M&A 2013 Mid Year Review and Outlook Press Briefing
29 Aug 2013

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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 reduce the impact of foreign exchange rates, deal values from 2008 to 2011 were adjusted based on the 2012 average Rmb/US$ exchange rate
**Key messages (1 of 4)**

**Overall**

- China deal activity remained subdued in the first half of 2013 as the leadership transition, changes in policy direction, tightening credit conditions and slowing growth in China resulted in a “wait and see” response from dealmakers.
- Deal numbers and values declined by 5% and 6% respectively compared to the second half of 2012 and remain below previous year highs; although they increased by 13% and 60% respectively compared to first half of 2012.
- China domestic strategic M&A is still by far the largest part of overall China M&A (65% of overall activity), but deal volumes, at 1,375 transactions, are below previous highs.
- However, we have seen some larger sized transactions, so deal values at US$119.5 billion overall look relatively more healthy.
- We think that the slowing growth and expectations of ongoing policy tightening will cause this cautious approach to continue in the second half.
Key messages (2 of 4)

Domestic and Foreign-Inbound Strategic

• Strategic buyers have remained cautious and we have not seen a rebound in activity in the second quarter after the leadership changes took effect; with new policy direction erring towards de-leveraging and slower growth, both domestic and inbound strategic buyers have been more selective and focused in their investment activities

• Foreign inbound strategic deal volumes are holding recent lows; investment from elsewhere in Asia including Japan exceeds US and European sourced transactions although the biggest value deals came from European buyers including carmakers Volvo and Daimler

Private Equity

• PE new fund raising declined by 46% following some sizeable new fund raises by several of the big names in 2012, and with the PE industry focused now on spending existing dry powder and on exiting previous investments

• A predicted rebound in PE investment activity failed to materialise (deal numbers were broadly flat) with PEs remaining cautious on policy direction and the softening of the China economy in general; PEs are also dealing with the transition from growth capital to buy out (with fewer buy out opportunities, and minority deals not favoured because of concerns over ability to exit)
Key messages (3 of 4)

Private Equity (cont’d)

• However, the apparent step-down in PE deal activity since 2011 is partly due to the exit from the market of the profusion of opportunistic renminbi funds, leaving a core cadre of higher quality PEs – a development that is likely to be favourable to the market overall

• As anticipated, we have seen an increasing number of buy out transactions with minority growth capital activity declining sharply as the market changes focus; investments by PE in publicly listed companies continues to be important

• In relation to PE exits, with A-share markets effectively closed, and overseas bourses unreceptive, IPO exits have slowed to a trickle; we expect M&A sales by PEs to strategic investors to grow, although exiting minority stakes through M&A may not be a viable option in many cases

• The cumulative overhang of investments to exits remains the number one challenge for the PE industry as many funds near the end of their contracted lives
Key messages (4 of 4)

China Outbound

- China mainland outbound M&A, surprisingly, declined in the first half of 2013 with only 78 transactions, compared to 95 in the previous six months
- Privately owned enterprises were much more cautious than we had anticipated, with many of them instead focusing on addressing challenges in the difficult domestic market; also local debt financing for M&A has become more difficult to obtain for POEs
- SOE investments in materials and resources are still the big drivers of outbound deal values, whereas POEs look for consumer products, brands, know-how and technologies that can be brought back and put to use in China – reflecting this, and despite the slowdown, developed markets like North America and Europe were still the most popular destinations for Chinese outbound POEs
PwC sees the following key trends for the rest of the year and into 2014:

- Deal makers are expected to continue to adopt a generally cautious approach to China M&A activity because of slowing growth, tighter credit conditions and expectations of ongoing policy changes

- In the near future, we expect an uptick in domestic strategic M&A leading to consolidation in industry sectors in China; we also anticipate an increase in domestic debt-restructuring situations as non-performing borrowers are unable to refinance or roll over their loans – these trends, both of which will be encouraged by policymakers as a means of squeezing excess capacity out of the economy, may be more visible into 2014

- We expect to see some recovery in foreign inbound strategic deal activity in the second half of 2013; more so in 2014

- The apparent step-down in PE M&A statistics reflects the consolidation of the PE industry in favor of a core cadre of high quality PEs; the gradual transitioning away from minority-stake growth capital towards harder-to-find buy out deals has also caused deal numbers to stall; we think buy out activity will increase slowly but steadily and M&A activity with PEs as sellers will strengthen this growth trend; demand for capital from China’s private sector SMEs together with a surfeit of PE dry powder is another medium term driver of growth, albeit tempered by cautious investing on behalf of the PEs

- Caution remains the watch word also for mainland China outbound investors, but we think the decline in the first half is a hiccup and steady growth, from what is still a relatively low base overall, will resume in the rest of 2013 and into 2014
China deal activity remained subdued in the first half of 2013 as the leadership transition, changes in policy direction, tightening credit conditions and slowing growth in China resulted in a “wait and see” response from dealmakers; deal numbers and values declined by 5% and 6% respectively compared to the second half of 2012 and remain below previous year highs; although they increased by 13% and 60% respectively compared to first half of 2012

### Total deal volume and value

<table>
<thead>
<tr>
<th></th>
<th>1H10</th>
<th>2H10</th>
<th>1H11</th>
<th>2H11</th>
<th>1H12</th>
<th>2H12</th>
<th>1H13</th>
<th>% Diff volume 1H13 vs. 2H12</th>
<th>% Diff value 1H13 vs. 2H12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic buyers</strong></td>
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<tr>
<td>Domestic</td>
<td>2,391</td>
<td>2,681</td>
<td>2,386</td>
<td>2,076</td>
<td>2,371</td>
<td>2,376</td>
<td>2,266</td>
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<tr>
<td>Foreign</td>
<td>412</td>
<td>287</td>
<td>401</td>
<td>351</td>
<td>410</td>
<td>356</td>
<td>390</td>
<td></td>
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<tr>
<td><strong>Total Strategic buyers</strong></td>
<td>2,803</td>
<td>2,628</td>
<td>2,787</td>
<td>2,427</td>
<td>2,780</td>
<td>2,732</td>
<td>2,656</td>
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<td><strong>Financial buyers</strong></td>
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<tr>
<td>Private Equity</td>
<td>664</td>
<td>636</td>
<td>667</td>
<td>604</td>
<td>667</td>
<td>663</td>
<td>664</td>
<td></td>
<td></td>
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<tr>
<td>VC</td>
<td>650</td>
<td>665</td>
<td>653</td>
<td>646</td>
<td>666</td>
<td>663</td>
<td>664</td>
<td></td>
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<tr>
<td><strong>Total Financial buyers</strong></td>
<td>1,314</td>
<td>1,301</td>
<td>1,320</td>
<td>1,250</td>
<td>1,333</td>
<td>1,326</td>
<td>1,328</td>
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<td><strong>China mainland Outbound</strong></td>
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<tr>
<td>SOE</td>
<td>34</td>
<td>30</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>27</td>
<td>22</td>
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<tr>
<td>POE</td>
<td>67</td>
<td>57</td>
<td>79</td>
<td>79</td>
<td>77</td>
<td>70</td>
<td>73</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total China mainland Outbound</strong></td>
<td>101</td>
<td>87</td>
<td>113</td>
<td>113</td>
<td>111</td>
<td>97</td>
<td>95</td>
<td></td>
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<tr>
<td>HK Outbound</td>
<td>85</td>
<td>85</td>
<td>85</td>
<td>85</td>
<td>85</td>
<td>85</td>
<td>85</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td>2,670</td>
<td>2,421</td>
<td>2,803</td>
<td>2,373</td>
<td>2,735</td>
<td>2,376</td>
<td>2,656</td>
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</table>

Source: Thomson Reuters, China Venture and PwC analysis

29 Aug 2013
China domestic strategic M&A is still by far the largest part of overall China M&A, but deal volumes are below previous highs ...
Although we have seen some larger sized transactions, so deal values look relatively more healthy.
Strategic buyers
Strategic buyers have remained cautious and we have not seen a rebound in activity in the second quarter after the leadership changes took effect, with new policy direction erring towards tightening and slower growth; both domestic and inbound strategic buyers have been more selective and focused in their investment activities.

Source: Thomson Reuters, ChinaVenture and PwC analysis
Foreign inbound strategic deal volumes are holding recent lows; investment from elsewhere in Asia including Japan exceeds US and European sourced transactions

Foreign strategic buyer deal volume by region of origin

Source: ThomsonReuters, ChinaVenture and PwC analysis
However, the biggest deals came from European buyers including carmakers Volvo and Daimler.

Foreign strategic buyer deal value by region of origin

Source: ThomsonReuters, ChinaVenture and PwC analysis
PE/VC deals
PE new fund raising declined by 46% following some sizeable new fund raises by several of the big names in 2012, and with the PE industry focused now on spending existing dry powder and on exiting previous investments.

PE/VC fund raising for China investment (*).

* Excludes global funds investing in China.

Source: AVCJ and PwC analysis.
A predicted rebound in PE investment activity failed to materialise (deal numbers were broadly flat) with PEs remaining cautious on policy direction and the softening of the China economy in general; PEs are also dealing with the transition from growth capital to buy out (with fewer buy out opportunities, and minority deals not favoured because of concerns over ability to exit) …

Private Equity deal volume and value

Announced Deal Volume
Announced Deal Value(Adjusted*)
Announced Deal Value

Adjusted to exclude US$9.8 billion Guolian investment and Taikang investment to form the West China Pipeline JV

Source: ThomsonReuters, ChinaVenture and PwC analysis
... However, the apparent step-down in PE deal activity since 2011 is partly due to the exit from the market of the profusion of opportunistic renminbi funds, leaving a core cadre of higher quality PEs – a development that is likely to be favourable to the market overall.

Private Equity deal volume and value

![Bar chart showing Private Equity deal volume and value from 1H10 to 1H13](chart.png)

- Announced Deal Volume
- Announced Deal Value (Adjusted*)

Source: ThomsonReuters, ChinaVenture and PwC analysis
Consumer and technology sectors continued to attract the most PE dollars

PE deal value by industry sector (*)

*Adjusted to exclude US$9.8 billion Guolian investment and Taikang investment to form the West China Pipeline JV


Note 2: including one FS deal with value of US1.8bn – Social Security Fund, Standard Chartered Bank, Citic Capital and UBS’s investment in Cinda Asset Management

Source: ThomsonReuters, ChinaVenture and PwC analysis

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As anticipated, we have seen an increasing number of buy out transactions with minority growth capital activity declining sharply as the market changes focus; investments by PE in publicly listed companies continues to be important.

PE deal volume by type

Source: ThomsonReuters, ChinaVenture and PwC analysis
PE exits: With A-share markets effectively closed, and overseas bourses unresponsive, IPO exits have slowed to a trickle; we expect M&A sales by PEs to strategic investors to grow, although exiting minority stakes through M&A may not be a viable option in many cases.

PE/VC backed deal exit volume by type

Source: AVCJ and PwC analysis
The cumulative overhang of investments to exits remains the number one challenge for the PE industry as many funds near the end of their contracted lives.

PE/VC deal volume vs. No. of exits

Source: ThomsonReuters, ChinaVenture and PwC analysis
China mainland outbound
China mainland outbound M&A, surprisingly, declined in the first half of 2013 ...

China mainland outbound deal volume and value

Source: Thomson Reuters, China Venture and PwC analysis
Privately owned enterprises were much more cautious than we had anticipated, with many of them instead focusing on addressing challenges in the difficult domestic market; also local debt financing for M&A has become more difficult to obtain for POEs.
SOE investments in materials and resources are still the big drivers of outbound deal values, whereas POEs look for consumer products, brands, know-how and technologies that can be brought back and put to use in China ...

China mainland outbound deal value by industry sector, 1H13 vs. 2H12

Source: ThomsonReuters, ChinaVenture and PwC analysis
... Reflecting this, and despite the slowdown, developed markets like North America and Europe were still the most popular destinations for Chinese outbound POEs

China mainland outbound deal volume by destination region, 1H13 vs. 2H12

Source: ThomsonReuters, ChinaVenture and PwC analysis
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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: ThomsonReuters 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>
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<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 100% of the shares has been acquired</td>
</tr>
<tr>
<td>• Buyouts/buyins (LBOs, MBOs, MBIs)</td>
<td>• Any purchase of brand rights</td>
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<tr>
<td>• Privatisations</td>
<td>• Land acquisitions</td>
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<tr>
<td>• Tender offers</td>
<td>• Equity placements in funds</td>
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<tr>
<td>• Spinoffs</td>
<td>• Stake purchases by mutual funds</td>
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<tr>
<td>• Splitoff of a wholly-owned subsidiary when 100% sold via IPO</td>
<td>• Open market share buyback/retirement of stock unless part of a privatisation</td>
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<tr>
<td>• Divestment of company, division or trading assets resulting in change of control at parent level</td>
<td>• Balance sheet restructuring or internal restructuring</td>
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<tr>
<td>• Reverse takeovers</td>
<td>• Investments in greenfield operations</td>
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<tr>
<td>• Re-capitalisation</td>
<td>• Going private transactions</td>
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<td>• Joint Venture buyouts</td>
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<td>• Receivership or bankruptcy sales/auctions</td>
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<td>• Tracking stock</td>
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Thank you