations in the major cities of China. The launch of a second board in the not-too-distant future will only further spur development of venture capital as it provides another exit route.

China is indeed a very important market for our members and after many years of hard work, the PRC subcommittee has made significant headway with the first gathering of venture capitalists in Beijing in September organized by HKVCA and VCChina. Following its success, similar gatherings were held in Shanghai and in Shenzhen. An exchange of delegations between HKVCA, Shanghai Venture Capital Association, Shenzhen Venture Capital Association and Beijing Venture Capital Association are planned at the latter part of the year.

In addition HKVCA supported many activities in the mainland including Joint Seminar "Business Financing – A Continuing Challenge", "International Conference Hi-Tech Investment & Commercialization" and "Genetic Technology Seminar – Investment Opportunities. The Association sent speakers to "Venture 2000 International Symposium in Beijing". Roger Marshall and Timothy Shen of China Merchants were speakers at the Trade Development Council led "Hong Kong Financial Conference – New Horizons of Capital Raising" in Beijing and Xian. Gordon Lam of Citicorp Capital spoke on our behalf at the "Shenzhen Hi-Tech Risk Management Seminar" in September 2000. In May, Anthony Fan of AsiaTech Ventures Limited represented the Association as speaker at the "eBeijing 2001 Venture Investment Workshop and Conference". In the same month, I joined the high profile Hong Kong delegation to Western China where we attracted much attention and were specifically mentioned by the Chief Secretary as one of the important services Hong Kong can provide the motherland.

Cross Border Alliances and Asia Pacific Venture Capital Association (“APVCA”)

Given the role of Hong Kong as the financial centre of Asia, the fact that many of our members are Pan Asian in their investment focus, and the globalization process which is causing a shift in paradigm of our industry, it is natural that having developed our activities in Hong Kong over the past years we now turn our attention to expanding our networking outside of Greater China.

In November 2000, HKVCA invited and hosted a meeting of 8 Regional Venture Capital Association. The decision was made to form a Federation with the aim of regional cooperation, information sharing, expand networking within Asia. Longer term the goal will be to establish best practices and standards in the region, and to develop and ensure that Asian private equity and venture capital becomes and is recognized as an attractive asset class for institutional investors. Founding members of the Federation, to be known as Asia Pacific Venture Capital Association will include HKVCA, Korea, Singapore and Taiwan. Several other Associations are considering their participation.

The formal setting of the structure and logistics is under discussion.

For many Asian countries, venture capital is one major source of hope either for development or consolidation/restructuring financing given the poor state of the local banking sector. Yet it is unfortunate that in many Asian countries the state of venture capital is still in the incipient and early development stage. There is a need to develop the infrastructure and right conditions for venture capital to flourish. Fortunately, Asia has a lot of entrepreneurs, huge potential market and human talent. However these factors are not enough, getting the right formula is not easy, it requires the added combination of development of rule of law, corporate governance culture, combined with a professional managerial pool. Nevertheless, it is important to start somewhere in creating the right environment and being an advocate for such. This is one of the other common objectives for APVCA in the future.

International Relations

Moving beyond the Asian borders and being mindful of building global networks, we have established international contacts at the "Capital 2000 Summit" in Montreal where venture capitalists around the world met. We also co-hosted the Global Venture Investors Conference 2000. Following my meeting with European Private Equity and Venture Capital Association, we formed formal bilateral exchange with them.

KO Chia, Adrian Lam, Richard Roque and Marc Staal represented HKVCA in various meetings with the Deputy Premier and Minister of State development and trade of Queensland, the Second Vice President of the Government of Spain and Minister of Economy and the Assistant Deputy Minister of IT and Industry of Canada.

In February, during the visit of the Canadian Prime Minister, a useful discussion with a group of Canadian companies was held with the Executive Committee. Furthermore we continue to update ourselves with venture capital developments in Israel through our regular contact with the Israeli Consul.

The ultimate goal of our regional and international activities is intended to heighten awareness of the venture capital industry in Asia and to attract a greater flow of funds to the Asian market.

Education and Training

This era has also been dubbed the "Knowledge Economy". In this regard, your Association organized for members last year a "Technology Seminar on Internet and Wireless" as part of a continuing effort to upgrade skills and knowledge of venture capital professionals.

In addition, our major conference with the HKGCC held for the second year was again highly successful. This is a user conference aimed to educate the public on how to prepare themselves to access venture capital funds. The conference was attended to full capacity by 300 entrepreneurs, corporate officers, incubators, angel investors and government officials of which 70 were from the PRC.

We continue to work with the Universities. Monique Lau / Alan Ho / KO Chia / Roger Marshall and myself were involved in Nasdaq Asia Moot Corp[®] Entrepreneur Business Plan Competition of The Chinese University of Hong Kong. At the summer Internship program which is supported by a number of members offers University students opportunities to understand the venture capital business and serves as a good means of attracting talented students to the industry.

Investment Matching

To update members on innovations carried out at the universities, HKVCA, Hong Kong Information Technology Federation and the Universities, supported by Hong Kong Productivity Council jointly organized the "Tripartite Forum on Commercialization of IT Research Results" to introduce 14 projects which were ready for commercialization. Given the success of the forum, it will become an annual event.

An Investment Matching Corner introduced last year also provided opportunities for entrepreneurs to post their projects on the newsletter for members.

Luncheon Program

The monthly luncheons were well attended providing an effective and regular channel for networking. We featured a number of interesting speakers, Jake van der Kamp on "Taking Your GDP Numbers with Pinch of Salt", and Prof. Larry Lang on "Direct Investment into Asian Family Conglomerates, Pitfalls to Avoid".

The second half of the year, we had a panel discussion of Incubators and a talk on collaboration opportunities between venture capital in Hong Kong/Asia and US by Subra Narayan of Crescendo Ventures and KO Chia which attracted a lot of interest. We also were fortunate to be able to invite Dr. James Liu of the Shanghai Stock Exchange, David Webb of Webb-site.com and Joe Sweeney of Gartner Group as speakers.

Joint Luncheons/Cocktails

HKVCA held a joint luncheon with the Innovation and Technology Commission on "How to Kick-Start Bioindustry" attended by 120 participants with leaders of the Biotech industry in the US. Joint cocktails were also organized with the Young Entrepreneurs Council at Christmas.

Salary Study

As the Private Equity and Venture Capital industry grows in size and professionalism, HKVCA has commissioned Mclagan Partners to undertake a salary survey of the private equity/venture capital industry. The exercise will help attract and keep high quality personnel in the industry. We hope this can be carried out on an annual basis.

HKVCA Yearbook 2000

The first HKVCA Yearbook which studied the characteristics, capital raised and how were invested, was produced by Thompson Financial Securities Data in conjunction with HKVCA.

The Yearbook will be prepared annually to provide fuller information on changes in trends and activities of the venture capital firms based in Hong Kong. Given the global reputation of Thompson Financial, the information will be expected to be used by international investors.

Membership

In terms of membership, despite difficult conditions for the industry and the economy, our membership remained steady. As at June, we have full members and Associate members totaling 147, as compared to 132 last year.

Conclusion

As you can see we have accomplished much in the last 12 months, although we are just beginning and a lot more resources are envisaged to be required. It is for this reason we increased membership fees from \$6,000 to \$8,000 in January this year. The funds will be used to

- a) fund a fully independent administrative office
- b) The Exco Committee was expanded from 8 to 10 to aggressively promulgate the Association's objectives. 5 subcommittees were set up each setting out and implementing its program
- c) Improving membership services such as salary studies, industry statistics for amalgamation into a wider global study, training and opening avenues of networking and deal flows.