



Arkmicro used Jafco Asia's cash injection to expand its research and development and to prepare for the launch of new products. Photo: Bloomberg

An alternative source of seed money

Venture capital firms provide a valuable hand up for enterprises seeking to grow

VENTURE CAPITAL IS considered one of the most attractive forms of financing for firms operating in the hi-tech sector or for young companies battling to find the funds to finance expansion.

Without a track record or collateral, many young companies struggle to raise seed money from banks and mainstream financiers.

After five years of building a strong reputation as a designer and manufacturer of high-performance integrated circuits, Shenzhen-based Arkmicro had reached the stage when it was time to notch up its business development.

"The advances we had made had brought the company to a crossroads," said chief executive officer Peter Shi. "In a highly competitive market we could not afford to stand still but we lacked the resources to advance to the next platform."

After several months of talks with various venture capital investment companies, Arkmicro entered an agreement with Jafco Asia.

Jafco invested US\$3 million in Arkmicro in March, and undertook to assist the company in a number of key management areas.

Dr Shi said Arkmicro had chosen to work with Jafco as the capital venture company's fundamental goals aligned with those of the Shenzhen company's founders.

"With their experience and considerable knowledge of the IT industry, Jafco Asia's managers provide useful advice in many strategic areas of business and management. They also help to negotiate the issues and challenges associated with moving forward."

He said it was important to partner with a venture capitalist

that understood the aims and culture of his company.

Demand for products with integrated circuits – especially in the home entertainment, PC and mobile phone sectors – would rise as the mainland increasingly became a world-leading manufacturing base for electronics, he said.

His company wanted to work with a venture capitalist that recognised growth potential rather than just short-term profits.

To attract interest from venture capital companies, Arkmicro needed to highlight the strengths of its internationally experienced management team, its rapidly growing design and marketing team, and its well-established mainland communication and consumer electronics market, which formed part of a loyal customer base.

The company had also developed a strong client supplier

relationship with international manufacturers of television and video equipment and regularly undertook mainland government work.

Dr Shi said Arkmicro had used Jafco Asia's cash injection to expand its research and development operations and to prepare for the launch of new products.

The company now employs 120 staff, of whom more than 70 are fully trained IC engineers.

"Our goal is to continue developing new products and expanding our operation until we can list on the capital markets in Hong Kong and the United States," he said.

Vincent Chan, Jafco managing director and head of North Asia, said Arkmicro had met its investment criteria by showing a commitment to innovation and an established customer base that generates positive revenues.