

Valuation Insights

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APAC IPO Markets: Competing Forces Make Diligence Key in 2019

By David Liu, Managing Director and Head of Asia Pacific Kroll Compliance Risk and Diligence

In recent years, various exchanges across the Asia-Pacific region have provided issuers and investors with a wide range of opportunities and challenges for initial public offerings (IPOs). Kroll has had a unique vantage point on this activity; in 2018, Kroll assisted Asian stakeholders across industry sectors, country domiciles and market exchanges in more than 90 capital markets and IPO diligence projects. Many of these involved cross-border listings into various APAC and U.S. exchanges by Asian-based firms, including Chinese firms.

Government policymakers and regulators, particularly in Asian countries, are also affecting IPO activity and placements. For example, 2018 IPO activity on mainland China exchanges was substantially less than the same period in 2017 due in large part to stricter regulatory approval criteria. Interestingly, as of this writing, China also held the number one spot in 2018 when looking at the number of IPOs placed by companies outside their domicile countries.

With so many competing interests at work in today's IPO markets, rigorous due diligence is more important than ever. Timely pre-transaction due diligence regarding owners, board members, executive teams, related entities and competitors – as well as ongoing monitoring – is crucial for helping stakeholders mitigate the risks that are inherent in IPOs and M&A, particularly in multijurisdictional deals. Due diligence is also helpful for

demonstrating to regulators the quality of a proposed IPO.

In the early months of 2017, the CSRC had terminated/rejected a total of 53 IPO reviews due to findings of “abnormal business operations or finances.” These findings included suspicious accounting methods, as well as adjustments in shareholder structure or company strategy, and false statements made in applications. The stricter scrutiny further resulted in the CSRC approving only 105 IPOs in 2018, a year-over-year decrease of 76%. Additionally, approximately 150 firms withdrew their IPO applications.

In light of the situations noted by regulators in rejecting IPO applications, the value of pre-transaction diligence for companies wishing to list in mainland China becomes very clear. Issuers and underwriters can discover potentially disqualifying information early in the process, giving them the opportunity to proactively address problematic issues, saving time, money and effort.

IPOs, dual strategies, mergers and acquisitions, sales of equity stakes and outright purchases ... these options and more are available to company owners and investors around the world, including Asia, looking to maximize values and returns. Each approach carries benefits and potential disadvantages that stakeholders must carefully weigh from both sides of the equation.



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Risk-based due diligence is key for nuanced decision-making no matter what strategy is ultimately pursued. As transactional, organizational and jurisdictional complexities evolve, so too must the approach to what constitutes adequate due diligence. The expectations of many regulators relating to due diligence are broader and more stringent than ever before. Many government regulators are increasingly inclined to reject IPO applications for reasons that range from protecting the integrity of their markets to improving the overall quality and size of IPOs being listed.

As we noted earlier, careful due diligence helps issuers and underwriters save time, money and effort by uncovering and resolving risks early in the process. Some other considerations include:

- Implement due diligence programs to help avoid acquiring a “bad reputation” among regulators who might deem your transactional inquiries as inadequate. For example, remember the remarks issued by Hong Kong’s SFC that “future listing applications submitted by these sponsors may also be subject to closer scrutiny by the regulators.”
- More frequent inspection visits and greater scrutiny by regulators can disrupt and put an expensive strain on staff and resources, not to mention playing havoc with deal deadlines.
- As in other regulatory enforcement regimes (e.g., the Yates Memo for U.S. Foreign Corrupt Practices Act violations), individual executives in Asia-based companies are finding themselves being held personally responsible for what regulators consider serious due diligence lapses. To mitigate this risk, companies and executives should proactively design and implement an effective compliance program that includes:

- Training for all senior executives and board members
- Ensuring management supports compliance efforts with adequate oversight and resources
- Responding immediately to potential noncompliance brought to their attention

Full article is available [here](#).

i. [https://www.ey.com/Publication/vwLUAssets/EY_Global_IPO_Update_Q3_2018_-_September_2018/\\$FILE/Global%20IPO%20Trends%20Report%20Q3%202018.pdf](https://www.ey.com/Publication/vwLUAssets/EY_Global_IPO_Update_Q3_2018_-_September_2018/$FILE/Global%20IPO%20Trends%20Report%20Q3%202018.pdf)

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13 IPOs in 2018 Benefited from Duff & Phelps' Valuation Expertise

By many metrics, 2018 was a landmark year for worldwide initial public offerings (IPOs). While global IPO volume declined 17 percent, total value hit a four-year best at US\$204.8 billion – buoyed by a surge of high-value deals,ⁱ many from tech companies based in Greater China.

Duff & Phelps had a ringside seat to some of these deals, being engaged as a professional independent valuer for 13 IPOs in 2018.

Despite these 13 companies' common origins in China, the IPOs were almost equally divided between Hong Kong and the United States: seven took place at the Hong Kong Stock Exchange (HKEX), while six occurred in the United States (five at the New York Stock Exchange and one at NASDAQ).

Many tech companies launching IPOs in 2018 benefited from new Main Board rules that broadened Hong Kong's listing regime, taking effect on 30 April 2018.ⁱⁱ Two of the 13 IPOs were the first in their respective industries to debut on HKEX under these revised rules:

- **Xiaomi Corporation (1810.HK)** was the first tech IPO in Hong Kong to take advantage of a rule change permitting companies with weighted voting right (WVR) structures.ⁱⁱⁱ
- **Asclepis Pharma (1672.HK)** debuted under new rules relaxing the minimum required levels of either profitability or cashflow. Now, pre-revenue biotech companies like Asclepis only need to reach a minimum HK\$1.5 billion market valuation.^{iv}

Other IPOs in the list of 13 represent technology-based market leaders seeking to consolidate their gains. These include China's leader in music streaming, **Tencent Music Entertainment Group (TME.NYSE)**, whose 800 million monthly active users (MAUs)^v easily dwarf rival service Spotify's 170 million MAUs;^{vi} and electric vehicle (EV) maker NIO (NIO.NYSE), makers of the "world's fastest EV," the high-performance EP9 electric sports car.^{vii}



13 IPOs in 2018 Benefited from Duff & Phelps' Valuation Expertise

The table below lists all 13 companies who benefited from Duff & Phelps' assistance and expertise.

Company Name	Stock Code	Listing Date	Industry
ASIAINFO TECHNOLOGIES LIMITED. (亞信科技控股有限公司)	1675.HK	19 Dec 2018	Software
TENCENT MUSIC ENTERTAINMENT GROUP (騰訊音樂娛樂集團)	TME.NYSE	12 Dec 2018	Entertainment
YANCOAL AUSTRALIA LTD (兗煤澳大利亞有限公司)	3668.HK	6 Dec 2018	Oil, Gas and Consumable Fuels
TUANCHE LIMITED (團車有限公司)	TC. NASDAQ	20 Nov 2018	Media
CHINA RENAISSANCE HOLDINGS LTD. (華興資本控股有限公司)	1911.HK	27 Sep 2018	Capital Markets
NIO Inc. (上海蔚来汽车有限公司)	NIO.NYSE	14 Sep 2018	Automobiles
BEIGENE, LTD. - B (百濟神州有限公司 - B)	6160.HK	8 Aug 2018	Biotechnology
ASCLETIS PHARMA INC. - B (歌禮製藥有限公司 - B)	1672.HK	1 Aug 2018	Pharmaceuticals
E-HOUSE (CHINA) ENTERPRISE HOLDINGS LTD. (易居(中國)企業控股有限公司)	2048.HK	20 Jul 2018	Real Estate Management and Development
XIAOMI CORPORATION - W (小米集團 - W)	1810.HK	9 Jul 2018	Technology Hardware, Storage and Peripherals
PUXIN LTD. (朴新有限公司)	NEW.NYSE	15 Jun 2018	Diversified Consumer Services
HUYA INC. (虎牙信息科技有限公司)	HUYA.NYSE	11 May 2018	Entertainment
SUNLANDS ONLINE EDUCATION GROUP (北京尚德在線教育科技)	STG.NYSE	23 Mar 2018	Diversified Consumer Services

i. EY global IPO trends: Q4 2018 <https://www.ey.com/Publication/vwLUAssets/ey-global-ipo-trends-report-q4-2018/%24FILE/ey-global-ipo-trends-report-q4-2018.pdf>

ii. Hong Kong's Listing Regime Enters New Era, Featuring Emerging and Innovative Firms (2018, April 24). Hong Kong Exchanges and Clearing Limited. Retrieved January 16, 2019, from https://www.hkex.com.hk/News/News-Release/2018/180424news?sc_lang=en

iii. HKEX To Offer Investors More Options when Xiaomi Shares Debut (2018, July 4). Hong Kong Exchanges and Clearing Limited. Retrieved January 16, 2019, from https://www.hkex.com.hk/News/News-Release/2018/180704news?sc_lang=en

iv. Wu, Patrick et al (2018, August 9). HKEX Goes High (Bio) Tech with Ascletris IPO. Duff & Phelps. Retrieved January 16, 2019, from <https://www.duffandphelps.com/about-us/news/hkex-goes-high-bio-tech-with-ascletis-ipo>

v. Liao, R. (2018, July 24). How Tencent's empire is making music pay. TechNode. Retrieved December 15, 2018, from <https://technode.com/2017/09/07/tencent-music-kingdom/>

vi. Spotify Technology S.A. Announces Financial Results for First Quarter 2018. (2018, May 2). Spotify. Retrieved December 14, 2018, from <https://investors.spotify.com/financials/press-release-details/2018/Spotify-Technology-SA-Announces-Financial-Results-for-First-Quarter-2018/default.aspx>

vii. Wu, Patrick et al (2018, September 19). NIO IPO Brings China's Electric Vehicle Technology to the World Stage. Duff & Phelps. Retrieved January 16, 2019, from <https://www.duffandphelps.com/about-us/news/nio-ipo-brings-china-electric-vehicle-technology-to-the-world-stage>

SFC Issues Circular to Managers of SFC-authorized Funds Relating to Fair Valuation of Fund Assets

On 17 December 2018, the Hong Kong Securities and Futures Commission (SFC) issued a Circular aimed at management companies handling SFC-authorized funds to provide guidance on valuation policies and procedures when the assets' market value becomes difficult to determine due to market events.ⁱ

For situations where an asset's market value cannot be reliably determined, or when the most recent price is not consistent with one that would be received on the asset's current sale, the manager is called upon to "value the asset at a price which reflects a fair and reasonable price for that asset in the prevailing circumstances (the fair value price/fair value adjustment)."

To that end, policy and procedure must be established "in relation to the use of the fair value price for valuing assets of a fund," taking into account:

- Circumstances which may give rise to the use of the fair value price;
- Considerations and factors determining how fair value adjustment should be made;
- Processes for documenting events triggering the use of fair value price; and
- Governance structure and review process for fair value adjustment.

The Circular allows for suspension of dealings, although managers are encouraged to "carefully consider" that when a fund has not suspended redemptions of units in the fund under market stress scenarios, high priority must be set on "the fair valuation of the fund's assets."

The Circular reminds managers of their duty to the funds under their control, to ensure that "all assets of a fund are fairly and accurately valued in good faith and in best interests of investors" and that any investors "should be treated fairly."

The Circular also encourages managers to practice full and honest disclosure, calling on them to "establish comprehensive, documented policies and procedures to govern the valuation of assets of a fund" and ensure that the fund's valuation policies and procedures (and any changes as such) "should be appropriately disclosed to investors in the fund's offering documents."

The 17 December version of the Circular supersedes an earlier one issued on 20 July 2015.ⁱⁱ The recent update only adds a reference to a 2016 circularⁱⁱⁱ updating standards on liquidity risk management.

i. Circular to Management Companies and Trustees/Custodians of SFC-authorized Funds - Relating to Fair Valuation of Fund Assets. (2018, December 17). Securities and Futures Commission. Retrieved January 16, 2019, from <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=18EC92>

ii. Circular to Management Companies and Trustees/Custodians of SFC-authorized Funds - Relating to Fair Valuation of Fund Assets (2015, July 20). Securities and Futures Commission. Retrieved January 16, 2019, from <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=15EC41>

iii. Circular to management companies of SFC-authorized funds on liquidity risk management (2016, July 4). Securities and Futures Commission. Retrieved January 16, 2019, from <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=16EC29>



HKEX Explains IFRS 16-Compliant Lease Transactions Involving Variable Lease Payments

A new set of Frequently Asked Questions (FAQs) issued by Hong Kong Exchanges and Clearing Limited (HKEX)ⁱ aims to clarify application of notifiable and connected transaction rules governing lease transactions entered into by listed issuers adopting Hong Kong Financial Reporting Standard/International Financial Reporting Standard 16 Leases (HKFRS/IFRS 16).ⁱⁱ

HKEX regularly issues FAQs for issuers' reference to help them "understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable."ⁱⁱⁱ

This specific FAQ aims to clarify situations where lease payments include both a fixed dollar amount and a variable amount determined as a percentage of the issuer's annual sales generated from the leased properties (variable lease payments). This is common in situations such as the lease of retail outlets.

HKFRS/IFRS 16 rules specify that an issuer will recognize a right-of-use asset with fixed lease payments taken into account. However, actual variable lease payments linked to sales will be recognized as expenses in the issuer's profit-or-loss accounts within the periods in which they are incurred.

Under notifiable transaction rules (when the lessee is a listed issuer and lease payments include both fixed lease payments and variable lease payments linked to sales), the issuer's recognition of a right-of-use asset in relation to the fixed lease payments will be regarded as an acquisition of asset under the definition of a "transaction" in Main Board Rule 14.04(1)(a).^{iv}

Variable lease payments linked to sales will be considered revenue in nature, thus not subject to the notifiable transaction rules.

Under connected transaction rules (when the lessor is a connected person, or if lease payments include both fixed lease payments and variable lease payments linked to sales), the issuer must compute two sets of percentage ratios, depending on:

- Fixed-lease payments qualifying as a one-off connected acquisition, or
- Variable lease payments linked to sales qualifying as continuing connected transaction

The lease will be classified under Chapter 14A of the Main Board Listing Rules by reference to the largest percentage ratio.

For leases with both fixed lease payments and variable lease payments linked to sales, the issuer must compute two sets of percentage ratios for continuing connected transactions, with different annual caps and percentage ratios depending on whether the leases under the framework agreement are fixed or variable linked to sales.

- For more details, download the FAQ from the HKEX website.

i. FAQs on Notifiable and Connected Transaction Rules relating to Lease Transactions of Listed Issuers adopting HKFRS/IFRS 16 "Leases" (or similar accounting standards in other jurisdictions). (2018, September 28). Hong Kong Exchanges and Clearing Limited. Retrieved January 17, 2019, from http://en-rules.hkex.com.hk/net_file_store/new_rulebooks/f/a/FAQ_045-2018_to_052-2018.pdf

ii. Hong Kong Financial Reporting Standard 16 - Leases. (2016, May). Hong Kong Institute of Certified Public Accountants. Retrieved January 17, 2019, from http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumell/hkfrs16.pdf

iii. Listing Rules, Interpretation and Guidance - Frequently Asked Questions. (n.d.). Hong Kong Exchanges and Clearing Limited. Retrieved January 17, 2019, from http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=4529

iv. Chapter 14 Notifiable Transactions - Definitions 14.04 (n.d.). Hong Kong Exchanges and Clearing Limited. Retrieved January 17, 2019, from http://en-rules.hkex.com.hk/en/display/display.html?rbid=4476&element_id=2661

China Drafts New Foreign Investment Law, Invites Comment

On 26 December 2018, the Standing Committee of the National People's Congress of China released a new draft of the Foreign Investment Law ("the draft law") to invite public consultation.ⁱ

The new draft follows one previously issued by the Ministry of Commerce on 19 January 2015.ⁱⁱ Compared to the previous version, the 2018 draft law is shorter (39 articles, compared to 170 for the 2015 draft),ⁱⁱⁱ but offers stronger protections for foreign-invested enterprises (FIEs), particularly in the realm of intellectual property (IP).

The draft law introduces and clarifies mechanisms for the "facilitation, protection and management of foreign investment,"^{iv} including:

Wider access to government policy-making and procurement. Under Chapter II, the government will consider foreign investors equal to domestic counterparts in the application of business development policy, compulsory standards and government procurement matters (Article 16).

In practice, this means that FIEs may bid for government procurement projects on the same level as local companies.

Ban on forced technology transfer. Chapter III of the draft law expands protections on assets and IP owned by international investors – an issue sorely felt by U.S. and European parties who worry about unfair trade practices implemented by Chinese competitors.^v

The draft law permits technology transfer between willing parties, to be decided based on fair business practices.

Forced technology transfers through administrative means will be prohibited outright (Article 22), and government agencies are not permitted to expropriate foreign investment, barring "special circumstances"; for the latter, "fair and reasonable compensation" will be paid (Article 20).^{vi}

Confirmation of the Negative List. Chapters IV and V oblige FIEs to follow the Negative List Regime for Foreign Investment.^{vii}

The most recent version of the Negative List greatly reduces market access restrictions for FIEs.^{viii} That said, FIEs may not invest in industries classified as "prohibited" in the Negative List, and must follow the rules when investing in industries classified as "restricted" (Article 27).

Provisions for national security review. The National Security Review provisions highlight another major difference between the 2015 and 2018 drafts of the Foreign Investment Law. In the previous draft, requirements and procedures for national security review took up a whole chapter – a concern that only takes up a single clause (Article 32) in the 2018 draft.

Beyond the draft law, Chinese authorities reserve the right to pass separate implementing regulations to complement existing legislation covering national security review.

One law replacing three. After its adoption, the Foreign Investment Law will serve as a unified national law replacing three existing ones governing foreign investment in China:^{ix} the 1979 Law on Chinese-Foreign Equity Joint Ventures,^x the 1986 Law on Foreign Capital Enterprises^{xi} and the 1988 Law on Chinese-Foreign Contractual Joint Ventures,^{xii} all of which will be repealed.

After the law takes effect, regulation of foreign investment will no longer be dependent on the form of the investment. Instead of distinguishing between investments undertaken by wholly-foreign-owned entities, foreign-invested equity joint ventures or contractual joint ventures, all FIEs will simply comply with the same requirements as Chinese companies, and follow the same laws overseeing corporate governance.

Companies incorporated under the previous laws must restructure themselves following the new Foreign Investment Law, within a given grace period.

The 2018 draft of the Foreign Investment Law is open to public consultation, and feedback will be received until 24 February 2019.

China Drafts New Foreign Investment Law, Invites Comment

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- iii. Foreign Investment Law of the People's Republic of China (Draft for Comments). (n.d.). US-China Business Council. Retrieved January 22, 2019, from https://www.uschina.org/sites/default/files/2015%20Draft%20Foreign%20Investment%20Law%20of%20the%20People%27s%20Republic%20of%20China_JonesDay_0.pdf
- iv. China consults public opinion on draft foreign investment law. (2018, December 27). The National People's Congress of the People's Republic of China. Retrieved January 22, 2019, from http://www.npc.gov.cn/englishnpc/news/Legislation/2018-12/27/content_2068862.htm
- v. Elmer, K. (2018, December 26). Will China's new forced technology transfer law satisfy US concerns? South China Morning Post. Retrieved January 22, 2019, from <https://beta.scmp.com/news/china/diplomacy/article/2179556/will-chinas-new-forced-technology-transfer-law-satisfy-us>
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- viii. Wong, D. (2018, August 21). How to Read China's 2018 Negative List. China Briefing News. Retrieved January 22, 2019, from <https://www.china-briefing.com/news/how-to-read-chinas-2018-negative-list/>
- ix. China Focus: China mulls unified foreign investment law. (2018, December 23). Xinhua News. Retrieved January 22, 2019, from http://www.xinhuanet.com/english/2018-12/23/c_137693889.htm
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- xi. Law of the People's Republic of China on Foreign-Capital Enterprises. (2000, November 7). Ministry of Commerce, People's Republic of China. Retrieved January 22, 2019, from <http://english.mofcom.gov.cn/article/policyrelease/Businessregulations/201303/20130300045800.shtml>
- xii. Law on Sino-foreign Cooperative Joint Ventures. (2003, January 27). Ministry of Commerce, People's Republic of China. Retrieved January 22, 2019, from <http://english.mofcom.gov.cn/article/lawsdata/chineselaw/200301/20030100065891.shtml>



CSRC Guidance Strengthens Rules Determining Stock Trading Suspensions

On 6 November 2018, the China Securities Regulatory Commission (CSRC) issued Announcement No. 34 [2018], “Guiding Opinions on Improving the Stock Trading Suspension and Resumption System for Listed Companies” (“the Guidance”) (《关于完善上市公司股票停复牌制度的指导意见》)ⁱ to address unscheduled share trade halts and prolonged suspension periods by companies listed on the Shanghai and Shenzhen Stock Exchanges.

Existing rules permit companies to suspend trading for as long as three months.ⁱⁱ This caused problems in the past: some 1,430 of 2,800 companies trading on China exchanges suspended trading during the crash of 2015,ⁱⁱⁱ angering international investors. Morgan Stanley Capital International (MSCI) warned that China-listed A-shares would be dropped from its Emerging Markets Index for suspending trading for longer than 50 days.^{iv} The Guidance covers four general areas of interest:

1. **Listed companies retain the right to suspend and resume trading** to maximally protect trading opportunities. Companies must fully disclose the reason for suspending trading; they may not suspend arbitrarily in chaotic market situations, or to skirt confidentiality obligations.
 - Listed companies must operate on the following assumptions: “no suspension as a principle, suspension as the exception;” “short-term suspension as a principle, long-term suspension as the exception;” and “intermittent suspension as a principle, continuous suspension as the exception.”^v
2. **Suspension periods must be reduced**, to enhance market liquidity; not even major asset reorganizations should be a reason for extending them. The CSRC mergers and acquisitions committee may compel suspension and force resumption of trading.
3. **Information disclosure requirements must be upgraded and enforced**. Listed companies will be strictly required to meet information disclosure obligations during key stages of the suspension and resumption process.
4. **Stock exchanges must review and upgrade** existing stock suspension and resumption rules to align with the Guidance.

Both Shanghai and Shenzhen Stock Exchanges have issued responses to the Guidance. The Shanghai bourse proclaimed their readiness to “strictly regulate and investigate the abuse of trading suspension, the delay in trading resumption and other cases,”^{vi} while the Shenzhen exchange announced that it was seeking feedback from stakeholders to “further improve the Trading Suspension/Resumption Guidelines to deepen the reform of information disclosure system, perfect the fundamental system for market operation and protect investors’ legitimate rights and interests.”^{vii}

A-share companies listed in either Shenzhen or Shanghai may use the Guidance recommendations as a benchmark for evaluating their own internal compliance guidelines. Future trading suspensions should be approached with care, and full disclosure of information should be exercised in the event of an unavoidable suspension of trading.

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- v. 证监会发布《关于完善上市公司股票停复牌制度的指导意见》. (2018, November 6). China Securities Regulatory Commission. Retrieved January 17, 2019, from http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201811/t20181106_346304.html
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Three Surprising Trends from Transaction Trail 2018

Duff & Phelps Singapore recently released its latest Transaction Trail 2018, covering transaction and capital markets activities in Singapore, Malaysia and Indonesia from 1 December 2017 to 30 November 2018. The data in the 34-page volume covers “certain dynamic shifts in the transaction landscapes” that underscore cyclical nature of regional changes, according to Srividya C. Gopalakrishnan, Managing Director of Duff & Phelps Singapore.

“The appetite for outbound transactions as well as the number of mega deals continues to grow,” notes Ms. Gopalakrishnan. “On the other hand, the sectors driving M&A have shifted from traditional sectors to more new economy sectors and now slowly trending back to traditional sectors.”

Three trends tracked by the new Transaction Trail mark key changes in Greater China:

Slightly higher global M&A deal activity. The Transaction Trail records a total of 39,651 transactions in 2018, representing aggregate deal value of US\$3.472 trillion. M&A activity in the Asia Pacific accounted for 23 percent of the global total – a decrease from 29 percent in 2017.

All told, global M&A deal activity edged higher in 2018 in terms of deal value but witnessed a drop in the number of M&A transactions compared with 2017.

Decline in China M&A deal value and volume. 2018 marked a slight decline for M&A in greater China. Deal value declined by 21% to US\$506 billion, and deal volume declined by 11% to 5,140 deals. This decline may be ascribed to two different trends: the continuing impact of regulations curbing capital outflows from China and increased global scrutiny on outbound M&A from China.

In terms of deal volume, consumer, non-cyclical and industrial sectors led the China M&A market. Among China’s top 10 M&A deals in 2018, the consumer non-cyclical sector was represented by Yunnan Baiyao Group’s acquisition of its own holding company in a deal worth US\$7.3 billion.ⁱ

However, in terms of overall deal value, the financial sector dominated China’s M&A activity through 2018. The number one deal in terms of overall value was Temasek Holdings’ US\$14 billion acquisition of Ant Financial Services.ⁱⁱ

Hong Kong: New Economy IPO destination. The “New Economy” – a term that covers tech-driven sectors like internet and biotechnology – was a major player in the Hong Kong Stock Exchange in 2018, thanks to new Main Board rules that took effect on 30 April 2018.ⁱⁱⁱ The rule revisions broadened Hong Kong’s listing regime:

- Permitting listings of biotech companies that fell short of the Main Board’s financial eligibility tests;^{iv}
- Permitting listings of companies with Weighted Voting Right or DCS structures^v; and
- Establishing a new concessionary secondary listing route for companies aiming for a secondary listing in Hong Kong

As a result, Hong Kong may have topped the global IPO rankings for 2018, with new listings that included new economy debuts like Xiaomi’s IPO raising US\$5.4 billion at US\$ 48.5 billion valuation; and e-commerce giant Meituan Dianping’s IPO raising US\$4.2 billion at a US\$ 41.8 billion valuation.

Biotech IPOs in Hong Kong represented key firsts, including Ascletris Pharma becoming the first biotech IPO on HKEX in July 2018, and Innovent Biologics’ IPO raising US\$484.9 million at a US\$2.1 billion valuation – the largest biotech IPO on HKEX, bar none.

Duff & Phelps Singapore’s Transaction Trail 2018 marks its seventh year of tracking transactions in the region.

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