

China Law Update

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Survival and Growth of Chinese PEs and VCs

So you've heard of the global recession. What are you doing about it? It's not really an unusual question—your PE and VC colleagues are asking the same thing and waiting for someone else to answer it. Most have sat on the sidelines to see when others will jump into the market and start putting money to work. Given the highly uncertain outlook for the immediate future, Chinese PEs and VCs are understandably anxious about their survival and potential for growth against the backdrop of the economical meltdown.

But in any economy, there is money to be made and deals to do.

The Chinese word “Wei Ji” perfectly describes the potential that is present in the current economic climate. Roughly translated, Wei Ji means “Risk and Opportunity.” In other words, where there is increased risk of failure, there is also dramatically increased potential for success. Despite the fact that Chinese PEs and VCs are currently weathering an economy unlike any seen in past 80 years, now is the time for Chinese PEs and VCs to seize investment opportunities that will blossom in 3-7 years.

Cases Analyses

A look at several investments made by Chinese PEs and VCs can provide insight into the challenges, as well as the opportunities accompanying the recession:

1. Private Equity Investment in Astronergy

On 20 March 2009, Astronergy, a subsidiary of the Chint Group in China, successfully secured USD \$50 million from Cybernaut China Investment and Shanghai Lianhe Investment, two China-based private equity investors. Chint Group is a leading player in the low-voltage electrical, power transmission and distribution industries in China. Astronergy, founded in October 2006, locates in Zhejiang and has reached 100 megawatts of annual production capacity. It is a world-renowned expert in thin film PV technology as well as solar energy. It is committed to reaching 380 megawatts of production capacity by 2010.

Astronergy's successful capital raise is but one example of the continuing trend in China toward hi-tech rather than low tech manufacturing, and the trend toward green industries and alternative energy. With the global economy crawling along, particularly in the consumer industry that

China has historically relied on as its manufacturing backbone, it makes sense that Chinese companies are shifting focus to address global demand to improve efficiency, cut costs and be more socially responsible.

2. China's Real Gold Mining IPO in Hong Kong

The IPO of Real Gold Mining Co. Ltd. ("Real Gold") successfully raised around HK \$ 1.03 billion on the Hong Kong Exchange on 23 February 2009. Real Gold focuses on mining of gold and processing of ore into concentrates containing gold and other minerals for subsequent sale. Real Gold owns three operating mines situated in the northeastern provinces of China, such as Liaoning Province. Real Gold has allocated 90% of the shares on offer to international institutional investors and remainder to retail investors in Hong Kong.

In contrast with Astronergy, Real Gold is a commodity/mining/heavy industry play. Heavy industry is one of the traditional backbone industries in China. The Real Gold case highlights that there is still money to be made in traditional Chinese industries, particularly in the interior regions of China. Over the past several years, investment in the coastal cities has been the preferred track, but trailblazing in the more remote parts of China is yielding outsized returns.

3. Siemens Financing for Beijing Newcom

On 20 March 2009, Beijing Newcom Traffic Technology Co., Ltd. ("Beijing Newcom") successively completed a Series A round, which was led by Siemens Venture Capital ("Siemens"). Beijing Newcom is a leading traffic information services provider whose technology and operational experience could help numerous cities of China to improve traffic efficiency.

Beijing Newcom shows that the right timing is vital for getting funded. It is obvious that traffic efficiency has been an increasingly serious problem for China, and one that will only get worse with time, but hosting the Beijing Olympics underscored for everyone the need to alleviate China's traffic problems. Beijing Newcom undoubtedly saw the opportunity to showcase its solution against one of the most public opportunities available—the Olympics—and captured the attention of Siemens (among other VCs of course). Like every good investment, Beijing Newcom demonstrated a pressing need and a compelling solution.

Conclusion

The cases discussed are just a small sample of the opportunities that exist for Chinese PEs and VCs. Each indicates a possible avenue of putting RMB to work in China. Some key points to take away for Chinese PEs and VCs operating in the current economic climate: (1) invest in the trend—for Astronergy, that was technology, greentech and alternative energy; (2) invest where China wants you to invest—hi-tech, green and alternative energy companies such as Astronergy are encouraged by government policies, as is investment in China's interior region (in the case of Real Gold); and (3) stick to the basics—find a big problem that needs solving and that will be around for a while, such as the case of Beijing Newcom.

Authored By:

[Will Chuchawat](#)

(213) 620-1780

wchuchawat@sheppardmullin.com