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## “THE REPORTS OF THE DEATH OF THE CHINESE STOCK MARKET HAVE BEEN GREATLY EXAGGERATED”

Discussions with Loo Choon Chiaw, Managing Partner of Loo & Partners LLP

**ALB:** Would you please share with us the current state of the capital markets in the region?

**LCC:** We are entering into the final month of 2015 and it is certainly an opportune moment to take stock of the capital markets in the region. Despite the uncertainty and adverse sentiments from January 2015 to date, the Asia Pacific region was still the leading region in terms of both deal number and proceeds raised via IPOs for 3Q2015, with \$57.8bn raised via 466 IPOs, which accounted for 52% of the IPOs worldwide, according to the latest quarterly EY Global IPO Trends: 2015 3Q. I believe that the region will continue to retain its leadership position in the global IPO market for 2015, as, to the best of my knowledge, there will not be any mega IPO in the remaining days of 2015. The top five exchanges by fund raised in the region are the Hong Kong Exchange (HKEx), Shanghai Stock Exchange, Shenzhen Stock Exchange, Stock Exchange of Thailand and Australian Stock Exchange with \$19.9bn, \$16.8bn, \$7.2bn, \$3.3bn and \$3.3bn, respectively up to 3Q2015. Notably, the number and size of the proceeds raised have declined in 2015 from 2014 on a year-on-year basis.

**ALB:** What were the factors which have adversely affected IPO activities in the region?

**LCC:** The decline of IPO activities has been caused primarily by the deepening market volatility stemming from economic growth concerns in China and the uncertainty surrounding an interest rate hike by the Federal Reserve, which adversely affected investor confidence and market sentiments.

**ALB:** What were the most active sectors in the IPO market so far this year?

**LCC:** The active sectors were those relating to industrial, technology, health care, materials and consumers products.

**ALB:** How did the ASEAN region fare in general?

**LCC:** The ASEAN IPO markets generally have declined in 2015 compared to last year.

**ALB:** Were there any special reasons for the decline?

**LCC:** The substantial appreciation of the US dollar against the local currencies

has resulted, in many cases, a significant correction of share prices. The substantial out flow of funds from the ASEAN economies further dampened investor sentiments and market confidence in the ASEAN region, which caused the investors to adopt a cautious approach to new IPOs.

**ALB:** How did Singapore Exchange (SGX) fare this year?

**LCC:** SGX did not do too well. Even if we were to include the upcoming listing of BHG Retail REIT on the Mainboard later this month, which intends to raise \$5394 million, there will only be 13 new listings on the SGX this year, with approximately \$5630 million raised, compared with 28 listings in the preceding year, which raised \$53.5bn in proceeds.

**ALB:** In comparison with the HKEx?

**LCC:** While the SGX lauds itself as the Asian gateway with over 37% of its total 773 listings, comprised international companies (of which approximately 123 listings are PRC based companies) according to the latest SGX Monthly Market Statistic October 2015, Hong Kong has always been, and still is, the natural gateway between China and the outside world due to political consideration. China has been most supportive of Hong Kong in view of the latter's status as a special administrative region, and Hong Kong's geographical proximity to the China hinterland. Despite China's stock market turmoil in July this year, Hong Kong still remains one of the world's largest venues for new listings and continue to prosper immensely from the H-share offerings launched by giant Chinese firms.

**ALB:** Did SGX introduce any measures to gain lost ground?

**LCC:** SGX has been pro-active. The newly appointed CEO, Loh Boon Chye, has pledged to improve the liquidity in the local stock market and to expand the existing market-maker and liquidity-provider programme to generate trading interest. Market makers are now providing buy and sell quotes continuously throughout the trading day, which makes trading shares easier. A more sophisticated and liquid market is essential for SGX to attract more IPOs both in terms of deal size and quality.

**ALB:** Some suggest that the Chinese stock market is dead citing the stock turmoil in mid-2015. Do you share the same view?

**LCC:** I do not think so. The stock market in China is very different from the matured markets. It is highly speculative. Retail investors behaved differently from the sophisticated institutional investors. Indeed, in China, companies have very small exposure to market fluctuations. It is estimated that only about 5.5% of private sector fundraising in China comes from the stock market itself. China's stock market does not reflect the country's economic health in the same way as the matured markets. Interestingly, China Securities Regulatory Commission (CSRC) has recently lifted its embargo on new stock market listings, following a freeze imposed in July 2015 during the dramatic fall in stock prices. This must be taken as an indication of the Chinese authorities' confidence that lessons have been well learnt by the investors from the recent stock turmoil. The resumption of the Chinese IPO markets may witness the listing of the first 28 companies, which had previously received approval, to list on the Shanghai or Shenzhen stock exchanges. Incidentally, there is a further crop of more than 600 companies in China awaiting the CSRC's final approval to list on stock exchanges. The China's stock market is very much alive. If I may paraphrase Mark Twain, "the reports of the death of the Chinese stock market have been greatly exaggerated".

**ALB:** As a specialist practitioner in this field, would you please share your advice to IPO aspirants to steer through the choppy waters given the challenging times in volatile market?

**LCC:** While investors are always on a look out for investment opportunities, IPO aspirants are competing for the investor's attention against other investment opportunities, such as M&As. To attract the investors' money, not only must an IPO aspirant show that it has an excellent financial track record to date, it must also impress the investors with the quality of its management team, in particular, the vision of its top management. When an IPO is launched, its success or otherwise will often depend on the level of commitment of the cornerstone investors, especially when the market confidence is weak.

**ALB:** Can you further elaborate on the role of cornerstone investors?

**LCC:** Cornerstone investors have become a common feature in most IPOs. The presence of the cornerstone investors not only provides more deal certainty,

it also signals a clear endorsement for the IPO, which will be helpful from the marketing perspective, especially when the cornerstone investors are household names. For instance, China Huarong Asset Management's IPO on HKEx has raised a total proceeds of \$2.3bn, of which approximately 70% of the share offerings were allotted to a diverse band of ten cornerstone investors including the State Grid. Closer to home and albeit at a much smaller scale, Jumbo Group recently made a strong listing debut on the Catalist despite the surrounding adverse business sentiments, with more than 8 times oversubscriptions. The presence of a Temasek-linked fund as a 6.2% cornerstone investor cannot be over-emphasised.

**ALB:** As 2015 will be ending soon, should we be excited about 2016?

**LCC:** The current consensus from the leading international financial institutions on the economic outlook in the region for 2016 appears to be moderate. For instance, the International Monetary Fund in October 2015 has forecasted a GDP growth rates of 5.4% and 6.3% for Asia and emerging Asia, respectively; the World Bank in June 2015 has forecasted a GDP growth rate of 6.7% in the East Asia and Pacific; and the Asian Development Bank in September 2015 has forecasted a GDP growth rate of 6% in Asia. As a born optimist cum legal practitioner looking at the half-filled glass of water, I am optimistic about the long-term opportunity available. For instance, Singapore, in the long run, will stand to benefit from improved trade and capital flows as well as the opening up of new markets as One Belt One Road (OBOR) (or 《一带一路》 in Chinese) gains traction. Apart from OBOR, business opportunities will flow from the upgrade of the China-Singapore Free Trade Agreement; and the "China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity", which is the third government-to-government (G-to-G) project between China and Singapore after the 1994 Suzhou Industrial Park and the 2008 Tianjin Eco-city.

**ALB:** Your clients are noted as being among the most loyal of all. How do you retain your loyal clientele in the face of intense competition from both international and local law firms?

**LCC:** We regard our clients as our 《衣食父母》, ie, those who cloth and feed us. This is the approach which I have adopted since I founded the firm. Since then, it has become a part of our corporate culture, which my colleagues and I practise on a daily basis. Once you place your clients in that position, the rest comes easy. You will

always subordinate your own interests to that of your clients. We constantly remind ourselves that we must provide value add to our clients. With that in mind, we do not just identify and crystallise legal issues for our clients' review. With each legal issue identified, we provide alternative solutions for our clients' consideration. We are not contented just being our clients' advisors, instead, we position ourselves as our clients' strategic partners in tackling their daily challenges. It has been heartening to note that the commercial utility and pragmatism of our advice and recommended solutions regularly provide our clients with more and better options, eg, in terms of the choice of the jurisdiction where they ought to domicile their special purpose vehicles for the relevant transaction, the choice of the governing law, and the mechanism and forum of settling disputes. Clients are perceptive and will readily see through whether one is genuinely placing clients' interests above one's. Judging from the increasing number of our loyal and quality clients, we must have been doing something right.

### WE ARE OUR CLIENTS' PARTNER

We regard ourselves as our clients' strategic partner when tackling their daily challenges. No stone shall be left unturned in our daily search for the most effective legal solution to meet the special needs of each of our clients.

### OUR MEMBERS ARE OUR ASSETS

In Loo & Partners, every individual (no matter what position he or she occupies) is a member of our team and an asset to the firm. We are constantly searching for persons with the requisite qualities to join our team.

### WE ARE A LOCAL FIRM WITH REGIONAL CAPABILITIES

We strive as follows:

- To be the best amongst our peers
- To attract and retain committed team members
- To enable each member to attain his or her full potential
- To be our clients' strategic partner in tackling their daily challenges
- To implement changes necessary to serve our clients better, increase efficiency and reduce costs
- To maintain a level of profitability that sustains funds further investments to enhance our overall capabilities and provides fair rewards to members



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