

SCM's State of the Asian-Pacific Private Equity Markets Study:

Too big to be ignored, but no safe haven either

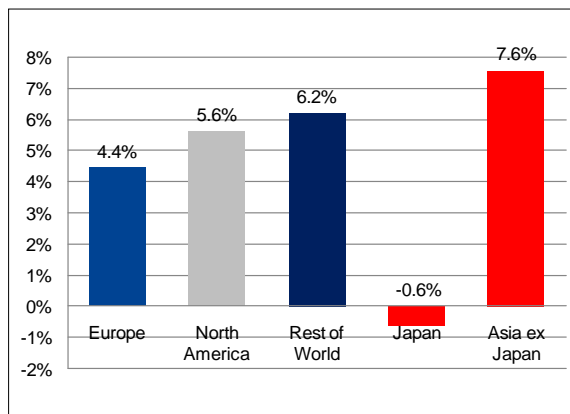
Zurich, July 2008. In times of turmoil at the credit and stock markets, institutional investors reevaluate their current investment strategy, looking for further possibilities to reduce risks by diversifying their assets even more. Due to Asia's exceptional economic growth during the last decade, Private Equity investments in the region have become a topic of high interest for many investors.

The completely revised, second edition of "State of the Asian-Pacific Private Equity Markets" by SCM Strategic Capital Management AG, Switzerland, presents the results of an extensive research in both the overall economic situation of the region as well as the M&A market in particular. The key takeaways of the survey are summarized briefly below.

The macro-perspective: Asian economies at a glance

Asia was the fastest growing economic region for the last 10 years. The nominal GDP growth rate of Asia (ex Japan) is 7.6% p.a., compared to Europe's 4.4% p.a. On an individual country level, China's economy (incl. Hong Kong) grew 9.7% p.a., Vietnam's (8.5% p.a.) and India's (8.3% p.a.) over the last decade. The structural fundamentals behind these strong growth patterns are the rising urbanization (especially in China and India) and the increasing manufacturing and spending power, resulting in consumerism. The International Monetary Fund (IMF) predicts growth rates of 8-9% for India and 10-11% for China for the upcoming years.

10-year annual GDP growth rates 1996-2006



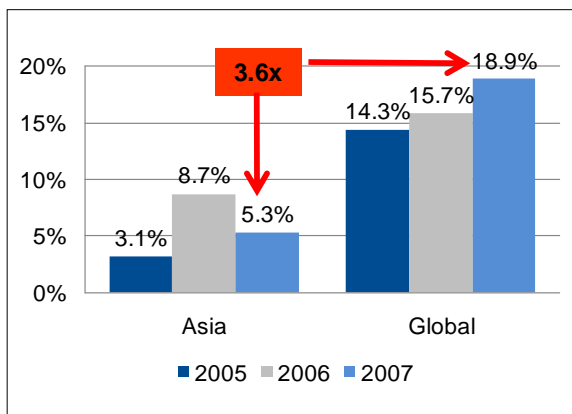
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The Asian region built on its historical export and manufacturing advantages to become also a major consumer market with a strong base of fix assets. China, already the 4th largest economy behind the US, Japan and Germany, is expected to become the world's number 2 by 2015. Meanwhile, India and China are yet far away from being open economies, and there is still a higher degree of political risk in the region. Whole sectors of the economies continue to be protected and foreign investments are restricted.

Private Equity as part of M&A activity

Given the above-average economic growth of the Asian countries, it is of little surprise that the Asian M&A market grew in 2007 with +37% above the global average of +27%. Despite those record amounts, the Asian M&A activity still is, compared to other regions, rather small. The penetration of total M&A activity by Private Equity has been low for many years with a range of 2%-5% during 1994-2005. In 2006, the share of Private Equity in total M&A ac-

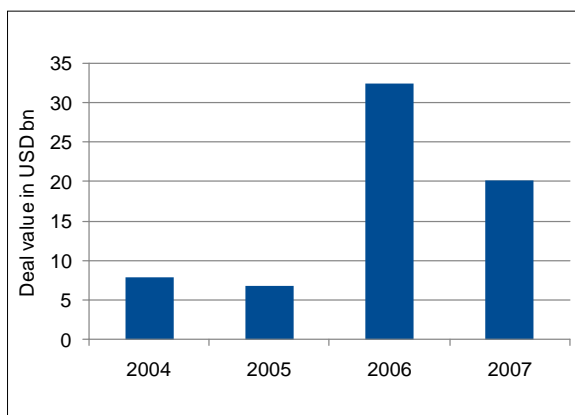
Asian Private Equity share in total M&A declined



tivity reached 8.7%, or more than USD 50 bn. Last year, the quota dropped to 5.3%, mainly driven by a strong decline of large buyouts (> USD 1 bn).

Decline in Private Equity transactions after strong preceding year

Development of Asian buyout volumes in recent years

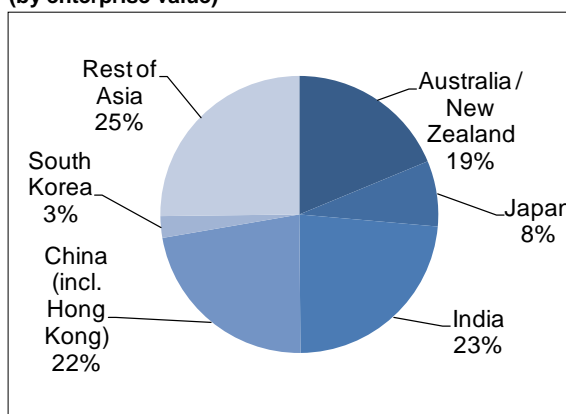


While the Private Equity transaction volume outside buyouts increased from around USD 18 bn (2006) to about USD 22 bn (2007), the buyout deal volume declined during the same period from USD 32 bn to USD 20 bn. The slowdown of buyout activity was mainly driven by a decrease of deal volumes in the more mature markets like Australia / New Zealand and Japan. However, it is important to note that the buyout volume in 2007 is 3 times higher than the buyout volume in 2005. Asia saw a decline from 12 mega deals (> USD 1 bn) in 2006 to 7 mega deals last year. The largest buyout in Asia (Japan) in 2007 represented a deal value of USD 2.4 bn, while the largest buyout in Asia (South Korea) in 2006 represented a deal value of USD 4.2 bn.

Regional shifts

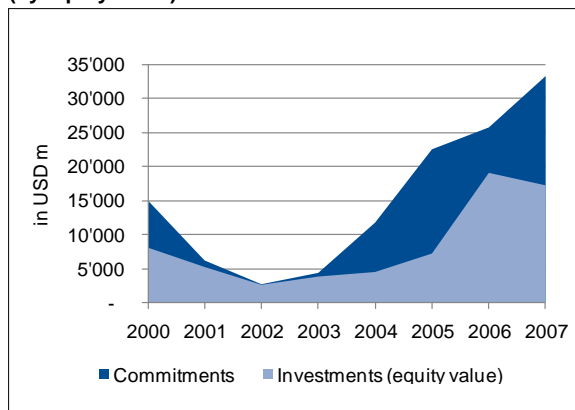
2007 witnessed a striking regional shift to India replacing Australia/New Zealand as the country with the largest transaction volume and a 23% share in the total Asian transaction volume. India is followed closely by China (22% share). India and China were each home to one of the 5 largest buyout deals in Asia in 2007. However, it is important to note that the relative strength of China and India is a result of a contraction in deal activities in Australia/New Zealand and Japan.

Destination of Asian private equity investments 2007 (by enterprise value)



Investment and fund raising trends

Commitments vs. investments 2000-2007 (by equity value)



2007 set a new fundraising record for the Asian market. More than USD 33 bn were raised last year alone, which is an increase of about 30% compared to 2006. The number of funds raised increased by 6% to 149, on the other hand, the average fund size of the Asian Private Equity industry (USD 224 m) is not yet big enough to take full advantage of the increase in larger transactions. Last year, 5 country specific mega funds (> USD 1 bn) have been raised, the biggest with a target size of USD 4 bn. Although there is no general capital overhang in the region, there are areas of concern: while new money raised

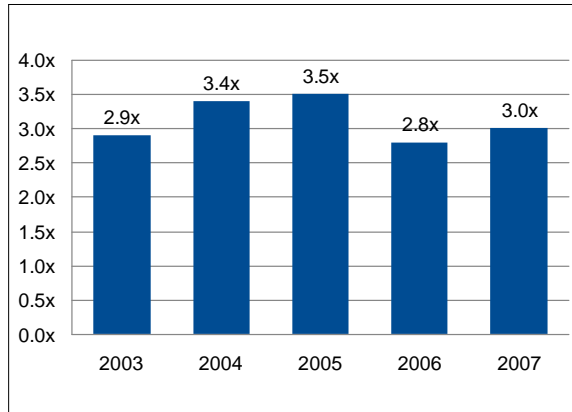
for buyouts in 2006-2007 was 1.7x the money invested during that period, new money raised for venture capital funds in 2006-2007 was more than 10x the investment amount

during that period. This indicates a continued massive capital overhang in the venture capital segment.

Asia's exit patterns

The key driver for the heightened interest of investors in Asia are the attractive investment returns that many Private Equity funds have delivered in recent years. The average exit multiple in 2007 was 3.0x invested capital, a slight increase compared to 2006. It must be noted that this number does not include write-offs and reflects also many small exits from venture and growth funds that took advantage of the stock market boom. Nearly 80% of all exits were realized through IPOs, however, when considering the realized volume, IPOs only represent about a 40% share. This finding corresponds with the observation that most IPOs result from venture or growth financing rather than buyouts, which leaves those funds more exposed to the closing IPO window in 2008 than buyout funds.

High exit multiples (total-value-to-paid-in) attract investors



Conclusion- Where to put the money?

Overall, the SCM research shows that the Asian Private Equity industry is maturing and that there is ample room to grow and to do well as many companies and sectors remain attractive on a global basis. According to SCM, Asian buyouts and growth financings are the place to be for the foreseeable future. Transaction volumes are bound to rise further due to a growing acceptance of Private Equity investing in many markets as well as growing transaction sizes. The biggest bottleneck for investors is the relatively scarce supply of seasoned teams and the resulting difficulty to deploy capital with Private Equity firms that are on par with top-tier firms in Europe and the US. SCM suggests to stay away from venture capital, first-time funds of unproven teams and the small end of the buyout market.

For further information please contact

Dr. Stefan Hepp, Senior Partner – CEO & Founder, Phone +41 (0)43 499 49 49 or

Ralph Aerni, Senior Partner – CIO, Phone +41 (0)43 499 49 49

You can also reach us at scm@scmag.com

Short profile of the firm

Founded in 1996, SCM Strategic Capital Management AG is a leading Swiss provider of management and consulting services for alternative investments. The company focuses on private equity, real estate, and infrastructure, covering all subsegments of these investment classes worldwide. The scope of services includes discretionary and non-discretionary consulting mandates for institutional investors as well as funds-of-funds. With an annual investment volume of CHF 1 billion and over CHF 6.5 billion in managed assets, SCM ranks among the most important investors in the sector. Above-average performance, a global presence, investment experience, and top-tier services are the key characteristics of the company.