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Do acquirers' gain? Evidence from the Chinese and UK consumer product and services market

Abstract

China has rapidly transformed itself using dynamic reforms through economic transition and regulatory provisions. Consequently, certain firms have undertaken mergers and acquisitions (M&A) to achieve higher market capitalization. However, the extent to which such reforms have affected the Chinese consumer product and services sector largely remains unexplored, particularly compared to a more seasoned market, such as the UK. This study examines a panel of recent M&A events in the consumer product and services market of both China and the UK and evaluates the event-induced wealth gain to the acquirers. The results suggest that the UK acquirers exhibit a relatively higher return continuation than do their Chinese counterparts. In addition, in contrast to the UK market, the post-event returns for the Chinese market are significantly negative, except for the announcement date. The findings demonstrate that the Chinese consumer market does not respond to M&A announcements to the same extent as does the UK market. Finally, the shareholders wealth gain, as one of the prime motives of M&A, is not duly achieved for the Chinese acquirers, despite the wider reform of the Chinese market.

Introduction

Mergers and acquisitions (M&A) realign and restructure the operational, strategic and financial portfolio of firms. In the UK, M&A activities have spanned over four decades, whereas M&A activities in China are a relatively recent phenomena. China has made significant strides in making Chinese firms more competitive in both the domestic and global markets after joining the World Trade Organization in 2001 (Li-Ying and Wang, 2014), with the first formal case of M&A in China registered in July 1984 (Xu, 2008). Subsequently, M&A activities in China have rapidly expanded due to its transitioning from a planned to a market economy from 1984 to 1992 (Cai, 2007). During this period, several state-owned enterprises were also incurring losses. For example, during the 1990s, the Big Four state-owned banks accumulated large portions of non-performing loans (NPLs) (Barth et al., 2009)[1]. In addition, The National Bureau of Statistics of China reported that the Chinese industrial production, in January of 1990, registered a record low average of -21.10%. To counter-balance such constraints, the Chinese government instigated several reform measures allowing M&A activities. However, most events subsequently failed because the majority were fully controlled by the government. The government ignored the development required and failed to understand the characteristics of M&A (Cai, 2007).

Therefore, this paper investigates the wealth gain of both the UK and Chinese acquirers specifically engaged in M&A events in the consumer product and services sector. Primarily, this study investigates whether the UK acquirers gain differently from their Chinese counterparts, and if so, what is the market rationale behind such a difference? Several unique characteristics of the Chinese consumer and product services market have motivated this study. For instance, the government recently reduced the interest rate and capital reserve, thereby facilitating higher lending and enhancing consumer purchasing power and capital flow. In addition, China's lending indices are growing with stronger consumer confidence. Therefore, the Chinese market is emerging from the lagged effect of state enterprise towards a more efficient market. Furthermore, the government is offering fiscal stimuli to decelerate sharp inflation in addition to offering lucrative tax cuts. A survey of the consumer market undertaken by Deloitte suggests that the Chinese consumer market growth measured by its Q ratio of 1.49 is higher in comparison to most European makets[2]. This clearly reflects the upward trend of the Chinese consumer

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[1] The Big Four refers to the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), and the China Construction Bank (CCB). In 2007, the China Banking Regulatory Commission (CBRC) began including the Bank of Communications (BOCOM), the fifth largest bank, among state-owned commercial banks (SOCBs) in their statistical reports.

[2] In 2013, the Q ratio was calculated for 190 publicly traded consumer product companies, compared with 189 companies in 2012 and 186 the previous year. The composite Q ratio (calculated by taking the sum of all companies' market capitalization and dividing by the sum of all companies' asset values) is 1.327, which is considerably higher than in recent years. Last year, the composite Q ratio was 1.200 compared with 1.205 the year before, and 1.068 and 0.800 in the two prior years, respectively. Given the recovery in the global economy and the increase in equity prices in many markets, it is no surprise that the composite Q ratio has increased. (*Global Powers of Consumer Products 2013 Engaging the connected consumer*, Deloitte).

market. Recently, China also liberalized its M&A policy by introducing innovations such as preferred share options in its merger funding provisions. In addition, the Securities Regulatory Commission's (CSRC) encouraged reform in the M&A regulations by making them more market-oriented[1].

This paper is organized into 4 sections. Section 1 reviews the extant literature with a focus on studies undertaken in China and the UK. Section 2 presents the data and describes the methodology used including the model specification. Section 3 reports the empirical results, and the Final Section presents a summary and conclusions.

1. Literature review: evidence from the UK and Chinese M&As

A growing trend suggests that the per dollar value of M&A is increasing substantially. Typically, a successful M&A anticipates more remitted profits. The merged entity achieves an increased market share leading to improved ownership, leverage and capital structure of a firm (Ross, 2008; and Maksimovic and Prabala, 2011). Between 1992 and 2000, the Chinese government gradually facilitated an enterprise driven market while reforming to a market economy. Subsequently, firms increasingly engaged in M&A activities from technology, management, as well as capital and resource allocation aspects (Chen, 2007). In fact, all forms of horizontal M&A, vertical M&A, and diversified M&A have been experienced in the Chinese capital market. Moreover, since China entered the WTO, i.e., the post-2000 period, China's economy has embraced a wider scope of globalization with M&A activities being rapidly expanded by following international practices. Liu and Huang (2013) report that, between 2000 and 2010, the total number of M&A transactions in China was 14,127 and worth approximately $913,471 million dollars.

In reality, prior studies largely differ on whether M&A creates value (Bruner, 2002). There are numerous studies relating to the short-term wealth effects of M&A in the UK; however, the evidence on the stock performance of acquiring companies is moderately mixed. For instance, Draper and Paudyal (1999) find that shareholders of target companies benefit from the announcement of acquisitions over the period surrounding the announcement. In contrast, the shareholders of the acquiring company suffer a loss. However, the loss suffered was reported to be less than 1% (Frank & Sam, 2004). Supporting evidence is also presented by Mulherin & Boone (2000) and Kuiper et al.

(2003), who reported negative returns of -0.37% and -0.92%, respectively.

Conversely, Kennedy and Limmack (1996) report large excess returns for target companies; however, there are no significant excess returns, either positive or negative, to shareholders of the acquirers. Furthermore, Dickerson et al. (1997) find that domestic M&A in the UK leads to substantial returns accruing to shareholders in a target company with minimal or no positive profits for the shareholders of the acquiring company. In contrast, Fuller et al. (2002) claim that shareholders in acquiring companies experience positive abnormal returns when the target is a private company, but experience losses when purchasing a public company. Dai (2012) studied the influences of an M&A announcement on the security prices of bidding companies in mainland China and Hong Kong from 2000 to 2010. This research shows that both average abnormal returns and cumulative abnormal returns to mainland acquirers are positive, whereas the average abnormal return on the announced day is positive, and the cumulative abnormal return during the event window is negative in Hong Kong.

Interestingly, Li and Chen (2002) examined the wealth effects of 349 M&A events from 1999 to 2000 using an event study methodology in Shanghai and Shenzhen. The researchers find that M&A activities can increase the value of shareholders in acquiring firms; however, there is no significant effect on the wealth of shareholders in target companies. In addition, Li and Chen (2002) emphasize that various types of M&A have differential wealth effects. Shareholders from bidding firms with a large proportion of state shares or legal person shares can obtain significant increases of wealth. However, the types of ownership structure have no prominent influence on the shareholders' wealth in target companies.

Conversely, Zhang (2003) studied 1216 cases of M&A listed companies from 1993 to 2002 in China. The researcher concluded that the shareholders of target firms receive premiums to a maximum of 29.05%; therefore, M&A activities create value for the target company. However, there is a negative impact on the shareholders of acquiring companies, whose stock price premium decline -16.7%. Similarly, Ruback (1982) Magenheim and Muller (1988) and Franks et al. (1991) find negative abnormal returns following restructuring for the USA firms; Jensen (1986, 1988) reports negative abnormal returns over several years following the completion of takeovers in the UK and USA. Furthermore, Ren (2006) uses 30 cases of M&A events undertaken during 2002 in listed Chinese manufacturing companies. The results show the

performance level of sample companies in the same year as the M&A announcement is lower than that in the year before M&A; therefore, M&A events provide a certain negative influence on the earnings per share of bidding firms. However, M&A performance improved after a few years of M&A. Similarly, Wang (2007), using 11 listed companies, finds that, after the first year of M&A, the performance of listed companies barely improves, a portion actually declines to an extent. However, as time passes, because of the strength of certain acquiring firms, the efficiency of resource integration improves, such that corporate performance basically remains stable or slightly increases. However, Zhang (2008) analyzes 55 cases of foreign capital M&A activities among Chinese listed companies from 1995 to 2006, and finds that M&A events significantly improve the performance of listed companies and provides continuity. Thompson, Wright and Robbie (1989), studying UK MBOs, reported receivership of cash flow from parent companies, providing evidence in favor of the agency theory.

Moreover, Li (2008) finds foreign capital M&A create shareholder wealth in Chinese listed companies. In particular, the degree of connection between the target companies and government suggests a positive wealth creation for the acquirer. Han and Jia (2009) further observed that the foreign capital M&A activities are not successful because they do not improve the performance of listed companies in China because different values, corporate cultures and management patterns collectively affect foreign capital M&A. By analyzing the M&A events of 67 listed companies in Shanghai and Shenzhen in 1998 in terms of return on equity and profit margins, Zhu and Wang (2002) believe that companies with poor performance are more willing to sell shares than those with strong performance. In addition, most M&A activities are strategic and targeted to improve business performance following mergers. In addition, the effect of cash acquisitions, as well as market-oriented acquisitions, is better from the perspective of target firms. Chen and Zhang (1999) use an event study based on the change of share price to analyze the M&A effects. As a result of an emerging Chinese capital market, investors attempt to speculate and seek short-term interests through M&A events instead of concentrating on long-term returns. Chen and Zhang (1999) regard 95 asset restructuring companies in Shanghai in 1997 as samples and conclude that the market does react to asset restructuring to an extent, with different types of restructuring having different market reflections. The share prices referring to a company's equity transfer, asset stripping, and asset replacement first increase before the M&A

announcement and then decrease after the announcement; however, the firms' stock prices do not fluctuate because of the high share prices and large scale of the companies. Furthermore, examining UK restructuring activities, Higson and Elliott (1998) did not find negative abnormal returns for the UK firms over a longer window. The researchers reported that there appears to be no evidence of significant abnormal post-takeover performance in an equal-weighted portfolio of UK acquisitions over the 1975-1990 period, although they have taken a measure against a multi-factor benchmark containing proxies for size, past returns and dividend yields. However, according to Sun and Wang (1999), the performance of companies greatly improves after reorganization. The researchers studied the same samples as used by Chen and Zhang's (1999) to analyze the net profit growth rate, earnings per share and its growth rate, and net assets yield before and after the restructuring in 1998. The researchers' results state that net profit, earnings per share and net assets yield, and the average growth rate of firms that refer to control transfer in the same year as the restructuring are all negative. Nevertheless, the income and net profit of restructuring companies utilizing M&A increase moderately. In addition, the performances of asset replacement firms improve significantly, whereas the performance of asset stripping companies' declines.

Andrade et al. (2001) document that the average three day abnormal returns for the target firms is 16%, which subsequently increases to 24% over a longer event window. Studies conducted by Jensen and Ruback (1983), Jarrell, Brickley and Netter (1988) are consistent with Lubaktin (1987), who states that mergers create value for shareholders in general. However, Clark and Ofek (1994), after examining 38 takeovers of distressed firms using five different measures to evaluate the post-merger performance of the combined bidder and target firms, argue that all performance measures suggest that bidders are unable to successfully restructure targets to create value for shareholders.

2. Data and methodology

2.1. Data source and selection criteria. We construct a panel of data composed of 29 Chinese and 25 UK acquirers from 1 January 2012 to 31 December 2012 within the consumer products and services sector in both countries. Our data were collected from Thomson One Banker and from Datastream. All the acquirers included in the dataset are public listed firms. We select a narrow window primarily to capture the latest market

reaction in response to M&A announcements in the Chinese consumer products and services sector and compare this to the UK. The UK is a more seasoned market than China and includes a substantial number of M&A activities while rapidly growing[1]. Therefore, the UK market appeared to be an ideal benchmark against an emerging economy such as China. Several recent changes in the Chinese consumer products and services industry are taking effect because the government introduced several liberal measures to reform the M&A provision to increase the efficiency of the consumer market. Because the changes are recent, a narrow window appears to be a rational choice to capture the announcement effect of M&A and its wealth effect on the acquirers. The Shanghai Stock Exchange (SSE) Composite Index and the Financial Times Stock Exchange 100 Index (FTSE 100) are used to proxy the market return of China and the UK, respectively. Both indices were obtained from Bloomberg.

The initial data set is composed of 57 Chinese firms and 87 UK firms for the sample period under study. The sample resulted in 29 Chinese and 25 UK acquirers after setting the acquirer macro industry to the consumer products and services. The sample companies are all public listed companies that had successfully completed acquisition deals; however, the delisted and thinly traded companies are excluded from the final panel of data. Because Thomson One Banker does not contain a daily return for the companies, the stock prices were extracted from Datastream. Furthermore, the firms whose announcement dates are different from their effective dates were removed.

2.2. Methodology: event study and model specification. Often, three models, (i.e., Single-Index Model, the Market Model and the CAPM Model) are used in event studies. Compared with other models, the market model is more consistent and robust (Brown and Warner, 1985). Wong (2002) finds the event study methodology to be more accurate than accounting-based analysis, although it is not entirely free from certain limitations. For example, unavailable stock prices and market returns on the selected days throughout the estimation period

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[1] The "Mergermarket" reports that the M&A activity targeting the United Kingdom was £37.5bn in 2014. The second quarter of 2014 witnessed a stark improvement compared with the previous quarter, with an increase of 156.5%, from £10.5bn to £27bn and represented the highest quarterly value in the country since Q2 2012. (http://www.mergermarket.com/pdf/MergermarketTrendReport.H12014.UK.pdf).

(Sitthipongpanich, 2010) could affect the estimation specifications.

We employ a market model for the estimation of announcement returns. The estimation window is stipulated from 300 trading days to 15 days prior to the announcement date (-300 days, -15 days). We set a 21 day event window surrounding the announcement date, i.e., (-10, 0, +10). Kothari and Warner (2004) indicate that the long-horizon results are problematic, whereas the short-horizon methods are relatively straightforward and trouble-free.

The market model is written as follows:

$$R_{it} = \alpha_i + \beta_{mt} R_{mt} + \varepsilon_{it}, \qquad (1)$$

where R_{it} = return on security i on day t, R_{mt} = return on market index on day t, ε_{it} = model error term of security i on day t with expected value equal to zero, a_i = expected value of $(R_{it} - R_{mt})$, β_{mt} = a covariance between R_{it} and R_{mt} divided by a variance of R_{mt}.

The abnormal returns are equal to the actual returns minus the estimated nominal returns surrounding -10, 0, + 10 days of the announcement date. The difference of the two is the value of a firm during the event is as follows:

$$AR_{it} = R_{it} - (\overline{\alpha}_i + \overline{\beta}_i R_{mt}), \qquad (2)$$

where AR_{it} = abnormal return for firm i on t day, R_{it} = the actual daily rate of return on security i on day t.

The average abnormal return (AAR) on day t is the mean value of the aggregated abnormal returns to all sample firms around the announcement date, which is as follows:

$$AAR_t = \frac{1}{N_t} \sum_{t=1}^{N_t} AR_{it}. \qquad (3)$$

The cumulative average abnormal return (CAAR) is the cumulative mean value of the aggregate of all daily abnormal returns in the event window for individual security. The CAARs are estimated as:

$$CAAR_i(t_1, t_2) = \sum_{\tau_1}^{\tau_2} AR_{i\tau}, \qquad (4)$$

where $CAAR_i$ (t_1, t_2) = cumulative average abnormal return for firm i over the entire event window (t_1, t_2) t_1 = the first day in the event window t_2 = number of days in the event window.

AAR and CAAR are calculated by summing all abnormal return for the event window to capture the portfolio returns on market response.

Subsequent to the estimation of CAAR, we examine whether the market reaction is significantly different from zero, such that the null hypothesis can be rejected. To examine the significant difference between the AARs and CAARs, a standard t-test is initially conducted[1]. However, several studies (e.g., Amici et al., 2013; and Cummins and Weiss, 2004) suggest that there is a variance increase in abnormal returns with respect to the estimation period surrounding the announcement days. This often indicates estimation bias by rejecting the null hypothesis; however, in reality, the variance effect remains inherent in the observed time series. A standard t-test may be mis-specified and inefficient in capturing such changes in variance. Therefore, we estimated difference in means by using the Boehmer et al. (1991) test statistic, which is consistent with Amici et al. (2013) proposed by Harrington and Shrider (2007) and Mentz and Schiereck (2008). We calculate a standardization factor SR_i, denoted as:

$$SR_i = \frac{CAAR_i(t_1, t_2)}{\hat{\sigma}_{\varepsilon i}\sqrt{T_s + \frac{T_s^2}{T} + \frac{\sum_{t=t_1}^{t_2}\left(R_{mt} - T_s\left(\overline{R}_m\right)\right)^2}{\sum_{t=1}^{T}\left(R_{mt} - \overline{R}_m\right)^2}}}, \quad (5)$$

where $\hat{\sigma}_{\varepsilon i}$ represents the standard deviation of abnormal returns, T_s is the number of days within the event window (t_1, t_2), T is the number of days in the estimation period, R_m is the market portfolio returns, and $\overline{R}_m$ is the average market portfolio returns over the estimation period. In accordance with Mentz and Schiereck (2008, p. 207), we then determined the Z-statistic with a t-distribution and T-2 degrees of freedom, converging to a unit normal factor. The z-statistic is represented as:

$$Z = \frac{\frac{1}{n}\sum_{i=1}^{N} SR_i}{\sqrt{\frac{1}{N(N-1)}\sum_{i=1}^{N}\left(SR_i - \sum_{i=1}^{N}\frac{SR_i}{N}\right)^2}}. \quad (6)$$

Recently, Kolari and Pynnönen (2010) have proposed modified test statistics to examine possible cross-sectional correlation among abnormal returns by incorporating the following factor:

$$\sqrt{\frac{1 - \overline{r}}{1 + (N-1)\overline{r}}}, \quad (7)$$

where $\overline{r}$ represents the average of the sample cross correlation of the estimated period residuals, and N is the number of firms in the sample.

3. Empirical results

Table 2 reports the CAARs to acquiring firms in China and the UK. The pre-announcement CAARs over -1 to -5 event days for both the Chinese and UK acquirers are insignificant. The z-statistics suggests there is no difference between the Chinese and UK acquirers' excess returns prior to the announcement day. The results indicate that the consumer product and service industry of both countries respond very similarly to M&A, although both markets are fundamentally different. The Chinese market tends to have a lagged effect in incorporating event-induced returns because investors in China are less market-driven.

Conversely, we find significant difference between the Chinese and UK post-event portfolio returns. Both the Chinese and UK acquirers register significant excess returns of 0.99% and 0.36%, respectively, surrounding the announcement day; their reported CAARs are plotted in Figure 1. Overall, the post announcement CAARs (days +1 to +3) to bidding firms in the UK are positive and statistically significant at the 10% level. This result is consistent with Andrade et al. (2001); however, we register an average 3.65% excess return compared with 16% for Andrade et al. (2001). It must be noted that our sample is largely different from the researchers' sample. We find that as a seasoned M&A market, the information flow is more pronounced for the UK acquirers, and the market readily responds to the event announcement surrounding the event days. Conversely, the Chinese market is passing through a transition, in which the market response to such events is more discreet, particularly for the consumer and product service sectors. The Chinese market performance is markedly different from the UK's because Chinese firms behave differently during M&A events. First, the equity structure (ownership) of Chinese listed companies is distinct and characterized by governmental control. The equity of listed companies in China consists of state shares, corporate shares and tradable shares. According to the Chinese State Statistics Bureau, tradable shares represented 51.29% of the total stock issue in 2012, and these data were 34% in 2000. Second, the intervention of the Chinese government determines the firms' M&A characteristics, because the large proportion of unlisted tradable shares including state shares,

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[1] The standard t-test infers if the AARs and CARs are significantly different from zero. Where, $t_{AAR} = \dfrac{AAR_t}{\dfrac{S(AAR_t)}{\sqrt{n}}}$ and $t_{CAAR} = \dfrac{CAAR_t}{\dfrac{S(CAAR_t)}{\sqrt{n}}}$, where t = -10, -9,......, 0 ,......+9, +10.

corporate shares and other non-tradable shares, strengthen the government's intervention ability, particularly in the consumer and service industry.

However, intervention by the government also has its benefits. Li and Chen (2002) find that government intervention can effectively reduce the M&A competition and reduce the cost; thus, the shareholders of acquiring companies obtain better returns in M&A deals. In contrast, Chen and Young (2010) observe that the government focuses more

on the target firms to obtain certain strategic assets by engaging in M&A; however, the acquirers appear to receive no anticipated gains from the M&A. Li and Chen (2002) find that the acquirers gain in the Chinese market, whereas bidders do not yield any wealth gain, which is not consistent with our findings. However, our sample is unique because it is composed of consumer product and service industry events, which, by its character, is different from the findings of the Li and Chen study.
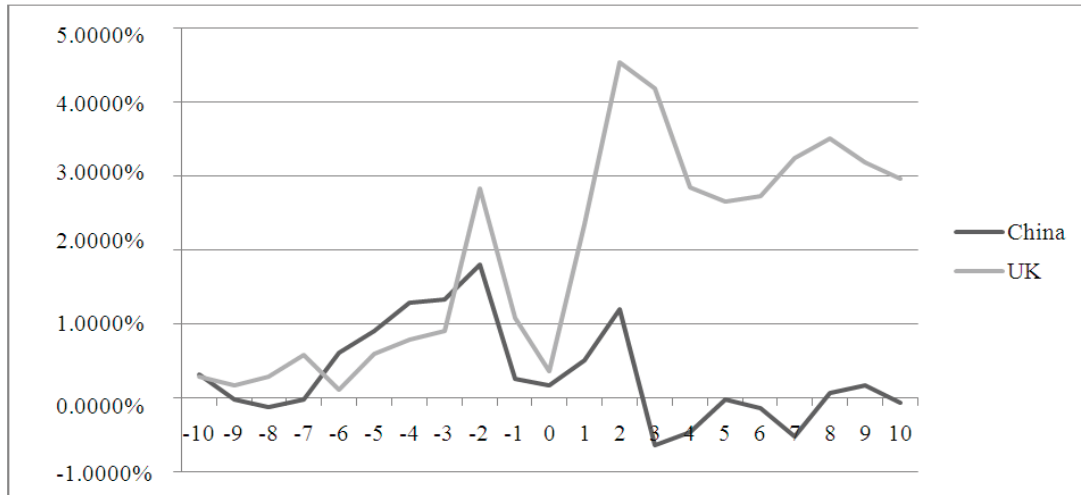

Fig. 1. The cumulative average abnormal returns in China and the UK

Table 1. The results of CAAR for Chinese and UK firms during the event window (±10 days)

| Event days | CAAR | | Z-statistics | | | |
| | | | Value | | Sig. | |
	China	UK	China	UK	China	UK
-10	0.3249	0.2873	1.2169	0.9095	0.2338	0.3722
-9	-0.0221	0.1686	-0.0429	0.4823	0.9661	0.6340
-8	-0.1134	0.2978	-0.1404	1.0010	0.8893	0.3268
-7	-0.0102	0.5787	-0.0117	1.2731	0.9908	0.2152
-6	0.6101	0.1156	0.3698	0.1704	0.7143	0.8661
-5	0.9050	0.5942	0.9112	0.7517	0.3700	0.4596
-4	1.2922	0.7963	1.2651	0.9326	0.2163	0.3603
-3	1.3405	0.9142	1.1365	1.0104	0.2654	0.3224
-2	1.7968	2.8271	1.3334	1.2614	0.1932	0.2193
-1	1.6427	1.0807	1.9731	0.8401	0.0584	0.4091
0	0.9896	0.3583	1.8363	2.0833	0.0770	0.0480
+1	-0.3634	2.3545	1.7830	2.2184	0.0854	0.0362
+2	-1.4032	4.5332	2.4623	1.7792	0.0202	0.0879
+3	-0.6288	4.1762	-0.3365	1.7977	0.7390	0.0848
+4	-0.4558	2.8417	-0.2493	1.3764	0.8050	0.1814
+5	-0.0229	2.6497	-0.0119	1.3435	0.9906	0.1917
+6	-0.1308	2.7309	-0.0631	1.2491	0.9502	0.2237
+7	-0.5166	3.2414	-0.2454	1.4177	0.8079	0.1691
+8	0.0778	3.5111	0.0365	1.5142	0.9711	0.1430
+9	0.1805	3.1840	0.0817	1.4915	0.9355	0.1488
+10	-0.0569	2.9637	-0.0267	1.3896	0.9789	0.1774

Table 1 reports that the CAARs to acquirers in the UK are always higher than Chinese acquirers over post-announcement (+ 1 to + 10) days. This suggests that the event-induced stock performance in the UK

consumer product and services market is relatively more pronounced compared with that of the Chinese market. Furthermore, the post event (+ 1 and + 2 days) excess returns for the Chinese acquirers are

significantly negative, i.e., -0.36% and -1.40%, respectively. It is also interesting that the Chinese acquirers show negative returns between day 3 and day 7, although these are statistically insignificant. Our findings here indicate that the Chinese acquirers may experience immediate wealth loss if an M&A event is undertaken in a consumer product and service industry; whereas, the UK acquirers significantly gain.

The reasons why there are insignificant as well as negative returns for the Chinese acquirers may well be caused by the fact that the investors do not have sufficient information regarding the announcement because of state intervention, or perhaps investors may doubt whether they can benefit from the events if they consider a potential investment. Therefore, the investors may not be willing to take risks to invest in the newly created firms in advance. Another potential reason could be that the post-event integration does not perform well for the Chinese firms because of government intervention. Angwin and Meadows (2014) find that the post-acquisition integration phase is now widely recognized as a critical part of the M&A process and a main source of value creation. Moreover, the returns for the event announcement day are significantly positive, whereas no subsequent days show any significant return continuation; this may occur because firms in a single industry have a stronger ability for earning profits, which increases the confidence of investors to invest in the firms (Spyrou and Siougle, 2010). However, Chinese investors may misconstrue that, after the M&A events, the industry may change.

We find several plausible reasons behind our results. First, the motivation behind the M&A activities is complex and could be perceived by Chinese investors as trivial in gaining wealth for the shareholders. Currently, there are particular motivations for M&A in China. For example, a large proportion of firms earn profits by purchasing at a low price and selling at a high price to increase the net worth per share (Zhang,

2003). These firms' M&A purposes are not to restructure enterprise assets and the industrial bases to improve the value of firms. Therefore, the M&A market is disordered, and investors lack an understanding of the M&A process. In addition, because successful M&A cases in China are limited and the history is short, the market perception regarding M&A tends to be low. Therefore, investors do not focus on the long-term returns of the M&A activities; instead, they undertake short-term investments, focusing on the short-term profits of listed companies.

Conclusions

This paper examines the portfolio returns of UK and Chinese acquirers surrounding an event window of ± 10 days within the consumer product and services industries. The sample consists of 29 Chinese and 25 UK acquirers engaged in M&A deals during 2012. Our results suggest that the Chinese acquirers do not receive any event induced gain subsequent to M&A with the exception of the announcement day. In addition, these deals yield insignificant negative excess returns for approximately a week. Conversely, the UK acquirers register a significant positive return through + 3 days of the announcement. The event announcement is perceived as significant for the Chinese market; however, in contrast to the UK market, the continuation of gains to acquirers does not transpire. The Chinese consumer product and services sector appears to lack the information flow that motivates investors to consider investing in the merged firms. Although the government has introduced wider market reforms, it still appears that the Chinese market does not yet utilize its benefits and is yet to exit the state-owned enterprise system. Moreover, this behavior shows that, despite an upward trend in the Chinese consumer product and services industry, the sector is clearly suffering from information asymmetry and a lack of investor confidence.

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