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China Elite 2015: the executive summary

28 September 2015 | By Yun Kriegler (URL=/yun-kriegler/72.bio)

For the first time, Chinese firms can be ranked by revenue, and one thing is clear, most of the elite Chinese firms have enjoyed stellar growth in the past year. How?

China's stock market crash in August, which at its worst led to the biggest one-day fall since 2007, sent shock waves across the global markets. For international firms, doing business and nurturing a law firm in the country has never been for the faint-hearted, but the recent troubles sparked greater concerns about the sustainability of China's economic growth and the repercussions of the much talked about potential slowdown.

In contrast, the country's leading law firms have taken the recent turmoil calmly. Having already gone through several major market shake-ups in the past decade, they have come out stronger than ever and no longer vulnerable to market volatility.

"In the short term, the speed of new domestic IPOs will slow down and that will have a knock-on effect before the year-end. Other repercussions may be less activity in private equity and venture capital investments and fewer overseas-listed Chinese companies returning to the domestic stock markets," says Liu Jinrong, managing partner of Beijing-based **Global Law Office (URL=http://www.thelawyer.com/global-law-office/415245.supplier)** .

"We've experienced several big ups and downs of the market since the global financial crisis, and are better mentally prepared for the challenging conditions. It's not so much of a shock to the legal community any more," says Liu, who expects very limited disruption to his firm's diverse practices. His confidence is based on the firm's 39 per cent revenue rise in 2014, which made it the sixth fastest growing firm in the country by revenue growth.

Generally, many firms take a similar view to Liu are not so worried about the falling Shanghai Composite Index, but dig deeper, as The Lawyer's second China Elite report does, and it emerges that industry leaders know they have much to do and many critical decisions to make to ensure their firms are well-positioned for success in China's "new normal" – a term coined by president Xi Jinping to describe a slower but more sustainable growth in China's economy.

China Elite 2015 top 30, by revenue

Rank	Firm
1	Dacheng
2	King & Wood Mallesons (China)
3	Zhong Lun
4	Jun He
5	Grandall
6	Yingke
7	Allbright
8	Deheng
9	Fangda Partners
10	Jincheng Tongda & Neal
11	Kangda
12	Zhonglun W&D
13	Jingtian & Gongcheng
14	Zhong Yin
15	Global Law Office
16	Tian Yuan
17	Zhejiang T&C
18	Longan
19	Commerce & Finance
20	JunZeJun Law Offices
21	Grandway
22	Tahota
23	Han Kun
24	Guantao
25	W&H
26	Shandong Deheng Group
27	Co-Effort
28	Jointide
29	Haiwen & Partners
30	Hylands Law Firm

Source: *The Lawyer*

Growing transparency

It is the first time any publication has been able to rank the leading Chinese firms by revenue. In previous years, despite The Lawyer's efforts in collecting revenue and profit data for the Asia Pacific 150 and China Elite reports, some firms refused to disclose financials.

While profit figures are still strictly off limits, for this year's research there was a move towards transparency, as only 10 per cent of the 50 surveyed firms did not provide a revenue figure. But the majority of these five firms assisted with a rough estimate, allowing the China Elite 2015 to single out the 30 largest Chinese firms by revenue and to measure their strength, performance and market position through two crucial metrics – revenue and revenue per lawyer (RPL).

Greater financial transparency is a reflection of the increasing maturity of the Chinese legal profession. Firms are not only more open to sharing their revenue figures but are also paying more attention to the economics of their practices and improving management. Another key trigger to the changing mindset is the more business-savvy clients. As one managing partner of the top 30 firms puts it: "Firms are more frequently asked for their revenues and other financial figures by clients when bidding for work."

This year's top 30 firms combined housed 18,938 lawyers at the end of 2014, and generated RMB15.8bn (£1.6bn) in revenue. To put it in perspective, according to Beijing Lawyers Association, Beijing had 1,800 firms and 23,776 lawyers in 2013 and their combined revenue for that year was RMB9.8m, 38 per cent less than the total of top 30 made in 2014.

China Elite 2015 top 30, by RPL

Rank	Firm
1	Tiantong
2	Zhong Lun
3	Fangda Partners
4	Jun He
5	Han Kun
6	Jingtian & Gongcheng
7	Hui Zhong
8	King & Wood Mallesons (China)
9	Zhejiang T&C
10	Commerce & Finance
11	Grandway
12	Jincheng Tongda & Neal
13	Haiwen & Partners
14	Tian Yuan
15	Global Law Office
16	Jiayuan
17	Broad & Bright
18	Lifang & Partners
19	Grandall
20	Allbright
21	Zhonglun W&D
22	JunZeJun Law Offices
23	Deheng
24	Co-Effort
25	Anjie
26	Gaopeng
27	Kangda
28	Dacheng
29	Guantao
30	Zhonghao

Source: *The Lawyer*

However, RMB15.8bn still falls short of the total revenues made by the UK's four magic circle firms in the 2013/14 financial year, which stood at £1.9bn.

Average revenue per lawyer at the top 30 Chinese firms was RMB833,000 in 2014, which doubled that of the Beijing average of 410,000 in 2013 and quadrupled the national average of RMB200,000 in that year.

Chinese giant **Dacheng (URL=http://www.thelawyer.com/dacheng/415186.supplier)** , with 3,113 lawyers across 45 offices, claimed the highest annual turnover among all domestic firms, generating RMB2.25bn in 2014. But the firm, which is soon to merge with Dentons (URL=www.thelawyer.com/dentons/415109.supplier) , only ranked 28th by average RPL.

Yingke (URL=http://www.thelawyer.com/yingke/415218.supplier) , the country's largest firm by lawyer headcount, brought in RMB900m last year, making it the sixth largest firm by revenue. But in terms of RPL, it is ranked at the very bottom of the list.

In contrast, **Tiantong & Partners**, a single office Beijing boutique focusing solely on high-end commercial disputes, tops the China Elite by RPL chart. With only 19 lawyers, including seven partners, the firm turned over RMB60m in 2014, giving it a RPL of RMB3.16m. **Zhong Lun (URL=http://www.thelawyer.com/zhong-lun/415225.supplier)** comes second, with RMB2.3m per lawyer.

Almost all of the top 30 firms reported growth in annual turnover for 2014, except for one. Beijing-based **Grandway (URL=http://www.thelawyer.com/grandway/415246.supplier)** 's revenue plummeted by 28 per cent, largely due to a 100-staff team defecting to Zhong Lun last year. Despite the falling revenue, the firm's managing partner Zhang Liguo remains bullish, claiming the slimmer firm grew on a like-to-like basis last year and is set for further growth.

Among the surveyed firms, Beijing-based **Han Kun** achieved the strongest growth – its 2014 revenue jumped 78 per cent to RMB200m. Chengdu-based **Tahota (URL=http://www.thelawyer.com/tahota/415274.supplier)** claimed the second fastest-growing firm title at a rate of 50 per cent year-on-year growth. In terms of 'red circle' firms, **Zhong Lun** took the lead with a 43 per cent increase in revenue, from RMB1.03bn in 2013 to RMB1.47bn. The average revenue growth rate among the 10 fastest growing firms was 25 per cent, a speed that is rare in the global legal markets.

Top five Chinese firms, by lawyer headcount

Rank	Firm	Lawyers	Partners	Revenue (RMBm)
1	**Yingke**	3,257	1,046	900
2	**Dacheng**	3,112	1,156	2,250
3	**King & Wood Mallesons**	1,104	248	2,100
4	**Deheng**	1,004	300	830
5	**Allbright**	1,002	289	890

Source: *The Lawyer*

Top five Chinese firms, by revenue

Rank	Firm	2014 Revenue (RMB m)	Revenue per lawyer (RMB k)	Revenue per partner (RMBm)
1	**Dacheng**	2,250	723	1.95
2	**King & Wood Mallesons (China)^**	1,800	1,630	7.66
3	**Zhong Lun**	1,470	2,297	5.19
4	**Jun He**	1,000	1,862	6.29
5	**Grandall^**	980	978	4.17

Source: *The Lawyer*

Top five Chinese firms, by RPL

Rank	Firm	Lawyers	Partners	Revenue (RMBm)
1	**Tiantong**	19	7	60
2	**Zhong Lun**	640	283	1,470
3	**Fangda Partners**	330	60	630
4	**Jun He**	537	159	1,000
5	**Han Kun**	110	24	200

Source: *The Lawyer*

Turnover gaps

Of all the firms that provided an annual turnover figure, about a third expressed difficulties in collecting a firm-wide figure that accurately reflects the firm's true performance. Two of the main issues are changing tax rules and loosely managed branch offices.

A number of firms have even provided two sets of figures, one for the actual income and one for tax purposes. In one extreme case, the difference between the two was 40 per cent.

"Law firms' profitability is being adversely affected by several tax reforms in China, such as replacing business tax with value added tax and moving away from a fixed tax rate to collecting tax based on self-audited financial statements," says one managing partner of a Beijing-based firm.

"Sometimes firms will make certain arrangements to improve tax efficiency in legitimate ways. But as a side effect, a firm's official revenue figure reported in the financial statements may be lower than its actual income in the financial statements," he adds. "This situation is worse for large national firms, as each office is under slightly different tax regimes and therefore has slightly different accounting practices."

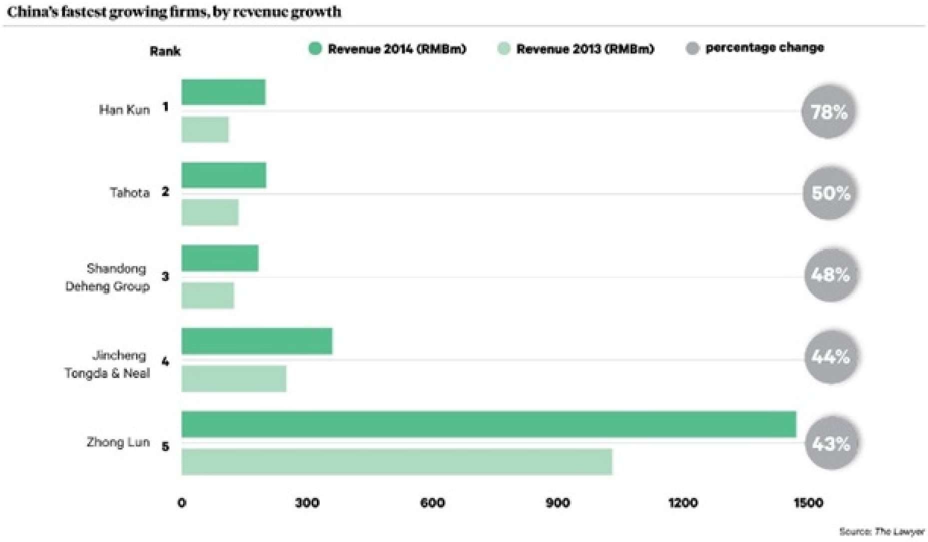
The lack of a unified national accounting standard, tax rules and code of conduct on a national level governing the legal industry is partly to blame. But Zhong Lun's management committee member Qiao Wenjun points out an even more fundamental cause.

"The Chinese legal services industry has undergone profound change, but law firms' legal status is still an embarrassing question," Qiao says. He explains that law firms are not able to register as a business with State Administration For Industry & Commerce (SAIC), China's main regulator for businesses, therefore can't obtain a licence for an enterprise as legal person. For a long time, law firms used to be categorised as an "individually-owned business" or sole traders for tax purposes. Today, the Ministry of Justice remains the main regulator for Chinese firms.

"The lack of recognition as an enterprise has made law firms' development more difficult compared to other professional services firms such as accounting firms. It's not so easy for law firms to conduct the very basics of business activity, such as open a bank account, apply for a loan, open branch offices overseas or set up other consulting subsidiaries," says Qiao.

"It is like having a birth certificate but being unable to be registered for a national identification card," he elaborates.

"Until this fundamental and urgent issue is addressed, the business of law in China will continue to be different from its international counterparts, and firms will have less incentive or need to adopt a true sense of corporate governance structure or act as an enterprise," he concludes.



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Unprecedented growth

Although China's economic growth is slowing, never before has there been such rapid expansion in both the depth and breadth of demand for legal services in China. The expansion has been fuelled both by the growing complexity in the country's legal and regulatory framework and by the government's determination to rebalance the economy by relying more on private enterprises and domestic consumption for growth.

This year's report confirms that leading Chinese firms have benefited from a growing demand across the board. While 29 of the top 30 firms reported top-line growth, as mentioned previously, average revenue growth rate among the 10 fastest growing firms reached 25 per cent. Among established red circle firms, **Zhong Lun** took the lead with a 43 per cent increase in revenue, rising from RMB1.03bn in 2013 to RMB1.47bn. The acquisition of a large team from Grandway last year and the opening of two new offices in Chongqing and Qingdao, contributed significantly towards the soaring annual turnover. But the firm's managing partner Wu Peng regarded 2014 as a record-breaking year for the firm on several fronts.

It was the fastest growing year for his firm in the past decade. The number of so-called 'super rainmakers', whose team generated more than RMB20m, multiplied and was highest in the firm's history. Revenue per equity partner also broke through the RMB7m mark for the first time. (For more details, see the China Elite 2015 Report.)

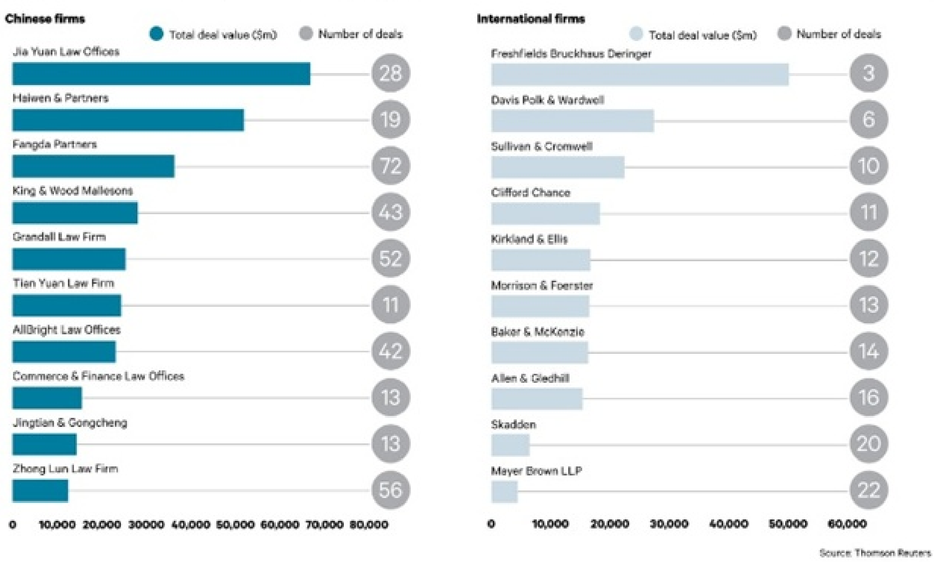
Fangda, **Tian Yuan (URL=http://www.thelawyer.com/tian-yuan/415239.supplier)** and **Lifang & Partners** are among several other firms that have reported notable headcount and revenue increase. In terms of lateral hires, Fangda has made the most high-profile appointment by poaching Freshfields Bruckhaus Deringer (URL=http://www.thelawyer.com/freshfields-bruckhaus-deringer/415004.supplier) 's China antitrust head Michael Han for its Beijing office.

Apart from exploring new streams of income from emerging practice areas, such as antitrust, intellectual property, securitisation and tax, many firms' growth was achieved by exploiting new opportunities in capital markets – the bedrock of practices for many of the top 30 elite Chinese firms. A key new opportunity has arisen from China's new over-the-counter (OTC) equity market, also known as "new third board" in Chinese.

In 2014, 1,232 small-to-medium sized enterprises (SMEs) listed their shares on the new board. The legal work was shared among 279 firms. **Grandall**, known for its representations to SMEs in fund raising transactions, advised 77 OTC listings last year, the largest number among its domestic rivals. In the first half of 2015, **Dacheng** completed 81 listings, making it the most active adviser in this market.

Although the profit margin for OTC work is lower compared to other corporate work, it is an additional source of income and business clients, particularly for branch offices of Beijing and Shanghai-headquartered firms as well as regional players.

Top firms for 2014 M&A activity with Chinese target, by value



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Similar to capital markets, M&A transactions continue to be the staple work of the top 30 firms. While the surging M&A activity provided a healthy flow of instructions, it is the soaring complexity of the deals between Chinese companies that has greatly benefited well-established domestic advisers.

According to 2014 deal data provided by Thomson Reuters, firms ranked high by RPL were among the most active M&A legal advisers in deals with a Chinese target. **Fangda Partners (URL=http://www.thelawyer.com/fangda-partners/415232.supplier)** took the top spot by scoring 72 transactions. **Zhong Lun** came second with 56 deals and **Grandall** third by advising on 52 deals. In terms of total deal value, Beijing-based **Jia Yuan** came first, advising on 28 deals with a combined value of US$66.8bn (£43.7bn), followed by **Haiwen & Partners** and **Fangda**.

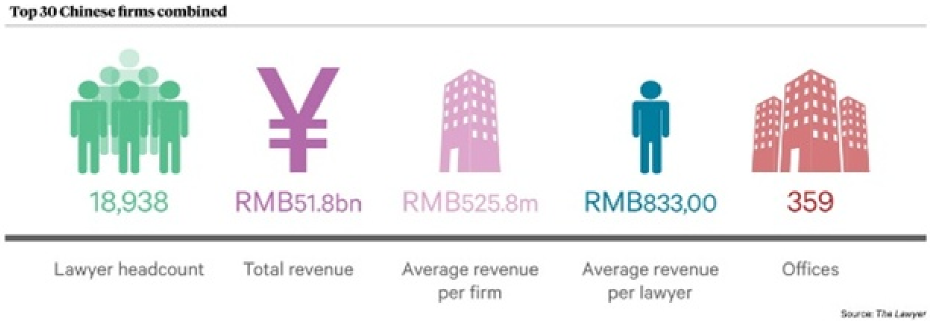
Chinese firms have outdone international rivals on these league tables, as top adviser **Freshfields (URL=http://www.thelawyer.com/freshfields-bruckhaus-deringer/415004.supplier)** was involved in only 14 of the M&A deals with Chinese targets, with a combined value of $50bn.

One of the largest China-related M&A transactions in 2014 saw state-owned oil and gas giant Sinopec sell a $17.5bn stake in its domestic retail business to a large investor group consisting of 25 Chinese and foreign investors. The retail unit comprises a wholesale business, more than 30,000 petrol stations, over 23,00 convenience stores and oil-product pipelines and storage facilities.

Deals of this magnitude are driven by the country's push for privatisation among state-owned enterprises, known as "mixed-ownership reform" project.

Beijing-based **Haiwen & Partners** played a leading role as the main adviser to Sinopec, covering the whole process from structuring, to tendering for investors, negotiation with potential investors and the drafting and execution of all relevant documents. **AllBright**, **Fangda** and **Tian Yuan** acted for members of the investor group.

Top 30 Chinese firms combined



Partnership revamp

Leading Chinese firms have previously focused on building their practice areas, expanding national coverage and increasing topline figures. Most of them have achieved it, some rapidly through bolt-ons and mergers.

A clear trend among the very top crop of the elite list is an emphasis on rationalising the partnership structure and improving profitability. A few of them, like **Jun He (URL=http://www.thelawyer.com/jun-he/415224.supplier)** and **Haiwen**, have opted to reform their partnership remuneration structure, while some, like **Zhong Lun** and **Global Law Office**, have given higher priority to the management of partner performance.

For Jun He, the recent reform has been its most significant internal shakeup since it was established in 1989. The firm started a three-year trial run of a modified lockstep system at the beginning of this year. Previously, it operated on an almost entirely merit-based remuneration system.

According to Warren Hua, one of the partners on Jun He's management committee, the firm held a long consultancy period prior to the reform and had sought advice and suggestions from international counterparts, including management at Slaughters (URL=http://www.thelawyer.com/slaughter-and-may/414864.supplier) and May and Mayer Brown (URL=http://www.thelawyer.com/mayer-brown/414854.supplier) , in designing its new system.

Haiwen, by contrast, had previously pioneered a pure western-style lockstep structure since 2009. It has also recently switched to a modified lockstep by introducing a performance-based element. Partners can now be moved up or down the equity ladder based on individual performance, although seniority continues to be an element.

Liu Su, a member of the firm's management committee, noted that the adjustments were made earlier this year to address the issue of encouraging and retaining exceptional young partners and its ability to attract lateral hires.

"The pure lockstep had its advantages such as creating synergies among partners and ensuring consistency and high quality across the firm. But we need to adapt to the fast-moving market and maintain our leading position," Liu says.

Global Law Office, although operating an entirely merit-based remuneration system, is also feeling the pressure to carry out better financial management.

"Our profit grew last year. We've done it mostly through requiring our partners and lawyers to hone their expertise and capability in their focused areas, so they can increase their fee rates against strong competition," says Liu.

"The cost of running a top firm is soaring in China, as rents and salaries continue to rise. By improving our ability to charge higher rates and practice efficiency in every transaction and project, we can still push our profit margin higher," he says.

Consolidation

For large national firms or firms inspired to break into the top 30 list, 2014 was still a year of geographical expansion as consolidation remains a key feature of the domestic legal market.

In Beijing, notable unions include the August 2014 merger between **East & Associates** and **Concord & Partners**, which created **East & Concord Partners**. The merged firm had 220 lawyers and 63 partners across four offices with combined revenue of RMB140m at the time of research. Managing partner of the merged firm Li Dajin describes the latest venture as "a marriage of two sensible and complementary firms".

"The combined firm is able to provide a full range of services around clients' needs and has obtained the critical mass to increase the breadth and depth of its practice groups that was lacking in both legacy firms," says Li.

"Clients from both sides will benefit from the merger, while the enlarged partnership has enhanced our ability to resist risks in a voluntary market and fare better among the intensifying competition," he says, hoping to lead the new firm into the top-tier league.

The combination between Beijing-based **Juntai** and **Tianchi**, which formed the 400-staff and nine-office **Tiantai** in July this year, is the most recent example.

In Shanghai, the merger between local firms **Boss & Young** and **Joinway** at the beginning of 2014, was another noteworthy development in the market.

In addition to mergers between firms in the same city, consolidation is also happening by way of regional firms joining a network of existing national firms.

Grandall, which had over 1,000 lawyers and 15 offices in 2013, opened two new domestic offices in the past year, both by merging with existing local outlets. In Chongqing, the firm set up a base by absorbing local firm **Tianzhihe** and the Chongqing branch office of Shanghai firm **Haworth & Lexon**. In Jinan, **Deyi Junda** has joined Grandall and became its Jinan branch office. In Nanjing, it doubled its existing office by taking on 40-lawyer local firm **Jiangsu Jin Ding Partners**.

"Our strategy is to build a strong national network with offices in each and every important city of China and some key locations overseas," says Guan Jianjun, Grandall's Shanghai managing partner.

Taking its new Chongqing office as an example, Guan says it is necessary to have a second base in southwest China after Chengdu, because Chongqing is a provincial level market and cannot be fully serviced from Chengdu due to distance and differences in market demand.

"National firms provide an attractive platform for local firms in cities outside of Beijing and Shanghai. By becoming part of a network, they can provide a much wider range of services to clients and tap into the resources and knowledge of hundreds of other partners," Guan adds.

Global strategies

With more domestic clients having a global outlook and more domestic deals now including a foreign element of some sort, firms must address their clients' cross-border needs by formulating an international strategy.

The changing role of China from a capital recipient to a capital exporter is well recorded. According to China's Ministry of Commerce, China's outward foreign direct investment (OFDI) has increased substantially over the past decade. In 2014, China's outbound investment flow reached a record high of $102.9bn. The pace of outbound investment will continue to pick up pace with the devaluation of its currency and interventionist policies from the government. It is widely expected to surpass inbound foreign investment, making it a net capital exporter.

Europe in particular has emerged as one of the top destinations for Chinese investment. In 2014, it saw 153 investments worth $18bn, doubling the amount in the previous year, according to research firm Rhodium Group.

Firms that have positioned themselves for outbound work have started reaping rewards. **KWM (URL=http://www.thelawyer.com/king-and-wood-mallesons/414856.supplier)** , which merged with legacy UK firm **SJ Berwin (URL=http://www.thelawyer.com/sj-berwin/415062.supplier)** in 2013, fared strongly in the outbound M&A legal advisers league table. Thomson Reuters' 2014 deal data shows the firm advised on 18 outbound M&A deals by Chinese acquirors, making it the most active adviser in this area by deal number. It outdid international rival **DLA Piper (URL=http://www.thelawyer.com/dla-piper/414865.supplier)** , which scored 17 deals.

KWM's outbound deal highlights include representing state-owned Guangdong Rising Assets Management in its A$1.1bn (£0.5bn) bid for Australian listed gold and copper mining company PanAust; advising Weichai Power on it €187m (£136m) acquisition of an additional stake in German listed company KION AG; and acting for Chinese private equity firm HOPU on its investment in Paladin Energy.

However, it fell behind when total deal value was totted up. The 18 deals it completed were worth $4.2bn in total, giving an average deal size of $233m. In comparison, **Freshfields** was involved in 13 deals worth $20.2bn – an average deal size of $1.5bn.

"Chinese law firms' international expansion plans are driven by actual client needs," admits KWM's Zhang. He says that matters handled by his firm increasingly involve foreign elements and require multi-jurisdiction advice. "A Chinese outbound M&A could easily involve three or four jurisdictions. It is increasingly common for a Chinese company trying to acquire a UK listed company with assets in Africa through its Hong Kong incorporated unit as part of a consortium consisting of European funds.

"Having a member firm in Europe is important to us. We've seen strong referrals in and out of Europe from the rest of the network," Zhang says. Shanghai-based partner Wang Lianghua is currently seconded to London to assist with Chinese client matters in the UK and Europe.

Dacheng's merger deal with **Dentons** and **Baker & McKenzie (URL=http://www.thelawyer.com/baker-and-mckenzie/415097.supplier)** 's joint venture with boutique firm **FenXun** in the Shanghai Free Trade Zone (SFTZ) were two headline events widely reported in the past year. Although very different in structure and size, the two tie-ups underline both Chinese firms' global ambition and international firms' renewed interest in deeper penetration in the Chinese market.

Most recently, **Jingtian & Gongcheng (URL=http://www.thelawyer.com/jingtian-and-gongcheng/415281.supplier)** took the plunge, but with a different model. In August, it launched a Hong Kong office and entered into an association with global firm **Mayer Brown JSM**.

"What we want the most from the relationship is learning from our
international counterpart about the best practices in management and leveraging their technical knowledge to expand our practices into new areas," says Gao Xiang, managing partner of Jingtian, who also sees the importance of tapping Mayer Brown's global reach to service its outbound Chinese clients.

The four pioneers' global moves have significantly broadened the imaginations of Chinese firms on how they can expand internationally. Managing partners at most of the top 30 firms say they keep an open mind about international mergers but so far have not found a suitable partner nor entered into any meaningful discussions.

While there may be many good reasons to tie up with an international firm, some remain solid believers of independence. **DeHeng**, for example, has been a veteran in advising state-owned construction and energy companies in their projects overseas, particularly in emerging markets.

Currently, it is advising China Three Gorges South Asia Investment in constructing the Karot dam in Pakistan, one of the first projects under China's 'One Belt One Road' initiative. Similarly, it is also advising Sinohydro Group on several acquisitions in south-east Asia. In all of the deals, the firm acted as lead counsel and instructed local counsel for its clients.

"Merging with a global firm is not the only way for Chinese firms to grow its international business and capacity. Being independent allows firms to have a greater level of flexibility for future developments and keep its own brand. They can differentiate themselves from their peers that have become part of a global firm," says Sun Ganghong, executive partner of DeHeng.

China's firms face a new era of change, and transparency, corporate governance, profitability and outward growth will be the dominant success factors.

International firms in China

China has a significant and growing influence on the global economy, as demonstrated by the International Monetary Fund's (IMF) move in 2014 to push China's ranking up to number one economic superpower in the world. It's importance as a key market to international firms remains undisputed. Over the past 18 months, new firms continue to enter the market – US firms Alston & Bird, Curtis Mallet-Prevost Colt & Mosle, Duane Morris Selvam and Fenwick & West are just some examples. Meanwhile, Quinn Emanuel Urquhart & Sullivan hired laterals to launch in Shanghai

According to the latest list provided by China's Ministry of Justice, there were 170 foreign firms with 225 representative offices in 2014 (see map, overleaf). Shanghai remains the most popular destination for foreign firms, as the city houses 124 representative offices compared to 87 in Beijing. Of the 170 firms, 54 have two offices, in Beijing and Shanghai, while 115 keep a single base in the country. Only one firm, Paris-based DS Avocats has three offices, in Beijing, Shanghai and Guangzhou.

US firms account for the largest group among foreign firms in China, with 87 firms making up 51 per cent of the total 170. Continental European firms form the second largest group with 31 and UK firms come third with 19.

However, the number of representative offices of foreign firms has for the first time decreased since the country opened its door to them in the early 1990s. In 2014 the numbers declined from 178 firms and 232 offices recorded in 2013.

10 largest international firms in China, by number of lawyers

Rank	Firm	Number of lawyers	Number of partners	Number of offices
1	**Clifford Chance**	85	12	2
2	**Baker & McKenzie**	82	20	2
3	**Hogan Lovells**	65	13	2
4	**Linklaters***	47	9	2
5	**DLA Piper**	41	8	2
6	**Mayer Brown**	38	8	2
7	**Allen & Overy**	38	8	2
8	**Herbert Smith Freehills**	33	6	2
9	**Jones Day**	33	12	2
10	**Clyde & Co**	31	5	2
=10	**Dentons**	31	5	2

Source: *The Lawyer Note: the table does not purport to be exhaustive; figures provided by firms for Asia*

Slight shrinkage

The slight dip in numbers was partially due to the global mergers and the collapse of certain international firms in recent years. For example, Australian firms Allens (URL=http://www.thelawyer.com/allens/415216.supplier) and legacy Mallesons Stephen Jaques both closed their China offices due to, respectively, an alliance with Linklaters (URL=http://www.thelawyer.com/linklaters/415011.supplier) and a merger with Chinese firm King & Wood. The now defunct Bingham (URL=http://www.thelawyer.com/bingham/415113.supplier) McCutchen also resulted in the closure of its Beijing office last year.

However, a number of other foreign firms decided to pull out of China, such as the US's Fried Frank Harris Shriver & Jacobson and Chadbourne Parke, Brazilian firm Duarte Garcia Caselli Guimarães e Terra Advogados and Swedish firm Advokatfirman Vinge (URL=http://www.thelawyer.com/vinge/415425.supplier) .

There were also a few that decided to reduce their presence on the ground. UK firm Stephenson Harwood (URL=http://www.thelawyer.com/stephenson-harwood/415063.supplier) recently closed its Guangzhou office but entered into an alliance with Guangzhou firm Wei Tu to continue servicing its clients there. Prior to the closure, the firm was one of the very few foreign firms with three offices in mainland China.

Market challenges

Despite its increasing importance, China is known for being a difficult market for foreign firms to make money. One of the key reasons is the restriction on the scope of practice, as foreign firms remain barred from advising on PRC law. In addition, often firms fail to realise the cultural challenges they may face or the fact that large corporations that are clients in the UK or US may not automatically become clients in China.

All these challenges combined with surging competition from the country's fast maturing top-tier firms have meant international firms have had to rethink their China strategies, trimming headcount in some areas, bulking up in others and generally reshaping in order to be more streamlined and more profitable in what is a highly competitive market.

While some have left the market altogether as profit margin is much higher in their home markets, a growing number of firms have decided to tackle it by joining forces with a Chinese firm.

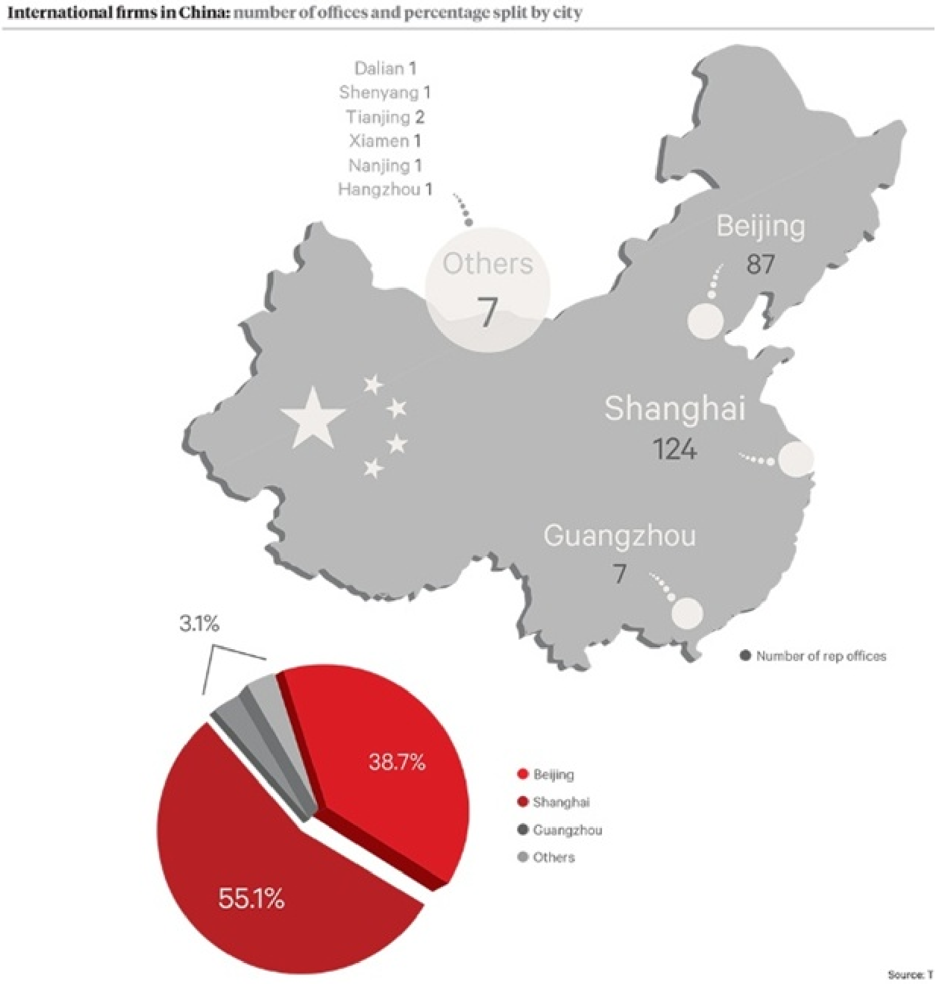
UK insurance firm Kennedys (URL=http://www.thelawyer.com/kennedys/415057.supplier) is a case in point. In January 2015, the firm entered into a co-operation agreement with insurance-focused Chinese firm AnJie, instead of opening its own offices in the mainland.

Italian firm Gianni Origoni Grippo Cappelli & Partners (URL=http://www.thelawyer.com/gianni-origoni-grippo-cappelli-and-partners/415420.supplier) adopted a similar approach in April, forming a formal alliance with Han Kun, the fastest growing firm in China by revenue increase.

A number of firms that have been in China for a long time have also decided to tie up with a domestic ally to increase their influence in the Chinese market. Baker & McKenzie's joint venture with local firm FenXun under Shanghai's Pilot Free Trade Zone is one example.

On a much bigger scale, Dentons' combination with Dacheng using a Swiss Verein model reflects similar motivations. Chairman Joe Andrew explains that rather than looking for a red circle partner, Dentons wanted a large second-tier domestic-focused firm. The theory being that, rather than focusing on international work, these firms maintain excellent relationships with domestic Chinese clients, many of which are based outside Shanghai and Beijing – the geographic focus of international firms to date.

As well as giving the firm more resources in Shanghai and Beijing, Dentons thinking is that the merger will also enable it to capture the market in those cities that are as yet largely unknown to international firms, but which are predicted to join the group of world supercities by 2025.



The complete China Elite 2015 report

This is a taster of The Lawyer's second edition of the China Elite Report, which ranks the country's largest 30 firms by revenue and the 10 largest international firms by their mainland China lawyer headcount. It is the first time any publication has been able to focus on the financials of Chinese firms. We also look at metrics such as leverage and female partners, and track the growth, key changes and international strategies of China's Elite firms over the past year.

For any firm seeking to benchmark themselves against their competitors, identify China's market leaders or looking to expand their business in the soon-to-be world's largest economy, this report will be essential reading. With global firms' interest in the market deepening and Chinese firms' globalisation picking up pace, The Lawyer China Elite provides invaluable market intelligence.

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