



# China factors

## A guide for investing in China

Global Chinese Services Group  
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# Preface

For the last decade and a half, China sustained a growth rate of ~10 percent becoming the second largest economy pegged at \$10 trillion. Today its domestic market lags on the back of pronounced problems of overcapacity in industry and property, weak demand and deflation, it faces a new reality, a new normal.

The National Bureau of Statistics (NBS) recently announced the 2015 second quarter GDP growth, which beat market expectations registering a 7.0 percent year on year growth, with industrial output rising by 6.9 percent. Despite challenges that have intensified the downward pressure on the market, the wider economy has been showing signs of recovery. This is the result of recent government efforts to realign the economy to be less dependent on debt-fuelled infrastructure and real estate investment. People’s Bank of China’s monetary easing efforts to arrest the deterioration of business activities and lay a solid foundation are supporting a shift to an economy driven by services.

The crux of the administration’s growth plans is to drive innovation-driven development, application of smart technology, green development and to become a manufacturer of quality. Private sector and foreign investments are crucial to achieve this market mix. Furthermore, the intention to reduce the number of industries where foreign investment is prohibited underpins potential opportunities the new normal offers overseas companies and investors. To encourage overseas investment, the government set up the Shanghai free trade zone (FTZ) as a pilot program. Following its success, Tianjin, Guangdong and Fujian were also declared as FTZ’s. The intention (and part of the program’s purpose) is to encourage manufacturers to upgrade from low-end manufacturing onto smart technologies. Overarching these measures is the effort to institutionalize economic diversification and inclusiveness (of both state-owned and private companies) - which slowly bearing fruit.

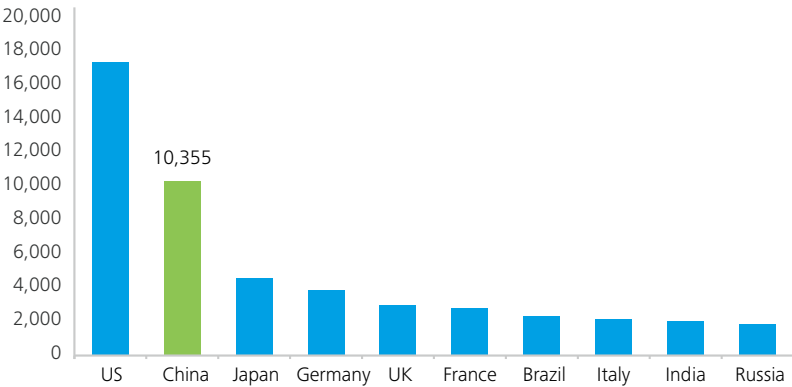
The 2015 China inbound investment brochure delves deeper into the local market landscape, analysing key proponents and industries that offer lucrative opportunities for foreign investment. With 17 offices and 10,000 people across Mainland China, Hong Kong and Macau, serving local and multinational companies, Deloitte is uniquely qualified to support your investment decisions with a full range of audit, tax, consulting and financial advisory services. We hope this piece of thoughtware serves as a useful guide to make your next bold move in China.

# Overview

China has gradually implemented reforms since the late 1970s. These policies have assisted China's move from a centrally-planned system to a market-oriented system with major global influence. Phasing out of collectivized agriculture, liberalization of prices, fiscal decentralization, increased autonomy for SOEs, growth of the private sector, stock market development, banking system modernization, and opening to foreign trade and investment have all contributed to China's rapid economic ascent.

Economic restructuring has contributed to a more than tenfold increase in GDP. In 2015, China stood as the second-largest economy in the world behind the United States (who it is expected to surpass by 2030), and is thoroughly involved in global trade, logistics, investment, and production streams—serving as a vital link in an increasingly interconnected global supply chain.

Nominal GDP - top 10 (US\$ billion, 2014)



Source: The World Bank

# China made a profound impression on the FG500 list

Chinese companies have benefitted from reform, gaining recognition on Fortune's Global 500 list. While companies on the list from the United States, Japan, Germany, and France showed a trend of decline between 2010 and 2014, Chinese companies have significantly increased in number on the worldwide list of companies with highest revenues, ranking second globally. An average of 13 Chinese companies are added every year.

A new round of reform and opening up is taking place in China. The centrepiece is the " Belt and Road initiatives" which include both foreign policy and domestic economic strategy. Originally billed as a network of regional infrastructure projects, the scope has continued to expand and will now include enhanced policy coordination across the Asian continent, along with financial integration, trade liberalization, and "people-to-people" connectivity. At the same time, the Chinese government is also implementing its free trade zone (FTZ) strategy with other countries and encouraging domestic enterprises to participate in overseas expansion and cooperation. All efforts to implement

these initiatives will have important strategic implications for the global economic architecture, including patterns of trade, investment, as well as infrastructure development.

Rank*	Countries	2010	2011	2012	2013	2014	2014 Vs 2013 hanges
1	USA	139	132	132	132	128	↓ 4
2	China**	46	61	73	89	95	↑ 6
3	Japan	71	68	68	62	57	↓ 5
4	France	39	35	32	31	31	-
5	Germany	37	34	32	29	28	↓ 1
6	UK	29	30	26	28	27	↓ 1
7	Korea	10	14	13	14	17	↑ 3
8	Switzerland	15	15	15	14	13	↓ 1
9	Netherlands	14	12	12	11	12	↑ 1
10	Canada	11	11	11	9	10	↑ 1

\*Rank refers to Fortune 500 2014 rank

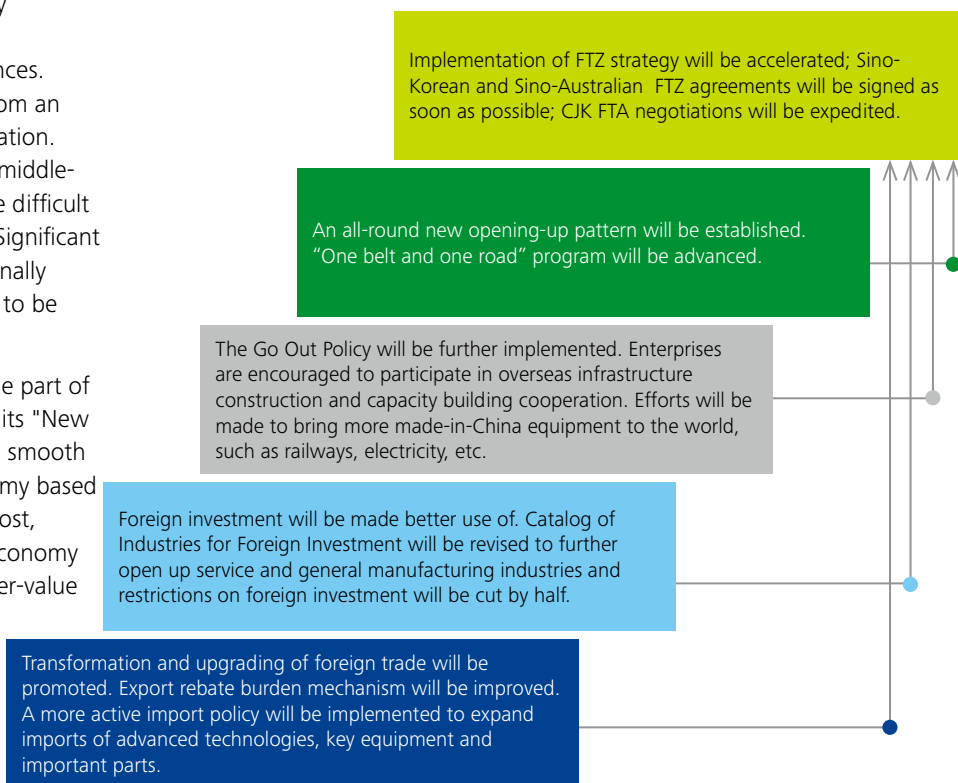
\*\*China refers to the Chinese mainland and Hong Kong, excluding Taiwan

Source: Fortune magazine

## China will enter into a new round of high level opening up

China's rapid growth has brought on many challenges as well, including inequality, environmental issues, and external imbalances. China also faces demographic pressures from an aging population and domestic labor migration. History has shown that transitioning from middle-income to high-income status can be more difficult than moving from low to middle income. Significant policy adjustments are required, both internally and externally, in order for China's growth to be sustainable.

A slowdown in growth rates is an inevitable part of the development process. As China enters its "New Normal" phase, priority must be given to a smooth transition from a rapidly developing economy based on investment in heavy industry and low-cost, manufactured exports to a more mature economy based on domestic consumption and higher-value goods and services.



## Economy – steady, despite turbulence

**2016: Not an easy year for China, but an economic 'hard landing' is unlikely**

Predictions of major Chinese economic indicators

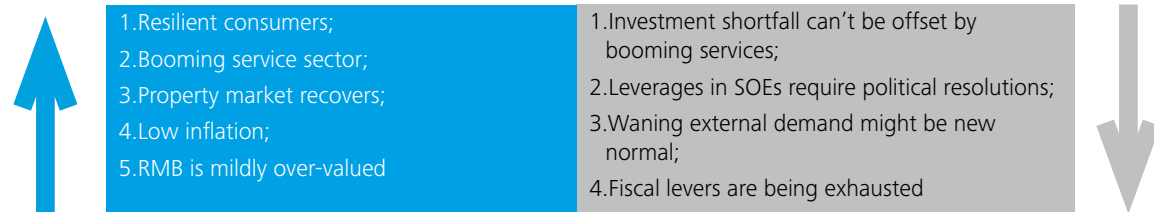
Index	2011	2012	2013	2014	2015	2016F	2017F	2018F
GDP(%)	9.3	7.7	7.7	7.3	6.9	6.4	6.5	6.1
CPI(%)	5.4	2.6	2.6	2	1.4	1.5	1.4	2.4
PPI(%)	6	-1.7	-1.9	-1.9	-5.2	-3.4	-1.1	1.4
Retail sales of consumer goods(%)	17.1	14.3	13.1	12	10.7	10.6	10.7	12.8
Industry value added(%)	13.9	10	9.7	8.3	6.1	5.5	5.4	8.3
Exports(%)	20.3	7.9	7.9	6.1	-2.8	0.6	1.5	5.3
Imports(%)	24.9	4.3	7.3	0.4	-14.1	-4.1	0.5	5.2
Trade surplus(\$billion)	1551	2320	2590	3825	5945	6574	6820	
Fixed-asset investment(%)	23.8	20.6	19.6	15.7	10	9.3	9	15.8
M2(%)	13.6	13.8	13.6	12.2	13.3	12.3	11.8	10.6
RMB loans(%)	15.8	15	14.1	13.6	14.3	13.9	13.9	
1 year deposit rate(%)	3.5	3	3	2.75	1.5	1.13	1.1	1.25
1 year lending rate(%)	6.56	6	6	5.6	4.35	3.99	3.77	3.85

\*6.4% of 2016 GDP growth was predicted by Deloitte China Chief Economist, Xu Sitao

The official GDP growth target for 2016 is set at 6.5 percent with the goal of doubling the size of the economy by 2020. In order to achieve this economic growth target, policy responses will have to be more pro-growth (without resorting to fiscal stimulus measures such as in late 2008). Premier Li Keqiang has ruled out the possibility of a "strong stimulus" for the next few years. Meanwhile, the twin objectives of "stabilization of economic growth" and "adjustment of economic structure" will see economic growth take precedence over structural adjustment. In addition, certain supply-side reforms (streamlining administrative approvals and selective closures of SOEs showing losses) are likely to be introduced with the overarching goal of reducing excess capacities in several sectors such as steel and ship-building. However, there is a price to be paid (or several) for sustaining a relatively high GDP growth rate – one of them is leverage.

## Two-track economy: Less reliance on investment and greater promotion of consumption

### China's Two-track Economy



Source: Deloitte Research

If overall leverage continues to rise (total debt/GDP reached about 260 percent in 2015), it will be important for the government to rein in leveraging with local governments and firms. The policy implications are clear: first, the central government is expected to take on certain liabilities from local governments. This means debt swaps and maturity extensions as in 2015. For the corporate sector, it means a greater reliance on direct financing through capital markets and the exit of certain "zombie" companies (i.e. companies that survive but have profits too low to invest in new opportunities). In the wake of the stock market interventions of summer 2015, one of the chief lessons learnt is that financial market supervision, which has significantly

trailed market development, must be better coordinated. Therefore, it is not surprising that the People's Bank of China (PBOC) has taken the lead in terms of mitigating financial risk during liberalization.

As pledged by President Xi, policy makers would stick with "active fiscal policies and appropriate monetary policies." In practical terms, this means some fiscal support to stabilize the economy (but stops well short of stimulus) and further cuts on the RRR (reserve requirement rate). With IMF Managing Director Christine Lagarde's endorsement of the RMB's inclusion into the SDR (special drawing rights), China could use such a milestone as a catalyst for a fast pace of liberalization in the financial sector

(e.g., to do away with QDII and QFII; and to establish a similar link between the Shenzhen and Hong Kong stock exchanges as the one that exists between Shanghai and Hong Kong).

A prosperous society, in our view, has an inclusive growth model. In today's China, being more inclusive means less reliance on investment and increased consumption. In addition, being inclusive also means more emphasis on environmental protection and poverty reduction. Therefore, a more inclusive growth model may well imply a GDP growth rate of less than 6.5 percent because previous policies were biased towards investment (especially in infrastructure) which lowered consumption for the current generation.

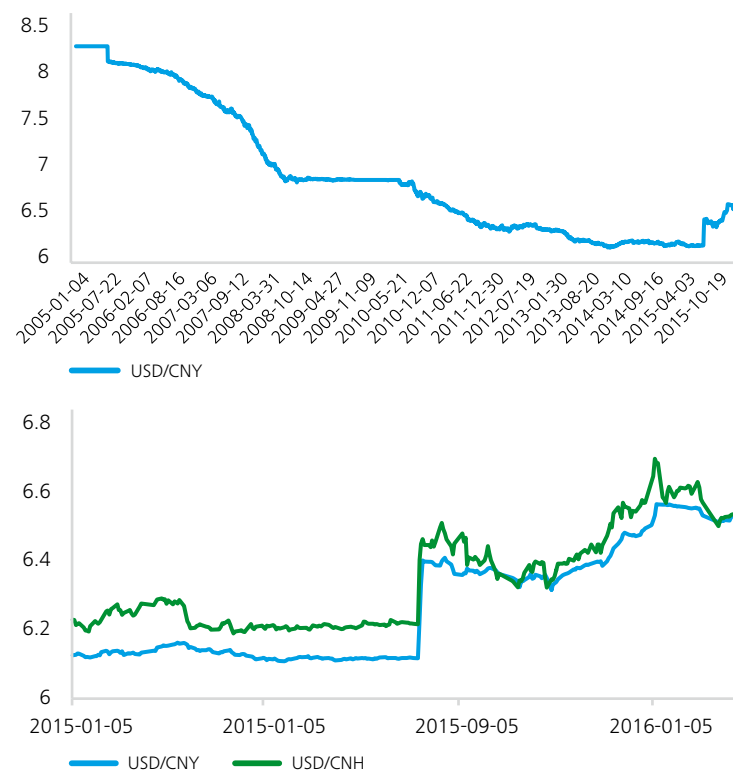
### 13th Five-Year Plan (FYP): Chinese style "Reaganomics"

Given the strategy guidelines above, the 13th Five-Year Plan, as expected, has projected a slightly lower GDP growth target of 6.5 percent for the next five years. The reasoning behind this is to ensure that China realizes its goal of becoming a moderately prosperous society by 2020. The social and economic impacts should be significant in following areas and goals:

- Stabilization of growth & economic adjustment
- Reduced capacities and inventories
- Increased innovation and industrial upgrades
- Greener economy
- SOE reform with the genuine mixed ownership experiment
- Fiscal reform redefines Beijing versus local governments in terms of fiscal revenues and tax reform with the user-pay principle as its emphasis
- Financial reform with a more flexible RMB exchange rate as the PBOC's basket is being tested now
- Labor reform addressing 150 million migrant workers
- Social reform with an emphasis on funding

Meanwhile, external expectations still remain for China to boost global aggregate demand, even against the current backdrop of sagging growth prospects for most emerging economies in 2016. The policy responses, as pledged by President Xi, would remain an "active fiscal policy and appropriate monetary policy."

RMB's historic exchange rate to US Dollar



## RMB's depreciation is not enough to fulfill market expectations

Beijing addresses the liberalization of China's currency and capital account policy under the threat of RMB falls. In the short run, much of the focus is on the RMB exchange rate, which has been stable on the back of PBOC's ferocious interventions in the off-shore CNH market. China, unlike most countries, has ample means to stabilize the exchange rate of its currency. The question is, at what cost? In brief, China could do the following three things: first, engineer a credible one-off revaluation of the RMB in such a way that the market would view the new level as fairly valued or even slightly under-valued; second, allow its reserves to run down while gradually pushing up the USD/CNY ratio; third, stick to the basket that was announced recently.

The first option is our preferred approach mainly because as a large creditor, China does not have to worry about rising debt which is denominated in foreign currencies (mainly in the dollar). Also, unlike economies that rely on oil and commodity exports, the collapse of oil and commodity prices has created additional room for loosened Chinese monetary policy. However, how to gauge the magnitude of a one-off adjustment is a huge challenge for policymakers whose mindsets are geared towards stability for stability's sake.

The second option is to run down the reserves which China has amassed over years in order to buy time (until the dollar peaks or the economy recovers). Even considering that China's US\$ 4 trillion in reserves (an all-time high less than a year ago) were too high, to lose US\$ 100 billion in a month (as was the case in December 2015) was quite a jump. China is expected to have account surpluses of US\$200 billion a year. The net reduction of reserves in recent months suggests that capital outflows are more serious than the data has shown. As of the end of December 2015, China's foreign reserves stood at US\$3.3 trillion while its total imports were less than US\$1.7 trillion. In general, a country does not need to maintain more than six months of import reserves (developed countries have an even lower ratio). China has been consistently boasting the highest import coverage ratio for several years running. For foreign currency debt, we continue to believe that, based on the data from both BIS and SAFE, China's foreign currency debt is about US\$1 trillion, or 10% of its GDP. This strategy should allow China to run down some of its unnecessarily high reserves

and at the same time allow firms to reduce their short positions in dollars. However, in order for this strategy to work, China also has to lower the RMB exchange rate at a measured pace. Recent market turbulence has shown is that it is dangerous for the PBOC to try to outsmart the forex market.

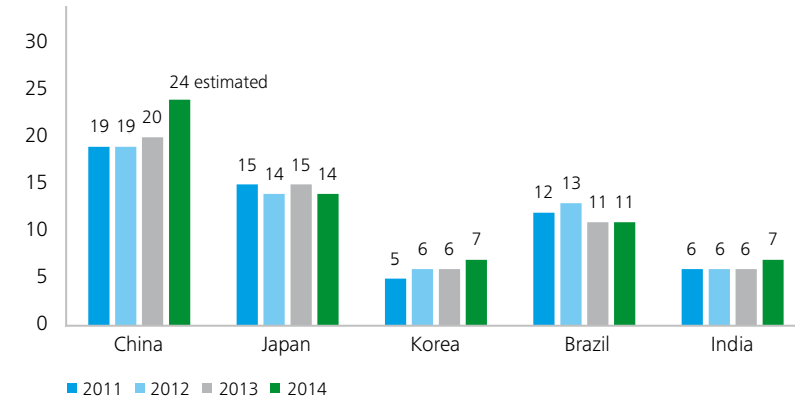
The third strategy is for China to stick with its currency basket. The RMB exchange rate, from now on, will be determined by bilateral exchange rates between China and its major trading partners whose currencies are also in the basket. Owing to the fact that this basket is new which means that the index has not changed much in value, and the predominance of the USD (26 percent) and HKD (6 percent), the only meaningful change can come from devaluation against the dollar.

In conclusion, any options other than a one-off devaluation will constrain China's ability to turn the economy around. Indeed, the PBOC has not cut interest rates or the reserve requirement rate in spite of downward pressure on the RMB.

## Running down FX when the currency is under threat

In terms of China's foreign exchange, bear in mind that having US\$4 trillion in reserves was excessive. Maintaining a high amount of foreign reserves can lead to inflation for China because the PBOC's sterilization attracts more capital inflows. Therefore, the argument is for running down foreign reserves when the currency is under threat. However, losses of US\$100 billion during in a single month (December 2015) also seem excessive. China is expected to post account surpluses of US\$200 billion a year. The net reduction of reserves in recent months suggests that capital outflows are more serious than data have indicated. By the end of December 2015, China's foreign reserves stood at US\$3.3 trillion, which is still a massive number. In 2015, China's total amount of imports is expected to be less than US\$1.8 trillion (As of November: US\$1.5 trillion). In general, a country does not need to maintain more than six months of reserves in import months (developed countries even have lower ratio). Recently, China has consistently had the highest import coverage ratio.

Import coverage ratios of five countries

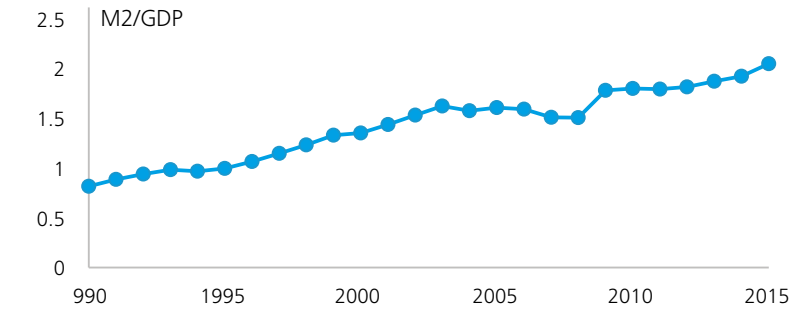


Source: The World Bank

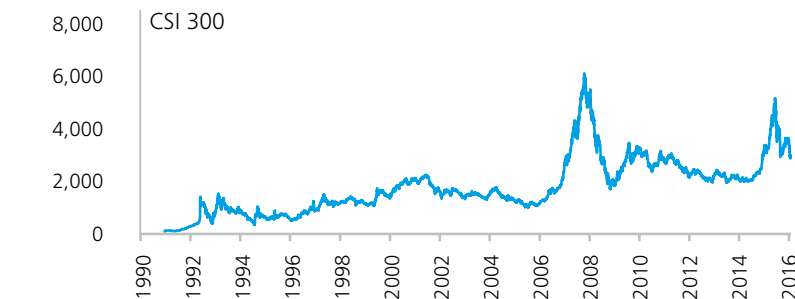
\* Total reserves comprise holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities

## Stock market: Animal spirit in China

China's storage of broad money



China's fluctuating stock market index



The decision by CSRC to halt its circuit breaker mechanism on 8 January 2016 has resulted in a mild rebound (about 2 percent) of the Shanghai Composite Index. But, selling pressure resumed on Monday with the broad index lowering by 5 percent. Regarding China's stock market, which has become a mover for global markets (equities, forex, oil, etc.), we would like to reiterate our long-held views: The drastic fall of share prices should not result in systematic risk; however, the volatility has exposed China's regulatory fragmentation which exacerbated last summer's stock market crash. The bigger challenge for China in the middle term will be de-leveraging because liquid Chinese consumers should be expected to play a significant role as the corporate sector and local governments must reduce their leverages.

### **The belt and road initiatives: exporting the growth model**

In addition to internal policies, external opening up comes to China's "Belt and Road" initiative (BR), which is a systematic project across Eurasia for "mutually beneficial cooperation". Contrary to conventional wisdom, China's Belt and Road Initiative (The Silk Road Economic Belt and the 21st-Century Maritime Silk Road) is neither a scheme to export China's excess capacity south and west, nor a grand scheme to exert geopolitical control over the regions concerned. It is, quite simply, an effort to boost regional connectivity in ways that could help China manage certain domestic economic challenges. If China can do this while exporting its growth model to partner countries, the initiative should be considered a success.

As China continues to develop economically and replaces the US as the world's largest economy

by the 2030s, and as it transitions to a more balanced economy, a key question is whether China can exploit its extraordinary capability in building infrastructure and its wealth of resources to help solve domestic problems through stronger economic interaction with neighbouring countries such as those in ASEAN. The ASEAN region is forging ever closer ties with China. China's decision not to devalue the RMB at the height of the 1997-98 Asian financial crisis earned China goodwill in the region. China's subsequent moves to initiate free trade negotiations and establish bilateral swap agreements with several ASEAN countries further enhanced China's position.

In this context, what response will Beijing's strategic initiatives such as the belt and road proposal elicit in this critical ASEAN region? More specifically, how will most countries react to China's Belt and Road initiatives and the AIIB, which is being spearheaded

by China? What are the opportunities and risks in large and dynamic economies such as Indonesia and Thailand? These are key issues worth further exploring.

### **Emerging industries reshaping and redefining China's economy**

The excesses of China's post-global financial crisis stimulus spur the need for reform. The government kept the economy growing by injecting RMB4 trillion (US\$586 billion) to support SOEs, real estate and other investments. The stimulus further entrenched the economy's reliance on industrial investment, export, and real estate for growth.

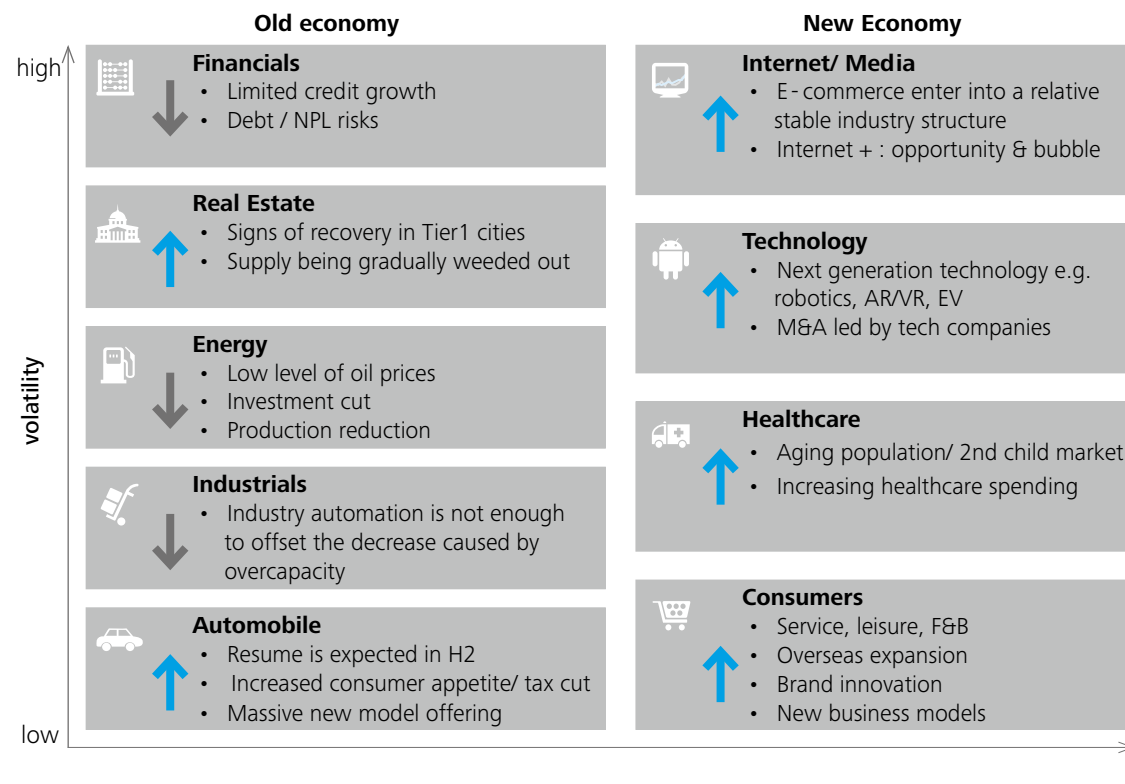
The apparent rationality of China's "New Normal" policy-- reduce leverage, cut capacities and embrace consumers—has lured us into applying economic scenario to analyze the "hidden side of industries". China's economy is rebalancing, and some of the traditional engines of growth like industrial output, steel production, etc. have mired or contracted and are being shifted into media, Internet, technology, and healthcare, and other industries, displaying

a resilient services sector and buoyant consumer expenditure.

This means that parts of China's industrial sector, the old economy, are at overcapacity, while portions of the new service sector economy—Internet+, healthcare, etc.—have been expanding rapidly, fuelling wage growth and promoting consumption.

Central government policy, funding, tax, and innovation efforts have consistently emphasized one goal: to develop a more advanced and technology-driven economy. Emerging industries such as Internet, Smart Manufacturing, Electric Vehicle and Healthcare will become the backbone of China's next phase of industrial modernization and technological development. These industries could drive China's broader growth as an internationally competitive economy. In the past five months, profit growth from emerging industries was 20 percent, with an annual income of more than RMB5 million, much higher than the average national level. Thus, emerging industries should become increasingly important in boosting the economic growth of the country.

## 2016 – Old economy vs. New economy



However, the financial and monetary policies' spillover effects, such as RMB depreciation, are stripping the government of a key tool to ease the country's economic transition. A host of factors, including continued overcapacity in key industries, environmental pressure, and demographic change, challenge current expansion, and how the government navigates these issues going into its 13th Five-Year Plan will test its ability to cope with the emerging complexities of economic transition.

## Industry overview & segmentation

To stand out in the fast-evolving world, enterprises not only need to sharpen expertise in their business area, but also need to have foresight to predict the future trend and the following impacts on the basis of specific industry knowledge.

Similarly, We selected seven industries to shed light on as they are encouraging foreign investors to explore business opportunities together with Chinese businesses.

Sectors included in this brochure:

- Smart manufacturing
- Pharmaceutical & healthcare
- Automotive
- Information technology
- Express delivery
- Retail

## Snapshot of China's smart manufacturing industry



## Smart manufacturing – the next wave

Globally, the manufacturing industry transformed toward a new age of smart manufacturing. To upgrade its position in the global value chain and build its competitive stance in the world, China is responding boldly to this transformation.

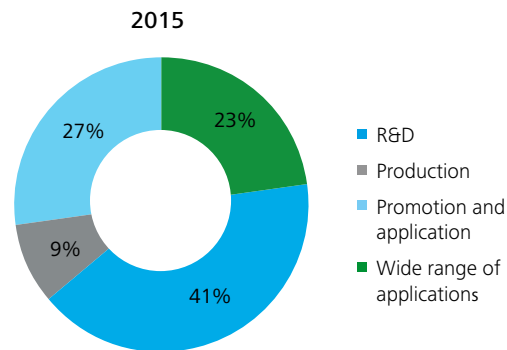
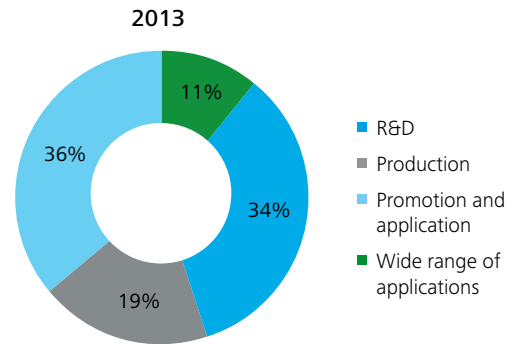
### An era of rapid growth

The industry output value of China's smart manufacturing was about RMB1 trillion in 2015 and is expected to exceed RMB3 trillion by 2020, with an average annual growth of 25 percent in the coming five years.

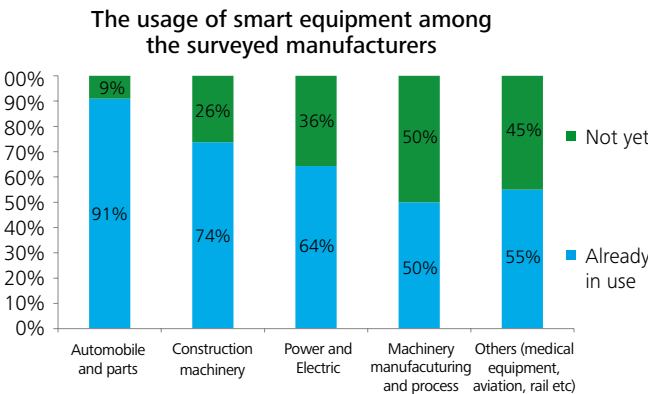
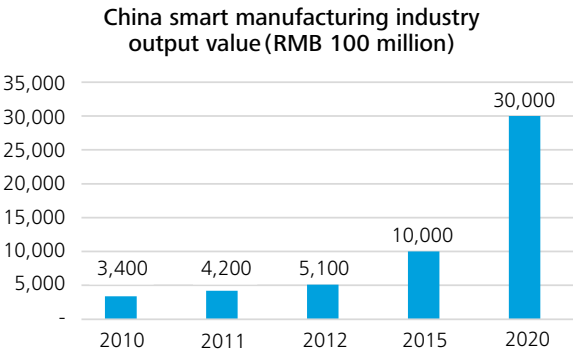
Deloitte China surveyed over 200 manufacturing companies in various sectors in 2013 and 2015, respectively. The survey results indicate that China's smart manufacturing market is entering an era of rapid growth.

In 2015, around 23 percent of surveyed smart equipment manufacturers claimed that their products had been widely used in the market, versus 11 percent in 2013. In addition, 59 percent of surveyed companies have started to apply automation, increased from 2013's 51 percent. Smart equipment is most widely used in automotive parts manufacturing, followed by construction machinery manufacturing, and power equipment manufacturing.

### Development plans of smart manufacturing industry



### Output values of China smart manufacturing industry



### Chinese market size and forecasts of key segments in smart manufacturing

Key segments	China market size	Forecasts
<b>Robotics</b>	<ul style="list-style-type: none"> <li>2014: 56,000 robots were sold in China, a 54% growth y-o-y</li> <li>H1 2015: sales increased 77% y-o-y</li> <li>H1 2015: production value of RMB1.9 billion, almost twice of the same period of last year</li> </ul>	<ul style="list-style-type: none"> <li>Market size by 2020: RMB200 billion</li> <li>Industrial robots – application in electronics, chemistry and pharmaceutical will experience higher growth than auto</li> </ul>
<b>Sensors</b>	<ul style="list-style-type: none"> <li>Market of RMB120 billion in 2015</li> <li>Largely benefit from the development of "Internet of Things", which is about to reach a market of RMB750 billion in 2015</li> </ul>	<ul style="list-style-type: none"> <li>Booming demand from beverage &amp; food, logistics, auto and security sectors in 2016-2020</li> </ul>
<b>3D printing</b>	<ul style="list-style-type: none"> <li>RMB4.7 billion in 2014</li> </ul>	<ul style="list-style-type: none"> <li>RMB20 billion by 2018</li> </ul>
<b>Industrial software</b>	<ul style="list-style-type: none"> <li>RMB100 billion in 2014, 17% growth y-o-y</li> <li>Driven by application in rail transportation, aviation, energy, and equipment manufacturing industries</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

### Driven by increasing cost, changing customer demand and policy support

When we first conducted surveys in 2013, many of manufacturing companies were hesitant to utilize automation technology. They preferred a wait-and-see approach assuming that their size and cost advantages would prevent decreased profits. In 2015, however, most manufacturing companies realized the urgency of transforming to smart manufacturing and some of critical trends that drive the transformation are as follows:

**Coping with the increasing cost of human resources and higher product quality requirements:** Manufacturing firms that specialize in mass production of technology products and product components are using robots to push back against rising wages and to increase competitiveness.

Meanwhile, increasing competition for energy resources also put manufacturers under pressure. Many manufacturing sectors will be forced to seek new ways of manufacturing, from energy efficient product designs to energy efficient operations and logistics.

**Moving toward a stronger ability to adopt change in response to customer needs and external disruptions:** Manufacturers are constantly launching new designs or utilizing new materials in response to rapid changing customer needs. They will have to apply advanced processing machines to realize more flexible manufacturing facilities and systems. The new system should not only shorten product-development cycles but also make facilities more robust against supply-chain disruptions.

**Making the best use of policies and incentives:** China's economic cycle is guided by its Five-Year Plan. In the 12th Five-Year Plan (2010-2015), advanced manufacturing is one of the seven strategic emerging industries in which the central government plans to aggressively invest. The government set a goal for smart manufacturing to grow by 25 percent annually, and in 5-10 years, for R&D to account for more than 5 percent of sales revenue. Smart manufacturing is also addressed in the 13th Five-Year Plan (2016-2020). Besides the Five-Year Plan, China launched the "Made in 2025" and "Internet+" initiatives in 2015, which reinforced this transformation to smart manufacturing, service manufacturing, and green manufacturing

**13th FYP key initiatives and implications (smart manufacturing related)**

Smart manufacturing related initiatives	Implications
<p><b>Upgrade Industrial Structure</b></p> <ul style="list-style-type: none"> <li>• "Made in China 2025": Improve efficiency, product quality and brand reputation</li> <li>• Strategic industries: Develop emerging industries with the help of government investment</li> <li>• Smart manufacturing: utilize new technologies in manufacturing</li> <li>• Develop modern services: support further market access to services, upgrading both production services and consumption services</li> </ul> <p><b>Establish new spaces for development</b></p> <ul style="list-style-type: none"> <li>• Emerging industries: Nurture environmental, biotechnology, IT, smart manufacturing, high-tech equipment, and new energy industries; and support upgrading of traditional industries</li> <li>• Infrastructure: Accelerate infrastructure construction, liberalize natural monopoly industries (e.g. electricity, natural gas, telecommunications)</li> <li>• Internet+: Develop Internet of Things (IOT), shared economy and big data strategy</li> </ul>	<ul style="list-style-type: none"> <li>• With the ambitious "Made in China 2025" strategy and well-financed projects to promote innovation, China is expected to make great progress in science and technology.</li> <li>• Technological and business model innovation will nurture waves of entrepreneurs and small businesses.</li> <li>• For companies doing business in or with China, they will need change costs and tap into China's other advantages, such as the rising productivity and sophisticated industrial chains, which are critical for competitiveness in China in the coming years.</li> </ul>

**Seizing new sources of profit, business models, and market champions**

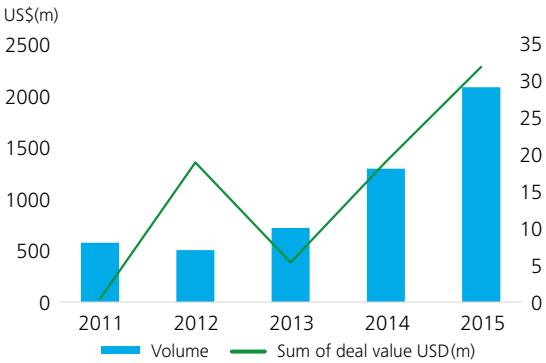
**New sources of profit – customized products and services**

In this era of product oversupply, the power is shifting from manufacturers to customers. Customers do not simply want a product anymore; they want the product—one that delivers exactly what they need exactly when they need it, and has comprehensive services before and after purchase.

Evolving customer needs will drive the development of product customization and thus will generate new sources of profit in the long run. Home appliance producer Haier has launched an interactive platform allowing customers to design their own products with a promise to deliver finished product in one to two weeks. A leading tool machine company is trying to connect with individual users to tap into the opportunities brought by Maker Movements globally.

A truly flexible manufacturing system also makes it possible to process small quantity orders at a reasonable cost. This will reveal the demands of "long tail" customers, whose needs have been neglected historically.

**M&A targeting automation sector**



Companies who can meet these new demands will have the best chance of controlling the profit pool with technology, assets, or services.

Both traditional manufacturers and technology companies are taking advantage of this opportunity by acquiring new capabilities. M&A activities targeting the automation sector have experienced rapid growth in past five years. In 2015, Chinese companies announced 36 deals with total value of US\$2.4 billion, including Alibaba's acquisition of Softbank Robotics (US\$235 million).

#### **New business model – leveraging platform value**

The manufacturing industry ecosystem is changing. Many Chinese companies are changing the rules of traditional business with innovative models, including leveraging a platform.

Xiaomi's asset-light model provides a good example. It allows Xiaomi to leverage assets of other companies and access the best sources—most of which are suppliers to the leading phone companies in the world. Xiaomi can take the best technologies in the field and then make a product that is attractive and powerful at a very competitive price. Consumer product manufacturing companies are no doubt the pioneer in adopting this model. However, we noticed that traditional machinery companies are also working in this direction. For example, some power equipment companies are attempting to build a platform with power grid companies to collect customer electricity usage data.

In addition, manufacturing companies can leverage internet platforms for enhancing brand image, procurement, marketing, services, and even R&D.

#### **New market leaders – small but mighty**

For a long time, manufacturing has been a game

only large corporations could play. Nowadays, with a network connecting companies specialized in various areas, scale is not required to access resources and reach the end market. Small companies have plenty of chances to become market leaders by only focusing on core business.

In China, both technological and business-model innovations are nurturing waves of entrepreneurs, who are disrupting the ways businesses have traditionally been done, and thus changing the competitive landscape. It is hard to imagine, but smart device companies in Shenzhen and Beijing with fewer than 50 employees each have created a RMB10 billion market of smart wearables.

However, smart manufacturing is in its infancy. It lacks some core technologies and faces bottleneck. Standardized modes of communication and data formats need to be established. Another challenge facing the application of internet+ is to define the collection of data in a sensible form and utilize big data effectively and properly. All these challenges need to be addressed to have profitable manufacturing; they require a joint government, enterprise, and consumer effort.



## Snapshot of China's pharmaceutical & healthcare industry

# Healthcare – a trillion dollar market

China's healthcare market is a trillion dollar market in the making. To put it in perspective, only the largest 15 countries in the world had a GDP greater than US\$1 trillion in 2013. China is expected to see strong growth overall, extending to all points along the value chain reaching US\$1 trillion by 2020, up from US\$350 billion today. Even at that projected level, however, health care spending will be one third that of the United States, and only US\$1,000 per person, compared to US\$8,915 per person in the U.S.

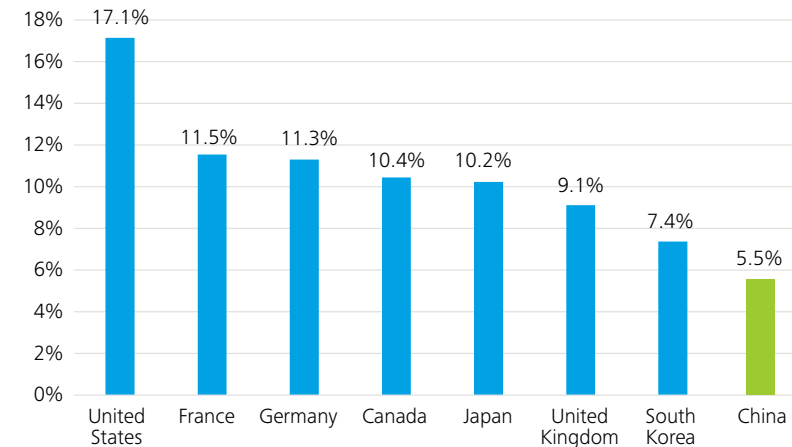
Healthcare is one of the last big industries in China to open up to foreign investment and technology. In addition to rising demand for the best available treatment from newly affluent consumers, China is facing new challenges, as cancer, heart disease, diabetes, and other chronic diseases afflict more of its population.

## Demand and policy driving market forward

Key market expansion drivers include:

- **Aging population:** The Economist Intelligence Unit (EIU) projects that China's population will reach 1.36 billion in 2016, the largest in the world, slightly larger than India's. Currently, the elderly population makes up 23 to 40 percent of the prescription drug market and 40 to 50 percent of the over-the-counter (OTC) drug market.
- **Increasing healthcare expenditure:** China is one of the largest healthcare markets in the world, yet its healthcare expenditure accounts for a mere 5.6 percent of GDP, in comparison with a rich-country average of 10.6 percent. Healthcare expenditures are expected to grow rapidly over the next five years. Out-of-pocket and private insurance healthcare payments are expected to continue rising, but at a lower rate of 8.5 percent through 2015. Historically, government healthcare payments in China have been lower than personal and private-sector payments. The CAGR for government payments was 21.47 percent from 2010 through 2014.

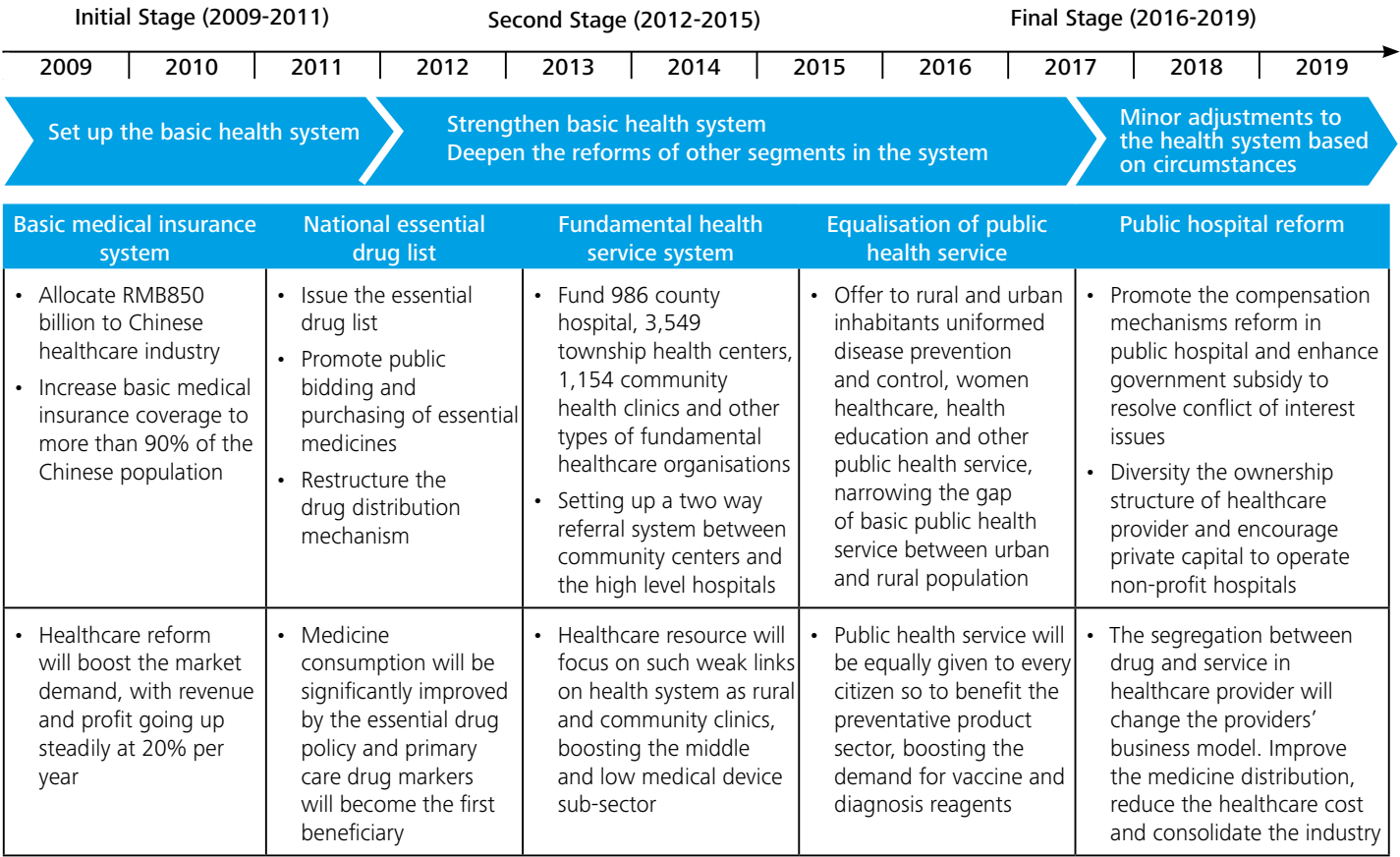
Health expenditure as percentage share of GDP (2014)



Data Source: World Bank

- **Healthcare reform measures:** In March 2009, China's government revealed plans for a sweeping healthcare overhaul, and committed RMB850 billion to develop the country's healthcare system between 2009 and 2011. Among its provisions were to increase the Basic Medical Insurance (BMI) coverage from approximately 65 percent of the population to 90 percent by 2011, to revise the national Essential Drugs List (the "EDL", medicines reimbursable under BMI), and to allow the National Development and Reform Commission (NDRC) to more strictly regulate pricing. A second phase of the healthcare reform plan, expected between 2011 and 2015, is to involve the establishment of a universal healthcare system by which all citizens will be able to access affordable drug and medical services. From 2009 to 2015, medical reform policies have focused on the establishment of both the medical service system at the primary level and the basic medical insurance system, which addresses the issues of medical service availability and affordability. Over the next five years, we expect that Chinese medical reform policies will turn towards enhancing medical service quality.

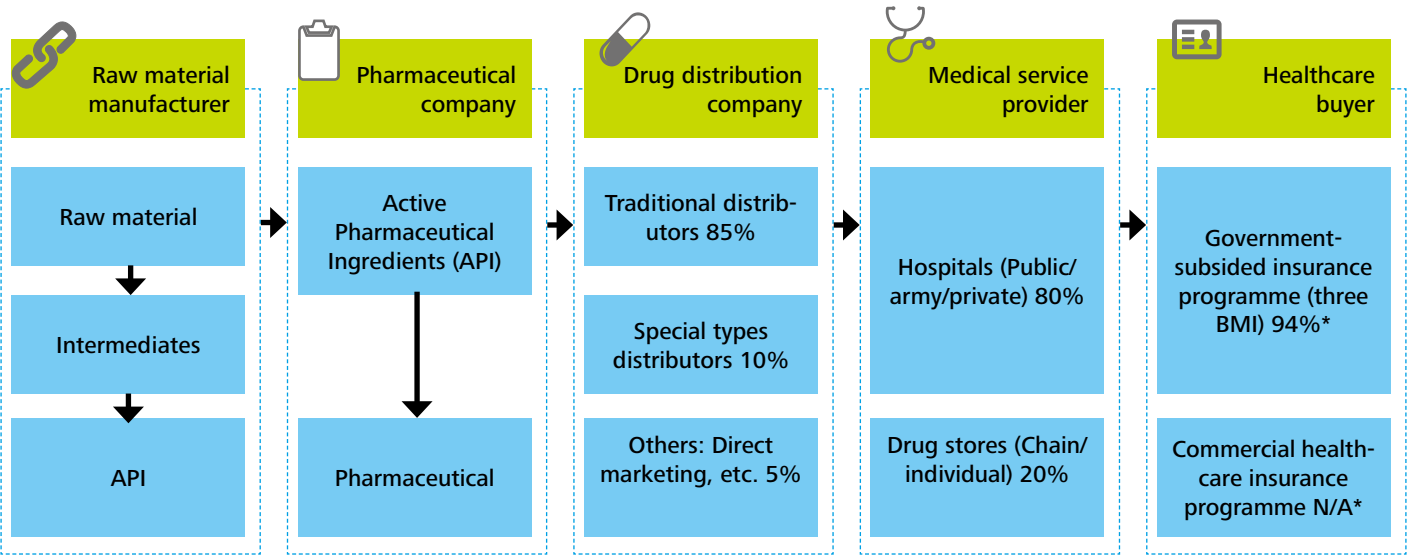
# Healthcare reform blueprint through 2020



## Growth throughout the value chain

China's pharmaceuticals market is expected to see strong growth overall. Which extends to all points along the value chain, although the individual growth pace for each may vary slightly.

## The value chain of China's pharmaceutical industry



Remark: data with "\*" is calculated on the basis of the data from the Sixth National Population Census in 2010.  
Source: Deloitte Analysis

The upstream pharmaceuticals manufacturing market is highly fragmented and competitive, but with the implementation of a new version of GMP (Good Manufacturing Practice), we expect to see local firms further consolidate, upgrade their production capabilities, and create competitive edges. Pharmaceutical sales growth in China has outstripped that of healthcare expenditures overall. Sales are strong from 2010 through 2015, with a CAGR of 15.5 percent.

The midstream distribution channels are also highly fragmented. In 2015 there are roughly 16 thousand wholesalers in China and the top three distributors only account for 18 percent of the market, while this number is 80 percent for US market. We expect to see further consolidation in the wholesaling market. While online selling account for roughly 2 percent of the market in 2014, we expect online channels to play a much more important role in the future.

Downstream hospitals are the most critical outlet and accounts for roughly 85 percent of total sales in 2014. With the majority of pharmaceuticals are sold through hospitals; they hold huge purchasing

power and therefore are able to determine the quantity as well as the manufacturers of drugs. Nevertheless, public hospital reform as well as drug pricing control policy have gradually changed the situation and diminished hospitals' dependency on drug sales. As for retailing stores, through mergers, acquisitions, and franchising, there has been a rapid increase in chain stores. Currently, there are almost 2,000 retail drug chains collectively operating about 100,000 individual drug stores. Though roughly half of them are operating at a loss, this market still has high potential: as healthcare system reform proceeds, the number of nation-wide drug chains will continue to increase.

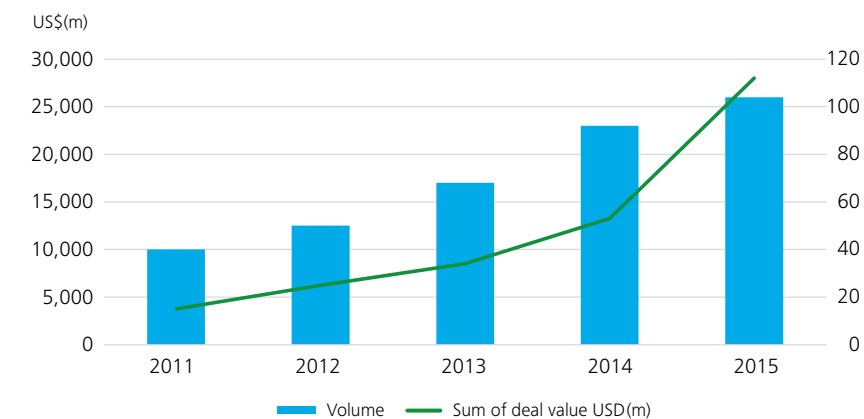
### Mergers and acquisitions continue to be active

Business activity in the healthcare sector in China is also growing increasingly robust. Technology and business innovations such as mobile healthcare (mHealth), eHealthcare, and new insurance models are driving horizontal and vertical consolidation. Mergers and acquisitions activity is especially vibrant, both domestically and from a cross-border perspective. Top international and domestic Chinese

pharmaceutical companies, as well as a host of smaller players, are moving to secure market share along with drug and device development permissions and capabilities in the context of China's evolving regulatory regime.

Rising cumulative deal values do not only show that more enterprises are making acquisitions. In fact, the average value of healthcare transactions has grown steadily in recent years, indicating that the acquisitions themselves are changing in nature. For one thing, acquirers have matured and grown more serious. Many are ready to invest more heavily in order to take advantage of China's favourable environment for phased drug trials; or to obtain assets such as distribution chains that are unavailable to greenfield foreign investors. Additionally, increasing consolidation in the marketplace is leaving fewer small targets available for acquisition, so deals are trending larger as the remaining big players compete for scarce resources. Moreover, as a result of overall sector growth and increasing market consolidation, we are seeing a general rise in valuations of attractive targets, further driving up deal values.

### China's healthcare and life science M&A

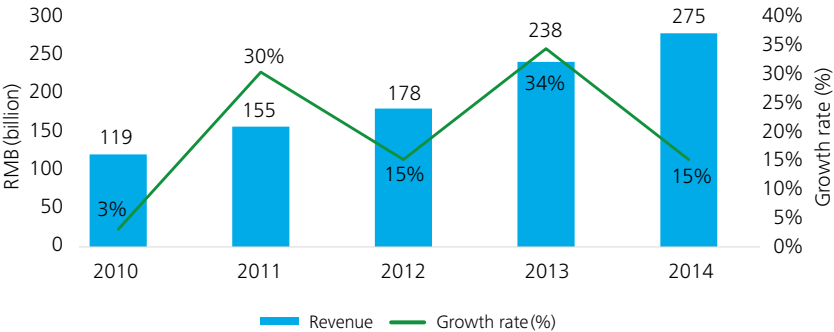


The prospect of greater protection for intellectual property is also a factor in the broader context of what is emerging as the world's next great market for patented drugs. Companies who might have hesitated before now see that China is moving past its phase as a supply market for ingredients and generic drugs, and on to a new phase as the world's second-largest healthcare market. Many multinationals who had regarded China only as a source of raw materials or research are now contemplating entering the Chinese market. Others who have previously entered the market through joint ventures with Chinese companies and research institutes are now ready to ramp up their growth through drug licensing and acquisitions, where the right matches can be found.

### Biotech: a key development sector in the future

Additionally, the biotech sector has been targeted as a key development sector by the government. There are certain subsectors that will benefit specifically from provisions relating to the Five-Year Plan. Although biologics and biosimilars together only account for 18.5 percent of the total pharmaceuticals market in China, their CAGR of 15.24 percent from 2010 to 2014 has been quite impressive. Genetic drugs and diagnostic reagents are the main applications for biotechnology in the life sciences industry, accounting for 65 percent share of the biologics and biosimilar markets. The government released a bio-industries development plan in 2013 that has already helped the segment more than double its value-added figures between 2010 and 2015.

Revenues of China's biotech industry



### Further industry segmentation expected

Given population trends and consumption patterns, it is evident that there is room for promising growth in China's health care market. As Chinese people become richer, accumulate more wealth and grow more sophisticated in their health care knowledge, demand for medical consumption is expected to become more diversified and complex. Patients will be more concerned with privacy during care, and will be more willing to pay for better service and high-tech care, driving the growth of premium healthcare. Rehabilitative services will develop as the healthcare system becomes more aware of these needs. Age-specific sub-specializations will flourish within the medical community. Patients will better understand to seek care for screening and prevention, rather than waiting to treat emerging symptoms at a much later stage of illness. These trends, promoting development and diversification, will expand the system's scope and reach, while growing industry demand as a whole will drive further segmentation.

### Obstacles remain

Despite the bright outlook of China's healthcare market, many hurdles remain. First, pricing pressures will continue to provide a major challenge for life sciences companies, although China is backtracking on its policy of mandating maximum retail prices on certain drugs. Second, the policy had inadvertently resulted in drug shortages and patient safety risks because some manufacturers closed production on low-cost drugs while others started to use poorer-quality ingredients to reduce production costs. Third, an era of lax regulatory enforcement appears to be over as China's anticorruption campaign targets domestic and foreign life sciences companies. Fourth, healthcare supply in China has lagged behind demand for many years; by diversifying management, public hospitals attempt to increase supply by allowing support from private investment. Private capital involvement will not only increase supply but also enhance competition from the private sector, causing additional incentives for public hospitals to improve service quality.

# Snapshot of China's automotive industry



## Automotive – new energy vehicles a bright spot

Despite the fact that China's auto sales have been on a roller-coaster ride in 2015, it still remains the largest and fastest growing automobile market in the world. Car production and sales rose 3.3 percent and 4.7 percent respectively to 24.5 million and 24.6 million units in 2015.

Nevertheless, the sluggishness in auto sales have not hindered growth prospects. Sales of China's new energy vehicles (NEV) skyrocketed to a recorded high and booming demand for aftermarket service has made it the next trillion yuan industry. We expect China's vehicle sales will continue to grow at a single-digit growth rate in the next five years.

### The forces driving demand and growth

#### Low vehicle density

China has a relative low vehicle density compared with western countries: vehicles in operation per 1000 inhabitants are about 200 whereas in the U.S. the figure is almost 800. The low penetration rate represents huge opportunities especially in fourth and fifth tier cities where auto sales have outstripped that in first tier cities in the past few years.

#### Increasing household income

The disposable income for urban residents in China has risen rapidly over the last decade with a CAGR of 11.0 percent. Growing income levels, especially for the middle class, will drive the substantial growth of China's auto sales

#### Consumption stimulus policies

Sales of small engine cars are expect to surge as the Chinese government announced a preferential tax policy to halve the purchase tax from 10 to 5 percent on vehicles with engines no larger than 1.6 litres. This tax reduction policy will remain effective till the end of 2016.

#### Disposable income for urban residents in China

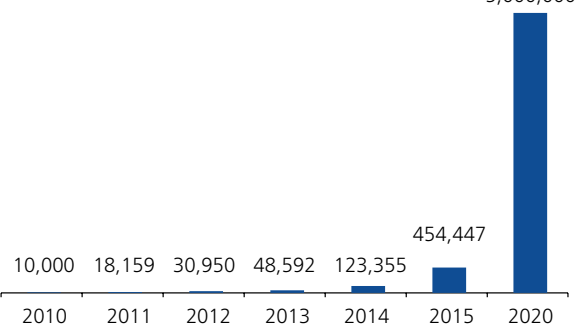


### China to surpass the US as the world's largest NEV market

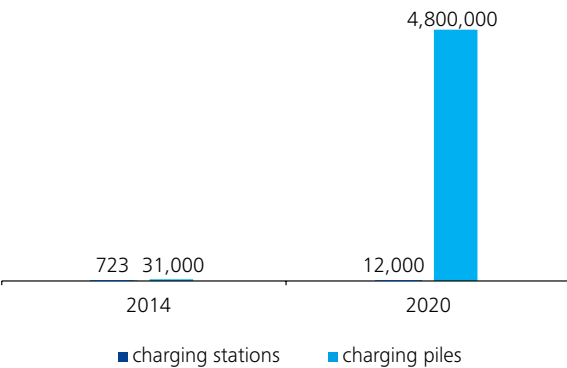
Production and sales of new-energy vehicles (NEV) increased 3.3 and 3.4 times respectively to 340,471 and 331,092 units in 2015. Among these vehicles, purely electric passenger vehicles had four times greater output and sales. Fuelled by the government's hefty subsidies along with free car plates and tax cuts, China's NEV sales have climbed since 2013 and many local automakers see electric cars as the only chance of narrowing the competitive gap with foreign counterparts.

Additionally, the Chinese government has decided to lower the barrier of entry for non-auto background companies, hoping to introduce more competition into this fledgling industry. A few Chinese internet entrepreneurs who have announced their investments in electric vehicles are currently seeking licenses to manufacture them in China.

NEV cumulative sales target



Target for charging facility construction

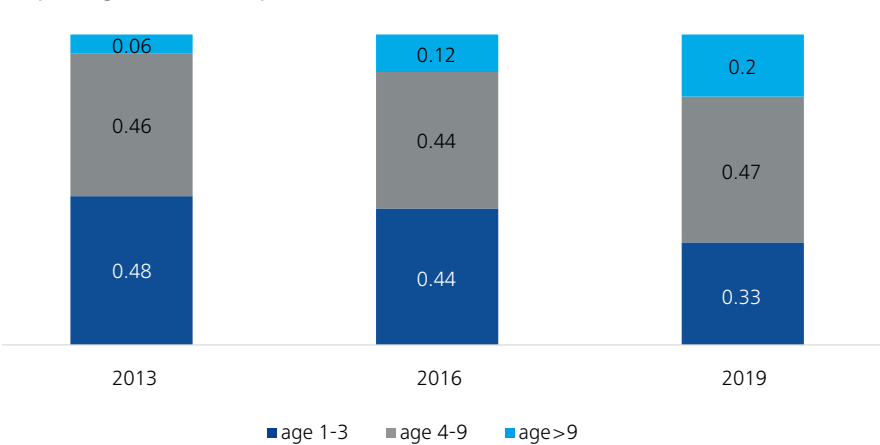


It is estimated that the central government has poured more than RMB46 billion into the NEV industry in the last 25 years, including subsidies, R&D funding, free license plates, and tax exemptions. New energy vehicles have been designated as a strategic industry under the 13th five-year plan. Policy makers also provided guidance on future development roadmaps including preferred technology routes, purchase subsidies, R&D incentives, and infrastructure constructions. Domestic brands will take the lead to invest in energy-efficient vehicles, who are also expected to take more than 70 percent of the market share by 2020. We anticipate a 50 percent year over year increase in NEV sales to 500,000 units in 2016.

### Aftermarket has enormous untapped potential

Auto dealers in China still generate most of their revenues from sales of new vehicles, whereas their western counterparts make most of the money from aftersales service. Chinese dealers in recent years have started to tap into this sizable aftermarket against the backdrop of weakening demand for new cars and declining returns.

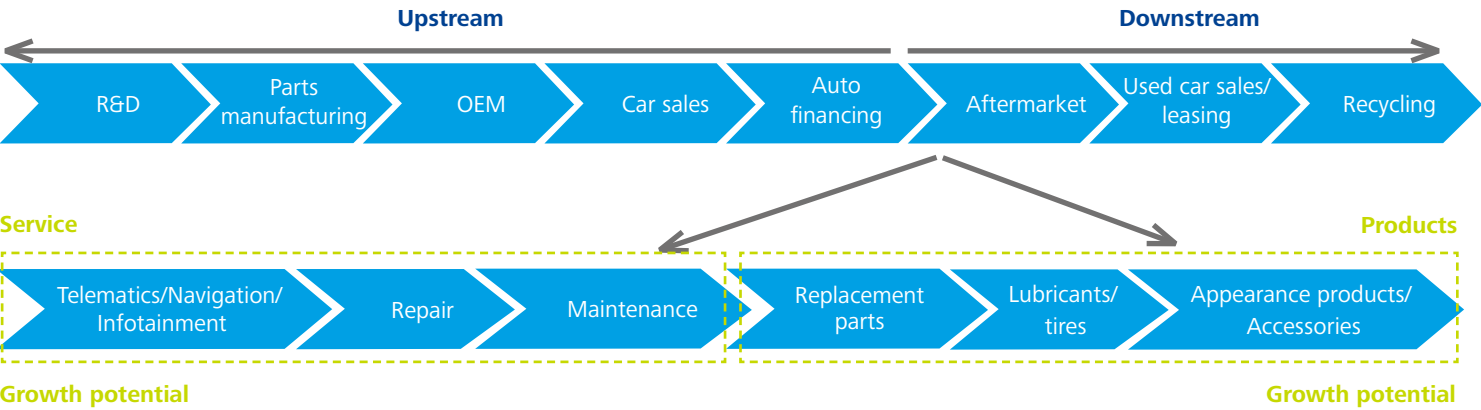
PV parc age breakdown prediction



Given the rapidly growing Car Parc and increasing average vehicle age, a considerable amount of vehicles will enter the aftermarket "sweet spot", an attractive age range when the spending on maintenance and services peak. The average age of China's passenger vehicles is estimated to increase from 4.5 to 6 years in the next three years.

China's aftermarket remains highly fragmented partly due to its complex distribution channels and intensified competition. Traditional OEMs who used to be the dominate players are joined by a wide variety of newcomers including numerous independent repair garages, OE suppliers, repair shop chains, and internet companies. Recently, the Chinese government decided to overhaul the market and allow up for more investment by levelling the playing field for independent aftermarket service providers.

Value chain of China's automotive market

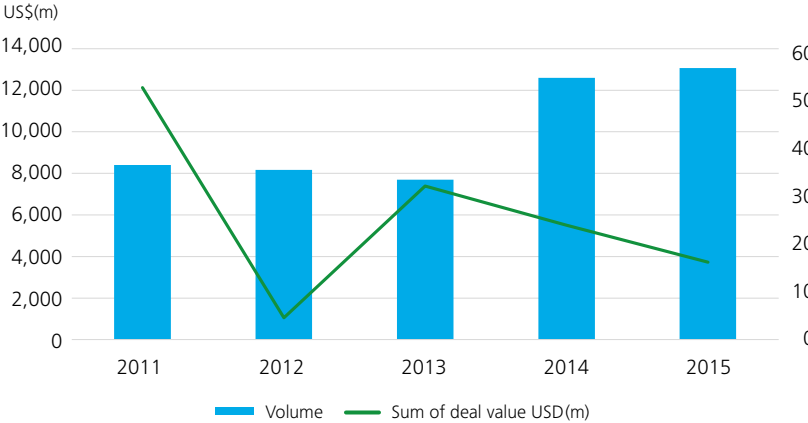


Source: CAAM, Deloitte Research

M&A activities expect to increase

After a decade of high-speed growth, China's auto industry has shifted from scale expansion to strong growth. The lingering excessive capacity problem, technological evolution, and fast penetration of cross-industry technology into the automotive industry has caused increased outbound investment and M&A activities in the last five years. There were about US\$300 billion worth of automotive deals in China between 2011 and 2015.

M&A activities in China automotive industries



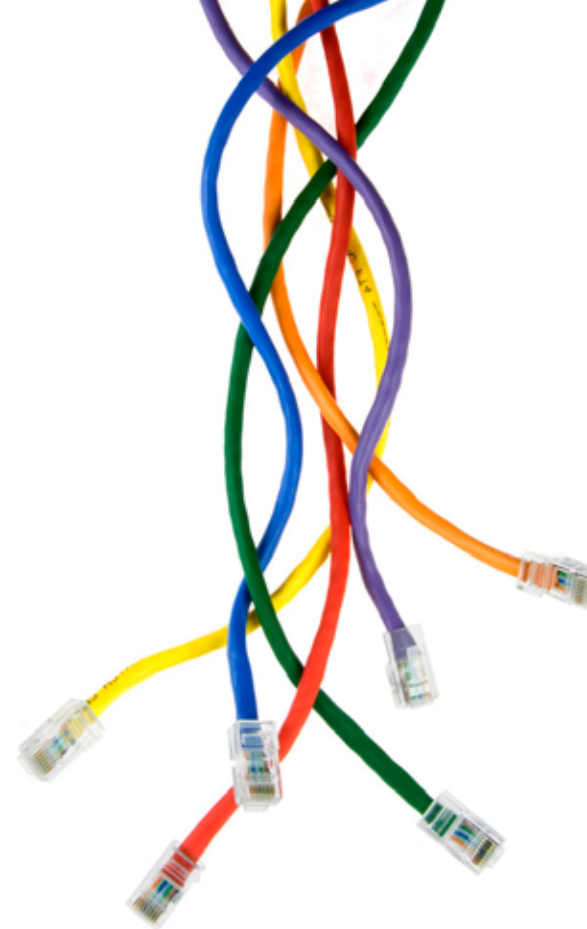
The Chinese government has reiterated the need for consolidation among domestic carmakers. There has been slow but substantial progress made in the past few years especially through encouraging large, stated-owned enterprises to acquire small and struggling carmakers. The newly launched Belt and Road initiatives is even perceived as an important solution to export OEMs' surplus capacity.

Meanwhile, as China's automotive companies decide whether to move up the value chain in order to remain competitive globally and multinational giants accelerate expansion in China, domestic part suppliers are under mounting pressure to ramp up investment in advanced technologies and speed up globalization through overseas M&A and integration.

Dealership consolidation is expected to grow in 2016 as large dealer groups seeks to achieve economies of scale and capture synergy value. There are more than 26,000 dealerships in China, among which the top 100 dealer groups only operate 20 percent of the total stores and account for 8 percent of the total revenue, leaving the majority of stores, about 20,000 of them, operating on a small scale and with limited capital.

### A fierce battleground

China's business environment is getting tougher for multinational carmakers. Considering the Chinese government's strong commitment to curb carbon dioxide emissions and reduce air pollution by imposing much stricter fuel efficiency standards on automakers, it is essential for foreign automakers who are rather hesitant about entering this market to rethink their strategies. Secondly, as the Chinese government's anti-monopoly investigation goes deeper and is anticipated to enforce stringent rules and protocols on OEMs and dealers, the competitive environment will be made increasingly complex. Additionally, OEMs are expected to lose control of their distribution networks as China pledged to scrap the existing car distribution rule and allow dealers to sell cars without authorization from manufacturers. More importantly, the changing habits and patterns of Chinese consumers pose a potential threat to automakers as an increasing number of city dwellers choose car-sharing services over car-ownership.

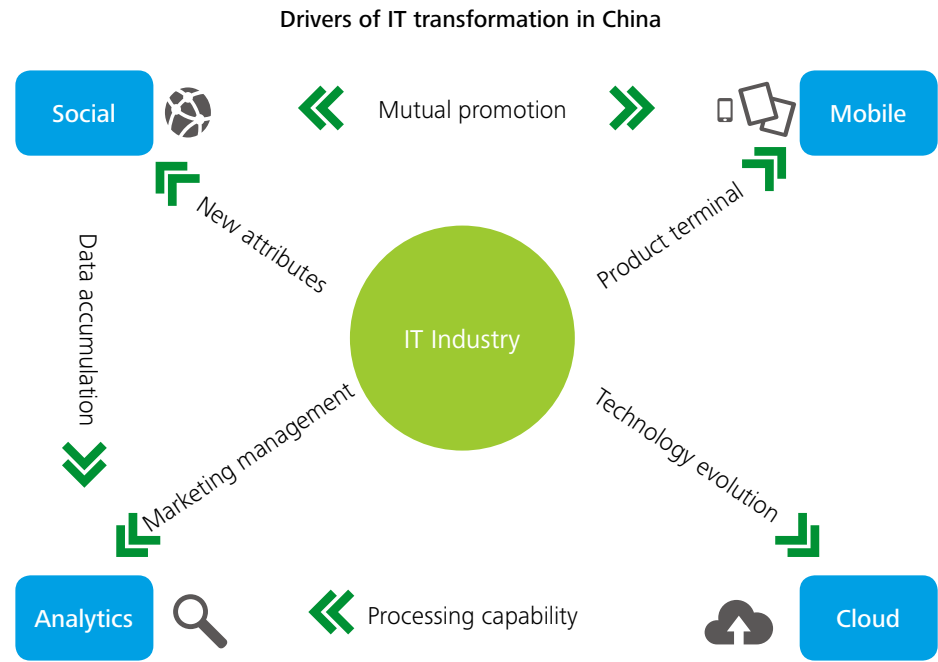


## Snapshot of China's information technology industry

# Information communication and telecom – a giant in the making

Despite slowing GDP growth, China's impact on the Information and Communication Technology (ICT) markets has still been skyrocketing. In 2015, China accounted for 43 percent of all ICT spending growth globally, one-third of all smartphone purchases, and almost one-third of all online shoppers. With a gigantic domestic market, Chinese companies such as Alibaba, Tencent, Baidu, Lenovo, Xiaomi, and Huawei will continue to grab rising shares of the global ICT markets.

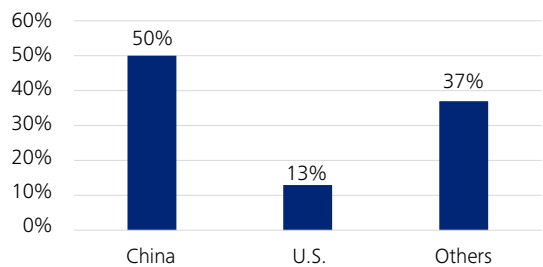
China's domestic engines—mobile, online, social, and ecommerce—will continue to shine in the foreseeable future. In mobile, Internet, and social technology adoption, China dwarfs the rest of the world and that advantage will extend into the future.



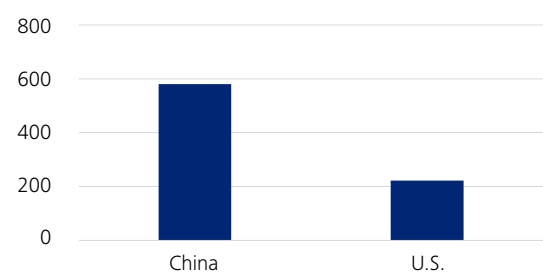
## The importance of size

In 2015, over 500 million smartphones were sold in China — three times that of the United States and about one-third of all worldwide unit sales. Over 680 million people in China are online — many through both mobile devices and PCs. In 2015, that was 2.5 times the number in the United States. Over 580 million people in China will use social networks in 2015, compared with just 222 million in the United States. This is very significant, because social networking (along with online shopping) can lead to the broader adoption of ICT technologies.

**Worldwide smartphone sales share (%)**



**Social network users (M)**



Online shopping in China is poised to explode. Within 2.5 years, online shopping in China will exceed that in the United States; by 2020, it will equal the current size of the United States plus the next four largest economies. Furthermore, by 2016, China plans to grow urban access to broadband to 95 percent under the Broadband China Project; while urban households commonly have access to 20–100Mbps broadband speeds.

Chinese smartphone leaders will continue to gain share in the smartphone market. Lenovo, Xiaomi, Huawei, ZTE, Coolpad, and others are grabbing greater global share, driven by the massive domestic market. Chinese-branded smartphone manufacturers — over 24 of them — collectively dominate the domestic market, with about 85 percent share of units sold. This translates into about 40 percent of worldwide smartphone market share in 2015, up from 2014's 36 percent.

### Rise of Internet and e-commerce giants

China's e-commerce leaders will rise and challenge for global leadership. Relative to its strong mobile and social technology adoption, China lags in public cloud adoption — it is only ninth in public IT cloud spending, behind the Netherlands and a fraction of the size of the United States. However, China's astounding mobile, online connectivity, social networking, and ecommerce adoption will fuel explosive growth in China's cloud services sector, and will be accelerated more by the e-commerce and social players Alibaba (number one in ecommerce), Tencent (number one in social), and Baidu (number one in searches) than what we have seen thus far from the telcos (e.g., China Mobile, China Unicom, and China Telecom) and major IT vendors (e.g., Huawei, IBM, Kingdee, Microsoft, and UFIDA). It is noteworthy that China's domestic IT enterprises are gaining momentum at lightning speed. In 2015, five Chinese companies, Alibaba, Tencent, Baidu and Xiaomi were in the Top 10 list of Internet companies globally by market capitalization.

Top 10 Internet Companies in the World by Market Capitalization

Rank	Company	Nation	Value (\$100M)
1	Google	U.S.	3,680
2	Facebook	U.S.	2,290
3	Alibaba	China	2,135
4	Amazon	U.S.	2,002
5	Tecent	China	1,897
6	EBay	U.S.	729
7	Baidu	China	728
8	Priceline	U.S.	609
9	Uber	U.S.	500
10	MI	China	460

Source: Deloitte analysis

Consequently, global ICT vendors should seek out these e-commerce, social, and search leaders to establish partnerships. Driven by their massive domestic market — one or more of these "Big Three" Chinese giants will challenge Amazon, Microsoft, IBM, Google, and the other global players for a share of global market leadership over the next three to five years.

### Internet, Smart City, and information security most promising

Based on growth rates and market potential, Internet, information security, and "Smart City" are set to become the most opportunistic industries from an investment perspective.

#### Internet

Investors are enthusiastic about the Internet industry. Booming sectors include the car networking and car after-service markets, mobile payment, pan-entertainment, and finance, as well as O2O (Online to Offline). In 2015, 54 percent of China's venture capital funds flowed to the Internet industry, higher than the sum all other industries. Moreover, financial indicators show that in 2015 the Internet industry's revenue growth and gross profits performed better than other industries domestically, especially the growth rate of revenue showing strong growth momentum. Since the financial crisis, the share price and pay-out ratio of Internet companies has outpaced stock market indexes including Nasdaq, S & P, and Hang Seng. Other industries, by contrast, are still reeling from the effects of a burst bubble and the setbacks imposed by financial crisis.

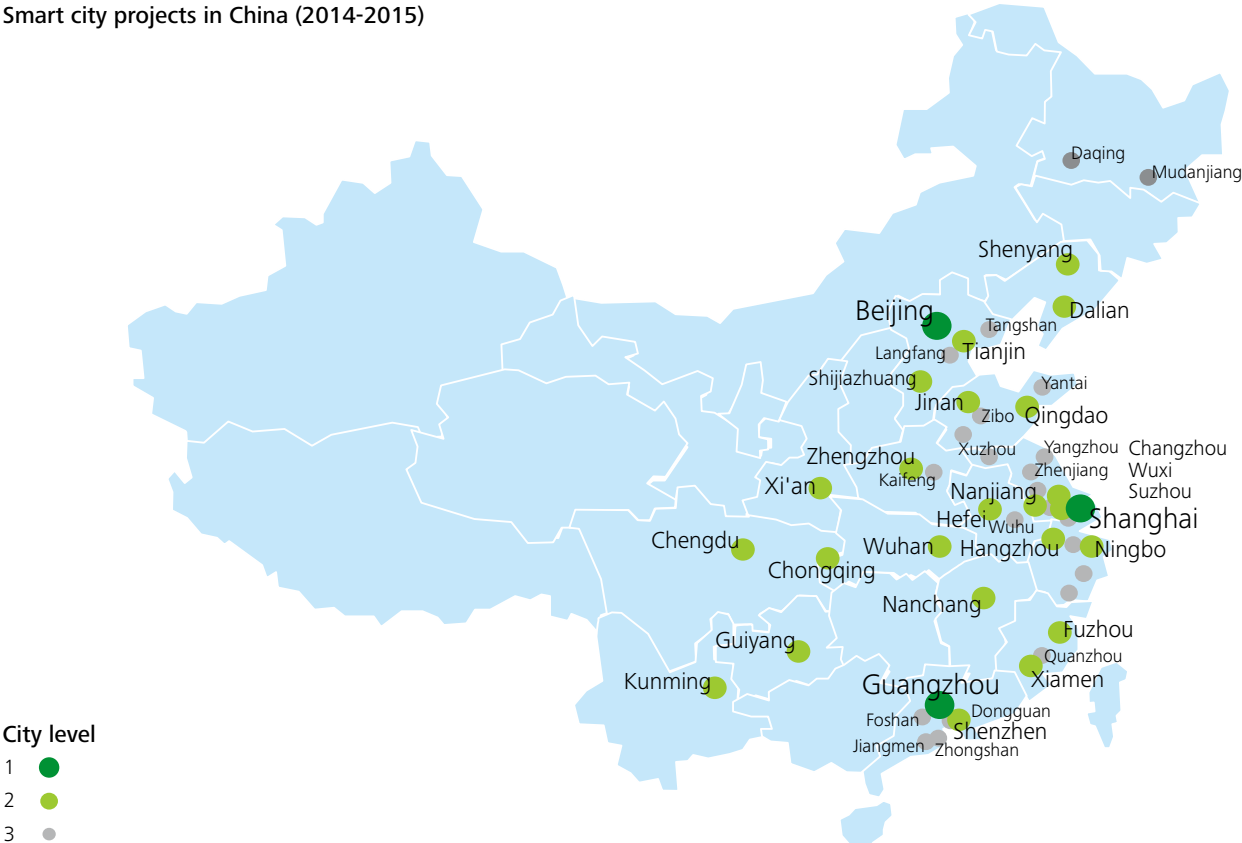
### Smart City

For several decades, 20 million people a year have moved from the countryside to urban factories and construction sites, fuelling China's economic rise. This mass migration is far from over: China is currently only half urban, less than other mid-level developing countries such as Malaysia (73 percent urban) or developed nations like the United States (80 percent), and the Chinese government is counting on further urbanization to support economic development. At the same time, economic planners are pushing hard to transform China from the world's export factory to a self-sufficient modern service economy, and smart city technology looks like a good investment.

The most far reaching effort has been led by the Ministry of Housing and Urban and Rural Development (MOHURD). MOHURD selected 193 local governments and economic development zones as official smart city pilot project sites, making them eligible for funding from a RMB100 billion (US\$16 billion) investment fund sponsored by the official China Development Bank. Investment from local governments and private sources has also been growing fast: The sector has no standard definition,

but some estimates foresee investments of US\$320 billion for smart city projects over the next ten years. Looking only at the "smart" technology component in smart city projects, there exists an anticipated cumulative market of US\$4.6 billion over the next 10 years.

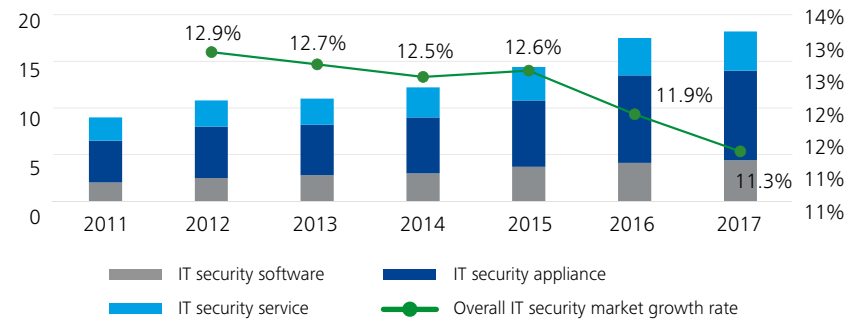
Smart city projects in China (2014-2015)



### Information security

Coupled with rapid mobile internet, cloud computing, and big data development is the serious task of information security. Without this service, an enterprise's core business and confidential data may be exposed to cyber-attacks. Statistics shows China is one of the biggest victims of cyber-attacks. Attackers hacked over 60,000 Chinese websites in 2013, up 62 percent from the previous year. Attacks also resulted in estimated losses of RMB150 billion (US\$24 billion). Therefore, improving information security systems to protect privacy and protect information security are essential to counter cyber threats

China IT security market size (2011-2017, billion yuan)



### Government contributions

China's 12th Five-Year Plan (2011-2015) had highlighted emerging technologies, specifically information technology, as key growth drivers. The government is encouraging adoption and investment in next-generation Internet, Internet of things, triple network convergence (computer, telecom network, and cable TV), cloud computing, and high-end software and servers.

For sustained economic growth, the Chinese government has been stressing the development of the high-tech industry. The new "Internet Plus" strategy emphasizes the role of information and communication technology (ICT) and supports the transformation of traditional industries to a new digital business models. It also encourages enterprises to leverage IT and the Internet for business development and globalization and to improve operational efficiency.

Massive investment plans will be a core element of China's 13th Five-Year Plan, which includes fund-driven industry transformations. Using technology to reform existing industries (e.g., financial,

education, healthcare, state-owned industries) and accelerate strategic emerging industries (e.g., biotech, sustainable energy, advanced high-end manufacturing, alternative energy vehicles, new materials, and next-generation IT) will be a key element of the 13th Plan. This means the Chinese government in 2016–2020 will increase its funding of domestic development of all technology pillars and of the aggressive consumption of these technologies to support digital industries.

### Tough road ahead for foreign companies

On the supply side, China is a protected market, where foreign players cannot effectively compete with local vendors — government policy and procurement lean toward local firms, and the overall "buy local" sentiment and "IOE (IBM/Oracle/EMC) out" initiatives have helped local suppliers grow and dominate the market. Many foreign players are losing momentum in China, and most IT innovations come from local Internet companies and technology companies such as Huawei.

E-commerce companies and banks in China are scrapping hardware and uninstalling software for

mainframe servers made by American suppliers in favor of homegrown brands said to be safe, advanced, and a lot less expensive. Domestic rivals of these companies such as Huawei are winning contracts from state companies and bank IT departments at an increasing rate.

Some companies, such as Alibaba Group, have been building internal computer networks with open-source software and commonly available hardware. De-IOE Movement milestones were reached in May 2013 when Alibaba pulled the plug on its last IBM server and two months later when Alibaba's advertising department abandoned its Oracle database. The rest of the company's databases are scheduled to switch over from Oracle to a homemade system by 2015. IT departments at companies and banks across the country are now following Alibaba's example — and charging more to their longtime American suppliers. The switch to domestic-made servers has been a slow process for Chinese banks. Ultimately, the banks' IT experts have been making these decisions, although they are being encouraged by the government to choose Chinese suppliers, according to a source close to the China Banking Regulatory Commission.

### Potential bubble could hinder progress

The IT industry in China is developing at an exponential rate, with demand, investment, and technological capability driving sustained growth. However, there are still reform. potential risks that may impede long-term development. First, because of a rush of capital, valuations of Internet companies are generally high and the irrational exuberance may mislead investors as well as lure start-ups to plunge in to the hyper-competitive market. The wave of bankruptcy in O2O (Online to Offline) and P2P (Peer to Peer) segments are best examples of homogeneous competition and irrational investment. Secondly, the market access barriers in certain areas may prevent foreign and private enterprises from entering. For instance, the local government market is typically opaque and smart city applications may involve sensitive information from sectors such as digital mapping. Lastly, in the context of economic slowdown in China, the Internet Plus strategy may not be a remedy for economic transformation and social

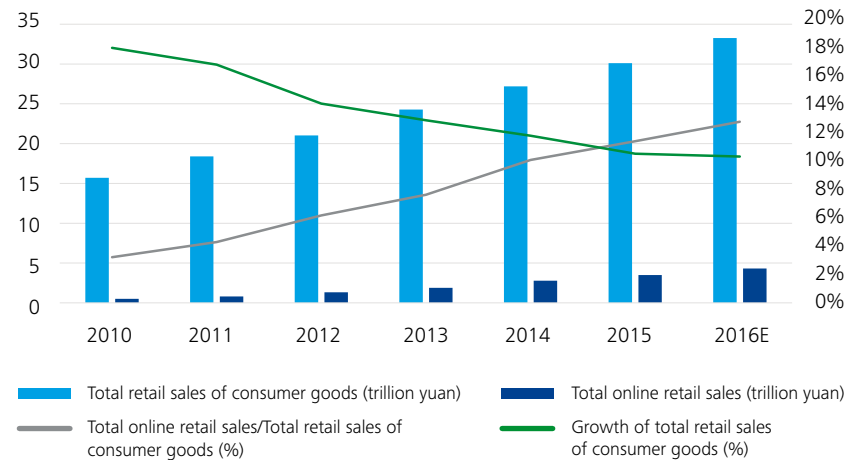
## Snapshot of China's Retail Industry



# Retail – an industry undergoing omni-channel transformation

The growth rate of the retail industry as a whole is slowing down: the growth rate declined continuously and fell to 10.7 percent in 2015, which is its lowest level since 2004. At the same time, GDP growth fell to 6.9 percent. Yet the sustained prosperity of the online retail market is a bright spot of the “New Normal”. According to analysis performed by Deloitte China, about 13 percent of total retail sales will come from online platforms in 2016.

**Total retail sales and total online retail sales in China**



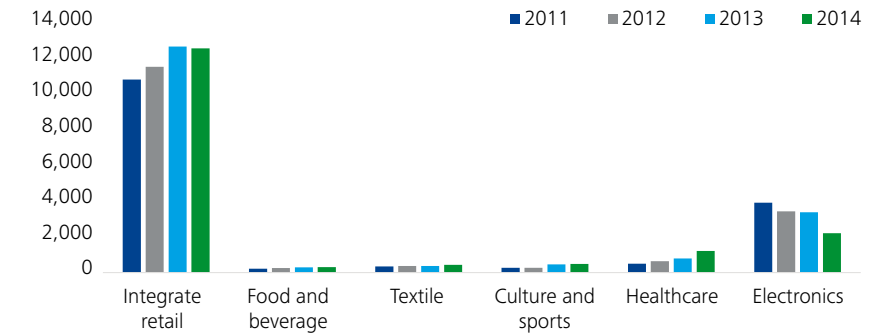
Source: National Bureau of Statistics, China Electronic Commerce Research Center, Deloitte analysis

## Consumption structure reform

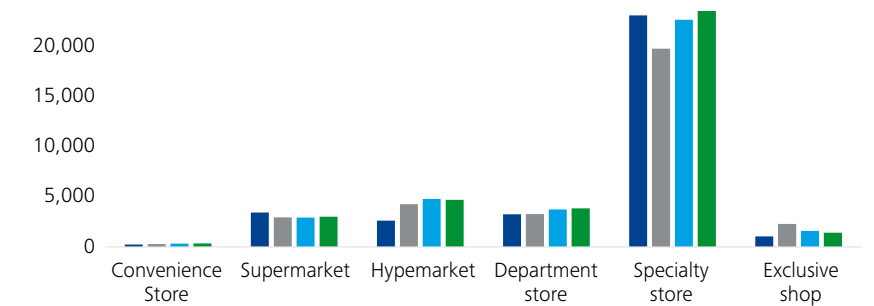
Thanks to an expanding middle class, burgeoning consumption is leading to the reform of consumption structure. For instance, culture, sport, leisure, tourism, and healthcare consumption are all growing rapidly. However, traditional consumption such as food and beverage only increased slightly.

Meanwhile, brick-and-mortar retailers—except for convenience stores—have lost steam over the past several years because of the impact of e-commerce and changing consumer preferences. The growth of total sales of the top 100 retailers stayed around 1 percent in 2015 and in September the y-o-y growth even fell below 0.

**Breakdown of sales of chain retail enterprise in China**



**Revenue generated from different retailing channels**



Notes: Categorized by products  
Source: National Bureau of Statistics, Deloitte analysis

### Notable trends of retail industry

There are four retail industry trends that deserve special attention:

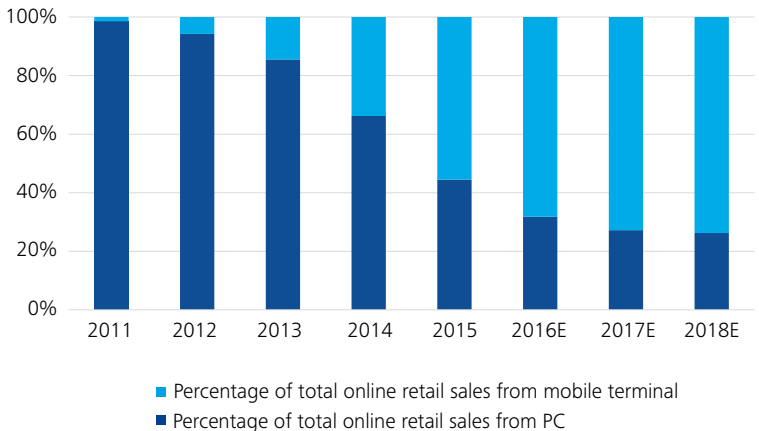
#### Omni-channel shopping is on the rise:

China's online retail market is booming. However, online retailers are still pursuing solutions. Traditional retailers are able to serve consumers face to face but lack effective channels to broaden reach to more consumers. Both methods have specific advantages and disadvantages, so the two have begun to integrate and complement one another.

Mobile platforms are dominating the online retail market: During the online-shopping process people are more prone to use mobile platforms for purchases because of increased convenience and availability. On average, half of transactions are made by mobile terminals nowadays. According to the research of the China Electronic Commerce Research Center, on 11 November 2015 (one of the largest online shopping days of the year) orders placed through mobile platforms accounted for 68 percent and 74 percent of the total GMV for Alibaba and JD respectively. Mobile platforms can boost sales for traditional retailers as well.

Comparing retail stores without mobile APPs and those with customized mobile APP business, customer conversion rate of those with APPs is 21 percent higher.

Percentage share of online retail sales from PC and mobile terminal:



Source: iResearch, Deloitte analysis

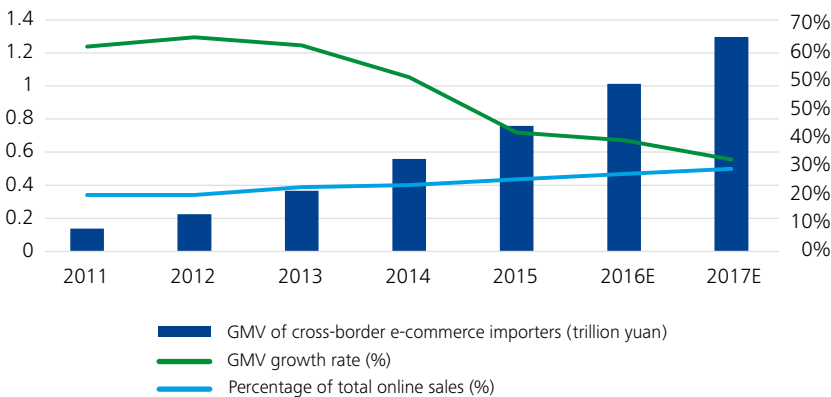
### Urbanization drives retail industry growth:

Urbanization results in a change of residents' consumption structure and an increase in consumption power. The trend will unleash the purchasing power of third and fourth tier cities. Statistics show that a 1 percent increase in urbanization will drive a 0.8 percent increase in GDP as well as a 1.5 percent growth in social consumption. In accordance with the "13th Five-Year Plan", the government aims to further raise urbanization levels from 54.77 percent to 60 percent in 2020.

#### Cross-border e-commerce provides a new source of growth:

The sales of China's online importers should grow more than 30 percent annually in the upcoming years, accounting for about 30 percent of total online sales. According to Alibaba, 64 percent of these sales are newly created demands. Cross-border e-commerce enterprises will play much more important roles as they become more sophisticated.

GMV of cross-border e-commerce Importers



Source: iResearch, Deloitte analysis

**Big data and Internet of Things mean new era for retail market:**

China's retail market has turned to a consumer-dominant market and retailers in this market are under tremendous pressure to gain competitive advantages. Big data and Internet of Things technologies can help retailers improve operational efficiency and better serve consumers.

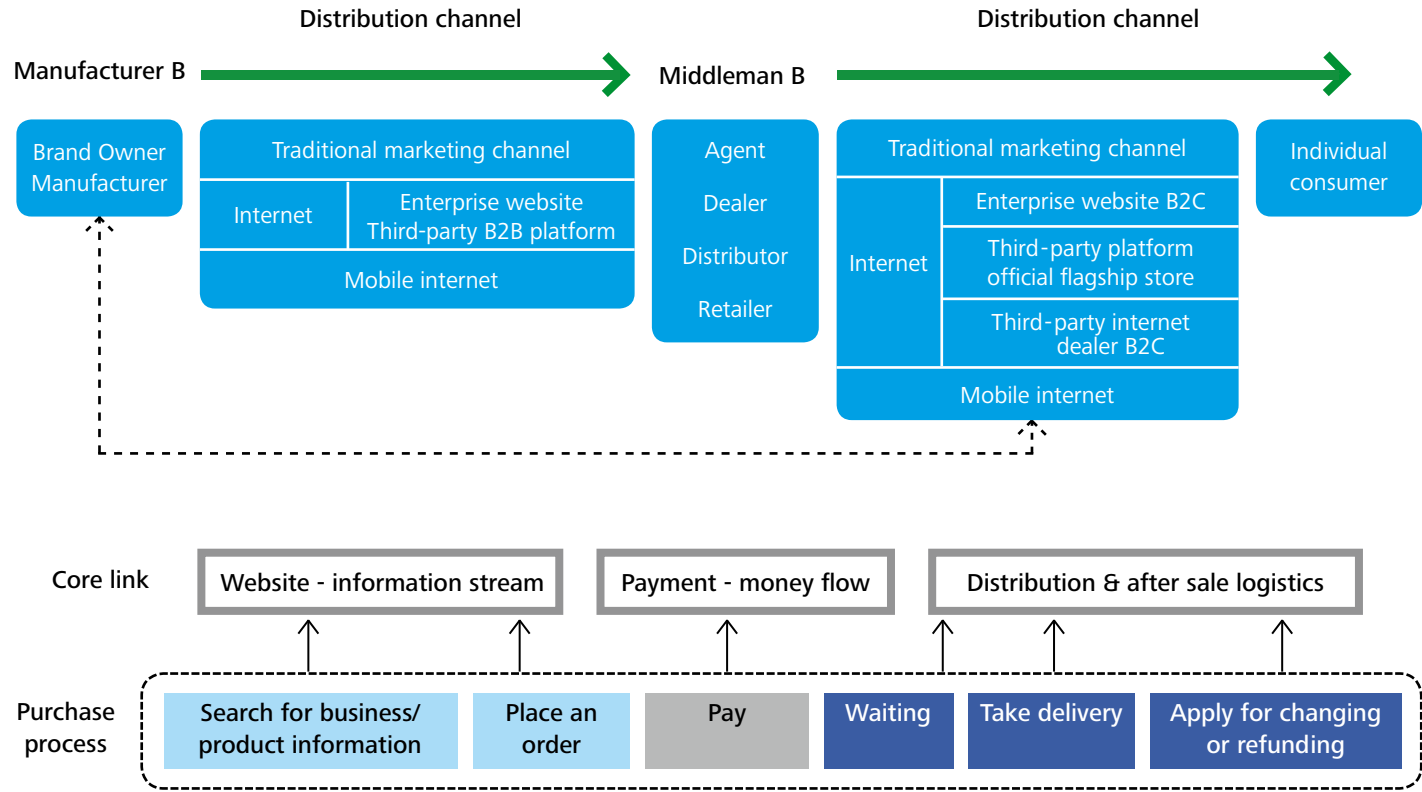
In fact, leading retailers are trying to employ Big Data and Internet of Things technologies to strengthen market power. China's retail market should witness breakthroughs brought by these technologies.

**Online retailing transforming the value chain**

As mentioned before, online retail is booming. This boom has resulted in some changes in the existing value chain:

Changes in traditional distribution channels: As for intermediaries buying goods from manufacturers, more people have chosen to take advantage of enterprise websites, third-party B2B platforms, or the mobile Internet for purchases. As for consumers purchasing goods from intermediaries, more people choose the Internet (for example: the enterprise website B2C, third-party Internet dealer B2C, and official flagship stores) or mobile Internet.

Changes in traditional purchasing process: When shopping online, customers research information, place orders, and make payments all through the Internet. In addition, after placing an order, the distribution process and after sale logistics can vary significantly.



## Opportunities and challenges coexist

### Opportunities:

- The "13th Five-Year Plan" has made provisions for supply-side reform and increased domestic demand, setting the tone for development in the next five years. The new policy initiatives and economic reforms will ensure that the consumer and retail markets are likely to grow in a stable manner.
- Continuous expansion of the middle class will become the main driving force for increasing consumption in China. Urbanization can unleash the purchasing power of third and fourth tier cities. Rural economy reform will create a new blue ocean market and pump life into traditional consumptions.
- Technology influences consumers' decisions. Internet, mobile platforms, big data, Internet of Things, and VR technologies should not be merely used to approach and understand consumers; these technologies have the potential to create new demand and reshape the entire market.

### Challenges:

- The slowdown of China's economy has dimmed the prospects of the retail market. The government is confident about supply-side reform and potential increased consumption. However, downward pressure still exists and may threaten the healthy growth of China's retail market.
- Changing demographics are a big problem for China's government and retailers. While middle class citizens are paying more attention to quality, customization, and safety, if China's stimulation policies, such as the two-child policy, fail to work, the retail market could see big changes over time. Retailers have to stay sensitive to these changes and make adjustments in advance.
- Most traditional retailers, especially global retailers, are having difficulties in China, with online retailers dominating the market. As China's online retailers have started to venture into offline business, traditional retailers need to adjust competitive strategies in order to survive. Rising costs are another big problem for retailers. Almost one third of traditional retailers had losses. As competition intensifies, online retailers will also face cost pressure

## Industry regulation and implementation opening

### • Regulations on online retailing:

Currently, most of the previous legal restrictions on foreign investment in the Chinese online retail sector have been removed as part of the country's WTO commitment to an "open market".

As for regulations on foreign invested enterprises (An FIE must be a joint venture with foreign investment capped at 50 percent), their primary foreign investor must have a good track record and operational experience in operating value added telecommunications services.

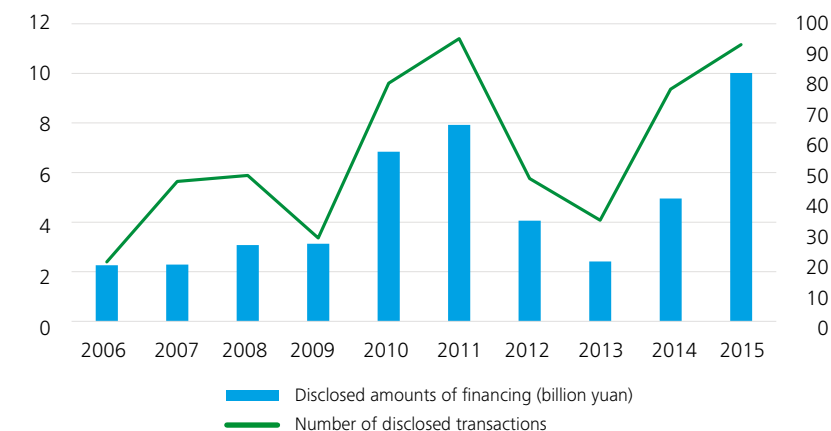
### • Regulations on cross-border e-commerce

Over the past two years, China's government passed a series of regulations to legalize and promote cross-border e-commerce. Eight cities have been authorized to start cross-border E-commerce and list will continue to grow. Meanwhile it is forecasted that China's policy towards international trade and finance will be more liberal. The government is placing high hopes on cross-border e-commerce, which has been determined to be a new source of growth for China's international trade.

## A continuous good appetite of social capital

VC and PE are usually highly sensitive to changes of capital market and policy and always seek higher returns. The online retail business has attracted plenty of VC/PE investments during the economic slowdown: from 2014 to 2015 more than 80 percent of the companies that received financing were e-commerce enterprises, 20 percent higher than the ratio between 2010 and 2012. This indicated the confidence social capital have in the online retailing business.

Retail VC/PE investment (2006-2015)

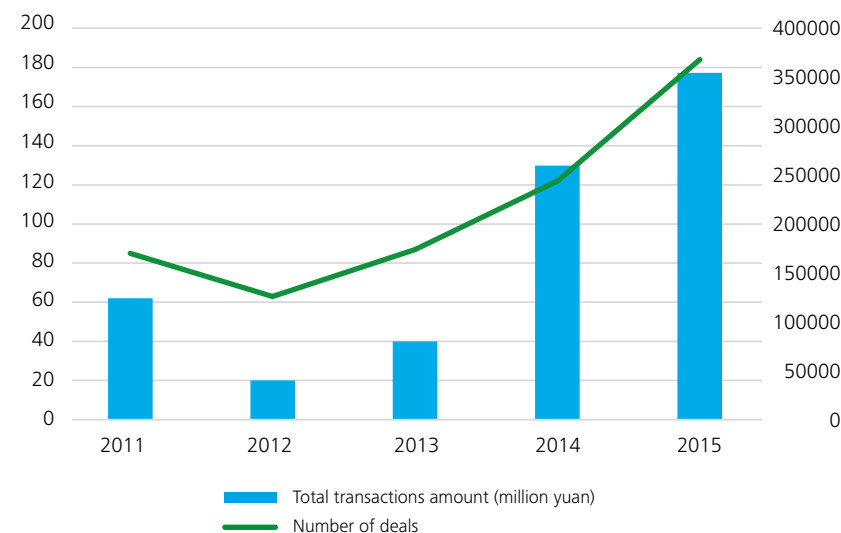


In the next one to two years, online retail will continue to attract social capital, and in the long run, more and more traditional companies will enter the market, and gradually lead the retail network from being capital-driven to being industry-driven.

### Accelerating industrial consolidation

A growing number of M&A transactions is usually regarded as a sign of market integration. Both transaction amounts and the number of deals have grown at a high speed since 2012. According to the data, on average more than 40 percent of total M&A transactions were horizontal, indicating that companies in the retail market are more likely to increase scale. Vertical M&A comprised about 30 percent of total transactions and conglomerate mergers accounted for about 20 percent of total transactions. These two kinds of transactions may spark a new trend in this market because the integration of whole industrial value chain could lower total costs and improve client's stickiness.

Retail M&A transactions (2011-2015)



Source: Wind, Merger Market, Deloitte analysis

In the upcoming years, market integration will still be the theme of M&A transactions because traditional retailers need to increase scale in order to survive. The integration of online and offline will be another driving force because online and offline retailers can be complementary. It is noticeable that retail giants are trying to build the consumer ecosystem; vertical and conglomerate M&A transactions could be another trend.

### Investment opportunities:

- **Advanced technology:** Big data, Internet of Things, and VR technologies are deemed to be the technologies that can reshape the market as a whole. In China, most enterprises still lack the experience and resources necessary to employ these technologies.
- **Burgeoning consumption:** The expanding middle class and changing demographics should increase consumption in China. Consumers now spend more on discretionary items rather than necessities. Products related to healthcare, culture, sports, and green agriculture are seeing increased consumption. Furthermore, quality, safety, and personalization are increasingly

influencing consumer decisions. Consequently, upgrading from old products to new may provide another source for China's consumption boom.

- **Vertical e-commerce:** Online retail will grow more than 20 percent annually in the next three to five years, and for vertical E-commerce retailers, the growth could be even greater. In contrast to large and comprehensive online platforms like Alibaba and JD, vertical retailers focus on certain kinds of products, foods, furniture, electronics, etc., and specialized needs of target consumers. Some leading vertical retailers are now seeking to integrate goods and services. Having one-stop service will provide a major advantage in competition with retail giants.

### Cross-border e-commerce: cross-border

E-commerce is another market segment that will enjoy growth higher than the market average. High-quality goods and online channels meet the preferences of China's growing middle class. The absence of a middleman also lowers prices. China's high price elasticity means more people will be willing to embrace this new business model.

# Snapshot of China's Express Delivery Industry



## Express delivery – following e-commerce

Currently the emerging Chinese express delivery market has become the largest in the world. Since 2008, 14 billion units have been delivered through express delivery, and the compound annual growth rate reached 45.1 percent. Within the same period, overall revenue from the express delivery business has soared from RMB40.8 billion to RMB204.5 billion, with a CAGR of 30.8 percent. Meanwhile, compared to a mere 43 percent in 2008, in 2015 the revenue from express delivery sector accounted for 64 percent of the entire delivery industry. These trends indicate that in recent years the express delivery industry has driven China's economic growth despite of the slowing economic growth rate.

By the end of 2014, over 11,000 companies had been authorized to offer express deliveries. However, M&A in the industry are highly concentrated with the top 10 brands holding 60-70 percent of the market share. Major players in the market include large state-owned corporations, Chinese domestic private companies and foreign companies. In recent years private companies have experienced such rapid growth that they are now dominating the market.

Express delivery service consists of cross-region delivery service, inter-city service, as well as delivery to and from Hong Kong, Macao, and Taiwan. While in 2013 cross-region service delivered 70 percent of the total express delivery volume and generated 60 percent of total income, inter-city service was considered to be the most promising business and has experienced rapid growth since 2011. The growth rate was highest in 2014, with inter-city deliveries accounting for 25.4 percent of the total volume. In the same year, market share held by SOE, private companies, and foreign companies started to be more balanced.

### Drivers of this burgeoning industry

Multiple factors have contributed to the booming of the express delivery industry:

- **Rising service industry:**  
China is currently experiencing an adjustment of its economic structure. The service industry, for the first time in 30 years, is considered a new economic growth driver and will be further promoted by top policy priorities.
- **Online shopping gaining popularity:**  
The rise of online shopping, both domestic and cross-border, increased demand for express delivery

services. In 2013, sales revenue from China's online shopping was 1.84 billion RMB, with the CAGR of the past five years being 70 percent. The revenue is forecasted to keep growing in the next five years, with a forecasted CAGR of over 30 percent.

- **Accelerating urbanization in central and western regions:**

A rising urbanization rate in the central and western regions resulted in better infrastructure, higher disposable income per capita, and a larger labor force. Together these aspects facilitate the development of express delivery industry.

- **Advanced technology:**

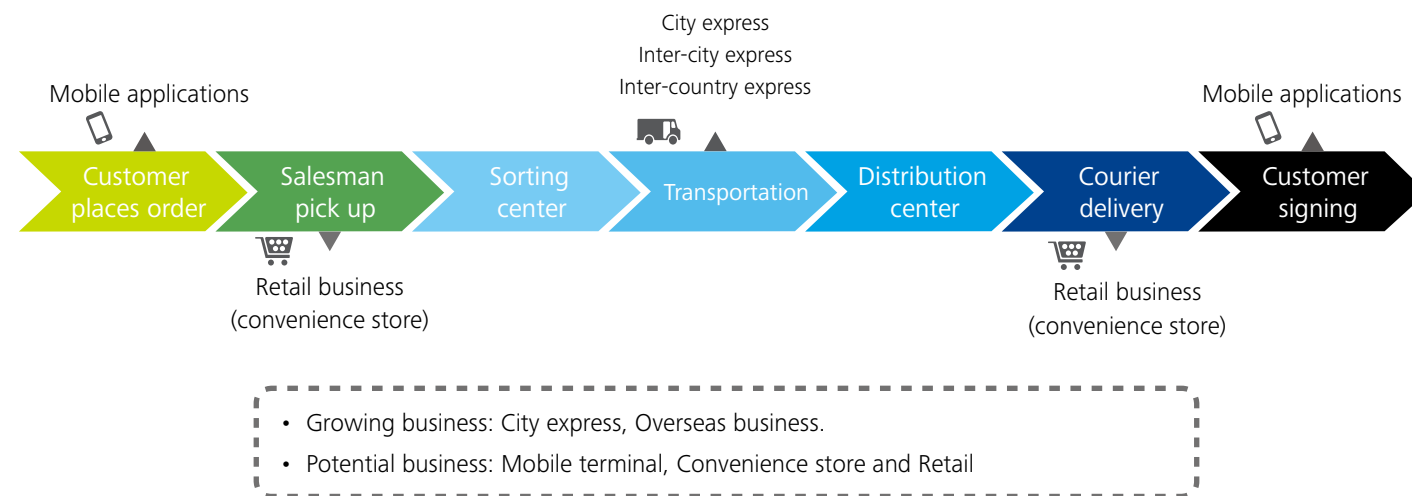
Advanced technologies have significantly enhanced express delivery service quality and efficiency. They include automatic sorting processes, wireless transmission, radio-frequency techniques, and video surveillance. In the near future new technologies, such as mobile applications and GPS tracking, are expected to be used to provide more value-added services and to differentiate an individual company from its competitors.

### Solid value chain structure

The existing value chain of the express delivery industry, extending from ordering and transportation to delivery, is more solid than those of most businesses. As mentioned previously, total revenue is mostly generated from inter-city deliveries. Yet the unit price charged for this service is actually declining owing to intensive competition. Combined with efforts to expand the global network, city express and inter-country express should have the strongest growth potential in the future.

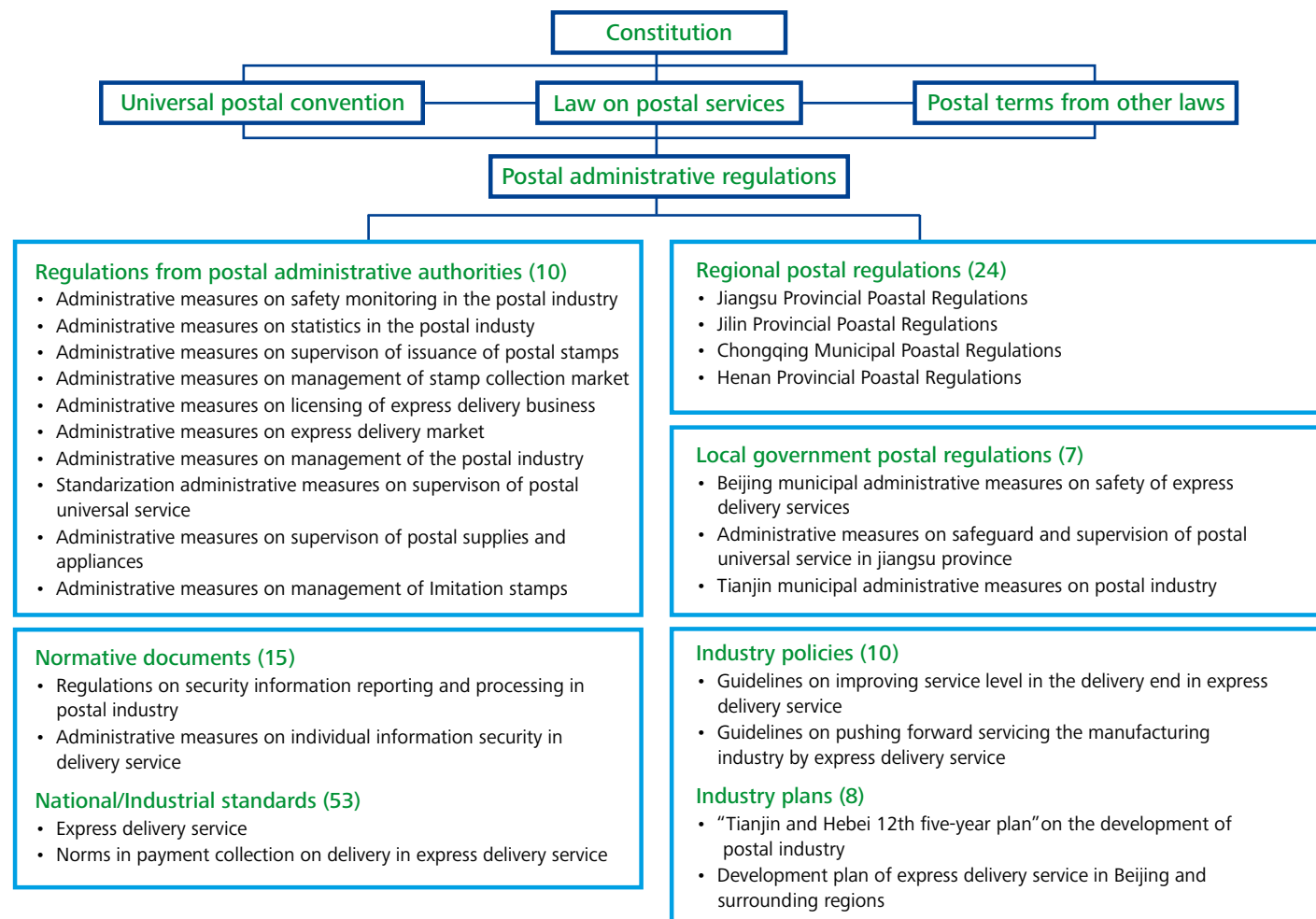
Express delivery companies should also seize the opportunity to break into relevant operating areas such as retailing and convenience stores. For instance, since 2012 some leading express delivery enterprises have been trying to start their own online retailing business. While some of them, for example, ule.com (China Post) and sfbest (SF), have survived and gradually increased their market share, they are still too small in size to continue growing without added resources.

### The value chain of the China express delivery business



### Regulation enables sustainable growth

A well-rounded regulation system has already been established to effectively regulate the express delivery industry in China. The whole system consists of 1 law, 1 administrative regulation, 10 ministerial regulations, 24 regional regulations, 7 local government regulations, 15 normative documents, 15 national standards, 38 industrial standards, 10 industrial policies, and 8 industry development plans. They clarify the legal status of express companies and promote competition through fair market access, thus significantly enhancing service quality and risk mitigation. Through adopting standards and qualification requirements, express delivery companies are also enabled to achieve healthy and sustainable development models.



## Opportunities & challenges ahead

Multiple players are competing in the market, and Chinese express delivery industry is experiencing a new round of restructuring. While dominant express delivery companies are expanding their services and network through mergers and acquisitions,, new players are also trying to enter this market. Some e-commerce businesses, transportation companies, and logistics companies have started their own express delivery services, putting pressure on traditional express delivery companies whose major clients are e-commerce customers. Meanwhile, foreign express enterprises are also applying for permission to expand their business in China. In the near future, competition in the market should intensify. Therefore current players should formulate strategies to adapt: a price war is not sustainable, so they are better served to tap new markets and promote service quality.

Some express delivery companies are exploring relevant businesses along the value chain, for example, building convenience stores or cooperating with retail companies to provide flexible delivery and pickup options to customers. As

discussed before, this could be a lucrative venture, but it may take time to grow into a profitable business.

In order to provide fast and effective services, express delivery companies invest heavily in improving their transportation and delivery capabilities. Companies with strong financial reach expand their air transportation by purchasing and leasing aircrafts, building aviation hubs, and even establishing their own flight companies. Relevant infrastructure, such as supporting system-sorting centers, call systems, and information systems, should be established and strengthened.

Several express delivery companies are also keen to integrate mobile applications to provide a one-stop service experience to customers. “Going Global” is another ambitious strategy for companies in this industry. The development of cross-border e-commerce accelerated the internationalization of Chinese enterprises in 2014 when the investment flowed to developed countries and regions such as the United States, EU, Japan, and Korea as well as emerging markets. Despite massive capital outflow, these companies need to enhance their

B2B services accordingly in order to occupy the international market. All of these efforts mentioned above contribute to the capacity and service quality enhancement in the industry.

### Investment and M&A driving the industry

In the upcoming years, M&A and integration will become important drivers for the development of the industry. Facing growing costs and decreasing profits, small and medium-sized enterprises are likely to be eliminated from the competition if they do not receive new capital injection to fund rapid expansion. Therefore, we expect that the industry should see an increased frequency of small amount M&A deals in the near future. The entry of upstream manufacturers into the express delivery industry will speed up vertical integration and drive up the degree of industry consolidation, making integration by M&A an important impetus that can move the industry forward.

In regards to outside capital influx, the percentage of express delivery companies out of the whole logistics industry that received investment increased noticeably in the past three years. This indicates that the express delivery sector is attracting more attention from PE/VC. External capital has numerous positive effects on the express delivery industry. It enables companies to become asset-intensive companies and comprehensive logistics suppliers. Relevant experienced financial investors could improve a company's financial statements, risk control, compliance management, and modern corporate system. With additional capital, companies should be able to improve their software systems and the application equipment automation, greatly increasing industry productivity. Moreover, external financing can mitigate tremendous capital pressure brought on by direct-operation integration, which is imperative for the long-term development of express delivery companies.

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## Implication for setting up business in China

- from Tax & Legal perspective

What are the main concerns from tax dimension when dealing with cross - border transactions ?



China has actively participated in the BEPS (Base Erosion and Profit Shifting) Project initiated OECD since 2013. Foreign investors should keep an eye on development the BEPS project and China's response to the project.

Foreign investors need to pay attention to general anti-avoidance rules when making any commercial arrangement. A tax-driven arrangement should be avoided.

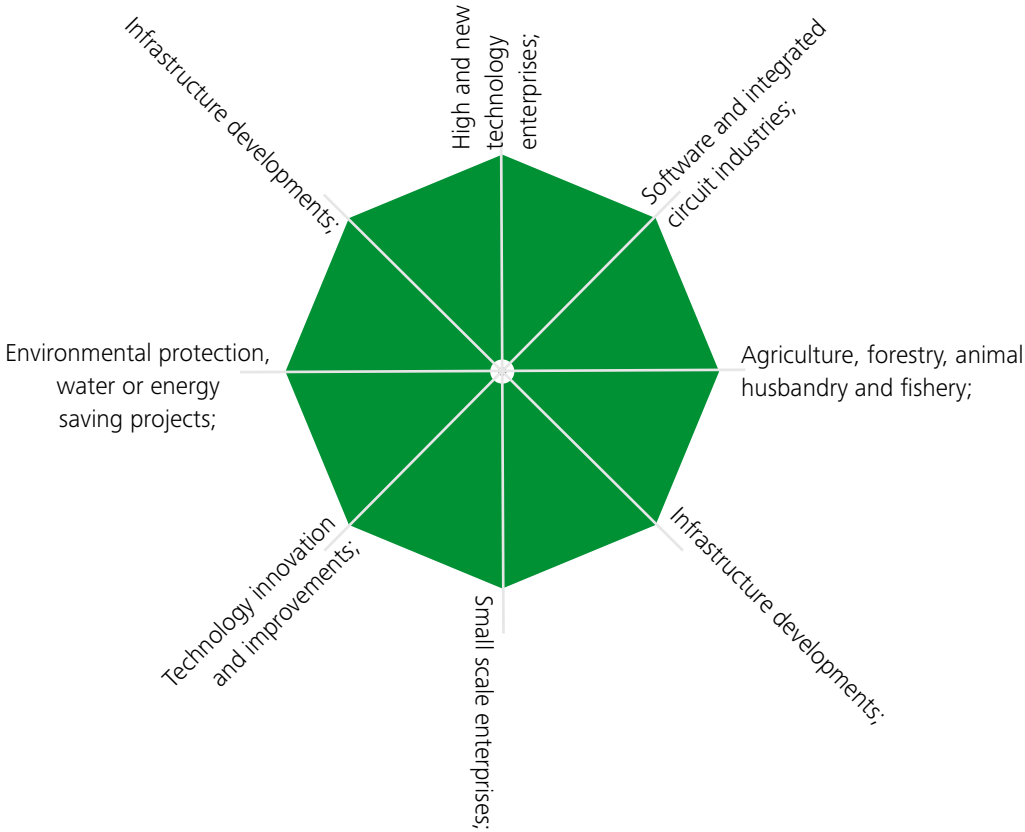
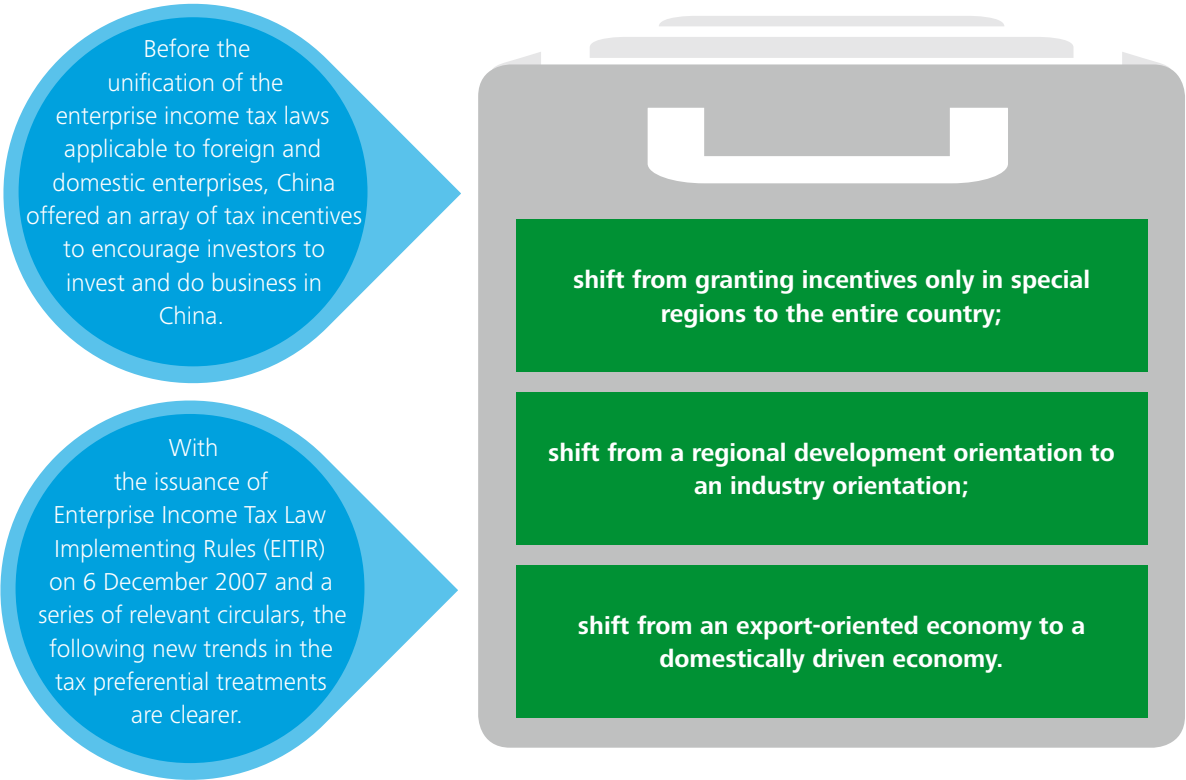
Foreign investors must qualify for a beneficial owner criteria in order to apply certain treaty benefits.

Overseas large payment currently is a focus of China tax authorities. A company with overseas payment may face nondeductible risk if it cannot justify the payment.

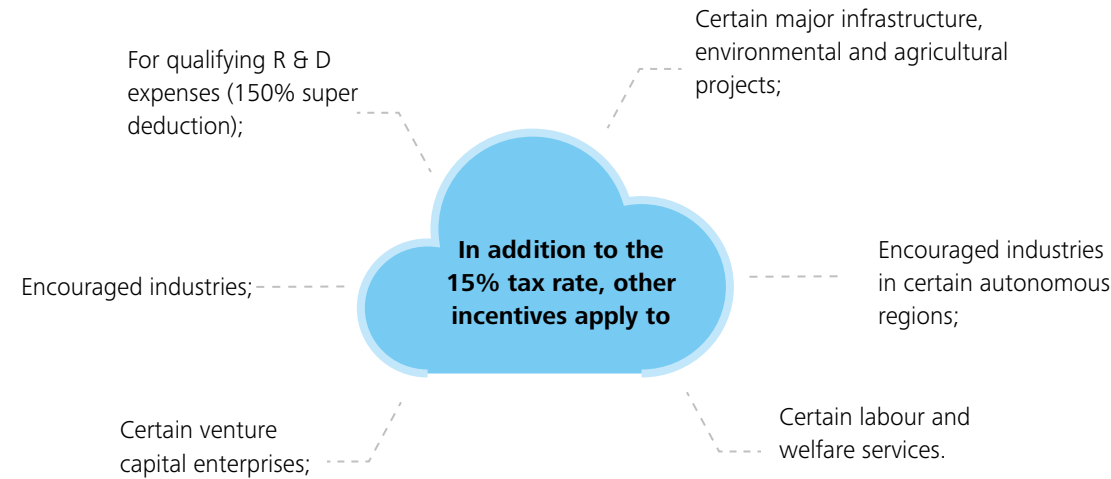
The VAT reform is still on its way in 2015 and is expected to be finished by the end of 2015. Foreign investors should closely watch the latest development of the VAT reform.

# Preferential tax treatments under the Enterprise Income Tax Law (EITL)

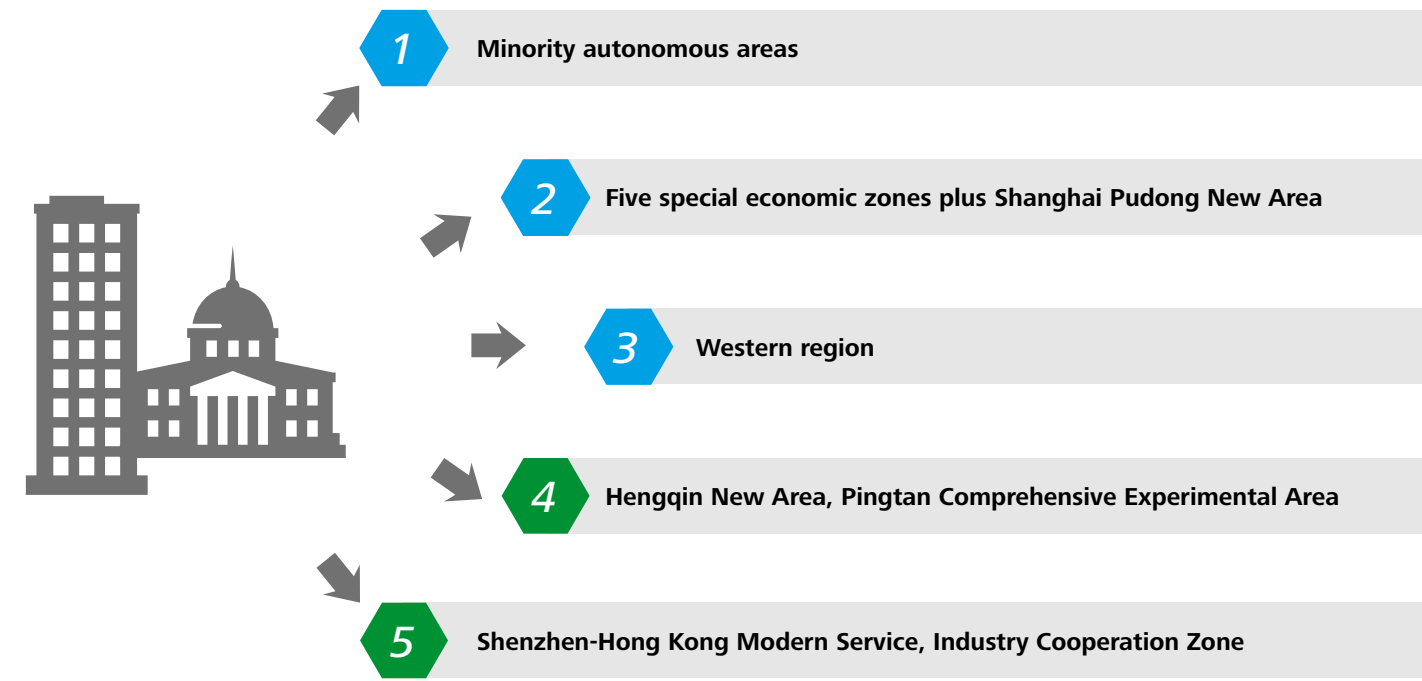
Under the EITL (Enterprise Income Tax Law), preferential tax treatments are offered to the following encouraged activities and industries:

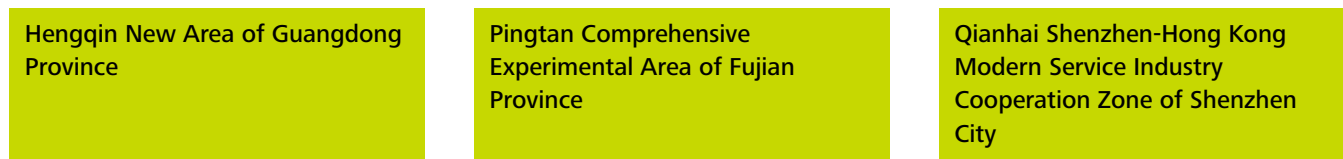


From tax perspective, the new incentive that has **attracted** the broadest attention is a **15%** tax rate that applies to an enterprise that qualifies as a high and new technology enterprise.



## Specific areas with preferential tax treatments

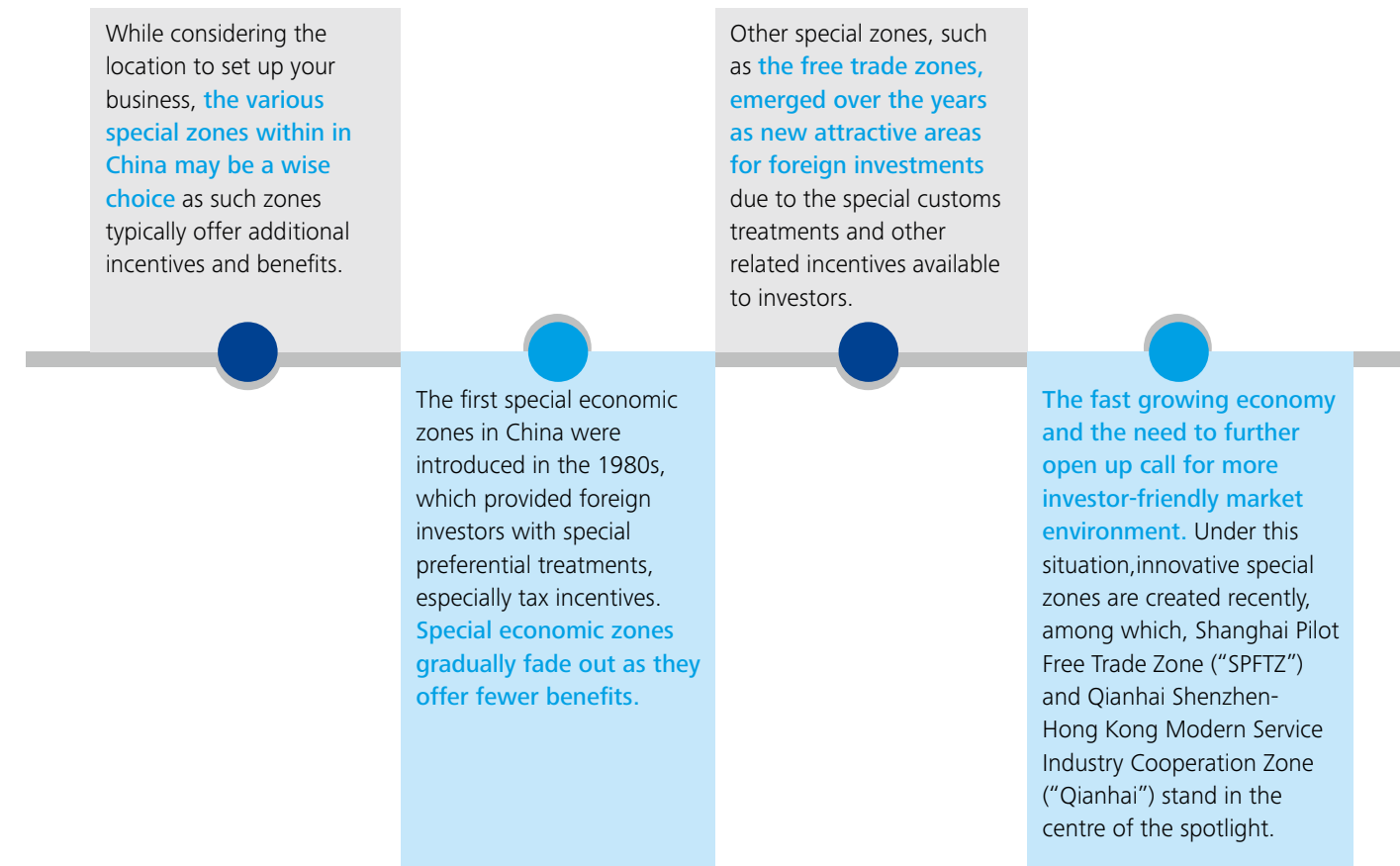




The enterprises are entitled to a preferential EIT rate of 15% during the period from 1 January 2014 to 31 December 2020.

The aforementioned encouraged enterprises refer to the enterprises mainly engaging in the industrial projects specified in the local preferential EIT catalogue and the revenue derived therefrom contributes 70% or more of the total revenue for such enterprises.

For the enterprise with branch offices located outside the special areas, only income sourced from the special areas can be entitled to the preferential tax rate.

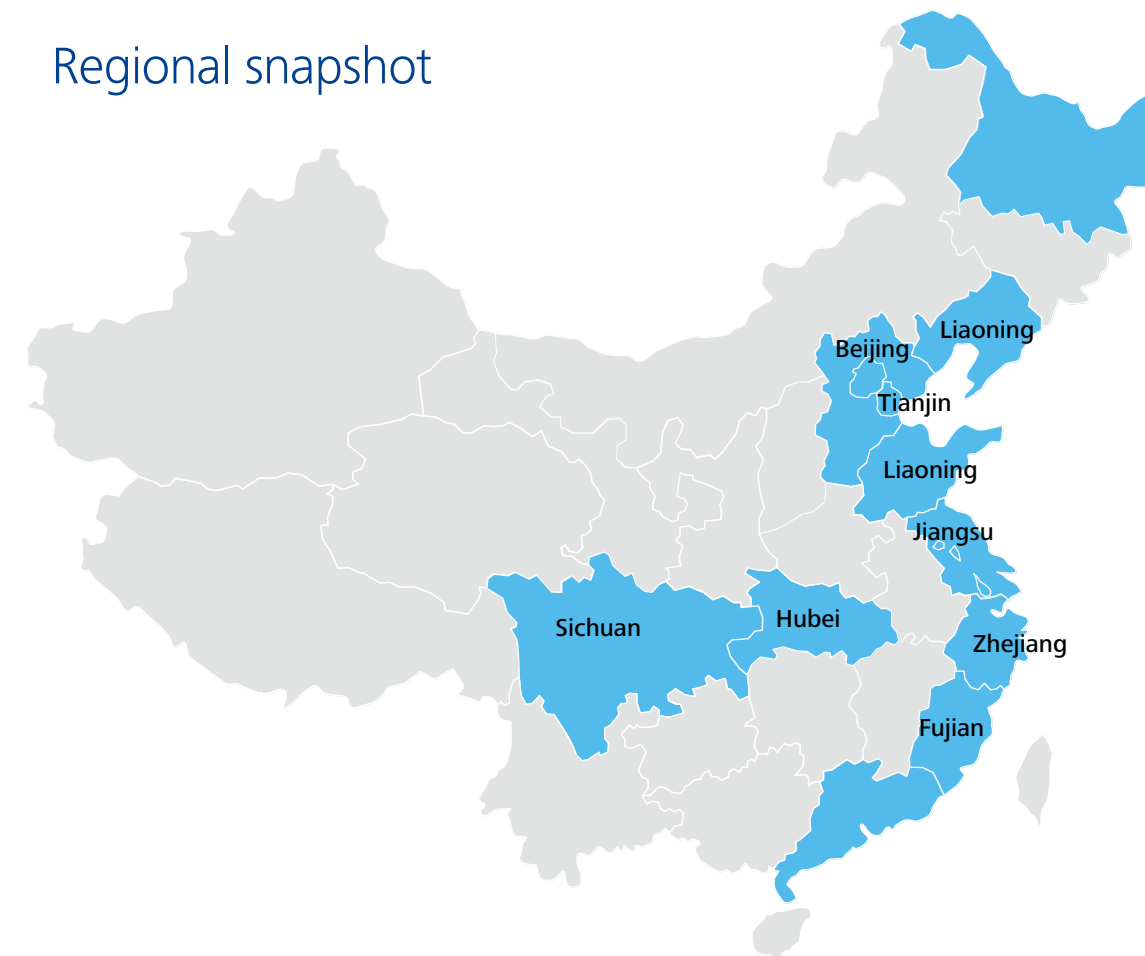


As the two different zones are with crossed but not overlapping development goals, the incentive policies in both **the SPFTZ and Qianhai** are closely related to and oriented from the demand of the investors from home and abroad.



- Free convertibility of RMB capital account;
  - Liberalization of interest rates in the financial market;
  - RMB cross-border use;
  - Further opening up of financial service industry to qualified private capital and foreign financial institutions; and
  - Reform in foreign exchange administration system.
- 
- Issuance of RMB-denominated bonds in Hong Kong within the approved quota;
  - Establishment of Qianhai Equity Investment Mother Fund;
  - Pilot of more innovative financial institutions (such as Tencent Qianhai Weizhong Bank);
  - Hong Kong-based financial institutions and other overseas financial institutions to set up international or national management headquarters and business operation headquarters;
  - Experimentation in the expansion of offshore RMB fund flow-back channels; and
  - Development of Hong Kong as an offshore RMB settlement centre and establishment of a cross-border RMB innovation zone.

## Regional snapshot



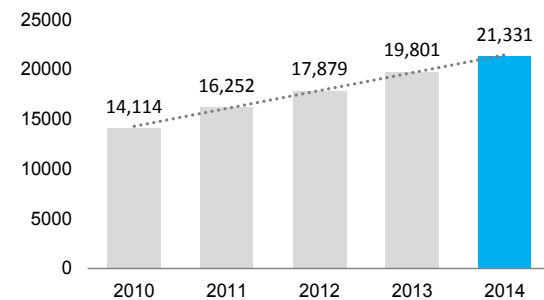
For those who are targeting appropriate location to invest in or expand current business scope, we selected several provinces and municipalities and presented as regional snapshot, with regional GDP on a yearly basis and several indicators in foreign investment field, as well as leading industries segmentation.

## Snapshot of Beijing

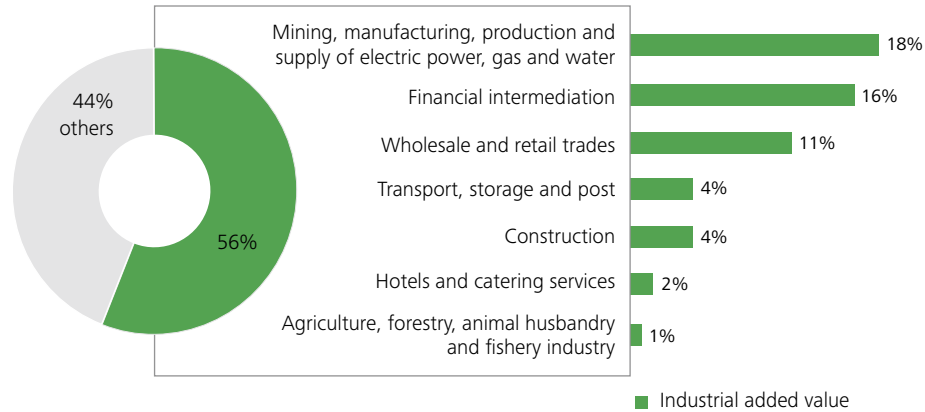


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	28,041	27,061	26,535	25,672	24,853
Total investment of foreign invested enterprises (\$million)	201,027	177,105	149,355	134,364	119,206
Registered capital of foreign invested enterprises (\$million)	119,161	105,851	90,704	80,327	71,477

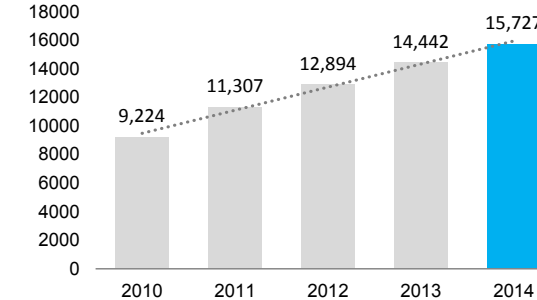
Source: National Statistics Bureau

## Snapshot of Tianjin

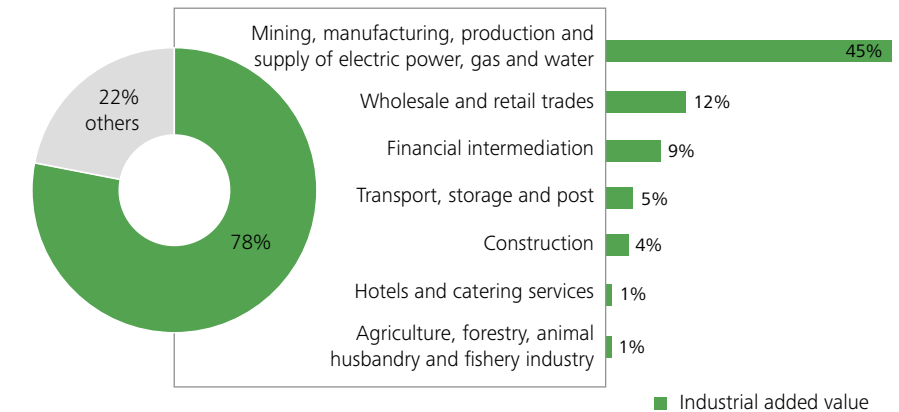


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	11,507	11,413	11,491	11,850	12,918
Total investment of foreign invested enterprises (\$million)	144,146	127,423	118,913	114,806	109,624
Registered capital of foreign invested enterprises (\$million)	82,486	72,074	64,949	64,764	62,044

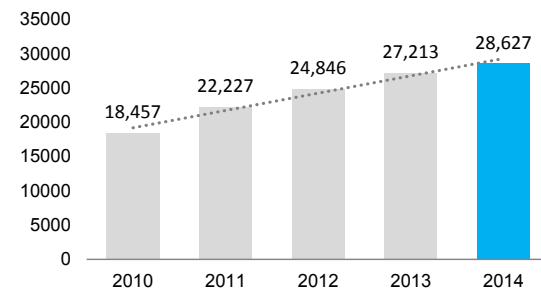
Source: National Statistics Bureau

## Snapshot of Liaoning

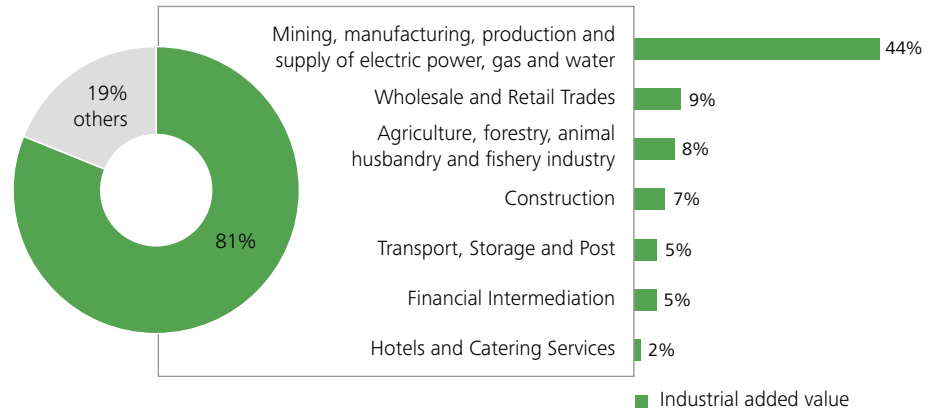


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	17,091	17,250	17,960	18,164	18,377
Total investment of foreign invested enterprises (\$million)	198,641	183,207	185,564	165,969	147,615
Registered capital of foreign invested enterprises (\$million)	120,354	113,599	117,131	105,770	97,535

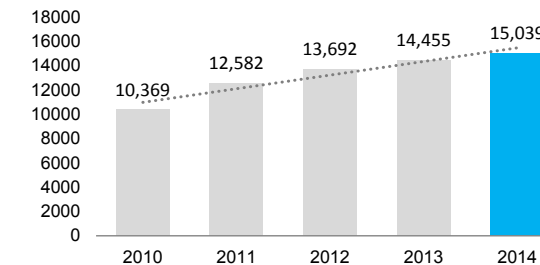
Source: National Statistics Bureau

## Snapshot of Heilongjiang

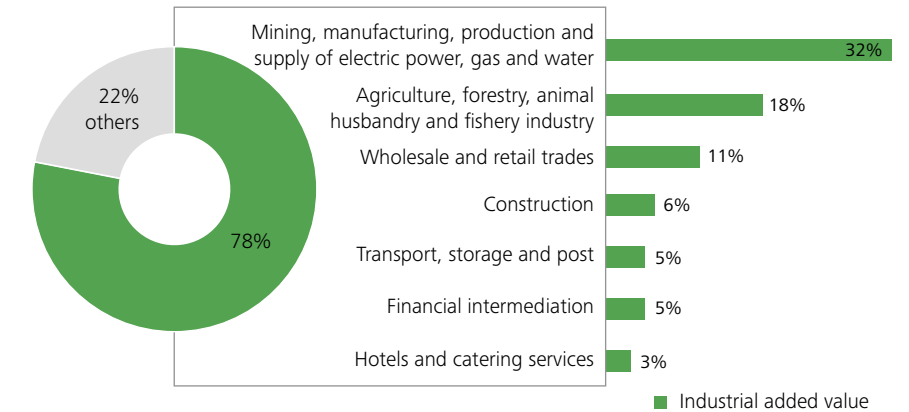


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	5,016	4,924	5,039	5,426	5,814
Total investment of foreign invested enterprises (\$million)	23,983	22,794	22,247	20,941	19,617
Registered capital of foreign invested enterprises (\$million)	14,343	13,107	12,788	12,247	12,046

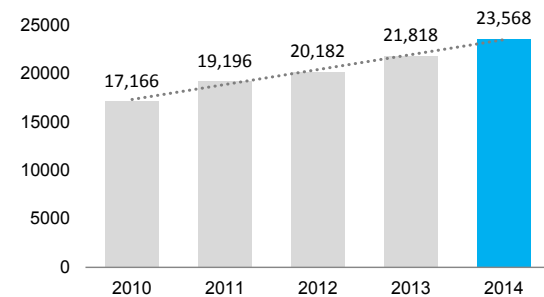
Source: National Statistics Bureau

## Snapshot of Shanghai

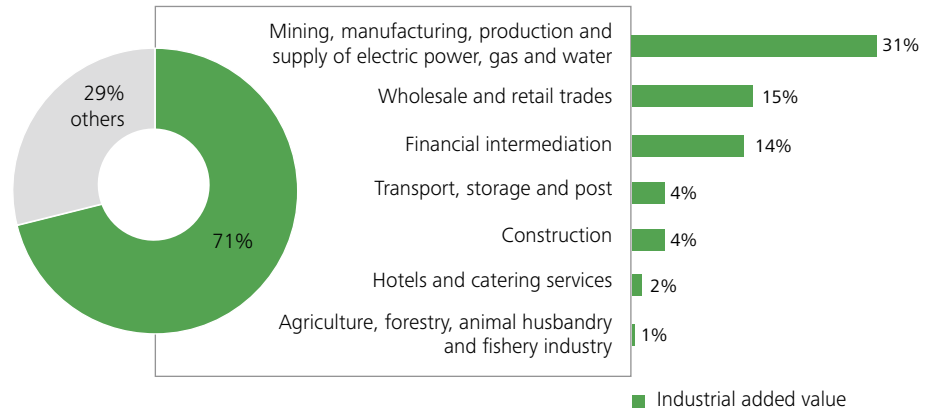


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	68,952	64,412	61,461	58,993	55,666
Total investment of foreign invested enterprises (\$million)	530,467	457,933	413,768	377,353	339,385
Registered capital of foreign invested enterprises (\$million)	335,956	282,305	251,092	226,232	200,919

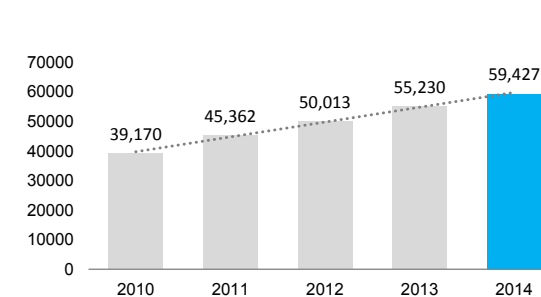
Source: National Statistics Bureau

## Snapshot of Shandong

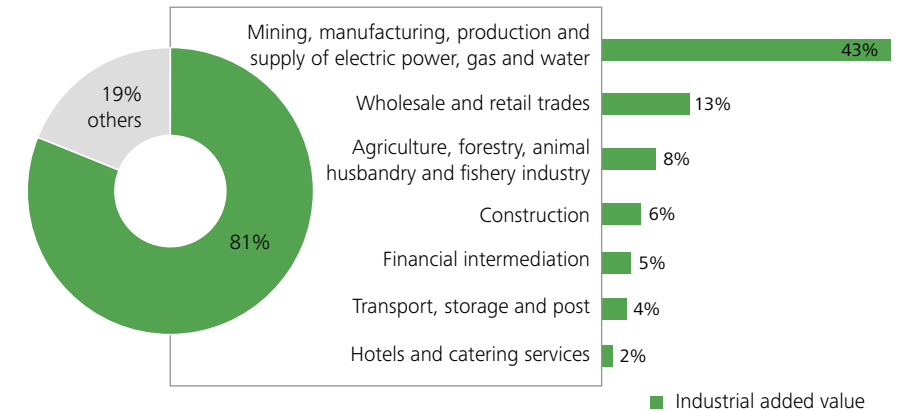


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	26,023	25,755	25,885	28,915	29,486
Total investment of foreign invested enterprises (\$million)	199,227	176,491	158,114	143,374	124,523
Registered capital of foreign invested enterprises (\$million)	113,131	99,456	89,679	81,749	72,865

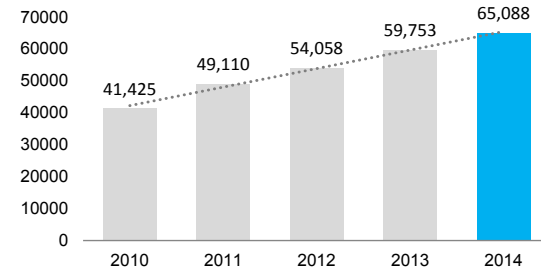
Source: National Statistics Bureau

## Snapshot of Jiangsu

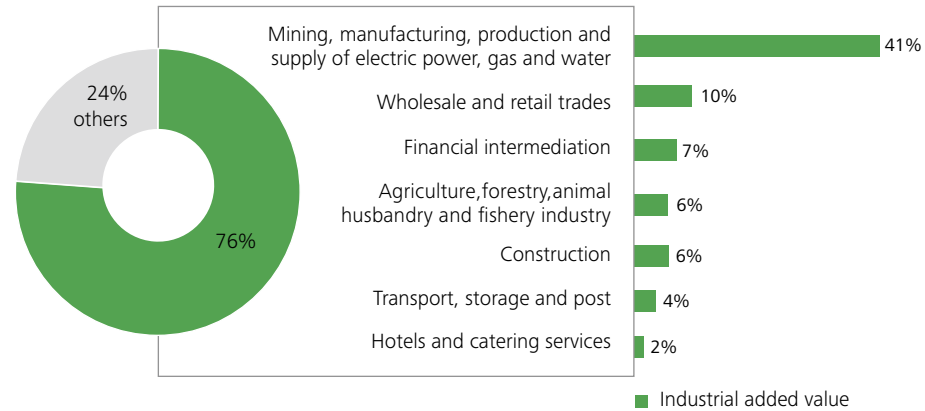


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	51,634	50,514	50,461	52,959	51,666
Total investment of foreign invested enterprises (\$million)	718,131	666,376	625,000	572,851	508,106
Registered capital of foreign invested enterprises (\$million)	383,934	354,282	330,138	305,009	273,899

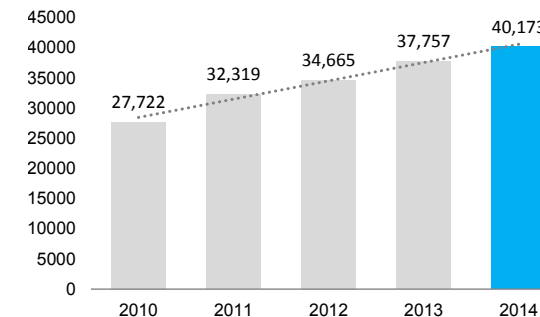
Source: National Statistics Bureau

## Snapshot of Zhejiang

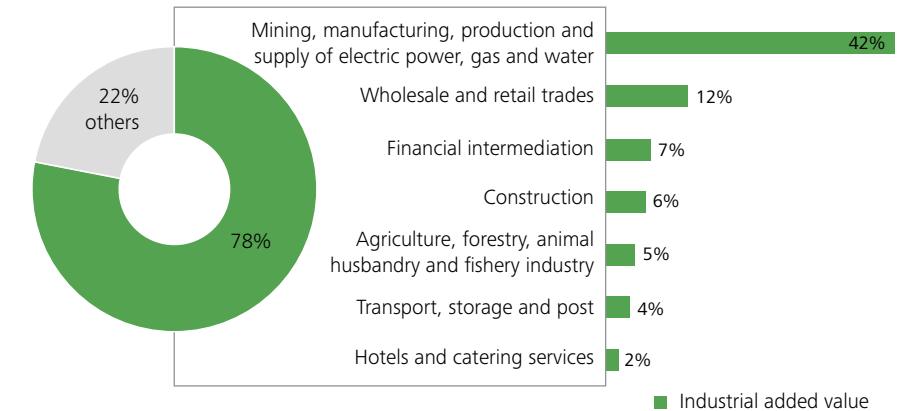


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	31,005	30,674	29,595	29,288	28,769
Total investment of foreign invested enterprises (\$million)	262,881	240,408	217,810	201,919	183,233
Registered capital of foreign invested enterprises (\$million)	152,681	140,665	127,466	117,000	106,942

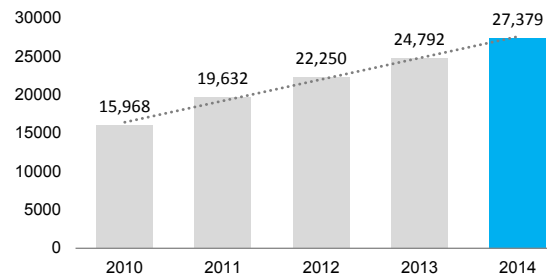
Source: National Statistics Bureau

## Snapshot of Hubei

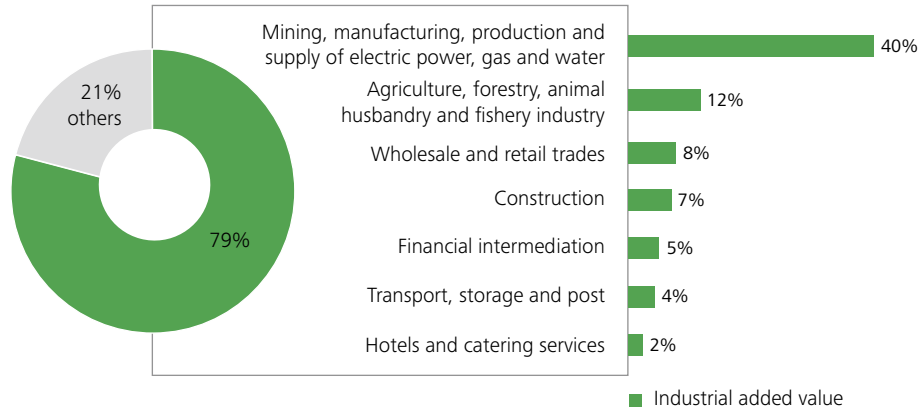


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	8,160	7,693	8,023	7,473	7,486
Total investment of foreign invested enterprises (\$million)	77,671	65,357	58,274	51,896	42,864
Registered capital of foreign invested enterprises (\$million)	41,016	34,923	32,150	29,317	24,314

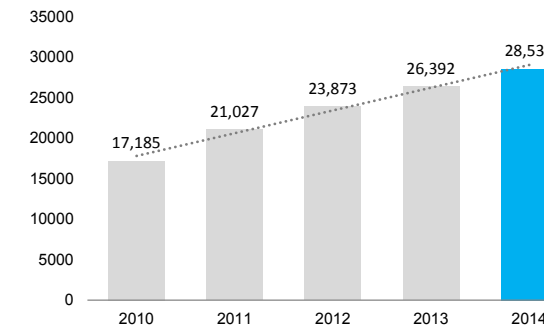
Source: National Statistics Bureau

## Snapshot of Sichuan

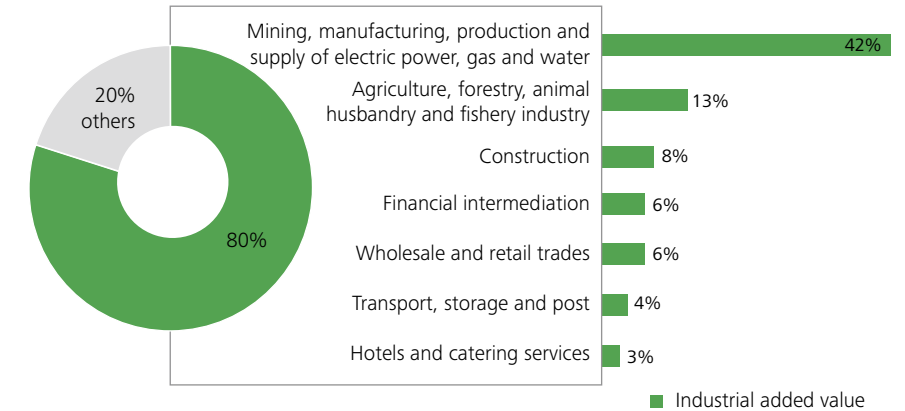


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	10,253	9,147	9,107	10,026	12,050
Total Investment of foreign invested enterprises (\$million)	82,752	72,490	64,045	57,419	54,383
Registered capital of foreign invested enterprises (\$million)	46,716	41,338	37,445	34,444	33,457

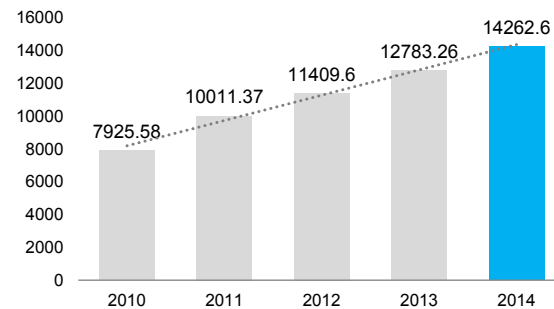
Source: National Statistics Bureau

## Snapshot of Chongqing

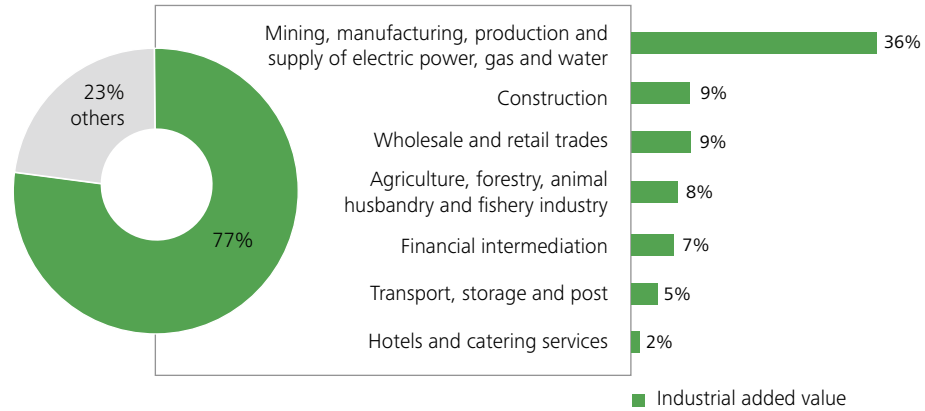


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	5,147	5,397	4,461	3,985	4,827
Total investment of foreign invested enterprises (\$million)	67,517	58,841	53,694	45,194	34,885
Registered capital of foreign invested enterprises (\$million)	42,543	36,900	31,155	25,729	20,350

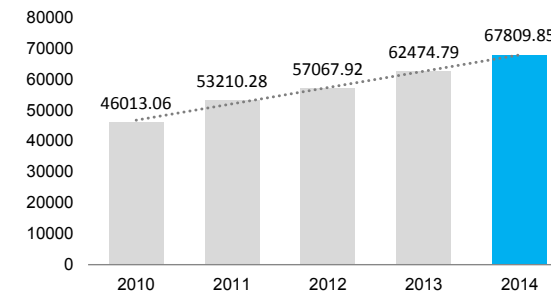
Source: National Statistics Bureau

## Snapshot of Guangdong

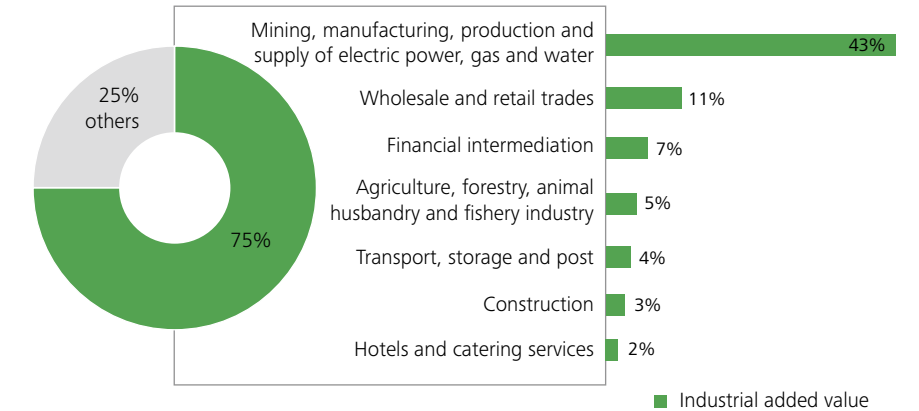


### Regional GDP

Billion RMB



### Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	104,555	100,639	98,564	97,084	93,756
Total investment of foreign invested enterprises (\$million)	562,063	512,640	478,645	452,466	421,260
Registered capital of foreign invested enterprises (\$million)	337,737	303,715	283,269	268,475	249,493

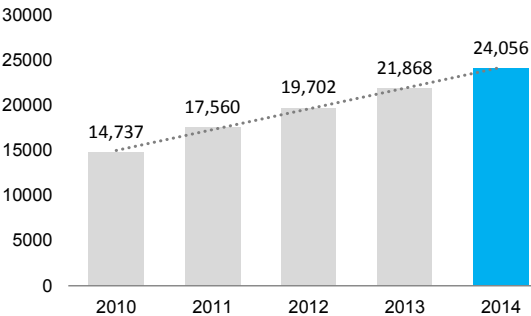
Source: National Statistics Bureau

# Snapshot of Fujian

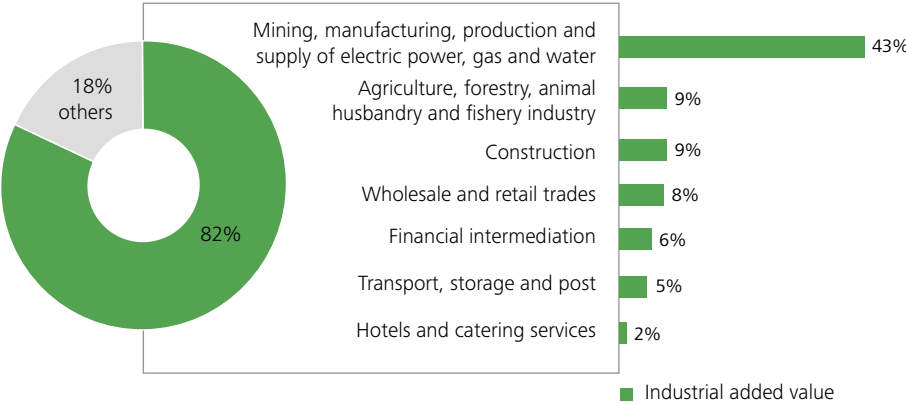


## Regional GDP

Billion RMB



## Top industries by 2014 industrial added value



Indicator	2014	2013	2012	2011	2010
Foreign invested enterprises	24,322	23,546	23,381	23,727	23,463
Total Investment of foreign invested enterprises (\$million)	173,245	156,516	145,744	136,898	124,831
Registered capital of foreign invested enterprises (\$million)	94,485	85,375	80,443	75,386	69,358

Source: National Statistics Bureau



# Global Chinese Services Group

# About Deloitte Global Chinese Services Group

Established in 2003, Deloitte's Global Chinese Services Group (GCSG) aims to advise Chinese companies expanding global presence, and multinational companies operating in China. This network deployed in various countries and geographic regions with professionals possessing Chinese speaking capabilities and knowledge about China and Chinese companies to provide professional advice and comprehensive solutions to Chinese companies investing overseas.

We are committed to expanding our footprints as our clients expand theirs. To stay ahead of the curve in putting the needs of clients first, the Global CSG continue efforts evolving and adapting to the changing dynamics of the marketplaces, and provide advice & solutions to clients to address their complex business challenges.



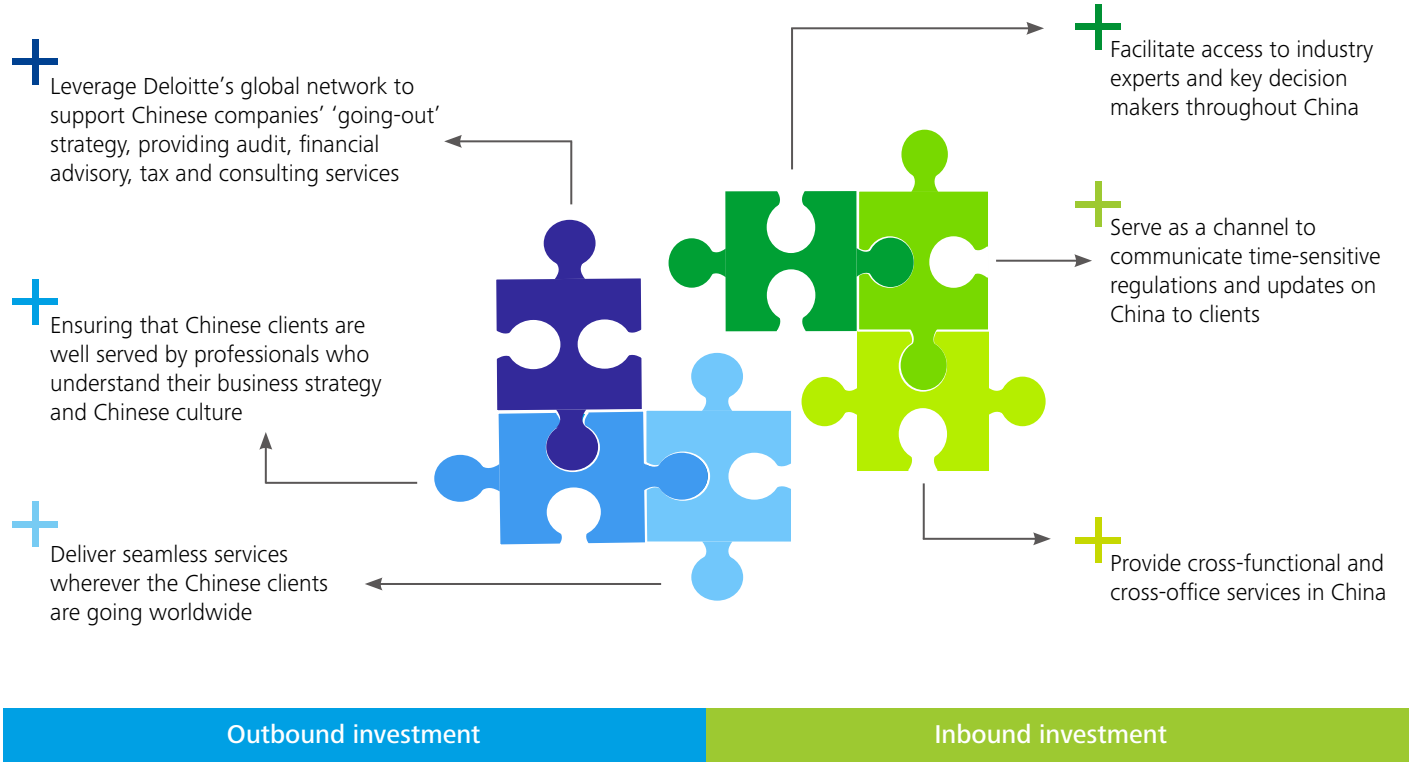
# Deloitte Global Chinese Services Group coverage

60+ CSG teams around the globe covering 130+ countries



# How can Deloitte Global Chinese Services Group add value

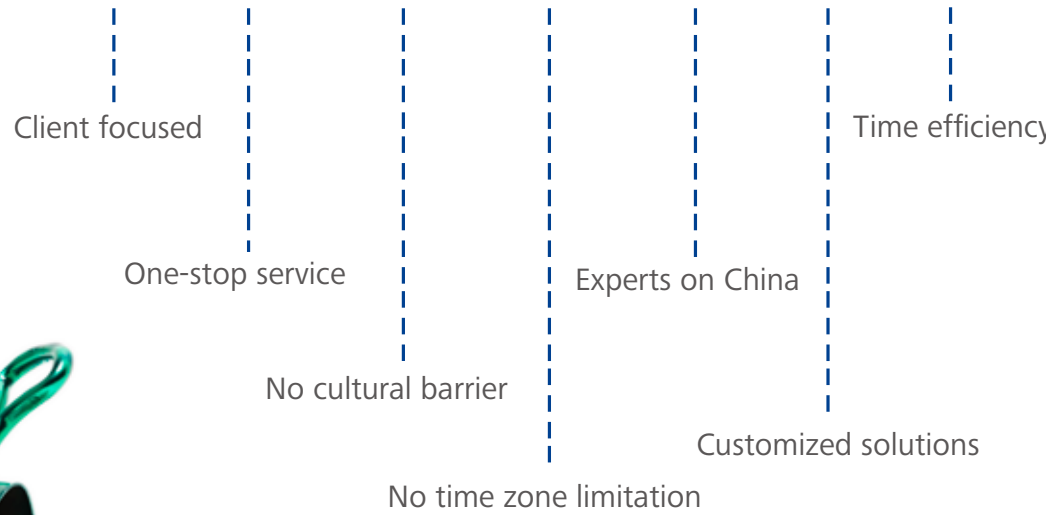
Global CSG can add value through various channels:



# Deloitte Global Chinese Services Group mission

Operating as a platform to leverage expertise in the Chinese market and bridge the cultural gap. We are devoted to provide our clients with multi-member firm, multi-industry, multi-functional and multi-disciplinary services.

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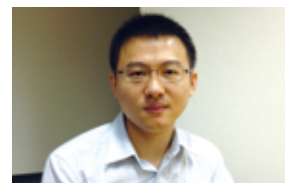
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