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Changing Regulatory Landscape Could Mean a Strong Year for M&A and Capital Raising in China

By Vivian Lam & Steven D. Winegar

Following a blockbuster year in 2014 for Chinese M&A, 2015 has had a slow start but will likely pick up as the year continues, as both foreign and domestic buyers snap up assets in the burgeoning technology, consumer retail, and healthcare sectors. Investors are also using divestments as a source of capital to make new investments and to grow businesses.

In our Q&A, Hong Kong Corporate partners **Vivian Lam** and **Steven Winegar** discuss the opportunities available this year for investors looking to enter or increase their presence in the China market and also how investors with Chinese assets are exiting.

China M&A activity hit a record high last year. What is your prediction for the remainder of 2015?

Vivian Lam: I expect that acquisitions in China by both domestic and foreign players are set to continue and gain pace in the second half of 2015, particularly as we see some sectors benefit from a shift in consumer behaviour and demographics. In the past few years, I have seen more interest in China outbound M&A, but recently we have noticed that interest in inbound M&A tends to surpass outbound.

Steven Winegar: While a trade sale remains a popular route for asset owners to divest, the reopening of the A-share market last year has provided alternative exit routes from investments.

What are the challenges potential acquirers may encounter this year? What is your view on the change of Chinese regulations and how will this impact deal flow?

Vivian Lam: The biggest challenge will be the evolving regulatory landscape in China, as well as the relaxation of foreign ownership rules. Regulatory authorities are scrutinizing deals more closely, which has the potential to deter some bidders on larger deals.

I anticipate Chinese authorities will continue to liberalize their legislation to encourage more M&A on the mainland. These changes include lifting certain restrictions on foreign investment in the country, including in sectors such as technology, healthcare, environmental protection, and consumer industries. Although more reforms are likely to be introduced during 2015, uncertainties remain as to the pace and extent of the reforms, which may deter some potential acquirers.

Which sectors are ripe for investing in China and which sectors pose challenges for foreigners looking to invest?

Vivian Lam: The technology sector is poised to attract further M&A activities, including telecommunication and internet industries, e-commerce, mobile and social networks, as China's internet penetration rates continue to rise and consumers are increasingly looking online to make purchases and find the best deals.

I anticipate the burgeoning level of China inbound M&A activity in the healthcare sector will continue as regulators relax foreign ownership rules and the country gears up for a rapidly aging population.

Although the consumer retail sector has slowed in the past year, I believe the sector is poised for a strong comeback. With the growing middle class in China, M&A with a focus on retail consumption, including restaurants, entertainment, and consumer goods and services is also set to grow.

Given the competition among international stock exchanges and the reopening of the A-share market, has Hong Kong lost its attractiveness as a listing destination?

Steven Winegar: Although Alibaba's decision to list in the U.S. last year has raised questions about Hong Kong's attractiveness as a listing destination, the pipeline of IPOs remains robust and we continue seeing strong demand among companies and their shareholders looking to list in Hong Kong and China.

Moreover, the new Shanghai-Hong Kong Stock Connect scheme should provide Chinese companies looking to list with yet another reason to do so in Hong Kong or China.

Vivian Lam: There is no direct correlation linking the reopening of the A-share market to Hong Kong losing its appeal as a listing platform. In essence, the relaunch of the A-share market creates incentives for companies to list in China, but given the differences between China and Hong Kong, Hong Kong's competitive advantages still remain and its attractiveness as a favourable listing platform will not be affected.

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