

# Analysis of the Path of State-owned Enterprises' Merger and Acquisition of Private Enterprises under the "Management Committee + Company Model"—Take the Acquisition of Company A as an Example

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**Abstract:** According to the planning of the district Party committee and district government, the state-owned enterprises should focus on the main responsibility and main business, develop the real economy, and build a new pattern of high-quality development is the requirement of the district Party committee and district government for state-owned enterprises. Based on the actual case of the merger and acquisition of Company A by state-owned enterprise C Group, this paper mainly analyzes the reasons, types, processes, risks and solutions involved in the merger and acquisition process, with a view to enhancing the vitality of state-owned enterprises, strengthening capital operation and industrial integration. At the same time, we also hope to provide valuable reference for relevant personnel.

**Keywords:** state-owned enterprises, the motivation of merger and acquisition, private enterprises, path analysis

## 1. Introduction

In recent years, regional equipment manufacturing enterprises have continued to increase investment in science and technology, incubating a large number of small and micro entrepreneurial enterprises in urgent need of expansion. Under the current policy, the government no longer provides separate land for small and micro enterprises, and a number of growth and potential local small and micro enterprises have to move out [1]. At the same time, in accordance with the work deployment of the district Party committee and district government, we will recruit large and strong industrial chains, vigorously implement the strategy of strong industrial areas, and create high-end industrial clusters. C Group is required to actively intervene, continue to strengthen factor guarantee, find a breakthrough, and vigorously build and develop manufacturing parks.

Based on the above background, combined with the enterprise positioning and industrial development planning of C Group, a state-owned enterprise, in order to further play the role of C Group's industrial development platform, based on the development of the real economy, constantly expand industrial investment, and achieve high-quality development. This paper analyzes the reasons, types, processes, risks and practical solutions involved in the merger and acquisition of Company A, aiming to clarify the merger and acquisition path of enterprises, continuously increase the ability of industrial integration, and enhance the core competitiveness of enterprises through the analysis of actual cases of mergers and acquisitions.

## 2. Merger motivation

### 2.1 Basic information of the merger and acquisition enterprise

In 2019, Shandong Province implemented the "Management committee + company" model to make the operation of the development zone more efficient, promote the development zone to focus on the main responsibility and main business, and build a demonstration zone for high-quality development.

In this context, C Group was established. C Group is a district-owned state-owned capital operation company established with the approval of the district Party Committee and the district government, and the district Finance Bureau performs the functions of investor. Under the leadership of the District Party Committee and the district government, the Group is positioned as a state-owned capital operation platform and an industrial development investment platform, serving the administrative Committee of the Development Zone, and undertaking the important mission of implementing the strategic intention of the district government by market-oriented means and promoting the adjustment of the distribution structure of state-owned capital, responsible for industrial project investment and financing, park construction, etc.

## **2.2 Main advantages of merger enterprises**

### **(1) Industrial advantages**

In the early stage, through the free transfer of the district government, the group has an industrial layout such as financing guarantee, engineering construction, trade, park operation and energy [2]. In recent years, through the rational and efficient use of industrial investment, funds and other innovative models, the Group has gradually opened up new industries and new business forms such as cultural tourism, health care and intelligent manufacturing.

### **(2) Strength advantage**

C Group is a wholly state-owned enterprise established with the approval of the regional people's government. It has excellent asset quality and maintained good credit for a long time. Especially in the special period of the current domestic economic restructuring, the downturn of the real economy and the sharp decline of the global economy caused by the impact of the covid-19, the company's overall reputation, strength and advantages are more prominent and the market recognition is high.

### **(3) Core competence**

The Group is a capital operation company with industrial investment as its main business. Since its establishment, it has accumulated rich experience in enterprise operation, equity investment, state-owned enterprise mixed reform, asset management and other aspects. The company has the ability of excellent enterprise operation, project construction, industrial investment, industrial integration and integration of industry and finance. In addition, since the establishment of the company, the market recognition is high, with a strong low-cost financing ability.

## **2.3 Situation of the acquired enterprise**

### **(1) Basic information**

The acquired company A, founded in 2005, is the only company in China that produces "TONEC color polymer molded plate" with excellent performance such as high strength, high corrosion resistance, weather resistance, swim protection, heat protection, sound insulation, pressure resistance, insulation, electromagnetic wave resistance, wind pressure resistance, green environmental protection, energy saving and other high-tech new enterprises. Due to the epidemic and other reasons, the operation situation in recent years is general.

### **(2) Financial and operating conditions**

As of April 30, 2023, the total book assets of Jinan Tongyi Company were 111,524,800 yuan, the total liabilities were 64,247,500 yuan, and the owner's equity was 47,277,300 yuan.

On February 30, 2013, the acquired company A obtained the National Use 2013 No. 202 and National Use 2013 No. 201 land certificates issued by the district government. The use area is 104,544 square meters and 28,498 square meters respectively, totaling 133,042 square meters, and the type is industrial land. The termination date of the land use right is January 22, 2056 and July 18, 2060 respectively.

## **2.4 Merger motivation**

As a newly established district-level state-owned enterprise, C Group still has a certain gap with other district-level state-owned enterprise platforms in terms of asset scale. As a state-owned capital investment and operation platform, the company needs to accelerate the expansion of asset scale in the

next few years, and constantly strengthen industrial investment and industrial integration capabilities. The main reasons specifically considered for merger include:

(1) The quality of the acquired company is good, which is conducive to play the function of the state-owned enterprise platform company and achieve scale expansion. The target enterprise A is located in the north of the development zone, has a superior geographical position, covers an area of 230 mu, and the land is not fully utilized. Redeveloping the industrial park can enlarge the group's asset scale in a relatively short period of time, rapidly achieve business scale expansion, and realize corner overtaking [3].

(2) Lower acquisition costs and good acquisition opportunities. In recent years, with the increasingly fierce market competition in the industry, Company A's own scale has limited its ability to obtain orders and negotiate. Due to industry competition and lagging corporate transformation, Company A currently has problems such as difficulty in obtaining orders and long collection period of receivables, and is in urgent need of introducing external resources and funds for collaborative development.

### **3. Type of merger**

First, according to the change of legal person status of both parties after the merger, the merger business belongs to acquisition holding, that is, both parties will not be dissolved after the merger, and the merger company C Group obtains the control right of the acquired company A.

Second, according to the industry correlation between the two sides of the merger and acquisition, the merger and acquisition business belongs to mixed merger and acquisition, that is, the merger and acquisition enterprise and the merger and acquisition enterprise are neither competitors, suppliers or customers. Before the merger and acquisition, the two enterprises are weakly related in business.

Third, according to the willingness of the acquired enterprises, the merger and acquisition business belongs to good faith merger and acquisition. Because Company A is in urgent need of external capital injection due to business constraints, liabilities and other reasons, Company A has a strong desire to sell its controlling shares. After several rounds of communication, the two sides have established a good foundation for cooperation and reached consensus on capital operation and land development.

### **4. Merger plan process**

#### ***4.1 Solution Content***

The C Group hired accounting firms, law firms, appraisal companies and other third-party intermediaries to complete the due diligence work on Company A, and agreed that the overall risk of Company A is controllable and it is a good acquisition target.

It is proposed to acquire the right of control through the acquisition of the equity of Company A. The specific plan is as follows: After communicating with relevant departments and soliciting the advice of legal advisers, it is proposed to acquire 51% of the equity of Company A and pay the equity transfer fee to achieve the purpose of listing.

#### ***4.2 Merger process***

According to the review report issued by the third party, the two parties determine the purchase price, sign the purchase agreement, the company's articles of association, and change the industrial and commercial and tax affairs.

### **5. Risks and countermeasures**

#### ***5.1 Risk of information asymmetry***

Information symmetry is the basis of state-owned enterprises' merger and acquisition of private enterprises. If the risk of information asymmetry appears, it will have a direct impact on the development of state-owned enterprises, and the merger and acquisition reorganization will end in failure.

The Company A of the acquired enterprise is a foreign-funded enterprise, which is an enterprise for attracting investment and enjoys land subsidies and preferential tax policies. Before the merger and acquisition, we learned that the procedure of changing foreign capital into domestic capital is simple, but in the actual operation process, it involves the audit of various government departments, tax inspection, etc., and there are problems such as complicated change procedures and long time.

Before the acquisition, the basic situation of the enterprise should be fully understood, and the existing problems should be implemented according to the policy.

### **5.2 Financial risk**

Financial risks include asset ownership risk, credit and debt risk, tax violation risk, assessment and pricing risk, etc. According to the audit report provided by the third party, in addition to the current payments registered in the book of the financial statements of the acquired company A, there are cases that the claims and debts formed due to the purchase and sale business and litigation are not recorded. According to the financial risks existing in the acquired company A, it made rectification and stripped off the part of the current payment. At the same time, after the holding of C Group, it will strengthen financial management by assigning financial directors and other ways to enhance financial legality and compliance.

### **5.3 Legal risks**

The legal risks mainly come from the share legitimacy and business compliance of the acquirer. Discover off-book risks and on-book risks during the third-party audit. Based on the various legal risks found, propose to divest the accounts that are not accounted for. At the same time, a supplementary agreement is signed to avoid unnecessary risks.

## **6. Conclusion**

In summary, in the context of the "management committee + company model", according to the development planning and relevant policies of the district Party committee and the district government, state-owned enterprises are encouraged to expand the industrial scale through market-oriented operation and other means. At the same time, focus on the main business, industry, promote investment, and help the development of industrial parks in the development zone. In the process of implementing mergers and acquisitions, state-owned enterprises should do a good job of due diligence, select high-quality enterprises that are in line with the development positioning of the company, objectively analyze the actual value of the enterprise, reasonably predict the future earnings, clearly identify the path of mergers and acquisitions, comprehensively analyze and evaluate various risks faced by the enterprise, ensure that the merger procedures are legal and compliant, the risks are controllable, and adhere to the bottom line of not losing state-owned assets. We will continue to strengthen our capacity for capital operation and industrial integration, optimize the distribution of state capital, and promote high-quality development of the state-owned economy.

## **References**

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