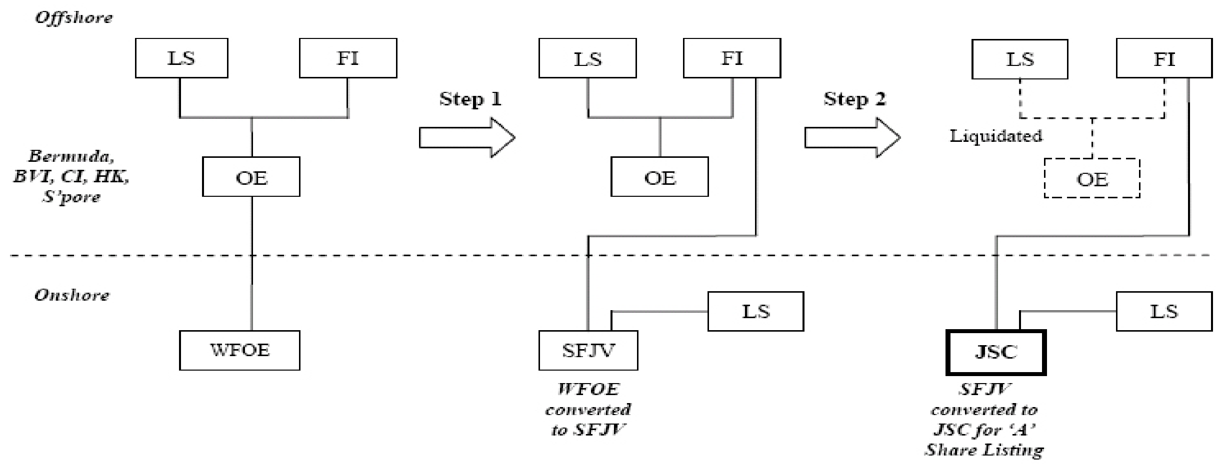
OWW Investment Quarterly 2Q11

# From WFOE to CHINEXT

Since its launch in 1999, CHINEXT has been attracting a number of local companies to seek listing on this market.

One group of companies that has been eyeing a CHINEXT listing are the WFOE ie. Wholly Foreign Owned Enterprises which have foreign holding companies and were targetting to list on foreign bourses such as NASDAQ, LSE, HKSE, ASX or SGX. However, with the PE ratios on the CHINEXT much higher than that of foreign bourses, many of these companies are contemplating returning to China. Already there has been several privatisations of Chinese companies listed in foreign exchanges with a view to relisting them in China. For the foreign investor in these companies, it is an attractive proposition but not before crossing several hurdles.

The scheme works as follows:




*LS – Local Shareholder* *FI – Foreign Investor* *OE – Offshore Entity* *WFOE – Wholly Foreign Owned Enterprise*
*SFJV – Sino-foreign Joint Venture* *JSC – Joint Stock Company*

On paper it may be a straight forward restructuring. However the following issues will have to be addressed:

a) Investor rights - Preference investor rights will have to be surrendered on conversion to SFJV and JSC.

b) Transfer value and payment of consideration - As this is an internal transfer between existing shareholders, the transfer value may be set at a low valuation to facilitate the payment by local shareholders. A low valuation also means that foreign investors are "resetting" their cost down, increasing future capital gains tax (CGT). If the low valuation is rejected by the authorities, the local shareholder may need to raise additional funding to pay for the transfer.

c) Taxation - In addition to CGT, there is also tax issues at the local entity level. Historically, many local companies report low profits in China to reduce their tax exposure. However if the local entity is to be listed, the profits have to be reported. Should the tax authorities be alerted to the substantial increase in profits, they may order an investigation into the local entity and impose penalties on back taxes. This may affect the company's listing prospects.

d) IPO process - The entire IPO process is dependant on the local shareholder, the company's business and the support given by the underwriter. For the foreign investor there is a moratorium of 1 year but could be 3 years if they are classified to have an operating role. If the IPO is not approved, the local entity can never become a WFOE and the foreign investor will be locked in a local entity having surrendered its investors rights.

e) Board representation - Board representation in a local entity carries different risks eg. company disclosure, penalty for breach of directors' duties etc. which may not be acceptable to many individuals. In addition, professional indemnity insurance may not be available. If there is no board representation by the foreign investor, their interest in the local entity may not be protected.

f) Restructuring time frame - During this period of at least 18 months, the foreign investor will have surrendered most of its investor rights and is totally dependant on the local shareholder not only to continue to manage the company to the best interest of all shareholders but also to deliver the IPO.

Foreign investors will need to assess all these risks. If the foreign investor insists on covering all these risks, then the restructuring may not proceed and this could create animosity between the local and foreign shareholders. If the foreign investor can stomach the risks and take a leap of faith based on the relationship with and trust in the local shareholder and their own belief in the strength and quality of the company's business, then the returns can be rewarding.

# Hand Enterprise lists on ChiNext

OWW's porfolio company, HAND Enterprise Solutions Co., Ltd ("HAND") has listed on Chinext, Shenzhen in February 2011. HAND (ChiNext Quote: 300170) raised RMB760 million (US$115.5 million) at a market capitalisation of RMB2.9 billion (US$441 million). Since its debut, the market capitalization has grown in excess of RMB3.3 billion (US$500 million). OWW invested in Hand in 2007 and continues to hold 7% of the company.

HAND, founded in 1996 and headquartered in Shanghai, is a leading provider of Enterprise Resource Planning implementation services for Oracle and SAP. For the year 2009, HAND had reported operating income of RMB312 million (US$45.77 million) and net profit of about RMB46.29 million (US$$6.79 million).

HAND's competitor, Camelot Information Systems Inc ("Camelot") listed on New York Stock Exchange (NYSE: CIS) in July 2010 raising about US$147 million. Camelot's 2009 revenue and profit were US$118 million and US$13 million respectively. Camelot's current market capitalization of about US$843 million, an increase of about 75% since its debut 9 months ago.

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# OWW invests in JustCommodity

OWW has recently invested into JustCommodity Software Solutions Pte Ltd ("JustCom") in a funding round of S$5.6 million led by Extream Ventures. Leslie Loh, partner of Extream Ventures and former CEO of System Access, has been appointed Chairman of JustCom.

JustCom is a Singapore-based company that develops and markets CTRM (Commodity Trade and Risk Management) software solutions for the commodities industry. The company which was formed in year 2000 and has gradually grown its customer base to include some of the world's leading commodities trading companies such as Sime Darby, Asian Agri, Cargill Temasek Plantations, Golden Agri Resources, KL Kepong Group, IOI, Minamas Plantations and Unimills. The Company currently has offices in Singapore and China.

The market size for CTRM is estimated to be US$1-3 billion globally, and Asia forms 20% of global share. The 3 key verticals for this sector are agriculture, metal, and energy (oil & gas). JustCom's solution is primarily targeted at physical traders, who make, move and sell commodities. The solution is a one-stop platform that can manage the entire trading, production, fulfillment, logistics value chain for commodities companies.

# About OWW

OWW Capital Partners Pte Ltd ("OWW") (www.oww.com.sg), formerly known as OCBC, Wearnes & Walden Management (Singapore) Pte Ltd, was established by OCBC Bank, WBL Corporation and Walden International in 1991. In October 2006, the management team of OWW acquired WBL Corporation's interests and the company assumed its current name.

OWW focuses on expansion stage companies in the enterprise and consumer services sectors within the South East Asia and North Asia regions.

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