

**OECD/ADBI 7th Round Table on Capital Market Reform in Asia**

**27-28 October 2005**

**ADB Institute, Tokyo, Japan**

**SESSION 4: DEVELOPMENTS IN VENTURE CAPITAL AND  
PRIVATE EQUITY SINCE THE END OF THE “TECH BUBBLE”**

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# Development Status of Venture Capital and Private Equity in China

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# Private Equity Arrived a Bit Early...

The History of Capital Markets and Private Equity

Location	Exchange Founded	Private Equity Began	Difference in Years
London	1773	1970s	200
New York	1792	1960s	170
Taipei	1961	1983	22
Shanghai	1990	1990s	5

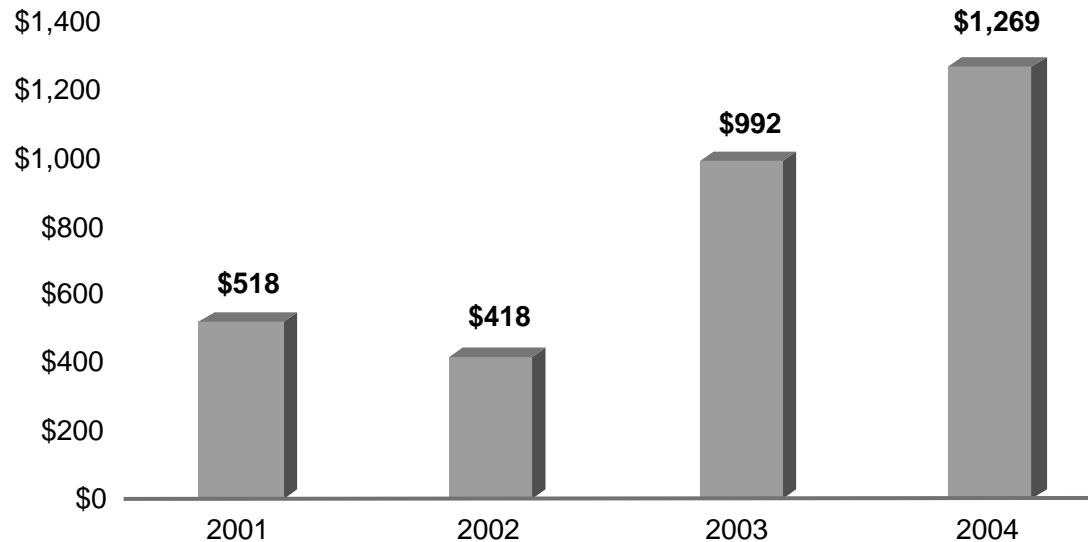
## ... And, Is Encountering Many Challenges

- Capitalist bull in a communist China shop
- Attempting to create investor wealth before there's private wealth
- Limited protection of minority rights as shareholding concept is new
- Thin management talent pool with short history of capitalism
- 25%+ IRR money competing with cheap/free bank loans
- Exit exceedingly difficult given immature financial markets

# But Investments Are Still Being Made

## China Venture Capital Annual Investments

(USD MM)



Source: Zero2IPO—China Venture Capital Annual Report 2004

## Because The Market Is Attractive

- Large domestic market spurred by rising consumerism
- Rapid economic development creates hunger for capital
- Entrepreneurial spirit leads to promising start-ups
- Privatization in SOE sector attracts buy-out capital
- Lack of funding alternatives creates room for private equity

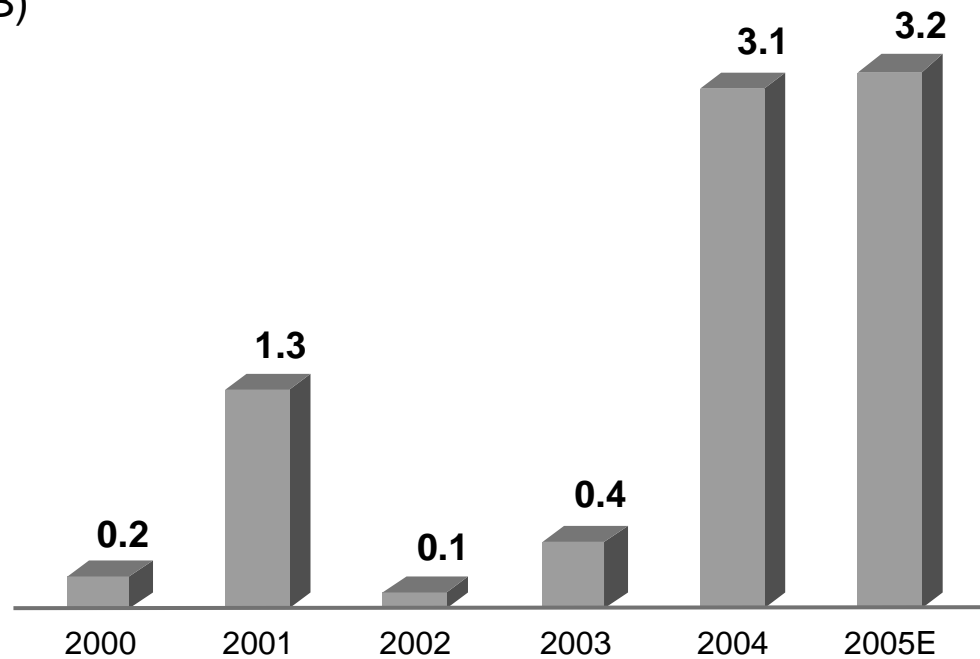
## **And Companies Need Private Equity**

- SOEs require risk capital for restructuring
- Private firms have limited access to financing
- Entrepreneurs eager to create new business models
- Stock markets offer no liquidity for founders / investors
- Urgent need for upgrading management

# Exits Are Becoming Easier for Private Equity

## Venture-backed IPOs

(USD B)



Source: AVCJ

## As IPOs and Strategic Sales Increase

Year	# of IPOs	Amt Raised (USD MM)	# of M&A Deals	Transaction Amount (USD MM)	Total Amount (USD MM)
2005 (Jan-Aug)	9	605	8	1,350	1,955
2004	31	5,201	12	556	5,757
2003	13	290	11	340	630
2002	6	149	12	170	319
2001	2	1,277	3	118	1,395
2000	5	550	4	60	611
1999	3	200	2	40	240
1998	2	120	2	50	170

Source: AVCJ

# Examples of Successful Liquidity Events

1998	
1999	china.com 
2000	AsiaINFO   
2001	Kingdee
2002	
2003	
2004	         
2005	     

# Which Are Attracting More Players

## Domestic Funds

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- Shenzhen VC Co.
- Shanghai Industrial
- Chengwei Ventures
- New Margin
- China Equity

## China-Focus Foreign Funds

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- IDG
- CDH
- China Vest
- Dragon Tech
- Legend Capital
- Acer Technology Ventures
- Accel Partners

## Regional Funds

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- CCMP
- CITIC
- Morgan Stanley Asia
- HSBC
- Carlyle Buyout Asia
- Carlyle Venture
- Citigroup Venture Capital
- Newbridge Capital
- Baring Private Equity Asia
- Walden
- Softbank Asia Infrastructure
- JAFCO
- Actis
- Vertex
- Fidelity Ventures
- Affinity

## Global Funds

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- Goldman Sachs
- Merrill Lynch
- Warburg Pincus
- BainCapital
- 3i
- DCM
- NEA
- Manitou Ventures

## Corporate Funds

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- GIC
- Temasek
- Macquarie
- Intel Capital
- Siemens Venture Capital
- Nokia Venture Partners

Source: CVCA

## Despite Numerous Challenges

- Lack of clear legal framework and transparent government regulations
- Dearth of well-rounded professional managers
- Limited exit options due to immature capital markets and anemic M&A
- Restricted capital flow and non-convertible currency
- No viable domestic funding source

# Private Equity's Growth Will Benefits Financial Markets

- Provides long-term equity capital
- Stimulates innovation in financial instruments
- Restructures inefficient businesses
- Strengthens corporate governance and improves management quality
- Acts as the voice of minority shareholders
- Pushes to enhance overall shareholder return

Thank You

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