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China outbound
momentum unabated
despite economic
uncertainty

2015 Greater China outbound M&A spotlight

Chinese Services Group

Contents

Executive summary

The 2015 Greater China outbound M&A Report reviews Chinese outbound M&A activities in the first half of 2015 (H1 2015). The analysis in this report was conducted based on publicly available sources, corporate public announcements, insights from Deloitte practitioners and Mergermarket, an independent M&A intelligence provider. Given an unprecedented increase in Chinese outbound M&A activities in 2015, the research was focused on M&A transactions without considering Greenfield Foreign Direct Investments made by Chinese investors in H1 2015.

The global macroeconomic environment was generally favorable for Chinese outbound investors so far in 2015. In China, monetary easing which started in 2014 is likely to continue in 2015 and even beyond. Despite a powerful rally of China's stock market in early 2015 (the market has suffered severe corrections since July), companies in general are facing financing constraint. For many Chinese firms, going abroad is about gaining additional competitive advantages; attractive valuation factor aside (potential acquisitions). RMB, which has been one of the strongest currencies for many years, has only depreciated against the US dollar mildly but continued to strengthen against, most currencies. As such, a strong RMB has enhanced the cost convergences which Chinese firms are experiencing in many countries (Europe particularly). In H1 2015, China recorded significant capital outflows as Chinese investors stepped up their outbound investment allocations as necessary diversification in light of slowing growth in China.

Since summer 2015, the severe corrections of China's stock market and the decision taken by the People's Bank of China (PBOC) to devalue the RMB have prompted broad sell-off of most asset classes of emerging markets (for example, Brazilian sovereign credit was recently being downgraded to junk status). Such corrections have reinforced the strength of the US dollar which was apparent prior to China's stock market turmoil. However,

it would be important to put so-called turbulence of China's stock into perspective. Given the very nature of transition economy, the stock market has played a very insignificant role in terms of both corporate financing (about 5% of total social financing) and urban consumers' savings (less than 10% of wealth). Notwithstanding various challenges faced by the Chinese economy, China does have many tools in its "box". More importantly consumers remain resilient. Precisely due to relatively benign inflation outlook, China could afford to use the lever of the exchange rate to reflate the economy. Given China's increasing role in global governance, the devaluation on the RMB is controversial. The RMB has appreciated by over 30% against the US dollar and even more against major currencies over the past decade. Meanwhile, with interest rate liberalization well underway, it is logical for the PBOC to push the exchange rate lever so that liquidity condition could be enhanced. Would such devaluation trigger capital flight? Foreign reserves have come down in recent months, but US\$3.5 trillion are more than adequate to meet import demand and external debt obligations.

In 2015, the State Administration of Foreign Exchange (SAFE) further relaxed its controls on inbound and outbound capital flows as part of the reform of China's foreign exchange administration. For instance, based on The Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (Huifa No. 13 [2015]) effective June 2015, most direct investment-related transactions can be handled through banks without obtaining prior approvals from SAFE.

Chinese outbound M&A activities in H1 2015 reached a record level. The growth rate of Chinese outbound investments surpassed that of major developed countries during this period. During H1 2015, 173 Chinese outbound M&A transactions, worth US\$56.8 billion in aggregate value, were announced. Both the volume and value of the



M&A transactions during this period had grown by 25% and 70%, respectively, from the same period a year ago. The record increase by value was, in part, attributable to the transactions of Hong Kong-listed conglomerates Cheung Kong Holdings and Hutchison Whampoa buying financial services and telecommunication assets in the UK.

Chinese outbound transactions had become larger in H1 2015 compared to the same period in 2014. Of those transactions where the transaction value was disclosed, the volume of mid-sized transactions with value between US\$101 million and US\$500 million had increased the most (by 44%). While the proportion of small-sized transactions worth less than US\$100 million declined, the proportion of the mid-sized transactions had grown to a new high of 28% in H1 2015. Although the proportion of mega transactions (those with value worth US\$1 billion or more) had remained flat in H1 2015, an aggregate value of mega transactions accounted for US\$39 billion, 104% higher compared to the same period a year ago. One of the mega transactions was a US\$15 billion acquisition of Telefónica UK by Hutchison Whampoa creating the number one mobile operator in the UK.

Although the Real Estate sector continued to be a major attraction of Chinese money, H1 2015 had seen an increasing appetite for Chinese investors to acquire mature companies with advanced technology and management best practices that

can be leveraged for the Chinese investors to compete more effectively globally. The value of Chinese acquisitions in the Technology, Media and Telecommunications sector increased by 209% in H1 2015 compared with the same period a year ago. There were 35 Chinese outbound M&A transactions in the Technology, Media and Telecommunications sector in H1 2015, 46% higher compared with the same period in 2014. High-tech companies, in particular in the U.S., have become increasingly sought-after targets. For instance, a consortium led by GO Scale Capital acquired an 80.1% stake in Philips' Lumileds Lighting Company, a manufacturer of high-power light emitting diodes (LEDs) for the automotive and consumer sectors, for US\$2.6 billion.

The value of Chinese outbound M&A transactions in the Manufacturing sector totaled US\$12.8 billion in H1 2015, 72% higher compared with the same period a year ago. The Manufacturing sector was dominated by transactions in the automotive and engineering sectors in Europe. For instance, China National Chemical Corporation (CNCC) announced a US\$8.8 billion acquisition of a 26.2% stake of an Italian tire maker Pirelli. There were 39 transactions in the Manufacturing sector in H1 2015, 8% higher compared with the same period a year ago. Given this trend, for example, Chinese manufacturers of rolling stock would probably become global players; a special section in the report is dedicated to the rolling stock markets in Europe.

Although there were not any mega transactions in the Consumer Business and Energy and Resources sectors in H1 2015, there was an increased volume of transactions in these sectors compared with the same period in 2014, for instance, in the Australian market. In Consumer Business, Wanda Cinema Line Group acquired Australia's cinema operator Hoyts Group for US\$777 million. In Energy and Resources, Guangdong Rising Assets Management announced an US\$810 million acquisition of a 77.5% stake in PanAust Limited, Australia's listed gold miner. According to the Economist Intelligence Unit, in H1 2015, mining was reportedly the fastest-expanding industry in Australia.

In H1 2015, the share of minority acquisitions by Chinese investors had grown significantly, reflecting a more flexible investment approach that did not prioritize the importance of control. There were 45 acquisitions of the minority stakes out of a total of 173 transactions in H1 2015, largely in mature markets.

Mature markets, such as Western Europe and the U.S., attracted the majority of Chinese outbound transactions in H1 2015. Western Europe accounted for about half of the total Chinese outbound M&A value in H1 2015, indicating the highest increase in the share of total value amongst all regions, compared to the same period a year ago. There were 35 Chinese outbound transactions in Western Europe worth US\$24.3 billion. Chinese buyers have been largely attracted by European manufacturing, technology

and financial services assets, particularly those in Germany and the UK. For instance, Cheung Kong Infrastructure Holdings acquired the UK's leading provider of rolling stock leases, Eversholt Rail (UK) Limited, for US\$3.8 billion.

In the U.S., there were 35 Chinese outbound M&A transactions worth US\$9.9 billion in H1 2015. High-tech companies, in particular, had become increasingly sought-after targets in the U.S. For example, Alibaba's investments included Lyft, Kabam, and Tango.

Included in our report is a special case study that discusses the Silk Road Economic Belt and the 21st Century Maritime Silk Road project and the establishment of a US\$40 billion Silk Road Fund. Visits by high-profile Chinese delegations to Europe during H1 2015 were instrumental in fostering closer cooperation between China and Europe. For instance, in December 2014, the Export-Import Bank of China set up a US\$1 billion fund for making investments in Central Europe. Furthermore, China CEFC Energy Company Limited, a Chinese private investor, acquired a 5% stake in J&T Finance Group SE, a Slovak private bank, for US\$60 million.

North Asia and South East Asia recorded 69% and 44%, respectively, in higher volumes of Chinese outbound M&A transactions in H1 2015, respectively, compared with the same period in 2014. There were 23 announced Chinese outbound M&A transactions worth US\$3.4 billion in South East Asia in H1 2015. Manufacturing and financial services assets in Vietnam and Indonesia

were popular with Chinese buyers. For instance, China Steel Corporation, Taiwan's listed steel manufacturer announced that it would acquire a 20% stake in Formosa Ha Tinh Steel Corporation, Vietnam's steel producer, for US\$939 million.

In North Asia, there were 15 Chinese M&A transactions in South Korea in H1 2015, three times higher compared with the same period in 2014. For instance, Anbang Insurance Group made an US\$1 billion acquisition of a 63.05% stake in Tong Yang Life Insurance, Korea's listed financial services company.

M&A practitioners indicated that Chinese companies were still faced with challenges in adapting to Western markets and management styles in H1 2015. Difficulties often result from

pressure to conclude transactions quickly and not having a nuanced understanding of the overseas market, its regulatory and legal systems, and cultural norms. In the post-acquisition phase, it has been found that retaining and empowering local management could help address integration challenges, with especially the involvement of third party professional advisors.

Based on available data and anecdotal evidence, it would seem highly desirable for prospective Chinese buyers to expend more time and efforts on pre-deal due diligence (financial, legal and tax) and structuring (deal structure) and post deal integration (operations), which have proven to be critical in any attempt to maximize investment returns.



A handwritten signature in black ink, appearing to read 'Patrick Yip' in a stylized, cursive script.

Patrick Yip
National Leader
Deloitte China M&A Services



A handwritten signature in black ink, appearing to read 'Rosa Yang' in a stylized, cursive script.

Rosa Yang
Chairman
Deloitte Global Chinese Services Group

Methodology

Historical analysis

The historical data presented in this report is derived from Mergermarket, an independent M&A intelligence provider.

M&A: Mergers & Acquisition (M&A) transactions are included where there is a transfer in ownership of an economic interest in an ongoing business concern. M&A transactions are dated from their announcement and might not result in a successful transaction being undertaken.

The data includes all Mergermarket-recorded transactions for the period 1 January 2014 to 30 June 2015.

Transactions with transaction values greater than US\$5 million are included. If the consideration is undisclosed, Mergermarket includes transactions on the basis of a reported or estimated value of over US\$5 million. If the value is not disclosed, Mergermarket records a transaction if the target's turnover is greater than US\$10 million.

Only true merger and acquisition transactions have been collated. Transactions usually involve a controlling stake in a company being transferred between two different parties. Where the stake acquired is less than 30 percent (10 percent in Asia-Pacific), the transaction has been included if its value is greater than US\$100 million.

Transactions such as restructurings where shareholders' interests in total remain the same have not been collated. Mergermarket does not track property transactions, Letters of intent, Memorandums of understandings, Head of agreement and Non-binding agreements.

All US\$ symbols refer to US dollars unless otherwise stated.

The report includes transactions from the below locations:

- Chinese Mainland (China);
- Hong Kong;
- Taiwan; and
- Macau.

It should also be mentioned that Chinese capital may come from other jurisdictions outside of China, thus in official data it is not categorized under Chinese outbound investments.

For the purposes of this report, an outbound transaction is defined as a transaction in which the bidder is predominantly located in the Chinese Mainland, Hong Kong, Macau or Taiwan and the target business is predominantly located in any other country or territory aside from the Chinese Mainland, Hong Kong, Macau or Taiwan.

Statistics for the first or second half or quarter of any given year are marked in the forms Hx 20xx or Qx 20xx. For example, any mention of the term "2005 - Q3 2014" in the report indicates that the period in question runs from 1 January 2005 to 30 September 2014. Similarly, any mention of the term "Q1 - Q3 2014" indicates that the period in question runs from 1 January 2014 to 30 September 2014.

Relaxed Chinese regulations on cross-border capital flow and outbound investment

Nora Fu, Partner, Shanghai Qin Li Law Firm

In 2015, SAFE further relaxed its controls on inbound and outbound capital flows as part of the reform of Chinese foreign exchange administration.

According to The Circular on the Implementation of the Pilot Program of Cross-border Foreign Exchange Payment Business through Payment Institutions (Huifa No.7 [2015]) announced by SAFE with immediate effect in January 2015, Payment Institutions are allowed to provide foreign exchange settlement services for cross-border online shopping and the limit on single transactions was raised to US\$50,000, previously US\$10,000. Furthermore, Payment Institutions can provide clients with centralized receipt and payment services and netting given that how the balance was made up would be recorded, and clients are free to make the payment either in RMB or in foreign exchange.

The Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (Huifa No. 13 [2015]), which was issued by SAFE in February 2015 and effective in June 2015, eliminated previous requirements of SAFE approval on foreign direct investment and overseas direct investment made by Chinese enterprises. Consequently, most direct investment-related transactions can be handled through banks without obtaining prior approvals from SAFE.

Following the pilot program initiated in Shanghai Pilot Free Trade Zone and the other 16 cities in 2014, since June 2015, The Circular of the State Administration of Foreign Exchange Concerning Reform of the Administrative Approaches to Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (Huifa No. 19 [2015]) has rolled out the policy of foreign exchange settlement nationwide. Foreign investment enterprises are allowed to apply for settlement of foreign exchange capital at amount and schedule as proposed in accordance with the enterprises operation needs.

In parallel with the foreign exchange rules relaxation, the People's Bank of China (PBOC) continues moving forward to internationalize the RMB. After the successful trial of allowing multinational enterprises to set up cross-border two-way RMB cash pool in the Shanghai Pilot Free Trade Zone, the PBOC launched The Circular on Centralized Operation of Cross-border RMB Funds Carried out by Multinational Enterprise Groups (Yin Fa [2014] No. 324) in November 2014, rolling out the policies to allow multinationals to centralize cross-border RMB operations to the whole country, including cross-border two-way RMB cash pooling and centralized cross-border RMB receipts and payments for daily operations.

In addition, following a higher threshold of outbound investment for getting approval from the National Development and Reform Commission (NDRC) in April 2014, NDRC further removed the approval requirement on the outbound investments unrelated to sensitive countries, regions or industries. Companies desiring to make such kind of outbound investment are only required to file with, rather than obtain approval from NDRC. In order to be able to make an outbound investment in the sensitive countries, regions or industries, companies would need to get approval from NDRC. Another government agency in charge of administration of outbound investment, Ministry of Commerce, has been implementing the similar policy since September 2014, which requires approval on outbound investment made in the sensitive countries, regions or industries, otherwise, for non-sensitive ones, a filing would be sufficient.

Greater China outbound M&A activity in 2015

China's outbound M&A value and volume in H1 2015 highest on record

A defining theme for 2015 has been a return of mega-transactions over US\$1 billion in value. The steady flow of mega-transactions has propelled total transaction values. In H1 2015, Chinese investors have recorded a total of US\$56.8 billion of investment in the overseas markets, 70% higher than in the same period in 2014¹. Indicating an upward trend, **Chart 1** shows that Chinese outbound M&A value in H1 2015 had been the highest on record since

2005. In early 2015, conditions were generally favourable for Chinese outbound transactions. China's equity markets rallied in H1 2015 providing a boost to confidence². For instance, Cheung Kong Holdings and Hutchison Whampoa, Hong Kong-listed conglomerates, bought the energy and telecommunication assets in Australia and the UK, respectively, in H1 2014 and H1 2015. There were 173 Chinese outbound M&A transactions in H1 2015, 25% higher compared with the same period in 2014, demonstrated in **Chart 2**.

Chart 1: Greater Chinese outbound M&A value

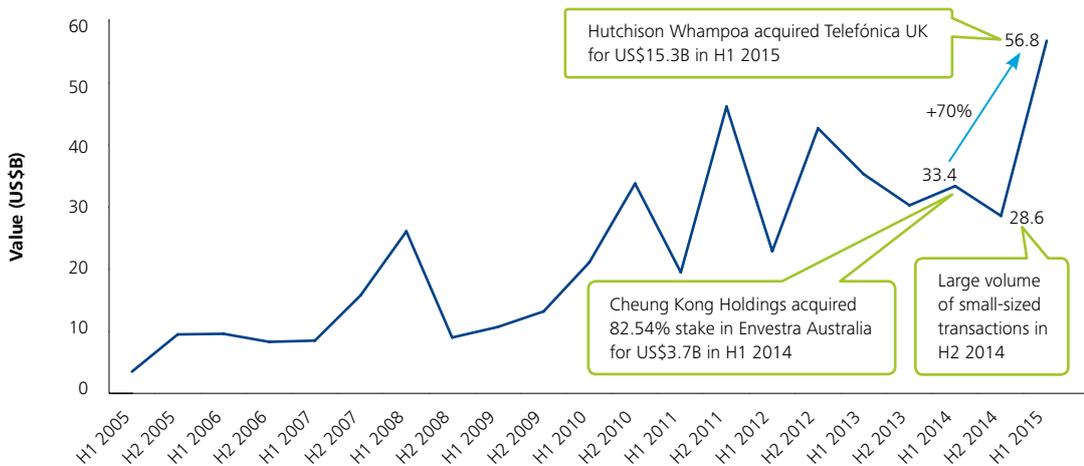
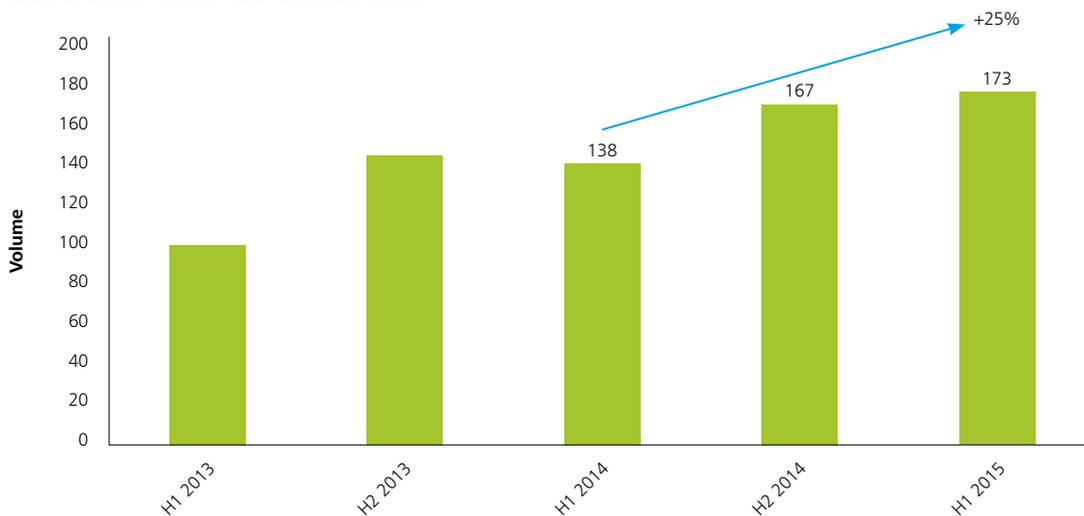


Chart 2: Greater Chinese outbound M&A volume

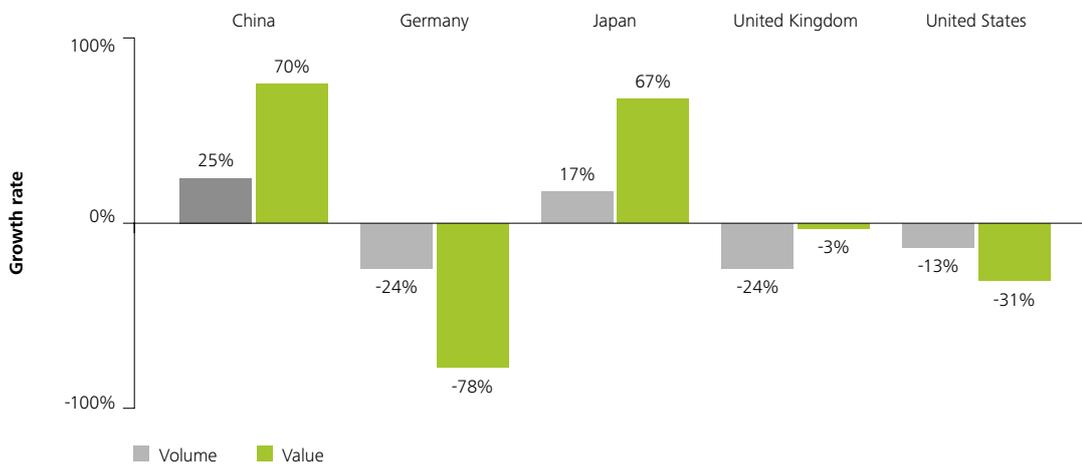


In H1 2015, Chinese outbound M&A value grew while total global cross-border M&A value declined

In H1 2015, the growth rate of Chinese outbound investments surpassed that of major developed countries. While both volume and value of Chinese outbound investment grew, outbound volumes and values of investments of major developed countries contracted in the same period³. **Chart 3** shows high growth rates of volumes and values of Chinese outbound M&A transactions in H1 2015 from a year ago.



Chart 3: Outbound M&A growth rates in H1 2015 compared with H1 2014



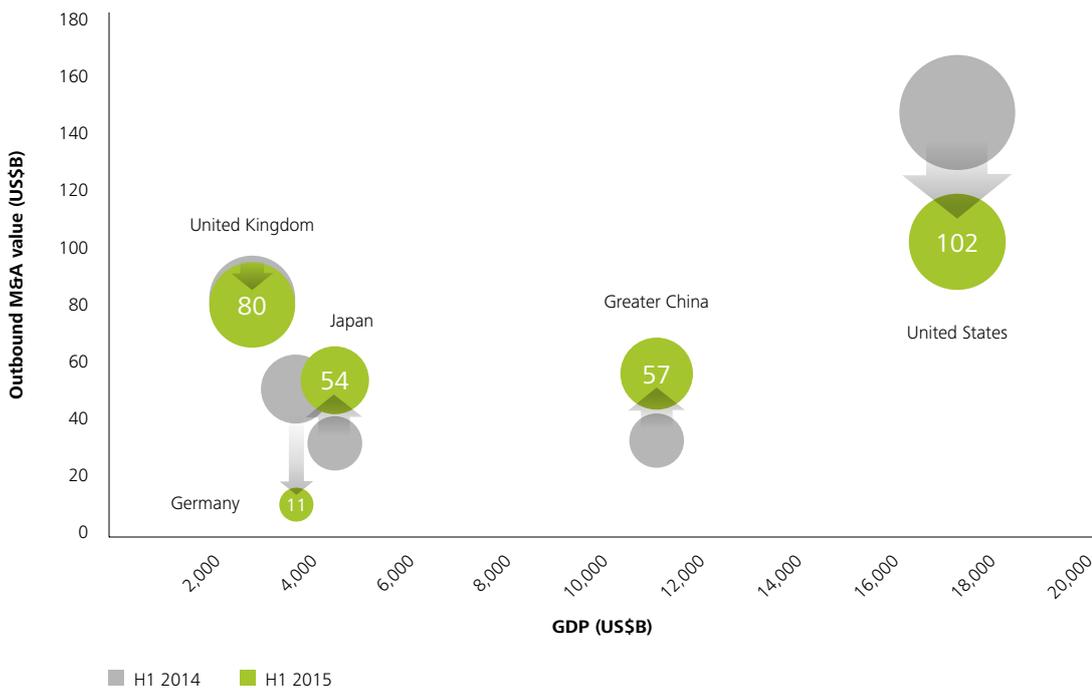
Chinese outbound M&A value higher than that of Germany and Japan in H1 2015

In H1 2015, the total value of Chinese outbound investments surpassed that of Germany and Japan but lagged behind that of the U.S. and the UK. Volume of Chinese outbound investments accounted for about 71% of the volume of UK outbound transactions in H1 2015. Volume of Chinese outbound investments accounted for about 64% of the volume of German outbound transactions and 30% of the volume of U.S. outbound transactions in the same period.

Table 1 (see page 11) indicates that Chinese outbound M&A activity increased rapidly relative to that of other major economies in H1 2015 from a year ago. For instance, value of Chinese outbound transactions was five times higher than that of Germany in H1 2015. **Chart 4** shows major outbound M&A investors by value relative to their economic size in H1 2015 compared to H1 2014.

Comparing Germany to China, both countries have had current account surpluses, but German net flows of direct investment have been negative since 2005, amounting to minus US\$110 billion in 2014, according to IMF (International Monetary Fund). On the other hand, China has constantly recorded positive net flows of direct investment over the same period, ballooning to US\$198 billion in 2014. Indicating by the terms of trade, German export prices has been largely balanced with its import prices since 2005, while Chinese terms of trade increased to the ratio of 1.1⁴ in 2014. Real exchange rate of the Euro⁵ measured against the trade-weighted basket of currencies of trading partners of Germany, has declined since 2010. In contrast, China's real exchange rate has been increasing against the currencies of its trading partners in the same period implying increasing real purchasing power of Chinese cross-border investors.

Chart 4: Major outbound M&A investors by value in H1 2015 compared to H1 2014



The depreciation of the Euro was sharp in early 2015 reflecting, among others, ECB's announcements of its programme of sovereign bond purchases. German current account surplus stood at 7.5% of its GDP in 2014, compared to China's 1.8%, according to IMF. The depreciation of the Euro has benefitted particularly those

German manufacturers whose products have high demand elasticity in foreign markets, such as luxury cars. High merchandise trade surpluses of Germany have been largely reflecting competitive German manufacturing sector evidenced by an increased volume of Chinese acquisitions in Germany in 2015.

Table 1: Outbound M&A activities of major economies

Chinese outbound M&A	H1 2015	H1 2014	2014
Volume	173	138	305
Value (US\$M)	56,800	33,375	62,143
German outbound M&A	H1 2015	H1 2014	2014
Volume	270	357	689
Value (US\$M)	11,133	51,105	127,938
Japanese outbound M&A	H1 2015	H1 2014	2014
Volume	148	126	282
Value (US\$M)	54,178	32,376	53,762
U.S. outbound M&A	H1 2015	H1 2014	2014
Volume	578	665	1,366
Value (US\$M)	101,789	146,778	302,926
UK outbound M&A	H1 2015	H1 2014	2014
Volume	243	320	611
Value (US\$M)	80,203	82,428	136,023

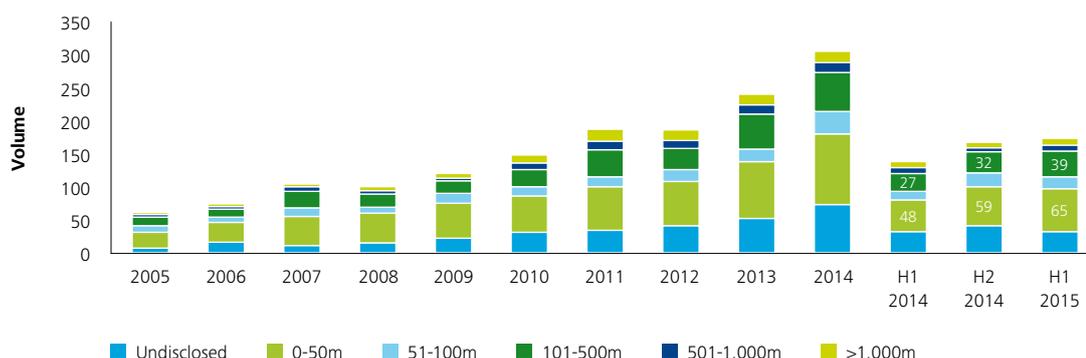
Note: The total value of Chinese outbound M&A in H1 2015 was biased by a US\$15.3 billion transaction (Hutchison Whampoa acquiring Telefónica UK)

In H1 2015, the volume of Chinese M&A transactions with values of between US\$101 million and US\$500 million increased the most, by 44% compared with the same period in 2014

Analysing volumes by the size of transactions in **Chart 5**, there were 10 Chinese outbound mega-transactions with a transaction value of over US\$1 billion in H1 2015, higher than that of the same period in 2014. There were 9 transactions with a transaction value of between US\$501 million and US\$1 billion in H1 2015, equal to the volume in the same period in 2014.

There were 39 transactions with a transaction value of between US\$101 million and US\$500 million, 44% higher compared with 2014. There were 18 transactions with a transaction value between US\$51 million and US\$100 million, 38% higher compared with 2014. There were 65 transactions with a transaction value equal or below US\$50 million, 35% higher compared with 2014.

Chart 5: Greater Chinese outbound M&A volume by deal size (2005 - H1 2015)



Top five investors accounted for 60% of the total value of Chinese outbound investment in H1 2015.

The spate of acquisitions in the UK was not over for Cheung Kong Infrastructure Holdings (CKI) and Hutchison Whampoa which announced acquisitions worth over US\$20 billion in the same period in the UK in the Telecommunications and Financial Services sectors, contributing significantly to an aggregate value of the largest transactions in 2015, demonstrated in **Chart 6** (see page 13). According to Hutchison's statement, a US\$15.3 billion acquisition of O2 UK aimed at creating the number one mobile operator in the UK in the rapidly evolving UK telecommunications sector⁶.

CKI's US\$3.8 billion investment in Eversholt, a UK-based provider of rolling stock leases and related management services to the rail passenger and freight markets, was reportedly a diversification of CKI's portfolio in the UK rail transportation sector⁷. CKI commented that the purchase of Eversholt would generate a recurring profit similar to other CKI's infrastructure projects.

In H1 2015, an aggregate value of mega-transactions accounted for US\$39 billion, 104% higher compared with the same period in 2014

UK rail rolling stock companies have proved attractive to investors for their steady income, longer-term leases and growing volumes of rail passengers in the UK, according to a major UK private equity investor. CKI also made significant acquisitions in mature markets in H2 2014, for instance, in a Canadian off-airport car park business Park'N Fly in July 2014, and Envestra, one of the largest natural gas distribution companies in Australia, in October 2014.



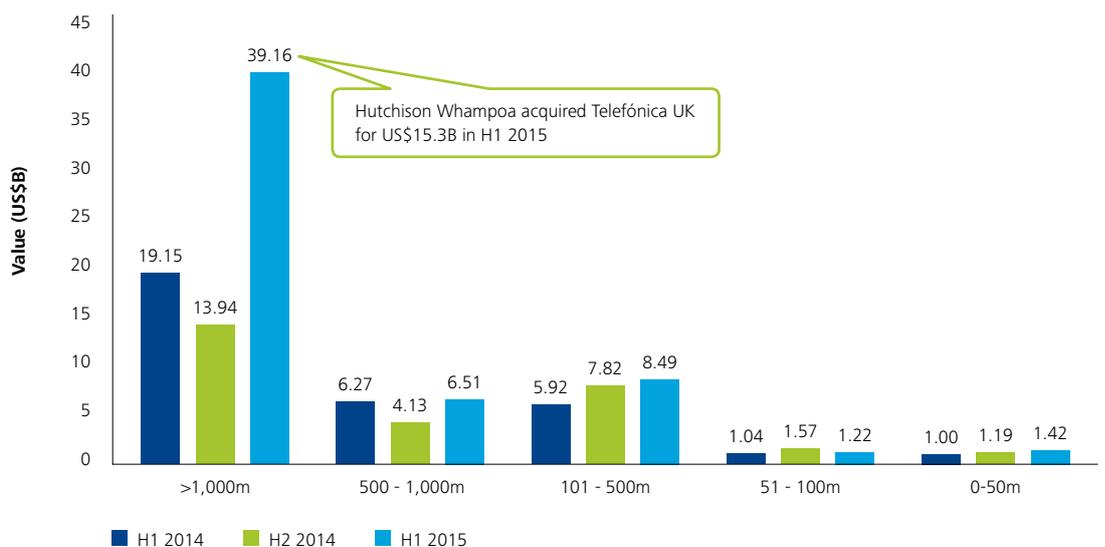
In April, China National Chemical Corporation (CNCC) announced an acquisition of a 26.2% stake of an Italian tire maker Pirelli. CNCC would probably have a controlling stake in the new joint venture with a significant share in the world's tire manufacturing market⁸.

In H1 2015, given China's maturing industries and fewer restrictions for capital flows, financial investors from China, comprising cash-rich private equity firms, financial conglomerates, insurance firms, and other financial players including both state-owned enterprises as well as private firms, have remarkably entered global markets. They have integrated domestic and overseas resources, mirroring China's economic growth momentum. For instance, Fosun Group's US\$1.8 billion acquisition of an 80% stake of Ironshore, a US-based provider of property and casualty insurance and reinsurance, has been Fosun's most valuable transaction announced to date⁹. Fosun has established insurance as its core business.

Since 2014, Fosun International¹⁰ has made announcements of M&A transactions worth over US\$5 billion in the Financial Services, Energy & Resources and Consumer Business sectors.

Anbang Insurance Group, China's eighth-largest insurer by asset value¹¹ announced new international acquisitions in the insurance and real estate sectors in H1 2015. In February, Anbang Insurance Group acquired a 63.05% stake in Tong Yang Life Insurance, a listed Korean financial services provider¹². The transaction was the second move in that month by Anbang to expand its global footprint, following its agreement to buy an insurance arm of a Dutch bank and insurer SNS Reaal in a transaction worth at least US\$1.6 billion¹³. Anbang complemented its acquisition spree by a US\$1.95 billion-purchase of New York's renowned Waldorf Astoria Hotel in 2014. Anbang would likely own stakes in insurance and real estate companies on every continent in the next 10 years, according to Anbang's Chairman.

Chart 6: Chinese outbound M&A deal value by deal size (H1 2014 - H1 2015)



Sector highlights

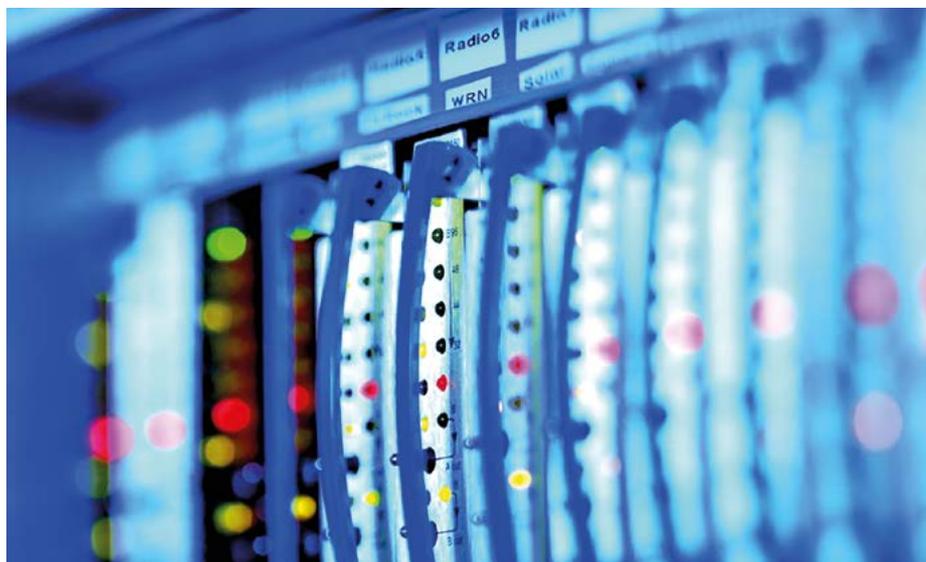
In 2015, the focus of Chinese buyers has been on specific technologies which would provide Chinese companies entries to mature markets

Although perceived stable investments, such as real estate, and access to consumer markets have been significant factors for Chinese buyers in overseas markets over the past few years, in 2015, another major attraction of Chinese money has been acquiring advanced technology and management best practices that can be leveraged for Chinese investors to compete more effectively globally. High-tech companies, in particular in the U.S., have become increasingly sought-after targets.

Technology, Media and Telecommunications

Evidenced by data, in H1 2015, value and volume of Chinese outbound transactions in the Technology, Media and Telecommunications sector surged the most amongst all industry sectors from a year ago. The value of Chinese acquisitions in the Technology, Media and Telecommunications sector increased by 209% from a year ago. The share of the Technology, Media and Telecommunications sector of China's outbound M&A value accounted for 43% in H1 2015. The momentum of Chinese cross-border transactions in the Technology, Media and Telecommunications sector in H1 2015 is depicted in [Chart 7](#) (see page 19).

Analysing the increase by value, 5 Chinese mega-transactions came into the Western European and U.S. markets with an aggregate value of US\$32 billion in H1 2015. For instance, Hutchison Whampoa Limited, a Hong Kong-listed conglomerate, announced an acquisition of a UK-based provider of integrated mobile, fixed and broadband services for US\$15.3 billion. The acquisition would probably expand Hutchison's market share in Europe while creating a synergy with Three, a UK-based mobile network operator, owned by Hutchison. According to Hutchison's statement, the acquisition of O2 UK has been planned to create the number one mobile operator in the UK so as to be competitive in the UK sector. Through this very significant investment, Hutchison has demonstrated its confidence in the UK economy and the telecommunications sector in particular¹⁴. From an investment perspective, the European Union (EU) may soon evolve in a single market in the digital communications sector.



There were 35 Chinese outbound M&A transactions in the Technology, Media and Telecommunications sector in H1 2015, 46% higher compared with the same period in 2014. The share of the Technology, Media and Telecommunications sector of China's outbound volume accounted for 20% in the same period

In H1 2015, Chinese outbound M&A transactions largely accounted for computer technology, internet and e-commerce applications and media in the U.S. and Western Europe. In the media business, for instance, Dalian Wanda Group (Wanda) acquired a 68.2% stake in Swiss sports marketing company Infront Sports & Media AG (Infront) for US\$1.2 billion¹⁵. Infront distributes media rights for broadcasting sports events including the soccer World Cup and Olympic winter sports. Wanda, which controls China's biggest commercial real estate developer, has diversified its investment portfolio by extensively investing overseas in the past two years. Wanda's investment in the entertainment industry complements Infront's ambitious growth plan. On Infront's expanded marketing platform, Wanda would probably help promote Chinese sports more effectively globally.

Innovation cycles are getting shorter in the digitalized world with an increasing trend on connectivity and communication over the past few years. When it comes to innovation, for instance, Shanghai Automotive Industry Corporation (SAIC)¹⁶ and Alibaba, a Chinese e-commerce giant, announced their plans to develop internet-connected cars. New products such as smartphones and tablets offer unified

platforms revolutionizing consumer demand. According to IMF, about 80% of the world's adult population is expected to own a smartphone by 2020¹⁷, and Chinese firms will probably seize that market opportunity. The volume of the world's mobile subscribers and internet users have grown at an annualized rate of 7% and 9%, respectively, since 2010 to date¹⁸. Chinese buyers see the potential growth in advanced semiconductor technology in the U.S., for instance, in design and development of integrated circuits for the use of consumer electronics, networking, mobile communications, and automotive electronics. In June, Uphill Investment Company, a consortium of China's private equity firms, acquired Integrated Silicon Solution, a California-based fabless semiconductor firm for US\$598 million.

In March, Chinese e-commerce giant Alibaba announced a US\$200 million investment in social media messaging application Snapchat, a Stanford University start-up company¹⁹. Alibaba would probably develop more mobile shopping and payment services for customers globally. In addition, Ant Financial Services Group, an affiliate of Alibaba, acquired a 25.88% stake in One97 Communications Limited, an Indian mobile payment and commerce platform.

Manufacturing

The Manufacturing sector was dominated by transactions in the automotive and engineering subsectors in Western Europe. For instance, CNCC announced a US\$8.8 billion acquisition of a 26.2% stake of an Italian tire maker Pirelli, an experienced Italian tire maker and one of the world's top tire brands. By this transaction, CNCC aimed at acquiring technology and expanding its market share in both Chinese and European markets. The automotive market for passenger cars in Europe has been flourishing and the trend has continued over H1 2015. According to Economist Intelligence Unit, in 2015, there have been 513 registered passenger cars per 1,000 inhabitants in Western Europe, 23% higher than in North America, and six times more than in Asia and Australia in total.

In China, in 2015, electric vehicles have accounted for a small proportion of the corporate sales and production²⁰, yet new measures, such as exemptions from traffic restrictions and the vehicle acquisition tax, may help boost the sales of electric cars in the Chinese market. In May, GaoXin BoHua Investment acquired a 30% stake in National Electric Vehicle Sweden AB (NEVS), a manufacturer of electric automobiles, for US\$200 million. According to GaoXin BoHua, it pursued the latest software and connectivity technologies applicable in the production of electric vehicles for the Chinese market in cooperation with NEVS. GaoXin BoHua has contemplated a new factory including research and development of electric vehicles in Tianjin²¹.

In H1 2015, there were 39 announced transactions in the Manufacturing sector with a total value of US\$12.8 billion, 72% higher compared with the same period in 2014. The shares of the Manufacturing sector of the total Chinese outbound M&A volume and value accounted equally for 23% in the same period



Case study: Will Chinese train makers supply rolling stock to European railways?

Graham Matthews, Partner and Chinese Services Group Leader, Deloitte United Kingdom

In a short period, China has become one of the global leaders in high-speed rail (defined as operating at speeds of over 350km/hour) and has a fleet of over 1,500 units, running on a high speed rail network of more than 16,000 km, accounting for over 60% of the world's total HSR length. China's ambition to become a major player in the global industries was underlined by the merger of its two largest manufacturers, China South Locomotive & Rolling Stock Corporation (CSR) and China North Locomotive & Rolling Stock Industry Group (CNR), announced in December 2014. Although China Railway Rolling Stock Corporation (CRRC), the newly-merged company, currently has a combined market share outside China of only 3%. It is expected to grow that share rapidly by acquiring and developing the technologies and capabilities that it needs to enter into developed and developing markets.

Technical standards are a threshold barrier to sales in developed markets such as the EU with its TSI (Technical Standard for Interoperability). To qualify to sell rolling stock in the EU, CRRC will need to acquire or develop capability to allow it to meet those standards, and hence has started building relationships and making selected acquisitions. To this end, in May, the Sino-Germany Rail Transit Technology Research and Development Center was set up by CSR and Dresden University of Technology in Germany²². CRRC also has a factory in China that claims to operate to TSI standard²³. Chinese component suppliers in the CRRC supply chain have also been seeking TSI accreditation for export of components to the EU.

Passenger train sales have been made to non-EU countries, such as ZhuZhou Times Electric Technology Company's (a subsidiary of CRRC) sale of two three-car EMU²⁴ trains and four DMU trains to Macedonia. There has also been some initial success in penetrating North America, with Boston transport authorities awarding CNR a US\$567 million contract of train supplies for the city's subway trains in October 2014. In high-speed rail, it seems likely that CRRC will bid for the rolling stock contract for the UK's High Speed 2 rail line (HS2), linking London and Birmingham. If CRRC



bid then in addition to meeting the EU TSI, it would also have to develop capabilities in bidding for developed-market contracts and competing head-on with experienced suppliers like Alstom, Siemens and Hitachi.

M&A is also playing an important role for China's non-rolling stock companies to develop into Europe. In 2014, China Railway Signal and Communication Corporation (CRSC), China's rail transit communication and signal systems developer, bid for a majority stake in Inekon Group of the Czech Republic. In March 2015, CSR Henan Heavy Equipment, a subsidiary of CSR, announced that it would acquire MHWirth GmbH, a German company providing drilling solutions and road headers to the railway industry. CNR has been reported in the media as being interested in acquiring Italy's Ansaldo STS.

Away from purely railway-focused projects, Chinese buyers have been looking for specific technologies to enter new markets. For instance, in April 2015, CRRC announced the US\$190million acquisition of Specialist Machine Developments, a UK-company which produces deep-sea robots and sub-sea engineering equipment.

Given its importance to the Chinese economy and its huge manufacturing capacity, the Chinese railway industry has no choice but to seek out new export markets. We view 2015 as a year in which an increasing number of the necessary capabilities have been put in place to prepare for a major push into developed and developing markets.

There were 12 Chinese outbound M&A transactions in Financial Services in H1 2015, 50% higher compared with the same period in 2014. The share of Financial Services of the total volume of Chinese outbound activities accounted for 7% in H1 2015

Financial Services

The outbound transactions made by CKI, Fosun International and Anbang Insurance Group in the U.S., Korea and Israel accounted for 82% of Chinese outbound M&A value in the Financial Services sector in H1 2015. For instance, CKI acquired one of the UK's leading providers of rolling stock leases, Eversholt Rail (UK) Limited, for US\$3.8 billion. Eversholt owned about 28% of the UK's passenger train fleet and recorded a high profitability with an EBITDA margin of more than 70% in 2014, according to Eversholt's financial statements. Reportedly, CKI has looked for steady income, longer-term leases and growing numbers of rail passengers in the UK rail market. In addition, Cheung Kong Holdings expanded into the leasing market. In 2014, Cheung Kong Holdings announced that it would pay US\$1.8 billion to buy 45 aircraft from companies including General Electric ²⁵.

In the aviation leasing business, over the past years, an increasing number of aircraft have been leased, as opposed to airlines owning them. According to International Air Transport Association (IATA)²⁶, in May 2015, air transport

volumes have expanded at an annualized growth rate of 8% since its trough in 2009 driven by business confidence in advanced economies. The private equity investments in the leasing business have been noticeable in 2015, for instance, Bohai Leasing, China's aircraft leasing company, a listed subsidiary of China's aviation and shipping conglomerate Hainan Airlines, announced an acquisition of a 20% stake in Avolon Holdings, an Irish company, for US\$429 million²⁷. Avolon has a portfolio of commercial aircraft on lease globally. Bohai Leasing would become the largest single shareholder in Avolon. This strategic investment by Bohai Leasing may create the world's leading independent aircraft lessor. The transaction would be Hainan Airlines' biggest acquisition in the transport sector since its US\$1 billion purchase of U.S. marine container leasing company GE SeaCo in 2011. It would also open access for Hainan Airlines into the global aircraft leasing market that has been so far dominated by U.S. GE Capital and AerCap Holdings NV of the Netherlands.

The value of Chinese acquisitions in the Financial Services sector increased by 176% in H1 2015 from the same period in 2014. The share of the Financial Services sector of Chinese outbound value accounted for 14% in the same period

Chart 7: Outbound M&A value by sector H1 2014 vs. H1 2015

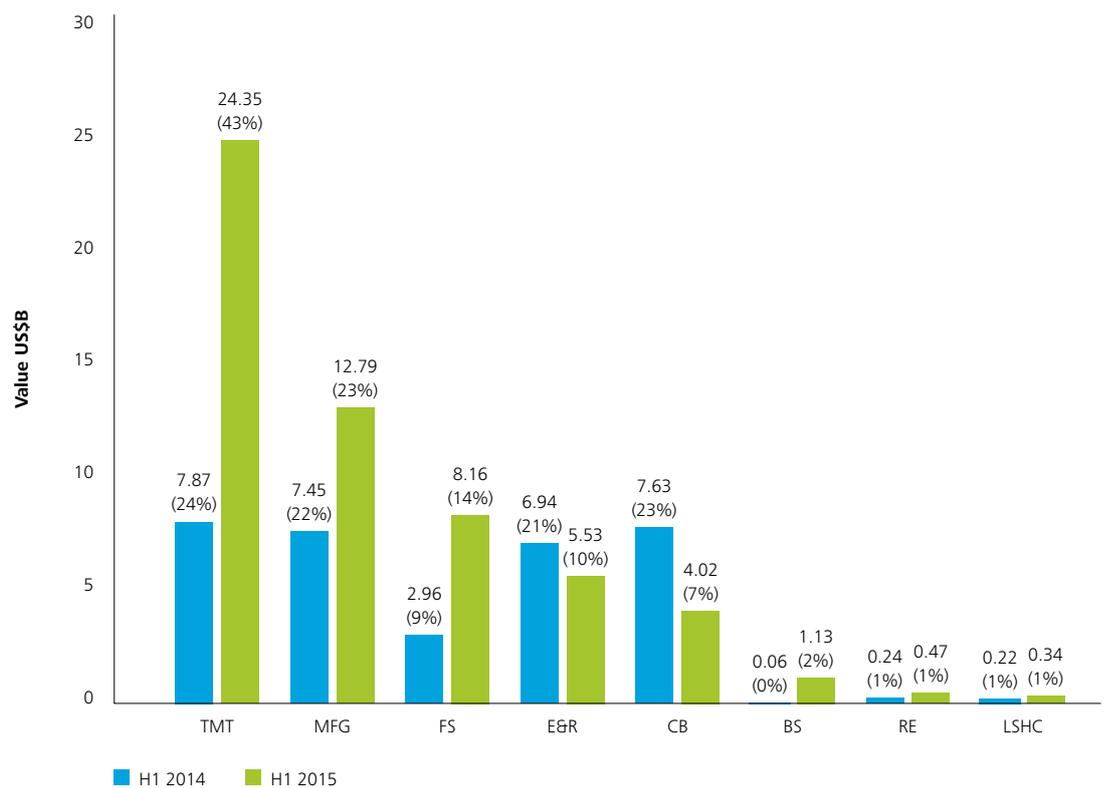


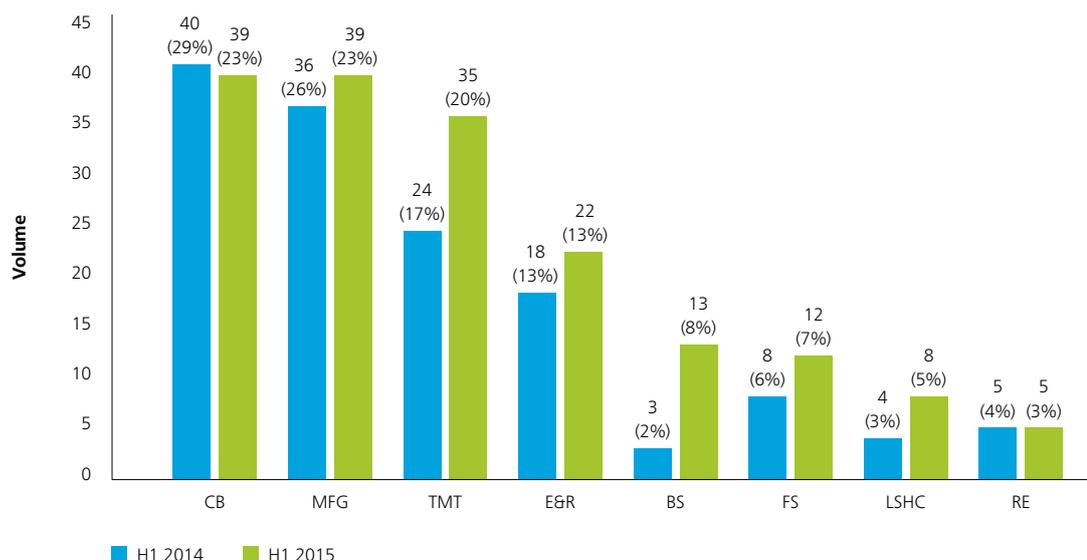
Figure refers to the outbound M&A value; the percentage in the bracket refers to the share of the total value

Note:

TMT: Technology, Media and Telecommunications
MFG: Manufacturing
FS: Financial Services
E&R: Energy & Resources

CB: Consumer Business
BS: Business Services
RE: Real Estate
LSHC: Life Science and Health Care

Chart 8: Outbound M&A volume by sector H1 2014 vs. H1 2015



The figure on the chart refers to the outbound M&A volume; the percentage in the bracket refers to the share of the total volume

Note:

TMT: Technology, Media and Telecommunications CB: Consumer Business
MFG: Manufacturing BS: Business Services
FS: Financial Services RE: Real Estate
E&R: Energy & Resources LSHC: Life Science and Health Care

Energy & Resources

In contrast to 2014, we saw less mega transactions in the Energy & Resources sector in H1 2015. Based on data, the Chinese government anticipated a less resource-intensive economic growth in 2014 and the trend of declining value of Chinese outbound transactions in the Energy & Resources sector has continued in 2015, shown in [Chart 7](#) (see page 19).

For instance, Hutchison Whampoa, having an interest in Canadian energy assets, completed an acquisition of a 6.24% stake in Husky Energy, a listed oil and gas producer for US\$1.4 billion²⁸. Yet, the transaction was part of Cheung Kong Group's reorganization aiming to create two new listed entities namely CKH Holdings and CK Property. CKH Holdings would acquire all the non-property businesses, such as energy and infrastructure, while CK Property would own all the group's property-related businesses.

In H1 2015, value of Chinese outbound transactions in the Energy & Resources sector amounted to US\$5.5 billion, 20% lower compared with the same period in 2014

While the value of transactions in the Energy & Resources sector declined in H1 2015, the volume grew in the same period, particularly in the category of mid-sized transactions. There were 22 announced outbound transactions in the Energy & Resources sector in H1 2015. The shares of the Energy & Resources sector of the total Chinese outbound volume and value accounted for 13% and 10%, respectively, in the same period

Analysing the increase by Chinese outbound volume in the Energy & Resources sector in **Chart 8** (see page 20), there were higher volumes of Chinese acquisitions of metals and mining assets in H1 2015 compared to the same period a year ago. For instance, Zijin Mining Group, a Chinese listed gold mining company, announced several outbound mining investments during the period, including investments in Ivanhoe Mines' Kamoanga copper project in the Democratic Republic of Congo and Barrick Gold's Porgera gold project in Papua New Guinea.



Consumer Business

Evaluating the decrease in value in the Consumer Business sector in [Chart 7](#) (see page 19), there were no mega transactions with value of over US\$1 billion in H1 2015. Yet, we saw an increased volume of Chinese M&A transactions in Australia, for instance, Wanda Cinema Line Group acquired Australia's cinema operator Hoyts Group for US\$777 million. Wanda already owns AMC Entertainment Holdings, a U.S. cinema chain, since 2012. AMC went public in 2013 in New York²⁹. Gauging Wanda's targets in the entertainment business, it appears to create high-end products for global audiences. Furthermore, Affinity Equity Partners, a private equity firm from Hong Kong, acquired Nine Entertainment Company, a listed Australian media and entertainment business for US\$487 million³⁰.

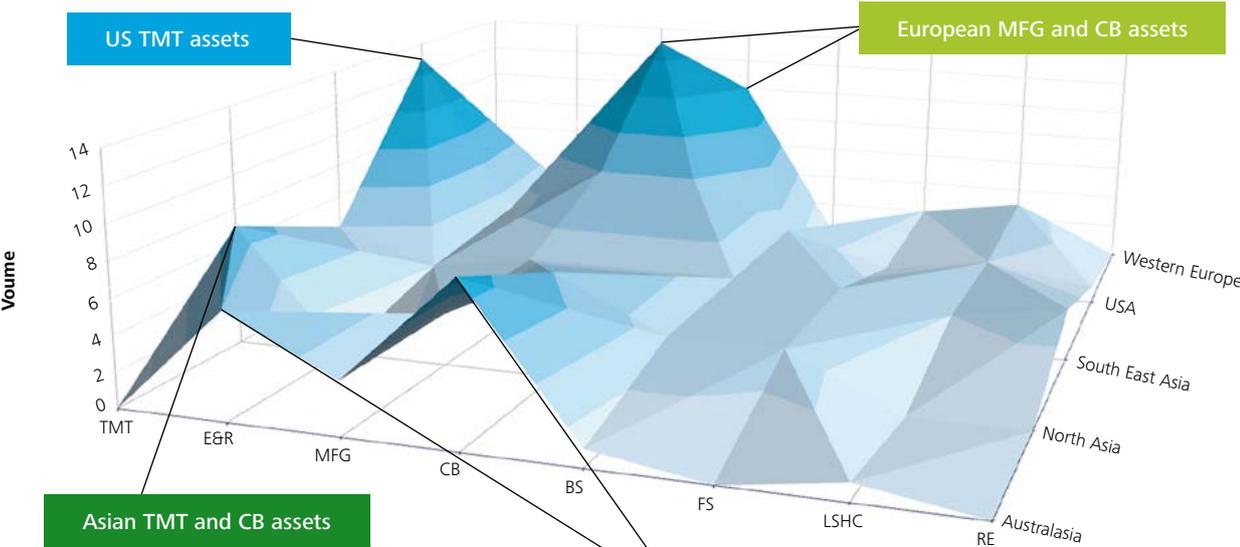
The value and volume of Chinese acquisitions in the Consumer Business sector declined by 47% and 3%, respectively, in H1 2015 from the same period in 2014. The share of the Consumer Business sector of Chinese outbound value and volume accounted for merely 7% and 23% in the same period

Deloitte regional insights

Comparing regions based on volumes of Chinese transactions in particular sectors in H1 2015, Chinese transactions have been largely accounted for by the acquisitions of Technology, Media & Telecommunications assets in the U.S. and Asia, Manufacturing assets in Europe and Consumer Business assets in Australia, demonstrated by the peaks in **Chart 9**.

Measuring proportions, in H1 2015, Western Europe attracted 33% and 26% of Chinese outbound transactions in the Manufacturing and Consumer Business sector, respectively. The U.S. market accounted for 37% of Chinese transactions in the Technology, Media and Telecommunications sector. Australian market attracted 27% of all Chinese transactions in the Energy & Resources sector in H1 2015.

Chart 9: Outbound M&A volume in H1 2015



Note:

TMT: Technology, Media and Telecommunications
 MFG: Manufacturing
 FS: Financial Services
 E&R: Energy & Resources

CB: Consumer Business
 BS: Business Services
 RE: Real Estate
 LSHC: Life Science and Health Care

In H1 2015, the share of minority acquisitions by Chinese investors grew from a year ago. Chinese buyers were investing largely in mature markets

There were 45 minority acquisitions out of a total of 173 transactions in H1 2015, largely in mature markets, reflecting a more flexible investment approach that did not prioritize the importance of control. Of those transactions where the size of the acquired stake was disclosed, there were 30 minority acquisitions of a total volume of 138 transactions in the same period in 2014, presented in **Table 2**.

Table 2: Volumes of announced transactions with disclosed minority stakes

	Minority takeovers	Total volume	Share (%)
H1 2014	30	138	22%
H2 2014	34	167	20%
H1 2015	45	173	26%

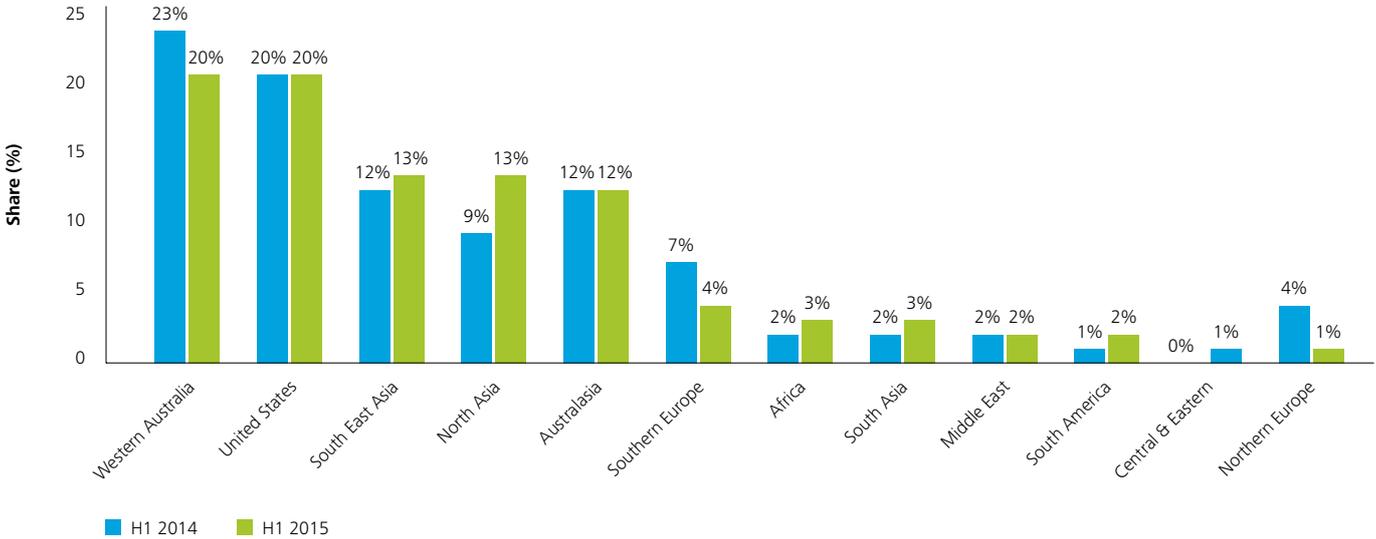


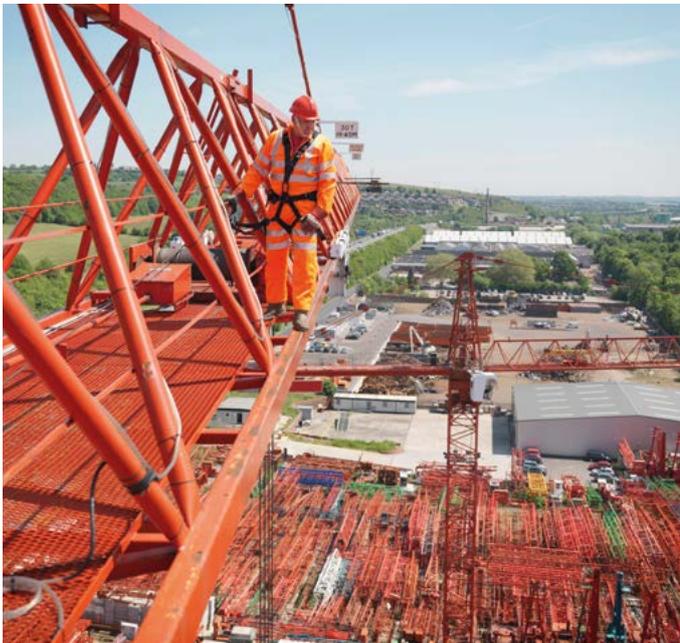
In H1 2015, mature markets, such as Western Europe and the U.S., attracted the majority of Chinese outbound transactions, while Asian markets recorded positive increases by transaction volumes, particularly in North and South East Asia, Chinese outbound M&A volume was 69% and 44% higher, respectively, compared with the same period in 2014



Comparing shares of regions of the total Chinese outbound M&A volume between the two periods (H1 2014 vs. H1 2015), **Chart 10** shows that the share of Asian markets grew the most in H1 2015 from the same period a year ago.

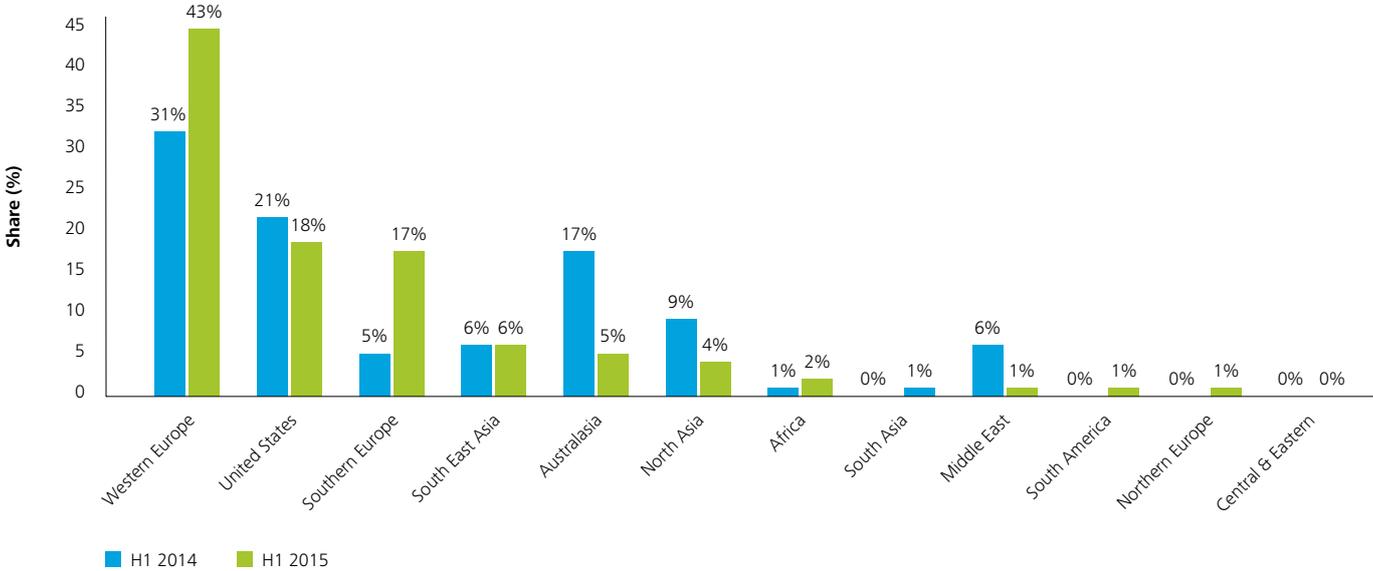
Chart 10: Chinese outbound M&A volume by region H1 2014 vs. H1 2015





Western Europe accounted for about half of the total Chinese outbound M&A value in H1 2015, indicating the highest increase in the share of Europe of the total Chinese outbound value amongst all regions, illustrated in **Chart 11**. In the next section, Chinese M&A transactions in selected regions are reviewed in more details.

Chart 11: Chinese outbound M&A value by region H1 2014 vs. H1 2015



Asia



South East Asia

Ernest Kan, Chief-of-Operations for Clients & Markets of Deloitte Singapore and the Chinese Services Group Leader in South East Asia

Chinese outbound M&A in South East Asia in H1 2015



23

Volume

\$3.4B

Value

The countries in South East Asia accounted for 13% and 6% of the total Chinese outbound M&A volume and value, respectively, in H1 2015. Chinese M&A transactions in South East Asia accumulated to US\$3.4 billion, 72% higher, compared with that of the same period in 2014

South East Asia

Manufacturing in Vietnam and Financial Services in Indonesia

In the Manufacturing and Financial Services sectors, there were more M&A transactions originated from Taiwan into Vietnam and Indonesia in H1 2015 compared to the same period in 2014. For instance, in February 2015,

China Steel Corporation, Taiwan's listed steel manufacturer announced that it would acquire a 20% stake in Formosa Ha Tinh Steel Corporation, Vietnam's steel producer, for US\$939 million. In the Financial Services sector, Cathay Financial Holdings, Taiwan's insurance company, would acquire a 40% stake in Bank Mayapada Internasional Tbk PT, a bank in Indonesia³¹.



The trading block of 10 South East Asian nations (ASEAN³²) is of the natural interest of Chinese investors given by geographic proximity, ethnic familiarity and relatively cheap labour. Singapore, a wealth-management centre³³, usually attracts the majority of China's M&A transactions in South East Asia. There were 23 announced China's corporate transactions in H1 2015 amounting to US\$3.4 billion, diversified in the Consumer Business, Technology, Manufacturing and Financial Services sectors. For instance, Lei Shing Hong, a trading company from Hong Kong, announced in March that it would acquire Hap Seng Capital Pte, provider of financial leases for equipment and machinery in Singapore, for US\$174 million³⁴.

Over recent years, Chinese investors have entered the South East Asian market in large transactions, pursuing targets with a leading position in particular industries. For instance, in the Technology, Media and Telecommunications sector, China Mobile acquired True Corporation, one of Thailand's largest mobile operators, cable TV and internet providers in 2014. True also has its operations in Cambodia, Laos, Vietnam and Malaysia. There are major Chinese M&A transactions in South East Asia since 2014 ranked by value in [Table 3](#) (see page 30).

According to **Ernest Kan, Chief-of-Operations for Clients & Markets of Deloitte Singapore and the Chinese Services Group Leader in South East Asia**, PMI (post-merger integration

issue resolution) in South East Asia is believed to be crucial to any successful transaction, particularly so with the Chinese investors just embarking on the route to internationalization and globalization. Chinese firms are gradually acquiring experience in foreign markets with foreign human resource and management practices. Change management is key to a successful post-acquisition process. Ernest believed that in 2015 investors in South East Asia should have been mindful of an increasing competition in the region, particularly investors coming from North Asia. Chinese investors should leverage on the advantages on both sides of the business; monetizing inbound transfers of technology but also a trade potential of Chinese market, which is important for companies from South East Asia.

In order to increase a customer base and grow the business in South East Asia, a cooperation with other multinational companies in the region may open new opportunities. Chinese companies can consider listing in a foreign stock exchange to raise capital for further expansion.

In what way can accounting professionals help? Increasingly, most M&A transactions in South East Asia are cross-border and transnational. Singapore offers a mix of tax incentives and government grants potentially offsetting part of the initial investment costs. By analysing risk, Deloitte professionals may help a Chinese investor rationalize the purchase price.

Table 3: Top 10 Chinese outbound M&A acquisitions of South East Asian assets

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	December 2014	Stats ChipPac Ltd.	Technology, Media and Telecommunications	a consortium of investors	China	N/A	1,724
2	November 2014	United Envirotech Ltd.	Energy & Resources	a consortium of investors	Hong Kong	N/A	1,352
3	February 2015	Formosa Ha Tinh Steel Corp. (20% Stake)	Manufacturing	China Steel Corporation	Taiwan	N/A	939
4	June 2014	True Corporation Public Company Limited (18% Stake)	Technology, Media and Telecommunications	China Mobile Limited	Hong Kong	N/A	881
5	May 2015	Haier Singapore Investment Holding Co. Ltd.	Consumer Business	Qingdao Haier Co Ltd	China	Haier Group Corporation	796
6	December 2014	Rizal Commercial Banking Corporation (20% Stake)	Financial Services	Cathay Life Insurance Co., Ltd.	Taiwan	International Finance Corporation; Hexagon Investment Holdings Limited	402
7	May 2015	CNQC (South Pacific) Holdings Pte Ltd.	Real Estate	CNQC International Holdings Ltd.	Hong Kong	Guotsing Holding (South Pacific) Investment Pte Ltd.	338
8	September 2014	Astaka Padu Sdn Bhd (99.99% Stake)	Real Estate	E2-Capital Holdings Ltd.	Hong Kong	Dato Daing A Malek bin Daing A Rahaman	332
9	November 2014	Forterra Trust (69.21% Stake)	Real Estate	New Precise Holdings Ltd.	Hong Kong	N/A	308
10	January 2015	Bank Mayapada Internasional Tbk PT (40% Stake)	Financial Services	Cathay Financial Holdings Co. Ltd.	Taiwan	N/A	282

Note: Data as of 31 July 2015



South Korea

Ted Kim, Partner and the Chinese Services Group Leader of Deloitte South Korea



North Asia

According to **Ted Kim, Partner and the Chinese Services Group leader of Deloitte South Korea**, over the past two years, Chinese outbound investments in the South Korean market had rapidly increased. There were 15 Chinese M&A transactions in South Korea in H1 2015, three times higher compared with the same period in 2014. For instance, large-sized Chinese M&A transactions were concluded in the Technology, Media & Telecommunications, Financial Services and Consumer Business sectors.

Highlighting South Korean advanced communication technologies, Korean mobile games have been particularly attractive to Chinese buyers, such as Tencent Holdings having acquired a 28% stake of Netmarble Games, a leading Korean mobile gaming company, in 2014 for US\$500 million³⁵. Korean manufacturers of smartphones are faced with competition from Chinese fast-growing companies with an increased market share in China in 2015. For instance, South Korean semiconductor company Jeju Semiconductor Corporation, a listed provider of memory chips, announced in June that it would join China's sales network of Wing Champ Investments, China's investment firm, by selling a 44.98% stake to Wing Champ Investments for US\$90 million³⁶.

There were 22 Chinese outbound M&A transactions in North Asia in H1 2015, 69% higher compared with the same period in 2014

In the Financial Services sector, according to data from Financial Supervisory Service, South Korea's financial market regulator, combined net interest margin among South Korea's banks had declined to its lowest level over the past ten years, indicating increasing debt³⁷. In February 2015, Anbang Insurance Group made an initial step to lead Chinese investors to the South Korean financial market, announcing a US\$1 billion acquisition of a 63.05% stake in Tong Yang Life Insurance, Korea's listed financial services company³⁸. In June, Fubon Life Insurance, Taiwan's insurance company acquired a 48% stake in Hyundai Life Insurance, for US\$200 million.

Although South Korea represents a small share of the total Chinese outbound volume, it is expected to grow its share considerably in 2015 considering new measures, such as a FTA (free trade agreement) with China, and by setting up a cross-border RMB settlement service bank³⁹.

Australasia

Chinese outbound M&A in Australasia in H1 2015



20

Volume

\$2.7B

Value

Australasia accounted for 12% and 5% of the total Chinese outbound M&A volume and value, respectively, in H1 2015. Value of Chinese M&A transactions in Australasia totaled US\$2.7 billion, 52% lower, compared with that of the same period in 2014

Relatively lower economic growth in China, combined with stronger US dollar, have contributed to the decline in commodity prices in 2015. Over H1 2015 commodity prices were at five-year lows, and depressed Australian dollar has sustained M&A activity in the Energy & Resources sector in Australasia, with approximately half of all Chinese M&A transactions in Australasia over the period being in the Energy & Resources sector.

For example, Guangdong Rising Assets Management (GRAM), a leading Chinese wealth manager and investor, completed an US\$810 million acquisition of the remaining 77.5% interest it didn't already own in PanAust Limited, an ASX-listed company engaged in mining,

development and exploration of copper and gold projects. The offer did not go uncontested, with PanAust's independent directors recommending that shareholders reject GRAM's initial offer of \$1.71 per share, claiming that it was opportunistic, given the depressed spot copper price, and failed to recognise the long-term value in PanAust's assets. However, GRAM's subsequent revised offer of \$1.85 per share was recommended, and ultimately approved. According to PanAust's statement⁴⁰, the revised offer represented a 51% premium to the last closing price for PanAust shares prior to the initial offer from GRAM, showing the benefit to PanAust's shareholders.

Similarly, Zijin Mining Group, a Chinese gold mining company, announced the acquisition of a 17.5% stake in Norton Gold Fields Limited, an Australian listed gold mining company⁴¹. As the gold price has fallen over H1 2015, so have the share prices of Australian mining companies, despite partially offsetting decreases in the Australian dollar. We expect to see continued M&A activity in gold producers in 2015⁴².

As mining activities in Australasia represent a significant contribution to its GDP⁴³, so do the accessory industries that support such activities such as logistics and transport infrastructure, indicated among major transactions in [Table 4](#) (see page 34).

Large-scale investments from China into Australia's commodity supply chain comprising mines and ports are likely to continue to flow in 2015, supporting Chinese economic development. For instance, John Holland Group, one of the leading and most diversified construction, engineering and service providers in Australia, was acquired by China Communications Construction Company (CCCC), one of the world's largest listed companies in the international infrastructure and engineering sector, in a transaction worth US\$954 million. By activity, CCCC has been ranked the number 165 on the Fortune 500 list and the number 4 in Global Contractors by Engineering News Record (ENR) in 2015⁴⁴. According to CCCC's stock market reports, its market capitalization was US\$39 billion, net income of US\$2.2 billion and net profit margin of 3.87% in 2014, the highest amongst peers in the world's heavy construction sector in the same period. Of CCCC's businesses, the transport infrastructure construction business grew the most over the past two years. For instance, CCCC was awarded with the construction contracts in Pakistan, Cuba and Saudi Arabia⁴⁵.

While much of Chinese investment into Australia continues to be directed towards the Energy & Resources sectors, over the last 12-18 months we have seen increased activity in other sectors, in particular, in Real Estate, Agribusiness and Food Processing, Health and Aged Care. Of course, investment by Chinese firms in Real Estate is a strong trend globally, with Australia being no exception. The increased interest in Agribusiness and Food Processing has been encouraged by the Free Trade Agreement signed between Australia and China in late 2014, which will increase the opportunities for Australian companies to export goods into China with reduced tariffs, and Chinese investors are looking closely at investment opportunities in these sectors.

In addition, we are seeing signs that Chinese firms have become more confident and assertive in outbound M&A. The acquisition of PanAust by GRAM and the acquisition of Norton Gold Fields by Zijin Mining illustrate an emerging trend in Chinese outbound M&A in Australia, of Chinese companies moving to take full ownership of Australian companies in which they hold an existing interest. The PanAust and Norton Gold Fields acquisitions follow the acquisition in 2014 by Baosteel (partnering with Aurizon) of the 80.2% it did not already own in Aquila Resources. Each of these deals was unsolicited, and it shows an increasing level of confidence and sophistication of Chinese investors, who are not afraid to proceed with unsolicited bids where they see value and a reasonable prospect of success.



Table 4: Top 10 Chinese outbound M&A acquisitions of Australasian assets

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	May 2014	Envestra Ltd. (82.54% Stake)	Energy & Resources	CK ENV Investments Pty Ltd.	Hong Kong	N/A	3,741
2	December 2014	John Holland Group Pty Ltd.	Real Estate	CCCC International Holding Ltd.	China	CIMIC Group Ltd.	954
3	March 2015	PanAust Ltd. (77.5% Stake)	Energy & Resources	Guangdong Rising Assets Management Co., Ltd.	China	N/A	810
4	March 2014	Waste Management NZ Ltd.	Manufacturing	Beijing Capital Group Company Ltd.	China	Transpacific Industries Group Ltd.	797
5	June 2015	Hoyts Corporation Pty Ltd.	Consumer Business	Wanda Cinema Line Co Ltd.	China	ID Leisure International Capital	777
6	May 2014	Aquila Resources Ltd. (100% Stake)	Energy & Resources	Consortium led by Baosteel Resources Co Ltd.	China	N/A	589
7	April 2014	Nine Live Pty Ltd.	Consumer Business	Affinity Equity Partners	Hong Kong	Nine Entertainment Co.	487
8	November 2014	Sheraton On the Park, Pty. Ltd.	Consumer Business	Sunshine Insurance Group Corporation Ltd.	China	Starwood Hotels & Resorts Worldwide, Inc.	399
9	August 2014	Roc Oil Company Ltd.	Energy & Resources	Fosun International Ltd.	China	N/A	378
10	May 2015	Barrick (Niugini) Ltd. (50% Stake)	Energy & Resources	Zijin Mining Group Co., Ltd.	China	Barrick Gold Corporation	298

Note: Data as of 31 July 2015

Central Europe



Central Europe

Gabor Gion, Partner of Deloitte Hungary and the Chinese Services Group Leader for Central Europe

Chinese outbound M&A in Central Europe in H1 2015



4

Volume

\$174M

Value

Although the countries of Central Europe (CE) have attracted small volume of Chinese outbound M&A since 2014, the region has been frequently visited by Chinese delegations and during President Xi Jinping's trip to Europe in 2014, Xi proposed to boost cooperation with CE to expand two-way investment and trade flows in key areas,

such as infrastructure and transport logistics. According to Premier Li Keqiang, who attended a leading trade summit of leaders of 16 CE countries in Romania in November 2013, the goal was to double the annual value of China's trade with the 16 CE countries⁴⁶ by 2015⁴⁷.

Chinese acquisition of Hungarian petrochemical company BorsodChem by Wanhua Group in 2011 in a transaction valued at US\$2 billion, had been the largest investment in Central Europe to date. Since 2014, China has announced outbound M&A transactions in CE worth US\$284 million

"The Chinese central government is encouraging the Chinese companies to invest in CE countries, no matter if they are the EU member states or not. I agree that outside the EU borders it may be easier to reach agreements, however, the main goal of the Chinese investors, infrastructure construction companies and any other is to enter into the EU market finally. We are now at a turning point, I believe that in the next two years Chinese investments in the EU member states would significantly grow, mostly in Poland, Hungary and the Czech Republic," said Premier Li Keqiang.

According to China's State Council, CE comprising 16 countries have been identified as one of China's priority regions for investment and trade cooperation in 2015. Vice Premier of the State Council Liu Yangdong visited Prague in June to attend the Health Ministers Meeting between 16 CE countries and China, a high-level conference attended also by World Health Organization's Director General Margaret Chan. In H1 2015, China signed a memoranda of cooperation in the Life Sciences sector with CE countries and would build a US\$10 million research and development centre of traditional Chinese medicine in the Czech Republic⁴⁸, which would be the second

unique international project in the Czech Life Sciences after the U.S. Mayo Clinic made its investment in International Clinical Research Center in the Czech Republic in 2006⁴⁹.

According to **Gabor Gion, Partner of Deloitte Hungary and the Chinese Services Group Leader for Central Europe**, the volume of Chinese investments in the CE region is expected to increase over 2015. Following significant Chinese FDI (Greenfield Foreign Direct Investment) in the Real Estate and Energy and Resources sectors in CE in H1 2015, private equity investments have recently been discernible. For instance, China CEFC Energy Company Limited, the Chinese private investor, has recently acquired assets in the Czech Republic from private investment groups PPF N.V. and J&T Finance Group SE.

Table 5 (see page 37) shows major Chinese transactions in CE ranked by value over the period from 2014 to H1 2015. Although the volume of Chinese investments in CE cannot compare to that of South East Asia and the U.S., the pace of Chinese M&A in CE would probably significantly accelerate in the next 5 years. For instance, Chinese construction and engineering



companies have already found their way to sell their services in CE. According to official Serbian statistics in 2014, Chinese construction and engineering companies have invested US\$1.3 billion in aggregate value in Serbia in the transport infrastructure and coal power plant constructions.

In contrast to the EU member states in Western Europe, bound by strict EU financial regulations and laws, CE countries, such as Serbia and Bosnia-Herzegovina, became a popular destination for a number of Chinese constructions of highways, bridges and power plants.

Gabor commented that Chinese companies would usually acquire small manufacturing companies in CE. For instance, in January, Xi'an Shaangu Power, a manufacturer of turbine compressors, came to

the Czech market and acquired Ekol, spol. s r.o., a leading Czech power turbine producer, for US\$56 million. To create their own production capacities in CE, Chinese investors in CE would usually start with small capacities, based on informed decisions indicating a judicious investor profile.

Providing liquidity to a Chinese trade and investment flow in CE, Chinese financial institutions, such as the Bank of China, have already been established in CE for a decade. For example, the Bank of China made a Budapest-based office as its hub for the CE and Southern Europe regions, and has expanded its operations into Vienna and Prague since 2014, Gabor concluded.

Table 5: Top 10 Chinese outbound M&A acquisitions of assets in Central & Eastern Europe

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	August 2014	United Shipping Agency SRL (51% Stake)	Consumer Business	Nidera B.V.	China	Catalin Trandafir (Private Investor); Mihai Felescu (Private Investor)	67
2	May 2015	J&T Finance Group SE (5% Stake)	Financial Services	China CEFC Energy Company Ltd.	China	Jozef Tkac, Ivan Jakabovic (Private Investors)	60
3	January 2015	Ekol, spol. s r.o	Manufacturing	Xi'an Shaangu Power Co. Ltd.	China	N/A	56
4	March 2015	Russia United New Material Co., Ltd. (51% Stake)	Real Estate	Suzhou Yangtze New Material Co. Ltd.	China	Ma Deming (Private Investor)	49
5	August 2014	Danube Shipping-Stevedoring Company (70% Stake)	Consumer Business	Noble Jade B.V.	Hong Kong	N/A	22
6	July 2014	Ceramica Iasi (84.88% Stake)	Real Estate	Asia Debt Management Hong Kong Ltd.	Hong Kong	Advent International Corporation	21
7	July 2015	Rimac Automobili d.o.o. (10% Stake)	Manufacturing	China Dynamics (Holdings) Ltd.	Hong Kong	Mate Rimac (Private Investor)	9

Note: Data as of 31 July 2015

Case Study: Silk Road Economic Belt and the 21st Century Maritime Silk Road

Since President Xi Jinping announced, on 8 November 2014, that China would establish a Silk Road Fund with US\$40 billion (the Fund), relevant departments have been working to prepare for its establishment. The People's Bank of China (PBOC) announced:

The Fund, registered on 29 December 2014 in Beijing as a limited liability company, has started its operation. The Fund is jointly sponsored by official foreign exchange reserves, China Investment Corporation (CIC), the Export-Import Bank of China, and the China Development Bank in accordance with the Company Law of the People's Republic of China. As a medium and long-term development fund, it follows the principle of market-oriented operation, internationalization, and specialization, and focuses on identifying investment opportunities and providing financing and investment services along the Silk Road Economic Belt and the 21st Century Maritime Silk Road⁵⁰. The Fund will adhere to the principle of market-oriented operation, mutual benefit, openness and inclusiveness. It will follow the accepted practices in international economic and financial activities and adopt market-based approaches, mainly equity investment, to invest in the fields of infrastructure, resource development, industrial and financial cooperation, to promote common development and prosperity, and to seek reasonable financial returns and its own medium and long-term sustainable development. The Fund welcomes participation by domestic and international investors⁵¹.

Taking the region of Central and Eastern Europe (CE) as an example, the Summit of 16 CE countries and China held in Belgrade in December 2014 was instrumental for fostering a closer cooperation between China and the countries in the CE region. The CE countries aim to attract more Chinese investments to upgrade their infrastructures to the standard of Western European roads, rail and water transport corridors. For instance, in Serbia, part of a modernization programme for Serbian Railways was financed by a US\$800 million loan from Russia signed in 2012,

in particular six sections of the pan-European Corridor X and a section of the road between Belgrade and the port of Bar in Montenegro. Two stretches of the Corridor XI road, Obrenovac-Uba and Lajkovac-Ljig, would be built by a Chinese company, Shandong Hi-Speed Group Co., Limited. The Export-Import Bank of China approved a US\$334 million loan for the project (which began in August 2014) on which Chinese construction companies would provide a major part of the works.

Besides a proposed new railway link between Serbia and Hungary, the EU may benefit from increased transport on the Danube. In previous years, given the growing amount of traffic within Western Europe, new opportunities in the area of inland water transport have been considered, including ports and logistics terminals as the major links connecting Europe with cargo transports from China. Against this backdrop, Chinese delegation in Belgrade expressed an interest in potential investments in transport corridors for container shipments. Roads and railways offer faster shipments while river transports are used mostly for commodity supplies, such as grains. In particular, the Romanian Constanta Port with a link to the Danube may offer Chinese exporters shorter routes to the CE market compared with those through the ports in Greece, for instance, Piraeus⁵². Yet, according to research, the potential of shorter shipping routes via Constanta is limited as the Danube is shallow at certain times in the year and lacks navigability; however, so far the EU funds have not been spent on deepening the river. Instead, China Ocean Shipping (Group) Company (COSCO) Pacific, a Chinese shipping company and a listed container terminal operator, received approvals for an additional investment of US\$285 million in Piraeus' container-handling facilities in 2014.

Traffic at the Piraeus port increased from 430,000 TEU (Twenty-foot Equivalent Unit) in 2008 to almost 3.2 million TEU in 2013, transforming the regional Greek port to a significant international trans-shipment hub. COSCO Pacific accounted for 80% of the port's TEU growth and currently

has a 35-year concession⁵³, which was obtained in 2009, to operate two of the ports' container quays. Under COSCO Pacific's management, traffic increased by 23% on a year-on-year basis to more than 2.2 million TEU. COSCO is able to leverage on the port to work with large electronics manufacturers, such as Sony, with its assembly factories in CE.

Cooperation in the Manufacturing and Energy and Resources sectors

It was in 1919 when Viktor Kaplan produced its first commercially-used turbine in Brno for a textile factory in Austria⁵⁴. Since then, Czechs have developed high-speed turbine machines for the aerospace, power and transport industries. In January 2015, Xi'an Shaangu Power, China's listed manufacturer of turbine compressors, announced that it would acquire Ekol s.r.o., a Czech steam and gas turbine manufacturer, for US\$55 million⁵⁵.

In 2014, the Chinese business delegation led by the Governor of Hubei Province Mr. Wang Guosheng visited the Czech light aircraft manufacturer Jihlavan Airplanes. Zall Aviation (a member of the Zall Group⁵⁶ and Jihlavan Airplanes⁵⁷) signed a cooperation memoranda to develop and manufacture light aircraft and flight simulators. China has yet to open its market to private aircraft such as small sport aircraft manufactured by the Czech companies. According to the Light Aircraft Association of the Czech Republic, the number of registered light aircraft in the Czech Republic grew since 1991 at an annual rate of 18% to over 2,600 registered aircraft in 2011. Jihlavan's sales revenues were US\$9 million in 2012. The company expects to sell about 10,000 light planes to the Chinese market.

In 2014, Pinggao Group Company Limited, a subsidiary of China's largest grid developer State Grid Corporation of China (SGCC), won infrastructure tenders owned by a Polish transmission system operator Polskie Sieci Elektroenergetyczne (PSE) S.A. In three projects, Pinggao Group would undertake

the constructions of power lines and stations totalling US\$176 million.

Chinese investors are also increasingly targeting the Energy and Resources sector projects in the Balkan states such as Serbia. In Serbia, where the energy prices are expected to rise in 2015, it is potentially a lucrative market at the doorsteps of the EU⁵⁸. China may help building power plants in Serbia, such as the construction of a 350MW coal-fired plant. Financing for the Serbian plant may come in the form of a US\$608 million loan to be repaid over 20 years. It would probably include a seven year grace period and a fixed annual interest of 2.5%, according to publicly available sources and Reuters⁵⁹. The Serbian government and the state-run utility Elektroprivreda Srbije (EPS) would provide the remaining US\$107 million. EPS is already undertaking a US\$1.3 billion upgrade of another power plant in Kostolac, a small Serbian town on the Danube. The Kostolac project was financed by the Export-Import Bank of China and built by the China Machinery Engineering Corporation (CMEC)⁶⁰, a large state-owned power contractor.

Serbia generates about two-thirds of its electricity from coal and the rest from hydro power. Serbia would need to build new plants to meet its rising demand for energy. New investments in Serbia are expected to jumpstart the growth of its GDP, which declined in 2014, according to Serbia's central bank. Serbia's Debt-to-GDP ratio would probably exceed 80% in 2015. The IMF already announced that it would extend a new three-year stand-by credit facility to Serbia for the period 2015-2017.

According to official Serbian statistics in 2014, China invested a total of US\$1.3 billion in Serbia, including, for example, a US\$260 million investment in a bridge construction in Belgrade, two highway sections in western Serbia worth US\$334 million, and a US\$716 million upgrade and expansion of the Kostolac thermal power plant and a lignite mine. China Railway Construction Corporation may build an overhaul of a rail link between Belgrade and Budapest.

China National Electric Engineering Company (CNEEC)⁶¹, a large Chinese state-owned EPC⁶² contractor, signed a memorandum of understanding with Serbian state leaders in June 2014 to invest in power plants in the country⁶³.

A subsidiary of Mei Ta Industrial invested US\$20 million in a Serbian manufacturing plant for automotive components. Serbia, a country yet to join the EU, is a popular destination for car component producers. New manufacturers in Serbia can enjoy job-creation incentives. The automotive industry has accounted for almost 10% of the total foreign direct investments in Serbia since 2001. Around 60 international investors have invested over US\$2 billion in the sector, creating more than 27,000 jobs⁶⁴, about half of that created in the Czech Republic, CE's leading automotive destination. The Serbian automotive industry now supplies the majority of European and some Asian car manufacturers. The largest and the most important investment in the automotive sector in Serbia was the FIAT project attracting a number of car part producers to Serbia⁶⁵. Serbian export industries have not been sufficient to help narrow the country's budget deficit of 7.9% of GDP in 2014⁶⁶. In November 2014, Serbia agreed a three-year loan facility with the IMF over concerns related to the country's budget deficit and public debt. According to the IMF, Serbia's current account deficit contracted from the equivalent of 22% of GDP in 2008 to 6.6% in 2013 as a result of an expansion of the automotive and oil export-oriented industries.

Chinese development funds

In December 2014, the Export-Import Bank of China set up a US\$1 billion fund for further investments in CE⁶⁷. The Chinese lender operates in the region via its China CE Investment Cooperation Fund, advised by CEE Equity Partners. The fund planned to spend mostly in companies in the Energy, Telecommunications, Infrastructure, and specialised industry sectors in CE countries. The Export-Import Bank of China established the China-CE Fund in partnership with state-backed financial institutions from CE to capitalize on investment opportunities in the region.

China CEFC Energy Company announced that it would purchase a minority stake in J&T Finance Group SE to finance purchases of CE assets in the Energy & Resources and Real Estate sectors. J&T Finance Group SE, a private financial group, reported its revenue of EUR147 million in 2013. In March, the Chairman of China CEFC Energy Company met with the Czech President Milos Zeman in the Czech Republic and the Czech President supported CEFC's investments in CE. CEFC stressed that the Czech Republic was an important transportation hub with a strong industrial and manufacturing base and advanced technology, and based on cooperation with J&T, new investments in energy transmissions and logistics could reasonably be anticipated. CEFC may benefit from Shanghai Free Trade Zone's policies and would promote the internationalization of the Chinese currency in financing operations overseas and may form a merger and acquisition fund⁶⁸. According to the Slovak media, the privately-owned CEFC China Energy Company Limited may become a minority owner in some companies in J&T's portfolio, including J&T Banka and Slovakia's Postova Banka.

RMB clearing hubs

On 27 June 2015, the PBOC and the Magyar Nemzeti Bank (MNB, the Central Bank of Hungary) signed a Memorandum of Understanding on the Establishment of RMB Clearing Arrangements in Hungary and the *Agency Agreement for the PBOC to Manage the MNB's Investment on China's Inter-bank Bond Market*. On the same day, the two parties also agreed to include Hungary in the pilot program as RMB qualified foreign institutional investors (RQFIs) with an investment quota of RMB50 billion (US\$8 billion). The above-mentioned arrangements represent new steps in the China-Hungary financial cooperation and will make it easier for companies and financial institutions of the two countries to use RMB in cross-border transactions, and facilitate bilateral trade and investment activities⁶⁹.

The Bank of China (BOC) would also open its first branch in Prague to promote a RMB clearing system and an offshore RMB business in the Czech Republic. The Chairman of BOC claimed that BOC would support major projects such as infrastructure constructions in CE⁷⁰. With BOC's strong links with the CE region, it has already helped finance a few acquisition projects in CE. For instance, PPF Group, a Czech-based private investor, made a US\$3.4 billion acquisition of a 65.9% stake in Czech leading mobile operator Telefónica CR, a company of Telefónica Spain in 2013⁷¹. It appears that BOC forecasts a huge potential in financing CE companies' investments in the Chinese market. In 2010, one of PPF's companies, Home Credit Consumer Finance, launched a consumer lending business in Tianjin offering consumer credit, such as cash loans to finance durable goods, education and holiday travel. Since 2010, Home Credit business has

become a lending conglomerate with offices in more than 150 Chinese cities, serving 6 million customers while stimulating an aggregate domestic demand in China worth US\$4 billion as of December 2014, according to its President. The Chairman of BOC met with Home Credit's President in October 2014 in Beijing.

Western Europe



United Kingdom
Graham Matthews, Partner and
Chinese Services Group Leader,
Deloitte United Kingdom

Chinese outbound M&A in Western Europe in H1 2015



35

Volume

\$24.3B

Value

Western Europe accounted for 20% and 43% of the total Chinese outbound volume and value, respectively, in H1 2015. Chinese M&A transactions in Western Europe accumulated to US\$24.3 billion, 137% higher than the same period in 2014

United Kingdom
Graham Matthews, Partner and the Chinese Services Group Leader of Deloitte United Kingdom provided some insight into China deal activity in Western Europe. The UK saw over US\$20 billion of Chinese acquisitions in H1 2015, although most came from Hong Kong groups who are already well integrated into the UK. Hutchison Whampoa announced the acquisition of O2, a UK mobile telecom operator from Telefónica for US\$15.3 billion, and Cheung Kong acquired Eversholt (a rolling stock leasing company) for US\$3.8 billion. According to Hutchison's statement, this acquisition was planned to create the number one mobile operator in the UK. This was a very significant investment for Hutchison which reflected its confidence in the UK market⁷². In addition, Hutchison has also completed acquisitions of O2 in Ireland and Orange in Austria.

Comparing transaction volumes in Western Europe to those in the U.S., there was an equal amount of announced Chinese M&A transactions (35) in Western Europe and the U.S., in H1 2015. Yet, since 2014, Chinese outbound transaction volume in the U.S. has grown by 25% compared to 9% in Western Europe

In Consumer Business, Bright Food, China's food conglomerate, announced in January 2015 that it would acquire the remaining 40% stake in Weetabix it had not already bought for US\$233 million, but then sold the 40% stake to Baring Private Equity Asia.

The UK's attractive specialist engineering sector was also highlighted by CRRC's acquisition of Specialist Machine Developments, which makes deep-sea robots and sub-sea engineering equipment.

The top 10 Chinese M&A transactions in the UK since 2014 are ranked by value in [Table 6](#) (see page 44).

Table 6: Top 10 Chinese outbound M&A acquisitions of UK assets

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	March 2015	Telefónica UK Ltd.	Technology, Media and Telecommunications	Hutchison Whampoa Ltd.	Hong Kong	Telefónica S.A.	15,299
2	January 2015	Eversholt Rail Group	Financial Services	Cheung Kong Infrastructure Holdings Ltd.; Cheung Kong (Holdings) Limited	Hong Kong	STAR Capital Partners Limited; 3i Infrastructure plc; Morgan Stanley Infrastructure Inc.	3,781
3	July 2014	PizzaExpress Ltd.	Consumer Business	Hony Capital Co. Ltd.	China	Gondola Holdings Limited	1,540
4	April 2014	Highland Group Holdings Ltd. (89% Stake)	Consumer Business	NanJing Xinjiekou Department Store Co. Ltd.	China	Baugur Group hf	772
5	January 2014	Standard Bank Plc (60% Stake)	Financial Services	Industrial and Commercial Bank of China Limited	Hong Kong	Standard Bank London Holdings Limited	765
6	May 2015	Asia Resource Minerals Plc (71.6% Stake)	Energy & Resources	Asia Coal Energy Ventures Limited	Hong Kong	N/A	666
7	January 2015	Weetabix Limited (40% Stake)	Consumer Business	Bright Food (Group) Co. Ltd.	China	Lion Capital LLP	233
8	March 2015	Wanfeng MLTH Holdings Co., Ltd.	Manufacturing	Zhejiang Wanfeng AutoWheel Co. Ltd.	China	Wanfeng Auto Holding Group Co Ltd	219
9	February 2015	Soil Machine Dynamics Ltd.	Manufacturing	Zhuzhou CSR Times Electric Co., Ltd.	China	Inflexion Private Equity Partners LLP	183
10	December 2014	EDF Energy Renewables Limited (three onshore wind farms in the UK) (80% Stake)	Energy & Resources	CGN Power Co., Ltd.	China	EDF Energy Renewables Limited	157

Note: Data as of 31 July 2015



Germany

Dirk Haellmayr, Partner and the Chinese Services Group Leader of Deloitte Germany

Germany

Dirk Haellmayr, Partner and the Chinese Services Group Leader of Deloitte Germany,

commented on investment opportunities in the Eurozone.

Diverging economic trajectories of economies in the Eurozone and relative appreciation of RMB⁷³ against the Euro have attracted more Chinese buyers into Europe in 2015. Europe's economic growth has lagged behind that of the U.S. in H1 2015. There were discussions about the future of the Greek economy in the Eurozone. In March 2015, the Euro was trading at a historical low against the U.S. dollar⁷⁴ as the European Central Bank (ECB) began purchasing sovereign debt to moderate deflation and kick-start economic growth⁷⁵. There was an extraordinary decline in government bond yields in Europe in 2014⁷⁶.

While financial crisis opportunities and low valuations still play a part, consistently high levels of investment in an increasing number of sectors and countries where assets no longer look cheap indicates that, for instance, Chinese investments in Europe have been a structural trend. Chinese firms see market opportunities in Europe, and it has been evidenced by China's significant trade surplus

in trade with Europe over the last decade reaching EUR137.7 billion in 2014. According to Eurostat, the statistical office of the EU⁷⁷, the EU's imports of goods from China have significantly increased over the last decade, growing at an annualized rate of 9%. China was the second most important EU trading partner behind the U.S., accounting for 14% of total extra-EU trade in goods in 2014, compared with 9% in 2004. In 2014, Chinese investment into the EU grew by 118% from a year ago, while EU's investment into China decreased by 46% to EUR9 billion in the same period, according to Eurostat. China was the net investor in the EU in 2014.

Highlighting importance of the European market, Premier Li Keqiang visited a summit in Brussels in June 2015, promoting investments in Europe. Furthermore, China has created a platform for joint investment – the Asian Infrastructure Investment Bank (AIIB), with 50 founding members including Germany, UK and France.

In 2015, Chinese buyers were largely attracted by European manufacturing technologies, particularly originated from Germany. The value of Chinese outbound M&A transactions in South Europe rose fivefold in H1 2015 compared with the same

period in 2014, attributable to China National Chemical Corporation's US\$7.7 billion acquisition of an Italian tire maker Pirelli. According to the European Automobile Manufacturers Association, demand for new passenger cars in the EU has been on the rise since 2014 to date, with the highest month-on-month growth rate of 14.6% recorded in June 2015⁷⁸. Germany has a leading position in the European automotive market.

The world's automotive market grew the most in Western Europe in H1 2015

According to VDA⁷⁹, a German automotive association, in H1 2015, new registrations of passenger cars grew the most in Western Europe, by 8% on a year-on-year basis, higher compared to 7% and 4% in China and the U.S., respectively. The number of registrations in Russian and Latin American automotive markets contracted in the same period. In Germany, suppliers are a critical part of its highly innovative automotive industry. Besides its expertise in the automotive manufacturing, Germany is traditionally rich with specialized technologies for transport industries. For instance, CSR Henan Heavy Equipment, a subsidiary of CSR Corporation (CSR)⁸⁰, China's largest producer of locomotives and wagons announced that it would acquire MHWirth GmbH, a German company providing drilling solutions and road headers in the railway industry. China's engineering capability has already been recognized for instance, in the rolling stock and wind turbine manufacturing. TÜV SÜD, a German leading technical service provider, certified the rotor blades of type TMT2.5-53.8 manufactured by Zhuzhou Times New Material Technology Co., Limited, a subsidiary of CSR⁸¹. The certification is a necessary requirement for China's components to be used in the international markets.

The Aviation Industry Corporation of China (AVIC) has already been a familiar name in Germany's M&A market. For instance, AVIC Electromechanical Systems, a listed China's transportation equipment maker, made its investment into Lamberet SAS, a French designer and manufacturer of temperature-controlled road transport vehicles. The transaction would include Lamberet's German subsidiaries⁸².

In February 2015, Anhui Zhongding Sealing Parts, a listed Chinese manufacturer of rubber components for automobiles, made its second investment in Germany and acquired WEGU Holding GmbH, a German company developing car noise-reducing solutions, for US\$109 million.



Chinese M&A in the Financial Services sector in Europe on the rise

Germany is one of the most important centres in Europe for fiduciary asset management. According to BVI⁸³, a German association of investment funds, German funds managed assets worth over US\$3 trillion on behalf of some 50 million private and institutional investors in H1 2015, representing an annualized growth rate of value of assets under management of 7% since 2005. China's M&A in Europe's Financial Services sector has been the new trend. For instance, Fosun International has made a spate of significant acquisitions in Europe recently. It was announced that private bank Hauck & Aufhaeuser Privatbankiers KGaA would be a target for Chinese investors. In 2014, Fosun also acquired a stake in Belgian financial services company RHJ International pursuing German wealth manager BHF-Bank AG, a competitor of Hauck & Aufhaeuser. In 2014, Fosun acquired Fidelidade, the largest insurance company in Portugal, a beachhead of Fosun's acquisitions in Europe. In July 2015, Fosun Property, a subsidiary of Fosun Group, formed an investment venture with Resolution Property, an investment company aiming to acquire UK and European commercial real estate assets. In 2013, Fosun Property made its first European acquisition of the Lloyds Chambers in the City of London. Fosun Property started to help manage about US\$800 million real estate assets under Fidelidade. Over the past few years, Fosun has focused on investments in the Consumer Business sector while creating a portfolio of leisure and tourism assets comprising holiday resorts, entertainment businesses, top European fashion brands, a Hollywood film producer and a UK travel company.

Chinese acquisitions of Agricultural assets in Germany

In June 2015, Fosun Group announced an acquisition of a 9.03% stake in KTG Agrar SE⁸⁴, one of the leading producers of agricultural commodities in Europe, with a large farmland in Germany and Lithuania. KTG Agrar is a company with an integrated value chain. China represents large consumer demand for high quality agricultural products. Food products 'Made in Germany' are popular in China. KTG Agrar planned to expand its trade in agricultural commodities with financing from Fosun. [Table 7](#) (see page 48) shows the major Chinese M&A transactions in Germany since 2014 ranked by value.

Table 7: Top 10 Chinese outbound M&A acquisitions of German assets

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	December 2014	Hanwha Q CELLS	Technology, Media and Telecommunications	Hanwha SolarOne Co Ltd.	China	Hanwha Corp.	1,199
2	October 2014	Hilite International, Inc.	Manufacturing	AVIC Electromechanical Systems Co., Ltd.	China	3i Group Plc	644
3	August 2014	S.A.G. Solarstrom AG	Energy & Resources	Suntech Power Holdings Co., Ltd.	China	N/A	238
4	December 2014	Quin GmbH	Manufacturing	Ningbo Joyson Electronic Corp	China	Andreas Klemm (Private Investor); Volan GbR	113
5	February 2015	WEGU Holding GmbH	Manufacturing	Anhui Zhongding Sealing Parts Co. Ltd.	China	DMB 1.Invest GmbH & Co Kg; Equitrust Beteiligungen GmbH; MD Mr. Zimmermann	109
6	January 2014	CYBEX GmbH	Consumer Business	Goodbaby International Holdings Limited	China	N/A	97
7	April 2014	KACO GmbH + Co KG (80% Stake)	Manufacturing	Anhui Zhongding Sealing Parts Co. Ltd.	China	Fundo de Investimento em Participações Mênfis	80
8	April 2015	Cardionovum GmbH (73% Stake)	Life Sciences and Health Care	Cardionovum Holding Co., Limited	Hong Kong	Japan Lifeline Co Ltd; Michael Stefan Orłowski (Private Individual)	73
9	August 2014	ESKA Automotive GmbH	Manufacturing	Automotive components	Taiwan	N/A	70
10	February 2015	Albert Ziegler GmbH & Co. KG. (40% Stake)	Manufacturing	China Fire Safety Enterprise Group Limited	Hong Kong	China International Marine Containers (Group) Ltd.	63

Note: Data as of 31 July 2015

United States



United States

George Warnock, Partner and the Chinese Services Group Leader of Deloitte United States

Chinese outbound M&A in the United States in H1 2015



35

Volume

\$9.9B

Value

The U.S. accounted for 20% and 18% of the total Chinese outbound M&A volume and value, respectively, in H1 2015. Chinese M&A transactions in the U.S. accumulated to US\$9.9 billion, 43% higher, compared with that of the same period in 2014

In H1 2015, the pace of economic recovery in the U.S. continued. The U.S. had remained by far the world's largest consumer market. Private consumption, driving U.S. economic growth, has accounted for 2.8% of expenditures on U.S. GDP in 2015, higher than that in the UK and Germany⁸⁵. The domestic U.S. market, in the Technology, Media and Telecommunications sector in particular, has been attractive to Chinese M&A investors. The world's highest growth rate of productivity in the U.S., measured by the economic growth (GDP) per hour of labor⁸⁶, has translated into rising U.S. corporate profits and higher stock prices in 2015. According to OECD, in 2015, venture capital in the Technology, Media and Telecommunications sector has been on the rise at its highest level in the U.S. since the 'dot-com era'⁸⁷.



The Technology, Media and Telecommunications sector has been driven by technological innovation that has caused the price of key technologies, such as semiconductors, to fall over the past decade. The decline in prices have encouraged investments in the Technology, Media and Telecommunications sector at the expense of other assets. In H1 2015, we have seen three significant transactions in the semiconductor industry from China into the U.S., for instance, a consortium led by GO Scale Capital acquired an 80.1% stake in Philips' Lumileds Lighting Company, a manufacturer of high-power light emitting diodes (LEDs) for the automotive and consumer sectors, for US\$2.6 billion⁸⁸. A consortium led by Hua Capital Management, Chinese private equity firm, acquired OmniVision Technologies, Inc., a California-based manufacturer of semiconductor image-sensor devices, for US\$1.5 billion⁸⁹. Uphill Investment Company, a consortium of Chinese private equity firms, acquired Integrated Silicon Solution, a California-based fabless semiconductor firm for US\$598 million.

According to OECD, since 2013, there has already been a constant positive growth of the world's trade in semiconductors. Over the same period, if re-exports in the Technology, Media and Telecommunications products in Hong Kong were included, China would have accounted for the largest share of the world's exports of the Technology, Media and Telecommunications products (32%) followed by the US (9%) and Korea (7%)⁹⁰.

There were 35 announced Chinese M&A transactions in the U.S., in H1 2015, 25% higher compared with that of the same period in 2014

According to the U.S. Bureau of Labor Statistics, consumer spending in the U.S. had risen in 2014 from a year ago⁹¹. Confidence has been high among Chinese investors in the U.S. market, fuelled by low interest rates and a rally in the U.S. stock market over 2014. Following the end of the U.S. quantitative easing program, the pace of the U.S. economic recovery is expected to continue. U.S. equity indices outperformed those in Europe and emerging markets in H1 2015. Higher U.S. aggregate demand may cause an upward pressure on interest rates over 2015.

Approximately one of every five outbound Chinese M&A projects has a U.S. target, and U.S. Financial Services have been amongst the biggest sectors for investment in 2015 to date. For instance, in May, Fosun International acquired an 80% stake in Ironshore Inc., a U.S. provider of property and casualty insurance and reinsurance, for US\$1.8 billion. The top 10 Chinese M&A transactions in the U.S. since 2014 ranked by value are shown in [Table 8](#) (see page 51).

Table 8: Top 10 Chinese outbound M&A acquisitions of the U.S. assets

Rank	Date of announcement	Target company	Target industry	Bidder company	Bidder territory	Seller company	Deal value (US\$M)
1	January 2014	Motorola Mobility Holdings, Inc.	Technology, Media and Telecommunications	Lenovo Group Ltd.	China	Google Inc.	2,910
2	March 2015	Lumileds Lighting Company (80.1% Stake)	Technology, Media and Telecommunications	GO Scale Capital; Nanchang Industrial Holding Group Co. Ltd.; Asia Pacific Resources Development Investment Ltd.	China	Koninklijke Philips Electronics N.V.	2,580
3	November 2014	Cronos Ltd (80% Stake)	Consumer Business	Bohai Leasing Co Ltd.	China	A group of investors led by Kelso & Company	2,393
4	January 2014	IBM (x86 server business)	Technology, Media and Telecommunications	Lenovo Group Ltd.	China	IBM Corporation	2,100
5	May 2015	Ironshore Inc. (80% Stake)	Financial Services	Fosun International Ltd.	China	TowerBrook Capital Partners L.P.; GTCR, LLC; GCP Capital Partners LLC; Irving Place Capital; Calera Capital; Lazard Technology Partners	1,840
6	April 2015	OmniVision Technologies Inc.	Technology, Media and Telecommunications	OmniVision Consortium	China	N/A	1,453
7	June 2015	Henniges Automotive, Inc.	Manufacturing	Aviation Industry Corporation of China	China	Littlejohn & Co. LLC	800
8	May 2014	Key Safety Systems, Inc. (67.5% Stake)	Manufacturing	FountainVest Partners	China	Crestview Partners LP	700
9	December 2014	Uber Technologies, Inc.	Technology, Media and Telecommunications	Baidu Inc.	China	N/A	600
10	March 2015	Integrated Silicon Solution, Inc.	Technology, Media and Telecommunications	Uphill Investment Company	China	N/A	598

Note: Data as of 31 July 2015

George Warnock, Partner and the Chinese Services Group Leader of Deloitte United States, commented on opportunities and challenges in the U.S. M&A market.

In the U.S., prospective buyers should prepare detailed strategies prior to any transaction, engage relevant local stakeholders, manage public relations, and professionally conduct due diligence on the target. They will be guided by Deloitte M&A professionals on a range of business issues including, for example, federal, state, and local income taxes, transfer pricing, different forms of a corporation, indirect taxation, personal taxation for executives, health care, debt vs. equity financing and many other issues in this market with its legal and regulatory environment.

There are cultural issues that involve interpersonal business relationships and different ways of relating to employees. For example, the Chinese firm may need to adapt its compensation and benefit policies and procedures for an integrated workforce to the U.S. environment. Often, the acquired company will have both local and expatriate employees. M&A professionals can provide consultation to the acquiring company to prepare them to meet the challenges of retaining the local U.S. staff, and help them in establishing policies that treat both foreign and local employees fairly. They can provide consultation in reforming human resources policies to accommodate the foreign workers, and make them well equipped to integrate U.S. employment law and business practices with the newly-combined workforce. These are all crucial factors to the outcome of a successful transaction.



Over the past several years, there have been many overseas M&A by Chinese companies. In terms of helping Chinese companies move up in the global value chain, how far do you think recent M&A transactions have helped?

In the U.S., Chinese firms are learning from their experience to become more confident and strategic in outbound M&A. While perceived stable investments, such as real estate, and access to consumer markets are significant factors that make the U.S. a top destination, another major attraction of Chinese money is acquiring advanced technology and management best practices that can be leveraged for Chinese investors to compete more effectively globally. Approximately one of every five outbound Chinese M&A projects has a U.S. target, and while Real Estate and Financial Services are the biggest sectors for investment in 2015 to date, the Technology, Media and Telecommunications sector shows significant potential. High-tech companies, in particular, have become increasingly sought-after targets in the U.S. For example, Alibaba's investments in 2014 included Lyft, Kabam, and Tango, while Baidu acquired a US\$600 million stake in Uber Technologies.

In the rolling stock manufacturing industry, China's ambition to become a major global player was underlined between the merger of its two largest manufacturers CSR and CNR. Technical standards are a threshold barrier to sales in developed markets such as the EU with its TSI (Technical Standard for Interoperability). To qualify to sell rolling stock in the EU, the Chinese manufacturer will need to acquire or develop capability to allow it to meet those standards, and hence has started building

relationships and making selected acquisitions. In 2015, the focus of Chinese buyers has been on specific technologies which would provide Chinese companies entry to mature markets, according to UK practitioners.

Practitioners from Central Europe commented that Chinese companies would usually acquire small manufacturing companies in Central Europe with engineering technologies, which have already been recognized in the world's markets. For instance, manufacturers of turbines with applications in the Energy & Resources sector have become popular targets in 2015 in Central Europe.

From South Korea's perspective, Chinese buyers are attracted to Korean advanced communication technology. A number of Chinese sizeable M&A transactions have recently come to the Korean market in mobile games. In the Financial Services sector, one of the largest Chinese insurance groups has recently made an initial step to lead Chinese investors to the Korean financial market.

What do you think are the main post-acquisition challenges faced by Chinese companies?

Chinese companies are still faced with some challenges in adapting to Western markets and management styles. Difficulties are often resulting from pressure to conclude transactions quickly and not having a nuanced understanding of the overseas market, its regulatory and legal systems, and cultural norms. In the post-acquisition phase,

it has been found that retaining and empowering local management can help address integration challenges, especially with the involvement of third party professional advisors.

In Germany, navigating in a foreign business and legal environment remains a prevailing issue to manage for a Chinese investor who is used to operating in a fundamentally different domestic environment. In addition, German practitioners observed new challenges emerging during recent acquisitions that are associated with the post-merger integration of financial reporting and the adoption of a common control environment. In particular, Chinese investors that are state-owned or listed at the Chinese Stock Market have to comply with strict reporting and other regulatory requirements that also affect the overseas entities. For example, local management of overseas entities has suddenly been exposed to Chinese accounting standards, such as the China SOX⁹², SASAC⁹³ reports and other regulatory requirements unfamiliar to western management. Western accounting, tax and legal standards and concepts are complex to many Chinese investors. Demand for post-merger integration services continue to grow. In many cases professional advisors would have to be involved. Having no such proper execution plan in place may result in missing reporting deadlines, inappropriate financial reporting and causing other damages. In another example, local management was so pre-occupied with ad-hoc requests from a Chinese parent company related to financial reporting, that the management was not sufficiently able to focus on the operational side of the business anymore.

From Central Europe's perspective, professional advisors are often appointed by large Chinese corporations, construction companies and M&A practitioners, especially only after experiencing project challenges. Chinese investors in the EU should be mindful of the strict financial, tax and legal rules and consequences if professional advisors are not appointed. One of the most frequent post-acquisition challenges these Chinese investors face has been compliance with the EU tax and labor laws. While financial

reporting standards in Central Europe may not fully comply with IFRS or US GAAP⁹⁴, it has become a practice for foreign investors in CE to appoint a professional advisor at every M&A transaction or establishment of operation in CE.

According to practitioners in Singapore, post-merger integration issue resolution is believed to be crucial to any successful transaction, particularly so with Chinese firms having just embarked on the route to globalization. Chinese firms have been gradually acquiring the necessary experience while integrating foreign management styles and human resources practices in overseas markets.

More Chinese corporations are expected to invest globally, and, thus, we can expect a bigger involvement of professional advisors in multiple jurisdictions to assist them in tackling these post-acquisition challenges. Financial, tax and legal due diligence are increasingly seen as a must.



From South Korea's perspective, Chinese buyers face cultural differences in the Korean market. While integrating advanced technologies, there has often been a lack of experience and capabilities in managing numerous brands, and insufficient human resources capable of administering international operations. There are many challenges in integrating internal corporate policies as well as issues arising from difference in legal and cultural background, which may impair the value of a merged company.

What are the possible ways for the Chinese companies to tackle these challenges and unlock the acquisition transactions?

In the U.S. M&A market, prospective buyers should prepare detailed strategies prior to any transaction, engage relevant local stakeholders, manage public relations, and professionally conduct due diligence on the target. They will be guided by M&A professionals on a range of business issues including, for example, federal, state, and local income taxes, transfer pricing, different forms of a corporation, indirect taxation, personal taxation for executives, health care, debt vs. equity financing and many other issues in this market with its legal and regulatory environment.

There are cultural issues that involve interpersonal business relationships and different ways of relating to employees. For example, the Chinese firm may need to adapt its compensation and benefit policies and procedures for an integrated workforce to the U.S. environment. Often, the acquired company will have both local and expatriate employees. M&A professionals can provide consultation to the acquiring company to prepare them to meet the challenges of retaining the local U.S. staff, and help them establish policies that treat both foreign and local employees fairly. They can provide consultation in reforming human resources policies to accommodate the foreign workers, and make them well equipped to integrate U.S. employment law and business practices with the newly-combined workforce. These are all crucial factors to the outcome of a successful transaction.

According to practitioners in Singapore, there has been an increased competition pursuing strategic M&A transactions in the South East Asia region in 2015. To increase the customer base and develop the business, Chinese companies can consider listing in a foreign stock exchange, thus raising capital and increasing profit. With more funds coming into the newly-listed platform, it would better serve M&A transactions during expansion.

From South Korea's perspective, for instance, reportedly, Chinese companies have not yet adapted to the Korean market and the Korean management style. The issues are often resolved through retaining local management. Besides transferring Korean technology to a Chinese investor, the Chinese market is perceived as important for potential development of Korean brands. For instance, facing competition from China's fast-growing companies that are the market leaders in China, one of the Korean semiconductor companies has recently announced that it would sell a significant stake to a Chinese buyer to gain access into the Chinese sales network.

In what way can M&A Accounting, Tax, and Consulting professionals help?

In the U.S., experienced M&A Accounting, Tax and Consulting teams provide value to corporate, entrepreneurial, and private equity clients at every phase of the M&A transaction lifecycle including, but not limited to, the following:

- Strategy development to selecting a strategic partner;
- Providing acquisition support services that range from financial and accounting, tax, human capital, commercial, operational, and IT due diligence;
- Tax structuring and structuring through post-transaction working capital and purchase price adjustment support.

These services provide identification of critical transaction issues (strategic fit, quality of earnings and cash flow, quality of assets, operating plan



deficiencies, contingencies, etc.); potential increases in earnings, cash flow, or return on investment; potential tax savings; and rationalization of purchase price. Detailed knowledge of the differences in tax and regulatory structures, accounting standards, financial reporting, and related issues in the U.S. and China can help mitigate risks and prevent unforeseen complications.

With an in-depth understanding of the M&A marketplace, industry experience, and access to a global network of advisors, M&A professionals help clients pursue strategic transactions in both domestic and global markets – including management of the entire M&A lifecycle through post-acquisition integration.

From Singapore's perspective, the majority of M&A transactions in South East Asia are cross-border and transnational. A Chinese firm looking

for a base in the South East Asia market should consider Singapore as a hub offsetting a portion of initial investment costs by leveraging on tax incentives and government grants.

If clients are not familiar with the local market, Deloitte professionals can provide a thorough market analysis to help practitioners mitigate risk and minimize the cost of operation.

According to South Korean practitioners, before entering in an M&A transaction, it is essential for the bidder to prepare a good strategy which would include a thorough analysis of the target market, regulatory environment, and in particular, to acknowledge the position of the target's shareholders. Any bidder should prepare a detailed business plan and outcome scenarios to make an informed decision, and develop post-merger integration while retaining key employees and talents in the target.

China's global expansion

In **Table 9**, major Chinese cross-border investors are ranked by value in H1 2015. Taking John Holland Group, one of the leading and most diversified construction, engineering and service providers in Australia as an example, it was acquired by China Communications Construction Company (CCCC), one of the world's largest construction companies, in a transaction worth US\$950 million. By activity, CCCC has been ranked the number 165 in the Fortune Global 500 list and the number 4 in Global Contractors by Engineering News Record in 2015⁹⁵. According to CCCC's stock market reports, its market capitalization was US\$39 billion, net income of US\$2.2 billion and net profit margin of 3.87% in 2014, the highest amongst peers in the heavy construction sector in the same period. CCCC's transport infrastructure construction business grew the most over the past two years, with construction contracts in Pakistan, Cuba and Saudi Arabia.

Chinese outbound M&A investments in H1 2015 accounted for US\$56.8 billion. Top 10 Chinese investors accounted for 72% of the total Chinese outbound value in the same period

Evidencing Chinese overseas expansion by amount of provided loans to overseas projects, as of March 2015, the BOC extended its loan commitment of US\$125.8 billion in aggregate value to 1,763 Chinese overseas investment projects, 22.3% higher on a year-on-year basis. For instance, BOC successfully supported Luoyang Molybdenum Group's acquisition of Northparkes Mines in Australia, Fosun International's acquisition of Caixa Seguros e Saude, an insurer in Portugal and Bright Food's acquisition of Tnuva, Israel's dairy company. In Central Europe, BOC's branch in Poland was a lead arranger of Polenergia Group's wind power syndicate project invested by China-CE fund⁹⁶.

Table 9: Major Chinese outbound M&A investors in H1 2015

Rank	Investor	Volume	Share of Volume	Value (US\$M)	Share of Value
1	Hutchison Whampoa	2	1.2%	16,667	29.3%
2	Consortium led by ChemChina	1	0.6%	8,814	15.5%
3	Cheung Kong Infrastructure Holdings; Cheung Kong (Holdings)	1	0.6%	3,781	6.7%
4	GO Scale Capital; Nanchang Industrial Holding Group; Asia Pacific Resources Development Investment	1	0.6%	2,580	4.5%
5	Fosun International	2	1.2%	2,302	4.1%
6	JAC Capital Management	1	0.6%	1,800	3.2%
7	OmniVision Consortium	1	0.6%	1,453	2.6%
8	Anbang Insurance Group	2	1.2%	1,203	2.1%
9	Dalian Wanda Group	1	0.6%	1,188	2.1%
10	China Steel Corporation	1	0.6%	939	1.7%
Outbound M&A volume and value of top 10 Chinese investors in 1H 2015		12	8%	40,727	72%
Chinese total outbound M&A volume and value in H1 2015		173	100%	56,800	100%

Note: Data as of 31 July 2015

Following the trend toward globalization of Chinese corporations over the past five years, in 2015, the volume of Chinese companies in the Fortune Global 500 list has risen the most amongst other countries

In 2015, Chinese companies have significantly improved their rankings in the Fortune Global 500 list of the world's largest companies, and continued to rank second globally, illustrated in **Table 10**.

The revenues of Chinese corporations in the Energy and Resources, Manufacturing and Financial Services sectors in aggregate have accounted for the bulk of total Chinese corporate revenues. In 2015, based on the Fortune Global 500, large Chinese state-owned enterprises have dominated China's industries. Half of the Chinese corporations in the Fortune Global 500 have been in the Energy and Resources sector in 2015, depicted in **Chart 12** (see page 60). Measuring by profit, Chinese banks⁹⁷ have occupied the top four ranks in the Financial Services sector in the Fortune Global 500 in 2015. Private corporations accounted for the majority share of newly-added Chinese corporations in the Fortune Global 500 in 2015. Chinese private companies accelerate outbound M&A activities including newly added Fortune 500 companies.

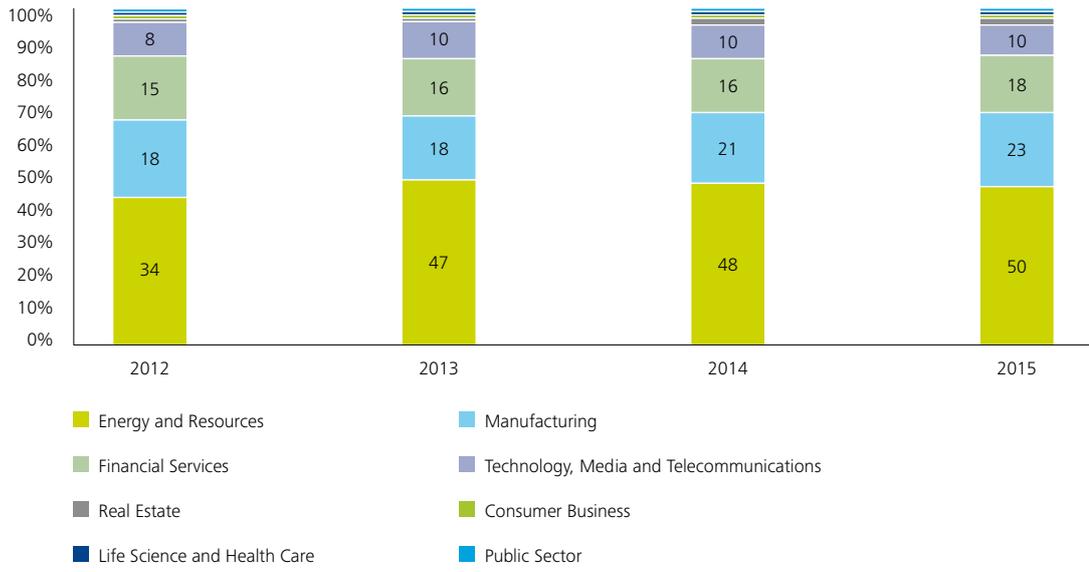
Table 10: Key geographies of the Fortune Global 500

Rank	Country/Region	2010	2011	2012	2013	2014	2015	Change (2015 vs. 2014)
1	USA	139	132	132	132	128	128	-
2	Greater China	46	61	73	89	95	99	4
3	Japan	71	68	68	62	57	54	(3)
4	France	39	35	32	31	31	31	-
5	UK	29	30	26	28	27	29	2
6	Germany	37	34	32	29	28	28	-
7	Korea	10	14	13	14	17	17	-
8	Netherlands	14	12	12	11	12	13	1
9	Switzerland	15	15	15	14	13	12	(1)
10	Canada	11	11	11	9	10	11	1

Greater China refers to Chinese Mainland, Hong Kong, Taiwan and Macau

Note: Based on Fortune Magazine; table correct as of July 2015

Chart 12: Sectors of Chinese corporations in the Fortune Global 500



Introducing Deloitte's Chinese Services Group (CSG)



Rosa Yang
Global CSG Chairman
Shanghai, China

The Deloitte Global Chinese Services Group (CSG) has demonstrated and delivered on its strategic focus, i.e. serving preeminent Chinese companies in their imperative to establish a global presence, and multi-national companies operating in China. Our capabilities span 130 countries, supported by a team of over 500 professionals. We have been able to successfully evolve and adapt to the changing dynamics of the marketplace, allowing us to stay ahead of the curve in putting the needs of our clients first.

Today, China is at the cross-roads of economic diversity. Domestic consumer appetite and spending is increasing; Chinese companies are looking to broaden their market reach by expanding overseas; China as the second largest economy is being cemented through multi-national initiatives like the AIIB, BRICS bank and

the One Belt One Road program; M&A deals have been growing consecutive years and the number of Chinese companies in the global Fortune 500 has been rising rapidly.

For Chinese companies, the linchpin of growth is shifting from the domestic market to overseas markets, and for multi-national companies - growth is shifting towards acquiring new competitive advantages and catching up to domestic demands, in the wake of increasing consumer spending.

With Global CSG's unique capabilities, we aim to offer Chinese companies investing overseas and multi-national companies investing in China have access to globally consistent services, delivered seamlessly across board to fundamentally address their most significant issues and needs.

Expanding around the globe...

The Global CSG network has coverage in over 130 locations spanning six continents.



Our mission is specifically to:

- Provide more consistent and focused support for Chinese companies expanding their business globally.
- Educate, facilitate, and support global multinational companies to penetrate into the China market through our China knowledge and insights, as well as strong connections to the China-based companies.
- Proactively facilitate Deloitte global and China firms to deploy more China-focused practitioners to build stronger global teams to serve China outbound and inbound clients.

Deloitte CSG network

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Endnotes

1. Comparatively, Chinese domestic M&A value advanced to US\$133.1 billion in H1 2015, the highest on record
2. A 52-week range of the Shanghai A-Share Stock Price Index was 2,128.46 - 5,423.25 on 6 July 2015, according to Bloomberg
3. In H1 2015, total global cross-border M&A value between different countries was 9.2% lower from H1 2014, with a total global M&A transaction values at US\$635.1 billion, according to Mergermarket's *Regional M&A Comparison*, H1 2015
4. Terms of trade measured as the ratio of export prices to import prices
5. Real exchange rate measured as the spot rate multiplied by the change in relative price level
6. Press release of Hutchison Whampoa Limited, 25 March 2015, <http://www.hutchison-whampoa.com/en/media/topic/2748/HWL-O2/>
7. Press release of Eversholt Rail (UK) Limited, 20 January 2015
8. According to Pirelli's statement in 2014, Pirelli was the fifth largest global tire maker by revenues, in a very concentrated sector (where the first 5 players held more than 60% of the market share). Pirelli had 20 factories and it operated in more than 160 countries. Sales revenues of Pirelli in 2014 were US\$7.3 billion
9. Stock exchange announcement of Fosun International Limited, 3 May 2015
10. Market capitalization as of July 2015 was HK\$131.5 billion (US\$16.9 billion) and sales revenue of HK\$77.7 billion (US\$10 billion), according to the company statement of Fosun International Limited. Total assets of Fosun International were HK\$406 billion (US\$52.2 billion), according to its financial statements in December 2014
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