AVCJ
ASIAN VENTURE CAPITAL JOURNAL

*Asia's Private Equity News Source*

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# Taking to the stage

When raising capital, its not just the numbers that need to perform Page 7



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## Oil for their wheels

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# Tread carefully

**AVCJ HAS DEVOTED CONSIDERABLE** amounts of space to the challenges tied to foreign private equity buyouts in Taiwan, highlighting industry concerns about an opaque approvals process and the subsequent calls for clearer guidance on where PE is capital is and isn't welcome and how deals are assessed. The government has made all the right noises, but it remains to be seen whether regulators can change and then hold their mindset.

Buyouts emerged as a hot-button issue in the wake of a KKR-backed management buyout of Yageo in 2011 that was nixed by the government for reasons that have never been fully explained. Investor confidence collapse and so did Taiwan's private equity investment numbers. Having reached $9.4 billion in 2006-2007, deal flow has topped $300 million just once in the past four years. So far in 2014, $103 million has been committed, already within touching distance of the previous year's total.

But what of Taiwan exits? The question is worth asking because 2014 may well turn out to be the biggest year on record. EQT Partners is said to have sold its majority stake in Gala Television Corp. to the founders of Formosa Plastics Group for around $200 million. And then there is MBK Partners' sale of cable TV operator China Network Systems (CNS) to Ting Hsin International Group for a reported $2.4 billion including debt. The previous high was $2.3 billion, achieved in 2006.

Assuming the CNS deal goes through, it would leave The Carlyle Group as the last significant PE investor in Taiwan TV, with Eastern Broadcasting. During that 2006-2007 boom period, roughly 70% of the total capital deployed was split between six bank investments and five cable TV deals. A few of the banks remain on the books of their private equity owners well past the average investment holding period in Asia. And while more of the TV assets have been offloaded, the process hasn't been an easy one.

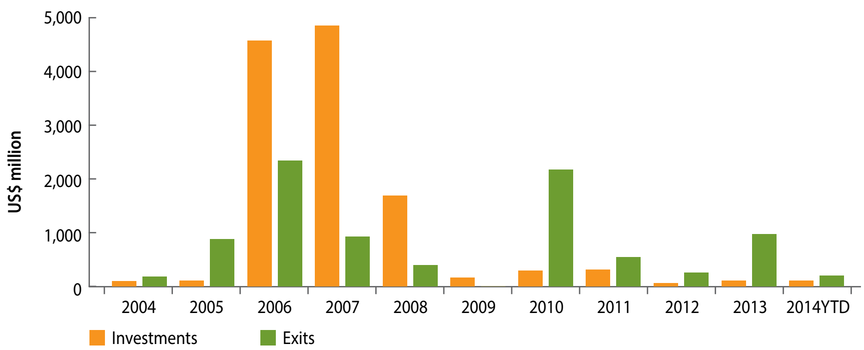
The Carlyle Group sold Kbro to the Tsai family's Dafu Media in 2010 after seeing a previous exit attempt – to Taiwan Mobile – fall foul of the regulators. Macquarie struggled to find a buyer for Broadband Communications and ended up spinning it out via a trust listing in Singapore last year. The asset is trading below the offer price. And then CNS, the most controversial of the lot, was supposed to be sold to Yen-Ming Tsai's Want Want China Holdings, only for the regulator to raise antimonopoly concerns. Tsai's pro-mainland leanings also stirred up a political storm.

Commenting on the sale to Ting Hsin, CNS' legal officer said the buyer was chosen based on numerous factors in addition to price, including the ability to comply with Taiwan's regulations on foreign and Chinese investment, as well as involvement with political parties, the government and the armed forces.

The takeaway for private equity? Picking a partner with which to negotiate Taiwan's regulatory landscape is just as important on exit as entry.

**Tim Burroughs**
Managing Editor
Asian Venture Capital Journal

**Taiwan PE investments and exits**




Source: AVCJ Research

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# NEWS

## GLOBAL

### China-Israel fund invests $42m in Swiss tool maker

Catalyst CEL Fund, a joint venture between China Everbright and Israel-based Catalyst Equity Management, will invest approximately $42 million in Lamina Technologies, a Switzerland-based tool manufacturer. The investment comprises $10 million in new capital to fuel global expansion and up to $32 million to be distributed to Lamina's existing shareholders

## AUSTRALIA

### KKR enters Australia real estate market

KKR and ASX-listed Abacus Property Group have together bought a 70% stake in three office towers that form part of Melbourne's World Trade Centre (WTC) for A$120.4 million ($112.3 million). The seller, Asset 1 WTC, is holding on to 30%. KKR is contributing 75% of the equity and Abacus will provide local property management services in addition to the remaining 25%.

### NZVIF, Taiwan NDF reach $75m first close on VC fund

The first VC fund to be supported by a co-investment partnership between New Zealand Venture Investment Fund (NZVIF) and Taiwan's National Development Fund (NDF) has reached a $75 million first close.

## GREATER CHINA

### JD Capital invests $98m in property developer

JD Capital has invested RMB600 million ($98 million) in Chinreal estate developer Shenzhen International Enterprise for a 10.42% stake. Shenzhen International has issued 309 million new shares at RMB10.03 apiece, raising a total of RMB3.1 billion through a private placement.

### Shenzhen Oriental Fortune backs ZBB Energy JV

Shenzhen Oriental Fortune Capital has acquired an 8% stake in a Chinese joint venture set up by US-based ZBB Energy, which manufactures advanced energy storage and control platforms, for RMB$20 million ($3.24 million).

### Orchid hits $920m hard cap on sixth China fund

Orchid Asia has closed its sixth China growth capital fund, hitting the hard cap of $920 million after receiving more than $1.3 billion of interest from prospective LPs. The fund features two cornerstone investments in companies that went public in Hong Kong last year - watch maker Time Watch and food and beverage producer Tenwow International. Other

recent deals include online games developers Linekong and FunPlus Game and cosmetics retailer Beauty Plus.

Orchid was founded in 1993 and raised $42 million for its first fund the same year, according to AVCJ Research. The private equity firm has aggregate assets under management of $3 billion and operates out of offices in Hong Kong, Shenzhen, Shanghai, Beijing and Guangzhou. It has invested in around 70 companies since inception and made over 38 full and partial exits. It focuses on backing experienced operating executives in building franchises in Asia, with an emphasis on China. A typical target would be an expanding domestic enterprise in an industry with high barriers to entry and good growth prospects.

### China mobile healthcare developer raises $50m

Spring Rain Software, a Chinese mobile healthcare app developer, has raised a $50 million Series C round from new investors China International Capital Corp. (CICC), Rushan Investment Management and Temasek Holdings' Pavilion Capital. Existing investor BlueRun Ventures also participated.

### Qiming leads $25m round for job site Lagou

Qiming Venture Partners has led a $25 million Series B round for Lagou.com, a Chinese job listing website focused on IT industry, with participation from Bertelsmann Asia Investment. The latest round values the company at a reported $150 million.

### Warburg Pincus, Baosteel in $488m gases deal

Warburg Pincus and a subsidiary of Chinese steel producer Shanghai Baosteel Group have agreed to buy industrial gas assets from Henan Jinkai Chemical Investment Holding for RMB3 billion ($488 million).

### Hony in $113m China farm machinery deal

Hony Capital has acquired a 20% stake in Chinese farm machinery maker Chery Heavy Industry for RMB696 million ($113 million). The investment is part of a $340 million joint acquisition of an 80% stake alongside Chinese construction equipment maker Zoomlion Heavy Industry Science and Technology, a Hony portfolio company.

### SIG, Meridian to exit China digital advertising firm

SIG China and Meridian Capital will exit adSage Corporation after Shanghai-listed BesTV New Media agreed to acquire a 51% majority stake in the digital advertising firm for $88.88 million.

### Ex-Groupon HK CEO launches $10m seed fund

Former Groupon CEO for Hong Kong and Taiwan Danny Yeung raised a $10 million seed-stage investment fund following the launch of his new venture capital firm SXE Ventures. The Hong Kong-based fund will focus on tech and healthcare start-ups and will make investments ranging from $75,000 to $500,000.

### Chinese payment platform completes Series B

Qufenqi.com, a Chinese installment payment platform, has raised a Series B round of funding from Source Code Capital, Golden Summit and BlueRun Ventures. Details of the transaction were not disclosed but according to local media the investment size was $25-30 million, valuing the company at RMB1 billion ($162 million).

### Online liquor retailer Jiuxian gets $49m

A consortium led by China Development Bank International has invested RMB300 million ($49 million) in China online liquor store Jiuxian.com.

China Merchants Bank, Minsheng Bank, Shanghai Pudong Development Bank, and Jinzhou Bank, has also agreed to extend RMB700 million in loans to the company.

## Beauty portal Meilapp.com raises $20m

Morningside Technologies has led a $20 million Series B round of funding for Meilapp, a Chinese mobile portal devoted to cosmetics and skincare. GSR Ventures, IDG Capital Partners and Yunqi Capital also participated.

## Sequoia invests $139m in medical equipment maker

Sequoia Capital has acquired a 7% stake in Jiangsu Yuyue Medical Equipment & Supply, a Chinese medical equipment manufacturer, for RMB856 million ($139 million). Jiangsu Yuyue's parent company, Yuyue Technology, sold 37.21 million ordinary shares at RMB23 apiece to Sequoia Bright Investment,.

## Maybank leads $25m round for casual dining platform

Maybank Private Equity has made its first investment in China, leading a $25 million Series D round of funding for YPX Cayman Holdings, which owns and operates Cloud 9, the mainland China licensee of a Taiwan casual dining chain. Existing backers LionRock Capital and Ignition Capital also participated, as well as several individual investors.

# NORTH ASIA

## Advantage acquires Japan kitchenware provider

Japanese mid-market GP Advantage Partners has acquired FMI Corp, an Osaka-based provider of kitchenware products and services. The company's founder, Takeo Kimoto, will re-invest in the new entity FMI Holdings, and will remain as CEO as Advantage looks to grow the company by strengthening management and expanding marketing efforts.

## L Capital Asia to invest in Korean talent manager

L Capital Asia, L Capital Asia, a private equity firm sponsored by French luxury goods conglomerate LVMH, will invest KRW61 billion ($60 million) in YG Entertainment, the Korean record label and talent manager.

## Creador beats expectations with $300m Fund II close

Creador has reached a final close on its second fund at the hard cap of $300 million. A rush of late commitments saw the Southeast Asia and India-focused GP exceed its projected $275 million total. Creador has already invested approximately half the new fund across six deals - two each in Indonesia, Malaysia and India. An announcement on a third Malaysia transaction is expected imminently.

According to Brahmal Vasudevan, Creador's CEO, India is the one LPs are most wary of. This is likely tied to economic volatility in recent years as well as a relatively poor track record for private equity exits. However, Vasudevan said that Creador had managed to article a "fairly crisp strategy" for India, with its three longest-standing

investments in the country across the two funds - Cholamandalam Investment & Finance, Repco Home Finance and Somany Ceramics - all trading at least 2.5x. A fourth investment, in plastic water tanks and pipes manufacturer Vectus Industries, was completed in June.

## Japan mystery shopper company raises $2.2m

Mizuho Capital, Jafco Ventures and DBJ Capital have invested JPY220 million ($2.1 million) in Research and Innovation, a Tokyo-based internet market research company. The deal represents Mizuho's third investment in the company.. The two previous rounds were in 2012 and 2013.

# SOUTH ASIA

## Kaizen opens US office ahead of Fund II launch

India education-focused GP Kaizen Private Equity has opened an office in Silicon Valley ahead of launching its first pan-Asian fund, which has a target of $120 million.

## SEAF backs Indian fast food chain

SEAF India Investment Advisors has acquired a minority stake in Kolkata-based Guha Roy Food Joint & Hotel, which runs fast food chain Only Alibaba and fried chicken brand Baked & Fried.

## Everstone names ex-Goldman executive as CEO

India and Southeast Asia-focused GP Everstone has hired L. Brooks Entwistle,formerly of Goldman Sachs, as a partner and group CEO.

## India's Orios Venture raises $50m

Orios Venture Partners has raised INR3 billion ($50 million) for its first fund. According to Live Mint, the Small Industries Development Bank of India (Sidbi) committed INR250 billion to the fund, while the remaining capital was raised from domestic high net-worth individuals (HNWIs).

## Accel leads new round for TaxiForSure

Accel Partners has led a Series C round of investment for Indian car rental and taxi booking site TaxiForSure.com. The size the transaction was not disclosed but media reports put it at around $30 million.

# SOUTH EAST ASIA

## Armstrong commits $29m to Philippines solar project

Armstrong Asset Management and Singapore solar project developer Nv vogt have committed $29 million to the development of a pipeline of solar projects in the Philippines.

## Ekuinas acquires Malaysian tanker company

Ekuinas, the Malaysian government-backed private equity investor, has agreed to acquire Orkim, a clean petroleum product (CPP) tanker companies, for MYR346.3 million ($109 million).

## CITIC PE scraps plans for Biosensors takeover

CITIC Private Equity has abandoned plans for a takeover of Singapore-listed Biosensors International, although it will remain an active investor in the medical device manufacturer.

# 5 Reasons why you must attend the AVCJ Korea Forum (11 September 2014)

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General Partner and Co-Founder
ALTOS VENTURES

Jason Lee
Managing Director of Overseas Investment
L&S VENTURE CAPITAL

## 3

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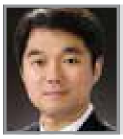
Jason Shin
Managing Partner
VOGO FUND



Joseph Lee
Partner & Senior Managing Director
IMM PRIVATE EQUITY, INC

## 4

**Find out** how private equity is helping **Korean businesses expand overseas** and exploit the regions consumer investment story in a session featuring the following experts:

Minjun Chung
Vice President
HARBOURVEST PARTNERS (ASIA) LIMITED

DC Choi
Executive Director
GLOBAL M&A CENTER (KOTRA)

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# First impressions

**A successful introductory meeting doesn't guarantee LP support but it is an important first step on the road to achieving it. GPs must be informed, engaging and polished – but not too polished**

**THE MEETING IRRETRIEVABLY BROKE** down within 20 minutes when the LP fell asleep. Sitting opposite the quietly snoozing investor, the fund manager and placement agent considered their options. Then the manager got up, walked over to the refrigerator, retrieved a beverage, and returned to his seat – completing each phase of the activity as loudly as possible. It had the desired effect and the LP was roused, but there was little point in continuing. The agent indicated to the client it was time to wrap up.

Tales of fundraising pitches gone wrong are legion, but in order to protect the modesty of all concerned they tend to be related on condition of anonymity. Rambling, rudeness, aggression, arrogance, incoherence, miscalculation of the target audience; all of these have emerged at various times, making a meeting lodge in the memory. Arguably just as bad is being forgotten within hours of leaving the room.

No one disputes that condensing an investment narrative into a 45-minute slot, followed by a 15-minute question and answer session, is challenging. Strong returns make a GP stand out from the crowd, but in a group of near equals, so too can a good first impression.

"We look at maybe 600 opportunities a year across primaries, secondaries and co-invest and the number of those we go with is in the single digits," says Doug Coulter, partner at LGT Capital Partners. "So the purpose of that first meeting is to get a second meeting – and that means capturing someone's interest."

For many Asian GPs it is perhaps more examining than ever before. Investors are cutting back on their GP relationships globally and Asia-based managers can no longer rely on a free pass because they operate in a relatively high-growth market.

The implications stretch beyond the introductory meeting. Some LPs claim they have always interviewed intensely, bringing in everyone from senior management to junior analysts; others are coming around to the idea. What it means is that GPs must field questions at multiple levels during fundraising and then plenty of follow-ups throughout the life of the fund.

"LPs may have gotten caught up in the height of the Asian market. Overall, investors continue to support Asian private equity but they are becoming more selective in terms of the number of sponsors they are willing to support. If an LP is not funding new GPs and solely focused on extending existing relationships, it may dedicate more time to execute a robust and thorough due diligence process," says Jonathan English, managing director at Portfolio Advisors.

## Grueling groundwork

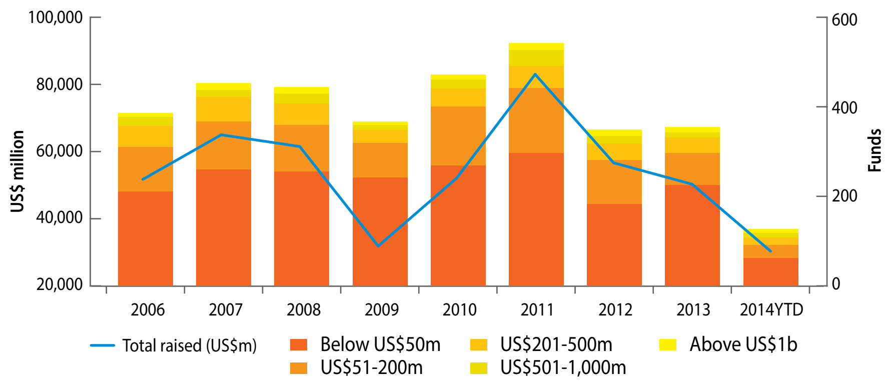
Provided a GP is comfortable getting into granular detail on strategy and investments, the longer due diligence calls are an intellectual rather than a presentational slog. But striking the right balance in an introductory meeting might be a stretch for a manager more accustomed to sourcing deals than investor relations. Internal specialists or third-party placement agents can help bridge the gap.

A placement agent's work begins before a mandate is awarded. Preparatory calls are held with team members, senior and junior, and background research is conducted into everything from the internal dynamics of the firm to the views of portfolio company CEOs. In the case of some of the larger agents, a GP will be put through several rounds of interviews with sales team members who pose questions based on their own experiences dealing with LPs.

The next stage is constructing a narrative. This is underpinned by explanation and analysis in the private placement memorandum and behind that lies the data room, part of a communications strategy intended to ensure accessibility and transparency. To get an LP to the due diligence phase at which they fully engage with this information, it is necessary to whet their appetite through the introductory meeting and accompanying pitch book.

"As a starting point, you listen to the way a GP naturally pitches and you break it down into what does and doesn't work," says Vincent Ng, partner at placement agent Atlantic Pacific Capital. "We have to understand the full story of the fund, the key points we want to put across, and the individual's strengths and weaknesses when it comes to pitching."

**Asia PE fundraising by fund size**




Source: AVCJ Research

Some errors come down to a misuse of the 45 minutes a manager has in front of an LP. Too much time might be spent on a broad introduction to the fund's target geography or giving biographical information on the firm and team members, perhaps leaving only 10-15 minutes to explain how the investment strategy has been executed in the past and what this means for execution in the future. Going to the other extreme, GPs have been known to go into specific details on an individual deal or opportunity that, while interesting, is not suited to the context of an introductory meeting.

An important caveat is that investor sophistication varies markedly. An LP that has

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been investing in China for 10 years is likely to skim over formalities about the country's economic health; an LP with no exposure to Asia whatsoever might want to dwell longer on the basics.

Another turn-off is basic inaccuracy. This may be a senior partner who is unable to answer questions on existing portfolio companies or a pitch book littered with grammatical errors, factual mistakes and inconsistencies. "If the pitch book is full of issues what does it say about their attention to detail and their investment models? It doesn't mean they can't do good deals but it does raise some fundamental questions about quality control," says LGT's Coulter.

> "The more comfortable I am that I can pick up the phone and ask whatever question is on my mind, to which I get a succint answer, the more likely I am to give you my money - assuming you are able to perform"
>
> – Mounir Guen

Even worse, there have been situations in which managers have openly contradicted one another – let alone the material in their pitch book – during a meeting.

These problems can be addressed through detail and discipline. Mixing and matching the senior representatives from a fund who handle the meetings can also help overcome obstacles such as a lack of energy when presenting, limited language ability and personality clashes. (A partner who tries to lighten proceedings by cracking jokes might not be a good fit for a serious-minded LP with an interest in value creation; better to pair another partner with someone from the operations side.)

Then there is practice, lots of it. Every GP AVCJ spoke to has been through mock interviews with an investor relations executive or placement agent playing the role of the LP. In some cases these exchanges will be filmed and reviewed. Coaching from an external presentation and negotiation specialist might be required to iron out bad public speaking habits.

However, one can only go so far. It is not unknown for pitch to come across as too slick or polished, which can have the opposite effect on the LP.

"We can't say, 'These are the questions that are going to be asked and these are the answers you must give,'" says Javad Movsoumov, executive director in UBS' Asia Pacific private funds group. "At the end of the day, the truth will come out. We help them deliver the story in a concise manner and help them understand what LPs are trying to get out of the exercise, without training them to say what LPs want to hear."

In short, a placement agent assists in the communication of an investment narrative but trying to change it may do more harm than good. A bad presenter with a good story can be helped; a good presenter with a bad story cannot. One issue this highlights is the blurred line between changes in style and changes in substance.

A GP interested in minimizing costs might take a fund into market independently that represents a significant strategy shift on its predecessor. For example, a single-country GP might attempt to morph into a pan-Asian player with a Southeast Asia component and budget allocated to recruit a senior managing director to handle China investments. The market response is poor so the GP hires a placement agent and the fund is rebranded.

English of Portfolio Advisors says he has heard managers of first-time and reconstituted spin-outs passionately describe their proposed team and strategy during the initial launch only to return with a markedly different concept after receiving guidance from an agent. "These types of situations test ones trust and it's the LPs role to decipher substance over form," he says.

## Special chemistry

Opinion is divided as to how many meetings a GP should actually do. Mounir Guen, CEO of MVision, advocates canvassing existing LPs and also doing meetings with prospective investors to test the narrative. When fundraising begins in earnest, however, targets must be carefully identified.

"If you can raise a fund with less than 100 LPs who are well-profiled, you don't want to go out and meet 300 investors and get 200 rejections," Guen says. "Many questions have been addressed before the meeting, and the GP will struggle to get their head around why it is not moving. It is important we do not overload the GP who needs to focus on their business. We want to find out where the accessible capital is and put the manager into a rhythm so that every meeting he goes into there is more than a 50% probability of success."

Others disagree, although ultimately it depends on how established a GP is. Brahmal Vasudevan set up India- and Southeast Asia-focused GP Creador in 2010 and has now raised two funds. He estimates this has involved meeting 500 different investors and closing about 50 of them. "Nine out of 10 times you know you aren't going to convince them for whatever reason. That's the hard part: remaining positive in the face of a high rejection rate."

This 10% hit rate is cited by other managers, one of whom adds that he limits the concentration of meetings, if not the overall number. His preference is to do no more than four meetings a day. This is done in the interests of personal sanity and keeping the pitch reasonably fresh rather than just going through the motions.

It helps to be a people person. Those who have worked as investment bankers and management consultants in a former career are also potentially at an advantage. It is an open debate as to whether such individuals make for effective private equity investors, but they have made a living out of pitching for business in a competitive environment and learned to deal with victory and defeat.

It is therefore no coincidence that institutions such as Goldman Sachs, Harvard Business School and Bain & Company feature on the resumes of many Asian GPs. "They are physically very presentable so they have a strong presence in the room; they are very eloquent on their strategic focus, expressing themselves through powerful clear vocabulary; and they listen carefully to what the other person is trying to ask," says MVision's Guen. "And this is across the board of nationality."

They are also known quantities, perhaps even fellow alumni of the LP sitting on the other side of the table. This can be a particularly strong currency in markets where there is little apart from reputation to go on. An interesting example of this is Ashish Dhawan, who co-founded ChrysCapital Partners when Indian private equity was still in its nascent stages.

Speaking to AVCJ in 2011, just before he stepped back from the firm, Dhawan identified signing up the Harvard endowment as an anchor investor as a key turning point in ChrysCapital's development. Although the LP didn't come in straight away because it wasn't comfortable backing a first-time fund, Dhawan went back a couple of years later with the makings of a track record and secured a commitment. He accepts that having studied under the chair of the investment committee while a student at Harvard Business School might have helped tip the balance in ChrysCapital's favor.

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Dhawan is also an alumnus of Goldman and cultivated relationships ahead of raising the first fund. Approximately 10 partners from the firm contributed their personal capital, including then CEO Hank Paulson. These people's involvement brought in other high net worth individuals and ultimately helped provide a stepping stone for attracting institutional investors.

However, as MVision's Guen points out, the industry is riddled with exceptions. While, broadly speaking, an investor might be more comfortable with a first-time fund run by a trio of former Goldman executives than a team that has spun out from a small Asian bank, there is no such thing as an identikit manager. From natural marketers to industry veterans who have honed their approach through years of practice, there are plenty of GPs who give investors what they want – comfort.

"The essence of private equity whether reporting, investor relations or marketing, is transparency and communication," Guen says. "The more comfortable I am that I can pick up the phone and ask whatever question is on my mind, to which I get a succinct answer, the more likely I am to give you my money – assuming you are able to perform."

Indeed, two managers who come from banking backgrounds tell AVCJ that, while they are comfortable pitching, doing it in a private equity context threw up a few surprises. Both were initially frustrated at some LPs' approach to investing.

One contrasts a corporate CEO who is willing to look ahead and drive value for shareholders with LPs who "invest by looking in the rearview mirror" and operate under a herd mentality. The other regrets approaching public pension funds when raising his first vehicle. "Unless you have reams of data don't bother. They will never get their heads around it first time unless you hype it to such an extent they feel they have to do it," he says.

## Same bed, different dreams

This links to the classic GP complaint of attending meetings only to be poked and prodded by junior members of an LP team who may be either poorly informed on the fund and geography, or apparently dead set upon tearing the investment thesis apart. But the argument works both ways and it is rooted in the fact that PE investors tend to be strong personalities who are not afraid to express their views.

"The worst meeting you could have is one in which a GP seems very arrogant or dismissive of an LP," says UBS' Movsoumov. "The professional part of it is important, but so is the personal part. If the LP doesn't like someone or doesn't trust them, they aren't going to move forward. You look at hard facts – the track record, the IRR – but equally there is a soft side."

This might explain why some senior managers are reluctant to step into the room at all and leave the work to junior team members and IR executives, betting that their firm's brand cache and past success will generate sufficient momentum. In theory, a GP with a 5x track record could walk into the room say nothing and still walk away oversubscribed. In practice, it is said that the princelings behind some China funds have stayed on the sidelines and relied on reputation bringing the LPs to them.

However, in a more scrutinizing world, this approach can only be sustained if the returns remain top notch. Fundraising is increasingly a continuous process, hence the rising demand for permanent IR staff who not only meet LPs' needs for greater transparency but also maintain relations with existing and potential investors outside of the formal fundraising process. It is much easier to pitch as a known quantity.

"The model that was pioneered by the mega funds now applies to everyone: you have to recognize that IR is a core competence that has to be permanently executed," says Mark Chiba, chairman and partner , The Longreach Group.

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# Circular progress

**China's foreign exchange regulator has issued new rules simplifying the use of offshore special purpose vehicles for investment purposes. It's good news for VCs but questions remain about implementation**

**NEARLY 10 YEARS AGO, VENTURE CAPITAL** investment in China temporarily ground to a halt. This was a regulatory roadblock arising from the State Administration of Foreign Exchange's (SAFE) desire to establish a degree of control over the army of entrepreneurs raising money offshore.

Circulars 11 and 29, issued in early and mid 2005, mandated the registration of investment activities with SAFE, but the requirements and processes were not clearly set out. Spooked by the uncertainty, investors hung back. It wasn't until the end of the year, and the release of Circular 75, that confidence was restored.

Circular 75 was an improvement but not a panacea. It still imposed a heavier compliance burden on the VC community, requiring Chinese founders and foreign investors involved in setting up offshore entities for fundraising purposes to disclose the intended use of this capital to SAFE. Failure to do so could jeopardize a future IPO.

Now Circular 75 has itself been superseded. What does the new piece of legislation – Circular 37 – mean for the status quo?

"The Circular 37 is probably one of the most sophisticated clarification rules on the principle of PRC citizens and residents needing to register with SAFE," Rocky Lee, Asia managing partner at Cadwalader. He sees it as a substantial simplification of the registration process and a means of enhancing the use of variable interest entity (VIE) structures – a controversial but at times essential piece of the VC jigsaw.

However, other industry participants remain cautious. They note that the VIE situation has yet to be fully clarified, while measures taken to support Chinese companies making outbound investments – highlighted by SAFE as a key advantage of the revised approach – will only prove fruitful if investors know where they stand.

## Offshore, onshore

The VIE structure was introduced so foreign investors could gain access to areas, such as the internet industry, where their direct participation is not permitted.

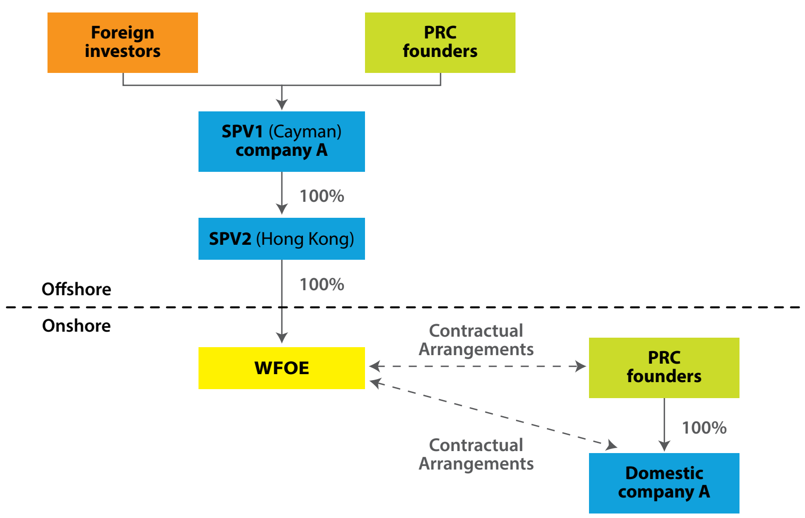
The normal practice is for start-ups seeking VC funding to register with SAFE and set up an offshore special purpose vehicle (SPV). A foreign investor injects capital into the SPV, which in turn acquires ownership of the onshore assets. The onshore entity becomes a wholly foreign-owned enterprise (WFOE) and distributes profits to its VC shareholders through dividend payments.

Assets to which foreign investors cannot have direct exposure are held outside of the WFOE in a parallel structure owned by one or more Chinese nationals, usually the company founder. The VIE is a series of contractual agreements between the WFOE and the parallel company to secure the former's interest in the latter.

capital to flow more easily into China. This has been achieved by ditching two key Circular 75 requirements. First, rather than register the SPV (a red-chip structure) and every offshore subsidiary beneath it, SAFE only need known about the top-level SPV. Second, disclosure of offshore investment proposals – which would reveal the existence of any VIEs – is no longer necessary.

"The simplification of the registration process should streamline the SAFE registration process, if implemented in practice, and reduce delays in executing red-chip investments," says Thomas Chou, partner at Morrison & Foerster.

**VIE structure**




Prior to the publication of Circular 37, Chinese companies had to comply with the Circular 75 requirement to disclose offshore investment proposals in order to get SPV registration approval. A VIE structure would have to be revealed as part of this process, but over the last few years it has been increasingly scrutinized.

In 2011, the China Securities Regulatory Commission (CSRC) asked the State Council to take action against the VIE structure. SAFE responded by refusing to accept foreign exchange registrations that included VIEs. Since then the regulator's stance appears to have softened somewhat, with some industry participants claiming that SAFE will approve a deal if VIE references are removed from proposals.

Circular 37 has liberalized the environment still further. The definition of an SPV and its purpose have been broadened, allowing offshore

Cadwalader's Lee says his firm has already noticed positive changes. In the past, it would take 2-6 months for a Chinese company to get approval for registering an offshore SPV to receive foreign funding. Under the new circular, the waiting period is expected to fall to 10 days.

Lee adds that Circular 37 should be considered alongside Circular 36, which was issued one day after, to get a broader picture. Under Circular 36, SAFE is liberalizing capital account settlement for foreign-invested enterprises, allowing companies to covert foreign currency into renminbi.

"The two circulars help relax capital flow into China's venture-backed tech, media and telecom businesses," he explains. "The net result is that a VIE business structure will have better cash flow and that it is now much easier to register Chinese founders, employees, and investors when they own shares in a venture-backed business using a round-trip structure."

What it means in practical terms is that if a Chinese start-up raises $20 million from foreign VC investors, it will be much easier than before for the onshore WFOE to convert this capital into renminbi and put it to work in the business.

However, not everyone is so excited by the new rules, at least as far as VIEs are concerned. While SAFE hasn't outlawed the structures in the new circular, neither has it endorsed them.

"It would be dangerous to think that Circular 37 gives some kind of blessing to VIE structures," says Michael Chin, partner at Hogan Lovells. "Our experience has been that, when we applied for a registration under Circular 75, the authorities have asked for any express reference to 'VIE' to be removed, even though a VIE structure was in place. We think the same scrutiny exists over VIE structures and Circular 37 doesn't change that."

### Outbound initiatives

While SAFE remains officially silent on VIEs, it has been much more willing to trumpet the benefits Circular 37 brings to Chinese companies wanting to use an offshore SPV as a vessel for capital earmarked for international expansion. "In order to support the China 'go out' policy and make full uses of onshore and offshore markets, we will further simplify the procedure to allow Chinese residents to raise funds and make investments through SPVs," SAFE noted in a statement.

The offshore SPV, which previously could only exist as a financing vehicle, can now be used to support acquisitions onshore and offshore. For onshore activities, it is free to engage in M&A under normal regulatory and foreign exchange rules, or to set up greenfield enterprises. "That type of investment in China wasn't explicitly permitted under Circular 75," says Christopher Xing, M&A tax partner at KPMG China.

Chinese founders have various options in terms of capitalizing the SPV, such as using onshore collateral to get loans overseas. But more importantly, that capital can accumulate offshore. Traditionally, companies have been obliged to repatriate the capital raised offshore to China within 180 days. In that context, those earnings would "immediately" become taxable.

"Now, SAFE has lifted this compulsory profit repatriation restriction and as long as the PRC-controlled foreign company rules do not apply and offshore earnings could be reasonably retained offshore, the SPV won't be subjected to immediate taxation in China," says Xing.

However, there is still some concern whether individuals can openly use SPVs to conduct outbound investment without approvals from other authorities, such as the National Development and Reform Commission (NDRC) and The Ministry of Commerce (MofCom).

"While Circular 37 in many ways liberalizes the registration and financing of SPVs, it was adopted solely by SAFE and therefore does not have the authority to supersede MofCom's jurisdiction over the acquisition of an affiliated PRC company. As the latter is an important component of red-chip restructurings, we look forward to further guidance from MofCom as to whether it will also liberalize its approval process with respect to such transactions," says Morrison & Foerster's Chou.

Progress may well be slow. Even though SAFE has issued guidelines, the fragmented nature of its physical presence and governance structure means they aren't yet being implemented nationwide. This is fairly typical of Chinese legislation where local authorities are reluctant to take action without further clarification.

"Circular 37 is still subject to a lot of interpretation by the local SAFE authorities," says Hogan Lovells' Chin. "Yes, it's further step in the right direction, but there are a number of matters that remain unclear."

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# GoGoVan eyes regional expansion

**THREE HONG KONG YOUNGSTERS CAME** up with an idea to supply disposable lunchboxes to local restaurants for free and make a return by selling display advertising on the products. However, when the delivery vans failed to show up, they were left standing in the street with 200,000 lunchboxes and nowhere to go. The youngsters resorted to knocking on the windows of nearby vans in the blind hope of finding transportation.

This desperate experience prompted the idea for GoGoVan, currently a free-to-use app that puts customers in contact with drivers. Relying on GPS technology, the app notifies all drivers within 5 kilometers of a customer's pick-up point, and the first to respond gets the job. If there is no response within 10 seconds, another alert is sent out across a wider range. It is eminently preferable to the 20-30 minute waits typical of call center inquiries.


**GoGoVan: At your convenience**

The Hong Kong-based start-up was founded in summer 2013 and more than 14,000 drivers have since signed up with GoGoVan, of which about 9,000 of them have been vetted and registered.

The company got off the ground with HK$20,000 ($2,600) in seed capital and received financial support from the local Cyberport Creative Micro Fund (CCMF) scheme and other investors. This year GoGoVan was named Best Mobile App at the Hong Kong ICT Awards. Last week the company received its first institutional round of funding – worth $6.5 million – led by Centurion Private Equity. It takes the total raised by the company past $10 million.

"They just provide us with the capital and let us have complete control in running the company. They trust us and they want to be passive. That's what we like about Centurion," says Steven Lam, CEO of GoGoVan.

Rapid expansion into Southeast Asia is GoGoVan's immediate goal and part of the new round of investment is being put towards expanding the team. The company has already tapped the Singaporean market, which is seen as a natural step from Hong Kong due to the two cities' geographical proximity and common languages. "The growth rate in Singapore is even faster than Hong Kong," says Lam.

The biggest challenge GoGoVan faces is keeping pace with rising demand for its services. At the same time, Lam recognizes the importance of educating customers about an app that represents a relatively new idea in Asia. For now, spreading the word is more important than making money – a commission system will be introduced once the business reaches maturity. Lam expects to charge drivers a 5-10% fee on all transactions.

Monetization is also expected to come through the recently launched GoGoFuel. The company partners with major local fuel supplies and buys up gasoline in bulk, selling it at a discount to drivers who use GoGoVan, while holding on to a small cut of each transaction.

# SEAF India feasts on India fast food

**INDIA'S FAST-GROWING QUICK SERVICE** restaurant (QSR) sector is one of the many symptoms of a country that is increasingly cash-rich and time-poor as its middle class swells. A recent report by Indian research firm Crisil estimates by 2016 the size of the market will more than double to INR70 billion ($1.15 billion) from INR34 billion in 2013.

Private equity has not been slow to catch on. The recent acquisition of a significant minority stake in Kolkata-based fast-food chain operator Guha Roy Food Joint & Hotel (GRFH) by SEAF India Agribusiness Fund is the latest in a growing list of transactions targeting this lucrative sector.

Set up by chartered accountant Anuruddha Guha Roy in 2008, GRFH runs two QSR brands: its flagship 22-store chain Only Alibaba, which serves traditional Indian food, and fried chicken brand Baked & Fried, which currently has three outlets.

Hemendra Mathur, managing director of SEAF, explains the company was not only attractive because of its fast growth in eastern India, but also because it targets a region that is vastly underserved. "If you look at most of deals in this sector, they have been in Dehli, Mumbai and Bangalore; none have been in Kolkata," he says. "Kolkata is a market with a lot of potential, but for various reasons many funds have not gone there."

Another plus point was GRFH's two distinct formats, which broadens the customer base. While Only Alibaba's traditional menu positions it as more family-orientated mass market chain, Baked and Fried's burgers, fries, fried chicken and sandwiches are for a younger crowd.


**Only Alibaba: Traditional fare**

But the real beauty of business, says Mathur, is in the backend. "The critical point that made the company so attractive is its logistics and supply chain. Kolkata is a huge market – there is the potential for as many as a hundred stores there – but for that to happen you need a very strong backend."

GRFH achieves this by centralizing operations, with the entire network served by a 30,000 square feet kitchen and warehouse at its heart. "This company has done phenomenally well in terms of identifying the right vendors, cutting costs and doing most things in-house," says Mathur. "In its central kitchen they have their own ovens, their own chicken-slaughtering machines, their own spice-grinding machines, everything is right there."

A strong supply chain also allows the business to compete better on price. Mathur adds that while GRFH products are of a comparable quality to the most global brands in India, meals are 30% cheaper. This has been especially helpful when targeting a younger demographic.

Given Kolkata is still largely untapped, the short-term expansion strategy will be confined to tier-two centers within 300 kilometers of the city. A longer-term objective is to achieve sufficient scale that the business is an attractive target for any strategic investors looking to gain a foothold in QSR.

# Partners Group's Sino-European play

**THE MANUFACTURERS OF GUIDE RAILS** used in elevators are an oligopoly serving an oligopoly. Three companies control 80% of the market and eight of their clients are responsible for 90% of the world's elevators. This concentration of supply may in part be due to product safety. Guide rails stop elevators swaying in their shafts; the faster an elevator moves, the greater the pressure exerted on the guide rail.

The three guide rail manufacturers are China-based Changjiang Runfa, Italy's Monteferro and Suzhou Savera Elevator Riding System, a 47-year-old company with Spanish origins that put roots in China in 1999. Partners Group liked what it saw and duly emerged triumphant from a competitive process with an agreement to buy a 75% stake in the business for an enterprise valuation of more than $450 million.

"It was a Spanish company that chose to go global and then over the past 15 years the construction boom in China has turned the country into the world's largest market for elevators. The second-largest market is India and it is only 10% the size of China," says Kelvin Yu, managing director and head of China at Partners Group. "It is a European firm with European levels of corporate governance but the business is very dependent on China."

Savera moved its headquarters to Shanghai in 2012 and relies on China for approximately 85% of its revenues, believed to have surpassed $500 million last year. The company primarily operates through a network of local joint ventures, as well as maintaining a presence in Germany, India and Spain.


Suzhou Savera: Lifting value

Savera came on the market because the founding family and majority owner was looking to sell to a group that could drive the future business growth in Asia. The family retains a minority interest in the business alongside its long-term Chinese partner. So this was a succession-planning opportunity, but one with two twists.

First, the founders wanted to take Savera public in China but abandoned the idea because the market was too challenging. Nevertheless, the company had still been restructured onshore to facilitate the listing, which made it more difficult for investors seeking to finance an acquisition. According to industry sources, one of the reasons Partners Group prevailed was its willingness to do a pure equity deal up front with a view to refinancing later. This is likely to involve an offshore restructuring, which could put the company on course for a Hong Kong listing.

Second, Savera's fortunes are tied to those of China's real estate market, so the buyer had to be comfortable with a sector that has been struggling of late. "We took a long-term view," explains Yu. "There will be ups and downs but we believe China is seeing long-term secular growth in this sector – millions of people are going to move to cities in the coming years as part of the ongoing trend of urbanization."

Partners Group's value creation plans for the company include expanding geographical coverage and pursuing add-on acquisitions.

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# A learning curve

## As founder and managing director of Asia's only education-focused GP, Sandeep Aneja has found that a career in private equity can be a much about finding questions as funding answers

**SANDEEP ANEJA'S PASSION FOR** education began years before he set up education-focused GP Kaizen Private Equity. In the late 1980s, he was one of a handful of undergraduates admitted to the prestigious Jamalpur Gymkhana in Northern India, to train as a railway engineer.

The entry examination was rigorous, only one 10-20 students get in every year, but successful candidates were guaranteed a career. On top of that, the school provided room, board and a stipend of $80 per month. Not much by today's standards, but it was enough for Aneja to launch his first – philanthropic – educational venture.

"We used to get so much money; I had no idea what to do with it," he explains, "I could barely get through $25 a month in living expenses, so I had a lot of money left over. We used it to buy books and set up a literacy school for factory workers and their spouses."

Run in conjunction with the institute's director and some classmates, the school lasted just three years but over 400 students has passed through the program. The early experience left Aneja with ambitions beyond the railway. In 1992 he went abroad and studied for a masters degree in civil engineering at the University of Delaware.

### Innovation central

This was the beginning of a 15-year stint in the US that included a postgraduate career in transportation, planning and logistics with the Federal Highways Administration. It didn't last long. After short spell in engineering consulting, a former employer convinced Aneja he was wasting his talents and advised him to take an MBA, so he moved to California and enrolled at Stanford Business School.

"When I got to Stanford, I saw innovation everywhere and I really liked the thinking and DNA of the people there," recalls Aneja. "To see the work that was being done in 1999 was exciting, the world really was going through an internet revolution."

That was enough for Aneja to decide to stick around, but with no background in technology whatsoever, he was at a disadvantage. Unwilling to wait for graduation, in his second year he leveraged his experience as consultant to land a position with a tech incubator. "I was in the middle of Silicon Valley and everyone was talking tech, but I felt so out of place – I knew absolutely nothing about it," says Aneja. "The only way I could learn was to work full-time and go to school. My second year was hard work."

It was at the incubator that Aneja got his first senior role at a start-up: as director of business development and product marketing with Actionbase, an enterprise software solutions firm. It was another case of learning on the job – until that point he had not sold a thing in his life.

"I basically just grew with the company," says Aneja. "I learned how to get out there, sell a product, position the product and build partnerships that would enhance the quality of the product and the ecosystem."

> "To see the work that was being done in 1999 was exciting, the world really was going through an internet revolution"

When the time came to exit the business in 2002, Aneja's intention was to join another early-stage investor, work with handful of start-ups and then join a portfolio company he liked. He joined Series A specialist Outlook Ventures and ended up staying beyond the planned two years and becoming a partner. It was four-and-a-half years before he departed.

Aneja recalls that enterprise software and software-as-a-service (SaaS) was a prevalent investment theme at the time. Notable companies he was involved with included data back-up provider Lasso Logic, which generated a 3x return within six months, and ClairMail, a mobile payments solutions provider acquired by UK firm Monetise in 2012.

### Finding a niche

By 2008 Aneja decided it was time to return to India. He explains that while the US VC industry had become saturated, many areas of India remained underserved and untapped. After 18 months in India, Aneja came upon the Kaizen concept. His inspiration was in part a result of his own experiences as a consumer. "Education was one of the reasons I moved back, in fact a critical reason," he says. "While trying to find a good school for my children, I realized the opportunity there was in transforming education in India."

Aneja looked at other sectors – such as technology, wellness and food – but none of them provided a platform that was sufficiently differentiated. To build his team, Aneja chose focus on those with strong sector expertise over investment experience.

"A lot of the entrepreneurs were coming in and looking for sector knowledge from investors at the time and that is the team we put together," he says. "Many have a strong higher education background, and that network has given us access to other educationalists and entrepreneurs."

It was a first-time team and a first-time fund, with a country-specific, sector-specific mandate; a difficult fundraise was all but guaranteed. The Kaizen Education Fund I launched in May 2009 with a target of INR 4.82 billion ($100 million). It eventually ended up closing shy of its target at INR4 billion three years later.

Deal flow is another story. The first investment came in 2011, when Kaizen committed $7.5 million to distance education provider Universal Training Solutions (UTS). The GP has since made seven more, but Aneja says he is only scratching the surface. "The number of deals in education is vastly more than we expected – we have identified around 1,100 potential deals to date."

Now Kaizen is planning a follow-up vehicle: a $150 million pan-Asian education fund. Targeting jurisdictions such as Bangladesh, Sri Lanka, Singapore and the Philippines as well as India, Aneja is confident that even more opportunities are over the horizon. Investment is not a problem; the real challenge for Kaizen will be educating LPs.

# SELECTED INVESTMENTS FROM MAY 2014 TO AUGUST 2014

| PizzaExpress, Ltd | |
|---|---|
| Country | United Kingdom |
| Sector | Consumer products/ services |
| Founded | 1965 |
| Management | Richard Hodgson, CEO |

## Hony Capital Ltd. — $1,543.3mln

**Deal Brief**
Hony Capital has acquired a 100% stake in PizzaExpress, the UK-based pizza restaurant chain operator, from The Gondola Group for a consideration of GBP900 million. The deal allowed Cinven, the private equity owner of Gondola Group, to exit since its initial investment in 2007.

| Goodpack Ltd | |
|---|---|
| Country | Singapore |
| Sector | Services - Non-Financial |
| Founded | 1989 |
| Management | Liew Yew Pin, Managing Director |

## KKR Singapore Pte. Ltd. — $1,116.9mln

**Deal Brief**
IBC Capital, an affiliate of KKR, has announced its planned acquisition of Goodpack, a provider of intermediate bulk containers in Singapore, for a consideration that values Goodpack at approximately S$1.4 billion. The transaction will be the first takeover of a listed company from KKR's $6 billion Asia fund II.

| Tamarind Energy Ltd | |
|---|---|
| Country | Malaysia |
| Sector | Mining and metals |
| Founded | 2014 |
| Management | Ian Angell, CEO |

## The Blackstone Group Asia Ltd. — $800.0mln

**Deal Brief**
Blackstone Energy Partners (BEP) has invested up to $800 million in Tamarind Energy, a new exploration and production company in Kuala Lumpur, alongside Tamardind management. The deal was Blackstone's first investment in oil and gas in Southeast Asia and will focus on using new technologies and expertise to increase yields from fields where production is in decline.

| SBI Mortgage Co., Ltd. | |
|---|---|
| Country | Japan |
| Sector | Financial services |
| Founded | 2000 |
| Management | Noriaki Maruyama, CEO |

## Carlyle - Japan — $421.4mln

**Deal Brief**
CSM Holdings, an investment vehicle owned by Carlyle Japan Partners III, has taken over SBI Mortgage, a Japan-based mortgage loans service provider, from SBI Holdings, SBI Investment and Korean depository receipts shareholders for a total consideration of Won427.3 billion. SBI Holdings will invest JPY2 billion in CSM Holdings while Tokio Marine Mezzanine will provide JPY5 billion financing in form of preferred shares.

# SELECTED PE-BACKED IPOS FROM MAY 2014 TO AUGUST 2014

| WH Group Limited | |
|---|---|
| Country | China (PRC) |
| Sector | Consumer products/ services |
| IPO Date | 8/5/2014 |
| Stock Exchange | Stock Exchange of Hong Kong - Mainboard |
| Management | Wan Long, Chairman & CEO |

## CDH China Management Co., Ltd. — $2,354.9mln

**Other VC Sharholders(s):** Ascendent Capital Partners; Goldman Sachs & Co. - Principal Investment Area; New Horizon (Beijing) Investment Advisors Ltd.; SBI Investment Co., Ltd.; Temasek Holdings Advisors (Beijing) Co., Ltd.

**Issuer Profile**
WH Group is the largest pork company in the world, with number one positions in China, the U.S. and key markets in Europe. Its unique global platform integrates hog production, hog slaughtering and the processing and distribution of packaged meats and fresh pork, placing the company in the number one position in all of the key segments of the pork industry.

| Healthscope Ltd. | |
|---|---|
| Country | Australia |
| Sector | Medical |
| IPO Date | 07/28/2014 |
| Stock Exchange | Australian Stock Exchanges |
| Management | H Kevin McCann, Chairman |

## Carlyle Asia — $2,122.7 mln

**Other VC Sharholders(s):** TPG Capital, L.P.

**Issuer Profile**
Healthscope owns and manages psychiatric, medical/surgical and rehabilitation hospitals. It is a niche private hospital operator, with approximately 2400 beds and is ranked the third-largest private provider in Australia.

| Icon Offshore Bhd. | |
|---|---|
| Country | Malaysia |
| Sector | Transportation/ Distribution |
| IPO Date | 06/25/2014 |
| Stock Exchange | Bursa Malaysia - Mainboard |
| Management | Jamal Yusof, CEO |

## Ekuiti Nasional Bhd. (Ekuinas) — $293.1 mln

**Issuer Profile**
Icon Offshore Berhad, created by merger of Tanjung Kapal Services and Omni Petromaritime, is the largest pure-play offshore support vessel (OSV) provider in Malaysia and one of the largest in Southeast Asia.
The Company provides a wide range of logistical support services throughout the entire entire offshore oil and gas life cycle, from exploration and appraisal, field development and operation and maintenance, through to decommissioning.

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