PwC M&A 2013 Review and 2014 Outlook

22 January 2014

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Foreword – explanation of data shown in this presentation (1 of 2)

- The data presented is based on information compiled by ThomsonReuters, ChinaVenture and PwC analysis unless stated otherwise
- Thomson Reuters and ChinaVenture record announced deals. Some announced deals will not go on to complete
- The deal volume figures presented in this report refer to the number of deals announced, whether or not a value is disclosed for the deal
- The deal value figures presented in this report refers only to those deals where a value has been disclosed (referred to in this presentation as “disclosed value”)
- “Domestic” means China including Hong Kong and Macau
- “Outbound” relates to mainland China company acquisitions abroad
- “Inbound” relates to overseas company acquisitions of Domestic companies
- “Private Equity deals” or “PE deals” refer to financial buyer deals with deal value over US$10mn and/or with undisclosed deal value but invested by PEs
“VC deals” refer to financial buyer deals with deal value less than US$10mn and/or with undisclosed deal value but invested by VCs.

“Strategic buyer” refers to corporate buyers (as opposed to financial buyers) that acquire companies with the objective of integrating the acquisition in their existing business.

“Financial buyer” refers to investors that acquire companies with the objective of realizing a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprise PE and VC funds.

In order to exclude foreign exchange impact, deal values from 2008 to 2012 were adjusted based on 2013 average Rmb/US$ exchange rate.
Overview
Key messages (1 of 2)

Overall

- China deal numbers recovered from multi-year lows in the first half of 2013, increasing by more than 40% in the second half; nearly all categories of M&A showed strong growth
- On an annualised basis – despite the quiet first half – overall deal volumes grew by 8% and values by 28% in 2013 compared to 2012; deal values reached a record high with 43 deals greater than US$1 billion in 2013, compared to 30 in 2012

China Outbound

- China outbound M&A recovered with more deals announced in the second half of 2013 than in any earlier half-year period; and on a full-year basis, outbound M&A compared well with the last few years, although the soft first half meant no new records in 2013
- POE activity was surprisingly low in the first half but rebounded to a new six-month high with 88 announced deals in the second half, whilst SOE activity was robust and deal values held up well
- SOEs continued to focus on E&P, resources (raw materials) and industrial sectors, whilst POE activity was more diversified covering also industrial technologies, consumer related businesses and high-tech
- Destination markets were remarkably similar to 2012 with much of the POE money targeting established technologies, know-how, IP and brands in mature markets such as the US and Europe
Key messages (2 of 2)

Domestic and Foreign-Inbound Strategic

• Domestic strategic M&A recovered strongly in the second half of 2013, although full year numbers were less spectacular due to the slow first half which was affected by political and economic uncertainties

• Foreign inbound M&A was flat; Japanese investment has declined sharply over the last two years as has investment from the US

Private Equity

• Renminbi PE fundraising declined for the second straight year as the domestic Chinese PE industry continued to consolidate; US$ denominated fundraising has been consistently healthy over the same period

• The number of new investments recovered in the second half of the year and, on a full year basis, deal values held up well

• Growth capital deals declined as the PE industry shifted focus towards PIPE and, increasingly, buy-out transactions whilst PE interest in outbound deals continued, albeit still at low levels in absolute terms

• PE-backed IPOs showed some recovery in the second half of 2013 off a very low base but it was the third straight year of decline for PE exits, almost entirely attributable to problems in the equity capital markets; 2013 was the first year that IPO was not the dominant exit-route

• The overhang of new investments compared to exits remains the number one issue affecting the PE and VC industry
**Outlook**

- We anticipate strong growth in China outbound, both from SOEs and POEs; 2014 will be a record year driven by increasing experience and sophistication of Chinese buyers, underpinned by government support and direction (including SOE reform – see below)

- Domestic M&A will also grow to new highs, driven by industry consolidation and sector reforms which will increase competitive pressures; A-share listed companies will be important drivers of this activity

- Foreign inbound investment will also grow as confidence returns in overseas markets especially in Europe and the US, and as MNC’s realign their China strategies resulting in both sale and purchase of business units and an increasing number of JVs with Chinese partners

- PE exits will rebound strongly as IPO markets re-open, but sale by M&A will also grow and we expect to see more secondary (PE to PE) activity; we also think that the number of new investments will increase with the trend to buy-outs continuing; although smaller in number, we will see more outbound PE deals and we expect to see some PE interest in investing in SOEs (see below) and in A-share listed companies

- SOE reform, including market liberalisation, specialisation, globalisation and diversified shareholding will drive M&A activity across several of the sectors described above

- In summary, we see strong tail-winds for M&A in China: the record trends seen in the second half of 2013 will continue into 2014

- Drivers of this activity will include: further liberalisation of markets; SOE reforms; government support for M&A generally – especially outbound; increasing direct investment activities of large financial institutions; market-driven industry consolidation; increasing sophistication of Chinese buyers; and recovering equity capital markets
China deal numbers recovered from multi-year lows in the first half of 2013, increasing by more than 40% in the second half; nearly all categories of M&A showed strong growth

Total deal volume, 2013 vs. 2012 (half yearly)

<table>
<thead>
<tr>
<th></th>
<th>1H12 Volume</th>
<th>2H12 Volume</th>
<th>1H13 Volume</th>
<th>2H13 Volume</th>
<th>% Diff 2H13 vs 2H12</th>
<th>% Diff 2H13 vs 1H13</th>
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</thead>
<tbody>
<tr>
<td><strong>Strategic buyers</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>1,177</td>
<td>1,490</td>
<td>1,096</td>
<td>1,608</td>
<td>8%</td>
<td>47%</td>
</tr>
<tr>
<td>Foreign</td>
<td>152</td>
<td>134</td>
<td>123</td>
<td>152</td>
<td>13%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total Strategic buyers</strong></td>
<td>1,329</td>
<td>1,624</td>
<td>1,219</td>
<td>1,760</td>
<td>8%</td>
<td>44%</td>
</tr>
<tr>
<td><strong>Financial buyers</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>164</td>
<td>168</td>
<td>162</td>
<td>205</td>
<td>22%</td>
<td>27%</td>
</tr>
<tr>
<td>VC</td>
<td>220</td>
<td>253</td>
<td>276</td>
<td>462</td>
<td>83%</td>
<td>67%</td>
</tr>
<tr>
<td><strong>Total Financial buyers</strong></td>
<td>384</td>
<td>421</td>
<td>438</td>
<td>667</td>
<td>58%</td>
<td>52%</td>
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<tr>
<td><strong>China mainland Outbound</strong></td>
<td></td>
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<tr>
<td>SOE</td>
<td>26</td>
<td>22</td>
<td>28</td>
<td>31</td>
<td>41%</td>
<td>11%</td>
</tr>
<tr>
<td>POE</td>
<td>70</td>
<td>73</td>
<td>53</td>
<td>88</td>
<td>21%</td>
<td>66%</td>
</tr>
<tr>
<td><strong>Total China mainland Outbound</strong></td>
<td>96</td>
<td>95</td>
<td>81</td>
<td>119</td>
<td>25%</td>
<td>47%</td>
</tr>
<tr>
<td><strong>HK Outbound</strong></td>
<td></td>
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<tr>
<td></td>
<td>67</td>
<td>99</td>
<td>88</td>
<td>76</td>
<td>(23%)</td>
<td>(14%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,876</td>
<td>2,239</td>
<td>1,826</td>
<td>2,622</td>
<td>17%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: ThomsonReuters, ChinaVenture and PwC analysis
On an annualised basis – despite the quiet first half – overall deal volumes grew by 8% and values by 28% in 2013 compared to 2012; deal values reached a record high ...

Total deal volume and value, from 2008 to 2013

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
</tr>
<tr>
<td>Strategic buyers</td>
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</tr>
<tr>
<td>Domestic</td>
<td>3,006</td>
<td>153.2</td>
<td>2,774</td>
<td>102.1</td>
<td>2,947</td>
<td>142.8</td>
</tr>
<tr>
<td>Foreign</td>
<td>614</td>
<td>19.7</td>
<td>409</td>
<td>11.5</td>
<td>539</td>
<td>18.3</td>
</tr>
<tr>
<td>Total Strategic buyers</td>
<td>3,620</td>
<td>172.9</td>
<td>3,183</td>
<td>113.6</td>
<td>3,486</td>
<td>161.1</td>
</tr>
<tr>
<td>Financial buyers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>365</td>
<td>22.4</td>
<td>254</td>
<td>22.8</td>
<td>425</td>
<td>25.4</td>
</tr>
<tr>
<td>VC</td>
<td>694</td>
<td>1.8</td>
<td>712</td>
<td>1.8</td>
<td>1,011</td>
<td>2.6</td>
</tr>
<tr>
<td>Total Financial buyers</td>
<td>1,059</td>
<td>24.2</td>
<td>966</td>
<td>24.6</td>
<td>1,436</td>
<td>27.9</td>
</tr>
<tr>
<td>China mainland Outbound</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>SOE</td>
<td>27</td>
<td>6.9</td>
<td>45</td>
<td>26.8</td>
<td>64</td>
<td>35.2</td>
</tr>
<tr>
<td>POE</td>
<td>99</td>
<td>3.7</td>
<td>99</td>
<td>6.6</td>
<td>124</td>
<td>6.6</td>
</tr>
<tr>
<td>Total China mainland Outbound</td>
<td>126</td>
<td>10.5</td>
<td>144</td>
<td>33.4</td>
<td>188</td>
<td>41.8</td>
</tr>
<tr>
<td>HK Outbound</td>
<td>156</td>
<td>6.8</td>
<td>152</td>
<td>6.3</td>
<td>171</td>
<td>19.2</td>
</tr>
<tr>
<td>Total</td>
<td>4,961</td>
<td>214.4</td>
<td>4,445</td>
<td>177.9</td>
<td>5,281</td>
<td>250.0</td>
</tr>
</tbody>
</table>

Source: ThomsonReuters, ChinaVenture and PwC analysis

* CNOOC's US$15 bn Nexon deal was announced in 2012 and so is included in 2012 numbers, although it was completed in 2013
... deal values reached a record high with 43 deals greater than US$1 billion in 2013, compared to 30 in 2012

Deal value by main category

Source: ThomsonReuters, ChinaVenture and PwC analysis
Strategic buyers
Domestic strategic M&A recovered strongly in the second half of 2013 ...

Strategic buyer deals, 2013 vs. 2012 (half yearly)

Source: Thomson Reuters, ChinaVenture and PwC analysis
... although full year numbers were less spectacular due to the slow first half which was affected by political and economic uncertainties.
Strategic M&A activity by industry was broadly consistent with earlier years, although technology and financial services deals showed some upward trends.

Strategic buyer deal volume by industry sector

Source: ThomsonReuters, ChinaVenture and PwC analysis
Foreign inbound M&A was flat; Japanese investment has declined sharply over the last two years as has investment from the US.

Source: ThomsonReuters, ChinaVenture and PwC analysis
European investors did the biggest value inbound deals, as they have for three out of the last six years

Foreign strategic buyer deal value by region of origin

Source: ThomsonReuters, ChinaVenture and PwC analysis
PE/VC deals
Renminbi PE fundraising declined for the second straight year as the domestic Chinese PE industry continued to consolidate; US$ denominated fundraising has been consistently healthy over the same period.

Source: AVCJ and PwC analysis

PE/VC fund raising for China investment*

* Excludes PEs investing in China from non-region specific funds

Source: AVCJ and PwC analysis

PwC
The number of new investments recovered in the second half of the year ...

Private Equity deals, 2013 vs. 2012 (half yearly)

Source: ThomsonReuters, ChinaVenture and PwC analysis

PwC
... and on a full year basis, deal values held up well

Private Equity deals, from 2008 to 2013

Source: Thomson Reuters, ChinaVenture and PwC analysis

* Includes US$9.8 bn Taikang and Guolian investment in Petrochina’s West Pipeline JV
PE investors’ industry focus was broadly consistent with earlier years; we think TMT and healthcare sectors will grow in importance

Source: ThomsonReuters, ChinaVenture and PwC analysis
Growth capital deals declined as the PE industry shifted focus towards PIPE and, increasingly, buy-out transactions ...
PE-backed IPOs showed some recovery in the second half of 2013 off a very low base ...

PE/VC backed deal exit volume by type, 2013 vs. 2012 (half yearly)

Source: AVCJ and PwC analysis
... but it was the third straight year of decline for PE exits, almost entirely attributable to problems in the equity capital markets; 2013 was the first year that IPO was not the dominant exit-route.

PE/VC backed deal exit volume by type

Source: AVCJ and PwC analysis
The overhang of new investments compared to exits remains the number one issue affecting the PE and VC industry

PE/VC deal volume vs. No. of exits

Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis
China mainland outbound
China outbound M&A recovered with more deals announced in the second half of 2013 than in any earlier half-year period ...

China mainland outbound deals, 2013 vs. 2012 (half yearly)

Source: ThomsonReuters, ChinaVenture and PwC analysis
... and on a full-year basis, outbound M&A compared well with the last few years but the soft first half meant no new records in 2013
POE activity was surprisingly low in the first half but rebounded to a new six-month high with 88 announced deals in the second half ...

China mainland outbound strategic buyer deals, 2013 vs. 2012 (half yearly)

Source: Thomson Reuters, ChinaVenture and PwC analysis
... whilst SOE activity was robust and deal values held up well
**SoEs continued to focus on E&P, resources (raw materials) and industrial sectors, whilst POE activity was more diversified covering also industrial technologies, consumer related businesses and high-tech**
Destination markets were remarkably similar to 2012 with much of the POE money targeting established technologies, know-how, IP and brands in mature markets such as the US and Europe.

Outbound M&A deal volume by region of destination 2013 vs. 2012

Source: ThomsonReuters and PwC analysis
Key messages
Key messages (1 of 2)

Overall
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- The overhang of new investments compared to exits remains the number one issue affecting the PE and VC industry
Key messages
**Data compilation methodology:**
**Key messages - disclaimer**

Statistics contained in this presentation and the press release may vary from those contained in previous press releases. There are three reasons for this: Thomson Reuters and ChinaVenture historical data is constantly updated as deals are confirmed or disclosed; PricewaterhouseCoopers has excluded certain transactions which are more in the nature of internal reorganisations than transfers of control; and exchange rate data has been adjusted.

<table>
<thead>
<tr>
<th>Included Deals</th>
<th>Excluded Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Acquisitions of private/public companies resulting in change of control</td>
<td>• Property/real estate for individual properties</td>
</tr>
<tr>
<td>• Investments in private/public companies (involving at least 5% ownership)</td>
<td>• Rumoured transactions</td>
</tr>
<tr>
<td>• Mergers</td>
<td>• Options granted to acquire an additional stake when not</td>
</tr>
<tr>
<td>• Buyouts/buyins (LBOs, MBOs, MBIs)</td>
<td>100% of the shares has been acquired</td>
</tr>
<tr>
<td>• Privatisations</td>
<td>• Any purchase of brand rights</td>
</tr>
<tr>
<td>• Tender offers</td>
<td>• Land acquisitions</td>
</tr>
<tr>
<td>• Spinoffs</td>
<td>• Equity placements in funds</td>
</tr>
<tr>
<td>• Splitoff of a wholly-owned subsidiary when 100% sold via IPO</td>
<td>• Stake purchases by mutual funds</td>
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<tr>
<td>• Divestment of company, division or trading assets resulting in change of</td>
<td>• Open market share buyback/retirement of stock unless</td>
</tr>
<tr>
<td>control at parent level</td>
<td>part of a privatisation</td>
</tr>
<tr>
<td>• Reverse takeovers</td>
<td>• Balance sheet restructuring or internal restructuring</td>
</tr>
<tr>
<td>• Re-capitalisation</td>
<td>• Investments in greenfield operations</td>
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<tr>
<td>• Joint Venture buyouts</td>
<td>• Going private transactions</td>
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<tr>
<td>• Joint Ventures</td>
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<tr>
<td>• Receivership or bankruptcy sales/auctions</td>
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<tr>
<td>• Tracking stock</td>
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</table>
Thank You