



Chinese Listed Companies: Outbound Merger and Acquisition Update

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Index

1	Executive Summary	2
2	Introduction	3
3	Analysis of Chinese A-share listed companies' outbound M&A transactions	4
4	Challenges	10



Executive Summary

China outbound merger and acquisition (“M&A”) activity surged in 2015 and 2016. Against the background of a dynamic capital market, Chinese A-share listed companies have improved innovation, expanded their markets and are realising their global strategies by undertaking M&A activities. These activities can bring significant business opportunities to both Chinese and overseas enterprises and their investors.

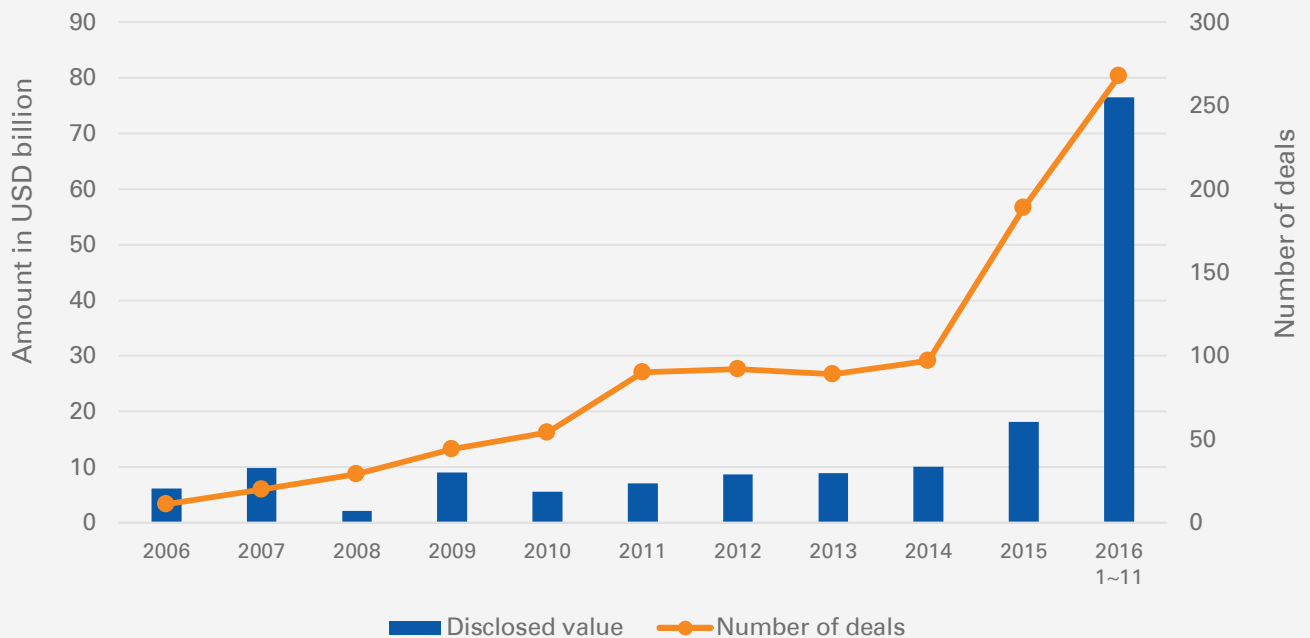
Based on available public A-share capital market data, this publication – the first in a series looking at China outbound M&A activity – aims to share with readers our observations and understanding of the market dynamics, challenges and insights regarding China outbound M&A activities for **Chinese A-share listed companies**. This publication also focuses on certain financial reporting requirements for outbound M&A transactions for A-share listed companies. We will share other areas and strategies in future editions as well.

Introduction

Outbound M&A transactions by Chinese companies have visibly increased in recent years. The deal value and volume of outbound M&A transactions by Chinese A-share listed companies also grew significantly during 2015 and 2016. In 2015, disclosed deal value was USD 18.1 billion, an increase of 80 percent compared to 2014. As at 30 November 2016, the accumulated disclosed deal value was USD 76.5 billion, an increase of 323 percent compared to 2015¹.



Outbound M&A transactions of Chinese A-share listed companies from 2006-2016 November



Source: Dealogic, 1 December 2016; KPMG analysis; includes all announced M&A transactions by Chinese A-share listed companies

Note: All M&A data in this report was obtained from Dealogic at 1 December 2016, and did not include any alteration or cancellation of subsequent transactions unless otherwise indicated. Outbound transactions of targets in Hong Kong, the British Virgin Islands and the Cayman Islands are excluded from all statistics in this publication, unless otherwise stated.

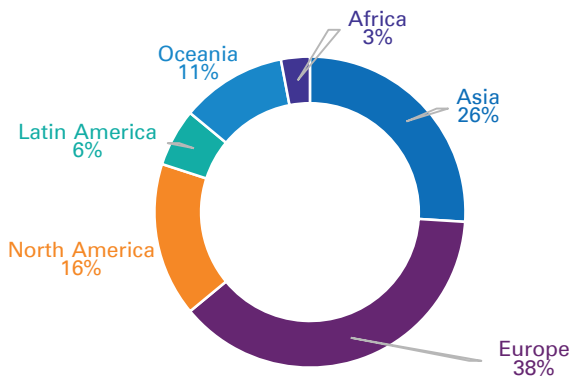
¹Dealogic, 1 December 2016

Analysis of Chinese A-share listed companies' outbound M&A transactions

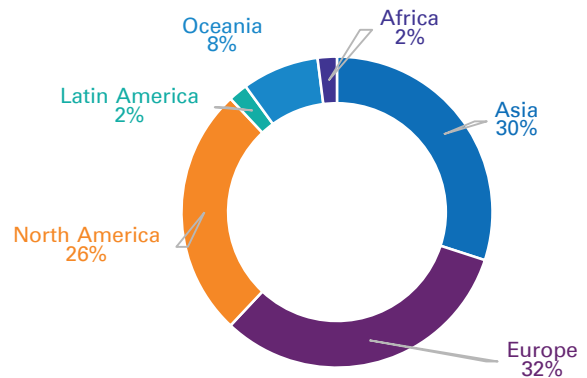


By geographical distribution (by number of transactions)

Number of Transactions by Region, 2013



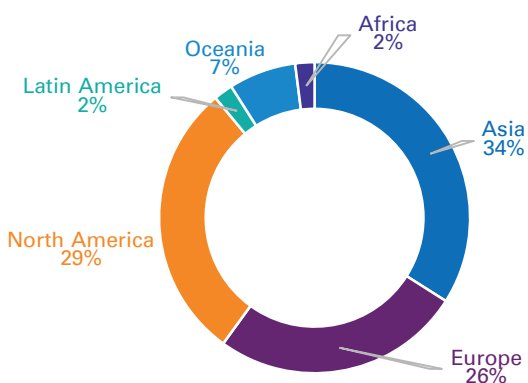
Number of Transactions by Region, 2014



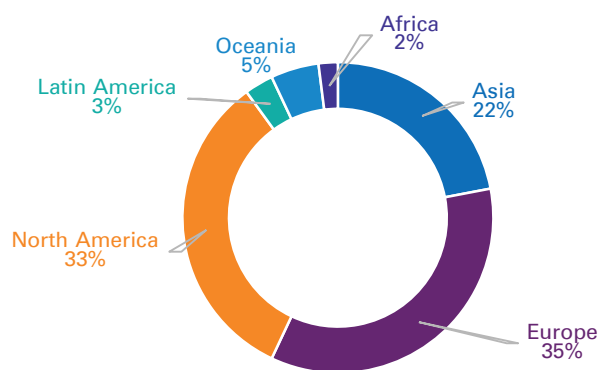
Source: Dealogic, 1 December 2016

Source: Dealogic, 1 December 2016

Number of Transactions by Region, 2015



Number of Transactions by Region, 2016 Jan-Nov



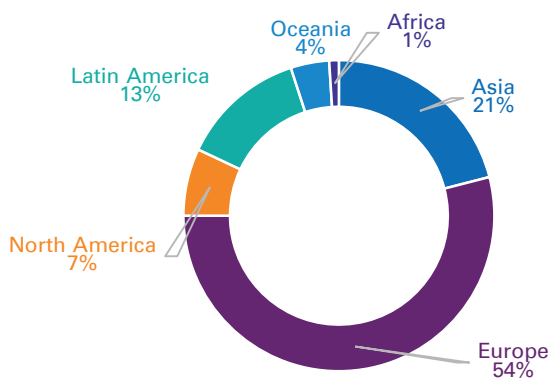
Source: Dealogic, 1 December 2016

Source: Dealogic, 1 December 2016



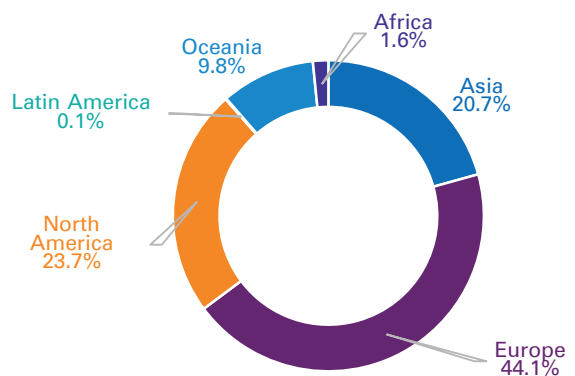
By geographical distribution (by deal value)

Deal Value by Region, 2013



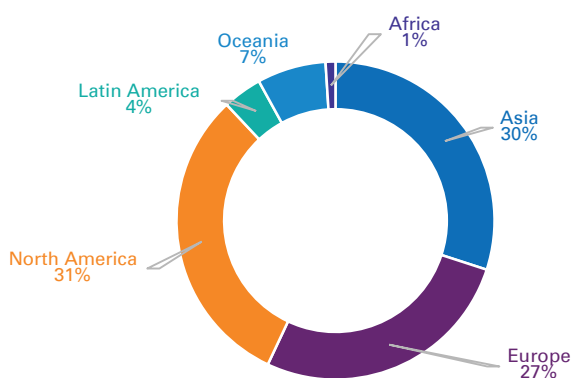
Source: Dealogic, 1 December 2016

Deal Value by Region, 2014



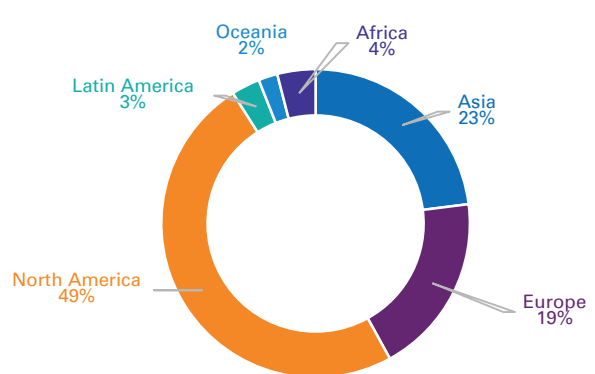
Source: Dealogic, 1 December 2016

Deal Value by Region, 2015



Source: Dealogic, 1 December 2016

Deal Value by Region, 2016 Jan-Nov



Source: Dealogic, 1 December 2016

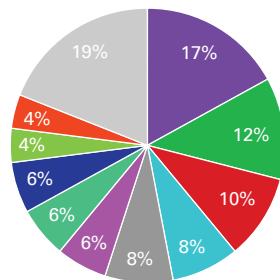
In terms of deal value by region, there were larger deals in Europe and North America. Some significant deals in 2016 included:

- Midea Group Co Ltd. acquired KUKA AG, a German industrial robot manufacturer, for USD 4.5 billion.
- Qingdao Haier Co., Ltd. acquired US conglomerate General Electric Co's appliance business for USD 5.4 billion.
- Tianjin Tianhai Investment Co., Ltd. acquired Ingram Micro, a US-listed IT distribution company, for USD 6.3 billion.
- Bohai Capital Holding Co., Ltd. acquired US-based CIT Group's aircraft leasing assets for USD 10 billion.



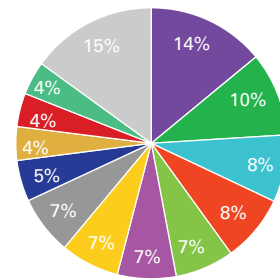
By industry sector (by number of transactions)

Number of Transactions by Sector, 2013



- Computer & Electronics
- Mining
- Oil & Gas
- Professional Services
- Machinery
- Auto/Truck
- Chemical
- Healthcare
- Construction/Building
- Finance (including Insurance)
- Others

Number of Transactions by Sector, 2014

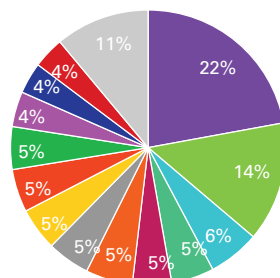


- Computer & Electronics
- Mining
- Professional Services
- Finance (including Insurance)
- Healthcare
- Auto/Truck
- Textile
- Machinery
- Construction/Building
- Metal & Steel
- Oil & Gas
- Chemical
- Others

Source: Dealogic, 1 December 2016

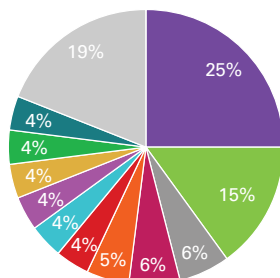
Source: Dealogic, 1 December 2016

Number of Transactions by Sector, 2015



- Computer & Electronics
- Healthcare
- Professional services
- Chemical
- Consumer products
- Leisure & Recreation
- Machinery
- Agribusiness & Food
- Finance (including Insurance)
- Mining
- Auto/Truck
- Construction/Building
- Oil & Gas
- Others

Number of Transactions by Sector, 2016 Jan-Nov



- Computer & Electronics
- Healthcare
- Machinery
- Consumer Products
- Leisure & Recreation
- Oil & Gas
- Chemical
- Auto/Truck
- Metal & Steel
- Mining
- Utility & Energy
- Others

Source: Dealogic, 1 December 2016

Source: Dealogic, 1 December 2016

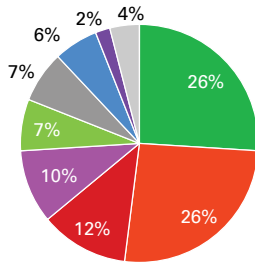
In terms of deal volume by sector:

- The structure of China outbound M&A activity is changing, from a resource-oriented focus to a more diversified approach. In recent years, M&A deals have aimed to import advanced technology and management philosophies, build brands and/or expand global market share. This has, to a certain degree, contributed to a diversification of the industrial base.
- Aside from the computer and electronics industry which has always been a focus, sectors of interest include Energy, Mining, Manufacturing and TMT.



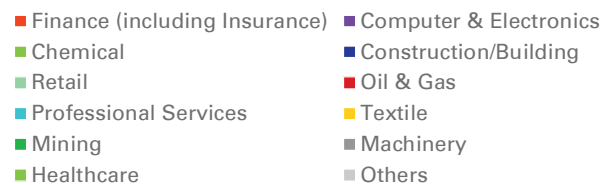
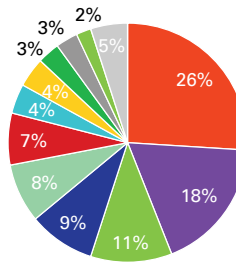
By industry sector (by deal value)

Deal Value by Sector, 2013



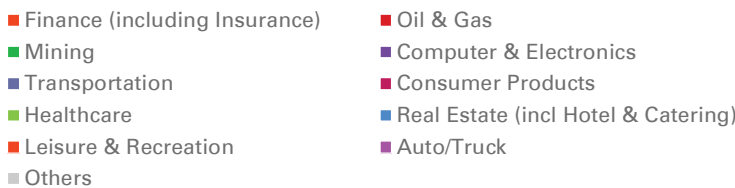
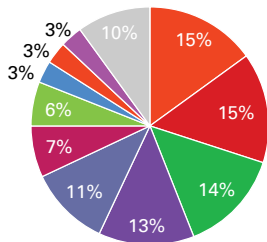
Source: Dealogic, 1 December 2016

Deal Value by Sector, 2014



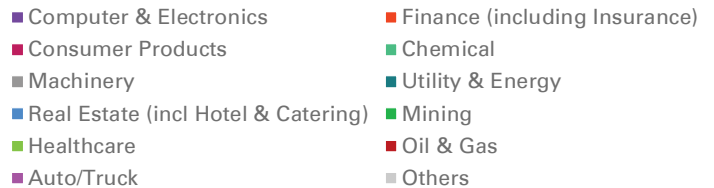
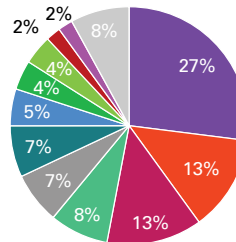
Source: Dealogic, 1 December 2016

Deal Value by Sector, 2015



Source: Dealogic, 1 December 2016

Deal Value by Sector, 2016 Jan-Nov



Source: Dealogic, 1 December 2016

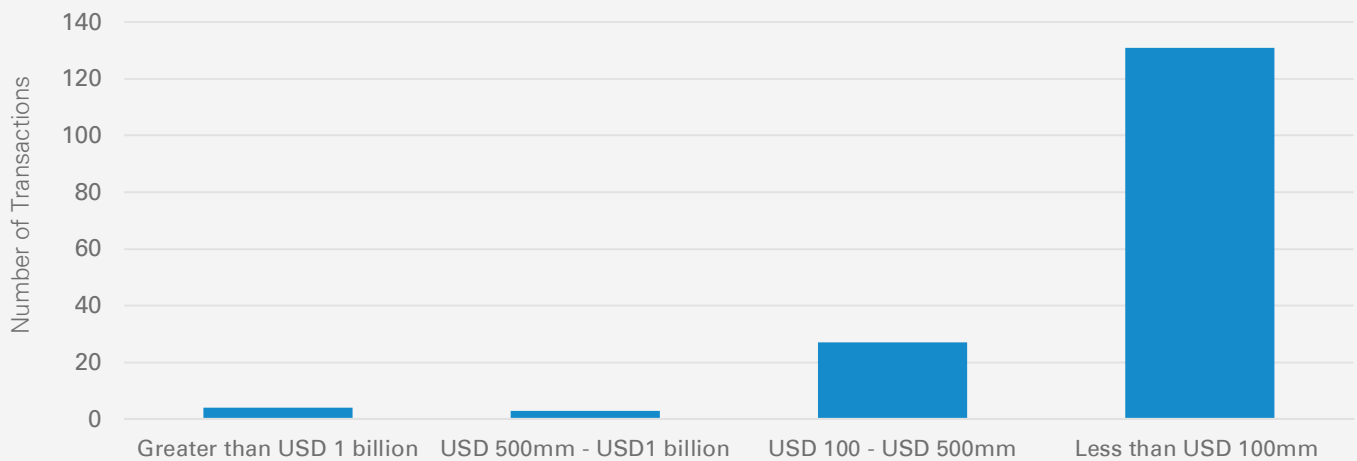
In terms of deal value by sector:

- From 2013 to 2015, individual deal value in the Financial Services industry was relatively large. For example, in October 2013, China Construction Bank Corp acquired a 100 percent share of Banco Industrial e Commercial SA in Brazil for USD 1 billion; in January 2014, Industrial & Commercial Bank of China acquired a 60 percent share of Standard Bank plc in the UK for USD 690 million; and in May 2015, Bank of Communications Co., Ltd. acquired an 80 percent share of Banco BBM SA in Brazil for USD 175 million.
- In 2016, the Computer and Electronics sector became the top target industry. Tianjin Tianhai's acquisition of Ingram Micro, a US-listed IT distribution company, was the largest deal in that sector in the first 11 months of 2016.
- With the transformation of China's economy and the advancement of technological innovation, Information Technology, Healthcare and High-end Manufacturing may be a continued focus of outbound M&A transactions.

Outbound M&A transactions made by Chinese A-share listed companies

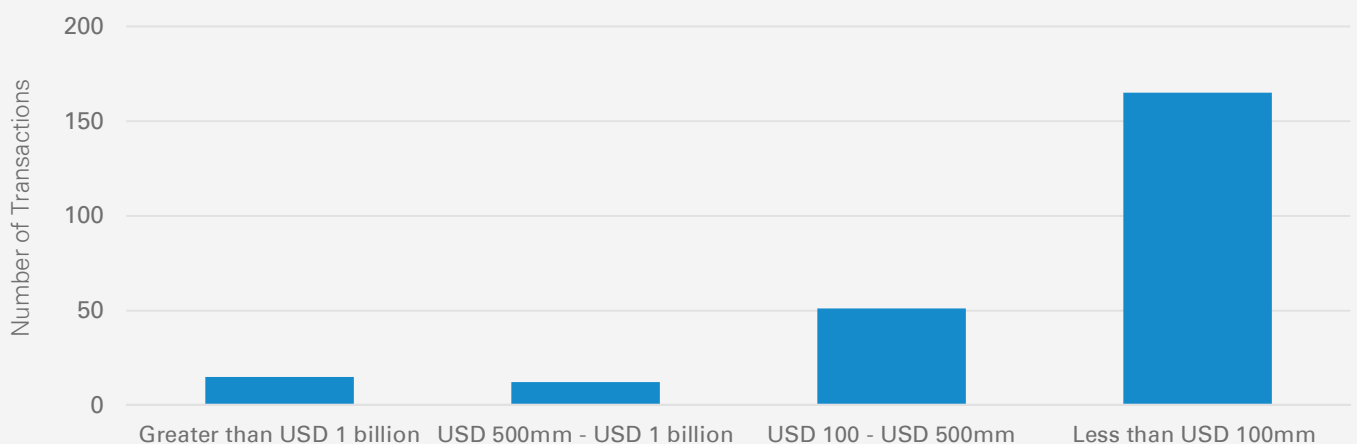


Deal Value Range, 2015



Source: Dealogic, 1 December 2016

Deal Value Range, 2016 Jan-Nov



Source: Dealogic, 1 December 2016



Challenges

Regulatory requirements



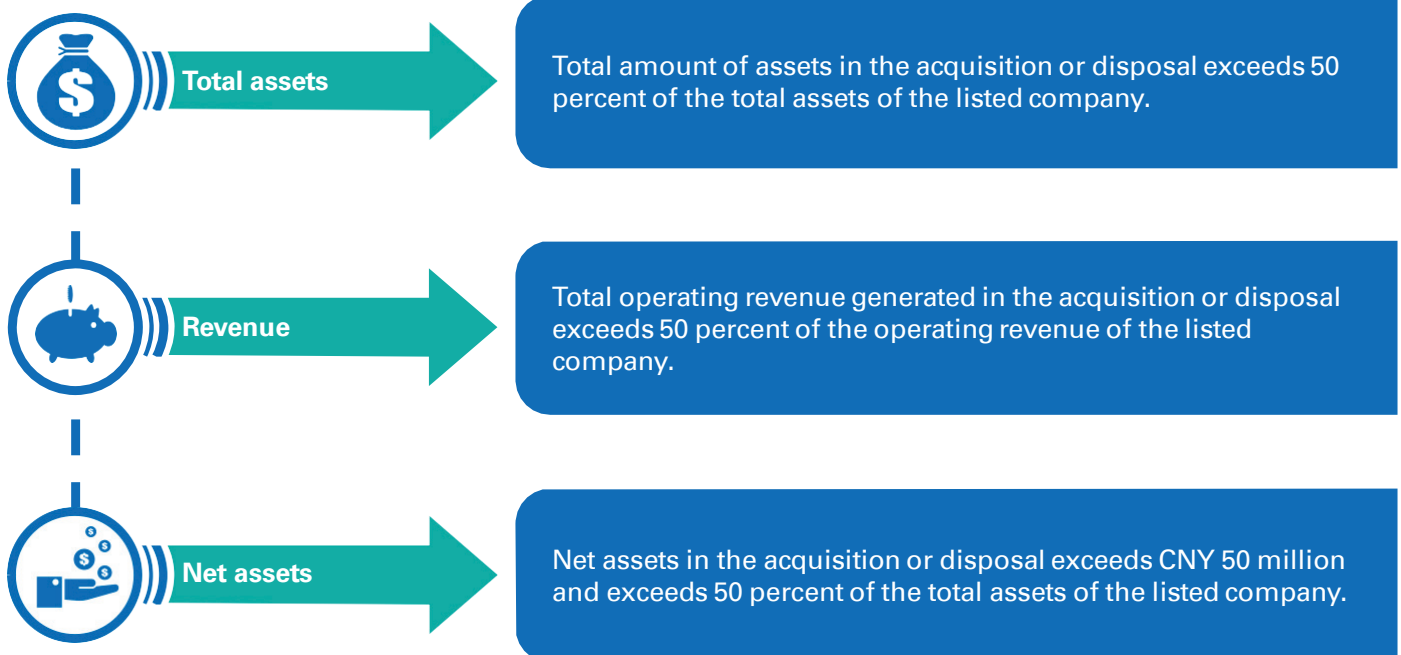
With multiple parties involved, overseas investments and M&A transactions often present a variety of complexities. For outbound M&A transactions by Chinese A-share listed companies, the approval of Chinese and foreign governments may have to be obtained. In the event that the

target is also an overseas listed company, regulatory requirements can be even more rigorous. In the case of Chinese A-share listed companies, when the transaction is recognised as a Substantial Asset Restructuring, certain additional financial reporting requirements apply.

Definition of major asset restructuring



When meeting one of the following criteria, the acquisition or disposal of assets by listed companies, companies in which the listed company holds controlling equity interests, or companies controlled by the listed company would be recognised as Substantial Asset Restructuring.



Note: Information from the most recent audited annual financial statement of the listed company should be used to calculate the above thresholds.



Financial reporting requirements



For outbound M&A transactions by Chinese A-share listed companies, the financial information of the acquisition target should be disclosed in accordance with the regulatory requirements of both the China Securities Regulatory Commission and the stock exchanges. The acquirer may need to make the following disclosures regarding the acquisition target if the transaction is defined as Substantial Asset Restructuring:

- The financial statements (prepared in accordance with the China Accounting Standards for Business Enterprises) and auditor's report (issued by an accounting firm registered in China and with a securities qualification) of the acquisition target for the most recent two years and, where applicable, the interim period.
- The pro forma financial statements and review report of the A-share listed company for the most recent year and the interim period (if applicable) that are prepared as if the Substantial Asset Restructuring had taken place.

- The acquisition target's profit forecast and assurance report (optional).

In addition, depending on the value of the transaction and the acquirer's fundraising plans and arrangements, the acquirer may need to be in compliance with other requirements on disclosures of financial information regarding the acquisition target. Since financial statements of the target companies are usually prepared in accordance with local accounting standards or IFRS, Chinese A-share listed companies need to take full consideration of the differences among various accounting standards and the conversion requirements when it comes to the disclosure of financial statements.

In addition, if the listed issuer is a state-owned enterprise, the reporting requirements of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) or the local SASAC need to be complied with as well.



Other matters to consider

Global implementation of BEPS



In addition to normal planning/deal structure considerations, the biggest tax developments affecting cross-border M&A globally— now and for years to come – stem from the Organisation for Economic Cooperation and Development’s (OECD) project to encourage global cooperation to address tax base erosion and profit shifting (BEPS). In response, many local governments have begun modifying their domestic tax laws to implement the BEPS measures, which may have some impact on cross-border M&A transactions.

The current drive by governments to increase tax collection and ongoing international tax reforms are likely to affect cross-border M&A. For cross-border transactions, tax compliance issues related to the takeover targets will be a common concern for both sides of the business. On the one hand, sellers need to actively help buyers better understand the existing tax arrangements and relevant merits and drawbacks. On the other hand, it is also important for Chinese A-share listed companies (buyers) to consider whether or not the development of BEPS projects and PRC tax rules and regulations will create additional expenses to the deal. Once BEPS exposures are identified, it is important for both the acquiring company and the target company to determine a course of action.

Communication cost



The parties to an outbound M&A transaction may face obstacles in communicating with each other due to different business practices and cultural backgrounds. These differences need to be factored in to improve the probability of deal success.

Time frame



The regulatory requirements for outbound M&A transactions and the factors that the parties to a transaction need to consider can be complex. All parties to a transaction usually enlist the assistance of their professional service providers (financial advisor, tax expert, auditor, counsellor) to better cope with challenges and requirements around project management and timelines.

Subsequent integration



The buyer needs to consider the cost of integration of culture, personnel management, unification of IT systems and planning of the financial reporting process. Integration often affects whether the operation of the acquired company is successful, and whether the buyer could obtain continuous and favourable income from the transactions.

A note on the data and information presented in this report

KPMG has made every effort to verify the accuracy of the data and other information presented in this report. All M&A data in this report was obtained from Dealogic, is current as at 1 December 2016, and did not include any alteration or cancellation of subsequent transactions unless otherwise indicated.

Contact us

KPMG China has accumulated extensive engagement experience in outbound M&A transactions in various industries and regions, and has assisted a number of large enterprises in completing their outbound M&A transactions successfully, with acquisition targets located in Europe, the Americas and other regions. Leveraged with the KPMG global network, KPMG China is able to provide efficient and effective professional services to every party to an outbound M&A transaction.

Whether you are inside or outside China, if you have any plans for outbound M&A, need assistance, or have any questions, feel free to contact us.

KPMG China's outbound M&A transactions management team:

Jeffrey Wong

Deal Advisory Partner
Tel: +86 (21) 2212 2721
Email: jeffrey.wong@kpmg.com

Bruce Pan

Partner
Capital Markets Advisory Group
Tel: +86 (21) 2212 2229
Email: bruce.pan@kpmg.com

Wei Lin

Deal Advisory Partner
Tel: +86 (21) 2212 3508
Email: wei.lin@kpmg.com

Rainbow Wang

Deal Advisory Partner
Tel: +86 (21) 2212 3557
Email: rainbow.wang@kpmg.com

Tracy Yang

Partner
Tel: +86 (21) 2212 2466
Email: tracy.yang@kpmg.com

Eric Cheung

Partner
Tel: +86 (10) 8508 5304
Email: eric.cheung@kpmg.com

Jeff Wang

Partner
Tel: +86 (21) 2212 2664
Email: jeff.wang@kpmg.com

Miguel Montoya

Deal Advisory Partner
Tel: +86 (10) 8508 7064
Email: miguel.montoya@kpmg.com

Lisa Li

Deal Advisory Partner
Tel: +86 (10) 8508 5885
Email: lisa.l.li@kpmg.com

Andy Qiu

Deal Advisory Partner
Tel: +86 (21) 2212 3572
Email: andy.qiu@kpmg.com

Andrew Zhao

Deal Advisory Partner
Tel: +86 (21) 2212 3585
Email: andrew.zhao@kpmg.com

Credit Li

Deal Advisory Partner
Tel: +86 (20) 3813 8526
Email: credit.li@kpmg.com

Christina Huang

Deal Advisory Partner
Tel: +86 (28) 8673 3768
Email: christina.huang@kpmg.com

Cindy Yang

Partner
Department of Professional Practice
Tel: +86 (10) 8508 5005
Email: cindy.yang@kpmg.com

Haitao Yu

Director
Global China Practice
Tel: +86 (10) 8508 5042
Email: haitao.yu@kpmg.com

Mainland China

Beijing

8th Floor, KPMG Tower, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, China
Tel : +86 (10) 8508 5000
Fax : +86 (10) 8518 5111

Beijing Zhongguancun

Room 603, Flat B, China Electronic Plaza
No.3 Danling Street
Beijing 100080, China
Tel : +86 (10) 5875 2555
Fax : +86 (10) 5875 2558

Chengdu

17th Floor, Office Tower 1, IFS
No. 1, Section 3 Hongxing Road
Chengdu, 610021, China
Tel : +86 (28) 8673 3888
Fax : +86 (28) 8673 3838

Chongqing

Unit 1507, 15th Floor Metropolitan Tower
68 Zourong Road,
Chongqing 400010, China
Tel : +86 (23) 6383 6318
Fax : +86 (23) 6383 6313

Foshan

8th Floor, One AIA Financial Center
1 East Denghu Road
Foshan 528200, China
Tel : +86 (757) 8163 0163
Fax : +86 (757) 8163 0168

Fuzhou

Unit 1203A, 12th Floor
Sino International Plaza, 137 Wusi Road
Fuzhou 350003, China
Tel : +86 (591) 8833 1000
Fax : +86 (591) 8833 1188

Guangzhou

21st Floor, CTF Finance Centre
6 Zhujiang East Road, Zhujiang New Town
Guangzhou 510623, China
Tel : +86 (20) 3813 8000
Fax : +86 (20) 3813 7000

Hangzhou

12th Floor, Building A
Ping An Finance Centre, 280 Minxin Road
Hangzhou, 310016, China
Tel : +86 (571) 2803 8000
Fax : +86 (571) 2803 8111

Nanjing

46th Floor, Zhujiang No. 1 Plaza
1 Zhujiang Road
Nanjing 210008, China
Tel : +86 (25) 8691 2888
Fax : +86 (25) 8691 2828

Qingdao

4th Floor, Inter Royal Building
15 Donghai West Road
Qingdao 266071, China
Tel : +86 (532) 8907 1688
Fax : +86 (532) 8907 1689

Shanghai

50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai 200040, China
Tel : +86 (21) 2212 2888
Fax : +86 (21) 6288 1889

Shenyang

19th Floor, Tower A, Fortune Plaza
61 Beizhan Road
Shenyang 110013, China
Tel : +86 (24) 3128 3888
Fax : +86 (24) 3128 3899

Shenzhen

9th Floor, China Resources
Building
5001 Shennan East Road
Shenzhen 518001, China
Tel : +86 (755) 2547 1000
Fax : +86 (755) 8266 8930

Tianjin

Unit 06, 40th Floor, Office Tower
Tianjin World Financial Center
2 Dagu North Road
Tianjin 300020, China
Tel : +86 (22) 2329 6238
Fax : +86 (22) 2329 6233

Xiamen

12th Floor, International Plaza
8 Lujiang Road
Xiamen 361001, China
Tel : +86 (592) 2150 888
Fax : +86 (592) 2150 999

Hong Kong SAR and Macau SAR

Hong Kong

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
23rd Floor, Hysan Place
500 Hennessy Road
Causeway Bay, Hong Kong
Tel : +852 2522 6022
Fax : +852 2845 2588

Macau

24th Floor, B&C, Bank of China Building
Avenida Doutor Mario Soares
Macau
Tel : +853 2878 1092
Fax : +853 2878 1096

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