

Taiwan Venture Capital Association

創投法律專題座談會

Perspectives and Predictions on Opportunities and Challenges for VC's and PE's in Greater China in 2008

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Overview of PIPEs/VC

Role of PE's/VC's in Greater China:

- ✚ Shape the Business and Investment Landscape
- ✚ Launch New Companies and New Industries
- ✚ Grow Regional Players into National Competitors
- ✚ Grow National Players into International Players
- ✚ Improve Governance Systems
- ✚ Improve Strategic Know-How
- ✚ Create Jobs
- ✚ Create Tax Revenues
- ✚ Conduct CSR and Philanthropic Programs and Support NGO's
- ✚ Improve Lifestyles and Standard of Living
- ✚ Introduce New Ideas and New Values to Evolving Society

Challenges for VC's and PE's in Greater China

Changing Landscapes:

✚ Government Restructurings:

■ General Bureau of Energy

- Vice Ministry Rank Under NDRC
- Reorganization Falls Short of Expectations
- Uncertain Macro Environment, Tax and Pricing Reforms Need Powerful Independent Ministry
- Renewable Energy Policies Need Aggressive Advocacy

■ Ministry of Environment

- More Aggressive Enforcement
- Exit of Smaller Players
- Bureaucratic Obstacles Remain
- XBRL Standards

Challenges for VC's and PE's in Greater China

■ New MII: Industry and Information

- Combines Former MII, Parts of NDRC and Commission on Defense Industry and Technology
- Reduces NDRC Micro-Management to Allow Focus on Macro Policy Coordination
- Clears Way for Telecom Sector Restructuring with Elimination of Personnel and Administrative Uncertainties

■ Ministry of Transportation

- Consolidates Former MOT and General Bureau of Aviation
- Goal to Improve Coordination, Planning a National Transport System Across Modes
- Ministry of Railways Excluded (Difficult to Restructure Because of Mixed Regulatory/Service Functions)

Challenges for VC's and PE's in Greater China

■ Ministry of Health

- **Combines Old MOH and General Bureau of Drug Administration**
- **Results from Failure of Former Drug Administration to Address Widespread Food Safety Problems**
- **Higher Profile Ministry Level Body with Increased Government Attention and Rule Enforcement Power**

■ State Council Omitted:

- **Consolidation of Ministries of Agriculture and Forestry**
- **Consolidated Financial Supervisory Board**

Challenges for VC's and PE's in Greater China in 2008

- ◆ Law and Business Integrated
- ◆ Changing Landscape in Law, Business and Government
- ◆ RMB Appreciation=Consider FIVCE Structures
- ◆ Weaker Exports
- ◆ Tax Changes Remain Unclear
- ◆ M&A Round-Tripping Tight
- ◆ Capital Inflows Tight
- ◆ Capital Market Options and Exits Tight
- ◆ Corporate Governance Standards
- ◆ Corruption: Private/Public

Challenges for VC's and PE's in Greater China in 2008

- ◆ **Vested Interests/Bureaucratic Inertia/Sectoral Interests Vary**
- ◆ **Lack of Uniformity of Enforcement of Penalties**
- ◆ **GAP vs. GAAP Accounting**
- ◆ **Antiquated Bank Practices**
- ◆ **Separation of Market and Government/Separation of Regulator and Regulated**
- ◆ **Transparency Issues**
- ◆ **Checks and Balances Institutionalized**
- ◆ **Laws, Regulations, Interpretations and Evaluations**
- ◆ **Labor Management**
- ◆ **Executive Team's Interests**

Hot Sectors for VC's and PE's in Greater China in 2008:

Sustainable Clean/Green Tech Sector:

✚ Renewable Energy:


- Wind
- Solar/PV
- Biomass/Biogas
- Recycling
- Waste Management
- Water Management
- Agricultural Modernization
- Forestry/Anti-Desertification
- Environmental Positives

Hot Sectors for VC's and PE's in Greater China in 2008:

Digital Telecom Media Tech

-  Chinese Facebook/Xiaonei
-  Chinese Youtube/Tudou.com
-  IC Silicon, Display
-  IT
-  Convergence Telecom
-  Information Technology Support, Management
-  Call Centers

Bio-Life Healthcare

-  Clinical Trials
-  Specialty Niches
-  Health, Nutraceuticals

Hot Sectors for VC's and PE's in Greater China in 2008:

- ✚ **Consumer Lifestyle/Fitness/Sport**
 - Many Consumer/Food and Beverage Opportunities
 - Sports/Fitness/Training/Sports Management
- ✚ **Banking/Finance Industry Support**
 - Modernization of Services
- ✚ **Outbound Focus**
 - Outbound M/A
 - Natural Resources
 - Latin America
 - Fourth Link
- ✚ **Culture**

What to Expect for X-Straits

PRC Side Perspective

+ Taiwan Leadership Group

+ Normalized Relations

+ Depoliticized

+ Indicators:

- Boao Meeting
- Sichuan Quake Relief Cooperation
- Media Tone
- Society-Wide Acceptance
- Evolution of Position
- Opening of Sectors and Bureaucratic Improvements
- Arbitration and Judicial Rules Enforcement
- Agency Level Coordination
- Expect Incentives to Participate in Domestic Economy for HK/Macau Companies to Extend to Taiwan Companies

What to Expect for X-Straits

Taiwan Side Perspective

+ Leadership Group: Su Chi, PK Chiang, Lai Shin-Yuan

+ Normalized Relations

+ Depoliticized

+ Indicators:

■ Boao Meeting

■ Sichuan Quake Relief Cooperation

■ Media Tone

■ Society-Wide Acceptance

■ Evolution of Position

■ Opening of Sectors and Bureaucratic Improvements

■ Arbitration and Judicial Rules Enforcement

■ Agency Level Coordination

Expect Market Opening

Cross-Straits Frameworks: Nomenclature vs. Realpolitik

Nomenclature:

- ✚ Common Market
- ✚ Confederation
- ✚ Federal Relationship
- ✚ One Country, Two Systems
- ✚ Two States on Each Side
- ✚ United Nations

Realpolitik

- ✚ Chinese-Taipei
- ✚ Capital Links
- ✚ Securities Markets
- ✚ WTO
- ✚ Treaty of Shanyuan
1004/1005

What to Expect From Ma-Siew Administration on Cross-Straits?

Looking Over the Horizon: Predictions!!!

China is the Graveyard of Prophets

Sidney Rittenberg, First American to Join the CCP in Yanan

**The Job of the Great China Professional is to Insure
That China Is Not the Graveyard of Profits.**

Nicholas V. Chen, Going to China Since 1973

What to Expect From Ma-Siew Administration on Cross-Straits?

The Obvious:

- ✚ **First Trick Pony: Fellow Commuters: Direct Flights for All**
- ✚ **Second Trick Pony: Tourism, Hotel/Leisure, Real Property**
- ✚ **Third Trick Pony: 40% Re-Investment Cap Lifted**
- ✚ **Fourth Trick Pony: Negative List Restrictions Lifted**
- ✚ **Fifth Trick Pony: Lift Two Way Investment Restrictions**
- ✚ **Sixth: National Treatment and Compliance with WTO Rules**
- ✚ **Seventh Trick Pony: Normalize and Institutionalize Conduct and Practices**

What to Expect From Ma-Siew Administration on Cross-Straits?

Less Obvious:

+ Liaison Offices Exchange

- Functions: Visa/Consular/Open Travel

+ Official Cooperation and Coordination:

- All levels: Commerce, Judicial, Arbitration, Law Enforcement, Environment, Health, Safety
- Financial Process: Currency Conversion
- Peace Mechanisms and Conflict Management
- Education
- Cultural Exchanges

+ Transport Links and Open Skies

+ Inbound PRC Investment to Taiwan

What to Expect From Ma-Siew Administration on Cross-Straits?

Harder:

- ✚ Upgrading Liaison Offices
- ✚ Establish Communications Framework
- ✚ Balance of Reasonable Security and Defense Interests (Different vs. Same/Cooperator vs. Competitor)
- ✚ Red Line Phone System
- ✚ Mutual Trust, Monitoring and Verifications
- ✚ Peace Treaty Framework
- ✚ Standardization Convergence: X Straits/Within China's Regions and Local vs. National

What to Expect From Ma-Siew Administration on Cross-Straits?

Goal For Greater China VC's/PE's (and Other Commuters) for Their Investments is to Realize..

The Convergence of the Greater China (China/Taiwan/HK/Overseas Chinese Combination) Advantages of the Following Inputs Yields Massive Competitive (Local, Regional, Global, Sectoral) Advantage. Those Combined Inputs:

- ✚ Money
- ✚ Technology
- ✚ Know-How
- ✚ Manufacturing Prowess
- ✚ Brand and Marketing and Distribution Power
- ✚ After-Sales Service
- ✚ Low Cost Land
- ✚ Low Cost Labor
- ✚ Corporate and Operational Best Practices
- ✚ Solid Predictable Legal Framework or
- ✚ Team of Seasoned Professional Bodyguards

What to Expect From Ma-Siew Administration on Cross-Straits?

Greater China Market Normalized Movement of

✚ Money,

✚ People,

✚ Goods,

✚ Services,

✚ Ideas

✚ Across Boundaries with

■ Maximum Speed

■ Least Interference and

■ Least Cost

That translates into Massive Competitive (Local, Regional, Global, Sectoral) Advantage

Final Observations on PE/VC

**Taiwan and its VC's/PE's Face Many Challenges
But They Seldom Realize They Are So Lucky**

**Three Stages of Opportunities and
Challenges Granted to Taiwan by China**

Closed Doors and Cold War

**Opening Doors and Kissinger/Zhou Enlai
Realpolitik Rapprochement**

**The Golden Handshake and the Coming
Fourth Link**



Happy Hunting
Be Careful Out There

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