

TABLE OF CONTENTS

Chapter 1 Introduction

General	¶1-100
The Meaning of M&A	
Definition	¶1-200
M&A in Numbers	¶1-210
The Significance of China-related M&A Transactions	¶1-220
The Historical Development of China's M&A Regime	
China's Economic System	¶1-300
Foreign Investment in Mainland China	
Introduction	¶1-310
Governing Law	¶1-311
Government Control	¶1-312
Equity Joint Ventures	¶1-313
Co-operative Joint Ventures	¶1-314
Wholly Foreign-owned Enterprises	¶1-315
Foreign-invested Companies Limited by Shares	¶1-316
Foreign-invested Partnerships	¶1-317
Liberalization Trend	¶1-318
The PRC Company Law Revision	¶1-319
The Consultation Draft of a PRC Foreign Investment Law	¶1-320
M&A Legislation since 1978	
Important M&A Laws and Regulations	¶1-321
M&A Law and Practice in China — a Caveat	¶1-322

Chapter 2 Due Diligence

General	¶2-100
Legal Due Diligence in China	
Introduction	¶2-200
Establishment	¶2-210
Organisational Structure	¶2-220
Material Contracts	¶2-230

Land Use Rights and Buildings	¶2-240
Other Main Assets	¶2-250
Finance	¶2-260
Tax	¶2-270
Labour and Social Insurance	¶2-280
Intellectual Property Rights and Technology Transfer	¶2-290
Product Liability	¶2-300
Environmental Issues	¶2-310
Competition Law	¶2-320
Legal Proceedings	¶2-330
Corporate Social Responsibility	¶2-340

Chapter 3 The Law Governing M&A Transactions and Government Control

General	¶3-100
M&A-related PIL Rules	¶3-200
Avoiding PRC Law?	¶3-300
Government Control	¶3-400

Chapter 4 Structuring Options: an Overview

General	¶4-100
Investing Directly vs Using Offshore SPV Structures	¶4-200
FIE Establishment vs M&A	¶4-300
Share Deals vs Asset Deals	¶4-400
Acquisitions vs Mergers	¶4-500
FIE Structures	¶4-600
Combinations	¶4-700

Chapter 5 Acquisition of FIE Equity Interest

Foreign Investors Acquiring FIE Equity Interest	
General	¶5-100
Compliance with FIE Rules	¶5-110
Verification	¶5-120

Approval	¶5-130
Registration	¶5-140
Purchase Price	¶5-150
Assignment Agreement	¶5-160
Effective Date	¶5-170
Chinese Investors Acquiring FIE Equity Interest	¶5-200

Chapter 6 Foreign Investors Acquiring Equity Interest in Chinese Non-FIE Companies

General	¶6-100
Compliance with FIE Rules	¶6-200
Verification, Approval and Declaration	¶6-300
Registration	¶6-400
Purchase Price	¶6-500
Assignment Agreement	¶6-600
Effective Date	¶6-700

Chapter 7 Asset Deals Conducted by Foreign Investors

General	¶7-100
Acquisition Modes and Compliance with FIE Rules	¶7-200
Transfer of Title to the Target Enterprise's Assets	¶7-300
Verification, Approval, Declaration and Registration	¶7-400
Purchase Price	¶7-500
Asset Purchase Agreement	¶7-600
Effective Date	¶7-700
Quasi-asset Deals	¶7-800

Chapter 8 Acquisition of Listed Companies by Foreign Investors

General	¶8-100
Companies Limited by Shares	¶8-200
Share Deals	¶8-300
Introduction	¶8-310
Takeover Rules	¶8-320
General	¶8-321

Disqualified Investors.....	¶8-322
Disclosure Requirements.....	¶8-323
General Offer.....	¶8-324
Financial Adviser.....	¶8-325
Management Buyout.....	¶8-326
Share Deals Conducted by Foreign Investors.....	¶8-330
Listed Shares.....	¶8-331
Unlisted Shares.....	¶8-332
Verification, Approval and Registration.....	¶8-333
General Offer.....	¶8-334
Asset Deals.....	¶8-400

Chapter 9 Foreign Investors Buying Into Partnerships

General.....	¶9-100
Procedure.....	¶9-200

Chapter 10 Onshore Acquisitions

General.....	¶10-100
Acquisitions by FIEs	
Holding-FIEs.....	¶10-200
FIEs without Holding Status	
Share Deals.....	¶10-210
Asset Deals.....	¶10-211
Venture Capital Investments.....	¶10-212
Acquisitions by Domestic Enterprises without FIE Status.....	¶10-300

Chapter 11 Mergers

General.....	¶11-100
Onshore Mergers with FIE-involvement	
Introduction.....	¶11-200
Merger Modes and Compliance with FIE Rules.....	¶11-210
Approval and Verification.....	¶11-220
Registration.....	¶11-230
Consideration.....	¶11-240

Merger Agreement.....	¶11-250
Effective Date.....	¶11-260
Onshore Mergers without FIE-involvement.....	¶11-300
Cross-border Mergers.....	¶11-400

Chapter 12 Industry-specific M&A Rules

General.....	¶12-100
The Acquisition of Financial Institutions.....	¶12-200
Background.....	¶12-210
M&A Rules.....	¶12-220
The Acquisition of Insurance Companies.....	¶12-300
Background.....	¶12-310
M&A Rules.....	¶12-320
Acquisitions in the Real Estate Sector.....	¶12-400
Background.....	¶12-410
M&A Rules.....	¶12-420

Chapter 13 M&A Projects in the State-owned Sector

General.....	¶13-100
Qualification of Foreign Investors.....	¶13-200
Reorganisation Plan.....	¶13-300
Owner's Consent in Case of Asset Deal.....	¶13-400
Appraisal.....	¶13-500
Sale and Purchase.....	¶13-600
Verification, Approval, and Registration.....	¶13-700
Purchase Price and Capital Contribution.....	¶13-800
Prohibition of Collusion.....	¶13-900

Chapter 14 Offshore Structures, Outbound M&As and Round-trip Investments

General.....	¶14-100
Offshore Special Purpose Vehicles.....	¶14-200
Outbound M&As.....	¶14-300
Introduction.....	¶14-310

NDRC Approval.....	¶14-320
MOFCOM Approval.....	¶14-330
Industry-specific Regulatory and Other Issues.....	¶14-340
Mainland Investments in Taiwan.....	¶14-350
Round-trip Investments.....	¶14-400

Chapter 15 Private Equity

General.....	¶15-100
The Legal Framework.....	¶15-200
Offshore Funds.....	¶15-210
Onshore Funds.....	¶15-220
Onshore Funds with Foreign Investment.....	¶15-221
Onshore Funds without Foreign Investment.....	¶15-222
Open Questions.....	¶15-300

Chapter 16 Financing

General.....	¶16-100
FIE Equity Financing.....	¶16-200
Foreign Exchange Control.....	¶16-300
Purchase Price Payment.....	¶16-400
Debt Financing.....	¶16-500

Chapter 17 Labour Issues

General.....	¶17-100
Lay-offs Following M&A Transactions.....	¶17-200
Re-positioning of Employees.....	¶17-300
Transfer of Employees.....	¶17-400
Special Rules for SOEs.....	¶17-500

Chapter 18 Merger Control

General.....	¶18-100
Merger Control Rules of the <i>Acquisition of Domestic Enterprises by Foreign Investors Provisions</i>	¶18-200

Onshore Transactions.....	¶18-210
Offshore Transactions.....	¶18-220
Practice.....	¶18-230
The <i>PRC Anti-Monopoly Law</i>	¶18-300
Introduction.....	¶18-310
Goals and Scope.....	¶18-320
Authorities.....	¶18-330
Merger Control Rules of the <i>PRC Anti-Monopoly Law</i>	¶18-340
Implementing Rules.....	¶18-341
Notification: Thresholds and Procedure.....	¶18-342
Review Process.....	¶18-343
Decision of the Anti-Monopoly Enforcement Organ.....	¶18-344
Application for Reconsideration and Judicial Review.....	¶18-345
Violation of the <i>PRC Anti-Monopoly Law</i>	¶18-346
Practice.....	¶18-350
Introduction.....	¶18-351
InBev.'s Acquisition of Anheuser-Busch.....	¶18-352
Coca Cola's Proposed Acquisition of Huiyuan.....	¶18-353
Mitsubishi's Acquisition of Lucite.....	¶18-354
General Motors' Acquisition of Delphi.....	¶18-355
Pfizer's Acquisition of Wyeth.....	¶18-356
Panasonic's Acquisition of Sanyo.....	¶18-357
Novartis' Acquisition of Alcon.....	¶18-358
Uralkali's Acquisition of Silvinit.....	¶18-359
Penelope's Acquisition of Savis.....	¶18-360
The Joint Venture between GE China and CSCLC.....	¶18-361
Seagate's Acquisition of Samsung.....	¶18-362
The Joint Venture between Henkel and Tiande.....	¶18-363
Western Digital's Acquisition of Hitachi.....	¶18-364
Google's Acquisition of Motorola.....	¶18-365
UTC's Acquisition of Goodrich.....	¶18-366
Wal-Mart's Acquisition of Niu Hai.....	¶18-367
The Joint Venture between ARM, G&D and Gemalto.....	¶18-368
Glencore's Acquisition of Xstrata.....	¶18-369

Marubeni's Acquisition of Gaviion.....	¶18-370
Baxter's Acquisition of Gambro	¶18-371
Media Tek's Merger with MStar.....	¶18-372
Thermo Fisher's Acquisition of Life.....	¶18-373
Microsoft's Acquisition of Nokia.....	¶18-374
Merck's Acquisition of AZ	¶18-375
The Proposed "P3 Joint Venture" between Maersk, MSC and CMA CGM	¶18-376
The Joint Venture between CORUN, Toyota China and PEVE and Two Other Parties	¶18-377
Observations	¶18-378

Chapter 19 National Security Review

General.....	¶19-100
Scope.....	¶19-200
Procedure	¶19-300
National Security Review under the Draft Foreign Investment Law.....	¶19-400

Chapter 20 Tax

China's Tax System.....	¶20-100
General.....	¶20-110
Enterprise Income Tax	¶20-120
Individual Income Tax	¶20-130
Other Tax Types.....	¶20-140
Tax Treaties and Tax Arrangements	¶20-150
Taxation of Mergers & Acquisitions	¶20-200
General.....	¶20-210
Share Deals	¶20-220
Asset Deals.....	¶20-230
Mergers	¶20-240
Tax Considerations for Offshore Transactions.....	¶20-300

Chapter 21 Post-closing Considerations

General.....	¶21-100
Corporate Restructuring	¶21-200
Disposal and Acquisition of Assets.....	¶21-300
Workforce Reorganisation	¶21-400
Tax	¶21-500

Chapter 22 Problem M&A Projects

General	¶22-100
Preventive Measures	¶22-200
Dispute Settlement	¶22-300
Introduction.....	¶22-310
Negotiations	¶22-320
Arbitration.....	¶22-330
Court Proceedings.....	¶22-340
Enforcement.....	¶22-350

Index of Quoted Laws and References

	Page
Quoted Laws, Regulations and Quasi-legal Provisions	367
References	445

Legislation

Changes in Equity Interest of Investors in Foreign Investment Enterprises Several Provisions	484
Asset Reorganisation by State-owned Enterprises Using Foreign Investment Tentative Provisions	498
Merger and Division of Foreign Investment Enterprises Provisions	508
Using Foreign Investment to Reorganise State-owned Enterprises Tentative Provisions.....	530
Notice on Questions related to the Transfer of State-owned Property Rights	546
Investment within China by Foreign Investment Enterprises Tentative Provisions.....	554

Establishment of Companies with an Investment Nature by Foreign Investors Provisions	566
Establishment of Companies with an Investment Nature by Foreign Investors Provisions Supplementary Provisions	584
Notice on Several Issues Regarding the Enterprise Income Tax Treatment of Enterprise Restructurings	590
PRC Anti-Monopoly Law	604
Regulations Concerning Thresholds for the Notification of Concentrations of Business Operators	628
PRC Law on Enterprise State-owned Assets	630
Acquisition of Domestic Enterprises by Foreign Investors Provisions	658
Notice on Setting Up a Security Review System for Mergers and Acquisitions of Chinese Enterprises by Foreign Investors	698
Provisions on the Implementation of a Security Review System for Mergers and Acquisitions of Chinese Enterprises by Foreign Investors	708
Administrative Measures for Approval and Registration of Overseas Investment Projects	718
Administrative Methods for Overseas Investments	732
Administration of the Takeover of Listed Companies Procedures	748

Finding Aids

Legislation Finding List	813
Index	829

CHAPTER 1 INTRODUCTION

General	¶1-100
The meaning of M&A	¶1-200
The historical development of China's M&A regime	¶1-300

¶1-100 General

Since the beginning of the reform process in China¹ more than 35 years ago, foreign investors have been eager to take advantage of business opportunities offered by the huge Chinese market.² In fact, the development of the Chinese economy since 1978 when the reforms were initiated is remarkable. In January 2006, commissioner Lie Deshui of the PRC's National Bureau of Statistics announced that due to strong investments and record exports, China's economy had grown by 9.9% in 2005 and overtaken Great Britain as the fourth largest economy in the world.³ China replaced Germany as the third largest economy in 2007.⁴ In 2009, China overtook Germany also as the world's leading exporter.⁵ China's economic growth has slowed down over the years and many commentators have predicted difficulties in the years to come for a number of reasons. However, in the second quarter of 2014 China still saw a GDP growth of 7.5%⁶ and the dynamic development of China's economy seems to be ongoing at least in the short and medium term.

The volume of foreign investment and non-investment related business activities with Chinese partners has increased constantly until recently. However, China relies less on foreign investments nowadays than only some years ago.⁷ Huang Yiping, Chief Asia Economist at Citigroup Hong Kong had observed as early as in October 2007 that:

"China wants more investment into strategic high-tech areas ... If you produce garments, you're probably not very welcome."⁸

¹ "China", "mainland China" and "Chinese mainland" shall be used in the following for the People's Republic of China excluding the Hong Kong SAR, Macau SAR and Taiwan.

² SCMP 15 February 2006, p 1.

³ SCMP 26 January 2006, p 1.

⁴ SCMP 9 January 2010, p 1.

⁵ SCMP 29 March 2010, p B 6.

⁶ KPMG 2014, p 1.

⁷ Compare Borgonjon/Sinclair 2006, pp 47-48: "After 27 years of Open Door Policy, China has an excess in capital, and many domestic companies believe that they have sufficient management experience to succeed without foreign partners. ... For the foreseeable future, it is quite possible that China's door will not remain as open as before."

⁸ SCMP 13 October 2007, p B 1. Also compare Anonymous 2010, p 15, in relation to the *Duly Carrying Out the Work Associated with the Use of Foreign Investment Several Opinions*, issued by the State Council on 6 April: "The Opinions appear to close the door on investment in China to foreign investors that are engaged in certain traditional industries. Conversely, however, they extend a warm welcome to foreign investors in a range of high technology and innovative sectors."