Research on payment forms of Chinese cross-border M&A

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Abstract:

Cross-border M & A had became a very important method of foreign direct investment for global multinational companies, and it is playing an increasingly important role to the growth of international production. Not only in developed countries but also in developing countries.

For most of Chinese large-scale companies, Cross-border M&A had became a very attractive way to expend their business. Thus, Chinese cross-border M&A has developed rapidly. However, Different with the trend of global M&A market, the Chinese cross-border M&A prefer cash payment. Well then, How many payment forms are widely used in Chinese cross-border M&A? What are the determine factors of cash-payment preference in Chinese cross-border M&A? Does cash payment have the best operational performance in Chinese cross-border M&A? I will search answers for these three questions in this paper.

In order to answer these three questions, first, I drew on the results of previous studies to classify the different available payment forms in Chinese cross-border M&A and detailed expound the characteristics and operate approaches of them. Then, Combined with my understanding of Chinese cross-border M&A, I summarized some possible factors which determined the preference in cash-payment for Chinese cross-border M&A.

After all of these done, I chose some important financial indexes as data in my empirical study to analyze the performance of different payment forms in applied of Chinese cross-border M&A. And tested if cash payment have the best operational performance in Chinese cross-border M&A.

Key words: Cross-border M&A, payment form, payment performance
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Boras University, August 2011

Yang Qiu
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1 Introduction

“Export---Establishment of overseas factories---Cross-border mergers and acquisitions”, always be treated as the “Trilogy” of the enterprises’ internationalization. Compare to Greenfield investment, cross-border M&A is more convenient, resources-saving and efficient. After developed to a certain scale, every enterprise focus on expanding market shares and seeking for new profit growth points, while the cross-border M&A is the most convenient way to gain market dominance in the oversea market. With accession to the WTO, more and more Chinese enterprise choosing cross-border M&A as the way to enter international market and participate in international operations.

1.1 Background of Chinese cross-border M&A

1.1.1 Scale:

Chinese cross-border M&A began in the 1980s, while the number of Chinese cross-border M&A was relatively less and the participants were mostly large state-owned enterprises (such as CITIC, Capital Iron and Steel Co. l, and so on.). According to statistics, there were only 23 Chinese cross-border M&As occurred during 1984-1996, (including cross-border M&As of Hong Kong), and just 5 of them have the amount more than 100 million U.S. dollars. Since the late of 1990s, in particular after the implementation of the "going out" policy, some of Chinese large enterprises have been active in international M&A market. In 1998 Cross-border M&As accounted for 48% of foreign direct investment and in 2000 it accounted for 51.3%, more than a half. Since 2001, China formally joined the WTO, more and more Chinese enterprises choose cross-border M&A as the main form of foreign direct investment.

In 2002, Cross-border M&A accounted for 36.7% of foreign direct investment, in 2004, the scale of Chinese cross-border M&A of enterprises increased by 50% compared to 2003. 2005 was known as Chinese "M & A Year", the amount of cross-border M & A is totally of 6.2 billion U.S. dollars. 2006,cross-border M&A accounted for 1 / 3 of the amount of direct investment, total amount is 8.25 billion U.S. dollars, some well-known large Chinese companies--- such as TCL, Lenovo, BOE, China Netcom, CNOOC, CNPC, etc---- has aroused widespread concern because of their cross-border M&A.

In 2007, under the influence of financial crisis, global stock market value had shrunk dramatically, for some Chinese companies; the target companies were became relatively "cheap." Some countries eager to make use of China's foreign exchange reserves to decrease the bad effect of financial crisis. Therefore, they relaxed the
limitations of cross-border M&A, which provided an opportunity for Chinese enterprises to promote the rapid growth of Chinese cross-border M&A scale. The amount of M&A reached 18.726 billion U.S. dollars in 2008 and 17.5 billion U.S. dollars in 2009. From this we can see that cross-border M&As had become one of the most important form of foreign direct investment for Chinese enterprises.

![Figure 1: The trend of Chinese cross-border M&A (2003-2010)](source: The 2010 report of Deloitte China service team)

From Deloitte China service team’s reports (2009,2010), I got the Figure 1, this table shows the trend of Chinese cross-border M&A during 2003-2010. And we can easily see that, the Chinese cross-border M&As were developing rapidly.

**1.1.2 Participants and industries distribution.**

Large state-owned enterprises are key players in Chinese cross-border M&A, private companies are becoming active. Compared with private enterprises, state-owned enterprises can easily get political support and financial support for their cross-border M&As. Then consider the state-owned shares in the limited liability companies, state-owned capital occupied the dominant position in China’s FDI, particularly in the resources, financial and other important industrial areas. Meanwhile, largest scale foreign investment projects were mainly invested by state-owned enterprises.

From table 2, we can know that, in 20 largest cases of Chinese cross-border M&A, there are only three cases had no participation of Chinese state-owned companies. (Zhejiang Geely Holding Group, Lenovo group and Cheung Kong Infrastructure Holding Ltd are not state-owned companies).
<table>
<thead>
<tr>
<th>Rank</th>
<th>Date of publication</th>
<th>Target company</th>
<th>Target location</th>
<th>Bidding Company</th>
<th>Payment Form</th>
<th>Total translation (million dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2008-02</td>
<td>Rio Tinto Plc</td>
<td>England</td>
<td>Alcoa Inc &amp; Chinalco</td>
<td>Fail in 2009</td>
<td>14,000</td>
</tr>
<tr>
<td>2</td>
<td>2009-06</td>
<td>Addax Petroleum Corporation</td>
<td>Canada</td>
<td>SIPC(sub company of Sinopec Group)</td>
<td>Cash-payment</td>
<td>8,800</td>
</tr>
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<td>3</td>
<td>2007-10</td>
<td>Standard Bank Group Limited</td>
<td>South Africa</td>
<td>ICBC</td>
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<tr>
<td>4</td>
<td>2006-07</td>
<td>Rosneft Oil Company OAO</td>
<td>Russia</td>
<td>BP Plc, Petroliam Nasional Berhad, Sinopec Group</td>
<td>Cash-payment</td>
<td>5,345</td>
</tr>
<tr>
<td>5</td>
<td>2010-04</td>
<td>Syncrude Canada Ltd</td>
<td>Canada</td>
<td>Sinopec Group</td>
<td>Cash-payment</td>
<td>4,650</td>
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<td>6</td>
<td>2005-08</td>
<td>Petro Kazakhstan Inc</td>
<td>Canada</td>
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<td>7</td>
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<td>CNOOC</td>
<td>Cash-payment</td>
<td>3,777</td>
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<td>Russia</td>
<td>CPCC</td>
<td>Cash-payment</td>
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</tr>
<tr>
<td>9</td>
<td>2008-03</td>
<td>Tuas Power Limited</td>
<td>Singapore</td>
<td>SinoSing Power Pte Ltd)</td>
<td>Cash-payment</td>
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<td>China Investment Corporation</td>
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<td>12</td>
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<td>Yanzhou Coal Mining Co</td>
<td>Cash-payment</td>
<td>2,564</td>
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<td>14</td>
<td>2004-08</td>
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<td>England</td>
<td>Cheung Kong Infrastructure Holding Limited</td>
<td>Cash-payment</td>
<td>2,494</td>
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<tr>
<td>15</td>
<td>2010-03</td>
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<td>Sinopec Group</td>
<td>Cash-payment</td>
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<td>16</td>
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<td>South Atlantic</td>
<td>Nigeria</td>
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<td>Country</td>
<td>Target Company</td>
<td>Payment Method</td>
<td>Amount</td>
</tr>
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<td>---------------</td>
<td>-------------------------</td>
<td>------------------</td>
<td>--------</td>
</tr>
<tr>
<td>17</td>
<td>2006-10</td>
<td>Argymak Trans Service LLP, Karazhanbas munai, JSC; Tulpar Munai Services LLP</td>
<td>Kazakhstan</td>
<td>CITIC</td>
<td>Cash-payment</td>
<td>1,910</td>
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<tr>
<td>18</td>
<td>2008-09</td>
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<td>Canada</td>
<td>Sinopec Group</td>
<td>Cash-payment</td>
<td>1,813</td>
</tr>
<tr>
<td>19</td>
<td>2010-03</td>
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<td>Sweden</td>
<td>Zhejiang Geely Holding Group</td>
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<td>1,800</td>
</tr>
<tr>
<td>20</td>
<td>2004-12</td>
<td>IBM Corporation</td>
<td>America</td>
<td>Lenovo Group</td>
<td>Cash + Stock</td>
<td>1,750</td>
</tr>
</tbody>
</table>

Table 1: Chinese largest cross-border M&A
(Source: Integrated the date from reports of Deloitte China service team & data from China M & A Report)

Constrained by the ownership of private enterprises, they were cautious in the Cross-border M&A. However, in recent years, Chinese private enterprises have also begun to treat cross-border M & A as an important way to enter the international market and get strategic resources. Some large scale non-state companies are taking part in the international market and had invested in more than 40 countries and regions, which including the countries outside of Asia. For example, Chint Group had established marketing agencies in dozens of countries and regions such like North America, Europe, Middle East, and Asia. What’s more, they founded an R & D information organization in Silicon Valley. Expect Chint, Geely, Lenovo and Cheung Kong, etc are also can be representatives. Before 2007, Chinese enterprises’ cross-border M&A mainly focus on resource industry, high-tech industry and manufacturing industry. For example, in 2005, cross-border M&A in manufacturing industry, mining industry and energy industry accounted for more than 50% of the total amount of cross-border M&A. In 2006, Chinese cross-border M&A still focus on energy industry, mining industry and high-tech industry.

But in 2007, because the impact of global financial crisis, the financial sectors in many developed countries had a significant decline in their price. So, this year, the Chinese cross-border M&A in financial industry accounted for 1/3 of total amount. At the same time, the cross-border M&A in other industries also began to raise, especially the home appliance industry, power industry and garment industry. In 2008, the expedition of Chinese cross-border M&A focused on pharmaceutical industry, textile industry and chemical industry. In 2009, China’s cross-border M & A involved into almost all major industries.
1.1.3 Success rate

In recent years, Chinese cross-border M&A are widely concerned by the medias all over the world. But the truth is that: for Chinese cross-border M&A, the cases of failure are much more than success stories. The only reason for the concerns is that: Chinese companies are new players for the global arena.

During past 10 years, there were some famous successful cases of Chinese cross-border M&A, for example: Alibaba acquired Yahoo China, CNPC(China National Petroleum Corporation) acquired Petro Kazakhstan, and China Minmetals Group successfully acquired the Australian OZ Metals & Mining. But according to statistics, the success rate of Chinese cross-border M & A is only 20-30%, and this ratio can be lower in acquiring American companies.

As new players, Chinese enterprises lack of the knowledge and experience of cross-border M&A. After the financial crisis in 2007, some of Chinese state-owned companies have to expand their FDI because of the pressure of RMB’s appreciation; while some private companies eager to catch the opportunity to expand their oversea business. Therefore, a lot of Chinese cross-border M&A cases occurred in 2007 and 2008, but most of them are hasty and finally ended with failures.

According to the survey of McKinsey in 2009, the failure rate of Chinese cross-border M&As is 67% during past 20 years, this is much higher than the world average failure rate which is around 50%.

1.2 The characteristic of payment forms

If we pay some attention on Table 1, it won’t be difficult to find that: in the largest 20 cases of Chinese cross-border M&A during 2003-2010, there is only one case used mixed payment; On the contrary, there are 18 cases singly used cash-payment.

Although some of Chinese acquirers in “cash-payment group” received a large amount of loans to support their cross-border M&As, but they didn’t use any stock payment or asset payment to relieve their financial pressure and risks during their M&As. Such like Geely’s acquisition of Volvo: as a private company, Geely can’t get the financial support as easy as Chinese state-owned company, but in order to acquire Volvo, Geely had to pay total $2.7 billion to Volvo. The CFO of Geely used to announce that: Geely can afford 50% of the 2.7 billion dollar by its own free cash flow. But the rest $1.35 billion still a huge pressure for Geely. Finally, Geely received $10 billion loans from the bank of China, and unknown number of loans from European banks. One year after the acquisition, Geely’s debt increased from ¥ 16 billion to ¥ 71 billion, its operation are badly influenced by the repayment pressure.
While the situation like Geely is not abnormal for Chinese acquirers. When choosing cash payment as the main payment form in cross-border M&A, Chinese private companies showed great “courage”. BOE Technology Group even used to receive the loans 4 times more than its own free cash flow to acquire Hyundai’s TFT-LCD panel business.

But compare to Chinese state-owned companies, Chinese private acquirer companies are cautious ones. Just like the cases showed on Table 1, all of the Chinese state-owned companies chose cash-payment in their cross-border M&As. According to the cases listed in Deloitte’s reports of 2009 and 2010. The most of Chinese –stated companies singly used cash payment in their cross-border M&As. Only a small number of Chinese companies used cash and stock mixed payment form in their cross-border M&As. One of the famous cases is: in June of 2007, China Sci-Tech Holdings Limited acquired Front Wave, and the operation is that: China Sci-Tech Holdings Limited issued 113 million new shares at the price of HK $ 0.46 per share to the shareholders of Front Wave, and pay ¥148.57million in cash.

1.3 Problem discussion

Just like the situation I mentioned above, the main payment form of China’s cross-border M & A is not the equity payment and option payment which are popular in today's international M & A market, but is the singly use of cash payment.

Compare to western large-scale multinational companies, most of Chinese companies are weaker in capital strength. So why are they always using cash payment in their cross-border M&As which the western large-scale multinationals are avoiding to do?

There must be some reasons, maybe they can get capital support easily; maybe they have to choose cash payment because of some limitations; maybe the cash payment indeed has a better performance than other payment forms for Chinese companies; or maybe they just blind and lack of experience in choosing payment forms.

In order to know the real reason of this phenomenon, firstly I have to know:

1 How many payment forms are widely used in Chinese cross-border M&A?
There are a lot of payment forms in M&As, but which payment forms are widely used in Chinese cross-border M&A, or if some kind of payment forms can’t be widely used because some limitations?

2 What are the determine factors of cash-payment preference in Chinese cross-border M&A?
Where there's smoke, there's fire. For Chinese companies, when they choosing cash payment in their cross-border M&A, they must consider some factors, and what are
these factors? If there are some special determine factors of the preference in cash-payment according to the current situation of Chinese cross-border M&A?

3 Does cash payment have the best operational performance in Chinese cross-border M&A?
We has known that singly use of cash payment have the absolutely dominant position in Chinese cross-border, but if the cash payment has the best performance in most of Chinese cross-border M&A? How about its performance comparing to other kinds of payment forms?

I will try to answer these questions in this paper.

1.4 Research purpose

Cross-border M & A had became a very important method of foreign direct investment for Chinese companies. But according to Statistics, the failure rate of Chinese cross-border M&As is much higher than the world average failure rate during past 20 years. The unreasonable payment form choice is a very important factor for the failures.

Different with the trend of global M&A market, the Chinese cross-border M&A prefer cash payment. Well then, How many payment forms are widely used in Chinese cross-border M&A? What are the determine factors of preference in cash-payment for Chinese cross-border M&A? Does cash payment have the best operational performance in Chinese cross-border M&As? I expect to get answers for these questions in this thesis.

Through this research, I expect to form a better understanding of the payment forms in Chinese cross-border M&A, and supply empirical evidences to the performance of different payment forms in Chinese cross-border M&A.

Delimitations:
The research on payment forms in cross-border M&A can be extensive, and covering various aspects. But in this paper I just focus on the perspective of financial management.
As the few non-cash payment cases, I can’t get enough samples to do a good qualitative analysis on this topic, while because of the imperfection of the Chinese corporate information disclosure system, we can’t get certain information on some problems. So in this paper, I just use accounting index methods to provide empirical evidence for the performance of different payment forms in Chinese cross-border M&A.
1.5 Structure of this thesis

In this paper I focused on the payment forms in Chinese cross-border M&A, and divided the text into seven parts.

First part is introduction. In this part I talked about the background and characteristics of Chinese cross-border M&A, and pointed out the payment form problem exist in Chinese cross-border M&A, then stated the purpose of my study.

In the second part, I classified the different payment forms in M&A, and did the description to them. Then, I reviewed the previous study about determine factors of choosing payment forms and the studies focused on the performance of different payment form. Finally, I did a conclusion to these studies.

In the third part, I combined the previous study with my understanding of the payment forms in Chinese cross-border M&A, and did conclusions to some possible impact factors of the preference in cash-payment for Chinese cross-border M&A.

Forth part is Methodology, and I stated the financial index methods that I used in Empirical part.

The fifth part is empirical-study, in this part I used financial index method to do empirical study focus on the performance of different payment forms in Chinese cross-border M&A.

In sixth part, I simply concluded the results of third part and forth part. Gave answers to the questions in problem statement part and proposed some deficiencies in this study.

Part seven is future study, in this part I proposed some possible future research in the same area.

1.6 Research approach

Research method is a tool and instrument to reveal the inherent law of things, to discover new phenomena or new theories during the process of the study. In this chapter I will present the research approach which will be used. In the thesis, I am going to use case study to compare the performance of different payments and hence to find which one is more appropriate in Chinese cross-border M&A.

Case studies have been defined as ‘research situations where the number of variables of interest far outstrips the number of data points’ (Yin, 1994). Case studies usually appeared with using quantitative data, however, the main different with other research methods is that case study sought to study phenomena in certain contexts, rather than independent of context (e.g., Pettigrew, 1973).
McCutcheon and Meredith (1993) claimed that a case study may not be viewed as the most powerful theory testing method, but it could accomplish this objective in several different ways. First, case study helps us to have an in-depth understanding of the situations and meanings for those involved (Hancock & Algozzine, 2006). Second, case study with natural of phenomenon-oriented, thus it gives us flexibility in using various approaches. A case study approach could provide the means for more holistic multidimensional analyses. Through this case study I hope that the analysis of the cases can make a explanation to explore the performances of different payment forms in Chinese cross-border M&A.

Data collection:

In this paper, the empirical data collected through academic and professional database. All the studies, related reports which used as references are highly trustworthy published documents. The theories listed are come from relevant academic books.

The transactions details are mostly from China M & A Report 2(2001-2009). And the financial data are collected from the official websites of Shanghai Stock Exchange, Shenzhen Stock Exchange and Hong Kong Stock Exchange. Although some data was not disclose, but the data used in this thesis is validity and reliable.
2 Related literature and theoretical focus

As a main part of cross-border M & A, the choice of payment forms has been proved very important, and gains increasing attention. The payment forms in cross-border M&A, not only related to the acquisition cost, but also determine the success or failure of M&A to some extent.

For Western world, there is already a mature research method of cross-border M&A after a hundred years development, and the payment forms are diverse and flexible. Compare to them, China is not only weak in the basic research, but also single in the use of the payment forms, which caused the difficult in implementations. These problems have seriously hindered the development of the practice of Chinese cross-border M&As. So, the empirical study of payment forms for Chinese companies’ cross-border M & A is necessary. Accordingly, this study meets the requirements of Chinese enterprises.

Some of the M & A theories discussed the integrated research activities in M&A, In this paper I treated them as the general theories of M & A; some theories and studies focused on a specific part or aspect of M & A transactions, such as post-merger integration, payment methods. In this part, I first briefly reviewed the general theories of M&A, then, more detailed reviewed of the theories of M & Payment forms.

2.1 The Classifications of payment forms in M&A.

There are four main payment forms in M & A, they are cash payment, equity payment, assets payment and various mixture of above payment.

First, Cash payment refers to that: acquirer buy the target company's assets or equity by paying a certain amount of cash, in order to achieve the payment of mergers and acquisitions. From the perspective of the acquirer, its essence is this: exchange for control of the target company in cash. From a practical point of view, cash payment doesn’t be limited only can buy the target company's equity directly in cash, but also includes a variety of ways to obtain control of the target company indirectly.

Seeing from the source of funds perspective, both internal financing and external financing can be taken. Internal source of financing is the company to obtain profits funds through the sale of goods or services, it usually refers to the free cash flow or retained earnings. External source of financing refers to the funds received from outside of the enterprise, including bank loans, public bonds or stocks. Therefore, based on sources of funding, the cash payment can be subdivided into free cash flow payment, debt financing and equity financing cash payment.
Secondly, stock payment, also known as equity payment, means the acquirer directly use stock as a payment to exchange for the target company's stock, it includes three forms, such as issue new shares to exchange target company's shares, use treasury stock to exchange share, and repurchase stock to exchange share.

Thirdly, asset payment is that acquirer pay property assets as the equivalent of payment when they implement M&As. After the original control side transfer control to the acquirer, it will obtain the acquirer’s assets or enjoy the benefit of acquirer’s assets. Assets mentioned here are not only tangible assets, but also can be brands, technology, management experience, goodwill, etc. In practices, assets payment usually adopts direct holdings and indirect holdings to get the control of target company. According to the source or the control ways of the payment forms, can be further broken down, as shown in Table 2

<table>
<thead>
<tr>
<th>Mode of payment</th>
<th>Category and content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash payment</td>
<td>Free cash flow payment: Use free cash flow or retained earnings of corporate to pay cash to the target corporate.</td>
</tr>
<tr>
<td></td>
<td>Debt financing cash payment: Loan from bank or financing by issue convertible bonds to the public, and then pay the target corporate in cash.</td>
</tr>
<tr>
<td></td>
<td>Equity financing cash payment: Issue new shares or identify equity to factoring cash and pay in cash.</td>
</tr>
<tr>
<td>Stock payment</td>
<td>Issue new shares to exchange target shares: Issue new shares to the target company to replace the target company's own shares.</td>
</tr>
<tr>
<td></td>
<td>Use treasury stock to exchange share: Use the stock which was previous issued and held by acquirer's as the equivalent of payment to the target company.</td>
</tr>
<tr>
<td></td>
<td>Repurchase Stock to exchange share: Acquirer's buyback stock previously issued, then exchange for the target company's share.</td>
</tr>
<tr>
<td>Asset payment</td>
<td>Direct holdings: Pay the assets directly to the target company for shares.</td>
</tr>
<tr>
<td></td>
<td>Indirect holding: Invest asset, joint venture with parent company of target corporation, then get indirectly control of listed companies.</td>
</tr>
<tr>
<td>Mixed payment</td>
<td>Use a mixture of two or more methods of payment from cash payment, stock payment, assets payment and other payment methods to pay.</td>
</tr>
</tbody>
</table>

Table 2: Classification of different payment forms  
(Source: Integrated the date from Robert. F. Bruner 2003 Applied Mergers & Acquisitions)

2.2 Studies of determinants for M&A payment forms.

In the previous literatures, there are a lot of empirical research which focused on the payment forms of M&A. But they got different conclusions by using different sample sources. Different regions, different sample sizes often lead to different conclusions in
explaining the same factors. After sorting out a lot of literatures, I found there are mainly six factors as follows:

2.2.1 Effects of taxes and transaction costs.

In 1987, Harris, Franks and Mayer examined the payment forms in over 2,500 M&A cases occurred in the UK and US during 1955 to 1985, then they got the conclusion: The tax factors affect the choice of payment forms. The reason is that there are some shareholders worries that use the cash payment will gains tax, so they are prefer accepting the equity offer; and some new issued shares; however, some shareholders do not like their investment portfolio contains the acquirer's stock, so they prefer in cash payment. Harris, Franks and Mayer call this phenomenon: effects of taxes and transaction costs.

However, there is no clear evidence can prove that the capital gains tax is the main factor in refusing cash payment. And some empirical studies hadn’t shown that there is a strong contact between the cash payments and capital gains tax.

2.2.2 Asymmetric information

Myers and Majluf (1984) found that in the situation of asymmetric information, different payment forms of M&A which announced by the acquirer company, convey different information. When the equity payment was announced as the main form of payment, it sends the signal - the acquirer company's equity value has been overestimated, on the other hand, if the payment was announced in cash, the main company's assets are usually considered to be undervalued. Therefore, for acquirer company's value, market participants believe that the cash offer is good news, convertible stock payment means bad.

Travlos (1987) used case study to examine the data from 1972-1981. He found that if adopted equity payment in the acquisition, it will result in heavy losses to shareholders of bidding companies.

The result made his hypothesis that equity payment pass negative impact information to the acquirer company's assets value to be confirmed. Hansen (1987) used adverse selection theory and Nash equilibrium theory to test the importance of asymmetric information hypothesis in the M&A capital market. Meanwhile, he re-examined the data which is used by Carleton et al (1984). The results show that, if the target company's assets are overvalued, the acquirer company prefers equity payment therefore to share the overestimate assets with the target company to benefit themselves.
2.2.3 Ownership of managers

The payment choices of M & A have relationships with the managers’ ownership percentage of both acquirer and target companies. Generally speaking, the ownership of management is the managers’ share-holding ratio of acquirer and target companies.

Stulz, Ghosh and Ruland’s (1998) study shows that the higher management ownership proportions in the acquirer company, the less likely they will adopt the equity payment in the M&A. This is because when the ownership of acquirer is high, in order to not weaken the control of the company after acquisition, they do not want to acquire by equity payment, but will prefer cash payment.

In the Amihud, Lev and Travlos’ (1990) research, they also pointed out that the acquirer company’s managers do not want to lose control of the company after the merge, so they prefer offer in cash rather than stock.

2.2.4 Growth opportunities

The growth opportunities of a company are also be treated as the investment opportunities. The payment form choice in M&A is depend on the growth opportunities of acquirer from a certain extent.

Martin, K used Tobin's Q Ratio (The market value of assets / replacement cost) to measure the growth opportunities of acquirer in M&A, and verified that the growth opportunity of acquirer influence the payment choice in M&A.

Generally accepted is that when q> l, the company has motivation to invest; when q <l, the companies will no longer invest. When testing the relationship between issuance of listed stock and it’s growth opportunities, regression analysis showed that the Tobin's Q Ratio is positive and highly significant. Therefore, he asserted: When there is good growth opportunities, the companies need to master large amounts of cash to meet the company's future investment needs, so in M&As, they prefer in stock payment rather than cash payment.

2.2.5 The relative size of the acquirer and target companies

Gmllon, G, Michaely, R, and Swary, Grullen, L found that in 1997: when the acquirers’ relative scale is larger than the target company, they prefer stock payment than cash-payment. This conclusion proved that: The relative size of acquirer in a M&A will influence the choice of payment forms.

But Martin, Ghosh and Ruland got the completely opposite conclusion in 1996 and 1998.

They believe that when the acquirer have larger relative scale, the target company will try to maintain their interests and influence in the new company, so they prefer to
negotiate to get more stocks in the new company.

However, for the acquirer company’s managers, in order not to dilute their stakes, they prefer the cash payment. Because of the interaction between the two different motivations, the final payment form must be decided after discussion and compromise of the two interest groups.

In short, there is no clear indication can prove that the relative scale of acquirer and target company will influence the choice of payment form in M&A.

2.2.6 Business Cycle

In Martin’s study in 1996, he also attempted to analyze the impact of business cycle on the M&A payment choice. In his study, he set up several variables: such as the S & P 500 Index, Moody's BAA bonds yield index, value of industrial output, and the other 11 key economic indicators. Regression analysis results showed that: only the S & P 500 Index and the stock offer has a significant positive correlation.

For the rest of model variables, there were no clear indication can prove that those variables have positive causal relationship with the choice of payment forms in M&A. But Martin reasoned that if the stock market performed well, people prefer to choose stock as main payment form for the acquisition.

2.3 Review of Performance Studies for Payment forms in M&A.

There are a lot of studies focus on the performance of payment method in M&A., in order to draw on methods and results of previous studies, I selected some of the studies according to the need this paper, and separated them into general studies and Chinese domestic studies to make comments.

2.3.1 Review of general performance studies of payment forms.

Some scholars used combination of statistics, tax factors, signal effect and signal theory to do the studies on the effect of payment forms and the impact on shareholder returns. Among these studies, Myers and Maheu Korolyov’s theory is particularly important. The theory pointed that the financing form of a investment inform very important information. They believe that when companies financing by selling shares, it shows that the managers think that their ordinary stocks are overvalued; when companies financing by debit and credit, it shows that the managers think that their ordinary stocks are undervalued.

Gordon and Yagil in 1981, Wansley, Rennes and Yang in 1983 conducted early researches shows that cash offer can generate more profit than the stocks in superior returns. Vance column, Rennes and Yang found that in 41 days from announced acquisitions, the CAR (Cumulative average residual, CAR ) of cash payment is 33.54%; the CAR of stock payment is 17.47%,the CAR of cash and stock mixed
payment is just 11.77%.

In 1985 and 1987, Travlos’ study analyzed the influences of different payment forms to the acquirer and target company. For the target company, his got the same result with Wansley, Rennes and Yang. In eight months before completion of the acquisition, the research result of Travlos’ is similar with Eger---Eger found that in 37 cases of pure ordinary stock exchange M&As, the bidding company’s shareholders lost about 3%. But when the acquirer used cash payment in M&As, the conclusion is quite different: The superior returns in two-days announced period is just 0.24%, not significant. Travlos concluded that: By the cash payment form, the shareholders can grain the normal rate of return as a general rule. This result is different from Gordon and Yagil. According to Cordon and Yagil’s study, the superior returns for cash payment in eight months before completion of the acquisition should be 7.9%.

Both in theory and in practice, Travlos’ study of the bidding company are very important. His study also showed that the shareholders of the acquirer company must pay the price for their acquisitions. And he thinks there are agency costs exists inside the price. If there is only normal earning after a cash payment in M&A, it shows that M&A market has highly competitive nature. When there are negative returns appeared in a ordinary stock payment, it may be caused by the negative information disclosure like Hayes pointed out in 1984. If the study did not show the differences between cash payment and stock payment, then the result maybe just show the influence of payment forms but not reflect the performance of the bidding company.

Huang and Walter Franklin analyzed M&A based on payment forms and management personnel resistance in 1987. They used regression analysis, fixed two variables, and change the third variable to examine the impacts of payment forms, management resistance and the acquisition forms. Considered the influences of payment forms and managers management personnel resistance, the differences between tender offer and merger are disappeared. But even if considered the impacts of resistance and different acquisition forms, the differences between cash payment and stock payment are still very obvious.

2.3.2 Review of Chinese domestic performance studies of payment forms

In recent years, Chinese scholars did a lot of research on the M&As of Chinese listed companies, but most of the researches focus on the performance after acquisition. Only a few focused on the impacts of different payment forms in M&A.

Chen Haiyan and Li Yanhua used financial performance evaluation theory to analysis the result of Chinese Listed companies’ M&As in 1999. They chose 50 cases which occurred in Chinese M&A market 1997, and separate them into 10 groups according to different payment forms. Then they used some indexes (Include company’s pre-merger asset-liability ratio, earnings per share after the merger, net profit growth rate and return on equity ) as the evaluation criterions to analysis, and got the conclusion:

1 The choice of payment form related to the acquirer’s pre-merger asset-liability ratio
2 Consider the earning per share after the merger, the payment form which can get the highest profit is cash-debt mixed payment, the lowest profit one is debt to pay, and in M&As, use the cash to exchange the equities is better than exchange the assets.

3 Consider the ROE (return on equity), equity payment and mixed payment are better choices than others.

4 Consider the net profit growth ratio, cash payment and equity payment can do better performance, and deferred payment will gain higher net profit growth ratio.

In 2003, Li Jixwei integrated event analysis theory and financial analysis theory to analysis the performance of different payment forms for Chinese M&As. He chose 77 cases which occurred in Chinese domestic M&A market in 2001, divided them into acquirer—cash, acquirer—noncash, target—cash, target—noncash 4 groups. Then he used the company’s ALR which announced one year before it’s M&A as the financial index; the EPS and ROE as the performance indexes to analysis, and got the conclusion:

1 The choice of payment form for the acquirer is closely related to the acquirer’s pre-merger asset-liability ratio. When the pre-merger asset-liability ratio is high, the acquirers prefer noncash payment, or they will prefer cash payment.

2 Target—cash groups’ performance is better than the acquirer—cash groups’ performance.

3 The financial performance of different groups are close to each other.

4 The financial performance of the companies just finished their M&As does not closely related to the performance of M&A market.

For this conclusion, Li Jiwei thinks that it’s because Chinese M&A market is not mature, the investors keen on speculations in M & A and reap benefits, they focus on short-term benefit, rather than the acquirer company's long-term returns.
3 Factors impacts the choice of payment forms.

As I have mentioned before, payment forms in M&As can be divided into cash payment, stock payment, assets payment and mixed payment, while the Chinese enterprises have the preference in singly cash payment in their cross-border M&A cases. In terms of global trends in cross-border M&A, the cash payment is the first main payment form which was very popular when the rise of cross-border M&As. This payment form is simple and easy-to-Operate. While since the late 1980s, this approach is no longer popular in international M&A market. Therefore, the preference of Chinese enterprises in cash payment form shows that Chinese cross-border strategy is still staying at the novice stage. But lack of experience is not the only factor of this phenomenon. Here, I combined the result of previous studies which focus on determinants for payment forms to the current situation of Chinese cross-border M&A, summarized some possible factors of this phenomenon.

3.1 The managers lack experience in the use of securities in cross-border M&A.

Preference of a certain payment approach always showing that the operator is very familiar with this approach; but maybe inadequate to other payment forms, or lack of appropriate operational experience in other payment forms. Because cash payment is relatively simple in operation, so it’s well accepted by the Chinese companies which just involved in international M&A market, and be treated as a suitable payment form.

On the other hand, mixed payment contains several kinds of financial instruments, such as stocks, corporate bonds, subordinated bonds, warrants, convertible bonds and stock options. Operation of these instruments requires detailed estimates of securities issuance costs, pricing, distribution volume, many other parameters and a mature payment solution. Expect these, the issue of financial instruments is strictly limited by the Chinese government and the China Securities Regulatory Commission, the companies have to wait a very long time to get the approval. What’s more, the operator must give fully consideration to the dilution of existing shareholders’ equity before issue new shares, or the reverse effect to the pretax income per share in financial report before issue bonds. Expect above, there is still a viable option for Chinese companies, that is to get the operation guidance from international professional institution, but this option was not widely accepted because of the high costs, business confidentially and some other reasons.

Thus, if there is stable and relatively low cost cash flow, the Chinese enterprise managers will naturally trend to choose pure cash payment in cross-border M&A in order to simplify the payment process and improve payment efficiency
3.2 The convenience of cash financing

Another factor of the preference is the facilitating condition for cash financing.

Since 1993, there are amount of policy acquisition cases occurred in China domestic M&A market. The policy acquisitions occurred because Chinese government wants to eliminate the loss-making state-owned or state holding enterprises, reduce the financial burden while achieving optimal allocation of resources.

Therefore, in China’s domestic M & A applications, the intervention and will of Chinese government are very important influencing factors. The intervention reflected on the payment form is that: If the Chinese government agrees with the acquirer’s M&A plan, the four major state-owned banks and other state-owned financial agencies (such as China national development bank, etc.) will provide low-interests or even interest-free loans to the acquirer.

Because of the low-cost cash financing conditions, some of the acquirers don’t need to worry about their financial pressure in Chinese domestic M&As, so they naturally prefer the cash payment from.

When Chinese companies start their cross-border M&As, the managers bought this kind of mindset into the global M&A market, and chose cash payment as the main payment form. Till now, Chinese government still provides financial support to Chinese companies’ cross-border M&As sometime, but this kind of behavior had been treated as illicit competition by some countries.

For some Chinese non-state companies, the cross-border M&A is a high risk try, so they prefer to get some experience from the companies which are most similar to themselves first. They chose the Chinese state-owned companies as their models. They indeed learned a lot of experience from state-owned companies, however, they also inherited the state-owned enterprises financing forms and payment forms in their cross-border M&As. But those are not suitable for them.

3.3 The impact of M&A approaches.

The M&A approaches here mainly refers to horizontal mergers, vertical mergers and mixed mergers. According to the requirements and characteristics of horizontal mergers, Chinese enterprises firstly should consider cash payment as the main payment form in cross-border M&A. Because of the ultimate goal of horizontal M&A is to achieve the expansion of enterprises’ scale economies. In this case, acquirer must ensure full control of the target company and to achieve operation and management to target company. Thus cash payment is a suitable payment form here in order to achieve full integration of the two same type companies and expand the business.
Of course, the use of convertible stock payment can also achieve the goal of control the certain company from a certain level. In this case, the shareholders of target company will continue to hold some stocks of the new integrated company, and if the shareholders of acquirer company and target company have disagreements with each other, it will be seriously influence the operation and integration of the new company. Vertical M&A mainly focus on reduce transaction costs, rationalize the relationship between upstream and downstream enterprises, and ensure the supply and marketing channels. The both sides of the M&A hope to get business benefits from the operation of the integrated company. So vertical M&A can be treated as collaborative merger, it should choose stock payment or mixed payment, but not cash payment. The mixed M&A have no significant trend in choice of payment forms.

If we talk from the M&A approaches, it’s suitable for Chinese enterprises to choose cash payment in cross-border M&As which focus on energy industries, mining industries and public utilities, because the acquirers want to take control of target companies. But for the financial industry, high-tech industries which can benefit both partners, simply use cash payment is not sensible.

3.4 The impact of acquirers’ financial conditions.

The choice of payment forms is also influenced by acquirer’s actual financial condition, including short-term and long-term liquidity of assets and monetary liquidity. The so-called monetary liquidity is the currency’s own problem, especially in cross-border M&As, the acquirer must consider whether he has the currency can be paid directly or can be freely converted, and whether the return from the target company is freely convertible currency.

Cash payment require the acquirer to pay some cash in a certain date, and the cash payment will immediately cause the cash loss on balance sheet, therefore, whether they have enough cash flow is the most important factor that must be considered. In addition, the post-merger recovery rate and recovery period for cash, and acquirer’s financial leverage are must be considered too.

Before the operation of cross-border M&A, most Chinese companies have prepared relative more cash flow. However, because of lack of experience in cross-border M&As and asymmetric information, the Chinese acquirers often over estimate their cash payment capacity, while underestimate the cost of the M&As. This is one of the most important reasons of the choice of singly cash payment.

3.5 The impact of both companies’ shareholders

The shareholders of acquirer company emphasis on maximize earnings per share or
control of the target company after the M&A. Cash payment will not increase total share capital, so it won’t diluted earnings per share and assets per share, nor change the shareholding structure which further affect the company's control.

The equity payment will not only change the shareholding structure, and will dilute earnings per share and net assets per share. Especially in the dispersed shareholding structure company, the main shareholders’ shareholding ratio is not very high, the equity payment may make them lose control of the company, and the acquirer may even be "reverse acquisition" by the target company. Therefore, the main shareholders in acquirer company prefer cash payment.

The main shareholders of the target company are facing the same problem with acquirer company’s main shareholders, they must make a choice between keep their stock or get the cash. Because of the information asymmetry in cross-border M&A, the acquirer can’t very accurately evaluate target company’s true value and may pay a premium. At this time, the shareholders of target company are often reluctant to share the "risk of excessive pay” with acquirer and prefer cash payment, or sell the stock which just got as soon as possible in the situation of the stock payment situation. Conversely, if the acquirer paid the price lower than the target company's true value and the target company’s shareholders believe that the acquirer will have well potential development; they will choose stock payment to get shares in post-merger company.

The target companies of China's cross-border M & As, mostly have a long operating history and good reputation in their industry, but poor performance in recent years. Compare to these companies, Chinese acquirers often give higher valuation due to the reason of asymmetric information, and accept to give a relative higher price. What’s more, compare to the target companies, Acquirers from China lack the reputation and qualifications in the global industry, which makes most of the target company's shareholders more inclined to get cash rather than the shares.

### 3.6 The impact of China's capital market's maturity

The maturity and the proportion of direct and indirect financing of a country’s national capital market and M&A market, have great influence to the payment form, financing form and M&A scale. Overall, Chinese capital market constraints are more, and financing channels are narrow, M&A behaviors started late and scales are small, this situation goes against the development of Chinese cross-border M&A.

China's financing market started late, IPO (Initial Public offering), new issuance of shares and allotment of shares have to not only pay the cost of equity capital, but also limited by strictly issue conditions; corporate bonds generally only limited to the large
state-owned enterprises which have well long-term performance. Company want to issue new shares, must meet the following conditions:

(1) Previous issue of shares has been fully subscribed, and have the interval of more than 1 year.
(2) Company kept profit in the last three years, and dividends paid to shareholders
(3) In the last three years, no false financial and accounting documents:
(4) The company expects profit of up to bank deposit rates during the same period.

After make a resolution by the general meeting of shareholders to issue new shares, the board must apply for approval from provincial government or departments authorized by the State Council.

Only the meet all conditions listed above, companies can issue new shares to swap in M&As. These conditions are obviously limited the use of stock payment form in Chinese cross-border M&A.

3.7 The impact of the governments’ attitude

When doing the cross-border M&As, acquirers often get unfair treatment. The extent of this differential treatment depending on the attitude of target company’s local government.

For this, I can give several examples: In 2005, Noranda Inc announced that they will merge with Falconbridge LTD which is also a Canadian company and the acquisition plan of China Minmetals and Noranda has been “previously considered impossible”; the ultimate purchaser of Unocal oil (America) is American second largest oil giant - Chevron Corp, CNOOC (China National Offshore Oil Corporation) ’s acquisition plan came to nothing; Maytag’s(America) final choice was the "deep-seated antagonists" - Whirlpool Corporation(America), Haier Group lost a precious opportunity.

From the results of these M&A cases, we can see that Chinese companies were not be defeated by competitors’ absolutely strength: Falconbridge didn’t give higher price than China Minerals; Chevron Corp’s bid was $ 1.5 billion less than CNOOC’s. While Whirlpool's purchase price was just $ 1 / ordinary share higher than Haier’s bid, which is not a huge gap that Haier couldn’t afford.

The real reason may never be tell. Each country’s government wants domestic companies to obtain the maximum benefit and the best development opportunities. Because of this, political review, antitrust investigation are often used as the tactics of protection policy. And sometimes the government even creates unilateral negotiations opportunities to target companies for domestic companies.

Therefore, for Chinese enterprises, they must recognize that: cross-border M&As are
not just economic and management issues, but also very sensitive, very delicate cultural and political issues. A successful acquisition is not only the embodiment of strategic thinking, but also the integration of government relations, corporate reputation and the cultural convergence.
4 Method of empirical study

From the previous studies focused on M&A which listed in Chapter 2, the research methods of M&A performance can be classified into two main methods: financial index method (Accounting index method) and Stock market research method. Stock market research method is mainly through calculate the abnormal return (AR) or the cumulative average abnormal returns (CARs) of acquirer company and target company to evaluate the performance of M&A, it is an income assessment method based on share price. Stock market research method is a popular research method in analyzing the performance of M&A, Wansley, lane and Yang’s research in 1983 used this method. The application condition of this method is well developed securities market, and the research results of this method have repeatedly demonstrated effective.

As China's special economic and social environment, there is a lot of problems about integrity, uniformity and timeliness exist in the Chinese listed companies’ stock price information. So if the stock price effect can explain the performance of Chinese M & A is still debatable. Financial index method is mainly to compare the financial indexes before and after the M&A, analysis the M&A performance by comparing the changes of some important financial indexes. This method is an income assessment method based on financial data.

The fundamental determine factors of the company value are the company's operating condition and development prospects, the company's financial indexes can reflect the company's performance to a great extent, while the effectiveness of China's securities market still need develop. Thus the financial indexes method is more suitable for the research in Chinese cross-border M&A.

4.1 Research frame

In this article, financial indexes method is used. By collecting and calculating the important financial indexes of the year before M&A, the year of M&A, and three years after M&A, I got effective data to analysis the company’s post-merger changes in operating performance over an extended period. If only use one index to assess the cross-border M&A operating performance, there will be considerable one-sidedness, of course, too many indicators will cause the formation of unnecessary duplication. Considering the current state of Chinese cross-border M&A, Chinese enterprises post-merge operating performance should be evaluated from profitability, asset management, solvency, growth and cash flow to measure. According to these five aspects, 10 specific financial indexes were selected to fully reflect the operating performance of Chinese listed companies, and then used to compare changes in operating performance for different payment forms.
4.2 Determine Indexes

To fully reflect the performance of overseas mergers and acquisitions, I used 10 financial indexes, respectively reflecting the company’s profitability asset management, solvency, growth and cash flow after their cross-border M&As. In accordance with the reaction to various performances, I would classify them as follows:

<table>
<thead>
<tr>
<th>Indexes Categories</th>
<th>Specific index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability Index</td>
<td>Net assets margin ratio</td>
</tr>
<tr>
<td></td>
<td>Earnings per share</td>
</tr>
<tr>
<td>Asset management Index</td>
<td>Total asset turnover ratio</td>
</tr>
<tr>
<td></td>
<td>Assets liabilities ratio</td>
</tr>
<tr>
<td></td>
<td>Equity ratio (Debt/Stockholders’ equity)</td>
</tr>
<tr>
<td>Solvency Index</td>
<td>Liquid ratio</td>
</tr>
<tr>
<td></td>
<td>Liquidity ratio</td>
</tr>
<tr>
<td>Growth Index</td>
<td>Expansion rate of total assets ratio</td>
</tr>
<tr>
<td></td>
<td>Net profit growth ratio</td>
</tr>
<tr>
<td>Cash flow Index</td>
<td>Per share cash flow from Operations</td>
</tr>
</tbody>
</table>

Table 3 Financial indexes categories

4.3 Samples

The cases selected in this thesis mainly came from the 52 typical Chinese cross-border cases that listed in China M & A Report (2001-2009), after removed some cases according to the following criteria, I got 21 cases. Between them, 17 cases singly used cash payment; only 4 cases used non-cash payments. With the purpose of in-depth study, I selected 4 companies which have more comprehensive information from these 21 cases, to study the performance of different payment forms in Chinese cross-border M&A.

Criteria of choosing cases:
1. Exclude the failure cases: among the 52 cases, there are some M&A cases finally failed after long time consultations, these cases can’t be used in analysis.
2. Exclude Chinese state-owned companies’ cross-border M&As in mining and energy industries: the Chinese state-owned companies’ cross-border M&As in mining and energy industries are extensions of government policies, most of their capital sources are came from direct grants or interest-free loans of Chinese state-owned financial institutions, these case can’t reflect the different performance of different payment forms.
forms.
3 Exclude the cross-border M&A cases in financial industry. Some of the financial indexes I have listed can’t be applied in the financial industry, or can’t reflect their performance.
4 Cases of M&A occurred at least 3 years ago: because the financial impact of M&As will occur in 1 or 2 years after the M&As depend on different payment time. 3 years after the merger can be treated as a reasonable study period, to research the impact of M&A payment forms to the performances of companies.
5 Because incomplete disclosure system of information, try to select information comprehensive cases for a more complete case study

4.4 Data Collection

The data used in this article comes mainly from: 1 China M & A Report (2001-2009) 2 Annual reports of target companies’ 3 The data came from Hong Kong Stock Exchange, Shanghai Exchange and Shenzhen Stock Exchange. All data are highly reliable

4.5 Method limitations

For financial index method, because of the differences of research target and sample, Western academics is still not come to a unanimous conclusion.

Healy, Palepu and Ruback studied the 50 largest U.S. M&A cases from 1979 to 1984 and they found that return on assets has improved significantly after the industry adjusted. However, Agrawal, Jaffe and Mandelker found that company's performance declined after the market adjusted.

Thus, we can see that even performances of acquisition are tested with same method of financial indexes, conclusions may also be inconsistent. In addition to differences in study samples and selection of indicators, more important possibility is related with the method itself.

Using financial indexes method to analysis M & A Performance have some drawbacks: First, the vast majority of public financial data are accumulated value, so it’s difficult to distinguish effects of single small events independently. Second, Financial data is historical data, so it reflects past performance rather than the expected future earnings. The third is the effect of time-delay. For M&A which in terms of cost savings motivated, the first year after acquisition, there will some special treatment cost or some integration costs such like redundancy payments, these may lead to the acquisition costs increase. For the mergers and acquisitions which are driven by strategic factors, reduction of cost requires three years or even longer achieving. Finally is the impact of the selection of compare baseline.
Andrade, Mitchell and Stafford further stated that in the M&A weave that occurred during 1990s, the phenomenon of industrial concentration of mergers and acquisitions is more sharply highlighted the problems due to the choice of performance benchmark. What’s more, these problems will further worsen with the effect of time-delay. 4.7 Validity and Reliability

When conducting a research, an important question is if the material collected is valid, if the applied research method really does measure the undying problem? Reliability indicates how reliable the various sources are. A high degree of reliability will ensure that the data is reliable and that is could facilitate the research by illuminating the problem.

Financial indexes method had been used by many scholars for business performance analysis, their results have been confirmed to be true and reliable. In this thesis, the targets I analyzed are the performance of different payment forms in choice. Therefore, in the choice of research method, this study has the validity.

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5 Empirical study

5.1 Frame

In this section, I selected four typical cases in Chinese cross boarder M&A. In these four cases, TCL and BOE adopted the form of cash payment, Lenovo used both cash payment and stock payment and Alibaba took stock payment. First, I explain the specific payment of these mergers and acquisitions cases. Then, I used the method of financial indexes to analysis their performance after the acquisition. Finally, I made a summary briefly. Through this empirical study, I hope I can find the way to answer this question-- Does cash payment have the best operational performance in Chinese cross-border M&As?

5.2 TCL’s cross-border M&A cases

In late September of 2002, TCL international holdings Ltd which is controlled by TCL Group announced that its wholly-owned subsidiary company--- Schneider Electronics GmbH---will acquire the major assets of Schneider Electronics AG by 8.2 million euro (about 75,5629 million Yuan), the major assets includes production equipment, R & D strength, distribution channels, inventory and some famous brands such as "SCHNEIDER" "DUAL". Schneider is a home appliance manufacturers which has 113-year history, used be known as "one of Germany's three major national brand", but in 1990s, this into the company started to loss. In early 2002, this old company formally declared bankrupt.

In January 2004, TCL and Thomson (France) jointly established a new company called "TCL-Thomson" company. TCL Holdings 67% shares of the new company and Thomson holdings 33%. This merger created the world's largest color TV giant which has the net asset value of 40 billion Hong Kong dollars (about 4.2 billion Yuan).

Among them, Thomson gave 90 million euro as compensation to TCL(Intellectual property worth 70 million euro and another 20 million euro in cash). Because Thomson's TV business had a large loss (about 1.7 billion Yuan), so the two sides finally reached a solution: Thomson invested some resources in the new company which were about 300 million euro (about 2.8 billion Yuan) to obtain 33% shares of the new company, while TCL invested resources about 13 million Yuan to get 67% shares.

In June 2004, TCL Communication and Alcatel (France) jointly invested 100 million euro to form a T&A company. TCL invested 55 million euro to obtain 55% shares, Alcatel invested about 45 million euro in cash and its mobile phone business to obtain
45% shares. (In 2003, Alcatel mobile phone business had the net loss of approximately 35 million euro).

The motivation of TCL’s large-scale cross-border M&As is that: it’s very difficult for TCL to expand their market share in Chinese domestic market, so they must open up new markets overseas.

But from TCL’s cases, we can see that, the companies or business which acquired by TCL are nearly to be insolvents. This kind of target selection means a great risk itself.

Under the risk of target selection, the choice of cash-payment more increased the financial pressure of TCL. The main approaches of TCL’s cross-border M&As are putting cash and relative business to the co-partnership companies to get their shares. But most of the cash came from loans of some international banks or financing by listing on the stock market. This caused great financial pressure on TCL.

<table>
<thead>
<tr>
<th>TCL</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets margin Ratio</td>
<td>0.25</td>
<td>0.04</td>
<td>-0.07</td>
<td>-0.07</td>
<td>0.11</td>
</tr>
<tr>
<td>Earnings per share(Yuan)</td>
<td>0.36</td>
<td>0.09</td>
<td>-0.12</td>
<td>-0.08</td>
<td>0.15</td>
</tr>
<tr>
<td>Total asset turnover ratio</td>
<td>1.86</td>
<td>1.73</td>
<td>1.70</td>
<td>1.81</td>
<td>1.83</td>
</tr>
<tr>
<td>Assets liabilities ratio</td>
<td>0.67</td>
<td>0.69</td>
<td>0.74</td>
<td>0.80</td>
<td>0.73</td>
</tr>
<tr>
<td>Debt/Stockholders’ equity</td>
<td>4.74</td>
<td>3.86</td>
<td>4.54</td>
<td>5.88</td>
<td>4.32</td>
</tr>
<tr>
<td>Liquid ratio</td>
<td>1.33</td>
<td>1.40</td>
<td>1.07</td>
<td>0.97</td>
<td>1.22</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>0.90</td>
<td>1.00</td>
<td>0.75</td>
<td>0.68</td>
<td>0.84</td>
</tr>
<tr>
<td>Expansion rate of total assets</td>
<td>0.10</td>
<td>0.93</td>
<td>-0.02</td>
<td>-0.27</td>
<td>-0.06</td>
</tr>
<tr>
<td>Net profit growth</td>
<td>0.34</td>
<td>-0.57</td>
<td>-2.31</td>
<td>-0.38</td>
<td>-----</td>
</tr>
<tr>
<td>Per share cash flow from Operations</td>
<td>0.42</td>
<td>-0.51</td>
<td>-0.79</td>
<td>0.44</td>
<td>-0.11</td>
</tr>
</tbody>
</table>

Table 4 Financial Indexes of TCL (2003-2007)
(Source: Integrated the date from database of Shenzhen Stock Exchange)
From Table 4, we can see that, after TCL’s cross-border M&As, its liquid ratio and liquidity ratio were far less than the normal level (normal level of liquid ratio is generally considered as 2, and for liquidity ratio is 1), and getting lower and lower till 2007. Liquid ratio and liquidity ratio are used to reflect the short-term solvency, the changes of these two indexes show that TCL’s short-term solvency had reduced. During the same period, TCL’s asset liability ratio which reflects the company’s long-term solvency was getting higher and higher. This shows that TCL’s long-term solvency had also reduced. What’s more, after TCL finished its third cross-border M&A (in 2004), its net assets margin ratio, earnings per share were getting lower and lower, the change between 2004 and 2005 shows that TCL started to loss. And since 2007, TCL started to profit again.

Since 2004, the expansion rate of total assets, and net profit growth were getting lower and lower, this shows that although TCL complete its cross-border M&A, but its growth has been weakened.

After finished the M&As with Thomson and Alcatel, TCL had became the world’s largest color TV manufacturer and the seventh largest mobile phone manufacturer in 2004. However, the share price performance of TCL’s three listed companies had hit record low. In February 2005, the share price of TCL Group fell to 3.23 Yuan (it used to be 9.46 Yuan). Removed the factor of overall downturn in the mainland stock market, TCL Group's stock price also showed stagnant situation.

5.3 BOE Technology’s cross-border M&A case.

In September 2002, BOE had issued a notice that the company proposed to invest $380 million to merge the TFT-LCD business of South Korea’s Hyundai Display Technology Co., Ltd. (HYDIS). However, because there are different opinions in price between the BOE and HYDIS, until November 2002, the two sides signed a definitive agreement. At that time, Hynix's main creditor bank also announced it would provide $210 million syndicated loans to BOE, in order to help them to complete this acquisition. But in the late 2002, when the two sides of acquisition prepared to deliver assets which in accordance with a definitive acquisition agreement, Hynix's creditor banks refused to provide financing support for the acquisition of BOE, because they didn’t receive a satisfactory conditions of loan repayment. The acquisition faced the risk of miscarriage. However, after a few days, things had a turn to the better. One of Hynix's main creditors, Korea Exchange Bank agreed to arrange total $188.3 million syndicated loans to BOE, aimed to complete the businesses acquisition of Hynix’s subsidiary.

On January 22, 2003, BOE-Hydis Technology Co., Ltd. was formally established. The payment of $380 million is only to pay for the acquisition of all the assets of HYDIS, including all fixed assets and technology for TFT-LCD production and some intangible assets such as processes and its global marketing network. It hasn’t had exact amount on the amount of working capital for the acquisition, but according to
the estimates, it was about 70 million dollars.

The sales revenue of BOE in 2001 was 5.48 billion Yuan, if pay $380 million (approximately RMB 3.2 billion) in cash for overseas acquisitions, it certainly does not work. In this acquisition, the BOE's own funds and own funds to purchase foreign exchange are $60 million, borrowing $90 million from domestic bank with one-year loan period and the interest rate was from 1.69 to 1.985 percent. Through the means of mortgage assets, boe-hydis borrowed equivalent $188.2 million from the Korea Development Bank, Korea Exchange Bank and woori Bank, the interest rate was decided by market interest rate which is one day before withdrawal. From October 22, 2005, the loan would be divided by ten equal quarterly to repay the principal. In the $380 million deal, BOE purchased $60 million foreign exchange through its own funds. All of the remaining 320 million Yuan was from domestic and international syndicated loans.

<table>
<thead>
<tr>
<th>BOE Technology</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets margin Ratio</td>
<td>0.03</td>
<td>0.04</td>
<td>0.16</td>
<td>0.04</td>
<td>-0.47</td>
</tr>
<tr>
<td>Earnings per share (Yuan)</td>
<td>0.11</td>
<td>0.15</td>
<td>0.61</td>
<td>0.14</td>
<td>-0.72</td>
</tr>
<tr>
<td>Total asset turnover ratio</td>
<td>0.67</td>
<td>0.88</td>
<td>1.19</td>
<td>0.83</td>
<td>0.69</td>
</tr>
<tr>
<td>Assets liabilities ratio</td>
<td>0.42</td>
<td>0.61</td>
<td>0.74</td>
<td>0.69</td>
<td>0.83</td>
</tr>
<tr>
<td>Debt/Stockholders’ equity</td>
<td>0.81</td>
<td>1.90</td>
<td>3.48</td>
<td>2.51</td>
<td>5.12</td>
</tr>
<tr>
<td>Liquid ratio</td>
<td>1.51</td>
<td>1.16</td>
<td>0.83</td>
<td>0.61</td>
<td>0.96</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>1.33</td>
<td>1.01</td>
<td>0.64</td>
<td>0.48</td>
<td>0.67</td>
</tr>
<tr>
<td>Expansion rate of total assets</td>
<td>0.00</td>
<td>0.68</td>
<td>0.78</td>
<td>0.49</td>
<td>0.17</td>
</tr>
<tr>
<td>Net profit growth</td>
<td>-0.45</td>
<td>0.37</td>
<td>3.87</td>
<td>-0.49</td>
<td>-8.70</td>
</tr>
<tr>
<td>Per share cash flow from Operations</td>
<td>0.72</td>
<td>0.40</td>
<td>1.13</td>
<td>0.14</td>
<td>-0.45</td>
</tr>
</tbody>
</table>

Table 5 Financial Indexes of BOE Technology (2001-2005)
(Source: Integrated the date from database of Shenzhen Stock Exchange)

Through the Financial data in Table 5, we can see that, after extensive use of cash payment in the acquisition, the BOE's asset-liability ratio increased significantly,
while its current ratio and quick ratio has dropped significantly. This shows that this company was saddled with huge debt burden. At the same time, continuing reduce of total asset turnover shows the large interest payments were seriously interfere the operations ability of the company. What’s more, the company's profitability had also been seriously affected, the rate of return of the company began to reduce, leading to the BOE appeared 4.3 million net losses from January to March in 2005.

At the same time the expansion rate of total assets, and net profit growth ratio were declined obviously, the Net profit growth ratio or even got a negative value. This indicated that although the BOE Technology completed its cross-border M&A, but didn’t have a good "digestion", which caused it have a long time trough.

5.4 Lenovo’s cross-border M&A case

On 8th of December, 2004, Lenovo Group announced its establishment in Beijing, and they decided to acquire IBM's global PC business which including desktop and laptop businesses and series brands of “Think”. Because of the acquisition, Lenovo gave total 1.75 billion dollar to IBM.

From the perspective of Lenovo, although PC business was weakness part for IBM, but there is still great value. In this acquisition, the most direct benefits for Lenovo is that they got the R & D strength and global sales channels from IBM, which will greatly help Lenovo in the building of an international PC industrial chain. In addition, according to the agreement, the new Lenovo Group entitled to use IBM's brands the in five years, and fully got the trademarks and related technologies, which allow Lenovo products have the widest range of brand awareness in the global PC market. Therefore, the Lenovo’ acquisition of IBM PC business, will opened up a huge international market space for them, and Lenovo will become the world's third largest PC manufacturer which will has annual income of about $ 12 billion. After this acquisition, Lenovo will put its name into the world top 500 enterprises. Lenovo's success is not only due to the correctness of their target selection, but also because its right choice in payment forms.

The actual transaction price is $ 1.75 billion, the actual payment form is: $ 650 million in cash, $ 600 million in Lenovo stock, and $ 500 million in debt. For the acquisition of shares, Lenovo issued to IBM 821 million new shares at the price of HK $ 2.675 per share and 921.6 million non-voting shares.

At that time, Lenovo was only had $ 400 million in cash, in order to pay the total $ 650 million, Lenovo and IBM signed a five-year period strategic financing agreement. Then, with the help of IBM, Lenovo received $ 600 million international syndicated loans from BNP Paribas, ABN Amro, Standard Chartered Bank and Industrial and
Subsequently, Lenovo also got the attention of three global private equity investment companies and received $350 million strategic investment from them. ($200 million from Texas Pacific Group, $100 million from General Atlantic and $50 million from Newbridge Capital Ltd). As a price, Lenovo Group issued 273 million unlisted convertible preferred stocks at the price of HK$1000 per share to the three companies, and also supplied them the preemptive right for 240 million Lenovo’s unlisted shares. After this, Texas Pacific Group, General Atlantic and Newbridge Capital Ltd got 12% shares of Lenovo Group. In truth, these three companies contacted with Lenovo before the acquisition, they gave great favor to Lenovo in the acquisition, and helped Lenovo to get $600 million loans from 20 banks.

<table>
<thead>
<tr>
<th>Lenovo</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets margin Ratio</td>
<td>0.25</td>
<td>0.04</td>
<td>-0.07</td>
<td>-0.07</td>
<td>0.11</td>
</tr>
<tr>
<td>Earnings per share (HKD)</td>
<td>14.09</td>
<td>14.99</td>
<td>0.25</td>
<td>1.87</td>
<td>5.51</td>
</tr>
<tr>
<td>Total asset turnover ratio (%)</td>
<td>18.83</td>
<td>26.49</td>
<td>23.00</td>
<td>16.79</td>
<td>13.28</td>
</tr>
<tr>
<td>Assets liabilities ratio</td>
<td>0.46</td>
<td>0.42</td>
<td>0.79</td>
<td>0.79</td>
<td>0.78</td>
</tr>
<tr>
<td>Debt/Stockholders’ equity</td>
<td>0.86</td>
<td>0.74</td>
<td>3.83</td>
<td>3.80</td>
<td>3.46</td>
</tr>
<tr>
<td>Liquid ratio</td>
<td>1.85</td>
<td>1.86</td>
<td>0.86</td>
<td>0.87</td>
<td>1.04</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>1.43</td>
<td>1.61</td>
<td>0.75</td>
<td>0.77</td>
<td>0.95</td>
</tr>
<tr>
<td>Expansion rate of total assets</td>
<td>-----</td>
<td>0.08</td>
<td>-0.55</td>
<td>0.08</td>
<td>0.19</td>
</tr>
<tr>
<td>Net profit growth Per share cash flow from Operations</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
</tr>
</tbody>
</table>

**Table 6 Financial Indexes of Lenovo (2003-2007)**
(Source: Integrated the date from database of Hong Kong Stock Exchange)

From 2002 to 2005, the Lenovo's ALO (asset-liability ratio) had been remained at 40% level; even in 2004, the ALO had not increased significantly. The main reason of Lenovo's success was the reasonable choice in payment forms. In its acquisition,
Lenovo paid attention to the use of mixed securities payment

Lenovo listed in Hong Kong, through the stock transactions to reduce cash expenditures, through international syndicated loans and private capital rising to financing. Combination of different payment forms reduced their financial risk, while avoided the difficulties of operating capital.

From Table 6, we can see that: after the acquisition, Lenovo’s net assets margin Ratio and earnings per share (HKD) in 2005 and 2006 had decreased to some extent, this reflects some problems in the post-merger integration stage. But in 2007, Lenovo's profitability was restored to normal level, and began it’s rapidly growth. Lenovo's expansion rate of total assets was only had a substantial reduction in 2005, in 2006, it returned to normal level. In 2007, because of the positive effectiveness of new acquired assets, Lenovo’s assets began to expand rapidly. At the same time, the turnover ratio of Lenovo’s total asset had no significant decline compare to the year before its cross-border M&A, this can reflects the operation of its funds are not impacted too much by the acquisition, while the acquisition didn’t cause a terrible operational risk. One year later Lenovo’s acquisition of IMB’s PC business, Lenovo’s business had a great development. 2006, the consolidated turnover of Lenovo reached 14.6 billion dollar with an increase of 110%, Lenovo’s PC business increased 12%,the annual rate of Lenovo Group’s gross profit broke the record high to 14%.

These have shown the mixed use of cash and stock payment was not add a huge burden to Lenovo, but further promote the development of its operational performance.

5.5 Alibaba Groups cross-border M&A case

On August 11th, 2005, Alibaba and Yahoo held a press conference in Beijing and announced that they have signed a cooperation agreement with each other. Alibaba acquired Yahoo China's total assets, while also got $1 billion investment from Yahoo. At the same time, Alibaba can enjoy the Yahoo's brand and exclusive right of technology in China. Yahoo got 40 percent shares and 35 percent voting rights of Alibaba. After got Yahoo’s $1 billion capital injection, Alibaba’s board members changed, after the change, there are four board members, two came from Alibaba, one form Yahoo and one from Softbank.

After this combination, Yahoo China's company will be fully operated and managed by Alibaba. Documents shows that Alibaba used 40 percent equity exchanged for 6.4 million dollar in cash, Yahoo China business and Yahoo’s Taobao shares which purchased from Softbank. Yahoo had to pay initial cash $250 million, another $390 had to be paid in the late completion of the transaction.

After the acquisition of Yahoo China, Alibaba's businesses expanded to all areas of internet business expect wireless business and game business. In China’s internet market, Alibaba's B2B, C2C had become the market leader.
<table>
<thead>
<tr>
<th>Alibaba Group</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets margin Ratio</td>
<td>0.07</td>
<td>0.13</td>
<td>0.20</td>
<td>0.37</td>
<td>0.38</td>
</tr>
<tr>
<td>Earnings per share(HKD)</td>
<td>------</td>
<td>------</td>
<td>4.56</td>
<td>19.91</td>
<td>22.83</td>
</tr>
<tr>
<td>Total asset turnover ratio(%)</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Assets liabilities ratio (%)</td>
<td>0.81</td>
<td>0.86</td>
<td>0.92</td>
<td>0.40</td>
<td>0.38</td>
</tr>
<tr>
<td>Debt/Stockholders’ equity</td>
<td>0.59</td>
<td>0.68</td>
<td>13.05</td>
<td>6.33</td>
<td>4.24</td>
</tr>
<tr>
<td>Liquid ratio</td>
<td>1.07</td>
<td>1.01</td>
<td>0.92</td>
<td>2.35</td>
<td>2.47</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>1.07</td>
<td>1.01</td>
<td>0.92</td>
<td>2.35</td>
<td>2.47</td>
</tr>
<tr>
<td>Expansion rate of total assets</td>
<td>------</td>
<td>1.35</td>
<td>0.38</td>
<td>1.96</td>
<td>0.31</td>
</tr>
<tr>
<td>Net profit growth</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Per share cash flow from Operations</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
</tbody>
</table>

Table 7 Financial Indexes of Alibaba (2004-2008)  
(Source: Integrated the date from database of Hong Kong Stock Exchange)

5.6 Summary

After the acquisition of Yahoo China, Alibaba's business has always maintaining rapid growth of revenue and profit, Alibaba's main business revenue in 2004 was 359.4 (million Yuan), in 2005 was 738.3 (million Yuan), in 2006 was 1363 (million Yuan) in 2007 was 2163 (million Yuan) and in 2008 was 3001 (million Yuan), from 2004 to 2008, the compound growth rate of Alibaba's main business revenue is 53%.

From the point of view of Table 7, between 2004 and 2008, AliBaba’s net assets margin Ratio kept in a high level, and increased rapidly year by year, indicating that: Benefit from the M&A occurred in 2005, large amount of cash from Yahoo have a very positive effectiveness to Alibaba's profitability. From the perspective of solvency, after completed the acquisition of Yahoo China, Alibaba's Liquid ratio
increased steadily, Liquid ratio are more than 2 after 2005, this shows its strong solvency. In the period 2005 to 2008, the expansion rate of Alibaba’s total assets shows it’s well growth ability.

Although Alibaba transferred of 40 percent shares to Yahoo, and made Yahoo became the one of the three largest shareholders of Alibaba, which may cause the holding problems in Alibaba. But from the perspective of company's operational performance, through the equity payment in acquisition of Yahoo China, Alibaba got a large amount of cash and Yahoo's technological, strategy support, and achieved rapidly business growth. In 2007, Alibaba accounted for 57% share of Chinese e-commerce business, absolutely beat the number of competitors which used to have the same scale with Alibaba. (HC International, NetSun, Haihong Medical Network, etc.)

From the case study above, we can see, the Lenovo’s acquisition of IBM gained initial success, Alibaba’s M&A with Yahoo China pushed it to the market leader position, while TCL and BOE Technology M&As made the entire enterprise into a difficult position. What’s the reason of these different results? Expect their M &A decision and integration factors, the choice of payment form is also a very important factor.

Lenovo paid attention to the use of mixed payment. Therefore, its payment did not bring a high debt ratio, without a high financial pressure, their financial risk can be maintained in a very low level, which did a great help for Lenovo’s long-term profit. Alibaba singly used equity in its cross-border M&A, not only avoided enormous financial pressure, but also gained amount of capital to support its development, which caused the rapidly develop of its business. While TCL and BOE Technology singly used cash payment, and most of cash came from bank loans. Single financing caused terrible operational risk and financial risk; while cash payment caused lack of operate capital, these influences badly impacted normal operation of enterprises.

Summing up the above cases, the fund required for Chinese cross-border M&As is a very important but difficult to solved problem for every Chinese acquirer company. if singly use cash payments, the huge cost of financing, high taxes, huge debt interest, high assets-liability ratio, too low cash flow ratio, each one will have negative impact to a company’s profitability and growth, which will lead to the decline in operational performance. Sometimes, because there is no enough capital to support the normal operation of new merged business, the acquirer company has to sell it again.

In comparison, equity payment, mixed of securities and cash payment, integrated securities payment, although maybe cause some problems---such as holding right transfer---However, less cash paid, will greatly reduce the cost of cross-border M&A, to ensure that the acquirer’s operational performance.

The capital strength for most Chinese enterprises is still relatively weak; while the
capital operational experience is still lack. In the case of singly use cash payment, the unexpected losses can easily be leaded, which will have the negative impact on operational performance. So, just from the perspective of operational performance, cash payment is not the best choice for Chinese cross-border M&A.
6 Conclusion and suggestions for future research

6.1 Conclusion

After the expression of chapter 1 and chapter 2, I have elaborated available payment forms in the implement of Chinese cross-border M&A, and did the classification for them. Through the analysis of Chapter 3, the possible impact factors of the payment form choice in Chinese cross-border M&A have also been clear. Empirical study of Chapter 5 defined the performances of different payment forms to some extent. Given the above research, I can give the answers to the questions I discussed in problem discussion part.

1 How many payment forms are widely used in Chinese cross-border M&A?
The main available payment forms in Chinese cross-border M&A are cash payment, stock payment, asset payment and mixed payment. In practice, there are only a few cases singly used stock payment or asset payment. In contrast, the singly use of cash payment is obviously popular in Chinese cross-border M&A, which is one of the main problems in choosing payment forms for Chinese companies.

2 What are determine factors of cash-payment preference in Chinese cross-border M&A?
As Chinese cross-border M & A has its own peculiarities, the preference in cash-payment mainly influenced by the following seven factors: 1The managers lack experience in the use of securities in cross-border M & A. 2 The convenience of cash financing 3 The impact of M & A approaches. 4 The impact of acquirers' financial conditions. 5 The impact of both companies' shareholders. 6 The impact of China's capital market's maturity 7 The impact of the governments' attitude.

3 Does cash payment have the best operational performance in Chinese cross-border M&As?
Different payment forms are suitable for different M&A conditions. But consider from the perspective of operational performance, cash-payment can’t be treated as the best. From the perspective of the nature for acquirers, Chinese state-owned enterprises have the preference of singly use cash payment in cross-border M&A. This preference is a "policy requirements" rather than a "choice". With worsen of U.S. dollar crisis, as the country who has the largest US debt, China had to adopt a "Funds-for-assets" policy, which led to that Chinese state-owned enterprise singly used cash-payment in cross-border M&A, sometimes even ignore the huge payment cost.

But cash payment is not conducive to long-term profitability of the enterprise itself. For China's non-state enterprises, blindly follow the state-owned companies and singly use a cash payment, will lead to the increase of asset-liability ratio of enterprises and the
surge of finance costs, therefore, it will greatly increased the financial risks. In contrast, the application of mix securities payment in Chinese cross-border M & A has smaller demand for cash, it reduces operational risk and financial risk during acquisition and decrease the financial pressure in the operation process. Mixed securities payment not only maintaining the long-term gains ability of the acquirer's, but also maximize the protection of acquired shareholders' equity in the future company. So, for most of Chinese non-state companies' cross-border M & A, cash payment is not the best choice.

6.2 Deficiencies of the study

1. Currently, there is no systematic analysis theory to analyze the impact on business performance from different choice of payment. However, due to business performance is often affected by many other factors simultaneously. Therefore, it is very difficult to draw accurate conclusions from a simple financial analysis, and it is also difficult to through the form of formula to express the inevitable link between payment and the business performance, which reduce the reliability of this article to some extent.

2. In general, financial analysis method which focuses on performance of mergers and acquisitions is often used in qualitative analysis approach. This approach requires a lot of cases and data to support its findings. However, just now, non-cash payment cases in China's overseas M & A are very few, it is very difficult to find enough cases depending on the payment form in order to objectively reflect the real situation of the sample group. Furthermore, Chinese business information disclosure systems is imperfect and even many important financial data of the listed companies are covered-- particularly the financial data of Hong Kong Stock Exchange's. All these have led to difficulty to make a complete and perfect analysis by the financial analysis. And this will also reduce the reliability and validity of this research.

6.3 Future study

Right now, there is no a systematic research model can be used to analysis the impact factors of the payment forms in cross-border M&A. In the future study, we can build a mathematical model according to the financial data of Chinese cross-border M&A, and search the degree of influence for different impact factors.

In addition, As payment forms have different characteristics for different regions and different industries. In the future study, we can focus on a region (North America, Western Europe, Africa, etc) or a industry (manufacturing industry, mining industry, financial industry, etc.), detailed to research the impact factors and performance of different payment forms.

With improvement of Chinese financial disclosure system, we can expect to obtain the complete financing data and payment data of Chinese companies, then we can use
the methods of quantitative analysis to do more comprehensive study focus on the payment forms of Chinese cross-border M&A, in order to obtain more objective results.
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