

Research on the Benefit Transmission in the Whole Listing of Private Placement – A Case Study of China Power Construction Corporation

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ABSTRACT

In 2006, "private placement" was officially recognized by China Securities Regulatory Commission. Private placement is favored by listed companies because of its low cost and simple operation, and has become the preferred way of equity refinancing. However, this way also provides a channel for the large shareholders to infringe on the interests of the small shareholders. Through theoretical analysis, this paper finds that due to the problems of asymmetric information and principal-agent, the large shareholders have great motivation to carry out interest transfer, and analyzes the means and ways of interest transmission. Based on this theoretical analysis, case analysis is carried out. Taking PowerChina as the research object, this paper analyzes the related party transactions, cash dividends and the value evaluation of the injected assets to explore whether there is the problem of interest transmission in the overall listing of private placement. If so, what are the means for the enterprise to carry out the benefit transfer, so as to provide supervision and Administration for the regulatory authorities Provide basis for improvement. According to the above behavior, we can draw the following enlightenment: relevant departments should strengthen supervision and enterprises should strengthen the evaluation of the quality of injected assets; small and medium-sized investors should invest rationally.

Keywords: private placement, overall listing, benefit transfer

1. INTRODUCTION

Private placement refers to the way in which an enterprise issues shares, which is non-public and is issued to specific objects. It originated in the United States, but developed later in China. In recent years, it has been favored by listed companies because of its low issuance cost and simple audit procedures. In 2006, China issued some relevant regulations to support the large-scale enterprises with outstanding performance to realize "overall listing" by issuing shares to their holding listed companies. Since then, the overall listing in the way of private placement has set off an upsurge in China. In recent years, the overall listing has become the focus of the securities market,

Although there are many advantages to realize the overall listing through private placement, there are still some problems in this way. On the one hand, due to the advantages of private placement as a whole, a large number of enterprises imitate, which will undoubtedly cause huge capital pressure on the capital market. On the other hand, in the process of

private placement, the new shareholders and old shareholders will redistribute the company's resources and equity, coupled with the existence of information asymmetry and other issues, it is likely that large shareholders will infringe on the interests of small and medium-sized shareholders.

2. THE THEORETICAL BASIS OF PRIVATE PLACEMENT, OVERALL LISTING AND BENEFIT TRANSFER

2.1. Private placement

Private placement is a unique statement in China, which is called "private placement" in foreign countries. As far as the issue of stocks is concerned, enterprises can do it publicly or privately. The private placement mentioned in this paper refers to a kind of financing method in which listed companies issue shares to their target enterprises in

a private way. In the "measures for the administration of securities issuance of listed companies", a relatively clear definition is given, that is, private placement mainly refers to the private issuance of shares by enterprises to the minority and specific shareholders who meet their conditions and requirements. It is stipulated that the objects of additional issuance of enterprises should not exceed 10 persons, and the issuing price should be higher than 2 before the benchmark date of stock pricing. Within 0 trading days, 90% of the average price of the company's shares. The shareholders shall not transfer their shares within one year.

2.2. Overall listing

Overall listing refers to a method in which some businesses and assets owned by the listed enterprises are listed after the overall restructuring in order to solve the problems left over by the split share structure. The overall listing of an enterprise can not only integrate the resources of the parent company and its subsidiaries, but also expand the scale of the enterprise. At the same time, it can reduce the related party transactions and further improve the operation status of the enterprise. On the one hand, due to the various defects and defects of spin off listing, on the other hand, due to the advantages of private placement, most enterprises choose the way of private placement to realize the overall listing of enterprises.

2.3. Benefit transfer

Interest transfer, which was defined by Simon and other scholars at the beginning, mainly refers to the shareholders with controlling rights transferring assets to themselves through some methods. It can also be interpreted as the shareholders with controlling rights turn the profits and resources of listed companies into their own assets by using some means. To be exact, interest transfer is a neutral word, which has two meanings: input and output. Input means that when a listed company is facing difficulties, its major shareholders put their own resources and assets to help the company tide over the difficulties. So input is also called support. The meaning of output and input is opposite, which means that the shareholders with controlling rights change the resources owned by listed companies into their own in order to obtain the interests they want, and the result is that the interests of small shareholders are damaged. Although the relevant departments have issued a lot of relevant laws and regulations to control the tunneling behavior of large shareholders, there are still many drawbacks and defects in the private placement system.

2.4. Overall listing of private placement

The combination of private placement and overall listing has many advantages. In the whole listing process of private placement, injecting high-quality assets into enterprises can

rapidly improve the business performance of enterprises in a short period of time; the relationship between the main issuing bodies is usually the relationship between the parent company and the subsidiary company, that is, the controlling shareholder of the subsidiary company issues its shares, small and medium-sized shares to the small and medium-sized shareholders of the specific listed parent company. Dong obtained the operating assets and shares of the controlling shareholder of the group company, and the main business of the enterprise was listed as a whole. However, this mode is only the overall listing of the main business of the enterprise, the legal personality of the listed company has not been cancelled, and the related party transactions may be carried out between the controlling shareholders of the group company and the brother companies, which may lead to the problem of interest transmission, which is the focus of this paper.

3. CASE ANALYSIS OF CHINA POWER CONSTRUCTION CORPORATION

3.1. Brief introduction of China Power Construction Corporation

China Power Construction Group Co., Ltd. (hereinafter referred to as "PowerChina") was formally established in September 2011 with the approval of the State Council. After its establishment, the company was listed on the stock market with 9.6 billion shares, and the largest controlling shareholder, power construction group, held 64.97% of its shares. It is mainly engaged in the survey and design, consulting management, production research and development, logistics, import and export, real estate development and operation of domestic and foreign water and power and infrastructure projects, and is also responsible for the research and standard formulation of clean energy projects such as hydropower and solar energy.

3.2. Overall listing process of PowerChina

On May 12, 2014, the listed company PowerChina announced the suspension of trading and planned to implement the overall listing plan of private placement. PowerChina will issue shares to its controlling shareholder, PowerChina group, which will acquire shares of PowerChina by selling 100% of its eight design yard companies.

On September 30, 2014, PowerChina announced its overall listing plan: firstly, PowerChina will issue 4.04 billion shares (the price of each share is 3.63 yuan) to power construction group in a directional and non-public way, and undertake 2.5 billion yuan debt of power construction group. Secondly, the company privately raised 20 million preferred shares from the shareholders

who met the conditions. Through these two ways of issuing shares, the wind power survey and design and hydropower sector of the power construction group are injected into the listed company PowerChina, thus realizing the overall listing of the main industry of the enterprise. Moreover, on this day, the "base date of pricing" is determined as the announcement date of the board's resolution.

On January 14, 2015, the state owned assets supervision and Administration Commission of the State Council approved the overall listing plan of private placement of PowerChina. On April 23 of the same year, after the examination and approval of the CSRC, the overall listing plan of PowerChina was approved, and the relevant plans in the plan began to be implemented from now on.

On May 26, 2015, PowerChina registered its equity and completed the change of its equity. Its total share capital changed from 9.6 billion shares to 13.75 billion shares. Since then, PowerChina has completed the overall listing of its main business assets.

Before the whole listing of this private placement, PowerChina Group owned 67.43% of the shares of PowerChina and had control over it. After the private placement, the shareholding ratio changed to 76.92%, which further consolidated the power construction group's holding position, which also provided opportunities for the controlling shareholders of PowerChina to conduct related party

transactions and benefit transmission. After the 8 design institutes of power construction group were injected into PowerChina, their main business expanded to survey and design. These 8 design institutes not only provided services for other companies under the power construction group, but also provided services for PowerChina. As a result, this provided a way for the interests of major shareholders.

3.3. Analysis on the value of assets injected by China Power Construction Corporation

The target enterprise of the private placement of power China is the subsidiary controlled by the same group company, that is, the private placement belongs to the asset acquisition under the same control, and the evaluation of the transaction asset value may lack of effective game. In this non-public offering, PowerChina purchased 100% of the shares of 8 design institutes, including Kunming Institute, Beijing Institute and Chengdu Design Institute, which are controlled by power construction group. The evaluation value of the underlying assets is shown in Table 1.

Table 1 valuation value and book value of subject assets

Appraised unit: 10000	Book value	Evaluation value	Value added rate (%)	Evaluation method
Advisory Group	159100	160432	0.84	Asset based approach
Chengdu Institute	156981	382286	1.44	Income approach
Beijing Institute	58646	70070	0.19	Income approach
Kunming Institute	201603	333514	0.56	Income approach
Northwest Institute	107434	144660	0.35	Income approach
East China Institute	96697	316795	2.28	Income approach
Central South Institute	138279	194249	0.41	Income approach
Guiyang Institute	60931	114578	0.88	Income approach
Total	979671	1716584	0.75	—

Data source: according to the announcement of power construction of China

It can be seen from Table 1 that during the whole listing process of private placement, the total value of the book value of the assets of the eight design institutes is 9796.71 million yuan, while the asset value assessed by income method is 17165.84 million yuan, and the value-added rate of assets evaluation reaches 75%. Using income method to evaluate assets can better reflect the future profitability of assets, but the future situation is mostly uncertain. In addition, the current asset appraisal industry in China is not mature, and the competition among evaluation institutions is relatively large.

Therefore, asset appraisers may evaluate according to the wishes of the enterprise, resulting in unreliable evaluation results. Therefore, in the process of delivering capital to China's listed companies, it is obvious that in the process of delivering capital to the listed companies, the value of the company's assets will be over estimated in the process of delivering capital to the listed companies.

4. ANALYSIS ON CASH DIVIDENDS OF POWER CONSTRUCTION CORPORATION OF CHINA

Dividend cash out is a common means for controlling shareholders to transfer benefits. After private placement, the shareholding ratio of the controlling shareholders to the listed

companies is usually increased, and the dividends are distributed according to the shareholding ratio. As a result, the shares held by the major shareholders increase, and the cash they get will also increase. This paper selects the data from 2014 to 2016 to analyze the comparison between the shareholding ratio of the controlling shareholders and the cash dividend ratio after the completion of the IPO of PowerChina.

Table 2 cash dividends of major shareholders of PowerChina

particular year	Total cash dividends (10000 yuan)	Cash dividends of major shareholders (10000)	Shareholding ratio of major shareholders (%)
2014	96000	64700	67.43
2015	110000	84600	76.92
2016	123800	86000	69.51

Data source: according to the announcement of power construction of China

As can be seen from table 2, before the private placement, the shareholding ratio of power construction group in PowerChina was 67.43%, while after the private placement, the shareholding ratio became 76.92%. With the increase of shareholding ratio, the cash distribution of controlling shareholders also increased. In 2016, the shareholding ratio decreased and the cash dividend decreased, both of which changed in the same direction. By consulting the relevant announcements and annual reports of PowerChina, it can be seen that PowerChina has always had a great demand for funds. In fact, because of the increase in the shareholding ratio, the controlling shareholders do not keep the cash in the enterprise, but continue to pay dividends. This is just to lose the interests to itself. Obviously, the cash dividends are only for the enterprises to hold shares The shareholder carries on the interest transmission only.

than the controlling shareholders before and after the overall listing of PowerChina from 2014 to 2017. From table 3, it can be seen intuitively that in 2015, the total number of connected transactions of PowerChina was 15, an increase of 5 times compared with 2014, while in 2016, the total number of related party transactions reached 26. On the whole, the total number of related party transactions showed an increasing trend, and the related party transactions with other related parties other than the controlling shareholders remained basically unchanged. It can be concluded that the related party transactions between PowerChina and its controlling shareholders did not decrease after the overall listing, but increased. Related party transactions increase instead of decreasing, which is obviously inconsistent with the original intention of the whole listing of enterprises, and the situation is similar to that of Chinese ships. This has to be doubted by the large shareholders.

5. ANALYSIS OF RELATED PARTY TRANSACTIONS AND COMPETITION IN THE SAME INDUSTRY

This paper analyzes the number of related party transactions and the total number of transactions with related parties other

Table 3 number of related party transactions before and after the overall listing of PowerChina

particular year	2014	2015	2016	2017
Number of transactions with related parties other than controlling shareholders	4	2	4	0
Total number of related party transactions	10	15	26	17

Data source: according to the annual report of Power Construction Corporation of China

6. CONCLUSION

After the reform of non tradable shares, the overall listing of private placement has become a hot stream in China's refinancing market. More and more state-owned enterprises are listed as a whole through private placement. This paper studies the case of China Power Construction and draws the following enlightenment.

6.1. Strengthen the protection of minority shareholders

To strengthen the protection of the rights and interests of small and medium-sized investors, we should improve the corresponding protection mechanism. At the level of corporate governance, we can give them more rights, and then ensure that their reasonable ideas can be reflected. In addition, they should be allowed to participate in the voting on the scheme of private placement. In the process of decision-making, cumulative voting can be adopted. In this way, because the power of small and medium-sized investors is dispersed, the problem of interest conflict between large and small shareholders can be alleviated from the root.

6.2. Strengthen the quality evaluation of injected assets

Due to the lack of independence of relevant assets appraisal institutions, shareholders with controlling rights can manipulate the value of assets injected. Therefore, the relevant regulatory authorities need to impose necessary restrictions on the types and quality of the injected assets, and can provide a more fair method for asset evaluation. In the process of asset valuation, the comprehensive capacity of the injected assets should be considered and included in the pricing system.

6.3. Strengthen the supervision of major related party transactions

For those companies that want to carry out private placement in order to complete the overall listing of the main business of the enterprise, they are required to disclose the relevant information of the assets to be injected according to some provisions of the public offering. It is necessary to prevent the listed companies from overstating the value of the listed companies by means of long-term supervision and supervision.

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