

NATIONAL DEVELOPMENT FUND-EXECUTIVE YUAN AND NEW ZEALAND VENTURE INVESTMENT FUND LIMITED CO-FUND GUIDELINES

PRELIMINARY

Taiwan's National Development Fund – Executive Yuan (NDF) and the New Zealand Venture Investment Fund Limited (NZVIF) have entered into a Co-Fund arrangement to jointly invest into Venture Capital (VC) Funds that are making investments in Taiwan and New Zealand.

Up to USD160 million will be made available for investment by the Co-Fund over five years.

OBJECTIVES

The purpose of the Co-Fund is to facilitate venture capital investment into high growth companies from New Zealand and Taiwan as well as to promote regional economic cooperation through the vehicle of investment.

APPLICATIONS TO THE CO-FUND

The Co-Fund is now inviting those interested parties that have relevant venture capital and investment experience to submit Proposals to establish and manage a VC Fund.

BACKGROUND

THE NATIONAL DEVELOPMENT FUND OF TAIWAN – EXECUTIVE YUAN

The Executive Yuan established the Development Fund in 1973 in order to invest into or finance major enterprises or start up projects relating to industrial infrastructure; assist in the development of small and medium sized enterprises through loans and also to introduce technology and enhance research and development in order to bolster national competitiveness.

A full description of NDF and its goals can be found on the NDF website at www.df.gov.tw

THE NEW ZEALAND VENTURE INVESTMENT FUND

NZVIF is a New Zealand government-owned Venture Capital Fund of Funds investor established in 2002.

All of NZVIF's investments are made either as the cornerstone investor in privately managed VC Funds or alongside experience angel investors. NZVIF's investments are focussed on technology companies with potential for high growth.

A full description of NZVIF and its goals can be found on the NZVIF website at www.nzvif.co.nz

GUIDELINES FOR APPLICATIONS TO THE CO-FUND

PURPOSE

The purpose of these guidelines is to allow a VC Fund Manager to assess their potential eligibility for investment under the Co-Fund arrangement.

Applications to the Co-Fund must meet certain criteria to be considered for investment through the Co-Fund arrangement. This paper sets out the criteria and the process to assist Applicants in applying for investment through the Co-Fund arrangement.

FORM OF APPLICATION

The exact form for application is left to discretion and style of the Applicant however should address the following issues:

- General Information
- Fund Structure
- Management & Resources
- Expertise and Experience
- Investment Strategy
- Investment Process
- Investment Performance
- Capital Requirements
- Conflicts of Interest
- Other Information

CO FUND REQUIREMENTS

STRUCTURE

The Applicant must demonstrate that all legal requirements (in any jurisdiction) will be fully complied with and that the proposed fund structure is acceptable to both NZVIF and NDF.

Taiwan Venture Capital Investment entities operate under a corporate structure whereas New Zealand has Limited Liability Partnership legislation. The Co-Fund will consider either Taiwanese or New Zealand structures or other internationally accepted structures where mutually agreed.

CAPITAL

Source of Capital

The Co-Fund expects to invest into each VC Fund alongside private investors. One of the key criteria for Co-Fund investment will be Applicants' ability to source capital from the private sector. Private sector investment of at least 40% of the total VC Fund size must be raised in addition to the Co-Fund investment. Applicants to the Co-Fund should be able to demonstrate that they have commitments of at least 20% of their target fund size. This could be demonstrated through firm commitments or letters of intent from private investors.

Furthermore:

- A VC Fund manager may not raise private capital from any source where that source might bring the Co-Fund into disrepute.
- At least 1% of the total capital of the VC Fund must be contributed by the VC Fund Manager.
- The minimum investment commitment in order for a VC Fund to be established and commence investment (First Close) will be 75%. First close must be achieved within one year of the Co-Fund approving the investment.
- The combined shareholding of NDF and other Taiwanese government agencies must not exceed 49% of the fund size.

Co-Fund Contributions

NDF and NZVIF are able to invest, on an equal basis, up to a maximum of USD20 million for each VC Fund (USD40 million in total).

The combined investment of the Co-Fund will not exceed 60% of the total VC Fund size comprising up to a maximum of 30% of the total fund size from each of NDF and NZVIF on an equal basis.

Denomination

All Co-Fund investment commitments to VC Funds will be denominated in USD, unless otherwise agreed.

MARKET PRESENCE

A VC Fund will ensure that it has sufficient in-market presence or relationships in both New Zealand and Taiwan in order to execute on an investment strategy that is consistent with the objectives of the Co-Fund as set out above.

VC FUND INVESTMENT CRITERIA

New Zealand and Taiwanese Companies

VC Fund portfolio investments must be made into both New Zealand and Taiwanese companies equally, that is 50% of investments must be in New Zealand companies and 50% in Taiwanese companies.

Taiwanese companies are defined as:

- Companies that are incorporated in Taiwan, or
- have established or intend to establish a subsidiary in Taiwan, or
- conduct substantial business activity in Taiwan.

New Zealand companies are define as:

- Companies that have the majority of assets and employees in New Zealand at the time an initial investment is made.

Other Investment Criteria:

- No more than 15% of the total capital of a VC Fund may be invested in a single investee company or associated investee companies;
- Investments will not be made into publically listed companies at the initial investment;
- A VC Fund may not invest into another fund;
- Investments will be made into companies that are at the seed, start-up or early expansion stage of development; and
- Investments cannot be made in excluded industries including property, mining, retail and hospitality.

Further information on portfolio company criteria and eligibility are included in Annex 1.

APPLICATION PROCESS

APPLICATION AND INITIAL REVIEW

Applications to the Co-Fund will go through a two step process of initial review and due diligence, followed by an approval process. Applications can be made through either NDF or NZVIF.

Both NDF and NZVIF will conduct an initial review of the Application. This initial review will be to ensure the application meets the investment and economic objectives of the Co-Fund.

DUE DILIGENCE

On successful completion of the initial review, the Application may be submitted for full due diligence. This due diligence will be undertaken to validate an Applicant's track record and management team capability.

Once due diligence is completed to the satisfaction of the Co-Fund the application will be submitted to an Investment Committee for review and approval.

APPROVAL

The Applicant will be required to present in person to a joint Co-Fund Investment Committee prior to a final investment decision being made.

The Investment Committee is comprised of representatives from both NDF and NZVIF equally.

On approval by the Investment Committee the Application will be submitted for final approval by NDF and NZVIF.

ANNEX 1

PORTFOLIO COMPANY ELIGIBILITY CRITERIA

A VC Fund may only invest in investee companies that meet the eligibility criteria of the Co-Fund. A prospective investee company will only be eligible if:

- a. it is a properly established legal entity at the time of the initial investment;
- b. its business plans focus on the commercialisation of innovation;
- c. it meets the NZ or Taiwanese company definitions set out above;
- d. its business activity which the investment is intended to support and develop is early stage venture capital (seed, start-up, early expansion), at the time the initial investment is made by the VC Fund. From time to time initial investments may also be made into expansion stage companies at the Co-Funds' discretion; the relevant definitions are set out below.

The determination of the eligibility of a proposed investee company will be the responsibility of the VC Fund Manager and their Investment Committee. If the VC Fund Manager is not sure as to whether an investee company satisfies the eligibility criteria, or specific investment stage criteria, it may seek guidance from NDF or NZVIF.

Venture Capital Investment Definitions

Early Stage Venture Capital investments include Seed, Start-up and Early Expansion defined as follows:

A company is at the **seed stage** of its development if the investment will enable development, testing and preparation of a product or service to the point where it is feasible to start business operations.

A company is at the **start-up** stage of its development if the investment will enable actual business operations to get underway. This includes further development of the company's product(s) and initial production and marketing.

A company is at the **early expansion** stage of its development if the investment provides capital to initiate or expand commercial production and marketing but where the company is typically or likely to become cash flow negative

Expansion Stage Definition

A company is at the expansion stage of its development if the investment is provided for the growth and expansion of a company (irrespective of whether that company is trading at a loss or profitably). Capital may be used to finance increased production capacity, market or product development or provide additional working capital.

INELIGIBLE INVESTMENTS

A VC Fund must not invest in any company:

- a. primarily involved in property development, retailing, mining or the hospitality industry (except to the extent the investee is commercialising innovation(s) which might be used by these industries);
- b. primarily involved in a passive business or in investing in, or lending to, other businesses, including acting as a financial intermediary (to the intent that the VC Fund must invest directly in the entity which is actively commercialising the innovation);
- c. where the investment will be applied, or the investee company's activities relate, other than to the commercialisation of innovation (or expansion of a business having that focus); or
- d. which is associated with the VC Manager, unless approved by the IAC.