

Content Includes:

Preqin and HKVCA Special Report: Private Equity in Hong Kong

June 2015

Fundraising

China-based fund managers dominate the amount of capital secured in recent years.

Fund Managers

US-based fund managers account for the largest proportion of capital secured by Pan-Asia-focused funds.

Buyout Deals

Aggregate value of PE-backed buyout deals in Hong Kong reached a record high in 2014.

Venture Capital Deals

Q1 2015 saw more capital invested in venture capital opportunities in Hong Kong than any other quarter historically.

IPO Exits

HKVCA provide analysis on the IPO market in the region.





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The Hong Kong Venture Capital and Private Equity Association (HKVCA) was established on November 12 1987 with the objectives of promoting and protecting the interests of the venture capital and private equity industry in Hong Kong.

The HKVCA represents over 300 corporate members managing US\$1 trillion assets totally. These firms are engaged in venture capital and private equity investments in the Asia-Pacific region at all levels – from venture, growth, buyout, secondary, to pension plans, funds of funds, family offices etc.

HKVCA's mission is to stimulate a vibrant venture capital and private equity industry in Asia while promoting the role of member firms in value creation, innovation and economic development.

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The Growing and Changing Nature of Private Equity in Hong Kong

- John Levack, Managing Director and Founder,
Electra Partners Asia

What opportunities & challenges do you note for the private equity landscape in Hong Kong?

There are a number of trends that are growing and changing the nature of private equity in Hong Kong. A few that are noteworthy are:

Growing importance of LPs: Over the last few years, the role of the LPs (or fund investors) has changed as these entities have grown in number, in size and in expertise. LPs are often demanding a larger role in determining fund terms, engaging more with the GPs in how their businesses are operated, in participating in co-investments and in making their own investments directly into target companies. We have also seen more of these firms (often based out of North America, Europe or the Middle East) establish their own offices in Hong Kong. Smart GPs are increasing the 'partnership' role of their relationship with LPs.

Polarisation of size: The big 'brand name' firms are raising ever larger funds while at the small end of the spectrum, the cost of overheads (among which meeting ever-increasing compliance obligations are a major burden) is testing the viability of small scale. While the larger firms are able to maintain a region-wide and sector agnostic approach, the smaller firms have to demonstrate some specialization that will give them a competitive advantage. In both large and small firms, the passive investment approach is being replaced with a much more active involvement in helping investee companies achieve their growth targets.

China outbound: China's rise as a private equity market has been stunning. Up until now it has been divided into RMB investors and \$ investors – with both groups seeking domestic investment opportunities. In line with a strong trend in industry, the private equity world in China is starting to look outbound. Big LPs (including CIC and insurance companies) are searching for cross-border investments, part of which will be helping Chinese domestic businesses expand internationally. This is a good opportunity for Hong Kong.

Cycles: It is now 25 years since I started making private equity investments in Asia. It is remarkable how cyclical the business remains. When markets are being feted for being certain to go up further, it always remains the right time to be taking profits. The death rights being read for a country's economy, for the regional fund investment strategy or the buyout or minority growth strategy, generally signals that it is a good time to invest in this category. A smart fund of funds with which I have worked, has a policy that requires it to commit the same amount to funds each year – irrespective of the cycle – to avoid market timing bias.

What are your thoughts on the trend of rising valuations?

I do not have any pretension to be an economic forecaster – but I will say that today I am looking to sell some assets and the new investments that I might find attractive are in businesses that need a little 'fixing up' in niche sectors at low valuations.

When do you see tax exemption for offshore funds coming into play?

It has now been two years since this was mentioned in the Budget speech and I am informed that the draft Bill is awaiting its Legco reading. To be fair to the Government, while the concept behind our request was clear, there were some tricky details to incorporate and we requested quite a few consequential changes after the Government adopted the proposal to include unlicensed firms.

For implementation, there may be some firms that initiate a restructuring to upgrade their Hong Kong adviser to a manager role, but I would expect that most private equity organizations will wait for the next fund structure before taking advantage of the opportunity to provide more services from Hong Kong. Our expectation is that a gradual implementation of managers being established in Hong Kong will start later this year.

How important is the tax exemption for Hong Kong's competitive position?

Hong Kong is Asia's most important single centre for private equity because of its location that is central to the entire Asian region as well as having close proximity with China – and because it has a deep talent pool of GPs and the external professional services which private equity requires to execute its investment strategies.

In the past, the structures used by private equity firms, the funds and the managers, were based offshore. We believe that operational efficiency can be improved and tax efficiency enhanced by bringing fund and manager onshore in one jurisdiction. The Offshore Funds Tax Exemption allows us to move a little closer to the ideal, but we continue to push for further changes to Hong Kong's laws that will allow the funds themselves to come onshore.

If we can obtain this – and make sure that the appropriate changes are made to taxation and regulation – then Hong Kong can extend its attractiveness as the premier base for private equity in the region. The benefit for Hong Kong will be more private equity firms locating here and, while these may not be large employers, they bring large budgets for buying-in professional services which will create more financial service jobs. If we can do this soon, we can capitalize on the growing trend of outbound private equity capital flowing from China.

Electra Partners Asia

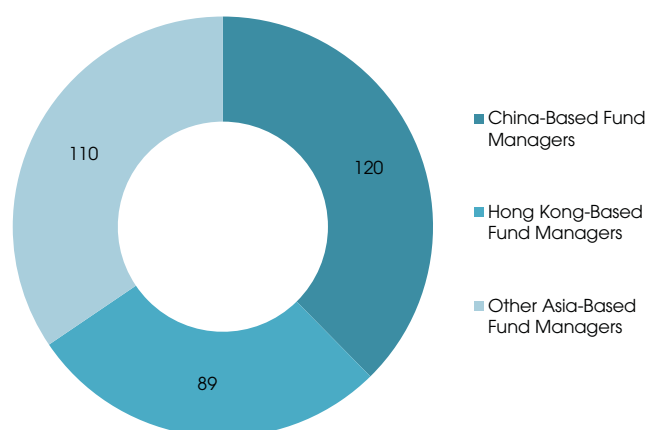
John Levack is Managing Director and a founder of Electra Partners Asia Limited. The Electra Partners Asia business was established in 1995 (originally in a joint venture with Jardine Fleming) and has built a pan-Asian portfolio of investments with capital from Electra Private Equity plc. John worked for 3i plc for 12 years, initially in the UK business, but the last 5 years were spent running a 3i joint venture in India.

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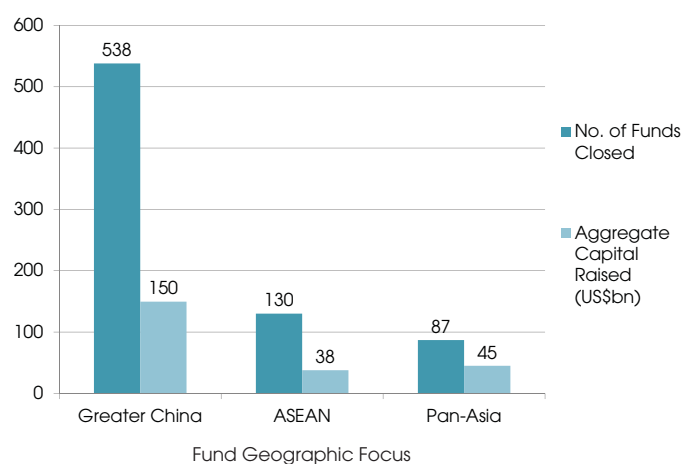
Fundraising and Fund Managers

Fig. 1: Breakdown of Total Capital Raised by China-, Hong Kong- and Other Asia-Based Private Equity Fund Managers in the Last 10 Years (US\$bn) (As at 1 May 2015)



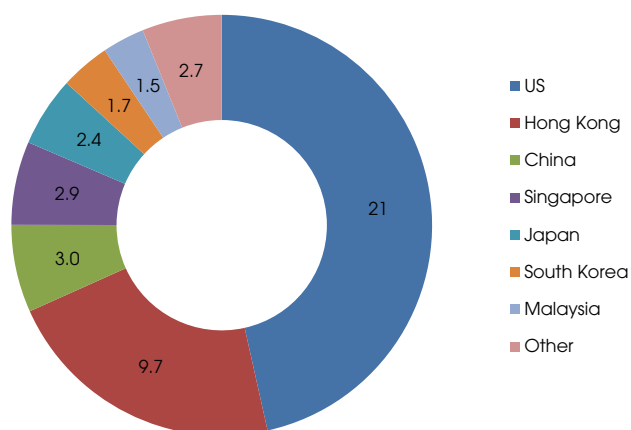
Source: Preqin Fund Manager Profiles

Fig. 2: Number of Funds Closed and Aggregate Capital Raised by Greater China-*, ASEAN-** and Pan-Asia-Focused Private Equity Funds, 2010 - 2015 YTD (As at 1 May 2015)



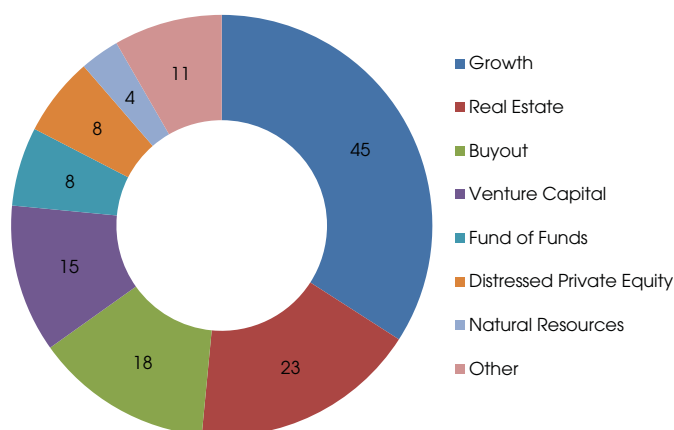
Source: Preqin Funds in Market

Fig. 3: Breakdown of Aggregate Capital Raised by Pan-Asia-Focused Funds by Fund Manager Location, 2010 - 2015 YTD (US\$bn) (As at 1 May 2015)



Source: Preqin Funds in Market

Fig. 4: Breakdown of Number of Private Equity Funds Raised by Hong Kong-Based Fund Managers by Fund Type, 2010 - 2015 YTD (As at 1 May 2015)



Source: Preqin Funds in Market

Fig. 5: Five Largest Hong Kong-Based Fund Managers by Total Capital Raised in the Last 10 Years (As at 1 May 2015)

| Firm | Total Capital Raised in the Last 10 Years (US\$bn) | Strategy Preferences |
|----------------------------|--|---|
| CDH Investments | 8.5 | Buyout, Early Stage, Early Stage: Start-up, Expansion / Late Stage, Growth, PIPE, Venture Capital |
| Baring Private Equity Asia | 8.5 | Balanced, Buyout, Growth, Recapitalisation |
| Affinity Equity Partners | 6.6 | Buyout, Management Buy-In, Management Buyout, Restructuring |
| RRJ Capital | 5.8 | Buyout, PIPE |
| DST Global | 5.5 | Expansion / Late Stage |

Source: Preqin Fund Manager Profiles

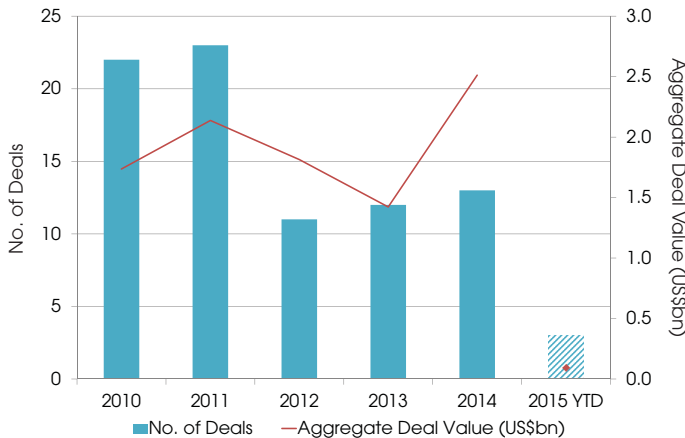
*Greater China includes China, Hong Kong, Macau and Taiwan

**ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Brunei, Myanmar, Cambodia and Laos



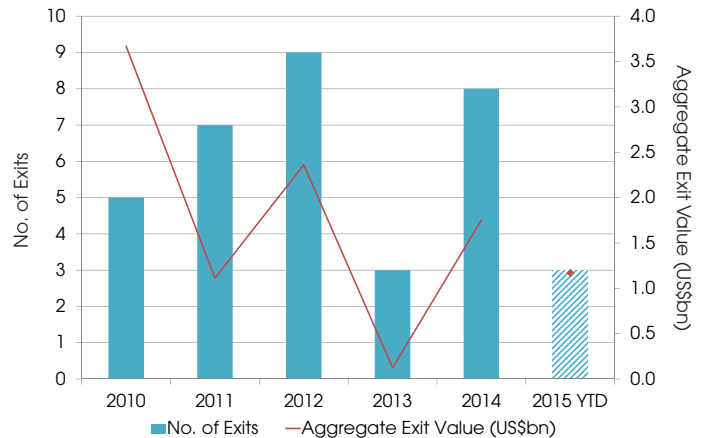
Buyout Deals and Exits

Fig. 6: Number and Aggregate Value of Private Equity-Backed Buyout Deals in Hong Kong, 2010 - 2015 YTD (As at 1 May 2015)



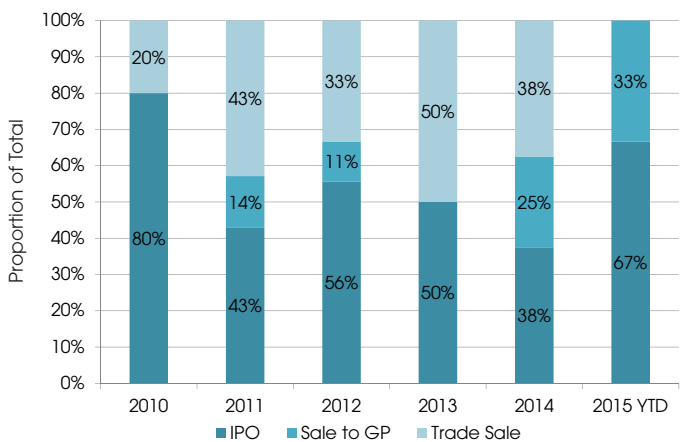
Source: Preqin Buyout Deals Analyst

Fig. 7: Number and Aggregate Value of Private Equity-Backed Buyout Exits in Hong Kong, 2010 - 2015 YTD (As at 1 May 2015)



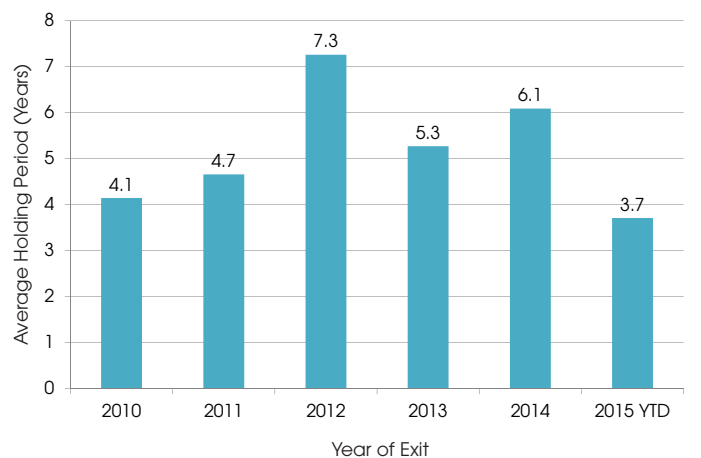
Source: Preqin Buyout Deals Analyst

Fig. 8: Proportion of Number of Private Equity-Backed Buyout Exits in Hong Kong by Type, 2010 - 2015 YTD (As at 1 May 2015)



Source: Preqin Buyout Deals Analyst

Fig. 9: Average Holding Period for Private Equity-Backed Buyout Portfolio Companies in Hong Kong by Year of Exit, 2010 - 2015 YTD (As at 1 May 2015)



Source: Preqin Buyout Deals Analyst

Fig. 10: Five Largest Private Equity-Backed Buyout Deals in Hong Kong, 2014 - 2015 YTD (As at 1 May 2015)

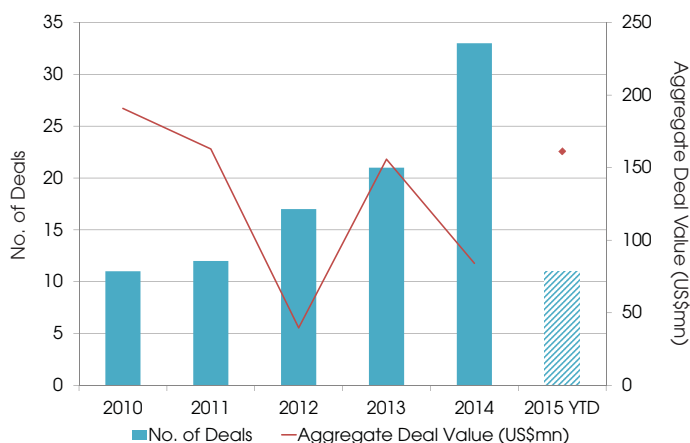
| Firm | Investment Type | Deal Date | Deal Status | Deal Size (US\$mn) | Investor(s) | Primary Industry |
|-----------------------------------|-------------------|-----------|-------------|--------------------|--|--------------------|
| Noble Agri | Buyout | Sep-14 | Completed | 1,500 | China National Cereals, Oils & Foodstuffs Import and Export Corp, Hopu Investment Management, IFC Asset Management Company, Noble Group, Standard Chartered Private Equity, Temasek Holdings | Agriculture |
| Asia Satellite Telecommunications | PIPE | Dec-14 | Announced | 484 | Carlyle Group | Telecoms |
| The Executive Centre Limited | Buyout | May-14 | Completed | 220 | CVC Capital Partners | Business Services |
| Le Gaga Holdings Ltd. | Public To Private | Jul-14 | Completed | 185 | Sequoia Capital | Agriculture |
| China Everbright International | PIPE | Jan-15 | Announced | 85 | International Finance Corporation, RRJ Capital | Financial Services |

Source: Preqin Buyout Deals Analyst



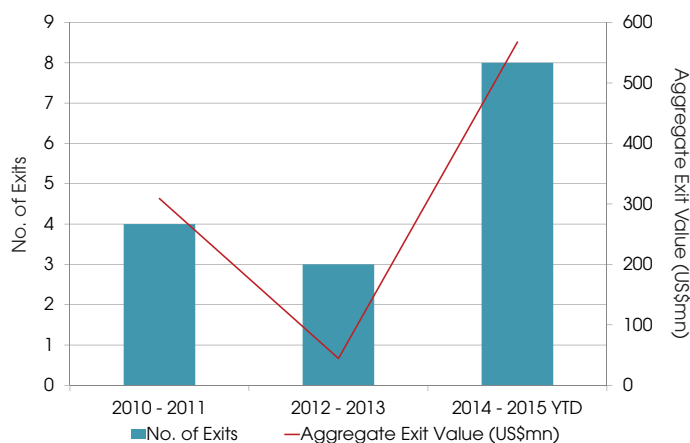
Venture Capital Deals

Fig. 11: Number and Aggregate Value of Venture Capital Deals* in Hong Kong, 2010 - 2015 YTD (As at 1 May 2015)



Source: Preqin Venture Deals Analyst

Fig. 12: Number and Aggregate Value of Venture Capital Exits in Hong Kong, 2010 - 2015 YTD (As at 1 May 2015)



Source: Preqin Venture Deals Analyst

Fig. 13: Five Largest Venture Capital Deals* in Hong Kong, 2014 - 2015 YTD (As at 1 May 2015)

| Firm | Rounds | Deal Date | Deal Size (US\$mn) | Investor(s) | Primary Industry |
|----------------------|----------------------|-----------|--------------------|--|--------------------|
| App Annie Ltd. | Series D/ Round 4 | Jan-15 | 55 | Greycroft Partners, IDG Capital Partners, Institutional Venture Partners, Sequoia Capital | Software |
| Kingsoft Cloud Group | Series B/ Round 2 | Mar-15 | 53 | IDG Capital Partners, Kingsoft | IT |
| CompareAsiaGroup | Series A/ Round 1 | Apr-15 | 40 | Ace & Company, Goldman Sachs Merchant Banking Division, Nova Founders Capital, Route 66 Ventures | Internet |
| App Annie Ltd. | Series D/ Round 4 | May-14 | 17 | Greycroft Partners, IDG Capital Partners, Sequoia Capital | Software |
| WeLab | Series A/ Round 1 | Jun-14 | 14 | Sequoia Capital, TOM Group | Financial Services |

Source: Preqin Venture Deals Analyst

*Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt



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Private Equity Fundamentals Course – **September and October 2015**

HKVCA Young Professionals Beerpong Competition – **November 2015**

HKVCA Wine Tasting – **November 2015**

HKVCA X'mas Cocktail – **10 December 2015**

HKVCA Gala Dinner – **19 January 2016**

HKVCA 6th Asia Private Equity Forum – **20 January 2016**

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IPO Exits - HKVCA

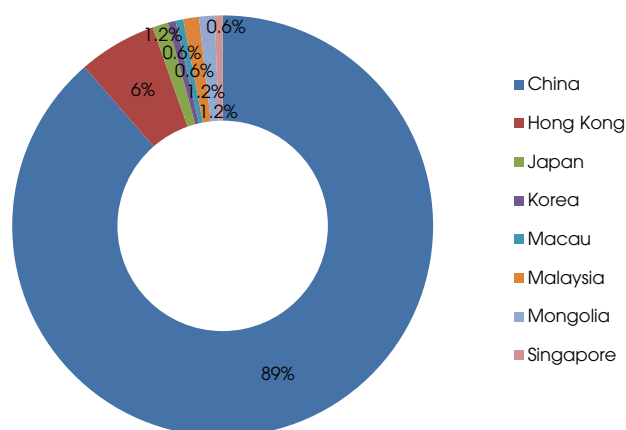
The Hong Kong Stock Exchange (HKEx) is one of the most active markets for IPOs. In 2014, it internationally ranked only behind the New York Stock Exchange (NYSE) in terms of number of IPOs launched, with 122 cases. Private equity-backed companies accounted for 39 of these IPOs in 2014, representing a 22% increase over 2013 in terms of IPO counts (Fig. 14).

Most of the private equity-backed issuers are based in China (Fig. 15). Between 2010 and Q1 2015, there were 147 private equity-backed Chinese companies achieving IPOs at HKEx, representing 89% of all private equity-backed IPOs there. Increasingly, however, HKEx has also become an attractive IPO destination for non-Chinese private equity-backed companies, as is evident in the case of Cowell eHoldings, a Korean camera module manufacturer controlled by private equity firm Hahn & Co.

In terms of sector concentration, consumer and retail accounted for 67 (40%) of the private equity-backed IPOs during the period, followed by real estate (22%) and TMT (15%), as shown in Fig. 16.

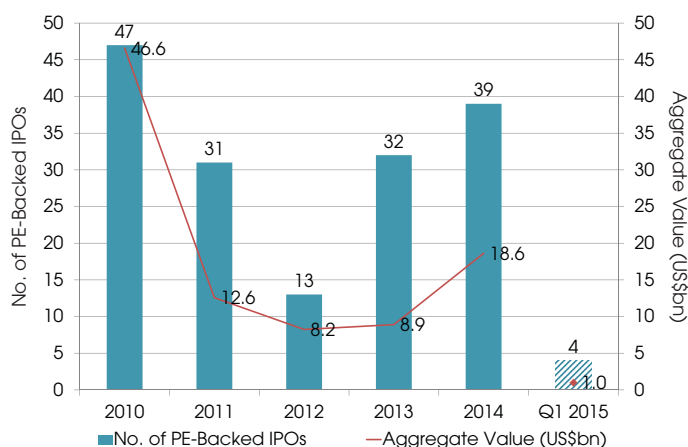
Strong IPO momentum in Hong Kong continued in Q1 2015, when private equity-backed IPOs at HKEx registered a total \$1bn in issuance size in a single quarter. The largest of these IPOs was Hong Kong Broadband Network (HKBN), the second largest broadband services provider with a 35% market share in Hong Kong, through which private equity investor CVC divested its control stake within just three years of the date of investment.

Fig. 15: Breakdown of Number of Private Equity-Backed IPOs in Hong Kong by Country of Origination, 2010 - Q1 2015



Source: HKVCA

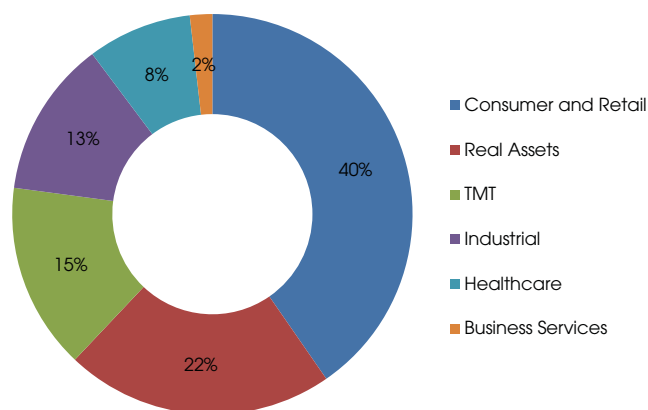
Fig. 14: Number and Aggregate Value of Private Equity-Backed IPOs on HKEx, 2010 - Q1 2015



Source: HKVCA

With the Hong Kong-Shanghai Stock Connect pilot program finally gaining momentum along with a buoyant market, allowing mainland China investors to directly trade their shares in HKEx, it is expected that 2015 will continue to be another blossoming year for IPOs in Hong Kong.

Fig. 16: Breakdown of Number of Private Equity-Backed IPOs by Industry, 2010 - Q1 2015



Source: HKVCA

Fig. 17: Three Largest Private Equity-Backed Exits in Hong Kong, 2014 - 2015 YTD (As at 1 May 2015)

| Firm | Investment Date | Investment Type | Deal Size (US\$m) | Investors (Entry) | Exit Date | Exit Type | Exit Value (US\$m) | Primary Industry |
|--------------------------------|-----------------|-------------------|-------------------|---|-----------|-------------------|--------------------|------------------|
| Hong Kong Broadband Network* | Apr-12 | Public To Private | 657 | CVC Capital Partners | Mar-15 | IPO | 747 | Telecoms |
| Asia Netcom | Jun-06 | Buyout | 402 | Ashmore Investment Management, Clearwater Capital Partners, Spinnaker Capital | Dec-14 | Trade Sale | 697 | Telecoms |
| Haier Electronics Group Co Ltd | Aug-11 | PIPE | 194 | Carlyle Group | Apr-15 | Private Placement | 424 | Manufacturing |

*Denotes a partial exit

Source: Preqin Buyout Deals Analyst



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