



China and Hong Kong IPO Markets Update

June 2016



Executive Summary

The first half of 2016 was relatively sluggish for IPO markets globally due to economic and political uncertainties. While Hong Kong experienced a significant fall in IPO funds raised in the first half of this year, the city's exchange nonetheless maintained its status as the largest IPO market in the world in terms of funds raised. In China, IPO activity recovered in the first half of this year after the government reopened new listings in November 2015.

Looking forward to the rest of the year, we expect to see the A-share IPO market maintain a similar level of activity to the first half of the year while the country's existing IPO model remains more or less unchanged .

In spite of market volatility, Hong Kong's IPO pipeline remains healthy with a number of sizeable deals expected to be completed in the second half of 2016. This will be supported by the number of mainland companies seeking access to equity markets as the trend towards deleveraging across multiple sectors in the country's economy continues.

We expect Hong Kong to continue to be one of the top performing IPO locations for the full year with an estimated 100 IPOs worth a total of HKD 200 billion predicted.

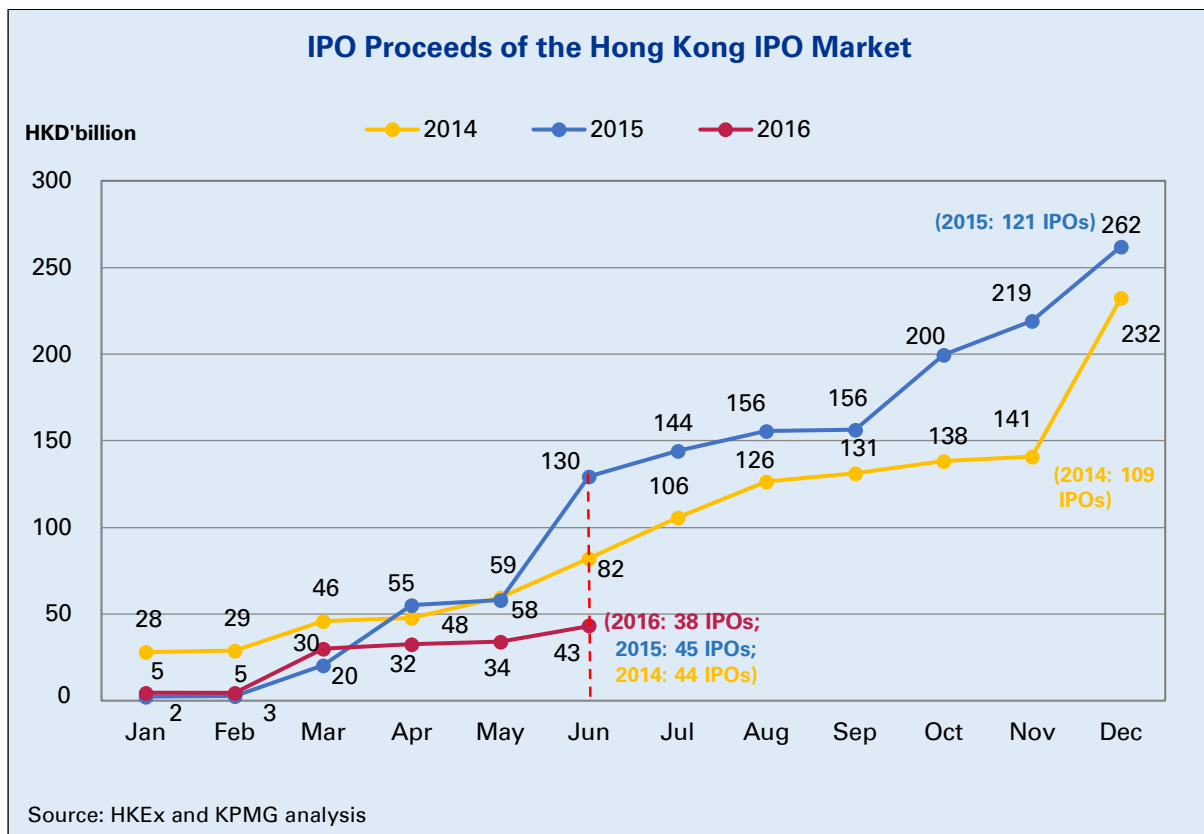
Review of Hong Kong IPO market – First half of 2016

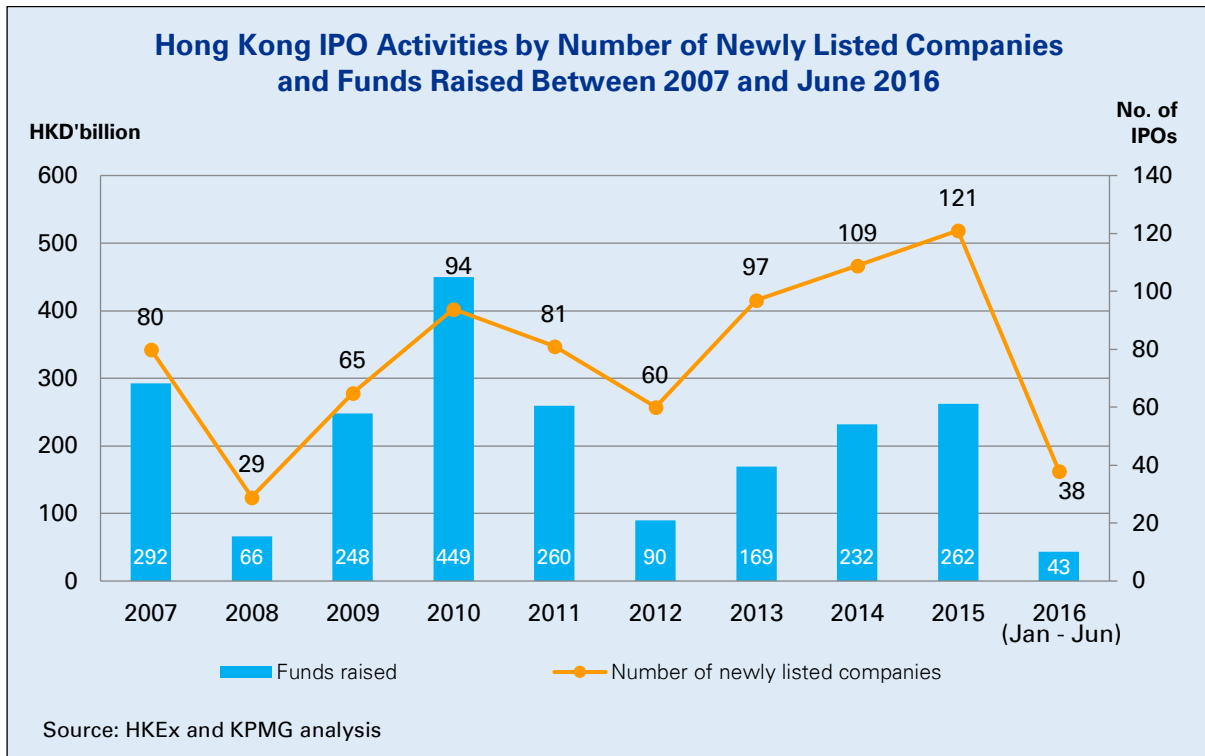
In the first half of 2016, Hong Kong maintained its status as the number one IPO venue globally in term of funds raised. The cumulative total for IPO funds raised in the first six months of the year was HKD 43.4 billion. Several sizeable IPOs from the financial services sector including China Zheshang Bank Co., Ltd, Bank of Tianjin Co., Ltd and BOC Aviation Ltd, contributed to this fact. These three IPOs raised a total of HKD 31.5 billion, representing 73 per cent of the total funds raised in the first half of 2016.

Though Hong Kong retained its top position globally in the first half of 2016, the funds raised via IPOs decreased by 67 per cent when compared with the first half of 2015, while the number of new listings fell by 16 per cent from 45 to 38. These

figures highlight the fact that there were a smaller number of large IPOs when compared with the first half of 2015.

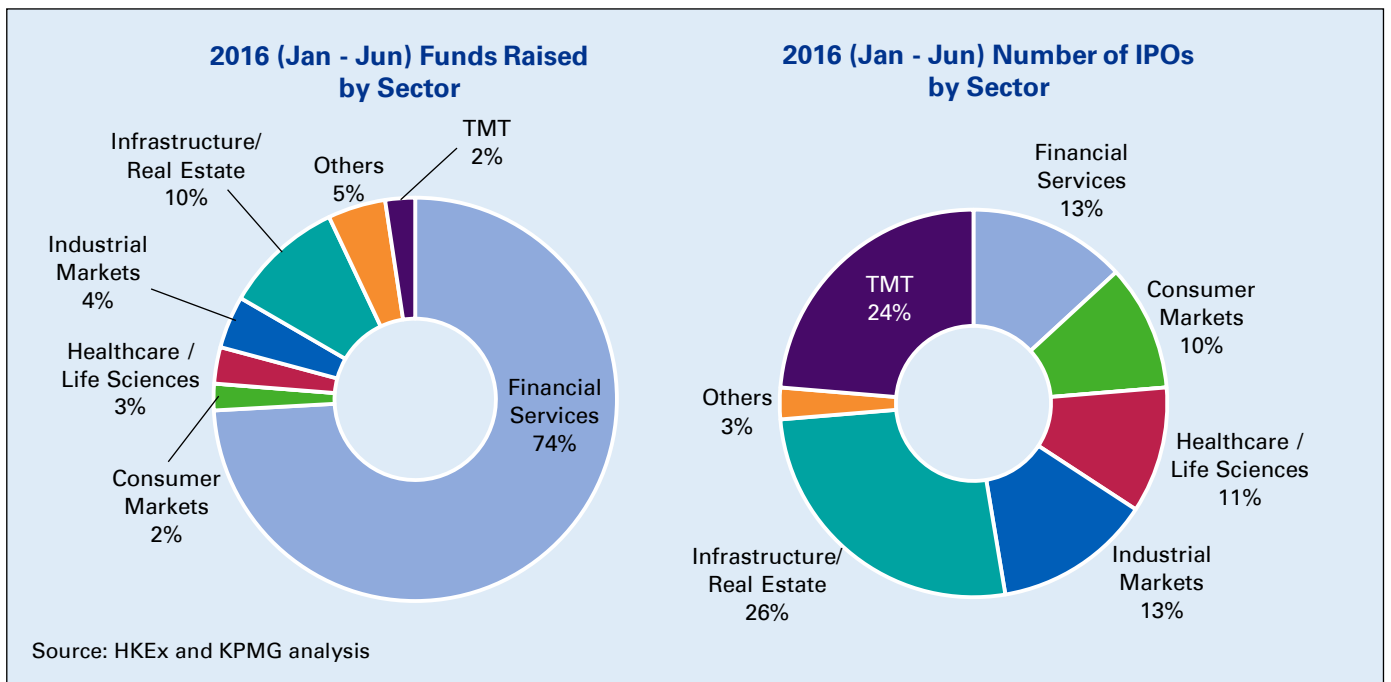
Continuing with the momentum of new listings in late 2015, Hong Kong performed steadily in the first quarter of 2016 with 19 new listings and HKD 30.1 billion of funds raised compared with 25 new listings and HKD 20.3 billion of funds raised in the first quarter of 2015. The pace slowed considerably in April and May with only HKD 3.9 billion raised amid growing concerns about the economic and political environment including factors such as uncertainty over US interest rate policy and the EU referendum in the UK. In June, IPO activity fell to an even lower level with only four new listings occurring.





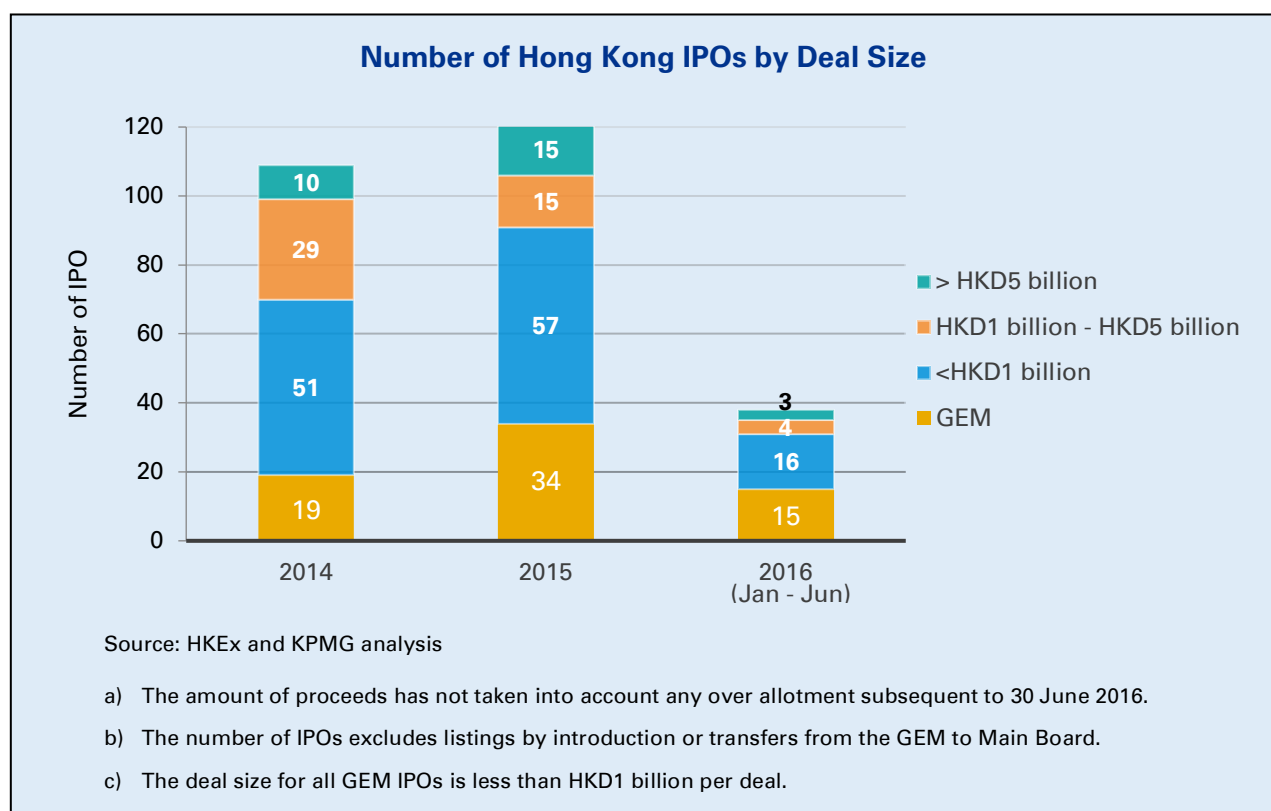
The financial services sector remained the largest contributor to Hong Kong’s IPO market in terms of funds raised. In the first half of 2016, there were five IPOs in the financial services industry, accounting for approximately 74 per cent of the total funds

raised during this period. The number of IPOs and the total funds raised by sector on the Main Board and GEM of the Hong Kong Stock Exchange (HKEx) are illustrated in the charts below:



In the first half of 2016, average deal size fell significantly to HKD 1.1 billion from HKD 2.9 billion in the first half of 2015. This decline was primarily due to the fall in the number of IPOs that raised more than HKD 5 billion in the first six months of the year. There were seven IPOs whose proceeds exceeded HKD 5 billion in the first half of 2015. These came from a diversified range of sectors including financial services,

technology, media and telecommunications (TMT), consumer markets and healthcare and the aggregate amount raised was HKD 114.9 billion. In the first half of 2016, there were only three sizeable IPOs and all were from the financial services sector. The aggregate amount raised was HKD 31.5 billion. The number of deals by size is illustrated below:

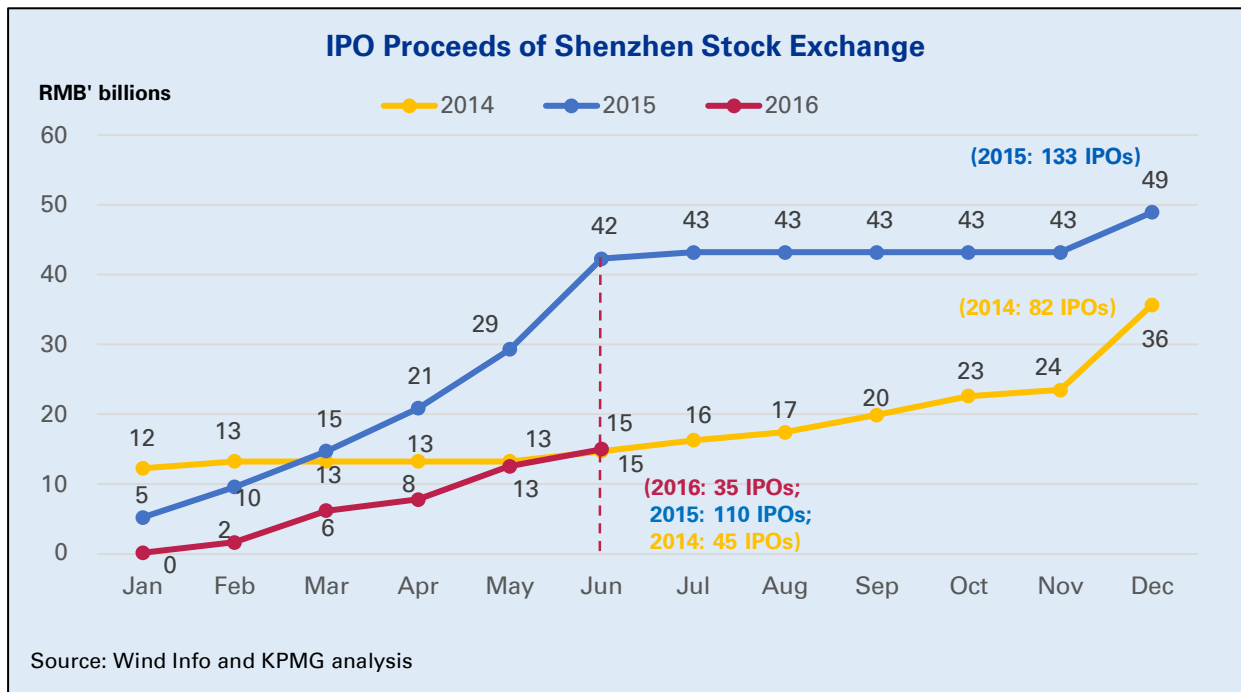
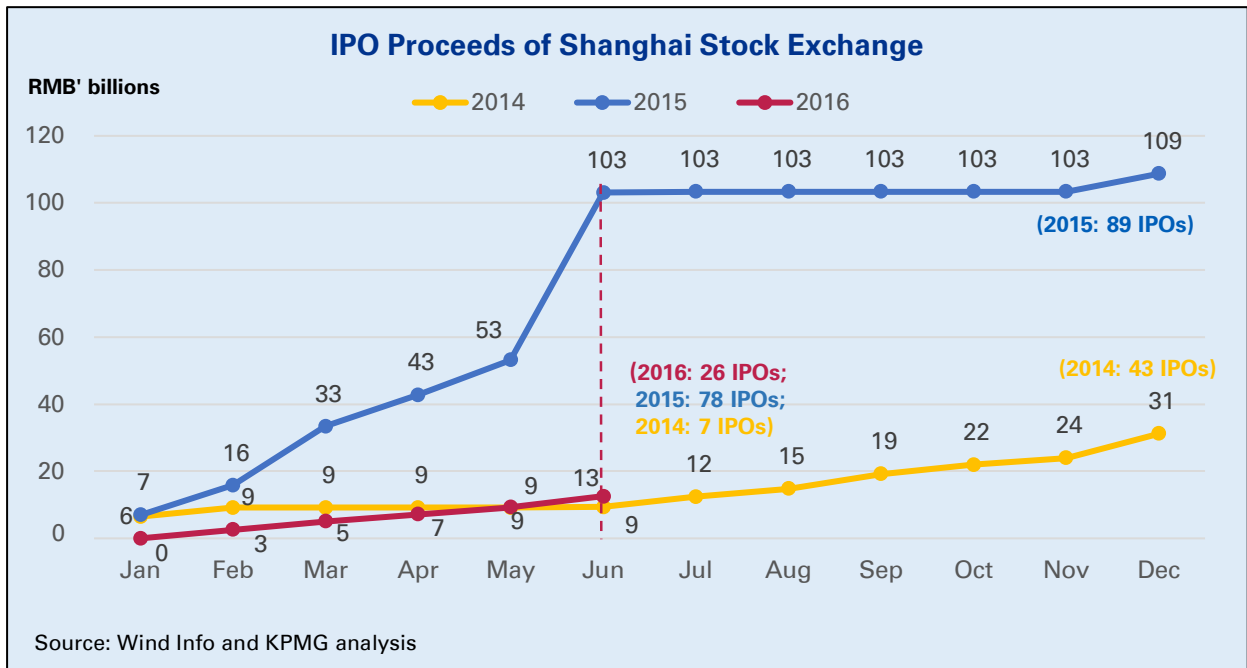


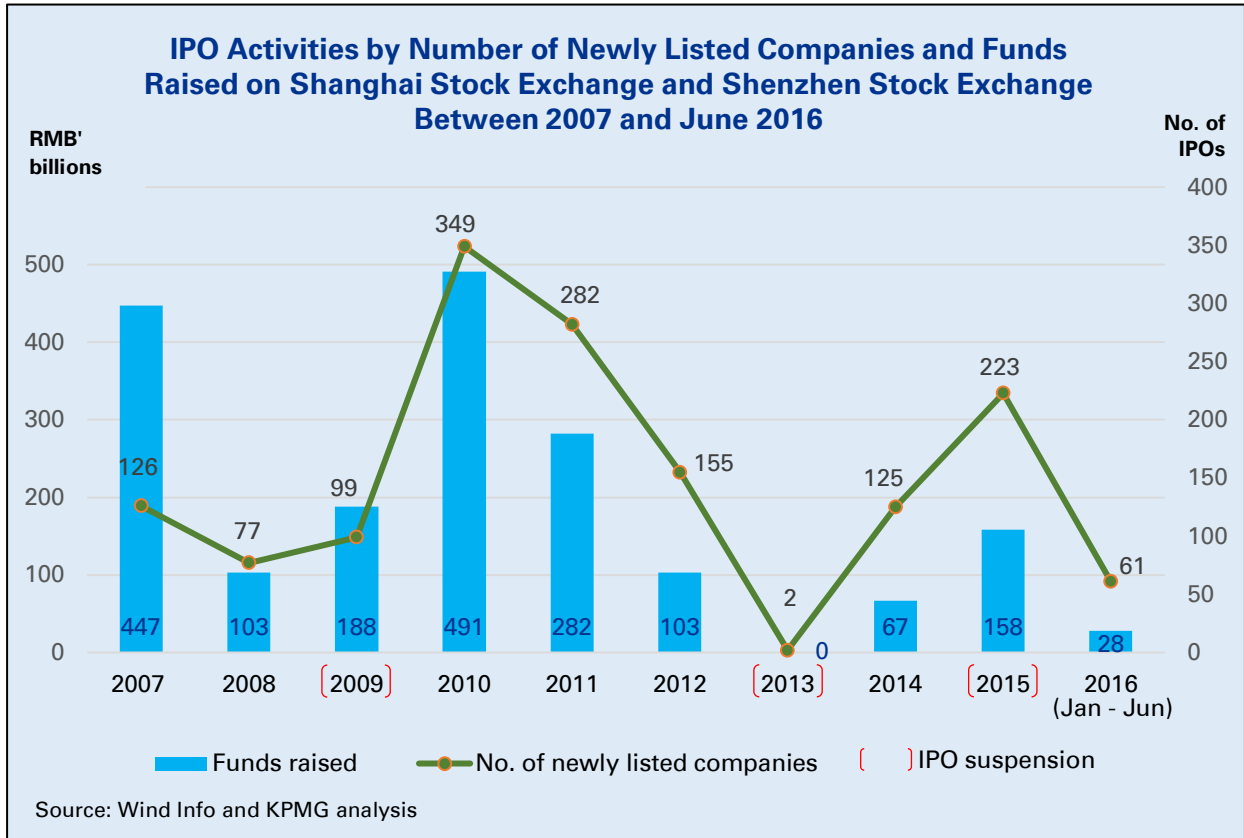
Review of Mainland IPO Market – First half of 2016

Following the resumption of IPO activity in November 2015, the A-share IPO activity began to pick up. In the first six months of the year, there were a total of 26 and 35 new listings on the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZE) respectively. Total funds raised on the SSE and the SZE amounted to RMB 13.4 billion and RMB 15 billion respectively, which represents a decline of 87 per cent and 65 per cent from the corresponding period last year. The

significant fall in IPO funds raised was the result of a reduced number of new listings and the absence of any sizeable IPOs in the first half of 2016.

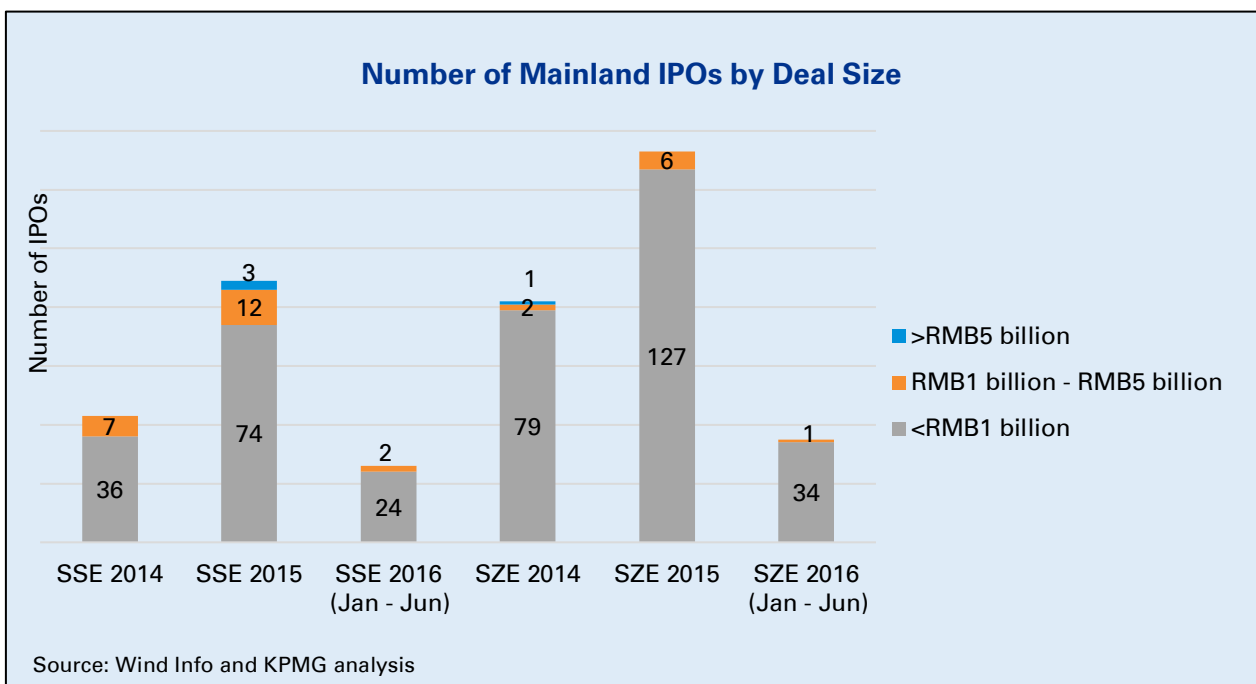
Although there were signs of a return in activity, lingering concerns over volatility in the equity markets meant that the number of applications approved for listing on the A-Share market fell from 218 in the first half of 2015 to 70 in the first half of 2016.



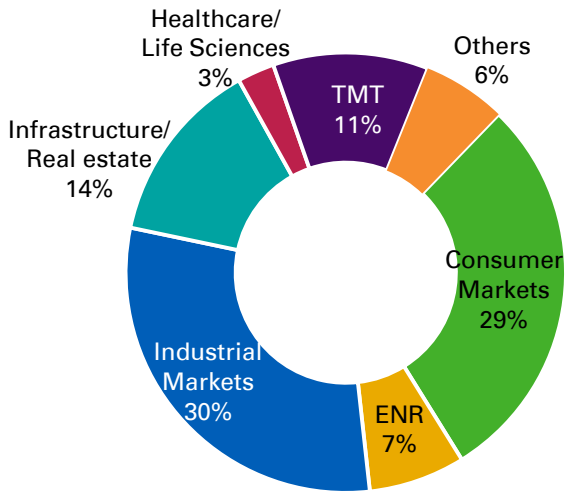


In the first half of 2016, deals whose proceeds were less than RMB 1 billion dominated the A-share market and there were only three IPOs that raised between RMB 1 billion and RMB 5 billion. Most of the new listings in the first half of 2016 came from the industrial markets sector.

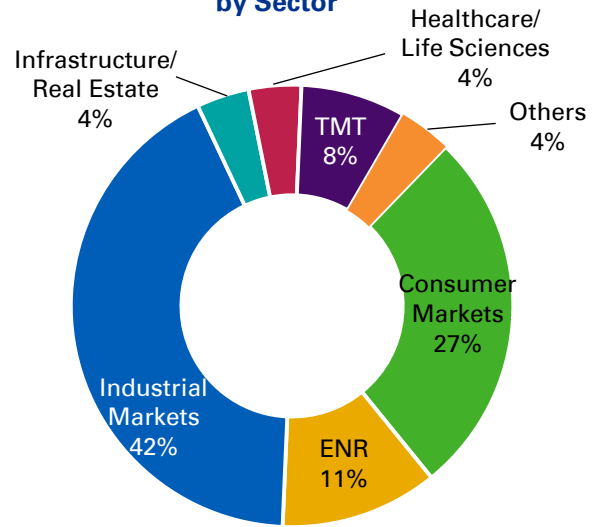
Traditionally strong sectors like consumer markets and infrastructure/real estate continued to be key contributors. TMT companies also counted for a reasonable portion of IPOs due to the growth anticipated for this sector.



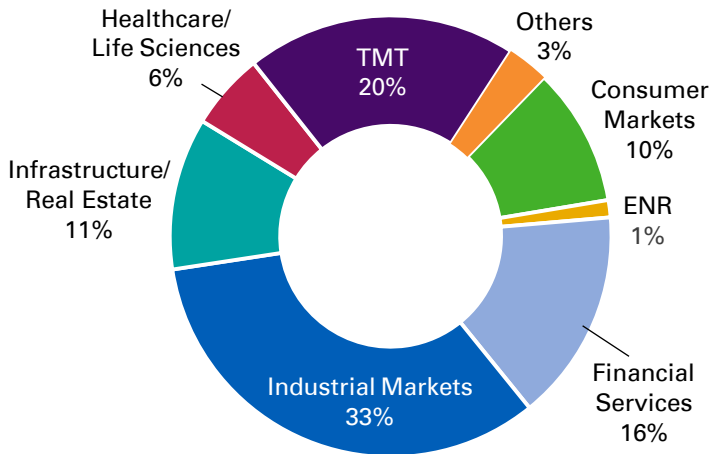
2016 (Jan - Jun) SSE Funds Raised by Sector



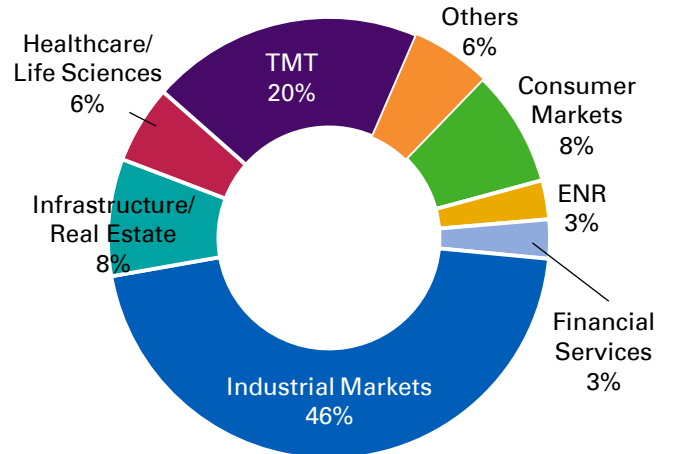
2016 (Jan - Jun) SSE Number of IPOs by Sector



2016 (Jan - Jun) SZE Funds Raised by Sector

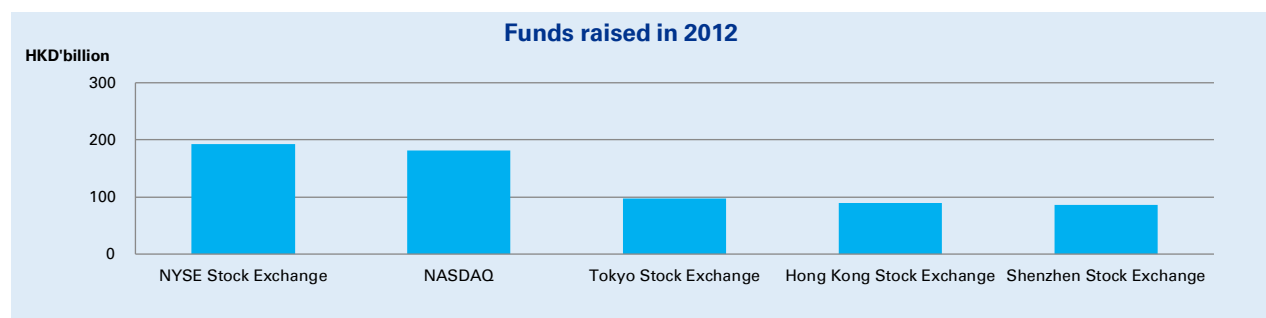
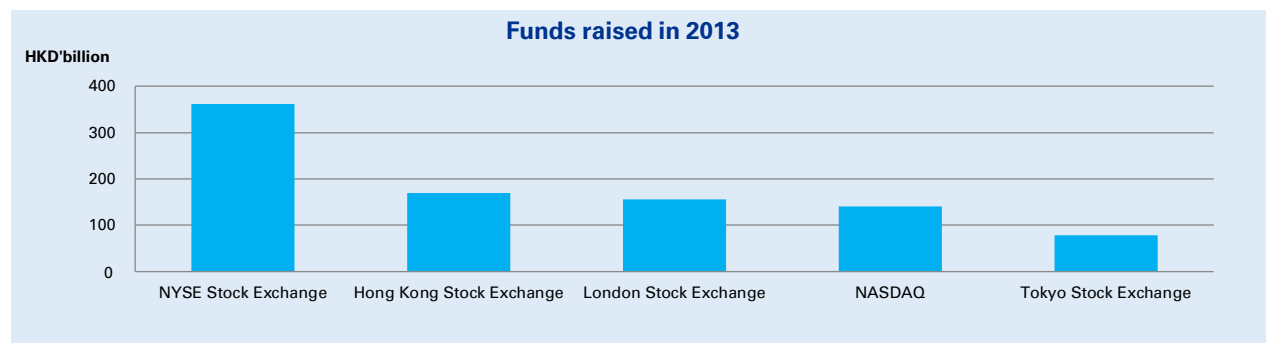
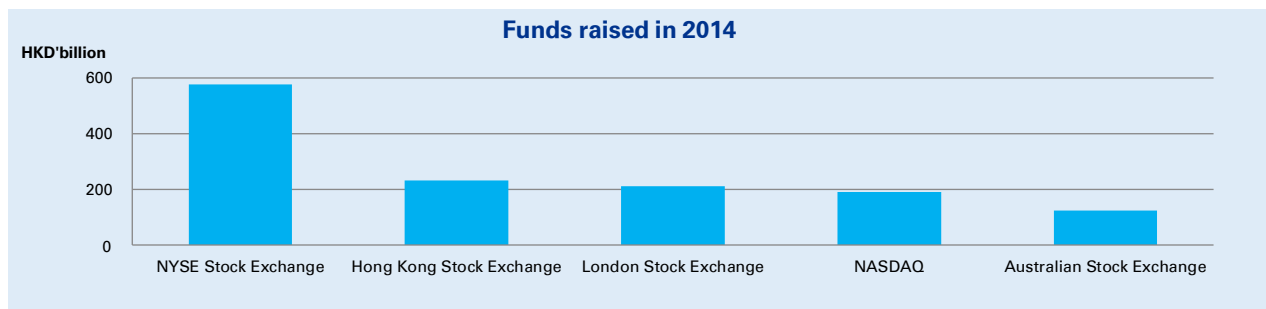
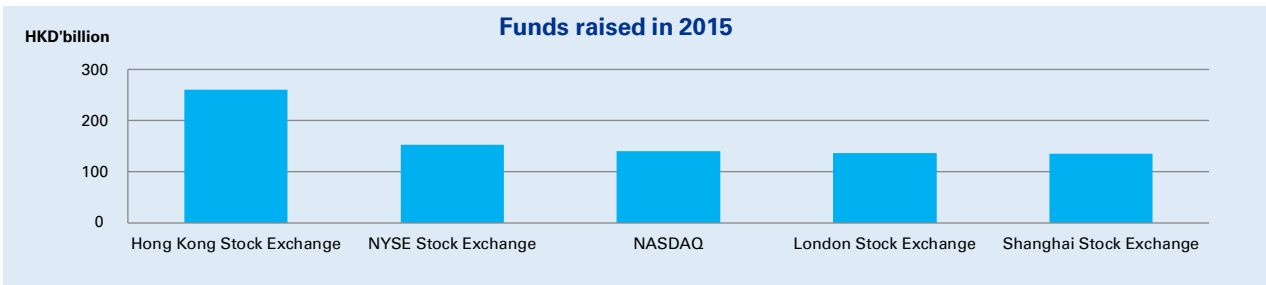
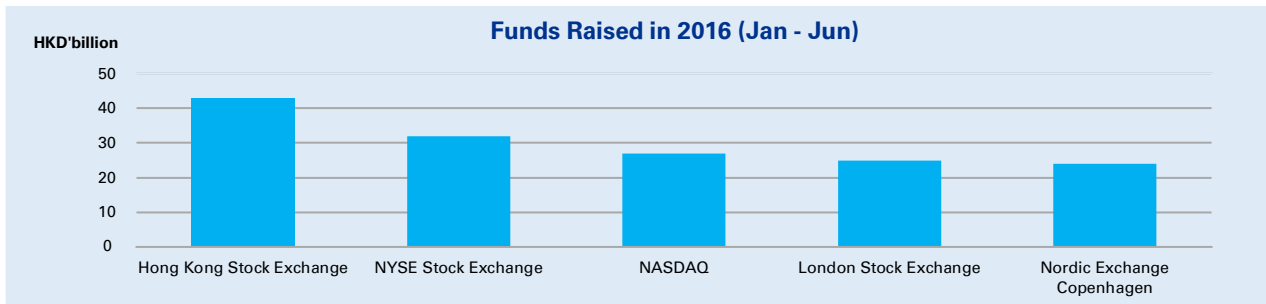


2016 (Jan - Jun) SZE Number of IPOs by Sector



Source: Wind Info and KPMG analysis

Total funds raised by the top five global stock exchanges are shown in the charts below:



Source: Bloomberg, Dealogic, HKEx and KPMG analysis

Outlook for Hong Kong – second half of 2016

The global financial markets are undergoing a period of turbulence due to a number of factors. The UK's recent decision to leave the EU following a referendum has added to the uncertainty.

In Hong Kong, volatility in the share price of newly listed companies, particularly those with smaller market capitalisations, has drawn the attention of Hong Kong regulators. In June 2016, HKEx published a guidance letter on IPO vetting and suitability for listing, which tightened the vetting process in particular for GEM and smaller-sized Main Board listing applicants. While these measures will help improve the quality of listing applicants, smaller companies seeking to list are likely to be adversely affected in the immediate term and the number of listings is likely to diminish.

In spite of these uncertainties, Hong Kong still boasts a healthy pipeline at the end of the first half of this year with about 120 applications for listing. The Hong Kong IPO market is expected to remain as the exchange of choice for mainland companies seeking access to public equity financing and the number seeking to do so

will likely increase as the trend towards deleveraging among mainland companies gathers pace. Several major listings from the financial services sector are expected to take place in the second half of this year including those of China Postal Savings Bank, DFZQ, China Merchants Securities and China Development Bank Financial Leasing.

The Shenzhen-Hong Kong Stock Connect, which has been long anticipated, is expected to launch in the second half of 2016. This should help widen access to the Hong Kong stock market to a number of technology and internet based companies. The scheme is also expected to benefit the mainland stock markets by boosting liquidity and increasing the number of foreign investors in China's equity markets.

We expect Hong Kong's performance to remain steady for the rest of the year and continue to be one of the top IPO locations globally. We forecast that there will be around 100 IPOs raising about HKD 200 billion for the full year, although actual performance will largely depend on the sizeable deals completed in the second half of 2016.



Outlook for Mainland – second half of 2016

Following the resumption of activity in November 2015, performance in the mainland's IPO market gradually picked up in the first half of 2016, albeit still falling short of the level achieved in the corresponding period last year.

In late 2015, Chinese regulators proposed a set of reform measures for IPOs. The 13th Five Year Plan also set out the objective of fostering transparent and healthy capital markets and increasing the proportion of direct financing available to companies. Some policy measures including reforms to IPO subscriptions and segmentation of National Equities Exchange and Quotation (NEEQ) have already been finalised and were implemented in the first six months of 2016. China's registration-based system has yet to be developed. Since it is expected that this system will only be

implemented after various prerequisites are met including the establishment of a healthy multi-tier capital markets framework and changes to the country's existing legal framework, it is unlikely that these reforms will be officially launched in the coming six months.

We expect the country's existing IPO model to continue more or less unchanged in the second half of 2016 and IPO activity will remain at a similar level in the coming six months to the first half of the year. In spite of the suspension of new listings between July and November 2015, the strong performance achieved in the first half of 2015 will be tough to beat. We foresee that the number of IPOs and funds raised for the entire year of 2016 will be significantly lower than both were in 2015.

If you have any questions on the contents of this publication, please feel free to contact the following Capital Markets partners of KPMG China.

Ronald Sze

Tel.: +86 755 2547 1113
ronald.sze@kpmg.com

Paul Lau

Tel.: +852 2826 8010
paul.k.lau@kpmg.com

Charles Wan

Tel.: +86 10 8508 5303
charles.wan@kpmg.com

Frankie Lai

Tel.: +86 21 2212 2186
frankie.lai@kpmg.com

George Wong

Tel.: +86 755 2547 1088
george.wong@kpmg.com

Rebecca Chan

Tel.: +852 2140 2821
rcc.chan@kpmg.com

Maggie Lee

Tel.: +852 2826 8063
maggie.lee@kpmg.com

Roy Leung

Tel.: +852 2143 8549
roy.leung@kpmg.com

Bruce Pan

Tel.: +86 21 2212 2229
bruce.pan@kpmg.com

Louis Lau

Tel.: +852 2143 8876
louis.lau@kpmg.com

Katharine Wong

Tel.: +852 2978 8195
katharine.wong@kpmg.com

Anthony Ho

Tel.: +852 2143 8533
anthony.ho@kpmg.com

kpmg.com/cn

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