

Case analysis of Lenovo merging and acquiring IBM PC department

2012

Team Members:

叶子明 金融 2 09302006

王安琪 金融 2 09302006

陈妍羽 金融 2 09304030

Content

The case of Lenovo merging and acquiring IBM PC department.....	2~5
The critical successful factors that are the focus of the successful M&A activities.....	6~7
The summary of lessons learned which made the factors successful.....	7~9
What is the company should do next to improve its post- M&A initiatives.....	9~11
Chinese restrictions on foreign M&A activities in China and the rationale behind.....	11~14
The advantages and the disadvantages for the proposed M&A activities under the global financial crisis.....	15~20

Case Study

Lenovo Group Limited (SEHK: 0992) is a Chinese multinational computer hardware and electronics company with its operational headquarters in Morrisville, North Carolina, United States and its registered office in Hong Kong. Its products include personal computers, tablet computers, mobile phones, workstations, servers, electronic storage devices, IT management software and smart televisions.

Lenovo has operations in more than 60 countries and sells its products in around 160 countries. Lenovo was founded in Beijing in 1984 and incorporated in Hong Kong in 1988 under its previous name, Legend. Lenovo is listed on the Hong Kong Stock Exchange and is a constituent of the Hang Seng China-Affiliated Corporations Index.

In the 1980s, with market reforms in progress, the Chinese government hired Liu Chuanzhi to distribute imported computers. Liu founded Lenovo in 1984 with a group of ten engineers in Beijing with 200,000 yuan. Their first significant effort, an attempt to import televisions, failed. The group rebuilt itself within a year by conducting quality checks on computers for new buyers. Lenovo soon started developing a circuit board that would allow IBM-compatible personal computers to process Chinese characters. This product was Lenovo's first major success. In 1990, Lenovo started to manufacture and market computers using its own brand name.

In 1996, Lenovo's market share went up to the first place in China, and it launched its first PC. It developed rapidly since then and in 2000 it became a constituent of the Hang Seng China-Affiliated Corporations Index. However, its diversification strategy and the competition between the computer makers around the world push Lenovo into loss position.

In 2003, the three business lines—mobile phone, IT and the internet unit lost over hundred million Hong Kong dollar. Even in the line of the PC, the profitable unit of Lenovo, it was forced to compete with the DELL and HP. The fact that it is the global market it owned made DELL strong inspire Lenovo to focus on its comparative advantages operational area—the PC and turned to the internationalization strategies.

After nine years' development, Lenovo is the world's largest PC vendor by 2012 market share (takeover Hewlett-Packard) and markets the ThinkPad line of notebook computers and the ThinkCentre line of desktops.

Lenovo's success is attributed to its long-term focus on emerging markets and successful overseas M&As. Facing a low profit margin in the PC business and fierce competition from tablet PCs and smart phones, the company is embarking on plans to diversify its businesses.

The most famous M&A is the merging and acquisition of IBM's PC unit.

In fact, as early as in 2000, IBM had already expressed its willingness to sell their PC unit to Lenovo. Why would IBM sell its prestigious PC unit? According to the financial report submitted by the IBM in the year 2004, the PC division lost 397 million dollar in 2001, 171 million in 2002, 258 million in 2003, and 139 million in the first half of the 2004. For the consecutive years, IBM was in a lost position. The active pricing strategies of enterprises such as Dell, Hewlett-Packard (HP) had a serious impact on the sales of the IBM PC; For IBM, the PC unit is "tasteless". So that IBM is to leave unprofitable PC market, and put in more effort in the lucrative high-end servers, software and IT services business. But the acquisition price then is up to 4 billion US dollar, Lenovo is unable to pay that much. Besides, Lenovo played a dominant role in the China mainland market then, so it refused this proposal.

In May 2002, IBM's CEO Sam Palmisano visited Lenovo, the two sides to revisit the issues. Lenovo is then enthusiastic about the implementation of diversification strategy, but also aware of the importance of the internationalization, so it's possible for later further negotiations. From the end of 2003 to December 8, 2004, this merger lasted an entire year.

December 8, 2004, Lenovo officially announced the completion of the acquisition of IBM's global PC business. Lenovo's acquisition of IBM's personal computer division accelerated access to foreign markets while improving both its branding and technology. Lenovo paid \$1.25 billion for IBM's computer business, including \$650 million in cash, 600 million shares and an additional \$500 million of IBM's debt. This acquisition made Lenovo the third largest computer maker worldwide by volume then. After the acquisition, Lenovo will take over IBM's notebook and desktop

business and other related business worldwide, including its customers, distribution and marketing channels.

Speaking of the purchase of IBM's personal computer division Liu Chuanzhi said, "We benefited in three ways from the IBM acquisition. We got the ThinkPad brand, IBM's more advanced PC manufacturing technology and the company's international resources, such as its global sales channels and operation teams. These three elements have shored up our sales revenue in the past several years." What's more, Lenovo had the 5-year-right to use the brand of IBM. Acquisition agreement also point that the executive candidate: Stephen Ward (the senior manager of IBM) became the CEO and board directors of Lenovo group.

But after the M&A, Lenovo faced various serious problems, including the culture difference, the human resource, the difficulties in integration, the high salary cost, the supply chain issues, the financial distress. But Lenovo eventually solved the problems and survived.

1. To solve the problem of the big gap of the salaries between the employees of the Lenovo and the employees of the IBM PC Unit, Lenovo planed not to change the salary of the employees of IBM within 3 years and their stock options are transformed into the stock option of Lenovo. And in the three year time, Lenovo will adjust and establish a unified salary system.
2. To solve the difficulty of the integration of the brand, Lenovo require a five-year –time to create an independent famous brand. In the agreement between Lenovo and IBM, Lenovo can use the IBM brand in five years, and after that, Lenovo can only use "thinkpad" and "thinkcenter".
3. To solve the supply chain issues, by the end of 2005, Lenovo had invited William j. Amalio to became the CEO of the Lenovo Group, replace the former CEO, Stephen m. Ward. Amalio optimize and improve the international supply chain of Lenovo during his tenure. Lenovo launched the "reconstruction project of the supply chain" worldwide through improving the infrastructure of the IT as well as the efficiency of the supply chain.
4. The financial distress had negative influences on the progress of Lenovo. After the acquisition, the net profit of Lenovo drop significantly from 1092

million Hong Kong dollar in 2005 to 216.528 million Hong Kong dollar in 2006; the EPS also drop from 14.97 HK cents to 1.95 HK cents. The lost of revenue is attribute to the lost of the market share of the IBM PC unit. After hardworking, but in 2007, Lenovo has basically complete the pre-integration of the PC unit. And the financial indicators were all getting better. The profit of Lenovo increased to 1256.88 million Hong Kong dollars, and its EPS increase to 14.35 in 2007.

However, Lenovo was far from perfect. In 2008, Lenovo surrendered the worst financial report since its acquisition of the IBM PC unit. The profit is only 23.3 million dollar, a decrease of 78%, compared with the profit last year. At Feb, 5, 2009, Lenovo announced a loss of 97 million dollar; And at the same time, Lenovo found that it had lost the dominant market share in mainland China. It's really a tough time for Lenovo.

Lenovo made correct decision during this period of time. Liu's comeback must be the most correct one. Liu adjust the company's business strategy to maintain a good share of domestic sales and continue to expand overseas markets. Lenovo Group immediately reduced losses in 2010, achieved profitability and got a profit of 1,009 million Hong Kong dollar in fiscal year of 2010.

Lenovo eventually survived.

1. The critical successful factors that are the focus of the successful M&A activities

1.1 Synergistic Effect

The key of a successful M&A case is whether the mergers and the merged company can complement other advantages and make one plus one bigger than two. The merging of Lenovo and IBM's personal-computer department has great synergistic effect in many respects. Including, the synergy of businesses, the synergy of distribution channel, the synergy of the brand and management and the synergy of cost saving

1.2 Integrated the human resources and resolved the labor cost problem successfully

At first, there was tremendous difference between Lenovo's and IBM's human resources strategy. The major problem was the large wages gap between Lenovo and IBM, the wages of previous IBM's employees made up a great cost. In order to retain the previous IBM's employees and reduce the discontent of Lenovo's employees, Lenovo gave himself three years transitional period and formed a unified pay system within three years.

1.3 Resolved the difficulty of blending two brands

As many companies seek growth through the development of new products, co-branding strategy provides a way to develop new products. Lenovo planned to utilize the well-known IBM brand to explore the international market hence increase the revenue. However, combining two brands may cause brand meaning to transfer in ways that were never intended. Signing an agreement to retain the right to use the trademark of IBM for five years, Lenovo can use this buffer time to make the global users to recognize its name. In 2011, Lenovo overtook Acer and became the third largest PC supplier globally. We can see that Lenovo has gradually built its reputation in the international market.

1.4 Well-designed corporate management plan

After the acquisition, Lenovo experience a tough period, with serious financial problems as well as plunging stock price. Faced with these problems, Chuanzhi Liu designed an accurate plan with two steps to make Lenovo achieve success in the acquisition. Owing the accurate action, Lenovo achieved brilliant success in profit again in 2010 as it shows in the graph1.

	2009	2010
EPS (HK cents)	-19.97	10.37
Net income (million HKD)	-1765.83	1009.07
ROA (%)	-3.42	1.44
ROE (%)	-17.27	8.06

The profit index of Lenovo in 2009, 2010

2. The summary of lessons learned which made the factors successful.

2.1 Synergistic Effect

There are several synergistic effects in the case of Lenovo M&A IBM PC department. Complementing IBM's and Lenovo's advantages, Lenovo are able to increase its market share, the revenue and reduce the cost.

At the first place, the synergy of businesses. IBM has already penetrated the global large enterprises' market whereas Lenovo have the small enterprises' market and the consumers' market. Having merged IBM's PC department, Lenovo enlarges its business share thus increases the bottom line. At the second place, the synergy of distribution channel. Lenovo has an internationalization strategy that "Attracting-In" and "Walking-Out" while IBM which is an international mature large enterprise has tones of successful distribution channels around the world and the corresponding

sales teams and managing groups. By merging IBM's PC department, Lenovo is able to combine the domestic and international distribution channels and it gains the international market at a relatively cheaper cost. At the third place, the synergy of the brand and management. After merging, Lenovo processes IBM's THINK series brand and their patents, two R&D centers and retention of the previous IBM's top executives. Lenovo maintains the competitive advantages of IBM's PS department, the leading R&D as well as the product innovation capability. At the fourth place, the synergy of cost saving. Lenovo did not have competitive advantages regarding invention cycle time and the integration of the whole industry chain. After merging, Lenovo cut IBM's money-consuming outsourcing businesses, and then optimize its supply chain. As a result, save a great deal of cost.

2.2 Integrated the human resources and resolved the labor cost problem successfully

At first, there was tremendous difference between Lenovo's and IBM's human resources strategy. Lenovo paid attention in the internal training among talented people while IBM's training mechanism is more improved. Lenovo selects employees according to the degree of agreeing its corporate culture while IBM focuses on morality. The most practical problem seemed to be the labor cost problem. The total amount wages of IBM's employees was much greater than Lenovo's. IBM's employees enjoyed wages about seven times more than Lenovo's among the same level positions. Lenovo decided to remain the wage level of the previous IBM's executives within three years and also their IBM's stock options exchange to Lenovo's in the same amount. In three years, forming a unified pay system. In which case, Lenovo maintained the IBM previous technicians and the top executives which are definitely precious assets for Lenovo.

2.3 Resolved the difficulty of blending two brands

IBM's brand rank is powerful and stable, maintaining its brand at top three for 6 years (2001 to 2006) whereas Lenovo did not gain much global reputation before the merging. In order to retain the competitiveness of IBM's global PC business and resolve the problems of blending two brands, Lenovo and IBM made an agreement that Lenovo can use the trademark of IBM in five years, after five years, Lenovo can only use THINKPAD and THINKCENTER. Hence, the co-branding strategy for Lenovo to merge with IBM's PC department was successful which did not hurt IBM's

reputation and during the buffer time, Lenovo are able to increase its popularity worldwide with the brand of IBM, after five years, Lenovo has its own reputation.

2.4 Well-designed corporate management plan

Lenovo has made a critical management plan after M&A aimed to solve the financial distress. It include two steps.

STEP ONE: In order to stabilize overseas customers after the acquisition as well as to learn from advanced International management team, Lenovo chose two foreign managers as CEO in roll, Stephen Ward(the senior manager of IBM) and Amelio (the ex-vice CEO of DELL). During this period, the main task for the Chinese senior managers is learning, despite feeling upset. Stephen Wardstabilized the original employees of IBM and customers, which plays a key role in reducing the flow of employees and customers. Amelio constantly induced the efficiency management of DELL to Lenovo, cut unnecessary staff, and simplified the management structure. During that period, Lenovo achieved a high level of profit of more than 40 million dollars. Further, Chinese managers had gained a bulk of experience in multinational corporation management and stored a pool of the talent for furturedevelopment.

STEP TWO: Changed foreign CEOs that are short-sighted and lack courage to expand business and reemployed the responsible and active Chinese senior management team after 4 years. This step enacted the passion of original employees of Lenovo and released the inner power of Lenovo storing for 4 years.

3. What should the company do next to improve its post-M&A initiatives

3.1 Lenovo cannot survive after the M&A if it cannot provide valuable product, so it should focus on further research and development. Lenovo should adhere to its innovative corporate culture. Lenovo Group has established a R&D team which has three core research locations—China, The US and Japan. And the team is closely linked with the business department. Within Lenovo group, they called this huge system “global innovation triangle”

3.2 After the acquisition, Lenovo was faced with new challenge, that is, the culture conflict; the difference between the two countries may force the former employees of IBM to leave Lenovo. So that Lenovo should respect the autonomy of overseas R&D centers. Powers are returning to the engineers, and even the appearance of the new headquarters of Lenovo in the Raleigh, US, are designed by the senior director David and his American team, and it’s totally impossible under IBM’s rule. And this is a very good beginning.

3.3 Even though Lenovo has a global marketing channel after the acquisition of IBM PC unit, it needs a more proactive marketing team. The sales team of IBM just issued orders for Lenovo but never take active steps to find new customers. The acquisition of IBM PC leads to a loss of the customers such as the US government, so that the marketing team of Lenovo should improve its skills to find new customers.

3.4 Lenovo should deepening it’s internationalize achievements. Since Lenovo's success is attributed to its long-term focus on emerging markets and successful overseas M&As, it should run a good business of the corporations it merged.

3.5 Lenovo should position itself for the global market. Positioning is always the critical issue that the Chinese companies ignore, and it is the reason why Chinese company can hardly last long.

3.6 After the positioning, Lenovo should rationalize their pricing strategy. The value of the product is an important factor to concern; Lenovo can no longer make low-

price strategy to survive in the global market. Lenovo should rather concern about the demand of their target customers, and make valuable product for them.

3.7 Since China is concerning about the industrial upgrading, Lenovo should grasp this opportunity, and actively develop new smart phones, tablet PCs, smart TVs Internet terminal business to promote the association to achieve the leap from PC to PC +.

4. Chinese restrictions on foreign M&A activities in China and the rationale behind

China has made considerable advances in the last several years in developing a coherent regulatory framework for M&A transactions. These regulatory developments have broadened the scope of permissible acquisitions and highlight China's ongoing commitment to honoring its WTO undertakings. However, there are still regulations having a substantial and generally adverse impact on mergers and acquisitions by foreign companies targeting domestic companies in China. What are they are what lead them to exist?

4.1 Qualifications of acquiring firm

The foreign investor must be a listed or public company, have had a clean record for at least three years, and be domiciled and listed in jurisdictions with sound regulatory systems. The domestic company or its shareholders engage a consultant registered in China to conduct due diligence on the foreign company. An extensive filing by the foreign company, including security interests on its assets and a report on trading in its shares during the previous six months is also required.

The M&A regulations substantially restrict deal terms. They mandate required investor qualifications and identify the applicable approval process. The regulations restrict the permissible types of consideration and payment schedules, and impose valuation requirements that may impact on pricing. Many practices common in other jurisdictions are restricted in China. The regulations limit the parties' freedom of contract.

By complicating the process to be a qualified acquiring firm, the Chinese government firstly rules out most of the companies with acquiring intention and reduces the probability of Chinese companies to be acquired. Because the complicated approval procedure will make the acquiring firm miss the perfect time for acquiring. Also, the high approval cost will reduce the profitability to acquire Chinese domestic firms. From another perspective, these highly selective foreign companies possess advanced foreign technology and management experience, which will benefit the nation.

4.2 Decentralization of authority

Several government agencies play key roles in M&A transactions. A few agencies have broad authority over such transactions, while others handle specific elements of a transaction. The division of authority between the various agencies is not always clear, and turf battles between agencies are not uncommon. Local agencies may often have expansive views of their delegated authority that are not consistent with the applicable regulations. Dealing appropriately with the agencies is important for ensuring a successful transaction and obtaining local support for ongoing operations.

The decentralization of authority reduces the possibility of rent seeking by increasing the cost of transportation and communication. Further, the inconsistency between local and central agencies adds the difficulty for the transaction success. Someone may say this is a shortcoming of Chinese management structure, while Chinese government may entangle the structure in foreign acquisition department on purpose.

4.3 Classified approval

There are general rules depending on the particular nature of the target, including domestic companies, national-owned companies and listed companies. The acquisition of the last two one is tougher. The specialized approval requirements are always more stringent and the specialized regulations are generally not amended concurrently with revisions to the primary regulatory structure.

Foreign-related acquisition that would result in the transfer of a controlling interest in a domestic company relating to key industries with an actual or potential effect on national economic security, or of a company with a famous trademark or venerable company registration. “National economic security” is not defined in the Regulations, which allows for the possibility of a broad interpretation. Some of the key industries are, presumably ,the 16 equipment manufacturing industries relating to economic and defense security listed in the Certain Opinions Concerning Accelerated Development of the Equipment Manufacturing Industry, issued by the State Council.

For the national-owned companies are the assets of the public. However, the profit from the selling of the public assets cannot benefit all people and thus the selling action will cause fierce opposition in the public. Further, most of the national-owned companies are in the monopoly position or possessing crucial selling channel; thus, foreign acquisition will leave side effect on the security of the nation as well as the stability of the economy. As for the listed companies, the health level of these companies influence the faith of investors and thus has close relationship with the whole health level of the national economy. Because of the essential role these two kind of companies play in China, the government impose more stringent restrictions on the foreign acquisition related with these companies.

4.4 Asset selling restrictions

Domestic companies selling assets to any foreign company must notify creditors and publish an announcement at least 15 days before notification of the transaction to

the approval authority. Moreover, Article 13 states that, in such transactions, the assets must be appraised in accordance with international practice, and transactions for obviously low consideration are prohibited. These requirements apply even to sales of non-state-owned assets. If the party's market share is too large or will otherwise materially impact economic competition, MOFCOM and SAIC, together or separately, will have 90

days to determine whether a hearing is required before deciding whether or not to approve the transaction.

Obviously, these provisions, concerning economic security and domestically-held trademarks, allows substantial opportunity for domestic competitors to intervene in offshore exit options and depress foreign venture capital investment in China barely a year after the industry persuaded SAFE to relax unnecessarily restrictive controls on overseas investments. The Regulations reflect not just ongoing concern over outward currency flows and tax evasion, but also a determination to maintain Chinese control over domestic assets.

4.5 Conclusion

The Regulations tighten regulatory requirements with respect to foreign acquisition activities. The result will be to narrow, rather than expand, the opportunities for foreign venture capital. All these rules are set for the security and stability of Chinese economy, as well as a way to keep the party's control over the economy.

5. The advantages and the disadvantages for the proposed M&A activities under the global financial crisis

The global financial crisis has severe influence on global economy. Indeed, the crisis has affected Chinese export-oriented economy in some extent but simultaneously it provides many opportunities to China in terms of merging the foreign companies. Let's take a look on the possible advantages and disadvantages under the crisis first and explore how Chinese companies utilize these opportunities and confront these challenge in practice. Finally, the future of Chinese M&A will be discussed.

5.1 The possible advantages and disadvantages for the proposed M&A activities among the Chinese companies under the global financial crisis

- A. The advantages for the M&A activities
 - a. The merger and acquisition costs are in historical low

The outbreak of global financial crisis has not only had the detrimental influence upon financial sector, but also the real economy. Fortunately, China economy has been affected by the crisis slightly. Most of the other countries, especially the developed countries, are facing with the difficulty that lacking of the capital, the foreign companies desire for the money desperately. Furthermore, the powerful international companies have to penetrate the emerging markets thus increase the profit via the FDI. Therefore, a host of the developed world companies are willing to being merged if any proposal is appropriate and most of them are seeking for the buyers on their own initiative. As a result, the acquisition price offered by the foreign companies has been exceedingly low which is good news for the Chinese companies, especially the price of the resources and energies. It is also a good chance for the Chinese companies to upgrade their industry and import the foreign technology and talents through FDI.

- b. The foreign governments place less restriction on DFI(direct foreign investment), hence they are more prone to approve the proposed M&A

Under the crisis, the governments all hope their countries get out of the recession shortly. Witnessing a lot of companies are at the brink of bankruptcy, the local governments facilitate the merging activities instead of placing a lot of restriction on these activities. An example aptly illustrates this point must be the merging between Shougang Corporation and Australian Mount Gibson Iron Ltd. At the beginning of 2008, Shougang Corporation proposed that purchasing the stocks of Mount Gibson Iron Ltd at a high price but it was rejected by Australian Regulator. However, the financial problems of Mount Gibson Iron Ltd were increasingly worse along with the harsh operation environment under the crisis. At the end of 2008, the Australian Regulator approved Shougang Corporation purchased 162 million AUD stocks. Likewise, American Federal Reserve has loose the restrictions on the outside capital entering American banking as well as real industries. All in all, the relaxation of foreign governments' restriction enhances the successful rate of Chinese M&A activities.

- c. RMB has been strengthening against US dollars and Euro, which decline the merger and acquisition costs

During the crisis, USA and Europe adopt expansionary fiscal policy, printing money and reducing the interest rate in order to get rid of the recession. Consequently, RMB against Euro and Dollar has appreciated. From graph1 and graph2, we can see RMB has appreciated substantially. Although it has disadvantages on export but it does have advantages on purchasing foreign assets.



Graph2. The trend of RMB/\$ from 2008~2012



Graph3. The trend of RMB/Euro from 2008~2012

B. The challenges faced by the proposed M&A activities

- a. Chinese companies are also facing with the financial problems caused by global financial crisis

A lot of the Chinese companies which substantially rely on export and connected with the global market closely are facing the threat of the declining profit. They themselves encountered the financial distress and it may unfavorably affect the proposed M&A.

- b. The Pessimistic expectations for the future economy may reduce the intention of the M&A activities

Global recession has afflicted global economy; people expect that the ailing economy may not recover in the near future. Therefore, Chinese companies may not have much intention to explore the foreign markets via M&A since the foreign markets are not promising. Furthermore, the companies suppose that the price of the foreign assets may not bottom out, the price may continually decline in the future.

- c. The foreign currencies are weakening

Although RMB appreciate against dollar, pound, and euro make the lower merger and acquisition costs, the weakening target's currency may affect the future cash flow of the foreign targets. According to the equation 1, the MNC's value is affected by initial investment, expected future cash flow, the expected exchange rate and the required return. Although the initial investment is cheaper due to the strengthening RMB but the downturn of the foreign economy and the depreciation of the foreign industry reduce the expected future cash flow and it may offset the advantage of cheaper merger and acquisition costs.

$$\text{Value} = -\text{initial investment} + \sum_{t=1}^n \left\{ \frac{\sum_{j=1}^m [E(CF_{j,t}) \times E(ER_{j,t})]}{(1+k)^t} \right\}$$

$E(CF_{j,t})$ = expected cash flows in currency j to be received by the U.S. parent at the end of period t

$E(ER_{j,t})$ = expected exchange rate at which currency j can be converted to dollars at the end of period t

k = weighted average cost of capital of the parent

Equation 1

- d. The sluggish financial market affect the financing of the M&A activities

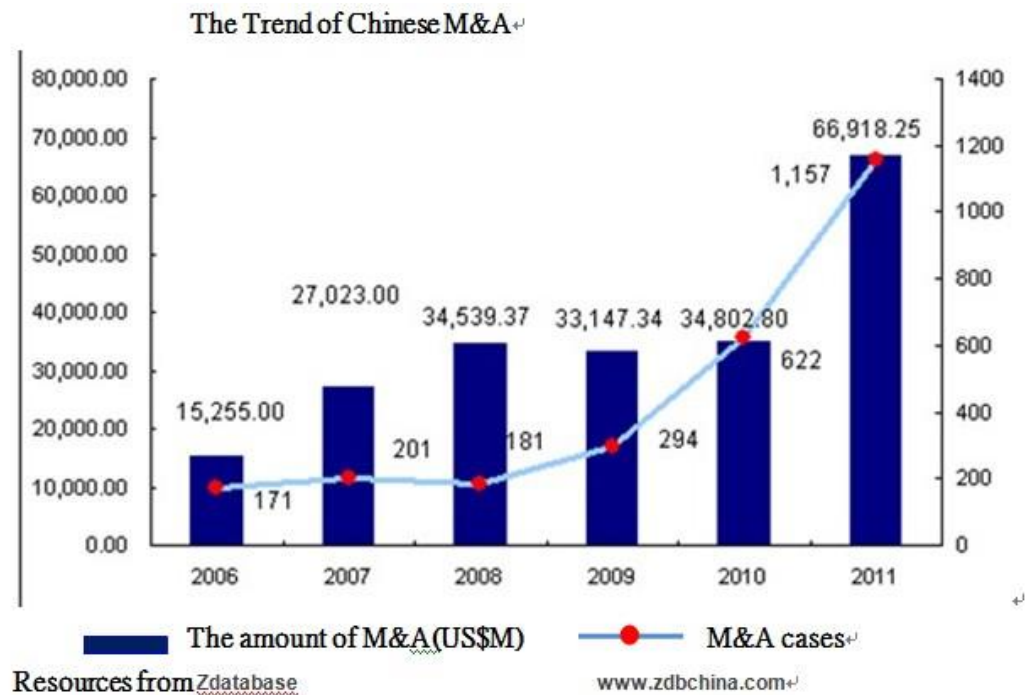
The devaluation of the assets caused by financial crisis triggered the default rate. Under the fear of financial crisis and the, many banks are implementing the measure of risk prevention. The companies are increasingly difficult to borrow money from the bank. As we all know, M&A involves enormous amount of money, financing is the key. The tightening credit policy unfavorably impacts on companies financing for M&A.

5.2The status quo

The M&A activities worldwide decreased 35% in 2009 according to Thomson Reuters while these activities happened in China increased 40% compare to 2008. In 2010, China finished 622 M&A cases, involved 66.918 billion US dollars, was the second largest worldwide. In 2011, the M&A cases and involved money increased 86% and 92%.

From graph3, we can see that despite the global financial crisis, China still utilized the opportunities and overcame the challenges to accomplish the global M&A activities. The substantial soar may represent the desire for the Chinese companies to upgrade their industries, import the hi-technology, advanced management and explore the global markets.

Those companies who grasp the golden opportunities mostly are the resources company. In 2009, the price of the world resources plummeted. Chinese resources and mining sectors have accomplished 14 merger cases. The amount reached to 15.663 billion, accounted for 97.2% of the total merger amount.



Graph4. the trend of Chinese M&A activities

5.3 The outlook of the proposed M&A activities

Until 2012, the haze of global economy recession has not gone; Chinese M&A activities are still influenced. Even though the M&A activities has increased since the global crisis, the risk faced by the merged companies emerges. The uncertainty of the exchange rate fluctuates the cash flow of the merged companies. Although it is quite sure that RMB against US \$ and those currencies hooked to US \$ is strengthening, the value of RMB against Japanese Yen and Australian dollars fluctuate. Having seen this, Chinese companies may decrease the incentives of the M&A activities in the future.