



Demystifying Chinese Investment in Australia

April 2019

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About our reports

KPMG and The University of Sydney formed a strategic relationship to research and publish insights on doing business with Chinese investors. Our first report was launched in September 2011 and this is the fifteenth *Demystifying Chinese Investment* report in our series. This report examines Chinese investment in Australia for the calendar year 2018 and incorporates the latest *Chinese Investors in Australia Survey*. This special edition provides timely, new insights into the perceptions of the Australian investment climate by Chinese investors as well as the key challenges they feel they face in Australia.

The catalyst for our report series was the lack of detailed factual information about the nature and distribution of China's outbound direct investment (ODI) in Australia. Without this information, there is misinformation and speculation. Our reports seek to set the record straight and debunk the myths associated with Chinese investment in this country.



Australia's Prime Minister Scott Morrison (left) and Premier of the State Council of the People's Republic of China Li Keqiang (second right) at a bilateral meeting during the 2018 ASEAN Summit in Singapore, Wednesday, November 14, 2018. (AAP Image)

Methodology

The dataset is compiled jointly by KPMG and The University of Sydney Business School and covers investments into Australia made by entities from the People's Republic of China through mergers and acquisitions (M&A), joint ventures (JV) and greenfield projects. Knight Frank has provided data and analysis on real estate transactions in the 2018 calendar year. 'Real estate' referred to in this report does not include residential apartment and private home sales. The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments, such as the purchase of stocks and bonds, which do not result in foreign management, ownership or legal control.

Our database includes direct investments recognised in the year in which parties enter into legally binding contracts and if necessary, receive mandatory Foreign Investment Review Board (FIRB) and Chinese Government investment approvals. In certain instances, final completion and financial settlement may occur in a later year.

For consistency, the geographic distribution is based on the location of the head office of the Australian invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information.

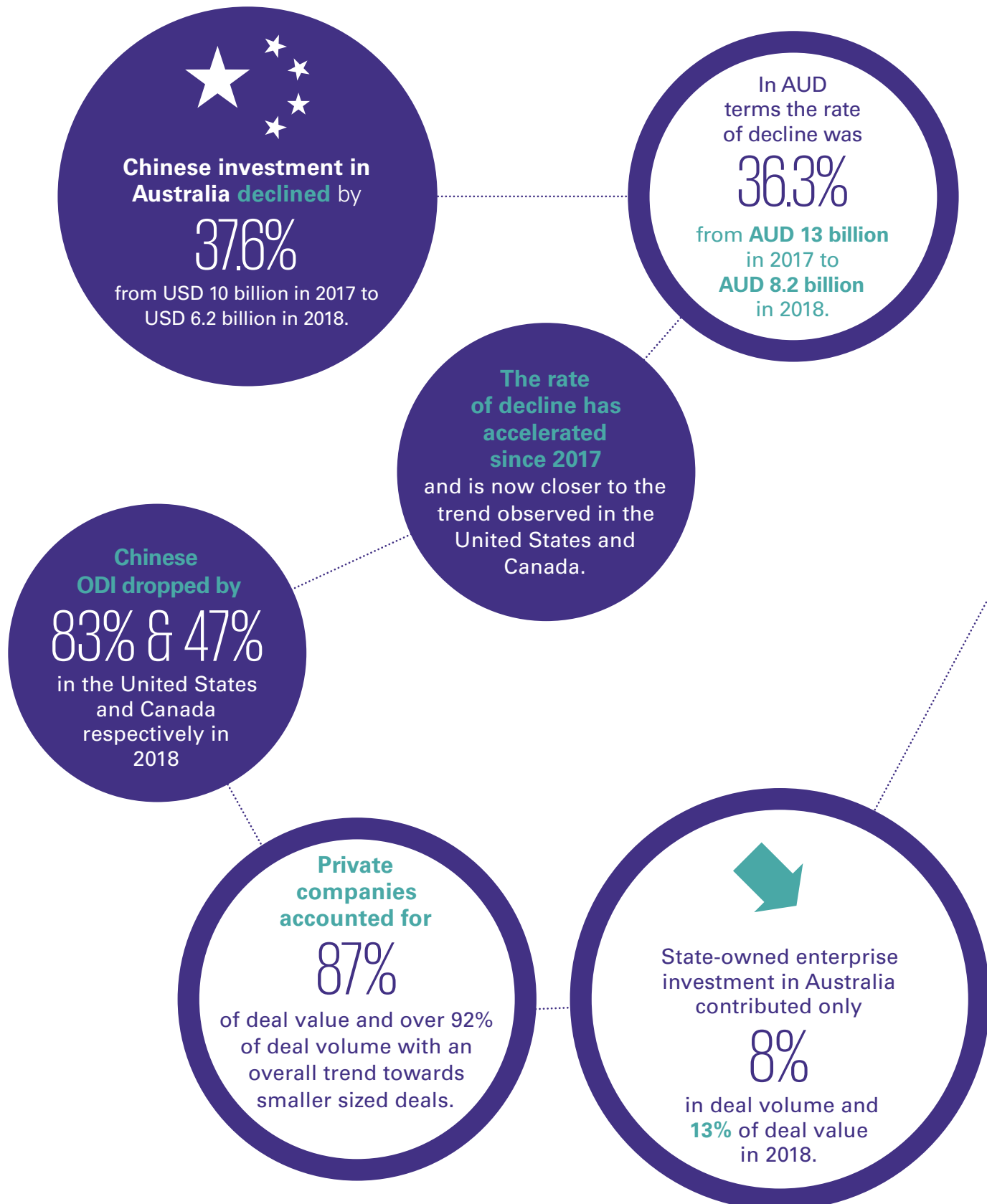
Unless otherwise stated, the data referred to throughout this report is sourced from the KPMG/ University of Sydney database, and our previously published reports.¹ The University of Sydney and KPMG team obtains raw data on Chinese ODI from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. Our sources include commercial databases, corporate information, and official Australian and Chinese sources including the Australian Bureau of Statistics, FIRB and Ministry of Commerce (MOFCOM) of the People's Republic of China.

Our data is regularly updated and continually revised when new information becomes available. In line with international practice, we traditionally record deals using USD as the base currency. However, since 2015 our reports have used AUD for detailed analysis.

We believe that the KPMG / University of Sydney dataset contains the most detailed and up-to-date information on Chinese ODI in Australia.

¹ Includes *Australia & China Future Partnership*, September 2011; *The Growing Tide: China ODI in Australia*, November 2011; *Demystifying Chinese Investment*, August 2012; *The Energy Imperative: Australia-China Opportunities*, 25 September 2012; *Demystifying Chinese Investment in Australia*, March 2013; *Demystifying Chinese Investment in Australian Agribusiness*, October 2013; *Demystifying Chinese Investment in Australia*, March 2014; *Demystifying SOE Investment*, August 2014; *Chinese Investors in Australia Survey*, November 2014; *Demystifying Chinese Investment in Australia*, May 2015 Update; *Demystifying Chinese Investment in Australia*, April 2016; *Demystifying Chinese Investment in Australia*, May 2017; *Demystifying Chinese Investment in Australian Healthcare*, January 2018, *Demystifying Chinese Investment in Australia*, June 2018.

Key findings



Healthcare was the most popular sector for Chinese investors, attracting

42% 

of total investment in 2018 and maintaining the growth trend of previous years.



Commercial real estate fell to second position with

35.8%

of total value.



New mining investment has **dropped sharply** in 2018 after a big year in 2017.



While global foreign direct investment (FDI) in 2018 **declined by 19%** to USD 1.2 trillion, Chinese global outbound direct investment actually **grew by 4.2%** in 2018 to reach USD 129.8 billion

Survey respondents also confirmed it's getting **harder to get capital out of China**, there are challenges in raising capital in Australia and there is a deteriorating outlook for revenue and profit growth in 2019.

The *Chinese Investors in Australia* Survey revealed Chinese executives still see Australia as a **relatively attractive place** to invest with an improving political climate and there has been a slight increase in their sense of feeling welcome.

Global trends and context for Australia

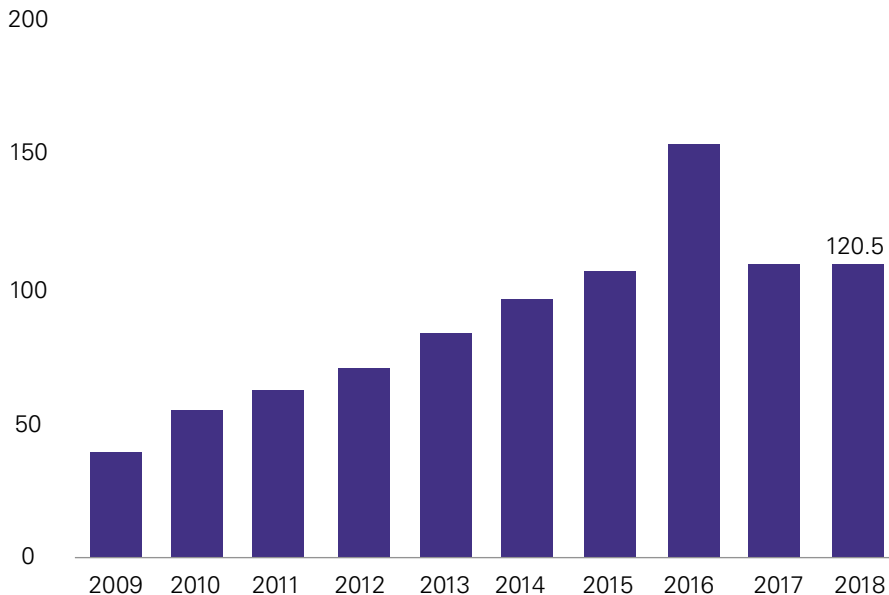
2018 – A year of uncertainty

2018 was a year of uncertainty in global economic affairs amidst slower global growth, decline of global foreign direct investment (FDI) and general apprehension about worsening conditions for international business. Preliminary UNCTAD figures confirm concerns about deglobalisation. Global foreign direct investment (FDI) in 2018 declined by 19 percent to USD 1.2 trillion, down from USD 1.5 trillion in 2017. The downturn in global FDI has affected most developed countries. Europe experienced the sharpest decline in total inbound FDI with 73 percent, whilst the US experienced an 18 percent decrease. Australia has done comparatively well with a 39 percent² increase in total global inbound FDI from all foreign companies.

China remains a major global foreign investor, with the latest official figures showing that in 2018 China's ODI actually grew 4.2 percent from a year earlier to reach USD 129.8 billion in 2018. This includes USD 120.5 billion of non-financial investment, which increased by

0.3 percent, and USD 9.3 billion of financial ODI, which increased by 105.1 percent³. Chinese non-financial ODI in 56 countries along the 'Belt and Road' rose by 8.9 percent from a year earlier to USD 15.4 billion.

Chinese outbound direct (non-financial) investment 2009-2018 (USD billion)



Source: MOFCOM

2 https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1980&Sitemap_x0020_Taxonomy=UNCTAD%20Home;#1618;#Investment%20Trends%20and%20Policies%20Monitors;#6;#Investment%20and%20Enterprise.

3 <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201901/20190102829745.shtml>

Chinese direct investment in the United States continued a steep decline, with data compiled by Rhodium Group showing that it reached USD 4.8 billion in 2018, down from USD 29 billion in 2017, and from USD 46 billion in 2016⁴. Chinese investment into Canada also sharply fell by 47 percent from CAD 8.4 billion (USD 6.2 billion) in 2017 to CAD 4.4 billion (USD 3.4 billion) in 2018⁵.

In Europe, overall Chinese direct investment fell after the closure of several mega deals in prior years (e.g. Syngenta, Switzerland). However, major European economies continued to attract Chinese investment, such as France (USD 1.8 billion, up 86 percent), Germany (USD 2.5 billion, up 34 percent), Spain (USD 1.2 billion, up 162 percent), Sweden (USD 4.1 billion, up 186 percent), while smaller Eastern European economies such as Hungary, Croatia and Poland experienced even higher growth rates. The United Kingdom registered the highest investment of any European country with deals worth a total USD 4.9 billion⁶.

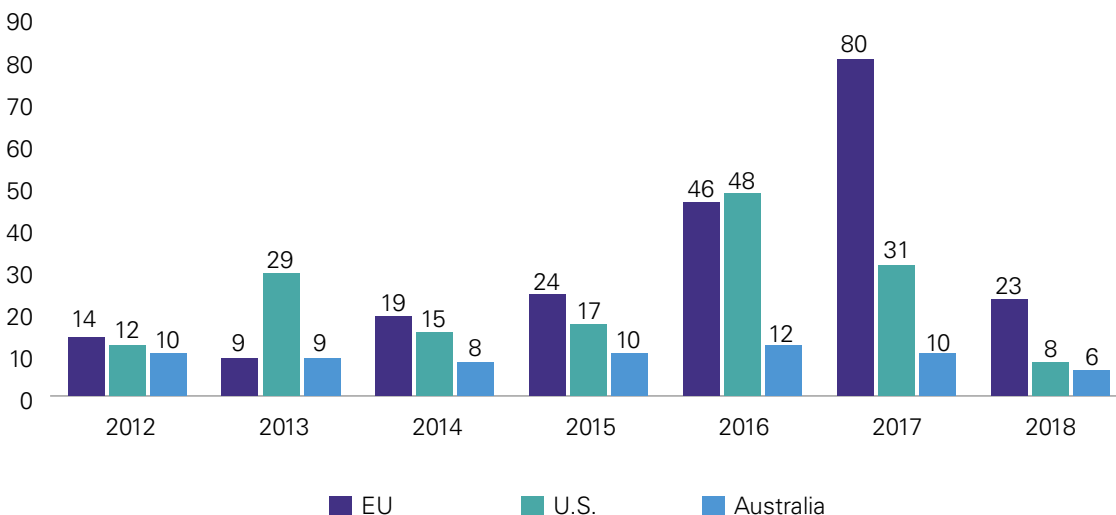
What is causing this change?

The overall trend of Chinese overseas investment is changing due to policy changes in China and in some developed markets.

Domestically, and in line with its goal to reduce financial risks, the Chinese Government started implementing a series of measures since early 2017 to ensure that overseas investments by Chinese firms: (i) are not speculative; (ii) are undertaken after fully considering major potential risks; and (iii) are consistent with the company's strategy and the country's socio-economic development goals. As part of these efforts, authorities released a list specifying the categories of overseas investments that will be encouraged, restricted and prohibited.

Externally, several jurisdictions have made and/or are considering making changes to their foreign investment review powers, which means that investments in some sectors may be limited or prohibited altogether.

Value of completed Chinese FDI transactions (2012 – 2018) USD billion



Source: <https://rhg.com/research/chinese-fdi-in-north-america-vs-europe/>; KPMG & University of Sydney

4 <https://rhg.com/research/chinese-investment-in-the-us-2018-recap>

5 <https://cloudfront.ualberta.ca/-/media/china/media-gallery/research/tracker/2-year-end-review-2018.pdf> ; (CAD to USD conversion by <https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates>)

6 <https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi>

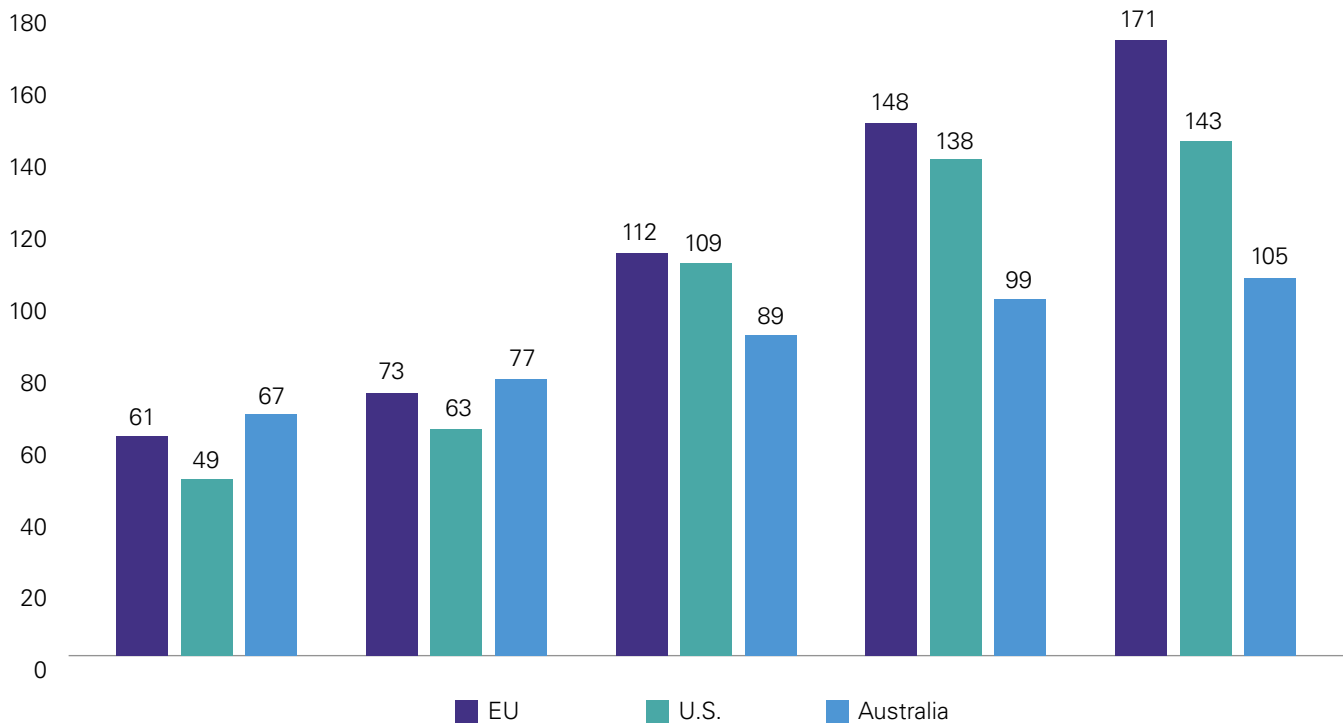
Recent initiatives by the Chinese Government to regulate global ODI

Encouraged overseas investment	<ul style="list-style-type: none"> • Overseas infrastructure investment that facilitates the 'Belt and Road' construction and the interconnectivity of peripheral infrastructure; • overseas investment to promote the exporting of advanced capacity; • high-quality equipment and technical standards; • cooperation with foreign high-tech and advanced manufacturing enterprises; • the establishment of R&D centres abroad; • participation in the exploration and development of overseas oil and gas, minerals, and other energy resources; • mutually beneficial and win-win investment cooperation on agriculture, forestry, animal husbandry, fishery and other areas; • overseas investment in business and trade, culture, logistics and other areas of services in an orderly manner; and • establishment of offshore branches and service networks by qualified financial institutions.
Restricted overseas investment	<ul style="list-style-type: none"> • Overseas investment in sensitive countries and regions where China has not established diplomatic ties, are at war, or are restricted by bilateral or multilateral treaties or agreements of which China is a signatory; • overseas investment in real estate, hotels, cinemas, entertainment and sports clubs; • overseas establishment of equity investment funds or investment platforms without actual, specific industrial projects; • overseas investment using outdated production equipment that does not meet the technical requirements of the investment recipient country, and; • overseas investment that does not meet the environmental protection, energy consumption and safety standards of the recipient country.
Prohibited overseas investment	<ul style="list-style-type: none"> • Overseas investment involving the export of core technology or product from the military industry without the approval of the government; • overseas investment involving the use of technology, techniques or products that are banned from export by the government; • overseas investment in industries such as gambling and pornography; • overseas investment that is banned by international treaties concluded with or signed by China, and; • other overseas investments that endanger or may endanger national interests and national security.

Going forward, we expect continued Chinese regulatory oversight of Chinese overseas investment and a trend towards increased foreign investment review in other jurisdictions will impact the sector and geographic mix of China's ODI.

Source: China Outlook 2018, KPMG's Global China Practice, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2018/03/china-outlook-2018.pdf>. Summarized from 'Opinions on Further Guiding and Regulating the Direction of Overseas Investments', State Council of the People's Republic of China, 18 August 2017, http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm

Accumulated Chinese investment in Australia, USA and EU 2014 – 2018 (USD billion)



Source: KPMG & University of Sydney, Rhodium, Merics⁷, Baker McKenzie⁸

7 <https://www.merics.org/en/papers-on-china/chinese-investment-europe-record-flows-and-growing-imbalances>

8 <https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi>



Australian Foreign Minister Marise Payne, left, and Chinese Foreign Minister Wang Yi reach to shake hands at the end of a joint press conference at the Diaoyutai State Guesthouse in Beijing. (AP Photo/Mark Schiefelbein)

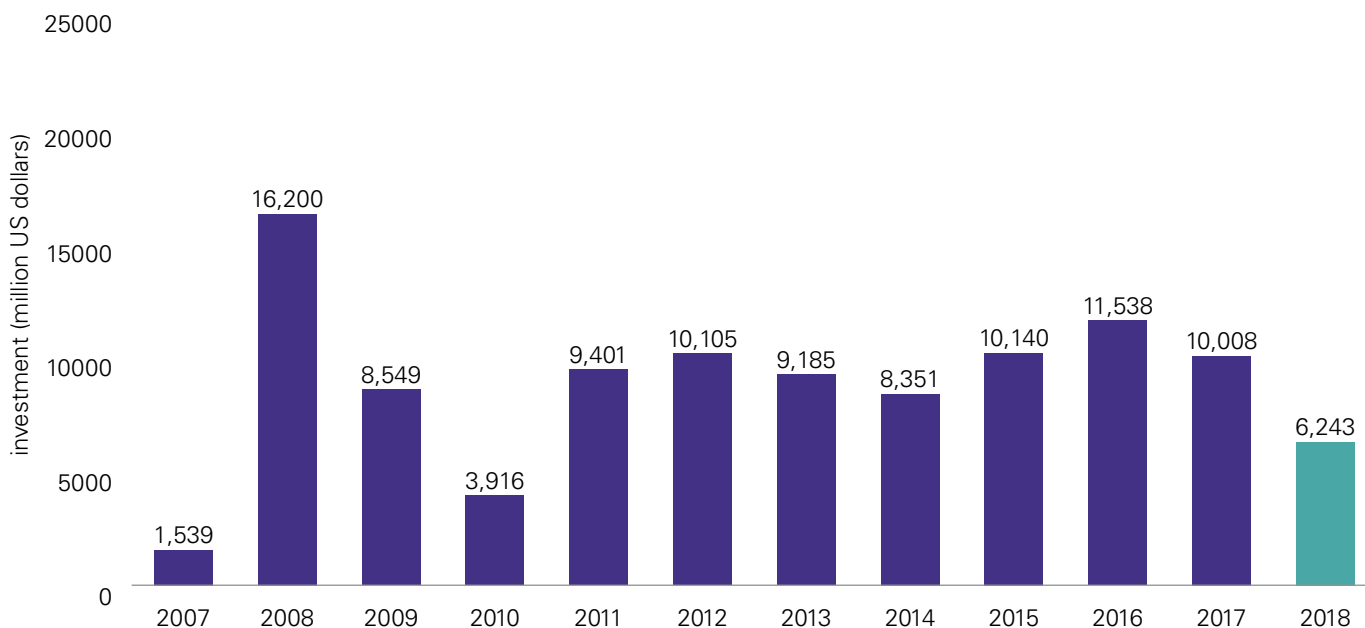
Overview of Chinese investment in Australia

Chinese investment in Australia declined by 37.6 percent in USD terms or 36.3 percent in AUD terms in 2018, from USD 10 billion in 2017 (AUD 13 billion) to USD 6.2 billion (AUD 8.2 billion).

This annual result (in USD terms) brings Chinese ODI back to the second lowest level since the mining and gas driven investment peak year of 2008.

The number of transactions has also decreased 28 percent for the first time since 2011. Based on our data, 74 transactions were completed in 2018, compared with 102 in 2017.

Chinese ODI to Australia by value 2007 – 2018 (USD million)



Source: KPMG/Sydney University database

Note: Prior year annual figures are updated with the latest information as new information becomes available and as required

Selected major Chinese investments in Australia in 2017

Target Name	Acquirer Name	Industry Sector	State	FINAL Value (AUD million)
Sirtex Medical (Liver Cancer treatment device)	CDH Investment, China Grand Pharma	Healthcare	NSW	1,900
Life-Space Group	By-Health	Healthcare	VIC	702
Hony's shares in Santos 4.8%	ENN	Energy (oil and gas)	SA	619
Nature's Care	China Jianyin Investment Ltd (JIC) and Tamar Alliance Fund	Healthcare	NSW	585
MMG Lane Xang Minerals Limited (90% Stake) ¹	Chifeng Jilong Gold Mining Co Ltd	Mining	VIC	375
Cattle Hill Wind Farm of Goldwind Australia	Power China	Renewable Energy	TAS	330
RCR O'Donnell Griffin Rail	CCCI	Infrastructure	NSW	100

Source: The KPMG/Sydney University database

Note: ¹ Mine assets are located in Laos, MMG Australia was the vendor



Chinese investment in Australia by industry

The continued reduction in Chinese investment in Australia reflects a combination of factors, including changing drivers of Chinese ODI such as an increased demand for outbound investment in high value-added sectors to 'bring back' expertise and high-quality brands and products that can support China's industrial upgrading and meet the evolving demands of Chinese middle class consumers.

As part of this trend, large strategic investments in resources, energy and infrastructure have given way to smaller investments, primarily by private investors, into projects that are tactical and directly linked to Chinese consumer market demand. This is particularly evident in the targeting of the Australian healthcare sector by Chinese investors. Investment in Australian healthcare providers helps alleviate the absence or shortage of quality care facilities in China, for example reproductive care offered by Genea Limited and liver cancer treatment by Sirtex.

Real estate investment in 2018 was characterised by risk minimisation and declining deal sizes. Analysis by Knight Frank shows that two thirds of all commercial real estate transactions were in the AUD 5 to AUD 50 million range. Considering that the

two largest transactions by Yuhu Group accounted for one third of the value of all commercial real estate investment, there is a distinct focus on smaller transactions by private sector investors.

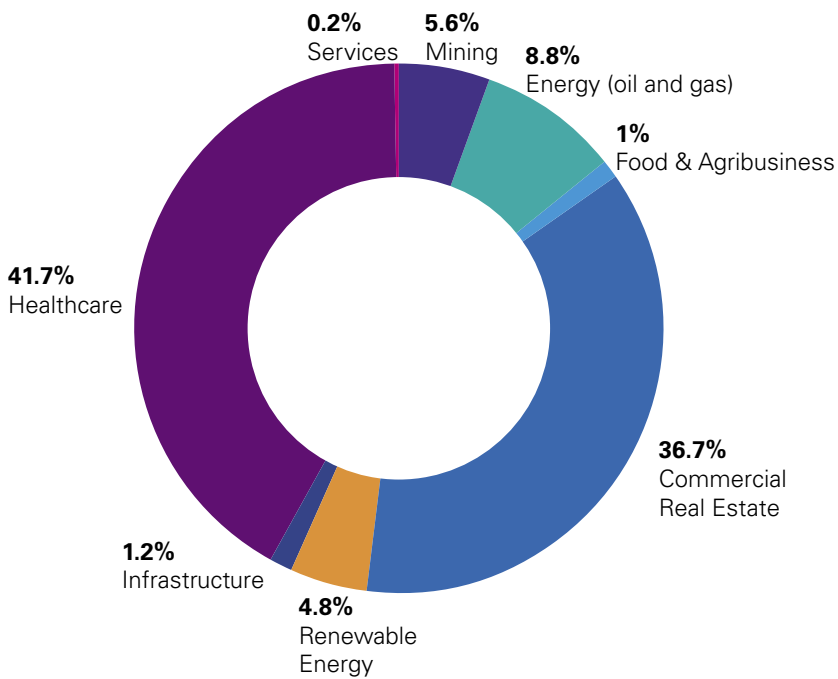
Mining investment has likewise shifted towards lower deal sizes, with the only large deal in 2018 being the acquisition of a majority stake in a mining asset in Laos which was owned by MMG Australia. Investment in lithium mining, while low in 2018, is driven by strong market demand in China and globally. This trend is likely to continue thanks to Australia's status as the major global lithium supplier.

There were no major 2018 investments in areas such as energy (oil and gas), infrastructure and construction, food and agribusiness and renewable energy.



The Yuhu Group purchased 1 Circular Quay, Sydney in 2018

Chinese ODI by Industry in 2018 (percentage of total)



Source: The KPMG/Sydney University database

Chinese investment in Australia by industry 2018

Industry	Value (AUD million)	% of 2018 total	Change in % from 2017
Healthcare	3,436	42%	111%
Commercial Real Estate	3,027	37%	-31%
Energy (oil and gas)	726	9%	295%
Mining	464	5%	-90%
Renewable Energy	395	5%	-48%
Infrastructure	100	1%	217%
Food & Agribusiness	85	1%	-92%
Services	11	0%	-96%
Total	8,244	100%	

Source: The KPMG/Sydney University database

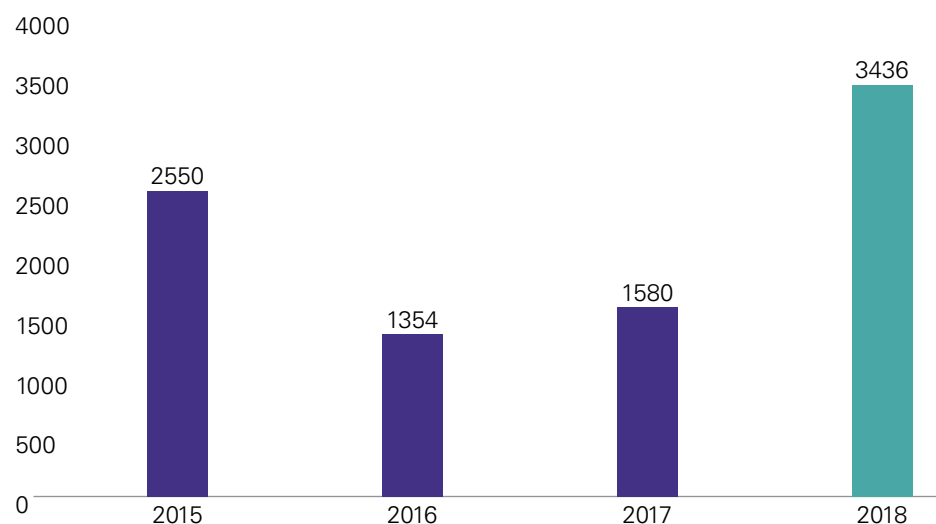


Healthcare

Chinese investment into the healthcare sector totalled AUD 3.4 billion, which represented a 111 percent increase over 2017. After a steady growth trajectory since 2015, healthcare has become the biggest sector receiving Chinese investment in 2018.

We have seen high levels of investments from China into Australia's health sector since 2015. 2015 was the second highest year of investment into this sector at AUD 2.6 billion (AUD 1.6 billion in 2017 and AUD 1.4 billion in 2016).

Chinese investment in Australian healthcare (AUD million)



Source: The KPMG/Sydney University database



2018 saw China's first major deal in medical devices (into Sirtex Medical). SIR-Spheres Y-90 resin microspheres are released into the arterial blood supply. Copyright Sirtex Medical

In 2018, eight transactions were recorded, targeting healthcare products (AUD 1.3 billion), healthcare devices (AUD 1.9 billion) and healthcare services (AUD 0.23 billion). The investment into Sirtex Medical is the first major deal in medical devices. As noted in our 2018 health sector report, Chinese investors are primarily interested in scalable medical services and healthcare products.⁹

Three mega deals (>AUD 500 million) were recorded during the year, from CDH Investment and China Grand Pharm into Sirtex Medical, By-Health into Life-Space

Group and China Jianyin's Investment into Nature's Care. There were five other significant deals completed in 2018 including a Chinese/Hong Kong consortium investing into IVF and fertility clinic group, Genea. The largest deals were located in NSW and VIC. Both state-owned and private investors were active in this sector with private investors completing the largest two deals in 2018.

All 2018 investors in healthcare are new to this sector in Australia. Only one investor had another minority investment in a food business in Australia, dating back to 2011.

Major Chinese investments in Australian healthcare in 2018

Target Name	Acquirer Name	Service/Products	State	Value (AUD million)
Sirtex Medical	CDH Investment and China Grand Pharma	Liver Cancer treatment device	NSW	1900.00
Life-Space Group	By-Health	Probiotic products	VIC	702.00
Nature's Care	China Jianyin Investment and Tamar Alliance Fund	Health supplements	NSW	585.00

Source: The KPMG/Sydney University database

Investment into Australian healthcare is driven by the following factors:

- The attractiveness of the 'Australia package': the combination of transferable management know-how, high-level care service experience, state of the art technology, the 'clean, green and healthy' image of Australian products, and the attraction of Australia for Chinese health tourism.
- The high quality of specialised services in Australia that are replicable in the Chinese market and can be customised and scaled up to fit the specific needs of China's middle to high-end consumer markets.
- The development of cross-border e-commerce which further enhances the growth in demand within the Chinese market for high quality nutritional supplements.
- Synergies with China consumer growth markets. Having a 'China Story' with a link back to Chinese domestic demand remains a key theme driving Chinese investor decisions.

Chinese investors interested in Australia's healthcare sector include specialised healthcare providers, pharmaceutical companies expanding into service provision, private equity investors, and other financial and insurance providers.

Unlike in previous years, there was no recorded health sector investment by traditional real estate companies looking to diversify into healthcare in 2018. Instead, we observed Chinese companies partnering with other Chinese companies that have healthcare experience and capabilities to invest in Australia. These Chinese companies are now more internationally experienced and are looking globally to upgrade their expertise to meet Chinese domestic demand.

9 Demystifying Chinese Investment in Australian Healthcare, January 2018



Real Estate



*Data and analysis contributed
by Knight Frank Australia*

Analysis by Knight Frank Australia

Chinese capital outflows into global real estate totalled USD 22 billion in 2018, a significant decline on 2017 levels partly reflecting the slowdown in the Chinese economy and the ongoing impact of domestic policy developments directed at tightening the government's oversight on investments by Chinese firms targeting offshore real estate assets. Chinese investment was more focused closer to home with Hong Kong accounting for 43 percent of total capital outflows, while the United States remained a popular destination for investment, making up 26 percent. Australia accounted for 11 percent of total investment in 2018, roughly in line with the share in 2017. Investment in the United Kingdom, one of the most popular destinations for Chinese investment in 2017, declined to 5 percent of the total. Outside of Hong Kong, investment in other major markets in Asia such as Japan and Singapore also fell.

Chinese investment into Australian real estate (excluding residential dwellings) was AUD 3 billion, down from 2017 levels. Total transaction value was driven by Yuhu Group's AUD 1.1 billion acquisition of Dalian Wanda's property assets in Australia – the One Circular Quay Development in Sydney and the Jewel Resort Site on the Gold Coast — accounting for 37 percent of total investment from mainland China in 2018.

By sector, mixed use development accounted for 40 percent of total investment inflow and was driven by the Yuhu acquisition. Investment in the office sector made up 31 percent of the total, supported by

Zone Q's acquisition of 55 Clarence Street. Residential development sites continue to account for a significant share of investment. The industrial sector made up a negligible share of transaction value in 2018, although ESR's pending acquisition of Propertylink, if approved by shareholders, will boost investment in the sector in 2019.

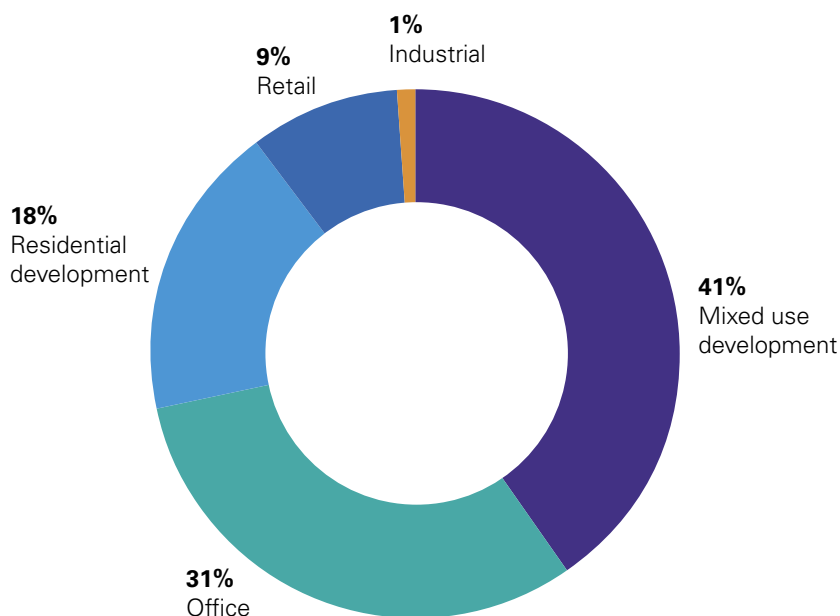
Outside of a couple of large deals, Chinese investment continued to be mainly directed towards smaller acquisitions. Two-thirds of the total number of transactions occurred in the AUD 5 million to AUD 49 million price bracket, while 19 percent of acquisitions were between AUD 50 million and AUD 99 million. The shift towards smaller transactions partly reflects the ongoing impact of measures to limit capital outflows from China.

NSW remains a key destination for Chinese capital, although investment flows were more geographically diversified than in 2017. NSW accounted for 52 percent of total investment inflow in 2018, while Victoria made 34 percent of the total. Eight of the top 10 transactions occurred in Sydney and Melbourne. Queensland's share of total investment was 11 percent, driven almost entirely by Yuhu's acquisition of the Jewel Resort Site on the Gold Coast. While Sydney and Melbourne are expected to remain key destinations for Chinese capital, improving occupier market conditions and relatively attractive yields in Brisbane and Perth will make these cities increasingly attractive for Chinese investors seeking to diversify their property investments.

Top real estate transactions for 2018

Property	Location	Type	Purchaser	AUD million
One Circular Quay Development	Sydney	Mixed use development	Yuhu Group	804
Jewel Resort Site	Gold Coast	Mixed use development	Yuhu Group	315
55 Clarence Street	Sydney	Office	Zone Q	256
187 Thomas Street	Sydney	Office	Greaton Group	146
The Victorian Police Centre	Melbourne	Office	Zone Q	125
China Aoyuan Yarrawa Road	Wingecarribee	Residential development	China Aoyuan Properties	100
Park Sydney	Sydney	Retail	Golden Horse Nine Dragons	100
Jenkins Orchard	Melbourne	Mixed use development	Nan Xin Investment Pty Ltd	99
750 Craigieburn Road East	Melbourne	Residential development	Landream	90
353–383 Burwood Highway	Melbourne	Office	Xin Hai City (Forest Hill) Pty Ltd	89

Real estate investment share by sector



Source: Knight Frank Research; RCA



Energy (oil and gas)

The oil and gas sector recorded three completed deals in 2018 with a total value of AUD 726 million, accounting for 9 percent of the total investment from China. While this represents a 295 percent increase from 2017, it was primarily driven by ENN's acquisition of

more shares in Santos for AUD 619 million. There were two smaller scale investments into Queensland and Western Australia. This follows the trend in recent years as investments into this sector have remained below 10 percent of total investment inflow.




Mining

In 2018, mining as a sector accounted for 5.6 percent of the total Chinese investment inflow with five mining deals totalling AUD 464 million, a decrease of over 90 percent from 2017. This brings Chinese mining investment in Australia back to 2016 levels after a peak in 2017 driven by Yancoal's AUD 3.4 billion acquisition of Rio Tinto's thermal coal assets. The only large sized deal in 2018 was MMG Limited (MMG) selling its 90 percent interest in Lane Xang Minerals which owns the Sepon mine in Laos PDR, to Chifeng Jilong Gold Mining Co Ltd (Chifeng), for AUD 375 million. Other mining investments were primarily related to gold projects in WA.

While China's focus on improving efficiencies and environmental quality sustains demand for higher grade Australian iron ore and coal, there has been a reduction in Chinese investment in the traditional mining sector, reflecting a correction in supply and demand imbalances.

Chinese investment interest in lithium mining continues as Australia remains the dominant raw material supplier for global battery production for electric cars and other purposes. Lithium investment has predominantly been based in Western Australia.



Lithium ore moving along a conveyor belt.

Lithium processing by Tianqi Lithium secures Australia's place in global new battery energy markets

Tianqi Lithium is an example of a new generation of Chinese investment in Australia that is directly tied to the fast growing global lithium battery market. The AUD 700 million investment by Tianqi to build a lithium hydroxide processing plant in Western Australia is creating a new lithium industry in Australia. By choosing to process in Australia, Tianqi's investment generates higher value-add for the Australian economy and drives deeper integration, employment creation and more localised economic activities in regional Australia.

Tianqi is a 51 percent majority partner in Talison Lithium — a joint venture company with US lithium company Albemarle — which owns the Greenbushes mine in Western Australia, the world's largest lithium mine.

"Australia is a major supplier of lithium resources, with around 50 percent of the world's lithium sourced from Western Australia. About 80 percent of the world's lithium mineral processing takes place in China at the moment," said Phil Thick, General Manager of Tianqi Lithium Australia, the local subsidiary of Tianqi Lithium.

Tianqi, which has three lithium processing operations in China, made a strategic decision in 2016 to diversify lithium processing away from China and to build processing capabilities in Australia by investing in the construction of a large-scale processing plant in Kwinana, Western Australia, with an annual production capacity of 48,000 tonnes of lithium hydroxide, an essential ingredient for lithium batteries.

Phil Thick said "It is a Chinese company (Tianqi Lithium) that drove that decision. The industry was initially surprised to hear Tianqi's decision to build a plant of this scale in Australia. Now, other global lithium companies have followed Tianqi and at least three major processing plants in Western Australia have been announced. If these plants are completed and in operation, Australia could have a significant stake in the world's lithium processing".

Australia was Tianqi's first overseas investment destination. The processing plant will be built to Australian standards, including environmental standards. Tianqi also expects to see a flow of world class expertise in both directions between China and Australia. Joint R&D programs are planned for Perth and China.

Tianqi Lithium Australia's management team are Australian, headed by Phil Thick. The parent company decided not to send Chinese expats to oversee the local operations.

Construction of the AUD 400 million first stage of the plant started in 2016 for an initial production capacity of 24,000 tonnes per year. The AUD 300 million second stage is expected to be completed in late 2019. Currently, over 900 people work on the construction site. Upon completion, there will over 200 full-time employees working at the plant. Tianqi made a commitment to achieve 85 percent local content in the construction phase. Most of the plant including steelwork and pipework are locally fabricated from local materials.

"The construction and operation of Tianqi's processing plant doesn't just create local jobs on-site, it will provide considerable opportunities for suppliers of gas, power, transport and chemical reagents", says Phil Thick. The plant is in the industrial area of Kwinana where unemployment is high.

Tianqi is also strongly committed to the highest level of corporate social responsibility. The Australian subsidiary has a dedicated budget for local community support. Currently, Tianqi Lithium is supporting four different arts organisations in the Kwinana area and works with local primary schools to run music programs and help disadvantaged children.



Renewable energy

Four new renewable energy investments were recorded in 2018, totalling just under AUD 400 million, which is a similar level to 2016 and an increase over the AUD 124 million recorded in 2017. While there remains strong interest in wind and solar projects in Australia and increasing interest in battery storage, most deals are small scale and many are green field investments. The largest renewable project in 2018 was Power China's acquisition of Cattle Hill Wind Farm from another Chinese company, Goldwind.

Despite ongoing regulatory uncertainties, Chinese interest in renewable energy investment remains high, driven by a growing maturity from existing Chinese investors. Another key motivation for Chinese solar companies to look at overseas markets including Australia is the landmark policy change in China restricting the construction of more solar farms, and removing all subsidies for community and household rooftop solar energy installations which were previously issued by local governments. International expansion is seen as one way to close the profit shortfall in the domestic market.



Infrastructure and construction

Chinese investment in large Australian infrastructure assets peaked in 2016 with two mega deals by CIC Capital into Asciano Limited and Port of Melbourne. Infrastructure investment accounted for 28 percent of the total investment in 2016. There were two smaller projects recorded in 2017 by State Grid and Beijing Enterprises Water Group.

In 2018 no major infrastructure assets were acquired by Chinese investors other than CCCI's acquisition of the rail business from engineering group RCR Tomlinson.

Although there is strong interest from Chinese engineering and construction companies to partner with or acquire stakes in Australian companies to bid for infrastructure and construction projects, no major new deals have been completed since CCCI International acquired John Holland in 2015.

According to our interviews with Chinese investors, the Australian infrastructure market is seen as a competitive market that promises long-term stable returns, but the regulatory and political risks surrounding controlling acquisitions have made Chinese companies wary in approaching new investment opportunities.



Food & agribusiness

Three small deals were completed in the food and agribusiness sector in 2018 totalling less than AUD 100 million in total deal value. This represents about one percent of the total Chinese investments in 2018 and a 92 decline from 2017 which reflected one very large deal.

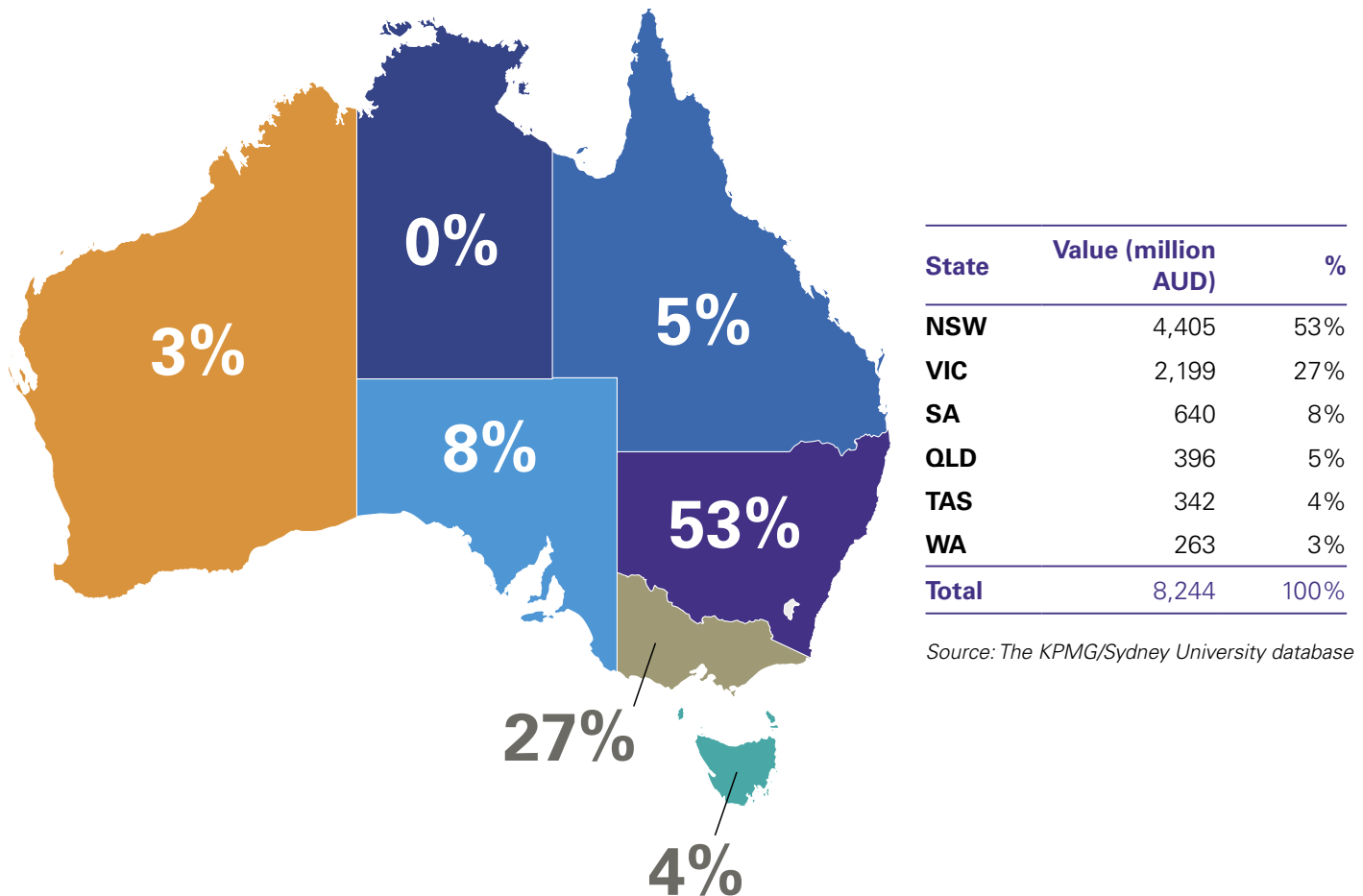


*Goldwind Gullen Range Wind Farm.
Source: Image courtesy of Goldwind.*

Chinese investment in Australia by geography

Chinese investment was again focused on NSW in 2018 with AUD 4.4 billion or 53 percent of the total value. Victoria remained in second position with 27 percent of total investment value in 2018.

Geographic distribution of Chinese investment in 2018 by state



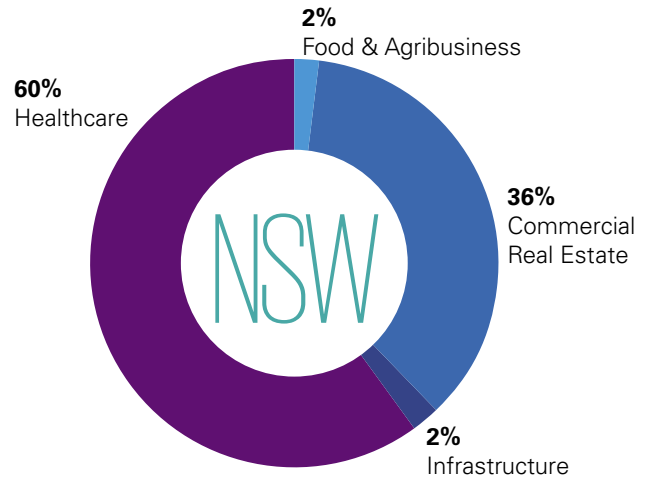
Source: The KPMG/Sydney University database

Source: The KPMG/Sydney University database

New South Wales

Industry	Transaction Value (AUD million)	Share
Food & Agribusiness	85	2%
Commercial Real Estate	1,576	36%
Infrastructure	100	2%
Healthcare	2,632	60%
Others	11	0%
Total	4,405	100.0%

Source: The KPMG/Sydney University database

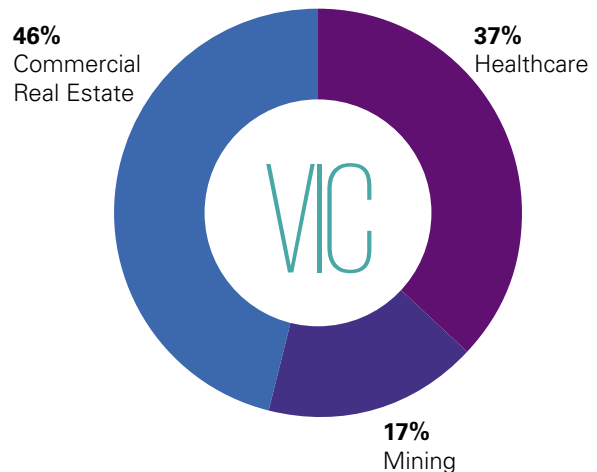


Source: The KPMG/Sydney University database

Victoria

Industry	Transaction Value (AUD million)	Share
Healthcare	804	37%
Mining	375	17%
Commercial Real Estate	1020	46%
Total	2199	100%

Source: The KPMG/Sydney University database

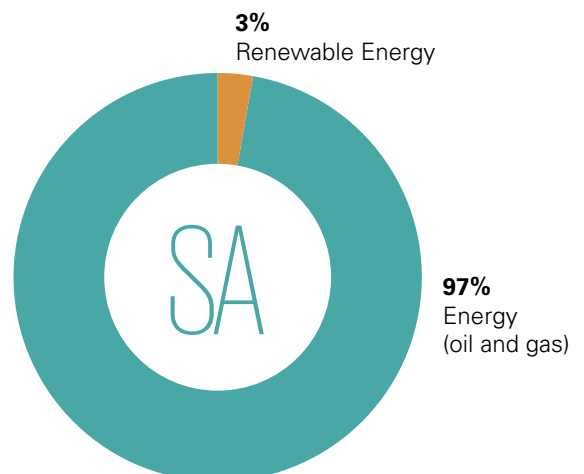


Source: The KPMG/Sydney University database

South Australia

Industry	Transaction Value (AUD million)	Share
Renewable Energy	21	3%
Energy (oil and gas)	619	97%
Total	640	100%

Source: The KPMG/Sydney University database

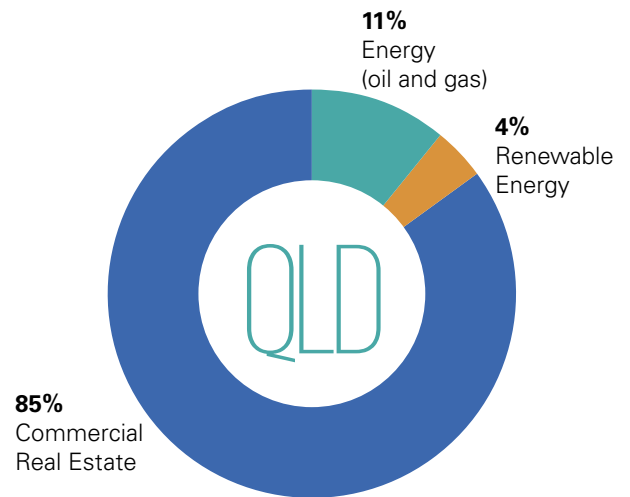


Source: The KPMG/Sydney University database

Queensland

Industry	Transaction Value (AUD million)	Share
Energy (oil and gas)	43	11%
Renewable Energy	18	4%
Commercial Real Estate	335	85%
Total	396	100%

Source: The KPMG/Sydney University database

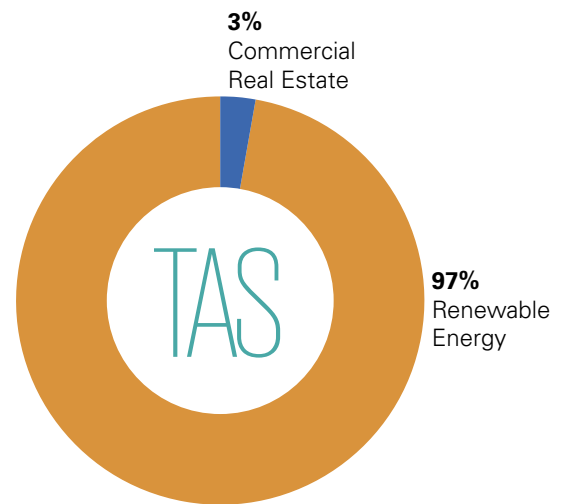


Source: The KPMG/Sydney University database

Tasmania

Industry	Transaction Value (AUD million)	Share
Commercial Real Estate	12	3%
Renewable Energy	330	97%
Total	342	100%

Source: The KPMG/Sydney University database

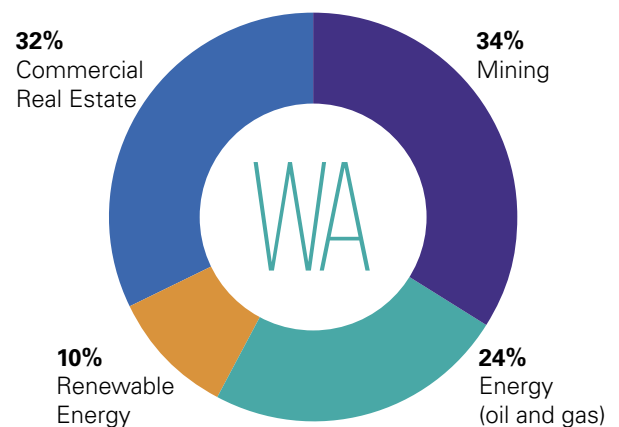


Source: The KPMG/Sydney University database

Western Australia

Industry	Transaction Value (AUD million)	Share
Mining	89	34%
Energy (oil and gas)	64	24%
Renewable Energy	26	10%
Commercial Real Estate	84	32%
Total	263	100%

Source: The KPMG/Sydney University database

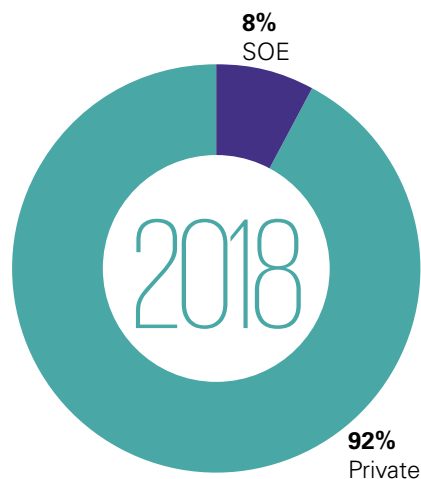


Source: The KPMG/Sydney University database

Chinese investment in Australia by ownership

Private investors accounted for 92 percent of the Chinese deal volume and 87 percent of deal value in 2018, up from 83 percent in number and 60 percent in value in 2017.

Investments by Chinese SOEs decreased both in terms of number and value compared to 2017.



Ownership	Investment Value (AUD million)	%	no. deals	%
SOE	1,071	13%	6	8%
Private	7,173	87%	68	92%
	8,244	100%	74	100%

Source: The KPMG/Sydney University database

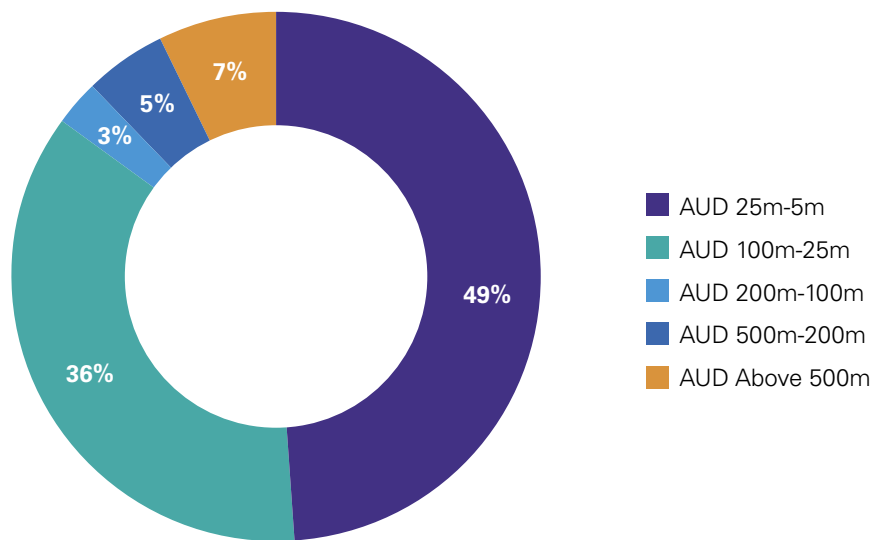
Source: The KPMG/Sydney University database

Chinese investment by deal size

The trend toward smaller deals has continued in 2018 with the average deal size at AUD 111 million, down from AUD 130 million in 2017.

The number of deals has also dropped below 100 to 74 deals. For the first time, nearly half of the transactions fell below AUD 25 million.

85 percent of deals fell below the AUD 100 million mark. This reflects more deals being done in mid-sized Australian markets in health, technology, services and real estate sectors.



Source: The KPMG/Sydney University database

Size of Deal (AUD)	number of deals	%	Value	%
AUD 25m-5m	36	49%	489	6%
AUD 100m-25m	27	36%	1598	19%
AUD 200m-100m	2	3%	271	3%
AUD 500m-200m	4	5%	1276	16%
AUD Above 500m	5	7%	4610	56%
Total	74	100%	8244	100%

Source: The KPMG/Sydney University database

Special edition: Chinese Investors in Australia Survey



About this survey

The Chinese Investors in Australia Survey is a comprehensive survey of the experiences and views of Chinese investors in Australia. The survey provides insights into the perceptions of the Australian investment climate by Chinese investors and the key challenges they feel they face in Australia.

The University of Sydney Business School and KPMG acknowledge the generous support of the late Dr William Chiu for enabling the first Chinese Investors in Australia Survey in 2014.

The 2019 Chinese Investors in Australia Survey was completed in February 2019 and used both survey and interview based information to focus on the latest sentiments covering 2018 and YTD 2019. We previously surveyed Chinese Investors in Australia in relation to 2017 and 2014 which enables some trend comparisons.

The University of Sydney Business School and KPMG surveyed senior executives from Chinese-invested companies located in Australia in February 2019 and in total 59 completed responses were received.

These companies operate in a broad range of sectors including real estate, mining, agribusiness, renewable energy, health and infrastructure.

The survey questions covered topical issues relating to experience, perceptions and confidence of Chinese companies investing in Australia. Where appropriate we have compared the survey results to those recorded in previous years.

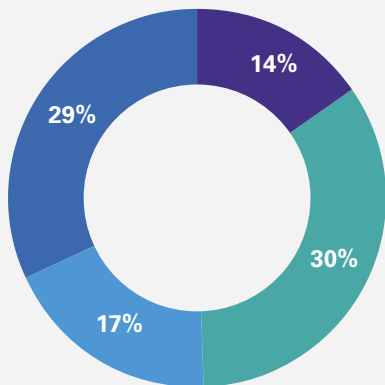
We would like to thank the Chinese companies who participated in our survey and interviews for the purposes of this report.

Our results are divided in three sections:

- Investment climate
- Operational challenges
- Performance and outlook

Survey demographic

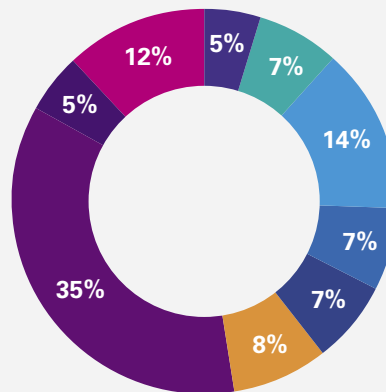
What size is your total investment in Australia?



- 0-25 million AUD
- 25-100 million AUD
- 100-500 million AUD
- 500-1000 million AUD

Number of respondents = 59

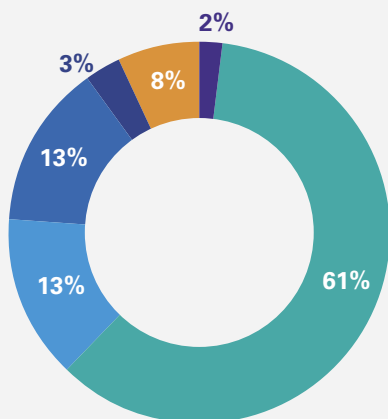
To what industry does the majority of your investment belong?



- Agribusiness
- Infrastructure
- Mining
- Oil and Gas
- Renewable Energy
- Finance
- Real Estate
- Healthcare
- Others

Number of respondents = 59

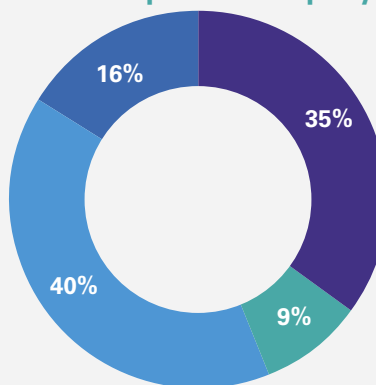
In which Australian state or territory is your business registered?



- ACT
- NSW
- QLD
- SA
- VIC
- WA

Number of respondents = 59

The ownership structure of the Chinese parent company is:



- A central SOE
- A provincial SOE
- A private enterprise
- A public company

Number of respondents = 59

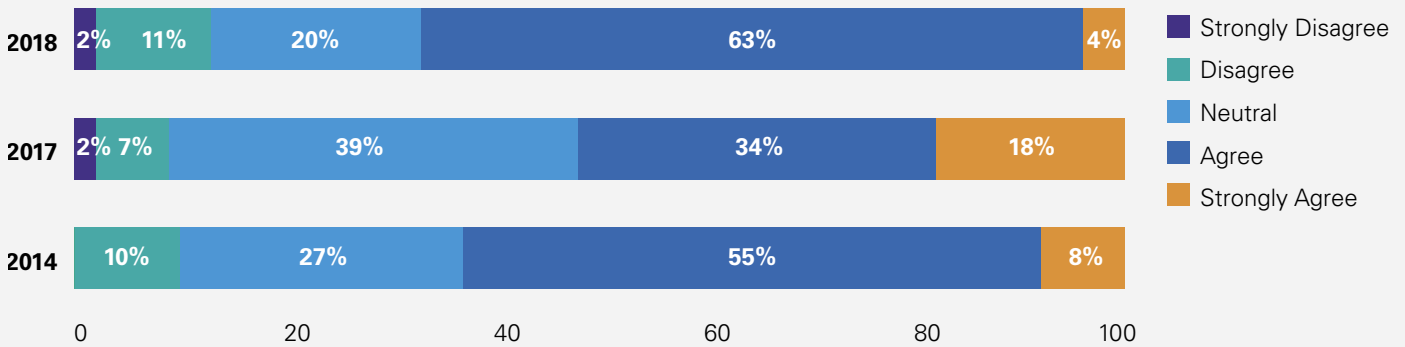
2018 investment climate

Based on the survey responses, the overall investment climate for Chinese companies in Australia was mixed in 2018. On the one hand, Australia remains a preferred investment destination relative to other countries and there has been a slight improvement in their perceptions of the political climate towards China since 2017. On the other, Chinese executives are finding it harder to get investment approvals and capital out of China, and more respondents feel unwelcome to invest in Australia.

Key findings:

- In the midst of global geopolitical uncertainty and unpredictable US-China trade negotiations, Chinese investors find Australia a safer environment than in previous years. 67 percent of the surveyed respondents regarded Australia as a safer economic environment than many other countries, an increase from 52 percent in 2017 and 63 percent in 2014.
- Chinese companies see an improvement of the political climate in Australia regarding the role of Chinese investment. 59 percent of the surveyed respondents stated that the political debate in 2018 has made Chinese companies more cautious to invest in Australia, compared with 70 percent in 2017.
- Compared to last year, there were more Chinese investors who told us they feel welcome to invest in Australia (38 percent vs. 35 percent in 2017). However, there was also a slight increase in the percentage of respondents who feel unwelcome, from 15 percent to 19 percent.
- China's tightened capital controls and regulatory investment approval restrictions on overseas investments over the last couple of years appear to be behind the slowdown in new investments and follow-up investments in Australia. 80 percent of respondents told us that it was more difficult to get capital out of China in 2018 compared with 65 percent in 2017. Based on the survey responses, private companies are most affected by the capital export restrictions.

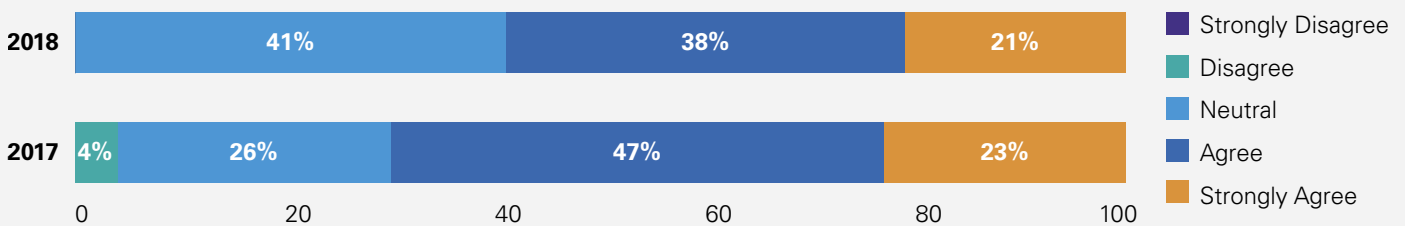
Australia is a safer economic environment for Chinese direct investment than many other countries.



2018 Number of respondents = 54

In a globally competitive landscape for attracting capital, Australia is relatively well placed. 67 percent of respondents regarded Australia as a safer economic environment than many other countries, an increase from 52 percent in 2017 and 63 percent in 2014.

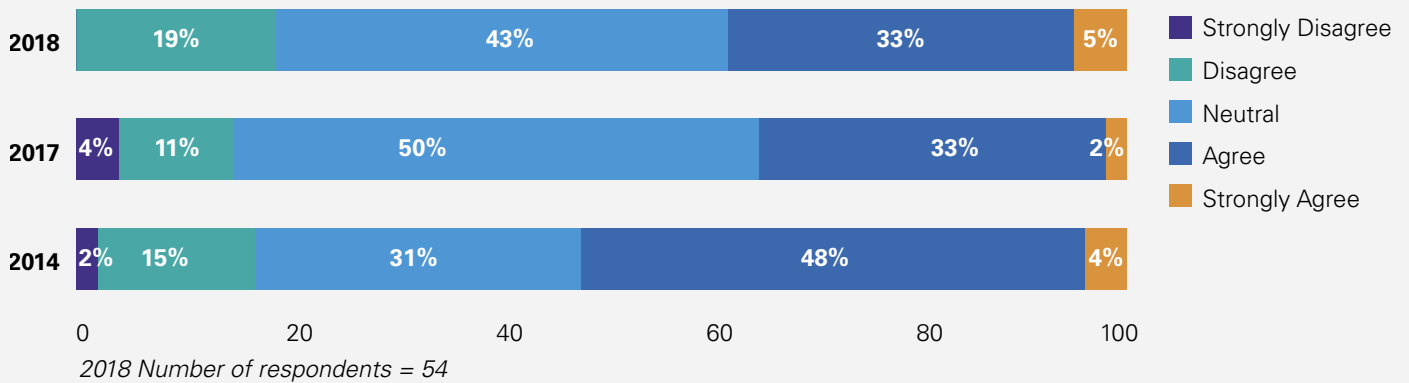
The political debate in Australia in 2018 has made my company more cautious to invest.



2018 Number of respondents = 58

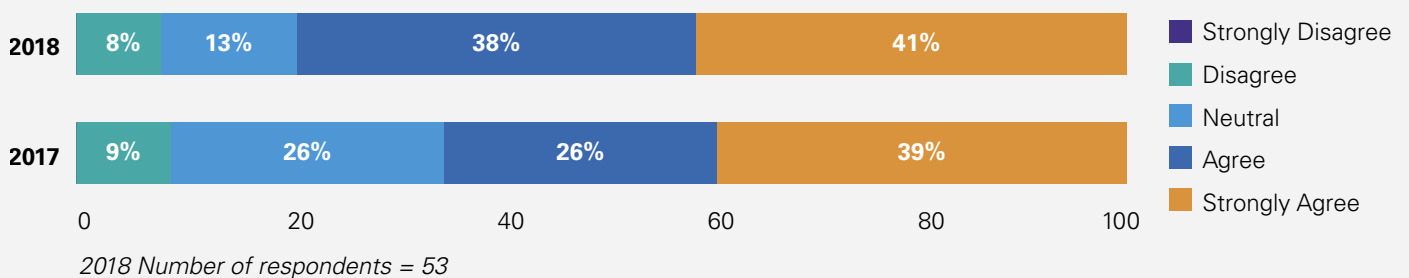
There has been an improvement in the perceptions around political environment regarding China. 59 percent of the surveyed respondents stated that the political debate in 2018 has made Chinese companies more cautious to invest in Australia, compared with 70 percent in 2017.

Chinese investors feel welcome to invest in Australia.



The sentiments of Chinese investors were polarised in 2018. Compared with 2017, there were more Chinese investors who said they feel welcome to invest in Australia (38 percent in 2018 vs. 35 percent in 2017). At the same time, there was an increase in the percentage of respondents who feel unwelcome (19 percent in 2018 vs. 15 percent in 2017).

It is more difficult for my company to get capital out of China since 2018.



80 percent of respondents stated it is more difficult to get capital out of China in 2018 compared with 65 per cent in 2017.

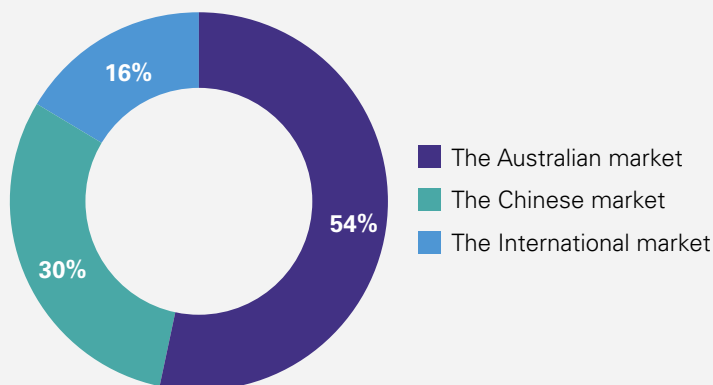
Operational challenges

In this year's survey, we focused on post-investment operational issues and challenges that Chinese firms face in Australia. Most of the findings are consistent with 2016 (i.e. in our 2017 report), although there are clear signs of deterioration in relation to views on Australian media coverage, falling profitability and accessing finance.

Key findings:

- As Chinese investment has shifted away from the mining and energy sectors, Chinese investors have become more integrated into the Australian economy.
- Australian media coverage continues to be seen as unsupportive by Chinese investors, with a significant fall since 2017.
- Chinese investors continue to see Australian business leaders, local government and state governments as the most supportive stakeholders.
- Chinese companies noted their greatest challenges as obtaining finance, low profitability and obtaining government approvals in Australia and China.
- Australia continues to be seen by Chinese investors as a more expensive country to operate in than the UK, US and Canada. Chinese investors indicated that the gap in overall business costs between Australia and other comparable countries has increased over the last years.

Is your supply chain strategy focused on the Australian, Chinese or international market?

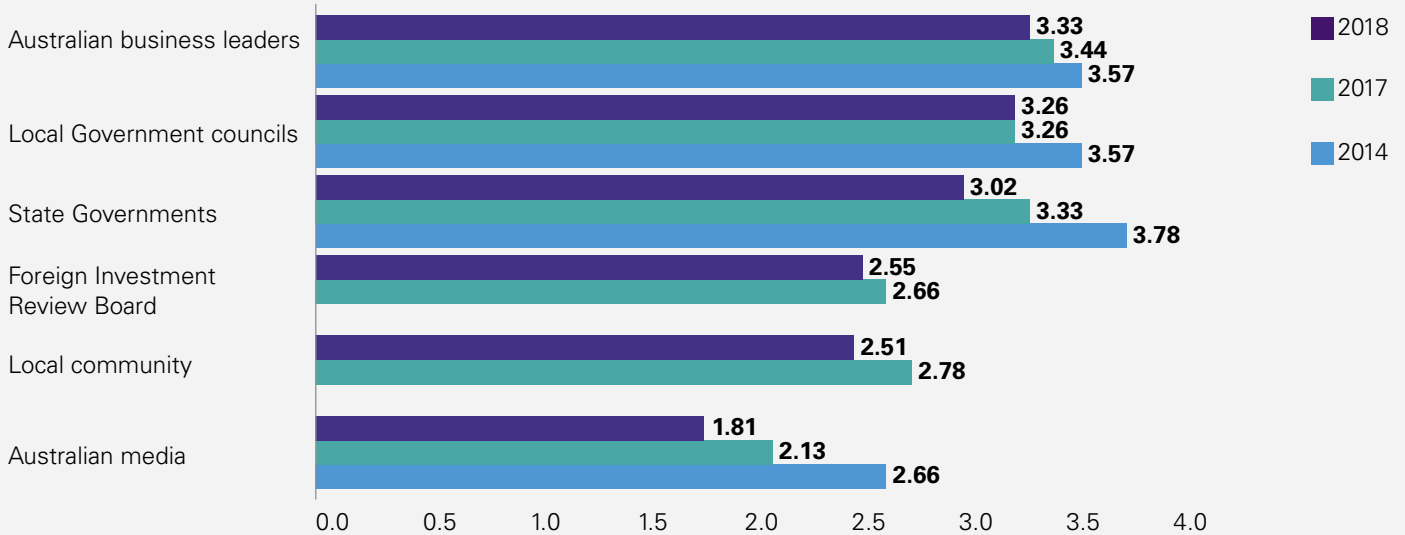


Number of respondents = 43

More than half (53 percent) of the respondents stated that their supply chain is focused on the Australian market, followed by the Chinese (30 percent) and international (16 percent) markets. This ties into the private sector investing into sectors like real estate, healthcare and food & beverage.

The following stakeholders are supportive towards Chinese investors.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree)

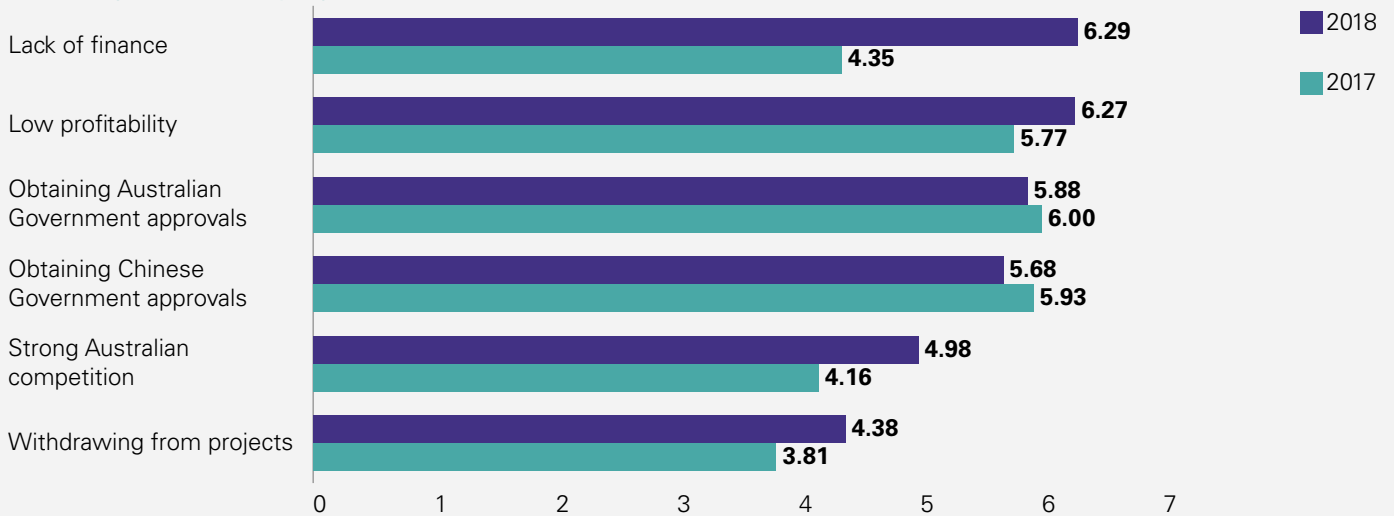


2018 Number of respondents = 56

Australian industry leaders are viewed as most supportive towards Chinese investors, followed by local government councils and State Governments. The local community and Australian media are seen as less supportive.

Since your investment in Australia, what problems have you faced?

(0 = Not Important, 10 = Very Important)

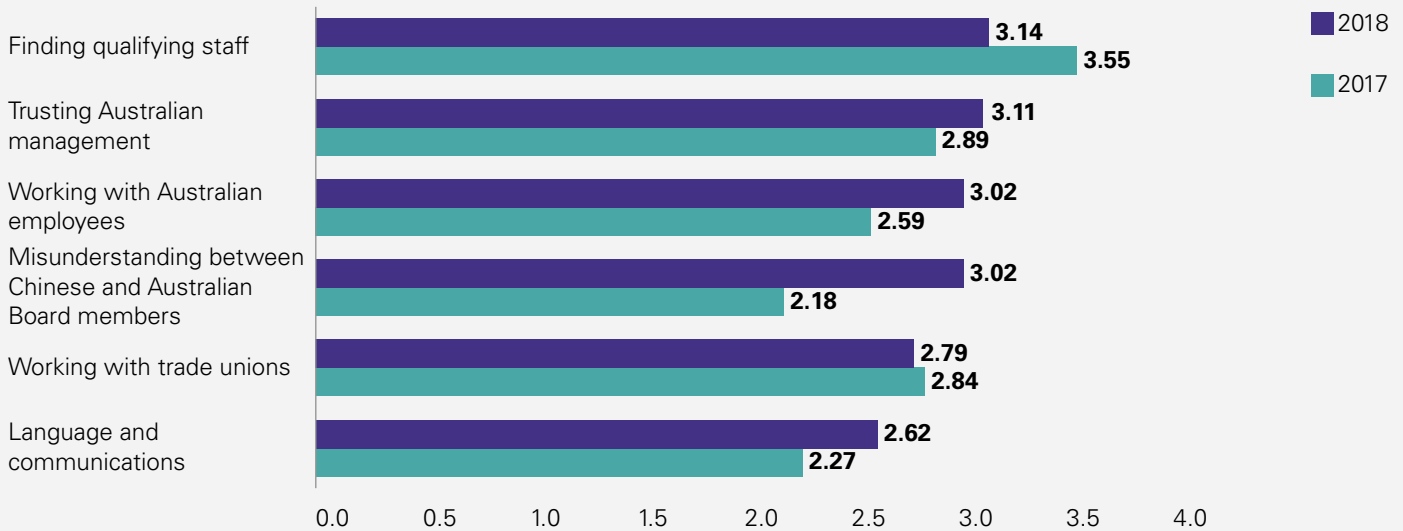


2018 Number of respondents = 56

Lack of finance emerged as the top challenge for Chinese companies with investments in Australia, moving up four places relative to last year. This was followed by low profitability and obtaining Australian and Chinese government approvals respectively. There also appears to be an increase in the competition felt from Australian firms, as well as challenges leading to Chinese companies withdrawing from projects.

Since your investment in Australia, have you faced the following difficulties?

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree)

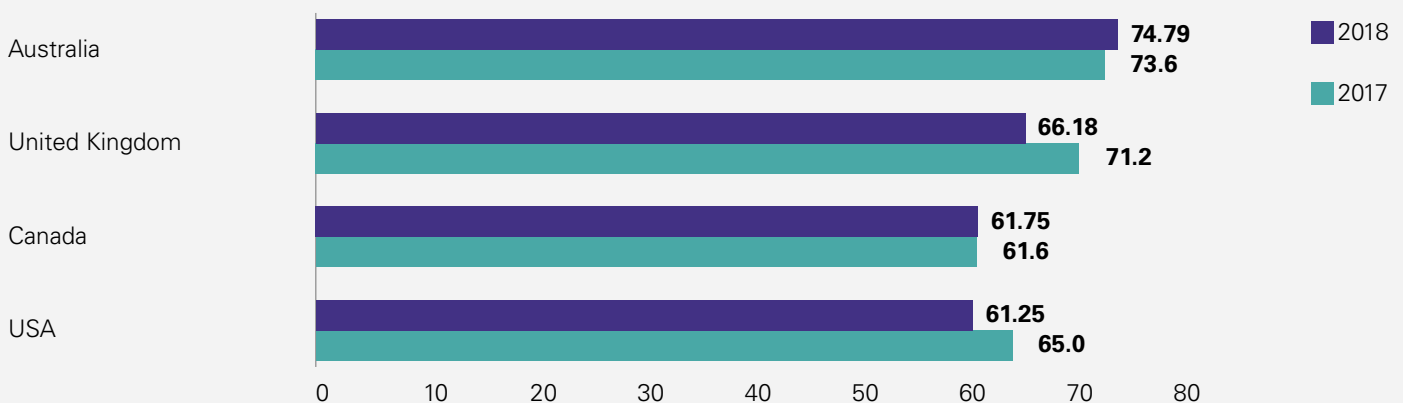


2018 Number of respondents = 54

Finding qualified staff remains a difficulty for Chinese companies, but it is improving. Building trusted and effective working relations between Chinese owners and Australian management and Board members remains an ongoing challenge, which is likely due to differences in governance models and market dynamics between Australia and China.

In your opinion, what is the level of overall business costs in the following countries?

(0 = Very Low, 100 = Very High)



2018 Number of respondents = 52

Chinese investors estimate that in Australia overall business costs are higher than in United Kingdom, Canada and USA. The respondents stated that the level of overall business costs in Australia has increased slightly in 2018.

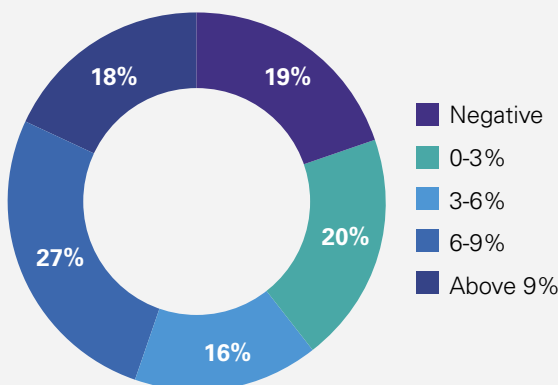
Performance and outlook

Despite the many challenges facing their Australian operations, the last three years have generally been a good period financially for Chinese investors in Australia. The outlook, however, appears to be mixed and uncertain, with a decrease in the levels of optimism about future growth when compared to last year.

Key findings:

- Nearly half (45 percent) of surveyed respondents reported an average return on net asset (ROA) above 6 percent for the last 3 years, while 20 percent reported negative ROA. Renewable energy, finance and infrastructure investments enjoyed strong results. Profitability is mixed for real estate, agribusiness, and resource sectors. These results reflect the strong performance of the Australian economy, as well as the increased capability of Chinese firms to handle operational challenges in Australia.
- Around half of the surveyed Chinese investors believe their revenue and profitability will improve in 2019, reflecting cautious optimism among Chinese investors in Australia. This is much lower than the expectations when surveyed in 2017.
- This is balanced by on-going apprehension, with 32 percent of Chinese companies predicting that their revenue will deteriorate, and 25 percent believing profitability will worsen in 2018.

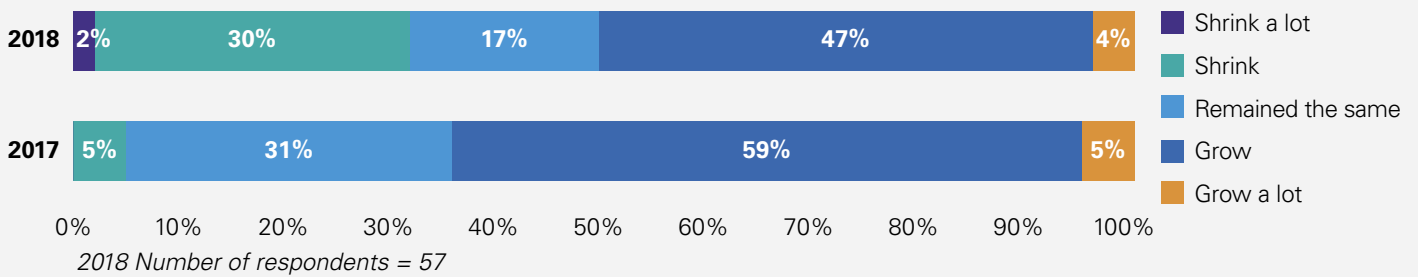
For the last 3 years, what is your average return on net assets (ROA)?



2018 Number of respondents = 56

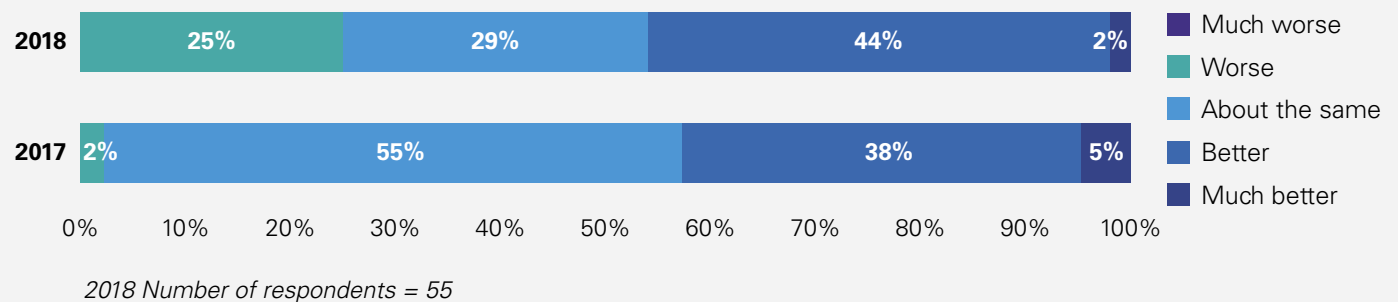
45 percent of respondents reported an average return on net assets (ROA) above 6 percent for the last 3 years, while 20 percent of respondents reported negative ROA.

I expect our turnover next year will:



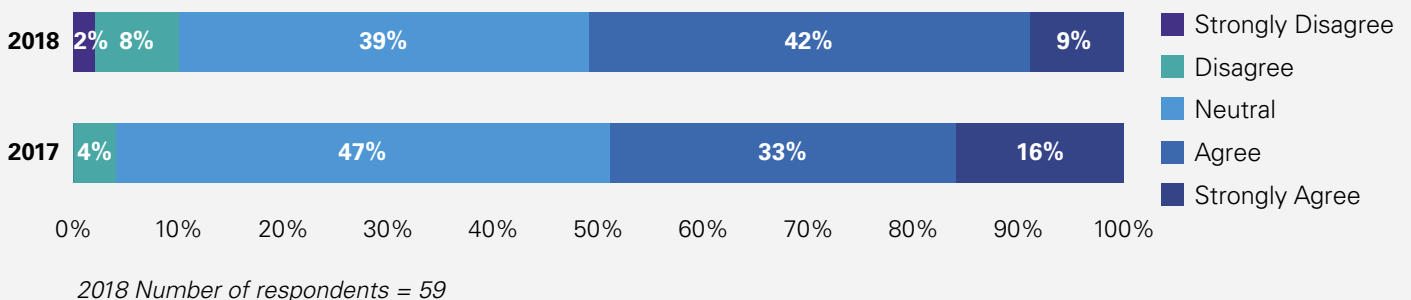
51 percent of respondents think their turnover will grow in 2018 and 32 percent think their turnover will decline.

I expect that our profitability next year will be:



46 percent predict their profitability will grow in 2018, while 25 percent expect profitability to decline.

I am very optimistic about our business prospects in Australia for the next year.



50 percent of respondents in 2018 are optimistic about business prospects in Australia over the next year, compared with 49 percent in 2017.

Final word

These results confirm that in 2018, Australia felt the pinch of a significant reduction in new Chinese investment, reflecting the impact of policy changes in China affecting overseas investment. Australia was not alone and our experience mirrored trends in Europe and North America. In the United States, for example, Chinese direct investment last year dropped to a degree that makes the decline in Australia look modest.

Looking forward, it seems Australia's investment links with China may be increasingly affected by global, rather than purely bilateral dynamics. At the same time, the recent decline in Chinese investment in Australia provides an opportunity to reflect on the role that future Chinese investment should play in Australia's long-term domestic economy and our economic integration into the Asian region.

This should be done with clear focus on the new opportunities for foreign investment which are expected to continue to open up in the China market, including with the implementation of the new Foreign Investment Law and related rules and regulations.

Whilst Chinese investors confirm they remain positive about many aspects of the Australian market and its prospects compared with many other countries, there is an increasing concern around transparency of regulations, high costs and their continued perception of being unwelcome as reflected by negative Australian media coverage.

It is against this backdrop that Australian companies seeking further investment must continue to explore and present unique opportunities that appeal to the key value drivers of targeted Chinese investors if Australia is to remain a leading destination for Chinese investment.

The Australia healthcare industry is a great example of this, defying the overall trend in Chinese investment in 2018 to generate significant annual growth.

The healthcare sector leveraged the most attractive aspects of Australia's leading consumer brands on Chinese e-commerce platforms. They utilised our leading research, highly skilled workforce, respected safety and technical manufacturing and also services, standards. These qualities were matched with the emerging and large-scale needs of the Chinese domestic consumer markets and Chinese companies with the ability to get their approvals, raise investment capital and complete transactions.

This has enabled the healthcare sector to eclipse the mining and real estate sectors in 2018 and demonstrates a formula for attracting Chinese investment in times of tighter Chinese capital controls.

The case study on lithium mining in this report shows how Chinese investment can augment Australia's traditional strengths in the mining sector by adding new processing facilities that will create substantial economic and employment benefits for Australia. Central to this operation is a successful US-China joint venture that integrates Australia deeply into the global lithium supply and value chains.

There is still a long journey ahead for other Australian industries that have the potential to receive much greater sums of Chinese investment and sector participation. Investment in food and agriculture is a key example. Australian brands in this sector continue to enjoy a green, safe and premium image with Chinese customers, including in e-commerce channels. After some controversial investments in agricultural land a few years ago, there has been a noticeable pause but we are beginning to see a consolidation of investment in processing and value-adding facilities such as regional abattoirs that provide local employment as well as potentially new export markets for local farming communities through successful, large scale deals.

Chinese investors should continue to look for ways to communicate, engage and integrate their senior executives into the Australian market.



Meanwhile, Australian governments, corporations and professional advisers must continue to assist Chinese executives to better understand community attitudes around corporate social responsibility standards and ways to better integrate their company's operations and brands in local economies and communities.

The Australian media will continue to freely report and provide opinions, so Chinese companies need to adapt to this reality and look for effective ways of telling their stories and perspectives.

Australia is already perceived by most of our survey respondents to be safer and more attractive as a destination for their investment relative to many other countries. To build upon this reputation, we also need to be aware of the very real impact that poorly received, politically motivated public discourse and unbalanced media coverage can have on the future level of Chinese capital entering Australia.

2018 need not define a trend of lower Chinese investment in Australia into the future, but it is a period to reflect upon. There are a great many opportunities for Chinese companies to contribute towards the development and internationalisation of Australian industries and supply chains in the coming years and there is much that can be done to improve the perception of the Australian market to Chinese investors and vice versa.

With further perseverance across industries and all levels of government, there is no reason why Australia can't return to the high levels of Chinese capital inflow seen historically between 2011 and 2017.

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