AUSTRALIA

Venture Capital Pool (US$ million)		
2003	2004	1H2005
6,000	7,600	8,074
No. of VC Funds/Firms		
2003	2005	1H2005
180	182	182
Investments Made (US$ million)		
2003	2004	1H2005
2,932	2,200	955

Industry Overview
Total capital under management in the Australian private equity industry increased again to in excess of A$8 billion at the end of the first half of 2005.

In summary:
- Fund sizes have continued to grow (with CHAMP recently announcing the close of the CHAMP II Funds at A$950 million).
- Fundraising continued although has started to slow in 2005 as funds begin to invest 2004 funds raised and, in some cases, are already exiting deals made in the last 18 months (eg. Affinity Health, New Clicks, Penrice Soda, Guardian Healthcare).
- Competition for deal flow has been heightened with the arrival of so called 'cash box' entities (eg. Babcock & Brown Direct Investment, Allco Equity Partners and Macquarie Capital Alliance Group) but returns are still proving strong, with the exit market good and closings over subscribed.
- Several significant Asian-based private equity houses are actively chasing transactions in Australia (eg. The Carlyle Group, Affinity Private Equity, JP Morgan Partners Asia, Merrill Lynch Global Partners and Navis Investment Partners) and in some cases, have set up offices in Australia for that purpose. JP Morgan Partners Asia, Affinity Private Equity and Navis Investment Partners have all concluded significant Australian-generated deals in the last year.

Legal Developments
Last year, we reported that certain States and Territories had amended limited partnership legislation to bring it more into line with modern fund practices, notably to recognise a limited partnership as a separate legal entity and to allow limited partners to participate in certain 'safe harbour' activities without being liable for the debts and obligations of the partnership. The 2004/2005 year has seen these amendments continue with Queensland and the Australian Capital Territory carrying out similar changes to those already passed in New South Wales and Victoria.

The impetus to amend State and Territory based partnership laws was the introduction at a federal level by the *Venture Capital Act 2002* of favourable tax concessions allowing 'flow through' treatment for certain overseas investors into particular incorporated and registered partnerships. As reported last year, Australia has continued to 'iron out' anomalies in these new laws and is currently considering whether to further curtail restrictions on the type and value of investments that qualify under the Venture Capital Limited Partnership regime as part of a current Federal Government review of Australia's venture capital industry.

Meanwhile, as part of its budget in May 2005, the Federal Government announced proposed changes to the capital gains tax treatment of non-residents. The changes, which are expected to become law later this year, will apply from the date that the amending legislation receives Royal Assent. The changes will mean that non-residents will no longer be taxed in respect of gains made on most Australian capital assets including gains made on shares and options in Australian resident private companies. The proposed change will significantly improve the tax position of overseas investors in Australian private equity and ironically, makes the tax concessions and some of the other legal reforms to Venture Capital Limited Partnerships which the AVCAL has fought hard to win from the State and Federal governments over the last 2 years somewhat redundant.

The other legal development of note is that as a result of the *Australia – United States Free Trade Agreement*, it has become easier for US investors (or private equity funds with a substantial proportion

of US Investors) to acquire Australian businesses without the need to first seek the consent of the Australian Government. One of the thresholds used to be that consent was required to make acquisitions of businesses with a value in excess of A$50 million, now, for US Investors, it is A$800 million.

Fundraising
Fundraising slowed with A$613 million raised in the first half of 2005 as compared with the staggering A$2,046 million raised in the 2004 calendar year. Nonetheless, the slowdown is probably more a function of the fund managers busying themselves spending the amounts raised in 2004 than any apparent diminution in the appetite of investors for investing in Australian private equity. Those out in the market included AMP who announced the first close of their third fund at A$120 million, Wolseley Partners with a second close at A$110 million and the third close of the Deutsche Private Equity Fund III at just under A$150 million. Not included on the statistics yet, but as noted earlier, CHAMP has just announced the close of its latest buyout fund at A$950 million, the largest of the traditional type in Australian history. The reason for the tag 'traditional' is that 2004/2005 has also been notable for the debut of a number of public retail funds with a mandate for private equity style investing – the so called 'cash box' entities including Babcock & Brown Direct Investment Fund (A$1 billion), Macquarie Capital Alliance Group (A$1 billion with a A$200 million private equity allocation) and Allco Equity Partners (A$550 million).

Investment Activity
Buy outs and expansion capital again predominated particularly in 2004, both in terms of the number of deals (75% of the number of listed transactions) and the amounts invested (over 90% of total investment). In the first half of 2005, 2 turnaround deals (amounting to over 42% of the total investment) have challenged the popularity of the buy out and expansion capital sectors. One of those deals, being the divestment by Ramsay Health Care of 14 hospitals at the behest of the Australian Competition and Consumer Commission is perhaps a bit of a 'one off', given that it arises from the successful exit of CVC Asia Pacific, GIC and Ironbridge Capital from their investment in Affinity Health by way of trade sale to Ramsay Health Care.

Secondary buy outs proved popular with a number of the top 10 deals for 2004 and the first half of 2005 being sales by one private equity fund to another (eg. CHAMP's sale of APPP to Gresham Private Equity; CHAMP's sale of Penrice Soda to Quadrant and Colonial First State; and Colonial First State's sale of Europcar in Australia to Navis Investment Partners) and others outside the Top 10 (eg. Archer Capital's purchase of Sulo's Australian and New Zealand operations from Apax and Blackstone). The phenomena looks set to continue with the recently announced sale of Loscam by DB Capital Partners to Affinity Equity Partners and rumours that private equity funds are top of the list of bidders for Catalyst's and Advent's sale of Taverner Hotels.

Healthcare was the most popular sector by number of deals throughout 2004 and by number and size of investment in the first half of 2005 including Macquarie Capital Alliance's acquisition of 95% of Retirement Care Australia, although this sector was more notable for the exits it produced than the investments.

So called 'Public to Privates', the leveraged buy out of publicly traded entities and their subsequent privatisation, continue to feature in the list of top 10 deals, with the acquisition of Tempo Services by DB Capital Partners in the Top 10 for 2004 and a number of other transactions under speculation (such as Oroton) or recently announced (eg. Pacific Equity Partners' acquisition of NYSE listed Worldwide Restaurant Concepts and Ironbridge Capital's announced offer for Nasdaq listed Barbeques Galore Limited).

Exits
As mentioned earlier, there were some stunning exits in the medical/healthcare sector including the sale of Affinity Hospitals to Ramsay Healthcare; the sale of Guardian Healthcare by Pacific Equity Partners to DCA; the exit by way of IPO of AMP Capital's investment in Vision Group; and the sale of New Price Retail to Australian Pharmaceuticals by CHAMP, Investec and ABN Amro. DB Capital Partners also delivered a very strong return for its investors through its recent sale of Loscam to Affinity Equity Partners. All in all, the exit market continued at pace with no shortage of willing buyers (whether by way of trade sale or the public markets).

By: Mark McNamara and Liz Crowhurst of Baker & McKenzie, Sydney

CHINA

Venture Capital Pool (US$ million)		
2003	**2004**	**1H2005**
6,900	7,330	7,812
No. of VC Funds/Firms		
2003	**2004**	**1H2005**
235	249	253
Investments Made (US$ million)		
2003	**2004**	**1H2005**
1,667	2,063	731

Industry background

Compared to the first half of 2004, private equity investment in Chinese businesses fell by 38% in the first half of 2005 to $731 million. Investors appear to have been largely deterred by regulatory measures aimed at controlling the use of offshore vehicles to invest in the country. This structure was widely used by Chinese entrepreneurs to attract private equity from overseas investors who planned to exit their investment via overseas initial public offerings ("IPOs") or trade sales. Overseas private equity investment destined for management buy-outs/buy-ins (including pre-IPO stage financing) was effectively ìon holdî while investors grappled with the new rules.

On the PRC IPO front, a number of recent regulatory events have also affected foreign investment in certain Chinese companies structured for domestic IPOs. The recent Government policy to encourage conversion of non-tradable state shares into tradable shares on the Chinese exchanges sent stock prices sliding to eight-year lows. The Chinese Government also appears unwilling to allow further IPOs in China pending post-conversion market stability. The recent revaluation of the yuan resulted in a 2.1% rise in its value against the US dollar, which provided a temporary boost to mainland stocks listed in Hong Kong.

Investment activities

Private equity investment in PRC businesses in the first half of 2005 was once again focused on information technology industries, accounting for over 62% of total investments. The biggest private equity deal occurred in March, when Lenovo, the Chinese personal computer vendor, paid US$1.25 billion for IBM's global personal computing division. As part of the deal, Lenovo reached an agreement with private equity firms Texas Pacific Group, General Atlantic Group and Newbridge Capital for a strategic investment of $350 million, placing the transaction at the top of the M&A league table for 2005.

There were also a number of deals in the consumer products/services, electronics, and the financial services industries, with investments in financial institutions accounting for almost 10% of the total amount. International Finance Corporation (IFC) purchased a 5% equity stake in the Bank of Beijing, the second largest city commercial bank in China and the third largest bank in Beijing, for US$54 million. More recently in mid-August 2005 (and so not included in the tables [above]), a group of investors led by the Royal Bank of Scotland and Merrill Lynch agreed to pay US$3.1 billion to acquire a 10% stake in the Bank of China, one of the country's big four state-owned banks. Despite the limitations on the shareholding of foreign investors in PRC financial institutions, and the difficulties associated with assessing the quality of the underlying assets, there is continued interest in investments in this area. Reportedly, Goldman Sachs is exploring a substantial equity investment in Industrial and Commercial Bank of China (ICBC), China's largest lender. On the latter transaction, Goldman's direct investment arm is reportedly teaming up with Allianz Group, the German financial services company, to make a multibillion-dollar bid for ICBC. On the supply side, the state-owned, Guangdong Development Bank has plans to allow two foreign banks to pay about $2 billion to acquire a stake in its operations, according to the official Xinhua press agency.

The greatest concentration of deals was in expansion/ growth capital stage companies, with 17 deals completed so far this year. In terms of investment amount, PIPE financing stage received the highest amount of capital, accounting for more than US$365 million or 50% of total investments. Looking at the investment amount alone, however, might be misleading, because it represents only

two deals, both of which made it into the top 10 deals in the first half of 2005 - Lenovo Group Ltd., and Shanghai AJ Corp., a financial services company in which Mingly Corp. Ltd. made an investment of close to US$16 million.

Exits

Private equity firms continue to prefer IPOs as an exit strategy. In one of the most notable high tech deals of 2004, Google obtained a minority share of Baidu, a leading Chinese Internet search engine, with an investment of US$10 million. Reportedly, the company was planning a US$200 million IPO. However, since Baidu is a Cayman-registered firm, its IPO may be held up by recent regulations of the State Administration of Foreign Exchange ("SAFE"), which are making it difficult for Chinese residents to set up offshore companies like Baidu (see below). Baidu is backed by a number of venture capital funds, including Google, DFJ, IDG Ventures and Pacific Technology Venture Fund.

Outside of the technology sector, Morgan Stanley invested US$50 million for a 20% stake in Shanghai Yongle Electronics, the home appliance retailer, in September 2004, making the investment bank the third largest shareholder in Yongle behind its president Chen Xiao and another company official. This year, Yongle is reportedly pursuing a US$750 million IPO.

Fundraising

Successful offshore exits through trade sales and IPOs on overseas exchanges have spurred unprecedented demand from institutional investors in China-focused funds, as reflected by the strong fundraising performance of private equity firms investing in China-based targets. Total funds raised in the first half of 2005 topped US$427 million, a 12% increase over funds raised for the same period of 2004. Total capital under management currently stands at US$7.8 billion, up 7% from year ending 2004.

Recent legal developments

In response to concerns about tax avoidance, money laundering, and the outflow of capital, SAFE recently issued two notices in January and April 2005 respectively, and commonly referred to as Circular 11 and Circular 29, making investment structures involving offshore holding companies set up by Chinese entrepreneurs much more difficult. Under Circular 11, Chinese enterprises must obtain approval from the Ministry of Commerce ("MOFCOM") and SAFE, and comply with registration procedures for (1) setting up offshore holding companies or vehicles for onshore acquisition and (2) share or asset swaps with offshore companies. Circular 29 was issued to further clarify ambiguous provisions in Circular 11. It extends the requirements of Circular 11 to transactions retroactively, requires repatriation of funds held in offshore companies with foreign ownership and requires disclosure to SAFE of any (direct or indirect) ownership of offshore companies by PRC residents.

There are a number of important provisions in Circular 11. For example, where a Chinese resident sets up an offshore company by directly or indirectly taking control of that offshore company, the resident (including Chinese enterprises) must submit evidence of the sources of foreign exchange to the relevant SAFE branch for examination before seeking approval from MOFCOM for the overseas investment. Any transfer of onshore shares or assets by a Chinese resident in exchange for those of an offshore company is also subject to SAFE's examination and approval.

The implementation of Notice 11 remains unclear, as it does not specifically state the criteria that will be used by SAFE to approve or verify applications. Also, MOFCOM and SAFE have yet to agree on the pre-conditions to be satisfied for their respective approvals. According to unofficial sources, no applications made pursuant to Notice 11 have been approved so far. This has seriously affected the number of private equity deals using this structure, and a number of private equity firms and their legal counsel are intensely lobbying the government for clarification and change to the new policy. Market participants expect that new regulations will be promulgated in the coming months that hopefully will clarify the current uncertainties.

By: John Grobowski of Baker & McKenzie LLP, Shanghai
Andrew Tan of Baker & McKenzie, Hong Kong.

HONG KONG

Venture Capital Pool (US$ million)		
2003	2004	1H2005
27,050	27,530	30,014
No. of VC Funds/Firms		
2003	2004	1H2005
178	177	173
Investments Made (US$ million)		
2003	2004	1H2005
146	252	239

Hong Kong rebounded dramatically from the downturn which reached its nadir in the SARS crisis of spring 2003, showing a strong economic recovery of over 8% growth for 2004 according to ADB figures, compared to under 2% annually for the preceding three years. Measures by the PRC government to restore confidence in the territory and buttress support for its appointees brought new economic activity and investment. The Closer Economic Partnership Agreement (CEPA) initiative facilitated cross- border partnerships, the relaxation of rules on mainland travel to – and investment into – Hong Kong brought a flood of capital and commerce. Hong Kong banks were allowed for the first time to offer personal banking and credit cards in renminbi for mailand customers. Speculation over a possible revaluation of the Hong Kong dollar, following the revaluation of the renminbi during 2005, led to continuing capital inflows during the year. Most significant at all for private equity investors, the Hong Kong Stock Exchange became a destination of choice for mainland companies seeking to list outside China.

Fund Raising

By 2005 Hong Kong seemed well into a sustainable upsurge, with premium real estate values rising over 60% during 2004. The resurgence was dramatically reflected in the private equity markets. By the first half of 2005, the total capital under management in the territory had risen to over US$30 billion – the highest total ever, and almost a third of Asia's entire capital under management – and over US$2.8 billion new funds had been raised, as against US$498 million for the whole of 2004. This reflected Hong Kong's status as a financial entrepot more than funds raised from local LPs or destined for local companies. In fact, investments into the territory were only US$137 million in the same period, versus almost $1.8 billion for 2001, and the biggest investment made – GAP's investment into A-Max Technology – was a mere US$60 million. However, Hong Kong's position as the largest private equity and venture capital pool outside Japan looked unassailable.

Investments

Investments in Hong Kong companies during 2005 spanned sectors, with no clear theme. The year's largest investment, A-Max Technology, was an electronics manufacturer, but the second in line – Temasek's US$37.3 million expansion round into JV-Pharmaceutical Product Commercialization – was a pharma play, and the third – CITIC's US$21.8 million PIPE financing of Enerchina Holdings Ltd. was in financial services. The trend towards investing in local firms with China exposure or some cross-border component is likely to be far more significant going forward than specific sectoral themes.

Exits

Some of China's leading companies were heading for listing in Hong Kong by 2005. China Construction Bank was only one of the most prominent. With the total value of IPOs in Hong Kong during the year predicted to reach almost US$18 billion, many Chinese firms were avoiding the regulatory strictures of post-Sarbanes Oxley listing in the US. Rising oil prices seemed unlikely to affect the buoyant listing climate. As always in Hong Kong, the rising property market helped propel the overall performance of the Hang Seng. The woes of the mainlandís stock markets, plunging despite China's economic boom, also did no harm for Hong Kongís prospects as a prime listing venue for PRC majors.

By: Paul Mackintosh of the Asian Venture Capital Journal

INDIA

Venture Capital Pool (US$ million)		
2003	2004	1H2005
3,120	3,620	3,873
No. of VC Funds/Firms		
2003	2004	1H2005
81	86	89
Investments Made (US$ million)		
2003	2004	1H2005
865	1,363	665

Introduction

It was a year of sustained growth in private equity activity levels in India. The market grew not just in quantitative terms but also saw a distinct evolution in character. Indian private equity markets are charting an independent path quite distinct from other emerging markets in the Asia Pacific region. This reflects the growing recognition of the unique characteristics of the Indian economy, financial markets, regulation and entrepreneurial culture. The India 'v/s' China question has largely given way to an India 'and' China argument though the two countries do compete for a small part of total inflows into Asia. We believe global investors are doing a catch up in terms of asset allocation with respect to Indian capital markets. This will be reflected in a sustained increase in global capital flows to India in the years to come.

Economic overview

The Indian economy continued to grow strongly with GDP growth at 6.9% for the year ended March 05. Growth on an overall basis was lower compared to the year before but growth in the services and manufacturing sectors continued to be strong. These two sectors combined which now account for 78% of the Indian economy grew at 8.5%. The dominance of the services and manufacturing sector explain the resilience of the Indian economy and its increasing independence from traditionally significant factors such as agricultural performance and monsoons.

Significant trends in Indian private equity

Investing in Indiaís domestic sector took center stage in the past one year. Traditionally private equity activity in India has been focused on India's export oriented IT and outsourcing sectors. Private equity investors invested in a increasing number of sectors which included financial services, manufacturing, media and other services such as construction.

In terms of participants there were two significant developments. One was that a number of large global private equity players either established or expanded operations in India and recalibrated their investment targets and scope. The other perhaps equally significant development is the growing extent and stature of corporate private equity activity by Indian companies. Investors such as Reliance, Bennett Coleman and Nirma emerged as significant investors with clearly enunciated strategic themes.

Liquidity and exits were the other significant trend for Indian private equity. Relatively mature financial markets in India have continued to afford an increasing number of financial exits for investors. Theprobability of exit in a time bound manner has improved substantially in the last 2 years due to well performing public markets and expanding M&A activity. This has led to a reduction in the risk premium for illiquidity and therefore private equity in the Indian private equity market.

Investment Activity

As per *AVCJ* data the total private equity capital invested in India during 2004 rose to US$1.36 billion from US$865 million in 2003. The up trend has been maintained in the current year as well with total invested capital at US$665 million during the first half of 2005 as compared to US$396 million during the corresponding period last year. The deal involving the buy out of GE's BPO operations by Oak Hill and General Atlantic Partners was the largest deal of the year and propelled buy-outs as a category to the top of the list. But this deal distorts the picture and in reality PIPEs dominated the

market and Growth/Expansion related deals. Given the trends in the public markets PIPEs are seen as losing their sheen as is evidenced by data for the first half of 2005 where Growth/expansion related deals lead by a big margin.

Funds raised

India focused funds raised a total of US$776 million in 2004 as against US$260 million in 2003. This clearly reflects growing demand from global LPs for India as a distinct sub class within private equity. Given the strong eco-system for private equity in India, we believe the India focused private equity category of funds will be amongst the top country-focused categories in Asia. The trend continues within the current year with US$ 512 million raised in the first half as against US$125 million raised during the corresponding period of 2004.

By: Gopal Jain of Gaja Capital Partners

I N T R O D U C T I O N

INDONESIA

Venture Capital Pool (US$ million)		
2003	2004	1H2005
150	150	150
No. of VC Funds/Firms		
2003	2004	1H2005
31	28	28
Investments Made (US$ million)		
2003	2004	1H2005
653	71	564

Industry Background

The recent bombings by extremists in Bali may have discouraged some investors about the prospects of the Indonesian economy, but the Southeast Asian country's strong performing economy is winning an increasing amount of foreign capital as investors look for growth in Asia' third most populous nation.

The recent announcement by Texas Pacific Group and Newbridge Capital that it is seeking investment opportunities in Indonesia is probably the most significant endorsement on the prospects of the Indonesian private equity market. Other positive factors on investors' sentiment include the US$1.5 billion October 2005 bond issue by the Indonesian government that was oversubscribed 4 times in a 36 hour book building process.

Investments

There has been a marginal return of offshore interest in Indonesian assets during 2004-2005, particularly for natural resource or commodity related prospects. Offshore strategic investors, particularly from Singapore and Malaysia remain very active. The largest deal this year was Philip Morris' acquisition of local cigarette maker Sampoerna for a whopping US$4.8 billion.

As for private equity, the most notable investment this year is the US$545 million investment in New Hope Corp's Indonesian assets, where Singapore government arms GIC Special Investments and Temasek joined hands with international firms Goldman Sachs and Citicorp Venture Capital to acquire the local operations of Australian coal miner New Hope. Only one other significant private equity-related transaction was recorded in the first half of 2005 – a minority (19%) investment by the International Finance Corporation into consumer finance firm PT Wahana Ottomitra Multiartha/PT WOM Finance.

Overall, the amount of private equity-related investment in the 1H 2005 stood at US$564 million, significantly up from the US $71 million that was recorded in all of 2004.

However, worth noting, is that selected local firms, such as Batavia Investments, have found profitable niches in commercializing the country's vast natural resources, although amounts were undisclosed. Hedge funds, seeking to diversify their investments, have also been particularly active according to local industry sources.

Fundraising

While a number of Southeast Asian funds and pan-Asian regional funds were raised, there has been no fundraising for Indonesia only funds and the total funds under management remains at US$150 million.

Exits

There have been no formal divestments by private equity firms recorded in the period of the survey, although industry sources have identified a few unconfirmed exits by local investors. The countryís main stock market, the Jakarta Stock Exchange, has shown an improvement in volume and listing activity during 2004. Some foreign firms are returning after closing during the crisis period.

Outlook

While the recent happenings in Bali may raise security concerns, economists believe that their significance is dwarfed by the October 1, 2005 decision by the government to raise fuel prices. This in turn has pushed inflation rates to 33 month highs and triggered hikes in interest rates as a counter measure. Yet despite those changes, investors believe that the outlook for a return of private equity to Indonesia remains positive. It, however, remains to be seen when international players find the appropriate opportunities to enter the market again.

By: Allen Lee of the Asian Venture Capital Journal

JAPAN

Venture Capital Pool (US$ million)		
2003	2004	1H2005
25,350	29,780	30,317
No. of VC Funds/Firms		
2003	2004	1H2005
259	268	268
Investments Made (US$ million)		
2003	2004	1H2005
7,192	7,059	1,644

Industry Background

As foreshadowed in last year's review, 2004 did indeed prove to be a defining year for private equity in Japan, with fundraising reaching epic proportions.

AVCJ data indicates 139 deals were announced in calendar 2004, a significant increase on the 113 deals announced in 2003. However, with deal flow for the first half of 2005 running at only 43 deals, 2005 could prove to be a slower year for investments in Japan.

2004 saw two headline private equity deals, namely:

- Nikko Principal Investment Japan Ltd.'s acquisition of Bellsystem 24 Inc. for just over US$2 billion; and
- The Carlyle Group's acquisition of DDI Pocket Inc. in conjunction with Kyocera Corp. for just under $2 billion.

In total, 2004 nevertheless saw $7,059 million invested, just behind the level recorded the previous calendar year. The first half of calendar 2005 saw only $1,644 million invested, underlining the extraordinary performance of the previous two years.

Fundraising in 2004 reached a massive total of $5,367 million, more than three times the amount raised in the previous period. However, fundraising dropped back drastically in the first half of 2005, with only $1,071 million raised so far.

2004 also saw funds in the more mature stages of the investment cycle continuing to exit investments. The majority of exits in 2004 were reportedly by way of secondary buyouts, including the Carlyle Group's acquisition of Rhythm Corp. from JP Morgan Partners, with only a handful of listings reported.

Regulatory Environment and Recent Developments

On June 29, 2005, Japan's Diet passed a new law which, when it comes into force, will establish for the first time an independent and consolidated code of company law in Japan.

Most of the legislation is expected to come into force between April and June 2006 next year, with more controversial provisions dealing with acquisitions of Japanese corporations using shares in foreign companies expected to come into force in 2007.

The new bill contains just short of 1,000 clauses and is regarded as introducing the most sweeping changes to corporate law in Japan in the last half century.

The new Corporations Law introduces significant changes to business forms available under Japanese law as well as rules on corporate governance, class shares and mergers and acquisitions, many of which should benefit private equity investments.

Key changes expected to come into force include:

- Simplification of incorporation procedure;
- Abolition of the minimum capital amount of ¥10 million required at incorporation;
- Closed corporations without a Board of Directors may have a single director (instead of the current minimum of three directors);
- Abolition of valuation requirements, clearing a major obstacle to the use of newly incorporated companies as acquisition vehicles;
- Introduction of new short-form merger rules; and
- Introduction of cash out mergers.

Fund Raising Activities

As noted earlier, the first half of 2005 has seen a significant falling off of fund raising activity.

At the same time, however, some observers see competition for deal flow intensifying in the coming months. The *AVCJ* 2005 deal volume data certainly suggests shrinking deal volume.

Investment Activities

In 2004 and the first half of 2005, the majority of investment activity was in the buy-out and turnaround/restructuring sectors. These sectors accounted for about 40% of the 84 deals with value disclosed in 2004 (but about 93% of funds invested) and 8 of the 28 deals with value disclosed so far for 2005 (about 79% of funds invested).

A comparison of the figures for the first half of 2004 and the first half of 2005 respectively suggests that the trend last year away from turnaround/restructuring investments to buy-outs has reversed, with the former type of investment accounting for nearly 65% of funds invested in the first half of 2005. Examples include Advantage Partners Inc.'s investment in Daiei Inc. and the joint investment by Mori Trust Co., Ltd. and Goldman Sachs Capital Partners, Inc. investment in Fujita Corporation.

By: Chris Hodgens & Norihiro Sekiguchi of Baker & McKenzie GJBJ Tokyo Aoyama Aoki Law Office

SOUTH KOREA

Venture Capital Pool (US$ million)		
2003	**2004**	**1H2005**
9,120	9,340	9,748
No. of VC Funds/Firms		
2003	**2004**	**1H2005**
162	167	169
Investments Made (US$ million)		
2003	**2004**	**1H2005**
2,841	1,560	958

Introduction

The last 12 months has been a buoyant time for private equity firms in Korea with numerous successful exits and a number of landmark leveraged buyouts and other investments being made.

As a means of spurring the local private equity market, the Korean government lifted restrictions on domestic buyout funds at the end of 2004. These measures have been successful and many local participants have raised funds including Woori Bank, Mirae Asset Management, LG Securities, Korea Development Bank and KTBnetwork. Other firms such as Shinhan Financial Group, MBK Partners, Vogo Investments, Industrial Bank of Korea and Kookmin Bank are in the process of raising private equity funds.

Laws and Regulations

The Korean government recently announced new measures and amendments to the Indirect Investment and Asset Management Business Act (the "Act") aimed at bolstering competition and innovation via deregulation and promotion of private equity funds. The major changes are as follows:

- the rule that only asset management companies can establish private equity funds will be eliminated;
- general partners, including venture capitalists will be able to participate in private equity fund management with no restriction;
- individual investors can invest as little as 1 billion Won in private equity funds and companies can invest 2 billion Won, a reduction of 50% and 60% respectively; and
- capital requirements for asset management companies will be reduced from 10 billion Won to 3 billion Won.

Numerous recent large-scale exits by private equity firms have attracted considerable public interest and increased the pressure on the Korean government to strengthen regulations in respect of the private equity market. One measure that has recently been introduced with the intention of promoting greater competition and transparency is a requirement that substantial domestic or international investors, i.e. those holding more than 5% of the share capital in a company, must indicate any change in their impending investment intentions.

Fundraising

Domestic fundraising activity deteriorated in Korea between 2000 to 2003 - $1,796 million being raised in 2000, $835 million being raised in 2001, $364 million being raised in 2002 and $270 million being raised in 2003. In the past two years, fundraising levels have recovered - $512 million was raised in 2004 and $408 million was raised in the first half of 2005. This upward trend can be attributed to a number of factors including the economic surge in Korea, the relaxation of local regulations and restrictions and the Korean government's active role in stimulating the local private equity market.

Landmark Transactions

A number of landmark exits have been undertaken in the last 12 months including:

- The disposal of Korea First Bank by Newbridge and Korea Deposit Insurance Corp. to Standard Chartered for approximately $3.3 billion. It has been reported that Newbridge realised capital gains of over $960 million on its $480 million investment made in 1999 on this exit.
- The disposal of Haitai Confectionery and Foods by Korea Confectionary Holdings, a holding company formed by funds advised by CVC Asia Pacific, JP Morgan Partners and Affinity Equity Partners, to Crown Confectionery for S$490 million.
- Kumho Tire, Korean's largest tire maker, was listed in London and Seoul in a UK/Korea dual listing, raising approximately $300 million. Kumho Tire's owner and major shareholder, Military Mutual Aid Association, disposed of about half of its 50% stake in Kumho Tire on the IPO.

A number of landmark LBOs were also undertaken in the last 12 months including:

- The LBO of Jinro by a consortium led by Hite Brewery Co. for $3.05 billion. Partnering Hite were the Korea Teachers Credit Union, the Military Mutual Aid Association, the Korean Development Bank and the Korean Federation of Community Credit Cooperatives. This was the biggest domestic buyout of the year.
- The LBO of HiMart, Korea's number one consumer electronics chain, by Affinity Equity Partners and three passive co-investors for approximately $780 million.

By: Andrew Whan of Clifford Chance

MALAYSIA

Venture Capital Pool (US$ million)		
2003	2004	1H2005
912	972	972
No. of VC Funds/Firms		
2003	2004	1H2005
44	46	46
Investments Made (US$ million)		
2003	2004	1H2005
30	760	58

Malaysian Venture Capital Industry
The Malaysian venture capital industry continued to progress as an alternative source of financing in 2004, with expansion in terms of the total size of funds, total investments from both local and foreign sources, number of registered venture capital companies ("VCC") and venture capital management companies ("VCMC"), number of investee companies and number of venture capital professionals. According to the *Asian Venture Capital Journal* ("*AVCJ*"), funds under management grew 6.6% from US$912 million in 2003 to US$972 million in 2004, and remained at US$972 million as at H1 2005. The total funds raised grew 48.1% from US$81 million raised in 2003 to US$120 million raised in 2004. Investments made in 2004 totaled US$760 million, compared to US$30 million in 2003 while investments in H1 2005 totaled US$58 million. According to statistics from Bank Negara Malaysia ("Central Bank") and Securities Commission ("SC"), while investment from domestic sources grew by 15.4%, investments from foreign sources recorded a significant growth of 55.4% and by the end of 2004, the number of registered VCCs and VCMCs had increased 18% to 72 in 2004 (61 in 2003) and the number of investee companies grew by 11% to 332 in 2004 (298 in 2003). The number of venture capital professionals grew by 27% to 195 in 2004 (153 in 2003).

According to *AVCJ*, majority of investments made in 2004 were into late stage with 60% for PIPE financing and 39% was for buy-outs. By industry breakdown for 2004, 55% was into telecommunications, 39% was into financial services and 5% was into transportation/distribution. In H1 2005, all the investments were made into expansion/growth stages with 86% into infrastructure and 14% into non-financial services sectors.

The Malaysian government continues to play an instrumental role in the growth of the venture capital industry. The Capital Market Masterplan, a 10-year strategic blueprint for the development of the capital market introduced in 2001, contains strategies and specific recommendations for the development of the venture capital industry. Many of these specific recommendations had been implemented such as VCCs being granted the status of exempt dealer under securities laws, a facilitative tax framework for the venture capital industry had been introduced, significant allocation for venture capital financing had been made and liberalizing of listing rules on the MESDAQ Market of Bursa Malaysia had facilitated the listing of technology incubators.

The year 2004 saw an increase in the number of venture capital-backed companies listed on the MESDAQ. According to the Malaysian Venture Capital Association ("MVCA"), the number of venture capital-backed companies listed on MESDAQ grew from 5 in 2003 to 10 in 2004 and as at August 15, 2005 the number of venture capital-backed companies listed on MESDAQ is 27 which is 30% of the total companies listed on MESDAQ.

Another significant milestone in the industry was the establishment of a one-stop agency to ensure a coordinated implementation of the relevant strategies and initiatives for the industry. The Malaysian Venture Capital Development Council ("MVCDC") which is under the chairmanship of the SC was formed in early 2005 after it was approved by the Ministry of Finance in July 2004. Since its formation in early 2005, the MVCDC had formulated long term strategies to further develop the industry while recommending new measures to enhance the effectiveness of incentives and financial grants and to encourage greater involvement of the private sector.

And as part of the government's strategy to get the private sector to spearhead the economic growth

in the future, the government is focusing on the development of small and medium enterprises ("SME") not only to support large industries and multi-nationals but also to export overseas. To ensure support for SMEs, on September 30, 2005, the Honorable Prime Minister announced in Budget 2006 the establishment of SME Bank with a venture capital fund of RM1 billion to fund strong SMEs that are capable of undertaking business expansion. In addition to this, the Employees Provident Fund ("EPF") whose fund size is RM250 billion, had allocated RM1 billion for direct investment in private equity. It has also outsourced and committed US$280million to 14 private equity funds for management.

Another new engine of growth identified by the government is biotechnology and in-line with this strategy, the government had established a one-stop agency, the Malaysian Biotechnology Corporation ("MBC") in April 2005 to develop the biotechnology industry in Malaysia. In September 2005, the MBC successfully organized the first Biotechnology Roundtable 2005 chaired by the Honorable Prime Minister in San Francisco, US which was attended by noted scientists, academics, entrepreneurs and venture capitalists to get their views and recommendations for the development of the local biotechnology industry.

With all these efforts and incentives in place, Malaysia is expected to continue to become an attractive destination for investors, which will see growth in the venture capital industry.

By Kwee Bee CHOK, BI Walden Management Sdn Bhd, Kuala Lumpur

NEW ZEALAND

Venture Capital Pool (US$ million)		
2003	2004	1H2005
663	746	868
No. of VC Funds/Firms		
2003	2004	1H2005
45	46	46
Investments Made (US$ million)		
2003	2004	1H2005
68	250	14

Background

New Zealand is a country which boasts a growing market economy, a relatively low corporate tax rate with virtually no capital gains tax and increasingly sophisticated capital markets. It has a strong and growing private equity capital market. Private equity capital plays an increasing role in the New Zealand mergers and acquisitions market in line with the trends overseas.

Reflection on 2004

Private equity capital has emerged as a significant player in the New Zealand mergers and acquisitions (M&A) market in 2004.

This is best highlighted by one of the largest M&A transactions in New Zealand in 2004, namely the sale of Carter Holt Harvey's (CHH) tissue business for NZ$500m plus. It was reported that of the five prospective bidders for the tissue business four were financial buyers. This was extraordinary for New Zealand. However, in that instance, the only trade buyer successfully acquired the tissue business assisted by the fact that it already had an existing joint venture with CHH.

The presence of private equity players in the New Zealand capital markets is further highlighted by:

- Direct Capital Private Equity's establishment of its sixth venture capital fund;
- Establishment of the Pohutukawa private equity fund;
- Gresham Partners Private Equity Partners acquisition of the Noel Leeming / Bond & Bond retail chain; and
- Pacific Equity Partner Funds acquisition of Whitcoulls retail stores.

Exit Mechanism

Exit mechanisms continued to be dominated by trade sale or share buy backs, as is consistent with overseas trends. The unfortunate profit downgrades announced by Feltex (an IPO sponsored by private equity funds) has heightened the New Zealand markets scepticism of an IPO exit by private equity players as being an opportunity for new investors.

New Limited Partnership Regime

In April 2005 the Government announced a new limited partnership regime will be introduced to encourage the flow of venture capital investment into New Zealand. It is hoped to be in place in 2006 coming into force late 2006 or early 2007.

Outlook for 2005

The increased presence of private equity players has already been seen in 2005 in:

- The announcement in early 2005 that the New Zealand Superannuation Fund would review its investment opportunities in the New Zealand private equity market;
- Pacific Equity Partners sale of Guardian Healthcare to Australian industry healthcare DCA Group;
- Sale of Eldercare to Macquarie Bank Limited associates;
- The sale of OneSource to Archer Capital and the management of OneSource;
- On the anticipated largest play so far (International Paper's 50.5% stake in CHH) CVC Asia Pacific / NewBridge Capital / Champ Private Equity were all seen as front runners for the bidding until trumped by the pre-emptive offer by Rank Group; and
- Lastly, the possible takeover offer by CVC Asia Pacific Limited for Restaurant Brands also shows, as in line with overseas trends, private equity players will play an important role in the area of public takeovers in New Zealand.

David Quigg & John Horner of Quigg Partners

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PHILIPPINES

Venture Capital Pool (US$ million)		
2003	2004	1H2005
250	250	250
No. of VC Funds/Firms		
2003	2004	1H2005
19	19	19
Investments Made (US$ million)		
2003	2004	1H2005
65	104	1

Introduction
The private equity and venture capital sectors in the Philippines sustained a consistent pattern of inactivity between 2004 and 2005, continuing the trend of recent years. No new funds were raised, and total capital under management remained at US$250 million.

Political upheavals centering on the failed attempts to impeach President Gloria Macapagal Arroyo seem to have helped deter investors, despite a sustained GDP growth rate of around 5% per annum and a strongly performing stock market. Nor have these positive economic factors done much so far to reduce the extreme regional and social disparities in wealth in the Philippines, nor to have lessened the disproportionate predominance of the National Capital Region around Manila, which produces around a third of GDP.

Investments and Exits
Purely returns-driven investment was sparse in the Philippines over the past 18 months to two years. In May 2004 the International Finance Corporation agreed to invest US$15 million for a 9% stake in Manila Water, and in October 2004 invested US$1.5 million for a 20% stake in Philippines-based Paramount Life and General Insurance Co. The largest deal of 2004 was also the only fully financially-driven one, when TH Lee Putnam Ventures and Singaporeís GIC Special Investments took over business process outsourcing firm SPI Technologies from existing investors Crimson Ventures, AIG, and Electra Partners for US$87 million.

Only one investment was recorded in the Philippines in the first half of 2005: the Asian Development Bankís US$1.3 million investment in LGU Guarantee Corp. And that was to some extent a development finance deal, since the investee is involved in providing credit guarantees for local government unit bonds.

By: Paul Mackintosh of the Asian Venture Capital Journal

SINGAPORE

Venture Capital Pool (US$ million)		
2003	2004	1H2005
10,720	11,542	11,612
No. of VC Funds/Firms		
2003	2004	1H2005
119	121	122
Investments Made (US$ million)		
2003	2004	1H2005
542	1,291	265

Industry Trends

2004 saw a surge in private equity and venture capital activities in Singapore. The Singapore economy came back strongly in 2004 following a year that suffered due to SARS. GDP in 2004 grew by 8.4%, spurred by a rise in both external and domestic demand, as well as growth in private sector investments. Demand was high in areas such as transport (both equipment and services), electronics, as well as medical services.

With such a favorable environment, 2004 saw a large increase in levels of investments, exits and fund raising.

In line with general expectations, 2005 has thus far seen the economy grow at a relatively slower pace. In the first half of 2005, the Singapore economy grew by 4.0%, and the expected GDP growth forecast for 2005 is between 3.5-4.5%. The financial services sector has seen robust growth in 2005, driven by growth in Asian currency units and fund management.

2005 could prove to be a fruitful year for the private equity and venture capital industry as well, judging from the level of activity during the first half of the year. Investment level in the first half of 2005 was $265 million, compared with $42 million during the same period last year.

Fund Raising

Levels of fund raising jumped in 2004 to $1,110 million from $100 million in 2003. There appears to bem more caution in 2005 in terms of fund raising, where funds raised in the first half of 2005 only reached about $191 million - less than half of the amount from the same period last year. This trend follows the more modest growth expected in 2005.

Investments and Exits

Investments in Singapore totaled $1,292 million in 2004, a major surge compared with the $542 million worth of investments in 2003. The increase in investments in 2004 was driven largely by growth in the traditional areas of transportation and distribution and computer related activities.

Two notable deals in 2004 are the $904 million buy-out of Neptune Orient Lines by Temasek Holdings, and the $215 million buy-out of MetalForm Asia Pte. Ltd by JP Morgan Partners Asia.

Deal activity in 2005 continues to be encouraging, following the pattern of 2004 where buy-outs, expansion stage deals and PIPE financing have been generating the bulk of deals. Notably in 2005, Newbridge Capital made its first investment in Singapore, by purchasing a 26% stake in Parkway Holdings Ltd, a leading healthcare provider. The deal is worth about $188 million.

In one of perhaps the most talked about deals in 2005, Raffles Holdings Limited agreed to sell the iconic Raffles Hotel in Singapore, along with 40 other hotel properties under the Raffles and Swissotel names. The deal is worth about $1 billion, and is expected to be completed by the end of 2005.

Singapore continues to serve as a conduit for investment in the region, and strives to build itself as the hub for investment into China and India. Looking ahead, the private equity and venture capital industry should continue its expansion in Singapore, especially in light of favorable factors such as the recently concluded India-Singapore free trade agreement and the good performance of the stock market and economy.

Changes in the Regulatory Environment

The following regulatory changes have been made recently which will impact on the venture capital industry in Singapore:

1. **Reduction in Personal Income Tax Rate.** The top personal income tax will be lowered, first from 22% to 21%, in the 2006 year of assessment and then to 20%, in the 2007 year of assessment. The marginal tax rates for all other income brackets will also be reduced whilst the income bands will remain unchanged. In light of the reduction, all individual taxpayers will pay less tax and Singapore is expected to have one of the most competitive personal income tax regimes in the world. The rate reduction should assist in both attracting and retaining internationally mobile talent and strengthening Singapore's competitiveness as a regional hub. The lowering of the top marginal rate from 22% to 20% by the 2007 year of assessment will bring the personal income tax rate to the same level as the corporate income tax rate. Potentially from a tax structuring perspective, the choice between conducting business through a company or as an individual may have less significance.

2 **Introduction of Limited Liability Partnerships.** In April 2005, the Limited Liability Partnerships Act 2005 came into force and introduced a new investment vehicle, the limited liability partnership ("LLP") into Singapore. One advantage of the LLP is that it is tax transparent. Partners are taxed on their share of the income or gains of the LLP according to their personal income tax rates. Also, there is no obligation on the partners to prepare and/or file financial statement or require the accounts of the LLP to be audited. However, each LLP is required to keep proper accounting records that will enable true and fair financial statements to be prepared. Each LLP is also required to file a declaration of solvency annually.

3. **New Safe Harbour Rules for Offers of Investments.** The Securities and Futures (Amendment) Bill, which was passed in Parliament on 25 January 2005 introduces new safe harbour rules in relation to offers of investments. When the amendments come into force, the following new safe harbour rules will be introduced:
   a. An offer of securities or collective investment scheme for no consideration will be exempted from the stringent prospectus requirements set out in the Securities and Futures Act;
   b. An offer of securities or collective investment scheme to no more than 50 persons in any 12 month period will be exempt from the stringent prospectus requirements set out in the SFA, provided certain prescribed conditions are complied with; and
   c. A personal offer of securities or collective investment scheme whereby the total amount raised does not exceed S$5 million in any 12 month period will be exempt from the stringent prospectus requirements set out in the SFA, provided certain prescribed conditions are complied with.

4. **Changes to Corporate Regulatory Environment.** On 16 May 2005, the Companies (Amendment) Bill 2005 was passed. The Bill, which has not come into operation, introduces significant changes to the corporate regulatory environment in Singapore. Among other things, the Bill:
   a. abolishes the concept of "par value" and "authorised capital";
   b. introduces an alternative capital reduction process which does not require court sanction;
   c. liberalises the law relating to financial assistance;
   d. allows share buy-backs to be funded out of profits as well as capital so long as the company is solvent;
   e. allows repurchased shares to be held as treasury shares; and
   f. introduces a more effective statutory form of merger and amalgamation.

By: Boo Bee Chun and Stephanie Magnus of Baker & McKenzie Wong & Leow

TAIWAN

Venture Capital Pool (US$ million)		
2003	2004	1H2005
6,500	6,640	6,690
No. of VC Funds/Firms		
2003	2004	1H2005
172	168	168
Investments Made (US$ million)		
2003	2004	1H2005
38	49	3

Taiwan's relations with the mainland continued their stop-go pattern during 2005, against a background of slowing economic growth and softening sentiment. Internally, the ruling Democratic Progressive Party (DPP) and the opposition Kuomintang remained divided on a range of issues, mostly related to cross-Straits relations. However, elections in December 2004 showed reduced support for overt independence moves by the DPP government.

Measures such as the first non-stop flights between the PRC and Taiwan were offset by bellicose pronouncements by some Chinese military figures on the consequences of US military involvement in any cross-Straits conflict. The enactment of a new anti-secession law in the mainland in March 2005 if anything helped improve relations, as the resulting diplomatic protests by the EU and others, and the resurgence of support for President Chen Shui-bian within Taiwan, apparently convinced the PRC leadership to soften its stance.

Taiwanese GDP growth was forecast to slacken to just under 4% in 2005-6, with a sustainable budget deficit of just over 2.5%. Rising oil prices were already playing a part in weakening domestic consumer demand, though also keeping inflation low. Softening export demand for Taiwan's OEM manufacturers also contributed to poor sentiment, although there were signs of this recovering by August 2005.

Fund Raising
Funds raised in the first half of 2005 amounted to US$201 million, a slightly slower pace than the US$227 million raised in 2004, but ahead to the US$115 million raised in 2003.

Investment
Investments in Taiwan in the first half of 2005 were far below the tempo of fundraising, with only one made, Mitsubishi Securities' $3 million mezzanine investment into IT firm Shin Zu Shing. However, the tempo of deals is likely to pick up again once the new round of funds reach investment stage. Despite restrictions on cross-Straits investing, the theme of funding Taiwanese companies with mainland operations and exposure is likely to remain strong, not least given the frothy demand amongst US investors for China tech plays.

By: Paul Mackintosh of the Asian Venture Capital Journal

THAILAND

Venture Capital Pool (US$ million)		
2003	**2004**	**1H2005**
645	645	645
No. of VC Funds/Firms		
2003	**2004**	**1H2005**
20	20	20
Investments Made (US$ million)		
2003	**2004**	**1H2005**
46	239	12

Thailand began 2005 with the aftermath of the tsunami which devastated so many maritime areas of Asia. This and the insurgency in Thailand's three Muslim southern provinces bordering Malaysia seemed to take the shine off the economic boom that had followed the election of Prime Minister Thaksin Shinawatra.

Both these factors hit Thailand's highly important tourism sector. The further impact of high oil prices and weakening OECD demand for Thai exports contributed to an overall slowdown in economic growth. Rising demand for imports also helped swing the national current account into deficit in 2005, although optimistic investors might argue that this shows that consumer demand – often a key factor in investments in Southeast Asia – is still strong.

Thaksin's re-election in February 2005 brought no turnround in either his government or the country's fortunes. With his Thai Rak Thai party keen to retrieve its popularity, a national budget deficit was forecast to continue into 2006 amid further pump-priming spending measures. An estimated US$42.5 billion was earmarked for various infrastructure projects. However, concern over the rising budget deficit might delay some of these.

There were no private equity exits in the first half of 2005.

Fund Raising

After showing an uptick from US$10 million in 2003 to US$40 million in 2004, fund raising in Thailand cooled again, with no activity registering in the first half of 2005. Total capital under management remained at the same level since 2003, US$645 million.

Investment

Investment in Thailand showed similar inactivity. After six deals in 2004 totaling US$239 million, 2005 showed just one services deal, the US$12 million acquisition of Mermaid Maritime Ltd. by Private Equity (Thailand) Co. Ltd. and UOB Venture Management. However, investment in Thailand tends to be both cyclical and fluctuating, and the small number of transactions can cause broad swings in statistical averages.

By: Paul Mackintosh of the Asian Venture Capital Journal

VIETNAM

Venture Capital Pool (US$ million)		
2003	2004	1H2005
218	228	286
No. of VC Funds/Firms		
2003	2004	1H2005
8	9	9
Investments Made (US$ million)		
2003	2004	1H2005
13	4	53

Industry background

Vietnam private equity landscape has finally entered a new phase in 2004 and early 2005 with increased activities in both fund raising and deal flow. While the economy surges ahead with 7.7% increase in GDP in 2004 and an expected 8% in 2004, the government continues to push forward its reform programs and opening up the economy more to private and foreign investors.

One of the key government restructuring is the privatization of State-Owned-Enterprises (SOE) and 2004 witnessed some major privatizations such as Vinamilk, the nation's leading dairy producers being valued at US$400 million, or Bao Minh Insurance, the second largest non-life insurer being valued at US$60 million. Even though the government still maintains majority stakes and control (only in large, blue-chip companies), local and foreign private investors are allowed to purchase equity stakes in these privatized companies. It is estimated that while the official stock exchange only commands a market capitalization of US$300 million, the over-the-counter market has more than 300 stocks being traded at market capitalization of more than US$2 billion. 2005 and 2006 will continue to see more privatizations of major government assets such as hydro-power plan, telecommunication (Mobifone), banking (Vietcombank) and airline (Pacific Airlines) and VC funds are actively chasing opportunities to participate in these attractive privatizations.

The financial service sectors witnessed a spurt of activities in late 2004 and early 2005 with many mid-size private banks being courted by both funds and strategic investors. This is made possible by strong revenue and earning growth in these banks thanks to improved economic conditions, as well as the loosen up in government regulations allowing foreign shareholders to play a more active role in local banks. International banks such as ANZ, Citibank, Standard Charter were talking extensively with top mid-size private banks for a large stakes, while funds (including Temasek Singapore) either silently acquiring bank positions on the secondary market or approaching the banks themselves. (ANZ and Standard Charter closed their two deals in mid 2005 both valuing the two banks ACB and Sacombank at above US$200 million).

Apart from minority investments in listed and privatized companies, funds in Vietnam also have some true private equity positions in either local companies or Foreign Invested Enterprises (FIE). Mekong Capital continues its strategies investing only in small-sized manufacturing companies while Dragon Capital (DC), Indochina Capital (IC) and VinaCapital (VC) adopt a more diversified investment approaches. The liquidation of previous funds (such as Beta Vietnam) also creates some secondary deals and new funds taking on the investments at some attractive valuation.

Fund raising

A total of approximately US$100 million was raised in 2004 mostly by three existing fund managers (DC, VC and IC). The investor base becomes larger due to increased interests in Vietnam. An estimated of US$150 million would be raised in 2005 and new funds targeting Vietnam is launching in late 2005.

Exit

The exit venues remain through trade sales to strategic buyers or secondary sales to new funds. The improved activities on the local bourse have helped some private equity investments to exit via IPO such as the Kinh Do Group.

By: Don Lam of VinaCapital Group

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