



*cutting through complexity*

# World class aspirations:

The perceptions and the reality of  
China outbound investment

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# Introduction



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As Chinese companies make more investments overseas, they are building up a reserve of experience in all areas of deal making. Investment is focused on an increasingly wide range of objectives, including scaling revenues through growth in new markets, diversification, and progressing along the value chain.

The global downturn did little to halt this trend. Chinese companies completed 60 deals in developed markets alone during 2009, with a further 39 deals in the first half of 2010.<sup>1</sup> China now ranks as the fifth largest global outbound investor with a total volume of USD 56.5 billion in 2009, compared to a ranking of twelfth in 2008, according to the Ministry of Commerce.<sup>2</sup>

In this report, we have set out the common elements of world-class M&A or investment (see page 2). We believe there are many common traits exhibited by leading multinationals, international private equity firms and serial deal-makers. This best practice can be defined in terms of overall vision and strategy, target identification and capability, negotiation and execution, use of external support, and implementation and integration.

How are domestic Chinese companies measuring up? The findings, which we share in this report, are based on an online survey of 156 Chinese executives, conducted for KPMG China by *CFO Innovation Asia* and complemented by face-to-face interviews with senior executives from a number of leading Chinese companies.

We also conducted interviews with Jones Day, the law firm, CICC, the domestic joint venture investment

bank, and Ogilvy, the advertising and PR firm. As external advisors, each has their own perspective on the China outbound story.

We believe it is far too simplistic to say that Chinese companies are on a buying spree or to imply that these investments are not being driven by clear rationales. A key trend is that many Chinese companies see outbound as part of a route to transform themselves into truly international companies. "Building global profile and reputation" was one of the most popular reasons for outbound investment, cited by 41 percent of our survey respondents. The findings from our interviews also support this reading.

It is clear that in certain cases, Chinese executives are looking to retain the fund of accumulated knowledge and management experience in their overseas target as a way to gradually change their own corporate culture.

A large number of executives recognise they are still in a position of relative weakness in terms of their ability to identify targets or negotiate the right deals. At the same time, many companies are becoming more adept in engaging with external advisors and recognising which advisors can add value in these important areas. Although this report provides a frank assessment of where Chinese companies stand, we also see many areas where they are rapidly catching up with global best practices.

We hope you find the messages in this report interesting and relevant and welcome the opportunity to discuss them with you.

<sup>1</sup> Emerging Markets International Acquisition Tracker (EMIAT), published by KPMG International, August 2010  
<sup>2</sup> Ministry of Commerce: 2009 China Outward Foreign Direct Investment Statistics, 5 September 2010

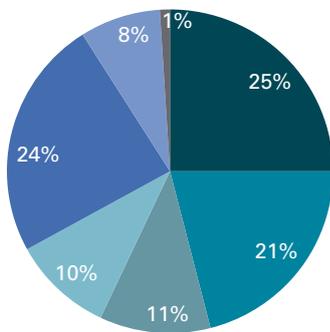
# Executive summary

	The common elements of world-class M&A	How do Chinese companies match up?
Vision and strategy	<ul style="list-style-type: none"> <li>• A clear vision and mandate for investment</li> <li>• A well-defined strategy for value-creation</li> <li>• Shareholder alignment</li> <li>• A clear deal structure and model for operation as an outright owner, partner, or minority investor.</li> </ul>	<p>Most large Chinese companies say they have clearly articulated strategies and a long-term vision for how they want to grow, diversify or move along the value chain. They are aware of the different investment options open to them and are not narrowly focused on M&amp;A.</p> <p>The strategies of some companies are influenced by a desire to raise their profile and our survey did reveal this as a high consideration.</p>
Target identification and capability	<ul style="list-style-type: none"> <li>• Leadership and strong management to inspire and explain vision to all internal and external stakeholders</li> <li>• An ability to fully understand and assess the target</li> <li>• An understanding of one's own financial strength and of regulatory and government issues</li> <li>• Value identification and quantification</li> <li>• Recognition of post-deal considerations.</li> </ul>	<p>If companies strictly follow an investment strategy, they know well what they are looking for and should have a narrower target scope at the outset.</p> <p>Many Chinese companies do have a dedicated strategy function, but typically these teams do not have the capacity to scan and monitor a wide range of targets continuously. Many still lack senior management with the experience to handle these tasks, and remain over-reliant on advisors or investment bankers to bring them deals.</p> <p>Chinese companies have often not had a close pre-existing relationship with overseas targets, so they need to focus on building up trust after preliminary contact.</p>
Negotiation and execution	<ul style="list-style-type: none"> <li>• A clear decision making process</li> <li>• Knowledge of the target and its value</li> <li>• Flexibility of approach</li> <li>• Knowledge of any competing bidder</li> <li>• Ability to recognise when to push or stall, fight or concede</li> <li>• Courage to walk away.</li> </ul>	<p>This is an area where Chinese companies often find themselves in a position of weakness. There can be many reasons for shortcomings in negotiations, but often it simply comes down to relative lack of experience. The ability to negotiate may also be hampered by decision-making dynamics. The measure of success may be narrowly defined or there may be an unwillingness to make a concession on price.</p> <p>Language and cultural issues, working styles and regulatory approvals can make negotiation more difficult.</p>
Use of external support	<ul style="list-style-type: none"> <li>• An understanding of one's own skills and recognition of where help is required</li> <li>• Selection of advisors with relevant experience</li> <li>• A knowledge of similar transactions</li> <li>• An ability and willingness to both manage and work closely with the advisory team.</li> </ul>	<p>Chinese companies are progressing rapidly in this regard, but there is room for further improvement. Many companies now accept that they may need to pay a premium for advisors that bring specific experience and superior capabilities. M&amp;A is not something that most companies, Chinese or otherwise, do on a daily basis.</p> <p>Companies also realise that they need to instruct and work closely with an advisory team to improve efficiency and achieve the best results.</p>
Implementation and integration	<ul style="list-style-type: none"> <li>• Early consideration and planning for the post-deal phase</li> <li>• Work with target management to address post deal concerns, especially Human Resources related issues</li> <li>• Clear communication, internally and externally</li> <li>• Establishing a plan for day one and stabilising the business</li> <li>• Ensuring target management buy-in.</li> </ul>	<p>Many of the Chinese companies are well aware of the challenges involved in integration, particularly in a cross-cultural setting. Some companies integrate management and systems very quickly when integrating consistent systems and policies is a key priority, while some only monitor and evaluate target management performance while interfering less with daily operations.</p> <p>They need to strike a balance between the need to control and the need to let go and there is awareness that they still need to develop skills to effectively manage international business.</p>

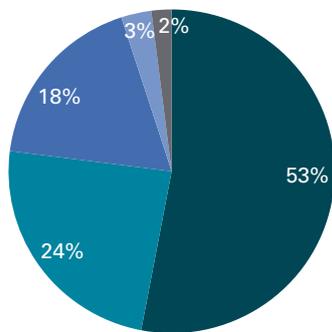
# About the survey

KPMG China commissioned *CFO Innovation Asia* to conduct an online survey of executives in mainland Chinese companies involved in M&A and investment strategy in September and October 2010. The survey was focused on China companies' outbound investment activities and received 156 responses.

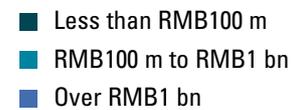
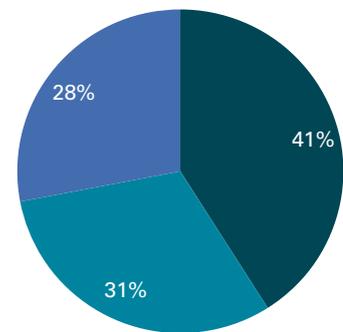
**Respondents are senior executives in companies with the following enterprise ownership:**



**Locations of respondents' corporate headquarters:**



**Annual turnover of respondents:**



## Breakdown of respondents by sector

Electronics, software and services	12%
Manufacturing/diversified industrials	12%
Real estate/construction	12%
Energy/natural resources	9%
Financial services	9%
Private equity	9%
Communications and media	6%
Food, drink and consumer goods	5%
Chemicals/pharmaceuticals	4%
Healthcare	3%
Automotive	3%
Transport	3%
Retail	2%
Other	11%

# 1. Vision and strategy

## A definition of world-class vision and strategy:

*“A clear strategy for the organisation that provides a mandate to drive investment decisions, whether it be M&A, greenfield, minority stakes or other forms of collaboration.”*

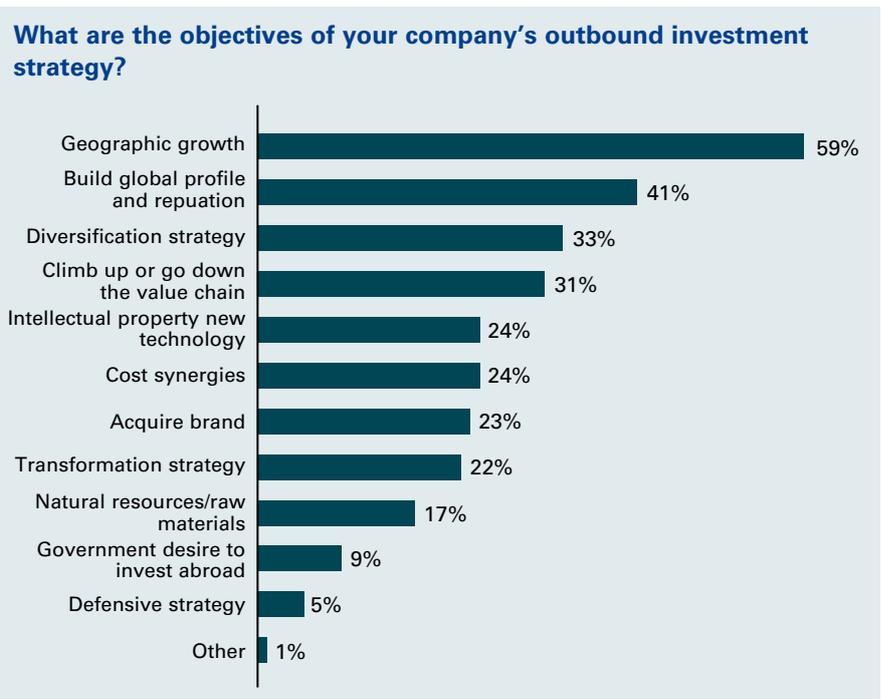
In China as elsewhere, it is crucial for a company to have a clear strategy.

Our survey suggests that China’s companies are about split on outbound investment as a strategy, with 54 percent saying their company has made or plans to make investments outside of Greater China. The rest said their company has not articulated a strategy to make outbound investments, primarily because it sees enough opportunities in the domestic market.

In our survey, seven out of ten executives (71 percent) from companies that have invested or plan to invest abroad said they have a well-articulated strategy and a long-term vision for how they want to grow, diversify or move along the value chain.

The importance of a clear strategy is not lost on Chinese executives, with “failure to clearly define investment strategy and objectives” ranking as the most important mistake that a company can make, cited by 60 percent of respondents.

When asked to cite the specific objectives of their outbound investment strategy, the respondents pointed to achieving geographic growth (59 percent),



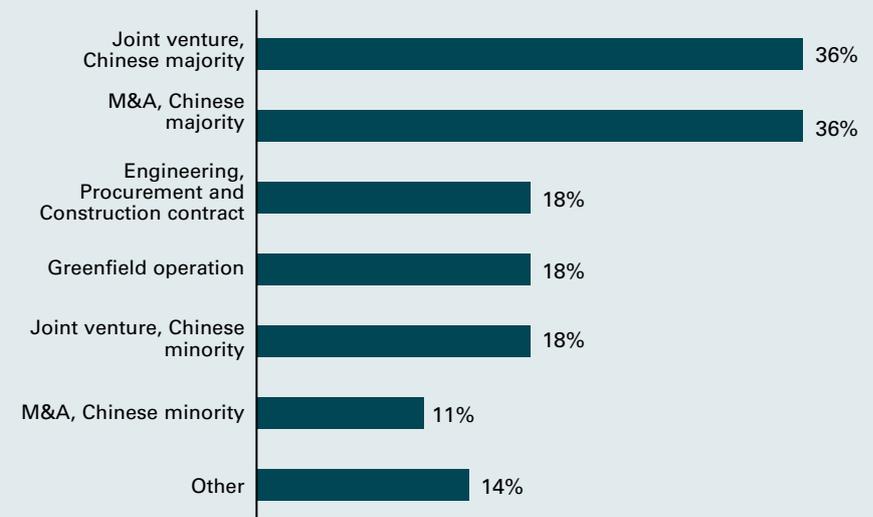
N = 78 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

followed by a wish to build a global profile and reputation (41 percent).

Few said they are going overseas in response to government directives (9 percent). More respondents cited pure business reasons such as diversification (33 percent), moving along the value chain (31 percent), acquiring intellectual property (24 percent), cost synergies (24 percent) and acquiring brands (23 percent).

One might expect to see a distinction between state-owned enterprises (SOEs) and privately owned enterprises (POEs) in their outbound investment decisions. Our survey suggests otherwise. Regardless of whether the company is state-owned or controlled by private-sector entrepreneurs, the main motivations are business considerations such as geographic growth,

**What are the types of outbound investment your company has made or plans to make?**



N = 74 respondents that have done or plan to make outbound investment. Figures may not add up to 100% because of rounding.

acquisition of intellectual property, new/technology and brands, and diversification.

a motivating factor (67 percent) compared with private enterprises (54 percent).

Also notable is the desire to build a global profile and reputation, which figures high up in the list of objectives for both SOEs and POEs. Slightly more state-owned enterprises cited this as

For the majority of companies looking outward, the strategy need not be focused narrowly on M&A. A joint venture or strategic alliance, where the Chinese partner takes



majority ownership, is favoured by as many respondents as M&A (both 36 percent). There is anecdotal evidence of Chinese companies turning their back on large-scale acquisitions over the past year, with more investment taking the form of minority stakes or greenfield investments after high-profile takeover bids encountered opposition in target markets. One executive with a consumer electronics company that has conducted outbound joint ventures, greenfield investments and M&A in order to get closer to target markets, explained that their choice of investment route can be dictated the existence of customs duties, free trade agreements and other trade restrictions, as well as by the level of development. “We will typically only consider an acquisition of an existing manufacturing entity if that jurisdiction has a requisite level of industrialisation and a beneficial manufacturing environment,” he explained. “Where this is not the case, we prefer to construct a facility in cooperation with a local partner.”

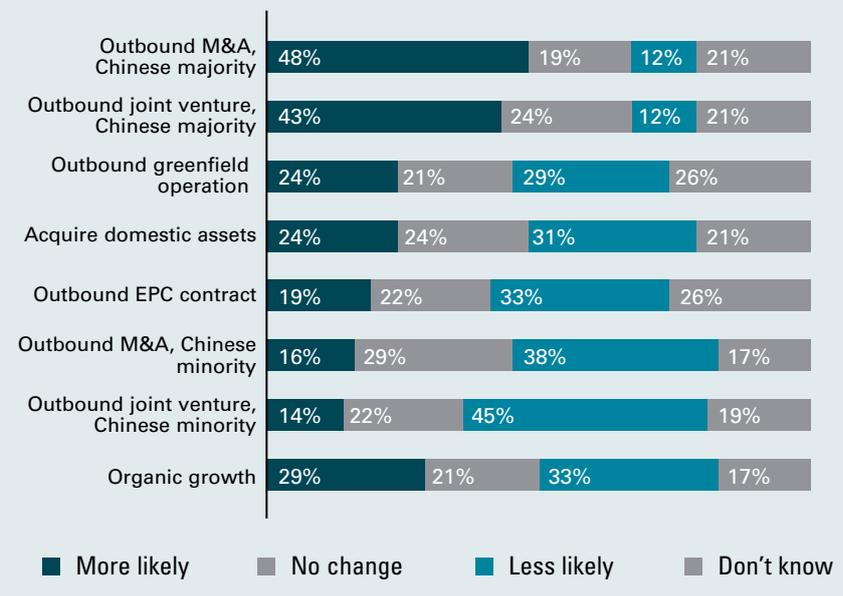
Despite, this our survey indicates that the outlook for majority stake investments abroad will remain strong. Nearly half (48 percent) of companies interested in outbound

investment said they are likely to embark on an M&A deal where they take majority ownership. Forty-three percent will invest abroad in a joint venture where they have a majority stake.

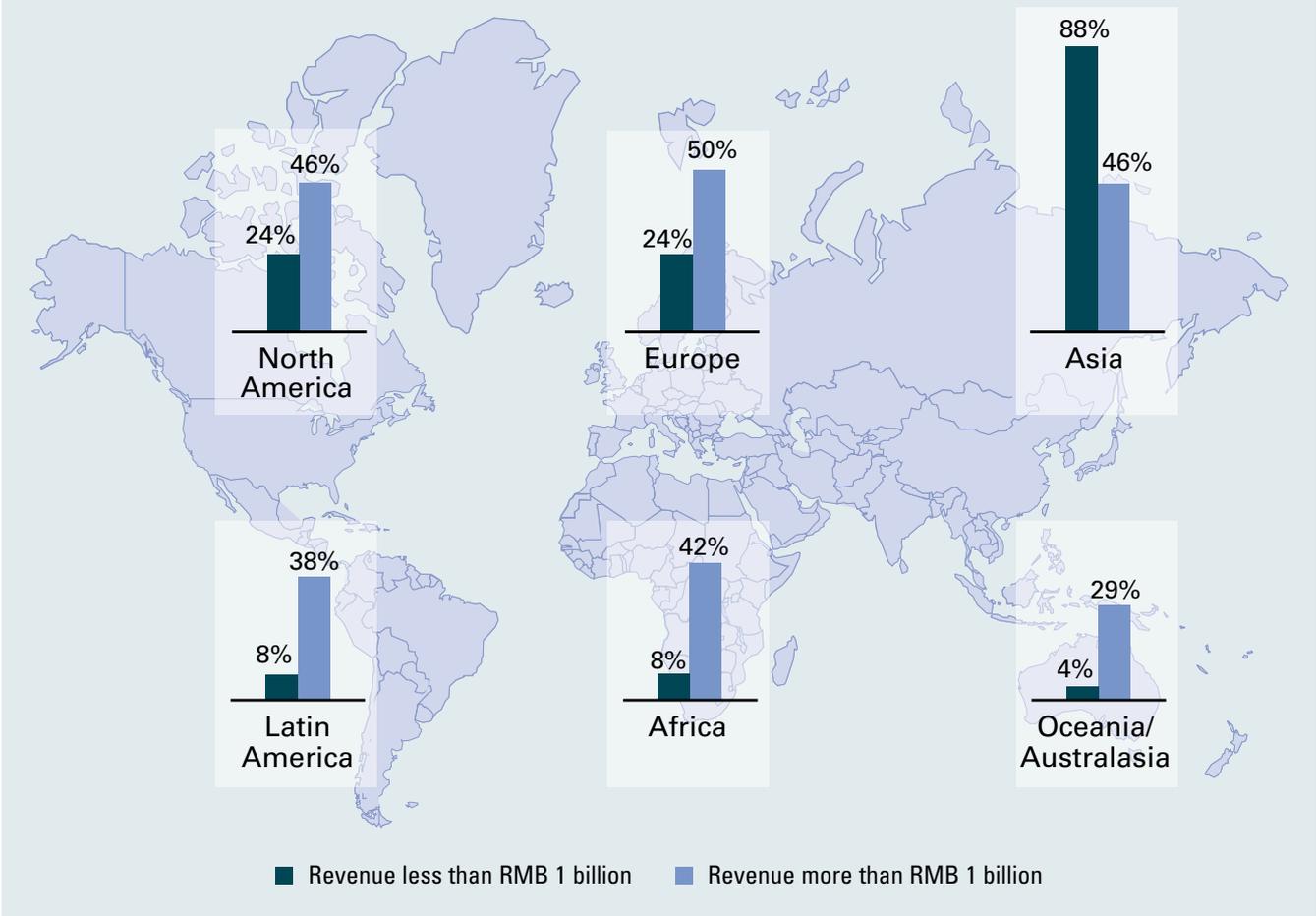
The survey reveals that Asia remains the most popular region for outbound investment in the next one to three years, cited by 67 percent of respondents, followed by developed markets Europe (37 percent) and North America (35 percent). Developing markets of Africa (24 percent) and South America (22 percent) are also favoured, but not to the same extent as Asia and the West.

Large companies with annual revenues of more than RMB1 billion are more inclined to target Europe (50 percent) compared with those that have less than RMB1 billion in revenues (24 percent). Larger enterprises are also more interested in North America (46 percent vs. 24 percent), Africa (42 percent vs. 8 percent), and Australasia (29 percent vs. 4 percent). Smaller companies will target mostly markets in Asia (88 percent), a region that is also of interest to larger corporations (46 percent).

**What is the likelihood that your company is going to engage in the following growth strategies going forward?**



**In what geographical regions does your company plan to invest in the next 1-3 years?**



N = 49 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

Investment objectives are a starting point when considering where to invest. As a senior executive of a large industrial company mentioned, the reason why the company only invests in developed countries is that only from these regions can it obtain what the company needs in terms of technology, R&D ability, sales networks and brands.

Larger companies are also more likely to continue expanding abroad (only 4 percent say they have no plan for further outbound investment) compared with smaller firms (16 percent say they are not planning more outbound investment).

“The purpose of our overseas investment activities is to achieve synergies, increase revenue, and maintain long-term growth,” one interviewee explained. When talking about investment by region, the interviewee added: “We have mainly looked at emerging markets in Asia, but we are not limiting ourselves to these markets.”

However, the same interviewee felt that not all Chinese companies are in such a strong position, adding that “in general, Chinese companies lack expertise and experience in outbound investment. When investing overseas, many of them have no clear strategy and objectives at the very beginning.”

## 2. Target identification and capability

### A definition of world-class target identification and capability:

*“To cast the net for targets, it is important to have a team internally committed to opportunity identification. This might involve members of the strategic/senior management, working with external advisors where necessary.”*

In our interviews, there was a recognition that outbound investment needs to be tied closely to strategy and the fundamentals of the business at home. This is a basis for target identification. If companies stick to this principle, they know well what they are looking for and the potential scope of targets will narrow. One interviewee mentioned an extreme case where a client was seriously reviewing over twenty targets simultaneously, and where the scale of these targets in total was about ten times that of the client.

Our experience is that the probability of success rises when the investor and target already have a close relationship or understand one another's values and assets, and the areas of synergy are apparent at the outset. Chinese companies with an outbound agenda know this. When asked to identify the most important factors in identifying the right target for acquisition, 77 percent of the survey respondents cited an existing relationship or familiarity with the target.

An interviewee from a large consumer electronics company based in southern China echoed this point. “As far as M&A is concerned, the targets are companies with which we have already established a close business relationship through prior cooperation.”

However, Chinese companies have often not had a close pre-existing relationship with overseas targets, so in this case they need to focus on how to quickly build trust after preliminary contact is made. “The basis for smooth negotiations is familiarity, mutual understanding and trust between the two parties,” explained one executive with experience of outbound M&A. “Communication between top management teams is quite important since it can help one party to further understand the other party's strategy, thoughts and other relevant information, and finally facilitate the negotiation process.”

An internal ability to fully understand and assess a potential target is a hallmark of world-class deal making and something that many Chinese companies are still developing. Our survey highlights Chinese companies' recognition of the importance of a dedicated in-house team scanning for overseas targets, as cited by 57 percent of respondents.

While many Chinese companies do have a dedicated strategy function, these teams typically do not have the capacity to scan and monitor a wide range of targets continuously, or to continue tracking outcomes in the post-deal phase. Many still lack senior management with the experience to handle this

and are over-reliant on advisors or investment bankers to bring them deals. One executive with a leading Chinese energy company commented that, “While we send people overseas to monitor industry trends, we know that some foreign companies could track the development of a target asset for several years. Few Chinese companies have the capacity to do that yet.”

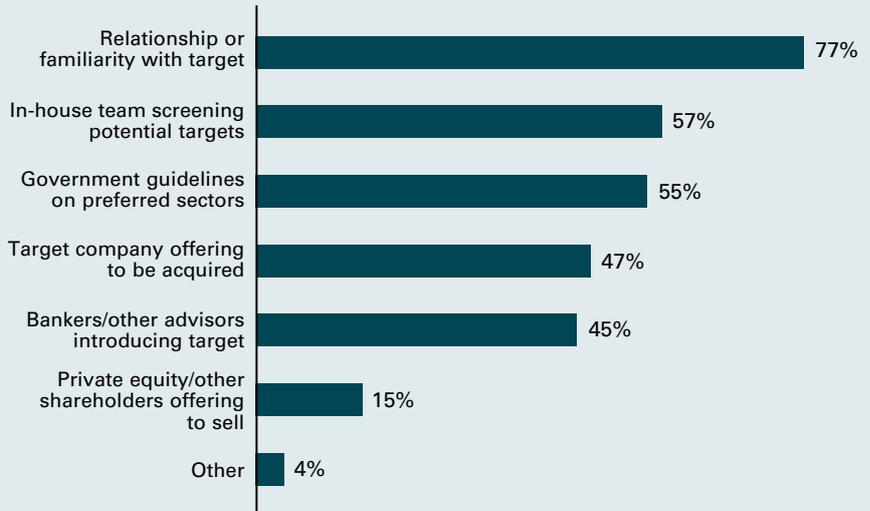
Given their limited capacity in this area, it is clear that identification is an ongoing process. As one interviewee put it, “In some cases, Chinese companies walk away from a deal since as they get closer, they realise the fit isn't there.”

Recognising post-deal considerations, even during identification, is a hallmark of well-planned deals. It is important for the acquirer to understand their own financial and tax structure as well as that of the target. This needs to be addressed in the context of relevant policies in the destination country that could either erode or enhance potential synergies. The composition of the acquisition structure could affect how the acquirer is able to repatriate profits and how that process may be affected by taxation or capital controls.

“There is a strong relationship between tax and the value of the investment,” says Vaughn Barber, Tax partner with KPMG China. “Investors that do not dedicate sufficient time and resources to consider tax issues for potential acquisitions may not be able to

justify bidding as much as other investors in a competitive bid scenario and may be less likely to consummate a successful deal. Alternatively they may derive a lower after-tax return on the investment which may have an adverse impact on shareholder value.”

**Which of the following are the most important factors in identifying the right target for acquisition?**



N = 53 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.



# 3. Negotiation and execution

## A definition of world-class negotiation and execution:

*“A carefully planned negotiation strategy. Flexibility of approach shaped by an awareness of critical factors and empathy towards the other party’s position. The acquirer considers tactics such as an exclusivity arrangement to facilitate focused negotiations. PR management is also crucial to get deals done.”*

Impressions of Chinese companies’ negotiating skills vary widely. While there is a broad perception that Chinese companies often negotiate quite ruthlessly on price, some interviewees also believe that executives give away too much in their eagerness to make a deal, sometimes as a way to raise their profile over their rivals.

In either case, this is an area where many executives are quite frank in admitting that they are in a position of weakness. There can be many reasons for this, but often it is due simply to lack of experience. Language cultural issues and working styles can make negotiation more difficult.

The ability to negotiate may also be hampered by decision-making dynamics – for example, the measure of success may be narrowly defined or there may be an unwillingness to move on price. Clear decision making is key and issues can be tackled through different approaches, either as a means to negotiate on valuation, by addressing the liability issue in a sales and purchase agreement (SPA) or by implementing changes to remedy the issue immediately post deal.

Not surprisingly in our survey, offering an appropriate price supported by thorough due diligence and accurate valuation is cited as an important factor in negotiating the best deal and getting it done (57 percent).

However, communication planning to manage and win over stakeholders is actually regarded as important by more respondents (64 percent). A related factor, engaging the support of government and regulators in the target market, is also considered essential for a successful negotiation by 34 percent of respondents.

It seems that Chinese companies have internalised the lessons from high-profile misfires and now realise that winning the approval of other parties, not just the seller, is equally important.

“Usually challenges of public relationship management arise from negative public sentiment, political opposition and regulatory restrictions,” explained the director of Public and Investor Relations with a leading Chinese industrial manufacturer. “For large deals, we tackle PR management issues in two ways. One is managing domestic

PR issues, in which we will take charge. Another is PR management in destination countries. For this, we will cooperate with a PR firm [in that market] who has good relationship with local government, media, and relevant social groups.”

Ogilvy, a global advertising, PR, Customer Relationship Management and sales activation company, is helping a growing number of Chinese technology and consumer companies with these challenges as they seek out new markets. The company helped Lenovo with a global brand campaign to support its acquisition of IBM’s PC business in 2004, and the success of this helped highlight the importance of PR to other domestic companies.

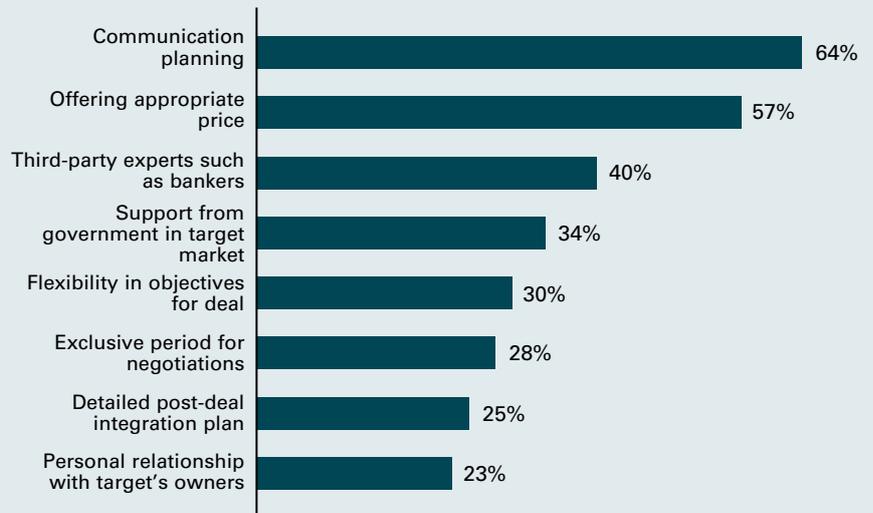
Scott Kronick is North Asia President for Ogilvy PR based in Beijing, and cautions that brand and internal communications will become a more important part of outbound strategies as they involve brand development. “China is confronting the challenge of creating global brands.

They are starting to realise just how deeply they must understand the expectations and demands of consumers in these markets. Quite simply, a brand is not successful until the local market tells you so.”

There needs to be very clear planning to navigate an array of regulatory hurdles, which in China can easily complicate brand development. Ogilvy has found it best to use a range of different strategies to manage government relations and regulatory matters. They use everything from environmental communications and influencer engagement, to community outreach, public education, policy analysis and even litigation support.

Whilst existing relationships and familiarity were considered important factors in the identification process, the survey respondents place less importance on flexibility and personal relationships during negotiations. “Cultivating personal relationships with the target’s owners to understand their needs” was cited by only 23 percent of respondents, while “flexibility in objectives and

**What are the most important factors in negotiating the best deal and getting the transaction done?**



N = 53 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

identifying areas where it is possible to make concessions” was cited by 30 percent.

A substantial 40 percent of respondents said that external advisors could play an important role in successful negotiation, a

figure which we believe should rise over time as executives come to appreciate the value that lawyers and financial advisors can bring to this step in the process.



# 4. Use of external support

## A definition of world-class use of external support:

*“A full understanding of the value that advisors can bring to specific areas of the deal, including in identifying and managing risks. It is accepted by key decision makers that price is only one consideration when choosing advisors.”*

It is interesting to compare the attitudes towards external support by Chinese companies that have actually made outbound investments and those that are still in the planning stages for going abroad. We abstracted the responses of the executives surveyed from two different questions in relation to third-party experts and detected a marked difference between those that have worked with external providers and those that have yet to do so.

More respondents in firms that have done outbound investments agreed that investment bankers or other advisors are important in identifying the right target (49 percent) compared with those in firms that are still planning to go abroad (33 percent). More executives with experience in outbound investment also agreed that third-party experts are important in negotiating a deal (41 percent) compared with those in firms with no such experience (33 percent).

It seems that actual experience with advisors promotes positive attitudes towards the use of external support.

There is a growing recognition across the board of the role external advisors can play in identifying

### Attitudes to external advisors

	Firms that have made outbound investment	Firms yet to make outbound investment
Agree that investment bankers or other advisors are important in identifying right target	49%	33%
Agree that third-party experts such as bankers, accountants and lawyers are important in negotiating a deal	41%	33%

N = 53 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

targets and helping successfully complete deals at the right price. Fifty-six percent of survey respondents cited failure to identify important financial, operational and management issues in due diligence as a key reason for the failure of a deal and this is one particular area where the experience of external advisors can help. “Engaging support from government and regulators” is another area where external advisors can assist.

John Kao, lead partner in Beijing for the law firm Jones Day, also felt that Chinese companies are starting to recognise how the right professional advisors can help them throughout the deal cycle. Mr. Kao has observed many which fail at the

negotiation stage or even before that because relatively simple steps have not been followed. “Firms such as ours can play an instrumental role in helping Chinese companies close the experience gap in key areas,” he said. “Negotiations take time, during which there needs to be some give and take. We can give our clients the confidence to make the right decisions during that process. When negotiations are coming down to the wire, that confidence can make a difference.”

Chinese companies are

improving fast in this regard, but there is room for further improvement. A critical first step is to know your own strengths and where help is required. “Usually advisors possess deep professional knowledge and experience of similar transactions. They can often help us develop a systematic framework or methodology to guide our overseas investment activities. However, some of them have less understanding on industry trends and our company, which may affect their ability to help clients to make the best decision or reach the right valuation. So we need to instruct and work closely with the advisory team to improve efficiency and achieve best results,” said one interviewee with a large industrial company.

Many companies now accept that they may need to pay a premium for advisors that bring specific experience and superior capabilities. One interviewee explained that, “Where our intermediaries provide us with financial models, we prefer to see assumptions and conclusions based on solid research and analysis,

which is supported by intermediaries’ judgment and expertise. However, in our experience, not all intermediaries can meet these requirements.”

“Reliance on unsuitable third-party service providers” was cited by 27 percent of respondents as a cause of deals not delivering value. This would seem to underscore the need for companies to manage their advisory team and set the right expectations. Executives need to assess how effective their team of advisors can work across jurisdictions. They can challenge their advisors to assess whether they have equal strength in each market and are able to address legal, financial and tax issues from each side in a balanced way.

As China’s first joint venture investment bank, China International Capital Corporation Limited (CICC) has a good sense of what clients expect from service providers. “Experienced clients, whose capabilities are strong, know what they need and have realistic expectations on what they can get from intermediaries. They are more

likely to end up feeling satisfied,” explained Frank Xu, a managing director in CICC’s investment banking division handling M&A. “Some other clients have high expectations for service providers, they rely on them for everything. For others there is still a trust issue where they are reluctant to fully share their strategy or thinking and that affects our ability to help them in an optimal way.”



# 5. Implementation and integration

## A definition of world-class implementation and integration:

*“Early planning of integration steps covering different business functions. A clear idea on where cost-related and revenue-related synergies are to be captured and systems to measure effectiveness.”*

Many of the Chinese companies we spoke to during this research were well aware of the challenges involved in integration, particularly in a cross-cultural setting.

Frank Xu at CICC believes that post deal integration work is a big issue for Chinese investors. “There are two main types of integration work, depending on the industry,” he said. “For resource companies, the integration work is more linked to engineering and the need to simplify or align internal processes. For manufacturing or customer-facing companies the challenges are more specifically around marketing and their ability to compete effectively in new markets.”

In general, Chinese companies give themselves a passing grade for their post-deal integration efforts and their ability to add value. In our survey, 35 percent of executives in enterprises that have already undertaken M&A described their integration programme as “adequate.” Some respondents rated the quality of their integration effort as “good” (24 percent) or even “excellent” (14 percent). Only 22 percent said post-merger integration in their company is “inadequate.”

Early preparation may have something to do with this “adequate” level of satisfaction. The majority (53 percent) of respondents

in companies that have done M&A said that their company started preparing for post-deal management and integration at least three months before the deal was completed, with 20 percent saying they started the process more than six months before completion.

However, 43 percent said preparation started only at or after completion of the deal (23 percent) or one or two months before completion (20 percent).

Interestingly, our interviewees were less positive about the quality of post-deal integration by Chinese companies in general, compared with the survey respondents’ assessment of their own individual programme. “Usually, Chinese companies do not know much about how to manage overseas assets,” one of them claimed. “Human resources and culture-related issues are also quite difficult to tackle. Language is another barrier. All of these issues prevent Chinese companies from achieving value accretion from outbound investment.”

“Transforming into a truly international company is a key to successful outbound investment,” added another interviewee. “This implies changes in many aspects, including company culture and management style, generating

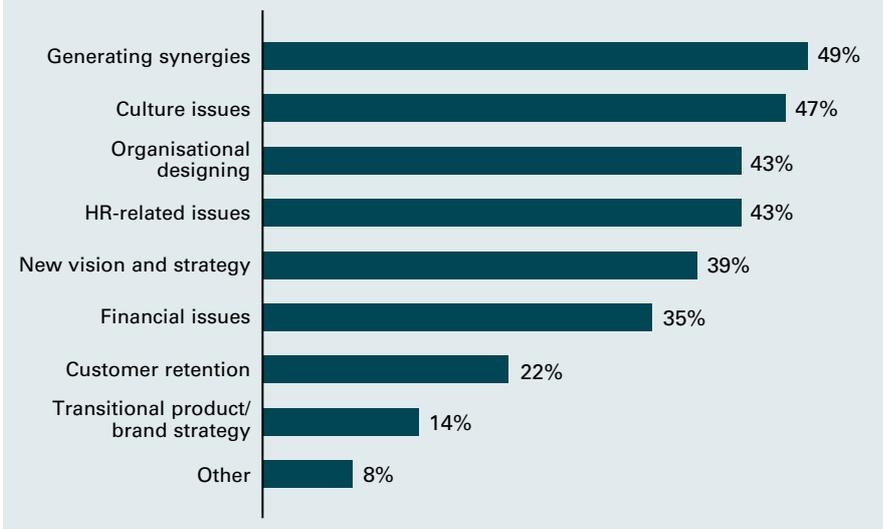
synergy in industry-specific areas, and well-developed corporate functions such as procurement and IT.”

Asked with which business areas they experienced the most serious difficulties in post-deal integration, respondents in companies that have undertaken outbound investment give almost equal weight to a range of issues, indicating the many difficulties in post-deal integration.

Forty-nine percent said generating synergies presented serious difficulties, while 47 percent cited culture issues and 43 percent pointed to organisational design and personnel-related issues. Crafting a new vision and strategy for the new entity and financial issues, encompassing areas such as financial management and reporting and treasury and cash management, were cited by 39 percent and 35 percent, respectively.

We noticed two successful examples in post-deal integration work in interviews. One interviewee in a financial service organisation said, “In our company, systems integration is vital. We move quite fast in connecting systems, and implementing standard policies. In order to effectively integrate the management of the

**In terms of post-deal integration, what areas did your company experience the most serious difficulties?**

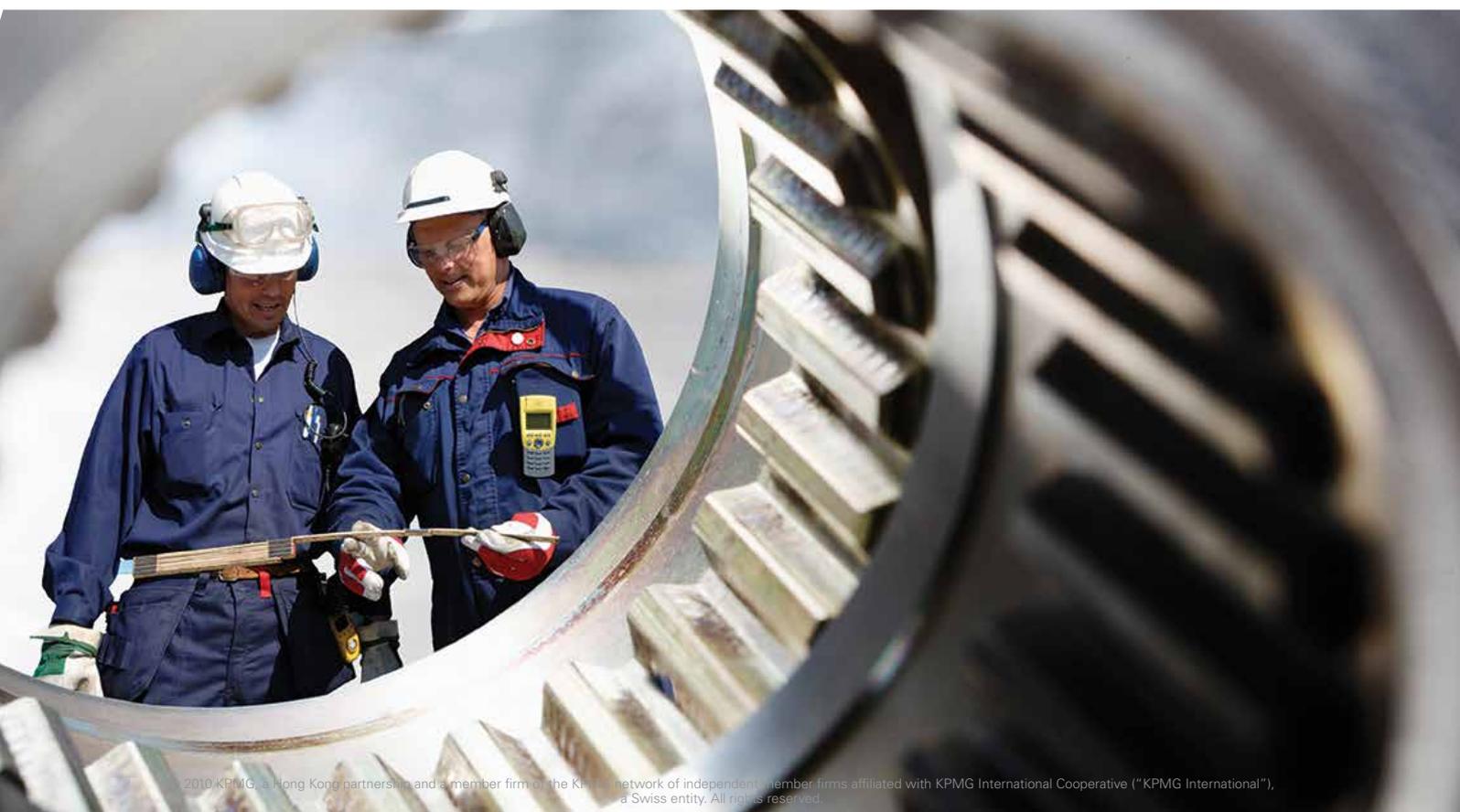


N = 51 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

target company into the parent, we also provide training program in China for overseas staff. So far, it works well.”

An interviewee with a large industrial company, who has turned a loss-making target into a profitable subsidiary within one year, introduced his experience. “We kept the local management team and only sent representatives as board members, without interfering

too much with daily operations,” he explained. “We set out operational objectives and monitored managers’ performance against a defined set of indicators. We also engaged professional advisors to help us design separate management models for our overseas subsidiaries, covering issues such as reporting procedure, performance review, and compensation.”



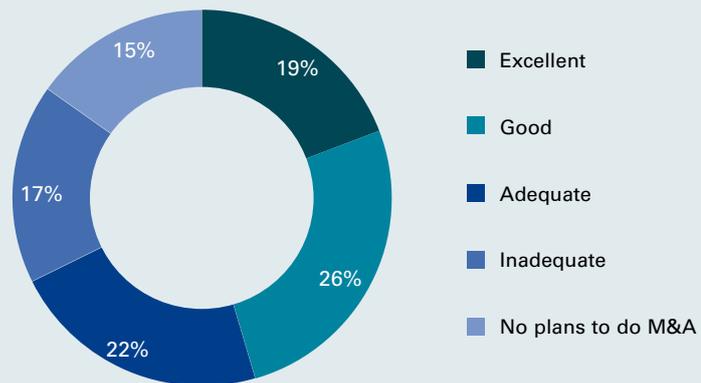
# Concluding remarks

Of the companies in our survey that have done or plan to do outbound investment, only 15 percent said they had no plans to do M&A. This tells us that mergers and acquisitions will be the preferred route going forward for Chinese outbound investment. This expectation is bolstered by the assessment of our survey respondents of the actual and likely end result of their M&A effort. Few (17 percent) judged the M&A deal they have done or plan to do as “inadequate” in ultimately adding value; 26 percent said it has in fact delivered or is likely to deliver “good” results and even “excellent” outcomes (19 percent).

However, our survey also indicates the pitfalls that Chinese companies should be aware of in going abroad, particularly in embarking on M&A. Six out of ten respondents cited the failure to clearly define the investment strategy and objectives as the most serious mistake, which could result in the deal not adding value in the end. A close second is the failure to identify important financial, operational and management issues in due diligence (56 percent) followed by the failure to anticipate or plan early enough for post-deal integration (46 percent) and failure of the post-deal integration programme (44 percent).

As this report reveals, ensuring that M&A ultimately adds value requires enormous investment of time, talent and money on the entire process, starting with defining outbound investment strategy and on to post-deal integration. This is an ongoing learning process for Chinese companies, where external advisors can provide great support.

## What is your assessment of the likely end results of your company's move abroad in ultimately adding value?



N = 72 respondents that have done or plan to make outbound investment. Figures may not add up to 100% because of rounding.

## What do you think are the most serious mistakes that a company can make, such that even though the deal is completed, the end results do not add value?

Failure to clearly define investment strategy and objectives	60%
Important financial/operational/management issues not identified in due diligence	56%
Failure to anticipate or plan early enough for post-deal integration	46%
Failure in post-deal integration work	44%
Failure to choose right target	37%
Overpaying for the investment	27%
Reliance on unsuitable third-party service providers	27%
Lack of language skills	2%
Other	2%

N = 52 respondents that have done or plan to make outbound investment. Figures do not add up to 100% because multiple responses are allowed.

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*KPMG is a global network of professional firms providing audit, tax and advisory services, with an industry focus. We use our expertise and insight to cut through complexity and deliver informed perspectives and clear solutions that our clients and stakeholders value.*

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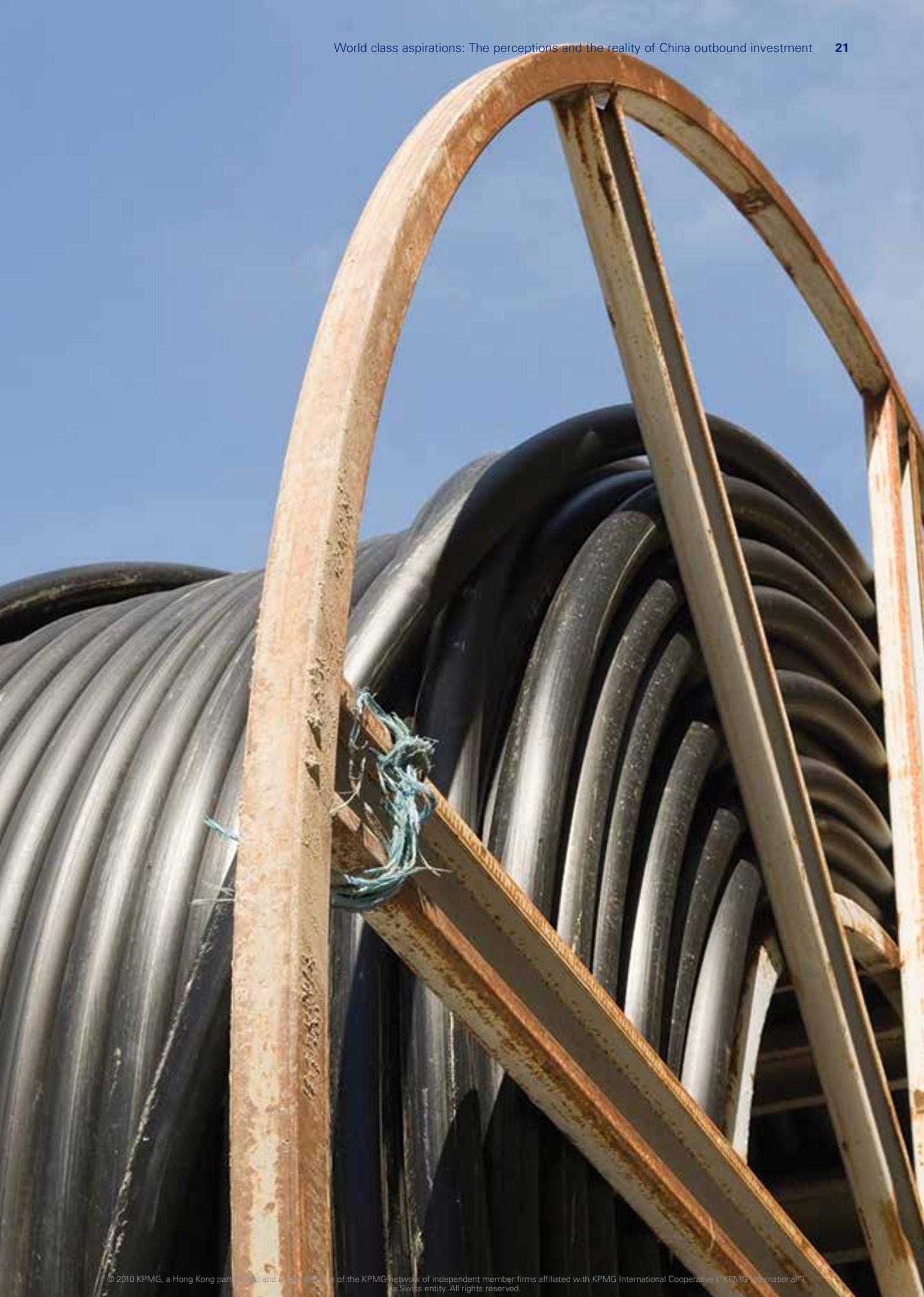
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