

有关亚洲地区投资吸引力的考察

Is Asia as Profitable as They Say it is?

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Asian Venture Conference

IS ASIA AS PROFITABLE AS THEY SAY IT IS?

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OCT 12, 2005

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BACKGROUND OF VC INVESTMENTS IN ASIA

- **The birth of US-style VC in Asia:**
 - Taiwan Government spearheaded a program in the mid 1980's to jump start the VC industry, 4 VCs were invited including Walden International
 - By early 1990's, VCs had become profitable and successful in spawning SMEs in Taiwan, riding on the PC boom. Some early successes: GVC (Walden made 5X return), ICSI (WI Harper made 7X return), etc.
 - The 1st stage of the "China Fever" then started, with 13 funds and US\$1B raised for China private equity in 1994 alone
 - In other parts of Asia, several funds were raised for S.E. Asia, India and a handful in Korea but most had a challenging time because of the lack of focus. Many sidetracked into investing in traditional businesses
 - These S.E. Asian funds did ok but in 1997, the Asian crisis and its aftermath wiped out the gains for most of these institutional investors
 - In India, VC investments only gained prominence in the late 90's due to Indian software companies and the outsourcing trend
 - For China, the last couple of years have seen an incredible upsurge in VC interests

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OPPORTUNITIES IN CHINA

▪ Factors contributing to the upsurge in VC interest in China:

- **The Economy:**
Overall economic conditions have been good in recent years, with GDP growing by 9.1% in 2003 and 9.5% in 2004
- **Political Stability:**
China's political situation is quite stable; new leaders have been able to give confidence to domestic and international communities
- **Legislation and Regulations:**
Laws dealing with LP funds are being established. Although a full array of legislation is still being established, the government has promised to promote measures that encourage foreign investments
- **Management Talent:**
Biggest problem facing Chinese venture industry is the lack of senior managers. However, the downturn in Silicon Valley over 2000-2003 has provided considerably incentives for U.S.-trained talent to return to their homeland
- **Successful Exits:**
In 2004, 10 Chinese IPOs (combined value of US\$3.93B) were listed on the NASDAQ, providing evidence of a viable exit path for Chinese venture investors

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OPPORTUNITIES IN CHINA

▪ The Economy: China is experiencing unprecedented growth

*By 2010, China will become the **world's largest market** for
PC, TV, mobile phone and internet service!*

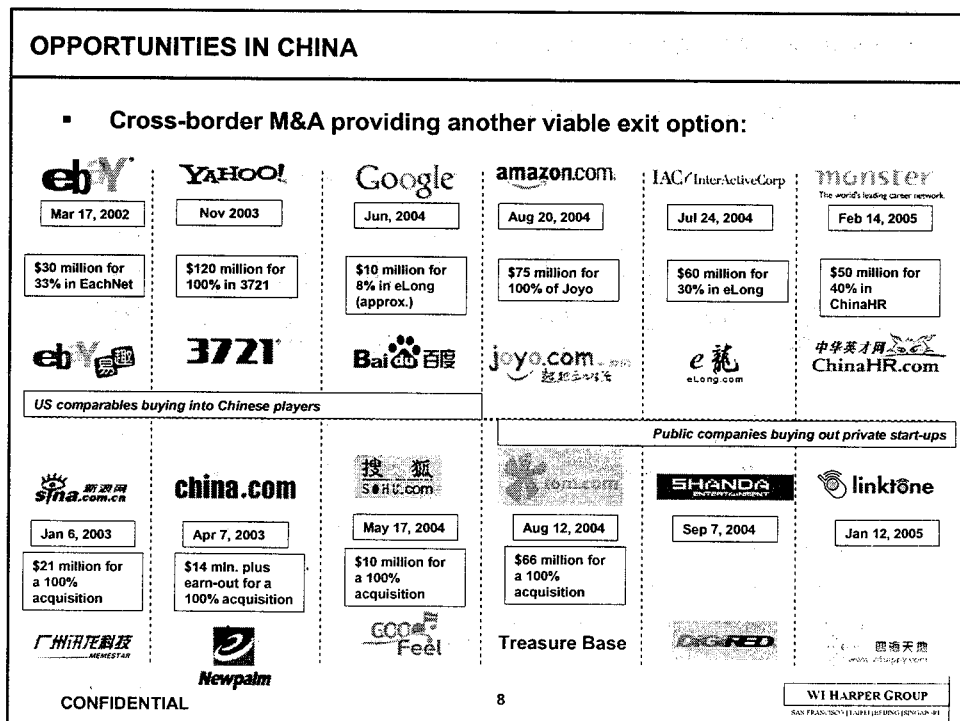
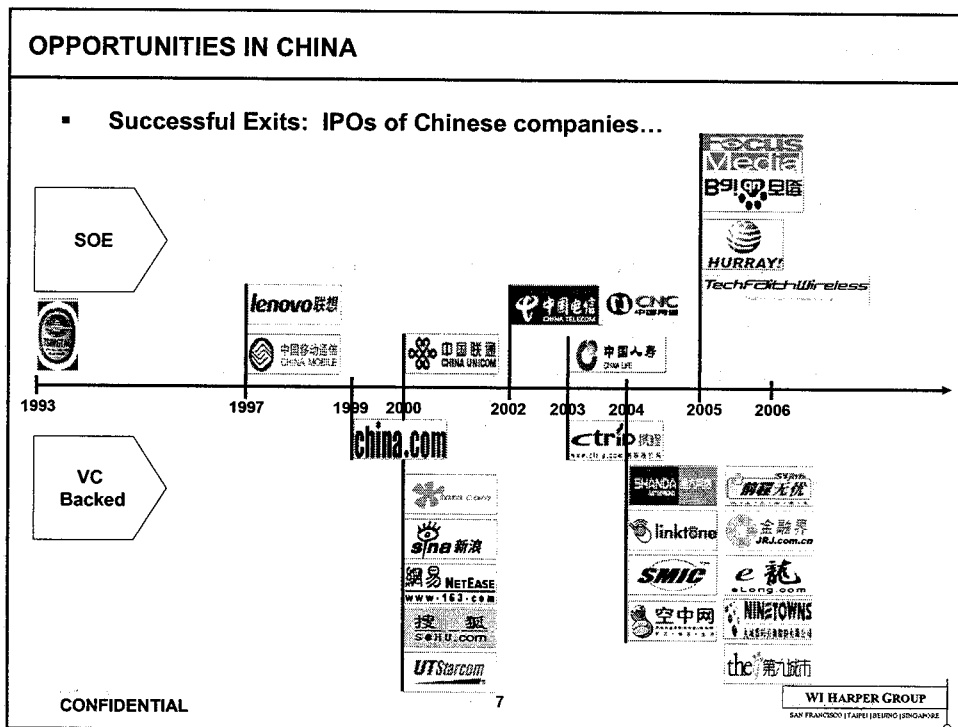
	2004	2010	CAGR
GDP:	US\$1.3 Trillion	US\$2.3 Trillion	10%
FDI (foreign direct investments):	US\$60 Billion	US\$78 Billion	4%
Internet Users:	100 Million	170 Million	9%
Mobile Users:	335 Million	510 Million	6%
TV Sales (units):	45 Million	76 Million	9%
PC Sales (units):	6 Million	35 Million	18%

Source: China Statistics Yearly, IDC, Idataquest research

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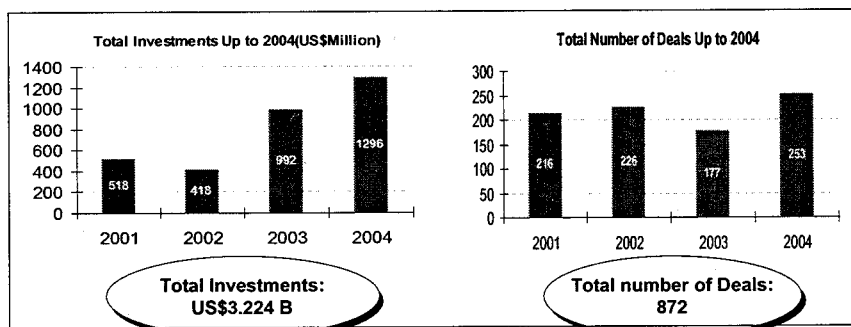
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CHINA'S VENTURE CAPITAL INDUSTRY

▪ Overall Investment, 2001-2004



Source: Zero2ipo VC Research Center

- China Venture Capital Investment has grown at CARG of 24% through 2001 to 2004, and surpassed US\$1 billion for the first time in 2004.
- Capital available for investing in China by the end of 2004 is over US\$12.8 billion.
- More hot money is entering China: 7 VCs closed new funds in the first half of 2005 and raised totaled US\$1.65 billion. VCs are fighting for good deals, later stage valuation is going up very quickly.

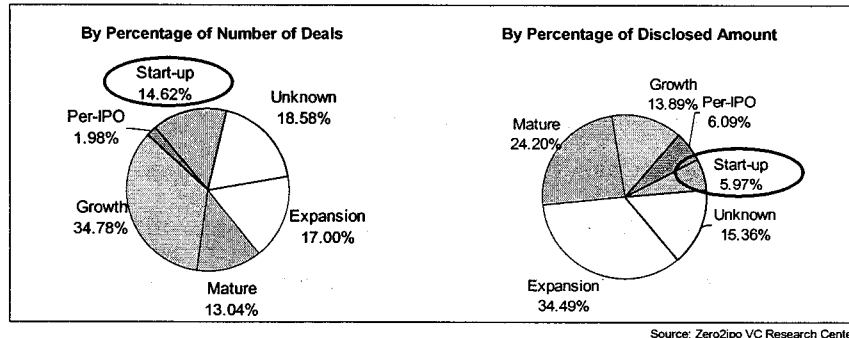
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CHINA'S VENTURE CAPITAL INDUSTRY

Stage Distribution, 2004



- Fewer of VCs in the China Venture Capital Industry do early stage investments. Newly entered mainstream US VCs focus on late stage investments, also leaving early stage a large blank.
- Early stage investments will gain greater popularity in the near future.
- For a typical Chinese startup, the average capital demand from seed stage to IPO is around US\$15 million. The capital is far more efficient than in western countries.

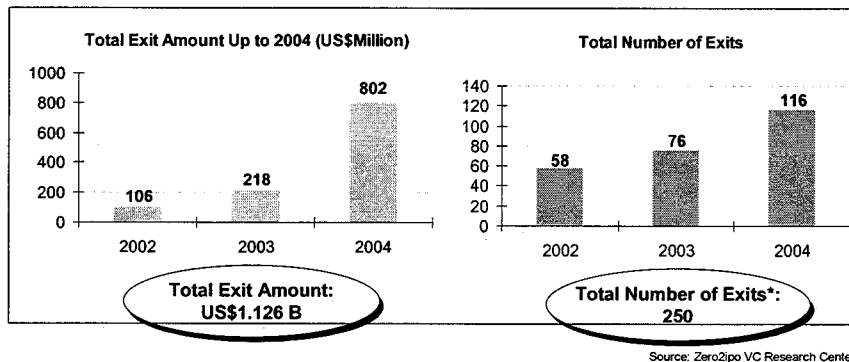
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CHINA'S VENTURE CAPITAL INDUSTRY

Overall Exit, 2001-2004



- 2004 was a turning point for China venture capital industry. It is proved that China is a place where venture capital could gain high returns.
- But, compared with over US\$3.2 billion investment from 2001 to 2004, the VC industry is still at virtually US\$2.1 billion loss in balance sheet with US\$1.1 billion exits in total. More big exits are needed to make these recent funds to perform well.

* If an IPO company is backed by 5 VCs, then this IPO will constitute 5 exits.

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LESSONS LEARNED

- **Asia is not homogenous although with technology, borders are becoming increasingly porous**
- **The Key Points to Keep in Mind:**
 1. *Market big enough?*
VCs have to stay focused in investing in companies that have a global (or at least a large regional) market.
 2. *Government and Institutional Support*
VCs can only invest if they themselves can raise funds. Government needs to jump start this by making available funding to invest in VCs. The Taiwanese and Israelis, and in recent years, the Koreans, have been adopting this approach.
 3. *Cross-border Network*
The VC Network is key. A VC today need to have the support of a larger global or cross-border network to help grow their portfolio companies. This is because technology companies go beyond the country borders.

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LESSONS LEARNED... (continued)

4. *Passion! Lead, not follow the crowd!*

In the mid 90's when few other VCs would think about China, I spent much time and resources to understand and build networks in China. Today, WI Harper is recognized as a pioneer VC in China.

5. *Capital Market Development*

The capital markets in Asia must be developed to facilitate exists of early stage investors. Exchanges like KOSDAQ or the second board in TSEC are important institutions or mechanisms to recycle funds back to VC investors.

6. *Corporate Laws and Political Stability*

An important lesson from the Asian crisis is that VCs should invest in countries which provide adequate legal protection for their investments.

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OUR PRACTICE: SNAPSHOT

- **WI Harper is an early-stage high-technology focused VC with investments in the US, Mainland China, Taiwan and Singapore**
- **Proven, long-standing track record**
Invested in China since 1993, US\$250M under management, 3 offices
- **Seasoned cross-cultural professional management team**
18 investment professionals with over 150 years of investment experience in the U.S. and Greater China
- **Established bridge platform to capture opportunities in Greater China**
Leveraging the advantages of the U.S. and Greater China to create and enhance investment opportunities
- **Top-tier LPs and strategic partners worldwide**
IBM, Mediatek, Prudential, Sunplus, etc. (soon to include Siemens, Nortel and others)
- **Proprietary deal flows**
Tight relationships with strategic players and existing portfolios provide a unique source of high quality deals
- **Successful Exits**
CommerceOne, Intraware, Fantastic, SiRF, Silicon Motion, FocusMedia

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OUR PRACTICE: LPs

Strong backing of Tier-one LPs for the new fund

ASIA



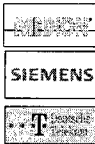
Top 5 fabless company worldwide, market cap: US\$7B, revenue: US\$1B
Leader in IT and life sciences industry
Leading distributor and technology service provider based in Japan, revenue: US\$1B

NORTH AMERICA



Fortune 50 IT company with annual revenue of nearly US\$100B
*Global leader in telephony, data, wireless and wireline solutions for the Internet with revenue of US\$10B
*#2 in the world in PC processors with US\$5B in sales

EUROPE



Leading CE company in Germany, with €3B in revenue
*Europe's largest electronics and electrical engineering firm with annual revenue of US\$93B
*Leading telco with a powerful international brand and sales of \$72B

Close working relationships with our Strategic LPs to tap into more than just capital.

Our LPs includes leaders in various market segments across 3 continents and provides invaluable resources in terms of:

- Deal Sourcing
- Technical Due Diligence
- Field Trials / Sales Opportunity
- Distribution Opportunity
- Manufacturing Opportunity
- Exit Opportunity

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*These companies are in final stage DD, expected to come in for second closing.

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OUR PRACTICE: CASE STUDY

Focus Media – No. 1 New Media Company in China



• **Transaction summary:**

WI Harper Investment:	Series B US\$2M
Investment Sector:	Digital Media
Date of Initial Investment:	May, 2004
Exit Time Frame:	NASDAQ Listed (FMCN), July 2005
Market Cap:	US\$700M
Return Multiple:	8X

• **Business Description:**

- An alternative media network to enable advertisers to target specific consumers at various income levels and with specific consumption needs throughout China
- LCD TV network covers 37 cities throughout China, in over 10,000 top commercial buildings, and access to over 10 million people daily

• **Investment Opportunities:**

- Billion-dollar market potential in China's fastest growing advertising market
- No. 1 position in indoor advertising / media distribution market in China with 80%+ market share and high barrier to entry
- Strong cash flow with high gross margins

• **WI Harper's Value Added:**

- Introduce strategic foreign partners to the company
- Assist the NASDAQ IPO process

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OUR PRACTICE: CASE STUDY

Beijing Xinwei – The Qualcomm of China



• **Transaction summary:**

WI Harper Investment:	Series B US\$2.9M
Investment Sector:	Wireless
Geographic Focus:	China
Date of initial Investment:	May, 1997
Potential Exit:	Hong Kong/NASDAQ Listing, 2Q 2006
Potential Realized Value:	US\$34M*, Return Multiple 11X

• **Business Description:**

- Sole provider of SCDMA system and terminal device for local wireless loop in China
- Developer and holder of eight key patents for TD-SCDMA, China's 3G standard
- 2004 net revenue is US\$71 million, 2005 net revenue projection is US\$120 million with 25% net margin

• **Investment Opportunities:**

- Company's smart antenna technology could be revolutionary in wireless communication industry
- Strong government support and endorsement

• **WI Harper's Value Added:**

- Supported the company during its most difficult period of time
- Introduced strategic partners to the company
- Assisted IPO process

* Based on estimated IPO valuation of US\$2 Billion for BJXW

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Thank you!

Peter Liu, Chairman

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