

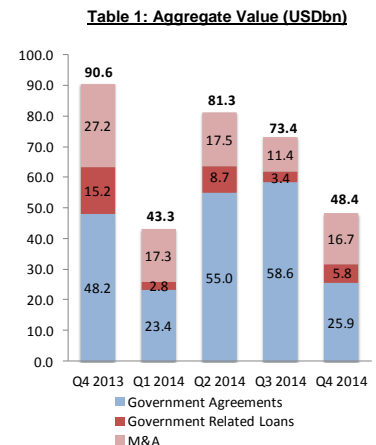
## I. Overview

Q4 Chinese outbound investments totaled USD 48.4 billion. This amount further confirms the continuing decline over the past 5 quarters. The aggregate amount across all three components now represents less than 50% of the Q3 2013 peak of USD 101.8 billion (Table 1). There was a substantial pick up in M&A both in aggregate values (up 46% from Q3) and volume (up 11% from Q3). Government Related Loan Agreements, outside of the more comprehensive Government Agreements, showed aggregate amounts up 73%. However, these gains did not offset the 56% decrease in aggregate value of Government Agreements.

It is important to note that some of the increase in Government related loans were related to countries adversely affected by rapidly declining oil prices. Our totals do not include the restructuring of the former facility to PdV in Venezuela, which marked the first debt restructuring deal that Venezuela's Government has signed with a major creditor.

This quarter we only include actual outbound amounts in Government Agreements, rather than stated values, as we have concluded that many of these Agreements have been designed to increase exports from the various countries, rather than increase pure outbound Chinese investments.

Finally, while China announced the formation of two major Asian infrastructure funds, in which China committed to invest c. USD 90 billion in the future, such funds/amounts were not included in these totals since neither of these funds is expected to become operational until at least 2015.



### M&A / Equity Transactions

↑46%

China outbound M&A / equity activity was USD 16.7 billion, up 46% versus Q3, although still down 10% versus the average of the past five quarters. Volume increased by 11% versus Q3 2014 and was up 32% versus the average of the past five quarters. These produced a 31% increase in average transaction size from Q3.

In contrast to the previous 2 quarters, deals from Financial sector (which includes real estate) led in volume with total 22 transactions. The Consumer Goods and Services sector and Industrial sector ranked second with 12 transactions each, followed by Technology and Health Care.

Financials led with aggregate value of USD 9.4 billion, driven by a series of real estate M&A transactions. Industrials ranked 2<sup>nd</sup> with USD 2.4 billion.

Asia and Europe led Q4 2014 in volume with 25 and 18 transactions respectively, representing 62% of total volume. Hong Kong itself represented over 50% of Asian volume.

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Europe ranked first with USD 5.9 billion in aggregate value, while North America ranked second with USD 4.5 billion in aggregate value. Again, both totals were driven by large real estate / hotel transactions.

M&A activity was once again strongly influenced by large and mid-sized transactions. There were 5 transactions over USD 1 billion and 9 more between USD 465 million and USD 1 billion. Collectively, these 14 transactions represented 72% of aggregate amounts in Q4, while only 20% of total volume. Around half of the volume involved transactions under USD 100 million.

### Government Related Loan Agreements



↑ 73%

This quarter there were 14 Government Related Loan Agreements - separate from the much broader Government Agreements – totaling USD 5.8 billion aggregate value. This amount represents a 7% decrease in volume but a USD 2.5 billion increase in aggregate value from Q3. There were 5 loans each over USD 500 million as set out on page 17 (for subscription clients). All 14 of these loans were to emerging markets based borrowers.

The largest Loan Agreement in Q4 did not involve any new loan, but rather a restructuring of existing credit facilities previously granted by CDB to PdV, Venezuela's state owned oil company. PdV's 2013 oil revenues declined by USD 11 billion to USD 113 billion and expected to be only USD 98 billion in 2014. In the current oil pricing environment, further revenue declines are also likely in 2015.

The newly negotiated oil-backed loan agreement between China and Venezuela marks the first debt restructuring deal that Venezuela's Government has signed with a major creditor.

### Government Agreements



↓ 56%

In Q4, there were 8 Government Agreements signed, 5 with specific values disclosed, totaling USD 25.9 billion. Volume declined by 50%, while the aggregate values decreased by 56%.

All 8 of these larger Agreements were signed as part of a State Visit either by President Xi to Oceania (Australia, New Zealand and Fiji) in November or Premier Li's visits to Europe (Germany, Italy) and Russia in October and to CEE, Kazakhstan, Thailand and Myanmar.

Also during Q4, China announced two major vehicles sponsored by China and designed to help fund international /Asian infrastructure projects. Since neither of these vehicles are to become operational until 2015, we did not include these funds/amounts in Q4 data.

*Asian Infrastructure Investment Bank (AIIB)* - In October, China announced the official launch of the AIIB. AIIB has been designed to give project loans to developing Asian nations,

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filling in funding gaps among existing development banks. China is expected to contribute USD 50 billion into the Fund, while 21 other nations infuse the remaining USD 50 million funds. Australia, Indonesia and South Korea have yet to join for various reasons.

*Silk Route Fund* - in November, China announced plans to build a fund to finance infrastructure along the Silk Route, one which will pass overland through Kazakhstan, Krgystan and Iran and end in Austria while the sea route will link Chinese ports with European ports. State Council will contribute 65% of this fund, CIC will contribute 15%, while CDB and China Ex-Im will contribute 15% and 5% respectively. China plans to launch this during Q1 2015. This fund's role is to provide seed capital to facilitate early commitment of construction loans in Southeast Asia and as such is different from the AIIB which provides loans.