

Year 2001/2002 in Review
Chairman Roger Marshall

INTRODUCTION

Following the heady days of 1999 and 2000, the investment environment has been tough for the industry in 2001-2002. Managers have been focused on preserving value in their investment portfolio companies and reviewing their strategies. Many of the less established venture capital firms have closed down and even the more established larger firms have had difficulty making progress. Capital markets have been quiet and investor confidence in smaller, entrepreneurial businesses dented by the problems in the technology market and continuous news of restructurings and refinancings.

An issue that is fundamental to our industry has received wider public expression at conferences. The volatility in Asian markets as a whole and the apparent lack of strong corporate ethics and governance has made the funding institutions question the attractions of the Asian markets. As a result, fund raising has been modest (admittedly after two very strong years), 2002 does not look to be shaping up as much of an improvement although several large funds have been announced. Investors want a sound business model, a record of making money and consistency from both the managers and the markets.

The largest investors are now also looking at Asia as a region, rather than a composite of separate markets.

The requirement for regional standards and performance information and the development of umbrella institutions to bring together the national institutions is being addressed by the HKVCA and other national associations by the development of the Asia Pacific Venture Capital Alliance ("APVCA"). Recognising that many of our members have sizeable funds under management and an Asia-wide investment focus, HKVCA has taken a leadership role in the integration of the Asian region with the important establishment of this new Regional collaboration.

This has, then, been a year in which much time and effort has gone into expanding relations with our neighbours and organizing Asia as a region. Our efforts have also embraced the PRC where we are constantly forging important links with a view to developing that rapidly changing market as a viable market for western style venture capital.

APVCA

HKVCA spearheaded the creation of the APVCA. Following the first meeting in HK in 2000 and a year's work in rallying support from other regional venture capital associations, the APVCA formally took shape with the signing, in November 2001, of a Memorandum of Understanding by the venture capital associations of Hong Kong, Indonesia, Korea, Malaysia, Singapore, and Taiwan. Taskforces were formed to address

(a) industry standard and benchmarks, (b) regional communication on industry issues, (c) networking, and (d) education.

Our goal is to establish a distinct identity for Asian venture capital and private equity as a vital and rewarding asset class for institutional investment with Hong Kong as a major center recognized as an important venture capital and private equity hub.

The first Annual Roundtable to discuss regional issues will be held in Singapore on June 28, 2002. There is active participation from all the APVCA members as well as practitioners from Japan and Australia.

PRC

The PRC committee was augmented by a further 3 experienced members - Gordon Lam from Citicorp Capital Asia, Anthony Fan from AsiaTech and S.C.Mak from Walden.

At the same time as organizing the Asian links, our PRC committee is simultaneously working on solidifying relationships with the many grassroots indigenous venture capital groups organized under the auspices of provincial and city governments in China. Visits, formal meetings and presentations were made to the Shanghai Venture Capital Association, the Shenzhen Venture Capital Association, the Jiangsu Venture Capital Association, the Venture Capital Profession Commission of the Ministry of Science and Technology. Representatives of the major Associations are invited to, and some attend, all HKVCA conferences and seminars.

A more substantial group of more than twenty members made their way to Shenzhen for a seminar and meeting with the Shenzhen Venture Capital Association in October, and were invited to the opening of the China Hi Tech Fair.

HKVCA also provided support to the venture capital activities in PRC at the Shanghai Venture Capital Conference in November and the China Venture Capital Forum 2002, organised in Beijing by the State Planning and Development Commission. At both these events, Roger Marshall represented the HKVCA and was a speaker.

Anthony Fan was appointed by HKVCA to be a member of the Editorial Board of the China Venture Capital Journal.

Formal Visits:

October 10, 2001 – Mr. Shao Qi Wei, the Vice Governor of Yuman Province

January 14, 2002 – The Shenzhen Municipal Government

March 19, 2002 – Shenzhen Nanshan Economic Development Bureau

PROMOTION

Our ongoing efforts in promoting the Private Equity and Venture Capital industry in Hong Kong is increasingly important in the face of weak market conditions. Through these activities we seek to broaden our market recognition while educating potential users. Members of the Executive Committee sit on government committees and participate in advising the government and assisting in the promotion of Hong Kong as a centre for financial and investment services.

Jamie Paton of 3i joined the Subcommittee to raise the profile of the industry. We continue to put our face out by supporting and speaking at numerous events in Hong Kong.

Events

HKVCA representatives, Roger Marshall, Vincent Chan, Hanson Cheah, K.O.Chia, Anthony Fan and Timothy Shen took part as speakers for the following events:

September 4, 2001 – Symposium on High-tech Enterprises' Financing
October 14, 2001 - China Hi-tech Fair
November 6, 2001 – Shanghai Venture Capital Conference
November 9, 2001 – SME Finance Net-Seminar & Workshop
November 27-28, 2001 – HK Financial Conference “New Horizon of Capital Raising”-
Chongqing
January 18, 2002 – The Game Technology Conference 2002-The Greater China
Computer Game and Video Game Summit
March 1, 2002 - Orientation Session for NRC-IRAP Canadian Wireless technology
delegation to HK
March 7, 2002 - VC Night (A networking Cocktail Reception)
March 19, 2002 - MIT Management of Technology Program
April 19, 2002 - China Venture Capital Forum 2002
June 4, 2002 - Hong Kong-Shanghai Project Co-operation Seminar

Supporting organization:

June 28-31, 2001 – Internet Commerce Expo (ICe) Hong Kong 2001
September 17, 2001 – Tech Venture Asia 2001
January 29-30, 2002 – BioIT World Conference & Expo-HK2002
March 7-10, 2002 – Hong Kong Information Infrastructure Expo & Conference
April 26, 2002 – Innovative Invention's Podium

Media

The following media interviews took place

August 7, 2001 – Metro Finance Interviewed with Monique Lau
September 14, 2001 – Money Magazine Interviewed with Vincent Chan
January 4, 2002 – Apple Daily Interviewed with Allan Homeming
January 18, 2002 – Metro Radio Interviewed with Vincent Chan

EDUCATION/TRAINING

PRC continues to be the center of interest for investment.. The economy and opportunities continue to grow. Yet China poses tremendous challenges to the foreign investor. The China Private Equity Summit held in March examined in depth the reforms which are taking place - how to structure China investment entities, tax related issues in private equity, RMB financing, liaison with government agencies, and practical issues in making technology investments. The keynote speaker was Guo Jingyi, Division Director of Foreign Investment of Ministry of Foreign Trade & Economic Cooperation.

Our major annual conference entitled "Crouching Profits, Hidden Assets" was held in October. Despite the poor market conditions after September 11, the conference was a great success, attracting participation of 240 from HK, PRC and overseas. Targeted primarily at enterprises, it discussed issues of partnerships between enterprises and the venture capital/private equity investors in the continuing effort to strengthen understanding of the nature of venture capital and private equity, its practices and corporate governance.

HKVCA Yearbook 2001

One of the goals of the Association is to provide an independent and creditable source of information which would help investors structure their investment allocations and programs. This is our second annual yearbook was published with the help of Thompson Financial Securities Data detailing characteristics of the industry in Hong Kong. With the support and cooperation of members, the yearbook will improve to include comprehensive and meaningful industry statistics, analysis of investment trends, performance benchmarks. Our plan is work with other APVCA members to ensure data are collected and presented consistently for the eventual collation of the information on a regional basis.

VC/PE Salary Survey

The comprehensive survey was commissioned by HKVCA and completed by McLagan Partners in September 2001. Participation was largely from the larger private equity firms that invest on a regional basis.

Luncheon Meetings

The luncheon meetings continued to be a popular forum for members to meet and to be updated on various subjects of interest to practitioners- covering overall economic changes, market opportunities, specific industry discussions.

List

June 21, 2001 – 2001: Predicting the Unpredictable in the year of the Snake by Ian Perkin, Chief Economist of The Hong Kong General Chamber of Commerce

August 10, 2001 – (Joint Luncheon with the California Office of Trade and Investment HKSAR and The California Association of HK Ltd.) U.S. VC Market Downturn - Opportunities and Challenges for VCs and Investors in HKSAR and China by Ken Wilcox, President and Chief Executive Officer of Silicon Valley Bank

September 20, 2001 - Hong Kong's Cyberport by Annie Tam, Deputy Secretary for Information Technology and Broadcasting Bureau of The Government of HKSAR

November 22, 2001 – Regionalisation of Electronic Commerce by Robert Neely, Researcher of pan-Asia issues of the future universal marketplace.

January 17, 2002 – Challenges Facing China's Private Sector SMEs by 1) Chung Ming Pang, Senior Advisor, SME Department, World Bank and 2) Eric Siew, The Head of International Finance Corporation's China Project Development

February 21, 2002 – Investing for Sustainable Asia: Opportunities for Venture Finance by Tessa Tennant, Chairperson of Association for Sustainable and Responsible Investment in Asia

April 18, 2002 - Myths and Realities of Life Science Investing by Norman Chen, Entrepreneur-in-Residence, Walden International

May 20, 2002 – Mobilizing Resources for New Asian Infrastructure by Stewart Ballard, Senior Commercial Officer, U.S. Commercial Liaison Office for the Asian Development Bank

MEMBERSHIP

In view of the weak market conditions and resulting consolidation in the industry, our membership has fallen to 133 from 147 in 2001.

A membership subcommittee was formed under Hanson Cheah to add other services to our members. Special rates have been obtained at the Mandarin and Conrad hotels and block insurance rates are being negotiated. Any suggestions from members would be most welcome.

CONCLUSION

In conclusion, there are challenges for the industry going forward - but there are also bright spots. Buy out and restructurings are becoming established, permitting large amounts of capital to be invested and significant returns in a reasonable time frame for investors. The regionalisation and development of common standards through the APVCA is an important initiative.

But finally, it is your association and we want to hear from the members their views and concerns. Please do not hesitate to contact an executive committee member to express your views and proposals for the activities of the Association.