China

2014

China's Business Environment In 2014

Rebalancing, Volatility & Opportunity

InterChina
November 2013

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Strategy | M&A Advisory
www.InterChinaConsulting.com

Introduction: looking ahead to 2014, a year of change

2013 has been an unusually turbulent period for companies in China. Amidst an apparent economic slowdown, the new leadership has pursued an anti-corruption drive, a government frugality campaign, and a strengthened Internet crackdown. More specifically, we have seen the trial of Bo Xilai, the largest political scandal in decades, the purging of China's most profitable state owned enterprise PetroChina, pharma executives paraded on national television admitting commercial bribery, the collapse of the high-end restaurant sector, liquidity in the banking sector drying up for two weeks, and the taming of the "Big V" micro-bloggers on the Internet.

Meanwhile, many sectors and businesses in China have continued to develop strongly. Automotive companies are having one of their best years ever with strong growth and good margins, many consumer industries such as packaged goods, e-retail and food service continue to witness double digit growth, and growth also remains robust in healthcare, automation and logistics among others.

No wonder there is some degree of confusion in corporate boardrooms and even among executives in China about the direction China's economy is heading and what this means for their companies; however, we'd better get used to this lack of clarity.

InterChina considers that over the coming years, uncertainty and volatility will become the name of the game in China. Much of the turbulence to date has been a consequence of the leadership regime establishing its authority and improving public support, and this turbulence will continue as the regime now proceeds with its policy priorities and economic reforms for the coming decade. For those ready to ride these choppy waters, the range of opportunities will broaden. Growth in consumption will remain robust, advanced offerings will find new markets as the economy upgrades, market access and fair competition will improve, and acquisition options will arise as consolidation accelerates.

However, international companies will need to handle the new environment of uncertainty and volatility in order to take advantage of these opportunities. Although there will be big differences across sectors in terms of what this actually means, there are some common denominators which we describe in more detail in this report.

Jan Borgonjon
President

InterChina

Established 19 years ago, InterChina is one of the early entrants in the Financial and Advisory industry in China. Over the years, we have become a well-referenced boutique Strategy and M&A advisory firm.

With 55 advisors in our two China offices (Shanghai and Beijing), InterChina is one of the strongest advisors in our service segment. 90% of our staff are Chinese professionals (MBA, CPA, CFA, etc.) and 10% are expatriates from various nationalities.

The InterChina Strategy practice occupies a leading position in the Strategy advisory market in China, with more than 500 projects in our key industry sectors (consumer & retail, healthcare, auto components, chemicals and machinery).

Our M&A Practice ranks among China´s top 5 cross-border advisory firms in Mid Market M&A, with 160 deals and a 6 billion USD transaction value of which are 90% are cross border and 80% are Buy Side.

InterChina In A Nutshell

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19 years

...of doing business in China.

55

...dedicated staff members, in Shanghai and Beijing.

By 2012, we had been involved in **160** transactions worth...

USD 6 bn.

7

...M&A transactions were closed in 2013.
10 closed in 2012.
9 closed in 2011.

18

...top-line growth strategic projects.

Top 5

...independent advisory firm in China.

InterChina Strategy Practice, 2013

18 projects, closely following the needs of changing market forces.

InterChina's sector groups, for 18 years...

- Tracking market trends: More than 2,000 Senior Interviews/year.
- Maintain Sector Network: Ongoing contact with China's top 20 players.
- > 50 advisors with relevant industry background
- Support both our Strategy and M&A projects.

Healthcare

F&B - Retail

Machinery & Equipment

Automotive & Components

Chemicals

Strategy Advisory

- Expansion strategies
- Market penetration
- Profit protection

Main client issues 2012

Restructure sales channels and way-to-market to reach customers faster and better.

Access consumers in T2 and T3 cities, profitably.

Find the right approach for inorganic growth in pending sector consolidation.

Change of business model, integrate downstream, to capture more value.

Localize operations and production, acquisition of local companies to be 'more Chinese'.

Enter mid-quality market segment; 2nd brand strategy through acquisition or organically.

Deal with Cost Inflation for both short-term optimization and long-term strategic moves.

InterChina Transactions Of 2013:

16 ongoing projects; 7 successful closings.

Applus Idiada
Design, Testing, Engineering and Homologation Services
ACQUIRED EQUITY
Shanghai EDI Automotive Tech Co.
Auto Engineering and Design
China
Represented the Buyer

REPSOL
Energy and Chemicals Manufacturer
TECHNOLOGY ACQUISITION TRANSACTION
Jilin Shenhua Group Corp. Limited
Petrochemicals, Auto, Service Industries
China
Represented the Buyer

Haier
World's No. 1 Major Appliances Manufacturer
ACQUIRED ASSETS / GLOBAL ALLIANCE IN POLAND WITH
Fagor
The 5th Largest European Household Manufacturer
Spain
Advised Fagor In This Transaction

McCormick & Company, Inc.
Global Leader in Seasonings
ACQUIRED EQUITY
Wuhan Asia-Pacific Condiments
Major Bouillon Player in Central China
Wuhan, Hubei, China
Represented the Buyer

CEPSA
MidStream Chemical Manufacturing (Raw Materials)
RESTRUCTURED PHENOL OPERATIONS
Shanghai SCIP
Chemicals
China
Represented the Buyer

CEPSA
MidStream Chemical Manufacturing (Raw Materials)
CUMENE PLANT ASSETS
Shanghai SCIP
Chemicals
China
Represented the Buyer

PENDING OF ANNOUNCEMENT
Water
Leading Water Treatment Company
ACQUIRED EQUITY
XXXX
Waste Water Treatment Equipment Producer
China
Represented the Buyer

A framework for China: What to Expect in the Next 2 Years

Shift in Economic Model causes Tensions: Given the long term challenges, China has to shift to a consumption driven growth model and some initial changes are already happening. The government is showing determination on the general direction and we believe it will eventually succeed, by the end of this decade. Over the next 5 years, while the economy is under transition, China will continue to rely, to a large degree, on state investments. This will inevitably provoke tensions such as favourable treatment for SOEs, continued excess capacity, inefficient investments, growing local and provincial debt, a shaky financial system, etc.

Growth Slow-down and Industrial Consolidation: the high GDP growth period is coming to an end. Although China will continue to grow at around 6%-8% for the next decade, this will not apply equally to all industries. 2013 is already showing how the combination of reduced growth and long term inefficiencies is affecting specific industrial segments. For the next years, the main theme in many industries will be consolidation. This may lead to many opportunities, but will also bring some risks, such as the continuing preferential treatment of SOEs and large listed corporations.

Continued Volatility and Uncertainty: A slower growth China will not be able to sustain the inefficiencies of the traditional model. We believe that the new government is not only committed to a profound change in model, but also is building the muscle and momentum to tackle interest groups. The speed, depth and impact of changes based on this new political mandate will, in our opinion, come faster than expected, with many of them taking place in the next 2 years.

Risks… and Possible Solutions: This profound change of status quo will generate temporary macro economic imbalances, changes in the nature of middle class growth, cost increases, different degrees of industrial upgrading, a strong but unpredictable consolidation and possible continued protectionism in certain industries. Certainly, business in China will become more complicated and riskier… but at the same time, important new opportunities are emerging, which were not reflected in most corporate 2012/2013 strategic plans. Currently, we are already witnessing an active revision of corporate and product strategies, and a very active M&A arena, where consolidation, aggressive inbound investment and the emergence of Chinese outbound investment will be key factors.

China has embarked on a new development path…

Initial indications are positive, but this process may still require a decade to consolidate

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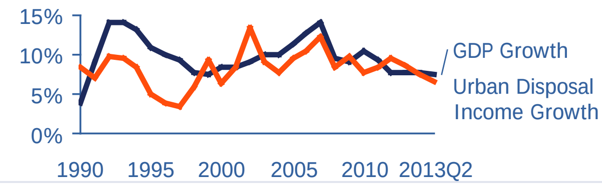
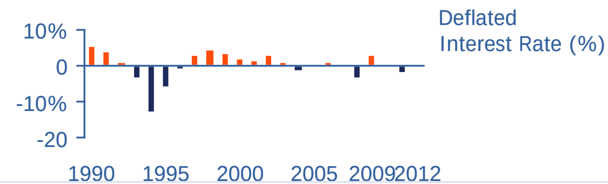
Inevitable Choice of China	Key objectives are increased consumption, further urbanization and the rising middle class. Initial indicators are positive.

Old Model (1990s – 2000s)	**New Model (2010-2020)**
Exports	Domestic Consumption
	Service Sector Development
Fixed-Asset Investment	Industrial Upgrading (Innovation)
	Financial Reform
Low-End Manufacturing	Fair Competition

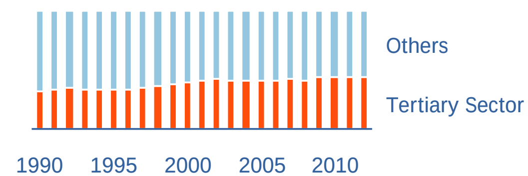
Urban disposal income outpaces GDP growth in certain years – to be continued?



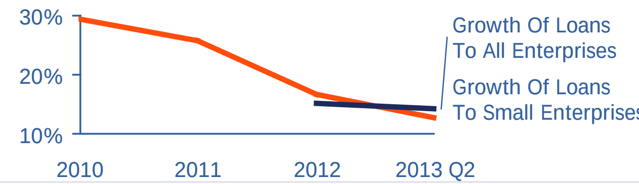
Slightly positive real interest rate in recent two years – will the inflation make it negative again?



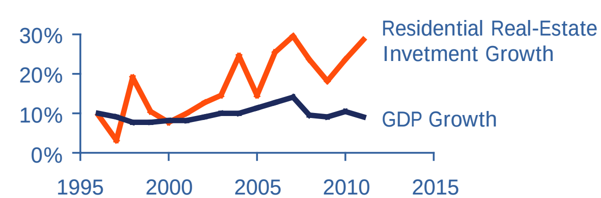
The portion of tertiary sector grew slowly to 45% of GDP – the reason or the result?



The growth of loans to small enterprises outpaced the growth of loans to others (typically SOEs).



The real estate bubble is likely to continue, even though the government took various measures – the bubble will burst?



This change is affecting the roots of China's competitive advantage

One among many examples: industrial costs will increase 3-4 times during 2010 - 2020

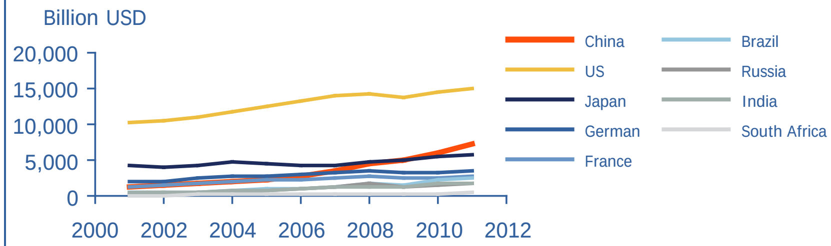
	2010	2010 -2015	2010-2020
GROSS INDUSTRIAL COST Increase during period	**8% YoY**	**40- 80%**	**120- 200%**
(*Higher Per Capita Income*) Salary and Benefits Increase	15%	80-120%	120-150%
(*Limited Usable Land*) Land Appreciation	10%	50 - 70%	100-150%
(L*ess Energy, Water, Steam…)* Supply Cost Increases	10%	>50%	>100%
(*A Greener China*) Environment CAPEX	10%	50%	100%
TAX BURDEN (CIT/ VAT/ Export VAT rebate)	**5%**	**10- 15%**	**20- 30%**
RMB APPRECIATION	**3%**	**15%**	**30%**
TOTAL COST INCREASE	**16%**	**80- 120%**	**170- 260%**
		X 2	**X 3 to 4**

State-led investment remains a key pillar of GDP growth

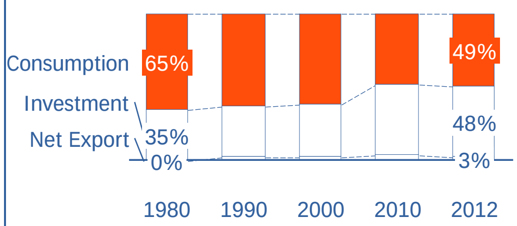
Over the next 5 years, while consumption is not yet consolidated, State Investments will cover up. This is creating important challenges...

The state-led investment model was well-suited to sustain massive growth in the past...

GDP Comparison of Major Economies

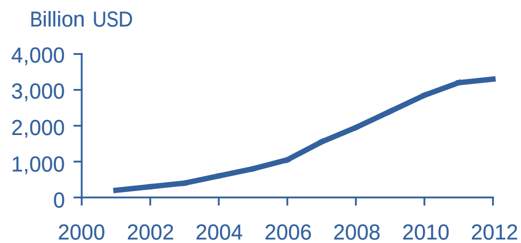


Driving Factors Of China GDP



- Investment "squeezed out" Consumption.
- Consumption takes 65%-75% of GDP in the developed economies.

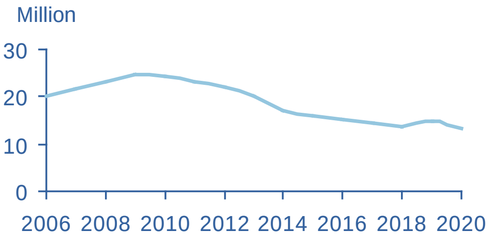
China's Foreign Reserves



- No. 1 globally since 2012.
- Relatively high risk and low efficiency.

...but underlying supporting factors are shifting downwards.

People entering the job market

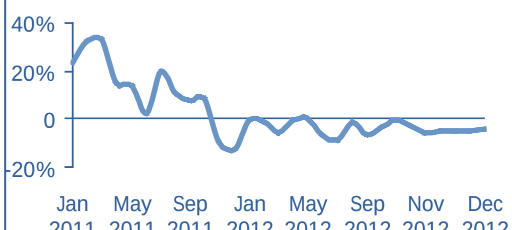


- The diminishing demographic dividend of China.
- The losing cost advantage of China.

Net Export Contribution to GDP

- The weakening overseas demand.
- Low-end manufacturing vs industry trade-up.

Monthly Realized FDI YoY Change



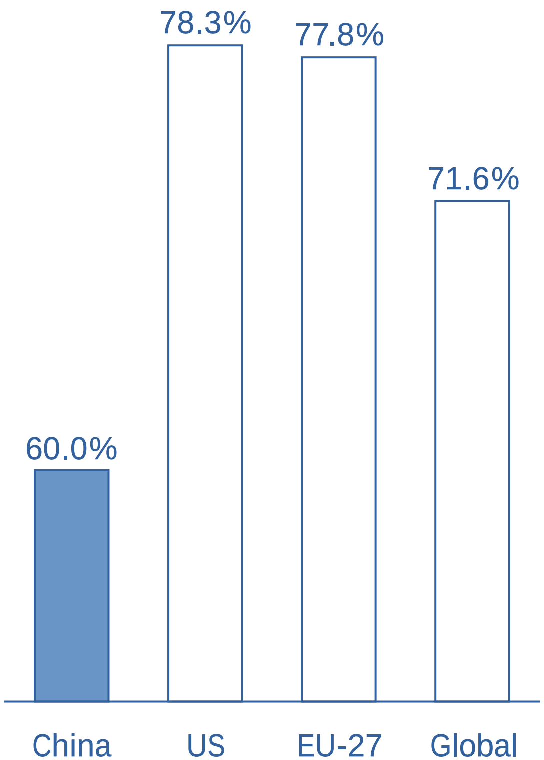
- Significant slow-down in growth.
- Still No. 2 of FDI destinations globally.
- Take 8% of global FDI.

Source: World Bank, State Administration of Foreign Exchange, National Bureau of Statistics of China

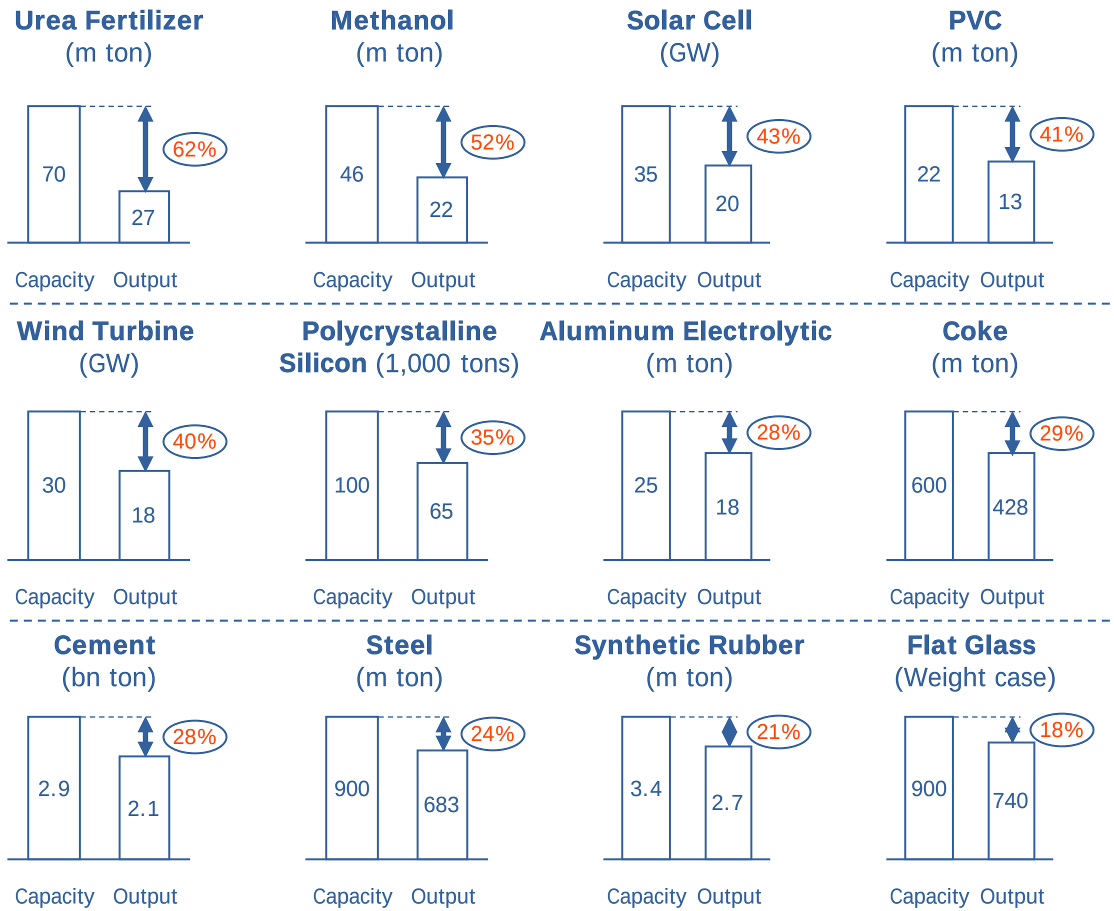
Example: Industrial overcapacity

Mostly linked to easy financing for state companies, which consequentially risks the financial sector.

Industry Average Capacity Utilization China vs. Global, 2012



Sectors with Overcapacity in China, 2011



Note: The utilization rate might be overestimated due to the insufficient government statistics quality

Source: IMF, US Federal Reserve, Eurostat, Ministry of Industry and Information Technology of China, China National Statistics Bureau, public literature

The "Status Quo" has to change: less leverage and more efficiency

With lower GDP growth, traditional inefficiencies are unsustainable. Fundamental changes are required.

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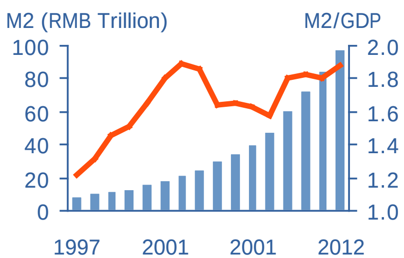
Financial System | The ten policies on reform issued in 2013.08: To deleverage?

Historically High-leveraged Growth

China's M2

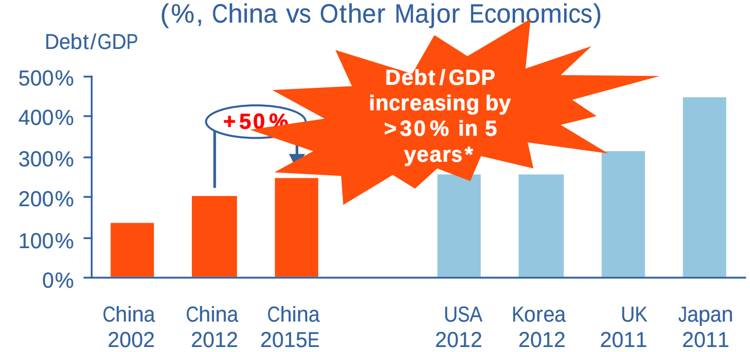


"Ten Reform Policies"

- Policy Objective: To deleverage.
- Implication: Improved investment efficiency; beneficial for the shift of economic model.
- Can it be well implemented soon?

China's Debt | The unbearable heaviness?

Debt / GDP
(%, China vs Other Major Economics)



Removal of Price Control? | Yes, positive for economic rebalancing; however, how quickly?

Past: Price Control

- The examples: Interest rate, exchange rate, and energy prices etc.
- Led to the favorable cost environment for the investment and the export-driven economy.
- Supports the low-efficiency in the economy.

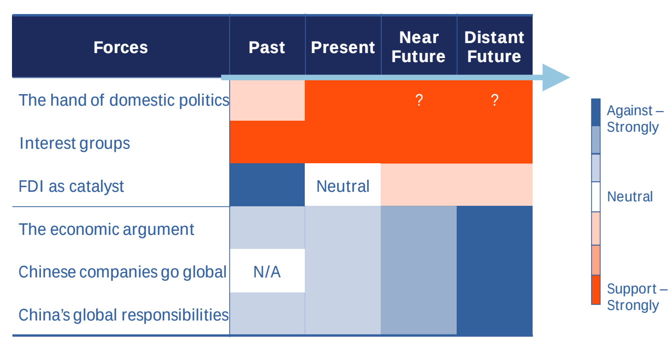
Future, what if removed?

If more market-driven:

- Higher interest rates might lead to higher consumption power.
- RMB further appreciation and energy price reforms are likely to lessen the motivation for overly captive-intensive investment and low-value-added export.

Protectionism | Either Status quo or slow erosion of SOE monopolies?

Steel
Auto
Chemical
Financial services
Telecom
Railway
Energy
Machinery/ MT



** DCG 5-30 Trap: Japan (1980s), EU (2000s) and US (1990s, 2000s) experienced significant economic slow-down, after the Domestic Credit/GDP growth increased by over 30% in the previous 5 years.*

Political will is key

After 12 months in power, we believe the new government has the political determination and strength to implement the required changes

China's leaders hold a similar mentality, and define a forward-looking action plan…

"加快转变经济发展方式已经刻不容缓" in Feb. 2012
(To transform the economy development model becomes the top priority now).

"我们其实是可以让经济增长得更快的，但是我们把增长目标调低了，因为我们希望通过压低增长率来实现经济的转型升级" in March 2013 (The slow-down of China's GDP will buy the space for the transformation of the economy development model).

The 12th FYP (re-)emphasizes economic restructuring, technological innovation, energy-saving and environmental protection, people's wellbeing and the acceleration of reform.

The Third Plenary Session of the 11th Central Committee of the Communist on Nov. 2013, will further define the key directions in the next 5 years.

Can interest groups be controlled?

- The "Families"
- National economic ministries
- Large National SOE's in protected sectors (Banking, Telecom, Oil, etc…)
- Local (provincial, municipal) officials and local state companies etc.

Initial steps and initial reform:

- Clear message of 'who is in charge': Bo Xilai, PetroChina cases.
- Clear message on economy: reform is necessary; quality over quantity
- Clear message on 'social' issues: pollution, corruption, food safety, etc
- Initial reform steps: financial system, Shanghai FTZ.

The Third Plenum – one step in a Transition Process

A Gradual – Multiyear Process

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Up to 2012

STRUCTURAL STAGNATION

- Investment ↑
- Consumption ↑
- GDP ↑

BUT….

- Pollution, waste ↑
- Corruption ↑
- Social tension, wealth gap ↑
- SOE power ↑

2013

LEADERSHIP CHANGE →

- Reform on the agenda
- Initial reform steps (e.g. Sha FTZ, finance)
- Anti Corruption
- Establish authority

November 2013

PLENUM

- General Reform Direction
- Decisive Role of Market. Less government, more competition
- Reform Leadership Group

2014 ...

IMPLEMENTATION

- ´Reform Leadership Group´
- Gradual roll-out of reform measures
- Further refining and adjustment of direction
- A trial and error process

Will take years, with ups and downs

The Third Plenum – Announced Reforms as of Nov 2103 1/2

Area	Measures
Financial	• To perfect financial market systems.
Fiscal and tax	• Building a modern fiscal system that supports the initiative of both central and local governments. • Establish systems in which duties, responsibilities and payment obligations are mutually adapted. • Budget transparency.
Market	• The market to play a more “decisive” role in the allocation of resources. • Fair competition, freedom of choice for consumers and the elimination of barriers to competition. • Lower the investment threshold, step up the development of free trade zones and increase opening-up of inland, coastal and border areas.
Land and Urbanization	• Establish a uniform construction and land use market across town and country. • Push forward land reform and give farmers greater property rights and equal access to public services. • Improve a new type of relations between industry and agriculture and between urban and rural areas.

The Third Plenum – Announced Reforms as of Nov 2103 2/2

Area	Measures
Government	• Modernization of governance structure and governance capacity. • Transform government functions to build a law-based and service-oriented government.
SOE	• Persist in the dominant role of public ownership. • Strengthen the vitality, control strength and influence of the State-owned economy. • Promote SOE's perfection of modern enterprise system.
Social Security	• Accelerate reforms in the social sector including education, employment, income distribution, social security and public health.
Environmental Protection	• Protect China's ecological environment by drawing a "red line". • Implement paid-for resource use systems and ecological compensation systems. • Reform ecological and environmental protection and management systems.
Other	• Establishment of a State Security Committee to improve systems and strategies to ensure national security. • Establishment of a Central Leading Team for "comprehensively deepening reform". It will be in charge of designing reform, arranging and coordinating reform, pushing forward reform and supervising the implementation of plans.

Tactics Vs. Reality

Much is happening already and this will continue after the plenum

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Is this real?

- From "Making Money" to "Preserving Money".
- NDRC Official: "Pricing control needs to change, in order to enhance real innovation."
- SASAC Official: "We are drafting a scientific formula to assess real IRR on all of our companies' proposed investments."
- MII Official: "Centralized public procurement should be dismantled...we need the market forces to dictate."
- A huge increase in Chinese outbound investments (hotels, art, houses, etc.).

Steps Towards Reform

Maintain Status Quo

The transition will have profound effects...and some surprises

Change will happen with an intensity, depth and speed that exceeds previous forecasts

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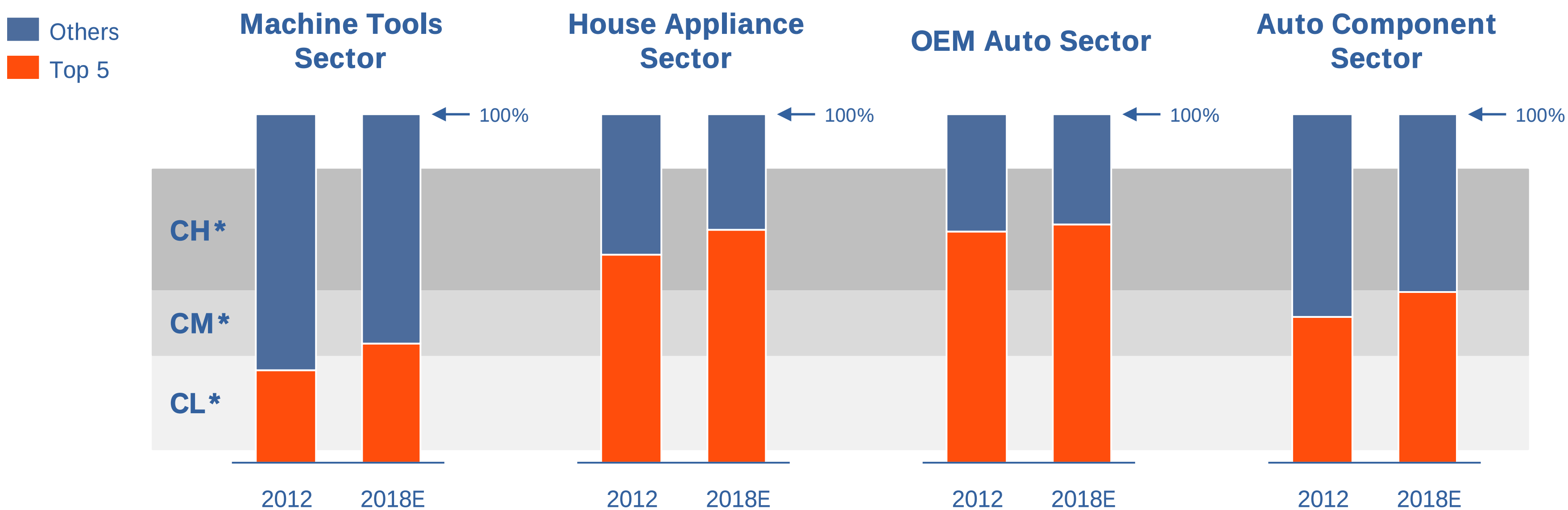
Temporary inbalances e.g. excess capacity, real estate bubble, regional debt tensions, domestic dumping.	Continued **substantial cost increases** are inevitable.	**Protectionism** will remain, but there could be adjustments in certain sectors.
Uneven Sector Development, e.g. Industrial sectors vs consumption-related serctors.	**Speed Depth Intensity**	**Consolidation** will change the dynamics of many sectors. There will be a clear shift of competitive landscapes.
More sophisticated market dynamics leads to more complex value chain and more volatility - Importance of quality - Changing role of government, compliance and enforcement	**Consumption boom is likely to continue, step by step** Especially in urban areas (tier 2-4), but with possible macro impacts.	Continued **global expansion of Chinese companies.** And a change of perspective and attitude towards global alliances.

Ie. Consolidation will shape many sectors in the 2-3 years to come... great differences among industries



Machine Tools Sector

- High
- Specially at Medium End Segments
- Lead by Chinese SOEs

House Appliance Sector

- Moderate
- A blend between Organic and high level acquisitions.
- Lead by Chinese, limited foreigner winners.

OEM Auto Sector

- Slow
- Almost organic, driven by JV OEM.

Auto Component Sector

- High
- Active M&A.
- Dominated by foreign.

*Definition of concentration:

- CH: High concentration (i.e. Top 5 players have >50% market share).
- CM: Moderate concentration (i.e. Top 5 players have 25% - 50% market share).
- CL: Low concentration (i.e. Top 5 players have <25% market share).

Sector Forecasts

We consider 2014 will be a year of continued growth, but slower and fragmented, with higher uncertainty.

We see clear potential in certain industries (Healthcare, F&B, Retail, Automotive, and industrial areas linked to productivity increases and higher technology). Both sales and profits will continue to grow in these sectors.

Other industries, however, will have a more conservative (chemical) or even negative prospects (construction and export related areas). This fragmentation of the Chinese economy on high speed and low speed growth sectors will be new and create new dynamics.

Sector Dynamics

Healthcare:

- 15-30% growth.
- 2014: 15-25%.
- Lean operations.
- “Corruption” costs.

Automotive:

- 15-20% growth.
- 2014: 10%-15%.
- Scale / Quality.
- Consolidation thus M&A.

Food & Beverage:

- 8-20% growth (premium/ online).
- 2014: 10%-15%.
- Product localization.
- Lean operations.

Machinery:

- 5-10% growth.
- 2014: 10%.
- Service: moving upscale.
- Consolidation (M&A and closings).

Chemicals:

- 0-10% growth.
- 2014: 10%.
- Portfolio optimization, local R&D.
- Consolidation thus M&A.

Construction:

- -5 to 5% growth.
- 2014: 5%.
- Re-structuring capacity.
- M&A outbound.

Consumer/F&B Sector: Focus on the middle class, NPD and revamped sales and distribution.

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Market: More local needs will emerge	• Gone are the days when international product concepts would find a ready market in China. • Propositions need to meet and stimulate local consumer needs, and this requires in-country research and development. • We are about to witness a ramp up and acceleration of NPD in China.	• **Run in-country NPD to meet local consumer needs.**
Market: New source of growth will come from the middle class.	• The crackdown on the use of public funds for extravagant consumption will be long-lasting. • F&B companies that have benefited from strong sales to high-end restaurants will now look for new sources of growth. • We will see more aggressive moves into mainstream food service, and a smarter approach to the affluent and middle class segments.	• **Select the relevant client base to make the most of the middle class.**
Market: Food safety presents a chance rather than threat.	• Problems with food safety have come to the fore in China. • Other countries have faced similar problems in the history of their own development, and given China's belated yet accelerated economic development, this was always to be expected. • International companies have an inherent advantage at present, and need to use this or lose it before the window of opportunity closes.	• **Benefit from concerns over food safety.**
Sales & Distribution	• Incumbent F&B players have invested in large sales & distribution platforms that are currently sub-optimized. • There is an opportunity for newcomers, bringing new products and brands, to leverage these platforms for a fast go to market and path to profitability. • Thus, we expect to see a blossoming of strategic partnerships, and an improvement in the economics of sales & distribution in China.	• **Use strategic partnerships to improve sales & distribution economics.**
Consolidation	• We are at the beginning of a long-term consolidation process, starting with the dairy category and spreading throughout the F&B industry. • The consolidators will be multi-category players, leading to the emergence of strong national groups that enter the global 100. • Multinational F&B players need to have a pro-active strategy to ensure they come out on top.	• **Come out on top of the multi-category consolidation**

Machinery Sector: Structural change in the market, consolidation and development of services

Market: major changes in client structure	• Big – and changing – differences depending on the client sector. • Automation a key trend to address cost increases, scale and higher quality requirements. • SOE clients no longer as strong as in the past. • Financing access more difficult.	• **Review client focus.**
Competition: Chinese competition slower than expected	• Main source of competition will come from other foreign competitors, and only in some specific product categories strong Chinese competitors will emerge. • Key competitive parameters: customer orientation (pre-sales, solution offer, post sales service), product adaptation, existing market references. • Production localization might not always be the answer – adaptation is.	• **Benchmark and restructure; focus on sales and after-sales strucutre.** • **Review product portfolio.** • **2nd brand? Still makes sense?**
New Sources of Income	• Services will become a money maker.	• **Develop Services.**
Consolidation	• Concentration of production among the successful companies, both foreign and Chinese. The weak will die rather than being bought. • Some specific opportunities for acquisition. • Chinese companies more active internationally.	• **Identify targets early on.** • **Look at global opportunity.**

Automotive Components: Quality & scale; development of the after market and components for EV; and consolidation.

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Market: gradual changes in client structure and client demands	• Gradual consolidation among OEM's through attrition (mainly) and possibly some consolidation. • Scale, quality and client interface will become more important. • New areas of development: after sales-market, EV (and other new drive trains) components. • Chinese SOEs could be a new growth driver but with high risk.	• **Select key customers carefully.** • **Anticipate new opportunities.**
Competition: Chinese competition slower than expected	• Main competition will be other foreign companies; only in some specific product categories strong Chinese competitors emerge. • Key competitive parameters: customer interface, technology, quality, cost. • HR for technical, and R&D positions will remain a challenge.	• **Benchmark and restructure.** • **Automate, state-of-the-art manufacturing.**
Consolidation	• Concentration of production among the successful companies, both foreign and Chinese. • Increasing opportunities for acquisition. • Chinese companies more active internationally.	• **Identify targets early on.** • **Look at global opportunity.**

Chemical Sector: Shift from quantity to quality development; revamp route-to-market strategy.

Market: Growth slow-down With Uneven downstream development	• Structural change in demand with demand growth rate slowing. • However, the promising downstream sectors (e.g. seven strategic emerging industries related to new materials and green technology) are likely to outpace.	• **Review the client sectors.** • **Proactive NPD.**
Demand Trade-up & More Sophisti-cation	• Further demand trade-up asks for new chemicals or new applications. • Increasingly sophisticated customer needs are requiring more of chemicals companies in helping their own customers to succeed. Chemical companies will need to exceed specifications.	• **More frequent opportunity review.** • **Proactive NPD.**
Route-to-market	• Hybrid of direct and indirect sales might become mainstream. • Technology service (pre-sales and after-sales) becomes more important. • Value-added distributors likely to emerge, offering the chance of restructuring distribution model.	• **Benchmark and restructure.** • **Revamp distribution model.**
Consolidation	• Speed-up of the consolidation. The weak will die rather than being bought. • Increasing Chinese competition brings more invisible companies in niche sectors as potential targets.	• **Identify targets early on.**

How are China CEO's reacting to this environment?

Common action points:

1. Invest time and efforts to explain and frame HQ China Expectations… otherwise, there might be confusion and lack of alignment.
2. Re-evaluate company's China strategy, and establish an ongoing system to touch basis with the reality of the market (annual strategic revamps).
3. Prepare for consolidation, as a great opportunity to re-position company's China presence.
4. Re-think the role and profile of senior management, looking for skills more adapted to the dynamic scenarios coming ahead.

We face interesting years ahead, where plenty of opportunities and new challenges will shape up. In conclusion, we see a better year ahead, but only for those companies which are ready for the challenge.

The changes require a more responsive business strategy

Key elements in the future China's Strategy

- Anticipate new opportunities.
- Avoid loser sectors / needs.

- An in-depth review per two years (NOT five years) in this more volatile market.

- Review product portfolio.
- NPD for the anticipated new trends.

- Varied in different sectors.
- E.g. service in Machinery; food safety in F&B.

- Benchmark and restructuring.
- Creative approaches (e.g. strategic partnership)

- Identify targets early on.
- Look at global opportunity.

Case – Revamping China Strategy: a revamped portfolio addresses new opportunities, recovering the return on investment

InterChina 英特华 IMAP

The Challenge

The Company:
- Fortune 1,000.
- Global leader in a chemical subcategory.
- SOP of new plant in 2014.

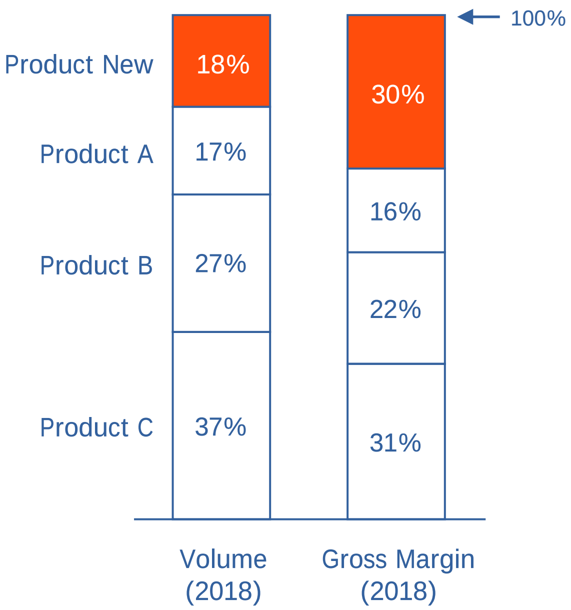
The Challenges:
- Slow-down in demand.
- Some investment-driven downstream sectors slow down with the shift of China's economy model.
- Lower profit margin and longer payback period, resulting from more aggressive competition.

The Solution

- To identify and minimize the sales into loser sectors (e.g. public infrastructure).
- To look for the opportunities in new winner sectors (e.g. environmental products).
- To plan new product development for higher value-added products.
- To consolidate the best practices of the distribution model to enhance the penetration rate, while maintaining a decent margin.

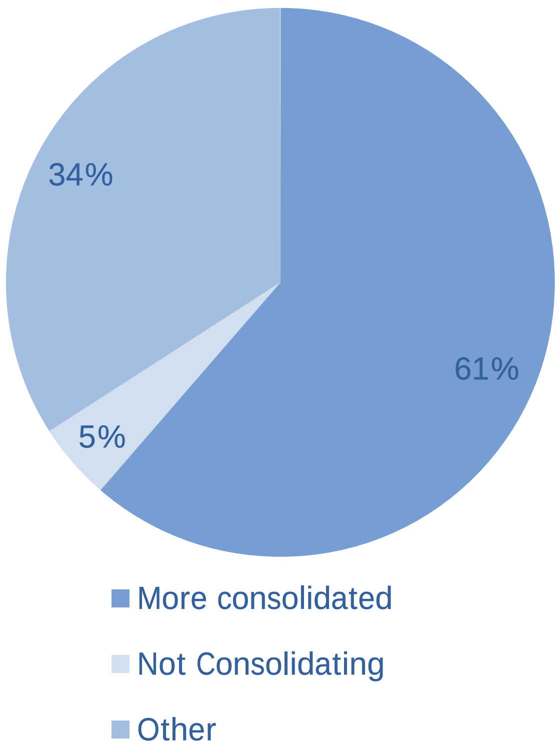
Strategic Impact

The gross margin improves by 30% with the revamped portfolio, while full capacity utilization could be secured.



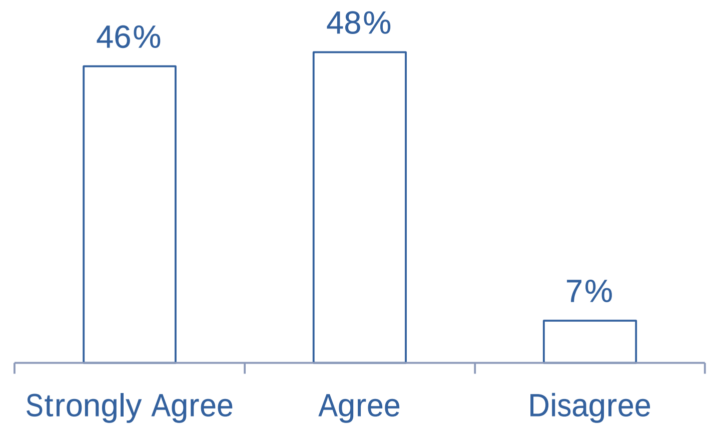
M&A: Opportunities linked to consolidation are already shaping up for 2013/2014

How do you think your sector will evolve in the next 5 years?

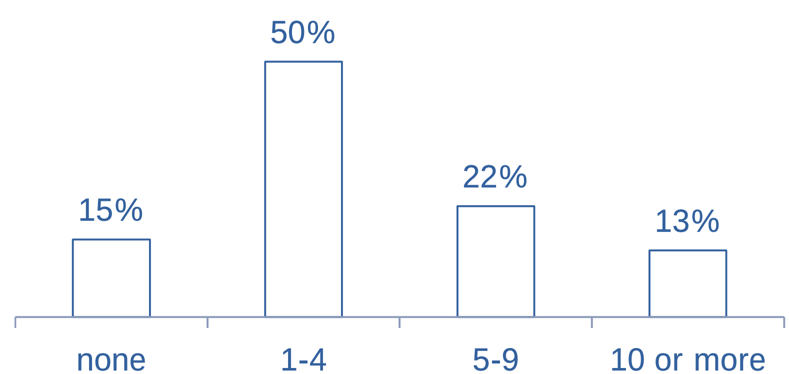


Source: InterChina CEO survey conducted in Q1 2013 among 100 corporations present in China for more than 5 years.

Acquisition a top agenda for growth in China?



Transactions Closed in the last 5 years…



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