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Impact of higher inflation on Asian economies

Many countries in Asia are experiencing rising inflation. In the past, many governments had relied on price control, import/export restrictions and subsidies to control prices. Central banks had delayed rate hikes, running negative real interest rates in order to support growth and had assumed that the U.S. slowdown would eventually reduce commodity and oil prices and keep inflation at bay. However, changes in policies are imminent as highlighted by removal of fuel subsidies by Taiwan, Indonesia, India and Malaysia and the increase in interest rates by Indonesia and Philippines. More countries are likely to follow suit. Already, discontent over higher food and fuel costs is exacerbating political tensions in Malaysia, Thailand and South Korea, where governments are struggling to maintain their grip on power.

Countries which to fail to tame inflation would face depreciating currencies and political turmoil. For those that succeed, the growth story remains in tact. As this process will take time to run its course, it will certainly provide a breather to consolidate the hot growth experienced by most Asian countries in the last few years. Businesses in Asia will find that profitability can be eroded by currency volatility and rising costs as a result of high oil prices and rising interest rates. For the investor, it is shifting back to a buyers market again.

Consumer prices (% change on year ago)

	latest	year ago
China	+7.7 May	+3.4
Hong Kong	+5.7 May	+1.3
India	+7.8 May	+6.8
Indonesia	+10.4 May	+6.0
Malaysia	+3.8 May	+1.4
Philippines	+9.6 May	+2.4
Singapore	+7.5 May	+1.0
South Korea	+4.9 May	+2.3
Taiwan	+3.7 May	-0.02
Thailand	+7.6 May	+1.9
Vietnam	+25.2 May	+7.3

Seeking IPO on China domestic stock exchanges - is it a good idea?

Against the backdrop of boom and gloom in China domestic stock markets, together with the amended M&A rule by MOFCOM and CSRC in 2006, private equity investors have found it necessary to implement business plans incorporating domestic exits within China as a possible scenario in their investments. At OWW, we have conducted a survey of 7 domestic IT services companies listed within China and 9 companies (including Chinese companies) listed outside China to understand the differences between listing in China vis-à-vis foreign markets. At the end of the exercise we drew the following observations:

	Companies listed in China	Chinese companies listed overseas	IT services companies listed overseas
Average revenue growth	16%	61%	38%
Median revenue growth	10%	50%	32%
Average profit growth	37%	55%	45%
Median profit growth	32%	60%	50%
Average market capitalization	US$746M	US$370M	US$9,286M

- The average PE ratio of IT services companies in China is 42X with the median PE ratio of 29X. This appears to be higher than IT services companies listed outside China of 25X.
- Revenue growth and profit growth for companies listed overseas are higher than those listed domestically in China. For the overseas companies, average revenue growth is 38% while profit growth is 45%. For companies listed within China average revenue growth is 16% while profit growth is 37%.
- Average market capitalization of Chinese IT services companies listed within China (US$ 746M) is higher than Chinese companies listed overseas (US$ 370M), but companies listed within China exhibit lower revenue and profit growth.

Based on the limited study, it is indicative that China domestic market to be trading at a valuation premium to its international peers. As more IPOs back by private equity investors take place in China, domestic investors will be availed additional investment opportunities with higher growth potentials previously destined for overseas exchanges. For private equity investors, it creates the opportunity to generate additional returns from investments by taking advantage of the valuation premiums afforded by the China domestic stock markets.

Online gaming investment

OWW has recently invested into Asiasoft Corporation Public Company Limited (www.asiasoft.net) through the subscription of shares at Asiasoft's initial public offering. Asiasoft was listed on the Stock Exchange of Thailand on 29 May 2008. The proceeds raised from the initial public offering will be used to finance expansion into Vietnam and Malaysia, secure new license of online games, network and IT upgrades, as well as in-house game development.

Asiasoft provides "Online Entertainment Services" in Thailand, Singapore, Malaysia and Vietnam. Its businesses are made up of two major parts: online game operation and game distribution. It has started online advertisement services and in-house game development as well. Established since 2001, the company has shown impressive growth in recent years due to its strong market positions. It reported total revenue of 1.56 billion baht and net profit of 253.64 million baht in 2007, a rise of 47.7% and 101.7% respectively compared to the previous year.

Online gaming is still at a nascent stage of development in South East Asia and IDC is predicting the market to grow at 16.8% CAGR from US$97.53 million in 2006 to US$230.06 million in 2011. To date, Asiasoft has emerged as a leading online game operator in the South East Asian region (based on 2006 online game service revenue): it is ranked top in Thailand and Singapore, as well as being placed as the second largest in Malaysia and Vietnam (source: IDC, ASEAN Online Gaming 2007).

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comGateway enters into strategic partnerships with Visa International and DHL

comGateway, a subsidiary of Creditel, has recently entered into a partnership agreement with Visa International. As the "Official Payment Partner", Visa International is working with comGateway to launch the latter's service in the Asia Pacific region. In addition, DHL has committed to be the "Official Logistics Partner" for comGateway.

Through comGateway, customers can gain easy access to retailers across the US using comGateway's online solutions, including delivery options, credit card validation services as well as online secure payment facilities. In addition, the company has recently launched in Singapore an online shopping spree service (http://shops.st701.com/spree) together with ST701, the online classified arm of Singapore Press Holdings.

comGateway has previously piloted its services in Singapore with MasterCard Worldwide as well as in eight other countries in Asia Pacific with American Express. Currently it is rolling out its services in partnership with Visa International's issuing banks across Asia Pacific. This will facilitate customers to transact online with merchants in the US. With the latest partnership with Visa International, comGateway would have established strong relationships with the top three players in the credit/charge card industry and is poised for rapid expansion.

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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