



Mainland China and Hong Kong

2018 Review:
IPOs and other
market trends



Foreword

The A-share IPO market has normalised, as the number of active listing applicants decreased significantly since the start of the year due to regulators' continued focus on "quality-over-quantity". This has led to a substantial increase in withdrawn applications and a significant drop-off in new listing applications.

Hong Kong's Main Board had its most active year in history, with a record-breaking 133 new listings. Total funds raised of nearly HKD300 billion places Hong Kong at the top of the global stock exchanges for 2018. The introduction of a new listing regime has generated significant interest from new economy companies, with four pre-revenue biotech and two weighted voting rights companies listed as at 30 November 2018.

This report analyses the A-share and Hong Kong IPO markets for 2018 and provides an outlook for 2019. It also includes an update on the Stock and Bond Connect schemes.

Index

324,345	+23.2%	Open	273,342
235,892	+12.5%	High	463,342
125,345	-0.83%	Low	123,834
675,982	+34.1%	Close	231,321
135,765	+11.2%	Chg	278,932

Top Performing Global Stock Exchanges

2018

Rank	Stock exchange	IPO proceeds (USD billion) ¹	IPO proceeds (HKD billion) ^{1,2}
1	The Stock Exchange of Hong Kong	33.7	261
2	New York Stock Exchange	26.5	205
3	NASDAQ	24.5	190
4	Shanghai Stock Exchange	13.4	104
5	Frankfurt Stock Exchange	13.3	103

2017

Rank	Stock exchange	IPO proceeds (USD billion)	IPO proceeds (HKD billion) ²
1	New York Stock Exchange	29.4	229
2	Shanghai Stock Exchange	21.3	166
3	London Stock Exchange	16.7	130
4	The Stock Exchange of Hong Kong	16.5	129
5	Shenzhen Stock Exchange	14.2	111

Source: Bloomberg and KPMG analysis

(1) Analysis based on data as at 30 November 2018.

(2) The exchange rate for USD/HKD is 7.75.

(3) The Tokyo Stock Exchange is expected to end the year as third in global rankings following the listing of a mega-sized technology company.

Mainland China IPO Market

Hong Kong IPO Market

Stock Connect

Bond Connect

Mainland China IPO Market



A-share IPOs: 2018 Highlights

The Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) recorded 105 new listings for a combined RMB 137.9 billion during the year. The significant drop in the number of new listings from 2017 is due to a decline in listing approvals.

Industrials IPOs have continued to lead the A-share market, accounting for over one-third of new listings during the year. Having said that, Telecommunications, Media and Technology (TMT) IPOs took the crown in terms of total funds raised following the listing of the largest TMT company to ever list in China.

The A-share IPO approval rate has slowly recovered to 70 percent, following the dip to 43 percent in the first quarter of 2018. The A-share IPO market has normalised to a further extent, where the number of active applicants has decreased significantly since the start of the year from 511 to 270 (as at 30 November 2018) due to a substantial increase in withdrawn applications and a significant drop-off in new listing applications. Amidst ongoing market uncertainty, regulators have maintained their focus on “quality-over-quantity”, and have continued a stable stream of 2 – 5 IPO vettings per week.

The London-Shanghai Stock Connect is a clear sign of China’s ongoing efforts to open up its financial markets to the rest of the world; while investments into bourses in Pakistan, Bangladesh and Kazakhstan signify the country’s commitment towards the development of the Belt and Road Initiative. China is poised to continue making significant strides towards improving its financial structure, and laying the foundation for sustainable, long-term economic growth.

Note:

(1) All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.

A-share IPOs: Overview

- The A-share IPO market recorded **105 new listings** for a combined **RMB137.9 billion** during the year, which was a decrease of 40 percent compared to the prior year. The **average deal size more than doubled** from RMB 0.53 billion to RMB 1.31 billion, as **over 25 percent of IPOs in 2018 were medium or large-sized**. In comparison, only 10 percent of IPOs were medium or large-sized in the past five years.
- IPO pipeline congestion has largely resolved, where the **number of active IPO applications has decreased significantly** since the start of the year from **511 to 270** (as at 30 November 2018). Regulators' continued focus on “**quality-over-quantity**” has made it clear that **only high-quality enterprises will be allowed to list**.
- Regulators have continued to show **support for major technology initiatives** such as “**Internet Plus**” and **artificial intelligence**, and the announcement of a **new high-tech board** to be set up in Shanghai will greatly aid **TMT to remain one of the top sectors for years to come**.

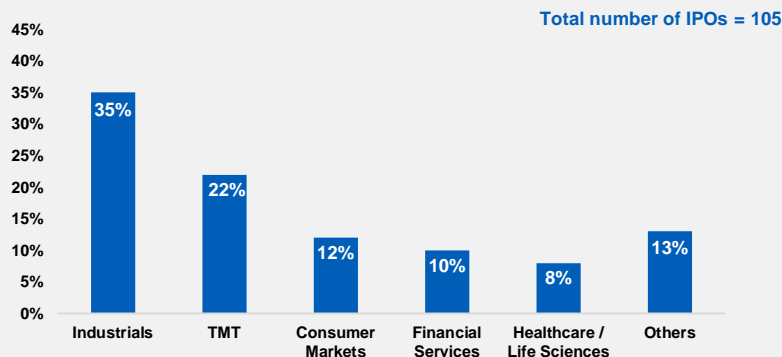
	SSE			SZSE			A-share market (SSE & SZSE)			
	Total funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	Total funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	# of IPOs			
							< RMB 1 billion	RMB 1-5 billion	> RMB 5 billion	Total
2018	87.1	58	1.50	50.8	47	1.08	76	25	4	105
2017	137.7	214	0.64	92.5	222	0.42	388	48	-	436
2016	101.7	103	0.99	47.9	124	0.39	204	20	3	227
2015	108.7	89	1.22	48.9	130	0.38	198	18	3	219
2014	31.2	43	0.73	35.5	81	0.44	114	9	1	124

Note: All figures are based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated.
Excludes listing by introduction.

Source: Wind and KPMG analysis

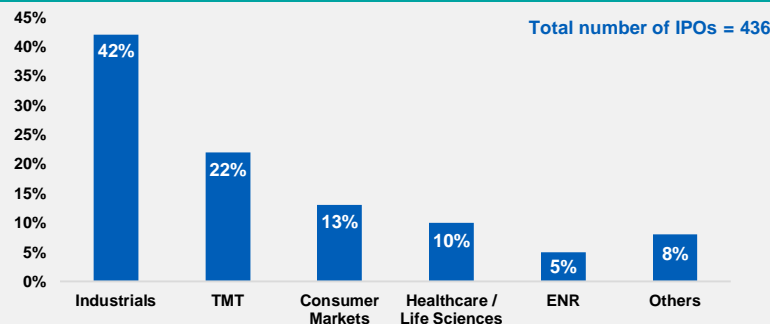
A-share IPOs: Sector Analysis

2018: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

2017: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.



Industrials

- Industrials continued to be the **largest contributor in terms of number of new listings**, representing 35 percent of IPOs for 2018. This trend is expected to continue into 2019, with a **strong pipeline of 90 companies currently seeking a listing**.
- The next big trend - **'Industrial Internet'** is the integration of physical equipment with big data, artificial intelligence, and the Internet of Things. This is especially important for the **'Made in China 2025' initiative**, as China continues to strive for a more **self-sufficient economy in the long run**.

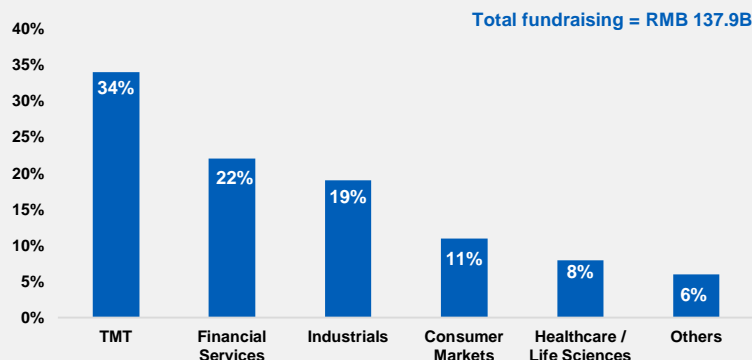


Financial Services

- Financial services saw a **120 percent increase in the number of listings**, undeterred by the slowdown in the overall market during the year. This led to a jump in market share (by total funds raised) from **6 percent in 2017 to 22 percent in 2018**.
- The sector mainly consisted of medium or large-sized companies, as the **average deal size of RMB2.7 billion is the largest across all sectors**.
- Regional commercial banks** made a triumphant return in 2018, with **four new listings raising a combined total of RMB9.2 billion**, as compared to only one new listing in 2017 raising RMB 0.8 billion.

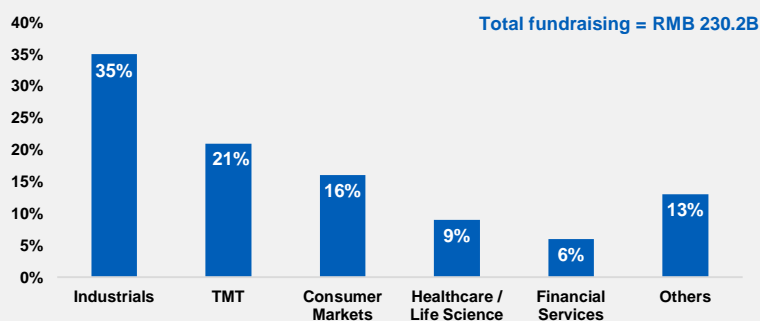
A-share IPOs: Sector Analysis (cont'd)

2018: Top 5 sectors – By total funds raised



Source: Wind and KPMG analysis

2017: Top 5 sectors – By total funds raised



Source: Wind and KPMG analysis

Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.



Telecom, Media and Technology

- TMT was first in terms of total funds raised due to the listing of a mega-sized new economy company engaged in high-tech electronic components. This company alone accounted for approximately one-fifth of the total funds raised for the year.
- The announcement of a new high-tech board to be set up in Shanghai signifies strong support from the Chinese government for technological advancements. We expect TMT to remain one of the top sectors for years to come.



Consumer Markets

- Consumer markets continued its stable performance in 2018, ranking third in the number of new listings and fourth in total funds raised.
- Companies listed during the year included four sizeable IPOs accounting for over two-thirds of the sector's total fundraising. These companies are engaged in the production and sales of food and beverages, cigarettes, furniture and cosmetics.
- Record-breaking sales figures from the double 11 event provide optimism amidst concerns over consumption growth, as improvements in technology and logistics have enabled China to maintain its status as the undisputed largest e-commerce market in the world.

Top 10 Largest A-share IPOs

2018	Company	Exchange	Proceeds (RMB billion)	Sector
1	Foxconn Industrial Internet Co., Ltd	SSE	27.1	TMT
2	The People's Insurance Comp. (Group) of China Ltd	SSE	6.0	Financial Services
3	Shenzhen Mindray Bio-Medical Electronics Co., Ltd	SZSE	5.9	Healthcare / Life Sciences
4	Contemporary Amperex Technology Co., Ltd	SZSE	5.5	Industrials
5	Huaxi Securities Co., Ltd	SZSE	5.0	Financial Services
6	Jiangsu Financial Leasing Corp. Ltd	SSE	4.0	Financial Services
7	Avary Holding (Shenzhen) Co., Ltd	SZSE	3.7	TMT
8	Hebei Yangyuan ZhiHui Beverage Co., Ltd	SSE	3.4	Consumer Markets
9	Red Star Macalline Group Corp. Ltd.	SSE	3.2	Consumer Markets
10	Bank of Zhengzhou	SZSE	2.8	Financial Services

Source: Wind and KPMG analysis



Funds raised by
top 10 IPOs

2018:
RMB 66.6 billion
~ 48 percent of total proceeds



2017:
RMB 29.0 billion
~ 13 percent of total proceeds



Top 10 Highlights

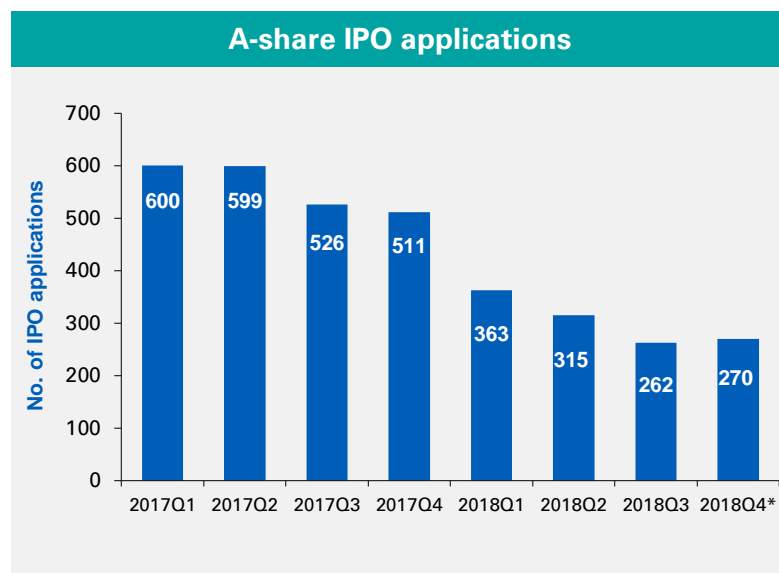
- Foxconn ranks **11th amongst all IPOs in SSE history**, and is the **largest TMT company to ever list in mainland China**

2017	Company	Exchange	Proceeds (RMB billion)	Sector
1	China Galaxy Securities Co., Ltd	SSE	4.1	Financial Services
2	Caitong Securities Co., Ltd	SSE	4.1	Financial Services
3	Huaneng Lancang River Hydropower Inc.	SSE	3.9	ENR
4	Zheshang Securities Co., Ltd	SSE	2.8	Financial Services
5	Central China Securities Co., Ltd	SSE	2.8	Financial Services
6	Shandong Publishing & Media Co., Ltd	SSE	2.7	TMT
7	Jiangsu Provincial Agricultural Reclamation and Development Co., Ltd	SSE	2.4	Consumer Markets
8	Oppein Home Group Inc.	SSE	2.1	Consumer Markets
9	Xin Feng Ming Group Co., Ltd	SSE	2.1	Industrials
10	Huizhou Desay Sv Automotive Co., Ltd	SZSE	2.0	TMT

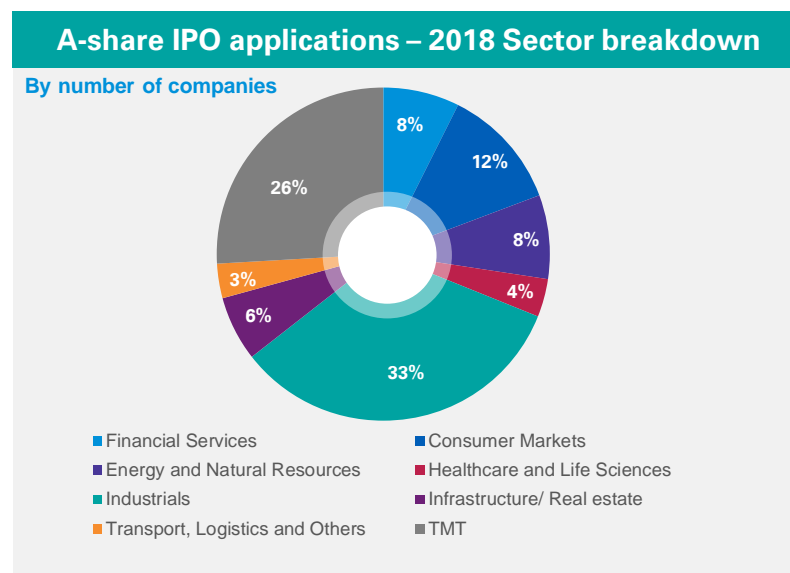
Source: Wind and KPMG analysis

A-share IPO Pipeline

- The **number of active IPO applications** has decreased significantly since the start of the year from **511 to 270*** due to a substantial increase in withdrawn applications and a significant drop-off in new listing applications.
- Regulators' continued focus on **"quality-over-quantity"** has led to a **more than double the number of withdrawn applications** from 76 in 2017 to 189 (up to 30 November 2018). This has also led to a **significant drop-off in new IPO applications** from 717 in 2017 to 262 (up to 30 November 2018). It has become very clear that only high-quality enterprises will be allowed to list.
- We expect that the **industrials and TMT sectors will continue to be a key driving force** for the A-share market, as **nearly 60 percent** of the existing pipeline belongs to these two sectors.



Note: * Data as at 30 November 2018



Source: Wind and KPMG analysis

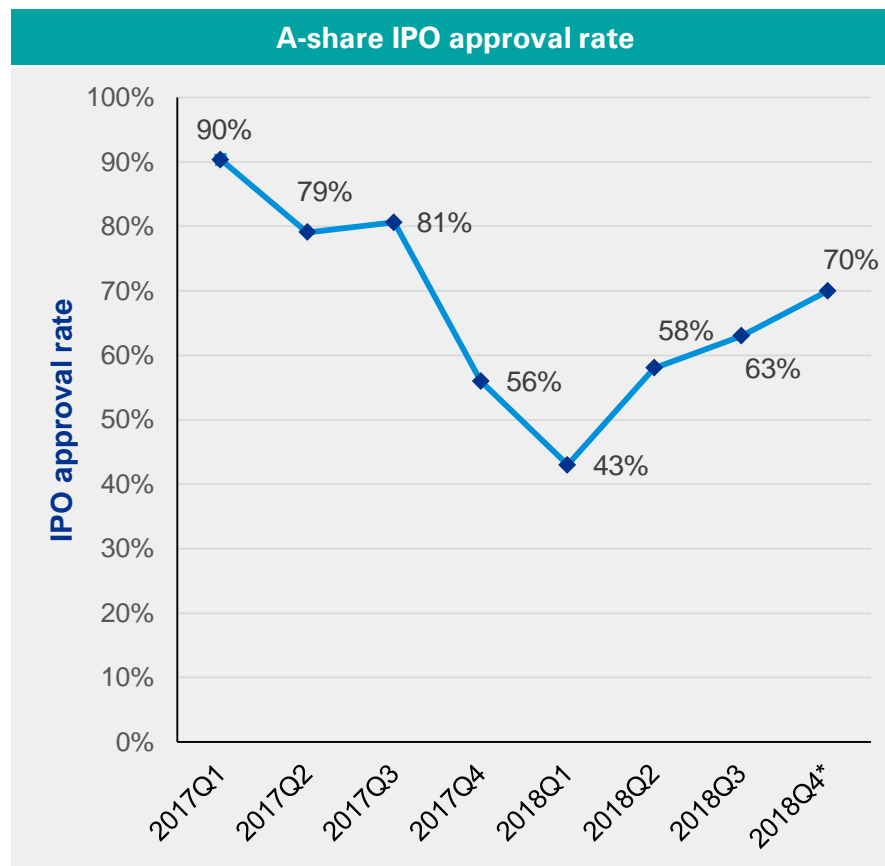
A-share IPO Approval Rate



The IPO approval rate has slowly recovered to **70 percent** following a dip down to 43 percent in the first quarter.



Although IPO vetting was fairly active at the start of the year, it has **stabilized at 2 – 5 reviews per week** since the second quarter.



Note: * Data as at 30 November 2018

Source: Wind and KPMG analysis

A-share IPOs: Outlook for 2019

The creation of a new high-tech board in Shanghai is expected to occur in 2019 and will likely garner notable interest from new economy companies seeking to list in China. The new board is expected to allow for greater inclusion and support of high-tech and innovative companies, and provide a platform for experimentation with a registration-based system for IPOs.

Small and medium-sized companies from the industrials and TMT sectors are expected to make up a majority of the A-share IPOs.

Despite ongoing China-US trade tensions, the SSE and SZSE are expected to remain among the top-ranked stock exchanges globally in 2019 in terms of total funds raised, commensurate with the funding needs and scale of mainland China's economy.

Mainland China is expected to continue its ongoing efforts to open up its financial market to the rest of the world, undeterred by uncertainty and volatility in the global markets. Following the London-Shanghai Stock Connect and investments in countries along the Belt and Road Initiative, we expect China to continue forging partnerships with other countries.

Hong Kong IPO Market

Hong Kong IPOs : 2018 Highlights

The Main Board had its most active year in history, with a record-breaking 133 new listings leading to total funds raised of approximately HKD300 billion, placing Hong Kong at the top of the global exchanges for 2018.

The TMT sector had its best year in Main Board history with total funds raised exceeding HKD150 billion, a figure which exceeded the sector's combined funds raised for the past 15 years. Real estate-related companies had a resurgence in 2018, and the underlying sector has continued to lead the market in the number of new listings.

The new listing regime for biotech companies that do not meet financial eligibility tests and high growth innovative companies with weighted voting rights ("WVR") structures has generated significant international interest. This has led to the listing of four biotech companies and two WVR companies as at 30 November 2018. In fact, three out of the top ten largest IPOs in 2018 were listed under the new listing regime.

Hong Kong's buoyant market has continued to attract up-and-coming companies from around the world, with 25 overseas companies listing during the year. Companies originating from the NEEQ board are also becoming a new source of HK IPOs, with 15 companies on (or previously on) the NEEQ board having submitted their applications to list in Hong Kong.

Note:

- (1) Rankings are based on information as at 30 November 2018.
- (2) All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.

Hong Kong IPOs: Overview

- The Main Board had a record breaking **133 new listings during the year**, making 2018 the **most active year in Main Board history**. **Total funds raised of nearly HKD 300 billion** also marks the **3rd highest figure** in Main Board history, more than doubling the amount in 2017.
- The new listing regime for companies from emerging and innovative sectors has successfully generated significant interest from new economy companies globally. **Four pre-revenue biotech companies** and **two with weighted voting right structures** have listed as at 30 November 2018.
- Hong Kong's buoyant market has continued to **attract up-and-coming companies around the world**, with **25 overseas companies listing** during the year. Companies originating from the NEEQ board are also becoming a **new source of HK IPOs**, with **15 companies on (or previously on) the NEEQ board** having submitted their applications to list in Hong Kong.
- The GEM recorded **75 new listings, the second highest figure in GEM history**, for a combined **HKD 5.1 billion**.

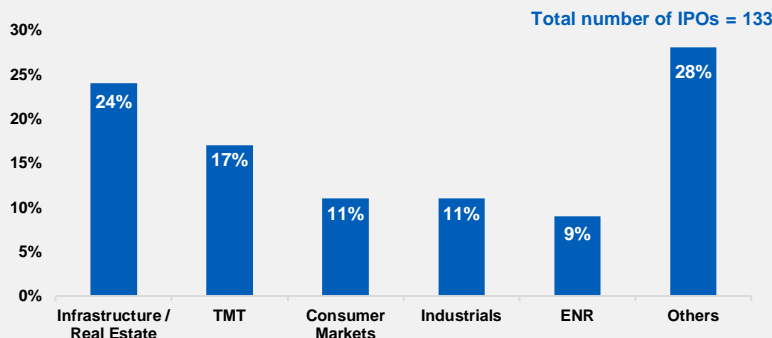
	Main Board						GEM		
	Total funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Total funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2018	289.8	133	2.18	90	33	10	5.1	75	0.07
2017	122.6	80	1.53	59	15	6	5.9	80	0.07
2016	190.7	72	2.65	48	14	10	4.6	45	0.10
2015	260.4	87	2.99	57	15	15	2.5	31	0.08
2014	187.0	87	2.15	51	28	8	2.2	19	0.12

Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated.
Excludes listings by introduction.

Source: HKEx and KPMG analysis

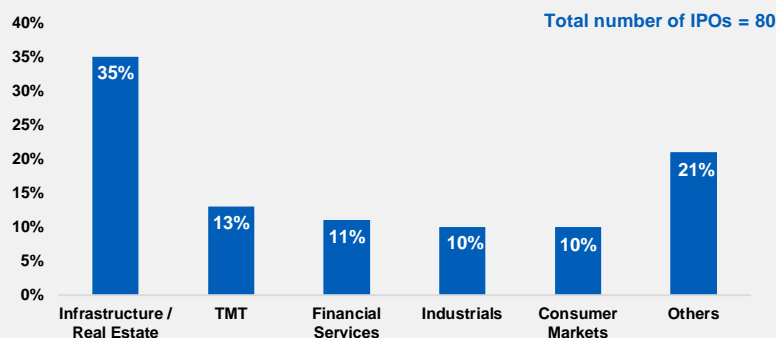
Hong Kong IPOs: Main Board - Sector Analysis

2018: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

2017: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.



Infrastructure / Real Estate

- The sector continued to lead the market in number of new listings, but ended up fourth in terms of total funds raised, despite more than tripling the amount raised in 2017.
- A resurgence of real estate-related companies listings in Hong Kong during the year, with 14 real estate-related companies raising over HKD20 billion compared to only three in the prior year.
- The sector is expected to maintain its market leading position in 2019 with over a quarter of the pipeline belonging to these companies.

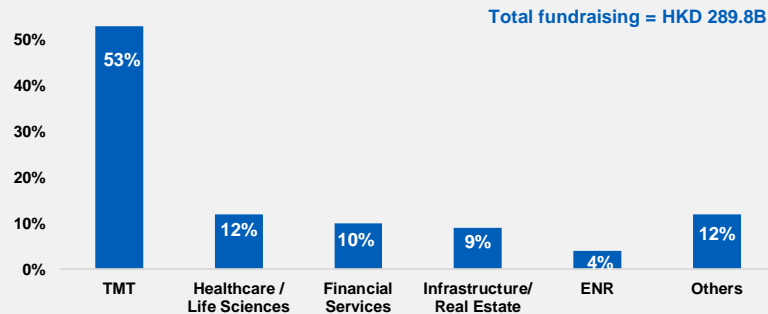


Telecom, Media and Technology

- The TMT sector had its best year in Main Board history with total funds raised of over HKD 150 billion, a figure which exceeded the sector's combined funds raised for the past 15 years.
- Two mega-sized technology companies with a WVR structures were listed during the year under the new listing regime. Hong Kong's renewed focus on technology has generated notable interest from tech companies around the world and has continued to bolster Hong Kong's position as a leading international IPO center.
- The new listing regime has also transformed Hong Kong into a hub for new economy companies. Over 25 percent of IPOs in 2018 are new economy companies, compared to less than 15 percent in 2017.

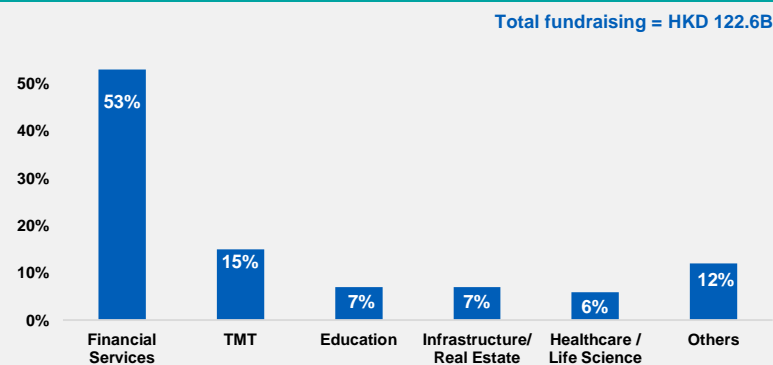
Hong Kong IPOs: Main Board - Sector Analysis (Cont'd)

2018: Top 5 sectors – By total funds raised



Source: HKEx and KPMG analysis

2017: Top 5 sectors – By total funds raised



Source: HKEx and KPMG analysis

Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated. Excludes listings by introduction.



Healthcare / Life Sciences

- The sector was **second in terms of total fundraising**, aided by the **listing of four biotech companies** under the new listing regime.
- The introduction of the new listing regime for emerging and innovative sectors has garnered **pronounced interest from biotech companies globally**, with **eight active applicants** as at 30 November 2018, including **two originating overseas**.
- Healthcare / life sciences will continue to be a **key driving force in the Hong Kong IPO market**, stemming from the increased demand driven by an aging population in developed countries. We expect **a major growth in biotech companies listing in 2019**.

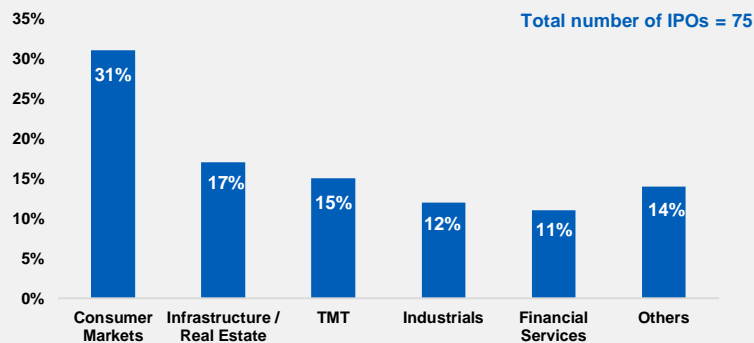


Financial Services

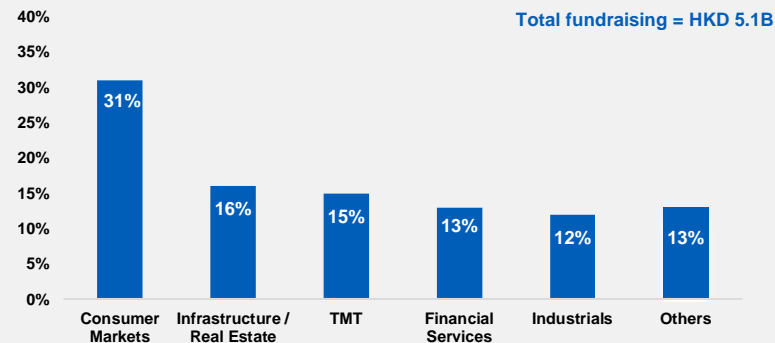
- Slid down to **third place** in terms of total fundraising, due to a **lack of mega-sized securities & insurance companies**.
- Disregarding commercial banks, **approximately half of the funds raised in the financial services sector** for both 2017 and 2018 belong to **new economy companies**.
- The financial services sector is **undergoing a transformation** – as a sector traditionally dominated by commercial banks, there has been an **increasing shift towards “new economy” companies** engaged in fintech and online payment solutions.

Hong Kong IPOs: GEM - Sector Analysis

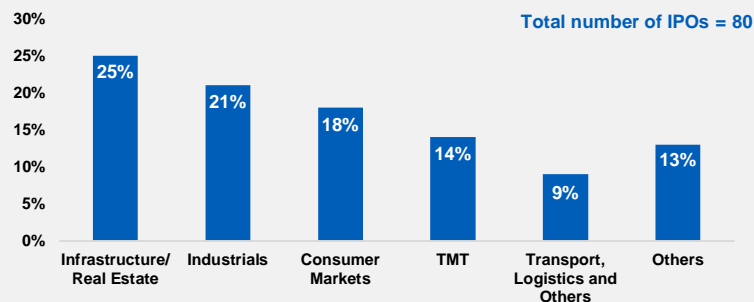
2018: Top 5 sectors – By number of IPOs



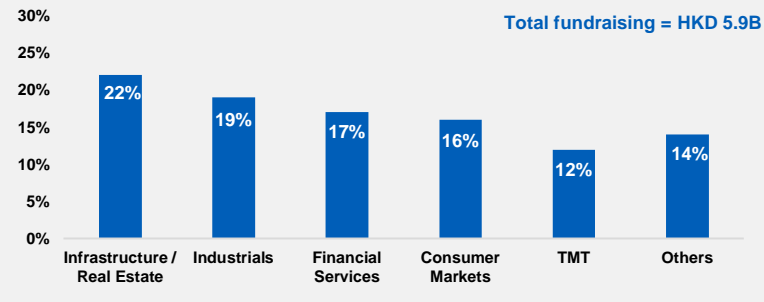
2018: Top 5 sectors – By total funds raised



2017: Top 5 sectors – By number of IPOs



2017: Top 5 sectors – By total funds raised



Note: All analysis is based on a combination of data as at 30 November 2018 and KPMG estimates, unless otherwise stated.
Excludes listings by introduction.

Source: HKEx and KPMG analysis



Consumer Markets

- The sector **dominated GEM** in 2018, leading the board in **both the number of listings and total funds raised**.
- There were **12 food and drinks** companies listed during the year, accounting for more than half of the sector's new listings.



Infrastructure / Real Estate

- The sector was **second in terms of the number of listings and total funds raised**.
- The sector mainly consists of companies engaged in **engineering consultancy and interior fit-out services**.

Top 10 Largest Hong Kong IPOs

2018	Company	Proceeds (HKD billion)	Sector
1	China Tower Corporation Ltd	58.8	TMT
2	Xiaomi Corporation#	42.6	TMT
3	Meituan Dianping#	33.1	TMT
4	Ping An Healthcare and Technology Co., Ltd	8.8	Healthcare / Life Sciences
5	Jiangxi Bank Co., Ltd	8.6	Financial Services
6	WuXi AppTec*	7.9	Healthcare / Life Sciences
7	Haidilao International Holdings Ltd	7.6	Consumer Markets
8	BeiGene, Ltd#	7.1	Healthcare / Life Sciences
9	Bank of Gansu Co., Ltd	6.8	Financial Services
10	Shandong Gold Mining Co., Ltd	5.2	Energy and Natural Resources

Listed under the New Listing Regime

* Expected to list by the end of the year

Source: HKEx and KPMG analysis



Funds raised by top 10 IPOs

2018:

HKD 186.5 billion
~ 63 percent of total proceeds



2017:

HKD 82.7 billion
~ 64 percent of total proceeds



Top 10 Highlights

- TMT and healthcare / life sciences dominated the top 10 largest IPOs, greatly aided by the new listing regime**

2017	Company	Proceeds (HKD billion)	Sector
1	Guotai Junan Securities Co., Ltd	17.2	Financial Services
2	ZhongAn Online P&C Insurance Co., Ltd	13.7	Financial Services
3	China Literature Ltd	9.6	TMT
4	Zhongyuan Bank Co., Ltd	9.3	Financial Services
5	Guangzhou Rural Commercial Bank Co., Ltd	9.3	Financial Services
6	Yixin Group Ltd	6.8	Financial Services
7	Razer Inc.	4.7	TMT
8	Wuxi Biologics (Cayman) Inc	4.6	Healthcare / Life Sciences
9	Crystal International Group Ltd	4.0	Consumer Markets
10	Jilin Jiutai Rural Commercial Bank Corp Ltd	3.5	Financial Services

Source: HKEx and KPMG analysis

Hong Kong IPOs: Outlook for 2019

Hong Kong will continue to be among the top listing destinations in 2019 and will benefit from a number of government policies and market developments:

- New economy companies are expected to remain at centre stage, as Hong Kong continues to step up its efforts in nurturing the ecosystem for these companies.
- A large number of up-and-coming Mainland companies (include those on the NEEQ board) are seeking to list in Hong Kong to finance their further development.
- Overseas companies are showing greater interest in seeking a Hong Kong listing to benefit from the new listing regime and take part in the city's bright future.
- The Belt & Road and Greater Bay Area Initiatives are expected to accelerate their development in the coming year, leading to unique business opportunities for the city.

Hong Kong is expected to be dominated by small and medium-sized IPOs in the coming year, with a reduction in total funds raised. Despite concerns over the stability of global markets, we remain optimistic on Hong Kong's IPO activities in 2019.

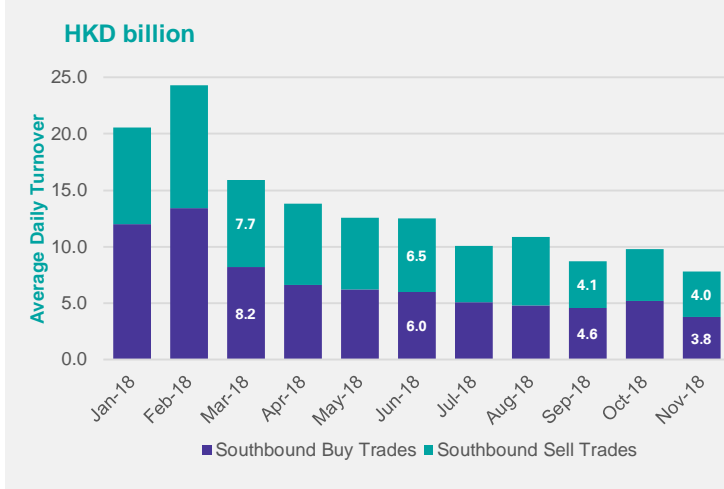
We forecast that the total proceeds for 2019 will exceed HKD200 billion with approximately 200 new listings, though the final figure would heavily depend on the timetables of several mega-sized IPOs.

Stock Connect

Stock Connect

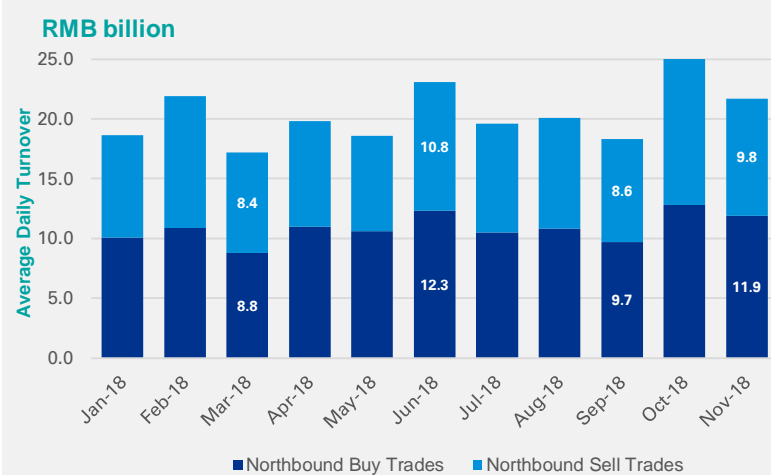
- In just four years, Stock Connect has become the **undisputed platform of choice** for international investors seeking **access to China's equity markets** and for Chinese investors **diversifying their equity through Hong Kong**. Total turnover of northbound trading has exceeded RMB8.8 trillion, while southbound trading has also exceeded HK\$6.6 trillion.
- WVR-structured companies are currently excluded from southbound trading** under the Stock Connect, but **Hong Kong and mainland exchanges have reached an agreement for their inclusion**. There is a need to consider the maturity and regulatory practices of the two markets as Mainland investors are not yet familiar with WVR companies. The new rules are expected to be implemented by the middle of next year.
- The **Shanghai-London Stock Connect is expected to commence in 2019**. The scheme is a clear sign of mainland China's ongoing efforts to open its financial markets to the rest of the world.

Southbound investment: Average daily turnover



* Analysis is based on data as at 30 November 2018

Northbound investment: Average daily turnover

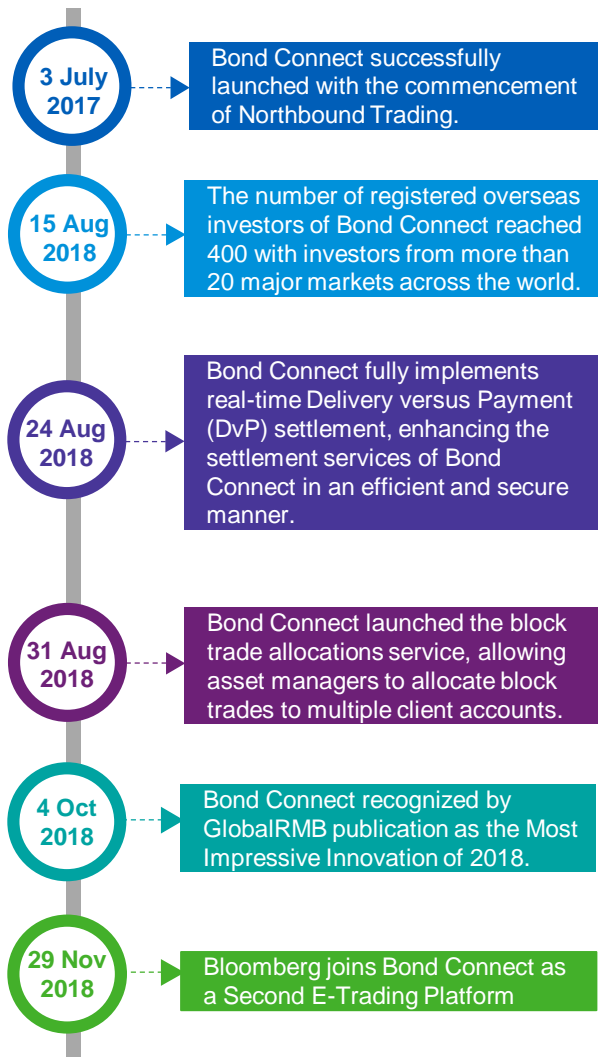


Source: HKEx

Bond Connect



Bond Connect



A graphic with a background of financial data and currency symbols. It features a purple circle with dollar signs and a list of bullet points.

Foreign participation in China's bond market

- Approximately one and a half year since its launch, the **number of registered overseas investors has already reached 450**. The scheme has already attracted **28 out of the global top 100 asset managers**.
- Bond Connect provides a simplified and streamlined mechanism for international investors to participate in China's onshore bond market. The program was recognised by GlobalRMB publication as the **Most Impressive Innovation of 2018**.
- The full implementation of real-time Delivery versus Payment (DvP) settlement and Block Trade Allocations are **key conditions** for the **inclusion of the Chinese bond market into global bond indices**, which is expected to accelerate participation in Bond Connect by global investors.

Source: Wind, Bond Connect Company Limited

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