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KPMG Global China Practice

Investment in China: Numbers and Trends

Fourth Quarter, 2012

Table of Contents

Executive Summary 1

Part I: Macroeconomic Analysis 3

China's Economic Data Analysis 3
Overview of Economic Policies 5
Finance 5
Trade 5
Economics 5
Investment 6
Macroeconomic Trend Analysis 7

Part II: Industry Analysis, Foreign Direct Investment into China 9

Real Estate 9
Private Equity 9
Retail 9
Utilities 10
Metals 10
Biotech/Healthcare 10
Transport & Logistics 11
Automotive 11
Consumer Markets 11
Financial Services 12

Part III: Overview of Foreign Capital Utilization 13

A General Overview of China's Foreign Investment and Utilization of Foreign Capital 13
Foreign Direct Investment - Regional and M&A Summary 13
2012 FDI Trend Analysis 14
General Overview 15
M&A Regional Analysis 15
M&A Industry Analysis 16
M&A Analysis of Transaction Size 18
Analysis of Top 10 M&A Deals 18

Appendix: List of M&A Activity for 4Q 2012 20

Executive Summary

In the fourth quarter of 2012, the Chinese economy continued to maintain its growth and stability. Year-on-year GDP for the fourth quarter was 7.9 percent and full year GDP was 7.8 percent, meeting government expectations. The major components of GDP, investment and consumption, each represented over 50 percent contribution rate to total GDP, while the contribution from net exports (exports minus imports) was -2.2 percent.

Looking at the 2012 trends, the downward economic pressure that was felt in the first quarter bottomed out in the third quarter. The government instituted a series of measures to stabilize growth in the second and third quarters; hence the economic stability that can be seen in the fourth quarter also signifies a good start to 2013. The economy in 2013 will be focused on 'stabilizing growth', while preventing upticks in inflation. The government's goal of 'improvement through stability' will guide structural adjustment. Some key takeaways from China's 2012 macroeconomic climate are as follows:

- The real economy began to recover and investment demand expanded, with government management as a priority.
- Consumer spending continued to grow, but at a decreasing rate from the previous year. To sustain economic growth in China, more support must come from consumer discretionary spending.
- Structural problems have not been significantly improved. 2013 sees new government officials coming into power. The government should continue implementing various types of financial and economic reform.

China's outbound direct investment (ODI) in non-financial sectors grew 28.6 percent year-on-year in 2012, to USD 77.22 billion in 2012. The annual growth rate was much higher than the 1.8 percent rate recorded in 2011. We expect to see this outbound direct investment trend from Chinese companies, as they look to go outside China and diversify asset and revenue streams.

China's foreign direct investment (FDI) decreased year-on-year, from USD 116 billion in 2011, to USD 111.7 billion in 2012. This represents an annual decrease of 3.7 percent. The service and manufacturing industries together represent over 90 percent of total FDI. The manufacturing sector declined by 6.2 percent year-on-year while the service sector, excluding real estate, rose by 4.8 percent. Some key takeaways from China's foreign direct investment climate are as follows:

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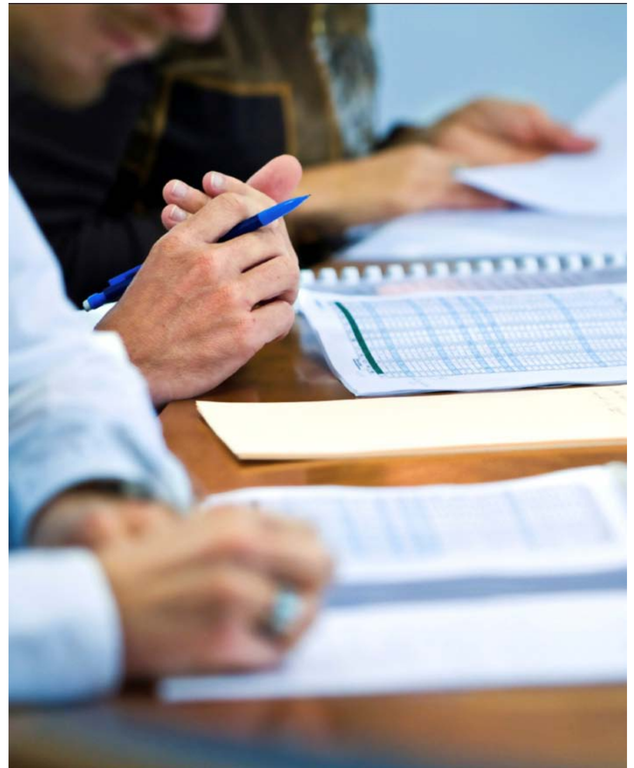
- Higher wage costs have created a systemic shift in China's foreign investment structure. The production and investment model is moving away from China as a low cost manufacturer, to China as a provider of high quality goods and services.
- Other emerging and developing markets are attracting FDI growth rates at a faster pace than China. This is mainly due to the favorable local cost structure of those particular emerging countries, and the rising costs of labor in China.
- Foreign direct investment from Europe continues to decline. This is primarily due to the sovereign debt uncertainties specific to the countries affected. FDI from the USA reported a year-on-year increase due to what is being perceived as enhanced economic stability.



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Part I: Macroeconomic Analysis

China's Economic Data Analysis

Table 1.1 Economic Data for 2012

Economic Data	Value	Year-on-Year
GDP (Trillion RMB)	51.9	7.8%
National fixed asset investment (Trillion RMB)	36.5	20.6% [1]
Retail sales (Trillion RMB)	20.7	14.3% [2]
Outbound direct foreign investment (Billion USD)	77.2	28.6%
Inbound direct foreign investment (Billion USD)	111.7	-3.7%
Property development investment (Trillion RMB)	7.2	16.2% [3]
Financial Data	**Value**	**Year-on-Year**
M2 money supply (Trillion RMB)	97.4	13.8%
M1 money supply (Trillion RMB)	30.9	6.5%
Customs imports (Trillion USD)	1.8	4.3%
Customs exports (Trillion USD)	2	7.9%
Fiscal revenue (Trillion RMB)	11.7	12.8%
New RMB loans (Trillion RMB)	8.2	9.8%
RMB deposits in financial institutions (Trillion RMB)	91.7	13.3%
Foreign currency deposits in financial institutions (Trillion RMB)	94.3	14.1%
RMB loans in financial institutions (Trillion RMB)	63	15.0%
Foreign currency loans in financial institutions (Trillion RMB)	67.3	15.6%
Foreign exchange reserves (Trillion USD)	3.3	4.1%
Cross-border RMB settlements (Trillion RMB)	2.9	41.4%

Sources: National Bureau of Statistics, the People's Bank of China, State Administration of Foreign Exchange, General Administration of Customs

Data issued by the National Bureau of Statistics on January 18 showed that in 2012, year-on-year GDP growth was 7.8 percent. Year-on-year GDP growth in the fourth quarter was 7.9 percent, 0.5 percentage points higher than the third quarter, showing a slight recovery in growth. Month-on-month GDP growth was 2.0 percent, displaying a macroeconomic trend towards stability and recovery.

The Chinese manufacturing Purchasing Managers Index (PMI), released in December, was 50.6 percent, unchanged from the previous month. PMI had recovered slowly since September and returned to over 50 percent (a score over 50 percent versus the previous month signifies expansion). However, three out of the five PMI indices by category declined, showing that the overall manufacturing industry is still having difficulty finding a bottom. Improvement is expected in 2013.

Fixed asset investment grew year-on-year, but the growth rate slowed. The nominal year-on-year growth of fixed asset investment for the whole year was 20.6 percent, down by 3.4 percentage points from the previous year, representing an economic slowdown. Fixed asset investment was primarily concentrated (97 percent of total fixed asset investment) in secondary and tertiary industries. China's 'primary industry' refers to the extraction of natural resources, including agriculture, farming, forestry, animal husbandry and fishery. The 'secondary industry' refers to processing of primary products, including industrial, construction, mining and quarrying, manufacturing, production and supply of electricity, water and gas. 'Tertiary industry' includes all other[4] industries not included in primary or secondary industries. This industry is generally classified as providing services of various kinds for production and consumption. Investment in secondary industries grew by 20.2 percent, decreasing by 0.9 percent from the January to November period. Investment in tertiary industries grew by 20.6 percent, an increase of 0.2 percent, indicating gradual economic transition.

Finally, nationwide property development investment in 2012 totaled RMB 7.18 trillion, reflecting nominal growth of 16.2 percent, down 11.9 percentage points from the previous year. This decline was predominantly influenced by real estate control policies.

Consumer demand experienced slower growth rates
Annual retail sales grew by 14.3 percent year-on-year, falling by 2.8 percentage points compared with the previous year. In December, year-on-year growth reached 15.2 percent, inflation-adjusted real growth was 13.5 percent, and month-on-month growth was 1.5 percent. Although retail sales growth exceeded 7 percent and growth in furniture sales was robust at 27 percent, growth in each category fell by over 5 percent year-on-year. Consumption growth has slowed further and still lags far behind investment growth, proving that domestic demand and consumption carry large importance for the foreseeable future.

Industrial value-added growth slowed and stabilized.
Industrial value-added for enterprises above designated size (enterprises with revenue above RMB 20 million) rose by 10 percent from the previous year, a 3.9 percentage point decrease in growth. Year-on-year growth was 11.6 percent in the first quarter, 9.5 percent in the second quarter, 9.1 percent in the third quarter, and 10 percent in the fourth quarter. Heavy industry value-added rose by 9.9 percent from the previous year, while light industry value-added rose by 10.1 percent. Value-added rose by 8.8 percent in Eastern China, 11.3 percent in Central China, and 12.6 percent in Western China. Growth in Midwest

[1] Nominal year-on-year growth was 20.6%. Inflation-adjusted real growth was 19.3%.
[2] Nominal year-on-year growth was 14.3%. Inflation-adjusted real growth was 12.1%.
[3] Nominal year-on-year growth was 15.4%. Inflation-adjusted real growth was 14.9%.

[4] http://chinadataonline.org/info/yearly03.asp

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China was higher than in the East. Fourty-one industrial sectors realized year-on-year value-added growth.

Export growth slowed and the trade surplus expanded. In 2012, China's import and export value totaled USD 3.87 trillion, an increase of 6.2 percent over the previous year, but growth dropped 16.3 percentage points from the previous year. The trade surplus was USD 231.1 billion, expanding by 48.1 percent. Exports were USD 2.05 trillion, an increase of 7.9 percent; imports were USD 1.82 trillion, an increase of 4.3 percent. Import and export growth of general goods was slow and processing was slack, however exports of mechanical and electrical products and labor intensive products showed stable growth; energy and resource product imports also grew, showing a stronger dependence on imported resources. Exports to emerging markets grew substantially, and exports to ASEAN and Russia grew by more than 10 percent.

Inflation for food and clothing rose, but leading indicators predict a manageable outlook. In 2012, the consumer price index (CPI) rose by 2.6 percent year-on-year, a 2.8 percentage point decrease from the previous year. Inflation rates for food and clothing were comparatively higher, reaching 4.8 percent and 3.1 percent respectively. Vegetable prices, and grain and oil prices grew by 15.9 percent and 5.1 percent respectively; food prices continue to be the core inflation concern in China. However, in December, the producer price index (PPI) continued to drop, registering a year-on-year decrease of 1.9 percent and month-on-month decrease of 0.1 percent. PPI continued its downward trend, but the decrease gradually became less profound. As a leading indicator of CPI inflation, PPI indicates that 2013 consumer price inflation pressure should be slightly lower than 2012.

The pace of new loans was balanced. At the end of the year, the RMB loan balance was RMB 63 trillion, representing a year-on-year growth rate of 15 percent and a decrease of 0.7 and 0.8 percentage points from the end of November and the end of the previous year respectively. RMB loans for the year increased by RMB 8.2 trillion, up by RMB 732 billion from the previous year. In terms of new household loans, the growth of short-term and long-term loans was almost the same. Loans for non-financial enterprises and other departments were mainly short-term incremental loans, totaling RMB 3.37 trillion, while medium and long-term incremental loans amounted to RMB 1.54 trillion.

The money supply growth rate slowed. At the end of the year, the broad money (M2) balance reached RMB 97.42 trillion, a growth rate of 13.8 percent year-on-year. M2 was down by 0.1 percentage points from the end of November and up by 0.2 percentage points from the end of the previous year; the narrow money (M1) balance was RMB 30.87 trillion, a growth rate of 6.5 percent year-on-year. M1 was up by 1.0 percentage points from the end of November and down by 1.4 percentage points from the end of the previous year. Money supply growth slowed with the pace of economic recovery, reflecting the central bank's fine-tuning of monetary policy.

Table 1.2 Fourth Quarter 2012 Economic Indicators

Economic Data		October	November	December
Consumer price index (CPI)	Y/Y	1.7%	2.0%	2.5%
	M/M	-0.1%	0.1%	0.8%
Producer price index (PPI)	Y/Y	-2.8%	-2.2%	-1.9%
	M/M	0.2%	-0.1%	-0.1%
Purchasing managers index (PMI)	Value	50.2	50.6	50.6
	Y/Y	0.4%	0.4%	0.0%
Non-manufacturing business activity index	Value	55.5	55.6	56.1
	Y/Y	1.8%	0.1%	0.5%
Industrial value-added growth	Y/Y	9.6%	10.1%	10.3%

Source: National Bureau of Statistics

Fiscal revenue growth dropped sharply. In 2012, national fiscal revenue amounted to RMB 11.7 trillion, representing a year-on-year growth rate of 12.8 percent and a decrease in year-on-year growth of 12 percentage points. There was a noticeable drop in tax revenue, primarily due to slow economic growth, decreased corporate productivity, falling prices, and structured tax reduction measures. Since all or most central income taxes showed low or even negative growth, the growth rate of central revenue was lower than that of local revenue.

Foreign exchange reserves returned to a quarter of positive growth. As of the end of December, China's foreign exchange reserve balance was USD 3.31 trillion, maintaining steady growth and restoring the reserve balance. Since May, foreign exchange reserves have gradually recovered to levels seen at the beginning of 2012. This was primarily due to economic recovery and stable growth of the trade surplus.

Outbound foreign investment continued to grow, while inbound foreign investment stabilized then decreased. In 2012, China's total non-financial outbound direct investment was USD 77.2 billion, a year-on-year increase of 28.6 percent. Actual inbound foreign investment was USD 111.7 billion, a year-on-year decrease of 3.7 percent.

Through a general survey of the fourth quarter economic data and a review of China's economic trends over the course of the year, we believe that China's economy weakened in the third quarter and recovered in the fourth quarter, but the overall recovery trend still needs to be confirmed during the first quarter of 2013. Investment increased in 2012, and the momentum will continue in 2013. With the gradual improvement of the European and American economies and the gradual implementation of various welfare policies in China, the stabilization and recovery of China's economy can be expected in 2013, but China's economy is still fragile and structural problems persist.

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Overview of Economic Policies

Finance

Wenzhou will pilot personal direct overseas investment On November 22, the Zhejiang Provincial Government introduced detailed measures for the implementation of comprehensive financial reform in Wenzhou, stating that Wenzhou will "pilot personal overseas direct investment. Under the unified leadership of the State Council, the government will explore personal overseas direct investment in RMB and formulate detailed implementation rules for Wenzhou on the management of personal overseas direct investment." In addition, the government also proposed the exploration of a series of bold ideas, including using micro-loan companies that can issue private placement bonds, introducing intermediaries to provide private lending registration and notarization, and implementing asset evaluation services to improve the monitoring system for private financing.

The China Banking Regulatory Commission (CBRC) promotes financial services for small and micro enterprises, proposes diverse changes On December 8, Yan Qingmin, Assistant to the Chairman of the China Banking Regulatory Commission, delivered a speech at the 2012 APEC SME Summit, indicating that the CBRC would encourage the banking industry to improve the level and quality of service for small and micro enterprises, continue to provide professional services, business continuity, and cooperation, and focus on "institutions, mechanisms, policies, and targets". Yan also proposed five changes: 1) Financing channels should be transformed from pure debt financing to diversified financing. 2) The guarantee system should be changed from a pure commercial guarantee to a policy guarantee. 3) Innovative and pioneering small and micro science and technology companies should rely partly on financial discounts and subsidies, instead of complete reliance on accumulated or retained earnings. 4) Financial institutions should provide comprehensive financial services like wealth management and advisory, credit support, and incentive-based client services. 5) The focus of policy support should turn from small and medium sized enterprises (SMEs) to small and micro enterprises.

China's third national comprehensive financial reform pilot area in Quanzhou approved On December 25, *The Overall Program for the Comprehensive Financial Reform Pilot Area in Quanzhou, Fujian Serving the Economy* was approved by the State Council, making Quanzhou the third national comprehensive financial reform pilot area. The main tasks in Quanzhou's financial reform program include: establishing and improving a diversified financial organization system serving the aggregate economy, strengthening financial support for people's livelihoods as well as small and micro enterprises, and enhancing rural financial service capacity. The program would also strengthen financial cooperation with Taiwan, Hong Kong, and Macau, standardize the development of private financing, expand the scale of direct financing, improve insurance service levels, and perfect financial risk prevention mechanisms.

Trade

The 12th Five-Year Development Plan was introduced for the National Economic and Technological Development Zones and Border Economic Cooperation Zones. On November 28, the Ministry of Commerce released the 12th Five-Year Development Plan (2011-2015) for National Economic and Technological Development Zones and Border Economic Cooperation Zones. The development targets for national development zones during the 12th five-year period are: 15 percent growth in total annual average output and 9 percent growth in average foreign direct investment. The targets for border cooperation zones during the 12th five-year period are: 20 percent growth in annual average output and 14 percent growth in average foreign direct investment. These development and cooperation zones seek to outperform the national average of FDI inflows, which decreased by 3.7 percent in 2012.

Economics

The Political Bureau of the CPC Central Committee held a meeting to convey economic policy signals for the next year. On December 4, the Political Bureau of the CPC Central Committee held a meeting to emphasize maintaining the continuity and stability of macroeconomic policies, and strengthening policy coordination. In order to prevent an economic downturn, the expansion of domestic demand and the development of consumption and investment are necessary. The Political Bureau will strive to support companies implementing key national scientific and technological projects with clear industry targets. The Bureau will also promote the orderly urbanization of agricultural workers and make stable improvements in reform so as to: improve social security coordination, develop social projects such as education and healthcare, and strengthen real estate market regulations.

The State-Owned Asset Supervision and Administration Commission (SASAC) will concentrate on market-oriented reforms and accelerate the reorganization of central enterprises On December 24, at the meeting of central enterprise managers, Wang Yong, the Director of SASAC, said that SASAC would study and formulate ideas for deepening the reform of state-owned enterprises in 2013. Based on a summary of state-owned enterprise reform practices, SASAC will propose overall objectives and specific measures for the next step in reform. SASAC also proposed six tasks for central enterprises in 2013; in short, these tasks specify that enterprises: 1) take practical and effective measures to ensure steady production and management growth, 2) promote structural adjustment, 3) improve resource allocation efficiency, 4) promote reform and enhance vitality, 5) master scientific and technological innovation, and 6) improve independent innovation capabilities. SASAC believes that these tasks will enhance management, lay a solid foundation for scientific development and strengthen the Party.

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Investment

The National Development and Reform Commission (NDRC) approved 24 overseas projects, the highest number of approvals for overseas projects in a year. In the first half of October, the NDRC announced the approval of 24 overseas projects. Nearly one-third of the overseas investment projects were from private enterprises. The NDRC plans to expand approval limits for overseas investment in resource exploration and development of crude oil and mining projects. In the future, only resource development and transportation infrastructure projects with Chinese investment of USD 300 million or more, overseas non-resource development projects with Chinese investment of USD 100 million or more, and investment in sensitive sectors and sensitive countries will be subject to approval by the NDRC.

China will simplify the management of foreign exchange for direct investment. On November 21, the Head of the State Administration of Foreign Exchange (SAFE) said that the Administration would alter some direct investment rules and policies to further facilitate trade and investment. These measures include simplifying foreign exchange account categories for direct investment projects and streamlining procedures for foreign exchange capital settlements, processes for capital verification inquiries by foreign-invested enterprises, and procedures for the foreign exchange registration for foreign capital collected from share transfers. The Administration would loosen restrictions on the number of foreign exchange accounts and foreign accounts for direct investment, relax limits on foreign exchange purchases and foreign payments for direct investment, and reduce restrictions on funding resources and qualifications by funding entities. This would allow domestic entities to lend through domestic foreign exchange loans and allow foreign-invested enterprises to lend to their overseas parent companies.

China released *Guidance on Target Countries for Foreign Investment Cooperation*, to assist companies 'going out to the world' safely. On December 21, the Ministry of Commerce released *Guidance on Target Countries (Regions) for Foreign Investment Cooperation*, an objective perspective on the investment and cooperation environment in target countries. This will help Chinese companies study and evaluate local market potential and business opportunities, providing guidance for 'going out to the world' safely and efficiently. The guide covers 165 countries in Asia, Africa, America, Oceania, and Europe, as well as the vast majority of industries and primary markets for Chinese overseas investment. Based on laws, regulations, and official statistics from investment destination countries, the guide introduces local politics, economics, and social developments, and highlights possible problems companies may encounter.

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Macroeconomic Trend Analysis

The normalization of slower growth and the reshaping of economic potential through innovation

In 2012, the global economy was still having some difficulty recovering, which has developed into a long-term trend. In order to promote economic development, the United States, Europe, and Japan all adopted monetary policy quantitative easing measures in order to stabilize market expectations, reduce financing costs, and encourage investment. Restricted by huge debts, developed economies had to make up domestic investment deficits by attracting large quantities of foreign capital. Key areas of reform were healthcare and welfare reform in the United States and ongoing financial reform in Europe.

China's economy also slowed down in 2012; GDP decreased from 8.1 percent in the first quarter to a low of 7.4 percent in the third quarter. However, China adopted a series of measures to stabilize growth including: a moderate relaxation of monetary policy in the second quarter, two reductions in deposit and lending rates and deposit reserve ratios, and an expansion of government investment. As a result, GDP bottomed out in the third quarter and rose to 7.9 percent in the fourth quarter. While China has avoided a significant decline in economic growth in the short-term, a downward trend in China's economy has been established since the 2008 financial crisis. This economic slowdown is mainly attributable to structural problems within the Chinese economy.

Table 1.3 GDP Contributions in 2011 and 2012

Economic Data (%)	2011	2012
Consumption	51.6	51.8
Investment	54.2	50.4
Net export	-5.8	-2.2

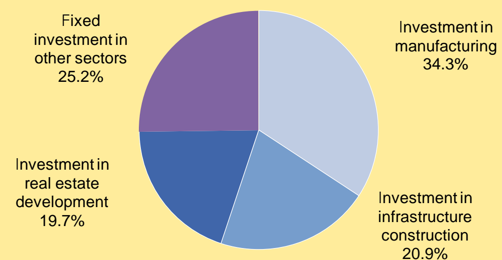
Source: National Bureau of Statistics

Weak consumption and exports and obvious investment-led effects

In the past, China's economy developed and prospered mainly due to capital investment and exports. Since the financial crisis in 2008, it has been difficult for China's exports to rebound to pre-crisis levels. This is due to shrinking external demand as well as rising domestic costs. In 2012, net exports burdened China's economy, contributing -2.2 percent to GDP (See Table 1.3). Despite improvements compared to 2011, net export contribution to GDP looks to continue its downward trend.

Investment (or 'fixed asset investment' seen in Figure 1.1) has consistently played a pivotal role in the Chinese economy. When external demand was sluggish, steady growth could be gained through fixed asset investment. However, diminishing marginal returns on investment, production capacity surpluses, and local government debt have all contributed to an over-reliance on fixed asset investment. Today, fixed asset investment continues to

Figure 1.1 Proportion of Fixed Asset Investment in 2012



Source: National Bureau of Statistics and KMPG Analysis

decline as a percentage of aggregate GDP, contributing 54.2 percent in 2011 and 50.4 percent in 2012 (See table 1.3). This is down from pre-crisis levels of over 70 percent. Manufacturing, infrastructure, and real estate development have been the three largest areas of investment in China, accounting for 34.3 percent, 20.9 percent, and 19.7 percent respectively.

Consumer spending or 'Consumption' registered a 51.8 percent contribution rate to GDP in 2012, an increase of 0.2 percentage points versus 2011 (See Table 1.3). This reveals that there is still tremendous potential for consumer spending to increase. As mentioned earlier, consumption growth is slowing, which means that the effects of expansionary consumption policies are weakening; the short-term boost in consumption capacity due to domestic demand stimulus policies cannot reliably sustain long-term economic growth. Low corporate profitability, high taxes, the widening income gap, the need to improve social security, and other factors have long hindered the potential spending power of Chinese people. If these problems are not resolved, consumer spending and the 'Consumption' function in China will almost certainly be affected in the mid to long-term.

Focal points for the new economic model

The United Kingdom, Japan, and Germany have all experienced a period of rapid economic development followed by a period of slow growth, during the course of their respective economic development process. China is following a different path from other developed countries, but also needs to address certain inefficiencies to avoid similar future problems.

First, the rational allocation of production resources should not be dominated by government, but instead be decided by market factors. The massive development of China's economy over the past 30 years has been inextricably linked to the development of private enterprises; these private enterprises employ over 70 percent of China's labor force. Hence, future development should be based on strengthening private enterprises and ensuring competitive markets. The government needs to gradually withdraw from economic activities and become a qualified regulator and service provider, while improving the legal environment for market participants. By introducing more market competition mechanisms and eliminating

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preferential treatment towards large state-owned monopolies, production resources can be freely chosen by industries and companies. This will create an environment of production efficiency, promote competition, and improve overall market dynamics.

Second, advances in technology must be achieved. These advancements can be achieved via M&A partnerships from international companies, or organically through research and development, and innovation. Innovation in China will require the government to improve the environment for copyrights, trademarks, and other intellectual property rights to motivate and facilitate talented individuals as well as capital investment. Education reform is also necessary to foster an environment that promotes creative thinking, efficient work processes, and cooperative efforts. Thus, to achieve organic technological advancements within China, education reform must be seriously considered and laws protecting the employer/investor must be written and supported by local and central government.

Urbanization and the attention towards a stronger service sector will facilitate stable GDP growth

China is still in the early stages of urbanization. According to data released by the government, China's urbanization rate is about 52 percent. To put this in tangible terms: a one percentage point increase in China's urbanization rate implies 14 million people will move into the cities. The government is targeting an urbanization rate of over 70 percent by 2030. The employment and facilities needed by these people, and the market demand that will be created represent huge potential for domestic products and services.

The government must also focus on expanding the service industry. The vigorous development of the service sector can promote economic growth, absorb a rather large labor force caused by the potential elimination of excess capacity in manufacturing, and help avoid large-scale unemployment. China's service sector accounts for slightly

less than 50 percent of GDP. Comparatively, the service sectors in developed economies generally account for over 70 percent of GDP, and even in Mexico and India the respective service sectors exceed 50 percent. Therefore, actively developing the service sector can offset the negative impact of manufacturing demand, and bring more business opportunities to industries that need further economic development, such as: environmental protection services, financial services, business services, and information services.

In 2013, the Chinese government will continue to implement proactive fiscal policies and prudent monetary policies that favor economic liberalization. We would expect the manufacturing industry to stabilize or slightly decline based on the above factors, and the service industry to continue to develop and grow, which should create a net positive effect on GDP. The expectation for China's economy in 2013 is for GDP to accelerate to at least 8 percent annual growth, and in the long-term (through 2020) to level off at 7.5 percent average annual growth.

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Part II: Industry Analysis, Foreign Direct Investment into China[5]

Real Estate

Britain's largest real estate enterprise entered the Chinese market, aiming for long-term cooperation

In 2012, the most significant trend in China's real estate industry was the proportionate reduction of foreign investment. Barratt, the UK's largest real estate developer decided to buck that trend and enter the Chinese real estate market. Barratt's real estate projects cover the entire UK. Its London residential projects alone are valued at approximately RMB 27 billion; the company has already established two professional residential brands, and one commercial residential brand. The establishment of a representative office in Beijing formally announced that Barratt is ready to step into the Chinese real estate market. According to Barratt's announcement, the short-term strategy is to sell its UK real estate projects to Chinese investors, and to increase its brand awareness. The long-term objective is to explore the global market with Chinese real estate developers.

As a real estate enterprise with nearly 50 years of operational experience, the choice to enter the Chinese market seems open to question, given the current circumstances. But carefully assessing their strategy, Barratt's motivation is rational. With asset prices in Europe and the United States still coming off lows and the strict control of China's real estate market, China's upper class investors are seeking investment opportunities in the international real estate market. Europe and the United States are among those favored regions. Furthermore, the cooperation with global financial institutions' private banking sector is helpful for Barratt to identify its target market.

Barratt's entry strategy is different compared to that of other foreign investors. Most international real estate enterprises operate similarly to local real estate enterprises, but the core of Barratt's China strategy is to sell its overseas housing to Chinese investors, taking advantage of the insatiable Chinese demand for overseas real estate.

Private Equity

Foreign private equity firms lack exits; M&A will be the main exit route

With only two initial public offerings (IPO) from Chinese companies in 2012, foreign PE funds are currently facing narrowed exit options in the US stock market. In 2010, over 40 Chinese companies launched an initial public offering on the US stock exchanges. Comparatively, the Chinese IPO market was very active in 2012 with over 200 offerings, but it also had over 800 pre-IPO enterprises that were awaiting government approval (as of December 1, 2012). This time lag leads to higher capital cost, so the pre-IPO exit through China's A-share market may not be an optimal choice for foreign PE funds. As a result, foreign PE funds are not only facing trapped channels to the US IPO market, but also uncertainty in regards to the Chinese IPO market.

Therefore, mergers and acquisitions may become the major fund withdrawal channel for foreign PE funds, as IPO channels continue to provide difficultly. In this respect, foreign PE funds have solid experience on merger and acquisition deals. Another possible exit channel for foreign PE is to transact with the VC/PE industry during the Pre-IPO period to realize fund withdrawal. Foreign PEs may increase investment during the business start-up period, where VC firms normally seek potential buyers to recycle their investments during the Pre-IPO stage.

Retail

Foreign retailers readjust China strategies amid economic slowdown

The economic slowdown is weighing on the retailing industry in China. With the growth rate of China's consumer spending softening, many foreign retailers are making big shifts in their China strategies. Some foreign retailers have readjusted their investment plan to align with the sluggish economy. They've had to scale back their once-rampant China expansion goals.

World retailing giant Wal-Mart has announced that it would slash the square footage originally planned in China, by 30 percent this year, while some European retailers have started to close underperforming stores in China. Meanwhile, foreign retailers are more focused on optimizing the location and design of their stores, as a way to improve their sales. They are also finding ways to raise profitability by cutting costs and investing to enhance the efficiency of the supply chain. In addition, some international retailers are introducing new business models in their Chinese operations; Wal-Mart and Home Depot are exploring opportunities to expand their on-line business in China. Tesco is trying to be the real estate manager in some shopping malls and earn money as a landlord for other retailers.

[5] This chapter drew on a number of data sources, key data sources include the following: http://tech.ifeng.com/it/detail_2012_10/17/18309924_0.shtml; www.fmcg.com.cn; http://finance.sina.com.cn/chanjing/gsnews/20121111/103313638462.shtml; http://finance.sina.com.cn/roll/20121119/013913713174.shtml; http://www.21cbh.com/HTML/2012-8-7/4NNDEzXzQ5Mjc4NQ.html; http://www.cn.wsj.com/gb/20121008/BCHc-001202.asp; http://cn.wsj.com/gb/20121107/chw141839.asp?source=whatnews2; http://finance.jrj.com.cn/tech/2012/08/02130613998402.shtml; http://www.ocn.com.cn/free/201210/fangdichankaifashang15290903.shtml; http://www.globaltimes.cn/content/747542.shtml; http://www.chinadaily.com.cn/bizchina/2012-09/25/content_15782378.htm; http://www.reuters.com/article/2012/11/12/china-gold-idUSL3E8MC0Z320121112; Factiva_Japanese Car sales set to recover amid yen fears; Factiva_Dongfeng Nissan launches a new version of Teana in Guangzhou

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China's most recent economic slowdown has forced foreign retailers to rethink their China strategies and to address the long existing problems that were once masked by previous growth rates. Foreign retailers should adopt a clearer brand positioning and a differentiated expansion approach to reach their target customer groups in a bid to sustain growth in the long-term. Despite the recent economic slowdown, China is still the most promising market in the world, with fast urbanization and an expanding middle class. International players in China's retail industry, faced with increasingly fierce local competition, should exploit their respective competitive advantages to fully serve the needs of the country's expanding affluent consumers.

Utilities

Hong Kong & China Gas steps up investment in unconventional gas sources in China

Hong Kong & China Gas Co. has reached an agreement with a foreign company to invest in a shale gas asset in Chongqing, China. The plan illustrates the company's growing ambition to tap into China's burgeoning unconventional gas business, which it regards as a major driver for its expansion in the country. The company reconfirmed its plan to invest HKD 10 billion (USD 1.29 billion) in the Chinese mainland between 2012 and 2014, 70 percent of which will be spent on the development of unconventional energy sources, with the remaining 30 percent earmarked for the distribution network expansion. Hong Kong & China Gas Co., controlled by tycoon Lee Shau-kee's Henderson Land Development Co., has been operating in China for 17 years and has presence in 19 Chinese provinces.

China will move faster to develop both natural gas and unconventional gas sources. Investment in the natural gas industry from abroad and within China is expected to be increasing at a steady pace over the next few years. Some foreign energy companies have showed substantial interest and more foreign participation is welcomed in China's unconventional gas business. However, due to difficult geology, insufficient infrastructure and government restrictions, foreign companies are expected to find a local partner to share risks and the substantial investment needed.

Metals

China looks to move forward in gold market liberalization

In further moves to progress and reform its financial markets, the Chinese government announced in Q4 2012 that it will allow over-the-counter (OTC) gold trading and speculating between banks for the first time. This marks a significant financial reform and trend for the world's second largest buyer of the precious metal. Until now, member banks have been able to trade physical gold between themselves on the Shanghai gold exchange, but the absence of an over-the-counter market has restricted them from being major market makers in gold.

Since gold is seen as a primary alternative investment in China, the introduction of interbank trading/dealing is intended to develop China into more of a liquid market such as London or Hong Kong. This also demonstrates the government's readiness to open the market to greater participation by international players. Challenges still persist in regards to personal gold trading and how to handle the settlement of the trade for international speculation. For example, the Renminbi is the currency of China; for foreign investors to participate in gold trading in Shanghai, currency measures must also be reformed for foreigners to convert their gold trades directly with their issuing currency. Today, if investors want to convert their currency to Renminbi, they must first convert to USD or Japanese Yen. Transactions from other currencies (British Pound, Euro, or Australian Dollar) to the USD or Yen create added transaction costs. If speculators incur additional transaction costs solely to be a player in Shanghai's gold market, they may opt out altogether.

As of November, 2012, China was the world's biggest gold producer and ranked second as a consumer of gold. Undoubtedly, in the longer-term foreign investors will look to gain access to this huge gold market. However, as it stands now, the barriers to entry are only for participating banks and members of the Shanghai gold exchange. Those seeking liberalization of China's gold exchange should be advised that further policy loosening, trade settlement and currency initiatives must be enacted before gold speculation or investment practices can be sought out through a Chinese over-the-counter exchange. Yet for participating foreign banks and local Chinese banks, an OTC gold exchange represents a closer step towards greater liberalization of the financial market and commodity trading in Shanghai.

Biotech/Healthcare

Foreign medical device players are speeding up securing China markets

On Sep. 27, US medical company Medtronic announced it will acquire China Kanghui Holdings. The total value of the transaction was approximately USD 800 million. Two weeks later, Medtronic acquired a 19 percent stake in Lifetech, a minimally invasive medical device maker based in Shenzhen, China.

Recently, we have seen a trend of global firms looking to invest in China's medical device market. In addition to M&A, several top companies from around the globe are also setting up R&D centers in China. In July, Germany endoscope producer Karl Storz began constructing its China headquarters in Shanghai. The China headquarters will work as a multi-functional, comprehensive base for Karl Storz's development in China, which includes an R&D centre, and a logistics, training and after-sales service centre. Covidien's China Technology Centre, which is also located in Shanghai, opened in August. The company seeks to become China's second largest medical device supplier by 2016.

Currently, 70 percent of the high-end medical device market in China is dominated by foreign suppliers, while at the same time these players are also tapping basic medical equipment market, which is the main battlefield for domestic competitors. Philips has set up a Basic Healthcare Business Unit and GE promises to develop rural basic healthcare products, setting targets to launch a new product every six months.

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According to the 12th Five-Year Plan, China will increase investment in public healthcare service systems, city communities and rural medical institution construction. Aside from this, gradually increased medical coverage, aging population and medical equipment upgrades should bring opportunities to medical instrument manufacturers, especially those that are targeting the middle and lower end market. The market opportunities in lower tier cities and rural areas may be substantial, but Chinese enterprises also face keen competition from technologically advanced foreign players. Yet, local players have their comparative advantages as well, including lower prices, knowledge of lower tier city needs, and sales networks in rural areas. To prepare for competition from foreign suppliers, Chinese companies may think of fostering their own innovation abilities by setting up joint ventures and designing or adjusting product models that cater to the needs of medical institutes in lower tier cities or rural areas.

Transport & Logistics

Foreign investment scaled up in Chinese logistics real estate

Facing strict regulation in the residential real estate market and intensifying competition in the commercial real estate sector, foreign investors are seeing an opportunity to invest in Chinese logistics real estate. Goodman Group, one of the world's largest industrial real estate investment groups, announced in October that its flagship project in China - Goodman Pudong airport logistics centre - was officially put into operation. It is claimed to be part of Goodman's ambitious strategy - to add to its initial investment in China by a factor of 10, or RMB 19 billion, over three to five years. Global Logistic Properties (GLP) has aggressively penetrated into 29 key cities and managed 103 logistics parks since its entry to China in 2003, shaping up a network covering the main logistics hubs, industrial parks and urban distribution centers. Other industrial property developers such as Singapore-based Mapletree and Ascendas also continued to scale up their presence in China.

Despite fears of an economic slowdown, China's logistics sector continues to grow. Demand for modern logistics facilities is being fuelled by increased domestic demand for consumer goods and the rapid growth of e-commerce. Even with increasingly higher rent expenses, the vacancy rate in some key transportation hubs is still rather low. Quality logistics property has been pre-leased to third-party logistics operators, retailers and industrial conglomerates prior to completion. Lack of modern warehouses with international standards in China has provided huge opportunities for foreign investors.

Some Chinese traditional property developers, logistics groups and e-commerce companies have also been drawn to compete in this market. They have advantages to win government support in purchasing land; however, lack of capital, expertise and experience has put them at a disadvantage compared to foreign peers. They need to create a clear target market strategy, enhance financing capability, attract professional talent, and improve technological and management skills. In the long-term, the competition with foreign players helps improve their competitiveness and will be beneficial to the development of China's logistics real estate industry.

Automotive

Japanese carmakers faced some challenges in China, plan to refocus on brand quality and rebuilding relationships

In September 2012, Japanese carmakers reported a drop in production and sales in China. This recent drop in demand was primarily attributed to the Diaoyu islands territorial dispute between China and Japan. Toyota's production and sales in China plunged 61 percent and 44 percent respectively, year-on-year in October 2012. Honda's production and sales in China both plummeted 54 percent year-on-year in October. Similarly, Nissan Motor's production and sales also fell 44 and 41 percent respectively, year-on-year in October. The total market share of Japanese cars in China fell to eight percent in October, from about 20 percent before tensions erupted over the islands.

Despite the recent setback, Japanese carmakers look to continue to enhance their 'value for money' proposition built on affordability and quality management. To gain back some of the market share, they may need to allocate a larger portion of their budget towards practical measures to: 1) relieve Chinese customers' worries relating to possible vandalism of their automobile, by focusing on assurance programs and 2) strategically refocus their sales pitch on quality engineering and relative affordability. For example, the new version of the Nissan Teana has been the carmakers flagship product for the medium and high-end segment of the market, yet the price (RMB 190,000 to 230,000) dictates middle-class affordability. Also, since Nissan localized Teana production in China in 2004, it has seen the aggregate sales of the Teana brand topping 700,000 units as of December 31, 2012. Nissan can emphasize that not only is this a flagship brand of high quality and affordability, but it is also manufactured locally in China and contributes to the Chinese economy.

Analysis would suggest that high quality service, promotion, and branding efforts should attract Chinese buyers back into Japanese automobiles. The Japan External Trade Organization (JETO) said recently, that "although Japanese autos suffered a 40 percent decline in September, due to a series of promotions by Japan's automakers, monthly sales had gradually risen by the end of Q4". Japanese trade officials expect auto exports to China to recover by the second half of 2013. One important point to note is that the Diaoyu island conflict still remains unresolved. Hence, production, sales, and trade may be materially affected in the future if conflict resurfaces.

Consumer Markets

Foreign giants still dominate the personal care market, though local brands are rising

Since foreign personal care brands entered the Chinese market back in the 1980s, they have represented high quality, trendy brands. However, according to recent Nielsen research, P&G and Unilever hold only 7.6 percent and 6.6 percent of the market share in the washing detergent/soap sector respectively. Chinese domestic brands, like Pechoin, have already started to aggressively drive into the middle to high-end markets, threatening the

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leadership of foreign brands. These foreign brands' market share has already dropped in some sectors (for example washing powder and soap); however foreign brands still dominate more than 70 percent market share and 90 percent sales revenue of the aggregate personal care industry.

There are some fundamental changes taking place with foreign brands; they are now looking at adjusting their product structures and long-term marketing strategy. P&G and Unilever have shifted their focus away from low-margin cleaning products, and into high-margin products, such as cosmetic and personal hygiene products, indicating that foreign brands have the ability to sustain market fluctuations and respond flexibly to market changes and increased competition. Compared to their foreign competitors, domestic brands still have price advantages as well as domestic reach to most of the second, third, and even fourth-tier cities in China. Therefore, in order to maintain their top position, foreign brands may consider additional expansion opportunities into these up-and-coming markets.

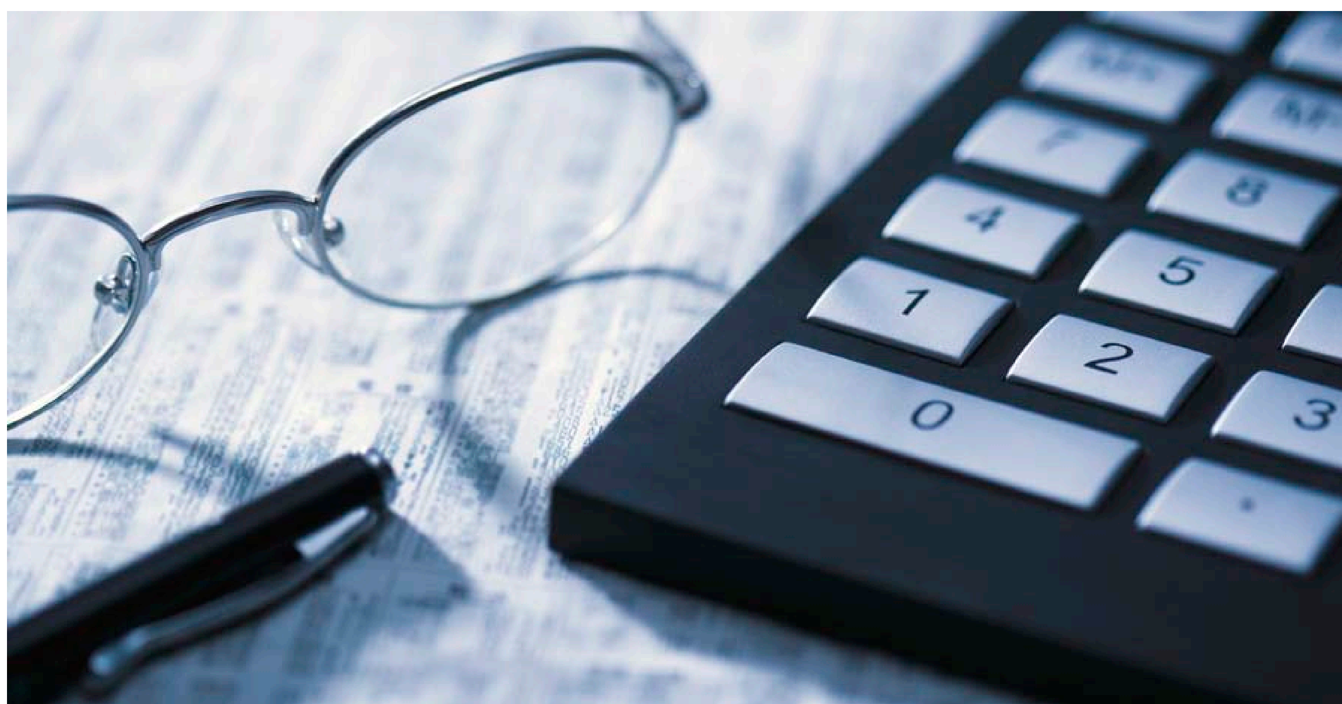
Financial Services

RMB Qualified Foreign Limited Partners' promoting PE investment and RMB internationalization

In October, Renminbi (RMB) Qualified Foreign Limited Partner (RQFLP) was launched in Shanghai with a joint effort by the State Administration of Foreign Exchange, National Development and Reform Commission, and Shanghai Municipal Office of Finance Service. RQFLP could be seen as a creative combination of Qualified Foreign Limited Partner (QFLP) and RMB Qualified Foreign Institutional Investors (RQFII). It allows foreign institutions to establish equity investment entities directly in Shanghai with their off-shore RMB. Within this framework, qualified limited partners would be able to raise RMB, within an applied limit in the off-shore market, and deposit RMB into Shanghai without further application. The funds could be placed in certain private equity investments with the management of qualified general partners. While the RQFII investment range is limited to listed shares and common bonds, the assets that RQFLP could invest in are much more diverse, including: unlisted companies, non-tradable shares of listed companies, convertible bonds, and industry funds.

The first attempt of RQFLP was made by Haitong Security and Bank of Shanghai in October, 2012. They signed a memorandum of understanding whereby Haitong acted as independent manager and Bank of Shanghai acted as custodian bank. According to the memorandum, Haitong Security plans to issue RQFLP funds in Hong Kong to raise off-shore RMB equivalent to USD 10 million in value. On one hand, this innovation is expected to create a new channel for RMB inflow and accelerate the cross-border RMB cash flow. On the other hand, RQFII challenges Hong Kong to consolidate its leadership position in the off-shore RMB market.

By expanding financial resources and optimizing investor structure, RQFLP may be a favorable growth strategy for the domestic private equity fund sector. However, due to poor performance of IPO's and tight policy from regulators in 2012, private equity methods of withdrawal still lack efficiency, and are limited to other less desirable channels of withdrawal.



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Part III: Overview of Foreign Capital Utilization

A General Overview of China's Foreign Investment and Utilization of Foreign Capital

For the full year 2012, total foreign direct investment (FDI) into China was USD 111.7 billion, down 3.7 percent year-on-year. The service sector (including real estate) attracted the majority share of FDI, accounting for USD 53.8 billion, 48 percent of the total national amount as of December 31, 2012. The manufacturing sector accounted for slightly less, USD 48.9 billion, 44 percent of the total FDI in China. The service sector, excluding real estate, rose 4.8 percent year-on-year, while the manufacturing sector declined by 6.2 percent year-on-year. Foreign investment in the real estate sector dropped 10.3 percent year-on-year amid the country's efforts to rein in property prices and mitigate speculative price movements.

The eastern region of China once again reigned as the largest regional user of FDI investment, totaling USD 92.51 billion, down 4 percent year-on-year, and accounting for 83 percent of the national total. The central region utilized USD 9.29 billion of foreign capital, up 18.5 percent year-on-year. The western region utilized USD 9.92 billion, down 14 percent year-on-year. (Source: Ministry of Commerce).

Foreign Direct Investment - Regional and M&A Summary

Breaking down FDI by the three largest global source regions shows a modest slowdown, with some areas of cyclical stability and growth. The EU-27 contribution to China FDI decreased by 3.8 percent year-on-year, as sovereign debt issues continue to handicap regional willingness and ability to outwardly invest. Capital flows from Asian economies, including Hong Kong, Singapore, and Japan, also declined by 4.8 percent year-on-year.[6] The USA contribution to China FDI increased by 4.5 percent year-on-year, showing signs that the US economy may be more stable than other developed regions around the globe, and this could be positively influencing US companies' willingness and ability to invest in China.

For the full year 2012, the summary of mergers and acquisitions (M&A) activity is as follows: there were 548 announced or completed transactions[7] totaling just over USD 40 billion of inbound M&A investment, or 36 percent of total 2012 FDI. Thirty five countries and regions invested in China in 2012, using M&A as a primary expansion method. More than half of total M&A investments came from Hong Kong and US-based companies. Worth noting, a substantial acquisition was announced in quarter 4 and recently verified from Thailand's Charoen Pokphand Group to purchase Ping An insurance of China for over USD 9 billion. Focusing on regional transactions in specific industries, transactions originating from Hong Kong dominated the Chinese real estate and materials industries. Transactions from the US were predominantly focused on China's telecom, media and entertainment (TME) industry as well as the hi-tech and healthcare industries.

Regarding investment size, financial services and TME were the two largest recipients of M&A investment. In fact, all five of the top 5 acquisitions of size (over USD 1 billion) were targeting China's financial services industry or TME industry. A much more telling trend was total number of transactions in specific industries such as: consumer goods/services, materials, hi-tech, and industrials. These industries all registered 70 deals or more in 2012, which is nearly two times the amount of total financial services or TME deals announced or completed. The 12th Five-Year Plan (2011-2015) in China proposes that China transform from a low cost technology producer to a high quality goods producer, and supports the growth of the hi-tech industry. It also supports clean energy, healthcare, materials, manufacturing and industrial goods. For example, industrial auto parts, construction materials, and transportation infrastructure are supported by the government to grow, compete, and become more of an energy efficient producing industry in China. They are specifically mentioned as part of the 12th Five-Year Plan strategy guidelines to use "M&A with international brands for growth and competitiveness". The financial services industry in China benefited a bit differently. There were much fewer overseas transactions, but the transactions that did incur were of very large transactional size; the largest financial services transactions originated from Singapore and Thailand, while the telecom, media and entertainment industries were a benefactor of large individual transactions from North America, predominantly.

As for a summary of individual transactions, most M&A transactions were in the purchase range of USD 10 million to USD 99 million. This evidence suggests that, although there were a few substantial mergers of large size (five transactions above USD 1 billion and five transactions between USD 500 million to 999 million), the majority of target companies were smaller or mid-sized companies. Greater economic value may be realized in mergers of smaller size. These types of mergers can create not only accounting benefits, but also intrinsically-linked, synergistic benefits. Smaller acquisition targets seem to be in favor, as the integration of personnel and business strategy would be less complex in these deals, than on a merger of much larger scale and size.

[6] http://blogs.ft.com/beyond-brics/2013/01/16/china-fdi-levelling-off-at-record-levels
[7] Sources: MergerMarket and Thomson One Banker

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2012 FDI Trend Analysis: Annual FDI falls for the first time since the global financial crisis. What to expect in 2013?

Foreign direct investment to China fell for the first time since 2009. During that period, the financial crisis contributed to global market declines across all investment regions and sectors. This time around, global economies (aside from the lingering European debt crisis) have been taking steps to ensure long-term economic stability, but China's 2012 inbound foreign investment took a step back compared to previous years of consistent growth. In this full year 2012 FDI trend analysis, we will look inside China, try to discover what happened to the FDI growth rate, and guide expectations of what we see affecting FDI in the future.

As discussed in the previous Q3 year-to-date summary, there were two primary factors that correlated to foreign direct investment inflows. The first factor was government policy; these policies can be very influential towards the mere existence of FDI flows into China. For example, the government's intent to upgrade the quality of technology products, expand healthcare regulations, and alter the way it uses fossil fuels, energy and other natural resources can encourage FDI opportunities from abroad. So, what policies or governmental actions have changed since the Q3 report? In November, during the 18th National Congress, a once-in-a-decade leadership transition amongst China's top governing body was announced. Yet, the affects of this transition should not be noticeable until at earliest, March 2013 (when the leadership positions are conferred at the annual National People's Congress). Thus, it is assumed that all internal policy conditions, as stated by the 12th Five-Year Plan, and covered in the Q3'2012 numbers and trends report, continue to be of primary importance in Q4'2012 and until further policies are revised. Policy adjustments to watch for in 2013 include: opening up of the capital account and further liberalization of the Renminbi, along with more open channels of foreign investment in diversified industries, such as clean energy, hi-tech, consumer goods/services, and materials.

The second factor relates to the Chinese macro economy. More specifically, in this report we will focus on a macroeconomic shift that may leave future foreign investment at an economic crossroad in China. Let's start by observing the trends in the service and manufacturing sectors, which together make up over 90 percent of total FDI inflows into China. For years, foreign investment in China has been associated with significant investments in manufacturing. China had become globally known for its ability to manufacture large quantities of goods at a fraction of the cost of other manufacturing centers. This was China's competitive advantage and China was able to utilize it over a span of 30 years, thus becoming a production and global trade super-power.

However, after years of low cost production, China is shifting its strategy to create a higher quality of life for its citizens, and the direct effects are being felt in manufacturing. According to the 12th Five-Year Plan and efforts to drive the consumer spending function of GDP, the government is encouraging increased prosperity through mandatory wage adjustments for certain classes of workers. While manufacturing wages still remain significantly lower in China than in developed countries, the rapidly narrowing gap is beginning to severely influence investors and manufacturers to move to lower cost, more efficient locations outside of China, or re-shoring back to their country of origin. Therefore, it is safe to assume that as wages continue to rise in China (at an annual rate of 15-20 percent)[8], manufacturing inflows may continue to shift to 'more efficient' destinations. Flat or negative FDI growth in manufacturing may quite possibly become the new normal.

One possible solution to keep attracting FDI into China's manufacturing industry would be to introduce high technology advancements to the manufacturing industry. One example of this is the use of robotics to increase margins in manufacturing. For example, Foxconn (an Apple products manufacturer located in Shenzhen) has already begun to implement their plan to install 1 million robots over a three year span, to replace high cost workers. This move may reduce costs, but it also may result in lower employment rates.

Another solution is to shift focus towards ongoing development of the service sector. The aggregate service industry already receives a large percentage of total FDI, and excluding real estate, the service industry continued to grow in 2012, even as total FDI fell (service industry, ex real estate, 4.8 percent growth versus total FDI 3.7 percent decline). By creating a higher standard of services and focusing on quality of the service industry, China can drive foreign direct investment growth. One way to do this is to focus on ways to better serve this vast population, especially concerning the 130 million and growing middle class Chinese citizens. Areas of potential service industry prosperity may include investments in: environmental protection, ecology and energy, retail, consumer goods/services, and healthcare. These are predominantly service-providing industries that seek to take advantage of specific technological advancements and introduce a higher standard and quality of life in China.

So what is known? We have witnessed a year-on-year decline in FDI. This is the first decline since 2009, but argument can be made that 2009 was driven largely by external economic factors, while this decline is largely being driven by systemic shifts in China's structure and overall strategy. It is true that both FDI and overall economic data are weaker than previous years; however, China is still an economic engine of future prosperity. The middle class is large and quickly emerging, and it is estimated that by 2020 Chinese domestic consumption will rise to 80 percent of America's domestic consumption. Thus, an important question to foreign investors should be: "How will you proactively capture the next growth wave in China?" In our opinion - by focusing on providing value with high tech advancements in manufacturing or by investing in the structural advancement of China's service industry.

[8] http://english.caijing.com.cn/2013-01-21/112450069.html

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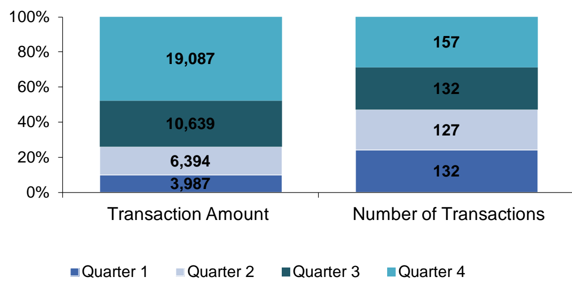
General Overview[9]

For full year 2012, there were 548 'announced' or 'completed' inbound transactions, totaling slightly over USD 40 billion. This compares unfavorably to 2011, which saw over 800 transactions totaling approximately USD 58 billion (sources: Thomson One and MergerMarket). Both transaction amount and number of transactions are showing a greater than 30 percent decline, year-on-year.

Despite the falling year-on-year M&A statistics, some favorable indicators are also evident in 2012. M&A activity for 2012, or 'Transaction Amount' (Figure 3.1), started off soft in the first quarter, but grew and maintained a brisk, consistent quarter-on-quarter growth rate throughout the year. The second quarter saw a 57 percent quarter-on-quarter increase, the third quarter saw a 65 percent quarter-on-quarter increase, and the fourth quarter saw a 79 percent increase over the third quarter. The most significant transaction in the fourth quarter was a conglomerate investor group from Thailand announcing the intent to purchase Ping An Insurance in a deal worth over USD 9.4 billion.[10] The 'Number of Transactions' remained relatively consistent throughout the course of this year, with a slight increase in the fourth quarter (Figure 3.1).

Figure 3.1 2012 FDI, by amount (USD million) and transactions per quarter

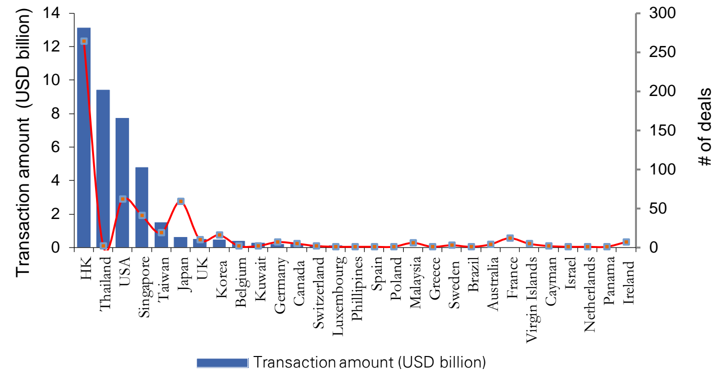


Sources: Thomson One, MergerMarket, KPMG analysis

M&A Regional Analysis

For full year 2012, a total of 35 countries and regions (29 shown below) invested in Chinese companies via M&A. These M&A transactions originated mainly from: the US, Hong Kong, Singapore, Taiwan, the UK, and South Korea. As shown in Figure 3.2, Hong Kong generated the most total transactions, with 264 transactions, totaling over USD 13 billion for 2012. The US engaged in 64 transactions, with a total value of M&A transactions exceeding USD 7.7 billion, but the average transaction size was larger than other developed regions. The average M&A deal size for Hong Kong transactions was approximately USD 50 million, while the average deal size for US transactions was approximately USD 125 million. Finally, Thailand engaged in only two M&A deals with Chinese companies, but one deal announced that was announced in the fourth quarter was reported to be worth approximately USD 9.4 billion.

Figure 3.2 2012 China inbound M&A, by amount and # of deals



Sources: Thomson One, MergerMarket, KPMG analysis

Table 3.1 lists the transaction and number of foreign acquisitions in China, sorted by region, for the full year 2012. The Asia-Pacific region was the main source of M&A into China, as it accounted for over 75 percent of 2012 total activity (USD 30.45 billion) and 75 percent of the total number of transactions (414 transactions). Hong Kong, Macau, and Taiwan accounted for over one-third of the 2012 total M&A transaction amount (USD 14.64 billion). Southeast Asia also contributed significantly to 2012 total M&A (USD 14.34 billion).

The Americas (North, Central and South America) accounted for the second largest investment by region (USD 8 billion). This was anchored by transactions from North America (the US and Canada), which was responsible for nearly 20 percent of total M&A investment into China (USD 7.95 billion) and 67 total transactions in 2012. The key takeaway here is that the majority of inbound M&A investment activity is coming from the most developed neighbors of China, as well as North America, while other sizable purchases can be seen from smaller countries in Southeast Asia, with much fewer overall transactions.

[9] This is an analysis of "announced" and "completed" inbound M&A transactions. We view announced acquisitions as to-be-completed acquisitions. Thus total announced and completed merger activity may differ significantly from what the Chinese government counts as total foreign direct investment in M&A.
[10] http://www.ft.com/cms/s/0/26418eda-5974-11e2-88a1-00144feab49a.html#axzz2I0t04Ysb

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Table 3.1 2012 Geographical Distribution Table and Transaction Amount of Foreign Investment in China M&A

Region	Transaction amount (USD millions)	# of Transactions
Global	**40,108**	**548**
Asia	**30,453**	**414**
HK, Macau, Taiwan	14,639	286
Southeast Asia	14,337	50
Japan & South Korea	1,156	75
South Asia & Middle East	320	3
America	**8,007**	**76**
North America	7,952	67
Central & South America	55	9
Europe	**1,628**	**51**
EU Member Countries	1,476	49
Non-EU Member	152	2
Oceana	**21**	**4**
Africa	**1**	**3**

Note: This is an analysis of 'announced' and 'completed' inbound M&A transactions sourced from Thomson One Banker and MergerMarket. Total announced and completed merger activity may differ significantly from what the Chinese government counts as total 'foreign direct investment', as per their 2012 total FDI statistical data provided by MOFCOM.

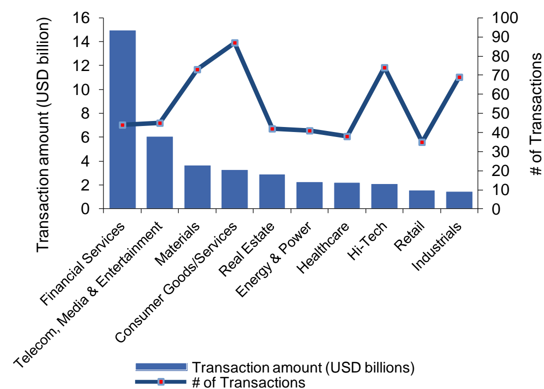
Sources: Thomson One, MergerMarket, KPMG analysis

M&A Industry Analysis

Figure 3.3 displays the 10 major industries in China involved in M&A activity, for the full year 2012. These industries represent the target firm, not the purchasing firm, as purchasing firm industries may differ significantly. The industry that received the largest inbound M&A flow was 'financial services'. Financial services in China received nearly USD 15 billion, with 44 M&A transactions pending or completed by December 31, 2012. A large portion of financial services investment was sourced from two large transactions. These transactions originated from Thailand and Singapore, and the target companies were Ping An Insurance and ICBC Bank respectively. The total amount of those two purchases equates to roughly 11.7 billion, or 83 percent of total 'financial services' M&A. Telecom, media, and entertainment (TME) was a distant second, receiving USD 6 billion with 45 total transactions in 2012.

The consumer goods and services industry is an interesting one to analyze. This industry includes textiles and apparel, food and beverage, household and personal products, furnishings, and professional services. In 2012, the consumer goods and services industry received USD 3.3 billion in M&A investment, but the statistic of interest here is the 'total number of transactions'. With approximately 90 announced or completed transactions during 2012, consumer goods and services was the preferred industry for strategic M&A activity. If the retail industry (food and beverage, discount retailing, and other retailing) is grouped with the consumer goods and services industry, the number of transactions and total M&A investment would be even higher. Although service-type industries can be found in any number of the 10 listed industries below (such as healthcare, hi-tech, and industrials), this information confirms the belief that companies are starting to pay particular attention to services industries in China.

Figure 3.3 2012 inbound M&A in China, by industry

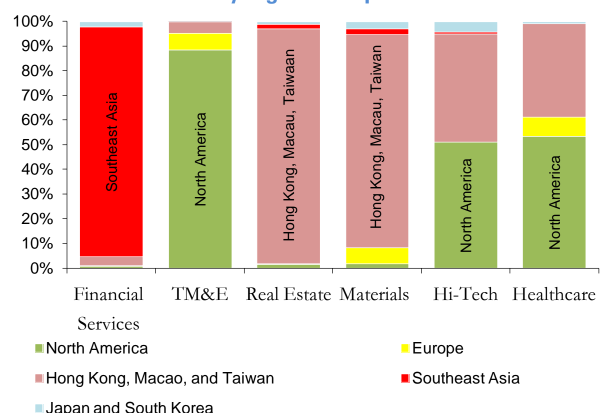


Sources: Thomson One, MergerMarket, KPMG analysis

Figure 3.4 displays the top six M&A industries in China, as well as the top five regional acquirers. It should be noted again that these categories reflect the target (Chinese) firm industry, not the foreign firm industry. In 2012, the industry receiving the largest total M&A investment activity was financial services (see figure 3.3), with the Southeast Asia region representing the largest aggregate investment in China's financial services industry (see figure 3.4).

For a more diversified M&A industry view, we can take a look at healthcare M&A, by region. Hong Kong and North America accounted for a large portion of M&A healthcare activity; purchases originating from Europe were also active in China's healthcare sector, to a lesser extent. Other, less diversified industries include: real estate and materials. These industries were dominated by purchases from Hong Kong, Macau, and Taiwan, with very little investment coming from western countries. Although Japan and South Korea were responsible for 75 M&A transactions in 2012 (See table 3.1), the relative size of those transactions within each industry were small, compared to Southeast Asia and North America transactions. Telecom, media and entertainment M&A was largely sourced from North America transactions and was the second largest inbound M&A industry in 2012.

Figure 3.4 Top 6 Industries of inbound acquisition, by regional acquirer



Sources: Thomson One, MergerMarket, KPMG analysis

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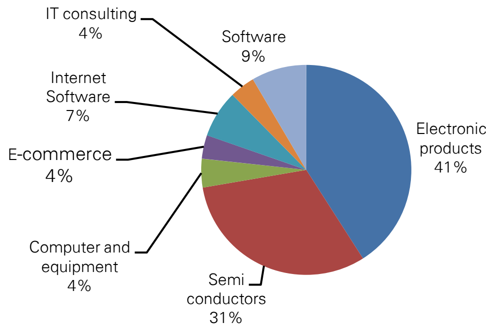
We can further break down some aggregate industries into 'sub-industries'. For example, the financial services industry has the following sub-industries: banking and insurance, asset management, and other transactions. However, financial services had a small number of very large transactions in 'banking and insurance', skewing the data towards this singular sub-industry. As a matter of fact, there were many more M&A transactions completed or pending in the 'asset management' and 'other finance' sub-industry, but with much less capital being committed. This is also true for the real estate industry and the TME industry. There are two industries noted in figure 3.5 and 3.6 that had sub-industries worth noting, based on the diversity of sub-industry investment; they are hi-tech and healthcare.

The hi-tech and healthcare sub-industries were not dominated by one or two large M&A transactions, but instead exhibited several transactions from foreign investors. They are also worth a closer look based on their stated relevance in China's 12th Five-Year Plan (2011-2015). One of the primary objectives of China's 12th Five-Year Plan (the Plan) was to fuel the growth of technology and healthcare sectors. The government supports inbound M&A transactions that will make greater efforts to enhance competitiveness, promote industry dynamics, and increase economic efficiency.[11] This analysis breaks down the technology and healthcare sub-industries, and identifies any such trends that are in accordance with the Plan.

Figure 3.5 2012 Hi-tech industry transactions, by sub-sector



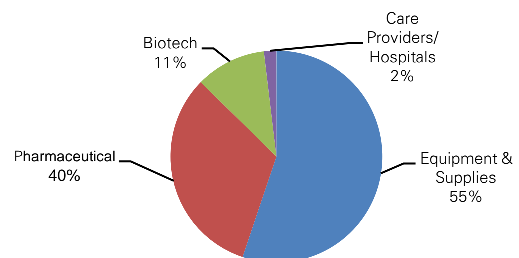
Sources: Thomson One, MergerMarket, KPMG analysis

As provided by the Plan, some key development directions of the government are specifically related to technology. The Plan states that new generation information technology, high-end software, and high-end manufacturing will be the key drivers of growth and as such, will be supported and facilitated by the government.

As shown in figure 3.5, 'Electronic Products' and 'Semiconductors' were the two sub-industries within hi-tech that received the largest M&A investment, 41 percent and 31 percent respectively. This is in-line with the Plan to support more efficient and highly effective technological equipment and products in China. Analysis suggests that a larger amount of M&A activity will continue to occur in the technology sector, specifically in products and hardware, due to government support of this industry.

The largest hi-tech deal occurred in the electronic products sub-industry, an M&A deal valued at USD 536 million. This was the General Electric/China XD Electric transaction, in the second quarter.

Figure 3.6 2012 Healthcare industry transactions, by sub-sector



Sources: Thomson One, MergerMarket, KPMG analysis

Also stated in the Plan, was the importance of developing the healthcare industry in China. The government emphasized foreign investment for the development of the healthcare sector. Shown above, the beneficiaries of M&A activity were reflected by transactions in both pharmaceuticals, and medical equipment & supplies. The Plan aims to further grow research and development, and manufacturing capabilities through M&A strategies targeting both Chinese and western medical technologies.[12]

As shown in figure 3.6, 'Equipment & Supplies' and 'Pharmaceuticals' were the two sub-industries within healthcare that received the largest M&A investment, 55 percent and 40 percent respectively. This is in-line with the Plan to support an overhaul of the healthcare industry in China, which includes higher quality equipment and technology, as well as diverse investments in bio-tech and bio-pharmaceutical engineering. Analysis suggests that a larger amount of M&A activity will continue to occur in the healthcare sector due to government support of this industry as well as China's general need for healthcare reform.

The largest healthcare deal occurred in the equipment and supplies sub-industry, an M&A deal valued at USD 720 million. This was the Medtronic/China Kanghui Holdings transaction, in the third quarter.

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[11] http://www.globalintelligence.com/insights-analysis/bulletins/implications-of-china-s-latest-five-year-plan-on-m

[12] http://www.kpmg.com/cn/en/IssuesAndInsights/ArticlesPublications/Documents/China-12th-Five-Year-Plan-Healthcare-201105-3.pdf

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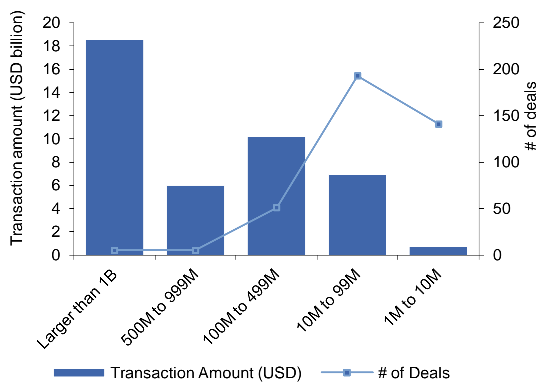
M&A Analysis of Transaction Size

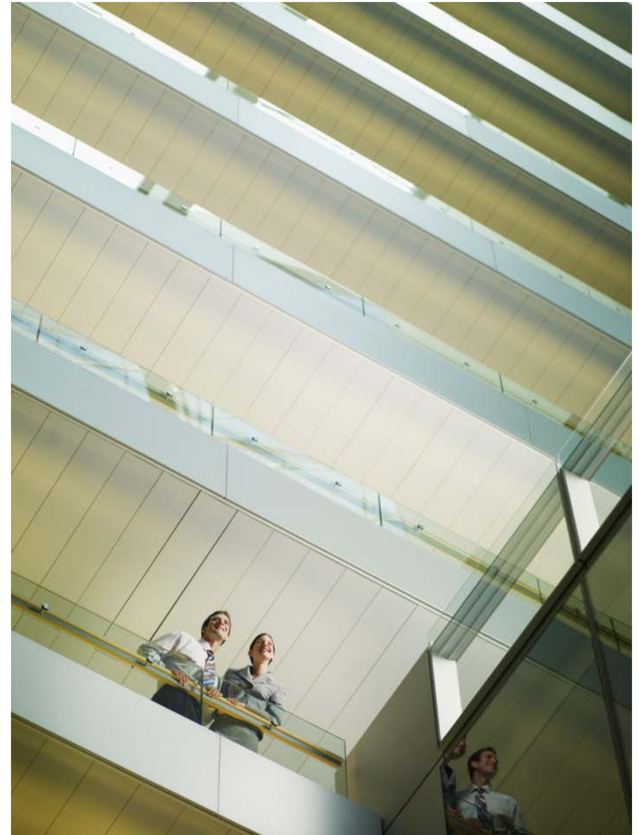
Figure 3.7 shows M&A transactions for 2012, broken out into five categories based on size. There were five deals larger than USD 1 billion and five deals between USD 500 million to USD 999 million. Most of the deals were announced or completed in the 'USD 10 million to USD 99 million' range, with consumer goods/services, materials, hi-tech, and industrials taking up a large portion of total deals that lacked 'substantial' financial size (see figure 3.3).

Financial services and TME were the industries that encompassed the higher echelon of deal size, but occurred with far less frequency than the previously aforementioned industries. This suggests that smaller company acquisitions in industries like materials (commodities) and hi-tech (electronic products) continue to add value for global purchasers, and should continue to receive M&A interest in the future, as encouraged by the Plan.

Figure 3.7 2012 Transaction amount, by size of transaction



Sources: Thomson One, MergerMarket, KPMG analysis



Analysis of Top 10 M&A Deals

Table 3.2 lists the full year 2012, top 10 M&A deals in China, by transaction value. The acquirers who participated in these deals were from five different countries/regions: USA, Singapore, Hong Kong, Thailand and Taiwan. The key trend to notice is the absence of the EU-27 from any large acquisitions. The EU is one of China's largest trading partners by total trade, yet their absence from participating in any M&A deals of substantial size is most likely due to the ongoing uncertainty regarding the member nations and the respective sovereign debt issues.

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Table 3.2 Top 10 Foreign M&A Inbound deals to China in 2012						
Rank	Acquiror			Acquiree		Transaction Value ($ mill)
	Acquiror	Industry	Country	Target	Industry	
1	Conglomerate Investor Group	Financial Services	Thailand	Ping An Insurance	**Financial Services**	9,385
2	Carlyle Group	Financial Services	USA	Focus Media Holdings	**Telecom, Media, Entertainment**	3,503
3	Temasek Holdings	Financial Services	Singapore	Industrial and Commercial Bank of China	**Financial Services**	2,384
4	China Unicom (HK) Ltd	Telecom, Media, Entertainment	Hong Kong	Unicom New Horizons	**Telecom, Media, Entertainment**	1,952
5	Abu Dhabi / Govt of Singapore	Financial Services	Singapore	China Pacific Insurance Group	**Financial Services**	1,340
6	Guang Cheng Group Ltd	Financial Services	Hong Kong	Lexing Holdings Ltd.	**Materials**	907
7	Fubon Financial	Financial Services	Taiwan	First Sino Bank	**Financial Services**	906
8	Medtronic	Healthcare	USA	China Kanghui Holdings	**Healthcare**	720
9	TPG Holdings	Financial Services	USA	HCP Holdings Inc	**Consumer Goods**	600
10	General Electric Company	Hi-Tech	USA	China XD Electirc Co., Ltd.	**Hi-Tech**	536

Sources: Thomson One, MergerMarket, KPMG analysis

The largest inbound M&A deal in 2012 belongs to a conglomerate investor group from Thailand; a USD 9.4 billion announced acquisition of Ping An Insurance Company, an insurance provider in China. The PE firm Carlyle Group and its acquisition of Focus Media Holdings, a Chinese Media and Entertainment company, ranks second. This deal was announced in the third quarter of 2012, is valued at USD 3.5 billion, and ranks as the largest leveraged buyout on record in China. The third largest transaction was Singapore's Temasek Holdings acquiring shares of Industrial and Commercial Bank of China (ICBC). ICBC is currently the world's largest bank by market capitalization, valued around USD 250 billion. The top ten deals were all above USD 500 million and the top five were over USD 1 billion. The trend for the largest M&A deals in China seems to favor China's financial services and TME industries.

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Appendix：List of M&A Activity for 4Q 2012

Interpretation of the data sources

Data source: Mainly Thomson ONE data, including some cases from Merger Market that were not listed in Thomson ONE, with all data verified through other public information channels, and the Chinese names of the companies cross-checked.

Thomson ONE standards for inclusion of M&A cases:

- Acquired shares exceed 5 percent of the total assets of the target party of acquisition;
- Or, acquired shares exceed 3 percent of the total assets of the target party of acquisition, and the value of the transaction exceeds USD 1 million;
- Or, if the value of the acquisition is less than 3 percent of the total assets of the target party of acquisition, the acquiring party has expressed intention to acquire the entire target party of acquisition, or the underlying M&A causes the acquiring party to possess over 50 percent of the shares of the target party of acquisition;
- Or, regardless of the value of the underlying acquisition and the transaction, the underlying acquisition causes the acquiring party to acquire the remaining shares of the target party of acquisition, and thereby hold 100 percent of the shares of the target party of acquisition.

MergerMarket standards for inclusion of M&A cases:

- The acquisition value exceeds USD 5 million;
- Or, if the acquisition value is less than USD 5 million, the underlying acquisition causes the acquiring party to possess more than 50 percent of the shares of the target party of acquisition;

We have categorized the industries of M&A enterprises into the following 13 groups:

I. Consumer goods and services including consumer staples, education, employment services, household services, legal services, tourism, professional services and seven sub-groups under other consumables;

II. Energy and power, including fossil fuels and natural gas, electricity, renewable and efficient energy, petrochemical products, oil pipelines, water and waste treatment and seven sub-groups under other energy and electricity;

III. Financial services, including banking, brokerage, insurance, credit agencies, asset management, other financial investments, diversified financing, government-sponsored entities and nine sub-groups under other financial services;

IV. Medical care, including bio-technology, medical instruments, medical service providers, hospitals, pharmaceutical manufacturing and six sub-groups under other medical care;

V. Hi-tech, including computers and peripheral equipment, E-business, electronic products, internet infrastructure, software and services, ICT technical consulting services, semi-conductors, software and nine sub-groups under other hi-tech;

VI. Industrials, including aviation, aerospace and national defense, automobiles and parts, construction/building and engineering, industrial groups, mechanics, transportation and infrastructure and seven sub-groups under other industries;

VII. Materials, including chemical products, building materials, mining, containers and packaging, paper-making and forestry products, and six sub-groups under other materials;

VIII. Telecom, media and entertainment (TME), including space and satellites, telecommunication equipment, telecommunication services, wireless and five sub-groups under other telecommunications. Also including commercials and market promotions, broadcasting, cable, casinos and games, hotels and accommodation, entertainment and leisure, video and audio, publishing and nine sub-groups under other media and entertainment;

IX. Real estate, including residential, non-residential, real estate management and development, real estate investment trust funds and five sub-groups under other real estate;

X. Retail, including garment retailing, automobile retailing, computer and electronic product retailing, discounts and department store retailing, food and beverage retailing, home products retailing, internet retailing and eight sub-groups under other retailing;

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Quarter 4 saw an increasingly positive trend towards 'hi-tech' and 'materials' industry acquisitions. Although the size of these acquisitions took a distant placing to industries such as finance or TME, it is important to understand that industry development such as technology, materials, consumer goods/services, industrials and healthcare are extremely important for the further development of China. It will be important to pay close attention to these industries into 2013 and beyond, as one could expect more inbound M&A growth and development from these specific industries.

2012 Q4 Announced or Completed Inbound China Mergers and Acquisitions

	Announce Date	Acquirer	Target	Acquirer Country	Amount (USD mil)
HI-TECH					
1	2012.10	Lattice Engines	Black Atoms	USA	-
2	2012.10	China trust Venture Capital	FocalTech Systems Inc	Taiwan	13.00
3	2012.10	Quantum Semicond Intl Co Ltd	QUINTEC Co Ltd	South Korea	3.70
4	2012.10	Neo Telemedia Ltd	Undisclosed Cloud Computing Co	Hong Kong	-
5	2012.11	Investor Group	Bitauto Holdings Ltd	USA	65.00
6	2012.11	PCCW Solutions Co Ltd	Vandasoft Tech Hldg Ltd	Hong Kong	-
7	2012.11	NEXT Co Ltd	Next Ppty Media Hldg Ltd	Japan	-
8	2012.11	Mitsui & Co., Ltd.	Shanghai Yi Shang Network Information Co., Ltd.	Japan	12.60
9	2012.11	Investor Group	Contel Corp Ltd	Singapore	1.37
10	2012.11	NIDEC Copal Electronics Corp	Jiaxing Kenly Precision Electn	Japan	-
11	2012.11	CPT Technology(Namin)Co Ltd	FocalTech Systems Inc	Malaysia	3.00
12	2012.11	Protech Century Ltd	Daiwa Electronic Ltd	Hong Kong	-
13	2012.11	Protech Century Ltd	Daiwa Resource Ltd	Hong Kong	8.68
14	2012.11	Baolink Capital Ltd	TTG Mobile Coupon Services Ltd	Australia	19.65
15	2012.12	Kabam Inc	Balanced Worlds Studios	USA	-
16	2012.12	M Dream Inworld Ltd	Apperience Corp	Hong Kong	69.53
17	2012.12	Best Able Ltd	Jiangyin Titans High Voltage	Hong Kong	3.89
18	2012.12	Eastgate Technology Ltd	Espressif Microelectronics	Singapore	-
19	2012.12	Eastgate Technology Ltd	Espressif Sys(Shanghai)Pte	Singapore	3.30
20	2012.12	Mongolia Investment Group Ltd	LED System (Shanghai) Technology Pte. Ltd.	Hong Kong	34.056
21	2012.12	ChinaSoft International Limited	Beijing Ailanggerui technology Co., Ltd.	Hong Kong	30.46
22	2012.12	Grand Vista Management Ltd	Tong Tai Co Ltd	Hong Kong	-
23	2012.12	Grand Vista Management Ltd	Hai Te Wei Co Ltd	Hong Kong	10.32
24	2012.12	TPK Universal Solutions Ltd	Jianying Technology(Xiamen)Co	Taiwan	26.00
25	2012.12	Diodes Cayman Islands Co Ltd	BCD Semiconductor Mnfg Ltd	USA	146.12
26	2012.12	Ocean Delight Investments Ltd	Shenzhen ZNV Technology Co Ltd	Hong Kong	166.38
MATERIALS					
1	2012.10	Equal Leader Ltd	Global Castle Investments Ltd	Hong Kong	103.21
2	2012.10	Brilliant Tube Intl Ltd	China Gogreen Energy Invest	Hong Kong	6.45
3	2012.10	Guang Cheng Group Co Ltd	Lexing Holdings Ltd	Hong Kong	907.10
4	2012.10	Kingwell Group Ltd	Port First Ltd	Hong Kong	-
5	2012.10	Keen Castle Ltd	Rank Best Investment Ltd	Macau	-
6	2012.10	L & L Energy, Inc.	Union Energy (LuoZhou and LaShu Mines)	USA	37.10
7	2012.10	Yinfu Gold Corp	Tengxian Fuyi-Dayu Gold Mine	Hong Kong	24.00
8	2012.10	Sinai Manganese Company	Shanghai Yuting Plastic Prod	Egypt	0.16
9	2012.10	Pacific Can Co Ltd	Rexam Beverage Can Zhao Qing	Hong Kong	-
10	2012.10	Give Power Technology Ltd	Bestco Worldwide Invest Ltd	Hong Kong	17.42
11	2012.10	Up Energy Development Group Limited (formerly Tidetime Sun)	Champ Universe Limited	Hong Kong	203.82
12	2012.11	Keen Talent Holdings Ltd	China Vanadium	Hong Kong	237.08
13	2012.11	Jiangchen Intl Hldgs Ltd	China Timbers Ltd	Hong Kong	45.16
14	2012.11	Oiles Corp	Dalian Sanhuan Composite	Japan	5.92

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	Announce Date	Acquirer	Target	Acquirer Country	Amount (USD mil)
15	2012.11	Asia Packaging Group Inc.	Yuanxing Package (China) Company Limited	Canada	48.33
16	2012.12	FDS Networks Group Ltd	Delta Advanced Materials Ltd	Hong Kong	55.31
17	2012.12	FDS Networks Group Ltd	Jiangsu Yangtze River Delta Fine Chemicals Co., Ltd.	Hong Kong	135.29
18	2012.12	Investor Group	Kobelco Spring Wire(Foshan)Co	Japan	-
19	2012.12	Grand Just Ltd	Wider Trading Ltd	Hong Kong	-
20	2012.12	Sherwin-Williams Co	Changzhou(Jiangsu)Pulanna	USA	-
21	2012.12	Arkema Asie SAS	Changshu 3F Fluorine Chemical	France	-
22	2012.12	Arkema Asie SAS	Changshu 3F Fluorine Chemical	France	4.42
23	2012.12	Hankuk Paper Manufacturing Co. Ltd.	Kook-il Paper (Zhangjiagang) MFG Co., Ltd.	South Korea	34.4
24	2012.12	Oriental Group Ltd	Xinghua Rongcheng Precision	Singapore	6.52
INDUSTRIALS					
1	2012.10	Yada Investment Ltd	Hinno Investment Ltd	Hong Kong	-
2	2012.10	Yada Investment Ltd	Spotwin Investment Ltd	Hong Kong	15.95
3	2012.10	A & E Holding Limited	Foshan Nanhai Zhongnan Aluminium Wheel Co., Ltd.	Singapore	18.96
4	2012.10	Olympus Capital Holdings Asia; Anoi Limited	Grant Achieve Global Limited	USA	30
5	2012.10	Global Logistic Properties Ltd	Shenyang Puji Logistics	Singapore	-
6	2012.11	Metso Oyj	Shaorui Heavy Industries Co., LTD.	Finland	-
7	2012.11	Shimadzu Corp	Tianjin Shimadzu Hydraulic	Japan	2.07
8	2012.11	Nissin Corp	Shanghai Gaosin Intl Logistics	Japan	-
9	2012.11	Investor Group	Melian Rubber Industries Ltd	Malaysia	1.18
10	2012.11	Tai Shing Intl(Hldg)Ltd	Tirack Holdings Corp	Hong Kong	16.02
11	2012.11	Jinheng EMS (BVI) Limited	Shiny Bright Holdings Limited	Hong Kong	5.16
12	2012.11	Oiles Corporation	Dalian Sanhuan Composite Material Technology Development Co, Ltd.	Japan	5.92
13	2012.11	New Times Energy Corporation Limited	GuiZhou KunYu Trading Company Limited	Hong Kong	12.85
14	2012.11	Fulvis Investments Ltd	Anew Capital Ltd	Hong Kong	7.36
15	2012.11	Billion Sky Investment Ltd	Central Pacific Intl Grp Ltd	Hong Kong	1.29
16	2012.11	HanKore Environment Tech	Jiangsu Tongyong Envi	Hong Kong	15.49
17	2012.12	China Merchant Hldg(Pac)Ltd	Hong Kong Honest Queen Intl	Singapore	148.44
18	2012.12	Nemak Exterior SLU	Nanjing Longni Precious	Spain	-
19	2012.12	Inoue Unyu	Shanghai Sanho International	Japan	-
20	2012.12	New Fine Intl Dvlp Ltd	Beijing Inland Port Co Ltd	Hong Kong	6.09
21	2012.12	SANYO Electric Co Ltd	Shenyang Sanyo Air-Conditioner	Japan	-
22	2012.12	Dragon Harbour Ventures Limited	China Farm Equipment Limited	Virgin Islands	6.83
23	2012.12	Allegro Sky Global Capital Ltd	Sino Construction Ltd	Singapore	16.84
CONSUMER GOODS & SERVICES					
1	2012.10	Aeon Delight Co Ltd	Suzhou Sufang Property Mgmt Co	Japan	4.87
2	2012.10	China Boon Holdings Limited	Zhejiang Anxian Yuan Company Limited	Hong Kong	55.47
3	2012.10	Jilin Qifeng Chemical Fiber Co	Jilin Chemical-Fixed Assets	Hong Kong	46.16
4	2012.10	Fortune Domain Ltd	Synear Food Holdings Ltd	Singapore	104.41
5	2012.10	Viva China Holdings Ltd	Li Ning Co Ltd	Hong Kong	275.88
6	2012.10	M2L Holdings Ltd	Jade Palm Group Ltd	Singapore	1.37
7	2012.10	DTG(BVI)Ltd	Dragon Grand Group Ltd	Taiwan	13.75
8	2012.10	Charles River Labs Intl Inc	Vital River Laboratories Co	USA	27.00
9	2012.10	Anheuser-Busch Inbev	Undisclosed China Brewery Co	Belgium	400.00
10	2012.11	JAFCO Co., Ltd.; Fidelity Growth Partners; ClearVue Partners L.P.; Capvent	Lumi Holdings, Inc. (Undisclosed Economic Interest)	United Kingdom	20.00

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	Announce Date	Acquirer	Target	Acquirer Country	Amount (USD mil)
11	2012.11	Max June Ltd	Total Grand Investments Ltd	Hong Kong	62.30
12	2012.11	Carlsberg A/S	Chongqing Jianiang Brewery Co., Ltd.	Germany	96.36
13	2012.11	MSPEA III	Idea Thrive Limited	Hong Kong	9.33
14	2012.11	Best Creation Intl Ltd	Luck Shamrock Ltd	Hong Kong	-
15	2012.12	Wealth Keeper Ltd	Tibet Tiandi Green Beverage	Hong Kong	95.58
16	2012.12	Minor International Public Co. Ltd.	Beijing Riverside & Courtyard Co Ltd	Thailand	39.94
17	2012.12	Modern Media Holdings Ltd	Beijing Baiguanghe Tech Co Ltd	Hong Kong	1.20
18	2012.12	Osim International Ltd	Suzhou Daitec Exercising Mach	Singapore	1.09
19	2012.12	Avgol Industries 1953 Ltd	Hubei Gold Dragon Nonwoven	Israel	12.30
TELECOM MEDIA & ENTERTAINMENT					
1	2012.10	Create Profit Holdings Ltd	Rich State Media Entrp Ltd	Hong Kong	9.68
2	2012.10	Create Profit Holdings Limited	CBSO China	Hong Kong	9.675
3	2012.10	Grey Global Group Inc	ArtM Communication Group	USA	-
4	2012.10	HL Technology Group Ltd	Rosy Sun Investments Ltd	Hong Kong	83.88
5	2012.10	HL Technology Group Limited	Shenyang New Postcom Equipment Co.,Ltd.	Hong Kong	83.85
6	2012.11	eSun Holdings Ltd	Guangdong May Flower Cinema	Hong Kong	2.18
7	2012.11	America Assets Holding Group	Magic Golden Ltd	Hong Kong	52.63
8	2012.11	Neo Telemedia Ltd	Hughes China Holdings Co Ltd	Hong Kong	-
9	2012.11	Neo Telemedia Ltd	China Orient Space Commun Ltd	Hong Kong	-
10	2012.11	Neo Telemedia Ltd	China Unifiednet Holdings Ltd	Hong Kong	-
11	2012.11	China Unicom (Hong Kong) Limited	Unicom New Horizon Telecommunications Company Limited	Hong Kong	1,952.61
12	2012.11	New Insight Holdings Group Ltd	Shenzhen Yelinwan Invest	Macau	-
13	2012.12	GMG Media Group Ltd	China Tianxia Media Grp(HK)Ltd	Hong Kong	12.95
14	2012.12	Flextronics International Ltd	Motorola-Tianjin Mnfr Op	Singapore	-
15	2012.12	Hugo Silver Ltd	Keen Renown Ltd	Hong Kong	2.87
16	2012.12	GroupM	Filmworks China Ent Marketing	United Kingdom	-
17	2012.12	Realgold Venture Pte Ltd	Zhuhai Tengda Business Hotel	Hong Kong	0.06
ENERGY & POWER					
1	2012.10	Metech International Ltd	Tonkin Recycling Pte Ltd	Singapore	3.12
2	2012.10	Investor Group	Luxi Water-Water Supply Assets	Hong Kong	8.27
3	2012.10	Sino French Water Dvlp Co Ltd	Shuangliu Dayi Envi Tech Co	Macau	-
4	2012.10	BP Global Investment Ltd	BP Zhuhai Chemical Ltd	United Kingdom	156.33
5	2012.11	Woori Columbus I LLC	Guangzhou Doowon Steel Co Ltd	South Korea	50.44
6	2012.11	MIE Holdings Corp	Pan-China Resources Ltd	Hong Kong	45.00
7	2012.11	Sino Gas Finance Ltd	Shenzhen Sinogas Invest Co Ltd	Hong Kong	1.33
8	2012.12	Investor Group	China Merchants New Energy	Hong Kong	306.96
9	2012.12	First Mobile Grp Hldgs Ltd	Chongqing Fuling Julong	Hong Kong	87.75
10	2012.12	ecoWise New Energy Pte Ltd	Hivern Investments Pte Ltd	Singapore	0.09
11	2012.12	Total Belief Ltd	Rich Joint Group Ltd	Hong Kong	12.26
12	2012.12	Kuwait Foreign Petroleum Exploration Company	BP plc (Yacheng gas field)	Kuwait	308.00
13	2012.12	SMA Solar Technology AG	Jiangsu Zeversolar New Energy	Germany	37.12
HEALTHCARE					
1	2012.10	Medtronic Inc	Lifetech Scientific Corp	USA	328.29
2	2012.10	China Environmental Energy	Altman Investment Ltd	Hong Kong	-
3	2012.10	PerkinElmer, Inc	Shanghai Haoyuan Biotech Co.,Ltd	USA	38
4	2012.10	COL Capital Ltd	Jiatai Tongren(Lianyungang)	Hong Kong	32.00
5	2012.11	China Grand Pharmaceutical and	Grand Pharmaceutical (China)	Hong Kong	21.6293

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	Announce Date	Acquirer	Target	Acquirer Country	Amount (USD mil)
		Healthcare Holdings Limited	Company Limited		
6	2012.12	Smart Modern International Ltd	Zhongshan Xinda Zhongshan	Hong Kong	0.07
7	2012.12	Terumo Corp	Shanghai Angiocare Medical	Japan	-
8	2012.12	TPG Capital, L.P.	ShangPharma Corporation	USA	73.54
9	2012.12	Cinkate Corp	Changzheng-Cinkate(Suzhou)	USA	-
FINANCIAL SERVICES					
1	2012.11	SK Holdings Co Ltd	SK China Co Ltd	South Korea	184.07
2	2012.12	Express Team Holdings Inc	Infinity Equity Mgmt Co Ltd	Hong Kong	-
3	2012.12	Investor Group	Ping An Insurance(Group)Co	Thailand	9,385.93
4	2012.12	Sunwin Investment Holding Ltd	Beijing Yuedetong Finl Co Ltd	Hong Kong	2.70
5	2012.12	Triocean Investments Ltd	Endless Rocket International	British Virgin	-
6	2012.12	Favour South Ltd	Treasure Join Ltd	Hong Kong	105.76
7	2012.12	Kepventure Pte Ltd	China Canton Investments Ltd	Singapore	0.03
8	2012.12	Fubon Financial Holding Company Ltd; Taipei Fubon Commercial Bank Co Ltd	First Sino Bank	Taiwan	906.26
9	2012.12	Can Gold Ltd	Beijing Dong Fang Hui	Hong Kong	40.56
RETAIL					
1	2012.11	Yinfu Gold Corp	Chongqing Number One Jewelry	Hong Kong	11.25
2	2012.11	Seamless Green China(Hldg)Ltd	Neo Partner Investments Ltd	Hong Kong	3.07
3	2012.11	MSPEA CVS Holding BV	Ideal Thrive Ltd	Netherlands	9.33
4	2012.11	Smartest Man Holdings Ltd	China Pearls & Jewelry City	Hong Kong	3.67
5	2012.12	General Atlantic LLC	Xiabu Xiabu Catering Mgmt Co	USA	-
6	2012.12	Investor Group	Beaunet Ret & Whl Commerce	Japan	-
7	2012.12	Arrow Electronics Inc	Waching Co Ltd-Business Unit	USA	-
8	2012.12	AmRest Holdings SE	Blue Horizon Hospitality Group	Poland	40.00
9	2012.12	MFG International Holding	Over Success Entrp Pte Ltd	Singapore	39.89
REAL ESTATE					
1	2012.10	Investor Group	Shenyang Public Utility Hldg	Hong Kong	11.71
2	2012.10	Sino Grandeur Ltd	Jia Yuan Trading Ltd	Hong Kong	45.19
3	2012.10	In Profit Hong Kong Dvlp Ltd	Yuan Cheng RE(Shenzhen)Ltd	Hong Kong	0.02
4	2012.11	Chang De Invest Private Ltd	Tianjin Zizhulin Guang Gang	Singapore	1.95
5	2012.12	Double Favour Ltd	High Luck International Ltd	Hong Kong	475.19
6	2012.12	Kerry Properties(China)Ltd	Zhanye RE(Yingkou)Co Ltd	Hong Kong	9.65
7	2012.12	Kerry Properties(China)Ltd	Zhanfeng RE(Yingkou)Co Ltd	Hong Kong	6.45
8	2012.12	Honghui Investments Co Ltd	Leadway Pacific Ltd	Hong Kong	17.76

International definition of foreign direct investment

According to the International Monetary Fund's (IMF) definition, Foreign Direct Investment (FDI) refers to an investment by an investor from one country, in the production and business operations located in another country, with the investor holding a certain amount of control over the business operations. In other words, FDI is an investment made by residents or entities (foreign direct investors or parent companies) of one country (region) in enterprises (foreign direct invested enterprises, branch enterprises or overseas branch offices) in another country, where the investors establish long-term relationships with the invested enterprise and hold a permanent interest in and control over the invested enterprise. According to the United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment can be categorized into Outward Foreign Direct Investment (Outward FDI) and Inward Foreign Direct Investment (Inward FDI) according to the direction of the relevant cash flow.

According to the UNCTAD's definition, FDIs can be categorized into two types according to the nature of the investment transaction: Greenfield FDIs and Cross-border M&As. Greenfield FDI projects require the establishment of new entities overseas, including offices, buildings and factories. Greenfield FDIs involve capital flow. Cross-border M&As involve taking over or merging with the overseas enterprise's cash, assets and liabilities. In the past few years, Cross-border M&As have been the main driving factor for FDIs, particularly in developed countries and in some developing countries, where the value of many large-scale M&As account for the majority of total FDIs. In practice, it is difficult to distinguish between Greenfield FDIs and Cross-border M&As, and in the long-term, the difference in impact of the two on economic development will become even more indistinguishable.

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In 1992, KPMG became the first international accounting network to be granted a joint venture license in Mainland China. It is also the first accounting firm in Mainland China to convert from a joint venture to a special general partnership, as of August 1, 2012. The firm's Hong Kong operations have additionally been established for over 60 years. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the firm's appointment by some of China's most prestigious companies.

Today, KPMG China has around 9,000 professionals working in 13 offices; Beijing, Shanghai, Shenyang, Nanjing, Hangzhou, Fuzhou, Xiamen, Qingdao, Guangzhou, Shenzhen, Chengdu, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently and rapidly, wherever our client is located.

About KPMG's Global China Practice (GCP)

KPMG's Global China Practice (GCP) was established in September 2010, to assist Chinese businesses that plan to go global, and multinational companies that aim to enter or expand into the China market. The GCP team in Beijing comprises senior management and staff members responsible for business development, market services, and research and insights on foreign investment issues.

There are currently around fifty China Practices in key investment locations around the world, from Canada to Cambodia and from Poland to Peru. These China Practices comprise locally based Chinese-speakers and other professionals with strong cross-border China investment experience. They are familiar with Chinese and local culture and business practices, allowing them to effectively communicate between member firms' Chinese clients and local businesses and government agencies.

The China Practices also assist investors with China entry and expansion plans, and on both inbound and outbound China investments provide assistance on matters across the investment life cycle, including market entry strategy, location studies, investment holding structuring, tax planning and compliance, supply chain management, M&A advisory and post-deal integration.

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