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## ***Bear Fallout***

### **China's Citic may be one of few winners in firm's collapse**

Largest investment house in China passes on an investment in Bear Stearns, saving itself nearly \$1 billion

By Andrew Osterland

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Joe Lewis, the billionaire currency trader sitting on more than 11 million shares of Bear Stearns, is probably the biggest loser from the collapse of the New York-based investment bank.

The biggest winner? With the possible exception of J.P. Morgan Chase CEO Jamie Dimon, it might be Citic Securities, China's largest securities firm.

Citic is a winner because of a deal that wasn't done. Last Wednesday, Citic chairman Kong Dan told reporters the firm was seeking to revise the terms of a swap investment deal it had agreed to with Bear Stearns in October.

In the deal, Citic was to invest \$1 billion in convertible preferred shares for a potential 6% stake in Bear Stearns. In turn, Bear was to invest \$1 billion in convertible debt that could give it a 2% stake in Citic.

"Prices will be cut," Mr. Kong told reporters in Beijing last week. At that point, Citic was expected to seek a 9.9% stake in the investment bank (keeping it under the foreign share ownership threshold), given that Bear's stock price had fallen even more precipitously than Citic's since the deal was struck.

The revised deal would have meant a purchase price of \$85 per share versus the original \$135. Shares in Bear Stearns have fallen from about \$80 at the end of February to just over \$4 today. Had the investment gone through under the revised terms, Citic would be looking at a loss of almost \$1 billion.

Now that J.P. Morgan has agreed to buy Bear Stearns for \$2 per share, the Citic deal appears to be dead.

"We aren't carrying out the deal with them," Mr. Kong told a Bloomberg reporter in Beijing today. "The situation has changed."

Said Jess Varughese, managing partner at consultant Milestone: "Citic is the overlooked winner in the situation."

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