

## **Year 2003-2004 in Review**

Chairman Kevin Yip

### **INTRODUCTION**

The year 2003/2004 is one of extraordinary recovery for Hong Kong and Asia. No one has expected the recovery to come as quickly and with such vigor after the problems we had with SARS. Booming exports, stunning rise in the stock market, and spectacular increases in property value all led to a healthy rebound in consumer confidence. This finally brought about a steady decline in unemployment and a reversal of the deflationary pressure which have had such a negative impact on the economy these past years.

This is also true for our industry. Since our last report, we have witnessed a broad based upswing in the Asian Private Equity market after a period of almost zero activity during the second quarter of last year. This is reflected in the healthy rise in activities relating to new investments, exits, and fund raising. The industry has weathered the problems of 2001 to 2003 well, and in the process it has strengthened its role as a value-added investor by assisting investee companies in business integration, management, financial controls, communication, and marketing. Many of the companies we have supported have achieved excellent returns and we have seen a number of good exits during the year.

Despite recent efforts to slow down the economy, China continues to lead growth in Asia, complimented by a Japan whose economy seems to have finally turned the corner for good. We are seeing larger transaction sizes and hopefully with that an increasing inflow of new funds into Asia. We are encouraged by the relatively pragmatic approach of China's new generation of leaders. Their continued ability to balance stable growth with the economic aspiration of the population will be a key to sustaining its economic growth and development. And Hong Kong will of course continue to be a major beneficiary of it.

Our industry has changed. It has grown from one asset class, which was largely development capital, to the full range of private equity which now includes buyouts, technology and venture funding, to mezzanine and distressed debt. This increase in activity has been in part a result of a long and difficult restructuring process after the Asian financial crisis and the subsequent reforms made by the Asian economies.

Within our own industry, we have also been working on issues relating to corporate governance and transparency in disclosure in order to attract new funds.

We at the HKVCA represent the private equity community, and we focus on building an environment that will be conducive to the continued growth of the industry in Hong Kong. During the year, your Exco put together a Road Map with the formation of seven committees to move our initiatives forward.

We continue to put in a significant amount of time and efforts in raising the profile of the industry through seminars and conferences in Hong Kong and China to educate potential investee companies, our investors as well as the public at large.

One of the primary focus for us this year has been on developing performance data and benchmark for our industry. A great deal of effort has been undertaken in this initiative and we sincerely hope all members will support and participate fully in this effort to ensure that results are meaningful. This is not and should not be a one-time effort but will be a multi-year

program. This is the only way we can further develop the private equity business in Asia by attracting genuinely long term and institutional investors.

Another issue of importance to the industry is the question of profit tax exemption currently under discussion with the government. During the year your Association submitted its formal position paper to the Secretary of Financial Services and Treasury, and deliberations are currently underway.

As always your Association welcomes your input and participation.

The list of our activities during the year provided to you will give you details of the work of the Association. The Executive Committee and Sub Committees have devoted considerable amount of time, meeting formally at least twice or more a month, to execute the various initiatives of the Association. We are very grateful to them for their commitment and efforts. These are all very busy people with extensive travelling schedules. On behalf of the HKVCA, I would like to thank them for their service and commitment.

From my own personal perspective, I have been involved with our Exco for ten years, and I can say that our committee members have never been more active. And there has never been more support from them and from their respective institutions. This is a very positive development for our members and for our industry. Again a huge note of thanks to those of our Exco members who have devoted much of their time and efforts to the HKVCA.

## **LIST OF ACTIVITIES 2003/04**

### **PROMOTION**

#### **COMMITTEE**

K.O. Chia, Jamie Paton, Allan Homeming, Eric Chan, John Levack, Kevin Yip

It is another busy year on this front. The industry is actively promoted through regular participation in various conferences, forums and media interviews and articles which provided the opportunity for the Association to raise its profile. This also included the time consuming role of acting as judges as business competitions such as the HSBC Young IT Entrepreneur Awards.

Those who have helped represent HKVCA during the year were:

Roger Marshall, Richard Roque, Vincent Chan, Kevin Yip, Hanson Cheah, K.O. Chia, Eric Chan, Allan Homeming, Jamie Paton, Stephen King

#### **CONFERENCE**

HKVCA organised its 5th Annual Venture Capital/Private Equity Partnership Conference "Hong Kong Survival and Resilience" (SAR) in association with the Hong Kong General Chamber of Commerce on September 22, 2003 following the turmoil of 2002-3 brought on by the Middle East war and the SARS outbreak, the weak global economy. It was a tremendous success attracting an audience of 350 venture capital, private equity practitioners,

corporate executives; and CEOs, entrepreneurs and service providers. The conference covered many interesting aspects of private equity and its value added role in building businesses particularly in difficult times

## EVENTS

Aug. 21, 2003	CityU Technology Transfer Forum 2003-2004
Sept. 9, 2003	Financing Sustainable Development Conference
Sept. 25-26, 2003	5th Asian Industrial Technology Congress 2003 (AITC'03)
Oct. 7, 2003	High Technology Venture Summit 2003
Oct. 13, 2003	Investment Opportunity in Korea's Future, SMEs (held in HK)
Oct. 27, 2003	SME Development Fund (SDF) Project of "Technology & Investment Fair CEPA-Invention and Intellectual Properties as a platform of HK Economic Growth & Development for SME"
Nov. 7, 2003	Invitation to a Talk to MBA Students - "Development Prospects of VC Investment"
Nov. 25, 2003	Pre-event Press Conference - HK Professional Services Expo
Nov. 26, 2003	The Enterprise Governance Forum 2003
Jan. 14, 2004	Seminar on "Managing Corporate Assets, Family Wealth & Initial Public Offerings "
Jan. 16, 2004	Global Entrepreneurship Monitor HK & Shenzhen Study 2003 Forum "Enabling Entrepreneurship"
Jan. 17, 2004	Judge for CUHK 2004 New Venture Business Plan Competition
Feb. 25, 2004	Visit of the Canadian Nanotechnology Mission
Feb. 10-11, 2004	2004 International Technology Conference on "Technology Drivers for Tomorrow Photonics & Bio-photonics"
March 22, 2004	HK/Shijiahuang Business Venture Forum
May 5, 2004	PolyU-Chan Siwei Seminar - "Fictitious Economy & China's Financial Reform"
May 19, 2004	Briefing seminar on YRD business opportunities
May 21, 2004	CityU Technology Transfer Forum
May 31, 2004	Pan-PRD Regional Cooperation & Development Forum
June 17, 2004	Hong Kong Exchanges & Clearings - "Mark the Start of its 5th Year as a Listed Company"
June 28, 2004	Seminar & Reception for the Technology Mission from Canada

## MEETING / MEDIA

The following meeting and media interviews took place:

July 19, 2003	SCM Post interview with Eric Chan and AHM
Nov. 6, 2003	The Sun interview with VC
Nov. 29, 2003	Cable TV interview with KOC
Feb. 13, 2004	Meeting with Milan and the Lombardy Region (Italy) Dr. Sandro Biccocchi / Dr. Pietro Mentasti
May 2004	Capital Magazine Issue No.204 posted an article for the interview with Jean-Bernard Schmidt

## FORMAL VISITS

Sept. 17, 2003	Sweden Agency, Shanghai
Sept. 29, 2003	Pole Quebec Chaudiere-Appalaches, Canada in Hong Kong
Dec. 8, 2003	Israel CFO Delegation to Hong Kong
Feb. 26, 2004	A delegation of Ernst & Young from Israel
May 14, 2004	A delegation led by Minister of State of SMEs

## PRC

### COMMITTEE

Vincent Chan, Timothy Shen, Johnny Chan, Anthony Fan, Duane Kuang, S.C. Mak, Roman Shaw, Stanley Kwok

With the facilitation of closer ties with Pearl River Delta through Closer Economic Partnering Arrangement (CEPA), and the growing integration with China, the China Committee continues to build on relations with governmental and business groups as well as the provincial and other local venture capital associations in China to develop areas of mutual benefit. A more formal arrangement has been set up in Chengdu where HKVCA has a regional liaison office for Western China. HK venture capitalist and private equity firms continue to invest heavily into China leading the way in terms of investment expertise and knowledge in China.

## EVENTS

Sept. 9, 2003	HK-The Global Portal for Mainland Companies (IT Seminar in Guangzhou)
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Nov. 27, 2003	Business Opportunities of Shenzhen Futian Technology Achievements (held in HK)
Jan. 8-9, 2004	3rd China Venture Capital annual Forum - 2003 Review & 2004 Outlook - "Hunting for the New Growth Engine in China"
March 24-25, 2004	Promotion at Yangtze river Delta
May 21, 2004	Shanghai Information Technology Enterprises Seminar on Business Opportunities and Investment Environment in Hong Kong
May 21-22, 2004	Seminars on Investment Environment and Financing in Hong Kong for Mainland High Tech Enterprises in Beijing
May 27, 2004	Technology Services System Conference in Chongqing

## SUPPORTING ORGANIZAGIONS

Dec. 3, 2003	Technology in China (held in HK)
Dec. 18, 2003	2nd Shanghai Hi-Tech Seminar
April 2-3, 2004	6th Annual China VC Forum 2004 (held in Shenzhen)
June 18, 2004	2004 Fujian Venture Capital Forum

## FORMAL VISITS

Aug. 4-5, 2003	A delegation to Guangzhou, Zhuhai and Shenzhen
Sept. 4, 2003	A delegation from Shenzhen Longgang

## DELEGATION TO TAIWAN

Given that Taiwan is also an important part of the China investment triangle providing the technology component, a HKVCA mission was sent to Taiwan to strengthen ties with the local venture capital association and with local venture capital associations and corporations

Oct. 21-22, 2003	A 10-member delegation to Taiwan
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## CHINA PRIVATE EQUITY SUMMIT

A panel of legal and industry experts and PRC Ministry representative explored the implications of the new Mergers and Acquisition laws and the new VC rules for foreign and domestic investors. The 150 participants gathered for the day at the Ritz Carlton found the in depth discussions and exchanges were enlightening and very useful.

## **STANDARDS**

### **SUB-COMMITTEE**

Monica Tsui, Jamie Paton, Allan Homeming, Stephen King

A corporate governance guideline had been set out. The Committee plans to put forward proposals on Valuation guideline and standard documentation.

## **NETWORKING**

### **SUB-COMMITTEE**

Varun Bery, Hanson Cheah, Peter Lee

A new format of networking has taken the place of our traditional monthly luncheon speaker program. Breakfast meetings which allowed for more interaction had been well received. The Christmas party featuring the "Late Bloomers" Band had also been a good networking opportunity. A sporting event was organised for the first time. "The Inaugural Golf Day" held in April at the HK Golf Club met with much enthusiasm with 48 participants enjoying a fun filled day. The success for the event ensured that it will be on the annual calendar of the Association.

## **LIST**

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|----------------|--|
| May 23, 2003   | Meeting on "Crisis Management in LPs and portfolio companies - SARS and other fundamental market changing conditions" - spoke by Adam Salzer, Executive Chairman of The Salzer Group |
| Oct. 23, 2003  | Meeting on "Managing the offshore outsourcing" - spoke by Tim Catling, Partner, PA Consulting Group  |
| Dec. 10, 2003  | X'mas Cocktail   |
| Jan. 29, 2004  | "The Psychology of Investment" - spoke by Philippa Huckle, Founder and CEO of The Philippa Huckle Group  |
| Feb. 19, 2004  | Meeting on : "Capital Raising for Private Banks" – spoke by Nigel Webber, Managing Director, Head of Investment of HSBC Republic   |
| March 25, 2004 | Luncheon Meeting spoke by C.D. Tam of HK Science and Technology Parks Corporation  |
| March 31, 2004 | Breakfast Meeting spoke by Jean-Bernard Schmidt, Chairman of EVCA, and Martin Haemmig, Author of "The Globalization of Venture Capital"  |
| April 22, 2004 | The Inaugural Golf Day held at Hong Kong Golf Club   |

## **SPECIAL PROJECTS**

### **SUB-COMMITTEE**

Marcus Thompson, Monica Tsui, Collin Lau

As the industry matures, there is now a clear need to improve fund governance and investor transparency. One the key task for the Association this year is to develop Investment performance measurement. HKVCA partnered Thompson Financial Group to produce the HKVCA Yearbook for 2000 and 2001 however it lacked full data and had limited usefulness. During the year, the Committee had spent a considerable time improving the format of the survey to ensure it produces accurate and meaningful data and also to ensure its fullest confidentiality. All members are urged to support this effort as it is critical to the continued flow of funds into the asset category.

## **TAX**

### **SUB-COMMITTEE**

Kevin Yip, Marcus Thompson, Monica Tsui

The Hong Kong government had set out a proposed amendment to the Exemption of Offshore Tax in Hong Kong. HKVCA submitted a consultation paper on the position of the private equity industry to protect its current tax exempt status. Details of the paper is on our website.

## **APVCA**

### **SUB-COMMITTEE**

Adrian Lam, Richard Roque, Roger Marshall, Kevin Yip, Hanson Cheah

The Asia Venture Capital and Private Equity Alliance was initiated by HKVCA in 2001 to jointly promote the development of the industry on a regional wide basis. Members of the Alliance include Singapore, Malaysia, Thailand, Taiwan, Korea, and Indonesia. Kevin Yip represents HKVCA as Co-Chairman of the APVCA. The key tasks of the Alliance are in strengthening communication and networking among members of the industry as well as investors. APVCA meets via telephone monthly to review matters of common interest.

## **MEMBERSHIP**

### **SUB-COMMITTEE**

Hanson Cheah, Peter Lee, Varun Bery

As at the end of December 2003, the Association has 123 members, of which 66 are full members and 57 are associate members. The represented a decrease of 14 members during the year due to attrition of many firms during the downturn of the economy.

## **WEBSITE**

The website format was revamped and changes will continue to be made to improve communication with members and the public.