

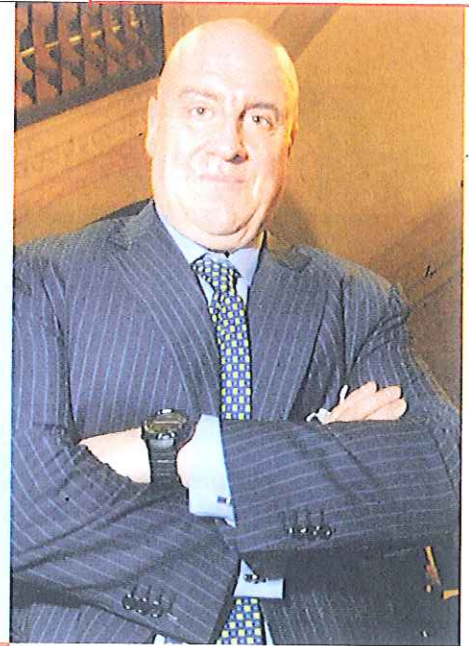
The Mandarin Way To Private Equity

Thanks also to a VC market that has exceeded € 3 bn, China is becoming one of the technological poles in the World, the most important in Asia. "The Chinese market has ever greater appeal for Italian funds, especially when it comes to start-ups," observed Salvatore Cimino, chairman and founder of Cape, a private equity fund specialized in the mid-size market. Cape China's objective is to support the management of small and medium enterprises in the implementation of their strategic plans, in the optimization of in-house logistics and the founding of a branch in China in order to speed up the manufacturing relocation processes that are already underway. Davide Hsieh, Xuan Ye and Roberto Wuang, Cape's team in Shanghai, helped by a network of local advisory firms, are able to identify the risks and opportunities associated with the Chinese market during the due diligence phase of investments. Leonardo Bruzzichesi, who founded and manages, together with Bonnie Sue, the Shanghai office of Private Equity Partners, the Milan boutique of Fabio Satin and Giovanni Campolo, is focused on the same target. "We are looking for opportunities and, above all, we discover the threats for the companies we have interests in," explained Bruzzichesi. The due diligence process, which often takes the form of an in-depth market analysis, is a crucial step in understanding or getting a second opinion on the quality of a supplier or distributor, or on the first steps facing those who wish to set up a company or even a factory. Neither Cape nor Pep has ventured into direct investments like those undertaken by Mandarin Capital, the first, and for now only, Chinese-Italian private equity fund that counts Intesa SanPaolo, China Development Bank and China Exim Bank among its partners and that has promoted three investments up to now: two in China, in the Italian companies Gasket International and Euticals, and one Chinese investment in Italy, Cifa. "By the end of the year we will close a fourth deal," revealed Alberto Forchielli, founding partner of the fund.



and new problems that can create legal and institutional obstacles for international investments. According to **Renzo Cavalieri**, a partner of the Bonelli Erede Pappalardo law firm, which is one of the most active in China, in recent years the legal system has been greatly strengthened. "Unlike the situation just a few years ago," he explains, "today there are modern laws, advanced state institutions, excellent lawyers, sophisticated contracts and all the rest. The country totally based on patronage from the era of the "grey market" is slowly disappearing and making way for an unprecedented China based on rules." Cavalieri then goes on to add: "Nonetheless, these important innovative measures have not been accompanied by an equally radical

political and institutional transformation. The administration system is still largely state-controlled and conditioned by the predominant part played by the political authorities: in China no agency or authority, not even the judiciary, is truly autonomous or independent from politics. This cocktail of liberalism and state control, law and politics, clear rules and administrative discretion (or more bluntly legalism and patronage) typical of contemporary China certainly provides an important element of flexibility, but it also has a number of side effects that hinder the efficiency of the system. It presents a huge obstacle to healthy management of the relationships between the center and the peripheral areas. Above all, foreign



Alberto Forchielli co-founder of Mandarin Capital and Leonardo Bruzzichesi (left) of Private Equity Partners in Shanghai

organizations are taking an increasingly negative view of it all, as they see it as a factor that puts them at a competitive disadvantage compared to their local counterparts." The regulations for partnerships also seem weak, with the Chinese parties not only having greater mobility than the Italians but also benefitting from greater protection. "I understand that over 70% of joint ventures last less than 3 years," says Coradini. If a solid business plan covering all aspects is not prepared beforehand, there is the risk that the partnership will collapse. The union will work as long as both partners have common interests, but as soon as they start to diverge, even a little, it is all over." The situation is improving thanks to the government's willingness to introduce more rules on all fronts and to create new legal instruments. "Definitively, what the Italian managers and entrepreneurs must understand is that a new China, in terms of people, managers and professionals, is coming up and it is well tuned to the same values of transparency and efficiency," summarizes Alberto Forchielli, "this is the best opportunity for us". 