

IS IT A ONE-TIME-IN-100-YEARS CHANCE FOR CHINA'S INVESTORS TO ACQUIRE MORE OVERSEA SHARES UNDER THE US SUBPRIME CRISIS?

PKF Hong Kong

Hong Kong, November 13, 2008 - It is very hard to foresee the bottom line of economic downturn. Indeed, no one knows how many potential risks will be further displayed. But one thing absolutely clear is that the global financial crisis is happening. It has its implications in terms of the global IPO activities, which have fallen to its lowest level since 2003. Furthermore, it also has its implications in term of the capital flow cycle, especially in small and medium-sized enterprises (SMEs).

“ Besides IPO, the ‘once in a century’ crisis in Wall Street is a good opportunity for Chinese enterprises to invest in overseas and buy in at bargain prices.

Mr. Wilson Tan
Partner

In fact, the China government and HKSAR government have pledged to do more to help SMEs overcome the difficulties in the crisis to avoid widespread laid-offs and bankruptcies among SMEs.

With the deepening of financial crisis in the West, it is no secret that the US Federal Reserve has been encouraging China to invest in US banks in order to alleviate the risk of the financial meltdown that looms over the banking system.

Statistics show that China's merger and acquisition deals during the first quarter of 2008 totaled a record high \$43.1 billion which occupied 6.52% in the Global M&A deals, of which \$28.5 billion were cross-country M&A, more than four times the amount reached at the same time last year. China is now, not only the world's fastest developing economy, but also its largest capital exporter.

Seize the Opportunity for M&A

Everything now has become possible, the price may reduce further during the next few months. It's rare to buy these assets at knock down prices

Actually, there are plenty of benefits for Chinese enterprises who invest in foreign

companies, such as the ability to follow customers overseas, extend service offerings, import skills into China, diversify risks, increase scales and lower costs. Moreover, China's large foreign currency reserves, the RMB's appreciation against the USD, and the growing number of distressed assets in the market, all of the above show that it is a one-time-in-100-years chance for China's investors.

In late February 2006, China surpassed Japan to become the world's largest holder of foreign exchange reserves. According to The China Post reported, China's foreign exchange reserves rose to US\$1.76 trillion at the end of April 2008, reaching a level higher than the rest of Northeast Asia's combined.

With the investment inflows, the economic conditions are much better in China than other Asian countries. Chinese currency, Yuan or Renminbi (RMB) has risen more than 5.5% against the US dollar so far this year.

Historically, Japanese businesses have had great successes in M&A when their own currencies were appreciating, making overseas assets relatively cheaper. However, there still are as many negative ramifications as there are positive ones as most of Chinese exporters use the US dollar when they selling their products overseas. A stronger RMB will cut down these companies' profits.

“ *A stronger Yuen is making the foreign companies become cheaper in valuation compared to domestic companies. It may easy for Chinese investors to get bargain price for acquisition.* ”

Mr. Alfred Chung
Senior Audit Manager

Crisis As Well As Opportunity

Cross-border acquisition will help Chinese enterprises walk out of the domestic door. Shortage of resources and core technology became the main reason for overseas investment in recent years. Under such circumstances, the subprime crisis has caused a liquidity crunch in the US financial markets, plunging many famous enterprises into temporary distress. Mr Alfred Chung believes that Chinese enterprises should actively expand the scale of their overseas investment, in short, new opportunities are starting to emerge within the years to come.

“ *Crisis came, so did opportunities. Purchase shell corporations’ tends to be a much more realistic option for Chinese SME, which is relatively quick and inexpensive under the current circumstances.*

Mr. Derek Wan
Partner

Although successful acquisition of these overseas enterprises with famous brands, powerful international marketing networks, and strong research and development abilities may go a long ways to raise the international competitiveness of Chinese enterprises, is not simply a good chance for overseas M&A. Chinese enterprises must also consider further, such as the market rules, transaction rules and transaction value and risks, as well as whether or not the acquired asset will help the overall company’s business plan and developing goals.

Confucius, famous sayings and biography of the Chinese philosopher said, “A workman must first sharpen his tools before he is to do his work well”, indeed, a good tools are prerequisite to the successful execution of a job. Although the downsizing of Wall Street is a good opportunity for Chinese enterprises, for Chinese enterprises, it is still a green hand in overseas M&A, especially in strategy plan, research, and post-acquisitions integration etc.

There is no garden without its weeds – consider more when determining your plan under this circumstances of market-based economy. Keep your eye on the long-term profits and always be cautious when it is time to be bargain hunting. Clearly it's bargain-hunting time.

If you have any further questions, or have any suggestions, comments, inquiries, or proposals, feel free to contact us. Our professionals are here to support you in your business.

End