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The emergence of China: New frontiers in outbound M&A

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mergermarket

New frontiers in outbound M&A

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Foreword: New frontiers in outbound M&A

China has truly stepped onto the world stage following the turmoil that afflicted the global financial system in the second half of last year. Nowhere is this more prevalent than in the Chinese outbound M&A market, where activity remained solid over the first three quarters of 2009, despite dire market conditions. Indeed, outbound deal volumes over Q1-Q3 2009 accounted for 10% of overall Chinese M&A activity, as well as close to one-quarter of M&A investment – in comparison, foreign acquisitions in 2007 comprised just 8.5% over all M&A volumes and 21% of values.

With outbound deal activity playing an increasingly important role in determining the direction of China's overall M&A market, acquisitions of foreign assets have become increasingly sophisticated, as well as controversial. It therefore comes as no surprise that one-quarter of China's 20 largest outbound transactions have been announced over the previous three quarters, with a number of them, such as Yanzhou Coal Mining's US$2.6bn bid for Australia's Felix Resources, encountering regulatory delays.

At the same time, China's sovereign wealth fund is also beginning to leave its mark, directly accounting for two multi-billion dollar acquisitions since the beginning of 2007 – the US$3bn acquisition of a minority stake in US buyout house Blackstone, as well as the US$1.5bn 17.2% stake purchase in Canada's Teck Resources, announced in July 2009. Public capital is also increasingly being utilized to fund outbound acquisitions, with the China Development Bank recently loaning the state-owned China National Petroleum Corporation US$30bn in order to swell its outbound M&A war-chest.

Looking forward, Chinese outbound M&A activity looks likely to continue to move from strength to strength over 2010, driven by a largely-unchanged appetite for deal-making in China, as well as relatively attractive valuations for overseas assets. At the same time, Chinese acquirers are increasingly examining assets in Europe and South America, evidenced by the May 2009 announcement that the China Development Bank will lend US$10bn to Petrobras, the state-owned Brazilian oil company, in exchange for a guaranteed supply of oil over the next decade. Furthermore, Chinese authorities are also working to strengthen ties with the EU, in order to drive tighter economic integration with the trading bloc as well as gain market economy status, recognition of which will most likely boost Chinese acquisitions of European businesses in the future.

In order to shed some light on other deal drivers, as well as discuss any potential hurdles that Chinese firms are likely to encounter in the future, Deloitte's Global Chinese Services Group, together with mergermarket, has produced The emergence of China: New frontiers in outbound M&A, a thought-leadership report which looks to fully illuminate potential Chinese acquirers on the ins-and-outs of purchasing foreign assets.

Executive summary and methodology

Outbound M&A overview

Chinese outbound M&A flows (incorporating all outbound acquisitions stemming from buyers located in Mainland China, Hong Kong, Taiwan and Macau and targeting businesses situated outside China) rebounded over the first three quarters of 2009, with quarterly volumes expanding from just 10 announced transactions in Q1 to 26 in Q3. Likewise, quarterly deal values rose over the same timeframe from US$1.3bn to US$8.9bn.

Chinese acquisitions abroad are steadily rising in value: 20.8% of all disclosed Chinese M&A transactions over 2003 to Q3 2009 were valued at US$250m or greater – a proportion which rose by 1.6 percentage points over the first three-quarters of 2009.

Private equity buyouts from China seem to focus on portfolio companies located in the Industrials sector: 28% of all China-based private equity acquisitions over the 2003-Q3 2009 timeframe by both deal volume and value were conducted in this space. Meanwhile, over one-third (37%) of this activity by deal volume targeted businesses in South Asia, while one-fifth of private equity activity by value was invested in Australasian businesses.

Outbound M&A activity into Australia

Chinese acquisitions into Australia totaled some 58 transactions worth a total of US$9.3bn over the 2003-Q3 2009 period. The majority of this deal flow was centered on the acquisition of Australian Energy, Mining & Utilities assets, which accounted for some 67% of overall deal volumes over the timeframe, as well as 86% of total valuations. Furthermore, the predominance of Energy, Mining & Utilities purchases has risen over the first three quarters of 2009, with 75% of all deal volumes and 99% of all valuations being attributable to acquisitions in the space.

Outbound M&A activity into the US

Chinese acquisitions overseas tend to be focused on assets located in North America. Since 2003, roughly one-quarter and one-third of all outbound M&A transactions and valuations have been for North American targets. These proportions rose substantially when looking at outbound purchases for the Q1-Q3 2009 period, to 32% and 70%, respectively.

Sector focus

Energy, Mining & Utilities transactions continue to dominate Chinese M&A purchases abroad. Since the beginning of 2003, acquisitions in the sector have accounted for 29% of total outbound deal flow by volume and a massive 65% of total deal valuations. Over Q1-Q3 2009, these proportions increased to 40% and 93%, respectively.

Deal rationale and obstacles

One factor influencing outbound deal flow stems from the fact that Chinese monetary authorities are encouraging state-owned enterprises (SOEs) to acquire Energy, Mining & Utilities assets abroad in order to utilize some of the economy's massive foreign exchange reserves and diversify away from low-yielding US dollar-denominated government securities, as well as secure mining and energy resources to satisfy the country's growing appetite for manufacturing inputs.

Chinese SOEs are also looking to expand inorganically so that they can achieve significant economies of scale, which will ultimately allow them to achieve market share abroad and strengthen their bottom line.

China's post-merger integration (PMI) track record is developing, however, with obvious corollaries for the long-term success of outbound transactions.

The impact of M&A regulations

Comprehensive revisions to China's regulatory regime, implemented in the summer of 2008 and 2009, signal that such Chinese business policies are now comparable to the EU or North America. At the same time, issues of regulatory reciprocity are unlikely to arise in the near future as the major antitrust regimes are aware of the huge adverse impact such a charge would have on future M&A flows.

The future

Outbound Energy, Mining & Utilities transactions, primarily focusing on Australian assets, are likely to continue into 2010. However, such transactions are not going to get easier with time, with large Chinese bids for foreign assets in this space are likely to be met with increasing resistance.

Chinese bidders will start returning to bid for assets in the Financial Services sector. While it is largely accepted that some Chinese bidders made have undertaken poorly planned investments into Western financial institutions in the past, pending financial sector reforms in the EU and North America will no doubt create lucrative investment opportunities.

From a country perspective, China's vigorous investment into US businesses is expected to continue over the next 12 months with buyers eyeing assets in a bid to boost their technological prowess. The most notable example of such a trend was undoubtedly Lenvovo's US$1.75bn acquisition of IBM's personal computer division, announced at the end of 2004. Anecdotal evidence suggests that the jury is still out on the deal, with Lenovo recently reporting better-than-expected first quarter 2009 results after a difficult period following the acquisition.

Overall, the prognosis for Chinese outbound M&A activity is fundamentally strong, despite significant operational and political barriers to deal flow continuing to hamper transactions. Looking forward, it is increasingly likely that outbound values and volumes will eventually overcome such obstacles, ultimately resulting in the expansion of this particular market.

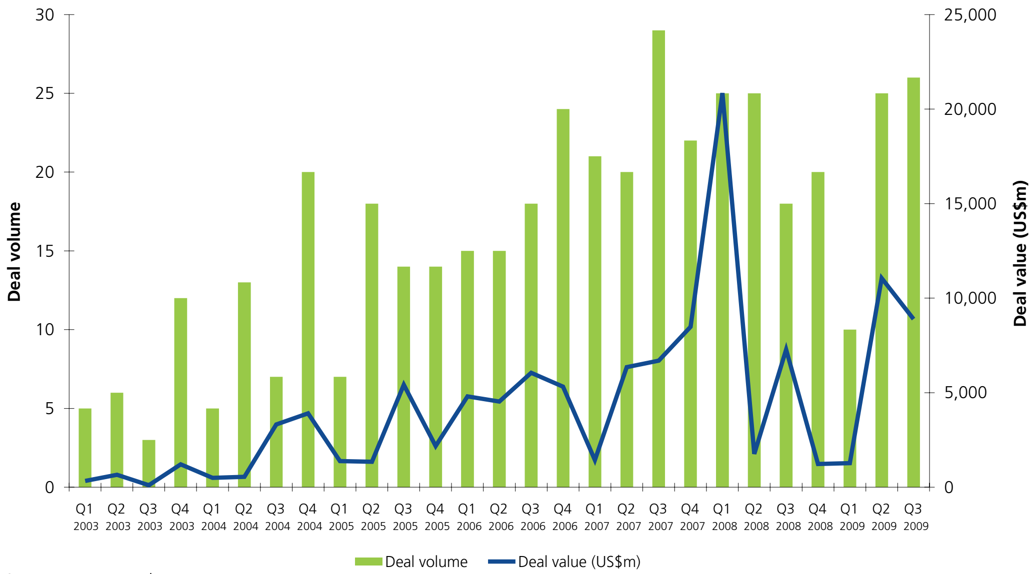
Methodology

- Historical data includes all mergermarket-recorded transactions for the period 01/01/2003 to 30/09/2009.
- Transactions with a deal value of greater than US$5m are included. If the consideration is undisclosed, mergermarket will include deals on the basis of a reported or estimated value of over US$5m. If the value is not disclosed, mergermarket will record a transaction if the target's turnover is greater than US$10m.
- Only true merger and acquisition deals will be collated. Transactions to be included will usually involve a controlling stake in a company being transferred between two different parties. Where the stake acquired is less than 30% (10% in Asia-Pacific), the deal will only be included if its value is greater than US$100m.
- Transactions such as restructurings were shareholders' interests in total remain the same will not be collated. Mergermarket does not track property deals, Letters of intent, Memorandums of understandings, Head of agreement and Non-binding agreements.
- All US$ symbols refer to US dollars unless otherwise stated.
- The report includes deals from the below locations:
  Mainland China (China);
  Hong Kong;
  Taiwan;
  Macau.
- According to mergermarket and for the purposes of this report, an outbound transaction is defined as a deal in which the bidder is predominantly located in Mainland China, Hong Kong, Macau or Taiwan and the target business is predominantly located in any other country aside from mainland China, Hong Kong, Macau or Taiwan.
- For the purposes of this report, regional splits are defined as follows:
  Germanic – Germany, Switzerland and Austria;
  Iberia – Spain and Portugal;
  Australasia – Australia and New Zealand;
  Benelux – The Netherlands, Belgium and Luxembourg.
- Any mention to the term '2003-Q3 2009' throughout the report indicates that the period in question runs from 01/01/2003 to 30/09/2009. Similarly, any mention to the term 'Q1-Q3 2009' indicates that the period in question runs from 01/01/2009 to 30/09/2009.
- All data quoted is proprietary mergermarket data unless otherwise stated.

China outbound M&A overview

Lawrence Chia, Head of Deloitte China M&A Services & Global Chinese Services Group Co-Chairman remains optimistic on Chinese outbound M&A prospects, suggesting that strong home-grown deal drivers could overcome Chinese businesses' concerns of overseas regulatory obstacles in the foreseeable future.

M&A trends of outbound cross-border M&A activity from China



Source: mergermarket

Outbound M&A activity from China has increased significantly in recent times, coinciding with the rapid development of the wider economy and the increasing presence of China on the world stage. Indeed, between 2003 and the end of Q3 2009, Chinese businesses undertook 437 outbound acquisitions, worth a total of US$116.8bn – with the bulk of these (some 241 transactions worth US$75.3bn) having taken place over the past two-and-three-quarter years.

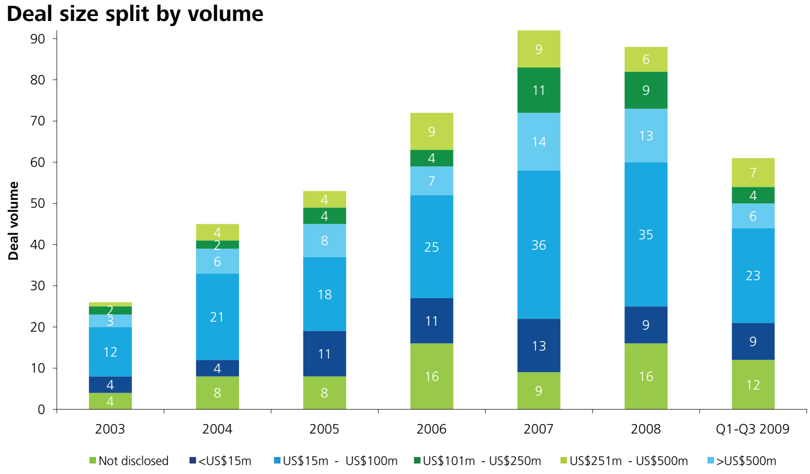
More recently, Lawrence Chia, Head of Deloitte China M&A Services & Global Chinese Services Group Co-Chairman, notes that outbound Chinese M&A deal flow has risen rapidly over the first three quarters of the year, with Chinese purchases overseas having numbered 61 deals worth US$21.2bn, the majority of them coming to market in Q3 2009. Some 26 deals worth US$8.9bn were announced over this period, with the numbers significantly boosted by the US$2.6bn debt-inclusive buy of Felix Resources, the Australian miner, by Yanzhou Coal, its Chinese counterpart.

While the global credit crisis resulted in a large decline in the number of M&A transactions being conducted, Chinese outbound M&A flows remained relatively resilient, with the volume of cross-border acquisitions falling 28% over the H2 2008-H1 2009 period compared to the same timeframe a year previously. In contrast, global M&A volumes dropped by 36%. Chia believes that this relative robustness is attributable to the fact that the wider Chinese economy remained somewhat insulated to the fall out from the financial crisis, perhaps due to the massive government capital injection that followed the collapse of Lehman Brothers in September 2008.

At the same time, Chia points out that factors other than opportunistic bottom-fishing have also driven outbound cross-border deal-making. State-sanctioned acquisitions are one such driver, with Chinese state-owned enterprises (SOEs) being offered large loans or credit agreements at preferential rates in order to purchase foreign assets (China Development Bank's [CDB] recent US$30bn loan to China National Petroleum Corp to enhance its acquisition war-chest is just one example). Such support, Chia believes, comes as the authorities look to diversify the country's US$2.13trillion of foreign exchange reserves, around 65% of which is currently invested in low-yielding dollar-denominated securities according to UBS.

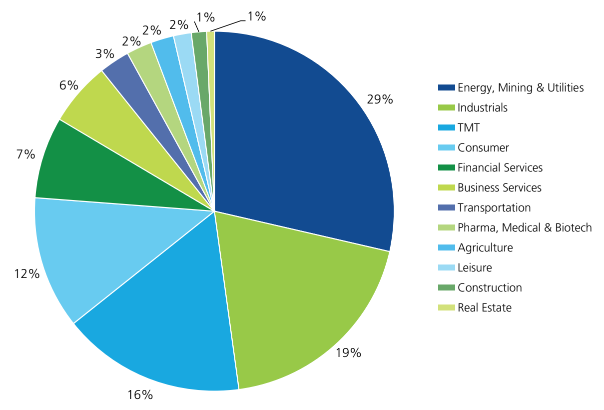
At the same time, Chia also notes that Chinese SOEs are conducting outbound M&A acquisitions as they look to grow their business in order to prevent takeover bids from larger domestic rivals. "Buying assets overseas is a

Deal size split by volume



Source: mergermarket

Sector split of cross-border M&A activity from China 2003-Q3 2009: volume



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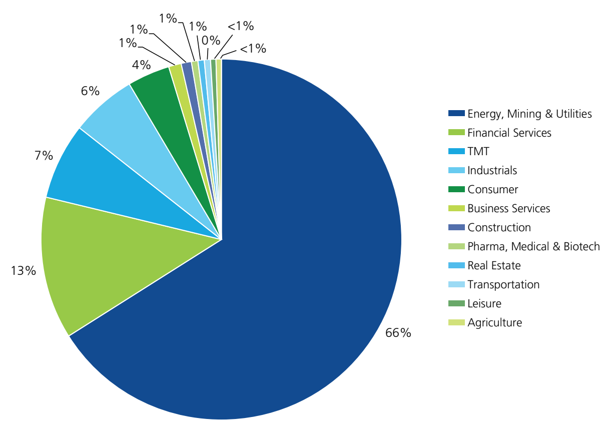
Sector split of cross-border M&A activity from China 2003-Q3 2009: value



Source: mergermarket

sign of strength", he says. "In addition, such businesses do not have to return cash to any stakeholders and are therefore in a position to finance such acquisitions".

It is interesting to note that over the whole period, Hong Kong accounted for the largest proportion of outbound acquisitions by bidder country, brokering 217 deals compared to 174 outbound purchases by Chinese businesses and 37 by Taiwanese companies. However, in terms of deal valuations, Chinese acquirers have spent US$85.1bn buying overseas, in contrast to the US$28bn and US$3.7bn invested by Hong Kong and Taiwanese firms respectively.

The Q2 2009 US$8.8bn acquisition of Addax by Sinopec highlights the prominence of the large-cap deal in the China outbound space. Despite the austere economic climate, over the first three quarters of 2009, 11% of acquisitions were valued at more than US$500m, a four-percentage point rise over FY2008 figures. However, at the other end of the scale, small-cap deal flow – those transactions valued at less than US$15m – also jumped five percentage points over the same time period.

However, while Chia acknowledges that recent outbound transactions have increasingly fallen into the large-cap space, he does not believe that mega-cap (US$1bn+) transactions will really take off, explaining that Chinese bidders now realize that such deals are simply too unwieldy and difficult to manage effectively – especially when looking at acquisitions in the Energy, Mining & Utilities space.

Sector splits

Energy, Mining & Utilities transactions unsurprisingly dominated Chinese acquisitions over the 2003-Q3 2009 period, accounting for 29% of all outbound transactions by volume and 66% by value. Other industries which attracted notable investment include the Industrials sector, which had a 19% share in terms of volume, but just 6% by value, while the TMT space witnessed 16% of overall deal volumes and 7% of values.

Looking at outbound M&A activity over 2009 alone, it is clear just how much importance China ascribes to securing raw materials in order to fuel its booming manufacturing base. The proportion of Energy, Mining & Utilities-focused acquisitions abroad over the three quarters of 2009 alone makes up some 41% of the total number of deals – a rise of 12 percentage points compared to similar figures for the past six-and-three-quarter-year period. Furthermore, the country spent some US$19.5bn acquiring such foreign assets, accounting for a massive 93% of the total spent overseas in the first three quarters of the year.

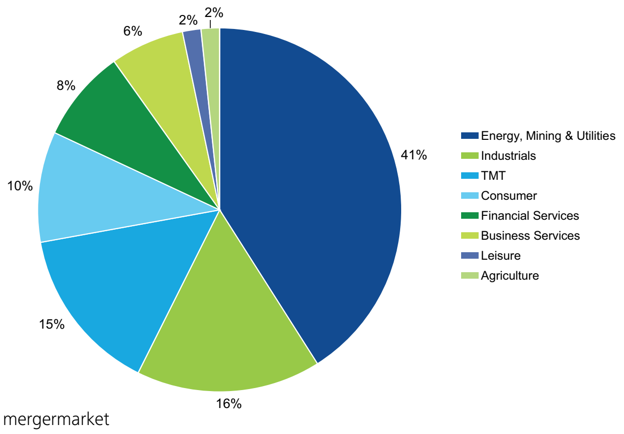
Looking forward, Chia suggests that the dominance of Energy, Mining & Utilities transactions is likely to continue into 2010. However, he does not believe that such transactions are going to get easier with time, saying that, "Large Chinese bids for foreign assets in this space are likely to meet with increasing resistance. Chinese bidders will progressively need to learn how to divorce any political undertones from their offers if they want their bids to succeed".

At the same time, Chia feels that Chinese bidders will start returning to bid for assets in the Financial Services sector. "While some market commentators believe that entities such as the state sovereign wealth fund China Investment Corporation (CIC) burnt their fingers last time they invested in western financial institutions, the imminent swathe of reforms that are about to impact European and North American banks will no doubt create lucrative investment opportunities and they are making these investments for the strategic long-term".

Another potential driver of outbound Financial Services transactions derives from the fact that state-owned Chinese banks are increasingly creating partnerships abroad in order to support future deal financings between prospective Chinese acquirers and local sellers. Chia cites Industrial and Commercial Bank of China's (ICBC) 20% stake buy in South Africa's Standard Bank for US$5.4bn in early 2007 as a good example of such a practice, with future Chinese buyers looking to make purchases in Africa being able to secure local deal financing terms off the back of this relationship.

Other sectors that Chia believes will see a rise in outbound deal flow over 2010 and beyond include the Agriculture and Renewable Energy, both of which are likely to witness increased activity as Chinese firms search for suitable businesses to sate their rising appetite for both clean energy and agricultural produce.

Sector split of cross-border M&A activity from China Q1-Q3 2009: volume



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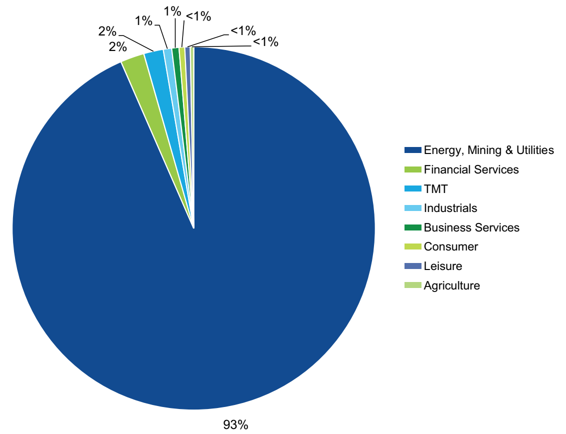
Sector split of cross-border M&A activity from China Q1-Q3 2009: value

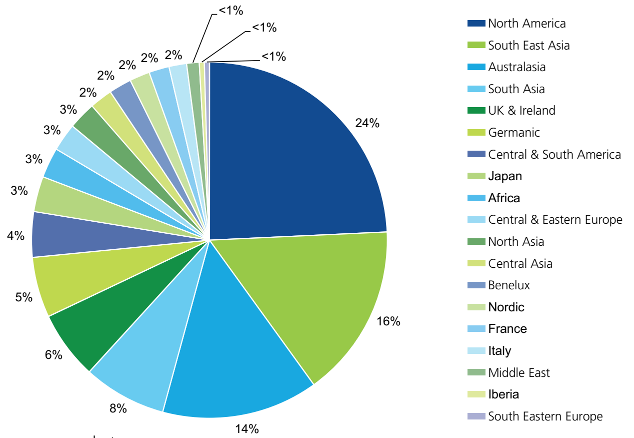


Source: mergermarket

Large Chinese bids for foreign assets in the Energy, Mining & Utilities space are likely to meet with increasing resistance in the future

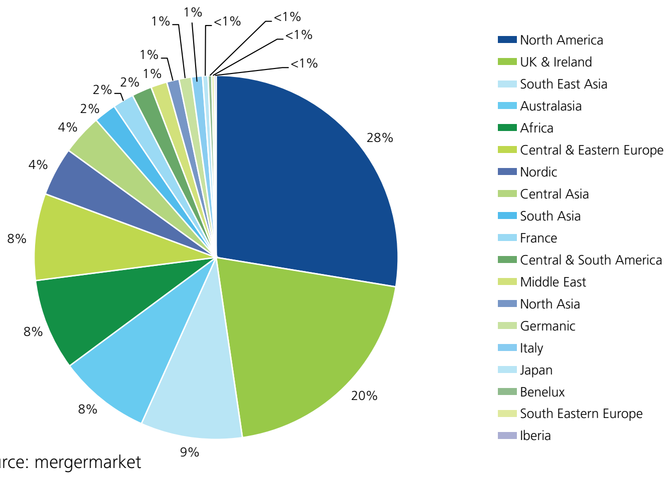
Lawrence Chia,
Head of Deloitte China M&A Services & Global Chinese Services Group Co-Chairman

Geographic split of outbound cross-border M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Geographic split of outbound cross-border M&A activity from China 2003-Q3 2009: value



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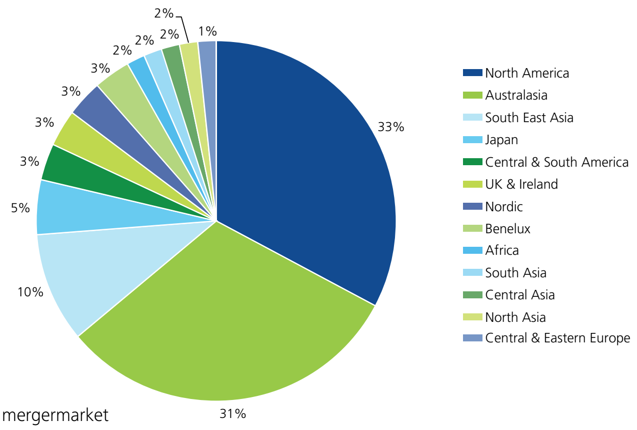
Geographic split of outbound cross-border M&A activity from China Q1-Q3 2009: volume



Source: mergermarket

Country splits

North America-based businesses have been the preferred target of Chinese acquirers over the 2003-Q3 2009 period, with some 106 acquisitions, accounting for 24% of the total, being announced. Meanwhile, South East Asian and Australasian businesses have also found favor with the Chinese buyers, accounting for 16% and 14% of outbound acquisitions by volume respectively.

Chia remarked that acquisitions of Australian Energy, Mining & Utilities assets are likely to continue unabated in the near future. This is chiefly because Australian commodities, such as coal, are of superior quality while transportation costs involved with shipping aggregates from Australia to China are lower than from Canada and South America.

Chia further claims that the country's love affair with US businesses will continue over the next 12 months with buyers eyeing assets in a bid to boost their technological prowess. At the same time, Chinese buys in the US may also be encouraged by the state as it looks to diversify its massive US dollar reserves away from currency holdings into less volatile assets.

North America also ranks as the top recipient of outbound M&A investments from China by value, with Chinese bidders spending some US$32.2bn (28% of the total) over the 2003-Q3 2009 period. Acquirers also splashed out a further US$23.5bn and US$10.5bn buying UK & Ireland as well as South East Asian assets respectively.

While Chinese acquisitions of African assets have received many column inches in the world's financial press of late, Chia doesn't expect this to translate into a sustained trend over the longer term. "There are profitable M&A opportunities in Africa but doing a deal there is difficult due to the lack of infrastructure", he explained. Following the failure of CNPC's US$460m bid for the Verenex Energy, the Canadian-listed Oil & Gas Exploration company with interests in Libya, in September 2009, Chia also points out that political intransigence plays an important role. CNPC walked away from the deal after Libya's National Oil Company – who had the right of first refusal – purchased the business itself and is currently negotiating a lower valuation for the business.

Private equity

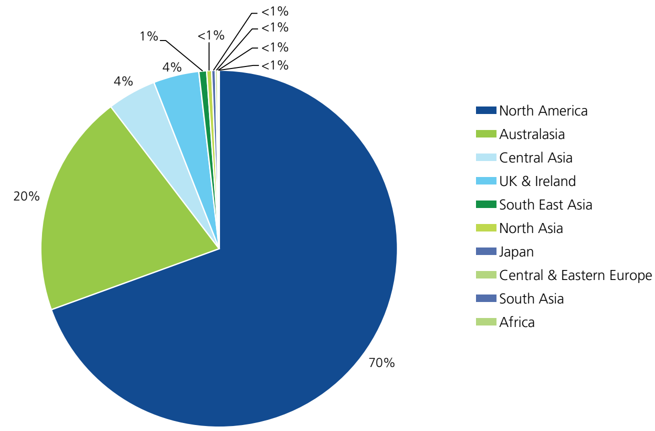
China Outbound private equity acquisitions have numbered some 59 transactions worth US$5.2bn over the 2003-Q3 2009 period, accounting for 13% of overall outbound transactions and 4.4% of total valuations. The vast majority of these private equity bids originated from Hong Kong-based private equity firms, indicating that despite its massive economic clout, Chinese private equity firms have yet to actively target companies in overseas markets.

Buyouts of foreign businesses by Chinese private equity houses have fallen off over the course of 2009, with just three such deals having taken place in the first three quarters of this year. Quarterly deal flow was at its highest point in Q1 2008 when seven transactions were undertaken – however, in terms of quarterly valuations, activity peaked in Q1 2006 following the US$887m MBO of Waco International, the South African company engaged in commercial and industrial service businesses, backed by CCMP Capital Asia, the Hong Kong-based private equity firm.

Chinese financial investors have most targeted companies in the Industrials sector, with acquisitions in this particular space accounting for more than one-quarter (29%) of all outbound private equity activity in terms of both deal volume and deal value.

Looking at geographic breakdowns, South Asian assets attracted the lion's share (37%) of private equity investment in terms of deal volumes over the period while North America and South East Asia were also notable destinations for Chinese cross-border private equity activity, together accounting for 28% of the market. Meanwhile, in contrast outbound private equity valuations have been centered in Australasia, Africa and South East Asia, with a total of US$2.7bn having been invested in them collectively.

Geographic split of outbound cross-border M&A activity from China Q1-Q3 2009: value



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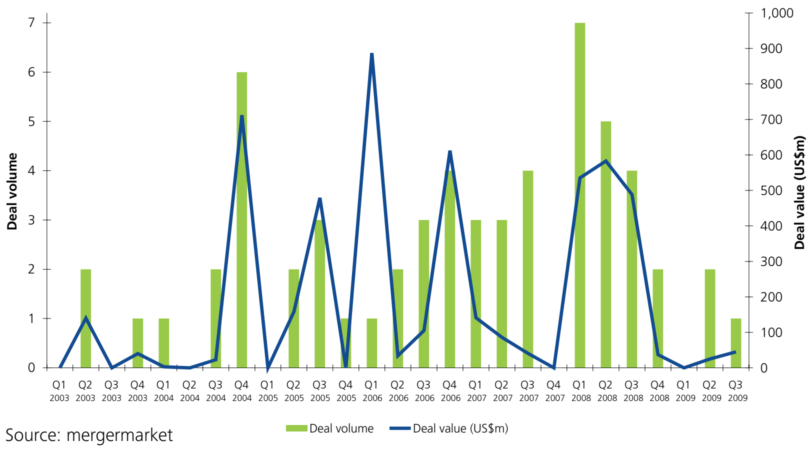
Private equity M&A trends of outbound cross-border M&A activity from China



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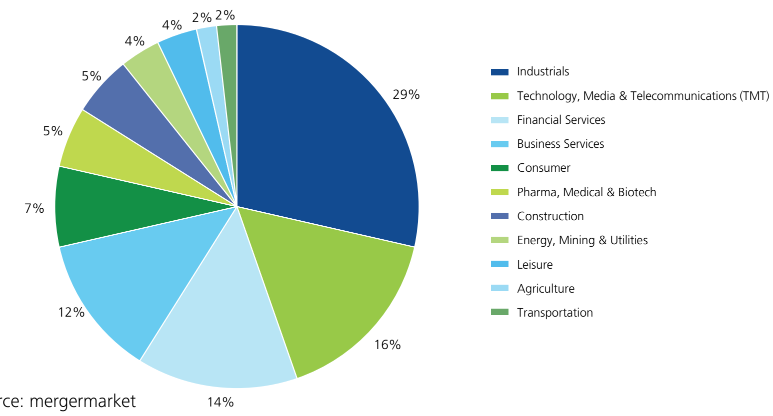
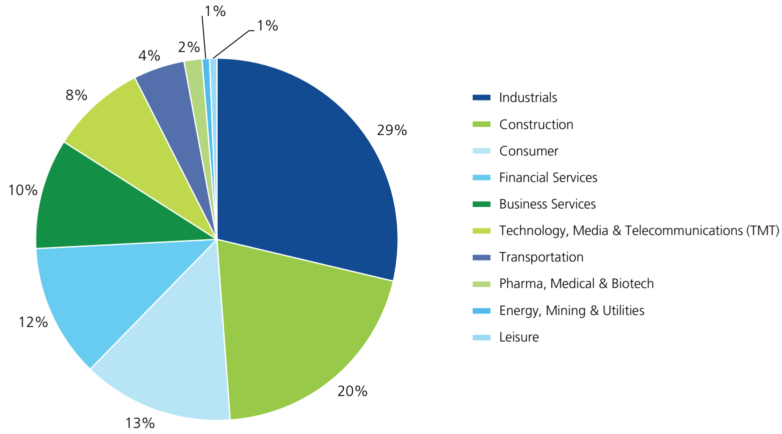
Sector split of cross-border private equity M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Sector split of cross-border private equity M&A activity from China 2003-Q3 2009: value



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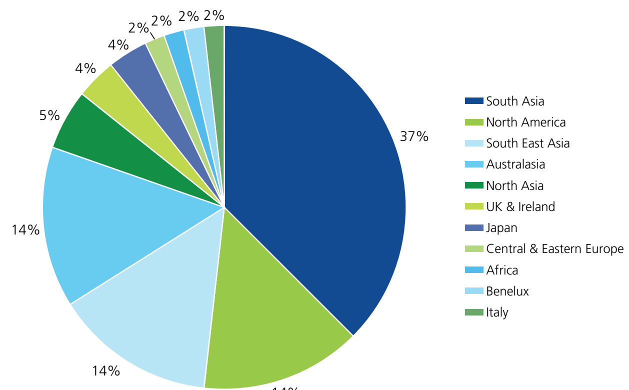
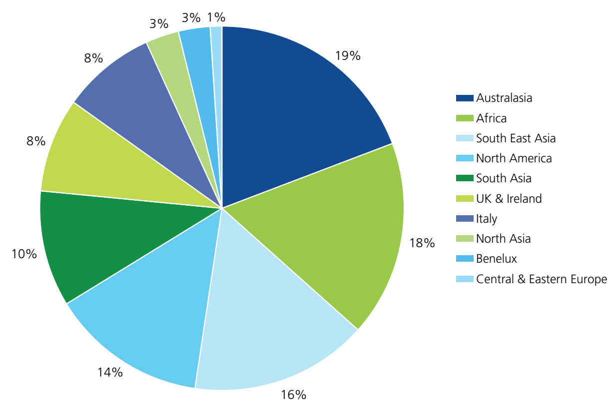
Geographic split of cross-border private equity M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Geographic split of cross-border private equity M&A activity from China 2003-Q3 2009: value



Source: mergermarket

Despite the rather subdued level of deal making from Chinese financial investors, Chia remains optimistic that home-grown – especially mainland-Chinese – private equity groups will mature over the next 12 months, pointing towards the massive amounts of capital that is rapidly becoming available to fund deals. "The propensity to save in China is of the world's highest, meaning that vast amounts of capital are increasingly being made available for the country's alternative investment community", explains Chia. "Such capital pools are only going to get bigger, particularly since a lower proportion of China's population has access to a bank account vis-à-vis other economies of the same size. As a result, many state-owned financial institutions, such as CDB, are creating private equity funds to invest abroad, such as its China-Africa Fund, which will aim to raise US$5bn to invest and support Chinese enterprises in Africa". However, Chia concedes it is questionable whether domestic financial investors will initially want to cut their teeth on complex cross-border acquisitions.

Top 20 China outbound deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Feb-08	C	Rio Tinto Plc (12.00% stake)	Mining	United Kingdom	Alcoa Inc; Aluminum Corporation of China (Chinalco)	China			14,000
2	Jun-09	C	Addax Petroleum Corporation	Energy	Canada	Sinopec International Petroleum Exploration and Production Corporation	China			8,800
3	Oct-07	C	Standard Bank Group Limited (20.00% stake)	Financial Services	South Africa	Industrial and Commercial Bank of China Limited	China			5,413
4	Jul-06	C	Rosneft Oil Company OAO (7.58% stake)	Energy	Russia	BP Plc; China National Petroleum Corporation; Petroliam Nasional Berhad	China	Rosneftegaz	Russia	5,345
5	Aug-05	C	PetroKazakhstan Inc	Energy	Canada	CNPC International Limited	China			3,932
6	Jul-08	C	Awilco Offshore ASA	Energy	Norway	China Oilfield Services Limited	China			3,777
7	Jun-06	C	OAO Udmurtneft	Energy	Russia	China Petroleum & Chemical Corporation	China	TNK-BP Holding OAO	Russia	3,500
8	Mar-08	C	Tuas Power Limited	Energy	Singapore	SinoSing Power Pte Ltd	China	Temasek Holdings Pte Ltd	Singapore	3,103
9	May-07	C	Blackstone Group Holdings LLC (Minority Stake)	Financial Services	USA	China Investment Corporation	China			3,000
10	Jul-07	C	Barclays Plc (3.10% stake)	Financial Services	United Kingdom	China Development Bank	China			2,980
11	Aug-09	P	Felix Resources Limited (formerly Aulron Energy Limited ACN)	Mining	Australia	Yanzhou Coal Mining Company Ltd	China			2,564
12	Aug-04	C	National Grid Transco plc (North England distribu-tion network)	Utilities (other)	United Kingdom	Cheung Kong Infrastructure Holdings Limited; Li Ka Shing (Overseas) Foundation; United Utilities Plc	Hong Kong	National Grid Plc	United Kingdom	2,494
13	Jan-06	C	South Atlantic Petroleum (OML 130) (45.00% stake)	Energy	Nigeria	China National Offshore Oil Corporation Ltd	Hong Kong	South Atlantic Petroleum Ltd.	Nigeria	2,268
14	Oct-06	C	Argymak Trans Service LLP; Karazhanbasmunai, JSC; Tulpar Munai Services LLP	Energy	Kazakhstan	CITIC Group	China	CITIC Canada Petroleum Limited (formerly Nations Energy Company Limited)	Canada	1,910
15	Sep-08	C	Tanganyika Oil Company Ltd.	Energy	Canada	China Petroleum & Chemical Corporation	China			1,813
16	Dec-04	C	IBM Corporation (Personal Computing Division)	Computer: Hardware	USA	Lenovo Group Limited	Hong Kong	IBM Corporation	USA	1,750
17	Aug-09	P	ASOC (Mackay River and Dover oil sands projects) (60.00% stake)	Energy	Canada	PetroChina Company Limited	China	Athabasca Oil Sands Corp	Canada	1,740
18	Jul-09	P	Teck Resources Limited (17.20% stake)	Mining	Canada	Fullbloom Investment Corporation	China			1,508
19	Apr-09	C	OZ Minerals (certain assets excluding Prominent Hill and Martabe)	Mining	Australia	China Minmetals Non-Ferrous Metals Co Ltd	China	OZ Minerals Limited (formerly known as Oxiana Limited)	Australia	1,386
20	Jan-05	C	Marionnaud Parfumeries SA	Consumer: Other	France	A.S.Watson & Co Ltd	Hong Kong			1,181

Source: mergermarket, P= pending, C= completed

Top 20 China outbound deals and outlook

The largest Chinese outbound acquisition to take place since the beginning of 2003 saw a consortium consisting of Alcoa and Chinalco, the US and Chinese aluminum producers respectively, acquire a 12% stake in Rio Tinto, the UK-listed miner, for US$14bn. The deal was completed in early 2008 and was conducted primarily to protect the two bidders from rising aluminum prices if rival BHP Billiton's bid to acquire Rio Tinto was successful.

Second on the list was the US$8.8bn inclusive of net-debt acquisition of Addax Petroleum, the Canadian oil and gas exploration and production company, by Sinopec, China's largest producer and supplier of oil products and major petrochemical products. The bid was offered at a 47% premium to Addax's share price one month prior to the announcement – one of the reasons why 92.67% of the target's shareholders ultimately tendered their shares to the bid. The bid premium – considered to be on the high side by market commentators – also kept potential rivals away from Addax as it was rumored that the Korean National Oil Company was also lining up Addax in its crosshairs.

The third-largest outbound transaction emanating from China saw ICBC, the Chinese bank, snap up a 20% stake in South Africa's Standard Bank, a deal – as mentioned earlier – which Chia believes could have been motivated by the Chinese government's desire to help future acquirers looking to invest in Africa secure better deal financing terms from friendly local lenders.

The largest foreign buy conducted by a Hong Kong bidder saw a consortium of Cheung Kong Infrastructure Holdings, the Hong Kong infrastructure company, United Utilities, the UK water, electricity, and natural gas utility, and the Li Ka Shing Foundation, acquire the North England gas distribution network, from National Grid Transco, the UK natural gas transmission and distribution company, for US$2.5bn back in 2005. The consortium fought off competition from private equity firm Terra Firma, strategic player Scottish and Southern Energy, as well as Macquarie Bank and ABN Amro.

Looking forward, Chia remains positive on the outbound M&A market, especially when discussing recent revisions to China's antitrust regime and its impact on outbound deal opportunities. On this particular topic, he notes that comprehensive revisions, implemented in the summer of 2008 and 2009, signal that Chinese business policies are now comparable to the EU or North America. "Previous high-profile outbound acquisitions by Chinese bidders were, more often than not, sniffed at by regulatory agencies in the US and Europe as the Chinese regulatory regime was not considered up to par. The recent shake-ups are a response to this and now I believe that the Chinese regulatory framework is now very much in line with international best practices".

Chia pours cold water on the idea that China's rejection of Coca-Cola's bid for Huiyuan Juice, as well as the recent trade spat between China and the US could lead to increased protectionism. "Local drivers influencing Chinese acquisitions abroad are, in themselves, compelling reasons for Chinese firms to buy foreign assets, regardless of the strict regulatory regimes in place overseas". Delving further, he says, "I think a sense of perspective is required here. It must be remembered that just prior to their bid for Huiyuan, Coca-Cola attempted to buy a similar-sized Australian soft drinks manufacturer in a deal which was ultimately rejected by Australian antitrust authorities due to concerns over the new entity's market share. As a result, I do not think there is any basis for reciprocity to occur and the regimes in Washington, Ottawa and Brussels, I believe, are aware of this".

Chia does however admit that China's post merger integration track record is developing. "Chinese bidders should learn how to implement a cross-border M&A acquisition", he said, "they have recognized that it is a key success factor for cross-border M&A transactions and this applies to handling both regulatory agencies as well as target stakeholders".

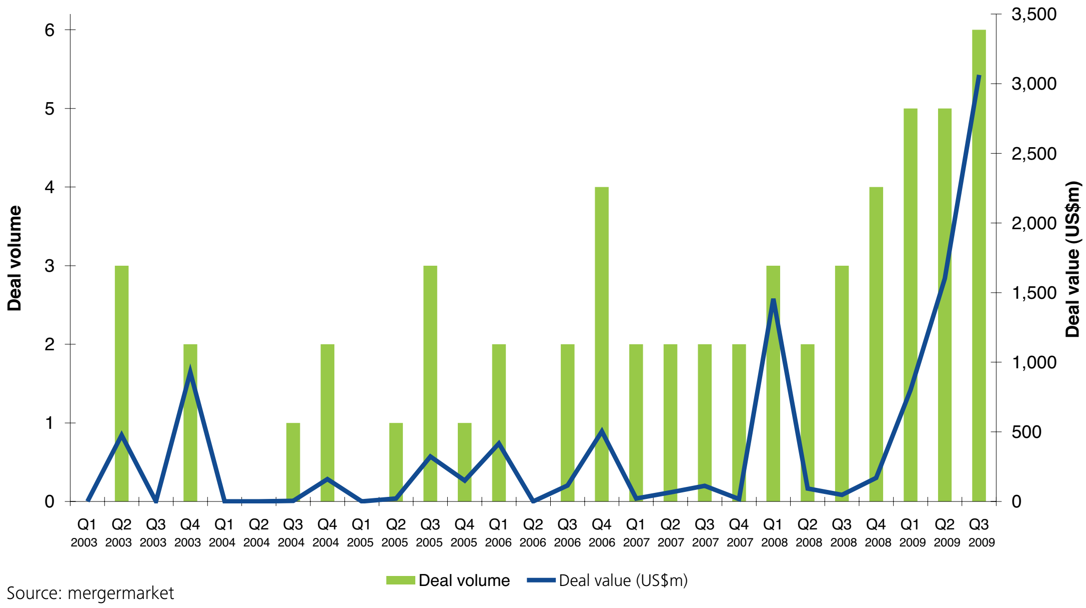
Local drivers influencing Chinese acquisitions abroad are, in themselves, compelling reasons for Chinese firms to buy foreign assets, regardless of the strict regulatory regimes in place overseas

Lawrence Chia,
Head of Deloitte China M&A Services & Global Chinese Services Group Co-Chairman

China outbound M&A activity into Australia

Keith Jones, Managing Partner of Deloitte's Western Australia Region & Australia Chinese Services Group Leader, highlights China's appetite for Australian commodities as a continued driver of outbound M&A acquisitions into the country – yet warns that Australian regulatory bodies will begin to monitor such transactions closely.

M&A trends of outbound cross-border M&A activity from China into Australia



Source: mergermarket

Australia's vast amount of natural resources has underpinned a flurry of M&A transactions undertaken by Chinese firms in a bid to meet the raw material demands of a rapidly expanding economy. As a result, M&A activity has steadily climbed from just five acquisitions, collectively valued at US$1.4bn, in 2003, to 12 transactions, worth US$1.8bn, in 2008. And 2009 is shaping up to witness even greater levels of deal flow with 16 transactions, worth a combined US$5.5bn, having already been announced over the first three quarters, making Australia the top foreign market by country for Chinese firms sourcing assets abroad over the period.

Cross-border M&A from China has overwhelmingly targeted Australian Energy, Mining & Utilities assets, for which Chinese acquirers have a seemingly undiminished appetite. "Typically, transactions are strategic deals carried out by Chinese SOEs with an agreement for the output or resource being produced", says Keith Jones, Managing Partner of Deloitte's Western Australia Region & Australia Chinese Services Group Leader. He adds, "However, of late, we have seen more private equity buying into Australia. Nonetheless, SOEs still dominate inbound investment activity".

The average size of acquisitions in the Australian market (US$195m over the period) is just over half the US$321m mean value of all Chinese outbound M&A transactions since 2003, However, a few large-cap Australian Mining transactions conducted in the first three quarters of 2009 bolstered this figure to US$390m, more than 90% the US$433m average deal value for all Chinese outbound acquisitions over the same timeframe.

On a broader level, cross-border acquirers are also paying comparatively more for Australian assets in recent months due to the strong recovery of the Australian dollar, which has risen by around a quarter against the Chinese Yuan since early March 2009. Concurrently, unit prices for subsoil commodities have rebounded strongly over the same period, further heightening valuations for Australian Energy, Mining & Utilities assets.

On this issue Jones comments, "Chinese acquisition activity is also being encouraged by businesses' desire to diversify their foreign exchange holdings away from US dollars and into buying into real assets in other markets. This strategy also supports the state's longer-term aims of securing resources for the future growth of the economy". Moreover, rising global prices for hard commodities and energy make assets in these niches comparatively more attractive.

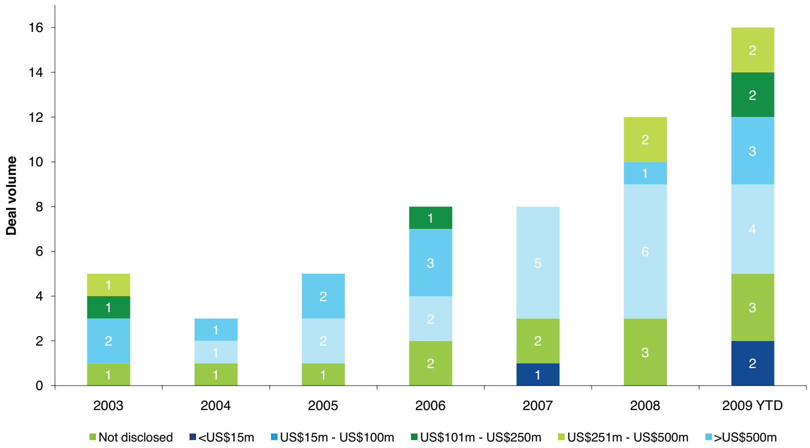
Looking at deal sizes, since the beginning of 2003, Chinese acquisitions worth more than US$500m have accounted for just 9% of all buys in Australia, with fully 86% of deal flow falling into the mid-market (US$5m-US$500m) space. 5% of deal valuations were not disclosed.

Sector splits

Chinese acquisitions of Australian businesses have focused almost exclusively on buys in the Energy, Mining & Utilities sector. Such purchases account for more than two-thirds of the overall market by deal volume and a massive 89% of deal value – equating to some 39 transactions worth US$9.3bn. This focus becomes clearer even when looking at 2009 figures alone. 82% of overall Chinese purchases into Australia were purchases of Energy, Mining & Utilities assets, accounting for 99% of total deal values into the country.

However, while M&A drivers in traditional investment hubs in Australia may sustain deal flow looking ahead, Jones comments that investor rationale may be shifting. "We anticipate Chinese acquirers to be driven by the profit imperative as well as the need for resources", he said, adding that "we also foresee growth in a different type of investor driven by more traditional investment/growth strategies". Accordingly, China may increasingly deploy capital towards other national industries going forward, with Jones suggesting the Foods niche, some soft commodities such as beef and timber and, in the longer term, Real Estate, to be likely targets.

Deal size split by volume

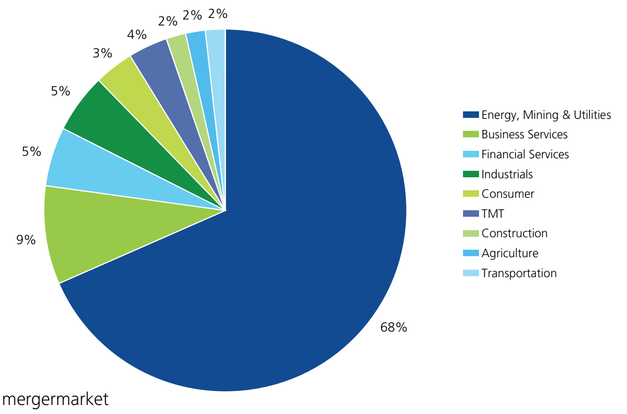


Source: mergermarket

Chinese acquisition activity is being encouraged by businesses' desire to diversify their foreign exchange holdings away from US dollars and into buying into real assets in other markets

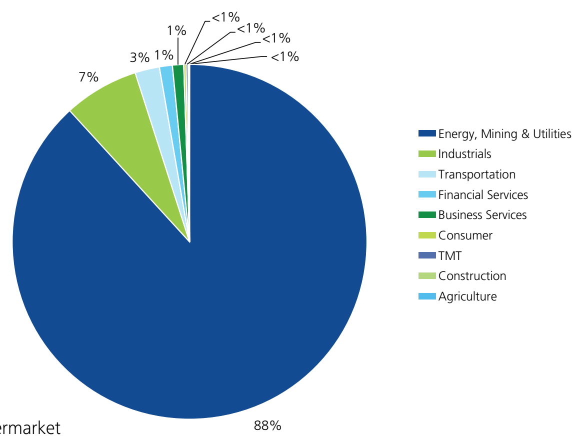
Keith Jones
Managing Partner of Deloitte's WA Region & Australia CSG Leader

Sector split of cross-border M&A activity from China into Australia 2003-Q3 2009: volume



Source: mergermarket

Sector split of cross-border M&A activity from China into Australia 2003-Q3 2009: value



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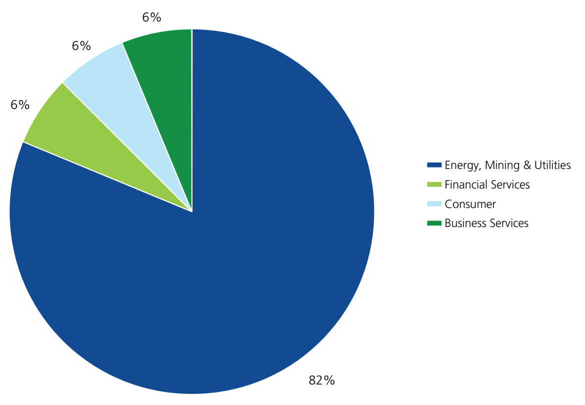
Sector split of cross-border M&A activity from China into Australia Q1-Q3 2009: volume



Source: mergermarket

Private equity

Meanwhile, Australian equity markets have recovered in line with the recovery in commodities prices and the Australian dollar, with the ASX 200 recovering nearly 50% at the time of writing since dipping to around 3,100 in early March 2009. According to Jones, private equity and sovereign wealth fund activity will be dependent on continued improvement in the performance of Australian stocks and a wider economic recovery.

Since 2003, Chinese private equity acquisitions in Australia have numbered some eight deals collectively valued at US$1.3bn – accounting for 15% and 12.5% of overall outbound M&A volumes and valuations respectively. Two of these transactions came to market earlier this year despite poor deal-making conditions, the more noteworthy of the two being China-based Hunan Valin Iron & Steel Group's acquisition of a 9.07% stake in Australia's Fortescue Metals Group from US-based buyout house Harbinger Capital Partners, for US$408m in February. Elsewhere, HNA Group, the China-based transportation group, and Bravia Capital Partners, the private equity firm, acquired the aviation business of Allco Finance Group, the listed Australian Financial Services provider, from the company and its administrators for an undisclosed consideration. The completion of the acquisition is subject to certain approvals and expected to close in the next three to six months.

Top 20 outbound acquisitions into Australia and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Aug-09	P	Felix Resources Ltd	Mining	Australia	Yanzhou Coal Mining Company Ltd	China			2,564
2	Apr-09	Jun-09	OZ Minerals (certain assets excluding Prominent Hill and Martabe)	Mining	Australia	China Minmetals Non-Ferrous Metals Co Ltd	China	OZ Minerals Limited (formerly known as Oxiana Limited)	Australia	1,386
3	Mar-08	C	Midwest Corporation Ltd (80.31% stake)	Mining	Australia	Sinosteel Corporation	China			879
4	Oct-03	C	Gorgon Project (12.5% stake)	Energy	Australia	China National Offshore Oil Corporation Ltd	China	Chevron Corporation; ExxonMobil Corporation; Royal Dutch Shell plc	Netherlands	701
5	Mar-08	C	AED Oil Ltd (assets held under AC/P22, AC/L6 and AC/RL1, including the Puffin and Talbot fields) (60.00% stake)	Energy	Australia	Sinopec International Petroleum Exploration and Production Corporation	China	AED Oil Ltd	Australia	561
6	Dec-06	C	Repco Corporation Ltd	Automotive	Australia	Unitas Capital Ltd	Hong Kong	Archer Capital; Gresham Private Equity; Macquarie Group Ltd	Australia	435
7	Feb-09	C	Fortescue Metals Group Ltd (9.07% stake)	Mining	Australia	Hunan Valin Iron & Steel Group Co Ltd	China	Harbinger Capital Partners Master Fund I, Ltd; Harbinger Capital Partners Special Situations Fund, LP	USA	408
8	Feb-09	C	Fortescue Metals Group Ltd (7.42% stake)	Mining	Australia	Hunan Valin Iron & Steel Group Co Ltd	China			363
9	May-03	C	North West Shelf Project (25.00% stake)	Energy	Australia	China National Offshore Oil Corporation Ltd	Hong Kong			348
10	Aug-09	P	Aquila Resources Ltd (15.00% stake)	Mining	Australia	Baoshan Iron & Steel Co Ltd	China			241
11	Sep-05	C	Loscam Ltd	Transportation	Australia	Affinity Equity Partners	Hong Kong	Propel Investments Pty Ltd	Germany	234
12	Dec-03	C	Intergen Inc (Millmerran coal-fired power plant) (54% stake)	Energy	Australia	Huaneng Power Group Corp	China	InterGen Inc	USA	227
13	Mar-06	C	Sino Iron Pty Ltd	Mining	Australia	CITIC Pacific Ltd	Hong Kong	Mineralogy Pty Ltd	Australia	215
14	Mar-06	C	Balmoral Iron Pty Ltd	Mining	Australia	CITIC Pacific Ltd	Hong Kong	Mineralogy Pty Ltd	Australia	200
15	May-09	P	Pan Australian Resources (19.90% stake)	Mining	Australia	Guangdong Rising Assets Management Co Ltd	China			169
16	Sep-09	P	Mount Gibson Iron Ltd (14.34% stake)	Mining	Australia	Fushan International Energy Group Ltd	Hong Kong	Sky Choice International Ltd	Hong Kong	153
17	Oct-05	C	Qenos Pty Ltd	Chemicals and materials	Australia	China National Chemical Corporation (ChemChina)	China	ExxonMobil Corporation; Orica Ltd	USA	150
18	Oct-04	C	Air International Group Ltd (Global Thermal Systems) (65.00% stake)	Industrial products and services	Australia	Unitas Capital Ltd	Hong Kong	Air International Group Ltd	Australia	136
19	Jun-03	C	BLCP Power Ltd (10.00% stake); Gujarat Paguthan Energy Corporation Private Ltd (20.00% stake); Yallourn Energy Pty Ltd (18.40% stake)	Energy	Australia	CLP Power International	Hong Kong	E.ON UK plc	United Kingdom	115
20	Nov-08	C	Gindalbie Metals Ltd (23.68% stake)	Mining	Australia	Anshan Iron & Steel Group Corporation (Angang Group)	China			109

Source: mergermarket, P= pending, C= completed

Top 20 outbound acquisitions in Australia and outlook

The largest transaction to come to market saw Yanzhou Coal Mining, the Chinese coal mining group, agree to merge with Felix Resources, the Australia-based coal producer, in August 2009. The total consideration of the deal is valued at a significant US$2.6bn. Felix plans to spin off South Australian Coal Corporation, its 100% owned subsidiary, which will then seek a listing on the ASX. The only other US$1bn+ transaction saw China Minmetals Non-Ferrous Metals, a supplier and subsidiary of the state-owned China Minmetals Corp, acquire eight mines and certain other exploration and development assets for US$1.4bn from OZ Minerals.

The Oz Minerals/Minmetals tie-up highlighted the fact that the Australian regulatory framework remains a stumbling block for the majority of Chinese acquirers looking to buy in Australia. Indeed, the Foreign Investment Review Board (FIRB) has blocked two bids by

MOFCOM has essentially freed up the approval process on these deals, increasing the number of acquirers and reducing central control on smaller transactions. Nonetheless, the FIRB will scrutinize every transaction carried out by a sovereign wealth fund or state-owned enterprise, regardless of the size.

Keith Jones
Managing Partner of Deloitte's WA Region & Australia CSG Leader

Chinese players in the Mining space this year alone even as Chinese cross-border purchases in Australia have increased. In addition to regulatory approval, Chinese firms have to be cognizant of other issues to ensure deal success. In particular, Jones points out that he regularly sees Chinese buyers caught out and surprised by issues such as environmental permitting and access to infrastructure.

Meanwhile, for their part, MOFCOM, the Chinese regulatory authority, has relaxed controls on outbound investment for transactions valued at less than US$100m. As Jones says, "MOFCOM has essentially freed up the approval process on these deals, increasing the number of acquirers and reducing central control on smaller transactions". However, as Jones states, "The FIRB will scrutinize every transaction carried out by a sovereign wealth fund or state-owned enterprise, regardless of the size".

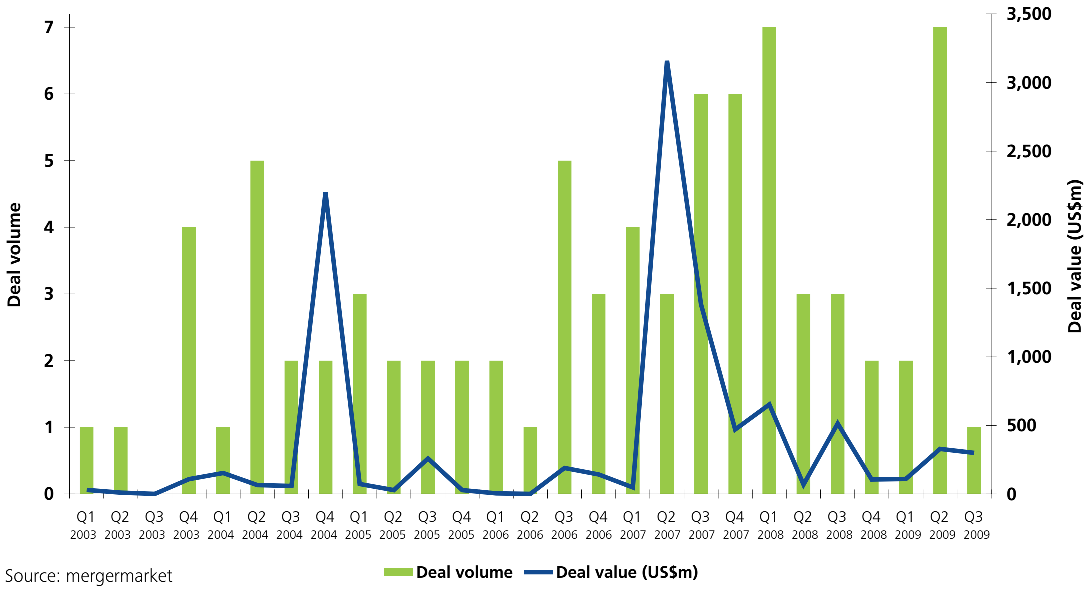
"Chinalco's proposed acquisition of stakes in the Anglo-Australian mining group, Rio Tinto, did not materialize. Although, it had an effect on bilateral relations, it has not deterred Chinese interest in natural resources across Australia and many believe the relationship is now moving back in the right direction".

This notwithstanding, inbound M&A investment from China into Australia remained brisk over the first three quarters of 2009, easily surpassing levels attained over the same period in prior years in terms of both volume and valuations. Indeed, seven of the transactions ranking in the 2003-Q3 2009 top twenty deals table came into play in 2009. And as the year enters its final quarter, the deal pipeline continues to look promising. Sinochem, the state-owned chemicals group, could acquire Nufarm, the ASX-listed agrichemicals company, in a deal that could fetch as much as US$2.5bn. If completed, the acquisition would rank as the largest play by a Chinese acquirer in the Australian Industrials & Chemicals niche.

China outbound M&A activity into the US

Wendy Cai, Managing Director, US Chinese Services Group, suggests that Chinese acquirers looking to buy in the US would do well to present credible post-merger integration strategies in order to win over target stakeholders.

Outbound cross-border M&A trends from China to the US



Source: mergermarket

Over the course of the past six-and-three quarter years, Chinese acquisitions in the US have numbered some 80 transactions worth US$10.5bn – accounting for 18.7% of overall Chinese outbound deals by volume and 9% of total deal valuations. As a result, the US is the largest target market for Chinese acquirers over the period by volume, but ranks just fourth when it comes to the size of disclosed outbound investments.

Chinese acquisitions in the US by volume grew steadily prior to the onset of the credit crunch, with notable quarterly spikes in H2 2003 and H1 2004 giving way to a calmer 18 months in 2005 and the first half of 2006. However, deal volumes rose rapidly in H2 2006 and 2007, culminating in seven transactions coming to market in Q1 2008 before dropping off as the crisis took hold.

Quarterly values have remained fairly constant over the period despite two marked increases in deal valuations – in Q4 2004 and in Q2/Q3 2007. The first was primarily a result of Lenovo's acquisition of the personal computing division of IBM in December 2004, for a total valuation of US$1.75bn, while the second was attributable to Chinese sovereign wealth fund CIC's US$3bn acquisition of a minority stake in Blackstone, the US private equity firm.

Wendy Cai, Managing Director, US Chinese Services Group, believes that China's US$586bn two-year economic stimulus package, announced in November 2008, is at least partially responsible for the country's rapid return to robust economic growth over the course of 2009. This has resulted in a renewed sense of confidence among Chinese buyers. Consequently, Cai expects that outbound acquisitions of US targets by Mainland Chinese buyers will rise in 2010, primarily driven by two main influences: the increasing desire of Chinese producers to integrate their supply chains and expand into large foreign markets like in the US, and the related ambition to acquire internationally-recognized brands and advanced technologies to allow Chinese companies to compete more effectively at home as well as on a global basis.

Nonetheless, Cai admits that Chinese businesses pursuing M&A in the US face an uphill struggle. "I believe that the biggest deal-breaker in this respect is the fact that Chinese buyers of US assets encounter tremendous difficulties in extracting synergies following an acquisition, primarily because they lack the managerial experience to implement an effective post-merger integration strategy", she said. Even for well-established global players, cross-border deals can be especially challenging. "Chinese acquirers are now spending the time and effort discussing their M&A strategy with local specialists in order to garner a better idea of how the marketplace sits before making an offer, which greatly increases the chances of their bid succeeding" she said.

Since the beginning of 2003, Chinese acquisitions of US targets with disclosed deal values have been mainly located in the mid-market space, with 89% of all transactions being valued at US$250m or less, and more than half (71.4%) of deal flow being worth US$100m or less.

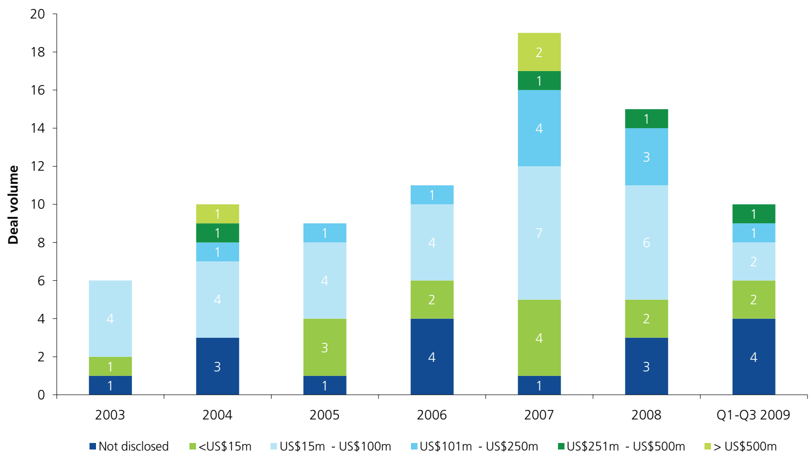
Looking forward, Cai believes that the nature of Chinese acquisitions of overseas assets could change in 2010 with a greater showing by mid-sized companies with more of a focus on the US and Europe. The natural resources and mining acquisitions that have garnered all the press lately usually involve State-Owned Enterprises (SOEs) and are often the result of government-to-government relationships. These deals generally fall in the large-cap space. On the other hand, private deals abroad, which tend to fall into the mid-end of the market, will be given a boost by recent revisions to China's regulatory framework governing overseas acquisitions. For example, in March 2009, China's Ministry of Commerce (MOFCOM) announced that acquisitions abroad worth less than US$100m would henceforth only need to be reviewed by provincial MOFCOM authorities. Two months later, China's State Administration of Foreign Exchange (SAFE) announced that it too plans to simplify examination and approval procedures for overseas investments. As privately-held companies have traditionally viewed China's regulatory framework as more of a hindrance than a help when investing overseas, these changes could be very important.

Sector splits

Acquisitions in the TMT space have dominated Chinese buys in the US over the past six-and-three-quarter years, with 33 such deals, worth US$3.95bn coming to market over the period. At the same time, 16 Industrials sector buys accounted for a further 20% of deal flow, while acquisitions in the US Consumer sector were also relatively numerous, accounting for an additional 13% of the overall market.

TMT acquisitions also led the way when looking at deal valuations, due to the acquisition of IBM's personal computer division by Lenovo for US$1.75bn in 2005, as well as the acquisition of Gateway Inc, the US-based computer retailer, by Acer, the Taiwanese IT product manu-

Deal size split by volume



Source: mergermarket

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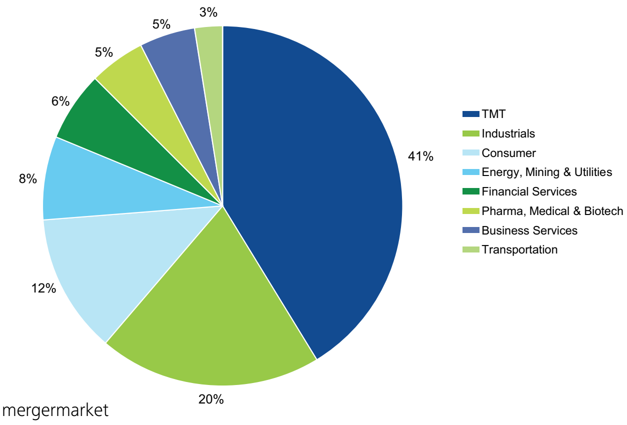
Wendy Cai
Managing Director, US Chinese Services Group

Sector split cross-border M&A activity from China into the US 2003-Q3 2009: volume



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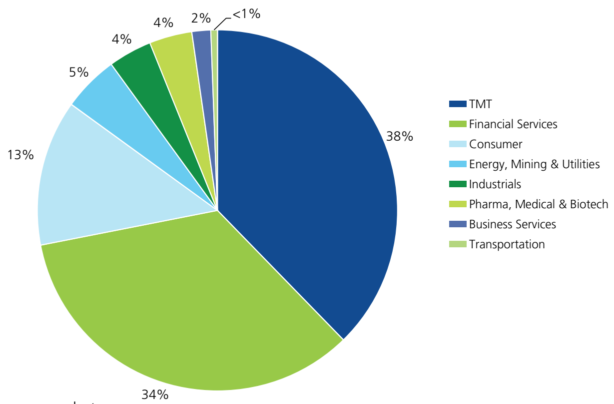
Sector split cross-border M&A activity from China into the US 2003-Q3 2009: value



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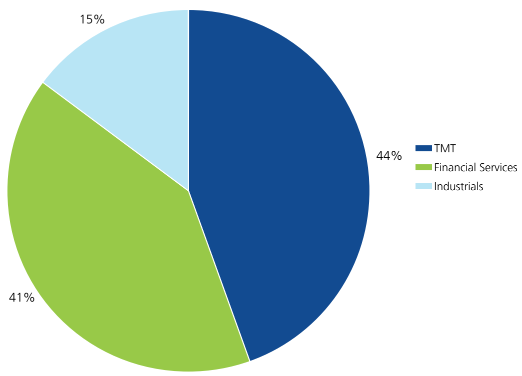
Sector split cross-border M&A activity from China into the US Q1-Q3 2009: value



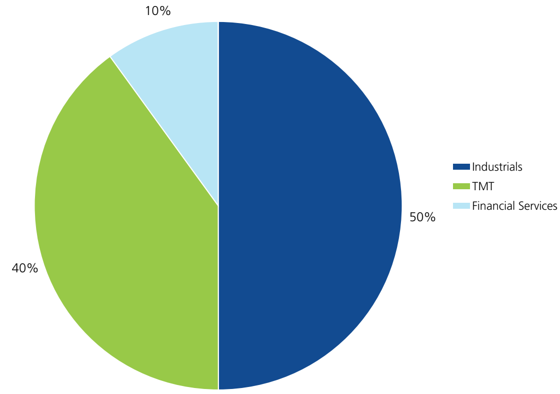
Source: mergermarket

facturer for US$755m inclusive of net debt in mid-2007. Chinese buys of US financial services assets were also significant – some US$3.6bn has been spent acquiring such targets over the period, led by CIC's minority stake purchase in Blackstone for US$3bn at the height of the 2007 M&A boom.

Intriguingly, outbound deal flow over the first three quarters of 2009 seems to suggest that Chinese acquirers interested in US assets have concentrated their focus almost exclusively in the Industrials, TMT and Financial Services sectors. Deal flow in these areas continue to interest buyers despite the global economic downturn, arguably due to the large number of forced sales by stressed US businesses. A case in point was the US$100m deal signed in June 2009 whereby Beijing West Industries will acquire the global suspension and brakes business of Delphi Corporation, the insolvent Michigan-based automobile-component manufacturer. Beijing West was set up in March 2009 as a joint venture between Chinese steel producer Shougang (50%), automobile parts supplier Tempo Group (25%) and the Municipal Government of Beijing (25%).

When asked which industry would see the bulk of Chinese interest over 2010, Cai replied, "I think the defining trend, in terms of sector appeal, is that we will see cash-rich Chinese producers – whether they are manufacturing pharmaceuticals or household appliances – using M&A to move up the value chain and, ultimately, closer to their US customers".

Sector split cross-border M&A activity from China into the US Q1-Q3 2009: volume



Source: mergermarket

Private equity

Private equity acquisitions targeting US businesses and emanating from China since 2003 have totaled 12 transactions, worth US$796m. This means that private equity flows have accounted for 15% of overall outbound acquisitions by deal volume and 7.6% by deal values – a large proportion considering that private equity's overall contribution to Chinese outbound acquisitions stands at 13.5% and 4.4% respectively. The largest such deal saw Moulin International, a Hong Kong-based manufacturer and distributor of eyewear, together with Golden Gate Capital, a California-based private equity firm, acquire a 99% stake in US-based Eye Care Centers in a US$450m secondary buyout from Thomas H Lee Partners in 2004.

Cai remains positive on China's buyout pipeline into the US, stating that the emergence of a local alternative investments community in China bodes well for future buyout activity abroad. However, she is of the view that nascent financial investors will probably cut their teeth by supporting Chinese corporates to acquire US businesses, either financially or through consortium transactions, before going it alone.

Top 20 outbound acquisitions in the US and outlook

China's largest acquisition in the US was undoubtedly CIC's US$3bn minority stake investment in Blackstone, the US private equity house, announced in May 2007. Under the terms of the transaction, CIC agreed to hold its investment for a minimum of four years and not raise its equity interest in Blackstone to over 10%. Furthermore, CIC was not able to invest in any other competing private equity firm for a year after the deal, which was the first major overseas acquisition conducted by the then newly-formed sovereign wealth fund.

After the aforementioned acquisitions of IBM's personal computer division by Lenovo in 2004, as well as Acer's buy of Gateway in 2007, the next largest transaction saw Li & Fung, the Hong Kong-based fashion group, acquire Kathy Van Zeeland Inc, a New York-based importer of handbags, for US$495m. The initial transaction fell foul of the Hart-Scott-Rodino Antitrust Improvement Act, meaning that the two parties had to ultimately restructure the transaction to exclude Kathy Van Zeeland's wholesale European operations, a deal which is believed to have now closed.

Looking forward, the pipeline for potential Chinese acquisitions of US-based assets continues to look strong, with Chinese private automaker Geely's estimated US$2.5bn bid for Ford's Volvo automotive unit recently emerging as among the strongest offers being considered. One financial publication at the end of September 2009 noted in that Geely's valuation surpassed Ford's prices expectations for the Swedish automobile manufacturer, which has incurred over US$1bn of losses over the past couple of years. Meanwhile, CIC is also on the lookout for potential acquisitions in the US. The fund is reportedly interested in acquiring a minority stake in AES, the US power plant company, or creating a joint venture in order to construct power plants across the globe.

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Wendy Cai
Managing Director, US Chinese Services Group

Top 20 outbound acquisitions into the US and outlook

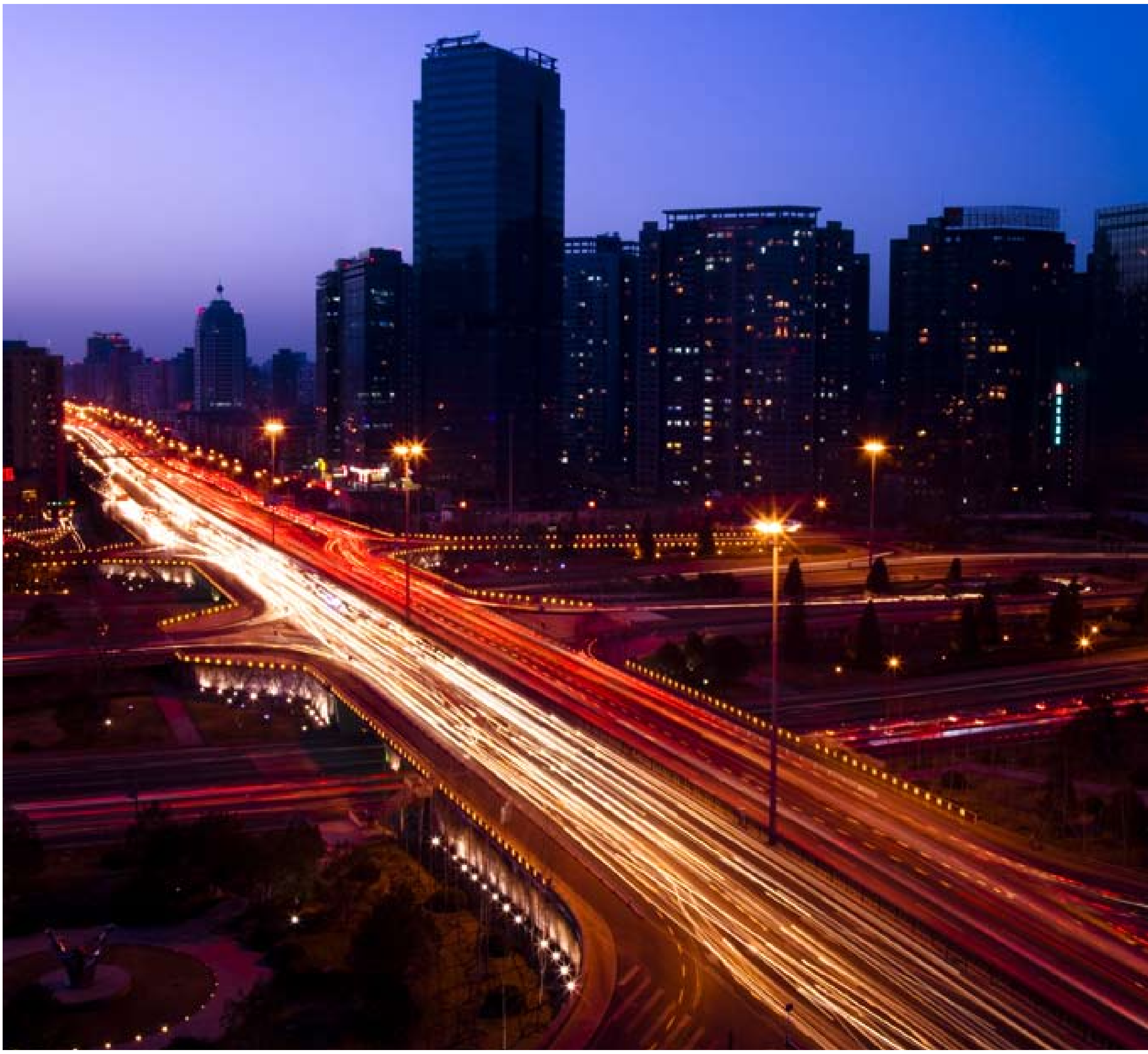
Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	May-07	C	Blackstone Group Holdings LLC (Minority Stake)	Financial Services	USA	China Investment Corporation	China			3,000
2	Dec-04	C	IBM Corporation (Personal Computing Division)	Computer: Hardware	USA	Lenovo Group Ltd	Hong Kong	IBM Corporation	USA	1,750
3	Aug-07	C	Gateway Inc	Computer: Hardware	USA	Acer Incorporated	Taiwan			755
4	Aug-08	P	Van Zeeland, Inc.	Consumer: Retail	USA	Li & Fung Ltd	Hong Kong			495
5	Dec-04	C	Eye Care Centers of America Inc	Consumer: Retail	USA	Golden Gate Capital; Moulin Global Eyecare Holdings Ltd	Hong Kong	Thomas H. Lee Partners LP	USA	450
6	Sep-07	C	Analog Devices Inc. (Cellular operations)	Computer: Semiconductors	USA	MediaTek Inc	Taiwan	Analog Devices Inc	USA	350
7	Sep-09	P	AIG (Investment Advisory and Asset Management business)	Financial Services	USA	Bridge Partners Capital Ltd	Hong Kong	American International Group Inc	USA	300
8	Mar-08	C	Datascope Corporation (Patient Monitoring business)	Medical	USA	Mindray Medical International Ltd	China	Datascope Corporation	USA	240
9	Sep-07	C	Sino-American Energy Corporation	Energy	USA	Singapore Petroleum (China) Private Ltd	China	Ultra Petroleum Corp	USA	223
10	Jun-09	P	E Ink Corporation	Computer: Semiconductors	USA	Prime View International Co Ltd (PVI)	Taiwan			215
11	Oct-07	P	UCBH Holdings Inc (9.90% stake)	Financial Services	USA	China Minsheng Banking Corporation Ltd	China			194
12	Sep-05	C	Haggar Clothing Co	Consumer: Retail	USA	Infinity Associates LLC; Perseus LLC; Symphony Holdings Ltd	Hong Kong			185
13	Jan-08	C	AppTec Laboratory Services, Inc	Biotechnology	USA	WuXi PharmaTech	China			163
14	Jun-07	C	Adema Technologies Inc	Industrial products and services	USA	E-TON Solar Tech Co Ltd; Gloria Solar Co Ltd	Taiwan			154
15	Feb-04	C	First International Oil Corp	Energy	USA	Sinopec International Petroleum Exploration and Production Corporation	China			153
16	Jan-08	C	China Hydroelectric Corporation (Undisclosed Stake)	Energy	USA	Merrill Lynch (Asia Pacific) Ltd	Hong Kong			150
17	Nov-07	C	American Marketing Enterprises Inc.	Services (other)	USA	Li & Fung Ltd	Hong Kong			128
18	Dec-06	C	Whirlpool corporation (Hoover floor care business)	Consumer: Other	USA	Techtronic Industries Company Ltd	Hong Kong	Whirlpool Corporation	USA	107
19	Mar-09	P	Delphi Corporation (Global Suspension and Brakes business)	Automotive	USA	Beijing West Industries Co Ltd	China	Delphi Corporation	USA	100
20	Apr-09	C	Freescale Semiconductor (mobile-phone chip division)	Computer: Semiconductors	USA	Qiao Xing Mobile Communication Co Ltd	China	Freescale Semiconductor Inc	USA	100

Source: mergermarket, P= pending, C= completed

Cai remains broadly positive over Chinese deal prospects in the US over 2010, suggesting that the aforementioned revisions to China's M&A regulatory framework could allow prospective outbound mid-market transaction timeframes to fall substantially. At the same time, Cai remains optimistic on regulatory processes in the US. "It must be remembered that the US regulatory framework is relatively open to foreign investment. For example, cross-border deals seeking approval by the inter-agency Committee on Foreign Investment in the US, the US government body which vets deals for national security implications, usually represent less than 10% of the total in any given year, and while Chinese SOEs may receive special scrutiny, we don't see this as a significant barrier to deal flow. This is especially true as more Chinese investors achieve a better understanding of the US investment environment, including the role of key stakeholders like federal and state governments, as well as the press and local communities'.

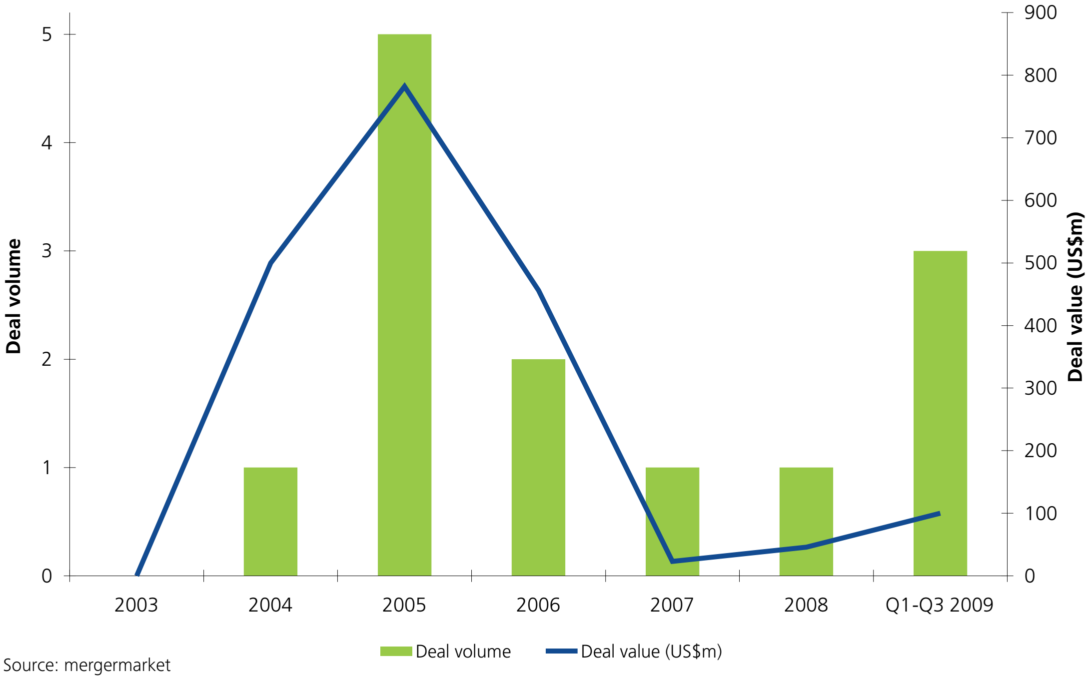
She continues to explain that concerns of reciprocity, which have resurfaced in the financial press especially following MOFCOM's decision to reject Coca-Cola's US$2.4bn acquisition of Huiyuan Juice on antitrust grounds in March 2009, are likely unfounded for precisely this reason. "It's all about expectation-management. An acquirer will certainly have difficulty attempting to persuade local legislators that the takeover of a quintessentially-American company is in their best interest. However, if a robust and transparent takeover plan is presented and the positive impact on local employment is highlighted, our experience suggests that most opposition can be significantly reduced or even eliminated".

China outbound Automotive M&A overview



Ronald Chao, Automotive Sector M&A Partner for Deloitte China, thinks that Chinese buyers want to acquire well-known automobile brands abroad so as to gain market share overseas and to get their hands on foreign know-how.

M&A trends of Automotive sector outbound cross-border M&A activity from China



Source: mergermarket

China's appetite for overseas Automotive assets peaked in 2005 when acquirers from China brokered a total of five transactions, collectively valued at US$782m. Since then, outbound M&A has been more tepid although it is notable that deal flow has increased of late – it currently stands at three for Q1-Q3 2009. And with a number of deals potentially coming to market in the last quarter, it could be a bumper year for outbound deal flow. Indeed, recent reports suggest that Chinese bidders are actively looking at a number of distressed assets held by struggling automakers in North America and Western Europe.

Looking at transactions undertaken this year, just one deal, worth US$100m, has had a disclosed valuation. Even so, aggregate deal values have still surpassed both 2007 and 2008 levels. Indeed, foreign Automotive acquisitions have historically tended toward the lower end of the value range with only two large-cap (US$500m+) deals having taken

Without technological innovation, a fine marketing model and after-sale services, a well-known Automotive brand can decline in a very short time

Ronald Chao
Automotive Sector M&A Partner for Deloitte China

place since 2004. The average deal size for outbound transactions over the period stands at US$173m – well below the US$321m average deal value figure for overall outbound transactions.

The primary focus on mid-market deal-making may simply highlight Chinese Automotive firms' cautious and considered approach to cross-border acquisitions in recent years. According to Ronald Chao, Automotive Sector Partner for Deloitte China, "In the Automotive sector, a so-called famous brand is just an illusion. Without technological innovation, a fine marketing model and after-sale services, a famous brand can decline in a very short time".

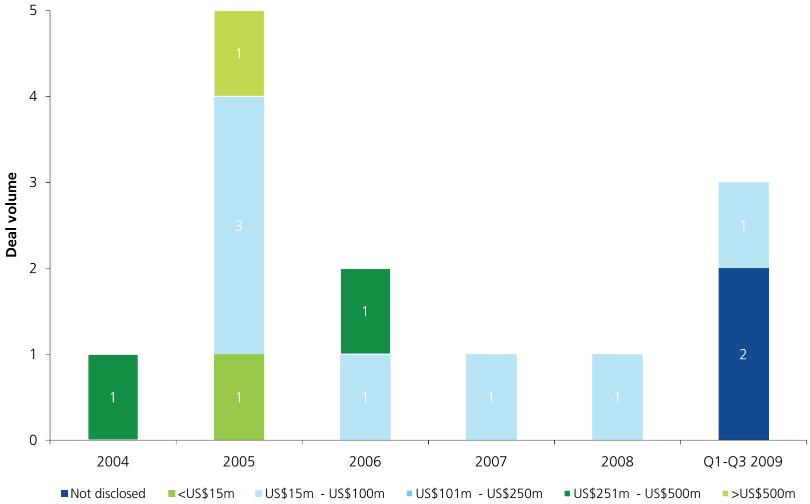
Some sector commentators contend that recent Chinese interest in a handful of global Automotive brands may be a case of firms moving "too far too fast". Chao disagrees with this, explaining that these firms can maximize such opportunities if they "Stick to a tactical and patient outbound acquisition strategy, taking into account how to manage acquired brands and how to extract the requisite technological know-how from these assets".

Country splits

In terms of target markets, bidders from China mainly source overseas Automotive assets in North America, UK & Ireland and South East Asia, with the three regions collectively accounting for 53% of overall acquisitions by volume. In recent years however, the value of outbound acquisition activity has been relatively concentrated in the Germanic, South Korean and Australasian markets, together which comprise 80% of all outbound Automotive M&A flows by value.

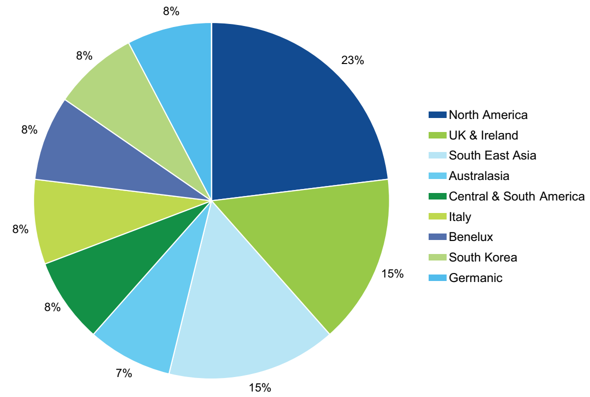
Chao explains, "What Chinese Automotive companies focus on when undertaking outbound acquisitions is gaining market share as well as intergrating technological best practices, which perhaps explains the tendency to target assets in markets with large, established Automotive industries".

Deal size split by volume



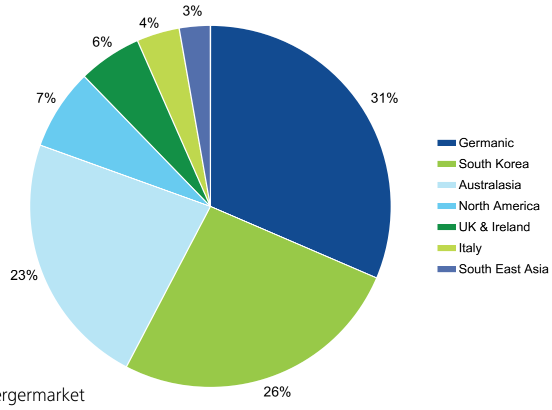
Source: mergermarket

Geographic split of Automotive sector outbound cross-border M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Geographic split of Automotive sector outbound cross-border M&A activity from China 2003-Q3 2009: value



Source: mergermarket

Top 10 outbound Automotive deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Aug-05	C	SAIA-Burgess Electronics Holding AG	Automotive	Switzerland	Johnson Electric Holdings Limited.	Hong Kong			600
2	Oct-04	P	Ssangyong Motor Company Limited (49.00% stake)	Automotive	South Korea	Shanghai Automotive Industry Corporation (Group)	China	Ssangyong Motor Company Limited (Creditor Group)	South Korea	500
3	Dec-06	C	Repco Corporation Ltd (Formerly Automotive Parts Group Limited)	Automotive	Australia	Unitas Capital Ltd	Hong Kong			435
4	Mar-09	P	Delphi Corporation (Global Suspension and Brakes business)	Automotive	USA	Beijing West Industries Co Ltd	China	Delphi Corporation	USA	100
5	Jul-05	C	MG Rover Group Ltd	Automotive	United Kingdom	Nanjing Automobile (Group) Corporation	China			87
6	Sep-05	C	Benelli SpA	Automotive	Italy	Qianjiang Group	China	Fineldo SpA	Italy	73
7	Sep-08	P	Midsouth Holdings Ltd (24.88% stake)	Automotive	Singapore	Zhong Nan Holdings Limited	China			46
8	Sep-07	C	Copperweld Bimetallics LLC	Automotive	USA	Fushi International, Inc.	China			23
9	Dec-06	C	Lawrence Automotive Interiors Ltd	Automotive	United Kingdom	Hua Xiang Group	China	Magna International Inc	Canada	21
10	Jun-05	C	NMPC (50.00% stake)	Automotive	Canada	Baosteel Group Corporation	China	Court Group	Canada	15

Source: mergermarket, P= pending, C= completed

Top 10 outbound Automotive deals and outlook

Looking at the top deals table, the largest outbound Automotive transaction brokered since 2004 saw Johnson Electric Holdings Ltd, the Hong Kong-based Automotive electronics manufacturer, acquire the entire issued share capital of SAIA-Burgess Electronics Holding AG, its listed Swiss counterpart, in August 2005. Valued at US$600m, the transaction was a white knight bid that saw Johnson successfully defeat an attempted hostile takeover of SAIA-Burgess by Sumida Corp, a Japanese trade buyer.

Interestingly, many of the largest outbound transactions in the Automotive niche involved strategic investors from China stepping in to acquire distressed and insolvent assets. For instance, in 2004 Shanghai Automotive Industry Corporation (SAIC) – one of China's largest carmakers – acquired a 49% stake in Ssangyong Motors, the listed Korean automaker, from the firm's creditor group for US$500m, making it the second-largest outbound Automotive transaction undertaken since 2004.

Around this time SAIC also emerged as a bidder for MG Rover, the bankrupt UK-based automaker, having entered into advanced-stage negotiations for the company. However, talks with SAIC fell through when rival Nanjing Automobile Group, another China-based auto manufacturer, outbid SAIC to acquire the insolvent British car company and its subsidiary Powertrain, an auto engine manufacturer, for an estimated US$87m in July 2005. It is noteworthy however, that SAIC ultimately gained control of MG Rover assets when the firm acquired Nanjing in late 2007 in a deal valued at US$286m.

More recently, Chinese bidders brokered the US$100m acquisition of the Global Suspension and Brakes Group of Delphi Corporation, the listed US-based automotive firm currently in bankruptcy protection, by Beijing West Industries – an acquisition vehicle for a consortium of investors, including the Beijing Municipal Government. The divestment was part of Delphi's efforts to emerge from Chapter 11, which the company entered into in October 2005.

At present, a number of prospective stressed automotive sales may continue to come to market, at least in the short term. For example, Beijing Automotive Industry Holdings, China's fastest growing car company, has signed a Memorandum of Understanding with Koenigsegg Group, a niche sports car manufacturer based in Sweden, to become a minority shareholder in the company in a deal for which the terms have yet to be disclosed. In related news, Koenigsegg is currently bidding to take SAAB, the Swedish carmaker, off the hands of struggling US-based car giant General Motors (GM). Similarly, Geely Automobile Holdings, the Chinese car manufacturer, is eyeing Volvo, another Swedish automaker currently owned by the cash-strapped Ford Motor Company.

For its part, SAIC is also rumored to be in early-stage talks with GM in a possible sale of some of the firm's Indian assets, while Sichuan Tengzhong Heavy Industrial Machinery, a privately-owned Chinese engineering firm, recently aquired Hummer, the GM-owned sports utility vehicle unit, in a deal that is rumoured to be worth as much as US$150m.

Looking ahead, the outlook for deal-making appears bright. China reportedly became the largest automobile market in terms of sales and production this year - though market penetration still remains low in the country. That said, with a growing middle class, domestic demand should continue to drive growth in the Chinese car industry, which could facilitate overseas acquisitions as Chinese automakers grow ever larger. Furthermore, the Chinese authorities' decision to encourage the ongoing consolidation of the domestic Automotive sector – while unlikely to have any direct impact on potential outbound acquisitions – could result in stronger Chinese players in the field who, ultimately, could go on to expand abroad. This ties in with the fact that many established automobile manufacturers in the global automotive industry are struggling for survival, which offers their Chinese rivals a golden opportunity to take them over.

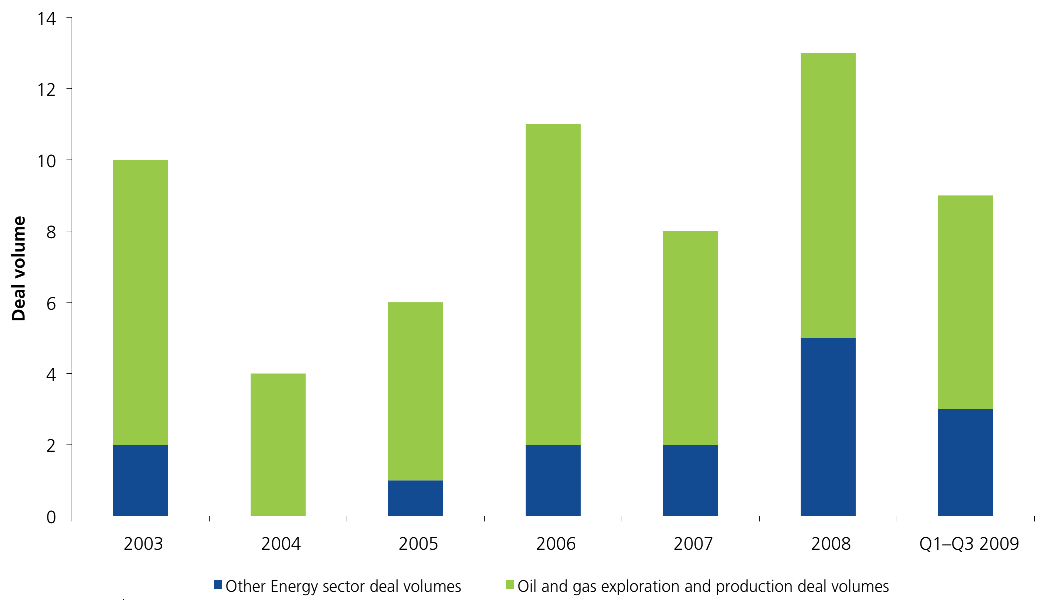
What Chinese Automotive companies focus on when undertaking outbound acquisitions is gaining market share as well as integrating technological best practices, which perhaps explains the tendency to target assets in markets with large, established Automotive industries

Ronald Chao
Automotive Sector M&A Partner for Deloitte China

China outbound Oil and Gas M&A overview

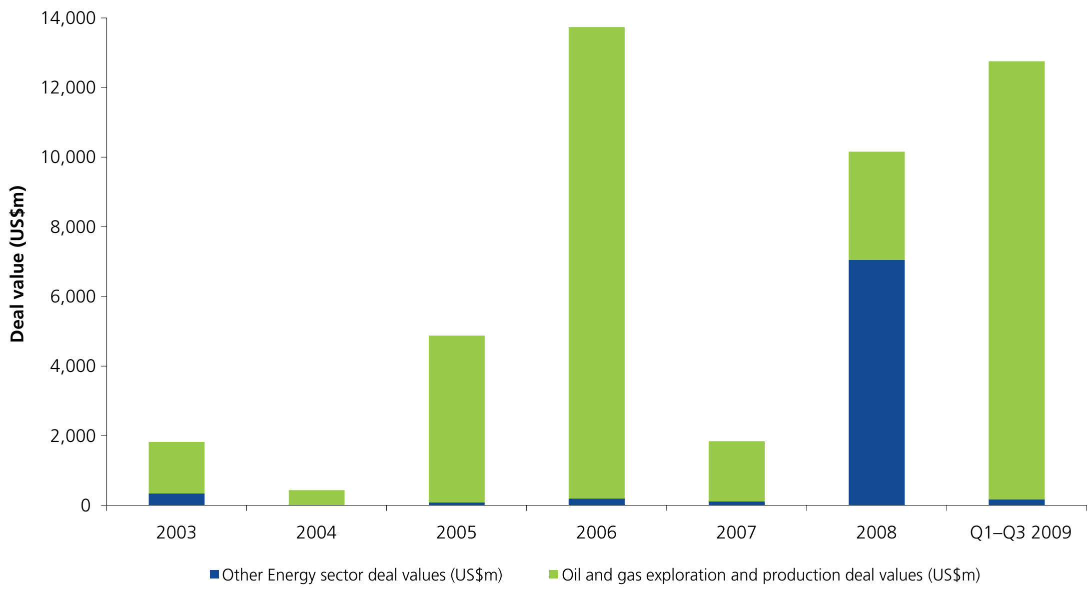
Ivan Wong, Oil & Gas Sector M&A Partner for Deloitte China, explains that Chinese outbound Energy transactions are mostly focused in the oil and gas exploration and production space and are likely to increase as China's Industrials sector continues to ramp up its manufacturing capabilities.

M&A volume trends of Energy sector outbound cross-border M&A activity from China



Source: mergermarket

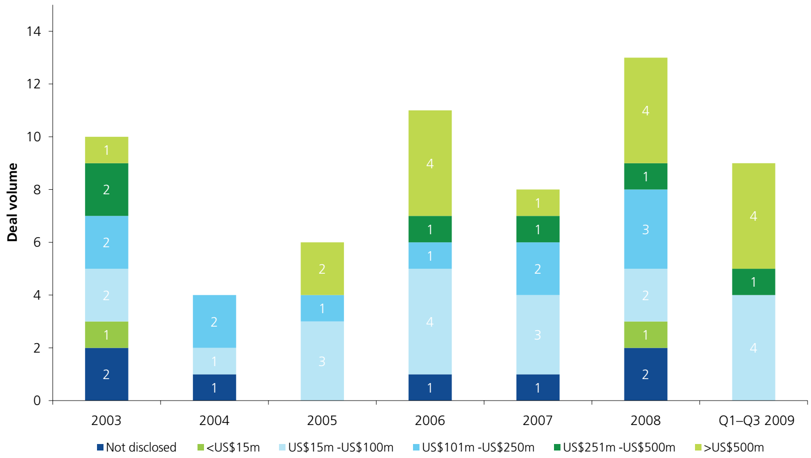
M&A value (US$m) trends of Energy sector outbound cross-border M&A activity from China



Source: mergermarket

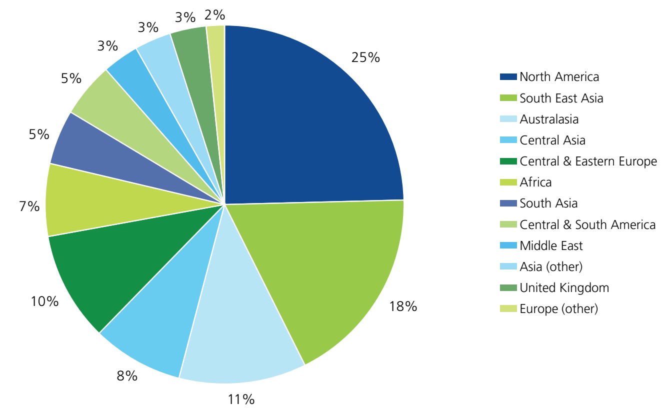
Despite Energy assets consistently ranking highly on China's wish list, the volume of outbound Energy M&A transactions have been fluctuating noticeably since 2003, with ten deals being closed that year, followed by a mere four the succeeding year. However, it was not until 2008 that annual deal volumes spiked – an interesting development considering the outbreak of the financial crisis, and a strong illustration that China's strategy to ensure energy resources will not easily be derailed. In this vein, Q1-Q3 2009 saw the announcement of nine transactions but there are a number of deals still in the pipeline that could be announced before the year is out.

Deal size split by volume



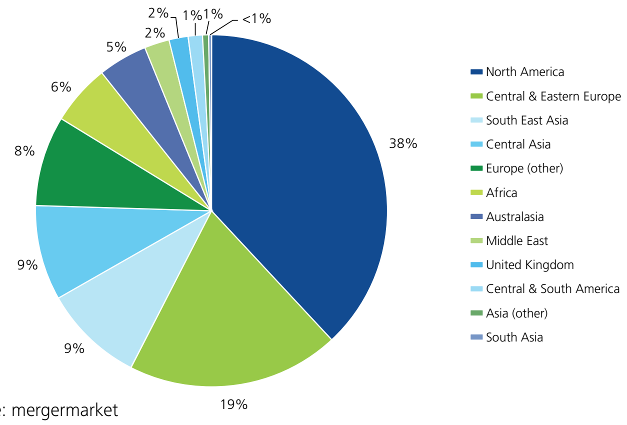
Source: mergermarket

Geographic split of Energy sector outbound cross-border M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Geographic split of Energy sector outbound cross-border M&A activity from China 2003-Q3 2009: value



Source: mergermarket

Chinese outbound M&A transactions in the Energy sector by value have also ebbed and flowed somewhat but, overall, show an upward trend. In 2003 the value of all outbound Energy transactions stemming from China was just under US$2bn. In 2006 by comparison, deal values peaked at US$13.7bn, driven by a number of large-cap transactions such as China National Petroleum's US$5.3bn acquisition of a 96.9% stake in Russia's OAO Udmurtneft Oil Company. In 2007, the year in which the global M&A market peaked, the value and volume of Chinese outbound Energy purchases dipped before picking up again in 2008.

It should further be noted that both the volume and the value trend graphs show a very strong emphasis on oil and gas exploration and production deals, with such M&A transactions accounting for 72% of all Energy sector transactions by volume over the period, as well as 75% of total valuations. Furthermore, this split is unlikely to change anytime soon. And while China would like 15% of its energy needs to be met by renewable energy sources by 2020, its current focus in terms of Energy-related M&A acquisitions abroad means that it still very much reliant upon traditional forms of energy, with oil producers, in particular, making attractive targets.

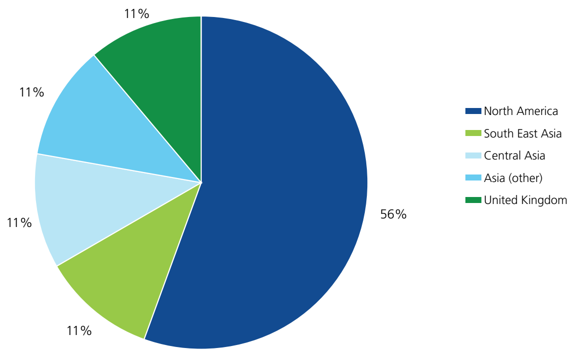
It comes as no surprise that over one-quarter (29%) of outbound Energy sector acquisitions are large-cap (US$500m+) transactions, a proportion which rose to 50% during the first three quarters of 2009. Similar to rising Mining assets valuation, prices of Energy businesses are most likely to rise over the long-term, as raw inputs for energy-generation become scarcer.

Country splits

While North America has, for a long time, been the primary focus of Chinese bidders, local acquirers have not always had an easy ride when attempting to complete deals there. Most market participants and observers will remember China National Offshore Oil Company's (CNOOC) ill-fated attempts to buy the US's Union Oil Company of California (Unocal). In the summer of 2005, CNOOC made an all-cash bid worth US$18.5bn for the target, which – while being the most attractive financially – was met by significant political opposition, with many politicians arguing that such a deal would threaten US national security. After a few months of protracted negotiations, CNOOC withdrew its offer and Unocal subsequently became part of Chevron.

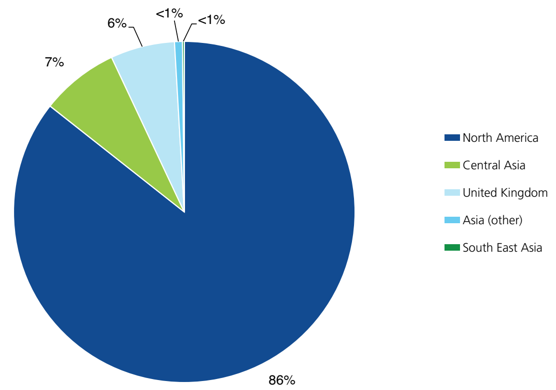
However, while a small number of Chinese bidders have faced challenges when looking to acquire energy assets in North America (or owned by North American companies), many have done so without a hitch. Since 2003, 25% of outbound Energy acquisitions by volume and 38% in terms of deal value, were acquisitions of North American targets. Other regions that have attracted a substantial amount investment include South East and Central Asia, as well as Australasia.

Geographic split of Energy sector outbound cross-border M&A activity from China Q1-Q3 2009: volume



Source: mergermarket

Geographic split of Energy sector outbound cross-border M&A activity from China Q1-Q3 2009: value



Source: mergermarket

> While a small number of Chinese bidders have faced challenges when looking to acquire Energy assets in North America (or owned by North American companies), many have done so without a hitch

Ivan Wong
Oil & Gas Sector M&A Partner for Deloitte China

Top 20 outbound Energy deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Jun-09	C	Addax Petroleum Corporation	Energy	Canada	Sinopec International Petroleum Exploration and Production Corporation	China			8,800
2	Jul-06	C	Rosneft Oil Company OAO (7.58% stake)	Energy	Russia	BP plc; China National Petroleum Corporation; Petroliam Nasional Berhad	China	Rosneftegaz	Russia	5,345
3	Aug-05	C	PetroKazakhstan Inc	Energy	Canada	CNPC International Ltd	China			3,932
4	Jul-08	C	Awilco Offshore ASA	Energy	Norway	China Oilfield Services Ltd	China			3,777
5	Jun-06	C	OAO Udmurtneft	Energy	Russia	China Petroleum & Chemical Corporation	China	TNK-BP Holding OAO	Russia	3,500
6	Mar-08	C	Tuas Power Ltd	Energy	Singapore	SinoSing Power Pte Ltd	China	Temasek Holdings Pte Ltd	Singapore	3,103
7	Jan-06	C	South Atlantic Petroleum (OML 130) (45.00% stake)	Energy	Nigeria	China National Offshore Oil Corporation Ltd	Hong Kong	South Atlantic Petroleum Ltd.	Nigeria	2,268
8	Oct-06	C	Argymak Trans Service LLP; Karazhanbasmunai, JSC; Tulpar Munai Services LLP	Energy	Kazakhstan	CITIC Group	China	CITIC Canada Petroleum Ltd	Canada	1,910
9	Sep-08	C	Tanganyika Oil Company Ltd.	Energy	Canada	China Petroleum & Chemical Corporation	China			1,813
10	Aug-09	P	ASOC (Mackay River and Dover oil sands projects) (60.00% stake)	Energy	Canada	PetroChina Company Ltd	China	Athabasca Oil Sands Corp	Canada	1,740
11	May-07	C	Renowned Nation Ltd	Energy	Kazakhstan	CITIC Resources Holdings Ltd	Hong Kong	CITIC Group	China	1,042
12	Sep-09	C	JSC KazMunaiGas Exploration Production (11.00% stake)	Energy	Kazakhstan	Fullbloom Investment Corporation	China			939
13	Aug-09	C	Emerald Energy plc	Energy	United Kingdom	Sinochem International Corporation	China			775
14	Oct-03	C	Gorgon Project (12.5% stake)	Energy	Australia	China National Offshore Oil Corporation Ltd	China	Chevron Corporation; ExxonMobil Corporation; Royal Dutch Shell plc	Netherlands	701
15	Dec-05	C	Petro-Canada (Syrian Production Sharing Contracts)	Energy	Syrian Arab Republic	Fulin Investments S.A.R.L; ONGC Nile Ganga BV	China	Petro-Canada	Canada	574
16	Mar-08	C	AED Oil Ltd (assets held under AC/P22, AC/L6 and AC/RL1, including the Puffin and Talbot fields) (60.00% stake)	Energy	Australia	Sinopec International Petroleum Exploration and Production Corporation	China	AED Oil Ltd	Australia	561
17	Feb-08	C	SOCO Yemen Pty Ltd (Australia)	Energy	Yemen	Sinochem Petroleum Ltd	China	SOCO International plc	United Kingdom	465
18	May-06	C	Six oil fileds in Indonesia and Middle East	Energy	Indonesia	China International Petroleum Investment Union	Hong Kong			400
19	May-03	C	North West Shelf Project (25.00% stake)	Energy	Australia	China National Offshore Oil Corporation Ltd	Hong Kong			348
20	Mar-09	C	Talisman Energy (Natural gas assets)	Energy	Trinidad & Tobago	China National Offshore Oil Corporation Ltd; China Petroleum & Chemical Corporation	China	Talisman Energy Inc	Canada	306

Source: mergermarket, P= pending, C= completed

Top 20 Energy sector acquisitions and outlook

As previously discussed, oil and gas exploration and production companies have been the chief attractions for Chinese buyers looking to make acquisitions in the Energy sector abroad and this is also reflected in the top 20 largest deals since 2003. In fact, the three largest transactions in the space are oil and gas exploration and production acquisitions.

The single largest deal not in this particular space but still within the Energy sector was China Oilfield Services' US$3.7bn acquisition of Awilco Offshore, the Norwegian oil services company. Incidentally, the transaction, announced in July 2008, was one of the last M&A deals that the now-defunct Lehman Brothers advised on before its collapse. Another notable transaction was the 2008 acquisition of Singapore's Tuas Power. SinoSing Power, a subsidiary of the Chinese state-owned energy holding company China Huaneng Group Corporation, paid US$3.1bn for Tuas, giving it access to the well-developed Singaporean power-generation market.

While they are too small to make it into the run-down of the largest transactions in the Energy space, it is still worth noting the slow but steady increase of deal flow in the renewable/alternative energy

Top 10 outbound Oil and Gas exploration and production deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Jun-09	C	Addax Petroleum Corporation	Energy	Canada	Sinopec International Petroleum Exploration and Production Corporation	China			8,800
2	Jul-06	C	Rosneft Oil Company OAO (7.58% stake)	Energy	Russia	BP plc; China National Petroleum Corporation; Petroliam Nasional Berhad	China	Rosneftegaz	Russia	5,345
3	Aug-05	C	PetroKazakhstan Inc	Energy	Canada	CNPC International Ltd	China			3,932
4	Jun-06	C	OAO Udmurtneft	Energy	Russia	China Petroleum & Chemical Corporation	China	TNK-BP Holding OAO	Russia	3,500
5	Jan-06	C	South Atlantic Petroleum (OML 130) (45.00% stake)	Energy	Nigeria	China National Offshore Oil Corporation Ltd	Hong Kong	South Atlantic Petroleum Ltd.	Nigeria	2,268
6	Oct-06	C	Argymak Trans Service LLP; Karazhanbasmunai, JSC; Tulpar Munai Services LLP	Energy	Kazakhstan	CITIC Group	China	CITIC Canada Petroleum Ltd (formerly Nations Energy Company Ltd)	Canada	1,910
7	Sep-08	C	Tanganyika Oil Company Ltd.	Energy	Canada	China Petroleum & Chemical Corporation	China			1,813
8	Aug-09	P	ASOC (Mackay River and Dover oil sands projects) (60.00% stake)	Energy	Canada	PetroChina Company Ltd	China	Athabasca Oil Sands Corp	Canada	1,740
9	May-07	C	Renowned Nation Ltd	Energy	Kazakhstan	CITIC Resources Holdings Ltd	Hong Kong	CITIC Group	China	1,042
10	Sep-09	C	JSC KazMunaiGas Exploration Production (11.00% stake)	Energy	Kazakhstan	Fullbloom Investment Corporation	China			939

Source: mergermarket, P= pending, C= completed

subsector. Given China's pledge to increase the amount of energy derived from renewable sources, more acquisitions in this arena are likely to come to market over the foreseeable future.

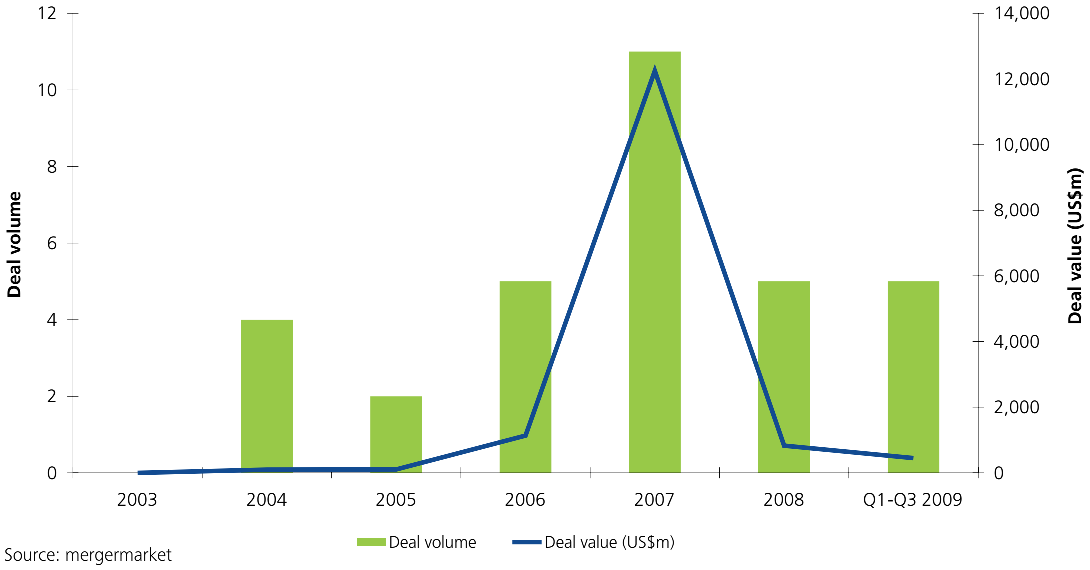
The largest oil and gas exploration and production deal stemming from China since 2003 was struck earlier this year and saw China's Sinopec pay US$8.8bn including net debt to acquire Canada's Addax Petroleum Corporation. The company, which is focused on oil and gas exploration and production in Africa and the Middle East, illustrates the increasing importance that China is attaching to accessing these markets. Sinopec is indirectly owned by the Chinese government. Furthermore, according to reports in late September, China is in discussions to invest around US$30bn in Nigerian oil blocks in a deal that would not only demonstrate the importance that China is attaching to the African market but also that China is willing to invest substantial amounts of money into its strategy to secure energy resources.

Furthermore, China's expanding Industrials sector has historically been the main contributor to GDP growth and thus, China's ability to access energy-related resources, will play an integral factor in determining its ability to continue growing at its current rate. In 2007 China consumed 3.271 trillion kWh of electricity (making it the world's second-largest consumer), 7.88 million bbl/day of oil (the world's third-largest consumer) and 70.51 billion cu m of natural gas (the world's eleventh-largest consumer) – figures which are all likely to rise as China continues to develop. And while the country already has access to significant amounts of resources, the bulk of its recent M&A activity has focused on securing access to additional resources the world over. North America has historically attracted most of the attention in the past, however countries throughout Asia as well as Latin America and Africa are sure to be of interest going forward.

China outbound Financial Services M&A overview

Outbound Financial Services transactions will most probably rise in 2010 says Tony Ng, Financial Services Sector M&A Partner for Deloitte China, despite activity remaining fairly light over the first three quarters of 2009.

M&A trends of Financial Services sector outbound cross-border M&A activity from China



Source: mergermarket

The value and volume of Chinese Outbound M&A activity in the Financial Services sector has seen substantial fluctuations over the past six-and-three-quarter years. In 2004, a mere four such transactions, worth a combined US$101m, were announced, with just two such transactions coming to market the succeeding year. However, their combined value of US$107m indicated that average deal values more than doubled over the 2004/2005 period.

2006 saw yet another substantial uptick in average individual deal value – five deals with a combined value of US$1.1bn were announced. However, annual deal flow that year was nothing compared to 2007, when eleven deals with a combined value of over US$12bn were struck, including three transactions each worth over US$1bn.

Interestingly these three major transactions were all minority stake investments into global blue chips. In March 2007, Industrial and Commercial Bank of China spent US$5.4bn on a 20% stake in South Africa's Standard Bank Group. The following June, CIC paid US$3bn for a 9.9% stake in global private equity outfit Blackstone, and finally in August – rounding up a summer of strong deal flow across all sectors and geographies – CDB bought a 3.1% stake in UK financial services provider Barclays for US$2.98bn.

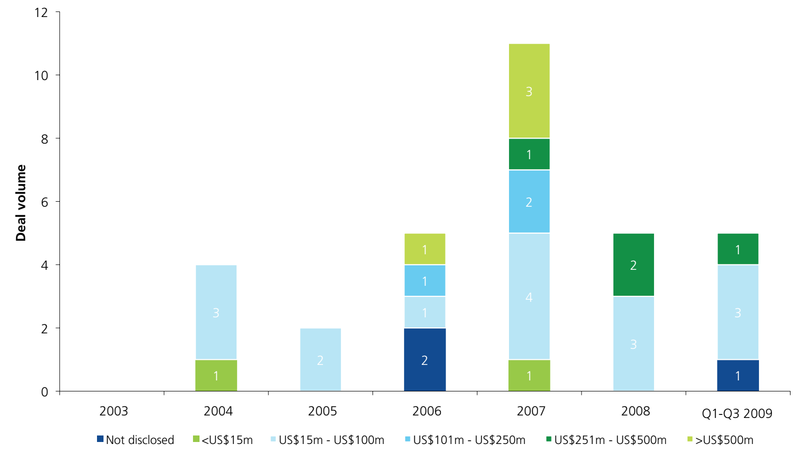
Since this peak in 2007 both value and the volume levels have dropped. In 2008, five deals with a combined value of US$829m came to market while in the first three quarters of 2009, another five transactions with a combined value of only US$407m were announced. Tony Ng, Financial Services Sector Partner for Deloitte China, commented that "Very few Financial Services deals were announced in this space over the past six months". However, he remained more optimistic for 2010, saying that he expected levels of outbound activity in the sector to increase.

Fully 86% of all outbound Financial Services transactions with a disclosed deal value fell into the mid-market (<US$500m) category since the beginning of 2004, with 62% of all acquisitions actually being worth US$100m or less. Large-cap transactions (those worth over US$500m) have also been notable in their absence from deal flow in 2008 and the first three quarters of 2009, presumably due to the general collapse of the global M&A market as a result of the credit crisis.

Country splits

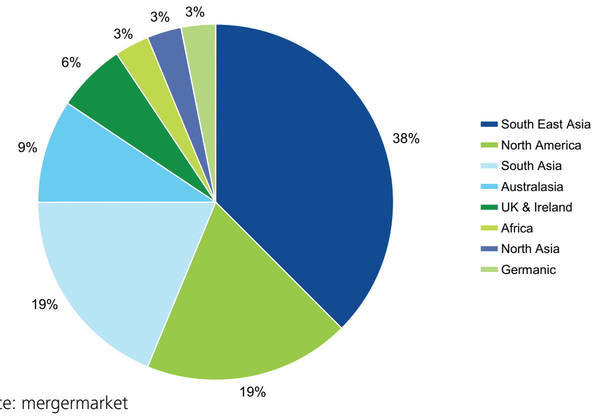
Looking at the geographic spread of Chinese outbound M&A acquisitions in the Financial Services space, acquirers in this particular arena have a slight bias towards South East Asian targets, while deal valuations show a concentration of investment in Africa. The

Deal size split by volume



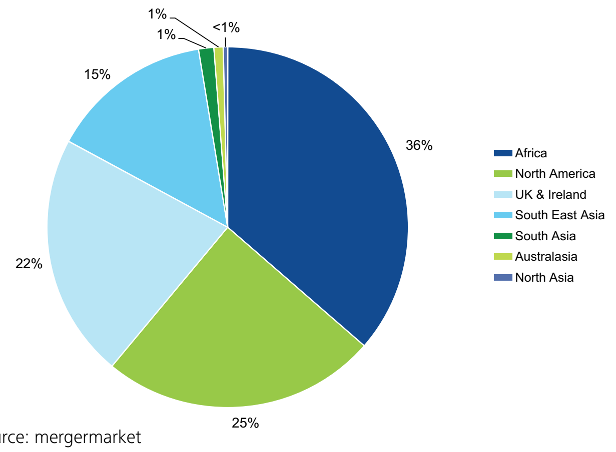
Source: mergermarket

Geographic split of Financial Services sector outbound cross-border M&A activity from China 2003-Q3 2009: volume



Source: mergermarket

Geographic split of Financial Services sector outbound cross-border M&A activity from China 2003-Q3 2009: value



Source: mergermarket

latter is, however, largely due to ICBC's aforementioned minority stake acquisition in Standard Bank. However it is noticeable that Chinese investors are placing less emphasis on making acquisitions in certain developed markets in Asia. For example, Japan, a country with a very sophisticated banking industry, has attracted very little attention from Chinese buyers.

Looking forward, Ng predicts that small- to medium-sized banks and asset management firms in North America, Europe, South East Asia, Australia and Africa will be of interest to Chinese buyers, driven chiefly by the desire to access technological and managerial best practices as well as gaining access to these particular markets. However, he remains reticent on the growing Latin American Financial Services market, believing that it doesn't hold any interest to prospective Chinese buyers.

It is noticeable that Chinese investors are placing less emphasis on making acquisitions in certain developed markets in Asia, such as Japan, a country with a very sophisticated banking industry, which has attracted very little attention from Chinese buyers

Tony Ng
Financial Services Sector M&A Partner for Deloitte China

Top 20 outbound Financial Services deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Oct-07	C	Standard Bank Group Ltd (20.00% stake)	Financial Services	South Africa	Industrial and Commercial Bank of China Ltd	China			5,413
2	May-07	C	Blackstone Group Holdings LLC (Minority Stake)	Financial Services	USA	China Investment Corporation	China			3,000
3	Jul-07	C	Barclays Plc (3.10% stake)	Financial Services	United Kingdom	China Development Bank	China			2,980
4	Dec-06	C	Singapore Aircraft Leasing Enterprise (SALE)	Financial Services	Singapore	Bank of China Ltd	China	Apfarge Investment Pte Ltd; Seletar Investments Pte Ltd; Singapore International Airlines; WestLB AG	Singapore	965
5	Feb-08	C	EON Capital Berhad (20.20% stake)	Financial Services	Malaysia	Primus Pacific Partners 1 LP	Hong Kong	Hicom Holdings Berhad	Malaysia	412
6	Sep-09	P	AIG (Investment Advisory and Asset Management business)	Financial Services	USA	Bridge Partners LP	Hong Kong	American International Group Inc	USA	300
7	Jun-08	C	Barclays Plc (0.59% stake)	Financial Services	United Kingdom	China Development Bank	China			269
8	Sep-07	C	Vietnam Insurance Corp (10.00% stake)	Financial Services	Vietnam	HSBC Insurance (Asia-Pacific) Holdings Ltd	Hong Kong			252
9	Oct-07	P	UCBH Holdings Inc (9.90% stake)	Financial Services	USA	China Minsheng Banking Corporation Ltd	China			194
10	Apr-07	C	AFFIN Holdings Berhad (15.00% stake)	Financial Services	Malaysia	Bank of East Asia Ltd	Hong Kong			146
11	Jul-06	C	Westpac (Sub-Custody business in Australia and New Zealand)	Financial Services	Australia	Hongkong & Shanghai Banking Corp	Hong Kong	Westpac Banking Corporation	Australia	105
12	Jan-08	C	ICICI Financial Services (0.90% stake)	Financial Services	India	Nomura International (Hong Kong) Ltd	Hong Kong			100
13	Jan-07	C	BankThai Public Company Ltd (32.87% stake)	Financial Services	Thailand	Blum Capital Partners LP; Marathon Asset Management, LP; TPG Newbridge	Hong Kong			94
14	Dec-05	P	Vietnam Technological & Commercial Joint Stock Bank (10.00% stake)	Financial Services	Vietnam	Hongkong & Shanghai Banking Corp	Hong Kong			88
15	Jun-09	P	Bank of East Asia (Canada) (70.00% stake)	Financial Services	Canada	Industrial and Commercial Bank of China Ltd	Hong Kong	Bank of East Asia Ltd	Hong Kong	74
16	Jul-06	C	EverTrust Bank	Financial Services	USA	Industrial Bank of Taiwan	Taiwan			65
17	Nov-07	C	Hana Life Insurance (50.00% stake)	Financial Services	South Korea	HSBC Insurance (Asia-Pacific) Holdings Ltd	Hong Kong	Hana Financial Group Inc	South Korea	58
18	Aug-09	P	Tat Hong Holdings Ltd (Undisclosed economic interest)	Financial Services	Singapore	AIF Capital III Shipping & Logistics Ltd	Hong Kong			45
19	Jun-09	P	ACL Bank Public Company Ltd (19.30% stake)	Financial Services	Thailand	Industrial and Commercial Bank of China Ltd	China	Bangkok Bank Public Company Ltd	Thailand	32
20	Jun-04	C	Chekiang First Bank (San Francisco depositary agency's certain assets and liabilities)	Financial Services	USA	Chong Hing Bank Ltd	Hong Kong	Chekiang First Bank Ltd	Hong Kong	32

Source: mergermarket, P= pending, C= completed

Top 20 Financial Services deals and outlook

The largest outbound Financial Services transactions were all brokered by Chinese businesses in 2007, clearly demonstrating the country's recent desire to be recognized as a global player in the Financial Services arena. The success of this strategy has, however, been mixed – while ICBC's acquisition of a 20% stake in Standard Bank was heralded as a transformational deal, CIC's investment in Blackstone and CDB's acquisition of a 3.1% stake in Barclays were less well received.

However, commenting on lessons learnt from past mistakes, Ng said that, going forward, Chinese buyers of overseas Financial Services companies would more carefully evaluate deal rationales as well as synergistic opportunities. Buyers would also engage in a more serious due diligence processes, as well as seek accurate risk assessments over the possibility of a deal not completing.

Focusing especially on specific deal drivers, Ng explains, compared to big global names in the Financial Services industry, Chinese financial institutions still need to make great improvements in terms of expanding their global reach as well as investing in product innovation. He claims that outbound acquisitions are the most efficient way to achieve these goals but goes on to say that previous issues have meant that Chinese Financial Services players now act with extreme caution when engaging in an M&A transaction, with national security concerns, along with difficulties in integrating acquired assets as well as differing business cultures posing the largest obstacles to Chinese bidders looking

Chinese Financial Services players now act with extreme caution when engaging in an M&A transaction, with national security concerns, along with difficulties in integrating acquired assets as well as differing business cultures posing the largest obstacles to such bidders looking to acquire abroad

Tony Ng
Financial Services Sector M&A Partner for Deloitte China

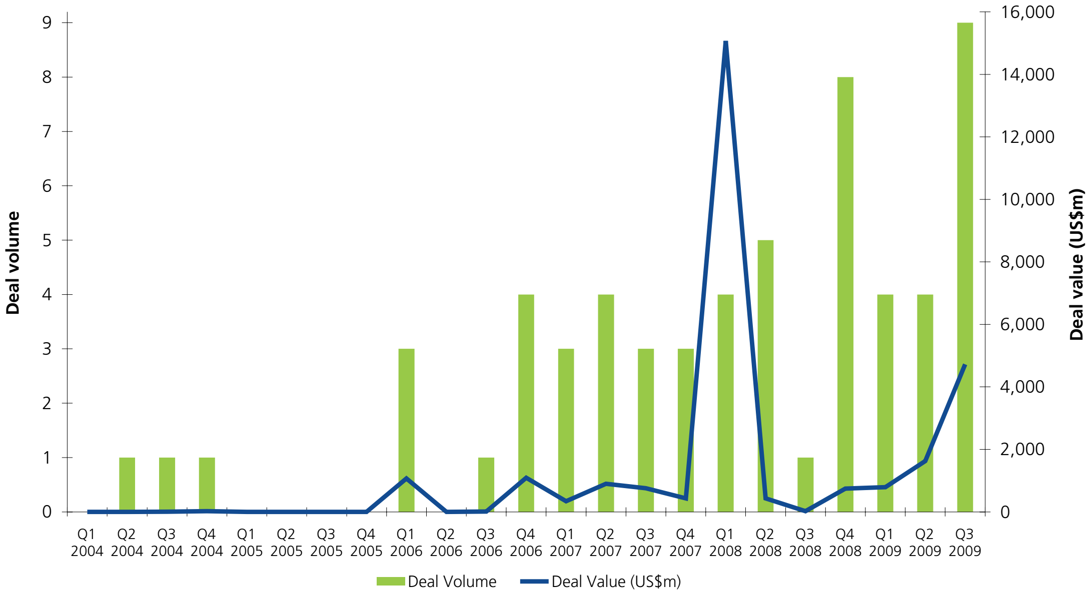
to acquire abroad. As a result, they instead focus on the acquisition of small- to medium-sized banks in overseas regions where Chinese companies have substantial business interests or where there is already a large Chinese presence.

Ng also expects sovereign wealth funds to remain active participants in outbound transactions and would focus on making investments in assets or companies with stable returns. At the same time, he feels that Chinese financial institutions will play an increasingly important role in providing finance to companies who are acquisitive. CDB's aforementioned loan of US$30bn to CNPC in order to fund overseas M&A acquisitions, as well as the US$1bn loan, extended by a consortium consisting of the Bank of China, CDB, ICBC and China CITIC Bank to South Africa's Standard Bank so that it can expand its activities, are both examples of this trend, which Ng predicts will continue.

China outbound Mining M&A overview

Karl Baker, Mining Sector M&A Partner for Deloitte China, believes that China outbound Mining deal flow will continue to be driven by acquisitions in both North America and Australasia, driven chiefly by China's rapid economic expansion.

M&A trends of Mining sector outbound cross-border M&A activity from China



Source: mergermarket

Chinese Mining acquisitions overseas have totaled some 59 transactions worth US$28bn over the past six-and-three-quarter years, with the vast majority of these having been announced since the beginning of 2008. Indeed, since then, Chinese outbound activity has accounted for fully 59% of all Mining acquisitions and 83% of overall valuations since the beginning of 2003, indicating that China's expanding appetite for Mining acquisitions has only been a recent phenomenon.

Outbound Mining activity by value spiked in Q1 2008 primarily due to the aforementioned US$14bn acquisition of a 12% stake in Rio Tinto by Chinalco and Alcoa. On the other hand, deal flow by volume peaked in Q3 2009, driven perhaps by a duo of US$1bn+ acquisitions that were announced over the quarter. The largest by value was the US$2.6bn bid by Yanzhou Coal Mining for Australia's Felix Resources, closely followed by CIC's US$1.5bn offer for a 17.2% stake in Teck Resources, the Canadian Miner.

Karl Baker, Mining Sector M&A Partner for Deloitte China, ascribes this recent surge in outbound Mining activity to China's ability to ride out the global economic storm. "The Chinese economy is truly on the path to recovery and I for one, am confident that it will hit its 8% GDP growth target for 2009. As a result, Chinese demand for raw commodities has continued to grow throughout the credit crisis, resulting in an explosion of deal flow in recent years", he said.

Interestingly, the bulk of Chinese outbound Mining purchases since the beginning of 2003 have fallen in the lower mid-market space with 75% of all such acquisitions having been valued at US$250m or under. However, the share of Mining sector deals that were valued at US$250m or less in the first three quarters of 2009 fell by 5.3 percentage points, perhaps suggesting that Chinese bidders are having to stump up more cash for scarcer overseas mining assets. This can be corroborated when looking at average deal sizes over the past four quarters – in Q4 2008, the average outbound Mining sector acquisition was valued at US$107m while in Q3 2009, this figure stood at US$524m.

Baker believes that this rise in prices is primarily being driven by China's robust long-term demand for commodities and energy resources as opposed to market speculation. This is reinforced by the fact that increasingly constrained commodity supplies and a lack of investment in the renewable energy sector will, over the long-run, drive up equilibrium commodity prices.

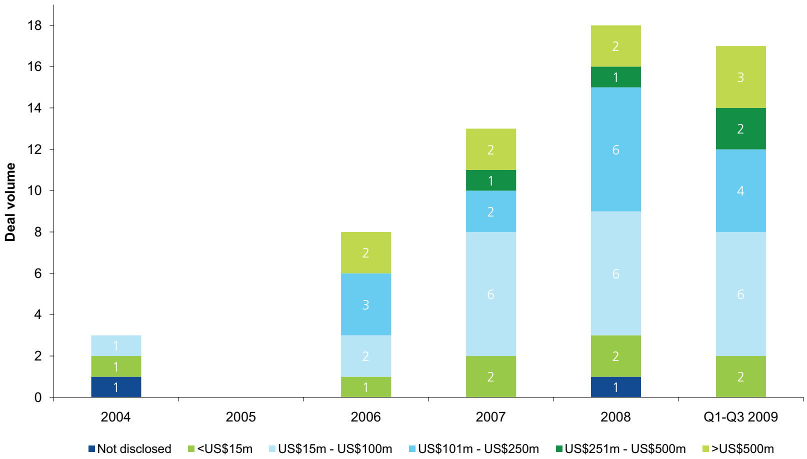
Country splits

Unsurprisingly perhaps, acquisitions of Australasian and North American assets top Chinese purchases in the Mining arena, collectively accounting for 72% of all outbound buys over the past six-and-three-quarter years. Acquisitions of Mining concerns in Central & South America, as well as the UK & Ireland, also made up a further 14% of the total.

However, in terms of deal valuations, Chinese bidders spent a total of US$15bn snapping up UK & Ireland-based Mining assets. This is, however, undoubtedly skewed due to the fact that the target of the largest Chinese outbound Mining acquisition to have taken place since 2003 – Rio Tinto – is listed in London. If this deal is excluded from this analysis, then Chinese acquisitions of such assets by value would tumble to just US$1bn, or 3.6% of total outbound Mining sector investments.

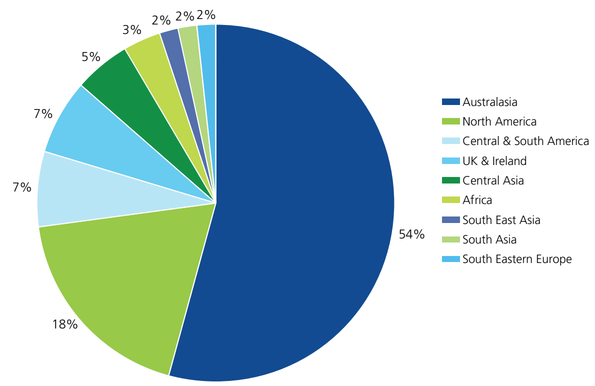
Looking at country splits for 2009 alone, it is clear that Chinese bidders are increasingly concentrating their efforts to acquire Mining assets in either North America or Australasia – with an obvious preference for the latter. Baker believes that this trend will continue into 2010, citing the fact that Australian businesses and regulators have been receptive to Chinese buyers in the past despite numerous regulatory obstacles. Baker cited Minmetals' acquisition of Oz Minerals earlier this year as a prime example of this: Minmetals, a Chinese firm, initially attempted to buy its Australian counterpart but

Deal size split by volume



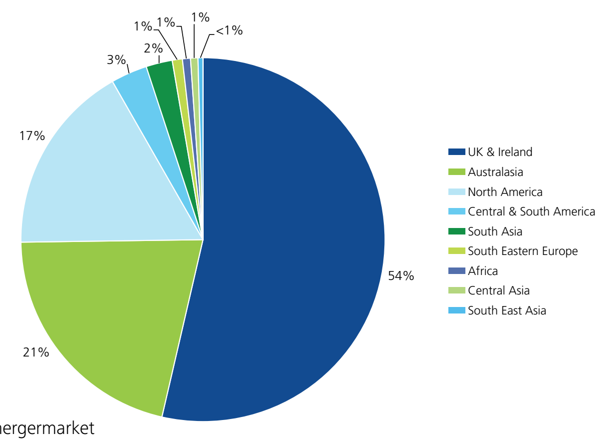
Source: mergermarket

Geographic split of Mining sector outbound cross-border M&A activity from China 2003-Q3 2009: volume



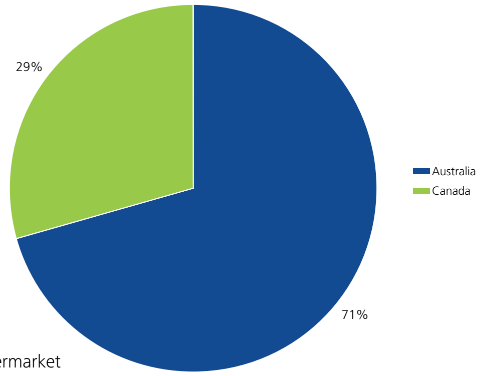
Source: mergermarket

Geographic split of Mining sector outbound cross-border M&A activity from China 2003-Q3 2009: value



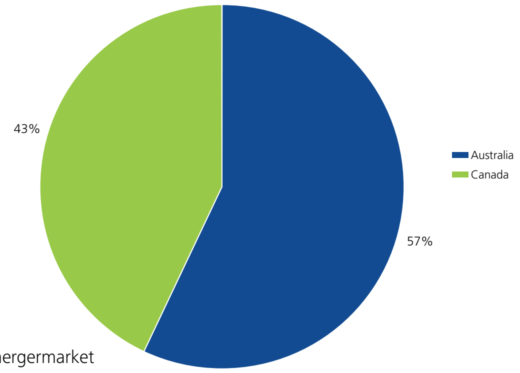
Source: mergermarket

Geographic split of Mining sector outbound cross-border M&A activity from China Q1-Q3 2009: volume



Source: mergermarket

Geographic split of Mining sector outbound cross-border M&A activity from China Q1-Q3 2009: value



Source: mergermarket

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Karl Baker
Mining Sector M&A Partner for Deloitte China

the bid collapsed after the Australian Foreign Exchange Review Board (FIRB) rejected the deal on the grounds that it would see a foreign entity take ownership of Oz Mineral's nationally-important Prominent Hill assets. However, the Treasury made it clear that if the deal was restructured to exclude the Prominent Hill mine, they would approve the transaction. This was duly arranged (at a lower valuation) and the deal was quickly consummated.

Top 20 outbound Mining acquisitions and outlook

The largest Chinese Mining acquisition over the past six-and-three-quarter years saw the previously-mentioned consortium acquisition of 12 % stake in Rio Tinto by Alcoa and Chinalco. Chinalco acquired the lion's share of the stake, having stumped up US$12.8bn for the holding at a 14.18% premium over Rio's share price one month prior to the deal announcement.

Chinalco's motive to conduct the deal was primarily a defensive measure, designed to throw off BHP Billiton, which was looking to acquire Rio Tinto outright at the time. Chinalco and Alcoa were understood to be concerned that any potential tie-up between the world's two largest miners would result in higher aluminum prices – a fear that permeated up to the highest echelons of the Chinese government, who ultimately financed the deal via a loan from the CDB.

The second-largest transaction saw Yanzhou Coal Mining, the Chinese coal mining group bid US$2.6bn to acquire Felix Resources, the Australian coal producer in August 2009. The deal, which is currently being reviewed by Australia's FIRB, is not likely to be completed anytime soon, with the FIRB recently indicating that it would most likely extend its review process by another 90 days.

The third-largest deal saw China's sovereign wealth fund, CIC, look to acquire a 17.2% stake in Canada's Teck Resources, a diversified mining & refining company, for US$1.5bn. The offer price represents a discount of 8.1% on Teck Resources' closing share price one month prior to the deal announcement. In return, CIC cannot sell the shares to any of Teck's competitors, or acquire any additional shares in Teck for a minimum of 12 months. Furthermore, CIC will not have any representation on its board of directors.

Top 20 outbound Mining deals and outlook

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US$m)
1	Feb-08	C	Rio Tinto Plc (12.00% stake)	Mining	United Kingdom	Alcoa Inc; Aluminum Corporation of China (Chinalco)	China			14,000
2	Aug-09	P	Felix Resources Limited (formerly AuIron Energy Limited ACN)	Mining	Australia	Yanzhou Coal Mining Company Ltd	China			2,564
3	Jul-09	P	Teck Resources Limited (17.20% stake)	Mining	Canada	Fullbloom Investment Corporation	China			1,508
4	Apr-09	C	OZ Minerals (certain assets excluding Prominent Hill and Martabe)	Mining	Canada	China Minmetals Non-Ferrous Metals Co Ltd	China	OZ Minerals Ltd	Australia	1,386
5	Mar-08	C	Midwest Corporation Ltd (80.31% stake)	Mining	Australia	Sinosteel Corporation	China			879
6	Nov-06	C	Anglo American Plc (1.01% stake)	Mining	United Kingdom	China Vision Resources	China	E Oppenheimer & Son	South Africa	812
7	Jun-07	C	Peru Copper Inc.	Mining	Canada	Aluminum Corporation of China (Chinalco)	China			779
8	Mar-06	C	Ashapura Minechem Ltd (Alumina plant in Kutch) (50.00% stake)	Mining	India	Qingtongxia Aluminium Group Company Ltd	China	Sichuan Aostar Aluminum Co Ltd	China	651
9	Aug-07	P	Bellavista Holding Group Ltd (60.00% stake)	Mining	Chile	China Elegance Resources Ltd	Hong Kong	Ceasers Development Ltd	Hong Kong	600
10	Dec-07	C	Northern Peru Copper Corp.	Mining	Canada	Northern Peru Acquisition Co	China			411
11	Feb-09	C	Fortescue Metals Group Ltd (9.07% stake)	Mining	Australia	Hunan Valin Iron & Steel Group Co Ltd	China	Harbinger Capital Partners Master Fund I, Ltd; Harbinger Capital Partners Special Situations Fund, LP	USA	408
12	Feb-09	C	Fortescue Metals Group Ltd (7.42% stake)	Mining	Australia	Hunan Valin Iron & Steel Group Co Ltd	China			363
13	Nov-08	C	Langfeld Enterprises Limited (90.00% stake)	Mining	Cyprus	Grandvest International Ltd	Hong Kong	Cordia Global Ltd	Cyprus	253
14	Aug-09	P	Aquila Resources Limited (15.00% stake)	Mining	Australia	Baoshan Iron & Steel Co Ltd	China			241
15	Mar-06	C	Sino Iron Pty Ltd	Mining	Australia	CITIC Pacific Ltd	Hong Kong	Mineralogy Pty Ltd	Australia	215
16	Apr-08	C	Jinshan Gold Mines Inc (42.00% stake)	Mining	Canada	China National Gold Group Corporation	China	Ivanhoe Mines Ltd	Canada	207
17	Mar-06	C	Balmoral Iron Pty Ltd	Mining	Australia	CITIC Pacific Ltd	Hong Kong	Mineralogy Pty Ltd	Australia	200
18	Oct-08	P	Pampa de Pongo Iron Ore Deposit	Mining	Peru	Nanjinzhao Group Co Ltd	China	Cardero Hierro del Peru SAC	Peru	200
19	Nov-06	C	Samancor Chrome (chrome mine and metallurgical plant) (50.00% stake)	Mining	South Africa	Sinosteel Corporation	China	Samancor Chrome Ltd	South Africa	200
20	Jan-08	C	Tyler Resources Inc (formerly Capoose Minerals Incorporated)	Mining	Canada	Jinchuan Group Ltd	China			175

Source: mergermarket, P= pending, C= completed

CIC looks to have invested in Teck in order to prop up an important but stressed supplier to the Chinese Mining market, this perception being reinforced by the fact that CIC has been offered very little in the way of control in the target. Teck found itself in a difficult position having taken on US$9.8bn in debt last year to acquire an 80.1% stake in Fording Canadian Coal Trust just months before the global financial system was brought to its knees by the collapse of Lehman Brothers. CIC's US$1.5bn capital injection will do much to help the business regain its composure.

It is clear that Chinese bidders are increasingly concentrating their efforts to acquire Mining assets in either North America or Australasia – with an obvious preference for the latter

Karl Baker
Mining Sector M&A Partner for Deloitte China

Deloitte Global Chinese Services Group overview

The Global Chinese Services Group has become a true differentiating force in the market, enabling Deloitte to set itself apart as a professional services firm that can respond to our client's needs in real time. Over the past seven years, the firm has built-up this strategic discipline to proactively address cross-border issues for our clients.

Timothy Klatte
Program Director, Global Chinese Services Group

From its humble beginnings in 2002, Deloitte's Global Chinese Services Group (GCSG) has grown to now have coverage in more than 100 locations spanning six continents! Supported by the GCSG network, Deloitte China is well positioned to serve not only multi-national companies entering and/or expanding into China, but also helping state-owned enterprises and private companies realize their overseas strategies.

What is the GCSG?

- A unique structure within Deloitte's organization with a direct reporting line to the Global CEO;
- A global network of senior partners and professionals seeking inbound and outbound China-related service opportunities;
- A platform to leverage expertise from Deloitte China to support the delivery of outstanding value to our clients;
- A true market differentiator. Deloitte is the only professional services firm to have such an expansive and dedicated cross-border network across functions and industries, with the ability to react in real time to client's needs – globally!

How does the GCSG make a difference?

- Outbound from China – With the rapid increase in overseas investment by Chinese firms, the GCSG positions Deloitte practitioners to:
  - Seize a competitive advantage by leveraging the firms' global infrastructure to pursue opportunities not otherwise available;
  - Place the skills, network and cultural insights of Deloitte China at the service of its global colleagues to become resident China experts in the local market.

- Inbound to China - With China's continuance as one of the most important investment priorities, the GCSG enables Deloitte practitioners to:
  - Leverage China as a "door opener" and assume a high-profile on a subject which can strengthen relationships with multi-national companies;
  - Raise their eminence in the market on issues of key concern to Deloitte clients.

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Coverage in over 100 locations around the world spanning 6 continents

From Lagos to Perth, from New York to Sao Paulo, the GCSG is more than a conglomeration of China desks and much deeper than a gateway service – in fact, it is a seamless network of China experts delivering a unique client-service experience

Timothy Klatte
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