

Japan

(January 2003 to December 2003)

2003 was a momentous year for Japan as Asia's largest economy recorded unprecedented economic growth. In the last quarter of 2003, Japan clocked an annualised gross domestic product growth of 7%. The Nikkei index soared 24% and the Japanese yen strengthened 13% against the US dollar. These factors all pointed to economic rebound after a decade of lethargy.

A decade into Japan's extensive reorganisation of its assets, private equity in the country took on a new milestone. The year saw the birth of Asia and Japan's first fund-of-funds, Alternative Investment Capital, sponsored by Mitsubishi Corp. and Daido Life Insurance. It was one of the most significant developments in the history of Asian private equity.

Debt funds were formed to support the buyout market with major financial institutions sponsoring debt recovery vehicles that amounted to no less than US\$50 billion. The syndicated loan market that was once non-existent was expanding exponentially, reaching an aggregate US\$190 billion.

While all other countries in Asia were suffering a fund raising drought, local Japanese financial institutions and corporations were optimistic on private equity and ploughed US\$1.64 billion into the country's venture capital/private equity market, a slight rise compared with the US\$1.43 billion raised in the preceding year.

The year continued to consolidate Japan's position as the anchor of Asia's private equity industry, in particular the buyout segment. In 2003, Japan accounted for 48% of the year's fund pool and 42% of the investment total. Significantly, it is home to Asia's largest buyout transactions: the US\$2.2 billion transaction label attached to the buyout of Japan Telecom testified to a budding buyout market.

On the technology front, Japan's domestic investors are paying keen attention to biotech and nanotech.

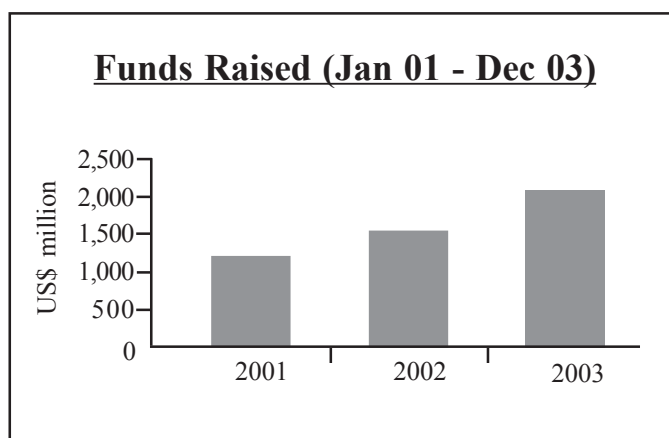
The country is at the threshold of a new era in which private equity can play a major role in shaping its future, if the appropriate approach and infrastructure are implemented.

Number of Private Equity Firms: 180 (as at March 2004)

Number of Professionals: 398 (as at March 2004)

Fund Pool

Japan set itself further apart from all other markets in the region in the past few years as it assumed an increasingly larger role in the Asian private equity scene. In 2003, over US\$2 billion of fresh capital came into the country, an increase of 35% compared with the US\$1.5 billion recorded in the preceding annum.



It was the second year that Japan's fund pool accounted for nearly half of that recorded for the rest of the region.

As the centre of Asia's buyout market, fund investors continued their pledge and the year saw a 74% increase of Japan's buyout fund pool to US\$1.7 billion, compared with US\$1 billion in 2002. Compared with the US\$356 million raised in the rest of Asia, Japan is the irrefutable leader in this segment.

Although private equity fund management houses were consumed with buyout prospects in the country, there were also small pools of capital raised for technology as well as growth situations: their combined total stood at US\$328 million, a far cry from the US\$1.7 billion commanded by buyout funds.

Investment Trends

The year further defined Japan's position in Asia's buyout market as it registered a record US\$5.7 billion investment total, a rise of nearly one-fold compared with the 2002's US\$2.9 billion. Significantly, 95% of the sum was taken up by buyout transactions, further underscoring vibrant activities in this particular sector.

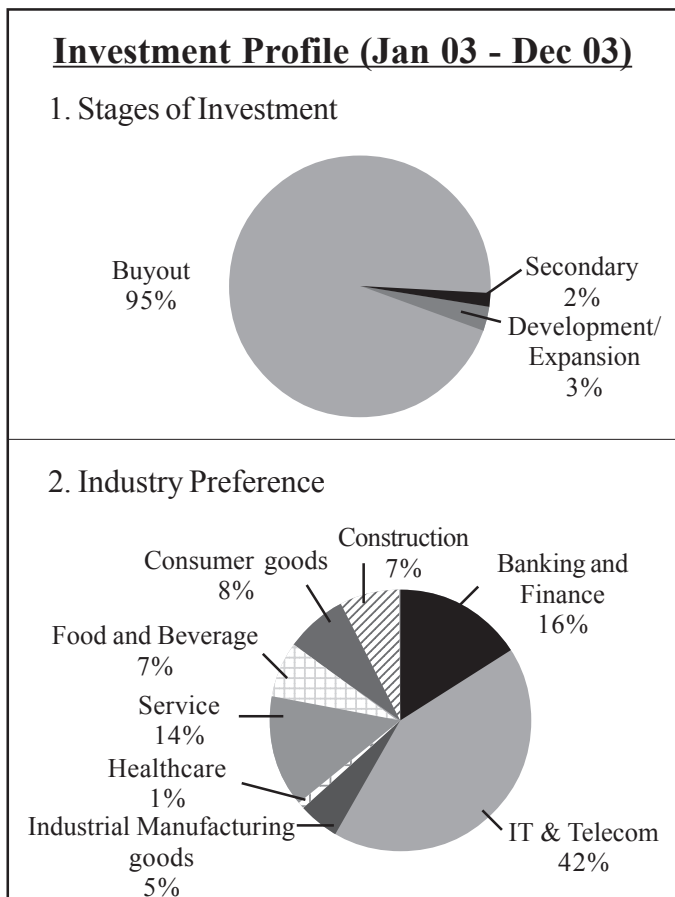
When buyout first arrived Japan, the domestic players were timid to venture beyond US\$10 million. In 2003, Nomura Principal Finance proved otherwise. It led a US\$415 million transaction, the largest ever undertaken by domestic establishment. It signalled the level of confidence and maturity of Japan's buyout market.

The year ended with an additional watershed development for Japan's buyout scene when the US-based Ripplewood Holdings led in completing the US\$2.2 billion Japan Telecom transaction.

Buyout transactions have virtually eclipsed all other investment activities. The technology sector remained a small piece of the pie, as Japanese

investors' appetite for technology saw approximately US\$140 million apportioned out to four technology companies, principally in development/expansion stages. Sharing the same investment approach as all other private equity houses in Asia, Japanese venture investors chose to park their capital with technology-based companies in the USA or Europe instead of in those on their own turf. It has been a consistent expression of lack of faith in Asian technology companies.

Taking aside the giant US\$2.2 billion Japan Telecom transaction, the residual US\$3.5 billion was dispersed among seven other industrial sectors, with banking and finance being the most favoured, followed by services and consumer goods. It is an investment pattern that Japanese private equity investors have closely adhered to in the past few years.



Estimated Amount Available for Investment: US\$8.8 billion (as at March 2004)

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

Private Equity Firm	Fund Pool (US\$)
JAFCO Co. Ltd.	1,524 million
Nikko Principal Investments Japan Ltd.	921 million
NIF Ventures Co. Ltd.	921 million
Japan Asia Investment Co. Ltd.	762 million
Nikko antfactory K.K.	628 million

Five Largest Transactions

Investee Company	Private Equity Investors	Deal Size (US\$)
Japan Telecom Holdings Co. Ltd	Ripplewood Holdings LLC	2,200 million
Aozora Bank Ltd.	Cerberus Capital Management	844 million
Wanbishi Archives & Wanbishi Industry Co.	Nomura Principal Finance, Tokio Marine Capital, Development Bank of Japan, UFJ Bank	415 million
Huis Ten Bosch Co., Ltd	Nomura Principal Finance	260 million
Toshiba Tungalay Co, Ltd	Nomura Principal Finance	233 million