Going public is both **exciting** and **challenging**. It is a significant milestone in any company’s development.

To help your business succeed, you need experienced advisors.

KPMG professionals strive to deliver valuable and insightful advice that cuts through the complexity of the Initial Public Offering (IPO) process.

KPMG China is experienced in helping companies list not only in Hong Kong, Shanghai and Shenzhen, but also in markets such as London, New York, Singapore and Tokyo.

We can bring you the benefit of our knowledge and experience gained from working on a broad spectrum of listings, from small and medium size companies right through to some of the largest and most complex listings to date.
Is an IPO the best way forward?

For the founders of a business, listing can be a big step in realising and leveraging the wealth accumulated in the enterprise. For rapidly expanding companies it can be a source of new capital for further growth, while for private equity investors it can be a preferred exit strategy.

Once you have determined that an IPO is the preferred course, you need to understand what you are letting yourself in for. It is easy to underestimate the complexity of the process, the resources it will absorb, the rigour of due diligence, the commitment required of chairman of the board, CEO/managing director, CFO/finance director, company secretary and in-house lawyer, and the time it will take. Many newly floated companies have misjudged these factors, unnecessarily complicating their IPOs.

### Benefits of a listing

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Access new funding</strong></td>
<td>Access new sources of long-term capital that can be reinvested into the business</td>
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<tr>
<td><strong>Deliver value to existing shareholders</strong></td>
<td>By listing the company’s equity on the public market, existing shareholders are able to monetise their investment and create a viable exit strategy</td>
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<td><strong>Build market awareness</strong></td>
<td>Build reputation and visibility in local and foreign markets.</td>
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<tr>
<td><strong>Strengthen image</strong></td>
<td>Raise the company’s profile and image in the eyes of the public and business partners</td>
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<tr>
<td><strong>Incentivise employees</strong></td>
<td>Give a powerful incentive to employees with corporate stock options</td>
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<tr>
<td><strong>Retain talent</strong></td>
<td>Increase your people’s sense of belonging and retain talent</td>
</tr>
<tr>
<td><strong>Broaden the governance structure</strong></td>
<td>Provide a strong catalyst and proven framework to expand and re-energise the governance structure.</td>
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Cutting through the complexity of the IPO process: Things to consider at the outset

- **Never underestimate** the workload

- Share the burden **early** before the complexity makes this difficult

- Avoid solutions that are too ‘**smart**’

- Find **time to reflect** on the multitude of decisions being made

- Never allow your advisors to push you to timelines you are uncomfortable with – say **No**

- Engage **great** investor relations and corporate PR early in the process to build your market profile.
Listing brings new responsibilities and obligations, so allow yourself time to do your homework before taking the IPO path.

The ingredients in a successful listing include attractive business prospects, a sustained track record, favourable market sentiment, an appropriate capital structure and a well-presented prospectus.

Bringing these things together requires the support of knowledgeable and experienced management, sponsors, reporting accountants, underwriters, professional valuers, and legal and public relations advisors.

Crucially, companies need to devote the necessary time to the IPO process while continuing to serve their core business.

Consider the commitment required by your key people, namely:

- the chairman of the board
- CEO/managing director
- CFO/finance director
- company secretary
- and in-house lawyer.

Careful planning and the disciplined allocation of resources will help to prevent delays, especially towards the closing stages of the process, which are the most demanding.
It is vital to enlist the help of appropriate external advisors from the outset, including investment bankers/brokers, lawyers and independent accounting advisors.

Preparation and verification of the prospectus, due diligence and marketing are some of the most challenging processes. Regulators are becoming increasingly vigilant about mistakes or inconsistencies in filings and prospectus paperwork, which can cause delays and have a knock-on effect on investor confidence.

Experienced IPO partners can often help their clients achieve a higher valuation by leveraging their experience and contacts to remove misconceptions and prepare their client for the rigours of the IPO process.

“Get the right advisors. Don’t rely solely on management. Plan strategy clearly.”
– Recently listed company

The partner test: Key considerations for selecting your IPO partners and advisors

Do they have the right experience and reach?
- Have they helped similar companies conduct a successful IPO?
- Do they understand how they fit into the full IPO process?
- Do they have a significant presence in the locations where you are listing?
- Do they have a track record or reputation on the market on which you are listing?

Do they have the right culture?
- Are they collaborative in their approach?
- Do they share ideas and opportunities that might arise in the process?
- Can they provide a professional and high-quality service?

Are they focused on what is best for your company?
- Do they explore alternatives to ensure you are approaching each challenge in the best way?
- Are they focused on helping you understand the process?
- Can they provide the best team to meet your company’s unique needs?
Preparing for an IPO

In recent years, companies have become more realistic in setting effective timetables for listing.

However, there can be pressure to set an aggressive schedule. Often delays can be caused by factors that feel frustratingly beyond management’s control.

Setting and maintaining a sustainable pace is critical to IPO success. Key timing considerations include the following:

Is your company up to public market standards?
- What is the scale of change that must be accomplished?
- What resources are available to achieve your pre-IPO plan?
- Do you have a strong history of financial reports?

Is the economic environment right for an IPO?
- Is there liquidity in the equity markets?
- How have investors treated your competitors’ stocks over the past 12-18 months?
- Is the market on an upward or downward trajectory?

How long will the formal IPO process take?
- Are you listing on a single or multiple markets?
- How experienced are your IPO advisors and suppliers?
- Can your executives devote proper attention to fulfilling the process?

“"It will be more time-consuming than you might imagine."”
– Company Director
Preparing for an IPO

Whatever the motivating factors behind an IPO, listing a business on the stock exchange involves a lot more than appointing advisors and taking the business in its current state to market.

Many companies have to review their financial, legal or business processes and structures to prepare the business for the post-IPO world.

An IPO process has its positives. Even if the listing does not proceed, the time, money and resources devoted to the exercise will not be wasted. You will know a lot more about your business, its strengths and weaknesses, its real profitability (or lack thereof) and its opportunities for growth. The knowledge gained can be used to prepare the company for listing at a more favourable time in the future.

Getting value from the process

Accept that the process is complex and that it is important to have sufficient resources and advisors to undertake the exercise effectively and efficiently.

– Recently listed company

An IPO fitness test

| Will we attract investors? | • Can we prepare an attractive equity story with supporting evidence? |
| • Do we have clear and credible growth opportunities? |
| • Do we have well-defined Key Performance Indicators? |
| • Is there an appropriate tax structure? |
| Will we meet the requirements? | • Are we ready for the challenges of the due diligence process? |
| • Do we have a robust, standalone financial track record produced under IFRS or equivalent standards? |
| Can we produce high-quality and timely financial information? | • Are we able to comply with the rules for ongoing disclosure and transparency? |
| • Can we produce accurate and comprehensive information for the board? |
| • Are we ready for the additional scrutiny from a new set of stakeholders? |
| How do we measure up on corporate governance? | • Can we establish an appropriate board structure? |
| • Do we have robust systems and internal controls? |
| • Are our risk management processes sufficient? |
| • Have we thought about corporate social responsibility? |
| • Are staff remuneration and performance aligned? |
| • Is there clear and timely communication with stakeholders? |
Once listed, there are more stringent rules on regular reporting and other regulatory compliance requirements.

Good corporate governance is crucial to a listed company meeting its stakeholders' interests.

Greater expectations and tighter scrutiny will require lots of behavioural changes following listing. Companies should list for the right reasons and learn what life will be like as a listed entity. Plan for this new world, and remember that an IPO is a step, not a solution.

Board focus areas
The board concentrates its efforts in driving value as it is perceived by a wide variety of stakeholders, within the context of its industry, capital markets, culture, and regulatory environments. Board members concentrate their efforts in varying degrees on these focus areas in accordance with the type and level of stakeholder expectations (fundamental, developed, or strategic) they face.

"Don’t think the IPO is an end in itself – when you go public you are dealing with the press and investors and will face more public scrutiny."
– Recently listed company

"Be sure you are prepared for the corporate governance requirements and the attention from the institutions and market people."
– Company Director

<table>
<thead>
<tr>
<th>Defining key roles</th>
<th>Stakeholder needs</th>
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<tbody>
<tr>
<td>Strategy</td>
<td>Shareholders</td>
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<tr>
<td>Corporate Culture</td>
<td>Employees</td>
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<tr>
<td>Monitoring and Evaluation</td>
<td>Customers</td>
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<tr>
<td>Stewardship</td>
<td>Supply Partners</td>
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<td></td>
<td>Regulators</td>
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<td></td>
<td>Community</td>
</tr>
</tbody>
</table>
1. **Set your destination**
   - know whether an IPO is the right choice for your company at this time

2. **Formulate your ‘equity story’**
   - a strong equity story highlights the past success and future growth potential of an IPO candidate and helps achieve a higher valuation

3. **Identify and select IPO advisors**
   - make sure they have extensive experience and a holistic perspective

4. **Choose the right exchange**
   - make sure you are listing on the most appropriate market for your company and strategy

5. **Conduct a pre-IPO readiness test**
   - find out what systems and processes must change before you can start the formal IPO process

6. **Develop a plan and timeline**
   - set a reasonable pace and consider bringing in experienced external support to augment your team and ensure business continuity

7. **Close the gap**
   - create and execute a plan that brings systems and processes in line with market requirements and norms

8. **Select your partners**
   - from lawyers to underwriters, these partners and advisors must be highly experienced with capital markets

9. **Create an Investor Relations function**
   - this will be your conduit to investors and analysts

10. **Prepare your financials**
    - you will need to go back three to four years to achieve the requirements for most markets

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"Have all your information as well prepared as possible – legal, accounting and technical. It makes the due diligence process much easier."

– Company Director
KPMG has a global network to facilitate your listing on stock exchanges in Hong Kong, Shenzhen, Shanghai and around the world.

KPMG is a global network of professional services firms providing audit, tax and advisory services. Our industry-focused professionals aim to deliver value for the benefit of their clients, their people and the capital markets. With nearly 138,000 people worldwide, KPMG member firms operate in 150 countries.

KPMG China
- Around 9,000 professionals in 13 offices
- Acted as the reporting accountants for a number of prestigious state-owned enterprises (SOEs) and privately owned enterprises.
- Single management structure for all our China offices allows flexible, effective and prompt allocation of our experienced professionals to serve our local and multinational clients, wherever they are located in China.
- First office established in mainland China in 1983, operating in Hong Kong since 1945.
KPMG can assist listing applicants and sponsors to meet a wide range of listing requirements.

Our range of services includes:

- Corporate governance, risk assessment and internal control reviews
- Regulatory compliance
- Tax advisory and structuring
- Pre-listing IT assessment and assistance with establishing IT governance
- Pre-listing readiness assessment of the operational, financial and management teams. For example, we advise our clients on establishing and improving their finance and treasury policies.
- Technical accounting support covering accounting treatments under International, US, Hong Kong and PRC reporting regimes.

KPMG’s experience means we can deliver valuable and insightful advice to help at every step of the IPO process, from pre-IPO readiness tests through to post-IPO strategies.
Capital Markets Group

Our Capital Markets Group provides a central resource for information and advice on all capital markets transactions involving the Hong Kong, mainland China and US stock exchanges, as well as other cross-border transactions involving regional and European markets.

Our partners are always happy to participate in meetings or telephone conferences with clients, regulators and financial intermediaries.
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