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Investment in China: Numbers and Trends

First Quarter, 2013

KPMG Global China Practice

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Executive Summary

In the first quarter of 2013, the Chinese economy continued to maintain its growth, but at a slower rate. Quarter-on-quarter GDP was 7.7 percent in the first quarter, which was 0.3 percentage points below forecast (according to a Reuters poll consensus).(1) Lower consumption growth was the main reason for the lower GDP growth rate, although financing activity was up, and the real estate market continued to be active despite government curbs. Key takeaways from China's first quarter macroeconomic situation include:

- Industrial value-added growth rose by 9.5 percent, the slowest first quarter growth percentage since 2009; power generation also grew slowly
- Total fixed-asset investments (FAI) rose by 20.9 percent year-on-year, private FAI accounted for 64 percent of total FAI in the first quarter
- Sales of consumer goods grew by 12.4 percent, down 2.4 percent from the first quarter of 2012
- Exports and imports expanded by 18.4 percent and 8.4 percent respectively, while the trade surplus posted a substantial year-on-year increase
- Aggregate financing of the economy grew by over 50 percent, while money supply growth beat expectations

China's foreign direct investment (FDI) increased from USD 29.47 billion in the first quarter of 2012, to USD 29.9 billion in the first quarter of 2013, an annual increase of 1.44 percent. Manufacturing sector FDI increased by 0.6 percent year-on-year, while service sector FDI increased by 2.8 percent year-on-year. FDI highlights include the following:

- Service sector FDI growth was supported by substantial investments in consumer goods and services, high-technology, and healthcare industries. Manufacturing industry FDI growth saw support from large automobile manufacturers from European countries
- FDI from the EU surged by 45 percent year-on-year in the first quarter, while FDI from the US increased by 18.5 percent
- Monthly FDI data points to a stronger-than-expected rebound in first quarter Chinese FDI, as February and March grew by 6.3 and 5.7 percent respectively, bucking the trend of 15 straight months of negative or flat growth
- FDI investment into the western region of China grew by 20 percent year-on-year, while the central and eastern regions were relatively flat

Source: (1) http://www.reuters.com/article/2013/04/15/china-economy-gdp-idUSL3N0D20JU20130415

Part I: Macroeconomic Analysis

GDP growth slowed in the first quarter

In the first quarter of 2013, gross domestic product (GDP) rose by 7.7 percent year-on-year, down 0.2 percentage points quarter-on-quarter, and 0.3 percentage points lower than expected. Total retail sales of consumer goods rose 12.4 percent year-on-year, contributing 4.3 percentage points to aggregate GDP growth. Fixed asset investment (FAI) increased by 20.9 percent year-on-year, contributing 2.3 percentage points to GDP growth. Gross value of imports and exports also rose by 13.4 percent, with net exports of goods and services contributing 1.1 percentage points to GDP growth.

Industrial value-added growth narrowed, while power generation growth also slowed

In the first quarter of 2013, industrial value-added rose 9.5 percent, marking the smallest first quarter growth since 2009. Meanwhile, power generation increased by only 2.9 percent year-on-year in the first three months of 2013.

Fixed asset investment (FAI) growth was steady versus 2012, while real estate investment continued to grow at a slower pace

Q1 National FAI (excluding rural households) came in at RMB 5.81 trillion, representing nominal growth of 20.9 percent year-on-year (20.7 percent real rate adjusted). This was 0.3 percentage points lower than the 21.2 percent FAI growth in the first two months of 2013, and flat when compared to the first quarter of 2012. March FAI grew by 1.59 percent month-on-month.

Private FAI outpaced non-private FAI, reaching RMB 3.68 trillion in the first quarter of 2013 and grew nominally by 24.1 percent year-on-year (23.9 percent real rate adjusted). Private FAI accounted for 63.3 percent of total FAI, which was 1.9 percentage points higher than the first two months of the quarter. This could be an indicator of higher private capital participation towards social investments.

Investment in real estate development totaled RMB 1.31 trillion during the first quarter of 2013, up 20.2 percent year-on-year on a nominal basis (19.9 percent real rate adjusted). This represents a 3.3 percentage point drop year-on-year and 2.6 percentage points lower than the first two months of 2013. First quarter paid-in capital towards real estate development was RMB 2.7 trillion, up 29.3 percent year-on-year; gross floor area (GFA) of commercial residential[(a)] real estate sold was 208.98 million square meters, up 37.1 percent year-on-year, but 12.4 percentage points lower than the first two months; commercial and residential real estate stood at RMB 1.4 trillion, up 61.3 percent year-on-year, but down 16.3 percentage points from the first two months; GFA for 'newly' commenced housing construction came in at 388.73 million square meters, down 2.7 percent year-on-year, which shows that the real estate control measures by the Chinese government were starting to yield results.

Note: (a) Commercial residential properties are the construction of residential properties for commercial purposes, not for the use of social welfare

China's Economic Data Analysis

Table 1.1 Q1 2013 economic data: GDP and industrial value-added

Economic data	Value	Year-on-year (%)
Gross domestic product (RMB trillion)	11.89	7.7
Industrial value-added (RMB trillion)	5.8	20.9
1) Industrial value-added enterprises above the designated size	-	9.5
2) Power generation (Billion kWh)	11.823	2.9

Source: National Bureau of Statistics

Table 1.2 Q1 2013 economic data: FAI and real estate investment

Economic data	Value	Year-on-year (%)
Fixed asset investment (excluding rural households, RMB trillion)	5.8	20.9
Real estate development		
1) Investment in real estate development (RMB trillion)	1.31	20.2
2) Gross floor area for newly commenced housing construction (millions sq meters)	388.7	-2.7
3) Available for sale commercial residential GFA (millions sq meters)	424.4	40.9

Source: National Bureau of Statistics

Table 1.3 Q1 2013 economic data: retail sales of consumer goods

Economic data	Value	Year-on-year (%)
Total retail sales of consumer goods (RMB trillion)	5.55	12.4
1) Consumer goods retail sales of above-scale enterprises[a]	2.70	10.3
2) Food & beverage above-scale catering enterprise revenue[b]	.19	-2.6
3) Automobile	.62	6.4
4) Petroleum & oil products	.42	9.9

Note: (a) Consumer goods retail sales of above-scale enterprise is any enterprise with wholesale enterprise annual operating revenue over RMB 20 million, or retailers with annual operating revenue over RMB 5 million

Note: (b) refers to lodging and catering enterprises with annual operating revenue over RMB 2 million

Source: National Bureau of Statistics

Retail sales of consumer goods slowed

China's total retail sales of consumer goods posted 12.4 percent nominal year-on-year growth in the first quarter of 2013, down 2.4 percentage points versus the same period in 2012. Total retail sales of consumer goods in March were RMB 1.76 trillion, up 12.6 percent year-on-year on a nominal basis. Urban consumer goods retail sales rose by 12.2 percent year-on-year to RMB 1.52 trillion in March, while rural consumer goods retail sales rose by 15 percent to RMB 240.3 billion, indicating higher consumption growth rates in rural areas.

With regard to industry sub-segments, restaurant and catering revenue grew 8.7 percent year-on-year to RMB 186.1 billion in March; but restaurant and catering revenue for high-end hotels was down 1.1 percent in March, and fell by 2.6 percent year-on-year in the first quarter. The drop in retail sales growth was mainly attributable to slower growth of automobile sales, as well as a relatively sharp dip in petroleum & oil product sales.

Table 1.4 Q1 2013 economic data: imports and exports

Economic data	Value	Year-on-year (%)
Imports and exports (USD Billion)		
1) Imports	465.8	8.4
2) Exports	508.8	18.4
3) Gross value of imports and exports	974.7	13.4

Source: General Administration of Customs

Export growth outpaced imports, trade surplus grew

Exports/imports netted USD 508.87 billion/ 465.8 billion, up 18.4 percent and 8.4 percent respectively, year-on-year in the first quarter of 2013. The gross value of imports and exports was USD 974.67 billion, rising by 13.4 percent year-on-year (after foreign currency adjustment). The Q1'2013 trade surplus came in at USD 43.07 billion, compared to a surplus of only USD 210 million in the same period last year. Trade with EU and Japan fell, while trade with the US and ASEAN posted steady growth.

Bilateral trade between mainland China and Hong Kong rose 71.2 percent to USD 109.88 billion, accounting for 11.3 percent of mainland China's gross foreign trade. The gross value of imports and exports in Guangdong totaled USD 289.16 billion, retaining its leading position in China. Exports of electromechanical products and traditional labor-intensive products grew steadily. Import growth beat market expectations, which may signify improvement in China's manufacturing sector heading into the second quarter of 2013.

Money supply growth beat expectations, liquidity remained loose

Aggregate financing of the economy grew to RMB 6.16 trillion in the first quarter of 2013, up by 58.4 percent year-on-year. The increase came mainly from foreign currency loans, net corporate bond financing, trust loans and undiscounted bankers' acceptance bills. Specifically, RMB loans increased by RMB 2.76 trillion, a year-on-year increase of RMB 295 billion in the first quarter, accounting for 44.7 percent of total loans during the first quarter.

Table 1.5 Q1 2013 economic data: money supply

Economic data	Value	Year-on-year (%)
Money supply (RMB trillion)		
1) Aggregate financing of the economy[2]	6.16	58.4
2) M2 (broad measure of money supply) balance	103.61	15.7
3) M1 (narrow measure of money supply) balance	31.12	11.9
4) M0 (currency in circulation) balance	5.57	12.4

Note: (2) Aggregate financing of the economy is a broader measure of China's economy. China's central bank began to use aggregate financing of the economy in 2011 to study banks' ballooning off-balance-sheet lending to better measure overall money supply and total loans in the real economy.

Source: PBOC

The first quarter M2 balance, or the broad measure of money supply, stood at RMB 103.61 trillion, up 15.7 percent year-on-year. The growth rate was 0.5 percent and 1.9 percent higher than that from February month-end and 2012 year-end respectively. It also exceeded the 13 percent M2 growth target set for 2013. The M1 balance, or the narrow measure of money supply, was RMB 31.12 trillion, representing an increase of 11.9 percent year-on-year, which outpaced the growth at February month-end and 2012 year-end by 2.4 percent and 5.4 percent respectively. M0 balance, or currency in circulation, came in at RMB 5.57 trillion, up 12.4 percent year-on-year. The first quarter net money supply amounted to RMB 106.5 billion.

China's foreign exchange reserves balance was USD 3.44 trillion at the end of the first quarter. New funds outstanding for foreign exchange stood at RMB 295.4 billion in February mainly due to the inflow of offshore capital based on expectations that the RMB would continue to appreciate.

Inflation moderately increased while PPI continued to decline

March consumer price index (CPI) rose 2.1 percent year-on-year (Q1'2013 CPI was up 2.4 percent year-on-year). The following prices were included in the aggregate CPI: prices for residential housing (up 2.9 percent year-on-year, rental price (up 3.7 percent year-on-year), food prices (up 2.7 percent year-on-year), non-food prices (up 1.8 percent year-on-year), and clothing prices (up 2.3 percent year-on-year). Meanwhile, urban CPI was up 2.0 percent, while rural CPI also grew by 2.2 percent. On a month-to-month basis, the national general consumer price level fell 0.9 percent in March, with urban and rural prices dropped 0.9 percent and 1.0 percent respectively. Food prices declined 2.9 percent, non-food prices climbed 0.1 percent, prices for consumer goods shed 1.3 percent, while prices for services were flat. The month-to-month drop in CPI reflected a natural correction due to factors such as China's Spring Festival. The producer price index (PPI) declined by 1.9 percent year-on-year, and has been falling steadily over the past 13 months; evidence that relatively little money supply has been flowing into the manufacturing sector and the economy is still in a moderate recovery mode.

Table 1.6 Q1 2013 economic data: CPI, PPI, PMI, and fiscal revenue and expenditure

Economic data	Value	Year-on-year (%)
Consumer prices	-	2.4
1) Food	-	3.8
2) Housing	-	2.9
Producer prices	-	-1.7
Fiscal revenue and expenditure		
1) National public fiscal revenue (RMB billion)	32.03	6.9
2) National public fiscal expenditure (RMB billion)	27. 04	12.1
11. Purchasing managers index (March-end PMI)	-	50.9

Source: National Bureau of Statistics, Ministry of Finance

Fiscal revenue grew slower than expenditures, real estate tax and land sales were the main sources of revenue

In the first quarter of 2013, national public fiscal revenue rose 6.9 percent to RMB 3.2 trillion, down by 7.8 percent year-on-year. National public fiscal expenditure amounted to RMB 2.7 trillion, up 12.1 percent year-on-year. Expenditures increased faster than revenue, reflecting immediate and ongoing fiscal challenges.

Referring to fiscal revenue, the central government accounted for RMB 1.47 trillion, down by 0.2 percent year-on-year, and the local governments generated RMB 1.74 trillion, up by 13.7 percent year-on-year. The central government posted a year-on-year decline of fiscal revenue mainly due to the impact from slower economic growth, implementation of structural tax reductions, and lower growth in general trade imports. As for local governments, fiscal revenue rose primarily due to higher real estate transaction values, which drove up the relevant local taxes.

This tax revenue included RMB 4.57 trillion in business tax, up 14 percent year-on-year; RMB 770 billion from the sale of state land use rights, up 46.6 percent year-on-year; RMB 82.2 billion in VAT on land, up 34.7 percent year-on-year; and RMB 91.7 billion in deed tax, up 38.3 percent year-on-year. The data indicates that land-related revenue remained the main source of income for local governments. In addition, non-tax revenue came in at RMB 463.5 billion, up 12.5 percent year-on-year.

Manufacturing PMI improves slightly

China's purchasing managers index (PMI) was 50.9 percent in March, 0.8 percentage points higher than in February. The index has remained above 50 percent for six straight months, showing that the economic growth is on a steady trend upwards. However, PMI has only managed to stay marginally above the 50 percent mark (a mark that separates contraction from expansion), thus reflecting relatively weak upward momentum. In terms of the various sub-indicators of PMI, new order indicators recovered, production indicators rose, raw materials inventory indicators fell, PPI retreated, and finished goods inventory indicators was higher.

Summary

GDP grew 7.7 percent in Q1 2013, falling short of expectations. Industrial value-added growth slowed to 9.5 percent growth; FAI investment growth was flat from last year at 20.9 percent growth; consumption growth slowed down to 12.4 percent growth; gross value of imports and exports grew by 13.4 percent; PPI remained negative; and PMI only slightly improved. In addition, first quarter power generation increased by a mere 2.9 percent year-on-year. Compared with the contribution of FAI and net exports to GDP, the slowdown in consumption growth was the major cause for the GDP growth deceleration. To a certain extent, slower consumption growth is a reflection of the curb on government consumption expenditure in the first quarter of 2013.

Concurrently, there was a sharp increase in aggregate financing of the economy, which reached RMB 6.16 trillion in Q1, growing 58.4 percent year-on-year. However, mid to long-term corporate borrowing dropped to RMB 253.0 billion in March, versus RMB 282.6 billion in February and RMB 580.0 billion in January – indicating a lack of confidence among enterprises. The proportion of new RMB loans has decreased significantly but the share of entrusted loans and trust loans rose year-on-year, reflecting the continued influence of off-balance sheet loans. In addition, as of March 31, 2013, M2 (the broad measure of money supply) breached the RMB 100 trillion barrier. Amid a fragile recovery in the real economy, a huge influx of money into the financial system may pose a threat to financial stability, and could lead to liquidity issues, whereby expanded money supply would still fail to stimulate the economy.

Summary (cont.)

GDP growth has declined; from 10.4 percent in 2010, to 9.3 percent in 2011, and then to 7.8 percent at the end of 2012, but the aggregate financing of the economy per unit of GDP rose from 27.1 percent in 2011 to 30.3 percent in 2012; this indicates that the impact of external financing (debt plus equity) as a driver of economic growth is diminishing. Equity financing only played a very marginal role in aggregate financing of the economy (less than 5 percent), whereas debt financing was still the dominant means of financing. Over the last 10 years, the proportion of traditional credit business in total debt financing has been declining, replaced by rapidly expanding shadow banking (or 'off-balance sheet financing'). After the regulatory curb on shadow banking in 2011, the scale of shadow banking continued to expand in 2012, and the trend appeared to remain intact based on Q1 2013 numbers. New financing in the economy may have reflected the financial management needs of enterprises, and this analysis can be used to explain the weak recovery in the real economy despite an environment that supports loose monetary policy and liquidity.

Moreover, investment growth in real estate development in China has eased on both a year-on-year and month-on-month basis, while the year-on-year growth of gross floor area (GFA) of commercial residential real estate sold has also declined. GFA of newly commenced housing construction also saw a 2.7 percent decline in the first quarter. This shows that the real estate control measures by the Chinese government were starting to yield results. However, the housing market has remained buoyant; commercial and residential housing contract sales rose by 61 percent in the first quarter, and investment in real estate development also posted 20.2 percent growth, largely in line with the increase in FAI. This was an indication that real estate continued to be an important contributor to economic growth despite the introduction of a slew of policy curbs. Also, the government's fiscal expenditure rose faster than revenue in Q1 and land-related revenue remained the main source of income for the local governments, reflecting the immediate fiscal challenges to be faced.

Based on the data posted at the end of the first quarter, China's economic growth faces increasing downside risk. Policymakers face multiple tradeoffs between real estate controls, monetary policy, stimulating consumption and economic growth. The key issue for the Chinese economy is not the short-term slide in growth, but potential long-term effects of slower growth. Structural reform measures shall include: loosening the regulation of factor prices, lowering the entry barriers for private capital and allowing the market to play a greater role in resource allocation.

Overview of Economic Policies

Economics and Government

'NPC and CPPCC Sessions' convened, declare new policies

The National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) – which can be referred to as the two meetings – convened in March 2013. The new Chinese government was elected during these sessions, which witnessed Xi Jinping becoming the new President of China, and Li Keqiang become the Premier of the State Council – also responsible for setting up the economic team for the next five years. The super-ministry reform, which was designed to merge overlapping administrative and managerial departments, has been progressing steadily; this includes the break-up of the Ministry of Railways and a series of other managerial measures to reorganize toward more efficient governing bodies. Economic development targets for 2013 were also set during the two meetings. These targets dictate steady monetary policy, government revenue growth of 8 percent, planned fixed asset investment (FAI) growth of 18 percent, target inflation of 3.5 percent, continuing real estate price controls, efficient urbanization processes, as well as new energy and environmental protection.

State Council encourages private capital to invest in China's logistics network

On February 17, 2013, the State Council issued the 'Guiding Opinions on Promoting Orderly and Healthy Development of the Logistics Network'. This was the first time the State Council has encouraged financial capital, either by venture capital or private equity to invest in the logistics industry. It also introduced major investment and financing supporting measures such as lending support and establishing equity investment funds to promote relevant policies and ensure the healthy development of the industry. The 'Opinions' emphasized the near-term targets for the logistics industry, which are: to achieve large application of logistics networks in key socio-economic sectors by 2015, and to achieve breakthroughs in a group of core technologies.

The Government announces 'five new measures' to curb the real estate market

On February 20, 2013, the government circulated 'five new measures' to regulate the real estate market during the State Council executive meeting. The meeting not only reiterated the continued implementation of policy curbs centered on purchase and loan restrictions, and the determination to crack down on speculative and investment-driven home purchases, but it also demanded that local governments announce property price control targets for the year. In addition, the meeting also announced other details such as prompt implementation of a purchase restriction policy in cities where property prices have risen too fast, and establishing a work accountability system for the stabilization of property prices.

The State Council approves the establishment of China Railway Corporation

On March 14, 2013, the 'Official Reply of the State Council Regarding the Relevant Issues on the Establishment of the China Railway Corporation' was released on www.gov.cn. It was announced that the China Railway Corporation has over RMB 1 trillion of registered capital, and stated that the State will suspend the collection of profit generated from the company until historical debt problems have been resolved. According to the official reply, China Railway Corporation is a wholly State-owned enterprise administered by the central government, which has been established with the approval of the State Council and in accordance with the 'Law of the People's Republic of China on Industrial Enterprises Owned by the Whole People'. The Ministry of Finance will administer investment duties on behalf of the State Council, while the Ministry of Transport and State Railways Administration will supervise the company in accordance with the law.

Ministry of Finance rolls out measures to support the development of farmer cooperative organizations

On March 21, 2013, the Ministry of Finance issued the 'Opinions on Supporting the Development of Farmer Cooperative Organizations(3) and Promoting the Agricultural Production and Operation System' or 'Opinions'. According to the 'Opinions', the Ministry of Finance will provide support to farmer cooperative organizations in several areas, including agricultural subsidies, rural agricultural infrastructure, agricultural industry development and farm produce circulation. The Ministry will also promote and enhance various effective operating approaches such as the 'farmer + farmer cooperative organization + industry leader' model. The 'Opinions' will focus on building a new specialized, intensive, and all-encompassing agricultural operations system; the key work areas for developing farmer cooperative organizations include: to actively promote the linkage between agricultural support projects and farmer cooperative organizations, to drive the transfer of assets from agricultural support projects to farmer cooperative organizations, to set up a sound asset management and protection mechanism for projects, and to further increase support for special projects.

Note: (3) Farmer cooperatives organizations are defined as a set of farmers whom work together to share the revenue and cost of producing agriculture, for the purpose of competing with larger industrialized organizations.

Finance

New progress in Qianhai Special Economic Zone

Details for the Qianhai cross-border RMB loan scheme have been revealed. On January 6, 2013, the Shenzhen branch of the People's Bank of China (PBOC) issued the 'Rules for the Implementation of the Interim Measures for the Administration of Cross-Border RMB Loans in Qianhai'. The 'Rules' impose strict controls on the use of cross-border RMB loans, which includes prohibiting RMB loan usage in cross-border wealth management practices. All 22 of the pilot policies in Qianhai are likely to be implemented in the first half of 2013.

The Second Inter-Ministerial Joint Conference on the Development of Qianhai was held in Beijing on January 21, 2013. The National Development and Reform Commission (NDRC), PBOC, China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and China Insurance Regulatory Commission (CIRC) were among the 27 member institutions of the joint conference participating in the planning and deployment of implementation work for the policies in the Qianhai-Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Eight pilot policies are currently under review in Qianhai, and are likely to be in place during the first half of this year.

Shanghai Stock Exchange launches new cash dividend distribution policy

On January 7, 2013, the Shanghai Stock Exchange (SSE) released the 'guidelines for cash dividend distribution' or 'guidelines'. These guidelines encourage listed companies to clarify dividend distribution policies and strengthen disclosure on dividend payments. The SSE provides four alternative dividend distribution policies to listed companies, namely: fixed amount policy, fixed ratio policy, excess dividend policy, and residual dividend policy. To encourage listed companies to clarify dividend policy, the SSE will compile special indices to reflect the group of listed companies featuring sustained and stable cash dividend distribution. Listed companies with high payouts will be granted the preferential or 'green channel' treatment and relevant support in refinancing, merger & acquisition, restructure and other areas relating to market access. Green channel treatment refers to special or preferential treatment during a regulation process, for the purpose of obtaining market permits. By taking into account listed companies' actual cash dividend distribution over the past three years, the SSE set the average and high dividend payout ratios at 30 percent and 50 percent respectively. In addition, the SSE also specifies that the cash paid by listed companies in conducting share buybacks for the current year will be regarded as cash dividends, and these companies will be given 'green channel' treatment when applying for refinancing in any case where refinancing does not exceed the buyback ratio.

New rules unveiled for QDII and RQFII

On January 14, 2013, The China Securities Regulatory Commission (CSRC) Chairman Guo Shuqing said that "the total investments by QFII and RQFII only accounted for 1.5 percent to 1.6 percent of the current A-share market capitalization, and this proportion should increase by nine to 10 times in future".

The CSRC completed the amendment for the 'Measures for Pilot Domestic Securities Investment Made by RMB Qualified Foreign Institutional Investors (RQFII)' on January 24, 2013. The amendment will expand the scope of institutions under RQFII, where investment institutions are no longer limited to supply funds to management companies and securities companies. In addition, it also removes the requirement of a 2:8 split between domestic equity and bond markets asset allocations respectively, which implies that more funds will be allowed to flow into the stock market.

On March 14, 2013, the CSRC began soliciting public opinions on its draft amendment to the 'Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (QDII)' and its auxiliary rules. The amended contents include: lowering the financial indicator threshold for QDII qualification. For fund management companies, the previous requirements of having least RMB 200 million of net assets, more than two years experience with fund operations management, and at least RMB 20 billion of assets under management, have been removed. As for securities companies, they are no longer required to have at least RMB 800 million of net capital and they are also not required to have more than one year experience in running collective asset management schemes.

The State Administration of Foreign Exchange (SAFE) issued a circular on March 22, 2013, requiring RQFII to remit investment principal within six months after each investment quota approval, and no remittance is allowed after the specified period without prior consent. The investment principal has a lock-up period of one year.

New rules on the qualification of insurance practitioners and sales regulations

On January 15, 2013, the China Insurance Regulatory Commission (CIRC) communicated the 'Measures for Supervising Insurance Sales Personnel'. The 'measures' specify that from July 1, 2013, insurance sales personnel shall be required to have tertiary qualifications, which includes holding a general certificate of qualification. On March 20, 2013, the CIRC issued the 'Consultation Draft for Circular Regarding the Relevant Issues on Standardizing the Selling Behavior on Insurance Distribution Channels in Banks and Post Offices' to various insurance companies, banning the recommendation of any insurance products to elderly persons aged 70 and above.

Circular issued for approval of futures companies opening accounts for asset management business; Dalian Commodity Exchange receives receives approval for coking coal futures trading

On January 30, 2013, the Dalian Commodity Exchange (DCE) issued an official circular in regards to securities companies' asset management business opening new accounts. The circular implied that the account opening measures for asset management business at the three major commodity and futures exchanges in China are complete, and it marks the beginning of the asset management business of futures companies. The other two commodity and futures exchange platforms, the Zhengzhou Commodity Exchange and Shanghai Futures Exchange, had released their respective regulations on the administration of opening accounts for futures-related asset management, and the regulations of the three major exchanges are largely consistent. On March 12, 2013, the CSRC approved the DCE to begin coking coal futures trading. This was the second futures product related to the coal industry chain that has received approval for listing on the market.

Regulations on asset management business of securities companies and equity incentives

On February 26, 2013, the CSRC drafted the 'Provisions for the Administration of Asset Securitization Business of Securities Companies', and began soliciting public opinions. The 'Provisions' outline the specific forms of underlying assets that can be securitized. It allows underlying assets, such as property rights (including enterprise receivables, credit assets, and cash flow from infrastructure projects), negotiable securities (including commercial papers, bonds and stocks), and fixed assets (including commercial properties) to be securitized.

The CSRC announced the 'Administrative Regulations on the Equity Incentive and Restraint Mechanism of Securities Companies' on March 17, 2013. The 'Administrative Regulations' clearly state that qualified securities companies may implement equity incentives, with the directors, senior management or other employees of the companies as recipients. In addition, the securities companies may provide equity incentives through indirect shareholding.

Measures for the administration of private equity funds and existing capital administration for fund companies

Registration is required for private equity institutions managing more than RMB 100 million of securities assets. Following the inclusion of non-public offered funds under the newly amended Securities Investment Funds Law, the CSRC turned its attention to privately offered securities investment funds and announced the 'Interim Measures for the Administration of Privately Offered Securities Investment Funds (consultation draft)' on February 20, 2013. The 'Measures' require institutions such as private equity and venture capital funds to register with the Asset Management Association of China if their managed products invest more than RMB 100 million in publicly offered stocks of joint-stock companies, bonds and/or mutual fund units.

The CSRC also expanded the investment scope for existing capital of fund companies. On March 14, 2013, the CSRC started seeking public opinions for the 'Interim Regulations for the Administration and Utilization of Existing Capital of Fund Management Companies (consultation draft)'. The 'Interim Regulations' expand the investment scope of existing capital, and allow investments in bank deposits, bonds, central bank bills, securities investment funds, wealth management products of commercial banks, segregated accounts, collective asset management schemes, collective trust schemes, establishment of subsidiary companies, and equity investments related to the operation of asset management business.

City commercial banks granted approval to expand outside their home city, 'green' enterprises receive credit support

On February 20, 2013, the China Banking Regulatory Commission (CBRC) published the 'Circular of the General Office of CBRC on the Proper Execution of Rural Financial Services in 2013'. Previously the CBRC allowed very little expansion opportunities for city commercial banks outside of their home city. In the 'Circular', the CBRC laid out its requirements for the expansion of city commercial banks where, "city commercial banks are allowed to apply for establishment of branches and sub-branches in the local region and surrounding regions with close economic relationships, but not beyond the provincial border, thus suppressing the urge to blindly expand". On March 21, 2013, the CBRC also issued relevant documents for 'green credit', which supports energy saving and environmental protection, and issued the 'Opinions on Work Related to Green Credit'. The 'Opinions' actively support the development of green, recyclable, and low-carbon industries, and support the banks in key sectors such as: strategic emerging industries, cultural industries, and industrial transformation as well as upgrades.

Economic Research and Significant Policy Updates

After 10 years, the Qualified Foreign Institutional Investor program has produced substantial results.

The Qualified Foreign Institutional Investor (or 'QFII') program was launched in China in 2002. Its main objective was to allow foreign investors to buy and sell RMB-denominated shares traded on the stock exchanges in Shanghai and Shenzhen. Prior to the QFII, foreign investors could not invest in mainland China stock exchanges due to the strict capital account controls. In May, 2003, The China Securities Regulatory Commission (CSRC) began to grant approval to institutions that fulfilled the criteria for QFII qualifications, and the State Administration of Foreign Exchange (SAFE) also commenced its work on determining the investment quota for the respective institutions. The first QFII instruction was sent out at 10:17am on July 9, 2003 and the first share transaction was confirmed at about 10:19am, marking the official entry of QFII into the Chinese securities market. As of February 28, 2013, 186 QFIIs have been granted entry into the Chinese market, with cumulative approved quota above USD 40 billion.

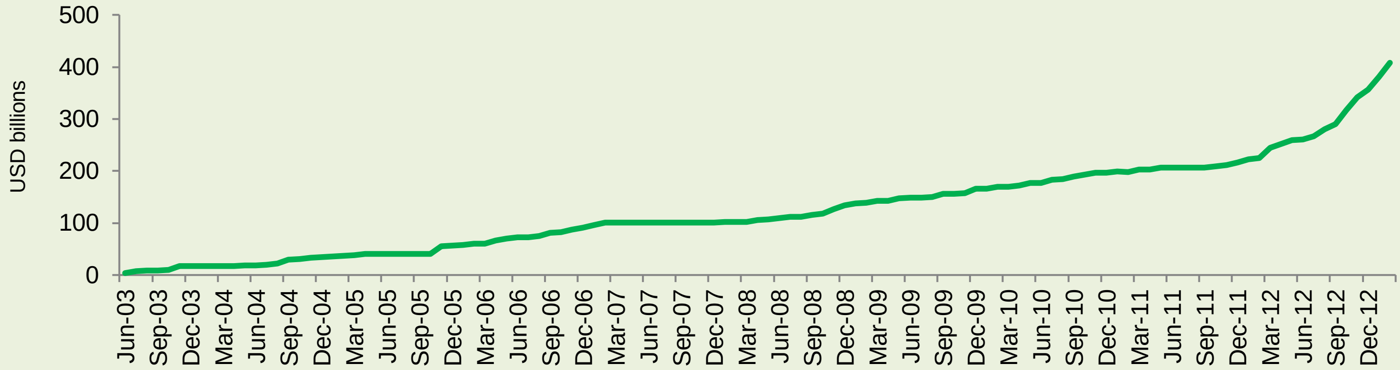
Figure 1.1 shows the cumulative QFII approved quota between June 2003 and February 2013

Introduction to RQFII and its progress

RMB Qualified Foreign Institutional Investor (or 'RQFII') is a derivative program of the QFII. RQFII is a system for foreign institutions to make domestic investments using Renminbi (RMB); it has a smaller quota and is therefore also known as the mini-QFII. On August 17, 2011, then-Vice Premier of the State Council Li Keqiang said that "China will allow investment in its domestic securities market via the RQFII approach" and soon after, the RQFII began gaining massive external demand. Since opening in 2011, the RQFII has grown exponentially in interest and fund participation. On January 24, 2013, The CSRC completed the amendment for the 'Measures for Pilot Domestic Securities Investment Made by RMB Qualified Foreign Institutional Investors'. The amendment now expands the scope of institutions under RQFII beyond fund management and securities companies. It also removes the requirement of a 2:8 split in asset allocation in domestic equity and bond markets respectively.

On 6 March 2013, the 'Measures for Pilot Domestic Securities Investment Made by RMB Qualified Foreign Institutional Investors' was officially announced and then on March 22, 2013, the SAFE issued a circular requiring RQFII to remit investment principal within six months after each investment quota approval, and no remittance is allowed after the specified period without prior consent. The investment principal has a lock-up period of one year.

Figure 1.1 QFII approved quota



Sources: SAFE, KPMG Analysis

Figure 1.2 shows the cumulative RQFII approved quota between December 2011 and January 2013.

As of 24 January 2013, 24 RQFIIs have been granted entry into the Chinese market, with cumulative approved quota reaching approximately RMB 70 billion, from just over RMB 10 billion in late 2011.

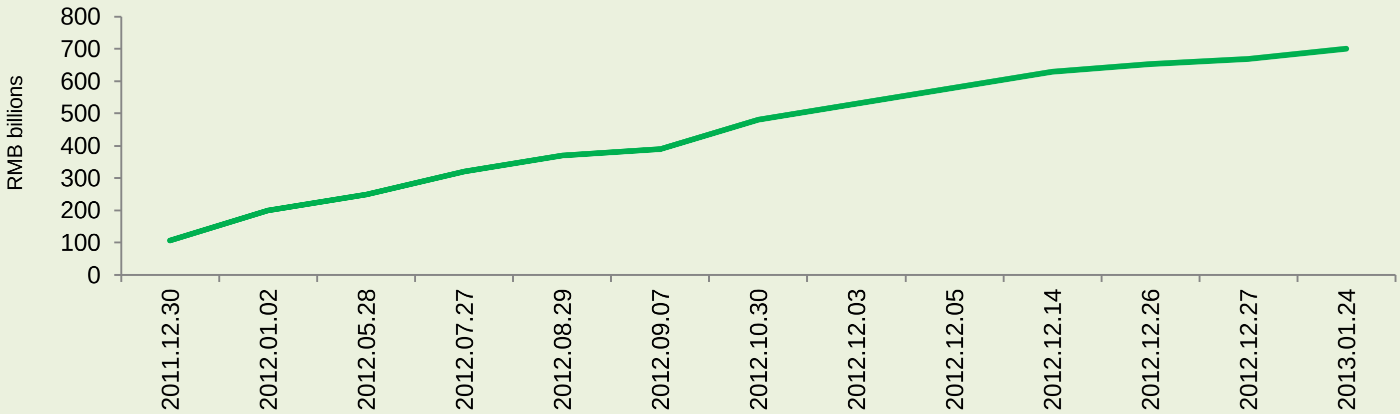
The impact of QFII on the Chinese stock market

For the purposes of making an investment in a company, research has shown that QFIIs pay more attention to the governance structure and characteristics of a domestic company than do domestic mutual funds. For example, QFIIs tend to favor companies that provide benefits and compensation for highly skilled management and operations processes. The rationale behind this is that corporate operating performance and management compensation are closely linked; therefore higher managerial compensation is likely to imply better management. Furthermore, in China, it could also signal a more transparent and standardized financial and compensation policy. However, if senior management is earning less than industry standard, then inadequate incentive may lead to lack of enthusiasm from management, as well as management not always acting in the best interests of the company.

QFIIs also exert positive influence towards non-tradable share reform. For example, research shows that companies with QFIIs as shareholders undergo shorter non-tradable share reform than companies with domestic mutual funds as shareholders. For state-controlled companies (or Chinese companies' whose largest shareholders are government entities) that have QFII shareholders – without domestic mutual fund shareholders – the holders of tradable shares enjoy the highest compensation ratio spread from those with non-tradable shares. Research has shown the higher the shareholder percentage of QFII shareholders, the larger the tradable shares compensation ratio will be.

In just over 10 years, the QFII program has raised the standard of governance in listed companies. Relevant research has shown that companies with QFII shareholders produce significantly better operating results than those without, and the CSRC's approach toward enhancing investor's protection by providing strong support to institutional investors has been proven effective.

Figure 1.2 RQFII approved quota



Sources: SAFE, KPMG Analysis

Part II: Industry Analysis, Foreign Direct Investment into China[4]

Information Technology

EMC China releases five-year plan

At the beginning of March, EMC, the global leader in cloud computing, big data and safe IT solutions formally released its five-year plan 2.0 for the Chinese market. Within the plan, its goals are to quintuple the revenue from the Chinese market in the next five years and grow its market in China to become its second largest market (behind the US).

In the five-year plan, EMC has set four key targets:

- To create the strongest partnership ecosystem in the Chinese IT industry
- To increase the company's channel partners from 3,578 to 20,000
- To achieve over 1,000 'cloud' computing projects carried out in over 300 cities
- To account for over 50 percent of the information infrastructure market for its enterprise level data center; and growing the 'big data' related business by a factor of 10.

Over the past five years, EMC's China operations have achieved rapid growth; it grew its revenue by a factor of five, and achieved a compound annual growth rate (CAGR) of 35 percent. The emergence of market hot spots, including data centers, cloud computing, and big data storage has allowed EMC's China business to organically expand. During the past five years, EMC's branches in China have increased from six in 2007, to 21 in 2012, while its R&D centers have expanded from just one R&D center to three. The number of sales professionals has also increased from 500 in 2007 to 1,000 in 2012, and the number of R&D center employees has increased from 70 to 1,600.

While EMC's plan 2.0 has provided good development opportunities for its partners in China, it has also created challenges for local market competitors. For the local market participants to stay competitive, they may need to increase investment in new market hot spots, including cloud computing and large data storage; they should also establish nationwide sales and technical service systems, and form diversified channel partnerships.

Note: (4) This information is drawn from various sources including: http://tech.hexun.com/2013-03-04/151697945.html; http://tech.ccidnet.com/art/40911/20130301/4766931_1.html; http://www.autonewschina.com/en/article.asp?id=9914http://www.autonewschina.com/en/article.asp?id=9914 ; http://www.avcj.com/avcj/news/2244467/saudi-arabia-s-kingdom-holdings-leads-usd400m-round-for-360buy; http://www.chinadaily.com.cn/hqgj/jryw/2013-03-22/content_8569399.html; McKinsey & Company publication regarding the future of China's online retail market; http://www.howbuy.com/news/2013-01-09/1791669.html; http://finance.qq.com/a/20130306/000675.htm; http://www.firstwordpharma.com/node/957451; http://www.amac.org.cn/tjsj/xysj/jjgssj/382618.shtml;http://cn.reuters.com/article/chinaNews/idCNCNE92A0C420130311

Industrial Markets

Foreign industrial automation groups aim to help China boost manufacturing efficiency

China's rich supply of labor has helped carry the country through more than three decades of rapid economic growth. However, as China's economy continues to mature and wage inflation continues to rise, China's manufacturing industry is turning to automation technologies for many of its manufacturing needs. Over the past five years, China has increased its investment in automation and now accounts for a decent portion of the global automation market. Despite the increased investment, local automation technology in China is still lagging the rest of the world; this may create opportunities for foreign players to make timely investments in automation.

In March, ABB, the world's leading power and automation technology group, reported that its China unit generated stable revenue in 2012 amid a challenging economic situation. ABB noted that they would keep their brisk pace of investment, and provide more tailored products and solutions to support Chinese customers. Omron Corp, a Japanese manufacturer of control equipment and automation systems, recently completed its new automation plant with an investment of USD 100 million to produce controlling components for telecom and automobile industries. Other international automation companies such as Emerson, Siemens and Yaskawa, all said they would ramp up production capabilities to assist with sales volume in China.

In China, there is a continuous demand for automated products and techniques. Chinese companies needing to sustain their competitive advantages in manufacturing may seek to advance automation efforts. Automation technology can also address the needs of customers seeking increased productivity and standardized product quality. Despite the fact that automation may have a negative effect on the manual labor force, it supports the government's initiatives to build up an economy predicated on quality and sustainability. As industrial automation becomes more ubiquitous in China, manufacturers need to train more skilled local workers to master the operations of the automated machinery and provide regular repair and maintenance for this precision equipment.

Consumer Markets

Foreign investment flocks to Chinese e-retailers

In February 2013, Chinese retailer Jingdong announced it had completed its F (sixth) round of financing and raised another 400 million dollars, which brings Jingdong's total funds raised to USD 1.8 billion. The primary new shareholder is The Kingdom Holding Company, owned by Saudi Arabia's Prince Alwaleed Bin Talal. Foreign investors favor Jingdong because of the rapid development of China's online retail market. Since 2003, the online retailing market has achieved a compound annual growth rate of 120 percent, while in 2012, China's online retail revenue surpassed RMB 1.2 trillion. With the increasing coverage rate of 3G network and broadband, the online retailing business continues to grow. Currently, online sales account for less than six percent of China's retail market. In 2020, the percentage is expected to rise to 10-16 percent.

Jingdong has been outpacing the average growth of the online market; in the last nine years, it has achieved an average annual revenue growth rate of more than 200 percent. Despite Jingdong's revenue growth, the company and its investors are still exposed to inherent market risk. The Chinese online market is fiercely competitive, with online retailers vying for market share and seeking to gain user rates and other advantages through price competitiveness. Although competing on price may be responsible for short-term turnover, it will continue to hurt the aggregate industry's profitability. Jingdong and other online retail competitors should seek more value-added methodologies of development and seek out competitive advantages organically. Some organic solutions may include a greater focus on the consumer, and customer service. E-commerce players could start building brand loyalty by offering consumer loyalty programs for substantial purchases, or discounts/incentives for consumers whom purchase a certain amount of goods every month or year. Other ways it can reach out to the consumer is through direct push marketing, whereby the company and the consumer can establish a more personal relationship through the various channels of China's explosive social media outlets. This may add to the customer experience, possibly create brand loyalty and help drive sustainable profits for the retailer.

Commercial Real Estate

The specialized cooperation model helps Warburg Pincus develop domestic commercial real estate

Warburg Pincus, one of the largest US-based PE institutions, recently announced it has made an investment in China T&C, a professional asset management company in China's commercial real estate sector. Through the specialized cooperation model of resource and risk sharing, Warburg Pincus supplies capital for T&C, while T&C may select acquiring projects for Warburg Pincus.

Through its deep understanding of the Chinese commercial real estate, T&C looks for beneficial projects entering the market, and introduces them to investment companies for capital injection possibilities. Furthermore, T&C can also be responsible for attracting on-going investment during the latter stages of each project. T&C had previously introduced successful investment projects to Warburg Pincus, but at that time, the relationship between the two parties was mutually cooperative. The initial successful has laid the foundation for a more beneficial relationship between the two parties. Warburg Pincus's involvement in China's commercial real estate field suggests that it is optimistic about China's commercial real estate for the long-term, and is gradually expanding its involvement in China's commercial real estate.

Warburg and T&C represent foreign funds and third-party commercial management companies, respectively. Foreign companies and local third-party asset management companies are still at the beginning stages of cooperation in China's commercial real estate industry. Given commercial real estate in China continues to expand, and the number of interested foreign participants continues to rise, partnership between investors and third-party asset managers could be a continuing trend in China's commercial real estate industry.

Private Equity

The equity investment pilot in Qianhai has been unveiled

In March, 2013, Shenzhen formally launched "the pilot program concerning foreign invested equity investment enterprises" ("pilot program") which sets out "the operating procedure for establishing foreign invested equity investment enterprises in Shenzhen" (the "operating procedure"). This is an important regulations which enable foreign private equity fund managers to establish local fund management companies and funds in Shenzhen.

Apart from defining the nature of the foreign invested equity investment enterprises, the "pilot program" has also specified that the minimum amount of paid in capital of the foreign invested equity investment enterprises should be no less than USD 15 million. Its specific requirements have also stipulated that the overseas investor's asset size in the previous audit year should be no less than USD 100 million, or its asset under management should be no less than USD 200 million, and it should also hold the asset management license issued by the Hong Kong Securities and Futures Commission (HKSFC or overseas financial regulatory departments), and the investor should be ranked among the world's top 100 in terms of asset under management.

As the "pilot program" and the "operating procedure" continue to be circulated, nearly 20 large-scale foreign investment institutions have already expressed interest in entering Qianhai directly. Beginning in 2013, Qianhai, and even the entire Shenzhen region, should see an in influx of foreign capital, with overlapping investment effects gradually emerging in industries such as: the financial industry, technology and information services, logistics, and related real estate services.

Healthcare

Foreign pharmaceutical companies are accelerating operations in China

In January, 2013, GlaxoSmithKline (Glaxo) announced that it would increase its local productivity levels in China to 75 percent, and hire a few hundred more people in China to promote its products, betting that China's healthcare reforms will widen access to its drugs.

The aging population and the emergence of China's middle class have expanded the potential demand for medicine. Statistics show that from 2005 to 2010, the CAGR for Chinese pharmaceutical market exceeded 20 percent, while the market capitalization reached RMB 926.1 billion in 2012, and is forecasted to grow between 19 and 22 percent through 2015. In light of this growth, foreign pharmaceutical companies may also run into some pricing difficulties. Specifically, the government has released initiatives for foreign drug maker price reductions in China. The government wants to make drugs more easily accessible to a wider population; drugs such as Glaxo's cancer and rotavirus vaccines should come off the shelves and into peoples' hands, which will inevitably increase brand recognition, but the price mandates will also cut into margins.

To combat lower prices, Glaxo has already increased its sales base to broaden its name brand throughout China. Glaxo believes that wider consumer access will make up for the state-mandated price cuts for the distribution of its drug arsenal. Furthermore, Glaxo could seek out value-adding M&A opportunities to increase its footprint in China's market, as well as add synergies with mainland companies that are developing Chinese medicine products. Glaxo believes that a stronger footprint as well as a possible combination with eastern medicine, and a stronger research department in mainland China will all drive potential future benefits and discovery. It should be expected that other drug makers from the west will follow the lead, if proven successful.

Financial Services

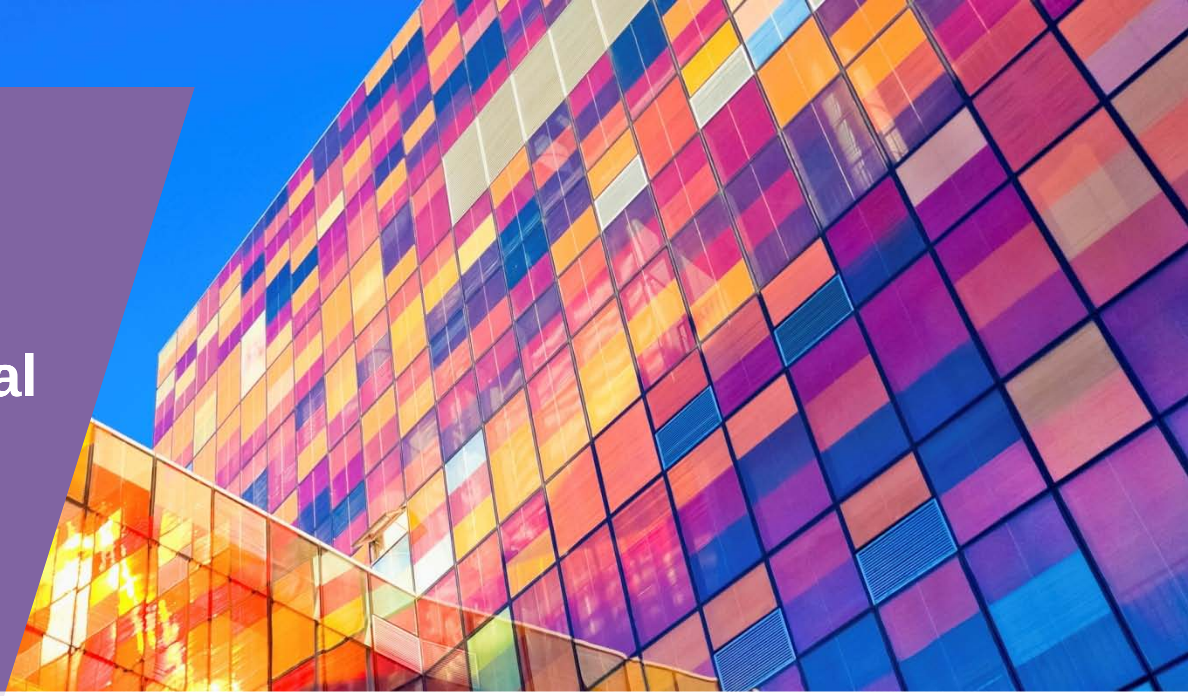
China's fund industry continues to grow as foreign participants seek opportunity

As early as June 2011, the China Securities Regulatory Commission (CSRC) issued The Measures for the Sale of Securities Investment Funds, or 'Measures'. In December 2012, the Shanghai Securities Regulatory Commission provided an online application channel for institutions to apply for security sale licenses. In March, 2013, the CSRC publicized the review of five foreign banks seeking to qualify for mainland investment fund sales. Standard Chartered Bank submitted the first application and has been accepted for review by the CSRC, while the four other banks are still in the application process. The first round of licenses is expected to be granted within the year.

In 2012, China's fund industry exhibited explosive growth. According to the statistics of Asset Management Association of China, public investment funds held assets in the amount of RMB 2.9 trillion as of December 31, 2012, an increase of more than 670 billion year-on-year. Approximately 60 percent of the additional funds originated from the four largest banks in China. In addition, foreign banks do not have a large market share, their sales capacity cannot compete with that of large domestic financial institutions, and they cannot match domestic banks' extensive branch networks or enormous structural advantages. Thus, for the short to medium-term, foreign banks offering investment funds to mainland clients may take a backseat to local, more well-known players. Prior to applying for a license, the foreign banks should consider the strategic atmosphere of China, and how to offer products that are not only competitive with mainland banks, but can offer investors a solution to investing that local banks cannot or are less experienced at providing.

The good news is that, in addition to the regulatory changes that have allowed further opening-up of China's investment fund atmosphere to foreign banks, several other powerful trends are combining to fuel the industry's growth. These trends include the continued migration of the overall economy in China from manufacturing to a more service-based orientation, Beijing's efforts to 'internationalize' its currency, as well as intensifying investor interest in Renminbi-denominated and China-related investment products. Nonetheless, experts also expect the changes in China's asset and investment management industry to play out over a number of years, and note that major operational challenges remain for foreign players and other new entrants, which will take time to overcome.

Part III: Overview of Foreign Capital Utilization



A General Overview of China's Utilization of Foreign Capital

For the first quarter of 2013, total foreign direct investment (FDI) into China was USD 29.9 billion, up 1.44 percent year-on-year from the first quarter of 2012. In comparison, China's outbound direct investment (ODI) totaled USD 23.8 billion, an increase of 44 percent year-on-year. Although the absolute FDI number is larger than ODI, ODI is growing much faster than FDI. The FDI service sector attracted the majority share of FDI, 48 percent totaling USD 14.4 billion, up 2.8 percent year-on-year. The manufacturing sector attracted USD 13.17 billion, or 44 percent of the total, up 0.6 percent from a year earlier. The government has expressed the desire to bring in USD 120 billion in FDI in the next three years. Shen Danyang, the Ministry of Commerce spokesperson said that "FDI is not likely to see a sharp drop this year and should remain at a relatively steady level throughout 2013".

The eastern region of China once again reigned as the largest regional recipient of FDI, totaling USD 25.05 billion, up 0.17 percent year-on-year, and accounting for 83.7 percent of the national total. The central region utilized USD 2.5 billion of foreign capital, up 0.69 percent year-on-year, and accounting for 8.4 percent of the national total. The western region of China was particularly interesting: during the first quarter of 2013, the western region received USD 2.36 billion, which makes up only 7.9 percent of the national total, yet inbound investment into the west grew by 20 percent year-on-year, while its peer regions exhibited flat growth. The Western region of China covers six provinces: Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan; one municipality: Chongqing; and three autonomous regions: Ningxia, Tibet, and Xinjiang, according to the definition given by the Chinese government.

(Source: Ministry of Commerce)

Regional FDI and M&A Summary

Breaking down FDI by the three largest global source regions shows a modest increase in activity, with positive signs from the European Union. In the first quarter, the EU-27 FDI to China increased by 45 percent year-on-year, which bucks the trend from the end of 2012. At the fourth quarter, EU FDI was lacking, as lingering sovereign debt issues may have handicapped regional willingness and ability to outwardly invest. During the first quarter of 2013, EU FDI investment seems to be flowing back into China, with some rather large investments originating from the EU. These M&A investments were targeting the automobile manufacturing industry, as well as the consumer goods/services industry. FDI from the US rose 18.5 percent versus the same period last year, while FDI from the top 10 Asian economies, including Hong Kong, Japan, and Singapore, marginally declined by .3 percent in the first quarter.

Aggregate mergers and acquisitions (M&A) activity for the first quarter is summarized as follows: there were 117 announced or completed transactions[(5)] totaling slightly over USD 7.9 billion of M&A investment activity, or 26 percent of total FDI. Twenty six countries and regions invested in China in the first quarter; almost half of total M&A investments came from Hong Kong companies (56 total deals worth over USD 2.3 billion). The US had the largest average deal size (excluding countries with two or less deals), totaling six total deals worth over USD 1 billion. Deals originating from Hong Kong were primarily targeting China's real estate industry as well as consumer goods and services industry, while deals from the US were primarily targeting healthcare and biotechnology.

Source: (5) MergerMarket and Thomson One Banker

The industrial industry and consumer goods/services industry were two areas that received the largest M&A deal flow in the first quarter. Amongst the top five M&A deals, three of the deals targeted China's industrial sector, while four deals in the top 10 targeted consumer goods and services. Another noticeable trend was total number of deals in specific industries, such as: consumer goods/services, materials, and industrials. Each of these industries generated 20 deals or more in the first quarter, twice the amount that real estate, or telecom, media, and entertainment (TME) received. The reason for this trend may be found by viewing China's 12th Five-Year Plan. The 12th Five-Year Plan (2011-2015) in China proposes that China transform from a low cost technology producer to a high quality goods producer, and supports the development of the consumer services industry, including but not limited to: technology (IT, e-commerce, internet software), healthcare services (hospitals and clinics, biotechnology, medical devices), consumer services (food and beverage, retail), and infrastructure (airports, high speed intra-city railway systems, light rail).

Size of M&A transactions was also quite variable; for the purposes of this analysis, M&A transactions are grouped according to the following structure: over USD 1 billion, USD 500 to 999 million, USD 100 to 499 million, USD 10 to 99 million, and USD 1 to 10 million. In the first quarter, most individual M&A transactions were in the purchase range of USD 10 to USD 99 million; this evidence suggests that, although there were a few substantial mergers of large size (six transactions between 500 and 999 million), the majority of target companies in China were of the smaller or mid-sized nature. Greater economic value may be realized in mergers of smaller size. These types of mergers can create accounting benefits as well as intrinsically-linked, synergistic benefits between the buyer and the target. Smaller acquisition targets seem to be favorable in China, as the integration of personnel and business strategy would be less complex in these deals than on a merger of much larger scale and size.

2013 First Quarter FDI Trend Analysis

First quarter FDI rebounds to USD 29.9 million, up 1.44 percent year-on-year. Increases in February and March FDI halt negative growth streak. What to expect for the rest of 2013?

We resume our FDI trend analysis one quarter after reporting the first annual FDI contraction in three years. We pointed out in our previous report that the 2012 FDI contraction was not related to any global crisis, but rather a structural shift within China's economy, emphasizing the development of the service sector and the potential slowing down of manufacturing. We detailed that a decrease in the manufacturing sector as well as real estate services were the primary reasons for the 3.7 percent year-on-year drop. Some forms of manufacturing investment are becoming less appealing in China due to higher costs of human capital, while other forms of manufacturing are quickly moving toward robotics and automation processes, possibly saving substantial cost and keeping China's FDI growth buoyant. Looking at the first three months of 2013, we will try to answer: what, if anything, has changed? Were there any surprises in the first quarter? And what can we expect to see as the year progresses?

For the purposes of this FDI analysis, it would be valuable to examine current first quarter trends, by first looking at individual monthly results. Although the aggregate first quarter shows relatively flat growth, individually the first three months of the year tell a different story of statistical significance. Not only did the trend of eight consecutive months of negative FDI growth cease in the first three months, but the rebound in the latter two months represented significant year-on-year growth. Entering 2013, FDI had declined every month since May 2012 (which posted a meager .05 percent growth), as well as 14 out of the last 15 months. In the month of February, FDI posted a 6.3 percent year-on-year gain, followed by a 5.7 percent gain in March. This breaks a significant negative trend and may imply that inbound investment is once again gaining traction. Why is this happening now? Possible explanations include: a more stable global economy, more global confidence correlated with more M&A activity coming from individual European countries, and the continued growth of service sector investments coupled with the stabilization of manufacturing investments into China. Given these strong monthly results, FDI into China may be in a position to possibly pass the 2011 all time high of USD 116 billion, and even hit the government-projected FDI target of US 120 billion. Yet, it is also important to recognize that the time period is not large enough to speculate on a positive FDI reversal, or other long term trends.

It would also be useful to examine the service and manufacturing industries in China. The service and manufacturing industries together make up the major components of FDI into China (over 90 percent of total FDI). For FDI to hit the government target of USD 120 billion per year, two things must happen: the service industry must continue its growth trend, and manufacturing must cease its negative growth trend. In the first quarter, services received USD 14.4 billion in inflows, approximately 48 percent of total FDI and grew by 2.8 percent year-on-year. Services were supported by strong FDI interest in consumer goods, online websites, e-commerce, and internet software. Manufacturing received USD 13.2 billion, approximately 44 percent of total FDI and also grew by 0.6 percent year-on-year. Manufacturing was supported by substantial foreign investment towards automobile manufacturing. European investors were seeking to expand their foothold on the luxury automobile market in China, as well as adding size and variety to automobile fleets. If we extrapolate the first three months of data and linearly projecting towards the end of the year, FDI would be projected at just under USD 120 billion.

In the first quarter of 2013, we observed that FDI into China has ended its 15-month streak of either flat or negative growth, with two months of substantial growth. This growth was supported by a rise in both the manufacturing and services industries. In 2013 and beyond, the service industry is expected to continue its growth; many service industries such as healthcare, hi-technology, and consumer goods and services are receiving support from the central government to expand, and results can be witnessed in the form of Greenfield or M&A transactions in e-commerce, consumer goods, internet services, and healthcare products & devices. Manufacturing – which is not expected to grow as fast as services (due to steadily rising labor costs) – showed signs of flat to slightly positive growth. This may imply that the global economy as well as the European economy (EU FDI inflows rose 45 percent year-on-year) will continue to look to China for inbound opportunities. If manufacturing continues its year-on-year and quarter-on-quarter growth, we may witness FDI hit its target of USD 120 billion in 2013. It is still too early in the year to pronounce a full-fledged rebound in China's FDI, yet positive signs are apparent.

General Overview

For the first quarter, there were 117 'announced' or 'completed' inbound deals, versus 132 deals in Q1'2012, totaling slightly over USD 7.9 billion, versus USD 4 billion in Q1'2012, up 75 percent compared to the same period, one year ago. In 2012, inbound M&A deal size had substantial double digit growth in every subsequent quarter after the first quarter. Excluding extraordinary deals (which included a 9 billion dollar acquisition in the fourth quarter of 2012 – 200 percent larger than any acquisition that year), the data presents a 2012 average quarterly M&A inbound deal amount of about USD 7 billion. Q1'2013 M&A data looks fairly active and is slightly ahead of the average quarterly mean taken by the four quarters in 2012 (excluding extraordinary deals). If this trend continues, 2013 inbound M&A should eclipse 2012 activity. However, we lack a more substantial sample size to make such assumptions yet. Comparatively, there were 103 announced or completed outbound deals, worth USD 23.8 billion, representing 44 percent growth year-on-year.

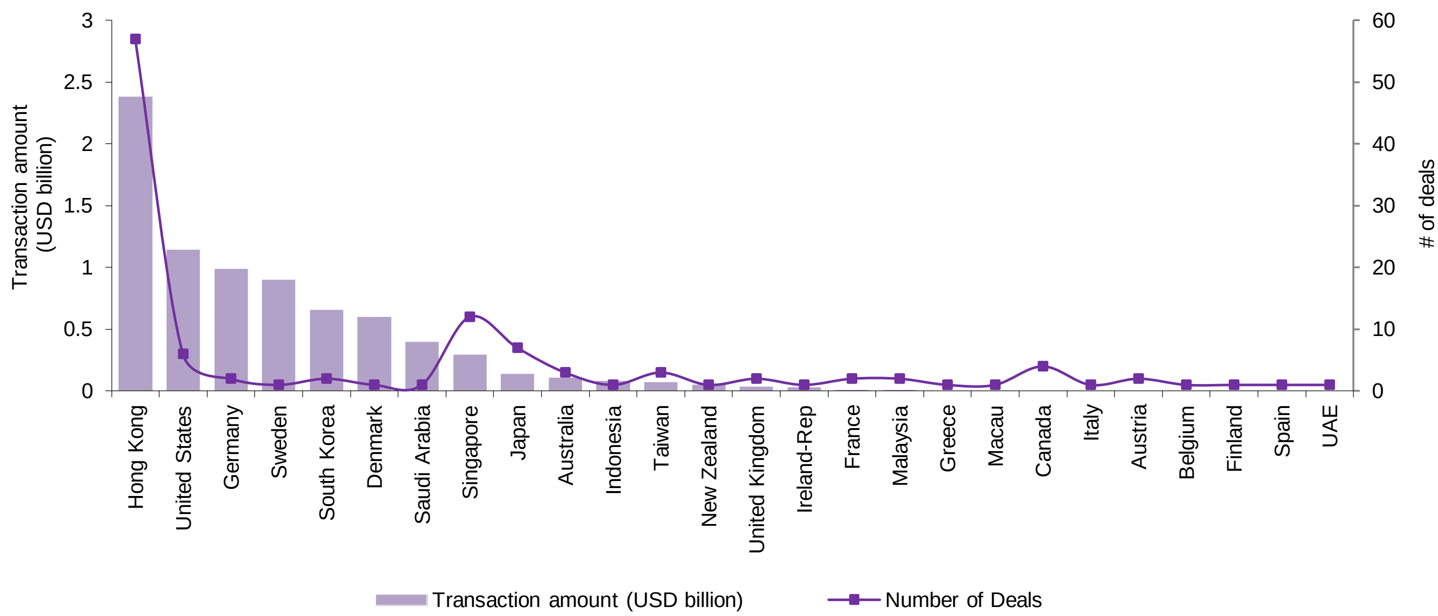
M&A Regional Analysis

For the first quarter of 2013, a total of 26 countries and regions invested in China via inbound M&A. These M&A transactions originated mainly from: Hong Kong, the US, and a few EU countries. As shown in Figure 3.2, Hong Kong engaged in more deals than any other country – 56 deals in the first quarter, totaling over USD 2.3 billion – for an average deal amount of USD 41 million. The US engaged in only six deals during the first quarter, yet deal size totaled over USD 1 billion, for an average deal amount of USD 173 million. This average was far greater than any other region with three deals or more. In fact, there were only six countries that completed three deals or more, while 15 countries announced or completed just one transaction. Sweden, Denmark, and Saudi Arabia are among those countries with one completed or announced deal; however, each country's announced or completed deal was equal to or greater than USD 400 million. Singapore was second only to Hong Kong in total deals, declaring 12 total transactions while investing almost 300 million to China in the first quarter. Comparatively there were a total of 138 countries and regions that were recipients of ODI investment from China. The largest region also was the recipient of the largest investment; Mozambique saw a USD 4.21billion investment from China National Petroleum Corp.

Figure 3.1 Quarterly deal summary

Sources: Thomson One, MergerMarket, KPMG analysis

Figure 3.2 Q1'2013 China inbound M&A, by country



Sources: Thomson One, MergerMarket, KPMG analysis

Table 3.1 lists the value and number of foreign acquisitions in China, sorted by region, for the first quarter of 2013. The Asia-Pacific region was the main source of M&A into China, as it accounted for over 50 percent of Q1'2013 activity (USD 4.05 billion) and 75 percent of the total number of deals (87 deals). Hong Kong, Macau, and Taiwan accounted for the lion's share of Q1'2013 Asian M&A investment (USD 2.46 billion and 61 deals).

The Europe Union accounted for the second largest amount of M&A activity (USD 2.59 billion). This is a substantial change from the full year 2012, whereby the EU contributed only USD 1.48 billion. Key countries include: Sweden and its investment of USD 900 million in Dongfeng Commercial Vehicles; Germany and its investment of USD 873 million in BAIC Motors; Denmark and its investment of USD 600 million in Chongqing Brewery Company. These three deals accounted for over 90 percent of all deals originating from the EU. North America was third, deals originating from the USA contributed the entire investment amount (USD 1.15 billion); Canada participated in a few M&A deals, but the deal sizes were not disclosed.

Table 3.1 Q1'2013 Geographical Distribution Table and Transaction Amount of Foreign Investment in China M&A

Region	Transaction amount (USD millions)	# of Transactions
Global	7,937	117
Asia	**4,048**	**87**
HK, Macau, Taiwan	2,460	61
Southeast Asia	393	15
Japan & South Korea	796	9
South Asia & Middle East	400	2
America	**1,147**	**10**
North America	1,147	10
Central, South America	-	0
Europe	**2,581**	**16**
EU Member Countries	2,581	16
Non-EU Member	-	0
Oceana	**161**	**4**
Africa	**-**	**0**

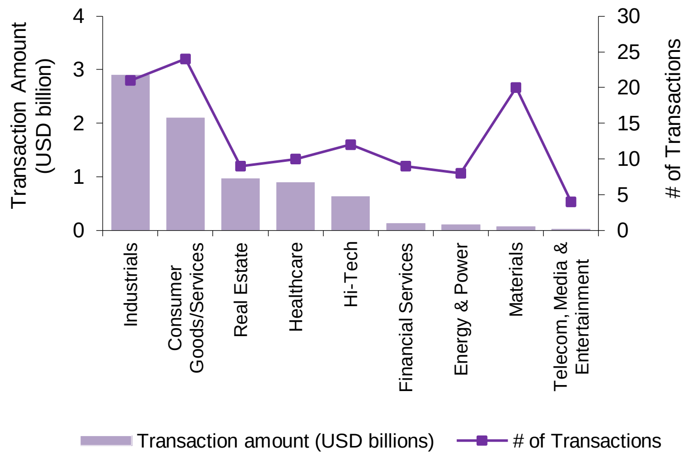
Note: This is an analysis of 'announced' and 'completed' inbound M&A transactions sourced from Thomson One Banker and MergerMarket. Total announced and completed merger activity may differ significantly from what the Chinese government counts as total 'foreign direct investment', as per their Q1'2013 total FDI statistical data, provided by MOFCOM.

Source: Thomson One, MergerMarket, KPMG analysis

M&A Industry Analysis

Figure 3.3 displays the nine major industries involved in inbound China M&A activity, for the first quarter of 2013. These industries represent the target firm, not the purchasing firm, as purchasing firm industries may differ significantly. The industry that received the largest inbound M&A flow was 'industrials'. This industry includes automobile products and services, machinery, transportation and infrastructure, as well as aerospace and defense. China's 'industrials' industry was the recipient of over USD 2.2 billion in the first quarter, with 20 M&A deals pending or completed by March 31, 2013. Two deals greatly contributed to this total; the first was AB Volvo's (Sweden) USD 900 million investment in Dongfeng Commercial Vehicles, and Daimler's AG (Germany) USD 870 million investment in BAIC Motor Company. The energy and power industry was the largest recipient of ODI from China, receiving approximately USD 7.69 billion in the first quarter.

Figure 3.3 Q1'2013 inbound M&A in China, by Industry

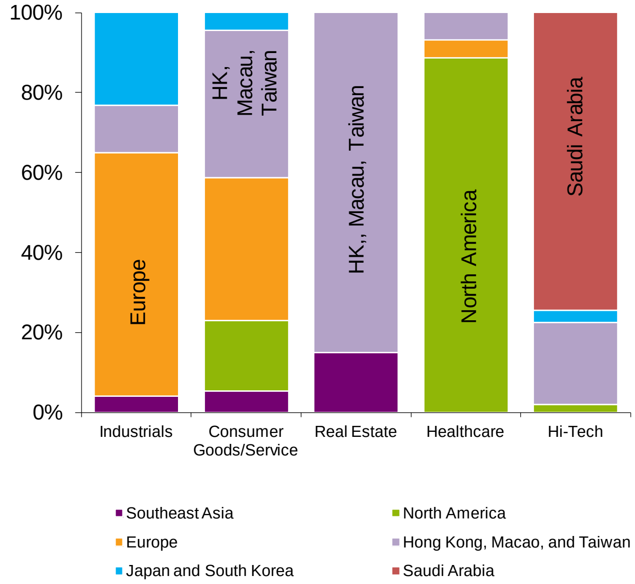


Source: Thomson One, MergerMarket, KPMG analysis

The 'consumer goods and services' industry in China was also a significant recipient of foreign direct investment in the first quarter. This industry includes food and beverage products, educational services, retail products, as well as household and personal products. China's 'consumer goods and services' industry was the recipient of approximately USD 1.87 billion in the first quarter, with 21 M&A deals pending or completed by March 31, 2013. The deal of note was Carlsberg AG's (Denmark) USD 600 million investment in Chongqing Brewery Company.

The 'materials' industry is also an interesting one to analyze. This industry includes construction materials, chemicals, as well as metals and mining. In the first quarter of 2013, the materials industry received less than USD 100 million from external investors, but reported 20 announced or completed deals. The two reasons behind this are: 1) Many deals that announced or completed were small, due to the implicit value of the company being acquired and 2) many of the deals were announced without stating a financial value of the deal, and are still awaiting completion. Thus, the chart shows a relatively low deal value but relatively high number of deals being completed or announced.

Figure 3.4 Q1'2013 Top 5 inbound industries, by regional acquirer



Note: The hi-tech deal to purchase shares of 360Buy – Jingdong was for USD 400 million; USD 125 million of which was contributed by The Kingdom Holding Group of Saudi Arabia, while the other USD 275 million was not disclosed. This will artificially skew results, as we account for the entire 400 million but will not assign the remaining USD 275 million to unknown countries.

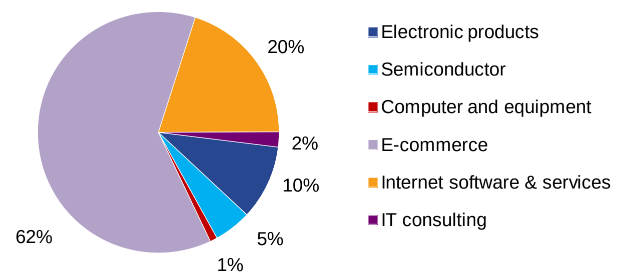
Sources: Thomson One, MergerMarket, KPMG analysis

Figure 3.4 displays the top five M&A industries in China, as well as the regional acquirers responsible for the majority of purchases. It should be noted again that these categories reflect the target (Chinese) firm industry, not the foreign firm industry. In the first quarter of 2013, 'industrials' received the largest amount of M&A investment totaling USD 2.91 billion (see figure 3.3); the majority of 'industrial' transactions were sourced from the European Union region, while South Korea also contributed to the 'industrials' industry with an acquisition of substantial size (see figure 3.4 and table 3.2 below).

For a more diversified M&A industry view, we can take a look at 'consumer goods and services' regional M&A. Total consumer goods and services M&A activity was USD 2.10 billion. Hong Kong, Macau, and Taiwan represented the majority share of 'consumer goods and services' investment during the first quarter with approximately USD 775 million, but the European Union was a very close second with USD 750 million of investment. In addition, North America, Southeast Asia, and Japan and Korea all took interest in China's consumer goods and services industry in the first quarter, which makes this industry a focal point for ongoing future investment.

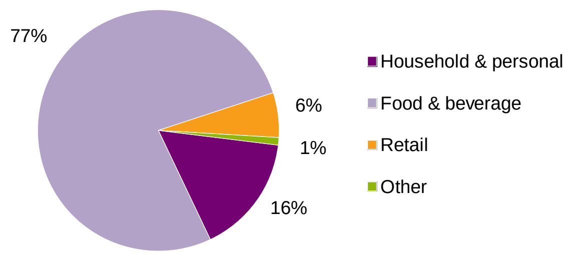
Within the analysis of any industry, we can further drill down into its sub-industries (or sectors) to look more specifically at where foreign investment is flowing. For this quarterly report, we detail the high-tech and consumer goods and services sector due to the diversity and potential foreign interest of the respective industries. The results can be seen in figure 3.5 and 3.6 below.

Figure 3.5 Q1'2013 Hi-Tech sub-industry deals



Source: Thomson One, MergerMarket, KPMG analysis

Figure 3.6 Q1'2013 Consumer Goods/Services sub-industry deals



Source: Thomson One, MergerMarket, KPMG analysis

The aggregate development of a strategic high technology industry is supported by the objectives of China's 12th Five-Year Plan (the Plan). The Plan specifically states that China supports technology development trends pertaining to an active and orderly development of a new generation of information technology across many areas; these areas include but are not limited to: finance, environmental protection, new energy and energy saving, and healthcare. The government supports inbound M&A transactions that will make greater efforts to enhance competitiveness, promote industry dynamics, and increase economic efficiency[6]. This analysis breaks down the technology sub-industries, and identifies any such trends that are in accordance with the Plan.

Source: (6) http://www.globalintelligence.com/insights-analysis/bulletins/implications-of-china-s-latest-five-year-plan-on-m

The main investment acquisition from the high-tech industry was in the e-commerce sector. This was a singular, large transaction from an investment holdings group, purchasing a stake in the e-commerce retailer 360buy. This single transaction represented 100 percent of e-commerce and 62 percent of all technology acquisitions in the first quarter. There were three medium to large investments made in the 'internet software and services' sector from three different countries (Australia, Japan, and the US). These three investments accounted for 20 percent of total technology investment (USD 130 million).

The Plan states that high-end software, new generation information technology, and high-end manufacturing and services will be the key drivers of growth and as such, will be supported by the government. In accordance with this strategy we are seeing more activity from diversified countries, flowing into China to foster high-end software and services partnerships. Analysis suggests that a larger amount of M&A activity will continue to occur in the technology sector, due to ongoing governmental support of this industry.

As previously mentioned, the largest hi-tech deal occurred in the e-commerce sector, an M&A deal valued at USD 400 million. This was Saudi Arabia's Kingdom Holdings Group, the investment firm controlled by the King of Saudi Arabia, which purchased a stake in the online e-commerce giant 360buy Jingdong.

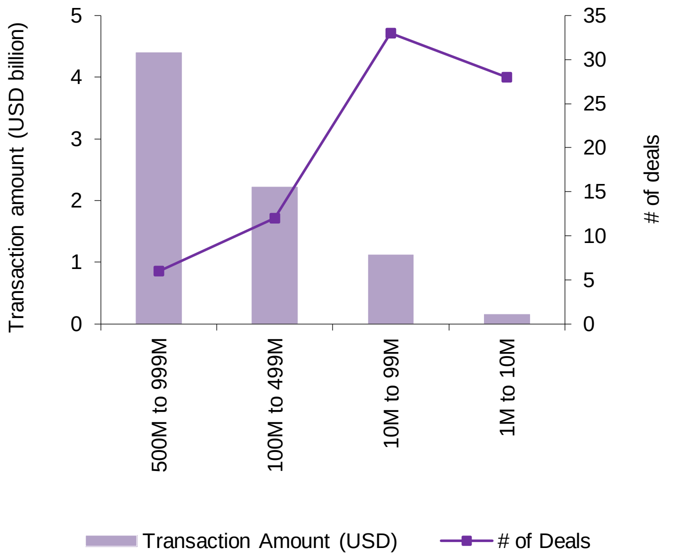
The consumer goods and services industry may be one of the more interesting and important industries for China's future economic development. As the name implies, it includes businesses where consumers spend on disposable or discretionary items (for either goods or services) and is correlated with the Chinese consumer's willingness and ability to purchase products/services in the marketplace. Consumer goods and services sectors include but are not limited to: retail, household and personal products, food and beverage products, educational and employment services, and textiles and apparel. The development and ongoing external investments into this industry should provide a leading indicator of what foreign companies consider sustainable and/or high growth industries.

Shown above, first quarter transactions were heavily weighted in the food and beverage sector. In this sector, there were a total of 11 deals worth nearly USD 1.6 billion. Deals originated from various countries, including Denmark, Hong Kong, the US, Malaysia, and Singapore. Size of investment was equally diverse, ranging from USD .11 million to USD 600 million. The overwhelming interest in the food and beverage industry (as well as retail) may indicate that foreign companies are anticipating a more prosperous middle class consumer in China.

The largest purchase in the first quarter was from Denmark in the beverage industry. Carlsberg AG's 600 million purchase of Chongqing Brewery Company adds to its already substantial 30 percent ownership of the Chongqing Brewery Company. This purchase makes Carlsberg a majority owner of the Chongqing Brewery Company, and further solidifies its strategy of expanding in China[7].

Source: (7) http://www.bloomberg.com/news/2013-03-04/carlsberg-offers-to-raise-stake-in-china-s-chongqing-brewery.html

Figure 3.7 Q1'2013 Transaction amount grouped by size of transaction



Source: (a) Thomson One, MergerMarket, KPMG analysis

M&A Analysis of Transaction Size

Figure 3.7 shows M&A transactions for the first quarter of 2013. In our 2012 full-year M&A update, there were five categories, with one category reflecting deals worth over USD 1 billion. The first quarter of 2013 lacked deals greater than USD 1 billion, and hence were broken out into four categories. There were six deals between USD 500 million and USD 999 million, and 12 deals between USD 100 million and USD 499 million. Most of the deals were announced or completed in the 'USD 10 million to USD 99 million' range, with financial services, materials, hi-tech, and telecom, media and entertainment (TME) taking up a large portion of the deals that lacked 'substantial' financial size (see figure 3.3).

Industrials and consumer goods and services were the two industries that encompassed the higher echelon of deal size, they also occurred with much greater frequency than the previously aforementioned industries (except for materials). This suggests that smaller company acquisitions in industries such as materials (commodities) and hi-tech (electronic products) continue to add value for global purchasers, and should continue to receive M&A interest in the future, as encouraged by the Plan. It also suggests that as 2013 progresses, one should expect to see more investment in industrials and consumer goods and services, especially concerning such deals that may enhance manufacturing infrastructure /efficiency as well as target consumer spending across China's service industry.

Analysis of Top 10 M&A deals

Table 3.2 lists the Q1'2013, top 10 M&A deals in China, by deal value. The companies that participated in these deals were from six different countries, spread across four distinct industries. The main identifiable trend to note in the first quarter was the re-emergence of substantial M&A activity from EU-27 countries. The EU was absent from the top 10 acquisitions during the full-year 2012 numbers and trends report. Yet, the EU remains one of China's largest trading partners by total trade, and their re-emergence toward large scale M&A in China may signify further potential economic recovery in the region.

The largest inbound M&A deal in Q1'2013 belongs to AB Volvo of Sweden; a USD 902 million acquisition of Dongfeng Commercial Vehicles. The deal is said to strengthen the positions of both Volvo Group and Dongfeng in the mid to heavy-duty truck market, and also make Volvo the world's largest manufacturer of heavy-duty trucks[8]. The second largest acquisition also belongs to the Industrials industry; Daimler AG of Germany and its USD 873 million investment in BAIC Motor Company Ltd., making Daimler the first non-Chinese manufacturer to take a stake in a Chinese OEM[9]. Although industrial manufacturing M&A investments occupied three of the top five spots, the majority of the top 10 M&A deals were struck in China service industry – most notably was the consumer goods and services sector.

Source: (8) http://www.volvogroup.com/group/global/en-gb/newsmedia/pressreleases/_layouts/CWP.Internet.VolvoCom/NewsItem.aspx?News.ItemId=137906&News.Language=en-gb

(9) http://www.daimler.com/dccom/0-5-7153-1-1571316-1-0-0-0-0-0-9293-0-0-0-0-0-0-0-0.html

Table 3.2 Q1'2013 Top 10 Foreign M&A Inbound deals to China						
Rank	Acquiror			Acquiree		Deal Value (USD mil)
	Acquiror	Industry	Country	Target	Industry	
1	AB Volvo	Industrials	Sweden	Dongfeng Commercial Vehicles	**Industrials**	902
2	Daimler AG	Industrials	Germany	BAIC Motor Co Ltd	**Industrials**	873
3	Stryker Corp	Healthcare	United States	Trauson Holdings Co Ltd	**Healthcare**	764
4	Shenzhen Investment Ltd	Real Estate	Hong Kong	Shenzhen Silicon Valley	**Real Estate**	611
5	WSP OTC Group	Industrials	South Korea	WSP Holdings	**Industrials**	654
6	Carlsberg A/S	Consumer Goods/Services	Denmark	Chongqing Brewery Co., Ltd.	**Consumer Goods/Services**	600
7	Kingdom Holding Company Consortium	Financial Services	Saudi Arabia	360 Buy Jingdong Inc. (Undisclosed Stake)	**High Technology**	400
8	Huafeng Group Holdings Limited	Industrials	Hong Kong	China Natural Tea Holdings Company Limited	**Consumer Goods/Services**	321
9	Wide Lucky Asia Pacific Ltd	Financials	Hong Kong	China Natural Tea Hldgs Co Ltd	**Consumer Goods/Services**	306
10	Platinum Infant Formula	Consumer Goods/Services	United States	Feihe International Inc.	**Consumer Goods/Services**	268

Appendix: List of M&A Activity for 1Q 2013

Interpretation of the data sources

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

Thomson ONE standards for inclusion of M&A cases:

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

MergerMarket standards for inclusion of M&A cases:

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

We have categorized the industries of M&A enterprises into the following 9 groups:

I. Consumer goods and services including consumer staples, retail (including food and beverage, automobile, computer and electronics, discount and department store, and home products), education, employment services, household services, legal services, tourism, professional services and seven sub-groups under other consumables;

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

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

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

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

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

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

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

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

The first quarter of 2013 saw a similar M&A trend continue from the fourth quarter of 2012. M&A trends continue to be most favorable in the consumer goods and services industry. This industry represents most household, consumer discretionary or disposable products, food and beverage, as well as retail, textiles and apparel. Industrials also saw profound transactions, as leading automobile manufacturers acquired or increased investment in previous partnerships to continue to grow their manufacturing bases. Finance, real estate, and TME were industry leaders last year, but saw a slow start in 2013. Accordingly, we would expect acquisitions in the real estate industry to continue to lag industries such as high-tech, healthcare, and consumer goods and services.

Q1 2013 Announced or Completed Inbound China Mergers and Acquisitions						
	Announce Date	Acquirer	Target	Acquirer Country	Percent acquired	Deal Amount (USD mil)
CONSUMER GOODS & SERVICES						
1	2013.1	CP China Investment Ltd	Chia Tai Food Enterprise	Hong Kong	-	15.70
2	2013.1	Singapore Food Industries Ltd	Shanghai ST Food Ind Ltd	Singapore	-	0.11
3	2013.1	CIBT Educ Grp Inc	Linkman Intl Language	Canada	-	-
4	2013.1	GOME Electrical Appl Hldg Ltd	Quanfeng Express Group Co Ltd	Hong Kong	-	-
5	2013.1	Wide Lucky Asia Pacific Ltd	China Natural Tea Hldgs Co Ltd	Hong Kong	-	306.23
6	2013.1	Noritz Corp	Sakura (Cayman) Co Ltd	Japan	-	89.00
7	2013.1	Johnson & Johnson	Shanghai Elsker Mother & Baby	United States	100	105.00
8	2013.1	KBB Resources Bhd	World Granary Ltd	Malaysia	10	6.83
9	2013.2	mDR Ltd	Shenzhen Quanli Leather Co Ltd	Singapore	-	9.66
10	2013.2	Saongroup.com	ChinaHR.com Holdings Ltd	Ireland-Rep	90	30.00
11	2013.3	Indofood CBP Sukses Makmur	China Minzhong Food Corp Ltd	Indonesia	14	84.74
12	2013.3	Future Step Development Ltd	Trader Group International Ltd	Hong Kong	-	9.03
13	2013.3	QL Lian Hoe(S)Pte Ltd	Zhongshan True Taste Food	Malaysia	-	3.02
14	2013.3	Murray Goulburn Coop Co Ltd	Murray Goulburn Dairy (Qingdao)	Australia	49	-
15	2013.3	Salvatore Ferragamo Italia SpA	Salvatore Ferragamo Italia SpA/Imaginex Group	Italy	25	-
16	2013.3	Huafeng Group Holdings Limited	China Natural Tea Holdings Company Limited	Hong Kong	-	321.00
17	2013.3	Anheuser-Busch InBev NV	Nanchang Yazhou Beer Co., Ltd.	Belgium		-
18	2013.3	Hydrex International Pte Ltd	Yamada Green Resources Limited	Singapore	16	8.00
19	2013.3	Carlsberg A/S	Chongqing Brewery Co., Ltd.	Denmark	30	600.00
20	2013.3	Platinum Infant Formula	Feihe International Inc.	United States	-	268.00
21	2013.3	Lisi Group (Holdings) Ltd.	Wealthy Honor Holdings Limited	Hong Kong	-	115.00
22	2013.3	Nippon Manufacturing Services Corporation	Wuxi City Human Resource Services	Japan	60	5.30
23	2013.3	Grohe AG	Joyou AG	Germany	36.5	119.39
24	2013.3	Futurestep Development Company Limited	Langfang Huari Hengyu Home Company Limited	Hong Kong	75	9.02

2013 Q1 Announced or Completed Inbound China Mergers and Acquisitions						
	Announce Date	Acquirer	Target	Acquirer Country	Percent acquired	Deal Amount (USD mil)
INDUSTRIALS						
1	2013.1	Litian Development Ltd	Tianjin Xinlong Industrials Co	Hong Kong	-	9.12
2	2013.1	Noritz Corp	Sakura (China) Co Ltd	Japan	-	11.00
3	2013.1	Paradise Shadow Ltd	Zhongshan Jiaguan Ltd	Hong Kong	-	128.97
4	2013.1	Boom Will Ltd	China Rongsheng Heavy ind grp	Hong Kong	-	105.84
5	2013.1	Manitowoc Crane Group Asia Pte	Manitowoc Dongyue Heavy Ind	Singapore	-	10.45
6	2013.1	Growthwell Ltd	Shenzhen Nectar Engineering	Hong Kong	-	0.24
7	2013.1	AB Volvo	Dongfeng Commercial Vehicles	Sweden	-	901.57
8	2013.1	Javelle Capital Corp	Zhejiang Headman Filtration	Canada	-	-
9	2013.2	Daimler AG	BAIC Motor Co Ltd	Germany	-	873.01
10	2013.2	NSK Ltd	China Ningbo MOS Group Co Ltd	Japan	25	11
11	2013.2	Pteris Global Ltd	Shenzhen CIMC-TianDa Airport	Singapore	-	90.35
12	2013.3	China Logistics Holding XXXVII	Suzhou GLP Wangting Dvlp Co	Singapore	50	19.68
13	2013.3	Leoch International Technology	Guangdong-Battery Asts	Hong Kong	-	4.03
14	2013.3	Deluxe International Holdings Limited	Hangzhou Jiada Glasses Manufacturing Co.	Hong Kong		15.00
15	2013.3	Essilor International SA	Shenhua Tianhong Trading Co.,Ltd.	France		-
16	2013.3	COSCO Pacific Limited	Taicang International Container Terminal Co., Ltd.	Hong Kong	39	52.00
17	2013.3	Metso Oyj	Quzhou Chixin Machinery Co.,LTD; Quzhou Juxin Machinery CO.,Ltd.	Finland		-
18	2013.3	Applus Servicios Tecnologicos SL	EDI	Spain		-
19	2013.3	Super Trend Lighting Limited	Osram GmbH – manufacturing operations in Shaoxing	Hong Kong		-
20	2013.3	3 NOD Investment (Hong Kong) Limited	3NOD Digital Group Co., Ltd.	Hong Kong	41	27.00

2013 Q1 Announced or Completed Inbound China Mergers and Acquisitions						
	Announce Date	Acquirer	Target	Acquirer Country	Percent acquired	Deal Amount (USD mil)
MATERIALS						
1	2013.1	TCC International Holdings Ltd	Scitus Hejiang Cement Co Ltd	Hong Kong	-	-
2	2013.1	TCC International Holdings Ltd	Luzhou Scitus Concrete Co Ltd	Hong Kong	-	-
3	2013.1	TCC International Holdings Ltd	Scitus Naxi Cement Co Ltd	Hong Kong	-	-
4	2013.1	Taiwan Cement Corp	Southwest Cement-Luzhou Asts	Taiwan	-	8.51
5	2013.1	Elite Best Enterprise Ltd	First May Holdings Ltd	Hong Kong	-	-
6	2013.1	Capital Idea Investments Ltd	China Magnesium Ltd	Hong Kong	22	4.14
7	2013.1	0922372 BC Ltd	Saymour Metal Holding Inc	Canada	-	-
8	2013.1	S&B Industrial Minerals SA	Chaoyang GoldCommon Mining Co	Greece	-	5.97
9	2013.2	Remington Resources Inc	Mineral Resources Dvlp Co	Canada	-	0.16
10	2013.2	Kiton Ltd	TCC Liaoning Cement Co Ltd	Hong Kong	-	23.19
11	2013.2	Chigo (Hong Kong) Investment Ltd	Guangdong Chigo Kechuang	Hong Kong	-	6.09
12	2013.3	North Mining Shares Co Ltd	Shaanxi Luonan Daqin Potash	Hong Kong	-	-
13	2013.3	Owens Corning	Tanaka Kikinzoku(Suzhou)Co Ltd	United States	-	-
14	2013.3	Dubal	Sinoway Carbon Co Ltd	Utd Arab Em	20	-
15	2013.3	Nihon Yamamura Glass Co Ltd	Qinhuangdao Fangyuan Pkg Glass	Japan	-	-
16	2013.3	Toyobo Co Ltd	SKC (Jiangsu) High Tech Plastics	Japan	15	8.82
17	2013.3	Voestalpine AG	Rieckermann Steeltech	Austria	100	-
18	2013.3	voestalpine AG	PM Technology (Shenzhen) Ltd	Austria	100	-
19	2013.3	China Ground Source Energy Limited	Fujian CECEP Quancheng Investment Co., Ltd.	Hong Kong	15	6.00
20	2013.3	Taiwan Cement Corporation	Taini (Liaoning) Cement Co., Ltd.	Taiwan	16	23.00
HIGH-TECH						
1	2013.1	Carrier Asia Ltd	Sino Stride Technology Co Ltd	Hong Kong	-	9.36
2	2013.1	Investor Group	Mayi.com	United States	-	9.99
3	2013.1	SEEK Ltd	Zhaopin Ltd	Australia	-	105.00
4	2013.1	Tomoike Industrial (HK) Ltd	Minami Tec (Wuxi) Co Ltd	Hong Kong	100	0.19
5	2013.1	Blooming Progress Ltd	Yecheng Optoelectronics	Taiwan	95	39.50
6	2013.1	China Gogreen Asts Invest Ltd	Jun Yang Solar Power Invest	Hong Kong	11	5.46

2013 Q1 Announced or Completed Inbound China Mergers and Acquisitions						
	Announce Date	Acquirer	Target	Acquirer Country	Percent acquired	Deal Amount (USD mil)
HIGH-TECH (cont.)						
7	2013.1	Bo Ween Foong	Sinobest Tech Hldg Ltd	Singapore	0	0.45
8	2013.2	TTM Technologies China Co Ltd	Dongguan Meiwei Circuit Co Ltd	Hong Kong	-	28.97
9	2013.2	Investor Group	3NOD Digital Group Co Ltd	South Korea	5	3.41
10	2013.3	LED International Holdings Ltd	Shenzhen Lamp Energy Mgmt Inve	Hong Kong	100	27.48
11	2013.3	M3 Inc	Kingyee Co Ltd	Japan	-	12.71
12	2013.3	Consortium led by Kingdom Holding Company	360 Buy Jingdong Inc. (Undisclosed Stake)	Saudi Arabia	-	400.00
HEALTHCARE						
1	2013.1	Stryker Corp	Trauson Holdings Co Ltd	United States	100	764.00
2	2013.1	Trauson Holdings Company	Jiangsu Chuangyi Medical Instrument Co. Ltd	Hong Kong	-	5.00
3	2013.1	Devon Funds Management Limited	Shanghai Celgen Bio-Pharmaceutical Co., Ltd.	New Zealand	35	49.00
4	2013.1	Halma PLC	Baoding Longer Precision Pump	United Kingdom	-	38
5	2013.2	Pacific Alliance Group Ltd	Pharmaceutical Company,Harbin	Hong Kong	100	-
6	2013.2	China Resources (Holdings) Co., Ltd.	Wuhan Iron General Hospital	Hong Kong	-	54.00
7	2013.2	SAIF Partners	Beijing Ryzur Aikesen Medical	Hong Kong	100	-
8	2013.3	SAIF Partners	Huaxipharm Co Ltd	Hong Kong	-	-
9	2013.3	Reckitt Benckiser Group PLC	Oriental Medicine Co Ltd	United Kingdom	100	-
10	2013.3	Catalent Pharma Solutions, Inc.	Zhejiang Jiang Yuan Tang Biotechnology Co., Ltd.	United States	51	-
REAL ESTATE						
1	2012.10	Sustainable Forest Holdings	Guangzhou Tian Lu Ppty Mgmt Co	Hong Kong	-	-
2	2012.10	Shenzhen Investment Ltd	Shenzhen Silicon Valley	Hong Kong	-	611.01
3	2012.10	Greenfield Chemical Holdings	Double Earn Holdings Ltd	Hong Kong	-	-
4	2012.10	Talent Trend Holdings Ltd	Hainan Honglun Properties Ltd	Hong Kong	63	33.52
5	2012.11	Investor Group	Equity Rainbow II Pte Ltd	Singapore	-	126.50
6	2012.11	Nimble Group Ltd	Gifted Leader Ltd	Hong Kong	-	48.22
7	2012.11	Glossmei Ltd	Climbing Ace Ltd	Hong Kong	-	6.43
8	2012.12	Franshion Properties (China) Limited	Leading Holdings Limited	Hong Kong	51	131.00
9	2012.12	China Logistics Holding XXXVIII SRL	Suzhou GLP Wangting Development Co., Ltd.	Singapore	50	20.00

2013 Q1 Announced or Completed Inbound China Mergers and Acquisitions						
	Announce Date	Acquirer	Target	Acquirer Country	Percent acquired	Deal Amount (USD mil)
FINANCIAL SERVICES						
1	2013.1	Wide Flourish Investments Ltd	Glory Base Development Ltd	Hong Kong	-	35.09
2	2013.1	China Rich Intl Mgmt Ltd	Cheer Yield Holdings Ltd	Hong Kong	-	12.68
3	2013.3	Europtronic Group Ltd	Gold Impact Ltd	Singapore	-	-
4	2013.3	LISI Group (Holdings) Ltd	Wealthy Honor Holdings Ltd	Hong Kong	-	12.28
5	2013.3	Beijing Ppty (Hldgs) Ltd	Hong Kong High Broad Intl	Hong Kong	-	12.52
6	2013.3	Beijing Ppty (Hldgs) Ltd	Hong Kong High Church Grp Ltd	Hong Kong	-	5.30
7	2013.3	Investor Group	Oriental City Group Thailand	Hong Kong	-	1.29
8	2013.3	First Continental Corp Ltd	YACC Investments Co Ltd	Hong Kong	100	2.58
9	2013.3	Mighty Fame Ltd	Nanjing Fullshare Asts Mgmt	Hong Kong	-	64.41
ENERGY & POWER						
1	2013.1	Wasabi Energy Limited	Shanghai Shenghe New Energy Resources Science & Technology Co.Ltd	Australia	51	6.00
2	2013.1	Interchina Water Treatment HK	Interchina (Qinhuangdao)	Hong Kong	-	3.67
3	2013.2	Great Prospect Enterprises Ltd	Beijing Ideva Lighting Tech Co	Hong Kong	-	-
4	2013.2	Beijing Entrp Water Grp Ltd	Harvest-Water Supply Suby	Hong Kong	-	80.90
5	2013.2	GoldLink Capital Ltd	Shine Great Investments Ltd	Hong Kong	-	-
6	2013.2	Investor Group	Scinor Water Co Ltd	France	-	13.00
7	2013.2	China Water Industry Group Ltd	Dongguan Kedi Envi Protection	Hong Kong	-	6.54
8	2013.2	Investor Group	Beijing Scinor Water Tech Co	Singapore	-	13.00
TELECOM, MEDIA, & ENTERTAINMENT						
1	2013.1	Lenovo Group Ltd	Sharp Corp-Assets	Hong Kong	-	-
2	2013.3	Partner Venture Holdings Ltd	SearchMedia International Ltd	Singapore	-	-
3	2013.3	Neo Telemedia Limited	China Orient Space Communications Limited	Hong Kong	33	35.00
4	2013.3	San Cheng Song Investment Co	Zhuhai Aomeisi Beauty Treatmen	Macau	-	1.10

International definition of foreign direct investment

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

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

KPMG
cutting through complexity

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 156 countries and have 152,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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

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

About KPMG's Global China Practice (GCP)

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

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

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

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