

# Chinese ambitions for House of Fraser fall flat

Owner of UK department store chain opts for gradual growth rather than the grand expansion it originally planned

DON WEINLAND — HONG KONG  
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## Downsized

When China's Sanpower Group bought House of Fraser in 2014, its founder, Yuan Yafei, talked boldly about his plans to take the 166-year-old UK department store chain global.

The entrepreneur and former local government official not only promised to inject capital into the cash-strapped retailer, but his vision also included new outposts in Russia and the Middle East and a push into China with new stores under the name "Oriental Fraser".

None of that has happened. This year's planned April launch date of a flagship store in Nanjing passed without any sign of the fireworks and dancing lions that usually accompany grand openings on the mainland.

Traditional retailers around the world are struggling to compete against new online competitors — a plight highlighted by the collapse of British department store BHS and poor first-quarter sales from US department stores Nordstrom and Macy's, as well as the clothing group Gap.

House of Fraser, a mid-range department store chain with roots in Glasgow, is no exception. Weighed down by the costs of a £300m debt refinancing, the company posted its fifth straight year of statutory losses for 2015, despite double-digit online sales growth and increased revenue.

But the retailer's delayed debut in mainland China also stems from other problems. Three people close to House of Fraser say Sanpower, a retail-to-property conglomerate, failed to provide the expected capital boost.

The new owners also shook up the company's leadership and reshaped expansion plans for China.

**Rather than opening new stores, Sanpower is revamping properties and renaming them**

Rather than opening new stores, Sanpower is revamping some of its existing properties and renaming them Oriental Fraser. It has also shifted the Nanjing store launch to later this year, saying the plans have changed because of seasonal clothing considerations and plans for lunar new year.

House of Fraser could also change hands again soon. C.banner International, the owner of UK toy store Hamleys, said in April that it was considering acquiring an interest in the business.

The fate of House of Fraser is being closely watched, in part because it was on the leading edge of a wave of Chinese expansion into more developed markets. Mainland companies have spent more than \$220bn on outbound acquisitions since the start of 2015, reaching record levels in the early part of 2016.

Frank Slevin, House of Fraser's chairman, pushes back against the notion that his company has suffered under its new owners.

He argues that the company's development is strong and on track in both the UK and China. Once the refinancing costs are stripped out, House of Fraser posted adjusted profits of £1.3m in the year to

the end of January, against a £3.7m loss in the previous year.

"We believe that the business is extremely well positioned for the future of retailing. Since the acquisition we have strengthened the management team, successfully refinanced the business and delivered its strongest results in 10 years," Mr Slevin says.

Sanpower, which owns 89 per cent of House of Fraser, declined to answer questions regarding the company.

Sports Direct, the UK retail chain controlled by Mike Ashley, owns the remainder. A spokesperson for Mr Ashley declined to comment.

Hopes were high at House of Fraser when Nanjing Cenbest, a Shanghai-listed department store chain controlled by Sanpower, announced it was buying a controlling stake in the UK company in April 2014.

The retailer had repeatedly changed owners over the previous three decades.

Sanpower was a welcome change. One person who toured China with Mr Yuan in September 2014 said the conglomerate was eyeing prime real estate in big cities to launch new "Oriental Fraser"

stores that would reflect the UK company's culture adapted for China.

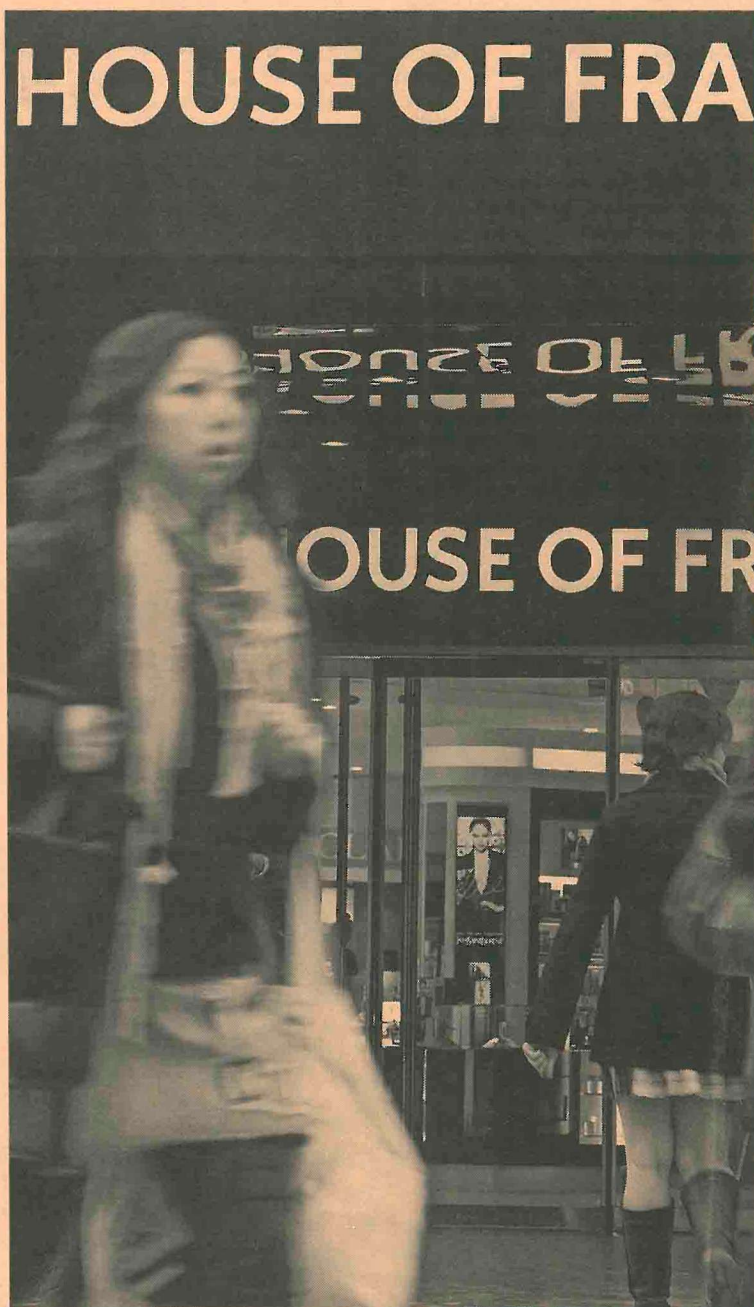
Sanpower had also agreed to inject £75m into House of Fraser UK, according to three people with knowledge of House of Fraser and the deal.

The injection of £75m never came. Instead, House of Fraser is using its own cash to pay for developments in the UK and China.

Meanwhile, Sanpower's listed food and clothing retailer, one of China's biggest, posted a widening loss of \$27.3m for the first three months of this year. Sanpower itself has gone on a buying spree in the past two years, most recently agreeing in November to pay \$1.4bn for China Cord Blood, a New York-listed, China-based life sciences company.

Now House of Fraser could be on the block again. C.banner International, which bought UK toy shop Hamleys late last year, said in an April filing to the Hong Kong stock exchange that it was considering acquiring the retail chain.

People briefed on the potential deal say the plan is for C.banner to take equity in House of Fraser while Sanpower takes shares directly in C.banner.



## China on the UK high street

C.banner International, the owner of UK toy store Hamleys, said in April that it was considering acquiring an interest in House of Fraser

Target  
Hamleys  
Acquirer  
C.banner

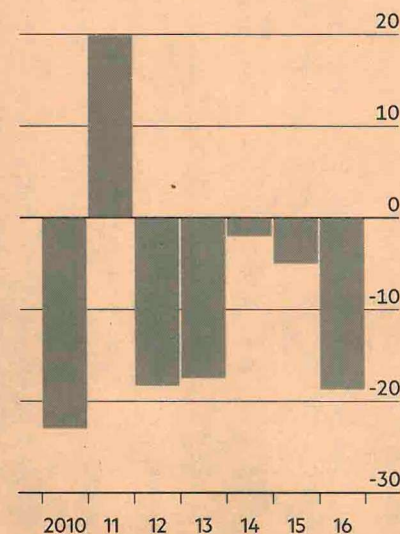
Oct 2015  
\$153m

Apr 2014  
\$787m\*

Target  
House of Fraser  
Acquirer  
Sanpower

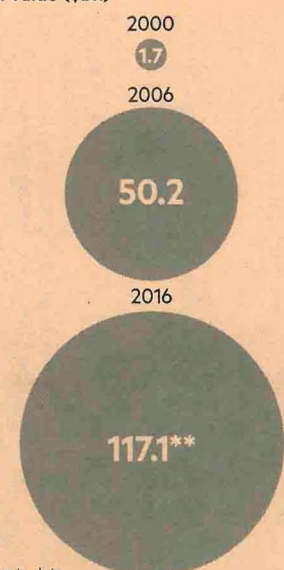
\*£480m converted US dollars

House of Fraser  
Pre-tax profit (£m)



Sources: company; FT research; Dealogic

China outbound M&A volumes  
Deal value (\$bn)



\*\*Year to date