



GETTING THE GOODS: Boyu's purchase of a substantial stake in Sunrise Duty Free showed Jiang Zemin's grandson could gain access to a state-controlled sector. **REUTERS/KOH GUI QING**

CHINA

Princeling of private equity

A firm co-founded by the grandson of China's former leader landed a sweet deal in a state-controlled sector of the economy. Now, many in the industry are flocking to invest with Alvin Jiang

BY STEPHEN ALDRED AND IRENE JAY LIU



PRINCELING PEDIGREE: Jiang Zemin (L) was China's president from 1993 to 2003. His son Jiang Mianheng is CEO of Shanghai government investment vehicle Shanghai Alliance Investment, which has a stake in Oriental Dreamworks. **REUTERS**

HONG KONG, APRIL 10, 2014

The 28-year-old wears black-framed glasses perched on cheeks still round with youth. A discerning eye might notice the resemblance to his grandfather: former Chinese president and Communist Party leader Jiang Zemin.

Alvin Jiang has a knack for landing lucrative deals in China, the world's biggest emerging market for private equity. He is a founding partner at Hong Kong-based Boyu Capital, now one of the hottest firms in China. Boyu has attracted high-profile investors such as Asia's richest man, Li Ka-shing, and Singapore's sovereign wealth fund, Temasek Holdings Private Limited.

Founded in 2010, Boyu Capital is poised to earn big paydays from two of the most notable initial public offerings to emerge from China in the last 18 months - e-commerce giant Alibaba Group Holding Ltd, and state-backed debt trader China Cinda Asset Management Co. No other China-focused firm with such a short history has found its way into both deals.

Boyu is regarded as among the most professional operators in China private equity, with seasoned executives at its helm. But according to multiple investors, Alibaba and Cinda are not only what lures

them to Boyu.

Investors were also impressed with Boyu's 2011 purchase of a controlling stake in Sunrise Duty Free - which runs all the duty-free stores at Shanghai and Beijing's international airports. That deal, they believe, provided evidence that Jiang Zemin's grandson could gain access to a strictly controlled state sector and convert those assets into a highly profitable investment.

The Sunrise investment is expected to earn a substantial exit payout for Jiang, his Boyu colleagues and investors in the firm's first \$1 billion fund, people in the private equity industry say.

Whether the young private equity executive actually uses his personal connections in the way investors attribute to him remains unclear. There is no evidence that

Jiang Zemin had a role in helping Boyu win a part in the Sunrise deal or in any other transaction. That hasn't stopped the belief from spreading that Alvin Jiang is tapping his family connections.

Alvin Jiang and Boyu Capital declined to comment for this story.

PRINCELING INFLUENCE

Alvin Jiang's Chinese given name is Zhicheng, which means, "with ambition, you can achieve." He is a "princeling," the relatives of current or former senior Chinese Communist Party leaders. His father, Jiang Mianheng, is also a princeling. He is the CEO of one of Shanghai's largest state-owned enterprises and is in charge of China's push into alternative nuclear energy sources.

The extensive control of China's Communist Party over almost all aspects of China's economy and society has often allowed princelings to leverage their political connections to amass wealth. Conflict of interest laws in China are weak and coverage of the business dealings of the political elite is heavily censored in the largely state-controlled media.

Princelings have played central roles in businesses involved in finance, energy, domestic security, telecommunications and



the media. Private equity, featuring deals that are often by their nature opaque, has proven to be a natural haven for them.

Within China's private equity realm, 15 firms identified by Reuters were either founded by a princeling, or have employed princelings in senior roles. Between them, these funds have raised at least \$17.5 billion for investment since 1999.

The most powerful investors in private equity funds, known as limited partners, include giant U.S. pension funds and insurance companies; sovereign wealth funds; university endowments; and ultra-high net worth individuals. For some of these big investors, the China game is straightforward: "You just have to know the right people," said one veteran limited partner. "It's why you invest with a princeling fund."

Several limited partners told Reuters that their firms assess princelings on their political connections and ability to convert those ties into business deals.

Alvin Jiang and Boyu Capital, these investors say, rank high on those lists.

AN OUTSTANDING RETURN

In mid-2011, Boyu agreed to pay around \$80 million for a 40 percent stake in Sunrise Duty Free, according to three sources with direct knowledge of the deal, valuing Sunrise at \$200 million.

The ownership of the remaining 60 per cent of Sunrise has not been made public. Boyu, however, has told investors it has a controlling stake, sources with knowledge of the matter said.

At the time of Boyu's investment, Sunrise ranked 15th among the top 25 travel retailers in the world, with annual revenue of around \$670 million, according to the Moodie Report, which tracks the duty free industry.

By early 2013, Boyu had marked the Sunrise business on its books at a value of around \$800 million, two of the sources with direct knowledge of the valuation said. Bankers, however, value Sunrise at

China's private equity princelings

LIU LEFEI

CITIC Private Equity Funds Management
\$5.1 billion funds raised

Liu Lefei is the son of politburo member Liu Yunshan and CEO and president of CITIC Private Equity Funds Management, which has raised a total of \$5.1 billion for investment from international and domestic investors. Liu Lefei is also vice chairman at CITIC Securities, and many investors regard him as the most powerful of China's private equity princelings, because his father is still in office.

WINSTON WEN

Co-founder of New Horizon Capital
\$3.2 billion funds raised

Wen Yunsong or Winston Wen, is the son of former China premier Wen Jiabao, and is the best known of China's private equity princelings. Winston is co-founder of New Horizon Capital, which has raised a total of \$3.2 billion for investment. Wen became chairman of state-owned China Satellite Communications Co in 2012.

JIANG MIANHENG

New Margin Investments, Shanghai Alliance Investment Ltd
\$1.1 billion funds raised

Son of former premier Jiang Zemin, Jiang Mianheng was a pioneer of China private equity investments. Dubbed the "Prince of Information Technology" in the early 2000s, he was involved with NewMargin Ventures, whose investments included AsiaInfo Holdings and RedFlag Software. His influence remains evident through the Shanghai government investment vehicle, Shanghai Alliance Investment Ltd, where he is CEO. Shanghai Alliance is part of a joint venture with DreamWorks Animation to produce

movies and build a theme park in Shanghai.

ALVIN JIANG

Boyu Capital Consultancy Co Ltd
\$1.6 billion funds raised

Grandson of Jiang Zemin, Alvin Jiang was a founding partner of Hong Kong-based Boyu Capital by the age of 25, putting him on an equal footing with some of the industry's top executives in Asia, including ex-TPG and Lenovo businesswoman, Mary Ma. Boyu's other investments include Alibaba Group Holding and China Cinda Asset Management. Boyu is finalising a second fund of \$1.5 billion.

HE JINTAO

Nepoch Capital
\$200 million funds raised

Nepoch was the first new princeling private equity firm to emerge in the wake of Xi Jinping's election as paramount leader. He Jintao, co-founder of Nepoch Capital, is the son of He Guoqiang, who until the last leadership change was head of discipline in the Communist Party.

Data sources: Thomson Reuters and Preqin

twice that amount - at around \$1.6 billion - based on 2012 sales figures the company filed with Chinese authorities, which Reuters reviewed.

Based on Boyu's more conservative valuation of \$800 million for Sunrise, Boyu could be sitting on a paper gain of around four times its money in just under three years - an outstanding return in an industry where earning a multiple of two times over five years is considered a success. Boyu has already recovered much of its Sunrise investment through dividend payments, according to three people with knowledge of the matter.

BEHOLD THE SUNRISE

The man who founded, built and then sold Sunrise to Boyu is Fred Kiang, a Chinese-American businessman with close ties to the Jiang family, according to Alvin Jiang's friends and business associates.

Kiang founded Sunrise in 1999. That was the year the central government under Jiang Zemin opened up the operation of duty free shops to international bidders at the new Pudong International Airport in Shanghai - Jiang's political power base.

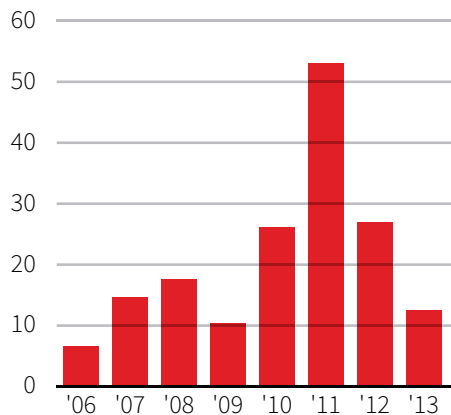
Previously, duty free operations had been a monopoly controlled by state-owned China Duty Free, and foreign firms like Kiang's were excluded from the business.

Raising capital

Despite a recent slowdown, over \$168 billion has been raised for China private equity investments since 2006

PRIVATE EQUITY FUNDRAISING

Billion dollars



Source: Asian Venture Capital Journal

Three international companies were selected to operate at Pudong airport, including two established duty free firms: World Duty Free, owned at the time by the British Airport Authority, and Orient King Power, a subsidiary of Hong Kong's King Power Group. The third tender went to Kiang's newly formed Sunrise Duty Free, a foreign-owned company with no previous

experience in the industry.

Sunrise won a 10-year contract to sell tobacco and alcohol at Shanghai's Pudong Airport, World Duty Free won a five-year contract to sell perfume and cosmetics, and Orient King Power won the concession to sell luxury goods.

SPECIAL APPROVAL

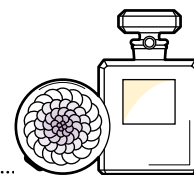
In 2000, China's State Council approved a measure that handed control of all duty free businesses - except those in Shanghai - from local governments to state-owned China Duty Free. Foreign companies were banned from setting up joint ventures or directly owning duty free businesses in China.

Yet in 2001 Sunrise Duty Free took over the perfume and cosmetics duty free concession at Pudong airport when World Duty Free pulled out of its contract. Published reports at the time quoted World Duty Free as calling it a "strategic withdrawal" because passenger traffic had not reached forecast levels. Sunrise in time would also take over luxury goods at the airport.

In 2005, Sunrise won a 10-year concession at Beijing International Airport, outbidding China Duty Free and Orient King Power. In 2009, its contract at Pudong was renewed for another decade.

Rise and shine

Valued at \$800 million by Boyu, Sunrise Duty Free holds exclusive duty-free rights for Beijing, Shanghai Pudong and Hongqiao airports. The company has grown to become the second largest duty-free company in China by revenue, trailing state-owned China Duty Free.



1999

The Shanghai government announces tender offer for Pudong International Airport duty free. World Duty Free, Oriental King Power and newly formed Sunrise Duty Free win concessions.

2000

China hands management of duty free to state-owned China Duty Free. Foreign companies are barred from duty free concessions, but Pudong airport's contracts remain in place.

2001

Sunrise takes over World Duty Free perfume and cosmetics concessions at Pudong airport.

Sunrise was granted “special approval” to operate duty free shops by China’s cabinet, the State Council, despite restrictions against foreign ownership, according to a 2009 report by China Business News, a state-owned media outlet. No other details were given on the Sunrise exemption.

Today, business at Sunrise is booming. According to the company documents seen by Reuters, Sunrise had revenue of \$1.08 billion in 2012. The Moodie Report ranks Sunrise just behind state-owned China Duty Free, which controls nearly all of China’s other duty free shops.

KIANG AND THE JIANGS

Why Fred Kiang would sell 40 per cent of a thriving company at what appears to be a discount remains the central puzzle surrounding the Sunrise deal. Apart from Sunrise, Kiang’s mainland business remains unknown. Friends and associates note his taste in expensive cigars, and the little publicity he has received is largely devoted to that passion. In 2009, he hosted an event in Shanghai to smoke the 40th anniversary Cohiba Behike, a limited edition Cuban cigar that sold for \$500 apiece.

Kiang, who is in his late 60s, shuttles between Shanghai, Hong Kong and Tucson, Arizona, where he owns properties in areas ranging from gated communities to low-end rentals. Alvin Jiang and Jiang Mianheng have used a Kiang residence address in Arizona for small personal business transactions.

Kiang declined to respond to e-mails and phone calls from Reuters.

Born in China, Kiang claims Shanghai



CO-FOUNDER: Mary Ma, former CFO at Lenovo, helped set up Boyu. **REUTERS/PAUL YEUNG**

\$1.08
billion

Sunrise Duty Free’s
revenue in 2012

Source: Sunrise company document

roots, but was raised in the United States. He received his undergraduate and MBA degrees at Massachusetts’ Babson College in 1970 and 1975, respectively, and now sits on the college’s board of trustees.

Kiang first met Jiang Zemin in 1986, when Kiang served as vice-chairman of

the San Francisco-Shanghai Sister City Committee, led by then city mayor and now U.S. Senator Dianne Feinstein, according to a person close to Kiang. Kiang and Jiang noted their common surname, which though spelled differently in English, is the same character in Chinese, said the source who is Alvin’s friend and business acquaintance.

In 1989, Jiang Zemin became Communist Party General Secretary; in 1990 Kiang established his base in Shanghai.

Kiang was a senior executive at Newbridge, the former name of TPG Capital in Asia, one of the world’s biggest private equity firms, three people with direct knowledge told Reuters.

From the late 1990s to the 2000s, Kiang was an advisor to U.S.-based insurer MetLife Inc as it looked for a joint venture partner to build its business in China, said a source with knowledge of the matter. Kiang negotiated on MetLife’s first mainland license in 2004, the source said, one of the first major Sino-foreign ventures created after China’s 2001 entry into the World Trade Organization.

TPG and MetLife declined to comment.

BOYU’S RISE

In 2010, Alvin Jiang, newly graduated from Harvard with a bachelor’s degree, was just another newbie banker in Hong Kong, working as an analyst at Goldman Sachs private equity unit. Nine months later, he left to launch Boyu. On September 21, 2010, he filed incorporation documents in Hong Kong, listing himself as the



2005

Despite a bar on foreign duty-free operators, Sunrise wins 10-year concession at Beijing International Airport, China’s busiest airport.



2009

Sunrise begins exclusive 10-year duty-free contract at Pudong airport and now controls all duty free business at China’s third busiest airport.



2011

Boyu buys a stake in Sunrise, valuing the company at around \$200 million. The Moodie Report estimates Sunrise’s annual revenue at \$670 million.

company's sole director.

When Boyu first made news in 2011, it was private equity veteran Mary Ma whose name captured headlines, not Alvin's.

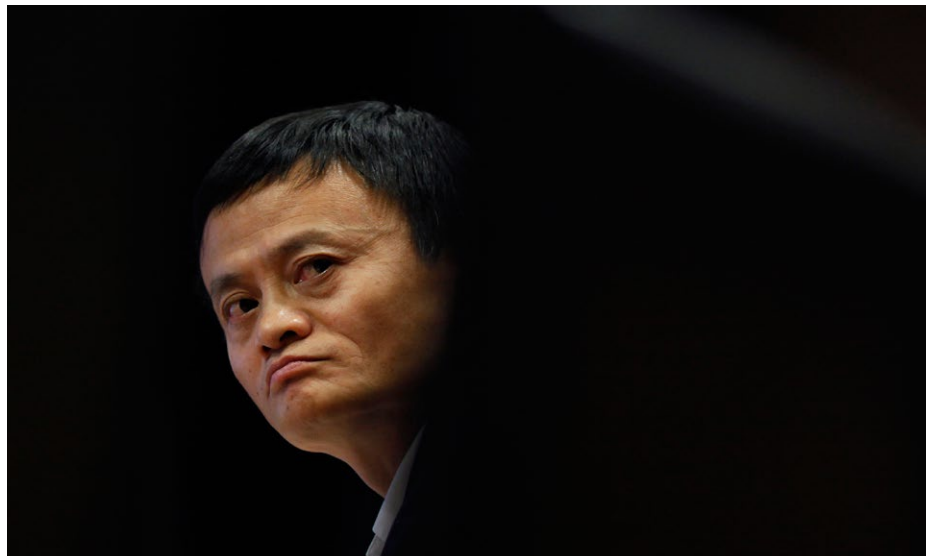
Ma, the former CFO at Lenovo Group, left a senior role at TPG to help set up Boyu. Additional co-founders soon followed: Louis Cheung, former executive director of Ping An Insurance Group of China, credited with its turnaround from 2000; and Sean Tong, a veteran of U.S. private equity firms Providence Equity Partners and General Atlantic, where he was Alvin Jiang's boss during a summer internship in 2008.

Ma and Cheung were known in the private equity industry for turning around struggling companies; Tong was a noted dealmaker. Combined, they had 50 years of industry experience.

DILIGENT AND FOCUSED

Two subsequent investments cemented Boyu's reputation for having the influence to find its way into profitable, high-profile assets. Alvin Jiang played a role negotiating both deals.

In 2012, Alibaba founder Jack Ma found himself face-to-face with Jiang Zemin's grandson. Boyu had joined a consortium led by China Investment Corp (CIC) to raise some of the \$7.1 billion that Ma needed to buy back half of Yahoo! Inc's 40 percent stake in Alibaba. Some high profile departures had left CIC, China's giant sovereign wealth fund, short of personnel. That left it up to Boyu to lead the negotiations, with Alvin on Sean Tong's team,



FACE-TO-FACE: Alibaba founder Jack Ma negotiated with Alvin Jiang in a \$7.1 billion deal to buy back Yahoo!'s 40 percent stake in Alibaba. **REUTERS/CARLOS BARRIA**

“Our firm is pretty equally divided on investing with princelings. I see princeling funds as a double-edged sword.

European private equity investor

according to two sources directly involved in the negotiations.

Alibaba and CIC declined to comment.

The CIC consortium received a 5.6 percent stake in Alibaba in exchange for raising capital to help buy half of Yahoo!'s shares in China's giant e-commerce company. Alibaba was valued at around \$38 billion then.

Analysts estimate Alibaba is worth at least \$140 billion today, which means

Boyu's investment as part of the CIC consortium has increased more than three and a half times in value in 18 months. The e-commerce giant has announced it will list shares on one of the New York exchanges in the third quarter of this year, a deal expected to exceed Facebook's \$16 billion offering in 2012.

Alvin Jiang also brought in Boyu to invest around \$50 million in Cinda, created in 1999 to buy bad debts from state-owned banks, said two sources familiar with the deal. Banks and private equity firms were jockeying to get a piece of the \$1.6 billion stake that Cinda was offering to strategic investors ahead of its initial public offering.

The consortium of investors that were allowed to make a pre-IPO investment in



2012

China's duty free market grows 27 percent to reach \$2.8 billion. Sunrise's annual revenue grows to \$1.08 billion, according to company documents seen by Reuters.



2013

Boyu values Sunrise at \$800 million. In 2014, bankers value Sunrise at twice that amount — around \$1.6 billion — based on 2012 revenues.



2015

China's duty free market is expected to grow to reach almost \$5 billion.

Sources: Reuters; The Moodie Report.



CHINA CONNECTIONS: President Xi Jinping's anti-corruption campaign has raised worries among some investors about deals involving princeling connections.
REUTERS/ED JONES (POOL)

Cinda included China's social security fund NSSF, UBS AG, CITIC Capital, Standard Chartered Bank - and two private equity funds, the powerhouse Carlyle Group and Boyu Capital.

Some of Jiang's friends stress he is more than just a well-connected face. He works through a company's numbers when negotiating, a skill he picked up during his brief time at Goldman, said one friend and business acquaintance. "Many people from his background would not bother to do that," the friend said.

"HEADLINE RISK"

Princeling privilege isn't necessarily permanent in China, even for the grandson of a living former President. The extraordinary fall of former Chongqing governor Bo Xilai in 2012 reinforced that notion for

many private equity investors.

Because they work for companies governed by Western laws, some have turned cautious about investing in princeling firms. In private, investors discuss "headline risk," the fear that a business deal will end up on the front pages of newspapers.

Those worries have risen with President Xi Jinping's anti-corruption campaign, and the U.S. Securities and Exchange Commission's investigation into Wall Street's hiring practices in China.

"Our firm is pretty equally divided on investing with princelings," said one European investor. "I oppose it, but many of my colleagues are for it. I see princeling funds as a double-edged sword."

For Boyu, profit and prospects have so far trumped any such anxiety: Alvin Jiang's firm has swiftly raised \$1.5 billion from

investors for its second fund, 50 per cent more than its first fund, people with knowledge of the matter said.

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