M&A

Regulations tighten as 'Belt and Road' increases activity

Peter Sabine

Hong Kong has had periodic dips in mergers and acquisition (M&A) activity, but many analysts have expressed optimism. "We saw a declining trend since 2014/15 in terms of number of M&A deals, but are seeing an upward trend brought about by the 'Belt and Road Initiative' [Beijing's global trade strategy], and increasing acquisitions by large mainland Chinese enterprises," says Raymond Cheng, managing director of HLB Hodgson Impey Cheng.

While the rise in deals involving mainland Chinese companies is seen as a boon for business, this has also come with a tightening of regulations on the IPO vetting process, valuations and connected transactions, in addition to increased attention on certain industries such as minerals.

Raymond Cheng

"The Hong Kong M&A market was still active after the US 2008 economic crisis, but the short-term decline in [the] number of Hong Kong M&A deals was mainly attributable to the tightening of regulations which deal with local issues," Cheng says.

In its Asia-Pacific M&A Review 2017, Herbert Smith Freehills predicted a slowdown in China outbound acquisitions with tightening controls on capital outflows and greater regulatory scrutiny. However, the law firm also saw opportunities in back-door listings and reverse takeovers; for privatisation of undervalued companies, and among new economy businesses such as fintech.

Many analysts have suggested that Hong Kong's over-regulation could hurt M&A chances in the long run, but are these fears warranted?

"Hong Kong regulators are doing a good job in maintaining our high standards by tightening and closing loopholes in regulations," Cheng says. "In the short run, this may reduce the number of M&A deals, but in the longer term, the enhanced regulations serve to strengthen the role of Hong Kong as a premier capital raising centre and contribute to a healthier M&A market,"