

## PE firms set sights on China again

US venture capital groups appear to have again put China in their sights, said a report from UK-based Mergermarket Group, an intelligence provider on mergers, acquisitions and private equity.

According to the report, the most high-profile deal this month was US private equity giant Bain Capital's move to acquire a minority stake in Gome, the Chinese electrical appliance retailer, for about \$400 million.

Gome will reportedly sell a 12 percent share to Bain through convertible bonds and a rights issue of new shares equivalent to 18 percent that will be taken up by Bain and other existing shareholders including JP Morgan, Morgan Stanley and Warburg Pincus. If consummated, it will be Bain's largest buyout in China to date.

"A number of private equity houses have looked to play their hands, perhaps suggesting international buyout firms are now ditching their wait-and-see approach to the Chinese market," said Douglas Robinson, editorial research analyst with Mergermarket Group.

### Related readings:

- VC deals showing renewed signs of life
- NSSF asks for nod to invest in foreign PE
- PE: Behind so many failed projects that have 'fool-you'ed
- Venture firms develop cold feet on crisis woes

The US private equity firm Warburg Pincus announced the expiration of an option it held to swap convertible bonds in Huiyuan Juice this month.

In conjunction with two other private equity houses and Danone, the French food retailer, Warburg Pincus purchased a 35 percent stake in Huiyuan for \$200 million in the second half of 2006 - an investment that would have proved lucrative if Coca-Cola's \$2.4 billion bid for Huiyuan had been successful.

The buyout group continues to hold investments worth over \$400 million in eleven Chinese businesses.

Elsewhere, the private equity group TPG Capital is reportedly set to sell the 11 percent stake it holds in Shenzhen Development Bank to Ping An Insurance, the Chinese financial services group.

It has been rumored that if the deal goes ahead, TPG will see a significant return on its investment - the group spent \$145 million buying an 18 percent stake in the bank in late 2004, with Ping An reportedly now offering around \$992 million for a portion of that.

TPG has already put some of the profit to work through a purchase of \$80 million in convertible bonds in Daphne International, the Chinese shoe retailer, which equates to about 14.5 percent of the company.

But not all of TPG's forays into the Asian market have been successful.

Newbridge Capital, TPG's Asian arm, will almost certainly take a hit on its \$615 million 2006 investment in Taishin Financial, Taiwan's third-largest financial services firm, which announced last month that it will cut its capital by 6.8 percent following losses of T\$5.4 billion (\$164.16 million) last year.

The Warburg Pincus-Huiyuan transaction shows political considerations play a very important role in such deals, said the report.

Indeed, TPG is looking to exit from Shenzhen Development Bank in order to allay government sensitivities that it sold the State assets too cheaply, the report said.

"It is perhaps unsurprising that US buyout firms are now beginning to actively eye plays in China. After all, the country has a population of more than three times the size of the US, a rapidly burgeoning middle class and an economy which has arguably avoided the worst effects of the global financial crisis," said Robinson.

