

China IPO Markets Update

December 2015

Executive Summary

China's IPO market experienced significant volatility in 2015 and drew much attention of the IPO markets globally.

Driven by IPOs from the financial services sector, total funds raised by Hong Kong and Shanghai stock exchanges came close to a tie in the first half of 2015. As of the end of June 2015, the total funds raised by the two exchanges were ahead of other global exchanges. Many mainland companies listed overseas were also preparing to or have announced their plan to return to the A-share market.

The momentum came to an abrupt halt in July when the A-share IPO market was suspended for the ninth time in history. In Hong Kong, the number of new listings significantly slowed down from July to September.

The Hong Kong IPO market revived when several IPOs were launched in late September, and the momentum sustained to the fourth quarter. Hong Kong is on track to regain the top global IPO venue this year in terms of funds raised since 2011. A-share IPO market has also showed some positive movements recently as Shanghai and Shenzhen stock exchanges resumed IPOs. In addition, the China Securities Regulatory Commission proposed a set of draft regulations to reform the IPO mechanism and capital markets.

The A-share IPO market is set to see another boom when these reform initiatives are implemented in 2016. The Hong Kong IPO market will remain stable compared to 2015. We are forecasting an estimated 100 IPOs raising over HKD250 billion in 2016.

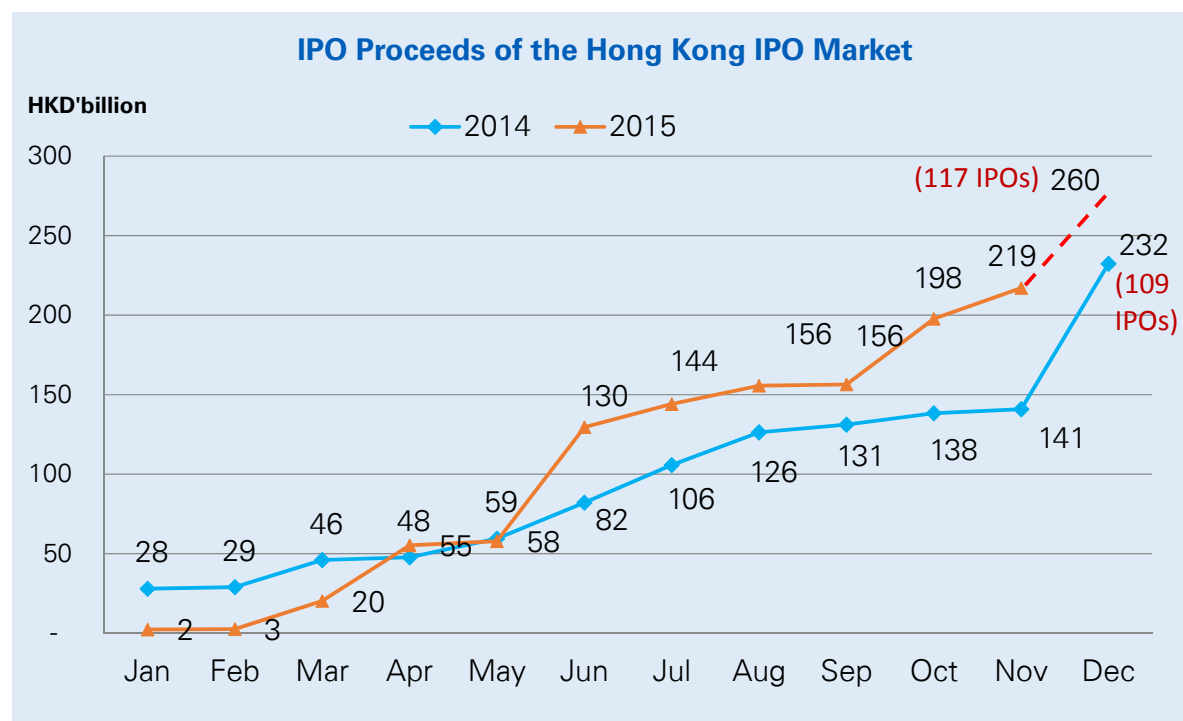
Review of Hong Kong IPO Market

Hong Kong is expected to regain the top global IPO venue this year in terms of funds raised. After taking the top spot from 2009 to 2011, Hong Kong's leading position was taken over by the New York Stock Exchange (NYSE) between 2012 and 2014. Its top ranking in 2015 is primarily attributable to completion of a number of sizable IPOs in the financial services (FS) sector, including Huatai Securities Co., Ltd. (code: 6886), GF Securities Co., Ltd. (code: 1776), China Huarong Asset Management Co., Ltd. (code: 2799) and China Reinsurance (Group) Corporation (code: 1508). The total funds raised by these large IPOs was HKD105.1 billion in aggregate representing 40% of the total funds raised in 2015.

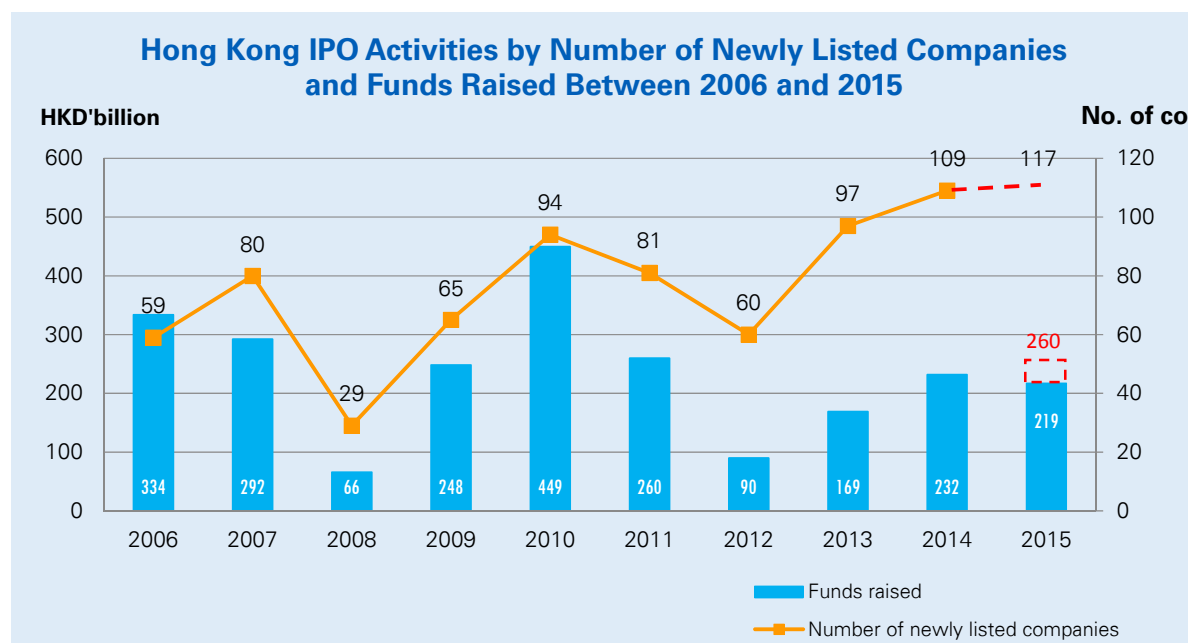
Hong Kong's IPO market had a strong first half of 2015 but the number of new listings significantly slowed down from July to September tracking the A-share market slump and deceleration in global economic growth. Momentum revived when several large IPOs came to market in late September and was sustained to the fourth

quarter, the traditional high season of the Hong Kong IPO market. The IPO proceeds for 2015 is expected to reach HKD260 billion, up 12% from last year's HKD232 billion whereas the number of IPOs is expected to reach 117.

On the regulatory front, 2015 was a relatively quiet year for Hong Kong IPO rules and regulations. This contrasts from the prior year when the market had to respond to the changes brought about by the new IPO sponsor regulations which took effect in late 2013. Rather than having another wave of drastic changes, the regulators updated existing rules and regulations to refine the system. Weighted voting rights was a topic that attracted vigorous debates in the market. Following the announcement made by the Securities and Futures Commission (SFC) in June 2015 that its Board does not support the draft proposal for primary listings with weighted voting rights structures in Hong Kong, this agenda has been put on hold.



Source: HKEx and KPMG analysis



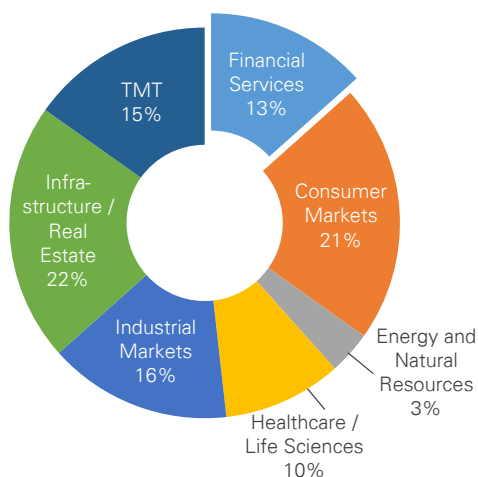
Source: HKEx and KPMG analysis

By the end of 2015, 15 companies in the FS sector will have completed their IPOs. Although relatively small in number, the funds raised by the FS IPOs contributed more than 50% of the total funds raised year to date. The FS sector includes banks, asset management, securities brokerage, insurance and micro-finance. FS IPOs captured the top four positions in terms of funds raised by IPO year to date: Huatai Securities Co., Ltd., GF

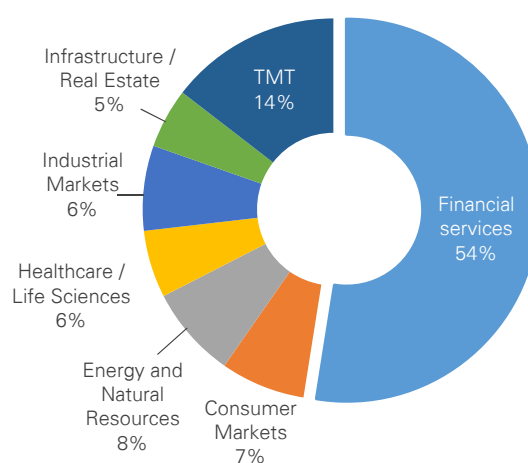
Securities Co., Ltd., China Huarong Asset Management Co., Ltd and China Reinsurance (Group) Corporation, in order of first to fourth.

The number of IPOs and funds raised analysed by sector for listings on the Main Board and GEM Board of the Hong Kong Stock Exchange (HKEx) is illustrated in the chart below:

2015 Number of IPOs by Sector



2015 Funds Raised by Sector



Source: HKEx and KPMG analysis

Note: Analysis is based on actual listings to 30 November 2015 and expected listings in December 2015.

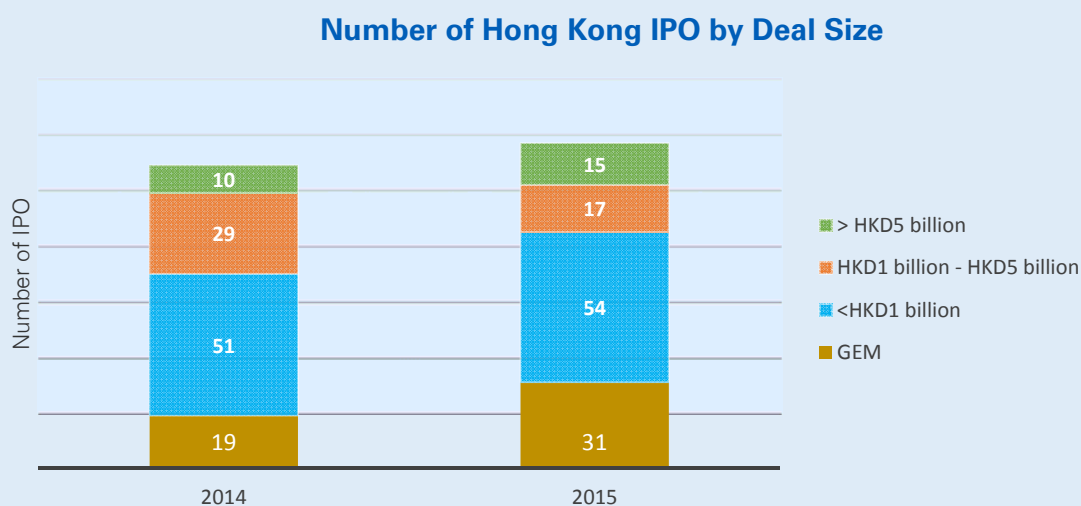
In terms of number of IPOs, consumer market (CM) and infrastructure sectors are strong with 24 and 25 IPOs, respectively, to be completed by end of the year. The distribution of funds raised by sector however shows that the technology, media and telecommunications (TMT) sector is second to the FS sector with an estimated 14% of the total funds raised.

The average deal size is HKD2.2 billion for 2015, as compared to HKD2.1 billion for 2014. The growth is due to the increase in number of sizeable IPOs from 10 in 2014 to an estimated 15 in 2015. The total funds raised by deals that raised over HKD5 billion in 2015 are estimated at

HKD202.2 billion as compared to HKD156.9 billion in 2014.

The number of GEM listings witnessed a big increase in 2015. The extreme volatility of certain GEM IPOs during the year attracted concerns by market participants over the policies and positioning of the GEM Board. The SFC announced in November 2015 that it will work closely with the HKEx to address the market concerns, including tightening rules for new listings on the GEM Board.

The number of deals analysed by deal size is illustrated in the chart below:



Source: HKEx and KPMG analysis

- Amount of proceeds include actual proceeds raised for IPOs up to 30 November 2015 and have not taken into account any over-allotment subsequent to that date.
- Number of IPOs exclude listings by introduction or transfers from the GEM to the Main Board.
- The deal size for all GEM IPOs is less than HKD1 billion per deal.
- Analysis is based on actual listings up to 30 November 2015 and expected listings in December 2015.

Review of Mainland IPO Market

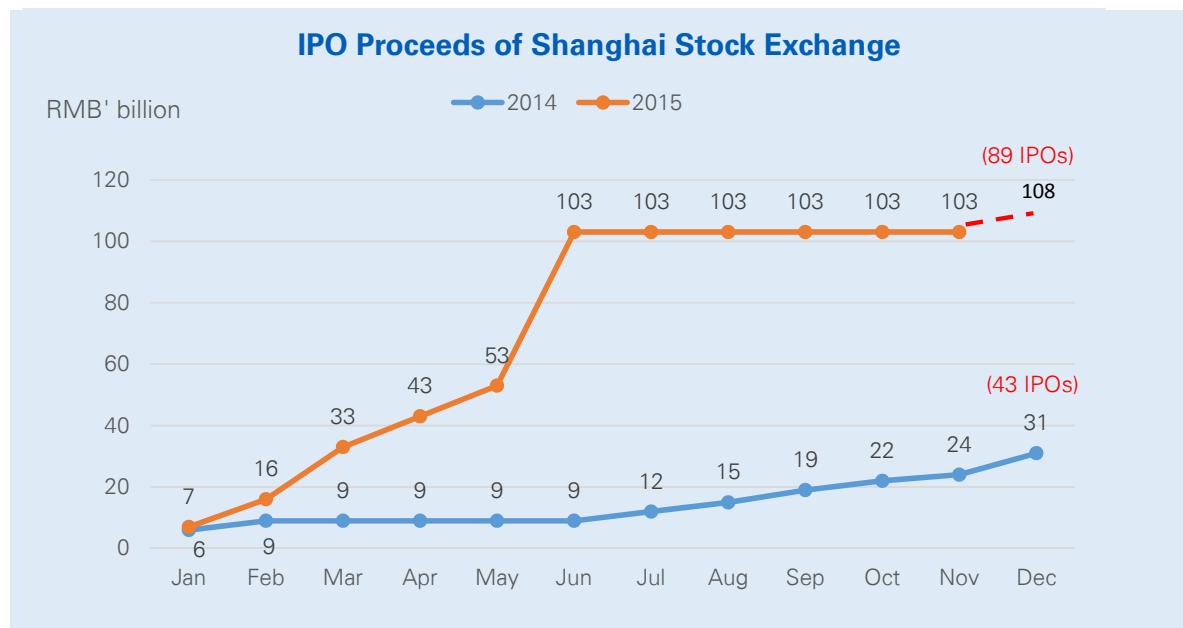
China's A-share IPO market experienced strong growth in the first six months of 2015 until the suspension of new listings in early July. The market came to a standstill until the announcement of resumption in November.

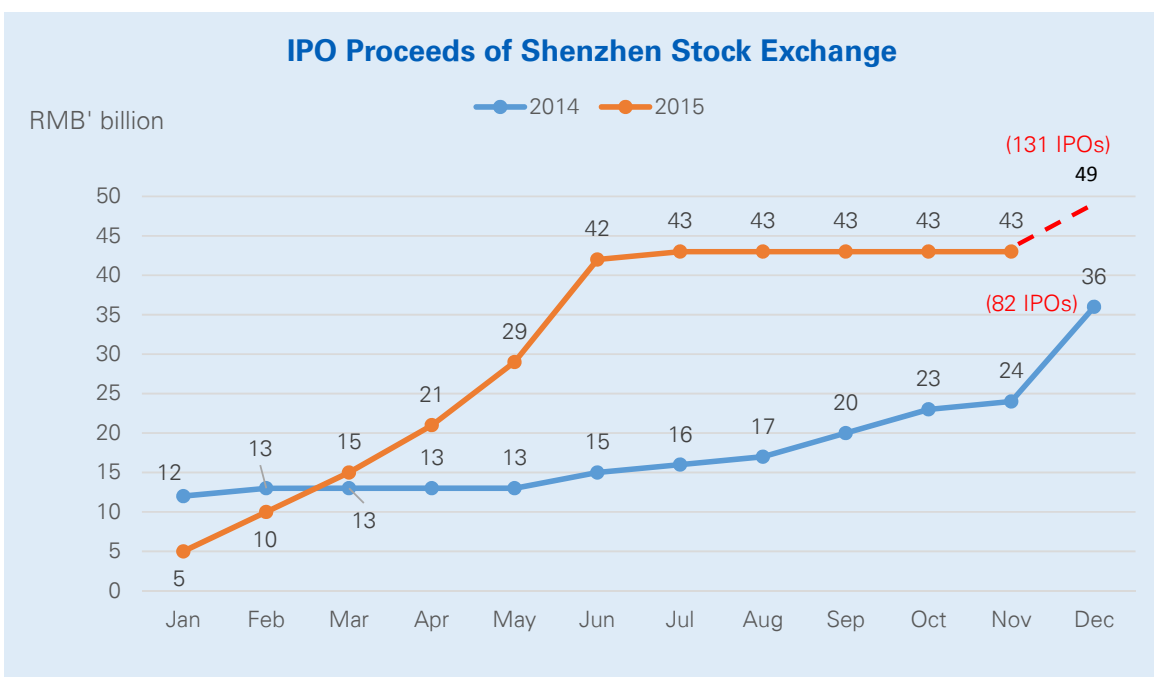
The amounts of funds raised on the Shanghai Stock Exchange (SSE) saw significant year on year growth from January 2015, continuing a trend that began at the end of 2014. The funds raised in January to March of 2015 was RMB33 billion due to a few large listings of securities companies, outperforming the total funds raised of RMB31 billion in 2014. The amount of funds raised on the SSE hit new highs with large listings such as China National Nuclear Power Co., Ltd., Orient Securities Company Limited and Dongxing Securities Co, Ltd. The listing of Guotai Junan Securities in June 2015 raised RMB30 billion and put the total funds raised on SSE in the first six months of 2015 to RMB103 billion, representing 3.3 times the amount raised for 2014.

The A-share IPO market slammed the brakes in July 2015. On 4 July, 28 companies that had

been approved for listing announced their decision to postpone their IPOs. This marked the ninth suspension for the A-share IPO market in history. The market came to a standstill until 6 November, when the China Securities Regulatory Commission (CSRC) announced the resumption of IPOs and proposed a set of draft regulations to reform the IPO mechanism.

The draft regulations set out quite a few detailed proposals, including preventing IPOs from locking up too much capital, simplifying the listing requirements, increasing the responsibility of professional intermediaries and protecting the investors' legitimate rights and interests. The Chinese government in a recent proposal stated a two-year time frame to implement the IPO registration-based system. This is expected to make listings easier on China's stock exchanges. However, before those regulations are finalised and implemented, the existing IPO mechanism will continue to be applied. It is estimated the IPO proceeds raised by SSE and the Shenzhen Stock Exchange (SZE) to be RMB108 billion and RMB49 billion, respectively.

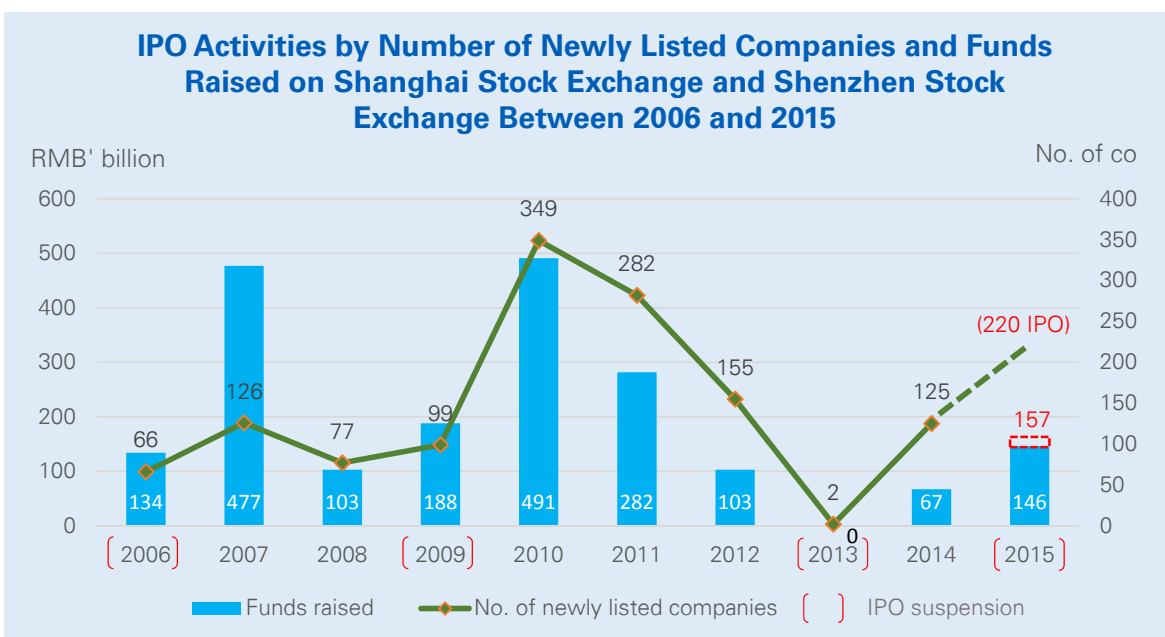




Source: Wind Info and KPMG analysis

Volatility is a key characteristic of A-share IPO in the past decade, during which the IPO market was suspended four times for different reasons. Frequent suspension and resumption of the IPO market has had mixed effects on market participants and it also underlines the fact that A-share IPO market faces more challenges and uncertainties.

By looking into the IPO activities during the 11th five year period (2006-2010) and 12th five year period (2011-2015), the average deal size in the latter is significantly lower than in the former. This shows the trend of activity driven by IPOs of large enterprises in previous years is switching to a greater number of small and medium enterprises seeing IPO as a key fund raising option.

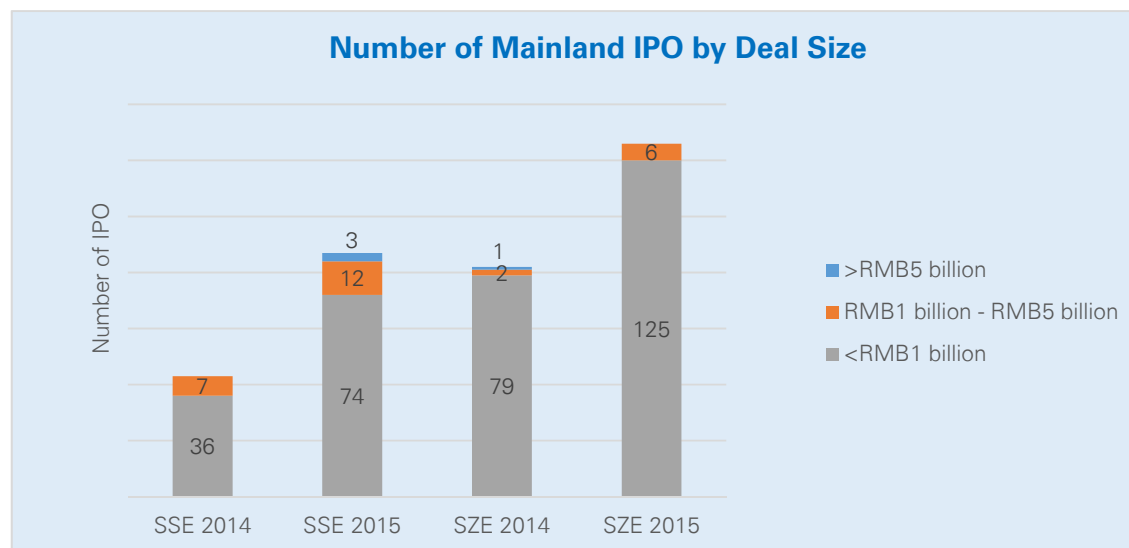


Source: Wind Info and KPMG analysis

In 2015, there were three IPOs that raised more than RMB5 billion, compared to only one in 2014. Most of these large IPOs were launched by companies in the financial services sector.

The trends of total funds raised by the SSE were roughly equal to those of the SZE but average deal size on the SSE was smaller. The SZE saw a greater number of smaller IPOs that each raised less than RMB1 billion, and most of these were represented by companies in the manufacturing

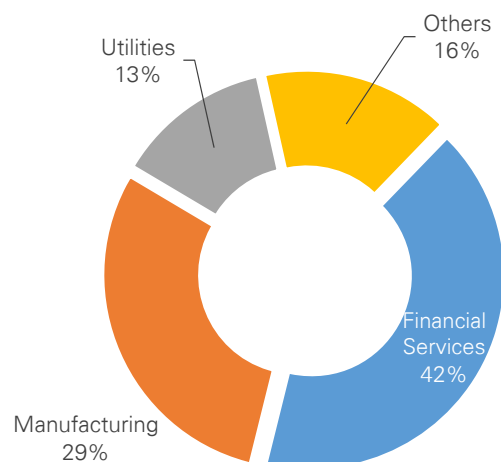
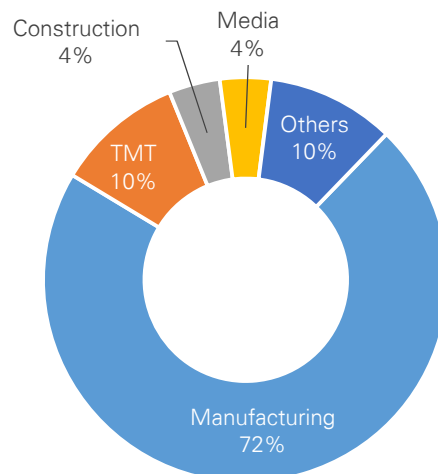
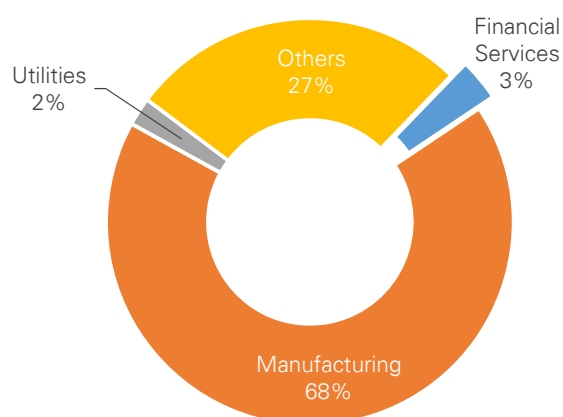
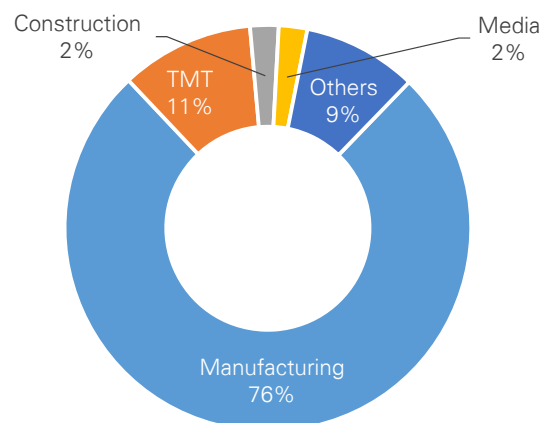
sector. It is worth noting that companies from the TMT sector accounted for a relatively stable percentage of the IPOs completed on the SZE in the past two years, a sign that the TMT sector has increasingly become a new driver of growth in addition to the traditional sectors such as FS and manufacturing. Following the listing of certain companies in the TMT sector in the mainland exchanges during the year, a number of companies listed overseas announced their privatisation and A-share re-listing plans.



Source: Wind Info and KPMG analysis

Note: Analysis is based on actual listings up to 30 November 2015 and expected listings in December 2015.

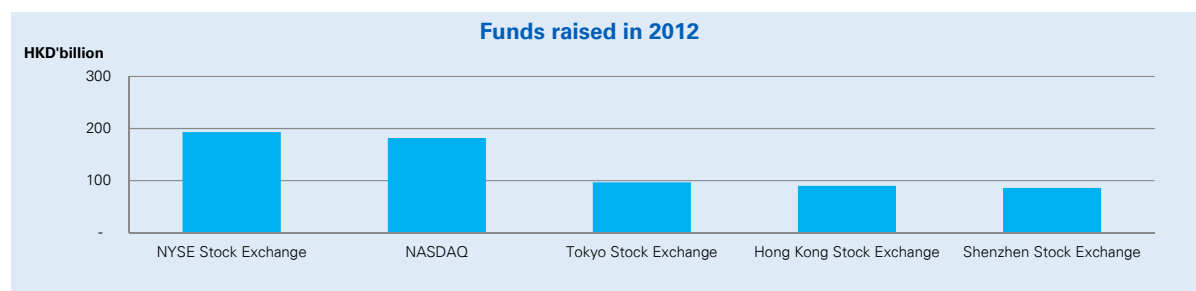
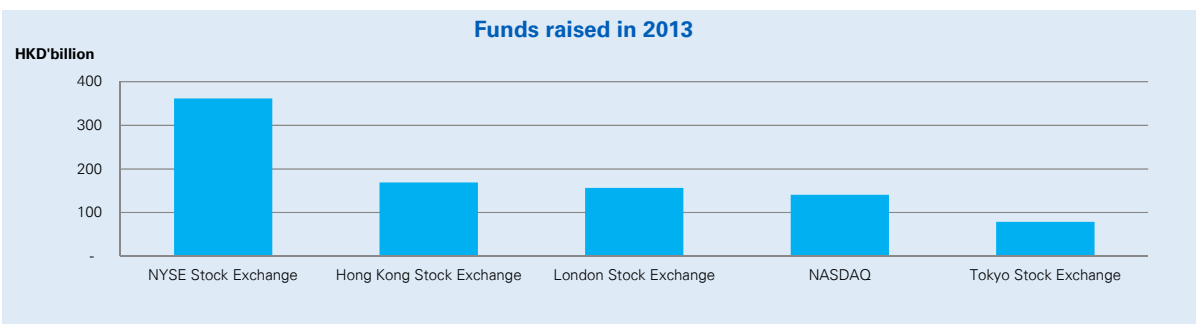
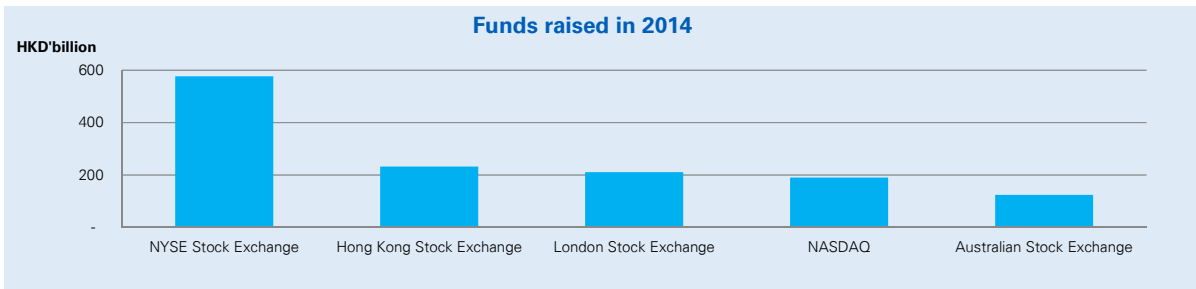
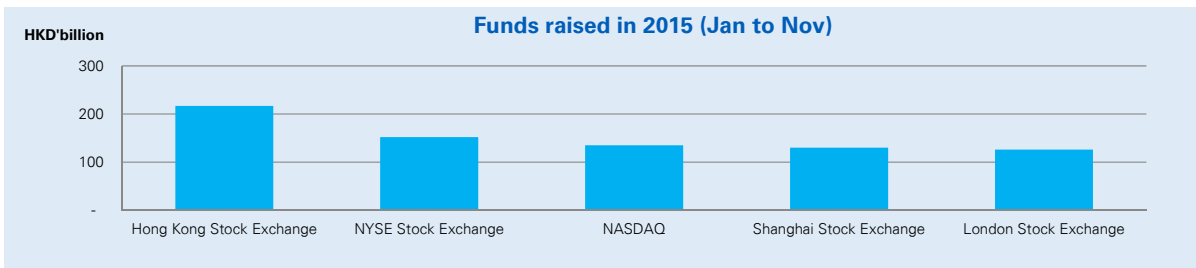


2015 SSE Funds Raised by Sector**2015 SZE Funds Raised by Sector****2015 SSE Number of IPOs by Sector****2015 SZE Number of IPO by Sector**

Source: Wind Info and KPMG analysis

Note: Analysis is based on actual listings up to 30 November 2015 and expected listings in December 2015.

The funds raised by the top 5 global stock exchanges are shown in the charts below:



Source: Dealogic, HKEx and KPMG Analysis

Outlook for 2016

Economic Outlook

The US Federal Reserve raising the interest rate is becoming increasingly plausible with the improvement in the US economy and a favourable economic outlook. The focus has now shifted to the pace of the increment, whether it will be similar to the last interest rate rises of 25 basis points for 17 consecutive increments or a gradual increment. Interest rate rises generally have a negative impact on the stock market.

On the China front, China has stressed on many occasions the importance of achieving its first centenary goal of “building a moderately well-off

society by 2020”. In addition, China has made a number of strategies, initiatives and achievements to adapt to a new norm for its economic growth, including the ‘one-belt-one-road’ strategy, adoption of the proposal for the 13th Five-Year Plan for national economic and social development (the “13th Five Year Plan Proposal”) and the successful inclusion of the Renminbi into IMF’s special drawing right (SDR) currency basket. To support those goals and strategies, China is also making tremendous efforts to reform its IPO mechanism and further develop its capital markets.

Outlook for HK

As in 2015, we do not anticipate to see big regulatory changes in 2016. The potential revision of policies for new listing on GEM Board would require a public consultation, which is not expected to generate huge impact on the market in the near term. In the long run, uplifting quality of new listings is healthy to the capital market development.

From Hong Kong’s perspective, the reopening of the mainland IPO market provides companies with more choices of listing places, which could translate to a certain level of competition. Hong Kong’s IPO market has an edge in gaining access to international investors and its internationalised image. Companies eyeing these elements should see Hong Kong as a sensible choice for listing. The Shanghai-Hong Kong Stock Connect and the long-anticipated Shenzhen-Hong Kong Stock Connect will bring the two markets closer and boost liquidity of markets in both regions.

The IPO pipeline for sizable deals remains strong with primary focus on financial services sector. Several sizeable deals anticipated include the China Postal Savings Bank, the leasing subsidiaries of Bank of China and China Development Bank, China Merchant Securities and Everbright Securities. Listing of banks owned by PRC local governments and Chinese insurance companies are in the pipeline as well.

In addition to the FS sector, environmental protection and health care sectors are expected to be active in the pipeline. There has been an increasing number of companies from these two sectors listing in Hong Kong in the past five years.

We forecast that the Hong Kong IPO market in 2016 will remain at a stable level compared to 2015. We are forecasting an estimated 100 IPOs raising over HKD250 billion in 2016. The actual performance will largely depend on the sizeable deals completing their listings in 2016.

Outlook for Mainland

The 13th Five Year Plan Proposal set out the objectives to develop an open, transparent and healthy capital market, to promote the reform of the IPO subscriptions, and to increase the proportion of direct financing and reduce leverage. The Chinese regulators have also proposed a number of draft reform measures including reform of the IPO subscriptions, implementation of an IPO registration-based system as opposed to the current approval-based system, further development of the multi-tier capital markets, such as segmentation of the National Equities Exchange and Quotation (NEEQ) and the strategic emerging industries board on the SSE, etc.

On the public demand for IPO subscriptions, there are a large number of companies in the IPO pipeline for approval and companies listed overseas are seeking to return to the A-share market. The mainland's IPO market is set to see another boom when the reform is successfully implemented. The new reform will demand and foster a higher level of investor sophistication. Investor education will become an important element in launching the reform initiatives.

Development of mainland's IPO market is also deeply tied with China's economic development and regulatory reform progress. The Chinese government is striving to achieve the centenary goal of building a moderately well-off society by 2020 through robust economic development and to have an annual GDP growth rate of no lower than 6.5% for the next five years.

The year 2016 is expected to be a critical year with many key reform measures to keep going. The pace and magnitude of the capital market development in the next five years will largely depend on the reform measures implemented.

The SZE and the SSE have established their global presences and also captured top positions among global exchanges in terms of funds raised. The SZE ranked among the top five exchanges in 2011 and 2012. In the first six months of 2015, the SSE ranked second and the accumulated funds raised on the SSE came very close to HKEx. Over time, mainland's capital market is set to play a greater role in the global capital markets by establishing a large talent pool and better leveraging the IPO markets in the mainland and Hong Kong.

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