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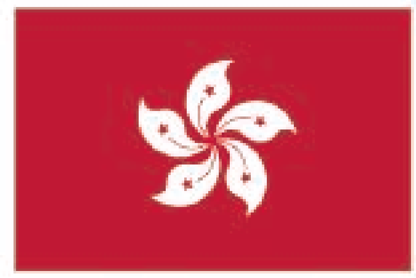

Doing business on the Mainland: Asia is quite a different story to doing acquisition in the West.

Chinese companies are increasingly attractive targets for foreign investors

Transactions are being driven not only by China's booming economy, but also by the Chinese Government's desire to privatize some State Owned Enterprises (SOE) and the demands of foreign investors hoping to claim a stake in the world market potential.

Recently the majority of acquirers of Chinese businesses are foreign, mainly from Europe and US. Basically, they are strategic investors and private equity investors. The acquisition targets of these domestic acquirers are mainly classified into three general categories.

- State-Owned Enterprises (SOEs) which are under pressure from the government and industry to consolidate within their industries which include financial, automobiles, iron, and steel. The main reason for consolidation is low profitability in a highly competitive market environment.
- Stated-Owned Enterprises which incur significant losses forced to salvage what they can by selling off non-core business - even whole business.
- Private Owned Enterprises in varying stages of development that need capital, market, technology, and management in order to compete in the increasingly crowded global market. Private Owned Enterprises are most attractive to foreign strategic investors and large Chinese companies.

Recently, investment by foreign investors in China saw a new trend of development. Foreign mergers and acquisitions are extending from the manufacturing to the services sector and are taking a different form.

Foreign investors are more likely to target capital and technology intensive companies with core resources in industries such as electrical appliances, computer software, chemical, pharmaceutical, automobile, telecommunications equipment and textiles. In the service sector, foreign acquisitions mainly engage in the industries of financial services, media, wholesale, retail, transportation, tourism, hotel and real estate.

For direct entry foreign investors are advised to form corporate joint ventures or equity joint ventures and start up with a small investment - then increase the acquisition scale after the transitional period.

Massive bureaucracy and cultural differences

China's potent M&A activity not withstanding, cultural differences and a variety of other difficulties interfere in the process. Since M&A is new in China, people still need to get educated and comfortable with the idea of selling their business. What does partnership really mean? The thought of shared control and not being able to do what they want at any