

China

(January 2003 to December 2003)

Fallout from severe acute respiratory syndrome, or SARS, in the second quarter failed to dampen China's surging economy, which returned an overall 9.1% growth rate for 2003. A mirror of this stellar performance, the private equity scene saw both funds raised and deals completed soar to new records. However, funds were largely targetting companies in development or expansion stage, principally in the technology sector. There were signs that investors remain wary to park capital in China funds.

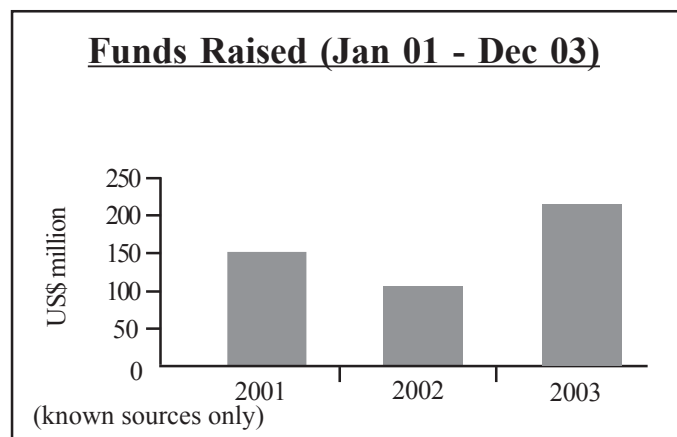
For its part, the Chinese government played its role to encourage the industry's development. In February, it published the Rules on Administration of Foreign-Invested Venture Capital Enterprises, eliminating or reducing many of the impediments to foreign investors and easing the path towards a more venture capital-friendly environment. The year also saw Beijing's endorsement of the use of management buyout as a method of disposing burdensome state-owned assets.

Number of Private Equity Firms: 405 (as at March 2004)

Number of Professionals: 670 (as at March 2004)

Fund Pool

Foreign organizations are returning to China, albeit in measured manner, as the country's fund pool still accounted for a mere 5% of the US\$4.3 billion raised in Asia during 2003. Despite its exponential economic growth, China's fund pool trailed behind those in Japan, South Korea, Hong Kong, Singapore and India.



In 2003, funds sponsored by organisations abroad soared to US\$213 million, more than double the US\$105 million registered in 2002. Non-domestic institutions as well multilateral organisations have been central in shoring up China's fund pool, as they accounted for 27% of the country's fresh capital pool for the year.

For investors of China funds, there are two distinct camps as evidenced by

the virtual equal percentage taken up by both technology and conventional private equity funds. Technology funds are taking a slight lead, recording US\$113 million, a six-fold increase compared with US\$16 million recorded in 2002. Conventional private equity accounted for US\$100.2 million, a handsome 12.5% increase compared with the same period in the preceding year.

Investments

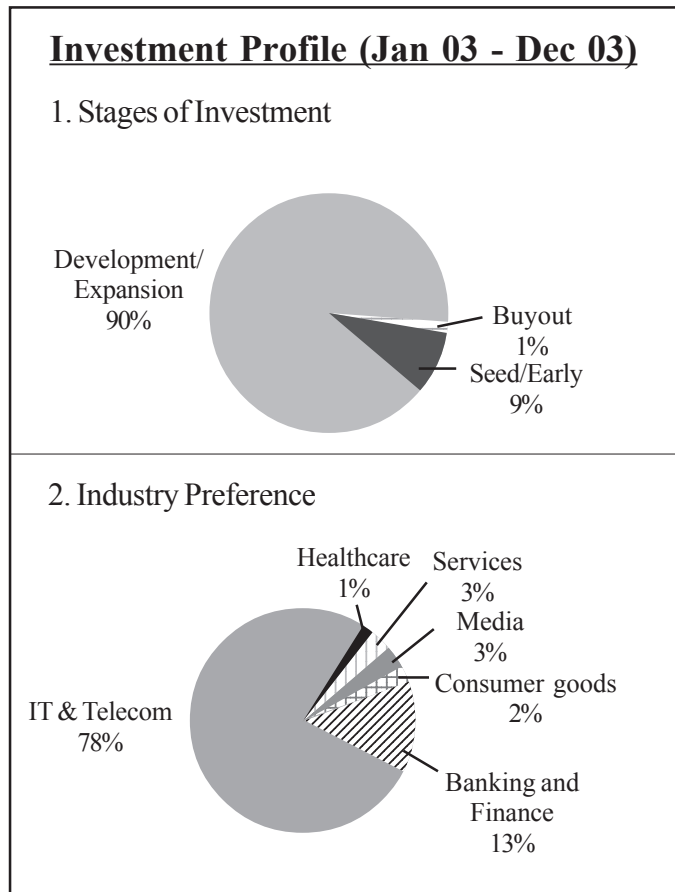
While foreign investors did not rush to set up China funds, the US\$1.2 billion investment total recorded during the year testifies to feverish interest in the country. The amount is a ten-fold increase of 2002's US\$126 million, making China the year's third-most attractive location for investments (after Japan and South Korea).

The lure of China's expanding IT abilities saw investors pour into semiconductor manufacturing. Grace Semiconductor Manufacturing, China's first joint venture foundry, received US\$55 million from private equity investors; Semiconductor Manufacturing International Corp (SMIC) raised an

additional US\$630 million in its second round of funding while CSMC Technologies Corp took an additional US\$67 million from venture investors.

The year witnessed the entry of foreign corporate investors into China's internet space, with eBay completing its acquisition of Eachnet and Yahoo! Inc taking 3721.com under its corporate umbrella. As a result, they were the first samples of profitable divestment records in China's internet industry, further boosting investors confidence in the future prospects of China's private equity market.

But there were setbacks as well. Newbridge Capital's year-long pursuit of Shenzhen Development Bank collapsed, further highlighting the risks foreign investors encounter in entering the China market. (NB: Newbridge Capital subsequently completed its investment in Shenzhen Development



Bank in 2004)

Estimated Amount Available for Investment: US\$18.7 billion (as at March 2004)

Five Largest Private Equity Firms (by fund pool under management)

Private Equity Firm	Fund Pool (US\$)
ASIMCO Technologies	305 million
Beijing Capital Technology Investment Co. Ltd.	200 million
Gateway International Investment Co., Ltd.	200 million
Shanxi Provincial High-tech Industry Investment Co., Ltd.	192 million
Shenzhen Capital Group Co., Ltd.	181 million

Five Largest Transactions

Investee Company	Private Equity Investors	Deal Size (US\$)
SMIC*	H&Q Asia Pacific Ltd, Walden International, Temasek Holdings, Vertex Venture Capital Israel, New Enterprise Associates, Oak Investment Partners	630 million
Industrial Bank	GIC Special Investments, International Finance Corp. The IFC, DBS Bank and Heng Seng Bank	117 million
CSMC Technologies Corp.	3i Group plc, Crown Crystal Investments Ltd, IFC, Templeton Asset Management Limited	67 million
United Platform Technologies, Inc.	Walden International, Doll Capital, Jerusalem Venture Partners, New Enterprise Associates, Shanghai Alliance Investment, Morgenthaler Ventures, Star Ventures	58 million
Grace Semiconductor Manufacturing Corp.	UCLAsia, GEMS	55 million

* Semiconductor Manufacturing International Corp