

# China Digest

## Round-up of business news, current issues, and M&A analysis

Q4 2014

### In the news ...

#### *China to become largest airliner market within two decades, says Boeing*

US airline manufacturer Boeing has said that it expects China to overtake the US as the world's largest commercial airliner market by 2032. This is based on expectations that China will triple its current fleet of commercial airliners to 6,020 new planes during the next 20 years, at a cost of approximately \$870 billion. An 8% increase over 2013's estimate of 5,580 planes, the revised number will be driven by increasing demand from new low-cost carriers, aircraft leasing companies, and a growing market among Chinese outbound leisure travellers for routes to regional destinations. Meanwhile, growth in the long-haul segment is expected to drive demand for 1,480 additional fuel-efficient wide-bodied aircraft including the Boeing-777, 787 Dreamliner and 747-8 Intercontinental.

(Reuters)

#### *Average size of Chinese families shrinking*

Low birth rates, couples marrying later, and population migration has caused the average size of Chinese families to drop to 3.02 in 2012 from 3.96 in 1990 and 5.3 in the 1950s, says a report from the National Health and Family Planning Commission. The report also said that the number of single-person households doubled between 2000 and 2010, while the number of two-person families increased by 68% during the same period. Increasingly younger, and especially career-oriented, Chinese are marrying later, it said.

#### *China's corporations rise up Fortune 500 lists*

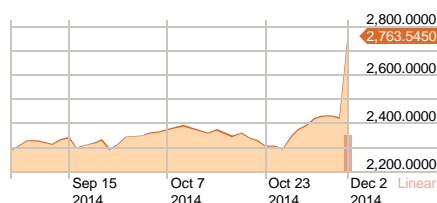
China's top corporate revenue earner in 2013 was oil major Sinopec Group (Sinopec), according to the 2014 China Enterprises List. The list was released by the China Enterprise Confederation and the China Enterprise Directors Association and ranked corporations on revenues generated in 2013. With revenues of \$476 billion, this marks the tenth consecutive year Sinopec has finished top. It was followed by another oil giant, China National Petroleum Corporation (CNPC), on \$450 billion with national electricity supplier, State Grid, in third place. The list's top ten for 2014 reads: 1. Sinopec, 2. CNPC, 3. State Grid, 4. Industrial and Commercial Bank of China, 5. China Construction Bank, 6. Agricultural Bank of China, 7. China State Construction Engineering Corporation, 8. China Mobile, 9. Bank of China, 10. China National Offshore Oil Corporation. In addition, Sinopec finished third on the Fortune Global 500 2014.

### China by numbers

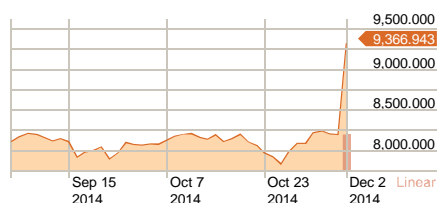
- **29.6 km:** longest section of the Hong Kong-Zhuhai-Macau Bridge to open in 2016
- **\$29 billion:** revenue generated by the Chinese beer industry in 2013
- **54,000:** Mainland Chinese relocating to Hong Kong per year
- **7.27 million:** university students expected to look for jobs in 2014 (up by 280,000 over 2013)
- **1.35 billion:** China's estimated total population, or 19.3% of global population (as of March 2014)
- **\$1.95 million:** price reportedly paid for world's most expensive puppy, a Tibetan Mastiff, in Zhejiang in March
- **46.1%:** size of China's service sector as percentage of GDP in 2013, outperforming the industrial sector for the first time
- **10 billion tons:** China's yearly release of CO2 into the atmosphere (expected to reach 15 billion tons by 2030)

GDP 2Q14 up 7.5%

GDP 2Q13 up 7.5%



Shanghai Composite closes up at 2,763.5450



Shanghai Composite closes up at 9,366.943

## **China 'easing rules' to encourage outbound investment**

Chinese authorities have unveiled new rules to streamline bureaucracy surrounding outbound investment by domestic companies, according to the Ministry of Commerce (MOC). As of October 6 this year, only investments in sensitive regions or involving sensitive industries - including countries which have not established formal diplomatic relations with China and those which are under UN-related sanctions - will need MOC approval. Previously, projects of more than \$100 million needed MOC approval. 'Sensitive' industries were not specified, but industries subject to Chinese export controls or "projects affecting more than one foreign country's interests" could be affected.

The new rules follow April's easing of regulations which saw another government agency with the authority to veto outbound investments, the National Development and Reform Commission (NDRC), rolled back. Accordingly, any outbound investment of less than \$1 billion only needs to register with the NDRC, rather than seek approval. However, any outbound of more than \$1 billion still needs NDRC approval while projects of more than \$2 billion need the approval of the State Council, China's major administrative body. (*Xinhua*)

## **China-Taiwan investment increased in 2013, says State Council**

1,284 inbound investment projects involving Taiwanese businesses were approved by Chinese authorities in the first seven months of 2014, according to the State Council's Taiwan Affairs Office. This amounted to a year-on-year increase of 10.2% and involved \$1.47 billion in Taiwanese investment. In addition, \$195 million of Chinese investment flowed into Taiwan during the same period, already exceeding 2013's total investment of \$177 million. (*Xinhua*)

## **Mainland China top 10 cities for salaries**

1. **Shanghai** – largest city by population globally: monthly average salary of \$1,163
2. **Beijing** – the capital and second largest city: \$1,115
3. **Shenzhen** – bordering Hong Kong and a gateway to southern China: \$1,095
4. **Ningbo** - port city and second largest city in Zhejiang province: \$948
5. **Hangzhou** – capital and largest city in Zhejiang province; tourism hotspot: \$938
6. **Guangzhou** – major port and capital of Guangdong Province bordering Hong Kong; China's third largest city: \$914
7. **Suzhou** – Jiangsu province's garden city and tourist mecca; rich in history and wealth: \$890
8. **Chongqing** – located in south west China and the largest directly-controlled municipality: \$866
9. **Nanjing** – historical capital of China and modern capital of Jiangsu Province: \$847
10. **Chengdu** – capital of Sichuan Province and, with Chongqing, the only western city on the list: \$846

(*China Daily*)

## **China's healthcare system faces a growing threat from diabetes**

China faces a growing diabetes-related crisis with serious healthcare spending implications, says a report from British medical journal *The Lancet Diabetes & Endocrinology*. China has approximately 100 million Type 2 diabetes sufferers, partly as a result of widespread sedentary lifestyles, unhealthy diets, and a genetic predisposition to developing the disease among some Asian populations. Treatment in China currently focuses on managing the disease and end-of-life care, but could account for more than half of China's healthcare spending if all patients were to receive targeted and primary care.

(*Bloomberg*)

## **China denies singling out multinationals for antitrust probes following allegations of unfair treatment**

Chinese authorities have denied allegations that foreign multinationals are being singled out for antitrust investigations following complaints from European and US Beijing-based trade bodies. China's three antitrust regulators - the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOC), and the State Administration for Industry and Commerce (SAIC) - have jointly denied the claims saying that investigations into foreign entities only constitute a small proportion of their overall cases.

According to the regulators, only 33 of 335 antitrust-related probes conducted by the NDRC involve foreign companies, while just two of 875 merger reviews have been rejected by the MOC. Additionally, just 5% of SAIC's anti-monopoly cases involve non-Chinese entities. This echoes Prime Minister Li Keqiang's recent claim that China's antitrust cases against foreign companies only constituted 10% of all probes. The regulators also denied allegations that foreign companies were being denied legal representation. Recent antitrust probes into multinationals have particularly targeted the auto, technology, pharmaceutical, and food packaging sectors. (*Bloomberg, Xinhua*)

## **China urbanisation facts**

- The number of permanent urban residents has risen from 17.9% of the total population in 1978 to 53.7% in 2013.
- By 2020, 100 million migrant workers will receive city "hukou" resident permits (household registration).
- By the end of 2013, there were almost 270 million migrant workers in China.
- Regular railways will connect all cities with more than 200,000 residents by 2020; high-speed rail will connect cities with more than 500,000 residents.
- Expressways will link cities of over 200,000 residents by 2020; civil aviation to cover about 90% of population.

(*Xinhua*)

## Mergers & Acquisitions Update

### China inbound: FDI inflow more than \$123.9 billion in 2013, says MOC

Despite reports of a more challenging environment for inbound investment in China, deals are still being completed (see table below) with some other large deals under discussion. These include Dairy Farm's proposed \$900 million stake in Yonghui Superstores and Fonterra's stake in Beingmate Baby & Child Food.

Across 2013, FDI inflow reached \$123.9 billion with more than 800,000 enterprises receiving foreign capital investment by the end of July 2014, according to the Ministry of Commerce (MOC). The Ministry also notes that China has now received a total of more than \$1.5 trillion of foreign investment. Additionally, foreign investing companies accounted for 19.2% of China's total tax revenues between January and July this year. Of note, the MOC says that more than \$7.16 billion of foreign investment is flowing into central and western China amounting to a more than 17.8% year-on-year increase. According to the United Nations Conference on Trade and Development (UNCTAD), China was the second largest recipient of FDI in 2013 after the US.

### China outbound: direct investment up by 22.8% in 2013

Chinese outbound direct investment (ODI) grew by 22.8% in 2013, reaching \$108 billion in 2013 and exceeding \$100 billion in a year for the first time, said China's Ministry of Commerce, National Bureau of Statistics, and the State Administration of Foreign Exchange. The record high means China retains its position as the world's third largest investor for the second year in a row.

By the end of last year, Chinese companies' accumulated ODI had reached \$660 billion, ranking the country as the 11th largest investor in the world. Chinese investors have set up more than 25,000 overseas enterprises across 184 countries and regions including CNOOC's purchase of Canada's Nexen at \$14.8 billion, the largest deal so far. According to the MOC, China's overseas investment is expected to grow by 17% annually between 2011 and 2015.

### Completed China inbound M&A deals announced between July 1 and September 11 2014

Status	Deal value (\$ mil)	Target name	Target industry	Acquiror name	Acquiror nation	Acquiror ultimate parent
Completed	488.54	Henan Jinkai-Ind gas assets	Chemicals	Investor Group	US and other	Investor Group
Completed	97.67	Magic Garden Invest Ltd	Other financials	G E Hotel (Xintiandi) Ltd	HK	Great Eagle Holdings Ltd
Completed	93.00	TaiMei Potato Industry Ltd	F&B	ConAgra Foods Inc	US	ConAgra Foods Inc
Completed	32.22	Wujiang Jinke Yangzi RE Dvlp	Other real estate	Undisclosed Acquirer	Unknown	Undisclosed Acquirer
Completed	22.75	Jiangsu Huayuan Metal	Metals & Mining	Undisclosed Acquirer	Unknown	Undisclosed Acquirer
Completed	19.73	GLP Pengshan Puhai Logistics	IT consulting & services	CLH (46) Pte Ltd	Singapore	Global Logistic Properties Ltd
Completed	9.00	Beijing Jike Jike Tech Co Ltd	Software	Investor Group	Taiwan	Investor Group
Completed	2.50	Guizhou Ind Invest Fund Mgmt	Other financials	Town Health Intl Medical Group	HK	Town Health Intl Medical Group
Completed	1.61	Jiangsu Leyuan Innovation	Other industrials	Undisclosed Acquirer	Unknown	Undisclosed Acquirer
Completed	1.36	Tianjin Chuhatsu Fawer Spring	Building/ construction & engineering	Investor Group	Japan	Investor Group

Source: Thomson

## Hot Topic: Allegations, whistleblowers, and the Dodd-Frank Act

Whistleblower hotlines are for most multinationals one of the most active sources of bribery and corruption allegations in China. Effective hotlines will generate plenty of activity, sometimes genuine and sometimes not, and allegations will often first surface on social media websites, such as Sina Weibo (a kind of Chinese Twitter-Facebook hybrid). As a rule of thumb, if a multinational's China ethics hotline is not busy then there may well be something wrong with the hotline. It could be that staff are ignorant of its existence, not sure how to use it, or are sometimes (and understandably) wary of the consequences.

Whether via hotline or online, allegations could also have other important implications for multinationals' operations in China (and many other jurisdictions besides). The Dodd-Frank Wall Street Reform and Consumer Protection Act sets aside rewards of between 10% and 30% of the total monetary sanctions collected by the SEC. This is based on the provisos that the whistleblower voluntarily provides original information and that this information leads to a successful enforcement resulting in more than US\$1 million in government monetary sanctions.

In other words, there are potentially massive payouts on offer, widespread usage of whistleblower hotlines among multinationals in China, uncontrolled rumours spreading on social media websites, and the Dodd-Frank Act which stipulates that whistleblowers do not have to be American to qualify for a large reward. Cause enough for multinationals to look again at their procedures for self-reporting to US regulators.

### Potential impact of the Dodd-Frank Act in China

Consider a scenario in which a multinational may have, or suspects it has a corruption issue, or where it has been subject to allegations of inappropriate Foreign Corrupt Practices Act-related activity. While this multinational mulls over whether the issue is serious enough to report to the SEC, a canny employee aware of the issue could preempt the multinational's decision-making process and go direct to US regulators in the expectation of a substantial payout. Importantly, US law does not require whistleblowers to report allegations to their company management first.

Interestingly, China accounted for 52 individual whistleblowers who provided tips to the SEC during financial year 2013 out of a total of 404. This is up from just 27 in 2012 and lags behind only the UK (66) and Canada (62) internationally. Expect this number to increase as awareness of the potential rewards under Dodd-Frank grows and fear of repercussions lessens, leaving multinationals with China-based operations plenty to ponder.

For more information on PwC China & Hong Kong Forensic Services, contact:

**Brian McGinley, Partner**

PwC China Forensic Services  
brian.mcginley@cn.pwc.com  
+86 10 6533 2171

## China Deals MNC Key Contacts

PwC has 16 offices in China – covering three regions: North China, Central China and South China (including Hong Kong and Macau).



### North

Ken Su, Beijing  
ken.x.su@cn.pwc.com  
+86 (10) 6533 7290

### Central

Alvin Bao, Shanghai  
alvin.bao@cn.pwc.com  
+86 (21) 2323 3923

### South

Katy Spooner, Hong Kong  
katy.spooner@hk.pwc.com  
+852 2289 2315