Deloitte.
德勤

Graduating up the value chain
China's overseas revival

2013 Greater China outbound M&A spotlight

Chinese Services Group

Contents

Introduction

While the 2012 edition of Deloitte's China outbound M&A report was published during a period of heightened economic volatility, this edition of the outbound M&A spotlight comes at an increasingly hopeful time: The US economy is showing continued signs of recovery while, according to the IMF, Japan will grow by around 2 percent in 2013, adding a further 1.25 percentage points in growth over 2014. Meanwhile, the Eurozone emerged from recession in Q2 2013, growing by 0.3 percent over the quarter. Last but not least, China is now seemingly on the road to recovery after some particularly weak economic figures, with July 2013 metrics demonstrating that an inflection point of sorts has perhaps now been reached.

As a result, it should come as no surprise that Chinese outbound M&A investments increased over the first half of 2013 as local investors became increasingly confident about overseas prospects in the new economic normal. And this sense of optimism is likely to continue, with findings from this year's outbound M&A survey suggesting that close to three-quarters of respondents (all based in China) saying that levels of outbound M&A would rise over the coming 12 months.

At the same time, the composition of these deals has remained broadly similar to previous years, with data showing that the focus of outbound deal flow remained within the Energy & Resources and Consumer Business industries. Over H1 2013, outbound deals in these two sector accounted for 53.1 percent of total volumes (valued at $29bn), up from 50.5 percent (valued at $17bn) over the same period in 2012.

This continued concentration of activity in these two sectors, as well as many other trends, are examined in detail in the fifth edition of Deloitte China's annual outbound M&A report. We hope, as ever, that you find this report both informative and illuminating, and we welcome your feedback.

Lawrence Chia
Global Chinese Services Group Co-Chairman

M. Robinson

Mark Robinson
Global Chinese Services Group Co-Chairman

Executive summary

H1 2013 activity

Chinese outbound M&A activity increased over 2013

Over the first six months of 2013, 98 outbound deals, worth a cumulative US$35.3bn were announced. In comparison, in the second half of 2012, only 89 deals, worth a total of US$42.7bn, were undertaken. (One of those was CNOOC's takeover of Canada's Nexen worth US$17.7bn), while the first half of 2012 saw 97 transactions worth US$22.9bn come to market.

Outbound deals are getting larger

A comparison of the size of outbound deals undertaken in H1 2012 and H1 2013 shows that outbound deal flows are getting larger. Of those deals where value is disclosed, more than half (55.6 percent) were worth less than US$100 million in H1 2012. This proportion fell to 48.1 percent over the first six months of 2013. In addition, the proportion of big-ticket deals (those worth US$1bn or more) hit a new high of 13 percent over the same period.

Chinese investors focused on acquiring Energy & Resources and Consumer Business assets …

…With 52 outbound deals, worth a total of US$29.07bn, undertaken in these two sectors in H1 2013, up from the 49 transactions, worth US$17.04bn, during the first half of 2012.

Manufacturing sector deals fell from favour

During H1 2012, 23 Manufacturing sector acquisitions, worth a total of US$2.35bn were undertaken, but in the first half of 2013 this number fell to just 18 transactions worth US$1.86bn.

Chinese bidders increased their exposure in the US…

In the first six months of 2013, Chinese acquisitions of US targets totaled some 14 deals, worth a total of US$11.4bn — up from the 12 deals worth US$6.2bn that came to market during the same period over 2012 (a 1.9 percent and 5.2 percent percentage point rise, respectively). Admittedly, one of the deals to be announced in 2013 included the US$6.9bn acquisition of US pork producer Smithfield by China's Shuanghui. If this deal is excluded from the analysis, then total Chinese M&A investments into the US over the first half of this year would have actually fallen to US$4.4bn.

…while also taking an increased interest in Western European assets

At the same time, deal flow into Western Europe rose from 26 to 28 deals, representing a 1.8 percent increase between H1 2012 and H1 2013. However, this didn't also result in a corresponding rise in terms of the total amount invested; in fact, Chinese investment into Europe fell between the two periods in question by US$1.64bn.

Looking forward…

Respondents are more optimistic about the China outbound M&A landscape than they were 12 months ago.

A cumulative 74 percent of respondents believe that activity will increase over the coming 12 months. Indeed, when interviewed the same time last year, just two-thirds of respondents answered similarly.

Deal sizes are going to get larger

Just over one-third of respondents believe that over the coming 12 months, the bulk of Chinese outbound investments will be worth more than US$300 million, up from 26 percent in 2012. At the same time, 30 percent think that the majority of investments will occur in the US$150-US$300 million range, up five percentage points from last year.

China's thirst for natural resources, continuing globalisation of its SOEs, and Eurozone sovereign debt pressures are considered the most positive macroeconomic deal drivers for continued outbound M&A activity

When asked to rate a number of macroeconomic drivers on their potential impact on future outbound M&A levels, respondents, on average, rated China's continued desire to secure resources as the highest positive driver, closely followed by its SOEs' globalisation drive. Eurozone debt pressure was the ranked third.

At the other end of the spectrum, respondents believe that US economic growth, international financial market volatility, and Japanese quantitative easing are all mildly negative macroeconomic drivers of potential outbound M&A activity over the near-term.

Nine-out-of-ten believe that the main deal driver of Chinese overseas investment will be to acquire technological best practices
At the same time, more than four-out-of-five respondents believe that the primary objective for Chinese investors buying overseas will be to grow market share abroad and secure natural resources.

The main obstacle to acquiring North American and European assets is differing management structures
When buying in either North America or Europe, nearly 90 percent of Chinese investors say that the primary obstacle they face is differing management cultures between the bidder and the target business. Similarly, 80 percent also say that unwilling vendors in these two regions are also a major issue to overcome. However, when it comes to transacting in Asia, the vast majority (91 percent) of potential investors think that the biggest problem is the lack of reliability of target-related information, followed by the consistency of the application of laws.

The majority of respondents are likely to undertake another outbound transaction sometime in the next three years
A combined 67 percent of respondents note that their companies are likely to undertake an outbound acquisition in the near future, with 36 percent saying that such a deal will possibly take place in the next 12 months.

Just under three-quarters of respondents undertook a 'large amount' of due diligence on the target during their most recent acquisition…
When asked how much due diligence they undertook during their most recent overseas acquisition, only 73 percent of respondents responded by saying that they had undertaken a 'large amount' — a proportion that fell to just 63 percent when specifically asked about the undertaking of tax due diligence exercises.

…and only half undertook the tracking of synergy extraction post deal.
Just 53 percent of respondents claimed to have monitored and tracked synergies previously identified in the integration planning and valuation processes.

Over the first six months of 2013, 98 outbound deals, worth a cumulative US$35.3bn were announced

Methodology

Historical data

The historical data presented in this report is derived from mergermarket, the independent M&A intelligence provider, and includes all mergermarket-recorded transactions for the period 1 January 2005 to 30 June 2013. The data is correct up to 2 August 2013.

Transactions with deal values greater than US$5 million are included. If the consideration is undisclosed, mergermarket includes deals 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 deals have been collected. 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 deal 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 deals, Letters of intent, Memorandums of Understandings, Head of agreement and Non-binding agreements.

The report includes deals from the below locations:

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

For the purposes of this report, an outbound transaction is defined as a deal in which the bidder is predominantly located within 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 2012" in the report indicates that the period in question runs from 1 January 2005 to 30 September 2012. Similarly, any mention of the term "Q1-Q3 2012" indicates that the period in question runs from 1 January 2012 to 30 September 2012.

Survey methodology

During May 2013, Remark, the research and publications division of mergermarket, conducted an online survey, on behalf of Deloitte China, of 100 Greater Chinese M&A practitioners with experience of a Greater Chinese M&A transaction to garner their opinions on current investment trends. Their answers were collected in confidence and reported in aggregate.

The 2013 China outbound M&A survey

Pre-qualifiers

Chart 1: In which Chinese city are you headquartered?

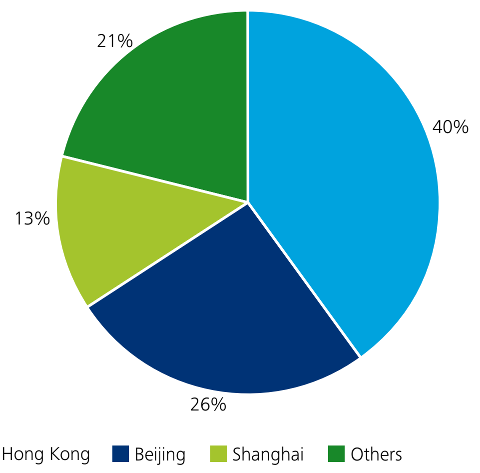


Chart 2: How would you describe your company?

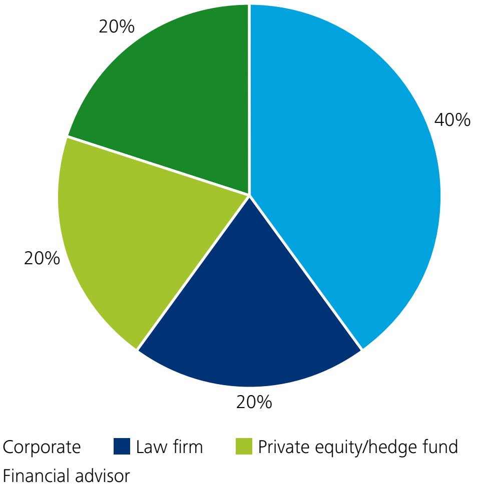


Chart 3: In which industry/sector is your business most active?

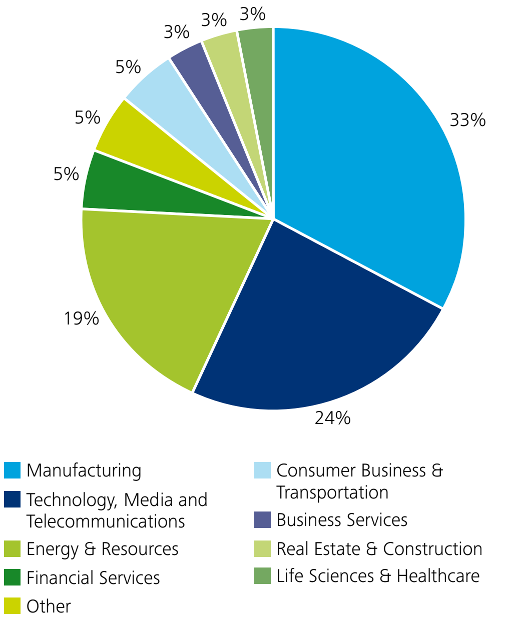
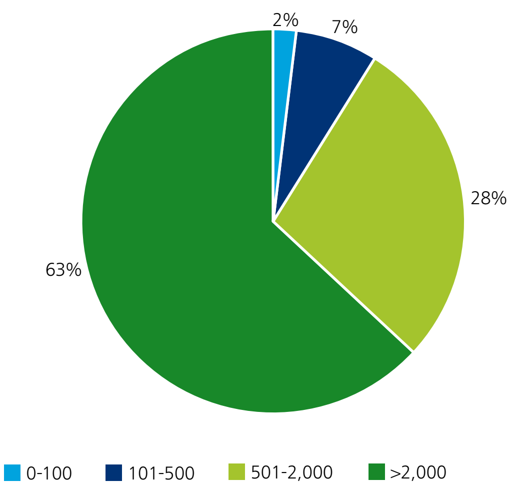


Chart 4: Please provide an estimate of the number of employees at your company

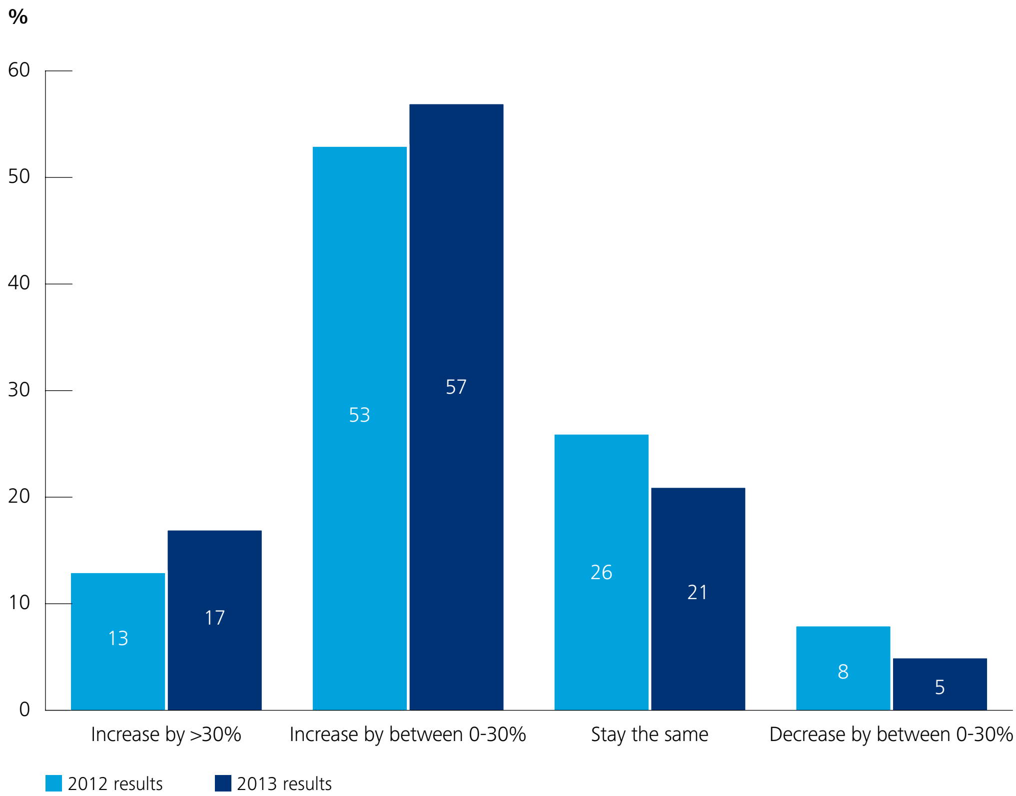


Survey results

Deal expectations

Outbound M&A will grow over H2 2013 and H1 2014 with close to three-quarters of respondents saying that the level of activity will increase over the coming 12 months

Chart 5: What do you expect will be the level of Chinese outbound M&A investments in 12 months' time?



Respondents are more optimistic about China outbound M&A than they were 12 months ago, with a cumulative 74 percent contending that activity will increase over the coming 12 months. Indeed, in last year's survey, only two-thirds of respondents answered similarly.

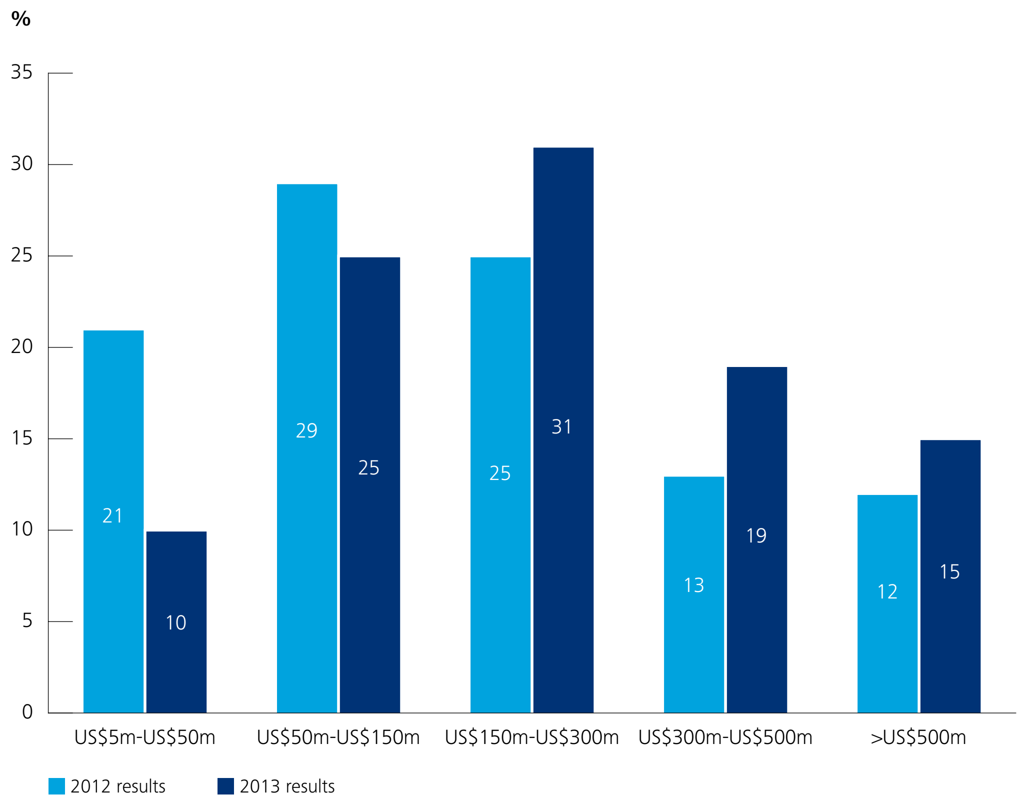
One respondent captured the prevailing mood: "Chinese companies are increasingly going global and their strategy is inorganic growth, rather than the lengthy process of organic growth. Chinese companies will take advantage of the current situation, where they can acquire assets relatively easily compared to previously." Another remarked that "Chinese outbound M&A activity will enter a new phase as now even mid-cap and privately-owned companies are looking to buy oversees which was until recently, pretty rare."

However, not all respondents were as confident. One noted that "Chinese outbound activity peaked two years ago when Chinese companies were tempted to buy overseas assets that became available because of the global financial crisis, rather than focusing on buying assets that created synergies. This not only impacted Chinese companies negatively but also caused foreign regulators to eye further Chinese acquisitions with more suspicion, making it more difficult for them to acquire overseas now."

Another suggested that Chinese overseas buyers were adopting a more cautious approach to deal-making given current macroeconomic volatility: "Doing an outbound M&A deal is a complex process and considering the low success rate of Chinese outbound acquisitions, potential Chinese bidders currently prefer investing in the domestic market."

Close to two-thirds of respondents believe that the bulk of Chinese outbound investments will be worth more than US$150 million

Chart 6: In which deal size range do you expect to see the bulk of Chinese overseas acquisitions take place over the next 12 months?



More than one-third (34 percent) of respondents think that the bulk of Chinese outbound investments will be worth more than US$300 million over the next 12 months, up from 25 percent who said the same in 2012. Meanwhile, 30 percent believe that the majority of investments will occur in the US$150-US$300 million range, up five percentage points from the year before.

At the lower end of the spectrum, opinion has seemingly turned against small-cap deals, with just 35 percent respondents believing that the majority of outbound acquisitions will be worth between US$5-150 million. Interestingly, just 10 percent contend that most outbound deals will be worth between US$5-50 million, an eleven percentage point dive compared to last year.

Many reasons were cited as to why deal sizes are likely to increase over the coming 12 months. One is that Chinese corporations are now much more experienced at conducting overseas transactions than they were one year ago. Indeed, one respondent wrote that "Out of the fifteen mega deals that Chinese companies did in foreign markets in the last year, nine were successful. This has encouraged many other companies to invest in foreign markets." Another remarked that "Chinese companies have gone global and inexperience is no longer a hindrance while acquiring big targets."

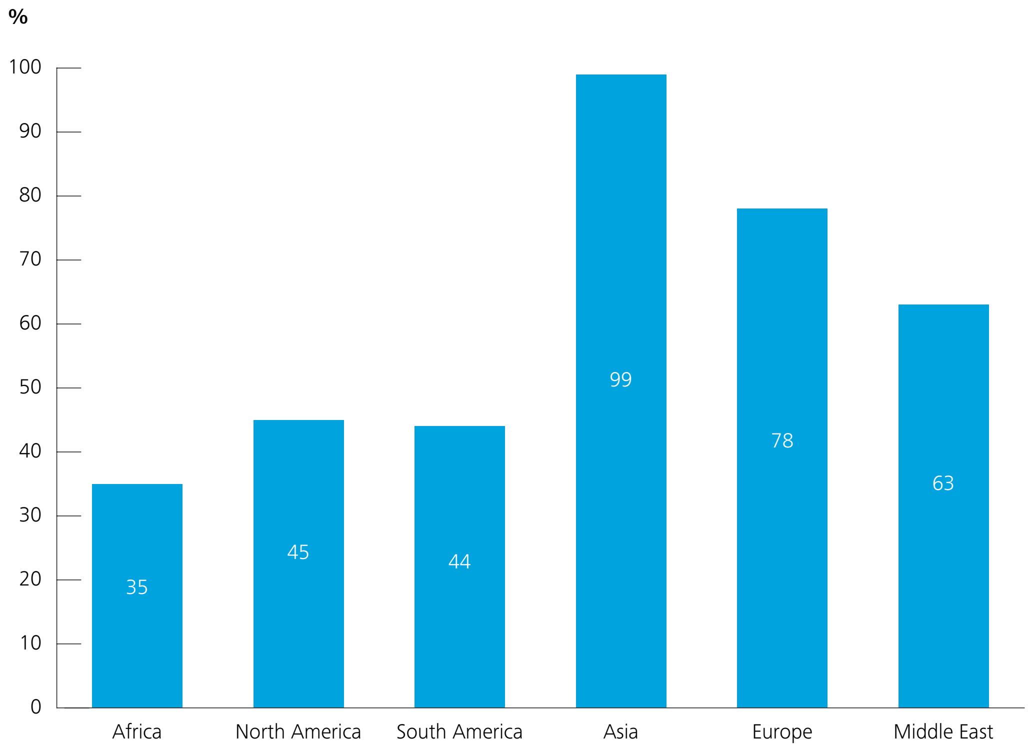
Low valuations are also spurring on buyers to take on larger deals. One respondent hinted at this, noting that: "There is significant interest from Chinese private equity investors to invest in foreign markets. They want to take advantage of distressed situations in Europe and North America."

However, other respondents viewed market volatility as a hindrance to deal flow, with one writing that "Many Chinese companies that were planning to make big acquisitions in overseas markets have adopted a wait-and-see approach. They are reluctant to make any large deals in overseas markets until some measure of market stability returns." Another said that bigger gaps in price-expectations between potential foreign sellers and Chinese buyers would make potential big-ticket transactions comparatively less likely.

Last, but not least, a number of respondents argued that small-cap deals are more likely in 2013 because more Chinese small-to-medium-sized businesses are now feeling confident enough to undertake overseas transactions. One respondent summed it up, saying: "In most instances, small companies and private investors are making outbound acquisitions for the first time. Many of them will be small-sized and will focus on a particular sector with an aim at gaining access to a specific market, as opposed to making transformative acquisitions."

More than three-quarters of respondents say that Chinese investors interested in Consumer Business assets will buy in Asia and/or Europe over the next 12 months

Chart 7: Over the coming 12 months, in which regions do you expect to see a sizable number of Consumer Business & Transportation Chinese outbound M&A investments taking place?



NB: Respondents may have selected more than one answer

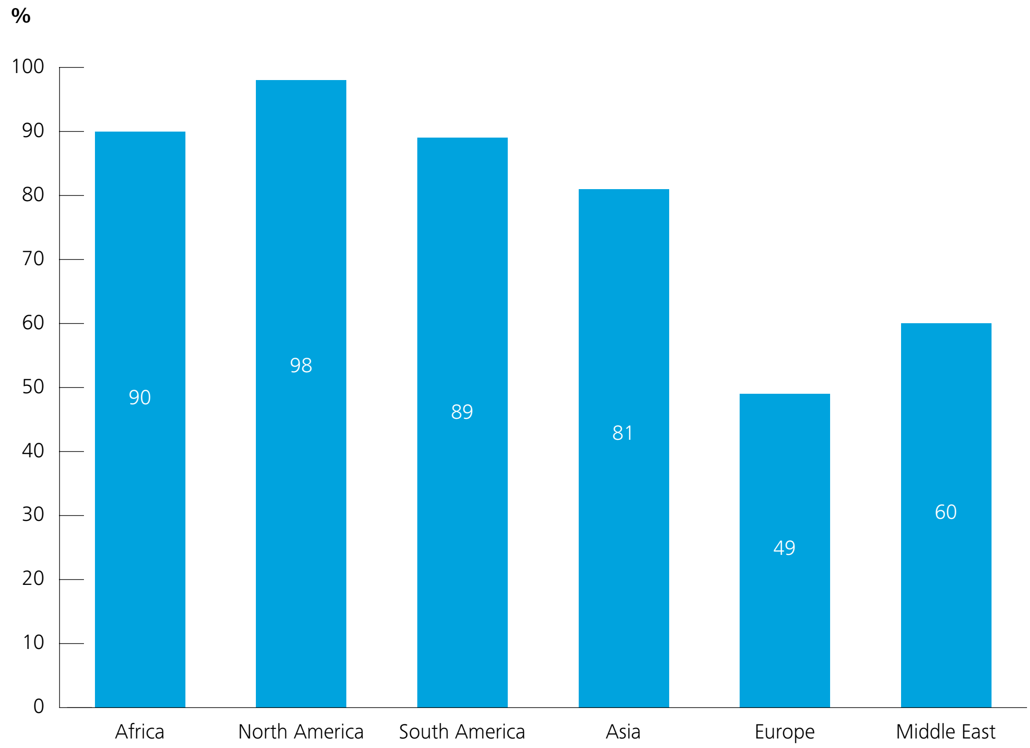
Asia continues to be the top destination for Chinese bidders looking to acquire Consumer Business & Transportation assets - a belief shared by virtually all survey respondents. The region is a popular choice because, according to one respondent, it benefits from "high levels of business coordination and good bilateral relations. Also, long-term opportunities are attractive." Another said that the 2010 signing of the free trade agreement between ASEAN and China would continue to attract Chinese outbound investment to the region, while a third wrote that "Chinese companies will be acquiring in a number of sectors across Asia as they will like to grow their business in their neighboring markets."

At the same time, more than three quarters of respondents said that buyers would target European Consumer Business & Transportation assets because of the region's technologically-advanced as well as reasonably-priced brands.

Finally, more than half the respondents suggested that such assets in the Middle East would also be attractive. One respondent explained this change from last year's survey: "Chinese consumer products are in huge demand across markets in Africa and the Middle East because of their low cost. Chinese companies are taking advantage of this and are rapidly acquiring to expand their market share in these regions."

North America, Africa, and South America are the main hunting grounds for prospective Chinese outbound investments in Energy & Resources

Chart 8: Over the coming 12 months, in which regions do you expect to see a sizable number of Energy & Resources Chinese outbound M&A investments taking place?



NB: respondents may have selected more than one answer

North America's 'shale revolution' has resulted in a surge in Chinese interest in acquiring the region's Energy & Resources assets, with nearly all of this year's survey respondents believing that the region would see a sizable number of Chinese Energy & Resource-focused acquisitions take place.

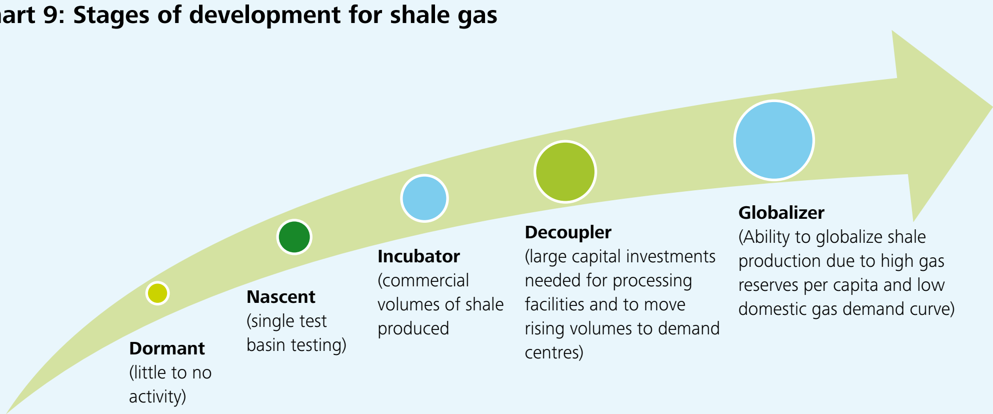
In addition, Chinese investors interested in the Energy & Resources space are also likely to look at assets in Africa and South America say respondents. One noted that: "The need to secure access to overseas energy resources and raw materials to support China's economic growth continues to be a key strategic driver. China has now become the world's second-largest importer of oil and accounts for nearly a third of global growth in oil demand. Similarly, explosive growth in Chinese demand for metals and mining resources is also driving acquisitions in this space. As a result, South American and African countries are now emerging as the areas of interest for the Chinese companies.' Another respondent added that "the Chinese are now very active in Africa and South America as they find the regulations there very favorable."

Looking forward – Potential outbound Energy & Resources investment themes (derived from Deloitte China's Greater China Oil & Gas M&A and Greenfield FDI investment spotlight – 2013 edition)

The shale gas revolution

The North American shale gas revolution has created a large amount of interest from other countries who are interested in duplicating its results. Indeed, an April 2011 study by the Energy Information Administration (EIA) estimated that world shale technically-recoverable resources outside the US were 5,760 trillion cubic feet (Tcf), an increase of more than 40 percent in world gas resources. The study sparked widespread interest in international shale as other countries such as China, looked to increase energy supply security and boost economic growth. However, the presence of shale gas in the ground does not guarantee the unearthing of a fortune.

Chart 9: Stages of development for shale gas



China is moving from a Dormant to a Nascent stage of shale development but is unlikely to become a Globaliser in the foreseeable future. The EIA estimates that China has 1,275 Tcf of technically recoverable shale gas resources, while China's Ministry of Land and Resources has a more conservative 886 Tcf estimate.

The most active shale basin is the Sichuan Basin with nearby access to water resources, a fact that makes it suitable for hydraulic fracturing despite the country's low per capita water supply. The basin is a mature region of conventional natural gas production with over 11,000 miles of gas pipelines. However, the eastern part of the Sichuan basin contains extensive steep folding and faulting, which complicates horizontal drilling techniques, and the western part is deeper, which increases drilling costs. As a result of this geological complexity, drilling costs for shale gas can run as high as US$16m per well. The region also has high population density, which can make land more difficult to access.

In summary, over the short-term, China will continue to exist in a Nascent stage of development with success in the Sichuan basin a critical indicator of its transition to an Incubator. China's 12th Five Year Plan sets aggressive targets for shale gas production of 0.6bn cubic feet per day (Bcf/d) by 2015, with plans to scale-up production to 5.8-9.6 Bcf/d by 2020. In order to meet these targets, between 1,200-1,500 wells need to be drilled in the country, but only 60 exploration wells have been drilled at the time of the writing of this report. To improve project economics, in 2012 the Chinese government initiated subsidies for shale gas production through 2015 that will reduce costs by 20-30 percent and has been experimenting with liberalised gas prices in the Guangdong and Guangxi regions since 2011.

China also will be challenged by a service industry that is inexperienced with shale and with limited domestic drilling technology for multi-stage hydraulic fracturing. Although China is making investments in North American shales to acquire the necessary technology and expertise, it will take time to apply this knowledge to the home market.

Despite its prospects, China is unlikely to become a shale Globaliser because of low reserves of 80 million cublic feet per capita and a steep gas demand curve, with a 13 percent compound annual growth rate over the past five years, driven by an energy policy prioritising gas over coal to meet future energy demand. Confronted with these constraints, China will be compelled to satisfy domestic gas demand rather than seek new demand in external markets.

Sources:

US DOE/EIA, "World Shale Gas Resources: An Initial Assessment of 14 Regions Outside the United States", April 5, 2011

Ibid. 1; Bloomberg News, "China Estimates Exploitable Shale-Gas Reserves at 25.08 TCM", Mar 1, 2012

Deloitte, "Water Tight: The top issues in the global water sector", January 2012

China National Petroleum Corporation, Li Luguang, "Status and Practices of Shale Gas Exploration and Development in Sichuan Basin", September 25, 2011

Wall Street Journal, Kevin Jianjun Tu, "Beijing's Problems with Shale", October 25, 2012

China's 12th Five-Year Plan (2011 – 15), March 14, 2011

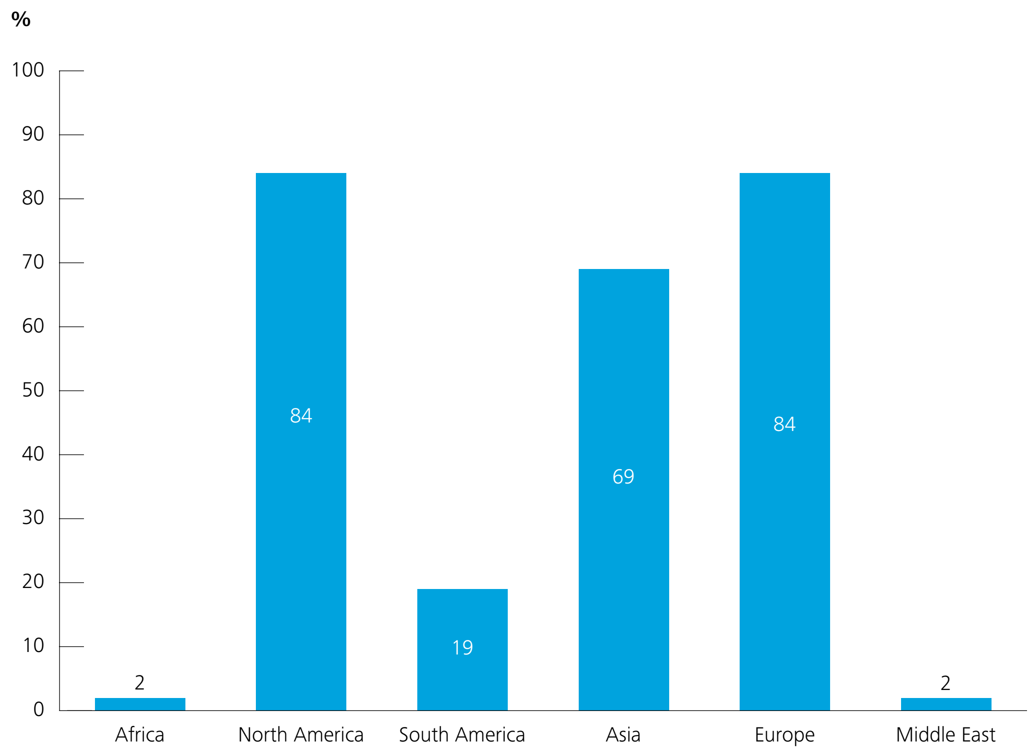
J.P. Morgan, "China oil and gas: Coal gasification ahead of shale gas in China?", Asia Pacific Equity Research, May 18, 2012

Xinhua News Agency, "China Mulls More Policies on Shale Gas", November 26, 2012

Metis Energy Insider, "Note on Shale Gas Development in China", December 10, 2012; Bloomberg News, "China May Raise Natural Gas Prices This Year, Barclays Says", January 23, 2013.

North America and Europe are equally attractive for Tech, Media & Telecoms assets

Chart 10: Over the coming 12 months, in which regions do you expect to see a sizable number of Technology, Media & Telecommunications Chinese outbound M&A investments taking place?



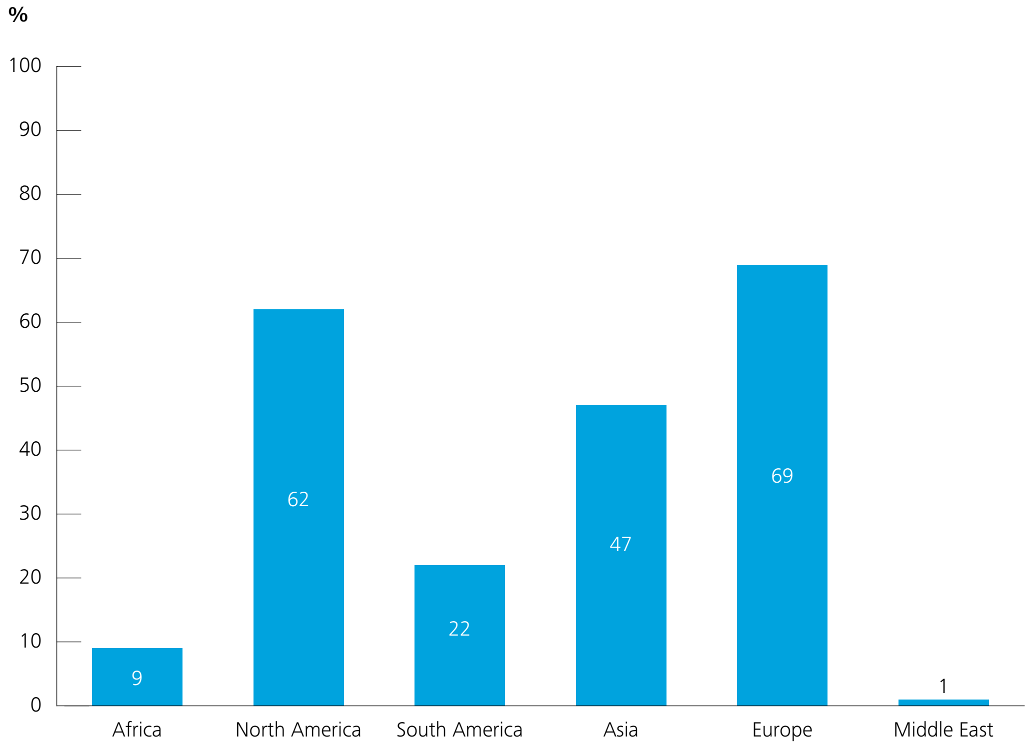
NB: Respondents may have selected more than one answer

Respondents believe in equal numbers that Europe and North America will be the most attractive regions for Chinese overseas investment in the Tech, Media & Telecoms (TMT) industry, with one respondent especially highlighting the Tech & Media sectors as being ripe for Chinese investment. Another respondent explained that the "Technology media and entertainment sector will witness a lot of investments from Chinese companies especially in Europe and North America, as Chinese investors look to replicate their advanced technological processes."

The appetite for investment into Asian assets was slightly less, with just 69 percent of respondents believing that the region would see a sizable number of outbound TMT-related transactions take place there.

Europe is investors' region of choice for Life Sciences and Healthcare acquisitions

Chart 11: Over the coming 12 months, in which regions do you expect to see a sizable number of Life Sciences & Healthcare Chinese outbound M&A investments taking place?

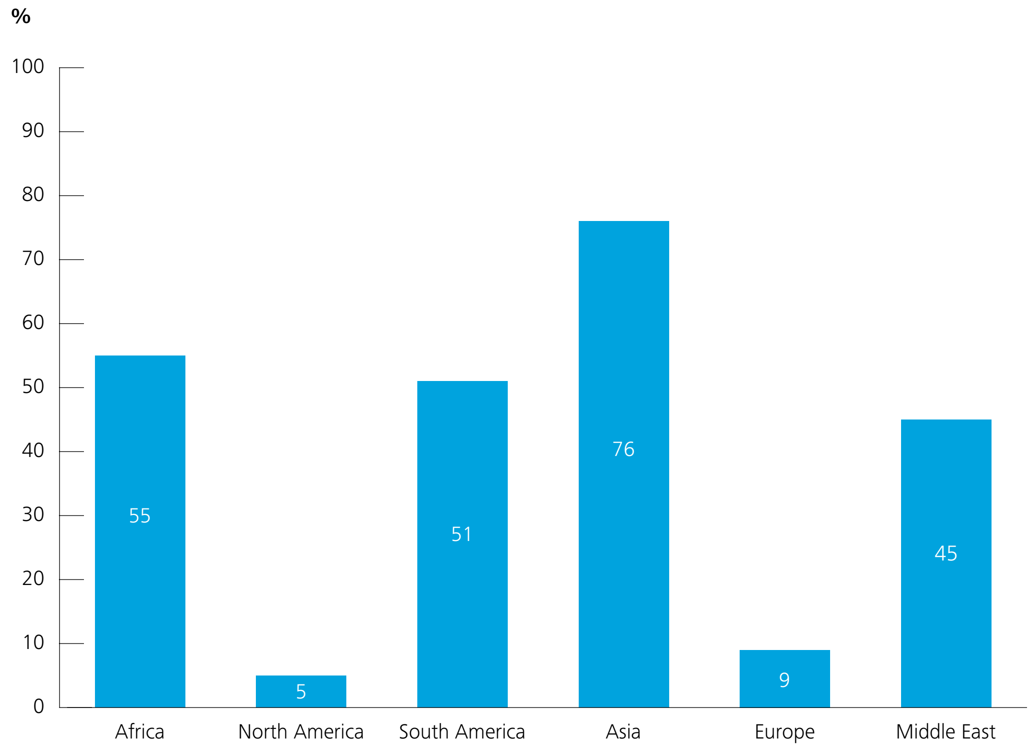


NB: Respondents may have selected more than one answer

Respondents said that Europe will overtake North America to become the most popular destination for outbound Chinese investments in the Life Sciences & Healthcare space over the next 12 months. Meanwhile, just under half (47 percent) of respondents believe that Chinese Life Sciences & Healthcare acquisitions will mostly take place in Asia.

Asia retains top spot for overseas Real Estate sector deals

Chart 12: Over the coming 12 months, in which regions do you expect to see a sizable number of Real Estate & Construction Chinese outbound M&A investments taking place?



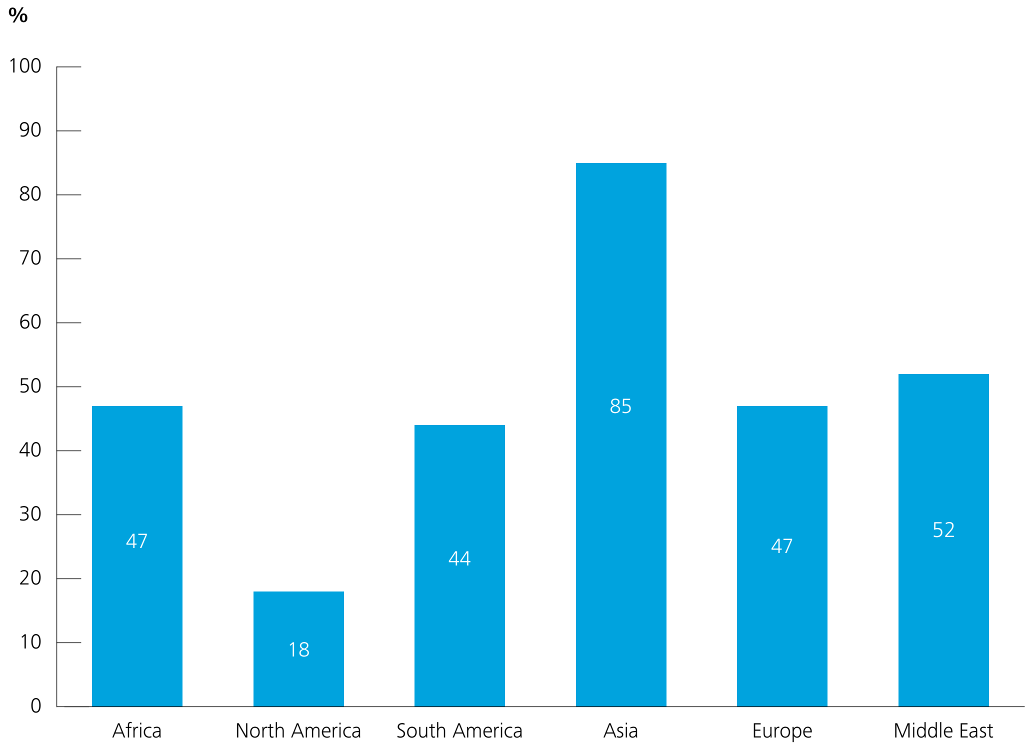
NB: Respondents may have selected more than one answer

Although the main focus of Chinese investment in Real Estate deals is expected to remain within Asia, respondents said they do anticipate a substantial increase in interest in Africa in 2013, a reason one respondent ascribed to 'market expansion moves'. At the same time, more than half of respondents believe that a sizable number of Chinese outbound Real Estate investments would also take place in South America over the coming 12 months.

On the other hand, real estate investments in North America and Europe are expected to make up a minor proportion of the total.

Asian & Middle Eastern Financial Institutions likely to attract Chinese buyers over the foreseeable future

Chart 13: Over the coming 12 months, in which regions do you expect to see a sizable number of Financial Services Chinese outbound M&A investments taking place?

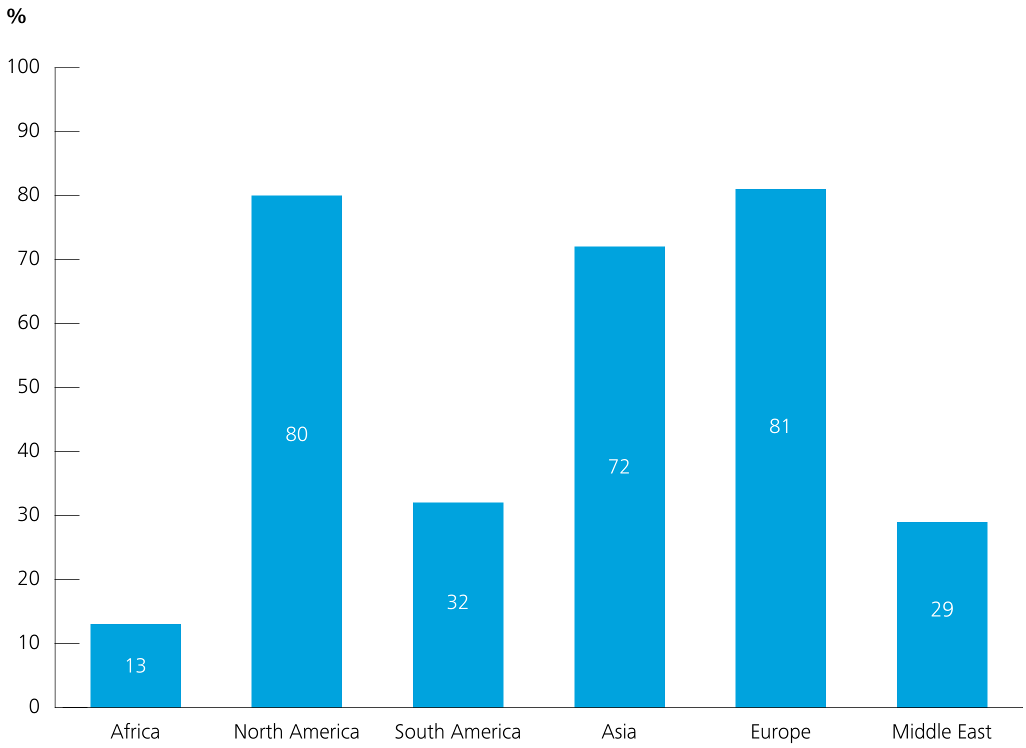


NB: Respondents may have selected more than one answer

Although the main focus of Chinese outbound deals in the Financial Services Sector are expected to remain within Asia, with 85 percent of respondents believing that the bulk of outbound Financial Services deals will take place within the region, over half of respondents said they expect to see a sizable number of Financial Services investments take place in the Middle East over the coming 12 months. Similarly, respondents indicated that Africa will likely become a popular region for Chinese outbound investments. On the other hand, Financial Services investments in North America are expected to only account for a small portion of deal flow over the coming year.

Europe is destination of choice for Chinese Business Services sector outbound investments

Chart 14: Over the coming 12 months, in which regions do you expect to see a sizable number of Business Services Chinese outbound M&A investments taking place?

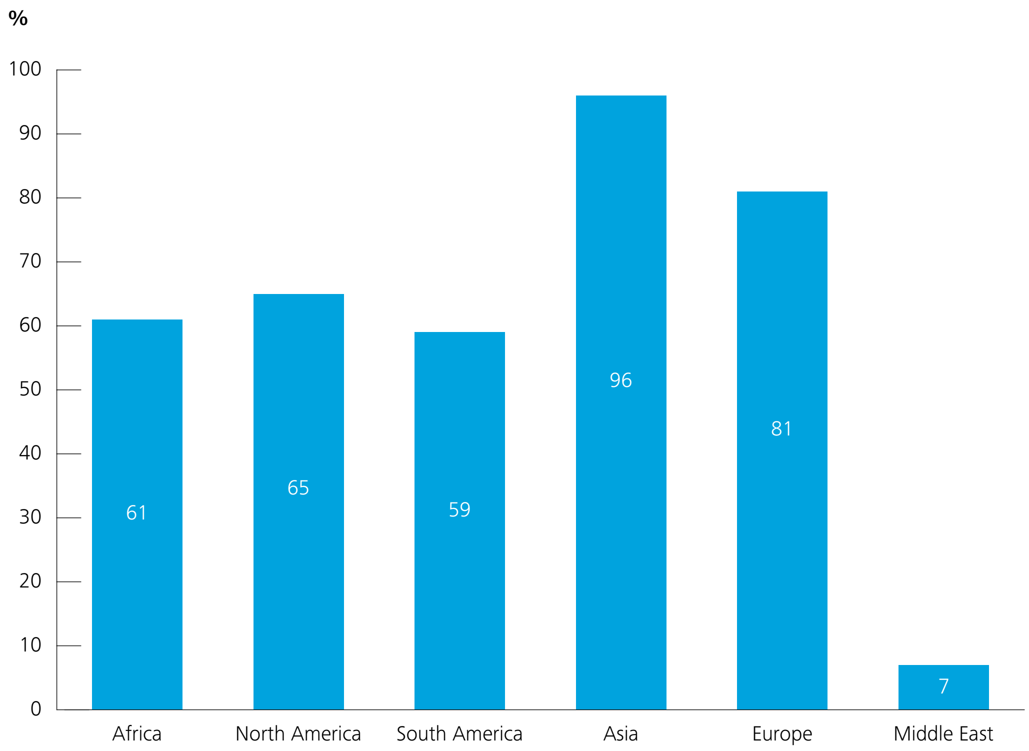


NB: Respondents may have selected more than one answer

Respondents believe that the majority of outbound Chinese Business Services sector acquisitions will take place in Europe, with the region overtaking North America to become the most fashionable destination for such investments. Nonetheless, Business Services investments in North America will still be numerous according to 80 percent of respondents.

European and North American Manufacturing sector targets likely to attract bulk of Chinese investment over the coming 12 months

Chart 15: Over the coming 12 months, in which regions do you expect to see a sizable number of Manufacturing Chinese outbound M&A investments taking place?



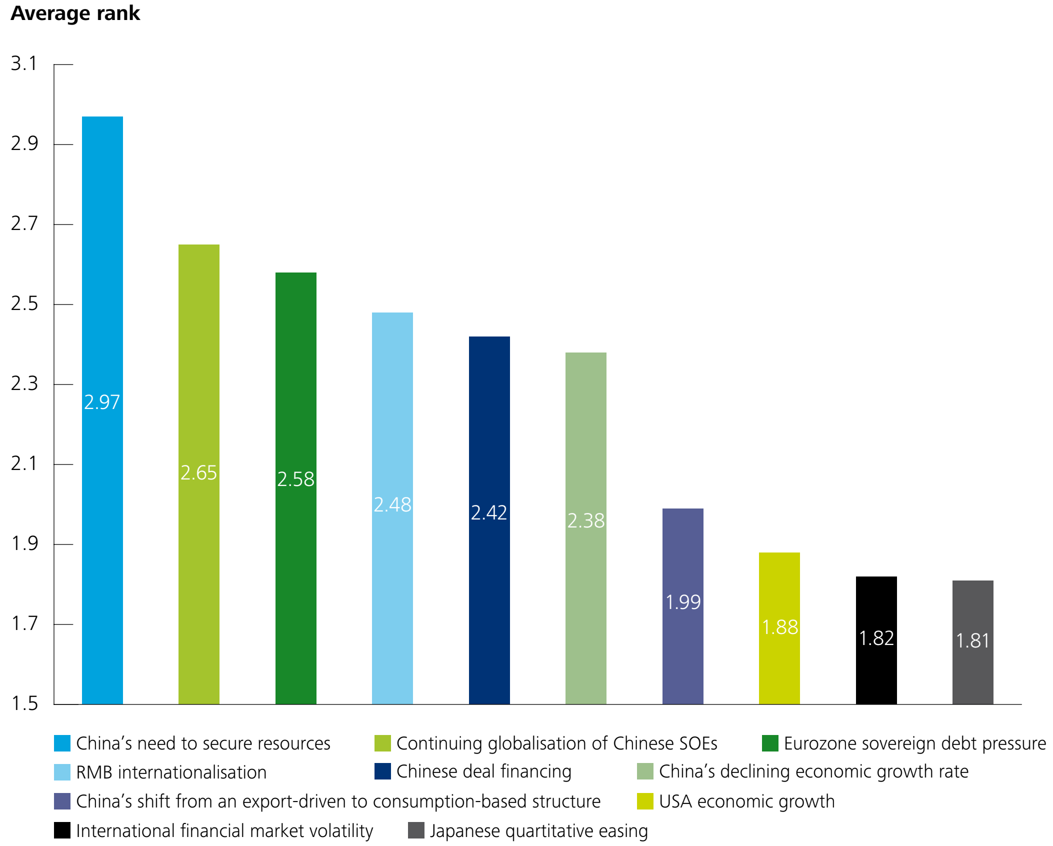
NB: Respondents may have selected more than one answer

Respondents think that Asia will continue to be the most attractive region for Chinese outbound Manufacturing M&A, with one respondent noting that "Chinese acquirers' primary focus are Energy, Manufacturing and Consumer sector buys in regions like Asia and Europe." Europe's attractiveness for Chinese Manufacturing investments has meant that it has overtaken North America as a desirable destination for outbound Manufacturing acquisitions.

Respondents also contend that Chinese manufacturing firms will explore investment options in South America, Africa and to a lesser extent, the Middle East. Highlighting China's focus on emerging economies, one respondent commented that "Chinese companies are targeting manufacturing companies in developing markets and are building hubs in order to create efficient distribution networks to supply their goods and products. Emerging markets also [offer] cost advantages as the labour cost in these developing markets is [much] less [than in developed regions]."

Respondents believe that the most positive deal driver for prospective Chinese outbound investment will be the economy's need to secure resources; the most negative driver will be Japanese quantitative easing

Chart 16: On a scale of One to Three (where 1=negative and 3=positive), please rate each of the following deal drivers in terms of their influence on the level of Chinese outbound investments over the next year:



Almost all respondents cited China's need to secure resources, as well as the continuing globalisation of Chinese SOEs, as the primary drivers of Chinese outbound M&A activity over the upcoming year.

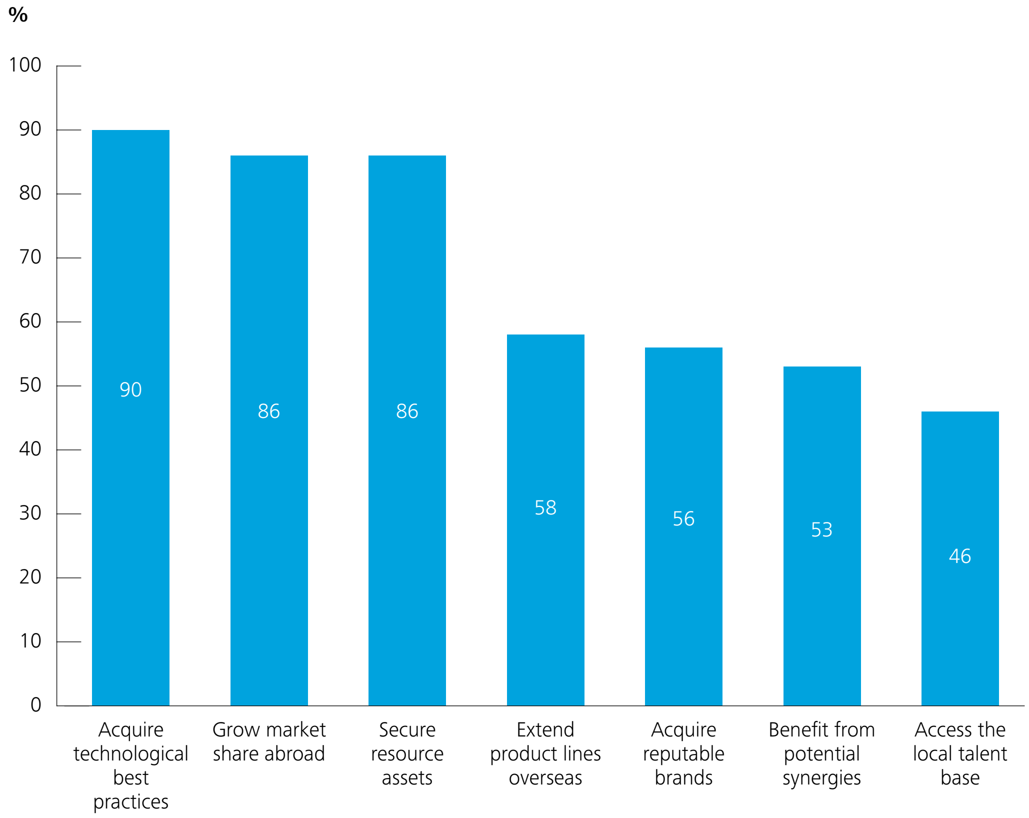
One respondent framed their perspective by noting that: "The continuing globalisation of Chinese SOEs and China's requirement to secure resources and meet energy demands are all very much connected. Chinese SOEs are now one of the biggest acquirers in the foreign market and most of them are looking to secure new resource assets and keep a robust supply of raw materials flowing into China in order to feed their domestic industries."

Another argued that a variety of factors would collectively influence the level of Chinese outbound deals: "There are number of factors driving the Chinese companies in engaging in outbound M&A deals: Demand for natural resources and energy requirements, a robust economy, a strengthening RMB and the availability of capital [are] some. At the same time, the debt crises in both Europe and North America have led to attractive valuations for Chinese buyers."

On the other hand, respondents said that recent bout of Japanese quantitative easing, together with wider financial market volatility and weak US economic growth, could reduce China's appetite for outbound investment over the next year.

Acquiring technological best practices remains the reason why the bulk of overseas investment will take place over next 12 months

Chart 17: Over the coming 12 months, what will be the primary objectives of Chinese acquirers when pursuing outbound M&A investments?



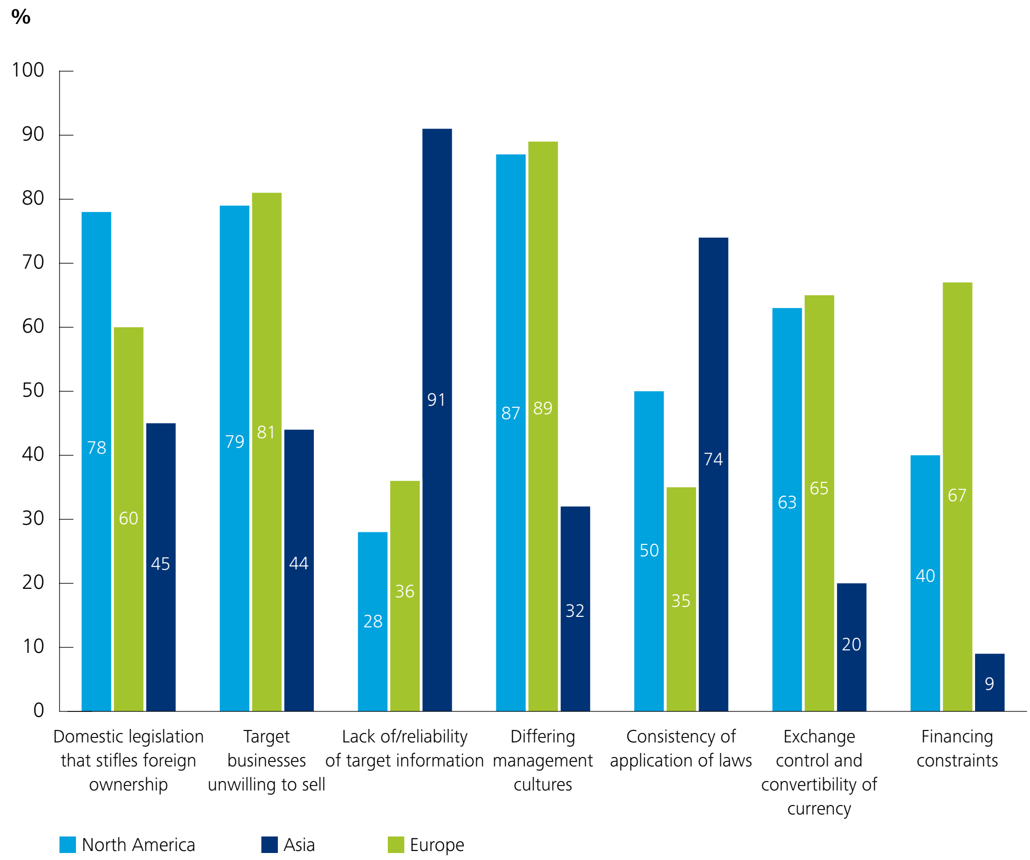
NB: Respondents may have selected more than one answer

90 percent of respondents think that the primary objective of Chinese acquirers will be to obtain technological best practices while 86 percent also go on to say that market share growth and securing resource assets would also be key determinants of future levels of outbound M&A. One respondent summed it up by saying: "The growing outbound M&A activity of Chinese buyers in foreign markets can be attributed to their interest in acquiring technologies and innovative businesses; thus, most of these deals are aimed at bringing advanced western technologies, know-how, IP and brands back for use in the Chinese domestic market."

Other objectives were also cited, as summarised by this respondent: "Chinese objectives are multidimensional, and their objectives are highly varied. In addition to moving into developed markets to benefit from their technology, Chinese companies want to sell their products in developed markets where they can capture higher margins. Acquisitions can therefore help them in increasing their product lines and also in capturing market share overseas."

The most likely limitation to future Chinese investment in North America and Europe is differing management cultures, while the main obstacle to potential purchases in Asia is a lack of reliable target information

Chart 18: Over the coming 12 months, what will be the primary obstacles facing Chinese acquirers who are pursuing outbound M&A investments in the following regions?



NB: Respondents may have selected more than one answer

Referring to Chinese acquisitions of European and North American targets, just under 90 percent of respondents said the primary obstacle faced by Chinese firms is differing management cultures. Meanwhile, for Asian acquisitions, 91 percent said it's a lack of reliable target information that is the biggest obstacle facing prospective bids.

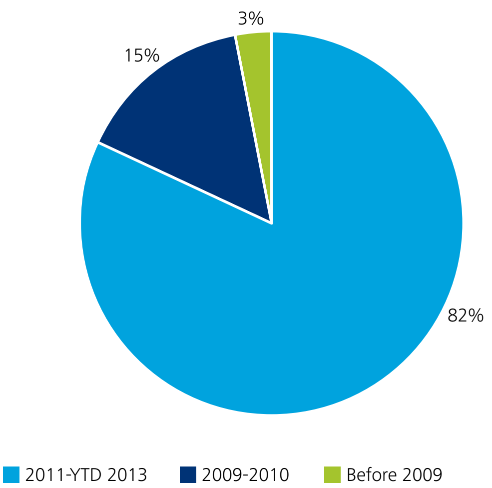
Recent accounting scandals across Asia have also figured prominently as hindrance to deals, with one respondent noting that "Accounting fraud, asset manipulation and the non-disclosure of liabilities is comparatively more common in Asia than in other regions. Furthermore, corporate governance is very weak, making it extremely difficult to gather the required information as well as assessing its reliability. The level of foreign ownership is also a concern as every country has some or high level of reservation when allowing a foreign company to invest and acquire in its market – all of which restricts the level of outbound M&A activity."

On the other hand, acquisitions of North American and European targets are expected to face the greatest legislative roadblocks and the most unwilling sellers. One respondent summed it up: "Foreign ownership continues to be a key concern in North America. Chinese investors are set to encounter ownership and operational obstacles. Furthermore, targets' unwillingness to sell because of market volatility is just one of the issues that prospective Chinese bidders have to face – the other being targets' unwillingness to sell simply because the buyer is Chinese. This is a major impediment which Chinese bidders do not know how to overcome."

Doing a deal

More than three-quarters of respondents have completed an outbound transaction sometime over the past two-and-a-half years

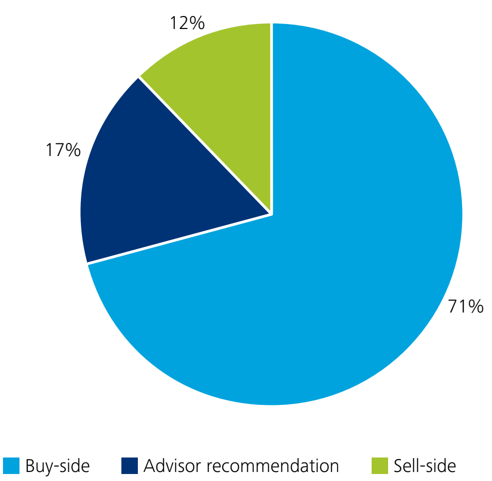
Chart 19: In what year was your most recent Chinese outbound M&A transaction completed in?



82 percent of respondents indicated that their most recent Chinese outbound M&A deal was completed within the past two-and-a-half-years, 15 percent have not engaged in outbound M&A activity in the past three years, and 3 percent stated that their most recent transaction took place before 2009.

Majority of respondents use internal teams to seek targets

Chart 20: Which party initiated the transaction?

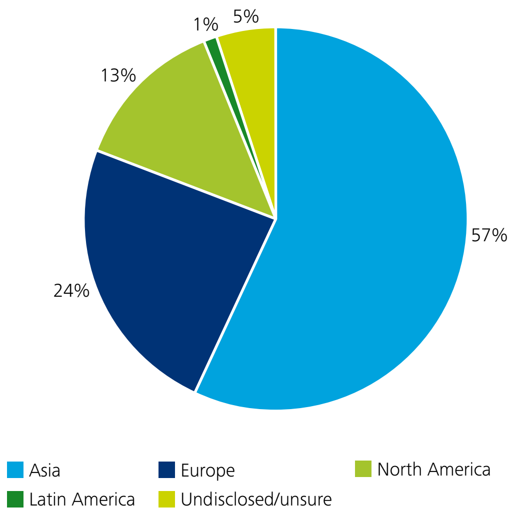


The bulk of these outbound M&A transactions were initiated by the buy-side, with one respondent taking some time to describe the reasoning behind their decision to seek a target: "The consistent supply of raw material was a big issues for us and thus we decided to acquire some assets in Australia which will somewhat resolve our raw material supply issue. We initiated the transaction as we were aware of the target and its assets, which were attractive. Our projected valuations were in line with their expectations and the deal was completed without any issues."

Another respondent who was approached by a vendor noted that: "Usually it is Chinese buyers that initiate the transaction, but in our case, the deal was initiated by the seller. We had been doing business with the vendor for a long time and they were comfortable approaching us without any advisors. We understand that previously, this was not very common in China, but with the kind of prices vendors can now get from Chinese companies, more and more foreign sellers are initiating transactions."

Half of respondent transactions were undertaken in Asia

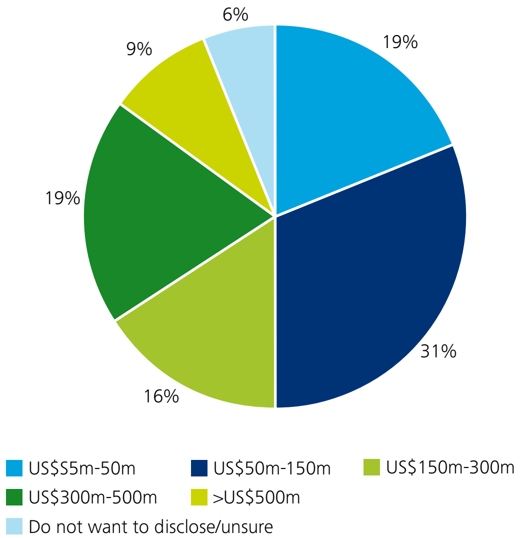
Chart 21: In which region was your target primarily located in?



More than half of respondents named Asia as their primary target destination for acquisitions, with a further 24 percent of deals taking place in Europe and another 13 percent in North America.

Half of deals undertaken were in the in the US$5-US$150 million space

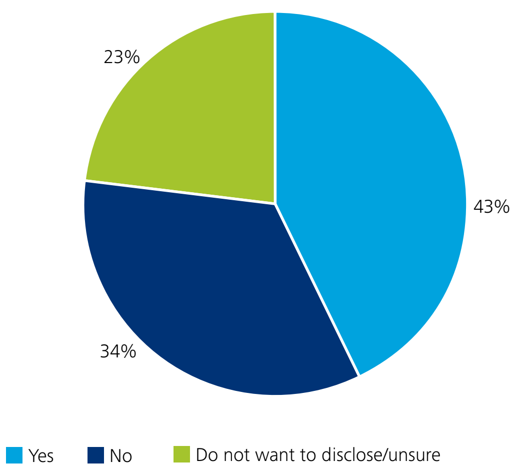
Chart 22: What was the value of the transaction?



A cumulative 50 percent of respondents undertook deals worth between US$5m and US$150m, with 31 percent of this group reporting that their deals were worth between US$50m and US$150 million. At the same time, more than one-third of respondents noted that their deals were worth between US$300m and US$500m.

Close to half of all deals were controlling stake or outright control acquisitions

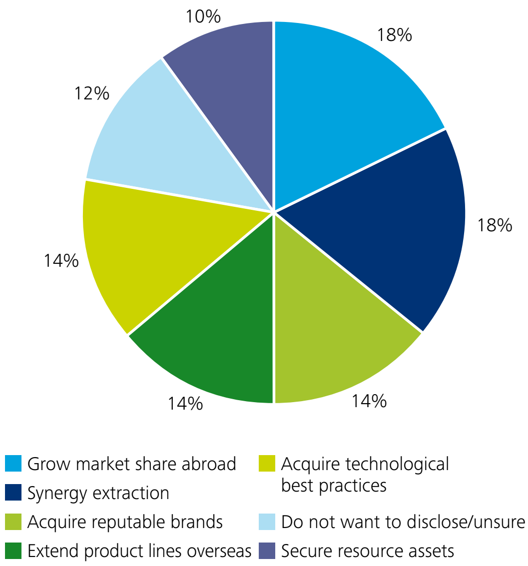
Chart 23: Did the investment result in a change in overall ownership of the asset in question?



Close to half of all respondents reported that their overseas investment resulted in a change in overall ownership of the targeted asset. Other respondents noted that their investments were part of complex deals that involved multiple stakeholders and did not change the overall ownership of the target. One respondent noted that: "[While] we took a controlling stake, the overall ownership structure did not change. Though we wanted [complete] ownership…the target did not agree to it."

Respondents undertake deals for a wide variety of reasons

Chart 24: What was the fundamental rationale behind the investment?



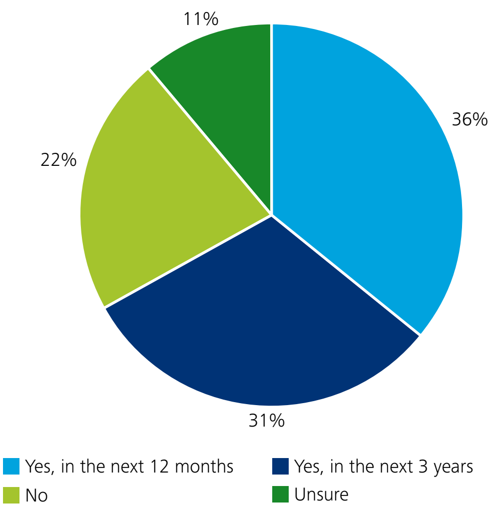
Respondents reported a variety of reasons for why they had undertaken their respective transactions, with the two main drivers being a desire to grow market share abroad as well as to grow their bottom line through the creation of synergies. Other considerations include acquiring reputable brands, extending product lines overseas, acquiring technological best practices, and securing resource assets.

Many respondents noted that the reasons for investing in a target company are multi-faceted. One summed up this position: "We wanted to grow our business outside of China, but also wanted to acquire a reputable brand. This not only gives us instant recognition but also enhances our marketing abilities."

Another commented that "The acquisition helped us enhance our portfolio of products, ultimately allowing us to become a leading supplier. The acquisition not only enabled us to extend our product lines overseas but also led to the creation of synergies that will allow us to enhance our domestic market capabilities."

Most respondents' companies plan to do further overseas investments in the future; more than one-third of them in the next three months

Chart 25: Are you planning to do an outbound investment in the near future?

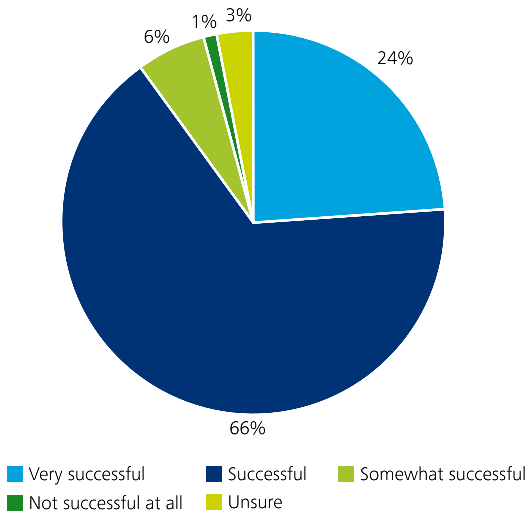


The majority of respondents say they are planning another outbound investment in the near future, with 36 percent planning to do so within the next 12 months. An additional 31 percent plan to invest within the next three years.

One respondent added that "we intend to make overseas acquisitions so that we can enhance our capabilities and reach – but we do not want to be too aggressive." Another wrote that "the business has not planned for any future M&A acquisitions. There is no specific reason for it, or that we are against M&A – we just want to focus on the domestic market at the moment."

90 percent of respondents believe the outcome of their acquisition was at least successful

Chart 26: How would you rate the outcome of your aforementioned M&A deal?



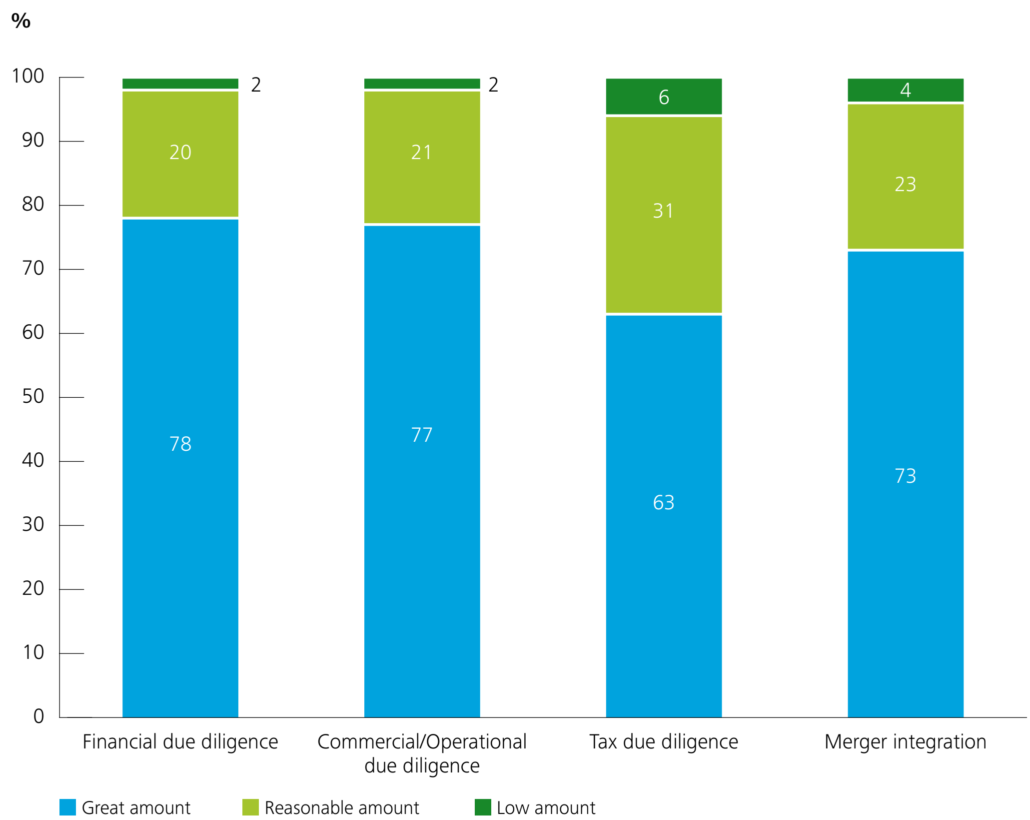
A cumulative 90 percent of respondents said that their recent M&A deals were a success, with key factors for that conclusion being the ease of integration post-transaction.

One respondent captured the positive mood: "We are expecting to gain a lot from the deal. The integration is yet to happen completely but for now, we are happy with the deal closure agreements and the price and consider it a success."

Respondents who regarded their recent transactions as being less successful cited overpriced purchase prices and drawn out negotiation processes as being the main reasons for their dissatisfaction. As one respondent remarked: "The buyer took too much time to complete the deal and this led to changes in the original agreements and made the deal costlier."

Just under three-quarters of respondents undertook a 'large amount' of due diligence on the target

Chart 27: What level of due diligence was conducted on the target?



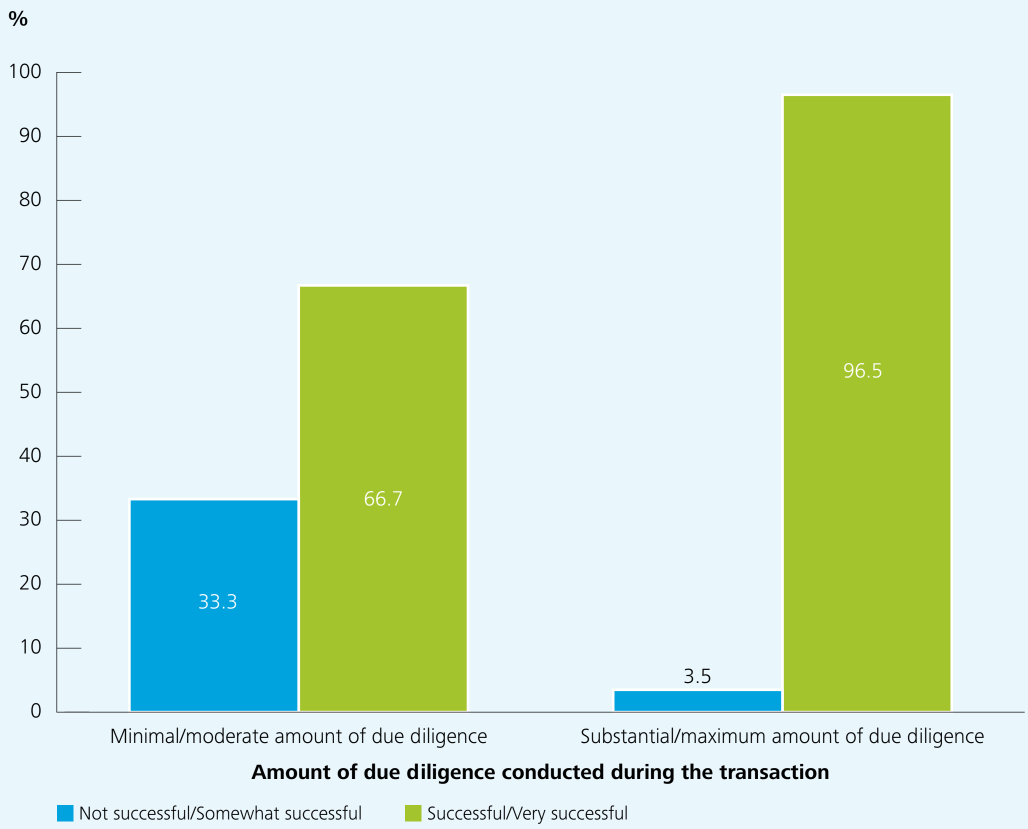
Macroeconomic and political uncertainties are among the factors most cited as reasons to do in-depth due diligence, especially when buying overseas. In fact, a cumulative 96 percent of respondents note that they conduct at least a reasonable amount of due diligence before the completion of a deal, with 73 percent going on to note that they had conducted a large amount of due diligence work prior to deal completion. Recognising that information solely from sellers or even advisors is not enough to drive a complex decision-making process, respondents reported using an objective third party to conduct due diligence and ensure accuracy, fairness, and completeness.

As one respondent put it "Macroeconomic and political uncertainties continue to create an unstable environment for M&A, particularly in the case of cross-border transactions. Thus, the amount of due diligence conducted was significant and we ensured that all the aspects of the deal were checked and verified by very reliable sources."

Another reiterated that sentiment: "We were entering a market which is volatile and debt-ridden, and making an acquisition in the utility sector was a bold decision. We wanted to ensure everything was correct and that we were not making any mistake, so the due diligence process was fully-fledged and a great amount of importance was given to all its aspects."

Quantifying the impact of due diligence: How important is conducting due diligence when undertaking an outbound transaction?

Chart 28: How would you rate the outcome of your most recent outbound M&A transaction?

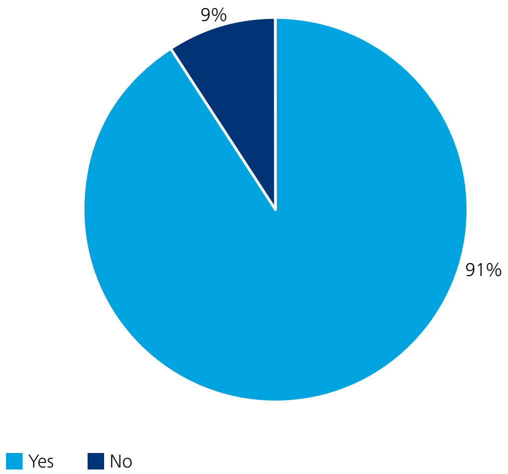


In a nutshell, due diligence is very important. From the graph above, it's interesting to note that just two-thirds of respondents who had answered that they had conducted only a minimal or moderate amount of due diligence when looking to make an overseas purchase went on to say that the outcome of that particular transaction was either successful, or very successful. In contrast, 96.5 percent of those respondents who noted that they had undertaken a substantial or the maximum amount of due diligence possible went on to say that their deal was successful or very successful.

Key point: undertake as much due diligence as possible during the actual transaction in order to secure the best outcome for your acquisition

More than 90 percent of respondents believe that due diligence is worthwhile

Chart 29: Ultimately, do you believe that conducting due diligence was worthwhile?



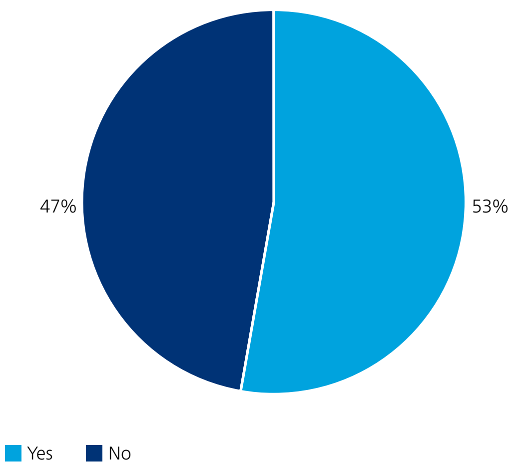
91 percent of the survey respondents said that conducting an appropriate amount of due diligence is vital to the success of an M&A transaction. One respondent remarked that "Conducting due diligence is always very useful and is required for all [our] deals in order to ensure their success."

Another respondent noted that: "Insufficient due diligence from the buyers side is the root cause for a deal not being successful or for companies to not be satisfied with the deal result."

However, not all respondents agreed. One respondent who said that due diligence is not worthwhile offered this caveat: "[When] the available information is not genuine and the governance is corrupt, due diligence is waste of time and money."

Respondents were split on post deal tracking of identified synergies

Chart 30: Post-sale, did you/your purchaser monitor and track synergies previously identified during the integration planning process that were also included in the initial valuation?

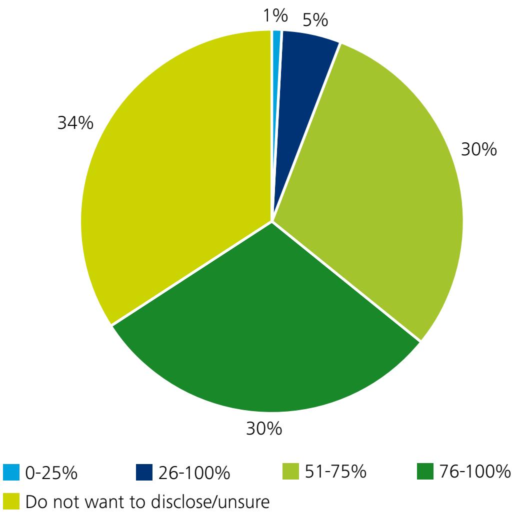


53 percent of respondents claimed to monitor and track the synergies previously identified in the integration planning and valuation processes, whereas 47 percent did not follow through.

"Insufficient due diligence is the root cause for a deal to fail"

Less than one-third of investors resolved most issues identified during the due diligence process

Chart 31: Post deal, what percentage of issues that were identified during due diligence were successfully resolved within the timescale set up?



60 percent of respondents said over half of the issues identified during due diligence were resolved on a timely basis. One respondent summed up the process, saying: "Due diligence is a very important part of our acquisition and we do not leave any area uncovered in identifying the potential risks or threats and if any issue is identified then we always take it very seriously and deal with it cautiously, too".

The Deloitte viewpoint: A selection of interviews with member firm partners

United States

Deloitte's China Services Group talked with Chris Cooper, Deloitte Chinese Services Group leader in the Americas, about Chinese outbound M&A activity into the United States and other America destinations. Chris, who has over two decades of experience handling Chinese cross-border M&A transactions, called the current outbound M&A situation a 'perfect storm' of cheap U.S. asset prices coupled with slowing economic growth in China.

Chinese investment into the U.S. is certainly growing more robust, with 14 acquisitions, worth a total of US$11.4bn being announced, in the first half of 2013, compared to the same period in 2012, when just 12 deals, worth US$6.2bn were completed. Indeed, the second quarter of 2013 saw deal flow worth a total of US$7.5bn come to market – the highest quarterly investment figure on record.

"Right now, the convergence of a number of factors is making the climate in the U.S. more attractive to overseas bidders, including the Chinese," says Chris. He highlights three reasons for this. Firstly, since the crisis of 2008, the Chinese have internationalised their global financing and treasury functions, and that has enabled them to undertake more sophisticated, international acquisitions. Secondly, a Chinese economic slowdown, coinciding with a decrease in asset prices in the U.S., is motivating Chinese buyers to expand beyond their domestic markets and seek growth opportunities overseas. Chinese high-net worth individuals are also seeking foreign currency assets in which to invest their personal wealth, with a special interest in real estate. Lastly, Chinese business leaders are increasingly seeking solutions to the numerous food and consumer product scandals that have surfaced in China on a regular basis. One way for Chinese businesses to master world-class quality controls is to purchase overseas managerial and technical best practices. "These factors combined create the 'perfect storm' for future Chinese investment into the U.S.," Chris surmises.

Also contributing to this feeling of optimism was the recent successful conclusion of the fifth round of the annual Strategic and Economic Dialogue between senior figures of the Chinese and U.S. governments. The talks, held in Washington, could open up more than 100 Chinese industries that have been restricted to U.S. investors. At the same time, the Invest USA program being promoted by the U.S. Treasury Secretary Jack Lew and U.S Ambassador to China Gary Locke promises to give Chinese companies easier access to deals in the United States. In the words of U.S. Treasury Secretary Lew, a potential bilateral trade treaty between the two economies would "level the playing field for American workers and businesses by opening markets for fair competition" – with obvious positive implications for cross-border M&A activity as well.

Other, more long-term strategic drivers to sustained Chinese investment into the U.S. also exist, according to Chris. China's continued economic restructuring from an export-led economic growth model to one focused on domestic consumption will require China to shift its technological frontier outwards – something that he believes China has yet to do. "Chinese businesses need to add more value to their operations, and, in order to do so, they need to become more innovative and build customer loyalty via brand development. It's evident from Chinese consumer behavior that foreign brands remain highly attractive and command premium pricing. Chinese companies either have to acquire those brands or learn to build their own so that they can compete," he said.

Chris was quick to point out however, that the cross-border M&A outlook between China and the U.S. is still fraught with difficulty, not least because of a relative lack of cross-border buy-side deal-making experience among Chinese companies. "Most Chinese companies investing in the U.S. are doing so for the first time. They don't have a lot of institutional knowledge. Quite uniquely, Chinese companies globalised their search for capital before they globalised their operating footprint. Typically, companies in an emerging economy would undertake their overseas development in the opposite sequence. As a result, Chinese firms still require a lot of guidance in terms of navigating U.S. regulations, working closely with U.S. labour unions, and, lastly, integrating acquired and existing businesses operationally to benefit from the potential synergies," he explained.

Chris also emphasised the importance of managing cultural differences when conducting acquisitions of U.S. companies saying that: "The way things are done 'at home' is very different from how they're done elsewhere. Understanding business culture and norms outside China is an absolute necessity but it is also a very steep climb. The United States has one of the most open and business-oriented economies in the world but there are still regulations that must be followed."

Chris also noted that in many conferences and meetings he has attended over the years, expansionary Chinese company leaders always commented on the challenging regulatory hurdles they must overcome to complete an outbound investment. "Timing is not on their side – especially when it comes to transferring funds out of China.," he said, "and this adds to what can already be a slow if not overly methodical negotiation process that Chinese business leaders are more accustomed to than their U.S. counterparts."

Seen from the perspective of Deloitte as a major M&A service provider, Chris described an increasing willingness on the part of Chinese outbound investors to rely on external advisors and service providers, speeding up the process to deal completion and enhancing the prospects of success. "The record of Chinese outbound is mixed, with many positive but also many negative examples. What Chinese investors are coming to realise is that efficient use of external advisors is actually a sign of experience, not a sign of inexperience!"

Looking forward

When asked what the future will hold over the remainder of 2013 and the first half of 2014, Chris believes that Chinese companies are likely to continue to pursue deals in a number of sectors, including the well-established Resources and Materials area, but also look to make new inroads in the Technology, Agriculture, Clean Technology, Education, and Financial Services Sectors.

Indeed, as this report was going to press, it was reported in mergermarket that China National Seed Group (Sinoseed) is seeking overseas targets. According to internal sources, the company would like to acquire smaller players that have technological advantages in seed products for rice, wheat, corn and oil. The company went on to say that such an acquisition would fit in with the government's emphasis on modernising agriculture, clearly set out in China's 12th-Five Year Plan.

Education represents a relatively new area of Chinese investment interest. "Since the middle of the reform period, China, like other emerging economies, invested a lot of new resources in education, and as a result, China has experienced a huge increase in college graduates. But there is a level of mismatch within the marketplace. Ultimately, if the Chinese leadership wants to move the economy up the value chain, they need to begin reforming as well as expanding their education system. To do this, they must widen their geographical footprints overseas," Chris noted.

So far, in spite of the high level of interest, successful expansion overseas in education has been slow coming. According to FDImarkets, in April 2009, The China Education and Research Network (Cernet China) announced that it had invested US$52m to build a research and education facility in the city of Marlborough, Massachusetts. However, aside from this particular investment, Chinese educators have been slow to expand into the U.S., a state of affairs that Chris thinks will change.

For these and other Chinese companies wanting to invest in the United States, Chris has these words of advice: "First, conduct comprehensive due diligence on your target. Invest in understanding regulatory and labour issues. Second, be robust in planning and resourcing your investment strategy, especially post-deal integration. Third, get to know the local culture and business norms. Finally, seek the counsel of experienced investors and external advisors to close the knowledge gap that makes the difference between failure and success."

"Understanding business culture and norms outside China is an absolute necessity"

Deloitte viewpoint: Shuanghui's bid for Smithfield

Chinese firm Shuanghui's bid to acquire Smithfield, the U.S. meat producer has certainly got M&A practitioners the world over talking – not least about the strategic sense of such a merger.

The tie-up makes perfect sense from a strategic viewpoint. China's rapidly-growing middle class are increasingly consuming pork – so much so in fact, that Chinese pork consumption now outstrips that of the U.S.. However, domestic producers are unable to capitalise on this fact, with monthly margins having fallen of late. Ultimately, Chinese imports of meat products have risen exponentially over the past decade, making Shuanghui's move to internalise such trade flows a prescient move.

Others say that the actual truth regarding the deal lies elsewhere, with Shuanghui primarily looking to acquire Smithfield for its vertically-integrated model, where (in the words of the Financial Times' Lex column), "crucially, owning the whole supply chain lets Smithfield control and take full responsibility for the quality of the product, which is increasingly important." And with quality control the byword on everyone's lips this year (think dead pigs floating down Shanghai's Huangpu River, rat meat dressed up as mutton and the horsemeat fiasco that befell UK supermarket chain Tesco), perhaps the premium that Shuanghui is offering Smithfield shareholders is worth it after all.

Chart 32: Greater China outbound M&A activity into the USA

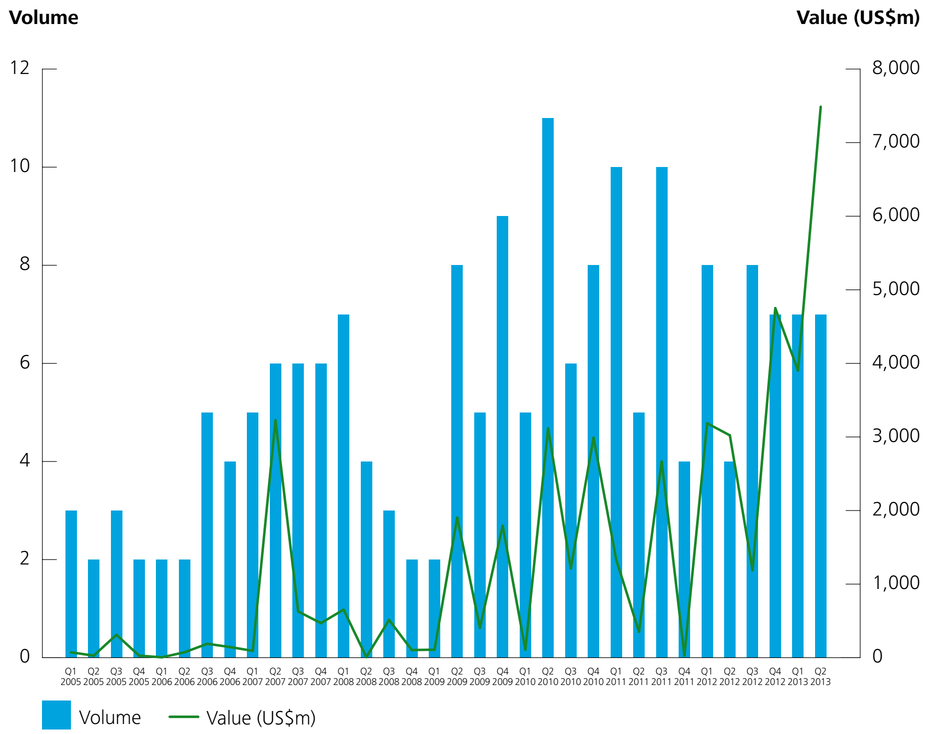


Chart 33: Greater China outbound M&A activity into the USA (Sector deal volumes)

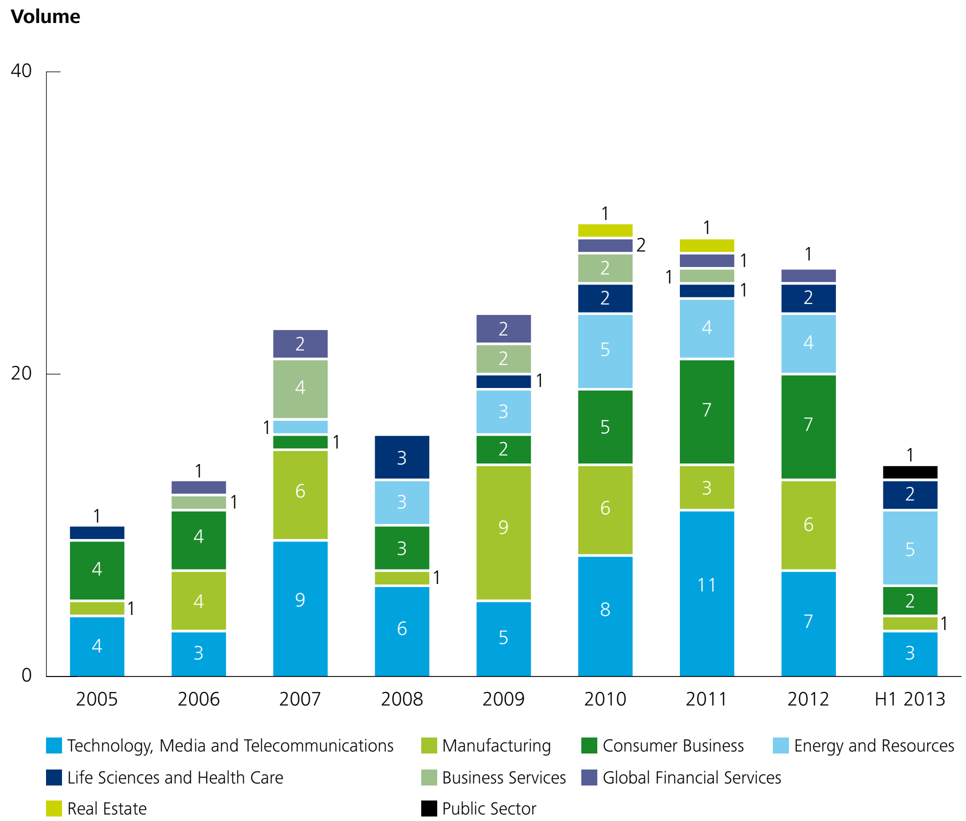


Chart 34: Greater China outbound M&A activity into the USA (Sector deal values)

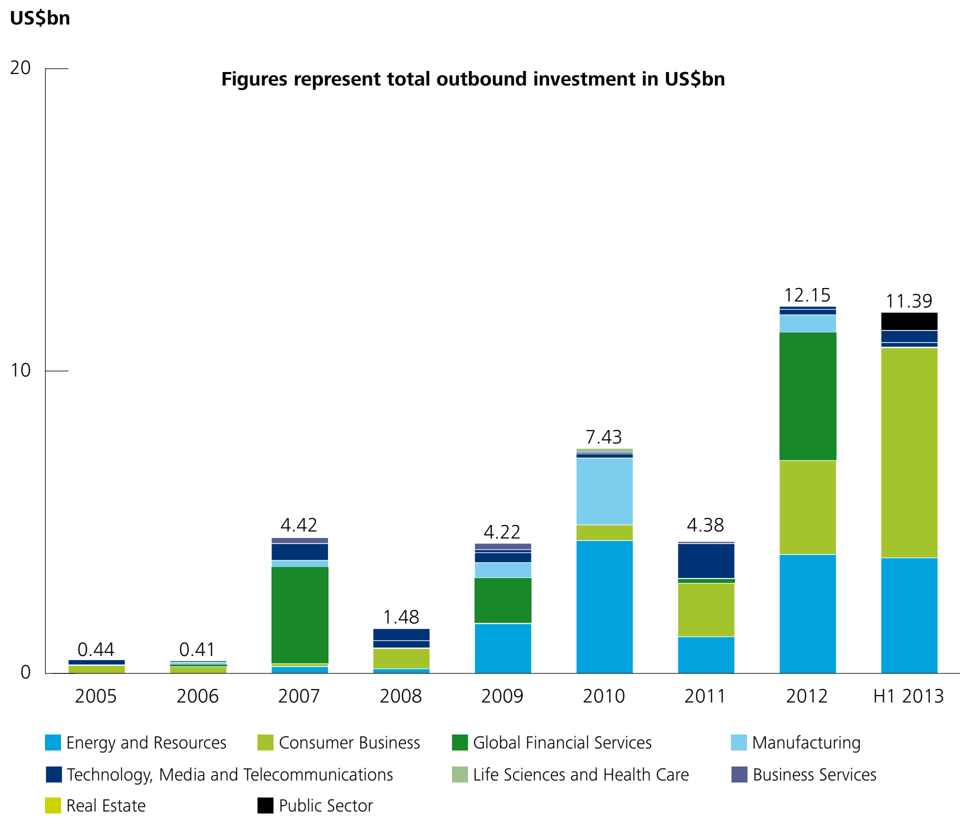
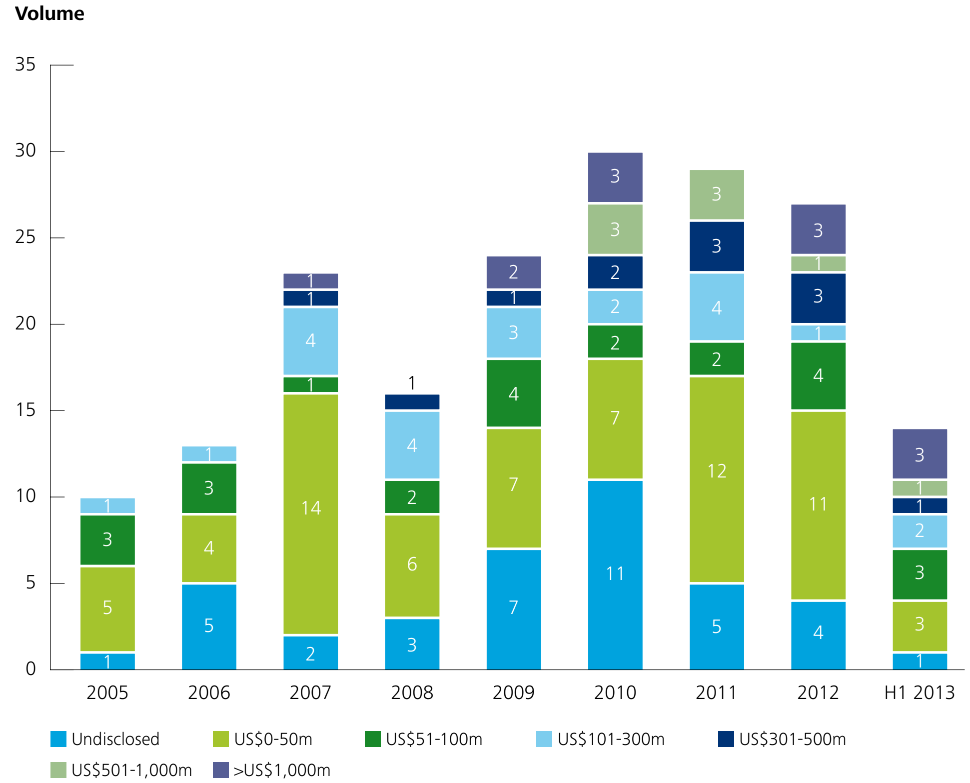


Chart 35: Greater China outbound M&A activity into the USA (Deal size volumes)



"What Chinese investors are coming to realize is that efficient use of external advisors is actually a sign of experience, not a sign of inexperience!"

Chinese M&A acquisitions of U.S. assets: Historical data

Table 36: Top 10 Chinese outbound M&A acquisitions of U.S. assets, 2012-H1 2013

Rank	Announced Date	Target Company	Target Industry	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	May 2013	Smithfield Foods	Consumer Business	Shuanghui International Holdings	China		6,949
2	December 2012	International Lease Finance Corporation (80.1% Stake)	Global Financial Services	New China Trust and Investment; China Aviation Industry General Aircraft; P3 Investments	China	American International Group Inc	4,230
3	May 2012	AMC Entertainment	Consumer Business	Dalian Wanda Group	China	Marquee Holdings	2,600
4	January 2012	Devon Energy Corporation (33.3% stake in five U.S. oil and gas projects)	Energy and Resources	Sinopec International Petroleum Exploration and Production Corporation	China	Devon Energy Corporation	2,500
5	January 2013	Pioneer Natural Resources (Wolfcamp asset) (40% Stake)	Energy and Resources	Sinochem International Corporation	China	Pioneer Natural Resources Company Inc	1,831
6	February 2013	Chesapeake Energy Corporation (Mississippi Lime oil and gas assets) (50% Stake)	Energy and Resources	China Petroleum & Chemical Corporation	China	Chesapeake Energy Corporation	1,020
7	August 2012	Cheniere Energy Partners (LNG export plant)	Energy and Resources	China Investment Corporation; GIC	China	Cheniere Energy Partners, L.P.	1,000
8	February 2013	Triple H Coal LLC	Energy and Resources	Guizhou Guochuang Energy Holdings	China		547
9	February 2012	GreatPoint Energy (Undisclosed Stake)	Energy and Resources	Wanxiang Group Corporation	China		420
10	December 2012	A123 Systems (90.01% Stake)	Manufacturing	Wanxiang America Corporation	China		372

NB: Table correct as of 2 August 2013

Germany

Dirk Haellmayr, Deloitte Chinese Services Group Leader in Germany remains optimistic about prospective Chinese investments into the country, a not entirely surprising belief given that over 2012, the number of Chinese outbound M&A deals in Germany totaled 17, an 89 percent rise over Chinese acquisitions of German targets a year before.

In the largest such deal, Weichai Power, the Shandong-based diesel engine manufacturer, spent US$928m to acquire a 25 percent stake in Kion Group GmbH, the German materials handling equipment manufacturer, as well as a 70 percent stake in Linde Hydraulics, a subsidiary of Kion that manufactures forklift trucks and warehouse equipment.

The deal set the tone for Chinese investments into Germany for the whole of 2012, with 82 percent of deals over the year taking place in the Manufacturing sector. More specifically, nearly half these transactions targeted German automotive companies, a particularly attractive target because of Germany's strength in this sector. Other notable Automotive industry tie-ups include Liaoyuan Joyson Electronic Group's purchase of Preh GmbH, a German manufacturer of vehicle interior control systems, sensor systems, electronic control units, and assembly systems for vehicle manufacturers, for US$364m, as well as Wuhan Iron and Steel Group's US$334m purchase of ThyssenKrupp Tailored Blanks GmbH, the German supplier of body systems to the auto industry.

Dirk believes that the reason for this sudden surge of activity over 2012 was primarily due to Chinese investors' desire to buy technological best practices: "Most Chinese investors in Germany are looking to upgrade their industrial technologies, and we don't anticipate any change in this pattern for the next 3-5 years," he said. However, this wasn't the only reason to buy into Germany. Dirk explained that "expanding overseas market share is also a significant objective for those Chinese companies which are already leaders in their domestic markets. And for many Chinese companies, global growth is a long-term strategy in which they gradually build up majority stakes in European businesses."

This assessment certainly panned out in the case of Lenovo's US$726m purchase of a 36 percent stake in Medion AG, back in 2011. Through the arrangement, the German computer company has allowed Lenovo to strengthen its position on the European market as it looks to become one of the world's dominant PC manufacturers. In return, Lenovo announced in October 2012 that it had increased its holding in Medion to 80 percent at a cost of US$150m, having subsequently exercised a put option incorporated into the initial transaction agreement.

Nonetheless, while deal flows were fairly buoyant over 2012, Chinese interest in German assets seemingly waned over the first six months of 2013, with just six transactions, worth a combined US$178m, coming to market over the period. However, Dirk remains confident looking forward, saying that "While Chinese investments into Germany have slowed down recently, we're still expecting a high level of interest among Chinese buyers over the second half of the year," going on to add that the bulk of these deals are expected to continue to take place in the Manufacturing sector.

Indeed, in August 2013, Somner Anlagentechnik, the German precast concrete element specialist announced that it was in final talks with Jiangsu Yuanda Construction Technology to form a Joint Venture which will look to manufacture precast concrete lines in China. At the same time, Loewe, the German TV Manufacturer, recently announced that it is in discussions with its Chinese counterparts, including Changhong, Hisense, Skyworth and TCL, as it looks to emerge from bankruptcy protection sometime in the near future.

Lessons Learned

Dirk also highlighted some of the issues facing potential Chinese bidders looking to invest in Germany, remarking that the greatest challenge to Chinese companies investing in Western Europe tends to be their inexperience. "We've seen Chinese investors who come to Germany without clear strategies, without a profile of viable targets, and without a true understanding of how business is done here," he said. "When investing in Germany, any foreign player needs to fully understand the complexities of operating here."

At the same time, Chinese bidders lack refined and systematic approaches for exploring new markets. Furthermore, external factors - which includes everything from tax compliance and legal requirements to workforce disconnects and communication gaps as well as cultural differences - can also kill a deal's return-on-investment.

However, there are signs suggesting that the Chinese are beginning to catch on, as Dirk explains: "In the best deals, the Chinese buyers don't interfere with the management of the acquired companies. They set ambitious goals, but let the CEO operate freely. That's obviously the approach Sany took in its acquisition of Putzmeister. When transactions are about acquiring technology - as they almost invariably are in Germany - only one factor really matters and that is ensuring talent retention because the acquired company's value is almost entirely held up in its people. In one case we advised on, the target's engineers were concerned that their standards of high quality would be hurt by the sale. To prevent an exodus of talent, the buyer was emphatic: 'Nothing will change.' And these statements were enough to ensure that the deal was a success."

Dirk went on to say that German workers are comfortable with Chinese ownership if they're assured of job security. "We tell our Chinese clients to present the deal as an opportunity, not a threat. And the German business community will continue to welcome Chinese investors if they respect the status quo."

Dirk wrapped up the discussion with a cautionary tale regarding Chinese acquisition of technological best practices: "In the past, Chinese companies may have bought a technologically-advanced German company and thought that they could simply rejig their operations accordingly. However, this isn't always the case - technology has to be adapted and continuously enhanced, and to this end, we're now seeing Chinese manufacturers begin to open up R&D centers in Germany where their engineers can learn how to overcome issues that might be preventing the productive use of the acquired technology in domestic operations."

Before and After

The evolving sophistication of Chinese investors is apparent in the recent transaction history of Sany Group, the global manufacturer of construction machinery. In 2011, the Financial Times included Sany on its list of the world's 500 most valuable companies. Currently, Sany employs about 50,000 people in more than 150 countries. Each year, Sany Group reinvests 5-7 percent of its sales revenue into R&D.

In 2008, Sany invested €65m opening a manufacturing plant for concrete pumps and concrete mixer trucks, as well as an R&D center in Bedburg, Germany. Following this, the Chinese management had to compete against strong German competitors operating in their home market. Eventually, the company recognised the importance of a localised business model in which German know-how would keep the business on track and purchased Putzmeister in January 2012. Just three months later, Sany announced a capital injection of €300m into Putzmeister, with Sany's President also taking the opportunity to make it clear that Putzmeister would operate as a largely independent company, responsible for the manufacturing and sale of concrete-related equipment globally (see next page).

Secret to Success

When asked what words of wisdom Chinese companies should heed when investing in Germany, Dirk suggested that they firstly conduct diligent market research and then write a formal, market-driven business plan. At the same time, consider setting up a small enterprise first, as a trial before embarking on transformational deals.

Continuing on, "Secondly, localise operations by ensuring the best talent - management, engineers, and workers - within the acquired company stays. If employees leave, the investment, by and large, has failed. Also, by maintaining the German company's way of working, the buyer can be sure of complying with standards and regulations, while mitigating potential culture shocks."

"Thirdly, strengthen post-deal integration (especially when the deal's purpose is to gain technology) by inviting key engineers from the German side to China to exchange knowledge and experience. Consider setting up an R&D center in Germany to enable the integration of old and new technologies, while supporting the adaptation of best technologies in domestic operations."

Sany & Putzmeister cement ground-breaking deal

Over the 2012 Chinese New Year break, Sany Heavy Industries, along with CITIC Private Equity Advisors (Hong Kong) Co, Ltd, announced that they would spend $661m acquiring Putzmeister, a notable German *Mittelstand* (small-or medium-sized company) that makes high-tech concrete pumps. The *Mittelstand* are highly prized among foreign investors, because of their world-class engineering prowess as well as strong brand recognition (in this case, Putzmeister pumps were used to construct the Burj Khalifa in Dubai, as well as help contain the fall-out from the Fukushima nuclear reactor after the March 2011 Japanese earthquake). However, their tight-knit, family-dominated controlling structure has meant that foreign parties tend to have had little luck investing in them.

While Sany seemingly pulled off a coup in acquiring Putzmeister, the deal was not without its opponents – namely Putzmeister workers, hundreds of whom protested in front of their employer's headquarters after the deal was announced, fearful of job losses and furious that they had been kept in the dark over the transaction. The incident prompted the Financial Times to suggest that a flood of similar deals seems unlikely over the short-term "Mittelstand companies are a proud bunch and few family owners are likely to relinquish the reins unless forced to through financial distress. But in laying claim to a pillar of German industry, Sany has made a bold statement about the country's ambitions: the famed and thrifty Swabian hausfrau had better learn to cook Chinese" the FT analyst concluded.

Chinese M&A acquisitions of German assets: Historical data

Chart 37: Greater China outbound M&A activity into Germany

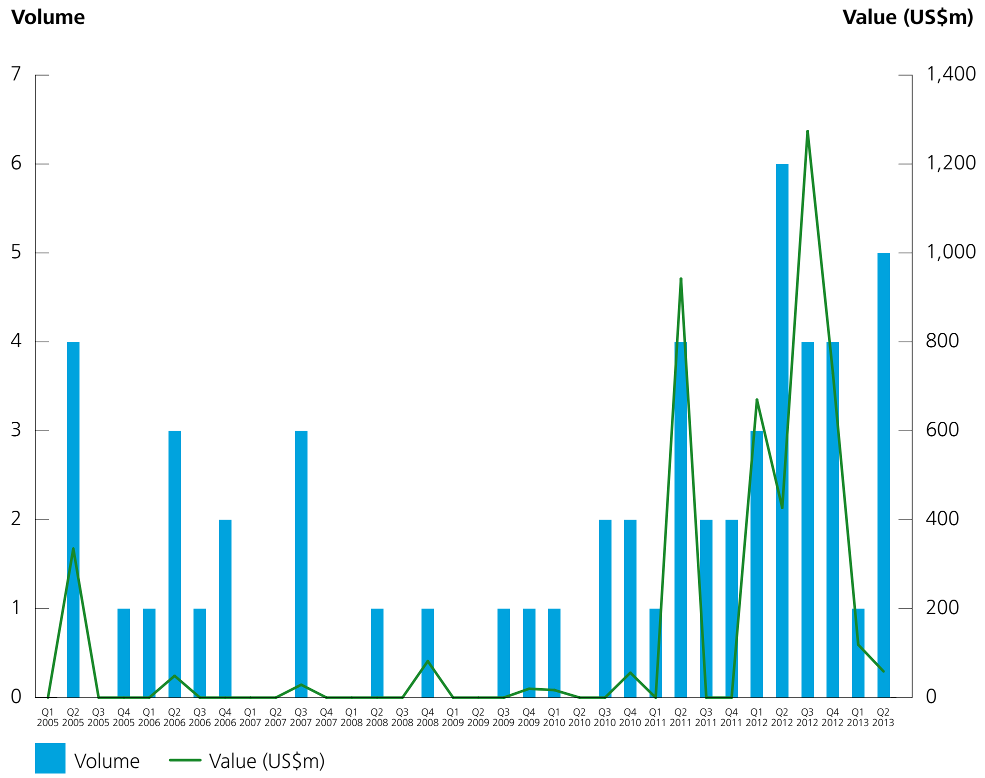


Chart 38: Greater China outbound M&A activity into Germany (Sector deal volumes)

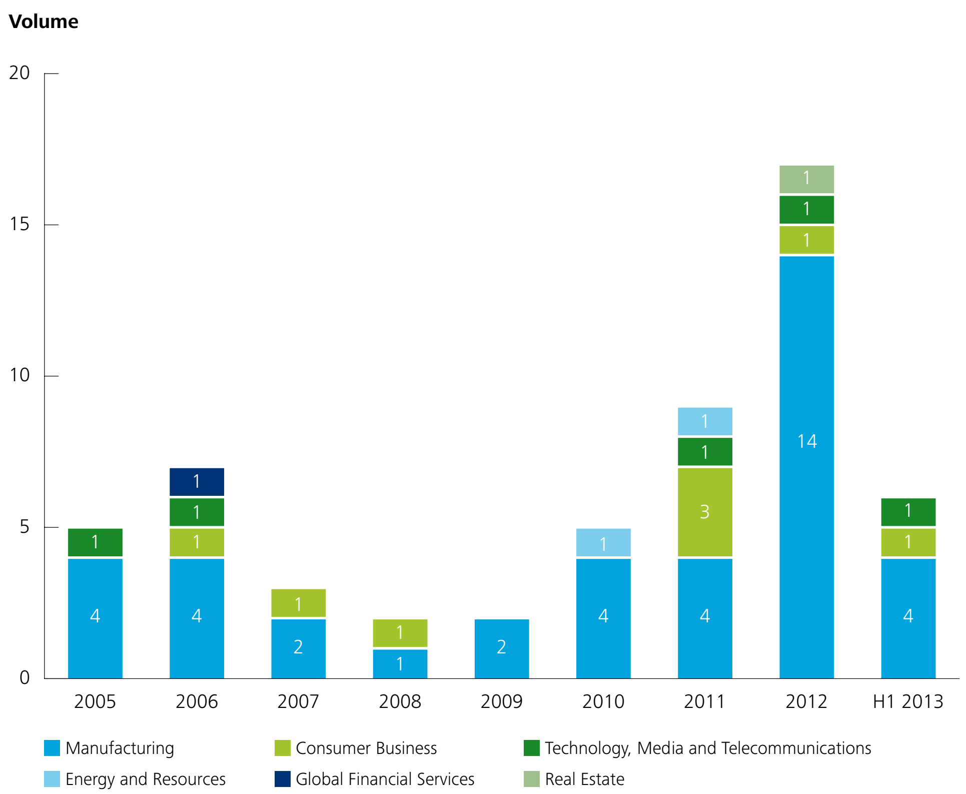


Chart 39: Greater China outbound M&A activity into Germany (Sector deal values)

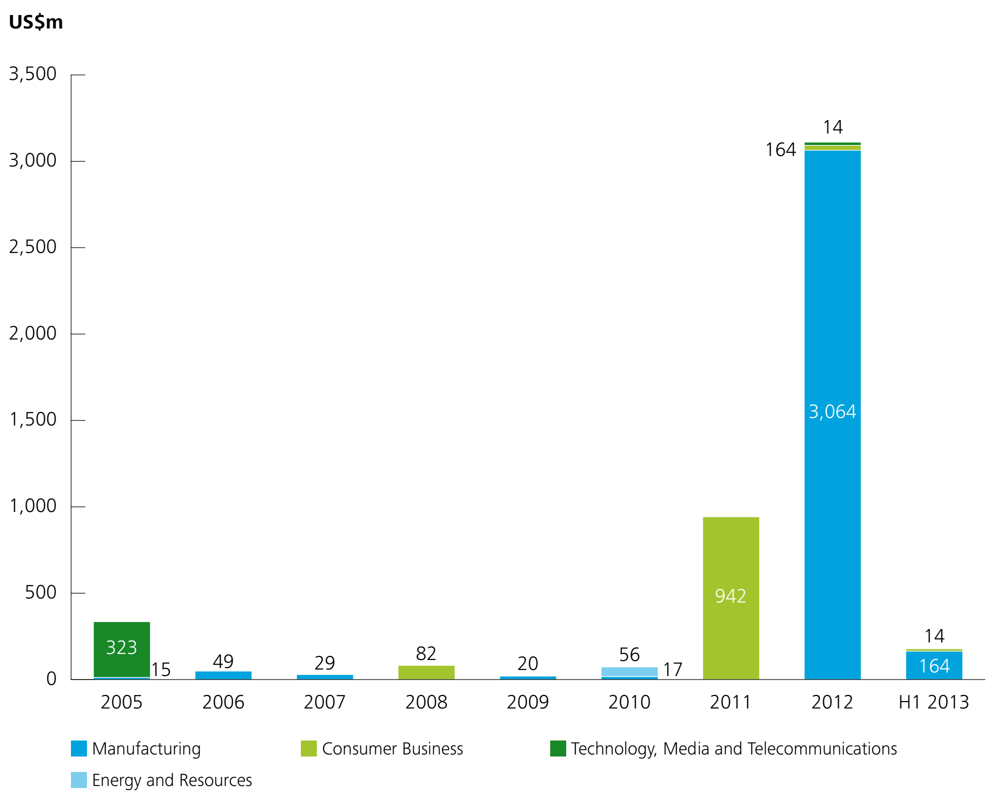


Chart 40: Greater China outbound M&A activity into Germany (Deal size volumes)

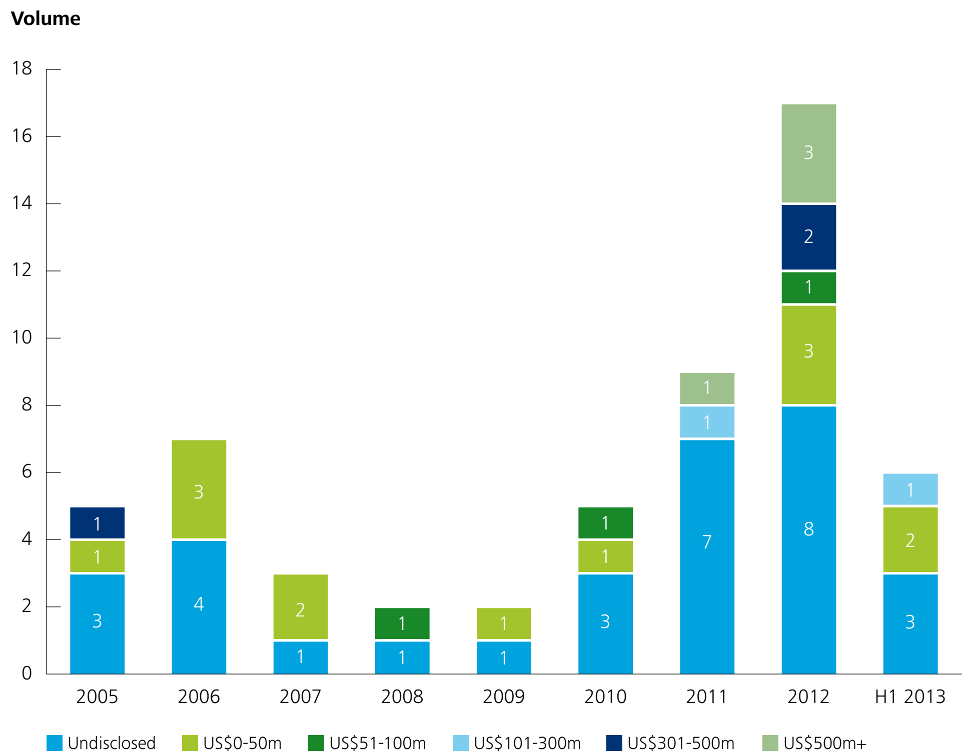


Table 41: Top 10 Chinese outbound M&A acquisitions of German assets, 2012-H1 2013

Rank	Announced Date	Target Company	Target Industry	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	August 2012	KION Group (25% Stake); Linde Hydraulics (70% Stake)	Manufacturing	Weichai Power Co Ltd	China		928
2	December 2012	Oerlikon Saurer; Oerlikon Schlafhorst; Oerlikon Textile Components	Manufacturing	The Jiangsu Jinsheng Group	China	OC Oerlikon Corporation	702
3	January 2012	Putzmeister Holding	Manufacturing	Sany Heavy Industry Co Ltd; CITIC Private Equity Funds Management Co Ltd	China	Karl Schlecht Stiftung (Private Investor); Karl Schlecht Familienstiftung (Private Investor)	661
4	May 2012	Preh	Manufacturing	Liaoyuan Joyson Electronic Corp.	China	Deutsche Beteiligungs AG; Joyson Holding Co	364
5	September 2013	ThyssenKrupp Tailored Blanks	Manufacturing	Wuhan Iron and Steel Company Ltd.	China	ThyssenKrupp AG	334
6	March 2013	Grohe AG (undisclosed stake)	Manufacturing	Jianshe Cai (Private Investor); Jilin Cai (Private Investor)	China		119
7	June 2012	A. Monforts Textilmaschinen & Co	Manufacturing	Fong's Industries Company Limited	Hong Kong	L. Possehl & Co. MbH	63
8	April 2013	HIB-Trim Part Solutions Bruchsal & Co	Manufacturing	Ningbo Huaxiang Electronic Co Ltd	China	Mutares AG	45
9	November 2012	AWECO Applience Systems & Co	Consumer Business	Sanhua Appliances Systems GmbH	China		28
10	April 2012	Golden Tulip Hotel (Frankfurt)	Consumer Business	New Century Tourism Group	China		14

NB: Table correct as of 2 August 2013

Central & Eastern Europe

Gabor Gion, Deloitte's Chinese Services Group leader in Central & Eastern Europe (CEE), talked to the CSG core team about the growing potential for Chinese investments into the CEE, some of the issues that previous Chinese investors have faced and the many benefits of purchasing assets across the region.

Gabor is optimistic about the future of Chinese investment into the CEE region, and with good reason. During 2012, Chinese bidders undertook acquisitions of eight CEE-based assets, spending some US$756m in the process. The preceding year, Wanhua Industrial Group, the Chinese polyurethane raw materials producer, acquired a 58 percent stake in BorsodChem Zrt, the distressed Hungarian chemical group, via a call option from Permira and VCP Vienna, the UK- and Austria-based private equity firms respectively, for US$1.7bn in what was the second-largest Chinese acquisition of a CEE-based company.

Furthermore, according to FDImarkets, over 2012, Chinese investors spent a total of US$1.4bn on 42 Greenfield investments across the region, the largest of these being the building of a new automobile plant, in conjunction with a Russian manufacturer, by Changan Automobile Group. The new plant, which will cost US$215m to construct, will be completed in 2014 and will produce 100,000 vehicles a year when it is operating at full capacity.

Former Chinese premier Wen Jiabao then announced that €10.5bn (US$13.6bn) of Chinese capital had been earmarked for investment in infrastructure projects in Central and Eastern Europe — projects that would be constructed and delivered by Chinese companies. During his visit to Warsaw, Wen Jiabao met with the leaders of 11 countries. Subsequently, two Chinese banks, Bank of China and Industrial and Commercial Bank of China, established their first branches in Poland to support two-way investments.

Over the first half of 2013, Chinese investors have continued to hunt for assets to buy across the CEE, including Xiangyang Automobile Bearing's acquisition of an 89.15 percent stake in Fabryka Lozysk Tocznych Krasnik, a Polish manufacturer of rolling bearings for US$32m in May 2013.

Delving into some of the detail behind these deals, Gabor explains that Chinese investors are attracted to the region because of its geographical position as an entry point to other European countries, relatively relaxed regulatory requirements and lower cost bases, favorable tax regimes, government incentive schemes, especially from a labour-creation perspective, as well as traditionally amenable political outlooks.

Gabor elaborates: "Cultural ties between CEE countries and China remain strong, a sense that is reinforced by the fact that some of Europe's largest Chinese diasporas reside within the region." Indeed, Hungary was one of the early hubs of entrepreneurial migration from China to Eastern Europe. The origins of that migration lie in the border trade between China and the Soviet Union that began in the late 1980s, which filled in the vacuum created by broken retail networks for low-price clothing and shoes.[1]

This strong connection has endured until the present with China currently being Hungary's largest trade partner outside the European Union (EU). In addition, in 2012, as China and Hungary signed a series of trade agreements covering several industries, the Hungarian government established a legal framework that gives Chinese investors a five-year residency permit if they buy more than €250,000 of Hungarian government securities and keep them for at least five years.

Gabor continues, remarking that close political connections are also a factor to consider when Chinese businesses are looking to enter the CEE market: "China and Hungary, like other CEE countries, share a history of communism that enhances their mutual understanding — an understanding that is perhaps lacking elsewhere."

He moves on to discuss the relative ease of investing in the CEE region, nothing that: "Regulations for public procurement in the CEE region are not as strict and as complicated as in the EU, so it's easier for Chinese companies to compete for, and win, government contracts here. At the same time, compliance with antitrust laws is simple and cost-effective, the cost of doing business reasonable, the tax regimes are favor investors and other incentives for investment exist — all of which make the region a very attractive play for Chinese investors."

[1] Chinese Globalization and Migration to Europe, Frank Pieke, University of Oxford, 2004

Bumps in the Road

Despite historically cheap European asset prices, Chinese investment into the CEE region has still not lived up to its full potential, with Gabor noting that inexperience continues to hamper Chinese investors' designs on the region. He describes one such investment that fell through because the Chinese buyer was unable to product a business plan that met the standards set by the local government. "Too often, we see that Chinese investors come into the market and try to do business in Europe without an advisor, or they engage one who lacks the necessary know-how or networks to successfully carry out the deal," he concludes.

In another example, a simple mistake by a Chinese buyer (bidding on a project to refurbish an industrial plant located in the CEE region) ended up costing the company the entire proposal: "They misread the tender documentation and, even though their pitch was the most competitive from a pricing standpoint, they failed to notice that the refurbishment was to be completed in one year – not the 18 months that they had submitted," Gabor says. "As a result, they lost the job solely because they hadn't read the small-print."

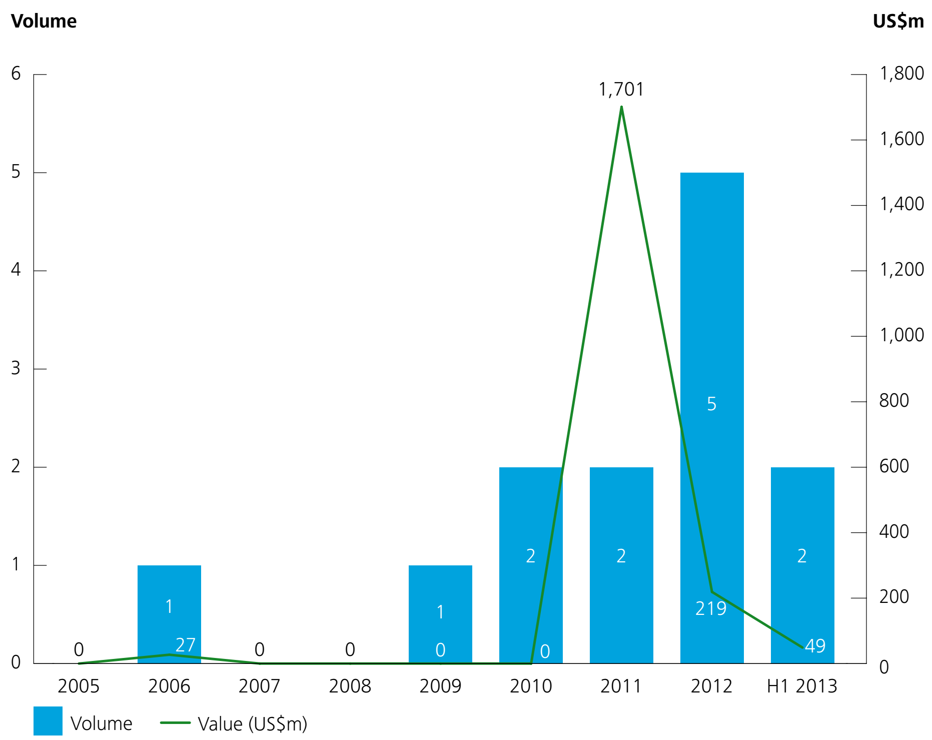
Coming Attractions

According to the Chinese Ministry of Commerce, the value of all Chinese investment in Europe grew to US$77bn in 2012 from US$59bn in 2010. If that trajectory continues, the figure could hit US$100bn in 2014 with about half of this flowing into the CEE region. To avoid the issues that have plagued Chinese investors (such as those highlighted above), Gabor has one piece of advice: "Find a reputable, international advisor to look after you as search for targets."

Looking forward over the next 12 months, Gabor remains confident that Chinese activity across the CEE region will remain strong. "We expect to see strong levels of investment to continue to emanate from China across the region over the remainder of 2013 and 2014," he notes, adding that activity should be fairly geographically neutral. From a sector perspective, Gabor believes that Chinese bidders will focus on Manufacturing and Infrastructure buys, a belief that has been reinforced by Haier's recent €30-50m investment into Poland. In July 2013, Haier and Polish refrigerator manufacturer FaborMastercook signed a joint venture to set up a production plant in Poland which would sell its products to the Polish and European markets, while benefitting from the region's relatively lower labour costs – a rationale that Gabor believes will continue to attract Chinese investment into the region over the foreseeable future.

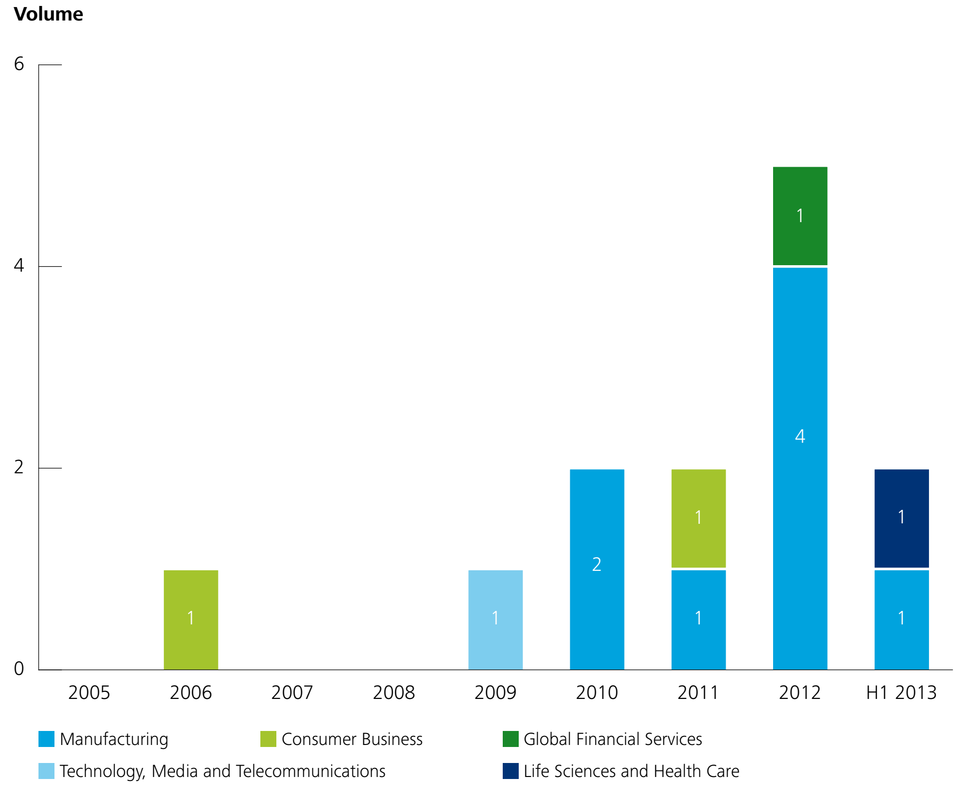
Chinese M&A acquisitions of CEE assets: Historical data

Chart 42: Greater China outbound M&A activity into the CEE



NB: Includes deals with undisclosed values

Chart 43: Greater China outbound M&A activity into the CEE (Sector deal volumes)



NB: Includes deals with undisclosed values

Chart 44: Greater China outbound M&A activity into the CEE (Sector deal values)

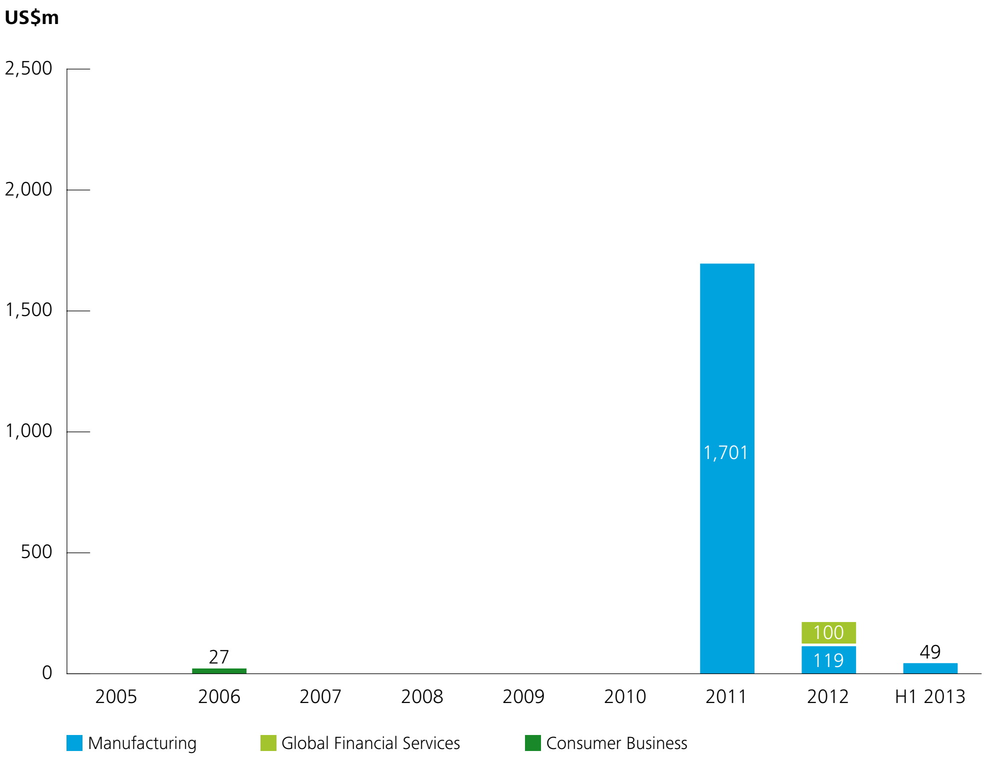


Chart 45: Greater China outbound M&A activity into the CEE (Deal size volumes)

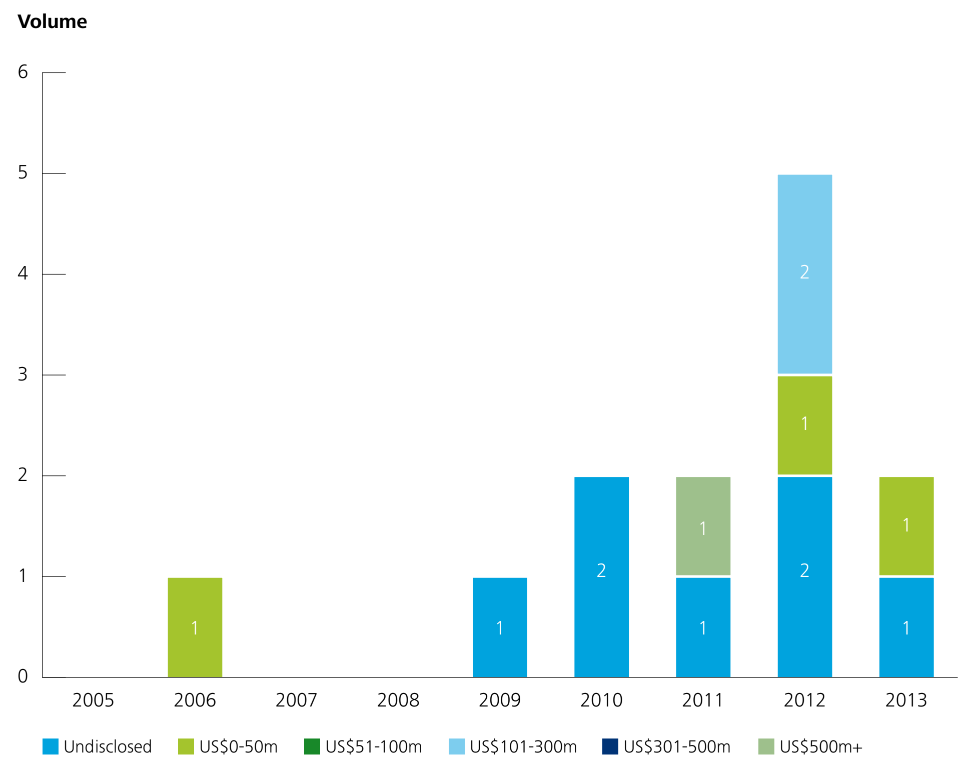


Table 46: Top 5 Chinese outbound M&A acquisitions of CEE assets, 2005-H1 2013

Rank	Announced Date	Target Company	Target Industry	Target Territory	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	February 2011	BorsodChem Zrt (58% Stake)	Manufacturing	Hungary	Wanhua Industrial Group Co., Ltd.	China	VCP Vienna; Permira	1,701
2	July 2012	Basisbank (90% Stake)	Global Financial Services	Georgia	Hualing Group	China		100
3	January 2012	Huta Stalowa Wola SA (civilian construction division)	Manufacturing	Poland	Guangxi Liugong Machinery Co., Ltd	China	Huta Stalowa Wola S.A.	86
4	May 2013	Fabryka Lozysk Tocznych Krasnik SA (89.15% Stake)	Manufacturing	Poland	Xiangyang Automobile Bearing Co. Ltd	China	Agencja Rozwoju Przemyslu SA	49
5	February 2012	Hundec Kft.	Manufacturing	Hungary	Well-Tech Electronics Technologies Co.,Ltd	China		33

NB: Table correct as of 2 August 2013

South East Asia

Deloitte's Chinese Services Group talked to Ernest Kan, Chinese Services Group leader for South East Asia, about Chinese bidders bargain-hunting across the region, the continued propensity of Chinese Energy & Resource and Agriculture players to snap up regional assets, as well the growing price competition they are facing from Japanese and South Korean counterparts.

The 10 countries that make up the Association of South East Asian Nations (ASEAN) - Brunei, Laos, Cambodia, Indonesia, Thailand, Vietnam, Philippines, Malaysia, Burma and Singapore - are a huge market in their own right, having a combined population of 620m and a GDP approaching US$2 trillion. As a result, the trading bloc is of natural interest to Chinese investors because of geographic proximity, ethnic familiarity, and cheap labour.

Chinese investors are increasingly looking to snap up South East Asian Agricultural assets. In 2011, a Hong-Kong based firm, CP Pokphand, acquired a 71 percent stake in CP Vietnam Livestock Co, a Vietnamese animal feed and meat processing company for US$608m. According to deal documentation, the acquisition was undertaken in line with CP Pokphand's strategy to expand its business base into the feed and farming markets across South East Asia.

More recently, Samling Global, a Hong Kong-listed Malaysian logging firm, completed the privatisation of its various subsidiaries over 2012, spending a total of US$360m to buy up two affiliates, one of them being a Malaysian-based Palm-oil operation and the other being a Malaysian timber business.

The agricultural space is also attracting private equity investors as well. In 2013, Highland Capital Management, a company formed by the government of China's Yunnan province, will raise as much as US$2.4bn to invest in real estate and natural resources in Southeast Asia, according to Bloomberg. The fund, launched jointly with the Financial Supervisory Board of Yunnan, is raising capital from financial institutions and state-owned enterprises.

Interestingly, Chinese investments into the whole of the South East Asian region are increasingly funneling through Singapore, a trend that Ernest attributes to the fact that many firms with Chinese operations are actually listed on the Singapore Stock Exchange. Indeed between 2005 and 2008, 42 percent of all Chinese acquisitions of South East Asian-based/listed businesses were of Singaporean firms. Between 2009 and H1 2013, this proportion had risen to 55 percent. Unsurprisingly, over H1 2013 alone, 87 percent of all Chinese investment into the region by value went into Singapore.

Yet, while Chinese commitment to investments across the region has not diminished over the first half of 2013, Ernest is quick to point out that such investors are facing increasing competition from Japanese and Korean investors. Indeed, Chinese investors spent only US$1.6bn acquiring targets across the region in H1 2013, compared to US$8.2bn spent by their Japanese counterparts over the same timeframe. Ernest explains the implications: "Chinese companies continue to struggle with spotty product quality, immature managerial skills and talents, and an overall lack of experience in terms of implementing effective post-merger integration process — all of which hinder Chinese expansion into the region. At the same time, Chinese investors seem to suffer from a sense of 'neighbor's complacency' – the inability to commit to a deal because of the target's close geographical proximity to the bidder."

Ernest highlights two recent examples of this: "One Chinese client approached us to locate a potential target located in South East Asia. We did so, but management had a large number of other potential project scenarios to examine, ultimately meaning that the deal lost momentum and collapsed." During another deal process, the

Chinese bidder was reluctant to pay the asking price for a target as the buyers believed that their market-leading position in China would force the seller to offer them a discount. The vendor refused, eventually selling to a Japanese firm who offered to pay the asking price."

The issue of price is also one that Ernest says causes Chinese acquirers many problems: "Securing M&A funding can also be a stumbling block, as Chinese buyers, especially private enterprises, suffer from financing constraints at home while also facing tight controls on the flow of capital across borders."

Not that Ernest believes this means that all Chinese investments into the region are doomed: "If a Chinese investor wanted to do a deal in South East Asia, I would suggest they set up a representative office or joint venture, build up a local presence, and gain familiarity with the region. Second, they should build up their talent and experience in cross-border investments. And finally, they should utilise alternative and/or more creative funding channels."

Chinese M&A acquisitions of South East Asian assets: Historical data

Chart 47: Greater China outbound M&A activity into South East Asia

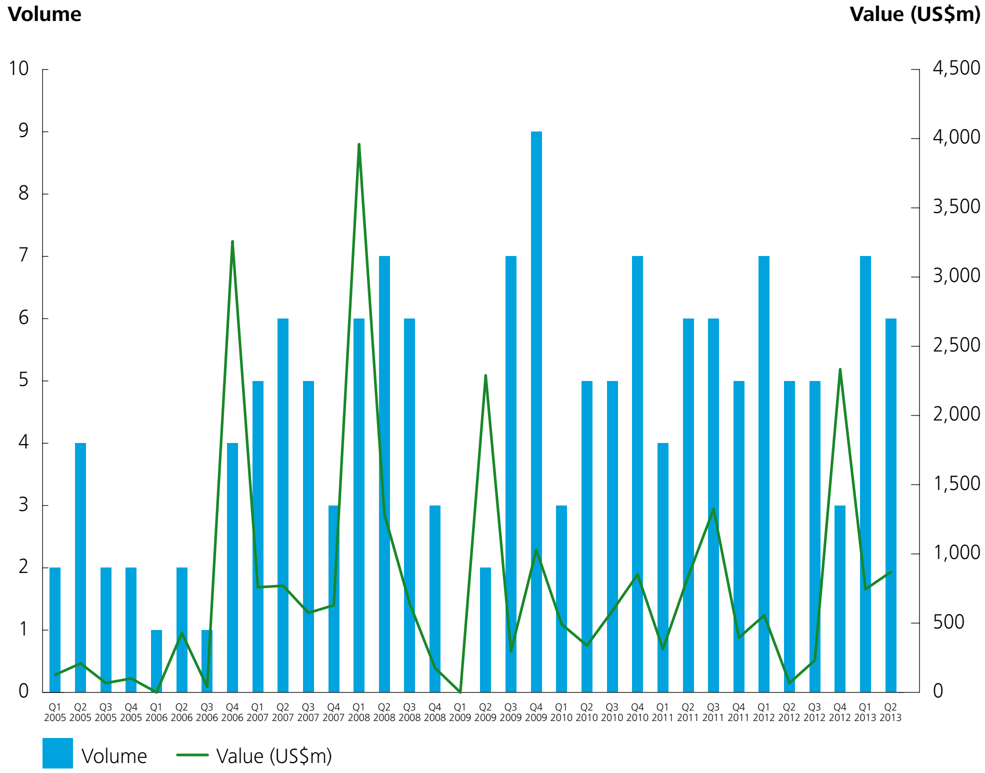


Chart 48: Greater China outbound M&A activity into South East Asia (Sector deal volume)

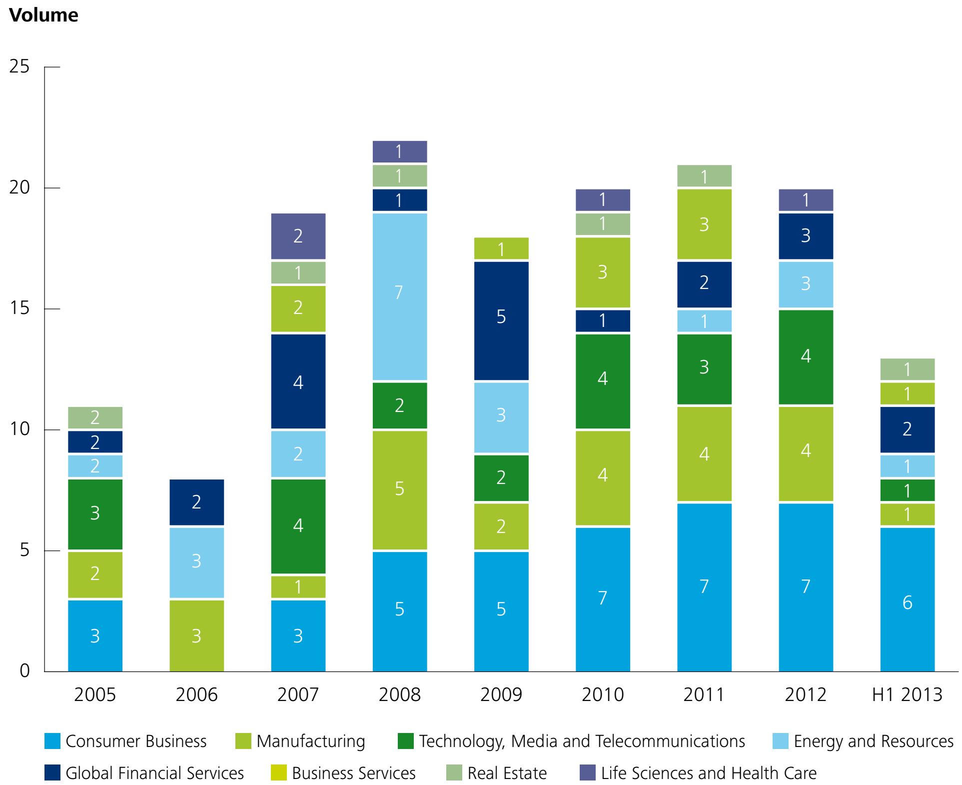


Chart 49: Greater China outbound M&A activity into South East Asia (Sector deal values)

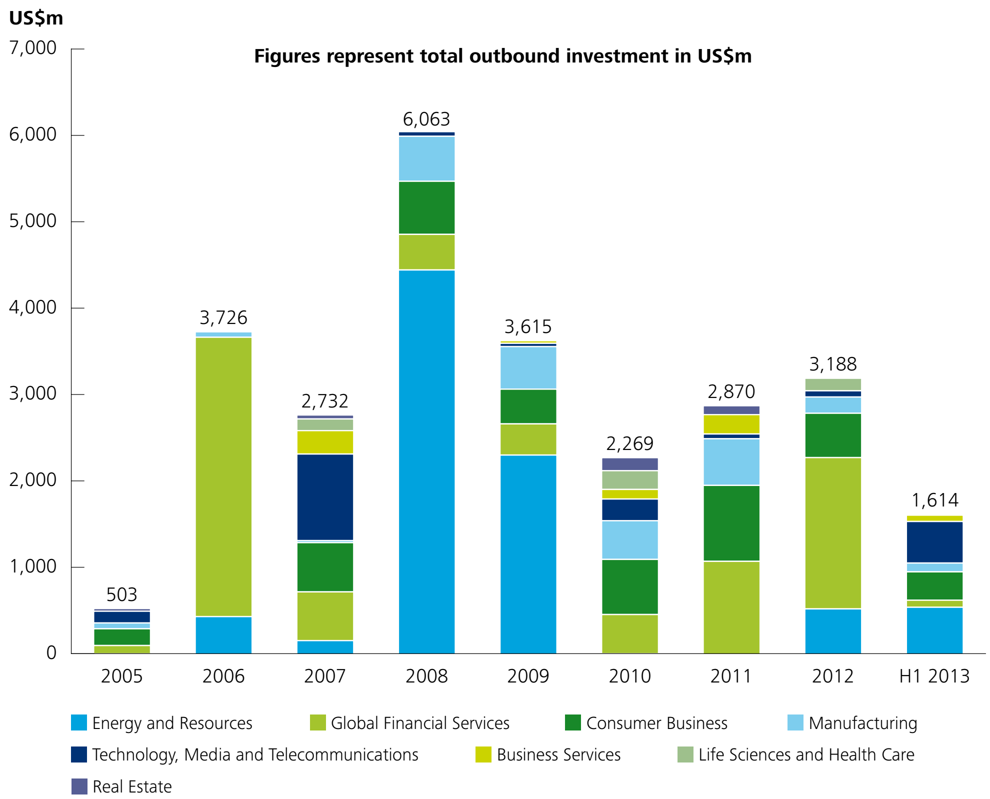
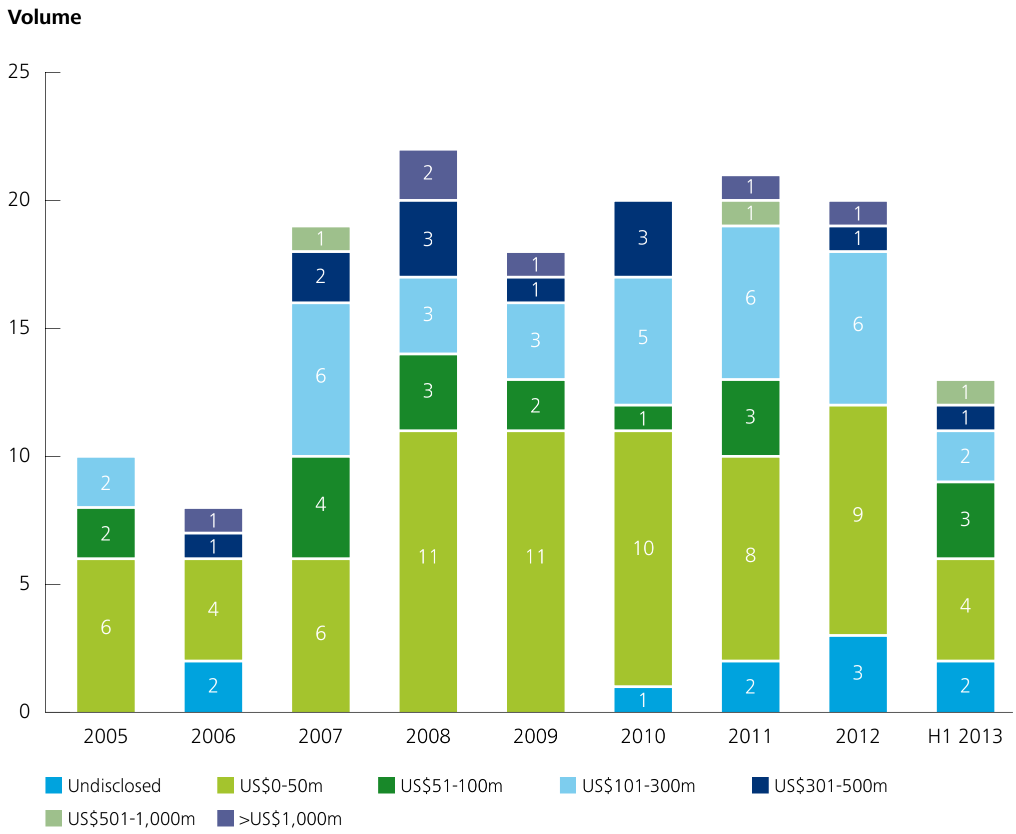


Chart 50: Greater China outbound M&A activity into South East Asia (Deal size volumes)



"Chinese investors seem to suffer from a sense of 'neighbor's complacency' – the inability to commit to a deal because of the target's close geographical proximity to the bidder"

Table 51: Top 10 Chinese outbound M&A acquisitions of South East Asian assets, 2012-H1 2013

Rank	Announced Date	Target Company	Target Industry	Target Territory	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	October 2012	ING Management Holdings (Malaysia)	Global Financial Services	Malaysia	AIA Group Limited	Hong Kong	ING Groep N.V.	1,729
2	March 2013	GMR Energy (Singapore) (70% Stake)	Energy and Resources	Singapore	First Pacific Company Limited; Manila Electric Company	Hong Kong	GMR Group.	537
3	November 2012	Grace Wise limited; Phoenix Lake Limited	Energy and Resources	Malaysia	Prosperity International Holdings (H.K.) Ltd	Hong Kong	Nanjing Iron and Steel Group Co. Ltd ; Wong Ben Koon ; Tan Hoe Beng	500
4	April 2013	Yuuzoo Corporation	Technology, Media and Telecommunications	Singapore	Contel Corporation Limited	China		481
5	June 2013	Park Regis Singapore	Consumer Business	Singapore	Undisclosed bidder	China	Park Regis Investments Pte Ltd	196
6	March 2012	Luye Pharma Group (77.41% Stake)	Life Sciences and Health Care	Singapore	CDH Investments; New Horizon Capital; CITIC Private Equity Funds Management	China	MBK Partners I	145
7	September 2012	Dunham-Bush (Malaysia) (98% Stake)	Manufacturing	Malaysia	Undisclosed bidder	China	Mikhail Bolotin (Private Investor)	144
8	March 2012	Glenealy Plantations (Malaya) (46.32% Stake)	Consumer Business	Malaysia	Samling Global Ltd	Hong Kong		129
9	January 2012	Glenealy Plantations (Malaya) (61.67% Stake)	Consumer Business	Malaysia	Samling Global Ltd	Hong Kong		116
10	March 2012	Lingui Developments (32.77% Stake)	Consumer Business	Malaysia	Samling Global Ltd	Hong Kong		115

NB: Table correct as of 2 August 2013

South America

Ricardo Rubio, Deloitte's Chinese Services Group leader for South America, discussed Chinese investments into the region over the past twelve months, as well as his thoughts on where this market is going in the foreseeable future, with Deloitte China's Core China Services Group.

Ricardo notes that during 2012, China ranked only ninth among top buyers of companies in South America, despite the interest of Chinese companies in potentially large energy acquisitions and infrastructure projects. His viewpoint is definitely borne out by historical data: last year, Chinese acquisitions of South American targets numbered just six, worth a total of US$1.6bn. In comparison, in 2011, eight deals, worth a total of US$7.4bn were undertaken, while the year before that, the total value of investment topped US$15bn.

Not that this particularly bothers Ricardo, who says that continued Chinese investment into the region is expected: "Two drivers are shaping Chinese M&A in the region: securing natural resources and expanding overseas market share. Responding to growing energy consumption at home, China needs resources to complement its domestic production — a demand for more energy that's only going to increase. At the same time, Chinese companies want to find new markets for their own products and, in doing so, increase growth and economic profit." He notes that China-South American trade overall surpassed the US$250bn mark in 2012 for the first time ever.

The largest deal in 2012 was an Energy & Resources acquisition, as State Grid Corporation of China bought seven electric power transmission lines in Brazil from ACS Actividades de Construccion y Servicios, S.A. for US$942m. The second-largest deal saw Sinochem Group acquire TEPMA BV, the Colombian company engaged in oil and gas production and pipelines system management, from Total S.A. for US$438m. The last deal to make news was a market share play, in which Lenovo purchased CCE, the Brazilian company that manufactures and sells personal computers and consumer electronics, for US$147m.

Looking forward over 2013, Ricardo believes that Chinese investors will seek out mineral and energy extraction plays in Brazil, Colombia, and Chile. One of the biggest deals currently in the works is CNPC's proposed US$2bn purchase of Petroleo Brasileiro SA assets in Colombia and Peru. The company is also negotiating to buy the Brazilian oil startup, Barra Energia Petroleo e Gas, for US$2bn. Wuhan Iron and Steel is also rumored to be planning to acquire a 90 percent stake in Wisco Brasil Investimentos Em Metalurgia Ltda, the Brazilian mining company.

Culture Clash

When investing in South America, many Chinese companies face country-specific and culture-driven bureaucratic hurdles. "We have 'rules' that are understood, but not explicitly stated. At the same time, we have expectations that differ from the literal law of the land," says Ricardo, adding that "South America is a heterogeneous region, and each country has its own interpretations and regulations."

The economic landscape continues to remain an issue for foreign investors looking to invest into the region. For example, when Cristina Kirchner was re-elected president of Argentina in October 2011, she changed a 2002 decree requiring foreign companies to keep at least 30 percent of their export revenues in the country. At the time, the Bridas Corporation, an independent oil and gas holding company that was 50 percent owned by China National Offshore Oil Corporation (CNOOC) and BP, established a joint venture named Pan American Energy. In November 2010, Bridas announced it would acquire BP's stake for US$7bn. However, after the election, the deal fell through, most likely because of the change in legislation. Following the collapse of the transaction, the Argentinean government added to the sour taste felt by many foreign multinationals with a presence in the country by expropriating YPF, an oil company owned by Spanish Firm Repsol. In response, Repsol sued the government for US$10.5bn, a dispute that remains unresolved to this day.

Words of Wisdom

Rubio sums up the various issues that Chinese investors need to be aware of when looking to buy into South America:

"First, recognise the differences in ways of doing business, country by country. Learn the local 'language' (not just literal, but also from a figurative perspective). The best way to defend against culture clash is through the advice of reputable advisors who understand both South American and global markets and economies. Even large, sophisticated companies like ZTE and Kerui are starting to ask for help from bi-national organisations, such as Camara Colombo China de Inversion y Comercio.

"Second, understand the potential role of government and regulators, which varies by country and industry. In South America, the politics of business are complex and bureaucratic. If a Chinese company tries to acquire South American assets without the help of an experienced, local advisor — an advisor who also understands international commerce — the deal is highly likely to fail.

"Third, perform rigorous diligence — this is an absolute. Generally speaking, South American companies differ from those in Europe and the U.S. in their lack of transparency: Overall, access to information is far more limited than in other markets. Equally perplexing can be differences in local consumers, competitors, and supply chain partners. A potential buyer has to dig deep and get to know the players.

"Fourth, know your risks. In many South American countries, political uncertainty can affect the short-term and long-term value of a deal. Sometimes, the best investment choices may not be the safest. Also, a country might impose limits on Chinese bidders, especially those that are owned by the state. Therefore, it's smart business to exploit the foreign investment protection programs offered by several governments.

"Fifth, put your best foot forward. In the next few years, Chinese buyers might lack support from the Chinese banking sector, according to the Chinese Ministry of Commerce. Also, they might not know how to protect their assets and the security of their employees. These problem needs to be addressed if China hopes to continue to expand its global economic influence and market share."

Chinese M&A acquisitions of South American assets: Historical data

Chart 52: Greater China outbound M&A activity into South America

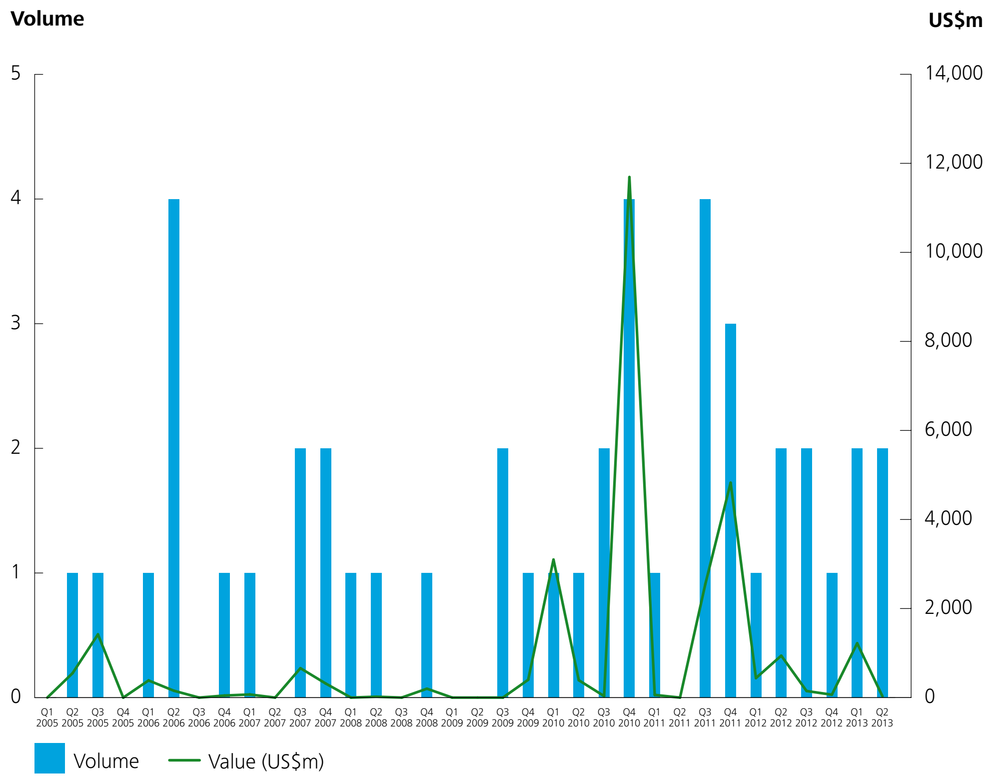


Chart 53: Greater China outbound M&A activity into South America (Sector deal volumes)

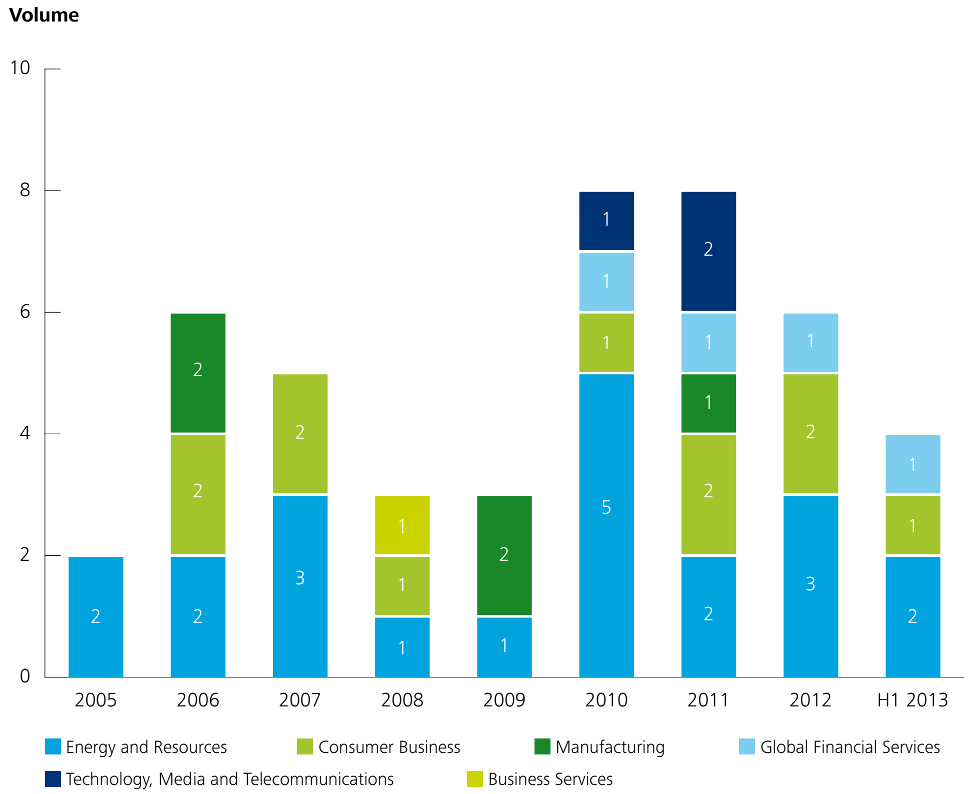


Chart 54: Greater China outbound M&A activity into South America (Sector deal values)

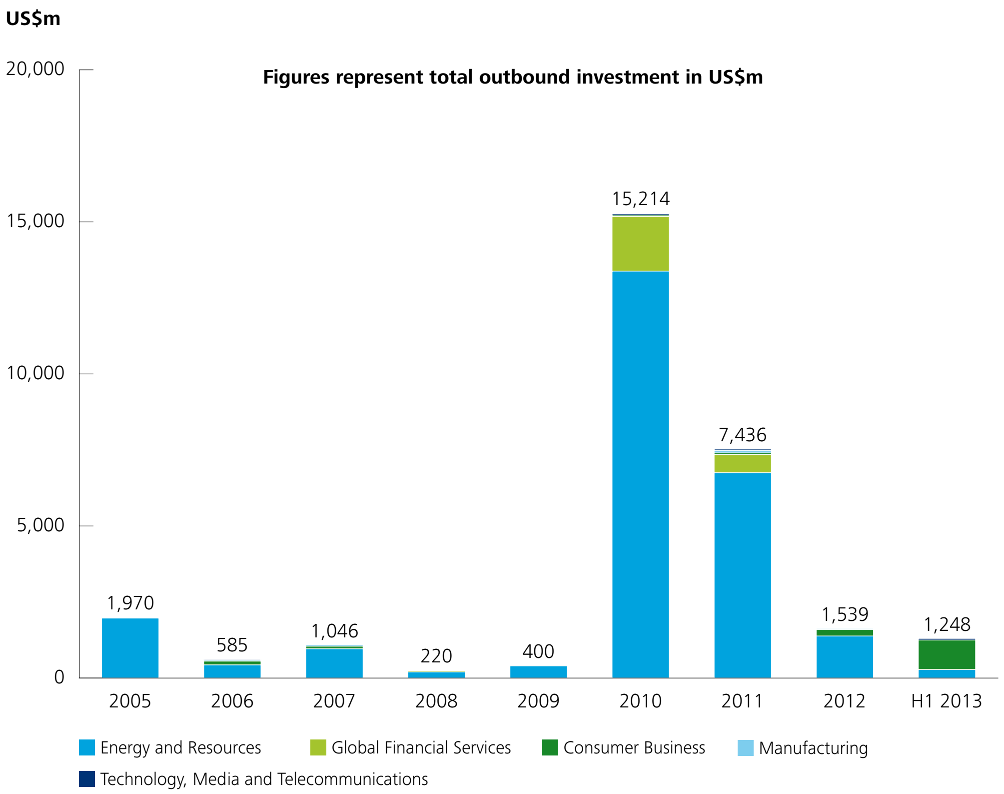


Chart 55: Greater China outbound M&A activity into South America (Deal size volumes)

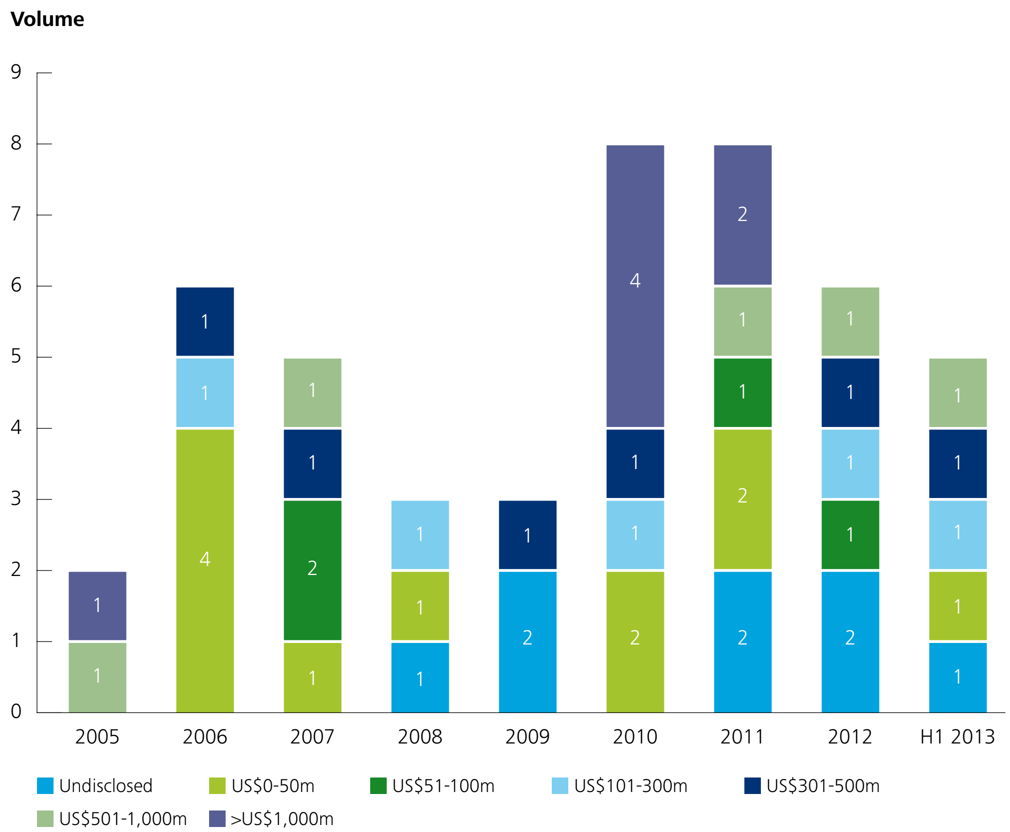


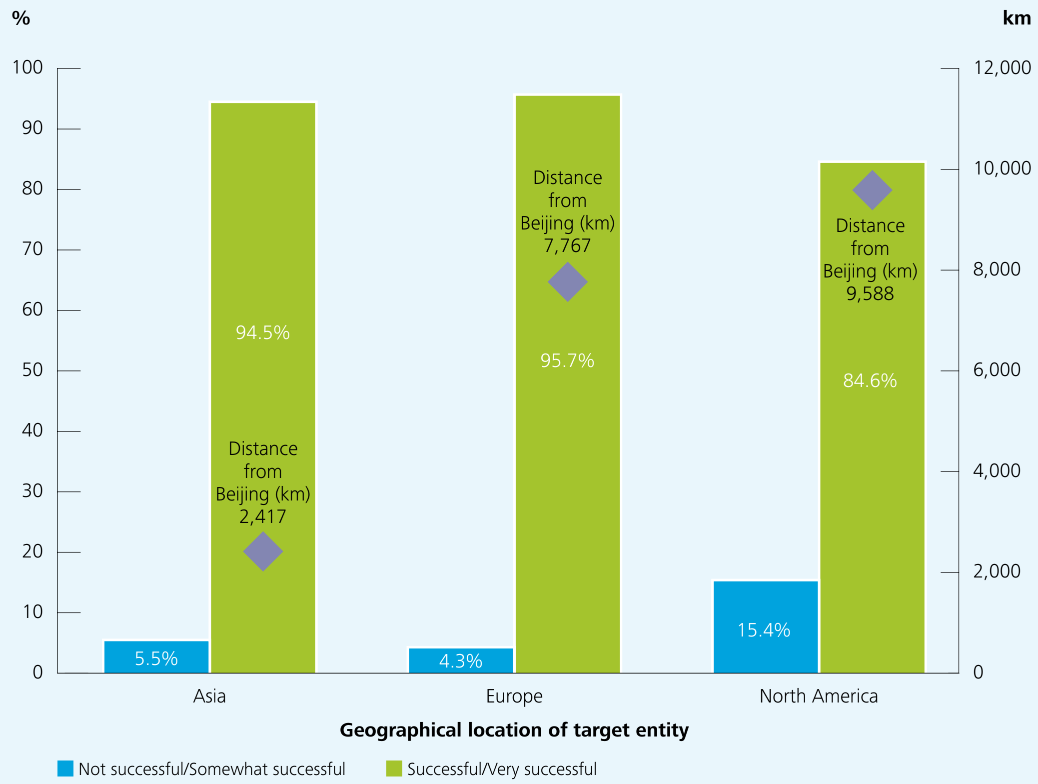
Table 56: Top 5 Chinese outbound M&A acquisitions of South American assets, 2012-H1 2013

Rank	Announced Date	Target Company	Target Industry	Target Territory	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	February 2013	Copeinca ASA	Consumer Business	Peru	Pacific Andes International Holdings Limited	Hong Kong		971
2	May 2012	ACS Actividades de Construccion y Servicios, S.A. (Seven electric power transmission lines in Brazil)	Energy and Resources	Brazil	State Grid Corporation of China	China	ACS Actividades de Construccion y Servicios, S.A.	942
3	February 2012	TEPMA BV	Energy and Resources	Colombia	Sinochem Group	China	Total S.A.	438
4	March 2013	Wisco Brasil Investimentos Em Metalurgia Ltda (90% Stake)	Energy and Resources	Brazil	Wuhan Iron and Steel Company Ltd.	China	Wuhan Iron and Steel (Group) Corporation	249
5	September 2012	CCE	Consumer Business	Brazil	Lenovo Group Limited	China		148

NB: Table correct as of 2 August 2013

The creath of distance: Does geographic proximity impact the outcome of a transaction?

Chart 57: How would you rate the outcome of your most recent outbound M&A transaction?



NB: Distances are measured from the geographical centres of the three regions in question; namely Urumqi, China, Westerngrund, Germany, and Rugby, North Datkato, respectively.

It would seem that distance does play a role when it comes to the outcome of any outbound M&A transaction. Of those respondents who had undertaken the acquisition of an Asian-based target, 94.5 percent of them went on to remark that the outcome of that particular transaction was either successful or very successful. At the same time, 95.7 percent of respondents who had undertaken an acquisition in Europe also remarked that the outcome of the deal was similar. However, when it came to measuring the outcome of transactions in North America, it would seem that respondents were less convinced, with just 84.6 percent of them noting that the outcome was successful or very successful.

Key point: The geographical distance between buyer and target/vendor is an important consideration to take into account when planning to do an overseas transaction.

Historical data

Chart 58: Greater China outbound M&A activity

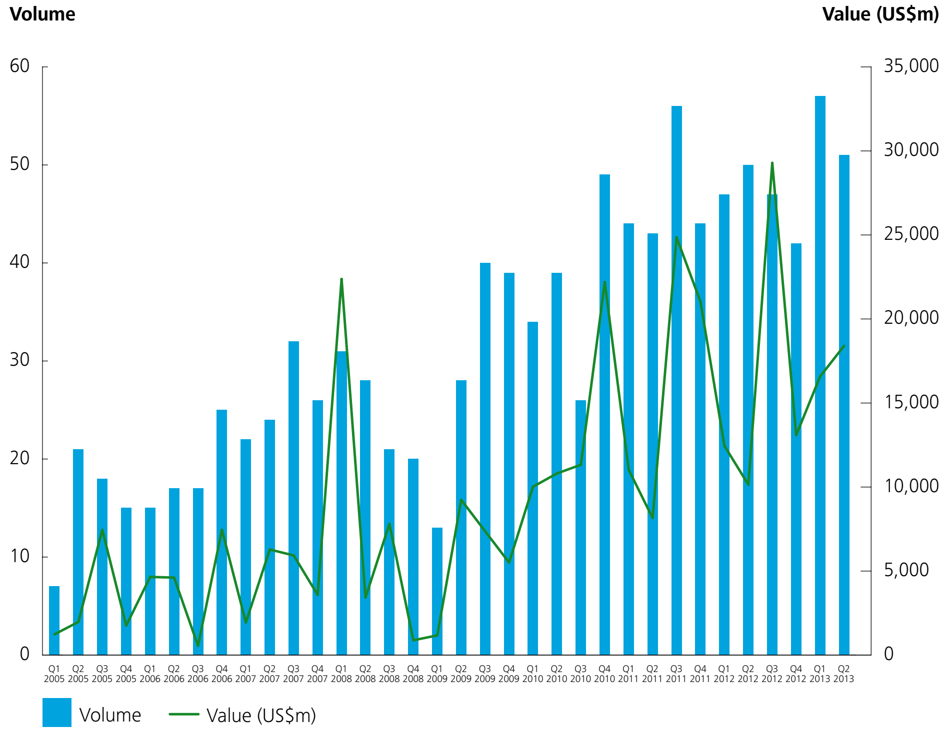


Chart 59: Greater China outbound M&A activity (Sector deal volumes)

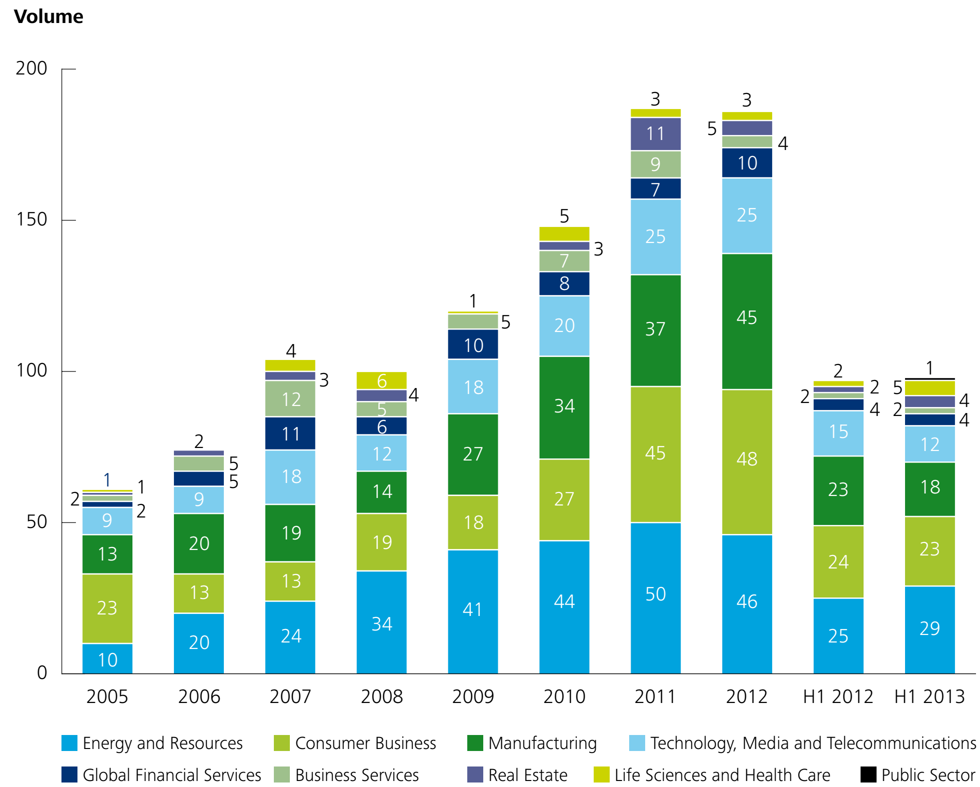


Chart 60: Greater China outbound M&A activity (Sector deal values)

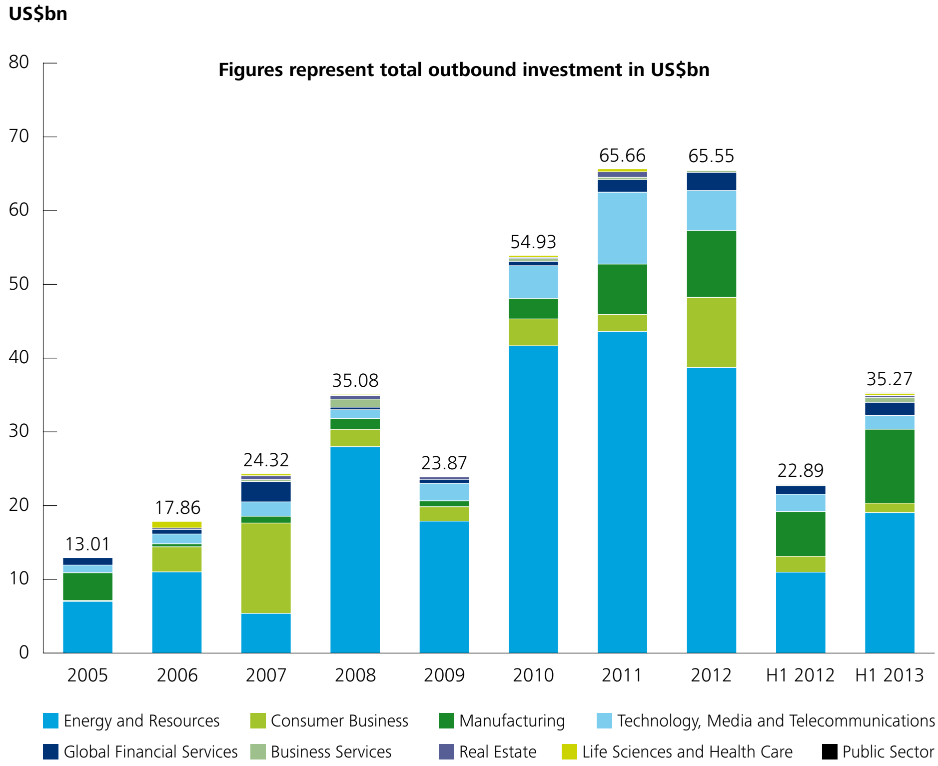


Chart 61: Greater China outbound M&A activity (Target region deal volumes)

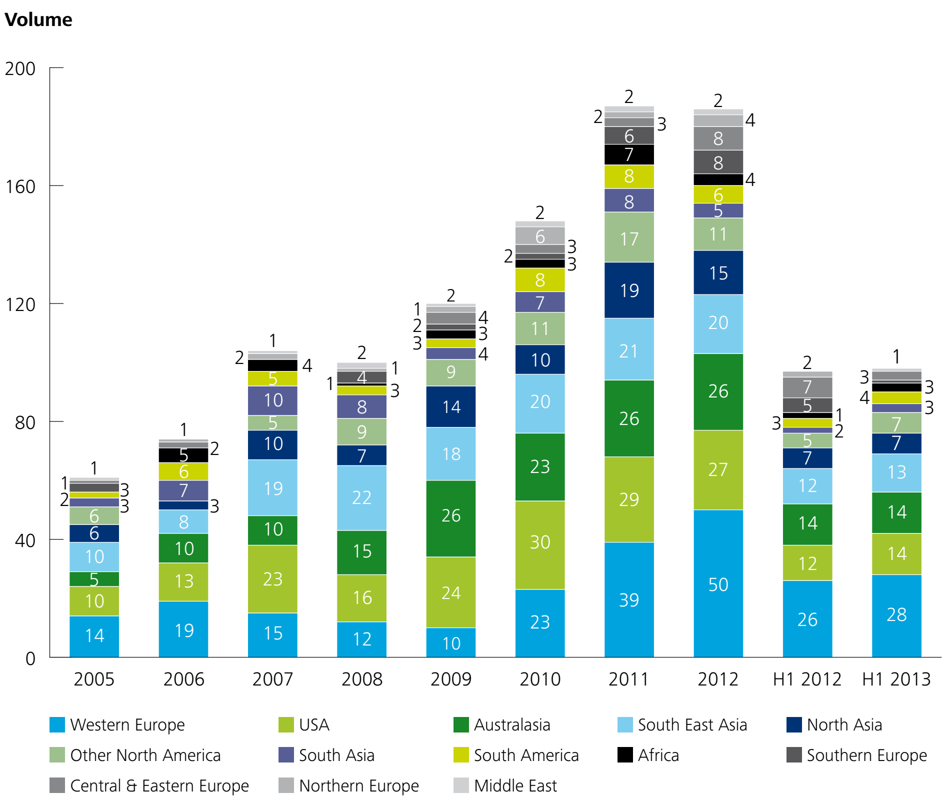


Chart 62: Greater China outbound M&A activity (Target region deal values)

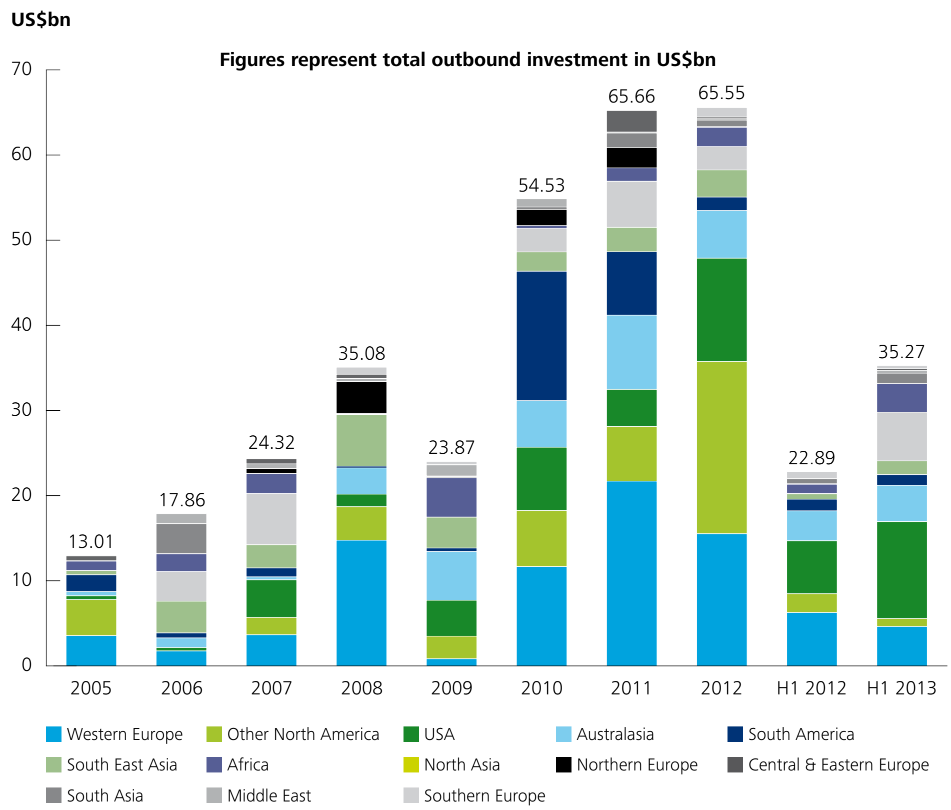


Chart 63: Greater China outbound M&A activity (Deal size volumes)

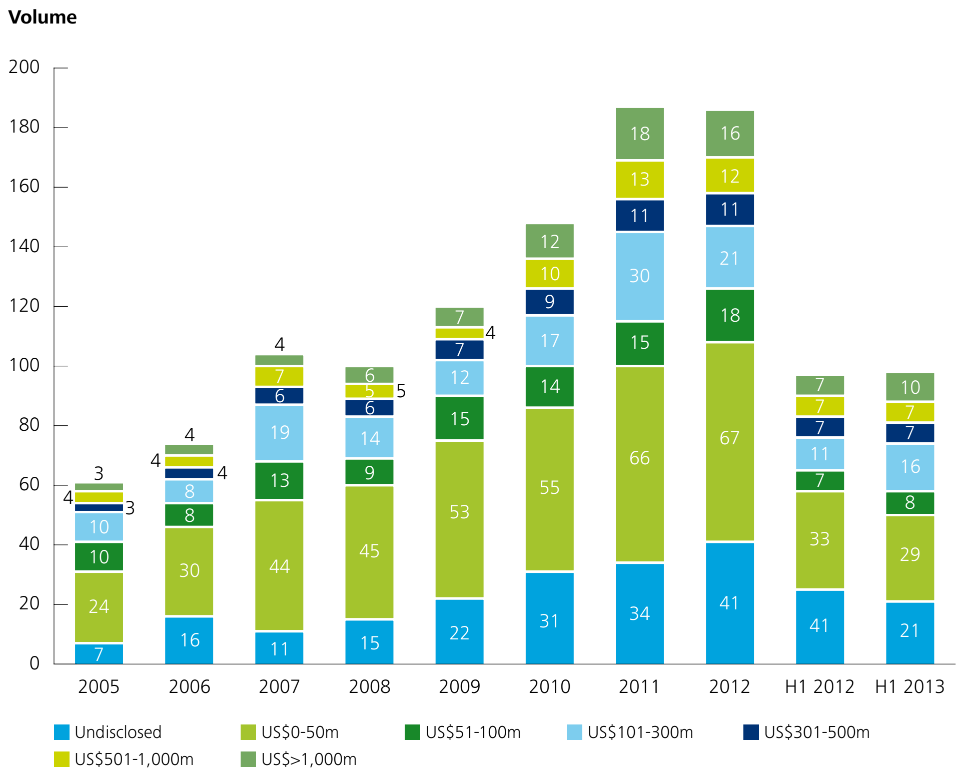


Table 64: Top 10 Chinese outbound M&A transactions, 2012-H1 2013

Rank	Announced Date	Target Company	Target Industry	Target Territory	Bidder Company	Bidder Territory	Seller Company	Deal value (US$m)
1	July 2012	Nexen	Energy and Resources	Canada	CNOOC	China		17,654
2	May 2013	Smithfield Foods	Consumer Business	USA	Shuanghui International Holdings	China		6,949
3	December 2012	International Lease Finance Corporation (80.1% Stake)	Global Financial Services	USA	New China Trust and Investment; China Aviation Industry General Aircraft; P3 Investments	China	American International Group Inc	4,230
4	March 2013	Eni East Africa (28.57% Stake)	Energy and Resources	Mozambique	CNPC	China	Eni S.p.A.	4,210
5	July 2012	Wales & West Utilities	Energy and Resources	United Kingdom	Cheung Kong Infrastructure; Power Assets Holdings; Li Ka Shing Foundation; Cheung Kong (Holdings)	Hong Kong	Industry Funds Management Pty Ltd.; Canada Pension Plan Investment Board; Macquarie Global Infrastructure Fund II; AMP Capital Investors Limited; Macquarie Luxembourg Gas S.A.R.L.; Codan Trust Company Limited; The Blackwater Trust	3,030
6	May 2012	AMC Entertainment	Consumer Business	USA	Dalian Wanda Group	China	Marquee Holdings	2,600
7	March 2013	Caspian Investments Resources (50% Stake); Mansarovar Energy Colombia (50% Stake); Taihu Limited (49% Stake)	Energy and Resources	Kazakhstan	Sinopec International Petroleum E&P Hongkong Overseas	Hong Kong	China Petrochemical Corporation	2,559
8=	January 2012	Devon Energy Corporation (33.3% stake in five US oil and gas projects)	Energy and Resources	USA	Sinopec International Petroleum Exploration and Production Corporation	China	Devon Energy Corporation	2,500
8=	November 2012	Total Nigeria (20% stake in offshore OML 138 block)	Energy and Resources	Nigeria	China Petrochemical Corporation	China	Total S.A.; Total Nigeria plc	2,500
9	June 2012	London Metal Exchange	Global Financial Services	United Kingdom	Hong Kong Exchanges and Clearing	Hong Kong		2,131
10	May 2013	Queensland Curtis LNG project (undisclosed stake)	Energy and Resources	Australia	CNOOC	China	BG Group Plc	1,930

NB: Table correct as of 2 August 2013

About the Chinese Services Group

Introducing Deloitte's Chinese Services Group (CSG)

The CSG serves as the unifying force to market, facilitate and deliver Deloitte professional services to both multi-national corporations investing into China and Chinese companies expanding overseas. Operating as a platform to leverage China expertise, bridge the cultural gap, and to ensure client service excellence, the Global CSG, in coordination with the China firm, complements a multi-member firm, multi-industry, multi-functional and multi-disciplinary approach.

Deloitte China + the Chinese Services Group = your China dimension

Deloitte is the only professional services firm to have such an expansive and dedicated cross-border network across functions and industries with the ability to react in real time to clients' needs - globally!

Lawrence Chia
Global CSG Co-Chairman
Beijing, China

If you are considering taking your business to China, Deloitte's Chinese Services Group can take the mystery out of how to successfully establish and grow your business. Our local presence in your country can give you a resource that understands you, your current business environment, and the new challenges that China poses.

M. Robinson

Mark Robinson
Global CSG Co-Chairman
Toronto, Canada

Expanding around the globe…

The CSG network has coverage in over 120 locations around the world spanning six continents!

How can the CSG add value?

With China's continuance as one of the most critical investment priorities globally, the CSG can add value through various channels:

Inbound investment

- Leverage China as a "door opener" & assume a high profile on a subject, providing local expertise cutting across geographies & sectors.
- Raise Deloittes' eminence in the market on issues of key concern to our clients.

Outbound investment

- Facilitate access to industry experts and key decision makers throughout China.
- Serve as a channel to communicate time-sensitive regulations and updates on China for your business.

Deloitte's CSG network

For more information, please contact:

CSG Leadership

Beijing
Lawrence Chia
Co-Chairman
+86 10 8520 7758
lawchia@deloitte.com.cn

Toronto
Mark Robinson
Co-Chairman
+1 416 601 6065
mrobinson@deloitte.ca

Beijing
Johnny Zhang
CSG Director
+86 10 8520 7061
johnnyxzhang@deloitte.com.cn

CSG Asia Pacific

Australia
Harold Payne
+61 8 9365 7202
hpayne@deloitte.com.au

Guam
Daniel Fitzgerald
+1 371 646 3884
dafitzgerald@deloitte. com

India
Atul Dhawan
+91 124 679 2030
adhawan@deloitte.com

Indonesia
Claudia Lauw
+62 21 2992 3100 Ext.33999
clauw@deloitte.com

Japan
Hitoshi Matsumoto
+81 09 09 688 8396
hitoshi.matsumoto@
tohmatsu.co.jp

Malaysia
Theng Hooi Tan
+603 7723 6590
tanth@deloitte.com

New Zealand
Jenny Liu
+64 9 303 0788
jennliu@deloitte.co.nz

Philippines
Diane Yap
+63 02 581 9053
dyap@deloitte.com

Singapore
Ernest Kan
+65 6530 5517
ekan@deloitte.com

South Korea
Sung Sik Ahn
+82 2 6676 2401
sungsikahn@deloitte.com

Taiwan
Peter Fan
+866 2 2545 9988
peterfan@deloitte.com.tw

Thailand
Subhasakdi Krishnamra
+66 2676 5700 Ext.5087
skrishnamra@deloitte.com

Vietnam
Vo Thai Hoa
+84 83 910 0751 Ext.118
hvo@deloitte.com

CSG Europe

Austria
Herbert Kovar
+431 53 700 3600
hkovar@deloitte.at

Belgium
Coen Ysebaert
+32 9 393 7536
cysebaert@deloitte.com

Central Europe
Gabor Gion
+36 1 428 6827
ggion@deloitte.com

Commonwealth of Independent States
Oleg Berezin
+749 5 787 0600 Ext.2188
oberezin@deloitte.ru

Cyprus
Christis M. Christoforou
+357 22 360 411
cchristoforou@deloitte.com

Denmark
Michael Toxværd Hansen
+45 3610 3757
mihansen@deloitte.dk

Finland
Eija Kuittinen
+358 2075 55361
Eija.kuittinen@deloitte.fi

France
Anne Taupin
+33 1 5561 4760
ataupin@deloitte.fr

Germany
Dirk Haellmayr
+49 69 75695 6203
dhaellmayr@deloitte.de

Greece
George Cambanis
+30 210 678 1101
gcambanis@deloitte.gr

Iceland
Arni Arnason
+354 580 3035
ArniJon.Arnason@deloitte.is

Ireland
Chris O'Connell
+353 1417 2609
lorgriffin@deloitte.ie

Israel
Amity Weber
+972 3 608 5549
aweber@deloitte.co.il

Italy
Domenico Russo
+39 02 8332 5098
drusso@deloitte.it

Luxembourg
Dirk Dewitte
+352 45145 2363
ddewitte@deloitte.lu

Malta
Nick Captur
+356 2343 2714
ncaptur@deloitte.com.mt

Netherlands
Roger Brands
+31 8828 81097
rbrands@deloitte.nl

Norway
Andreas Enger
+47 23 27 95 34
aenger@DELOITTE.no

Poland
Tomasz Konik
+48 32 603 03 35
tkonik@deloittece.com

Portugal
Luis Miguel Belo
+351 21 0427 611 Ext.5111
lbelo@deloitte.pt

Spain
Fernando Pasamon
+34 915 145000
fpasamon@deloitte.es

Sweden
Torbjorn Hagenius
+46 75 246 3168
thagenius@deloitte.se

Switzerland
Ralf Schlaepfer
+41 44 421 6686
rschlaepfer@deloitte.ch

Turkey
Anthony Wilson
+90 212 366 6063
anthwilson@deloitte.com

United Kingdom
Ralph Adams
+44 131 535 7234
raadams@deloitte.co.uk

CSG Africa & The Middle East

Angola
Antonio Pedro Pereira
+244 222679619 Ext.9619
rusilva@deloitte.pt

Eastern Africa
Nikhil Hira
+254 0 20 4230 377
nhira@deloitte.com

Francophone Africa
Alain Penanguer
+33 1 5561 2747
apenanguer@deloitte.fr

Mauritius
Jean-Noel Wong
+230 403 5800
jnoelwong@deloitte.com

South & Southern Africa
Mark Casey
+27 011 806 5205
mcasey@deloitte.co.za

The Middle East
James Babb
+971 50 295 1359
jbabb@deloitte.com

West & Central Africa
Evans Tomety
+234 0 837 3100 630
etomety@deloitte.com

CSG North & South America

Brazil
Jose Othon Tavares de Almeida
+55 11 5186 6066
joalmeida@deloitte.com

Canada (Eastern)
Tan Ong
+1 514 393 5529
tong@deloitte.ca

Canada (Western)
Beverley Pao
+1 604 640 3179
bepao@deloitte.ca

Caribbean Cluster
John Johnston
+1 441 299 1301
john.johnston@deloitte.bm

Chile
Christopher Lyon
+56 2 729 7204
clyon@deloitte.com

Latin America (LATCO)
Ricardo Rubio
+57 14 262 144
rrubio@deloitte.com

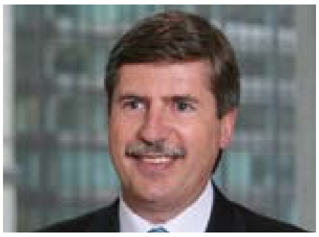
Mexico
Gonzalo Gomez
+52 664 622 7950
gogomez@deloittemx.com

United States
Christopher Cooper
+1 408 704 2526
chriscooper@deloitte.com

Contacts

The Global CSG Team

Lawrence Chia
Co-Chairman
Beijing, China
Tel: +86 10 8520 7758
Email:
lawchia@deloitte.com.cn



Mark Robinson
Co-Chairman
Toronto, Canada
Tel: +1 416 601 6065
Email:
mrobinson@deloitte.ca

Johnny Zhang
CSG Director
Beijing, China
Tel: +86 10 8520 7061
Email:
johnnyxzhang@deloitte.com.cn

Grace Huang
Senior Manager
Beijing, China
Tel: +86 10 8512 5687
Email:
grhuang@deloitte.com.cn

Charlotte Li
Core Team Member
Shanghai, China
Tel: +86 21 6141 2682
Email:
chli@deloitte.com.cn

Chenney Chen
Core Team Member
Shanghai, China
Tel: +86 21 6141 2775
Email:
chenchen@deloitte.com.cn

Mason Gao
Core Team Member
Shanghai, China
Tel: +86 21 6141 2681
Email:
magao@deloitte.com.cn

Molly Yang
Core Team Member
Beijing, China
Tel: +86 10 8520 7286
Email:
molyang@deloitte.com.cn

Rachel Song
Core Team Member
Beijing, China
Tel: +86 10 8520 7057
Email:
sssong@deloitte.com.cn

Wendy Li
Core Team Member
Beijing, China
Tel: +86 10 8512 5480
Email:
linbjli@deloitte.com.cn

Douglas Robinson
Core Team Member
Hong Kong
Tel: +852 2238 7631
Email:
dorobinson@deloitte.com.hk

Sarah Sui
Core Team Member
Beijing, China
Tel: +86 10 8512 5606
Email:
ssui@deloitte.com.cn

Acknowledgements

Researched and written by:

Douglas Robinson
M&A Research Manager
M&A Services Team
Chinese Services Group
Tel: +852 2238 7631
Email: dorobinson@deloitte.com.hk

Mason Gao
Senior Specialist
Chinese Services Group
Tel: +86 21 6141 2681
Email: magao@deloitte.com.cn

Kathleen Tse
Senior Associate
M&A Services Team
Tel: +852 2238 7532
Email: katse@deloitte.com.hk

Data supplied by:
mergermarket

Notes

Contact details for Deloitte's China Practice

Beijing
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Beijing Branch
8/F Deloitte Tower
The Towers, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, PRC
Tel: +86 10 8520 7788
Fax: +86 10 8518 1218

Chongqing
Deloitte & Touche Financial Advisory Services (China) Limited
Room 8, 33/F International Financial Center
28 Ming Quan Road
YuZhong District
Chongqing 400010, PRC
Tel: +86 23 6310 6206
Fax: +86 23 6310 61700

Dalian
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Dalian Branch
Room 1503 Senmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Guangzhou Branch
26/F Teemtower
208 Tianhe Road
Guangzhou 510620, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0119 / 0121

Hangzhou
Deloitte Business Advisory Services (Hangzhou) Company Limited
Room 605, Partition A
EAC Corporate Office
18 Jiaogong Road
Hangzhou 310013, PRC
Tel: +86 571 2811 1900
Fax: +86 571 2811 1904

Harbin
Deloitte Consulting (Shanghai) Company Limited
Harbin Branch
Room 1618, Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150090, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Hong Kong
Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911

Jinan
Deloitte & Touche Financial Advisory Services Limited
Jinan Liaison Office
Unit 1018, 10/F, Tower A, Citic Plaza
150 Luo Yuan Street
Jinan 250011, PRC
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068

Macau
Deloitte Touche Tohmatsu
19/F The Macau Square Apartment H-N
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Nanjing
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Nanjing Branch
11/F Golden Eagle Plaza
89 Hanzhong Road
Nanjing 210029, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Shanghai
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Shenzhen
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shenzhen Branch
13/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou
Deloitte Business Advisory Services (Shanghai) Limited
Suzhou Branch
23/F Building 1
Global Wealth Square
88 Su Hui Road, Industrial Park
Suzhou 215021, PRC
Tel: +86 512 6289 1238
Fax: +86 512 6762 3338 / 3318

Tianjin
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Tianjin Branch
30/F The Exchange North Tower
189 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 2320 6699

Wuhan
Deloitte & Touche Financial Advisory Services Limited
Wuhan Liaison Office
Unit 2, 38/F New World International Trade Tower
568 Jianshe Avenue
Wuhan 430022, PRC
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032

Xiamen
Deloitte & Touche Financial Advisory Services Limited
Xiamen Liaison Office
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259

HK-091ENG-13(rev2)

This is printed on environmentally friendly paper