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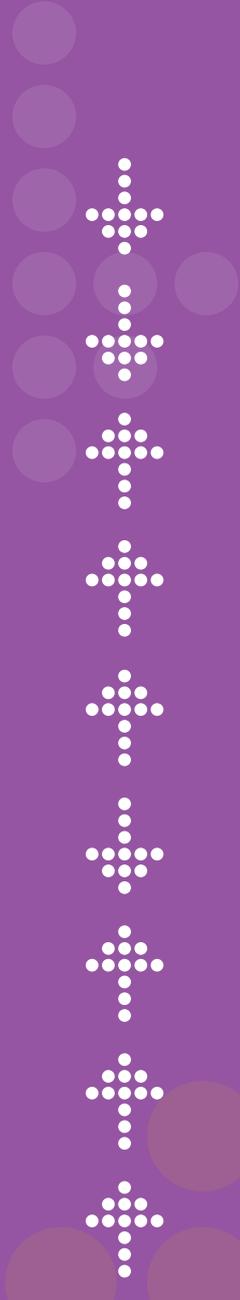
Demystifying Chinese Investment in Australia

March 2014 Update

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Chinese Investment in Australia in 2013

What you need to know



Chinese ODI for 2013 (USD 9.1 billion) fell 10 percent from 2012

Australia dropped to second priority destination behind the USA for accumulated global Chinese ODI (since 2005)

Two mega-sized deals in electricity transmission and gas sectors accounted for 63 percent of 2013 total ODI

Very large deal in power distribution shows Chinese confidence in Australia

Greater diversification of Chinese investments by industry. Commercial real estate the big winner with 20 transactions

Downward trend for new mining investments continued

More smaller to medium size deals (<\$100 million)

More private Chinese investor activity

Victoria the no.1 state for Chinese investment.

Turning point for Chinese investment in Australia

Australia narrowly lost its mantle in 2013 as the world's top destination for Chinese outbound direct investment (ODI)¹. In an increasingly competitive international market for attracting Chinese capital, Australia's ranking for accumulated global ODI dropped to second position behind the USA, as did our competitive ranking for the 2013 calendar year, again in favour of the USA. Australia now ranks behind the USA but ahead of Canada, Brazil and Britain.

Top five destinations for accumulated Chinese investment 2005-2013 (USD million)

Country	Total value 2005-2013	Global Share (%)
USA	59,900	13%
Australia	57,250	12%
Canada	37,650	8%
Brazil	29,180	6%
Britain	18,530	4%

Source: The Heritage Foundation China Global Investment Tracker Dataset 1

In 2012, Australia and the USA were on par – each with 12 percent of China's annual global ODI value. In 2013, the USA attracted 17 percent while Australia attracted 8 percent of China's annual total ODI.

Chinese ODI into the USA increased by nearly 60 percent in 2013 because of a very large agribusiness deal (Smithfield with USD 7,100 million) and USD 3,310 worth of real estate deals.

Top five destinations for Chinese investment 2013 (USD million)

Country	Value	Global share (%)
USA	14,550	17%
Australia	7,130	8%
Guinea	5,950	7%
Kazakhstan	5,300	6%
Russia	5,170	6%
Global total	84,450	

Source: The Heritage Foundation China Global Investment Tracker Dataset²

¹ Based on Heritage Foundation figures for accumulated Chinese investment, 2005-2013; and also year-on-year figures for Chinese investment in Australia 2012 versus 2013 from KPMG/University of Sydney database analysis.

² <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map> Chinese Investment Tracker 2014, Dataset 1, accessed 26 Feb 2014, 6.40pm.

The size of the prize is increasing

Global Chinese outbound investment increased markedly during 2013. According to MOFCOM statistics, the Chinese global ODI flow increased by 16.8 percent to reach USD 90,170 million in 2013³. Deal-based Heritage Foundation figures show a global increase of 9.2 percent, from USD 77,350 million to USD 84,450 million⁴.

In a speech made at the World Economic Forum, Chinese Premier Li Keqiang said "In the next 5 years, China is expected to import 10 trillion US dollars of goods, invest 500 billion US dollars overseas and send over 400 million tourists abroad."⁵

The USD 500 billion of new Chinese ODI over the next 5 years should be understood as a minimum rather than a target figure⁶. Reaching this target figure by 2018 would in fact require a slow-down from current annual ODI growth rates.

Indications are that China's ODI value 5 years from now is likely to

be much higher. An extension of current trends over the next 5 years would result in a total value of USD 753 billion.

Attracting Chinese ODI is without doubt becoming more globally competitive. Large recipient countries compete with Australia for significant investment projects in the strategic natural resources and energy sectors from predominantly State Owned Enterprises (SOEs); while competition for medium and smaller sized projects in sectors such as commercial real estate, agribusiness and services is intensifying with new entrants from the Chinese private sector.

Australian businesses and regulatory bodies will need to better monitor and understand what our international competitors are successfully doing in order to increasingly attract investment into desired industries and from a diversity of investors.

Chinese investment in Australia down 10 percent in 2013

Chinese investment in Australia declined by 10 percent during 2013, against a backdrop of an overall global increase in Chinese outbound investment during the year.

Based on the KPMG/University of Sydney database, total Chinese ODI in Australia in 2013 was

USD 9,115 million, reduced from USD 10,105 million in 2012, reflecting a downward investment trend in the mining and gas sectors.

3 <http://hzs.mofcom.gov.cn/article/date/201401/20140100463569.shtml>

4 <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map> Chinese Investment Tracker 2014, Dataset 1, accessed 26 Feb 2014, 6.40pm.

5 Transcript of speech by Li Keqiang at the World Economic Forum on 11 September 2013.

6 http://www3.weforum.org/docs/AMNC13/WEF_AMNC13_TranscriptLiKeqiang.pdf accessed 3 March 2014 10pm.

The Foreign Investment Review Board's (FIRB) latest annual report shows that approved Chinese planned investment in Australia was AUD 15,803 million in 2012/2013,

compared with AUD 16,190 million in 2011/2012 year. Our figure indicates a larger drop in actual direct investment in the 2013 calendar year⁷.

FIRB approved Chinese investment volume

(AUD million)	2010/2011	2011/2012	2012/2013
Approved investment value	14,976	16,190	15,803

Source: Foreign Investment Board Review annual reports

In 2013, there were 40 Chinese investment deals recorded in Australia. One very large deal during the year was China State Grid's acquisition of 19.9 percent of the publicly listed SP AusNet and 60 percent of the privately held Jemena business from Singapore Power. China State Grid is the world's largest utility by revenue. This is their second major investment in Australia, previously acquiring a controlling stake in ElectraNet in 2012.

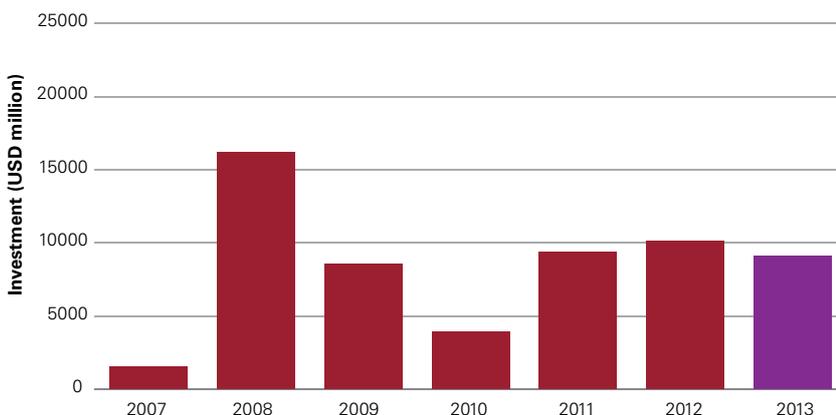
The second major deal in 2013 is CNOOC's USD 1,930 million investment in the Queensland LNG deal for which Heads of Agreement were signed in 2012⁸.

Annual rankings can be skewed by very large deals. In 2013 the State Grid deal together with the CNOOC / BG Queensland Curtis LNG deal accounted for 63 percent of total Chinese ODI in Australia. The balance is comprised of a larger number of relatively lower value deals.

When we reviewed investments cumulatively from September 2006 to December 2013, a total of 182 deals were recorded. During this period, an accumulated USD 58,825 million was invested by Chinese enterprises in Australia.

Australia has more work to do to continue attracting Chinese investment from an increasingly competitive global market.

Chinese investment in Australia by year



Source: KPMG/University of Sydney database

The Chinese investment profile is changing

In 2013 we experienced a shift towards a larger number of smaller to medium sized deals with a larger share of private Chinese investors, particularly in the commercial real estate sector.

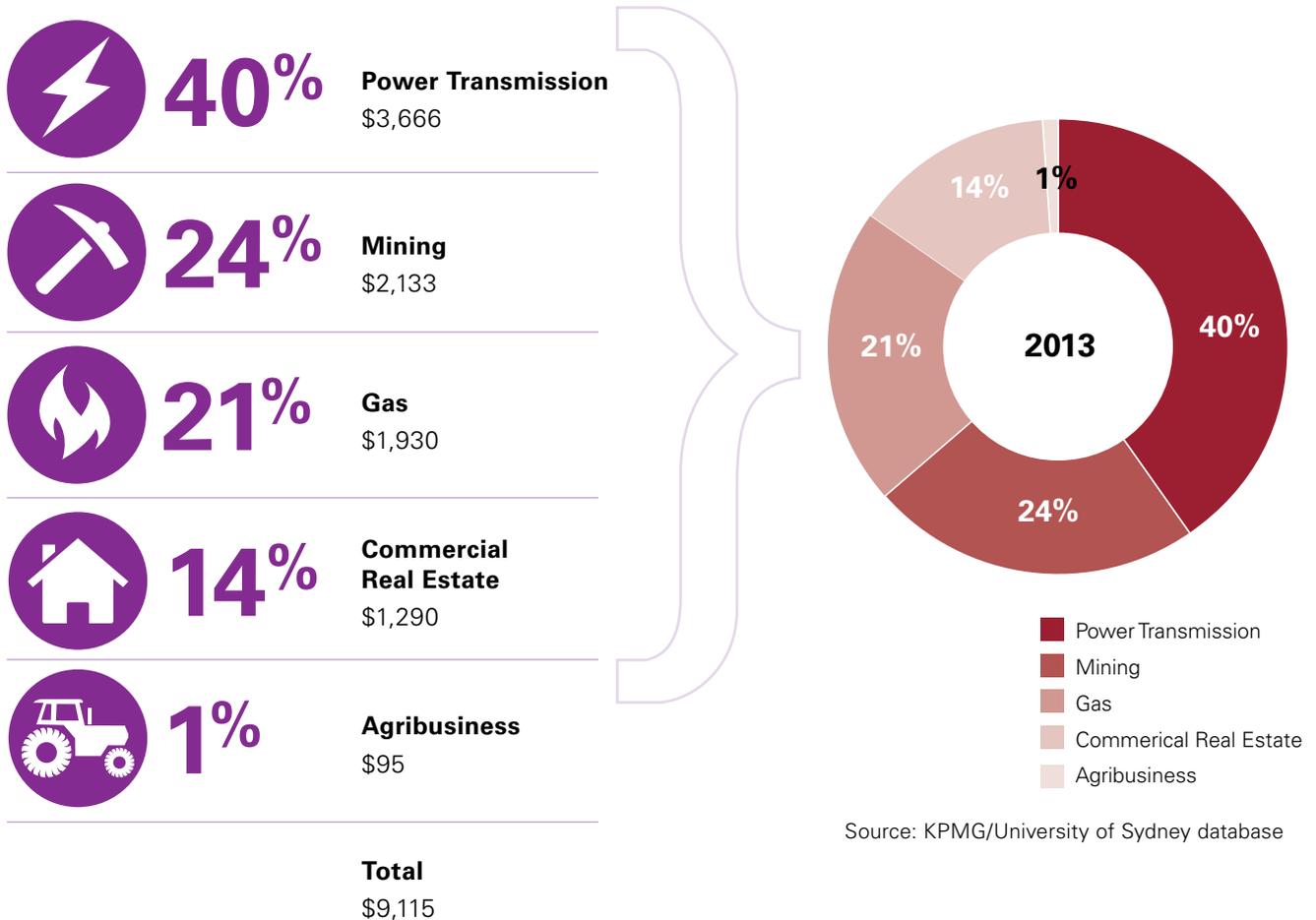
⁷ Our figures include commercial but not residential real estate.

⁸ This deal was in our 2012 list of March 2013 based on the signing of Heads of Agreement in 2012. With binding agreement and completion achieved in 2013 we have reclassified the deal to 2013.

Chinese investment in Australia by industry – 2013

For the first time in 2013, Chinese investment in Australia was not concentrated in the mining sector. Instead, the power transmission industry dominated with the State Grid deal accounting for 40 percent of the total investment value in 2013, followed by mining (24 percent), gas (21 percent), commercial real estate (14 percent) and agribusiness (1 percent).

Chinese investment in Australia by industry in 2013 (USD million)



Source: KPMG/University of Sydney database

Mining investment value more than halved from USD 5,693 million in 2012 to USD 2,133 million in 2013. Investment in the gas sector reduced from USD 2,855 million in 2012 to USD 1,930 million in 2013. The gradual decline of Chinese investment in the mining sector was already visible in 2012.

A noticeable uplift in 2013 was the commercial real estate sector. Investment showed strong growth with a surprisingly large number (20) of deals amounting to a total value of USD 1,290 million.

While anecdotally there is genuine interest and increasing activity from predominantly private Chinese investors in Australia's agricultural farming and agribusiness sectors, in 2013 there were only two transactions recorded⁹. New Hope Fund's investment in Kilcoy Meat Processing was a strong signal

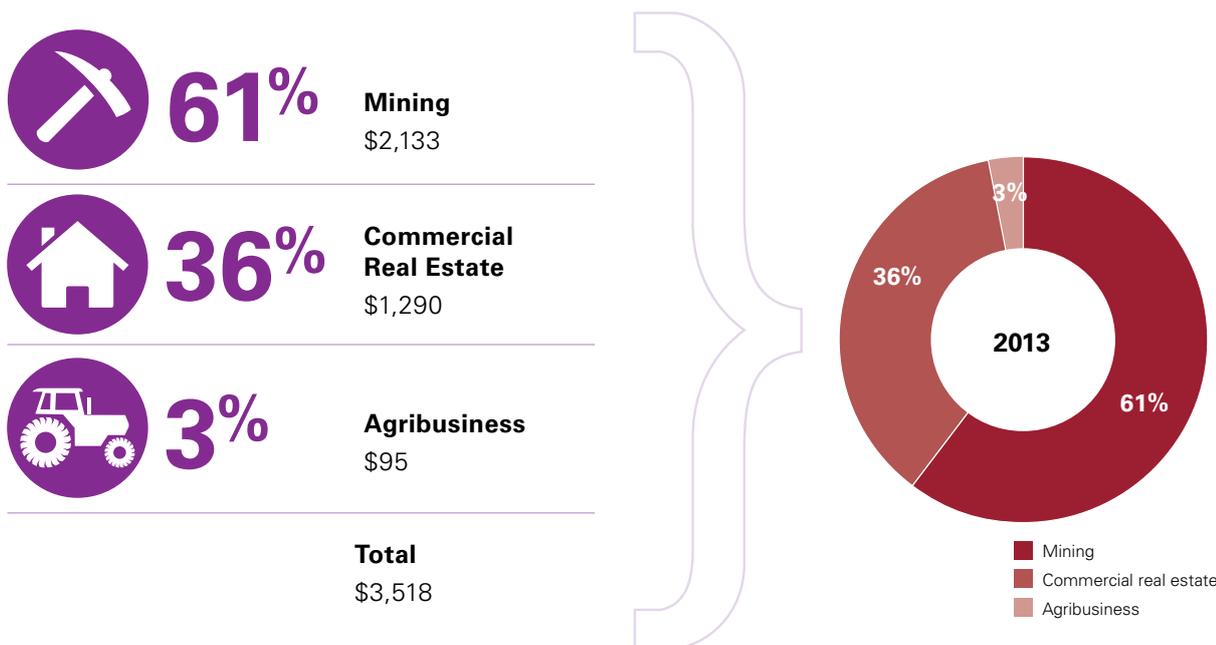
that Chinese investors are very interested in the food processing stage of production rather than owning farming operations and rural land for primary production.

To date we have not yet seen major Chinese investment in Australia's road, rail and civil infrastructure sectors (excluding power transmission). There is however genuine interest, technical capability and financing available from China's largest engineering and construction companies – so we anticipate seeing investment here going forward.

If we examine the industry investment portfolio without the State Grid and the CNOOC QLNG deals, we see a distribution in transition from the mining boom to a far more diversified situation.

Investment is transitioning from the mining boom to a far more diversified landscape.

Chinese investment in Australia by industry – 2013, excluding power and gas deals (USD million)



Source: KPMG/University of Sydney database

⁹ Shanghai Zhongfu's proposed investment into WA's Ord Scheme is not included as it is only a lease arrangement by 2012.

A selection of major Chinese investments in Australia by industry – 2013 (USD million)

Sector	Target Investment	Investor	Agreed Consideration
Agribusiness	Land in Nyabing and Mindarabin WA	Beidahuang Group	17
Grid	SPI(Australia) Assets Pty Ltd	State Grid Corporation	2,856
Grid	SP AusNet (SPN)	State Grid Corporation	810
LNG	BG Group - Queensland Curtis Island	China National Offshore Oil Corporation Ltd	1,930
Mining	Rio Tinto Northparks Project	China Molybdenum Co Limited	820
Mining	Alumina Limited	CITIC Resources Holding Ltd	467
Mining	Perilya Ltd buy-out	Zhongjin Lingnan Mining (HK)	136
Real Estate	Investa Property Trust/Australian Unity Office Property Fund, Centennial Plaza	China Investment Corp	286
Real Estate	Two properties in Sydney	Bright Ruby Resources	279
Real Estate	Brookfield Asset Management residential and hotel project	Greenland Group	104

Source: KPMG/University of Sydney database

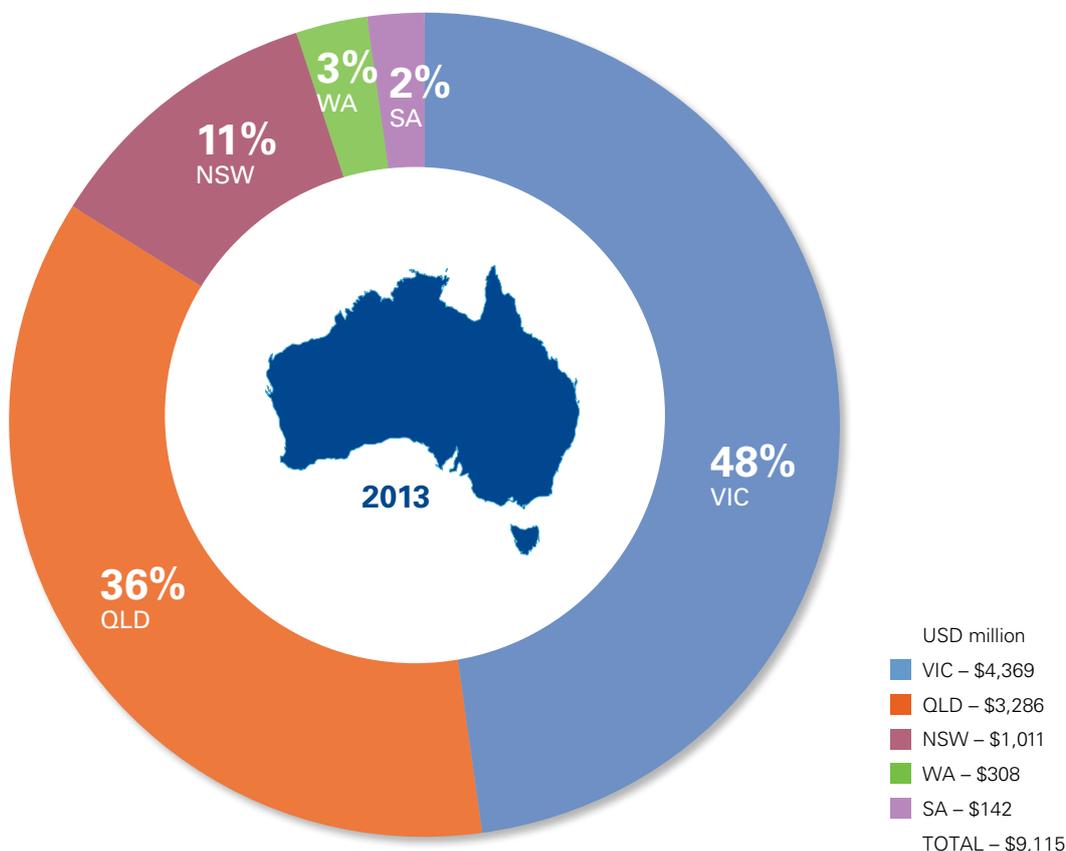
Chinese investment in Australia by geography – 2013

As a result of the State Grid's acquisition, Victoria for the first time stands out as the top state or territory destination for Chinese direct investment in Australia, attracting nearly half of 2013 Chinese investment.

New South Wales attracted more investment compared to 2012, mainly due to an increased volume in commercial real estate investment.

Western Australia lost its dominant position, capturing much less Chinese capital than usual as a result of the slow down in new mining investment.

State and territory distribution in 2013

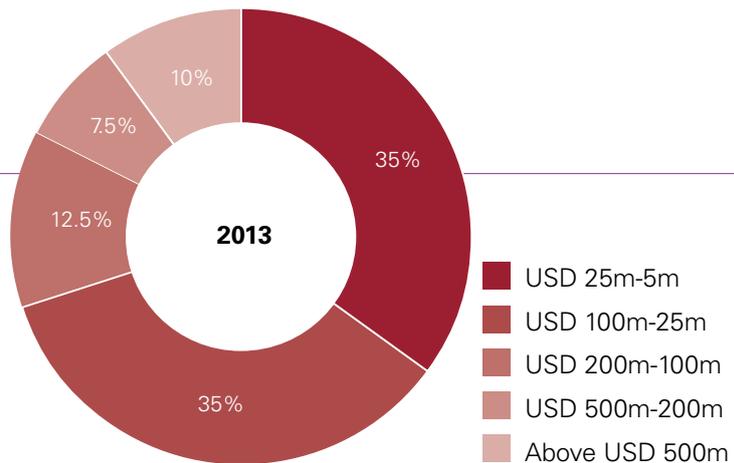


Source: KPMG/University of Sydney database

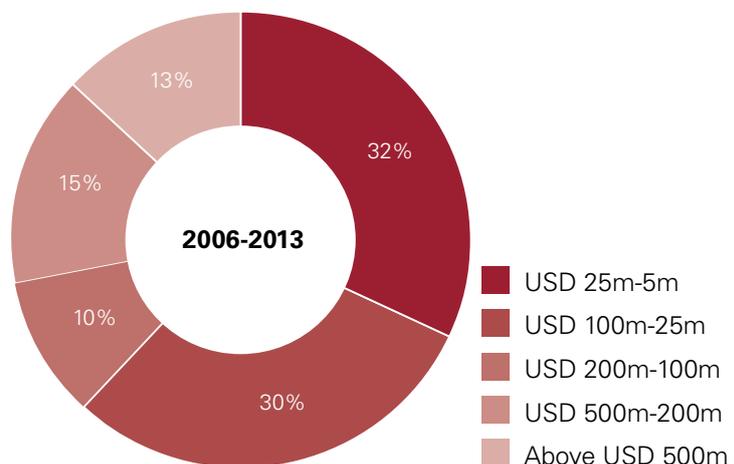
Chinese investment in Australia by deal size – 2013

2013 saw fewer mega deals at the top end compared to previous years, but more medium and smaller deals below USD 100 million. In the post-mining boom era, we expect to see more small to medium deals distributed over a wider range of industries as well as a diversification of ownership.

Deal size analysis for 2013 by number of deals



Deal size analysis 2006-2013 by number of deals



Source: KPMG/University of Sydney database

Chinese investment in Australia by ownership – 2013

While SOE investment continued to dominate 2013 investment by value (84 percent) due to the State Grid and CNOOC investments, privately owned Chinese companies have increased their investment in terms of number of deals (62 percent), particularly in commercial real estate.

The growing number of smaller deals by private investors signals Chinese real estate developers and other investors entering the Australian market as the Chinese government is encouraging a wider range of business outside of the large state-owned sector to seek investment opportunities abroad.

2013 deals by ownership type

Ownership	Investment Value (USD million)	%	no. deals	%
SOE	7,701	84%	15	38%
Private	1,414	16%	25	62%
Total	9,115	100%	40	100%

Source: KPMG/University of Sydney database

A shift towards a larger number of small-medium sized deals and a larger share of private Chinese investors.

A wake up call for Australia

Australia-China investment outlook

2013 lived up to expectations as being a critically important year in the Australia-China trade and investment relationship. Australia fared well on balance, with ever-strengthening bilateral trade numbers and relatively stable total ODI investment numbers.

However, the 10 percent investment value fall from 2012 and the disproportionate impact of two very large sized deals on 2013 investment numbers should serve as a warning that Chinese investment remains volatile on a yearly basis. Australia has more work to do to continue to attract this investment from an increasingly competitive global market.

A new era

2014 marks the transition to a different era as new governments in both countries have settled in and are starting to interact, with many important meetings scheduled by our national leaders this year.

Australia has witnessed three different Prime Ministers in 12 months, reflecting a very long and distracting political battle waged from January through to October 2013 which was also expected to negatively impact Chinese investment, but it hasn't.

The new Federal Government's platform led by Prime Minister Tony Abbott, committing to repositioning Australia as a more competitive, innovative, flexible, deregulated and business-led economy, was well received by Chinese companies investing and operating in Australia.

For China, the transition of national leadership has been internationally welcomed as smooth and a strong catalyst for important and comprehensive reforms in its domestic political, economic, cultural and environmental spheres. Much of 2013 was consumed by the introduction and implementation of China's new leadership personnel, the repositioning of key regulatory bodies and their objectives. This was expected to slow new outbound direct investment approval and activity from Chinese investors, but it didn't.

Mining and gas

Since 2006, 75 percent of Chinese direct investment has gone into a relatively small number of extremely large sized deals, mainly mining and gas deals in Western Australia and Queensland. With hindsight, these investments have not all gone according to plan, but Chinese are long term investors and are now starting to export large quantities of raw materials from these investment projects to satisfy domestic demand. It remains to be seen whether Chinese companies will continue to invest at 2006-2013 levels into new mining and gas projects. But we expect continuing interest in non-ferrous metals (lead, copper, zinc and gold) in 2014.

**The size of the
prize is very
significant.**



China's Premier publicly stating that the FTA with Australia will be accelerated and a commitment to invest USD 500 billion globally in the next 5 years...is a strong and positive indicator for Australia to seize upon.

Real estate

The impact of Chinese investment on residential real estate investment is already being felt in Australia's capital cities. Recent FIRB reports show that Chinese investors were the largest buyers of residential and commercial real estate in 2012-13¹⁰. But it may surprise some to see so much commercial real estate development investment recorded for 2013. We expect this to continue in 2014. The demand for real estate will continue to be driven by local Australian needs for apartment style housing, migration (under various visa programs including SIV), students from China (over 150,000), inbound tourism (over 650,000); and developments in the Chinese domestic real estate market.

Agriculture

China is Australia's largest agriculture export market. We see ourselves as an important supplier of China's food needs, especially safe, premium food including meat, dairy, vegetables, branded products, wine and leading technology and systems across the entire food sector. Australians have long held a very emotional attachment to our agricultural land, which explains why there remains significant public emotion and opinion polarity about foreign ownership and control of Australian land and the food sector more broadly. In our October 2013 report which focused on Chinese investment in the Australian agricultural sector, we established that there was great interest but very few completed transactions.

From the completed sizeable deals in the sector, we can see that Chinese investors are more interested in food processing and securing high quality, semi processed food exports than in owning and managing large areas of land.

Infrastructure

Chinese companies undoubtedly have the interest, financial capacity as well as the technical and industry experience to deliver on major infrastructure projects including mining, energy and civil infrastructure projects over the next decade. The 2013 State Grid deal is a promising sign of Chinese engagement in the Australian utilities sector. However it is early days and may not be until 2015-16 before we see strong Australian-Chinese joint venture partners bidding for, winning and successfully managing major civil projects.

Financial services

Indirectly, the financial services sector will grow as Chinese banks and credit card companies capitalise on financing opportunities, migration and tourism and offshore RMB currency services.

The size of the prize is increasing

China's Premier has publicly stated that Chinese companies will invest USD 500 billion internationally over the next 5 years. The value of Chinese ODI over the next 5 years is likely to be higher if historical growth rates are maintained.

Australia is well placed to remain a priority destination, provided key policy settings such as FIRB, FTA, migration and general policies to reduce Australian domestic operating costs, increase productivity and speed of project approval are delivered are implemented.

¹⁰ FIRB Reports quoted in The Australian Financial Review, 4 March 2014.

About our reports



KPMG and The University of Sydney China Studies Centre have formed a strategic relationship to publish research and insights on doing business with Chinese investors. Our first report was published in September 2011, with *Demystifying Chinese Investment in Australia (March 2014 Update)* representing the seventh report in our series.

Despite strong public interest, little detailed factual information has been previously available about the actual nature and distribution of China's outbound direct investment (ODI) in Australia. This specialist report continues our comprehensive reporting of China's ODI into Australia.

The dataset is compiled by a joint University of Sydney and KPMG team and covers investments into Australia made by entities from the People's Republic of China through M&A, joint venture and greenfield projects. The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles based in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments, such as the purchase of stocks and bonds, which does not result in foreign management, ownership, or legal control.

Our database includes completed direct investments recognised in the year in which parties enter into legally binding contracts and if necessary, receive mandatory FIRB and Chinese Government investment approvals. In certain circumstances, final completion and financial settlement may occur in a later year.

For consistency, the geographic distribution is based on the location of the Chinese invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information. Unless otherwise indicated, the data referred to throughout this report is sourced from KPMG/University of Sydney database, and our previously published reports¹¹.

The University of Sydney and KPMG team obtains raw data on China's ODI from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. In line with international practice, we record deals using USD as the base currency.

We believe that the KPMG/University of Sydney dataset contains the most detailed and up-to-date information on Chinese ODI in Australia.



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¹¹ Includes Australia & China Future Partnership, September 2011; The Growing Tide: China ODI in Australia, November 2011; Demystifying Chinese Investment, August 2012; The Energy Imperative: Australia-China Opportunities, 25 September 2012; Demystifying Chinese Investment in Australia, March 2013; Demystifying Chinese investment in Australian Agribusiness, October 2013





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