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Editor
Mark Zerdin

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PREFACE

Despite a slight decrease in overall activity compared with 2016, 2017 was a strong year for global M&A activity as, for the fourth consecutive year, global deal-making activity exceeded US$3 trillion with announced transaction volumes reaching US$3.7 trillion. Even though 2017 did not replicate the record-breaking number of mega-deals in 2015 nor the high volume seen in 2016, market participants in a number of sectors took advantage of continued access to cheap capital globally to engage in M&A activity.

The United States remained the most active region, although aggregate deal value decreased by 16 per cent year on year. However, deal volume surged with a record 12,400 individual deals, largely due to an increase in transactions with a value of less than US$1 billion. The relative decline in mega-deals in 2017 is largely attributable to continued regulatory uncertainty, particularly in the United States, where President Donald Trump's electoral rhetoric on antitrust has led to an increase in scrutiny for M&A deals. In Europe, however, continuing uncertainty arising out of the stuttering progress in the Brexit negotiations and a number of significant elections within the European Union did little to halt the momentum of the M&A market as aggregate deal value in Europe increased by 12.1 per cent in 2017 to reach a post-financial crisis high of more than €830 billion. Notably, the industrials and chemicals M&A sector flourished, with record high aggregate deal value and deal volume. Chinese outbound M&A was limited during 2017 by both a new capital-controls regime and increased scrutiny from the US and European governments.

On the back of tax reform in the United States and encouraging economic growth in Europe, the first quarter of 2018 has displayed record-breaking deal-making activity. However, global political uncertainty presents a threat to global M&A in 2018. Although there were positive signs from the European M&A market in 2017 and Europe registered the largest year-on-year increase in deal volume in the first quarter of 2018, the rise of anti-EU populist parties threatens to derail the buoyant global M&A market. Notably, the election of an anti-EU populist government in Italy, formed from a coalition of the Five Star Movement and the League, threatens to unnerve foreign investors and increase uncertainty about the integrity of the eurozone.

In addition, President Trump's imposition of tariffs and protectionist instincts have raised concerns about the possibility of a global trade war. It is hoped that a resolution to Brexit-related uncertainty and a settling of trade worries will foster an environment in which markets can thrive. All that being said, markets have shown during the past two years that despite an ever-evolving geopolitical landscape, there are numerous opportunities for those market participants who are keen to pursue them.

I would like to thank the contributors for their support in producing the 12th edition of *The Mergers & Acquisitions Review*. I hope the commentary in the following 50 chapters will provide a richer understanding of the shape of the global markets, and the challenges and opportunities facing market participants.

Mark Zerdin
Slaughter and May, London
July 2018

Chapter 21

HONG KONG

Jason Webber[1]

I OVERVIEW OF M&A ACTIVITY[2]

Compared to 2016, M&A activity in Hong Kong in 2017 increased significantly in terms of total deal value and remained at a similar level in terms of the total number of deals. There was a 169.2 per cent increase in the value of M&A deals announced in 2017 compared to 2016, with a total of 878 announced deals and a total disclosed value of US$113.63 billion in 2017 compared with a total of 823 announced deals and a total disclosed value of US$42.21 billion in 2016. Similarly, there were 488 M&A deals completed in 2017, with a total disclosed value of US$69.49 billion, an increase of 86.9 per cent compared with the 485 M&A deals completed in 2016, with a total disclosed value of US$37.18 billion.[3]

The Hong Kong securities markets showed a significant increase in terms of market capitalisation and in terms of trading activity in 2017. The total market capitalisation at the end of 2017 was HK$33.9988 trillion, 37.3 per cent higher than the year-end total in 2016. Total securities market turnover in 2017 was HK$21,709.2 billion, an increase of 32.4 per cent compared with 2016. A total of 174 companies were newly listed on the Stock Exchange of Hong Kong Limited (SEHK) in 2017, and the total amount of equity funds raised on the SEHK in 2017 was approximately HK$581.39 billion.[4]

II GENERAL INTRODUCTION TO THE LEGAL FRAMEWORK FOR M&A

The law governing mergers and acquisitions comprises primary legislation, regulatory rules, the law of contract and case law.

The primary legislation that applies principally to Hong Kong-incorporated companies in general is the Companies Ordinance (CO) and includes provisions relating to financial assistance for the acquisition of a company's own shares, merger relief, transfers of shares and schemes of arrangement affecting mergers. The Securities and Futures Ordinance (SFO) is also relevant, covering the regulation of offers of securities, and the communication of invitations and inducements to engage in securities transactions.

1 Jason Webber is a partner at Slaughter and May. The author would like to thank Nicola Lui and Moonar Tsoi for their assistance in preparing this chapter.

2 Statistics on mergers and acquisitions involving Hong Kong companies differ significantly among various sources. This summary covers all M&A activity in which Hong Kong was the target region between 1 January 2017 and 31 December 2017.

3 Source: Thomson Reuters.

4 Source: SEHK Fact Book 2017.

For companies in certain industries, there is also specific legislation that may be relevant, for example:

a the Banking Ordinance for banking, restricted licence banking and deposit-taking companies;
b the SFO for securities, financial advisory and asset management companies;
c the Broadcasting Ordinance (BO) and the Telecommunications Ordinance (TO) for radio, television broadcasting and telecommunications companies; and
d the Insurance Companies Ordinance for insurance companies.

Prior approval of ownership changes from the relevant regulatory bodies may be required under the legislation listed above.

If an M&A transaction involves a company whose shares are listed on the SEHK, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules) will also apply. In addition, the Securities and Futures Commission (SFC), in consultation with the Takeovers and Mergers Panel (the Panel) – a committee formed by the SFC pursuant to the SFO – has issued the Code on Takeovers and Mergers and Share Buy-backs (the Takeovers Code), which applies to takeovers, mergers and share buy-backs affecting public companies[5] in Hong Kong and companies with a primary listing of their equity securities in Hong Kong. The Takeovers Code is not statutory and does not have the force of law, but the Listing Rules expressly require compliance with the Takeovers Code. As a non-governmental statutory body, the SFC regulates the securities and futures markets in Hong Kong and oversees the development of these markets. Its decisions apply to M&A of public companies.

Since Hong Kong is a common law jurisdiction,[6] the law of contract (which is largely derived from English law) and case law[7] also form an important part of the legislation governing M&A.

III DEVELOPMENTS IN CORPORATE AND TAKEOVER LAW AND THEIR IMPACT

i The Takeovers Code

To ensure that the Takeovers Code takes account of market developments and developing international practice, it is kept under regular review by the Executive of the SFC, in consultation with the Panel. On 19 January 2018, the SFC published a consultation paper on

5 The Takeovers Code states that all circumstances are to be considered, and an economic or commercial test is to be applied (taking into account primarily the number of Hong Kong shareholders and the extent of share trading in Hong Kong), in deciding whether a company is a 'public company'. For the purposes of the CO, a private company is a company incorporated in Hong Kong that, by its articles of association, restricts the right to transfer its shares; limits the number of its members to 50, not including persons who are in the employment of the company and persons who, having been formerly in the employment of the company, were, while in that employment, and have continued after the termination of that employment to be, members of the company; and prohibits any invitation to the public to subscribe for any shares or debentures of the company (Section 11 of the CO).

6 Under the 'one country, two systems' approach, implemented after the transfer of sovereignty over Hong Kong to the People's Republic of China (China) on 1 July 1997, Hong Kong remains a common law jurisdiction.

7 English case law has persuasive authority only and is subject to interpretation by the Hong Kong courts.

certain proposed amendments to the Takeovers Code,[8] one of which is an upwards revision of the voting approval threshold for whitewash waivers from a simple majority of independent votes to 75 per cent.

ii Listing Rules

The Listing Rules reflect currently acceptable standards in the marketplace and are designed to ensure that investors have, and can maintain, confidence in the market. To ensure that the Listing Rules take account of market developments and developing international practice, the SEHK regularly reviews the Listing Rules and may, subject to the approval of the SFC under Section 24 of the SFO, make amendments to the Listing Rules. On 24 April 2018, the SHEK announced that three new chapters will be added to the Listing Rules, and other consequential amendments to the Listing Rules will be made to:

a permit listings of biotech issuers that do not meet the financial eligibility tests under the Listing Rules;

b permit listings of companies with weighted voting right structures; and

c establish a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong.[9]

Certain investor safeguards and additional disclosure requirements have also been proposed as the SHEK recognises the potential risks associated with pre-revenue companies and those with weighted voting right structures. The amendments to the Listing Rules came into effect on 30 April 2018. These amendments are expected to result in a strong IPO pipeline and a corresponding increase in pre-IPO investment activity.

iii The CO

The CO came into effect on 3 March 2014. Various key concepts under the CO that are relevant in the context of M&A are as follows:

a the requirements for approving a scheme of arrangement differ depending on the type of scheme. For privatisation schemes and members' schemes involving a takeover offer or a general offer, the 'disinterested shares test' (which requires 'not more than 10 per cent of the total voting rights attached to all disinterested shares [to be] voted against the proposal') applies so as to align with the requirement under the Takeovers Code in the context of a takeover. The headcount test (which requires that a majority of the shareholders of the 'target' company voting on a scheme of arrangement (either in person or by proxy) must vote in favour of it) applies to creditors' schemes and members' schemes not involving a takeover offer or a general offer, and in these situations, the court is given discretion to dispense with the test in appropriate circumstances;

8 Source: Consultation Paper on proposed amendments to the Codes on Takeovers and Mergers and Share Buybacks, SFC (https://www.sfc.hk/edistributionWeb/gateway/EN/consultation/openFile?refNo=18CP1).

9 Source: SEHK press release dated 24 April 2018 (https://www.hkex.com.hk/News/News-Release/2018/180424news?sc_lang=en).

b a company and its wholly owned subsidiaries may amalgamate and continue as one company without the sanction of the court, provided that certain conditions are met. Such conditions include, for example, that each amalgamating company is a Hong Kong incorporated company limited by shares, that each amalgamating company is solvent and that no creditor of an amalgamating company will be prejudiced by the amalgamation;

c there is a general prohibition on both private and public companies providing financial assistance for an acquisition of shares in itself, and streamlined 'whitewash' procedures are extended to listed companies. In addition, it is expressly provided that a company is not prohibited from giving financial assistance for the purpose of an acquisition of shares in its holding company if the holding company is incorporated outside Hong Kong; and

d companies now enjoy more flexibility in structuring and organising their share capital in light of the updating of certain concepts relating to share capital (par value (or nominal value), share premium and the requirement for authorised capital have been abolished). Despite the absence of share premium, merger relief continues to be available. The amount required to be recorded as share capital in respect of the consideration shares issued by an acquiring company is the subscribed capital attributable to the acquired shares.

Significant controllers register

From 1 March 2018, all Hong Kong incorporated companies (except those listed in Hong Kong) are required to create and maintain a register of significant controllers pursuant to Part 12 of the CO. A company's 'significant controllers' are, in broad terms, natural persons, and corporate entities immediately above the company in the ownership chain, with significant control over the company. The new regime reflects the government's commitment to combat money laundering and terrorist financing by enhancing the transparency of company ownership and control.

On 6 April 2018, the government published the Companies (Amendment) Bill 2018, which seeks to amend certain provisions of the CO to improve its clarity and operation and to further facilitate business in Hong Kong. The Companies (Amendment) Bill 2018 will be presented to the Legislative Council for debate, and its content may be further amended in the process before it is enacted as an ordinance.

IV FOREIGN INVOLVEMENT IN M&A TRANSACTIONS

Given Hong Kong's position as a hub for investment into China, its status as a major regional financial centre, and the widespread use of offshore companies for investment into and out of China, a substantial number of transactions have foreign involvement, including in the form of acquisitions by offshore companies. An analysis by reference to foreign involvement in transactions is therefore not particularly meaningful.

V SIGNIFICANT TRANSACTIONS, KEY TRENDS AND HOT INDUSTRIES

A key trend observed in 2017 was the increased use of consortium structures involving both private equity and strategic investors to undertake acquisitions as a means to share risk and create value through synergies, examples of which include the COSCO Shipping Holdings Co, Ltd acquisition described below, and the privatisation of Belle International Holdings

Limited by a consortium led by HillHouse Capital Group and CDH Investments in July 2017. Another trend was increased investment in the fintech sector. As a result of regulatory and government support for fintech development in Hong Kong and corresponding efforts to position Hong Kong as a leading fintech hub, there were numerous notable transactions in the fintech sector in 2017, including the MassMutual Asia Limited acquisition described below.

The most active sectors for M&A activity in Hong Kong in 2017 included real estate, financial services and consumer. It is expected that interest in these sectors will continue in 2018, together with increased interest in the telecom and technology, and the energy and infrastructure sectors as a result of support for fintech development and the opportunities available under China's One Belt, One Road initiative.

There were numerous high-profile M&A transactions in 2017. In July 2017, a consortium formed by COSCO Shipping Holdings Co, Ltd, a Hong Kong and Shanghai listed company engaged in container shipping and related businesses, and Shanghai International Port (Group) Co, Ltd, a Chinese state-controlled port operator, made a voluntary pre-conditional cash offer to acquire all of the issued share capital of Orient Overseas (International) Ltd for approximately US$6.3 billion. Orient Overseas is a Hong Kong-listed company engaged in container transport and logistics services. It is expected that after completion, the combined entity will become the third-largest container liner globally, and that the acquisition will help strengthen the position of COSCO Shipping Holdings Co, Ltd in the global container shipping industry by creating synergies and enhancing operational efficiencies.

In August 2017, Yunfeng Financial Group Limited, a Hong Kong-listed company with a fintech focus that is principally engaged in the provision of financial services, and other investors agreed to acquire all of the issued share capital of MassMutual Asia Limited, an insurance company in Hong Kong that offers a broad spectrum of insurance and wealth management products, from MassMutual International LLC for an aggregate consideration of HK$13 billion. It is expected that the acquisition will broaden Yunfeng Financial Group Limited's product portfolio, significantly contribute to the development of its financial services ecosystem and widen its customer reach. In connection with the acquisition, Yunfeng Financial Group and MassMutual also entered into a strategic cooperation agreement to explore future business opportunities.

As a significant number of companies whose shares are listed on the SEHK have controlling shareholders, there is not a large number of unsolicited M&A offers.

VI FINANCING OF M&A: MAIN SOURCES AND DEVELOPMENTS

In common with many other jurisdictions, Hong Kong's Takeovers Code requires an offeror to have certainty of funds to make an offer for a public company. Under the Takeovers Code, in an announcement of a firm intention to make an offer, that announcement should include a confirmation by a financial adviser (or another appropriate third party) that resources are available to the offeror sufficient to satisfy full acceptance of the offer (a sufficiency statement). Such confirmation is not only required when the consideration is cash, or includes an element of cash, but is also required when the consideration consists of, or includes, any other assets except new securities to be issued by the offeror. The executive may also require evidence to support the sufficiency statement, and evidence that the offeror has sufficient resources to complete the purchase of shares that gives rise to the offer obligation.

Depending on how the acquisition is structured, M&A transactions in Hong Kong are usually financed by:

a internal resources;
b shareholders' loans;
c equity issues;
d debt issues;
e loan facilities from banks and financial institutions; or
f a combination of two or more of the above.

VII PENSIONS AND EMPLOYMENT LAW

Under Hong Kong law, there is no specific regulation that provides for the transfer of employment contracts when there is a change of ownership of a business, as opposed to an employing company. Employment contracts would therefore be terminated in the case of an acquisition of a business, and the new employer would have the freedom to decide whether to enter into new employment contracts with existing employees. However, generally speaking, where termination of an employment contract takes place due to a transfer of business, this would constitute redundancy, and employees previously employed may be entitled to severance payments and long-service awards, for which the old employer would be liable. However, under Sections 31J and 31C of the Employment Ordinance (EO), severance payments and long-service awards are not payable in the case of a business transfer if, not less than seven days before the end date of an employee's previous contract, the new employer has offered to renew that employee's contract, or to re-engage him or her under a new contract, on no less favourable terms and conditions, and the employee has unreasonably refused that offer. If an offer of renewal or re-engagement is accepted by the employee, the new contract has effect as if the renewal or re-engagement had been a renewal or re-engagement by the old employer without any substitution of the new employer;[10] therefore, the employment relationship will be regarded as being 'continuous' for the purposes of the EO.[11] Any redundancy issues that may arise in future disposals of the business would therefore be passed to the new employer after the renewal or re-engagement.

Generally speaking, under the Mandatory Provident Funds Schemes Ordinance (MPFO), an employer[12] must enrol its employees as members of one of the registered MPF schemes (as defined in the MPFO) available in the market in Hong Kong. An employer may enrol different employees in different registered schemes. During the contribution period (as defined in the MPFO), the employer must contribute to the registered scheme from its own funds an amount determined in accordance with the MPFO, and deduct from the employee's relevant income for that period as a contribution by the employee to the scheme a further amount determined in accordance with the MPFO. Employees and employers may make additional voluntary contributions to the employee's scheme.

Where there is a proposed disposal of a business, the existing employer and the proposed new employer should consider the implications of the MPFO and arrangements to deal with the accrued benefits of employees under the applicable MPF scheme. If a merger or

10 Section 31J of the EO.
11 Subsection 3 of Section 31J of the EO and Paragraph 5 of Schedule 1 of the EO.
12 Under the MPFO, an 'employer' means any person who has entered into a contract of employment to employ another person as his or her employee.

acquisition is to be effected by way of a share sale, it is not likely that there will be any MPF implications (unless the relevant target company is spun out from a group of companies that operates a group-based scheme), as the merger or acquisition will not involve a change of employer. The surviving party or acquirer would nevertheless be well advised to carry out due diligence to ensure that all target employees are employed by the target company on terms that comply with the MPFO.

However, if the merger or acquisition is to be effected by way of a business transfer involving a change of employer, the employee must, in accordance with Section 14 of the MPFO, elect to transfer the accrued benefits to a contribution account[13] under the new employer's MPF scheme; retain the accrued benefits in the previous MPF scheme under a preserved account;[14] or transfer the accrued benefits to a preserved account of another MPF scheme.

Both the seller and the buyer must observe and comply with the requirements of the MPFO with respect to the transfer of the accrued benefits of employees.

On 1 May 2011, the Minimum Wage Ordinance came into effect in Hong Kong and introduced a statutory minimum wage.

VIII TAX LAW

Hong Kong's competitive economy is reflected in the transparency, predictability and simplicity of its low-rate tax system. These attractive qualities mean that, unlike many other jurisdictions, Hong Kong tax is generally not the determining factor in the way in which a transaction is structured in Hong Kong. There is no capital gains tax on the disposal of assets, including the disposal of shares and property. In addition, dividends are not classified as taxable income, and there is no withholding tax on dividends.

Stamp duty on the transfer of Hong Kong shares is currently 0.2 per cent of the consideration paid (or market value), and is generally payable in equal shares of 0.1 per cent by both the seller and the buyer. Transactions that are structured as schemes of arrangement do not attract stamp duty. With effect from 23 February 2013, stamp duty on the transfer of immovable property in Hong Kong ranges from 1.5 per cent (for transactions up to HK$2 million) to 8.5 per cent of the amount or value of the consideration (for transactions over HK$21,739,130) and is usually paid by the purchaser. The Stamp Duty Ordinance is the principal source of legislation governing this area.

The Inland Revenue Ordinance sets out three separate and distinct taxes on income: profits tax, salaries tax and property tax. Liability to tax under these three heads, as a general rule, is limited to persons or entities carrying on a trade, profession or business in Hong Kong, and to income that 'arises in or is derived from' Hong Kong. To this extent, the residence status of persons and companies is irrelevant to income tax assessment. Previously, the profits tax rate in Hong Kong was 16.5 per cent for corporations and 15 per cent for unincorporated businesses. For the year of assessment from 2018–2019 onwards, a two-tiered profits tax rate will apply, which aims to benefit small and medium-sized enterprises. Corporations will be taxed at 8.25 per cent on assessable profits up to HK$2 million and 16.5 per cent on any

13 A contribution account is an account mainly used to accumulate MPF contributions in respect of current employment and investment returns.

14 A preserved account is an account in which accrued MPF benefits in respect of former employment are held.

part of assessable profits over HK$2 million, whereas unincorporated businesses will be taxed at 7.5 per cent on assessable profits up to HK$2 million and 15 per cent on any part of assessable profits over HK$2 million.[15]

In respect of loan repayments, as a general rule a borrower's interest expenses will be deductible where the lender is subject to Hong Kong profits tax on its receipt of the interest. In addition, where a financial institution (whether onshore or offshore) makes a genuine loan, interest expenses will generally be deductible.

IX COMPETITION LAW

The Competition Ordinance, Hong Kong's first cross-sector competition law, came into full effect on 14 December 2015. Previously, only the broadcasting and telecommunications industries were subject to competition law, as provided for in specific provisions of the BO and the TO (now largely repealed). The former TO provided a regulatory framework for the Communications Authority to consent to certain M&A involving carrier licensees in the telecommunications industry.

The Competition Ordinance retains a merger control regime in Hong Kong for the telecommunications industry known as the 'Merger Rule'. Like the regime under the TO, the Merger Rule applies only to mergers involving carrier licensees, and the Communications Authority has concurrent jurisdiction with the Competition Commission in relation to the Merger Rule. However, unlike the merger regime under the TO, the Competition Ordinance does not specify thresholds upon which regulatory consent is triggered. Instead, the Merger Rule refers to the acquisition of 'control', which could apply even if the acquisition involves a minority interest not exceeding 30 per cent. A merger could be prohibited if it has or is likely to have the effect of substantially lessening competition in Hong Kong. It is worth noting that notification of mergers is voluntary rather than mandatory, but in practice the Communications Authority is consulted in most (if not all) cases, even when no competition concerns are expected.

Since the entry into force of the Competition Ordinance, the Communications Authority has reviewed three transactions under the Merger Rule to date. In each of these cases, the Communications Authority decided not to commence an investigation on the basis that each transaction was unlikely to have the effect of substantially lessening competition in Hong Kong. The first such decision under the Competition Ordinance, announced by the Communications Authority on 31 March 2016, was in respect of the indirect acquisition of New World Telecommunications Limited,[16] a carrier licensee under the TO, by HKBN Ltd, the holding company of Hong Kong Broadband Network Limited, another carrier licensee under the TO.[17] The second decision, announced on 10 November 2016, was in respect of the HK$9.5 billion acquisition[18] by Green Energy Cayman Corp[19] of the entire equity

15 Source: Profits Tax homepage, HKSAR Inland Revenue Department website (https://www.ird.gov.hk/eng/tax/bus_pft.htm).

16 New World Telecommunications Limited is indirectly owned by Concord Ideas Ltd.

17 Source: Communications Authority press release, 31 March 2016 (https://www.comsauth.hk/en/media_focus/press_releases/index_id_1195.html).

18 Source: www.wharftt.com/en/about_us_press_release_2016_20161110.html.

19 Green Energy Cayman Corp is indirectly owned by MBK Partners and TPG Capital.

interests of Wharf T&T Limited, a carrier licensee under the TO.[20] Most recently, on 3 October 2017, the Communications Authority announced it had decided not to commence an investigation under the Competition Ordinance in respect of the acquisition by Asia Cube Global Communications Limited[21] of the entire equity interests of Hutchison Global Communications Investment Holding Limited, which wholly owns Hutchison Global Communications Limited, a carrier licensee under the TO.[22]

In the run-up to the drafting and passing of the Competition Ordinance, which, on the whole, was supported by the public, there was some debate about whether there is a need for merger control in Hong Kong to govern general M&A activity (outside the telecommunications sector). The Public Consultation Paper on Detailed Proposals for Competition Law in 2008 showed a softening of the government's stance on this issue, from 'we do not need a merger control regime' to inviting views on three possible options regarding such a regime. The recommendation of the Commerce and Economic Development Bureau of Hong Kong (CED Bureau) was that merger activities are not to be regulated except in the telecommunications sector, which is already subject to such regulation under the former TO. The CED Bureau stated that this proposal would give the Competition Commission more time to focus on its initial work of implementing the proposed Competition Ordinance, and would allow for a more effective assessment of whether merger control provisions would be desirable in other (or all) sectors in the future once the Competition Commission has accumulated some experience in the operation of the competition regime. This was the position ultimately adopted in the Competition Ordinance. It has been suggested that the Competition Commission would seek to introduce a fully fledged merger control regime within 'two to three years' of the Competition Ordinance taking full effect.

X OUTLOOK

The government has forecast that Hong Kong's GDP is likely to grow by 3 to 4 per cent in 2018.[23] Hong Kong's economic performance in 2018 will be influenced by developments in external demand, the performance of the global economy and political developments in major advanced economies.

Overall, deal appetite in Hong Kong is high and the M&A markets remained busy in the first quarter of 2018. During that period, the value of completed M&A transactions increased by 40.1 per cent compared to the first quarter of 2017.[24]

While there was a notable decline in outbound investment from China in the first half of 2017 due to increased regulatory oversight in China of outbound transactions and tightened capital outflow controls, there has been recent policy clarification on outbound investment, and increased regulatory certainty in the form of outbound investment guidelines issued in

20 Source: Communications Authority press release, 10 November 2016 (https://www.comsauth.hk/en/media_focus/press_releases/index_id_1328.html).

21 Asia Cube Global Communications Limited is wholly owned by a fund managed by I Squared Capital, a private investment firm.

22 Source: Communications Authority press release, 3 October 2017 (https://www.comsauth.hk/en/media_focus/press_releases/index_id_1530.html).

23 Source: 2017 Economic Background and 2018 Prospects, Financial Secretary's Office Government of the HKSAR (https://www.statistics.gov.hk/pub/B6XX00042018AN18E0100.pdf).

24 Source: Thomson Reuters.

August 2017 and streamlined administrative procedures introduced in December 2017 by the relevant authorities in China. These developments are expected to facilitate an increase in deal flow and enable China outbound M&A to regain momentum.

It is also expected that there will be increased participation by Hong Kong companies in One Belt, One Road initiatives in 2018, facilitated by efforts of the government and the Trade Development Council of Hong Kong. In December 2017, the government and the National Development and Reform Commission of China entered into an arrangement for advancing Hong Kong's full participation in and contribution to the One Belt, One Road initiative, which will serve as a blueprint for Hong Kong's continued participation and specifically focus on six key areas, including finance and investment, and economic and trade facilitation.

The global economy enjoyed a broad upturn in 2017, which has continued into 2018, and the overall outlook of the M&A market in Hong Kong for 2018 is optimistic. Nonetheless, there are several material variables that could impact on deal appetite in Hong Kong in 2018, including the economic development of China, the possible rise of trade conflicts, geopolitical tensions and other uncertainties relating to the global monetary environment.

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