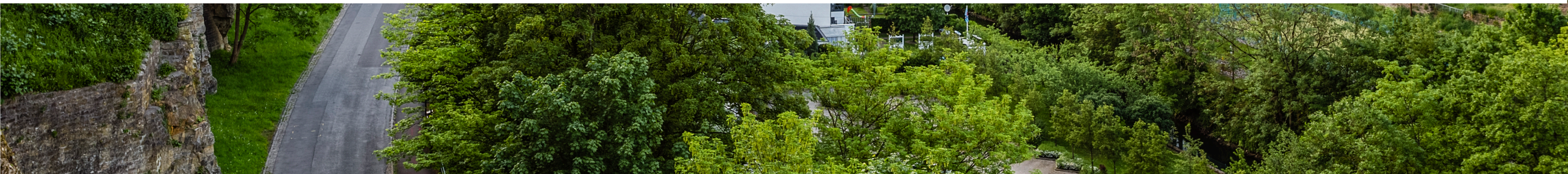




CHINA'S CROSS-BORDER M&A LANDSCAPE AND TRENDS



Panelists

Experts:

Stéphane Karolczuk, Partner, head of Hong Kong Office, Arendt & Medernach

Thierry Lohest, Partner, Loyens & Loeff

Matt Moran, Partner, PwC

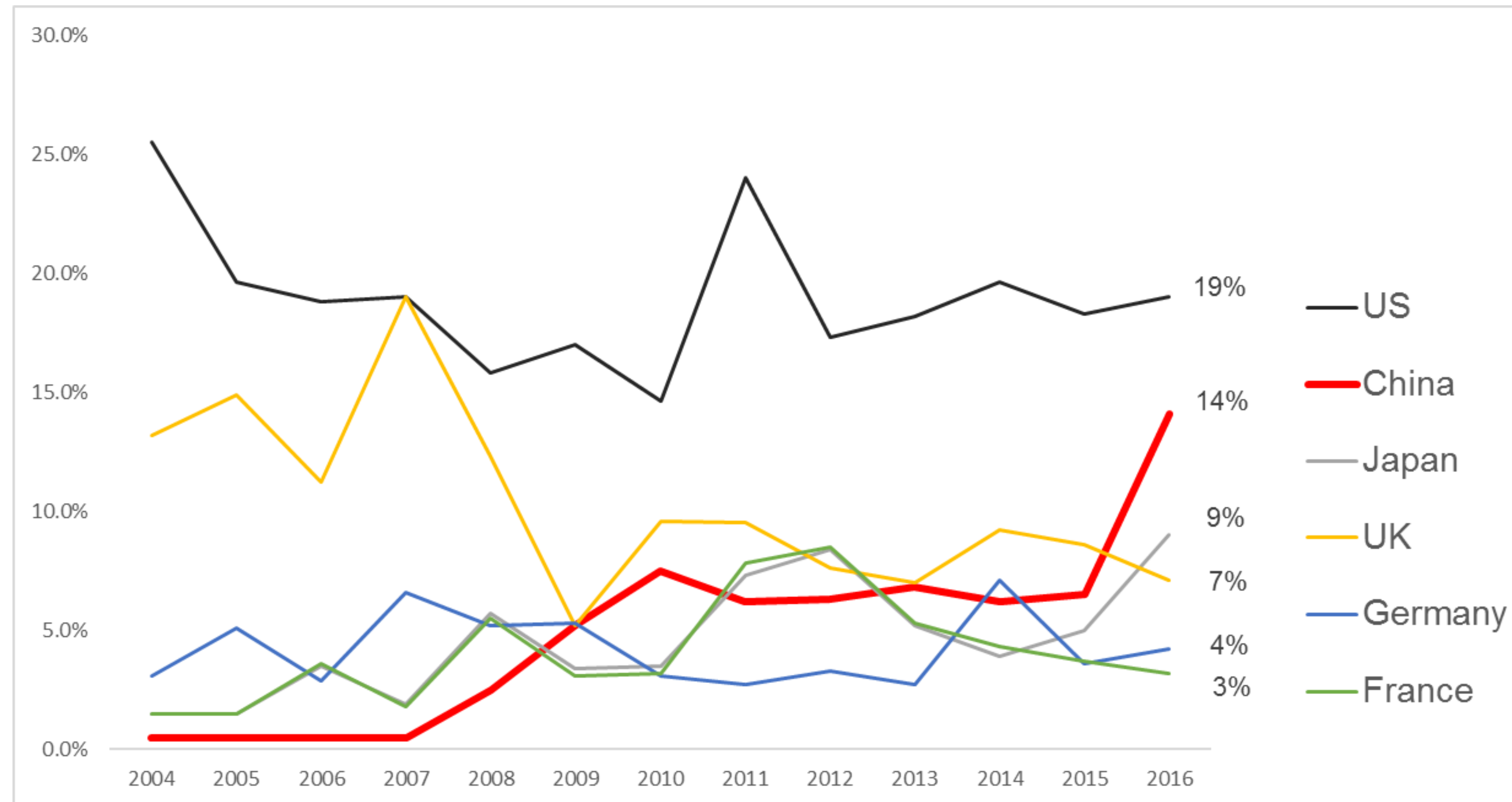
Agenda

1. European M&A Landscape and Trends
2. Setting up of a Luxembourg investment platform
3. Deal sourcing, financing, closing, integration and exit
4. Capital control and other relevant aspects

China's cross-border M&A – trend

China has become a key driver of global cross-border M&A

Country-of-origin share of the total value of all completed global cross-border acquisitions.

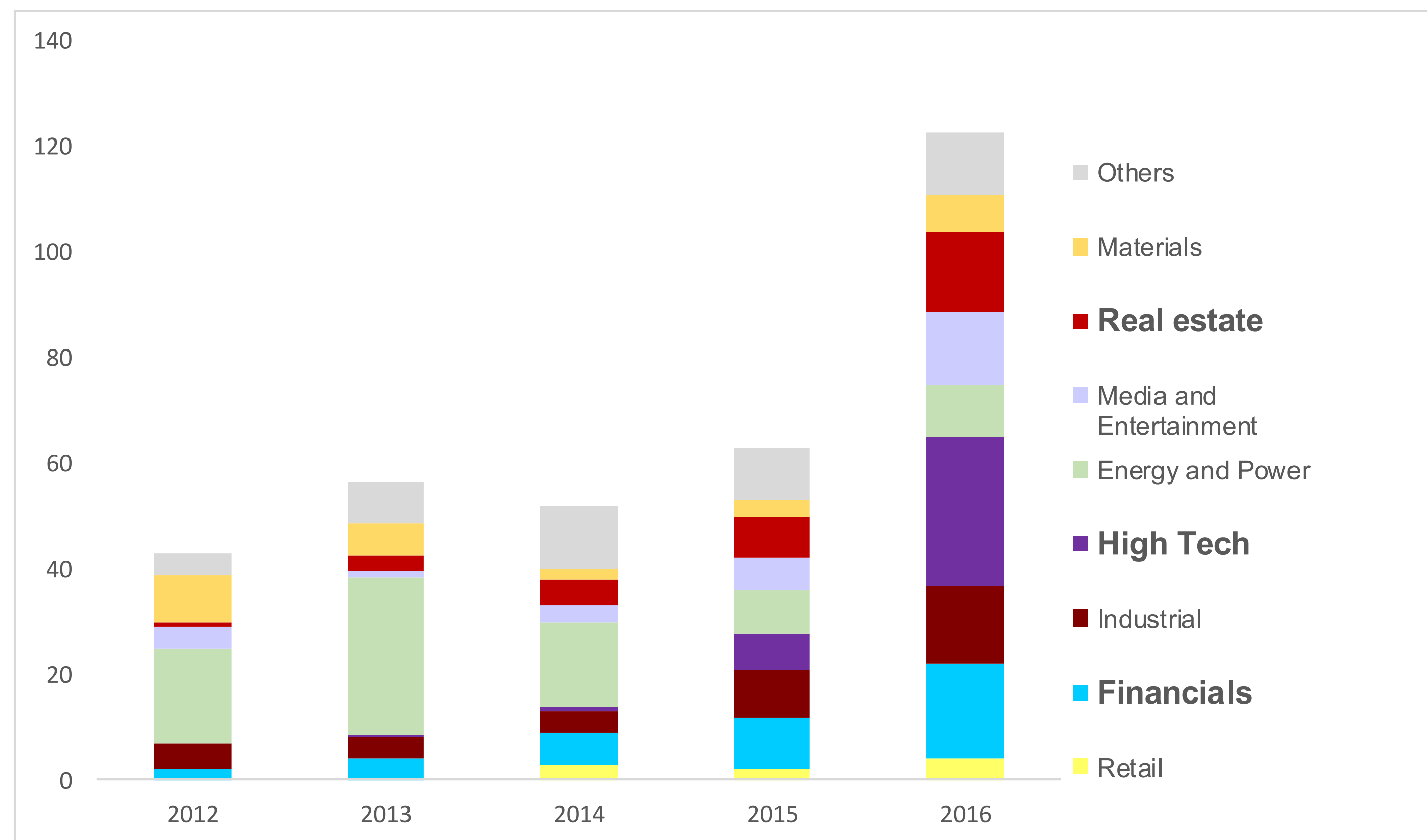


Source: Rhodium Group. Selected economies only. Percent figures in labels are for 2016.

China's Cross-border M&A – trend

Chinese buyers are targeting an increasingly diverse industry mix

Aggregate value of global Chinese cross-border M&A by industry (US\$ billion)

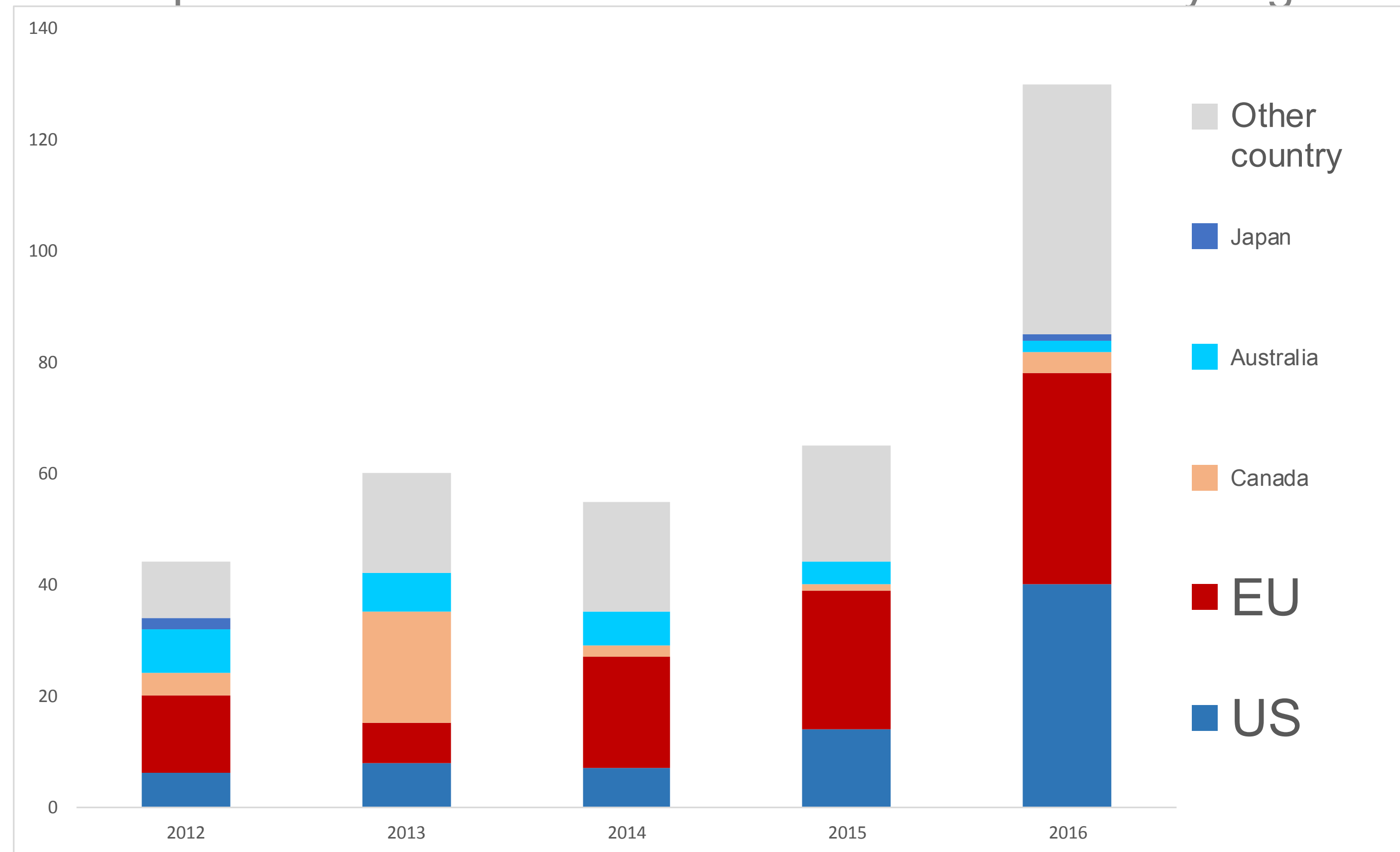


Source: Rhodium Group. Dataset includes all completed M&A transactions by ultimately Chinese-owned firms, aggregated by date of completion.

China's Cross-border M&A – trend

Most Chinese investment is now flowing to advanced economies

Aggregate value of completed Chinese outbound M&A transactions by region/country of target (US\$ billion)

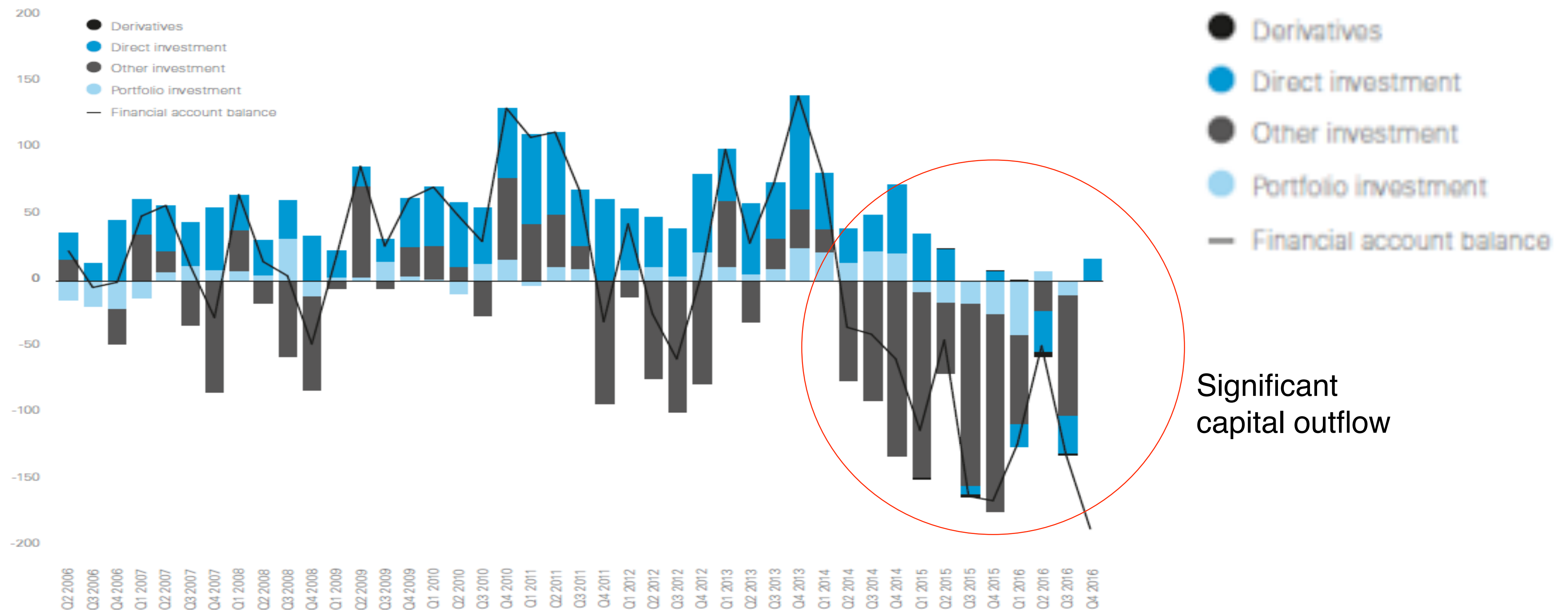


Source: Rhodium Group. Dataset includes all completed M&A transactions by ultimately Chinese-owned firms, aggregated by date of completion.

China's Cross-border M&A – short-term challenges

Accelerating capital outflows are pressuring Chinese policymakers

Financial account by component in China's quarterly balance of payments (US\$ billion)



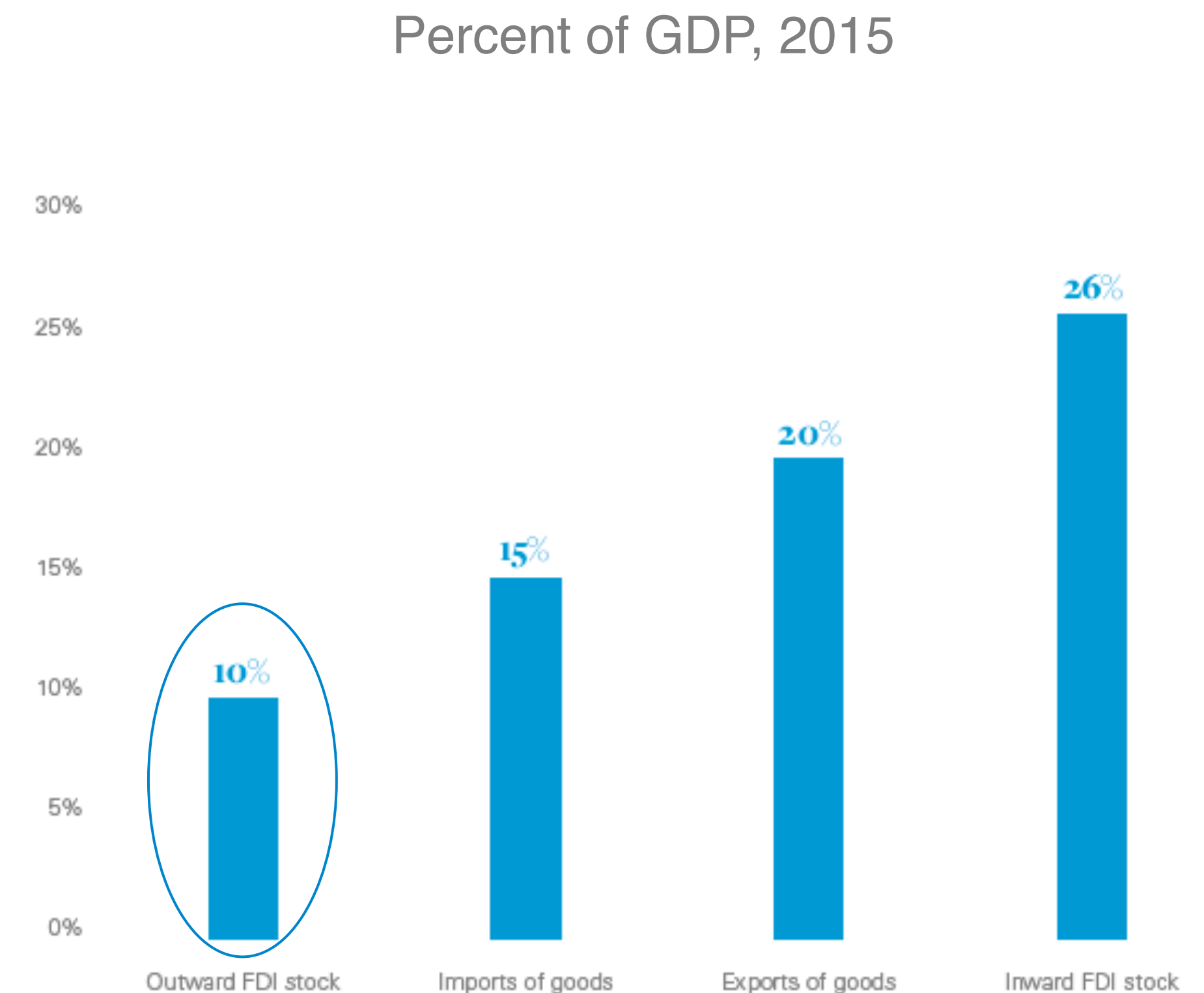
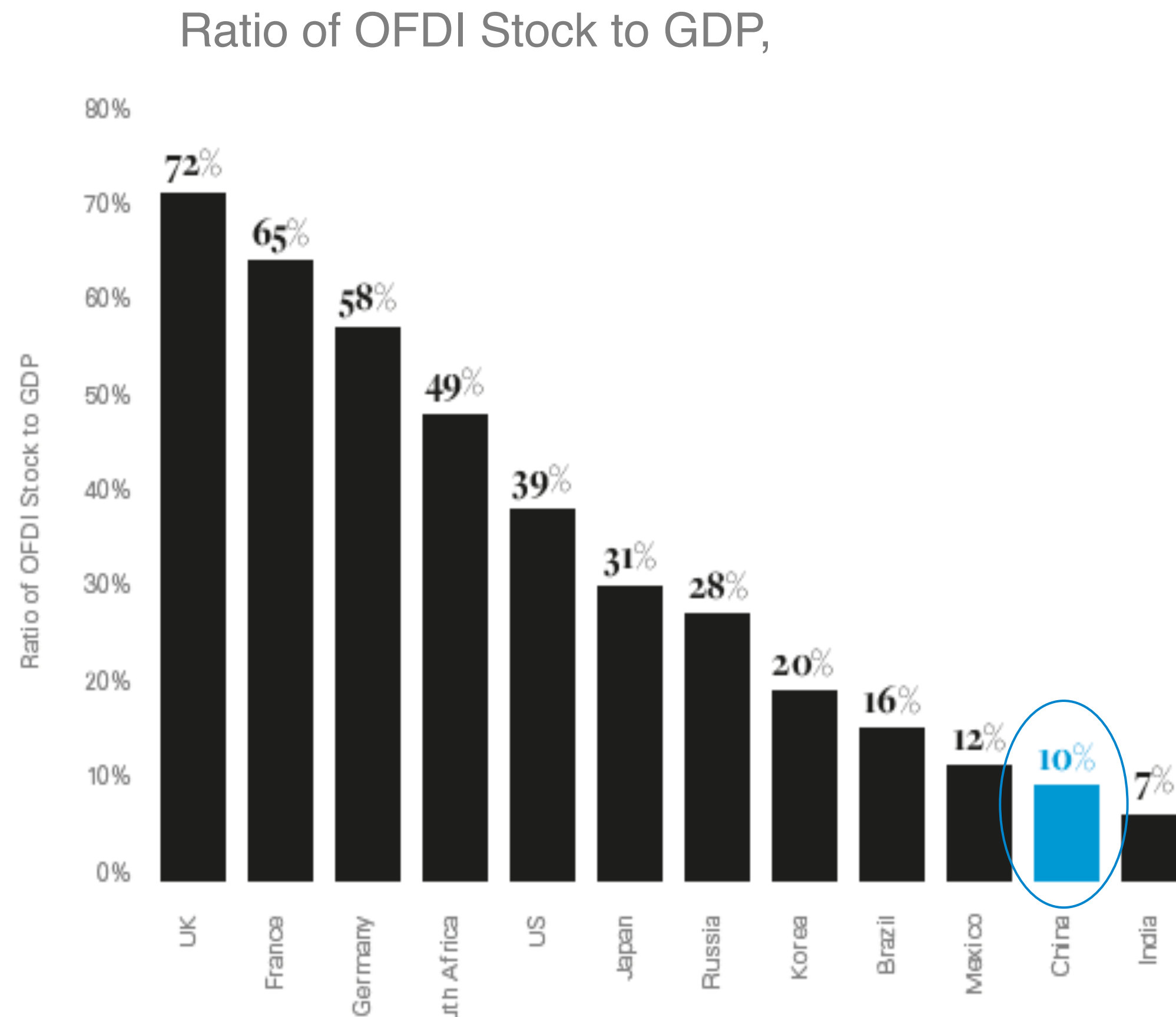
Significant capital outflow

Source: Rhodium Group, People's Bank of China, State Administration of Foreign Exchange, Rhodium Group. Data for 4Q 2016 is preliminary, and a full breakdown by category is not yet available

China's Cross-border M&A – long-term potential

China's OFDI stock remains tiny as a percentage of GDP

It remains underdeveloped relative to inward FDI and trade integration



Source: Rhodium Group, IMF

China's Cross-border M&A – major players

Chinese IT players have become global enterprises

The 15 largest Chinese companies in terms of asset stocks held abroad, 2014

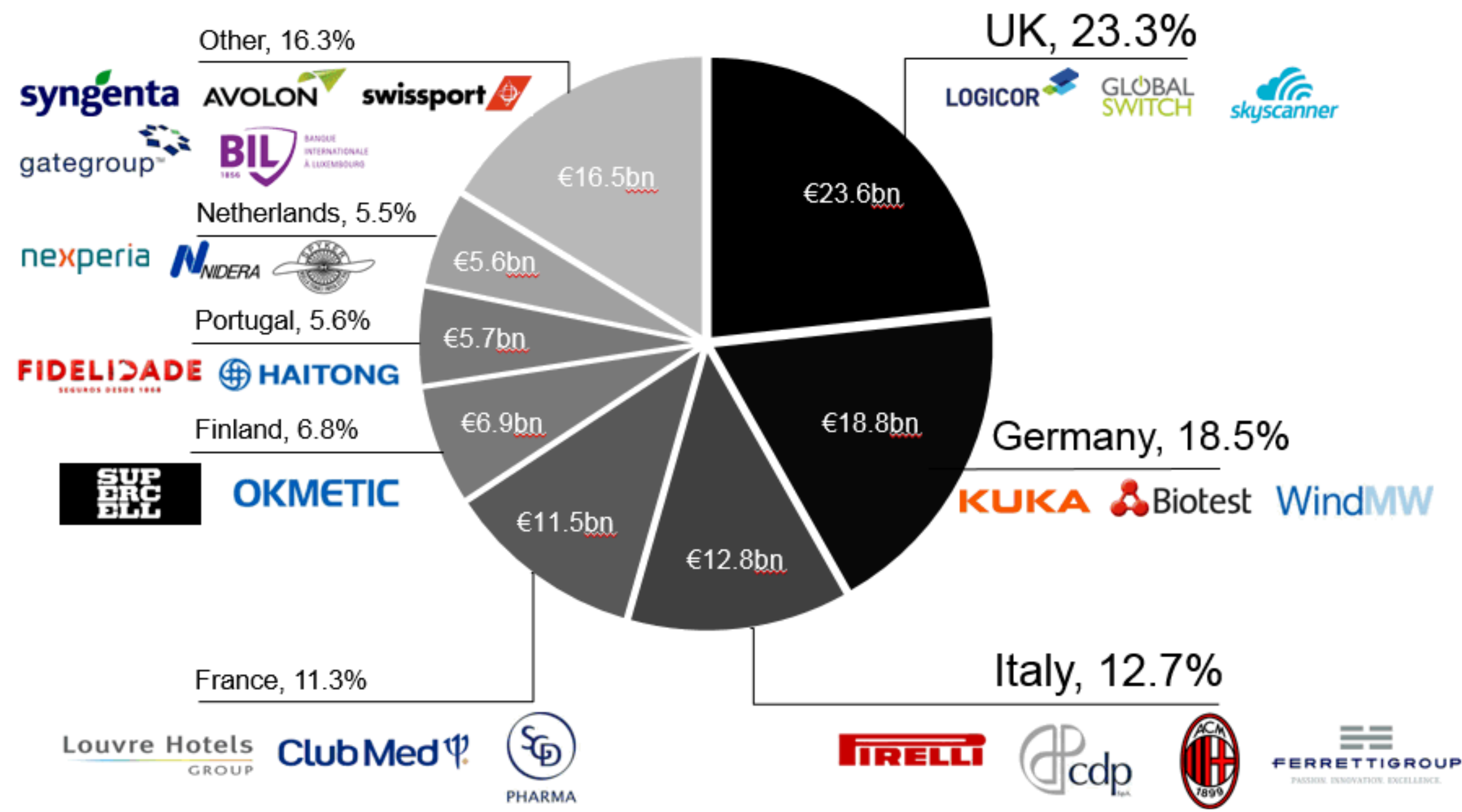
	COMPANY	SECTOR	ASSET STOCKS HELD ABROAD	TOTAL ASSETS
1	China National Offshore Oil Corp	Mining	71,090	182,282
2	China Ocean Shipping (Group) Company	Transportation	44,805	57,875
3	Legend Holdings Corporation	IT equipment	26,957	47,062
4	China National Petroleum Corporation	Mining	22,857	641,334
5	China State Construction Engineering Corporation Ltd	Construction	22,440	149,670
6	Sinopec - China Petrochemical Corporation	Oil	21,943	362,873
7	China Minmetals Corp	Metal	19,225	59,010
8	Sinochem Group	Mining	18,706	57,867
9	Lenovo Group Ltd	IT equipment	16,791	27,081
10	China Mobile Limited	Telecommunications	10,556	211,117
11	China Electronics Corporation (CEC)	Data processing	10,226	38,157
12	Cofco Corp	Wholesale trade	10,225	70,888
13	Dalian Wanda Commercial Properties Co., Limited	Construction	9,189	91,891
14	Tencent Holdings Limited	Data processing	8,260	27,873
15	Fosun International Limited	Metal	8,212	52,897

Source: World Investment Report 2016. UNCTAD. Excluding financial sector entities. 2014 data. Asset figures in millions of dollars.

China's Outbound FDI into EU - Geographical distribution

UK and Germany leads the most popular investment destinations

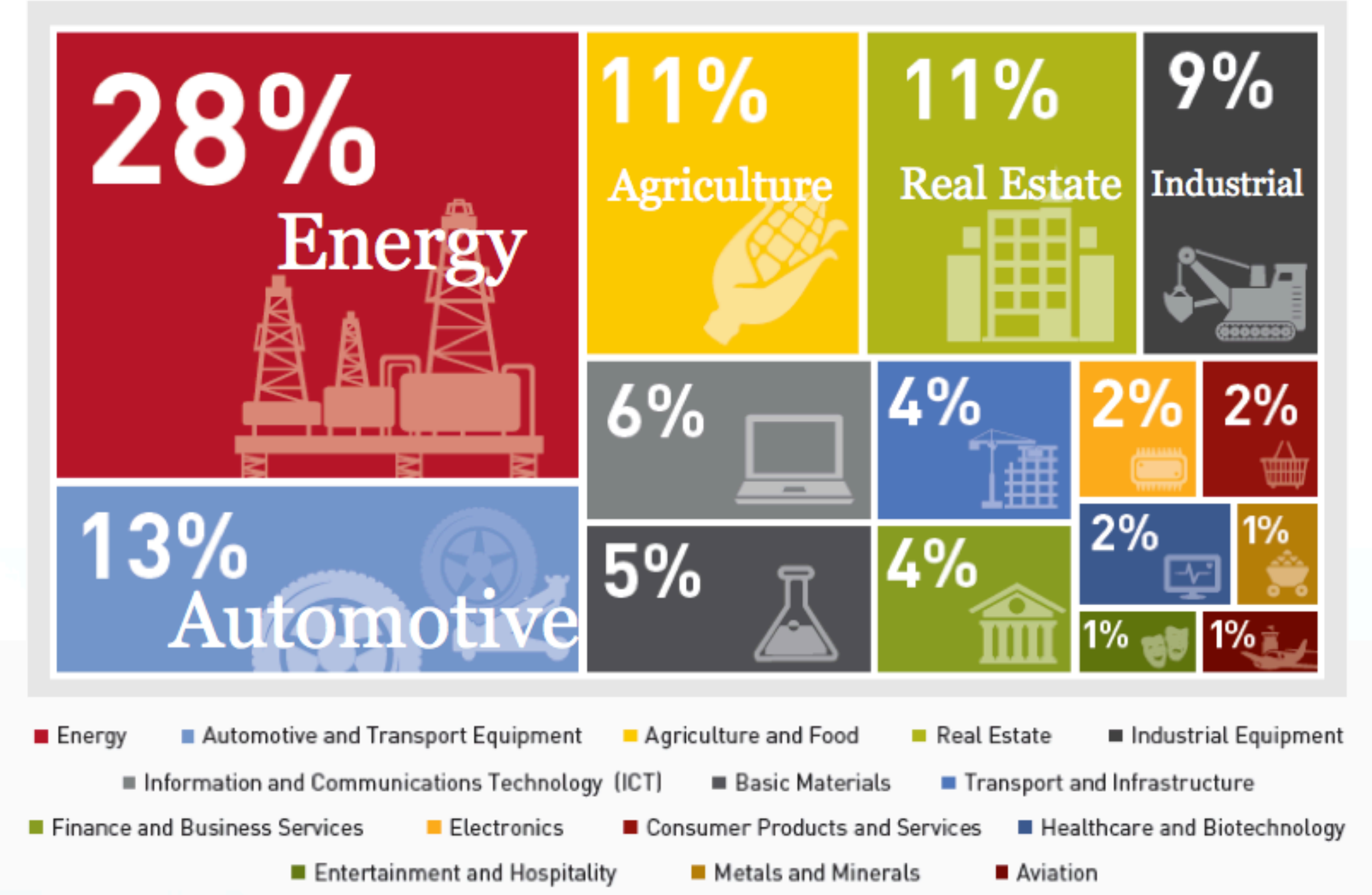
Chinese FDI in the EU, 2000-2016



China's outbound FDI into EU – Industry distribution

Energy, automotive and Agriculture was largest 3 recipients of Chinese investment

Chinese FDI transactions in the eu-28 by industry, cumulative 2000-2014 Percent of total cumulative investment from 2000-2014 (USD\$61bn)



China's M&A into EU – Top deals

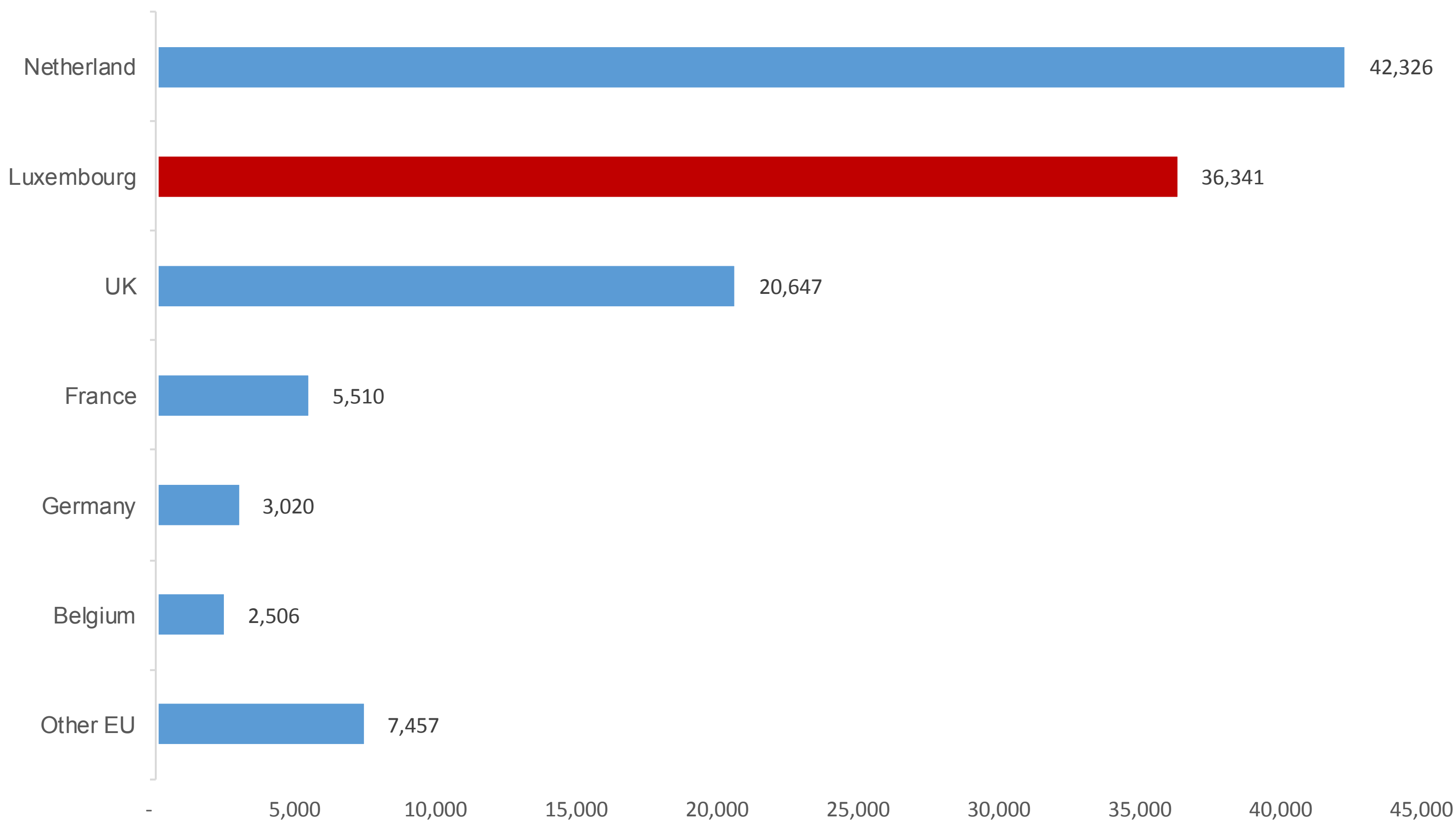
Increased number of mega deals were seen in the past three years

Announced Date	Target	Stake	Target Country	Bidder	Bidder Country	Deal Value EUR(m)
03/02/2016	Syngenta International AG	100.0%	Switzerland	China National Chemical Corporation	China	42,039
02/06/2017	LogiCor Europe Limited	100.0%	UK	China Investment Corporation	China	12,250
23/03/2015	Pirelli & C. S.p.A.	100.0%	Italy	Consortium led by ChemChina	China	8,116
21/06/2016	Supercell Oy	84.3%	Finland	Tencent Holdings Ltd.	China	7,607
03/09/2015	Avolon Holdings Limited	100.0%	Ireland	Bohai Capital Holding Co., Ltd.	China	6,519
21/12/2016	Global Switch Holdings Limited	51.0%	UK	Elegant Jubilee Limited	China	3,902
18/05/2016	KUKA AG	86.5%	Germany	Midea Group Co., Ltd.	China	3,778
30/07/2015	Swissport International Ltd.	100.0%	Switzerland	HNA Group Co., Ltd.	China	2,566
14/06/2016	Nexperia B.V.	100.0%	Netherlands	JAC Capital Management; Wise Road Capital	China	2,445
26/09/2016	Urbaser S.A.	100.0%	Spain	China Tianying Inc.	China	2,212
13/06/2016	WindMW GmbH	80.0%	Germany	China Three Gorges Corporation	China	1,700
11/04/2016	gategroup Holding AG	100.0%	Switzerland	HNA Group Co., Ltd.	China	1,689
23/11/2016	Skyscanner Holdings Limited	100.0%	UK	Ctrip.com International, Ltd.	China	1,670
28/05/2015	NXP Semiconductors N.V. (RF Power business)	100.0%	Netherlands	JAC Capital Management Ltd	China	1,653
01/09/2017	Banque Internationale a Luxembourg SA	89.9%	Luxembourg	Legend Holdings Corporation	China	1,484
26/04/2017	Dufry Group	16.8%	Switzerland	HNA Group Co., Ltd.	China	1,328
11/12/2015	SIBUR Holding OJSC	10.0%	Russia	China Petrochemical Corporation	China	1,219
07/04/2017	Biotest AG	100.0%	Germany	Creat Group Corporation	China	1,203
10/02/2016	Opera Software ASA	100.0%	Norway	Consortium led by Golden Brick	China	1,121
10/03/2016	Punch Powertrain nv	100.0%	Belgium	Ningbo Dongfang Yisheng Investment	China	1,115
19/05/2016	BPL Holdings Limited	100.0%	UK	Creat Group Corporation	China	1,068
10/02/2015	Infront Sports & Media AG	100.0%	Switzerland	Dalian Wanda Group	China	1,050

China's Outbound FDI into EU – top recipient and channel

Luxembourg is a gateway for Chinese investments in Europe

China's OFDI position in EU Countries, 2015



Note: Stock figure reported by FDI recipients which including investment from China Mainland and Hong Kong.
Source: IMF Coordinated Direct Investment Survey (CDIS) 2015

China's direct investments in Europe

China's tax treaty rates table

	Dividend	Interest	Royalty	Capital gains on real estate company	Capital gains on shares
UK	-*	0%/10%	6%/10%	Yes**	-
France	5%/10%	-	10%	Yes	Yes
Germany	5%/10%/15%	-	6%/10%	Yes	Yes
Spain	10%	10%	10%	Yes	Yes
Italy	10%	10%	10%	Yes	Yes
Netherlands	0%***/5%/10%	-	-	Yes, only in 'abusive' situations	Yes, only in 'abusive' situations
Greece	5%/10%	10%	10%	Yes	No
Poland	10%	10%	7%/10%	Yes	Yes

Note:

*: '-' means the country does not levy tax on the income under its domestic tax law

** : 'yes' means the right to tax is allocated to the source state under the treaty

***: 0% applies when the Chinese company is 100% state-owned

China's investments in Europe via Luxembourg

Luxembourg's tax treaty rates table

	Dividend*	Interest**	Royalty**	Capital gains on real estate company	Capital gains on shares
UK	-	0%	0%	No***	-
France	0%	-	0%	Yes	No
Germany	0%	-	0%	Yes	No
Spain	0%	0%	0%	Yes	No
Italy	0%	0%	0%	No	No
Netherlands	0%	-	-	No	No
Greece	0%	0%	0%	No	No
Poland	0%	0%	0%	Yes	No

Note:

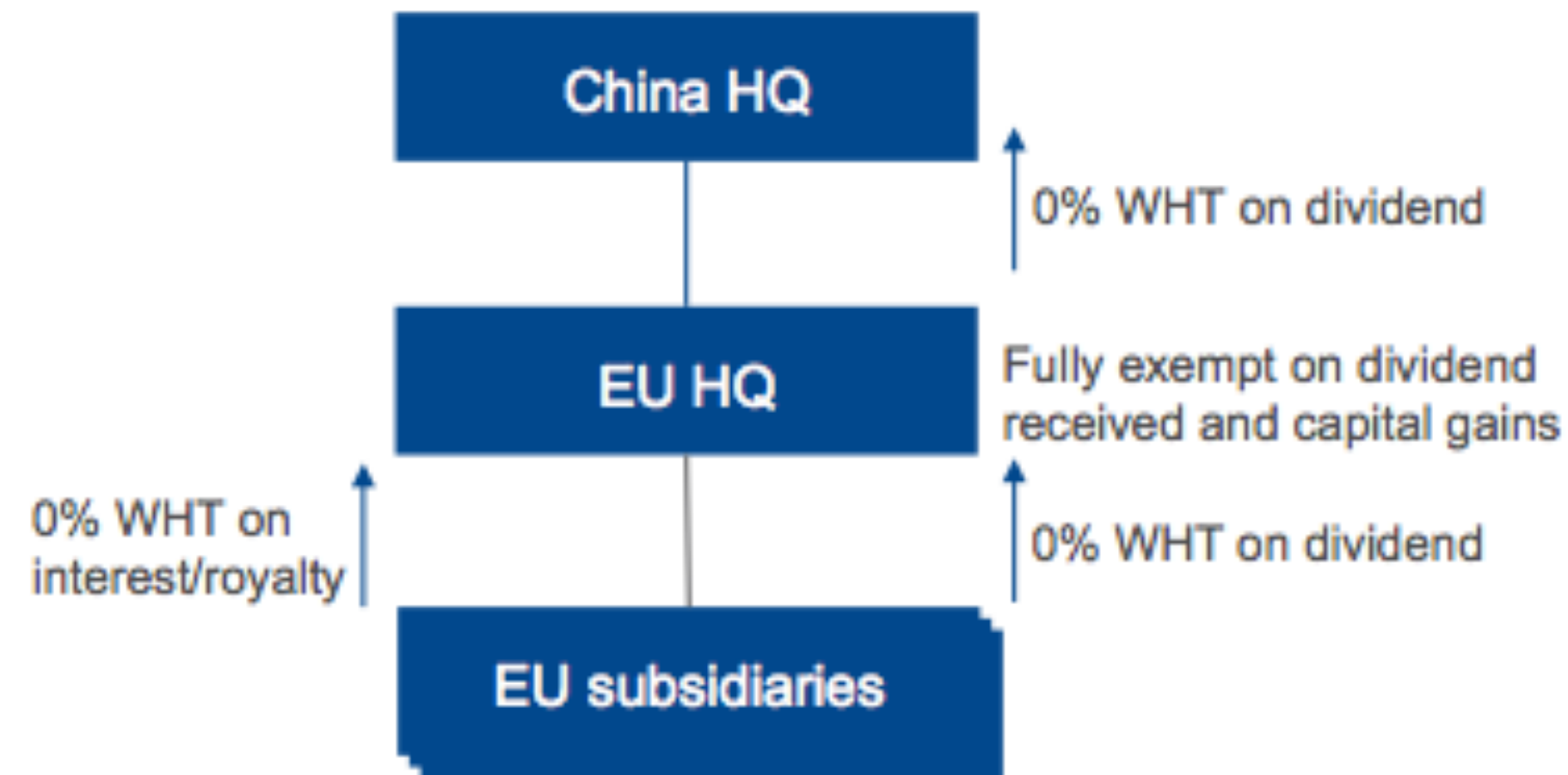
*: 0% withholding tax (WHT) applies on dividends, subject to anti-abuse rules in EU Parent-Subsidiary Directive

** : 0% WHT applies on interest/royalty under EU Interest-Royalty Directive, provided certain conditions are met

***: 'no' means the right to tax is allocated to the resident state under the treaty

China's investments in Europe via Luxembourg

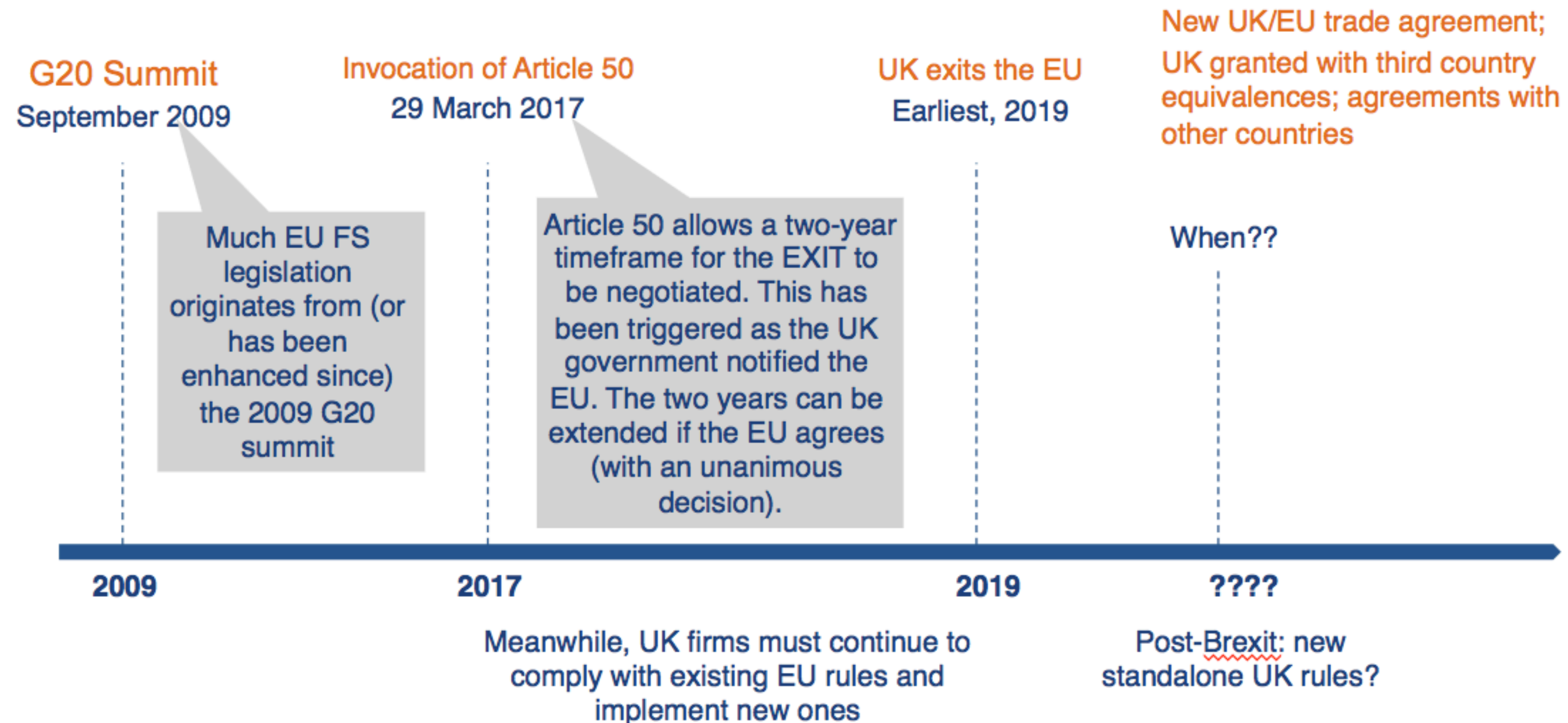
Tax benefits in a nutshell



- If Chinese companies (**China HQ**) structure their investments in Europe by setting up a EU headquarter in Luxembourg (**EU HQ**), a very tax efficient structure can be achieved:
 - 0% WHT applies on dividends from EU subsidiaries under EU Parent-Subsidiary Directive, provided anti-abuse rules do not apply
 - 0% WHT applies on interest/royalty from EU subsidiaries under EU Interest-Royalty Directive
 - Capital gains protection on alienation of shares is provided under tax treaties concluded by Luxembourg and other EU countries
 - Dividend received and capital gains derived by EU HQ should be fully exempt in Luxembourg under the participation exemption regime, provided certain conditions are met
 - 0% WHT applies on dividends from EU HQ to China HQ, provided certain conditions are met
 - In case China HQ wants to incorporate a holding company in Hong Kong (**HK HoldCo**) above EU HQ to manage its investments abroad, there should be no tax leakage at the level of HK HoldCo

Note: In the context of the Base Erosion and Profits Shifting Project initiated by the OECD and G20 to tackle tax avoidance, there should be sufficient substance at the level of EU HQ to ensure the tax benefits above can be achieved

Timeline: Brexit/future trading position/new rules?



Biggest Brexit risk is temporal: there could be a considerable time between the date of exit and when the equivalence judgements and any bespoke trade provisions kick in

Source: ALFI

Ensuring continued access to the EU single market

- a **Hard Brexit** means the end of the access of the EU single market from the United Kingdom for **credit institutions, insurance companies** and **asset managers**
- concept of **European Passport, EU subsidiary** of foreign credit institutions, insurance companies and asset managers to access the EU single market in two manners (i) **freedom to provide services** (FPS) from the location of the EU subsidiary, (ii) possibility to establish **branches** of the EU subsidiary in the EU (permanent establishment) as well as **fund passports** under UCITS or AIFMD
- pending agreement on the future post Brexit settlement, credit institutions, insurance companies and asset managers need to **review the configuration of their branch / subsidiary and headquarters presence** within the United Kingdom, the European Union and elsewhere, as well as their **fund domiciles**
- **Luxembourg, Dublin, Amsterdam, Frankfurt, Paris**, etc. are positioning themselves as alternatives for financial institutions which are more impacted by the United Kingdom's planned withdrawal from the European Union

Credit Institutions / three alternative arrangements

145 supervised
credit institutions
registered in Lxbg*

Luxembourg subsidiary model

Set-up of a separate legal entity held by the parent non-EU (UK) Bank

Authorization by Luxembourg and EU supervisory authorities grants access to the universal banking license and the EU banking passport

Overall authorization procedure to take approximately 6 months

Luxembourg branch model

Registration of a branch by the UK credit institution's, to be authorised by the Luxembourg Ministry of Finances (LMF)

Distinct place of business from the bank headquarters but not separate legal personality

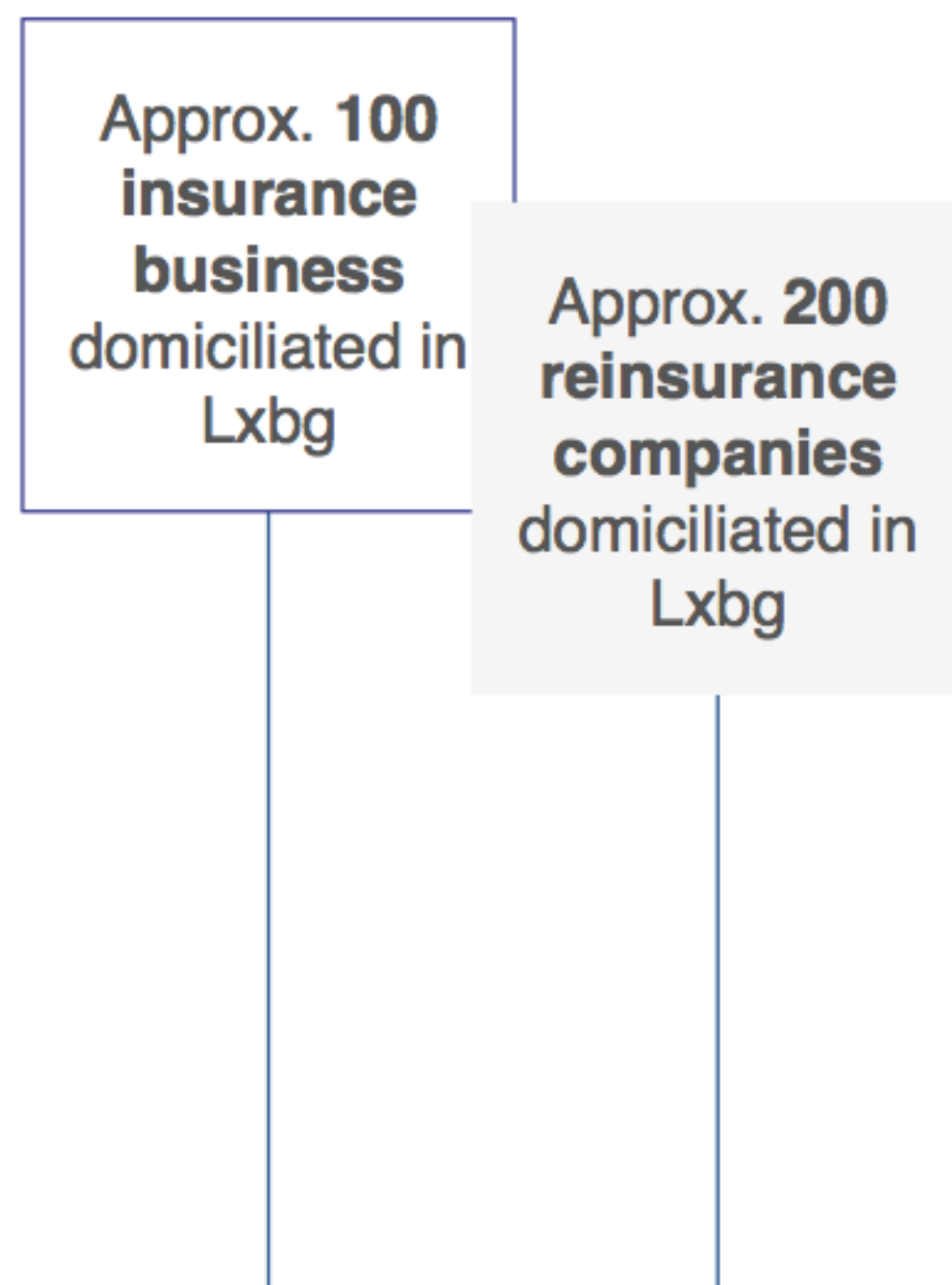
No access to EU banking passport

Services on an occasional basis

By way of a specific approval by the LMF, a UK entity would be able to come occasionally and on a temporary basis to Luxembourg in order to carry out a banking or an investment service

Source: European Banking Authority

Insurance companies / new hub in the EU



Shift of UK insurance businesses to Luxembourg:

- Luxembourg as an already established **major center** for the insurance and reinsurance industries
- Insurance and reinsurance is a strong sector with **specific expertise** in a cross-border environment
- Establishment of **new activities by UK insurance/re-insurance operators** usually done by setting-up either a subsidiary entity or the actual European headquarters of the group

Impact of Brexit on asset management firms (1)



Source: ALFI

Impact of Brexit on asset management firms (1)

Brexit affecting management companies

- No impact on the capacity of Luxembourg funds to continue benefiting from the EU passport
- UCITS will however most likely no longer be able to appoint a UK management company;
- Appointment of a EU UCITS management company required
- Possibility to sub-delegate investment management activities to a UK asset manager

Impact at product level

- UK funds will be regarded as third-country funds post-Brexit, with no marketing passport across the EU
- UK funds should however still be authorized to invest in an EU master fund
- A master-feeder structure enables initiators to avoid a duplication of the management functions with the investment manager, focusing only on the portfolio of the master fund

Impact of Brexit on asset management firms (2)

Luxembourg emerging as a clear “onshore” solution for alternative managers, in the current environment where the UK is becoming a third country for AIFMD purposes.

Incoming players may be split as follows:

clear market
trends for
alternative
managers

1. **Non-EU managers** (including hedge funds), who have been relying up until now on private placement rules, now opting for an EU jurisdiction to set-up their AIFM and – where applicable - consolidating all of their European operations into one single jurisdiction;
2. **UK managers** marketing their UK or Channel Islands limited partnerships with a UK AIFM looking to move-in onshore to keep their ability to market their funds on a pan-European basis

AIFMD third-country passport: Timing

Timing for the passport extension to third countries (possibly including the UK) still unclear – **Brexit expected to delay the process**

Impact of Brexit on asset management firms (3)

Impact on funds distributors

UK distributors (MiFID firms) will no longer be able to perform distribution functions across the EU for EU funds under the passport regime

Possibility to delegate non-core functions linked to the distribution (e.g. support services) to such firms

available options to keep operating under an EU license

1. **setting-up of a Luxembourg MiFID** firm abiding by the full legal, regulatory and substance requirements imposed in order to obtain an EU license;
2. **using already existing Luxembourg-based UCITS management companies or AIFMs** as a hub for the performance of the group's MiFID services by obtaining permission to perform additional services under the UCITS Directive and/or the AIFM Directive.
> Such services might then be passported within the EU either based on the principle of free provision of services or by establishing branches.

Impact of Brexit on asset management firms (4)

