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China's private equity industry takes off slowly

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By Kirby Chien

BEIJING (Reuters) - China is trying to encourage domestic private equity funds to set up in the mainland and eventually challenge giant foreign rivals, but the approval process is proving to be a slow grind for some.

"Last year they promised approval in March or April," Walter Huang, a partner with Heracles Investment, told Reuters in an interview on Thursday. "Now, they say it will be this month."

"It won't happen this month," he said with a laugh.

"They" is the Tianjin municipal government, which together with the China Development Bank -- one of the three mainland banks that lend to promote state policy -- promised Huang and his partners to contribute 20 percent of a proposed one billion renminbi private equity fund.

Huang's new, unnamed fund would be managed separately from Heracles Investment, an investment bank that specializes in taking smaller Chinese companies public overseas.

"They say the money is not there yet," said Huang, a native of the port city of Tianjin.

The one-time Internet entrepreneur is hoping that final approval will come in the next two or three months for the new fund, 80 percent of which will be financed by Huang and his Chinese investors, mostly mainland institutions.

Others have been more fortunate. Last month Beijing gave the green light to five new Chinese investment funds to raise 56 billion yuan (\$7.5 billion).

China has boosted local private equity by allowing the yuan fund-raising, thwarting acquisitions by foreign rivals -- such as Carlyle's CYL.UL attempt to buy machinery maker Xugong Group -- and encouraging more firms to float shares domestically.

Jovial investor Huang is looking to take 20-30 percent stakes in renewable energy companies for about \$5 million for each investment.

"To be honest I hate big projects," he said.

One reason is that deals of over \$50 million require central government approval, he said.

"Getting local government approval is easy. Local governments just want to boost their economy and create jobs."

While he waits for approval, Huang is busy looking for other opportunities across the mainland's rapidly changing financial landscape.

"We are forming a futures fund in China to trade carbon credits," Huang said. "It is still only a plan, but I know carbon credit trading is going to be a really, really hot area."

With the international community, and especially the United States, taking greater interest in global warming, Huang reasons energy and pollution

start-ups will be good investments.

"Right now China is only a seller of carbon credits," he said. "There are no Chinese firms buying them."

(US\$=7.40 yuan)

(Editing by Quentin Bryar)

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