

修士論文

The Role of Bridging Ties in Chinese Outbound M&As in Japan

中国企業による日本企業買収における紐帯の役割について

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主査_____

The Role of Bridging Ties in Chinese Outbound M&As in Japan

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Master's course

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Abstract

This thesis examines success factors of Chinese outbound mergers and acquisitions (M&As) in Japan, mostly through quantitative analysis of 35 cases and qualitative analysis of 4 case studies. I find that M&As are more likely to be successful when the managers that understand both Japanese and Chinese cultures and business practices are involved. This result is consistent with the argument in social network analysis emphasizing an important role of bridging ties in business success. In addition, the existence of bridging ties makes workers and shareholders reduce the anxieties for being acquired by Chinese firms.

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1. Introduction

Over the years, Asia has received a large amount of foreign direct investment (FDI) from developed countries. However, as Asian countries achieved high levels of economic growth in recent years, a new pattern of international capital flows has emerged. Emerging economies in Asia, most notably China, are now engaging in outbound mergers and acquisitions (M&As), a form of FDI, used to acquire firms in developed countries that have skills and technologies. Chinese M&A outflow indicates an upward trend, and that Asia is the main region of investment (Schüller *et al*, 2005). The total value of China's outbound M&As in 2012 reached a record-high of \$65.2 billion, making a five-fold increase from \$10.3 billion in 2008, according to PricewaterhouseCoopers' (PwC) report (Xinhua, 2013).

There are some studies related to the performance of Chinese companies after engaging in outbound M&As. For example, Todo *et al*. find that sales, productivity, and tangible and intangible assets of acquiring firms increase substantially after M&As (Todo *et al*, 2013). However, there is not enough research done on the impact of Chinese outbound M&As in developed countries from the perspective of seller firms. Therefore, this thesis will examine the factors for success of Chinese outbound M&A in Japan. The definition of success in this paper is that the seller's growth rate of stock price is positive after M&As.

For this purpose, after overviewing the success factors of China-Japan business through interviews, I will analyze all the 35 cases of cross-border M&As between listing companies from China to Japan covered by RECOF, the largest provider of information on M&As in Japan. After figuring out the importance of bridging ties, the economic keyword in this paper, for M&As, I picked up 4 cases to investigate. In addition to qualitative case study, I conducted quantitative data analysis to see the impact of bridging ties on the growth rate of stock prices.

As a result, I find that M&As are more likely to be successful when managers who understand both Japanese and Chinese cultures and business practices are involved. This result is consistent with the argument in social network analysis emphasizing an important role of bridging ties in business success. Moreover, I also see that the

existence of bridging ties reduces and mitigates the stress fearing for Chinese buyer firms, managers and their business cultures, one of the serious bottlenecks of M&A.

This result is especially relevant for Chinese & Japanese firms that are actually in the process of M&As and post-merger integrations in terms of their strategy of human resource management. In addition, this may also lead to vigorous discussions about the study-abroad system that makes more bridging ties.

2. Chinese Outbound M&As

2.1 Chinese Outbound M&As in General

Some papers already mention that Chinese M&As outflow indicates an upward trend, and that Asia is the main investment region (Schüller *et al.*, 2005). The total value of China's outbound M&As in 2012 reached a record-high of \$65.2 billion, making a five-fold increase from \$10.3 billion in 2008, according to PricewaterhouseCoopers' (PwC) report (Xinhua, 2013). Motives of Chinese firms for outbound FDI and M&As include expanding markets and accessing technology and resources (Chen *et al.*, 2013). According to a survey by Roland Berger of China's 50 largest "industry-leading" firms, 56 percent of Chinese investors chose "seeking new markets" as the main motive for their international investment, while 16 percent chose "obtaining technology and brands" (Nicolas and Thomsen, 2008).

Chinese outbound M&As are generally beneficial to acquiring firms, as Todo *et al.* found that sales, productivity, and tangible and intangible assets of acquiring firms increase substantially after M&A deals (Todo *et al.*, 2013). However, Copeland *et al.* have pointed out that, in general, many acquisitions are not successful for the buyer, including Chinese firms, in regard to the returns (Copeland *et al.*, 2005).

2.2 Chinese Outbound M&As in Japan

To quantitatively overview Chinese outbound M&As in Japan, I analyzed 35 cases to see their characteristics using the data bought from RECOF Inc. RECOF Inc. has been proposing and completing a diverse range of domestic and cross-border M&A transactions. From all of M&A cases, I conducted screening and refined into 35 cases. The criteria of screening are that (1) firms of Chinese capital (not including Taiwanese

and Hong Kong companies) are the buyers and (2) Japanese firms that were listed when they were bought are the sellers.

I only chose listed Japanese firms in order to trace the transition of the share price and make sure there was enough available data, in the form of financial reports and articles. According to RECOF, there are 5 types of deals¹.

Figure 1

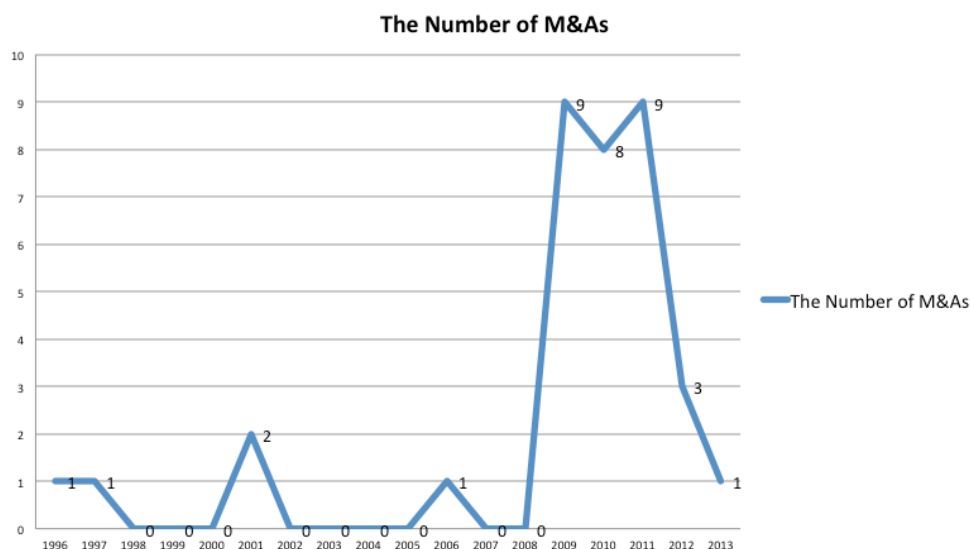


Figure 2

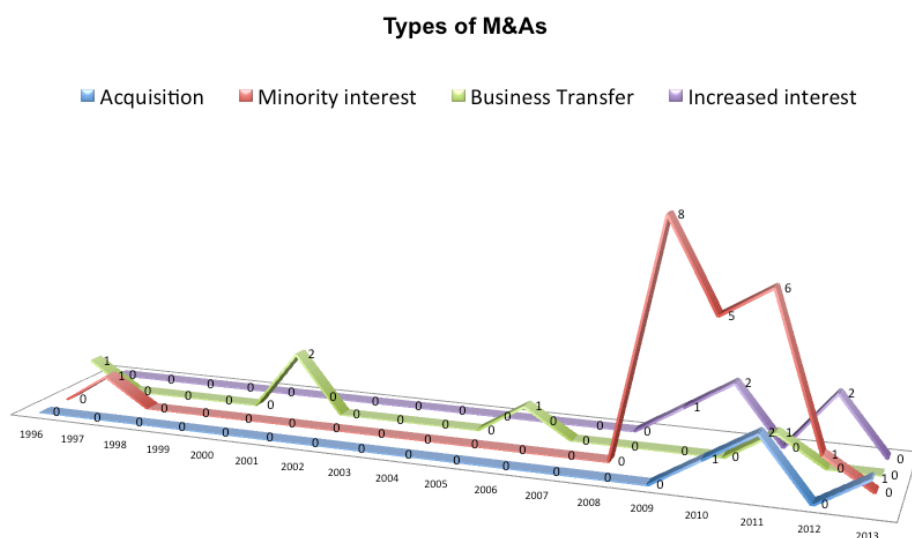


Figure 1 shows that the number of M&As drastically increased after the economic downturn precipitated by the Lehman Brothers bankruptcy in 2008. It is assumed that the number of M&As is comparatively small in 2012 and 2013 because of

¹ (1) Merger(合併): Business integration by an agreement among two or more companies. (2) Acquisition(買収):

the time lag listing on the RECOF Data. Figure 2 revealed that the minority interest types of M&As sharply increase after the failure of Lehman Brothers. It seems that because the stock price of Japanese firms declined in 2008, it becomes relatively easier for Chinese firms to buy Japanese shares. On the contrary, the business transfer type of M&As is observed only in 1996, 2001, 2006 and 2011. This implies that the business transfer type of M&A is not new, but was the traditional pattern of M&As between Japan and China. Numerically, minority interest accounts for the largest percentage (60%) of M&As, followed by business transfer (14%), increased interest (14%) and acquisition (12%). It may still a big hurdle for Chinese firms to acquire more than 50% of the shares of a Japanese company.

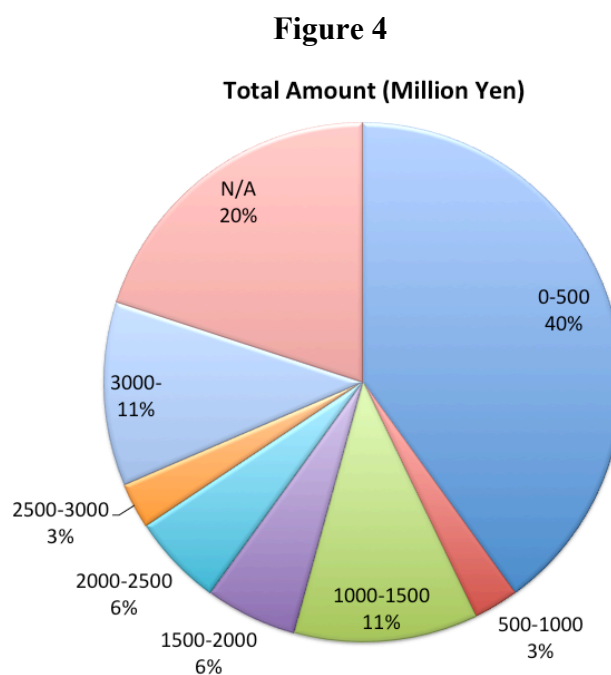
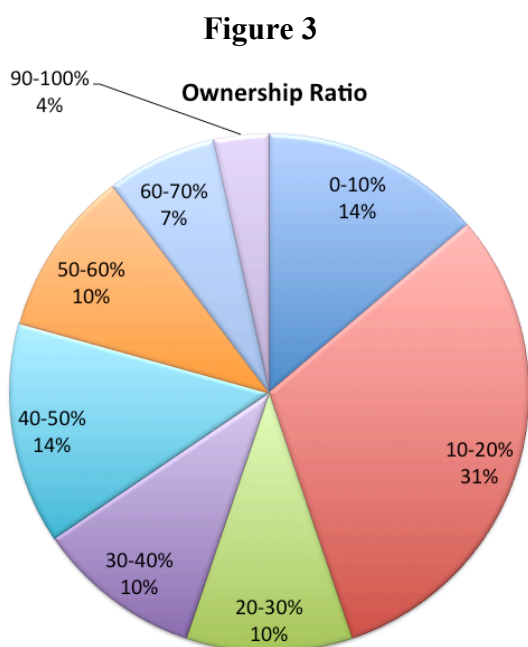


Figure 3 shows that ownership ratio is often under 50%. In addition, Figure 4 points out that the total amount of M&As is not so large. 40% of all M&As are less than 500 million yen. Both Figures 3 and 4 suggest that although it became much easier to buy Japanese shares, it is still hard for Chinese firms to own big portions of shares of Japanese firms. From the perspective of Japanese firms after M&As, 66% of Japanese firms are still listed on the stock market, but the others were delisted after M&As

because of several reasons. This delisting rate is quite high. 77% of all Chinese firms were business firms, and the remaining were investment firms.

Figure 5

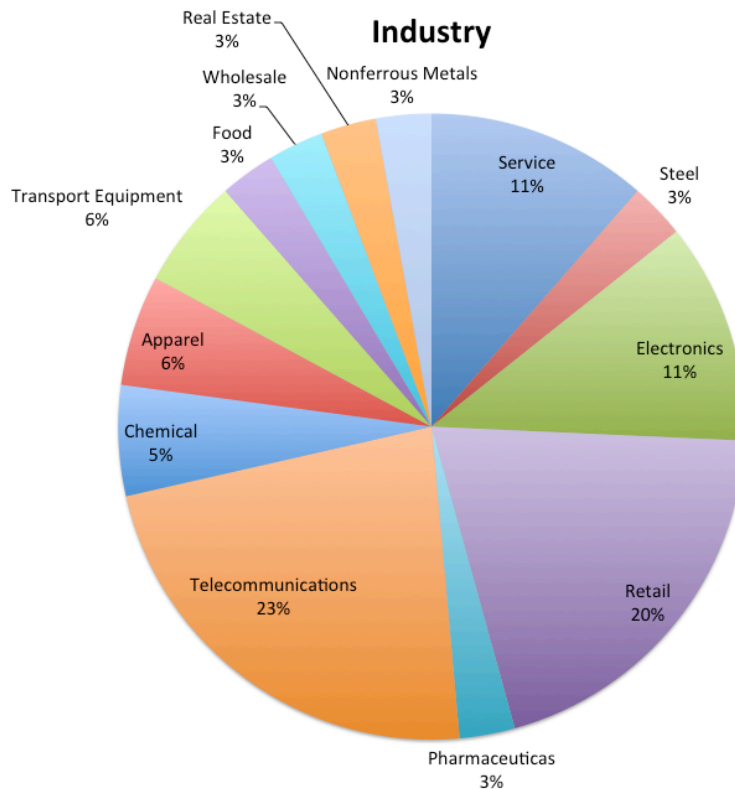


Figure 5 indicates that the industry where M&As happened is varied. There are two main industries in particular: telecommunications industry takes up 23%, and retail industry takes up 20%. In these industries, cost cut synergy of R&D and expanding channels of distribution in blooming Chinese market are expected after M&As.

3. Success Factor of M&As

3.1 Success Factor of M&As in General

As M&As emerged in the 1980s, the reasons for success were studied from several theoretical perspectives, such as strategic management, economics, finance and organizational viewpoints. For example, Hoang et al. (2008) summarized the success factors of M&As as below:

“(1) Complete and Clear objectives, goals and scope of the project, (2) Client consultation and acceptance, (3) Project manager’s competence and commitment, (4) Project team member’s competence and commitment, (5) Communication and information sharing and exchange, (6) Project plan development, (7) M&A advisory firm’s resource planning, (8) Time management and tight secrecy, (9) Price evaluation and financing scheme, and (10) Risk management.”

In addition, three new factors have been discovered from analyzing the data they collected: (i) Having a number of key potential buyers with suitable profile (ii) Right, correct and complete information and data in the data room, and (iii) The quality of the selling company (Hoang *et al*, 2008).

However, because of its complexity, there is no concrete conclusion about success factor of M&As. Beyond these different theoretical perspectives, Larsson *et al*. conducted cross-sectional inquiry with 61 M&A cases, and concluded that the extent to which a merger or acquisition resulted in synergistic benefits was related to the strategic potential of the combination, the degree of organizational integration after the deal was completed, and the lack of employee resistance to the integration of the joining firms (Larsson *et al*, 1999). Furthermore, their analysis revealed that:

*“(1) Independent of any similarities across joining firms, the presence of complementary operations increased the probability of acquisition success by boosting synergy realization, (2) organizational integration was the single most important factor in explaining synergy realization, even to the extent that M&As with high combination potential were significantly more successful when coupled with high organizational integration than when integration efforts were less forceful, and (3) mergers and acquisitions that were dependent on gains from combining similar production and marketing operations tended to elicit more resistance from employees than M&As focused on realizing complementary benefits (Larsson *et al*, 1999).”*

While there is the study of empirical research of success factors of M&As (Schweiger *et al* 1991, Larsson *et al* 1999, Hoang *et al* 2008, Bruner 2002, Beitel *et al* 2004), these cases are not focusing on Chinese outbound M&As. It goes without saying that there is almost no research concerning Chinese outbound M&As in Japan.

3.2 Success Factors of Chinese Outbound M&As

In order to conduct a qualitative overview of Chinese outbound M&As in Japan, I had semi-structured interviews with 12 interviewees currently working in China whose work are somehow related to Japan (cf. doing business with Japanese, Chinese CEO who have the experience of studying in Japan, Japanese who is working in China, and so on). To see the success factor, the main question of my interview was “*suppose that you bought Japanese firms, what would be the bottleneck of the deal?*” I decided to ask about the bottleneck because I thought the success factor of M&As might be closely related to solving these bottlenecks. Fortunately, the interviewees came from a diverse range of industries, from advertising firms to IT companies. The interview was mainly in Chinese, English, and Japanese. The schedule was that in Shanghai (2013/3/8-2013/3/13), in Hong Kong (2013/3/13-2013/3/16), in Shenzhen (2013/3/16-2013/3/19), and in Beijing (2013/3/19-2013/3/22).

As a result of the interviews, it was revealed that there are 4 major bottlenecks:

- i) The image of state-owned company can be an obstacle. It is true that the Chinese government own large ratio of shares of big firms in each industry. Japanese CEOs may be fear for being hijacked their companies by Chinese government.
- ii) The hesitation of Japanese firms to share their technology is a big problem. Japanese people deem that their skills and technologies are the only thing they are able to maintain competitive advantage in this global business field.
- iii) The hesitation of Japanese people to be managed by Chinese people is realized as a difficulty. Japanese people know Chinese firms have different business cultures. Japanese people are conservative, and anxious for being forced to change their business style. For example, the pay structure in each firm will be different (e.g. lifetime employment in Japanese firms, and compensation and incentive program in Chinese firms).
- iv) The bad financial situation of Japanese firms is a bottleneck. The target Japanese firms have large debts and bad balance sheets.

From this result, I realized that if the hesitation for Chinese managers can reduce and integrate both business systems and culture, the M&As could end in success. If the image of the Chinese firms get better and helps to establish better relationships, Japanese firms may be more willing to share their technology with Chinese firms.

Larsson et al. (1999), supporting the hypothesis of this study, also argue that “organizational integration was the single most important factor.” Because of the political conflicts between Japan and China, this bottleneck may especially be one of the biggest burdens. From these results, the existence of social capital called “bridging ties” may have a big role when they join together two firms. In the next section, I review the prior studies done on bridging ties.

4. Social Capital and Bridging Ties

As cross-border transactions emerged, studies by researchers on what drive these deals also arose. Social capital is now considered one of the most important engines of international business.

Traditionally, there are two network structures that have been argued to create social capital: *closure* and *structural holes*. The closure argument is that social capital is created by a network of strongly interconnected elements (Coleman, 1988). Coleman mentioned that there are three forms of social capital: obligations and expectations, information channels, and social norms, and the role of closures on the social structure in facilitating the first and third of these forms of social capital. The structural holes argument is that social capital is created by a network in which people can broker connections between otherwise disconnected segments (Burt 1992, Burt 2001).

Several scholars also define “social capital” in different ways and explaining the importance of it. Zaheer et al (2000) advocate in their paper that the networks of relationships in which firms are embedded profoundly influences their conduct and performance, and they sum up that a deeper understanding of “*Strategic Networks*” has enormous potential. Ellis (2000) also states in his study that his findings support the opinion that knowledge of foreign market opportunities is always provided via existing “*interpersonal links*” rather than collected systematically via market research.

However, the definition of social capital is now getting complicated. Integrating across disciplinary domains is relatively easy and feasible because of its broad consistency or complementary concerns. On the other hand, integrating across theoretical perspectives is difficult due to the absence of a rigorous theory or meta-

theory that can incorporate the strengths of the existing, competing theories and transcend their respective limitations (Paul, 2002).

Although some researchers argue that there is a distinction between bridging ties and structural holes (Zaheer *et al*, 1999), I align myself with Burt's theory of bridging ties². Like other researchers who see bridging ties as one form of social capital (Zaheer *et al* 2000, Ellis 2000, Burt 1992), I use the term in the same way.

Qualitatively, it is still unclear whether bridging ties are one of the significant reasons of M&A successes, and if they are, in which situations and in what way. Moreover, it is not yet revealed if bridging ties indeed affect the Chinese outbound M&As in Japan. In order to realize the role of bridging ties in M&As, I decided to conduct case studies, which are introduced in the next section.

5. Results from Four Cases

The method "case study" allows us to see a more robust understanding of M&A processes and results (Cording *et al*, 2002). In order to investigate success factors of M&A, I chose 4 cases from different companies that have enough information of the deal. The 4 cases are (1) Suning Appliance Co's acquires electronics retailer LAOX, (2) INSIGMA Technology Co., Ltd. tied-up IT software company SOLXYZ Co., Ltd, (3) Haier Group Corp. acquires Sanyo Electric Co.'s household-appliance businesses from Panasonic Corp, and (4) Shandong Ryui's investment acquires apparel firm Renown Inc. The information is from interviews, home pages, articles of newspapers and magazines, videos, and financial reports of each firm. The case studies consist of two parts: detail of M&A and bridging ties. More specifically, "M&As with bridging ties" in this thesis are defined as the M&A transaction that involve CEO or board members of buyer or seller firms who have studied or worked in the country of the counterpart.

² Burt's definition of bridging ties is a chasm spanned and the span itself (Burt, 1992).

5.1 LAOX

Case	SUNING/NIHON KANKO MENZEI & LAOX		
Type	Minority interest	Increased interest	Acquisition
Date of M&A announcement	2009/06/25	2010/08/17	2011/06/29
Total Amount (Million Yen)	1900	2500	9000
Ownership Ratio	0→55%	51.0%→58.82%	59.65%→78.7%
Stock Exchange Market	TSE 2nd Section		
Type of Chinese firm	Business Firm		
Industry	Electronic Retail		
Bridging Ties	YES		

Detail of M&A

LAOX was established in 1930. As one of the big electronics retail stores, it increased its sales in the audio devices and PC selling market. Based in Akihabara, it expanded the number of shops from Tokyo to Tohoku area due to acquiring and tying-up with firms in the rural area. At the peak period, its total sales were around 200 billion yen. However, because of declining PC sales, failure of large-scale suburban-type stores and stiff competition in the Japanese market, its achievements were getting smaller and smaller. In order to rebuild the business, LAOX decided to be bought by Suning in 2009.

Suning Commerce started in Nanjing, China in 1990. It is now the largest commercial retail enterprise in China, and it is privately-run company. According to Suning's HP, it has 180,000 staff with annual sales revenue of 230 billion yuan. From the Suning's perspective, the M&A was supposed to acquire Japanese products, human resources, know-how of management, and business partners through LAOX.

After this corporation, LAOX reorganized domestic operations like shutting down its large-scale store and reshaped into mainly 3 businesses: Chinese business, intermediate trade business and duty-free commerce business. At the intermediate trade business, LAOX introduced Japanese firms that are on the process of expanding their business in China to Chinese firms or Chinese business partners.

In Dec 2011, LAOX opened its first shop in Nanjing. In 2012, the total sales of Chinese business section was around 8.2 billion yen, or 36% of LAOX's total sales of the year. They are planning to expand with more shops in China in 2013.

Bridging Ties

Luo Yiwen, the president of LAOX from 2009, graduated from Shanghai University of Finance and Economics in 1985, and enrolled in Shanghai NO.1 Department Store right after his graduation and worked several years. In 1989, He came to Japan and enrolled in language school for several years to get a visa. In 1989, He established his company called Zhong Wen Book Store (中文書店) in 1992. He started to publish a magazine Chinese Review Weekly (中文導報), which delivers information for Chinese people living in Japan. He established Chubun Sangyo (中文產業) in 1995 and Nihon Kanko Menzei (日本觀光免稅) in 2006. He was the very person who mediated between the former managers of LAOX and Suning.

An employee of LAOX mentions about Luo Yiwen CEO in newspaper interviews "Suning does not force to follow their business approach. Of course, they strictly check the sales and costs, but they basically trust us." The employee also mentioned "Firstly, we felt anxiety for being affiliated with Chinese company, but hearing the words of Suning's managers and seeing the Suning's stance of reconciliation, the uneasiness disappeared and spread out the sense of security among the office." They felt Suning really paid attention to them and helped them not to be afraid of Chinese managers and firms (Nikkei News Paper, 2010/6/28).

In China, thanks to the Luo Yiwen CEO's advice, Suning learned and adopted Japanese-methods to their 1700 shops, like selling not only home electronic appliances but also commodity goods. In Japan, LAOX newly opened one of the biggest duty-free shops for foreign customers, mostly Chinese, at Akihabara area on Jan 2013. Due to the CEO's instruction, they drew Japanese painting cards on the wall and decorated pictures of everyday life in the Edo period (ukiyo-e) in order for Chinese visitors to experience and enjoy Japanese culture and services in the shop. He fully understands preferences of Chinese and Japanese people and mixes well the two business cultures.

In Sep 2012, because Japanese cabinet approves the nationalization of Senkaku Islands, anti-Japan movement happened all over China. However, LAOX announced

that there is no damage from the anti-Japan riots in China. Moreover, it said that they accelerated opening new shops in 2012 and gained more sales. On the contrary, the number of Chinese customers drastically declined in Japan, so the CEO decided to reduce shops.

Because the CEO handled anti-Japan movement well and practiced the suitable strategy, LAOX has not heavily influenced by the political tension. Because of his connections in China, he could systematically develop LAOX in China and offset the bad impact. He said that he tries to run a company that can stand the harmful influence by building the China-Japan relationship.

5.2 SOLXYZ

Case	INSIGMA TECHNOLOGY (BIS) & SOLXYZ
Type	Minority interest
Date of M&A announcement	2010/03/24
Total Amount (Million Yen)	268
Capital Interest Rate	0→5%
Stock Exchange Market	JASDAQ
Type of Chinese firm	Business Firm
Industry	Telecommunications
Bridging Ties	YES

Detail of M&A

SOLXYZ was established in 1981 as an IT engineering firm and now has around 500 people on staff including around 350 system engineers and 100 programmers. Its main business is system development for financial institutions and it also provides technical IT services for finance, telecommunication and public agencies. In addition to flow-type business, it emphasizes stock-type business with high-level solutions. In 2001, it was listed on the JASDAQ stock exchange market, and from 2005, it achieved the increase both in sales and profits for 3 years in succession. From 2008, it positively put M&As and business tie-ups to practical use in order to expand its business fields. At the field of entrusted development of IT system, the budget for

system investment tend to be smaller and smaller due to the global recession, so the number of offshore development to China is increasing.

Powered by Zhejiang University's comprehensive technological capabilities, INSIGMA Technology Company was established in 1998 and now is a leader in the China-based IT services and outsourcing industry. In China, they domestically provides IT collaborative services at several areas including "E-government, social security, citizen card, digital city management, city information resources directory and exchange system, and smart transportation (INSIGMA HP)" Globally, their IT software was installed in the big financial institutes in the states, and they have an excellent reputation in terms of their quality.

Seeing this M&A from SOLXYZ's point of view, in order to keep reliable development systems while cutting costs and maintaining and increasing good customers in Japan, SOLXYZ was searching for the offshore business partner that have scales and results in IT industry to some extent. In addition, SOLXYZ was also examining to spread out into a larger and high-potential rising market like China for the sake of developing stock-style business. On the other side, INSIGMA was actively striving for the expansion of offshore development orders from Japan and the importation of sophisticated Japanese IT skills and products. It was trying to find Japanese IT partner that is especially good at the upper processes of financial institutions. In 2010, SOLXYZ and INSIGMA announced their comprehensive business tie-up. In 2012, SOLXYZ's financial report said that from the second half of the fiscal year, the sales of products in China were going to increase.

INSIGMA has a subsidiary company called Beijing Innovation Software Technology (hereafter BIS) in terms of the capital relationship. BIS invested in INSIGMA as a minority interest type of M&A. BIS is a new high-tech firm engaging in software development oriented to Japan market since 1995. It was started with only about 10 employees. According to BIS's HP, "Merging three companies at the end of 2001 and the introducing new capital from INSIGMA, with the accumulation of development experience and a large number of high-level technical talent, management talent joining in the BIS company, has got from the step-coding, unit test to the step-sketch design, basic design, detailed design, linked testing, integrated testing and the

operating maintenance, providing with an ability to undertake large scale of software projects independently.” In reality, BIS actually invested to SOLXYZ.

Bridging Ties

From my interview with a board member of SOLXYZ, I realized there is a bridging ties in this deal as well. The person who set up BIS had studied abroad in Japan. Moreover, the CEO of INSIGMA (鐘明博) has also traded with Japanese firms and respects the skills, technologies and work experiences of Japanese IT firms.

The announcement of M&A appeared to have caused some confusion among the employees of SOLXYZ. The board members of the firm politely persuaded them to explain that (1) the Chinese firm is run by a CEO who knows about Japanese businesses and culture, and (2) the ownership ratio is relatively small (5%). Finally the managers made the staff understood, and the managers could also use the same explanation to shareholders when the China anti-Japanese demonstrations happened in China in 2012.

The CEO of INSIGMA talked in the interview of NIKKEI BP about the way of constructing good relationships between Chinese and Japanese firms. He mentioned the importance of the stance of subsidiary. The parent company should regard the subsidiary as an independent firm, and think a great deal of its autonomy (NIKKEI BP Net, 2012/06/29).

The ideal corporation in this case is that SOLXYZ consult IT schemes and INSIGMA actually integrate systems. The bridging tie allows them to collaborate smoothly. If the quality of total process increases, the quality of product also increases, said manager of SOLXYZ. For example, SOLXYZ settled a Chinese business promotion office in order to quickly respond to Chinese special circumstances. The Japanese maker itself cannot handle some troubles with regard to the electronic shelf label, but because of the Chinese office, SOLXYZ can solve the problems.

5.3 SANYO Electric

Case	Haier & Sanyo Electric
Type	Business Transfer
Date of M&A announcement	2006/10/26, 2011/7/28
Total Amount (Million Yen)	100
Ownership Ratio	-
Stock Exchange Market	TSE 1st Section
Type of Chinese firm	Business Firm
Industry	Household-appliance
Bridging Ties	YES

Detail of M&A

Haier Group started in 1984, a consumer electronics manufacture, settled its headquarter in Qingdao Island, China. It has the world's largest market share with 10 comprehensive development institutions around the world, and produces and sells refrigerators, air conditioners, hot water heaters, kitchen appliances, color TVs, personal computers, and cell phones. According to its financial report, Haier's global revenue and profit reached 163.1 billion CNY (25.8 billion USD) and 9 billion CNY (1.42 billion USD) respectively in 2012. Now in Japan, there are 4 associated companies of Haier³.

In Jan 2002, Haier established its first base in Japan called "Haier Japan Inc. (now, Haier Japan Sales Inc.)" In Feb 2002, it made a joint venture with SANYO Electronic called "SANYO Haier Inc." to gain synergy effect both in Japanese and Chinese markets. In June 2002, "Haier Japan Holdings Inc." was established.

In 2006, Haier decided to make a joint venture called "Haier SANYO Electronic Inc. (Haier 60%, SANYO 40%) ". Haier inherited family-use refrigerators' design and

³ (1) Haier Japan Holdings Inc.: engaging in the administrative tasks of Haier brands in Japan. (2) Haier Asia International Inc.: conducting design development, marketing, manufacturing support and quality control of refrigerators, washing machines and home air conditioners both in Japan and Asia. (3) Haier Japan Sales Inc.: controlling total marketing of planning, sales and support about Haier consumer electronics in Japan. (4) Haier Aqua Sales Inc.: selling family use refrigerators, family use washing machines and business use washing machines, including incidental facilities.

functions from SANYO Electronic, and concluded global strategic tie-up. SANYO was in a hurry to reorganize production systems especially in white goods because of its unprofitability. In March 2007, they dissolved “SANYO Haier Inc.”, and integrated into Haier Japan Sales Inc.

In 2011, SANYO Electronic decided to sell whole washing machines and refrigerators businesses to Haier Group⁴. From SANYO’s perspective, it still tried to reshape domestic businesses and sell unprofitable sectors. On the contrary, Haier was anxious to acquire high-level skills and technologies of SANYO to be relied on by the customers all over the world and advance globally. They met their needs (MONTHLY CHINA NEWS, 2011/11/28).

In Jan 2012, “Haier SANYO Electric Inc.” was merged into “Haier AQUA Sales Inc.” and “Haier Asia International Inc.”, which marks and sells washing machines and refrigerators of AQUA brand. Mr. Okazaki, the chief of SANYO Electronics’ management strategy sector, said, “All technical experts and patents related to AQUA brand washing machines will relegate to Haier Group. Hereafter, Haier will produce and sell them (NIKKEI BP, 2011/07/29).” Domestically, around 300 workers engaged in SANYO Electronic moved to Haier Group.

As a result, in 2012, Haier in Japan mostly achieved its goal (4.5 times from 2011), and total sales were 48.3 billion yen. It stably runs the company among the Chinese electronic makers (Nikkei Newspaper, 2013/7/30). Overall, this M&A met with success.

⁴ The details of the contraction are as below.

- (1) Dispositions of stocks that were owned by SANYO Electronic to Haier Group.
 - SANYO AQUA, which produces and sales washing machines.
 - KONAN Electronics, which produces family-use washing machines.
 - Haier SANYO Electronic, which plans and develops family-use refrigerators.
 - Haier Electric Thailand, which manufactures family-use refrigerators.
- (2) Dispositions of firms to Haier Group.
 - SANYO HA ASEAN (SANYO Electronics’ consolidated subsidiary in Vietnam), which produces and sells refrigerators and washing machines in South–East Asia.
 - SANYO INDONESIA, which manufactures products.
 - SANYO INDONESIA SALES, which sales products.
 - SANYO PHILIPPINE
 - SANYO Sales and Service in Malaysia
- (3) SANYO Electronic allowed Haier Group to sell some particular “SANYO” Brand white goods includes refrigerators and washing machines, and to sell hole “SANYO” Brand TVs in the Vietnam, Indonesia, Philippine and Malaysia Markets (NIKKEI TRENDY, 2011/8/4).

Bridging Ties

Du Jingguo, the Haier Asia International CEO, is the bridging ties in this case. He became the CEO of Haier Japan Inc. in 2002, and Haier SANYO Electronic in 2007. He is fluent in Japanese, and his wife is Japanese. He also holds a post of Vice President of Haier Group in China. Before this M&A, he was always talking in Japanese to the Japanese staff that “I want to prepare the environment to make your good points grow. I will do what I can, not for the Haier’s head office, but for you.” In order to open Japanese staffs’ minds and reach mutual understanding between the CEO and them, he made memorandums about the anxieties for working with Chinese managers, and thought about the solutions to address their uneasiness. After the M&A, he let the boss of Haier Group inaugurate for the honorary president of Haier Asia International for the sake of showing Japanese workers that Japan office is quite important in Haier Group and making them feel better. Mr. Morita, the product executive manager of Haier AQUA Sales, strongly felt that “Du Jingguo CEO really understand what Japanese are like, and he tried to make the most of the great assets of SANYO (Nikkei Sangyo Newspaper 2013/1/31).”

The management method in Haier Group is a bit special. It divided 80000 staffs into 2000 groups called “Strategic Business Unit (hereafter SBU) (Mizuno, 2009).” It allows SBU to manage from market development to accounting. If the SBU could not achieve their goals, it is obviously their fault. This system encourages the staff’s motivations and clearly affected their results. Also in Japan, the SBU system is already considered to install. Thanks for the Du Jingguo’s effort, it renewed the old Japanese cultures like ranking by seniority system and lifelong employment system, and introduced pay-per-performance system. The chairman and CEO of Haier Group, Zhang Ruimin, mentioned that “it is easy to buy a firm with cash, so any company can do it if they have enough money. However, without good cultural strategies to integrate two cultures from two different firms, the M&A cannot go well. This is the absolute reason for our success (RECORD CHINA, 2012/4/26).” Due to its cultural strategy, Mr. Nakagawa, the CEO of Haier AQUA, said “every staff began to challenge something new, and became quicker for the decision making. Staff of sales and product planning are seriously taking and studying financing. This phenomenon is quite new.” Undoubtedly, good culture strategies lead to its growth of sales and profits.

5.4 Renown

Case	SHANDONG RUYI GROUP & Renown	
Type	Minority interest	Acquisition
Date of M&A announcement	2010/05/25	2013/04/12
Total Amount (Million Yen)	4000	2931
Ownership Ratio	0→41.18%	41.18→53
Stock Exchange Market	TSE 1st Section	
Type of Chinese firm	Business Firm	
Industry	Apparel	
Bridging Ties	NO	

Detail of M&A

Renown is one of the famous apparel companies and its head office is located in Shinagawa, Tokyo. It is not an exaggeration to say that the history of Renown and the history of Japanese fashion industry are overlapped. Since 1902, more than 100 years, Renown was the leader of the apparel industry in Japan. From 1960s to 1980s, Renown was known as the global top brand. Especially, the term “1960s” was the golden age for Renown as the fashion leader of young ladies. However, its business performance continued to hang low after the bubble burst. Since the 1990s, it has tried to sell out its assets and conduct personal reduction in order to stop financial deficits. In 2004, Renown decided business integration with D’urban, but it did not work to stanch its losses. Due to its business deterioration, it faced the difficulty fundraising the capital necessary for new businesses. For the past 20 years, it was in the red and total amount deficit was approximately 170 billion yen (Nikkei Newspaper, 2010/6/28).

Shandong Ruyi Group, founded in 1972 as a woolen mill, is now one of the biggest Chinese textile manufacture companies in innovative technologies. It has sufficient sales networks of high-quality and cheap apparel materials and products in China. An investment fund, Neoline Holdings Co.,Ltd. and the largest stockholder of Renown since 2008, introduced Shandong Ruyi Group to Renown, and started negotiations in 2009. Many other stockholders were worried about the deterioration of quality and brand image of Renown, and furthermore, lots of them disagreed about the affiliation. However, Mr. Kitabatake, the president of Renown, insisted that in order for

Renown to be reborn, it should choose not to stay in the mature market in Japan but to intrude into the growing market of China.

According to CHINA DAILY's article, "This deal is of great significance to Ruyi, as well as China's textile industry," said Qiu Yafu, president of Shandong Ruyi Group. "Since Ruyi already owns many of the world's leading technologies in textile manufacturing, we can take advantage of Renown Inc's reputable brand, efficient marketing network advanced management ability through the merger (CHINA DAILY, 2010/6/29)." It was for the first time in Japanese history that a Chinese company bought a Japanese firm listed in the TSE 1ST Section (Mainichi Newspaper, 2010/5/25).

However, it is said that the M&A and business partnership have not brought any results yet in 2013 (Nikkei Newspaper, 2013/07/12). Renown announced at the stockholders meeting that net profits from March to August in 2013 were still red (2.1 billion yen). Mr. Kubota, a senior market analyst at Matsui Securities, mentioned, "Because positive atmosphere for the performance improvement was spread out among share holders due to the favorable trend of consuming expensive product, many of them were disappointed with the red results." He also added "Without a good sign of concrete improve, the recovery of stock price might be quite hard (Nikkei Newspaper, 2013/10/15)."

Non-Existence of Bridging Ties

The reasons for the failure of Renown in China come from the misunderstanding between Chinese and Japanese in terms of business style and culture. For example, Renown's China branch was forced by Qiu CEO to open the first shop within 4 months. He also ordered them to expand 300 shops within 3 years, and 2000 shops within 10 years in the Chinese market. The preparatory period is too short to reasonably and successfully open the new store. Chinese CEO did not care Japanese business customs. To make matters worse, he advocated that the plan was prepared by the board members of both firms (Nikkei Newspapers, 2010/8/1). In addition, the branding strategy is totally different within both firms – for instance, Renown made a big deal of expanding the shops from urban areas to suburban, but the Chinese company did not care about it. Chinese people set a high value on increasing the number of shops, so they allowed designers and architects of their shop to use a wrong brand-logo and different

construction materials from the actual plan. A survey by Dentsu Inc. showed that Chinese felt importance, not on a quality, but on reliance, and the reliance comes from the number of sales in China (NIKKEI MJ, 2013/8/28).

Obviously, Qiu CEO has many precious connections in China. However, they do not work because Qiu CEO does not know the Japanese business style and how to implement them into practice. In addition, there is no bridging ties on the Renown's side that understands what Qiu CEO is trying to do. Due to the miscommunication between firms, both of them are in an exhausted condition (NHK Special, 2010/10/23).

6. Data Analysis

I use case study method to see qualitative insights, but there is a weak point to it. Because the number of the case study is only 4, there is a possible researcher bias and an inability to generalize to other cases (Cording *et al*, 2002). To supplement the case study, I conducted quantitative analysis to find out bridging ties effect to the stock price

6.1 Data Cleaning

As I mentioned before, there are 35 M&As and some cases are overlapping, like Renown had "increased interest" type of M&As several times, so firstly, I removed "increased interest" type of deal. Secondly, I dropped "business transfer" because they became a part of the mother firms and it was no longer possible to trace the financial conditions. In addition, the case in which Tang Jun bought the shares of Nowloading Inc. was not appropriate in this survey because it was not a transition between firms but rather, his personal investment. Also, I see the deal, TOB/MBO by Higashiyama film, as a special feature of M&A compared with others, so it was delisted. The case that Legend Holdings, CHINA LIANDI and ZuoJianZhong bought SJI was not China-Japan M&A but China-China M&A because SJI was established by Chinese, so I erased it. Delisting companies were dropped because they do not show their stock price. Finally, 12 deals those are suitable to check the relationship between bridging ties and change of stock prices.

Table of 12 Cases

CHN	JPN	Listing or Delisting	Existence of Bridging Tie
CITIC International	MBK	Listing	Yes
Meiribuy	Turbolinux HD	Listing	No
SUNING/NIHON KANKO MENZEI	Laox	Listing	Yes
SHANDONG RUYI GROUP	Renown	Listing	No
FUTONG GROUP	SWCC SHOWA HOLDINGS	Listing	Yes
CITIC International	GOKURAKUYU	Listing	No
INSIGMA	SOLXYZ	Listing	Yes
Dalian Ridong Plastics Processing	IKUYO	Listing	Yes
Ningbo Mingxin Microelectronics	Nihon Inter Electronics Corporation	Listing	Yes
Legend Hodlings	AGORA Hospitality	Listing	Yes
D&W Group	YOKO TOSHIKAIHATSU	Listing	Yes
Kyoto Hong Kong development	T&C Holdings	Listing	Yes

To consider the different effects of bridging ties on the stock price, I made an index, “The Log Growth Rate of Stock Price relative to Nikkei Stock Average⁵”, and I divided 12 cases into 2 groups: (1) firms without bridging ties (2) firms with bridging ties. To see the impact of bridging ties to the stock price when China anti-Japanese demonstrations happened in China, I conducted 2 types of analysis as below.

6.2 Results of Data Analysis

Figure 6 indicates that the log growth rate of stock price relative to Nikkei Stock Average from the date of M&A announcement to current date (2013/12/5). This result suggests that if a firm has bridging ties, the share price of the firm tend to grow rather than a firm without bridging ties. However, it is true that the stock prices of some firms have declined, or the growth rates are negative. This fact also means that the bridging ties do not always have effect on the share price.

Figure 7 shows the log growth rate of the stock price relative to Nikkei Stock Average from the date anti-Japanese demonstrations began in China to the date 3

⁵ To standardize the stock prices of each firm and to take account of the trend of share price itself, I use the formula as below. “P” means the price of stock, “N” means the Nikkei Stock Average. “t” refers to the current date, and “s” refers to the date of M&A announcement. I use stock price as the indicator because the market always objectively checks and reflects to it.

$$\text{The Log Growth Rate of Stock Price relative to Nikkei Stock Average} = \frac{\log \frac{P_t}{N_t} - \log \frac{P_s}{N_s}}{t-s} \times (\text{Number of Workdays})$$

months after the movement. Although most of results are concentrate on from 0 to 0.01, it is more clearly figured out that the correlation between bridging ties and the increase

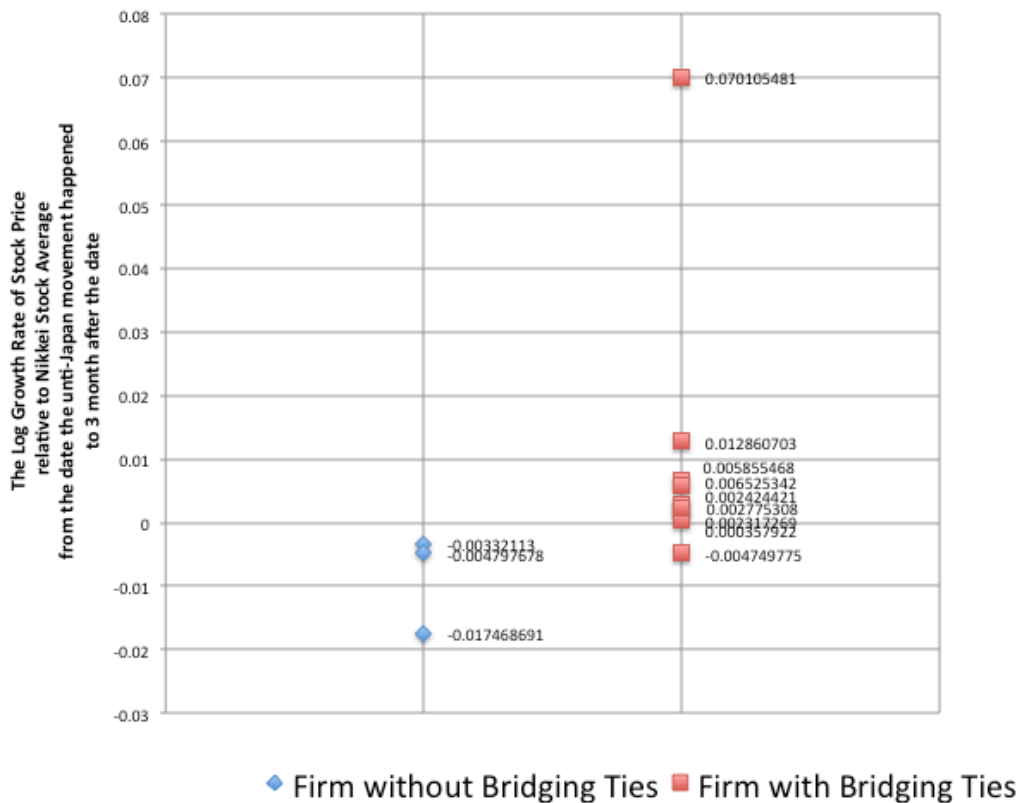
Figure 6



of growth rate of stock price. This implies the bridging ties worked on reducing the negative effects of China anti-Japanese protests in some way. For example, the existence of bridging ties makes shareholders reduce the anxieties of minus impact on the firm's financial situations. Or, the bridging ties worked actively in China to cover the negative impact on their financial situation.

As a result of this data analysis, the correlation between the bridging ties and the increase of growth rate of share price are shown. Not only qualitative case studies but also quantitative data analysis allowed us to declare that bridging ties does have positive impact on the M&A deals.

Figure 7



7. Conclusion

These results demonstrate that existence of bridging ties is one of the most important success factors of M&As. Having enough business connections and understanding both cultures is an essential component of such ties. Moreover, there are two key roles of bridging ties.

(1) Harmonizing and integrating business systems and cultures

In China, comparatively, business connections are very important, and the consequence of bridging ties is really huge. Chinese firms already know the importance of close human relations in China, and adapt it to M&As for success. However, the connections only work when both Chinese and Japanese business cultures are well mixed. In that case, they are already ready to use their connections, and grow their business after the deal. Specifically, the business networks really worked in the case of SANYO and LAOX, but not in the Renown's deal. As the management strategy,

business connections work from top-down, and the introduction of Chinese business cultures work from bottom-up. When M&As occurred, the harmonization of business systems and cultures by excellent bridging ties can be one of the biggest key success factors.

(2) Relieving workers and shareholders of their anxiety

“Hesitation of Japanese people to be managed by Chinese” and “Image of state-owned company” are the bottlenecks that I identified through my interviews. These bottlenecks might be a special features and quite serious because of the political conflicts between Japan and China on issues such as Senkaku Islands. The fear of China or the fear of the China anti-Japanese demonstrations may be provoked by the broadcasting on TVs or articles on the Internet and in newspapers. However, in some cases, Japanese firms actually had trouble in China, and the damages reflected their sales and profits. IHS Automotive, a research agency in the states, argues that the expansion of Chinese market can be disadvantage for Japanese firms because they have the risk of China anti-Japanese protests (Nikkei Newspaper, 2013/11/27). Bridging ties can reduce, or even diminish the fears and anxieties, which can be the success factor for companies like SANYO, LAOX and SOLXYZ.

Now, developing countries are growing rapidly, and more and more firms in these countries may try to buy Japanese technologies and skills like China did. Even if the political clashes happen between more than two countries, private companies have to continue running businesses and gaining profits. This survey brings them some important tips for their management.

Reviewing the results of data analysis, the industries, total amounts and type of M&As are all varied among M&A, and there are no special variables that seem to affect the upturn of stock price except the existence of bridging ties. However in the future, when the M&A cases will reach enough numbers for econometrical date analysis, then perhaps the other variables can be discovered as another important success factor of M&As.

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Chinese Outbound M&As in Japan

CHN	JPN	Type	Date of M&A announcement	Total Amount (Million Yen)	Ownership Ratio	Stock Exchange Market	Type of Chinese firm	Listing or Delisting	Reason of delisting
Jiangsu Bao Steel Group	Mitsubishi Steel	Business Transfer	1996/07/29	200	-	TSE 1st Section	Business Firm	Listing	
Qingdao Sifang Electronics Mall Co.	Miyakoshi Corporation	Minority interest	1997/03/19	-	20.11	TSE 1st Section	Business Firm	Delisting	Subsidiary Acquisition
Beijing Hengchuang Building Decoration Engineering Co.	HASEGAWA	Business Transfer	2001/02/08	238	-	OSE 2nd Section	Business Firm	Delisting	Cost Cut
Midea	Sanyo Electric	Business Transfer	2001/10/25	2350	-	TSE 1st Section	Business Firm	Delisting	
Haier	Sanyo Electric	Business Transfer	2006/10/26	-	-	TSE 1st Section	Business Firm	Delisting	
Beijing Tide Pharmaceutical	LTT Bio-Pharma	Minority interest	2009/04/13	207	19.2	Mothers	Business Firm	Delisting	Impertinent Merger
WEALTH CHIME INDUSTRIAL LIMITED	Celartem Technology	Minority interest	2009/06/01	120	-	Hercules(JASDAQ)	Investment Firm	Delisting	Violation of Financial Instruments and Exchange Law
SUNING/NIHON KANKO MENZEI	Laox	Minority interest	2009/06/25	1900	29.33/25.67	TSE 2nd Section	Business Firm	Listing	
CITIC International	MBK	Minority interest	2009/08/17	458	4.65	OSE 2nd Section	Investment Firm	Listing	
Acorn International	RH Traveler	Minority interest	2009/10/28	279	17.25	JASDAQ	Business Firm	Delisting	Subsidiary Acquisition
Legend Holdings	SJ	Minority interest	2009/11/05	5942	40.88	JASDAQ	Business Firm	Listing	
WEALTH CHIME INDUSTRIAL LIMITED	Celartem Technology	Increased interest	2009/11/13	1449	8.3→49.6	Hercules(JASDAQ)	Investment Firm	Delisting	Violation of Financial Instruments and Exchange Law
Tang Jun	NowLoading	Minority interest	2009/11/27	70	17	Centrex	Business Firm	Listing	
CITIC International	GOKURAKUYU	Minority interest	2009/12/01	-	4.17	JASDAQ	Investment Firm	Listing	
Baifan Japan	Turbolinux HD	Minority interest	2010/03/01	95	13.15	Hercules(JASDAQ)	Business Firm	Listing	
CITIC Capital Japan Partners II	Higashiyama Film	Acquisition(TOB)	2010/05/14	1530	63.12	JASDAQ	Investment Firm	Delisting	TOB
Ningbo Mingxin Microelectronics	Nihon Inter Electronics Corporation	Minority interest	2010/05/24	250	5.11	TSE 1st Section	Business Firm	Listing	
SHANDONG RUYI GROUP	Renown	Minority interest	2010/05/25	4000	41.18	TSE 1st Section	Business Firm	Listing	
INSIGMA	SOLXVZ	Minority interest	2010/05/31	268	5	JASDAQ	Business Firm	Listing	
Able Success Limited/ Best Goal Limited	HOKKOKU	Minority interest	2010/08/04	462	13.56/3.39	JASDAQ	Business Firm	Delisting	administrative dispositio of making false statement
SUNING/NIHON KANKO MENZEI	Laox	Increased interest	2010/08/17	2500	27.20/23.80→33.80/25.02	TSE 2nd Section	Business Firm	Listing	
Meiribuy	Turbolinux HD	Increased interest	2010/09/08	251	13.15→37.85	Hercules(JASDAQ)	Business Firm	Listing	
Dalian Ridong Plastics Processing	IKUYO	Minority interest	2011/03/23	-	30	TSE 2nd Section	Business Firm	Listing	
FUTONG GROUP	SWCC SHOWA HOLDINGS	Minority interest	2011/05/14	5999	18.54	TSE 1st Section	Business Firm	Listing	
Hong Kong Suning Citicall Appliance	BEST DENKI	Business Transfer	2011/05/24	-	-	TSE 1st Section	Business Firm	Listing	
SUNING	Laox	Acquisition	2011/06/29	9000	34.28→65.3	TSE 2nd Section	Business Firm	Listing	
Legend Holdings	AGORA Hospitality	Minority interest	2011/07/20	1421	20	TSE 1st Section	Business Firm	Listing	
Higashiyama Film/CITIC Capital	Higashiyama Film	Acquisition(MBO)	2011/08/09	1335	100	JASDAQ	Investment Firm	Delisting	
CHINA LIANDI/ZuolianZhong	SJ	Minority interest	2011/10/01	1417	8.57/4.59	JASDAQ	Investment Firm	Listing	
D&W Group	YOKO TOSHIKAIHATSU	Minority interest	2011/12/02	149	35.26	JASDAQ	Business Firm	Listing	
Red Drum Invest Limited	CHRONICLE	Minority interest	2011/12/07	965	42.08	JASDAQ	Investment Firm	Delisting	Window dressing & Bankruptcy
Dalian Ridong Plastics Processing	IKUYO	Increased interest	2012/02/12	-	30→32.6	TSE 2nd Section	Business Firm	Listing	
NIHON KANKO MENZEI	Laox	Increased interest	2012/02/19	-	11.64→13.30	TSE 2nd Section	Business Firm	Listing	
Kyoto Hong Kong development	T&C Holdings	Minority interest	2012/04/13	115	22.11	JASDAQ	Business Firm	Listing	
SHANDONG RUYI GROUP	Renown	Acquisition	2013/04/12	2931	41.18→53	TSE 1st Section	Business Firm	Listing	