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KPMG Global China Practice

Hong Kong – Asia's Global Market
A Destination for International Listings

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Contents

Foreword

Hong Kong continues to solidify its role as a nexus between the East and the West, a global financial centre uniquely positioned to add value to enterprises from around the world.

Already the market of choice for Chinese enterprises looking to issue initial public offerings or raise capital through secondary listings or bond offerings, Hong Kong has also proven attractive to international companies who see the benefits of positioning themselves at the heart of the Asian growth story. Mega financial institutions, like AIA and Prudential plc, resources companies like Mongolian Mining Corp and RUSAL, and international luxury brands like Prada and Samsonite all have chosen Hong Kong to raise capital and their profile.

Hong Kong continues to evolve into much more than a link to China. It has emerged as Asia's pre-eminent financial market and a leading international financial centre. The capital market of Hong Kong is a big part of this evolution. It has successfully leveraged built-in advantages such as free capital flows, a deep pool of expertise and experience in finance, strong and unique links to the mainland China market, low taxes and a strong but welcoming regulatory and legal infrastructure.

Global markets were affected by the European sovereign debt crisis in the first half of 2012. Fundraising activities have been severely hindered by market volatility. Hong Kong was not immune from this worldwide downturn. Statistics from the Hong Kong Stock Exchange showed that the IPO funds raised in the first 6 months fell around 80 percent from the same period in 2011. Given the poor stock performance and withered investor appetite for new shares, a number of cancellations and postponements of planned IPOs were seen under the pressure of pricing and fundraising targets.

However, Hong Kong remains competitive among global IPO destinations because of its solid market fundamentals and close links with mainland China. We believe there will be abundant opportunities for quality applicants when market sentiment improves. Either for private enterprises from around the world looking to take the next step by going public or for public companies seeking a secondary listing, Hong Kong is an attractive choice.

This report explores the environment for international listings in Hong Kong and how it compares with other markets in the region. We hope it gives you information to help you consider a listing in Hong Kong.

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Executive Summary

Enterprises that list in Hong Kong are looking to raise capital or their profile while securing a stronger foothold in Asia – particularly China. A presence in Hong Kong helps them achieve that objective. Research and interviews conducted by KPMG with various stakeholders, including listed companies, advisors, and the exchange suggest a number of key factors that set Hong Kong apart from other markets around the world:

- Hong Kong has one of the best-established and most competitive stock markets in the world. Being the favoured international capital market of giant Chinese enterprises helps give Hong Kong heft while the large numbers of listings by international companies in Hong Kong give it considerable depth.
- Two factors are particularly attractive to new issuers on the Hong Kong market. The first is its connection to the growing economic power of Asia. The second is its continuing position as the top IPO centre in the world. According to Hong Kong Stock Exchange, between 2009 and 2011, IPO issuers in Hong Kong raised the most funds around the world: those raised by international companies accounted for approximately half of the total amount. However, Hong Kong will be hard-pressed to retain pole position in 2012. Fundraising dropped significantly in the first half as a result of global market weakness and local volatility. Only two international companies were listed, accounting for about 15 percent of the total proceeds raised during the six month period.
- Hong Kong has the largest stock market in Asia ex-Japan by market capitalisation[1]. This strength is amplified by the open nature of Hong Kong. There are virtually no barriers to the movement of capital. In the past few years, Hong Kong has emerged as the pre-eminent offshore Renminbi (RMB) centre, another source of strength and a potential fount of capital for enterprises with operations in China. In Hong Kong, enterprises have the option to raise funds in RMB.
- For the time being, attractive valuations are yet another drawing card for investors who, in turn, are a drawing card for enterprises looking for capital. Enterprises that have raised funds in Hong Kong say the market is attractive for initial issues without a large overhang of bureaucratic oversight, barriers to entry or unnecessary interference that have had a negative impact in markets elsewhere.
- Hong Kong has a large and well-diversified investor base. It provides access to international institutional investors as other markets in the US and Europe do, but it also offers what other markets cannot – access to the growing number of mainland Chinese institutional investors and probably mainland Chinese retail investors in the future.
- A Hong Kong presence facilitates close links to China and potentially larger visibility among Chinese officials, customers and investors.
- Hong Kong's stock market is particularly attractive for issuers in three key areas: natural resources, consumer goods (particularly luxury brands), and financial services. At the same time, Hong Kong is popular for secondary listings, particularly for international enterprises that want to raise their profile among mainland Chinese investors.
- The European debt crisis and other economic concerns elsewhere including tepid economy recovery in the US and growth slowdown worries in China have hit the current IPO market in Hong Kong. A series of setbacks has cracked the confidence of issuers and investors. Looking forward to the rest of 2012 and the year beyond, the volatility in the capital markets is not expected to go away anytime soon. What Hong Kong can do is to continue improving the reputation of its stock market and building investor confidence, which will eventually lead Hong Kong back to one of the hottest IPO markets when market sentiment improves in the future.

Enterprises interviewed say a Hong Kong listing is a straightforward and transparent proposition for those that meet the clear requirements of the regulators and the stock exchange in Hong Kong. It is a proposition with the potential to add value, capital and visibility to any enterprise that undertakes it.

[1] World Federation of Exchanges, market capitalisation as of March 2012

I. Global competition, local str

rength

KEY POINTS:

- **The current global economic downturn is increasing the level of competition among the financial centres to recruit capital from the global market.**
- **In Asia, regional strength is being created through M&As, strategic alliances and new market initiatives among a group of local markets.**
- **A global success story - Hong Kong attracts domestic, PRC and international enterprises.**

Competition in the global capital markets

The globalisation of the capital markets has become increasingly significant over the past decade. Cross-border capital transactions, particularly initial public offerings (IPOs), are now common. Increasingly, the aim of these cross-border IPOs is to tap the capital and growth that is present in emerging markets but sorely lacking in the West. Indeed, growth in emerging economies is having a marked effect on global capital markets. High profile listings in Hong Kong by large enterprises based elsewhere but with global operations, such as Glencore, AIA, Prada, Samsonite and RUSAL, have drawn a lot of investor interest.

At the same time, a shift in the volume of trading is underway from developed to emerging markets. Trading volumes are rising in high growth markets like the BRICS (Brazil, Russia, India, China and South Africa), while trading volumes in more mature economies in Europe and North America continue their sideways trend. Some of the issues still apparent in these more mature markets are high market volatility, low investor confidence, high taxes, and regulatory scrutiny. These factors are deterring companies from listing their shares for fear of adverse demand. In 2011, for example, almost half of the total US$205 billion raised in IPOs around the world (a figure significantly lower than the US$343 billion raised in 2010 with almost as many listings) was raised in Asia and much of that was in Hong Kong. That was the third year in a row that Hong Kong took the top spot as the largest IPO centre in the world[2].

The global economic uncertainties coupled with the European sovereign debt crisis in recent years have impacted the level of fundraising activities, and in the first half of 2012, a drop of 80 percent in IPO funds raised was seen in Hong Kong compared to the same period in 2011. Most giant Chinese state enterprises have completed their public listings and it is difficult for Hong Kong to find new headline-grabbing mega-IPOs. According to Dealogic, Hong Kong was behind NASDAQ, New York Stock Exchange, Shenzhen Stock Exchange and Bursa Malaysia in terms of capital raised in IPO activities in 2012 as of July.

An increasingly global approach to raising capital has fostered a highly competitive environment among the top financial markets in the world. Stock exchanges are competing fiercely for market share and global leadership, creating niche areas of specialisation in an effort to attract more listings or even entire industries. Smaller stock exchanges, dwarfed by the larger global or regional centres in terms of volume and liquidity, have taken steps to develop specialist niches by facilitating listing requirements and working with investment banks to attract more coverage of equities trading on their exchanges.

Mergers and acquisitions, strategic alliances and market reforms

Intense competition has driven stock exchanges to lower fees, seek consolidation through mergers and acquisitions, create strategic alliances and implement market reforms.

The string of cross-border mergers and acquisitions started in 2006, when the New York Stock Exchange (NYSE) paid US$10.2 billion for Euronext NV and NASDAQ took a 15 percent stake in the London Stock Exchange. In 2007 NYSE was part of a group of investors that took a 20 percent stake in the Indian National Stock Exchange for US$460 million. NASDAQ also bought the OMX AB in Sweden for US$4.1 billion. In 2011, the European Commission blocked a bid by the merged NYSE-Euronext and Deutsche Borse to create the largest equity and derivative exchange in the world.

An uncertain global economy in recent years has discouraged many enterprises from raising public funds and weakened pipelines of new listings in some markets. Moreover, public perception that complex derivative products traded in public stock exchanges were one direct cause of the financial crisis has sidelined many investors and led to increased oversight. A number of laws and regulations were published in different countries to strengthen the competitiveness of their capital markets while requiring greater levels of reporting, disclosure and transparency.

[2] "Winning platforms – Choosing the right profile for the world's exchanges". KPMG International, April 2012

The US, for example, passed the Jumpstart Our Business Startups Act (known as the JOBS Act) in April 2012 to encourage emerging growth companies (EGC) with revenues of less than US$1 billion to raise public capital, an effort with clear benefits for US domestic exchanges. Seeking to attract smaller issuers to US markets, the Act exempted smaller enterprises from some reporting requirements, lowered thresholds for registration and allowed for more flexible filing requirements[3]. At the same time, however, the US also introduced the Dodd-Frank Wall Street Reform and Consumer Protection Act, which targets transparency and stability in over-the-counter (OTC) derivatives markets[4].

Markets in Europe have also introduced reforms. The European Market Infrastructure Regulation (EMIR) and a review of the Markets in Financial Instruments Directive have goals similar to the Dodd-Frank Act and seek to eliminate market uncertainty by standardising trades, requiring that standard trades be carried out in electronic venues to increase transparency and calling for increased reporting. At the same time a proposed "Tobin Tax" on financial transactions in the EU could hurt trading by pushing investors away. The European Commission estimates that between 70 to 90 percent of some forms of trading may move out of the EU as a result of a Tobin Tax[5].

In Asia, home to some of the world's fastest growing economies, we see both competition and collaboration among the region's capital markets. Led by regional financial hubs Hong Kong and Singapore, regional strength is being created through M&As, strategic alliances and new market initiatives among a group of local markets.

Hong Kong Exchanges and Clearing Limited (HKEx), the operator of the securities and derivatives markets in Hong Kong, recently put in a bid to buy London Metal Exchange (LME) for £1.388 billion (US$2.2 billion). LME's shareholders have approved the deal. If the UK's Financial Services Authority approves the deal, Hong Kong will have beaten out NYSE Euronext in the race for the London-based exchange[6]. The acquisition would give Hong Kong links to an exchange that sets global benchmarks for the prices of copper, aluminum and zinc, and could increase the attractiveness of Hong Kong to global resources companies. The London deal is only one of the several steps that HKEx has taken to expand its footprint. In June 2012, it formed a joint venture with the stock exchanges in Shanghai and Shenzhen that would give investors access to companies listed on all three exchanges and would create its first cross-border indices by the end of 2012. By 2013, the trio is expected to begin introducing derivative products based on those indices[7]. The BRICS Exchanges Alliance, initiated by HKEx in 2011, has plans to cross-list benchmark equity index derivatives on the boards of each Alliance member, as well as to jointly develop innovative products to track BRICS exchanges[8].

Singapore is looking for ways to expand across Southeast Asia and into Oceania. In 2010, Singapore Exchange (SGX) sought to purchase Australian Securities Exchange (ASX) for US$8.3 billion but the Australian government terminated the deal, claiming it was not in the national interest. In recent years, SGX has pursued a strategy of specialisation in various sectors. It introduced real estate investment trust (REIT) structures in 2002 and business trust structures in 2004. There are now 23 listed REITs and 9 listed business trusts[9]. More recently, Singapore has tried to attract biotechnology, pharmaceutical and health companies. Meanwhile, already an important trading centre for oil, Singapore aims to position itself as Asia's leading commodities hub – before Shanghai or Hong Kong gets there. The number of commodities traders is increasing in the city, lured in part by the shift of global commodities demand to Asia.

In mainland China, the capital market is developing rapidly. Institutional investors have now taken over from retail investors as the major force driving the markets and the role of both domestic and foreign institutions is growing. An International Board on the Shanghai Stock Exchange is under preparation, which will allow qualified foreign enterprises to issue stocks in RMB in mainland China. Meanwhile, the Shanghai Stock Exchange is discussing a partnership with Brazil's BM&F Bovespa to boost liquidity. The Shenzhen Stock Exchange, China's other stock exchange where most small-to-medium enterprises are listed, opened the ChiNext board in 2009 for high-growth, high-tech start-ups.

The Taiwan Stock Exchange, traditionally heavily domestic, has worked to internationalise new listings. In 2008, Taiwan amended listing rules to attract more foreign businesses. Its first success was in 2010, when Silicon Valley chipmaker Integrated Memory Logic issued US$44 million in shares and became the first foreign group listed in Taiwan[10]. In 2011, California-based Parade Technologies Ltd, a supplier of integrated circuits, raised US$34 million in the smaller Taiwan GreTai Securities Market[11].

The Korea Exchange (KRX) has maintained its global reputation through its Derivatives Market, particularly trading of KOSPI200 futures and options. KRX has also put more effort on promoting listings by global companies while moving away from giving priority to Chinese companies. KRX has revised regulations for listing and disclosure for foreign companies to reinforce the corporate soundness and prudently manage listed companies[12].

In 2012, the Malaysian stock exchange drew international attention with the second and third largest IPOs in the world[13]. In June, the country's largest state-owned plantation operator, Felda Global Ventures Holdings (FGV), debuted on the Bursa Malaysia after raising US$3.2 billion and becoming the second largest IPO for the year after

3 http://sec.gov/divisions/corpfin/guidance/cfjjobsactfaq-title-i-general.htm
4 http://banking.senate.gov/public/_files/070110_Dodd_Frank_Wall_Street_Reform_comprehensive_summary_Final.pdf
5 "Winning Platforms – Choosing the Right Profile for the World's Exchange", KPMG International, April 2012
6 "LME members approve sale to HKEx," Financial Times, 25 July 2012
7 "Chinese exchanges invest in joint venture," Financial times, 29 June 2012
8 "BRIC Exchanges announce alliance," Global Finance, December 2011
9 http://sreit.reitdata.com/, 28 Jun 2012
10 "Taiwan marks first IPO by foreign group", Financial Times, 17 May 2010
11 "Parade Tech stages Taiwan IPO", EE Times, 13 Sep 2011
12 KRX 2011 annual report
13 As of August 2012, "IHH Healthcare IPO expected to see strong demand", Channel News Asia, 4 July 2012

Facebook on NASDAQ[14]. In July, a US$2 billion float of IHH Healthcare Berhad – the third largest of the year – concurrently on the Bursa Malaysia and SGX, extended Malaysia's position in the global IPO run[15].

Meanwhile, members of the Association of Southeast Asian Nations (ASEAN) – a grouping that includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – are building financial links to create a "super" market covering some 600 million people. The ASEAN Trading Link, a share-trading system linking key markets in ASEAN to allow investors in one country to buy shares in another without intermediaries, is launched in 2012. SGX and Bursa Malaysia are the first two exchanges to connect in September, followed by the Stock Exchange of Thailand[16].

Leveraging China and the world

Hong Kong has long been an attractive base for international enterprises looking to tap emerging markets in mainland China or other parts of Asia while relying on the security of well-developed and resilient legal and regulatory infrastructure. In the last decade, the Hong Kong market has emerged as a particularly attractive market for IPOs thanks to a solid and diverse base of investors and a deep pool of liquidity complemented by soft and hard infrastructure, high technology and free movement of capital.

Hong Kong still derives much of its business from mainland China while increasingly attracting international enterprises. In part, Hong Kong is a victim of its own success. Many, if not most, of the largest enterprises in mainland China have already completed their flagship IPOs in Hong Kong or through dual listings. A large portion of future listing applicants from mainland China rests on small-to-medium enterprises. Individually, these smaller businesses would bring only marginal growth to the existing capitalisation base of the Hong Kong market, but together they represent a powerful driver of growth.

While enhancing the presence of mainland Chinese enterprises in its capital market, Hong Kong is increasingly focused on international markets and is working to attract world-class enterprises with the potential to raise significant amounts of capital. This push has already attracted some big names to the market for several reasons.

A first reason is economic. Asia's growing economic power is shifting gears towards the final emergence of an enormous and powerful middle class to back a rapidly rising number of high net worth and ultra high net worth individuals who are stimulating consumption and promoting growth. Asia has taken up its mantle as the current engine of growth for the global economy in the wake of the recession and subsequent tepid growth in the United States and the ongoing sovereign debt crisis in the Euro Zone. The PRC in particular is a significant source of global savings while other countries in the region are playing an increasingly important global role. Hong Kong is at the heart of this growth, thanks to its links to the PRC and its strong legal and regulatory infrastructure.

A second reason is market specific. Hong Kong was the largest IPO centre in the world between 2009 and 2011, even as global economic uncertainty forced some enterprises to suspend their IPOs. In 2011, Hong Kong overtook New York and London in the Financial Development Index of the World Economic Forum for the first time. Hong Kong scored particularly well in non-banking financial services such as IPO activity and insurance[17]. Hong Kong has been among the top 5 global listing markets in funds raised since 2002, thanks in large part to the sheer number of mega listings from mainland Chinese companies who see Hong Kong as a "home market" with all advantages of an international financial centre. The first such company was Tsingtao Brewery, which listed in Hong Kong as far back as 1993. Since then, mainland China enterprises have raised more than US$500 billion through IPOs and secondary offerings in Hong Kong[18].

[14] "Malaysia's Felda Global Ventures surge in IPO debut", Xinhua news, 28 June 2012
[15] "IHH extends Malaysia's big-ticket IPO run", Financial Times, 3 July 2012
[16] "SGX-Bursa Malaysia link welcomed by investors", Channel News Asia, 5 September 2012
[17] World Economic Forum 4th Annual Financial Development Report
[18] As of December 31, 2011, HKEx, Hong Kong General Chamber of Commerce

Global success story

International enterprises have wakened to the fundraising possibilities available to them in Hong Kong and have contributed significantly to Hong Kong's position as a leading global IPO centre. By the end of 2011, some 140 enterprises from Brazil, France, Germany, Italy, Japan, Mongolia, Russia, and Switzerland have added their presence to some 600 mainland China enterprises listed in Hong Kong[19]. Hong Kong has evolved into a true global listing venue. The city may lose its pole position in the global IPO race in 2012 due to the scarcity of mega deals as revealed by the results of the first half. For the time being, the mega-IPOs that raise tens of billions of dollars, such as those of the large mainland Chinese banks, are not likely to be repeated.

The stock exchange in Hong Kong has taken a number of steps to attract more international listings.

One step is to recognise more jurisdictions where issuers may be incorporated. The Listing Committee of HKEx now accepts issuers from 19 different jurisdictions in addition to Hong Kong, mainland China, Bermuda and the Cayman Islands (See Figure 1). More jurisdictions are under review.

Figure 1 19 additional jurisdictions accepted by HKEx

Source: HKEx, as of 15 June 2012

[19] HKEx annual report 2011

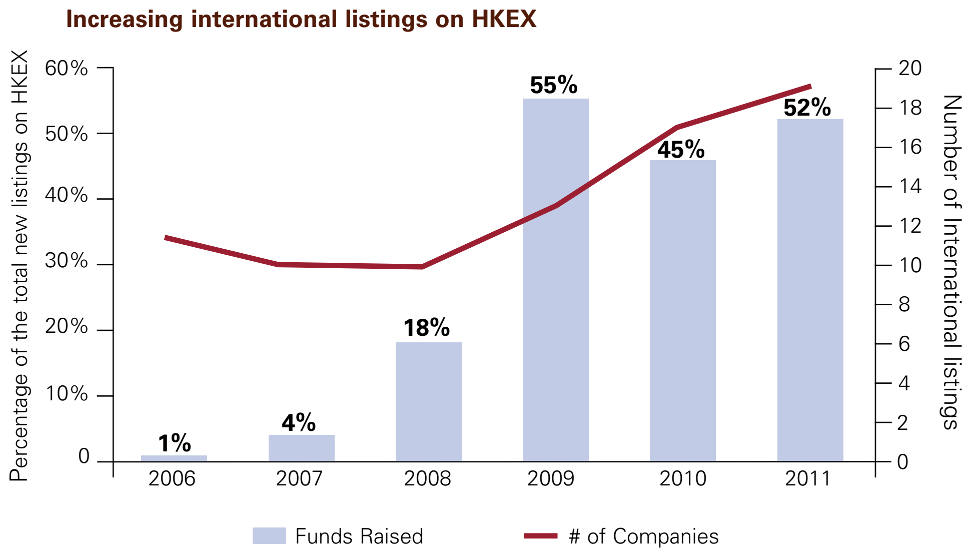
Hong Kong also provides an attractive fundraising option for enterprises incorporated elsewhere in the form of depositary receipts. Meanwhile, the stock exchange is working with regulators and other stakeholders to streamline the listing process for international companies and adjust incompatible market standards and practices while maintaining the quality of listings.

All these activities have had visible success.

The number of international enterprises listed in Hong Kong has increased substantially in the past five years. The 19 international listings in 2011 was almost double the 10 registered in 2007 (See Figure 2). Some high-profile corporate names have raised funds in Hong Kong including gaming companies Wynn Macau and Sands China in 2009, mega insurers AIA and Prudential, Russian aluminium giant RUSAL and cosmetics producer L'Occitane in 2010, and Glencore, Samsonite, MGM and Prada in 2011.

> "Central to the IPO process will be the development of a clear equity story. In recent years, the international companies coming to list in Hong Kong have a 'China story' to tell."
>
> Loren Tang
> Partner, Audit, KPMG China

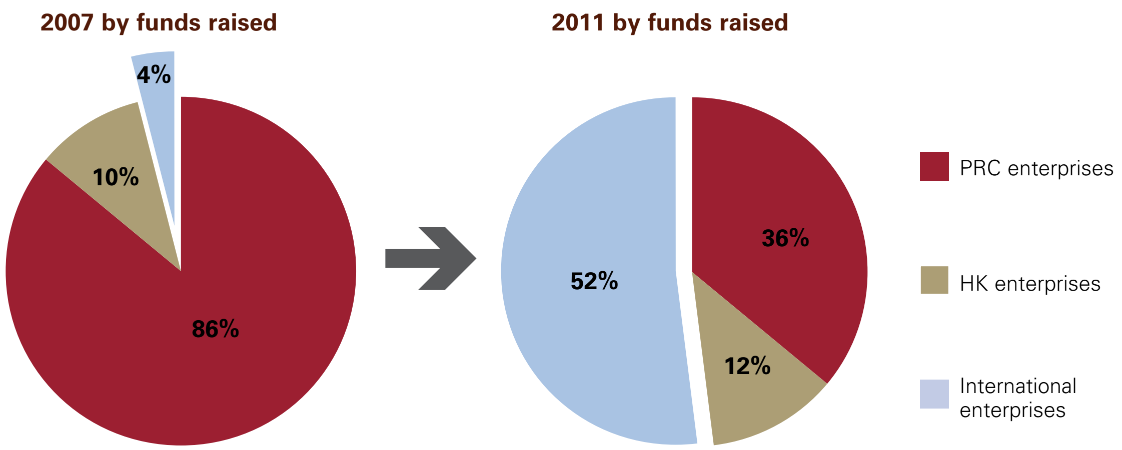
Figure 2 Increasing international listings on HKEx



Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012

Just five years ago, international companies raised only 4 percent of the total funds raised in Hong Kong, but, by 2011, their share had shot up to 52 percent (See Figure 3). In 2006-2008 all of the top 10 IPOs in terms of IPO funds raised in Hong Kong came from the PRC, while in 2009-2011 international companies accounted for half of the Top 10 list (See Tables 1 & 2).

Figure 3 Hong Kong is transforming itself into a true global listing venue



Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012, KPMG analysis

Table 1 2006-2008 Top 10 IPOs by funds raised on HKEx

Company	Funds raised (US$'B)	Headquarter Country
Industrial and Commercial Bank of China Ltd	16.0	PRC
Bank of China Ltd	11.1	PRC
China CITIC Bank Corporation Ltd	4.2	PRC
China Railway Group Ltd	2.8	PRC
China Merchants Bank Co., Ltd	2.7	PRC
China Railway Construction Corporation Ltd	2.6	PRC
China Communications Construction Co., Ltd	2.4	PRC
China Coal Energy Co., Ltd	1.9	PRC
Country Garden Holdings Co., Ltd	1.9	PRC
SOHO China Ltd	1.9	PRC

Source: HKEx, KPMG analysis

Note: funds raised in Hong Kong dollar has been converted into US dollar equivalent by using exchange rate of 7.8 HK$/US$

Table 2 2009-2011 Top 10 IPOs by funds raised on HKEx

Company	Funds raised (US$'B)	Headquarter Country
AIA Group Ltd	20.4	US
Agricultural Bank of China Ltd	12.0	PRC
Glencore International Plc	10.0	Switzerland
China Minsheng Banking Corp., Ltd	4.0	PRC
China Pacific Insurance (Group) Co., Ltd	3.6	PRC
China Longyuan Power Group Corporation Ltd	2.6	PRC
Sands China Ltd	2.5	US
PRADA S.p.A.	2.5	Italy
Metallurgical Corporation of China Ltd	2.3	PRC
United Company RUSAL Plc	2.2	Russia

Market volatility in the first half of 2012 meant that only two international listings went through in Hong Kong, among the total of 32 IPOs. They accounted for 15 percent of the total IPO proceeds raised. Reports suggested that several global names are sitting on the sidelines waiting for some visible market stability before they become active again. Well-known companies such as Burberry, LVMH, Carrefour, BNP Paribas, Aston Martin, EuroSibEnergo, DHL and AirAsia were reportedly contemplating Hong Kong listings[20].

[20] HKEx, "HKEx – Asia's Global Market", 30 Sep 2011

II. Competitive advantages

KEY POINTS:

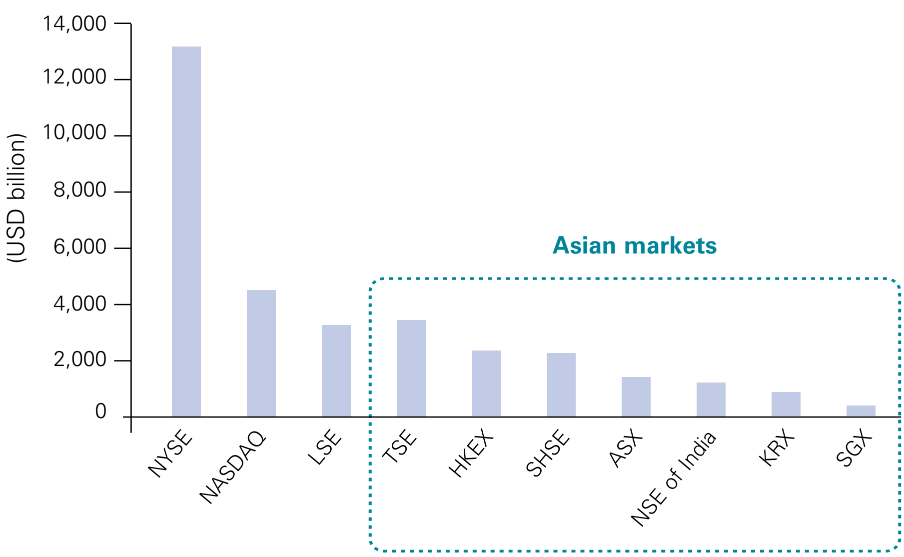
- **Hong Kong has the largest stock market in Asia (ex Japan) and was the top IPO market between 2009 and 2011.**
- **Hong Kong acts as a bridge to China. Almost a third of China's international trade flows go through Hong Kong, the largest offshore RMB centre in the world.**
- **Hong Kong offers rapid access to capital and investor balance to top off a strong legal system and regulatory framework**

Hong Kong is an increasingly important nexus between the East and the West, between fully convertible currencies and the more controlled Renminbi, between the developed markets and some rapidly emerging ones. It offers a familiar and well-developed legal and regulatory backbone while benefitting from the energy and sheer size of markets in China and some other parts of Asia. It is a meeting point of financial and economic strengths.

As a centre for capital fundraising, Hong Kong offers enterprises a large number of advantages. The first is the size of the stock market, which ensures plenty of investors and liquidity. Second is renewed emphasis on international growth, which has led the stock exchange to work on attracting international listings from some of the biggest international names in consumer and retail, mining and resources, and finance. The city's position as a bridge for capital in and out of China ensures that much of the capital from the second largest economy in the world passes through Hong Kong. There are not only plenty of opportunities for IPO fundraising in Hong Kong but the market also offers strong post-IPO fundraising opportunities and, increasingly, offshore RMB funds.

According to the statistics from the World Federation of Exchanges, Hong Kong is the largest stock market in Asia (ex-Japan) by market capitalisation as of March 2012 (See Figure 4). Hong Kong's strength lies in free capital flow, a stable currency (pegged to the US dollar) and low taxation, which provide a platform to maximise shareholders' value. There are no barriers of access to the market by foreign businesses and no restrictions on capital flows in and out of Hong Kong. There are no foreign currency exchange controls. The policy of low and simple taxation allows maximum room for business initiatives and innovation. Hong Kong is an ideal safe haven for enterprises looking into raising funds or diversifying assets offshore in a tax efficient environment.

Figure 4 Hong Kong has the second largest stock market in Asia in terms of market capitalisation



Source: World Federation of Exchanges, market capitalisation as of Mar 2012

A recent KPMG International report "Winning Platforms – Choosing the Right Profile for the World's Exchanges" suggests stock exchanges aiming for global leadership can choose one of three strategic directions: client intimacy, product leadership and operational excellence. Like other leading exchanges in the world, Hong Kong already offers a broad product offering but it has worked to become a product leader by leveraging its strategic position and relationship with China while improving client links through highly evolved trading platforms.

Hong Kong is taking active steps to position itself as a destination of choice for international enterprises in sectors such as consumer retail, finance and resources. Its proximity to growing consumer markets in Asia make it an attractive location for retailers and providers of luxury goods while the city's traditional focus on finance has attracted listings from some of the largest financial institutions in the world. A more recent emphasis on attracting enterprises in the mining and resources sector was underlined by the exchange's bid to acquire the London Metal Exchange (LME), an acquisition that could make Hong Kong a jumping off point for mining and resources companies.

Hong Kong's role as the leading offshore RMB centre is another advantage. Some 27 percent of China's international trade of US$3.6 trillion is intermediated through Hong Kong, according to the Hong Kong Monetary Authority (HKMA). Hong Kong is a hub for RMB business including trade settlement, liquidity, financing, wealth management and payments. In 2011, Hong Kong banks handled the vast majority of China's external RMB trade settlement, as much as RMB1.91 trillion (US$300 billion) out of a total of RMB2.08 trillion (US$330 billion), according to HKMA. Hong Kong banks held more than RMB550 billion (US$87 billion) in RMB deposits in mid-2012. RMB-denominated IPOs might happen as soon as the second half of 2012, according to a variety of market players, thanks to the increased internationalisation of the RMB and growing co-operation between the regulators and exchanges in Hong Kong, Shenzhen and Shanghai.

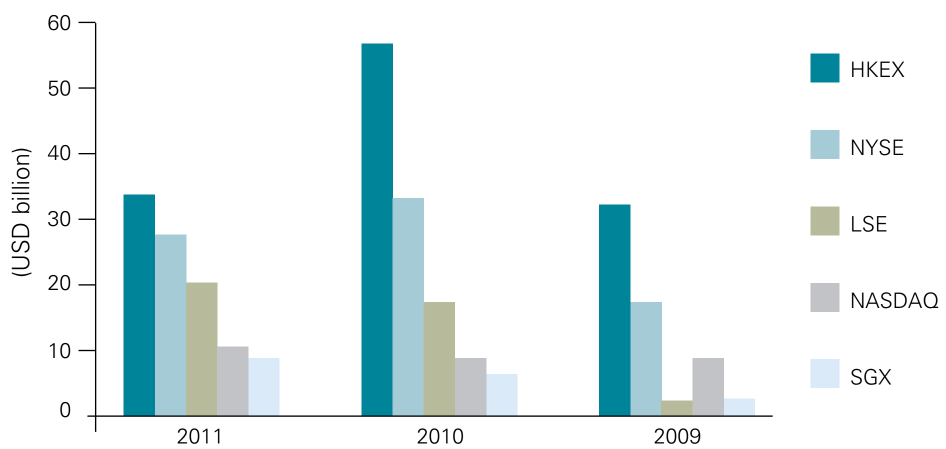
HKD or RMB

As a well-established market, HKEx is among an elite group of exchanges with a clear advantage as an active participant in the primary market. Hong Kong was the top IPO market in the world between 2009 and 2011 (See Figure 5).

The 32 listings with 80 percent less proceeds raised in the first six months of 2012 represented a substantial drop from the same period in 2011. Apart from negative global sentiment, some local factors also weakened the IPO activities in Hong Kong. A spate of fraud scandals surrounding Chinese private-owned companies has spread to Hong Kong from the US. Concerns on faulty reverse mergers and accounting scandals have burned some investors in Hong Kong and created an atmosphere of distrust that has spread to all private-owned companies from mainland China. In addition, a six-month "lock up" for cornerstone allocations is applied in Hong Kong. Many institutional investors found it difficult to commit for this length of time in such a volatile market: as a result, some deals failed to secure cornerstone investors.

The pipeline of enterprises waiting to go public is still in place, as an IPO remains high on the agenda of many entrepreneurial companies. According to HKEx, 66 new IPO applications were received in the first seven months of 2012. As at 31 July 2012, 77 applications remained active – 60 of them were under processing and 17 have been granted approval in principle[21].

Figure 5 Hong Kong ranked No. 1 in the world by IPO funds raised during 2009-2011



Source: HKEx, NYSE, LSE, NASDAQ, SGX

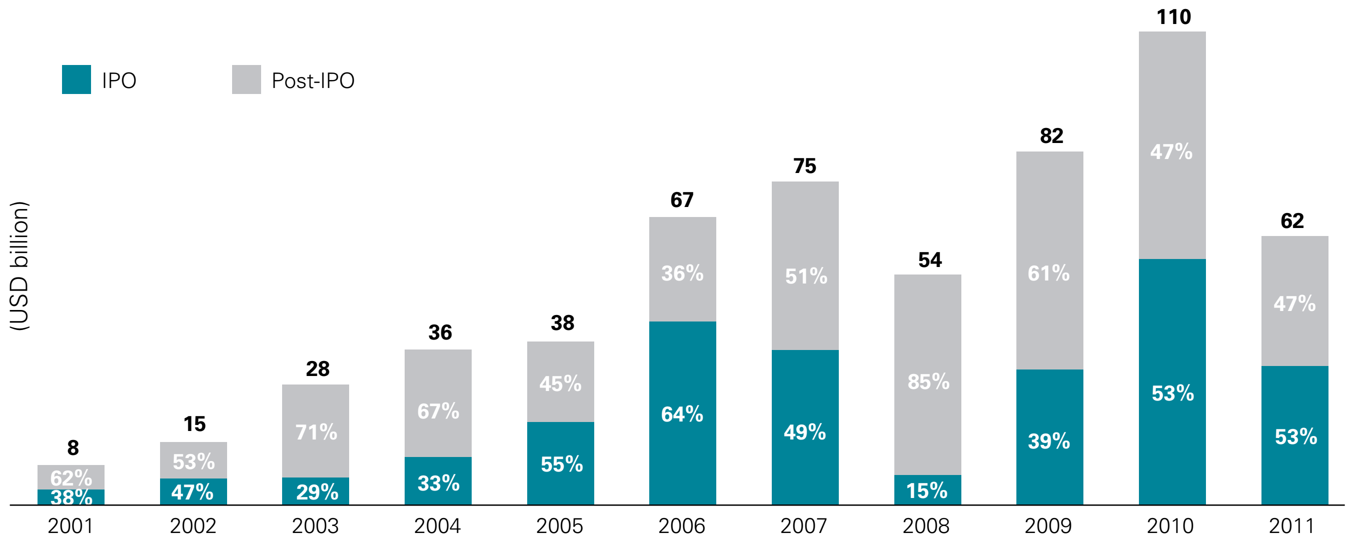
Note: above data excludes listings of trust companies

[21] HKEx, "Report on Initial Public Offering Applications, Delisting and Suspensions," as at 31 July 2012

Hong Kong market has a strong post-IPO fund raising capacity (See Figure 6). Post-IPO funds raised in the market has accounted for a large part of the total amounts raised in Hong Kong for the past ten years.

In the past two years, enterprises have also had increased access to offshore RMB funds that can be converted into onshore funds for trade purposes. The increased and ongoing liberalisation of the RMB, particularly in Hong Kong which has been identified as an offshore RMB centre of choice by the Chinese government, gives enterprises access to fundraising in that currency. Issues of bonds denominated in offshore RMB known as "Dim Sum bonds" are already common. No enterprise has yet issued an IPO denominated in RMB in Hong Kong but the market fully anticipates the first such issue sometime in 2012 or 2013, with potentially many more to follow. Since September 2011, HK-listed companies have been able to raise RMB through share placements or rights issues under HKEx's scheme for RMB-denominated offerings. Listed companies with investments in mainland China may arrange RMB share placements or rights issues in just one or two days.

Figure 6 IPO and Post-IPO funds raised on HKEx



Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012

Asia/China nexus

Hong Kong is the nexus between China and the West. International enterprises are increasingly interested in access to mainland China investors but the capital markets there are not yet open to foreign issuers.

Hong Kong is the natural choice, given its growing institutional investor base from mainland China. The city is strategically placed in the high-growth region of the Pearl River Delta and it is the largest offshore RMB centre in the world. It has become the top choice for international enterprises looking towards China and Chinese enterprises seeking capital to secure their future growth on the global stage.

"For international companies, listing in Hong Kong is an ideal channel to access Chinese investors," says Peter Fung, Global Chair of KPMG's Global China Practice. "An IPO in Hong Kong has been a major vehicle for many Chinese companies to access foreign capital in the past. Today, the country has turned into an exporter of capital and an increasingly important source of funding in the world."

The mainland China market continues to open up but there are still very limited practical options for enterprises to raise substantial capital for overseas expansion. There have been some domestic equity and bond issuings but the proceeds are typically intended to shore up domestic operations. The launch of an International Board on the Shanghai Stock Exchange has been under discussion since 2009, but regulators have not yet set a clear timetable for its launch.

More international enterprises are increasingly aware that a listing in Hong Kong can put them strategically closer to customers and investors in Asia, where a large group of middle class and wealthy individuals are chronically short of investment options to leverage their large pool of savings. Retail and institutional investors in Asia are playing increasingly important roles in equity markets, a reality that has not gone unnoticed by international enterprises who are issuing IPOs or secondary listings in Hong Kong.

Some enterprises delisted shares in their original listing exchanges in favour of new listings in Hong Kong, for more active trading and better stock performance, or with an intention to move closer to China where their operations and customers are based. One good example is Want Want, which delisted from SGX and listed on HKEx in 2008. Since then, the company's stock price has risen 233 percent and its turnover is 9 times higher than it was in Singapore[22]. China Medical System Holdings, which delisted from London's AIM and re-listed on HKEx in 2010, believed that a Hong Kong listing was a positive step in raising the profile of the Group, given its main business operations are located in mainland China.

> "Hong Kong is a strong global financial centre. It functions well in terms of international standards. As Shanghai further develops financially and its capital market grows mature, the two cities together will offer more financial opportunities and choices for companies and investors."
>
> Peter Fung
> Global Chair, KPMG's Global China Practice

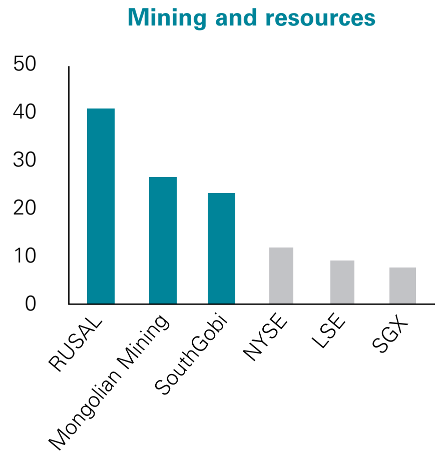
[22] Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012, Reuters data as at 15 June 2012

Attractive valuation, liquidity and other financial advantages

Higher average price-to-earnings (P/E) ratios in a particular market tend to attract issuers – the higher the ratio, the higher the valuation of a company. Enterprises in the consumer and luxury goods sector and the mining and resources sectors enjoy significantly higher valuations in Hong Kong that compare very favourably to their competitors listed elsewhere. Prada, the Italian luxury brand that had a successful public offering in Hong Kong after four earlier failures in other markets in the past decade, trades at around 30x (i.e. 30 times annual earnings). Its Paris-listed major competitor LVMH, the world's biggest maker of luxury goods, trades at around 20x. PPR SA, the parent company for many luxury fashion lines including Gucci, trades at around 15x in Paris[23]. RUSAL, the largest aluminium producer in the world, became the first Russian company to list in Hong Kong in January 2010. Since then RUSAL's average daily turnover on HKEx roughly matches 80 percent of its total value – including its shares traded on Russia's MICEX[24] – and the company trades at close to 40x as of July 2012. Its major competitors Alcoa and Rio Tinto trade at 27x and 17x in New York. Norsk Hydro ASA trades at 25x in Oslo and Nippon Light Metal trades at 14x in Tokyo[25]. Figure 7 illustrates the P/E ratios seen in Hong Kong and those of comparable companies listed elsewhere.

Hong Kong has one of the most active and liquid securities markets in the world. There are no controls over the movement of capital nor are there taxes on capital gains and dividend payouts. Such advantage has attracted some of the largest issues in the world, such as those of Agriculture Bank of China, AIA and Glencore.

Figure 7 Comparison of P/E ratios for companies listed on HKEx and the average of companies in the same sector in other exchanges



Source: Reuters and Bloomberg, as at 30 Apr 2012, KPMG analysis
Note: above ratios are trailing twelve month ratios

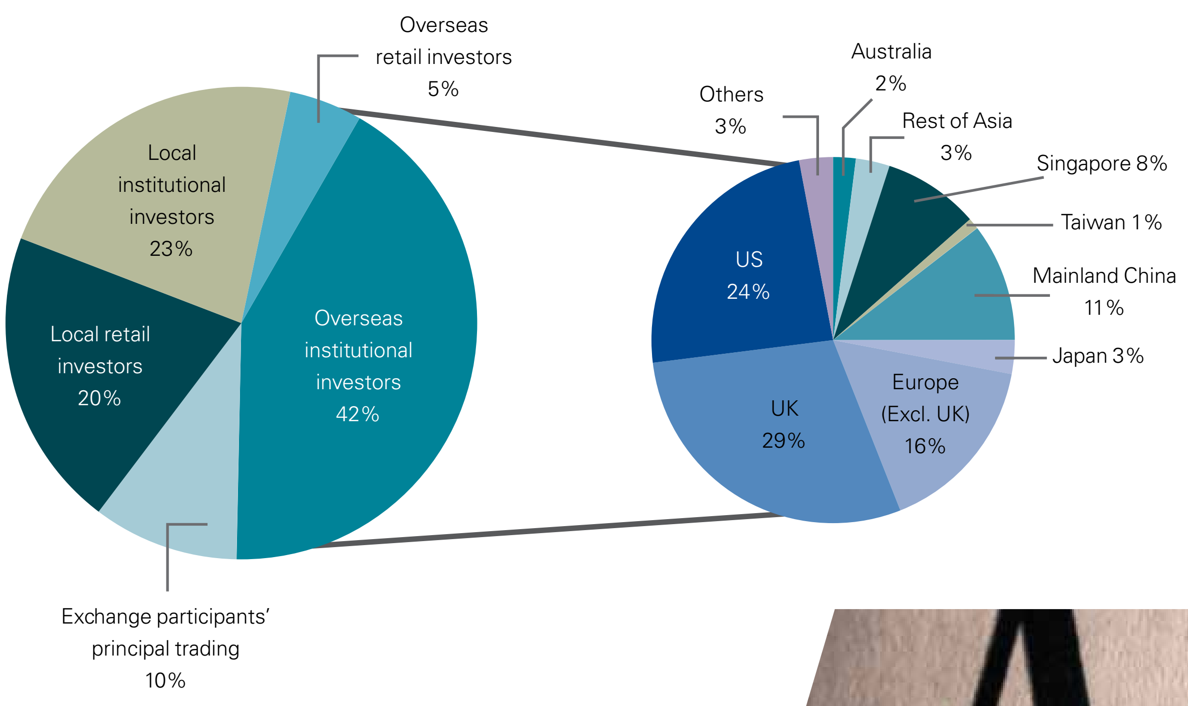
[23] Reuters data as of 4 May 2012
[24] HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012
[25] Reuters data as of 4 May 2012

Investors, institutions and infrastructure

Hong Kong has a diverse and growing investor base. There is a balanced mix of overseas and local investors and of institutional and retail investors (See Figure 8). Domestic retail investors account for one-fifth of the market and local institutional investors for 23 percent. The 43 percent of the market that those two represent is almost equal to the 42 percent that overseas institutional investors account for. The rest are overseas retail investors (5 percent) and Exchange participants who engaged in principal trading (10 percent). Most of the world's top equities markets have this balance but Hong Kong has a unique advantage: A growing number of institutional and retail investors from Greater China and nearby Asia.

Through a listing in Hong Kong, enterprises can attract strategic investors at different stages. Pre-IPO investors can provide new funds to support growth ahead of a listing, while improving internal controls and operational efficiency. Post-IPO investors can help a company establish its reputation and corporate prestige and further facilitate global expansion strategy. The use of high-profile cornerstone investors, usually regular market participants including well-known funds and large investment banks, has become an increasingly common approach to enhance credibility of a stock offering and shore up investor confidence during road shows. However, the frequent and highly publicised participation of these cornerstone investors in some recent new listings in Hong Kong has raised certain concerns that retail investors are weary of buying into new shares, a trouble for a market like Hong Kong that the retail investors play lively in IPOs.

Figure 8 A diverse pool of investors



Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012

> "The competitive edge of the Hong Kong capital market is unique. While being part of China, Hong Kong's common law system, free movement of capital and information, and its simple tax system with low rates of tax, are among the factors that have put Hong Kong in a competitive position versus other stock exchanges in the Asia-Pacific region."
>
> Paul Lau
> Partner, Capital Markets Group, KPMG China

Hong Kong has a well-established legal system and a sound regulatory framework. A respected listing regime, high standards of corporate governance and adoption of international accounting standards give international issuers a level of comfort and confidence when tapping the market.

As China's most international financial centre, Hong Kong has its own distinct and independent legal and financial infrastructure. The city's financial system and regulatory regime navigated through the global financial crisis quite easily. Its banks remained well capitalised and prudent in their lending practices.

Hong Kong also has a deep pool of lawyers, bankers, accountants and other professionals who are well acquainted with international regulations and practices to support financial services.

Hong Kong's securities trading platform maintains its competitive edge regionally by regularly investing in IT infrastructure, a practice that continues through 2012. The rollout of upgraded systems guarantees the efficiency, transparency and better dissemination of quality market data. In addition, a new Data Centre is being built to meet the best international standards for reliability.

In the last couple of years, the stock exchange in Hong Kong has extended its trading hours in two phrases to improve the price discovery process for mainland China-related securities listed in Hong Kong and increase the overlap between the trading hours in Hong Kong and mainland China. The stock exchange has plans to narrow the gap between its trading hours and those of regional competitors. The introduction of after-hours futures trading in 2012 should further enhance the attractiveness of the market to investors.

III. Choosing Hong Kong

KEY POINTS:

- **Hong Kong provides fund-raising opportunities to companies from emerging markets**
- **Hong Kong is a generally attractive market, but particularly for international companies involved in resources, consumer goods and luxury brands, and financial services industries.**
- **Mining and resources companies were attracted to China through Hong Kong. HKEx's successful acquisition of LME will make Hong Kong even more attractive to international companies from this sector.**
- **Hong Kong provides access to markets in Greater China and other parts of Asia, as well as a large pool of Renminbi.**

Emerging markets are driving growth in the world economy. The far-reaching effects of their economic emergence are only now playing out. As emerging market countries gain in stature, new enterprises are taking centre stage. These emerging market enterprises will continue to be critical competitors in their home markets while increasingly stepping up their efforts to take more market share in attractive developed markets. The first thing they need to compete effectively is capital, the fuel of growth either organic or through acquisitions.

Raising funds in the capital markets in emerging economies can still be difficult, given that many of those markets are often small and relatively less liquid, transactions costs are high, there are few if any institutional investors, risk management practices are weak and information disclosure requirements are inadequate. The development of mature and smooth capital markets in the emerging economies will take time. Enterprises that need growth capital will continue to look for funding from abroad, predominantly in the global financial centres like Hong Kong.

By listing and trading in Hong Kong, enterprises from emerging economies can both raise funds and capture growth opportunities in the other emerging markets.

Hong Kong is attractive to companies of any size and from any industry; but those in natural resources, luxury goods and financial services are likely to reap the most benefits from this market. In the past few years, the city has been working to leverage its natural strength to create clusters in those specific industries.

"Over the past several years, Hong Kong has really evolved into a market where international companies can access the largest pool of not just international investors but also Chinese investors, including China's sovereign wealth fund. In 2011, over 50 percent of the IPO proceeds raised in Hong Kong were from listings of international companies," says Paul Lau, a Capital Markets Group partner at KPMG in Hong Kong. "International companies that have had more successful listings in Hong Kong generally are those that have a 'China story' to tell. For example, consumer brand companies who have their existing or are planning to have their major customer base in China could potentially gain prestige and significant brand recognition by being listed in Hong Kong."

A luxury of consumer goods

In its 2011 study "Luxury Experiences in China", a survey of 1,200 middle class consumers in 24 tier-one and tier-two cities across China, KPMG found China is continuing its march towards becoming the largest luxury market in the world, buoyed by extremely favourable attitudes towards brands (particularly those of Western origin), increasing levels of wealth in tier-one and tier-two cities and continued confidence in future economic prospects. Total global spending by Chinese shoppers reached nearly EUR40 billion last year, almost as much as US shoppers spent. According to data from China's bankcard association UnionPay, mainland China residents spent RMB300 billion (US$47 billion) abroad on their bank cards in 2011, up two-thirds on the previous year. Asian consumers account for as much as 50 percent of luxury sales globally.

Demand for high-end luxury goods will grow in China and other Asian countries, as the "super rich" continues to increase in the region. The diamond industry is one of those that have recently turned to Asia and is targeting high and ultra high net worth individuals. Sierra Leone diamond miner, Beny Steinmetz Group, was reported to have planned a public float of Octea Ltd, the holding company of its biggest diamond mine Koidu, aiming to raise US$400-600 million in Hong Kong. Koidu is expected to produce 500,000 carats in 2012 and its major customers include US jeweller Tiffany & Co[26]. London-based jeweller Graff Diamond Corp

[26] "Sierra Leone diamond miner set for HK list," Financial Times, 22 Jan 2012

planned an IPO of US$1 billion in Hong Kong but it was shelved in mid-2012. The company plans to open 11 new stores in Asia in 2012 and 2013 including 8 in China to achieve further growth in Asia[27].

A base in Hong Kong is a convenient way to raise both capital and profile among this emerging consumer class. For enterprises involved in the retailing of luxury goods, the elevated profile that a large listing in Hong Kong can create is a powerful value add to a financially sound fund-raising exercise. The examples of Prada and Coach are useful. Prada raised US$2.14 billion in an IPO in June 2011. Coach issued a secondary listing by introduction in Hong Kong on December 1, 2011.

Case study: PRADA S.p.A.

The first public float of an Italian company in Hong Kong underlined China's fascination with luxury goods. High fashion house Prada S.p.A. raised US$2.5 billion in June 2011, after abandoning several previous attempts over the last decade to go public in Italy.

Based in Milan, Prada is involved in the design, production and distribution of leather goods, handbags, footwear, apparel, accessories and fragrances. It owns brands including Prada, Miu Miu, Church's and Car Shoe. The group's global retail network of 388 directly operated stores (DOS) in 70 countries accounted for 78 percent of its total revenues in 2011, according to Prada's annual report. The Asia-Pacific market generated net revenues of Euro 873 million, a 42 percent year-on-year increase and more than a third of the group's total revenues. China, Hong Kong and Macau together achieved the highest like-for-like growth with a 40 percent increase. Eight of the eighteen new DOS that Prada opened in the Asia Pacific are in China[28].

The group has stepped up its presence in China, not only opening up more retail outlets, but also moving some of its production to the region. About 20 percent of Prada's collections, from bags, shoes to clothes, are now made in China[29].

Apart from enhancing its presence in the region, the decision to issue shares in Hong Kong allowed the group to "seize the best opportunities offered by the international capital markets", said Prada's CEO Patrizio Bertelli in a statement as the group announced its IPO plan[30]. The IPO turned out to be the largest consumer goods IPO of the year[31] and the group managed to extract a valuation of about 23 times estimated annual earnings, a premium to other rival luxury companies listed in Europe.

Prada's sale of its new shares in Hong Kong was not smooth. It started well with institutional investors – Reuters reported the offering had been five times subscribed. However, demand from local retail investors, who play a big part in Hong Kong IPOs, has been tepid due to tax concerns. As Italy and Hong Kong do not have a double taxation treaty, Hong Kong shareholders will be liable to a 12.5 percent capital gains tax as well as a 27 percent withholding tax on dividend payouts under Italian law[32]. This is an unusual situation in Hong Kong, which does not tax capital gains or dividends. Hong Kong has been making solid progress in its efforts to increase the number of double taxation agreements (DTAs) with some of its major trading partners. Twenty five comprehensive DTAs have been concluded by Hong Kong as of August 2012[33]. Negotiations are currently being held with a number of countries, including Canada, India, Italy and Korea.

Retail investors' tax worries surrounding Prada's IPO have highlighted a potential issue for international companies that are planning a listing in Hong Kong. Those from jurisdictions that currently do not have a DTA with Hong Kong should assess the potential tax impact on capital gains and other taxes payable as part of their IPO plans.

[27] "Graff Plans Asia Expansion After $1 Billion Share Sale," Bloomberg, 28 May 2012[19] Reuters data as of 4 May 2012
[28] Prada 2011 annual report
[29] "Prada is making fashion in China", The Wall Street Journal, 24 June 2011
[30] "Prada shuns Milan for HK listing", Bloomberg, 7 March 2011
[31] Prada 2011 annual report
[32] "Prada listing key for faltering Hong Kong IPO market", BBC News, 16 June 2011
[33] Inland Revenue Department of Hong Kong SAR government, http://www.ird.gov.hk/eng/tax/dta_inc.htm

Interview: Kyle Gendreau, CFO, Samsonite

Among a string of successful initial public offerings in mid-2011 in Hong Kong was Samsonite International, the US-based travel luggage maker. The company was one of several international luxury brands to raise funds in Hong Kong with its US$1.25 billion IPO in June 2011.

A couple of important considerations provided Samsonite with a rationale to list in Hong Kong, says CFO Kyle Gendreau.

First was market valuation. Companies in consumer goods and luxury brands often enjoy higher valuations in Hong Kong, for example L'Occitane and Prada were both valued at around 22 times forecast earnings, at a premium to its European-listed peers which have an average of 19-20 times. Hong Kong was experiencing a good run of IPO valuations and actually Samsonite caught the tail end of that run. Another consideration was the exit opportunity that the IPO created for the company's private equity owners. The liquid market of Hong Kong provided a way for private equity stakeholders to sell some of their shares and generate adequate return on their investment.

"We are very happy with the choice that we made," says Mr. Gendreau. "The listing of Samsonite on the Hong Kong Stock Exchange was a turning point for the company. It signalled a new chapter for our business and our people, and helped take us another step forward in our ambition to increase the global visibility of our brand."

Hong Kong was a logical fit for a forward-looking business with a global scope like Samsonite.

"When our management thinks about the business on a 3 to 5 year basis, in terms of growth, it is no question that a substantial portion of the growth is expected to be in Asia," says Mr. Gendreau. "Listing in Hong Kong really gives us a global feel, which is important to Samsonite. Samsonite is a brand everyone knows."

Nowadays brand-name companies are keen to raise their profiles in Asia as the region's growing ranks of affluent consumers are expected to reach a new critical mass in the coming years. When Samsonite was listed, it generated around 40 percent of its revenue and profits from Asia. That number will climb close to 50 percent in the next few years. In particular, Samsonite expects that China is going to overtake the US as its biggest single market in the next few years, as the growth of China's middle class fuels leisure and business travel. From that perspective, Hong Kong is the right market to capitalise on the direction of growth for the brand and the business.

Hong Kong also provides an investor base that aligns well with the company's global strategy. Hong Kong attracts an impressive investor base from both local and overseas investment communities. About half of the company's investors are international institutional investors from the United States and Europe. The rest come from local and other Asian markets. Listing in Hong Kong helped the company maintain a broader relationship with all these investors, which also fed into the growth of the brand.

A year after its Hong Kong listing, the company believes it has met its long-term strategic goals and objectives through its Hong Kong listing, says Mr. Gendreau. What's more, the listing helped elevate both the brand and the business.

"Hong Kong is a very organised market," says Mr. Gendreau. "There are great groups of professional advisers available to help on a listing. The waiver process for an international company and working with HKEx is terrific."

As an international company, Samsonite, with the help of the financial and legal advisors, was able to obtain a number of waivers from certain requirements under the Listing Rules. For example, Samsonite's senior management is a very active team that manages the business globally but none of the senior management resides in Hong Kong. HKEx recognised the company's unique operating model and gave Samsonite a waiver of management presence in Hong Kong.

"Hong Kong is a great market. Since we have been listed, the capital markets globally have been quite volatile and the Hong Kong capital market has also been affected," says Mr. Gendreau. "I expect the Hong Kong market will pull through and Hong Kong's capital market position will perform as strong as it has done over time."

A strong resource

Every year, the Mines and Money Hong Kong conference attracts hundreds of institutional investors, mining entrepreneurs, brokers and analysts looking for deals, opportunities, networking and capital. The 2012 conference attracted a record number of 2,854 participants, a 300 percent jump from 670 in 2010[34]. As if to highlight the importance of Hong Kong – and the resources sector to the Hong Kong market – demand for speaking slots was overwhelming and exhibition space booked out weeks in advance. Queues regularly formed in front of the HKEx space, with mining and commodity trading companies asking about the costs and benefits of using Hong Kong as a fundraising centre in Asia.

Andrew Forrest, founder and CEO of FMG, Australia's third biggest iron ore producer acknowledged the rising importance of Hong Kong as a regional mining-finance centre in a presentation[35]. At the conference two years ago, Robert Friedland, Chairman of Canadian mineral exploration company Turquoise Hill Resources (formerly known as Ivanhoe Mines), predicted Hong Kong would be the largest mining finance market in the world[36].

Mr. Friedland was indeed prescient.

Hong Kong is making a strong push to become one of the world's leading capital markets for the resources sector. Already, metal and mining, oil and gas, and other energy companies make up an important industry cluster in the Hong Kong market. This is partly driven by China's appetite for commodities and the attraction of such a large market for resources companies around the world, many of which increasingly choose to raise capital next to their biggest customer by listing in Hong Kong. This includes a range of companies, from relatively small issuers like Malaysia's CVM Minerals to the leading iron-ore giant Vale S.A. from Brazil and aluminium giant RUSAL from Russia. In 2010, the stock exchange introduced new listing rules for resources companies and has eliminated the requirement that resources companies going public had to be profitable (many resources start-ups are not) and updated rules about proving mining reserves, aiming to strengthen the role of Hong Kong as the key international capital market for natural resources companies.

HKEx is currently a step away from success of acquiring the London Metal Exchange (LME), ownership of which would strengthen the links between the LME and China, the world's largest consumer of most base metals and the largest exporter of base metals. Shareholders in LME have voted overwhelmingly at the end of July to sell the exchange to HKEx for £1.4 billion (US$2.2 billion). Subject to the approval from the UK's Financial Services Authority, the deal is expected to close in the fourth quarter of 2012 and it will make Hong Kong even more attractive to the metal industry globally.

One common factor among BRICS economies – Brazil, Russia, India, China and South Africa – is a focus on natural resources to either exploit or grow, in terms of demand and supply. Hong Kong's favourable policies for mining sector listings can help resources companies gain access to a deep pool of capital in Greater China.

[34] Mines and Money http://www.minesandmoney.com/hongkong/, Global Mining Finance http://www.globalminingfinance.com/resource-calculator/april-2011/asia_round_up_2.html

[35] Global Mining Finance http://www.globalminingfinance.com/resource-calculator/april-2011/asia_round_up_2.html

[36] Mines and Money http://www.minesandmoney.com/

Interview: Dr. Battsengel Gotov, CEO, Mongolian Mining Corporation

At some point in the near future, China should overtake Japan to become the largest importer of coking coal in the world. Operating in a mineral resource-rich country with geographic proximity to China, Mongolia's coal miners are well placed to benefit from rising demand in China. But to do so, they need both capital for expansion and investors that understand the dynamics of the Chinese market. With these perspectives in mind, Mongolian Mining Corporation (MMC) became the first Mongolian company to issue an initial public offering in Hong Kong.

The company raised around US$616 million in net proceeds with a new listing in the HKEx (0975.HK) in October 2010. The IPO allowed the company to maintain a rapid pace of expansion. Mongolian Mining Corporation is now the country's premier internationally publicly listed company. One of the largest private conglomerates in the country, MCS Group, controls the miner.

"All the reasons we had to list in Hong Kong are still valid and still reasonable," says CEO, Dr. Battsengel Gotov. "It is our responsibility as Mongolians to present our country as an attractive investment destination."

Mining is a huge driver of growth in Mongolia, where the sector accounts for about 20 percent of country's GDP. But the local stock exchange in the relatively small and developing economy did not have enough domestic sources of funding to take companies like MMC to the next level. When looking for the right jurisdiction to go public, after considering a few stock exchanges where mineral companies usually list, such as Australian Securities Exchange, Toronto Stock Exchange and London Stock Exchange, the company quickly zeroed in on HKEx, says Dr. Gotov.

HKEx offered the company a number of advantages, from a convenient geographical location, to practical listing requirements, to access to sophisticated investors. Those, plus the familiarity of the regulators and professional parties with mining issues, made the IPO of MMC happen quickly in about seven months.

The first and perhaps most practical advantage that Hong Kong offered was regional proximity. Hong Kong is in the same time zone as the company headquarters in Mongolia.

"It may sound trivial but it makes things easier for the management and the Board to communicate with the stock exchange, the regulators and the investors." says Dr. Gotov.

A second advantage was the close links between Hong Kong and mainland China. Approximately 90 percent of Mongolia's minerals exports are heading to China. MMC has a high expectation from the geographical proximity of its operations to the Chinese mainland market. The company's mines are often much closer to some of the large markets in mainland China than Chinese miners. The expectations of growing demand for coal in mainland China were a big selling point of the company's IPO. By listing in Hong Kong, the company sought to tap investors familiar and comfortable with the mainland China story, including domestic and international investors in Hong Kong and mainland China. These investors are capable of judging the investment value of the listed companies in HKEx through the lens of future growth in mainland China.

"China is the largest consumer of coking coal and the second largest importer behind Japan. China is our major market," says Dr. Gotov. "Of course we are thinking to diversify our markets and looking into Japanese, Taiwanese and Indian markets, but in the short to medium term, given the significant demands from China, it will remain our primary market."

A third advantage was – and still is – the international nature of the Hong Kong market. By listing on the HKEx MMC could instantly access investors from around the world – including international investment banks and other institutional investors – without necessity to go far to the markets with more stringent listing or tax regulations, like in the United States, Australia or Canada.

"We are a Mongolian company with Mongolian management and operations based in Mongolia, but we have international partners, including both financial advisors and technical consultants with mining expertise" says Dr. Gotov. "Hong Kong has become one of the centres for international financial institutions and offered us great financial professionals."

Even with all these advantages, the company still had to attract investors. It did so by relying on transparency, clear corporate governance and a high standard of disclosure. In March 2012, MMC became the first Mongolian corporate to access the international bond market, issuing US$600 million corporate bonds in Singapore. Around half of this landmark bond issues were sold in the US with the rest in Asia and Europe. It increased and diversified the company's investor bases.

"Listing in any market is a big responsibility and it brings a number of obligations to us as a listed company," says Dr. Gotov. "The challenge for companies is not only to attract investors but to keep their confidence."

Finance and insurance

As an international financial centre in Asia, Hong Kong has always been a magnet for global financial institutions. The city has one of the highest concentrations of banking institutions in the world, with 70 of the largest 100 banks in the world active in the market[37]. Hong Kong has the second most developed insurance market in the region after Japan and has attracted many of the world's top insurance companies as well as large insurers from mainland China. It is also the leading fund management centre in Asia with the largest concentration of international fund managers. And the number continues to rise every year, as Asia's economies continue to grow[37].

Banks and insurance companies account for a large portion of Hong Kong's stock market.

All the major mainland Chinese banks have issued mega offerings in Hong Kong over the last few years. Multinational giants such as HSBC and Standard Chartered Bank, as well as local banks like Hang Seng Bank and Bank of East Asia, are all listed in Hong Kong. Recent reports revealed that some sizeable provincial and regional banks from mainland China are queuing for listing in Hong Kong.

Chinese insurance companies China Life Insurance, China Pacific Insurance, New China Life Insurance and Ping An Insurance have all been listed in Hong Kong. In June 2012, another large mainland China insurer, the state-owned People's Insurance Co (Group) of China (PICC) received regulatory approval to issue shares in Hong Kong and it planned to raise between US$3 billion to 4 billion. The company's property insurance arm, PICC Property & Casualty is already a Hong Kong-listed company. The Asian life insurance arm of AIG, known as AIA, raised around US$20 billion in an IPO in October 2010. Reuters noted that "investors piled into the most attractive offering in the world's hottest financial market"[38]. Prudential plc, one of Britain's largest insurance companies listed in Hong Kong in May 2010 by an introduction.

With banking and insurance institutions already trading actively on the bourse, brokerage firms have stepped up as well. In April 2012, mainland China brokerage house Haitong Securities raised HK$14 billion (US$1.8 billion), the largest amount of capital raised in Hong Kong in the first half of the year.

The IPO of Haitong Securities was welcome but it underlined how the market is changing and forcing underwriting banks to compete harder for smaller fees. The April issue was the second attempt for Haitong Securities, which had tried to go public in mid-2011 but had failed to attract investor interest. As a result, the firm required underwriters to bring in major investors or guarantee to buy unsold shares, the Wall Street Journal reported[39].

Secondary listings to replenish funds and build brands

A secondary listing in Hong Kong allows international enterprises to access the vast capital pool in Greater China. Management is often motivated to issue secondary listings to improve liquidity and expand the shareholder base. An international listing can raise an enterprise's visibility and profile and elicit greater interest among market makers, financial analysts and institutional investors. London-listed Glencore, Toronto-listed SouthGobi Resources, Tokyo and Osaka-listed SBI Holdings and Singapore-listed CaptiaMalls Asia are all recent enterprises that issued successful secondary listings in Hong Kong.

Companies who want to demonstrate their commitment to Asia can raise their profile significantly with a secondary listing, even if they don't have a financing plan. For example, New-York listed Coach issued Hong Kong depositary receipts that did not involve any fundraising, as part of its strategy to enlarge the brand's influence among China's swelling middle class and to further push the sales in the region.

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37 Hong Kong Trade Development Council, as of 15 March 2012

38 "AIG raises $17.9 billion and prices AIA IPO at top," Reuters, 22 October 2010

39 "Bankers Scramble For Haitong IPO," The Wall Street Journey, 16 April 2012

Interview: Ng Kok Siong, CFO, CapitaMalls Asia

A secondary listing on the Main Board of the Hong Kong Stock Exchange (HKEx) is helping CapitaMalls Asia Limited (SGX: JS8 and HKEx: 6813), Asia's leading shopping mall developer, owner and manager, raise its profile in the China market while positioning the Company closer to Chinese investors.

CapitaMalls Asia is the separately-listed integrated shopping mall business of CapitaLand, one of Asia's largest real estate companies. It has a portfolio of 100 shopping malls in 52 cities in five countries across Asia – Singapore, China, Malaysia, Japan and India. In China, CapitaMalls Asia has built a few landmark shopping malls, including CapitaMall Crystal in Beijing, Hongkou Plaza and Minhang Plaza in Shanghai, Raffles City Shanghai, and CapitaMall Jinniu in Chengdu. The Company launched an initial public offering in Singapore in 2009, which was the largest in the country in 16 years. The retail offering under the IPO was 4.9 times subscribed, while an aggregate demand of 2.5 times was received for the placement tranche.

Based in Singapore and with a large slice of business in China, a secondary listing closer to investors and analysts more familiar with China made sense. In October 2011, CapitaMalls Asia listed by introduction on HKEx, complementing its focused expansion strategy in China.

"In the long term we see China as the main runway for the company, even a longer runway than Singapore. Strategically we'd like to be seen as a Chinese company with a Singapore culture. Going forward we are putting more capital and focus into China," says Chief Financial Officer Ng Kok Siong. "Hong Kong is the natural venue. There are more Chinese and listed Chinese real estate peers in Hong Kong. It gives the market a more transparent comparison."

Although the secondary listing did not raise additional funds for the company, it does generate significant benefits for the Company.

First, it makes CapitaMalls Asia more visible among a group of potential investors and analysts more in tune with the Chinese market, a group who travels more frequently to China and can provide better coverage on the company.

Second, it gives the Company greater potential access to investors with Qualified Domestic Institutional Investor (QDII) quotas from the Chinese government. Investors with QDII quotas such as pension funds or investment banks can invest in Hong Kong securities with greater ease.

Third, by becoming a company listed on HKEx, the Company finds it can access a wider banking network as the Hong Kong listing raised its profile with a wide range of international financial institutions.

Issuing the secondary listing in Hong Kong two years after its Singapore IPO resulted in some cost-savings in terms of process. However, it did not generate any new funds.

"In the long term if we can find the right investor profile and the right window we would also like to cultivate investors out of the Hong Kong Stock Exchange," says Mr. Ng.

The process for the dual listing was straightforward, transparent but demanding. The HKEx has relatively high standards of due diligence, says Mr. Ng, who compared Hong Kong to New York – both are large exchanges with a lot of companies going through them.

Company materials in the Chinese language have also helped Chinese investors, analysts and government officials become more familiar with the Company.

"When we meet government officials on the ground in China, having a Hong Kong dual listing seems closer or more intimate to them. Having the offering document itself in Chinese does help them understand," says Mr. Ng, "Strategically we believe a Hong Kong listing is something that has to be done if we want to continue our runway into China."

Case study: SBI Holdings, Inc.

Japan-listed SBI Holdings, the Japanese internet-based financial conglomerate, raised US$205 million through a secondary listing and started trading in Hong Kong on 14 April 2011. In doing so, it became the first Japanese company listed in Hong Kong and the first company to have raised funds by issuing Hong Kong Depositary Receipts (HDRs).

The HDR offering is an important consideration for international companies seeking to tap Hong Kong's capital market. Before the HDR regime was launched in 2008, foreign companies that wanted to list their ordinary shares on HKEx had to maintain an ordinary share register in Hong Kong. The requirement posed a barrier for companies from a number of jurisdictions, which restrict movements of shares abroad or prohibit an overseas register or splitting of the register. The HDRs resolved this problem. In addition, the HDRs are more efficient in terms of the speed at which dually-listed shares can be moved between markets, without the process of de-registering and re-registering between the home market and Hong Kong.

Japanese companies used to face legal constraints to list in Hong Kong due to the differences between the comparable laws and regulations in Hong Kong and Japan. With its HDR offering, the secondary listing of SBI Holdings in Hong Kong has achieved several regulatory breakthroughs.

The company set a HDR ratio of ten HDRs to one ordinary share, resulting in a more acceptable HDR price of HK$80.23 (US$10.3) for retail investors. A total amount of US$205 million was raised through 20 million HDRs issued. This increase in capital pushed the company's equity ratio higher and further improved its financial position[40].

Mr. Yoshitaka Kitao, CEO of SBI Holdings, said the company was keen to list in Hong Kong and spent more than a year preparing for the HDR offering. In his view, Hong Kong is more efficient and has yielded greater returns than Japan. He also stressed that SBI Holdings sought a listing in Hong Kong to increase its brand recognition in China and Asia[41].

SBI Holdings operates in five core business segments including asset management, brokerage and investment banking, financial services, housing and real estate and other businesses. To diversify away from its core business in Japan and boost its brand and earnings in overseas markets, SBI Holdings is pursuing aggressive investments in China and other emerging markets in Asia.

Hong Kong is perfectly placed in the centre of Asia's dynamic economy, and is a platform for companies seeking to tap into the Greater China growth story. SBI Holdings has been considering to convert its Hong Kong subsidiary, SBI Hong Kong Holdings, into a second head office. In preparation for this move, SBI Hong Kong Holdings was transformed into an overseas business management company to handle all overseas development. This is part of the company's strategy of transition from a Japanese company to a global one.

The secondary listing of SBI Holdings has set the scene for Japanese companies tapping into Hong Kong capital market. In August 2012, we saw another Japanese company, DYNAM Japan Holdings, the nationwide operator of Pachinko halls, commence trading on the Main Board of HKEx. More Japanese companies, in particular those from the consumer and retail sectors, are expected to consider a listing in Hong Kong, to access higher valuations for retailers, and the broader investor base from China.

[40] SBI 2011 annual report, "Hong Kong Depositary Receipts: The innovation continues", JP Morgan

[41] "Japan's SBI Holdings first to sell HDRs in Hong Kong", China Venture Capital and Private Equity Association, April 2011

RMB IPOs and RMB products

The evolving process of RMB internationalisation gives Hong Kong, the largest offshore RMB centre in the world, another important strength.

"The Hong Kong market is unique in that a company now has the option to raise capital not just in Hong Kong dollars, but also RMB under the 'dual tranche, dual-counter' mechanism," says KPMG partner Paul Lau. "There is no question in my mind that Hong Kong will become an important offshore RMB centre as part of the internationalisation of the RMB."

Hong Kong is a pivotal location for cross-border RMB trade. The Chinese government reaffirmed Hong Kong's role as an offshore RMB centre and the testing ground to broaden the global role of the currency in the 12th Five Year Plan, which launched in 2011. RMB trade settlements by banks in Hong Kong reached RMB1.9 trillion (US$ 300 billion) in 2011, up 419 percent from the previous year. Hong Kong has the largest offshore RMB liquidity pool in the world. At the end of Feb 2012, RMB deposits in Hong Kong exceeded RMB566 billion (US$ 89 billion), up 39 percent over the previous year and a nine-fold increase since 2008[42].

In April 2011, Hui Xian Real Estate Investment Trust (REIT) became the first RMB-denominated fund product on HKEx and the first RMB IPO outside of mainland China. The Hang Seng RMB Gold Exchange-Traded Funds (ETF), the first RMB ETF in Hong Kong, listed on HKEx in February 2012. Listing, trading, clearing and settlement of RMB-denominated products are fully prepared in Hong Kong.

For enterprises with substantial RMB operating expenses, RMB-denominated IPO is an ideal way to hedge against currency fluctuations while deploying capital in mainland China expansion without conversion costs. Investors interested in buying RMB shares and using RMB as a safe haven, would be naturally attracted to such an issue. For those investors who have insufficient RMB or have difficulty obtaining it, they can buy RMB shares with Hong Kong dollars in the secondary market through HKEx's RMB Equity Trading Support Facility.

Furthermore, for securities issuers, retail investors from mainland China represent great potential demand for equities, ETFs and other structured products. Most of these issues of financial instruments will, in all likelihood, access a huge pool of investors when investment facilities for the opening of accounts in Hong Kong by mainland China retail investors are established, something Hong Kong's regulators and stock exchange are already working on. Although there is no timetable at this point, mainland China retail investors will – sooner or later – have access to the Hong Kong securities market, bringing with them big inflows of capital, increased trading turnover and turnover velocity.

As Hong Kong develops as an RMB offshore centre, the range of RMB products in Hong Kong is expected to continue to expand.

[42] Hong Kong Trade Development Council

IV. Conclusion: issues to con

sider

From practical factors such as location and time zone, to more sophisticated considerations such as the reputational upside of a listing in an international market close to China, raising capital and profile through an IPO or a secondary listing in Hong Kong can bring significant benefits to the right enterprises. There are a number of critical issues to consider when a company is planning for an international listing. Interviews with issuers, HKEx and other stakeholders, reveal a few of these issues as particularly significant for enterprises that choose to list in Hong Kong:

- A listing in Hong Kong can give enterprises access to a wide variety of investors, including large international institutional investors as well as mainland Chinese institutional investors.
- The liquid market in Hong Kong provides a good opportunity for an exit for private equity investors. At the same time, the city has a deep pool of advisors with expertise that can make the listing process easier.
- HKEx has three particular areas of focus for international listings: general consumer, retail and luxury goods; mining, mineral and natural resources; and financial services.
- Companies engaged in the consumer and resource sectors often enjoy higher valuations in Hong Kong than in other markets.
- Hong Kong has the largest pool of RMB in the world outside of mainland China.
- For Asian enterprises, choosing to list in Hong Kong can minimize disruptions due to time zone and geographical conflicts when communicating with the regulators and the stock exchange.
- While maintaining high standards for new listings, the regulators and the stock exchange in Hong Kong are willing to work with international issuers to streamline the IPO process and grant waivers for certain requirements.
- Market conditions through the first half of 2012 were difficult. Only two international companies successfully listed in Hong Kong. Looking forward to the rest of 2012 and the year beyond, the pace of the US economic recovery, the progress of China's stimulation on its growth, and how the Eurozone debt crisis plays out will largely affect the appetite of the fundraising activities not only in Hong Kong but also in the world. Realistic price valuation and fundraising scale should be adapted to the changing market sentiment. Enterprises with a determination to go public have to be prepared for additional costs and extended listing timetable in light of the ongoing tough market environment.

In the years ahead, the attractiveness and strength of Hong Kong should only increase. Its role as an international market should continue to differentiate it from other markets in Asia while its unique links to China – the second largest economy in the world – should continue to separate it from just about every other market in the world.

V. Appendices

Appendix I: Hong Kong Main Board listing requirements and process

Requirements

1. Financial

To fulfil any one of the following tests:

(1) Profits Test

- Net profit of latest year ≥ US$2.6m
- Net profit of two preceding years ≥ US$3.8m (in aggregate)
- Market cap ≥ US$25.6m

(2) Market Cap / Revenue Test

- Market Cap ≥ US$513m, and
- Revenue of the most recent audited year ≥ US$64m

(3) Market Cap / Revenue / Cash flow Test

- Market Cap ≥ US$256m
- Revenue of most recent audited financial year ≥ US$64m
- Aggregate positive cash flow from operating activities for 3 preceding financial years ≥ US$13m

2. Control and Management

- Ownership continuity and control for at least the most recent financial year
- Management continuity for at least 3 preceding financial years

3. Public Float

- Minimum of 25%
- If market cap ≥ US$1,282m, public float can be lowered to 15%
- Minimum of 300 shareholders

Process

Step 1: Application for listing on the Exchange: Submit the listing application form and pay the full amount of the initial listing fee

Step 2: Documentary submissions: A draft of the profit forecast memorandum and the cash flow forecast memorandum

Step 3: Recommendation/rejection by Listing Division:

- If rejected, discretionary appeal to Listing Committee

- If approved, step 4

Step 4: Hearing by Listing Committee:

- If rejected, discretionary appeal to Listing (Review) Committee

- If approved, step 5

Step 5: Documentary submissions: Before bulk-printing of the listing document, on or before the date of issue of the listing document

Step 6: Issue of prospectus & formal notice

Step 7: Dealings in shares commence

Source: HKEx, "Listing on the Hong Kong Stock Exchange", Feb 2012, HKEx website

Appendix II: Comparison of selected listing requirements

The summary of selected listing requirements presented below is for illustrative purposes only. For complete details on the listing standards of the stock exchanges, please visit the official website of the respective exchange.

Operating history

Requirement	Operating history
Hong Kong Stock Exchange	3 years
Singapore Stock Exchange	3 years
NYSE	3 years
NASDAQ Global Select Market	2 years
London Stock Exchange	3 years covering 75% of business

Management continuity

Requirement	Management continuity
Hong Kong Stock Exchange	At least for 3 years
Singapore Stock Exchange	1-3 years as the case maybe
NYSE	N/A
NASDAQ Global Select Market	N/A
London Stock Exchange	N/A

Financial requirements

Requirement	Financial standards
Singapore Stock Exchange	Effective on 10 Aug 2012, Main Board applicants must satisfy one of the three criteria: (1) Pre-tax profit ≥ SG$30m (US$23m) for the latest year and has an operating track record of at least 3 years (2) Market cap ≥ SG$150m (US$116m) at the time of listing, if they are profitable in the latest year and has an operating track record of at least 3 years (3) Market cap ≥ SG$300m (US$231m) at the time of listing, if they only have operating revenue in the latest year
NYSE	Foreign private issuers must meet one of the following financial standards: (1) Earning Test - Cumulative consolidated pre-tax earnings ≥ US$100m for the last 3 years with a minimum of US$25m in each of the most recent two years (2) Valuation / Revenue Test (applicant may satisfy either (a) or (b): (a) Valuation / Revenue with Cash Flow Test - Global market cap ≥ US$500m - Revenues ≥ US$100m during the most recent year - Aggregate cash flows ≥ US$100m for the last 3 years where each of the 2 most recent years is reported at a minimum of US$25m (b) Pure Valuation / Revenue Test - Global market cap ≥ US$750m - Revenues ≥ US$75m during most recent year (3) Affiliated Company Test - Global market cap ≥ US$500m - At least 12 months of operating history - Parent company or affiliated company is a listed company in good standing - Parent company or affiliated company retains control of the entity or is under common control with the entity

Financial requirements (Continued)

NASDAQ Global Select Market	Applicants must meet at least one of the three financial standards: (1) Standard 1 - Aggregated pre-tax earnings ≥ US$11m in prior 3 years - Pre-tax earnings ≥ US$2.2m for each of the 2 most recent years - Pre-tax earnings is positive for each of the prior 3 years (2) Standard 2 - Aggregated cash flows ≥ US$27.5m for the previous 3 years with cash flows is positive in each of the 3 preceding years - Average market cap ≥ US$550m over prior 12 months - Revenue ≥ US$110m for previous year (3) Standard 3 - Average market cap ≥ US$850m over prior 12 months - Revenue ≥ US$90m for the previous year
London Stock Exchange	No minimum requirement, but for applicants of Premium-Equity Shares listing, 75% of their business should be supported by revenue earning record for the three-year period.

Number of shareholders and public float shares

Requirement	Number of shareholders and public float shares
Singapore Stock Exchange	- At least 500 shareholders - Minimum of 25% float shares - If market cap > SG$300m (US$231m), shareholding spread varies between 12- 20% - 500 shareholders worldwide required in the case of a secondary listing
NYSE	For foreign private issuers, - Number of shareholders of 100 shares or more: 5,000 worldwide - Number of shares publicly held: 2.5m worldwide
NASDAQ Global Select Market	- 450 round lot shareholders or 2,200 total shareholders - 1.25m publicly held shares
London Stock Exchange	Minimum of 25% public float shares

Note: Foreign currencies have been converted into US dollar equivalent, by using the exchange rate of 7.8 HK$/US$ and 1.29 SG$/US$.
Source: website and listing guide documents of HKEx, SGX, NYSE, NASDAQ and LSE

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 145,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture license in Mainland China. It is also the first accounting firm in Mainland China to convert from a joint venture to a special general partnership, as of August 1, 2012. The firm's Hong Kong operations have additionally been established for over 60 years. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the firm's appointment by some of China's most prestigious companies.

Today, KPMG China has around 9,000 professionals working in 13 offices; Beijing, Shanghai, Shenyang, Nanjing, Hangzhou, Fuzhou, Xiamen, Qingdao, Guangzhou, Shenzhen, Chengdu, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently and rapidly, wherever our client is located.

About KPMG's Global China Practice (GCP)

KPMG's Global China Practice (GCP) was established in September 2010, to assist Chinese businesses that plan to go global, and multinational companies that aim to enter or expand into the China market. The GCP team in Beijing comprises senior management and staff members responsible for business development, market services, and research and insights on foreign investment issues.

There are currently around fifty China Practices in key investment locations around the world, from Canada to Cambodia and from Poland to Peru. These China Practices comprise locally based Chinese-speakers and other professionals with strong cross-border China investment experience. They are familiar with Chinese and local culture and business practices, allowing them to effectively communicate between member firms' Chinese clients and local businesses and government agencies.

The China Practices also assist investors with China entry and expansion plans, and on both inbound and outbound China investments provide assistance on matters across the investment life cycle, including market entry strategy, location studies, investment holding structuring, tax planning and compliance, supply chain management, M&A advisory and post-deal integration.

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