

Year 2002/2003 in Review

Chairman Monique Lau

Introduction

This year 2002/3 is a good reminder that the Private Equity and Venture Capital industry is very much a cyclical industry that is subject to global forces and its performance parallels what is also happening in both the US and European markets. Adding to these cyclical woes was the general heightened level of uncertainty this year due to the Middle East War and the SARS outbreak. Continued weak business spending caused by the excesses of the earlier years and the general mood of uncertainty hampered the recovery of the global economy. This in turn adversely affected the profitability of various industries and businesses. 2002/3 also marked one of the slowest years in the past decade in terms of equity and M&A activities. Such lackluster performance had severely limited exit opportunities in the U.S., Europe and Asia.

Given the foregoing environment, fundraising in Asia has been extremely tough and challenging. More importantly, the difficult environment had led existing funds to reevaluate their portfolios, prioritizing the distribution of resources on stronger performing companies and to play a more active role in their day-to-day operations. The focus now is evolving towards providing value adding strategies to portfolio companies particularly in enhancing their operating fundamentals so as to position their investments for a profitable exit once the market improves.

In addition, the collapse of WorldCom and Enron had triggered a global movement for stronger corporate governance and transparency both at the corporate level as well as at the fund level. If corporate governance at the corporate level is not addressed, this would eventually diminish the attractiveness and valuation of Hong Kong and Asia Pacific companies as well as their capital markets. It therefore behooves the HKVCA to assist in educating young promising companies on setting up a desirable governance structure early. Regarding corporate governance at the fund level, HKVCA is pursuing this in several fronts, through its Yearbook project as well as its recently formed standards committee whose mission will include developing best practices and standards consistent with the requirements of the global investors.

Despite the gloom and difficulties, we operate in the most dynamic region of the world and this industry will come back and when it does, the work that has been sown over the past years, now and in the future by your organization will hopefully assist its members achieve greater success.

Promotion

Subcommittee- Jamie Paton, Allan Homeming, K.O. Chia

This was a busy year as the Association undertook more activities to raise the profile of industry and in educating the public about venture capital/ private equity/ buyout. The ultimate goal is to create a greater role for venture capital/private equity in the financing and building of sound businesses in Hong Kong and China.

Conference

The Annual Venture Capital Partnership Conference in its 4th year had grown in size, scope and status. It has become the major event in communicating to the business public the role of private equity in businesses. The objective is to provide knowledge and generate interest for businesses to use this medium in financing their growth. The title of the 2002 conference was "Riding the Dragon" reflecting the role of China in Hong Kong's future development and business strategies. It was a huge success with excellent speakers and contents attracting a record 340 participants.

Events

HKVCA were involved in the following events during the year. Those who represented the Association were Anthony Fan, Timothy Shen, Monique Lau, Roger Marshall, Vincent Chan, Jamie Paton and Hanson Cheah.

June 4, 2002	Hong Kong – Shanghai Project Co-operation Seminar
August 28, 2002	3rd Innovative Inventions' Podium
September 17, 2002	SME Seminar on Equity Financing
November 8, 2002	"Hong Kong-Your Fast Track to China" A Hong Kong Canada Trade Mission
December 9, 2002	US Financial Mission to HK Roundtable Meeting
February 21, 2003	Hong Kong Information Infrastructure Expo & Conference-Financing Forum
April 2, 2003	HK-the Global Portal for Mainland Companies
April 3, 2003	The 3rd Funding and Listing Conference for Distinctive China SMEs
April 7, 2003	China Press Association Annual Meeting 2003
May 20-21, 2003	2003 Korea Venture Mart

Supporting Organizations

July 8-9, 2002	Wireless World Conference & Expo
August 8-9, 2002	MedPharma World Conference – HK 2002
August 28, 2002	3rd Innovative Inventions' Podium
August 29-30, 2002	4th Asian Industrial Technology Congress 2002 (AITC 2002)
September 23, 2002	Business Opportunity with Innovative Enterprises from Shanghai
November 20, 2002	Next Generation Wireless Network Services Development in HK
November 22-26, 2002	Shanghai Access – Technology Investment Study Mission
December 6, 2002	The Greater China Venture Capital Summit 2002 & China Venture Capital Annual Forum

December 11-12, 2002	Promotional Roadshow on Corporate Finance & Professional Services to China Enterprises for Overseas Listing
January 24, 2003	Business Opportunity with innovative Enterprises from Guangzhou
February 25-26, 2003	BioITWorld Conference & Expo-HK 2003
March 2003	Collaborating Organization of the fund application for Professional Services Roadshow for Technology Projects Commercialization and Enterprises Development leading to overseas listing

Media

The following media interviews took place:

July 8, 2002	Capital Magazine interview with Monique Lau
September 18, 2002	China Venture Capital interview with Monique Lau
September 23, 2002	Metro Radio interview with Monique Lau
November 18, 2002	3i Group Plc interview with Roger Marshall
January 17, 2003	South China Morning Post interview with K.O. Chia, Allan Homeming and Jamie Paton
February 7, 2003	Metro Radio interview with Vincent Chan
February 13, 2003	FinanceAsia interview with K.O. Chia and Jamie Paton
March 10, 2003	First Asia Media Ltd. interview with Executive Committee

PRC

Subcommittee- Vincent Chan, Johnny Chan, Anthony Fan, Duane Kuang, S.C. Mak, Roman Shaw, Timothy Shen, Grace Lee

The momentum of economic integration with the PRC continues unabated. While production had almost totally moved to the PRC, Hong Kong retains its key position in financial and services area, and in structuring investments in China.

The PRC subcommittee followed through with the primary task on the building of links and dialogue with China. They were proactive in establishing and developing relations with Venture Capital Associations and governmental and business bodies in China at various levels in their mission to further the understanding of the concerns and needs of practitioners. A HKVCA delegation made a tour of Beijing where they met with senior officials and conducted useful discussions to promote the interest of private equity investors in China.

Formal Visit:

June 19, 2002	A delegation from the Chongqing Municipal Government met Timothy Shen in Hong Kong
September 27, 2002	A delegation from the Zhuhai Municipal Government met Vincent Chan, S.C. Mak and Timothy Shen in Hong Kong
November 4, 2002	China Enterprise International Finance Study Forum 2002
November 21-22, 2002	A delegation to Beijing. Participants included Monique Lau, Vincent Chan, Anthony Fan, Johnny Chan, S.C. Mak, Jun Zhao, Sean Wang, Le Wangyong and Ted Chua.
December 2, 2002	A delegation from Changchun, Jilin met Timothy Shen and Forrest Zhong in Hong Kong
December 6, 2002	The Greater China Venture Capital Summit 2002 & China Venture Capital Annual Forum
December 17, 2002	Briefing to Investment Mission for Guangdong by S.C. Mak in Hong Kong
January 7, 2003	Professor Shou Ren Wang, Director – General of Shenzhen Venture Capital Association met Johnny Chan, Vincent Chan and Patricia Chiu in Hong Kong

Anthony Fan continues to represent HKVCA as advisor on the Editorial Board of the China Venture Capital Journal.

APVCA

Subcommittee – Hanson Cheah, Adrian Lam, Monique Lau, Roger Marshall, Richard Roque

HKVCA continued to play a leading role at the APVCA. Kevin Yip representing HKVCA became the first Co Chairman of the APVCA.

A more formal structure was organized for sustained development of the alliance. The major issues that are being addressed are to develop regional statistics, establish industry standards and benchmarks, common stance on regional issues, cooperation in the area of education, and networking/regular communication.

The website has been setup. Monthly conference call meetings ensure that the momentum is sustained.

Education

Sub Committee-Kevin Yip, Monique Lau, Eric Chan, John Levack

HKVCA needs to educate future business executives in Venture capital and private equity as part of the process of creating awareness and ultimately creating dealflows. The Association maintains close relations with the Universities.

A group of 25 MBA students participated in the VC Partnership Conference "Riding the Dragon" where they had an excellent opportunity to learnt about the overall industry, its practices and case studies from leading practitioners.

Internally, for the many professionals who were interested in China, the China Private Equity Summit held last year proved to

be highly successful with very useful exchanges and discussions and in depth examination of rules governing investments in China. The planned second China Summit, sponsored by Shearman and Sterling and Deloitte Touche would be postponed to July 11 due to the SARS situation.

Networking

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.

June 20, 2002	Regulators and Politics by Douglas Henck, Executive Vice President, Asian Operations, Sun Life Financial Services of Canada Inc.
July 18, 2002	VC Investment in the TMT (Technology, Media and Tele-communication) Industry: The outlook for Hong Kong and China by Lawrence Chia, Managing Partner, Deloitte & Touche Corporate Finance Ltd.
October 10, 2002	Korea Day by Jason Kim, TG Asia Ventures
November 8, 2002	(Joint Luncheon with HK Economic & Trade Office) Raising Capital in Hong Kong - The Private Sector and the Government by Mr. Francis Ho, Permanent Secretary for Commerce, Industry and Technology Bureau-IT and Broadcasting Branch, The Government of HKSAR and Mrs. Monique Lau, Chairman, Hong Kong Venture Capital Association
January 23, 2003	Asia 2003: Path to recovery by Dong Tao, Chief Regional Economist, Credit Suisse First Boston
February 21, 2003	(Info&Infrastructure Expo and conference) Investment Opportunities in the Display Technology Industry by Si-Chung Chang, Chairman and CEO, Helix Technology, Inc. and SinTek Photronic Corp
March 20, 2003	Identifying and developing executive talent in ventures by Philip Anderson— INSEAD
March 24, 2003	Meet Dr. Martin Haemmig, the author of "The Globalization of Venture Capital"
May 23, 2003	Crisis Management in LPs and portfolio companies-SARS and other fundamental market changing conditions by Adam Salzer, Executive Chairman of The Salzer Group

HKVCA Yearbook

HKVCA had collaborated with Thomson Financial Securities in the US to develop a creditable and independent source of data for the industry and investors. However there is a need for all firms in the industry to cooperate to improve the data collected. The concern of investors on the lack of transparent data is real and especially important at a time when fund raising is becoming more difficult.

The Association is working with Thomson Financial to organize discussions with all venture capital/private equity firms to iron out questions in a concerted effort to produce useful information on the industry.