

A Research on the Motives and Economic Consequences of the Executives' Subscription in the Private Placement

—A Case Study of Zhejiang Hangxiao Steel Structure Co. Ltd.

Xiao Wei

Management School, Jinan University, Guangzhou, China
Email: 1623251658@qq.com

Received 29 April 2016; accepted 21 June 2016; published 24 June 2016

Copyright © 2016 by author and Scientific Research Publishing Inc.
This work is licensed under the Creative Commons Attribution International License (CC BY).
<http://creativecommons.org/licenses/by/4.0/>



Open Access

Abstract

Nowadays, more and more executives and controlling shareholders of the listed companies inject funds through private placement, and what is the motivation? In different market quotation, did enterprises have existed market timing in the private placement, did shareholders have tunneled their way to send interest to themselves from the listed company through market timing? And what are the factors that affect the proportion of senior executives' subscription? In this paper, based on the case of the directional private placement to senior executives of Zhejiang Hangxiao Steel Structure Co. Ltd. (shorted for "HXSS"), we have studied the motivation of directional private placement to senior executives, and we have further analyzed market timing and the market reaction after the private offering.

Keywords

Private Placement, Subscription of Senior Executives, Market Timing, Harvard Financial Analysis Framework, Zhejiang Hangxiao Steel Structure Co. Ltd. ("HXSS")

1. Introduction

The private equity placement as a model of SEO is favored by the issuer due to lax regulation, special object, less restrictions on size and profitability and other advantages. On the other hand, no matter in any environment there is more significant income through the issuance of private equity placement, which is also an important reason that the private placement will be sought after by the capital markets.

And the phenomenon which executives and staff participate in the subscription shares of private equity placement occurs frequently. And what is the motivation for the listing corporation executives to subscribe to the seasoned equity offerings? There are three main and essential reasons about it. Firstly, it is from the industrial point of view to invest, executives continue to be full confident about the future development of the company by increasing the proportion of shareholdings. Secondly, executives subscribe the seasoned equity offering in hope that stock appreciation to achieve wealth effect, it's actually a kind of equity incentives in disguised form. Thirdly, executives are only a small amount of participation, through this approach to guide market funds to participate, but it does not mean that executives have confidence in the project. Thus, it requires considering all of these factors such as a combination of company characteristics, the issuer's fundamentals, intended use of proceeds and executive shareholding proportion, in order to judge the intention of executives' subscription of seasoned equity offerings and the prospects for long-run performance of the company and project.

The contribution of this paper is to develop a new perspective on the study of private equity placement, and there is less literature explaining the motivation and market timing for the private placement. Currently, international and domestic scholars summarize the motivation of the private placement from the view of information asymmetry and risk. Hertzels & Smith (1993) proposed the adverse selection hypothesis based on further study. It is believed that the private placement investors have the ability to learn the true value of the company and get a discount through the issuance of the subscription [1]. Chemmanur & Fulghiri (1999) found that the enterprise with a higher degree of information asymmetry when taking into account the financing costs tended to choose the means of private placement, but no evidence showed that the higher degree of information asymmetry of the listed companies the more motivation in private placement [2]. Zhong Xia (2011) study that the factor of scale of private placement of listed companies' financing motive has a significant effect, the smaller the size of the company using logistic regression analysis, the higher the degree of information asymmetry and the stronger motivation of placement financing; however, the characteristics of the industry and financial distress did not significantly effect on private placement of listed companies' motivation [3]. Renneboog *et al.* (2007) chose the UK stock market as the research background, and proved that the high risk would result in lower valuations of companies tending to choose private placement financing [4].

Most of the domestic and foreign scholars have studied the large shareholder's opportunistic behavior. Gomes and Phillips (2012) show asymmetric information plays a major role in the choice of security type within public and private markets and in the choice of market in which to issue securities. And they also find a large sensitivity of the choice of public versus private markets to asymmetric information, risk and market timing for debt, convertibles, and particularly, equity issues [5]. Normazia and Hassan (2013) find that regulation is inconsistent with prior reports in developed markets: this is explained by tighter restrictions on trading of private placement in emerging market [6].

Then, previous studies focus on the economic consequences of private placement. Differ from the foreign scholars' studies, domestic views on the effect of private placement announcement are not consistent. Cao Li hong and Xia Xinping (2009) find that positive announcement effect for the disclosure of the private placement and it's strongest on the announcement date. Offer characteristics can explain the effect and the announcement effect has little relation to investor identity [7]. In contrast, Zhang Weidong and Zhao Anqi (2012) found that shareholders get positive abnormal returns in the long-run for companies of private placement, which becomes particularly pronounced when the new shares are issued to the associated shareholders [8]. Zhang Ming and Guo Siyong (2009) found that major shareholders opportunistic incentive is an important factor to carry out private placement whether and how much to tunneling may depend on the discount and the percentage of private placement which purchases by the controlling shareholder [9].

The case analysis of Hangxiao private equity placement decisions attempts to explore how executives in different market conditions choose the timing of the decisions of private placement? Did executives by the decision to release the information for the future development of enterprises? Whether the market can interpret the information of enterprise development from the behavior of executives to participate in the private placement and subscription proportion and thus make an appropriate reaction?

2. Case Descriptions

2.1. The Basic Situation of HXSS

Hangxiao Steel Structure Co. Ltd. (shorted for "HXSS") was set up in 1985. With 30 years of efforts, it has de-

veloped and become the first steel structure listed company at home (stock code: 600477), and is on the list of the first steel structure designated enterprises of the Department of Housing and Construction, 500 private enterprises of the whole nation, the state torch plan key high-tech enterprises and the national housing industry base.

HXSS' product systems are mainly as follows: plant steel structure system, multi (ultra)-high-rise steel structure system, large-span space structure system such as pipes and truss, the steel structure housing system, green building materials (including TD, steel truss, steel truss template and connector, CCA wall components, flame-resistant beam and column system and other products) special steel structure system, new building materials system.

HXSS' thousands of model projects have covered more than 40 industries, and products are sold all over the world, including Germany, Iceland, India, Iran, Oman, Iraq, Angola, South Africa, Brazil, Venezuela, Argentina, Russia, Singapore, Malaysia and so on.

2.2. The Background and Basic Situation of HXSS' Subscription Behaviors of Executives

Since 2006, HXSS successfully issued the private placement shares twice, and both sets of private placement were subscribed total shares by executives. In June 2013, nine senior executives of the company including the chairman Shan Yinmu subscribed for 90 million shares at a price of 3.83 yuan per share, capital raised by this placing was RMB 3.447 billion, after deducting of placing expenses, the actual amount of capital raised was RMB 3.37 billion. According to the company's private placement announcement, HXSS planned to raise funds of 186.7 million yuan to repay bank loans, in order to reduce the company's financial pressure. In addition to the loan, the company also used the remaining 158 million yuan of funds, combined with the company owns 20 million yuan of funds, amounted to 178 million yuan, to invest in light steel structure housing system research and development and industrialization projects. HXSS said that after the completion of the project can drive the transformation and upgrading of housing industry, and combined with the construction process can effectively save buildings materials and energy consumption. And it can produce good social and economic effects, and would provide new profit and growth for the company, trying to find a new way to increase the profit of the company. **Table 1** shows that the process of HXSS' first private issuing of shares in 2013.

Specifically, 9 subscribers were associated with the company, and all of them were the company's executives or relatives. Particulars of the subscribers and subscribing situations are shown in **Table 2**. Shan Yinmu, the chairman of the board and the actual controller, purchased RMB 270 million to subscribing for 70 million shares, and share proportion increased from 37.42% to 43.98%. In the meantime, his son subscribed for 7.5million shares, and if the shares of him and his father were added, the share proportion would increase to 45%. While the other 7 executives' subscription amount is between 1 million to 3 million shares, and the period of trade restriction is 36 months. Notably, Shan Jihua, who never held shares in the company before offering, but after offering had replaced Chen Hui who once held 4 million shares and became the third largest shareholder.

In March 2015, the market was in bull market starting stage. Then HXSS choose to implement the second private issuing, **Table 3** shows that the process of HXSS' second private issuing of shares in 2015. The offering price would not lower than 90% of the average in the 20 trading days prior to the ex-date, *i.e.* not lower than RMB 5.93 per share. For HXSS implemented the plan of profit distribution and capitalizing of common reserves for year 2014 on May 29, 2015, the offering price was adjusted from not lower than RMB 5.93 per share to not lower than RMB 4.52 per share correspondingly.

Table 1. The processes of HXSS' first private issuing of A-shares matters in 2013

| Date | Events |
|--------------|--|
| 6 June 2013 | Plan for Private Issuing of A-Shares |
| 22 June 2013 | Resolutions of the Extraordinary Shareholders' General Meeting |
| 4 Jan 2014 | Public Notice on Passing the Examination of Issuance Examination Committee of CSRC |
| 12 Feb 2014 | Announcement on the Approval of the Company's Private Issuing of A-Stocks by CSRC |
| 2 Apr 2014 | Report on Private Offering of A- Shares and Announcement of Listing |

Table 2. Subscribing situations of HXSS' first private issuing of A-shares in 2013

| No. | Name of the subscriber | Relationship with HXSS | Shares subscribed (in 10 thousand shares) | Share proportion before offering | Share proportion after offering |
|-------|------------------------|--|---|----------------------------------|---------------------------------|
| 1 | Shan Yinmu | Actual controller, chairman | 7000 | 37.42% | 43.98% |
| 2 | Shan Jihua | The general manager of wholly owned subsidiary (Shan Yinmu's son) | 750 | -- | 1.36% |
| 3 | Zheng Hongmei | Zhang Zhenyong's spouse (Zhang is the general manager of subsidiary) | 300 | -- | 0.54% |
| 4 | Lu Yongjun | Vice-president, chairman of subsidiary | 300 | -- | 0.54% |
| 5 | Shou Linping | Former chief financial officer, deputy general manager of subsidiary | 200 | -- | 0.36% |
| 6 | Xu Ronggen | General manager of marketing management center and subsidiary | 150 | 0.43% | 0.63% |
| 7 | Liu Angui | General manager of subsidiary | 100 | -- | 0.18% |
| 8 | Liu Liangjun | General manager of subsidiary | 100 | -- | 0.18% |
| 9 | Yang Qiangyue | General manager of subsidiary | 100 | -- | 0.18% |
| Total | | | 9000 | -- | |

Table 3. The processes of HXSS' second private issuing of A-shares Matters in 2015

| Date | Events |
|-------------|--|
| 28 Mar 2015 | Plan for Private Issuing of A-shares |
| 18 Apr 2015 | Resolutions of the Extraordinary Shareholders' General Meeting |
| 1 Oct 2015 | Public Notice on Passing the Examination of Issuance Examination Committee of CSRC |
| 19 Nov 2015 | Announcement on the Approval of the Company's Private Issuing of A- Stocks by CSRC |
| 31 Dec 2015 | Report on Private Offering of A- Shares and Announcement of Listing |

Is the same with the first private placement, all of the subscribers were executives. Particulars of the subscribers and subscribing situations are shown in **Table 4**. Capital raised by this placing was RMB 3.047 billion, after deducting of placing expenses, the actual amount of capital raised was RMB 3.01 billion. And all the funds raised were used to repay bank loans. The company said that after repaying the loans by offerings, asset liability ratio decreased, and it contributes to cutting financial costs, reduce short-term debt service pressure and enhance the ability to resist risks.

3. Case Analysis

This chapter consists of three parts, including motivation analysis of private issuing to senior executives, study on the relationship between market timing and market quotation and the market reaction after the private placement. To judge the intention of executives' subscription of seasoned equity offerings required a combination of company characteristics, the issuer's fundamentals, intended use of proceeds and executive shareholding proportion, in order to judge the prospects for long-run performance of the company and project. What needs to be emphasized is the analysis of the growth latent of the listed companies is not just based on performance state in the past and historical data, however, it is more important to understand the industry, market and product direction, focusing on the future development of the enterprise. In other words, it is the process that can assess whether a corporation's performance will be poor to good, from good to better.

3.1. Analysis of Decision Making in Private Placement

We use the Harvard Analysis Framework to carry out qualitative and quantitative analysis about industry status

Table 4. Subscribing situations of HXSS' second private issuing of A-shares in 2015

| No. | Name of the subscriber | Relationship with HXSS | Shares subscribed (in 10 thousand shares) | Share proportion before offering | Share proportion after offering |
|-------|------------------------|--|---|----------------------------------|---------------------------------|
| 1 | Shan Yinmu | Actual controller, chairman | 3640 | 42.95% | 43.87% |
| 2 | Zhang Zhenyong | The general manager of subsidiary | 780 | -- | 1.03% |
| 3 | Xu Ronggen | Assistant president, general manager of strategic development center | 663 | 0.7% | 1.46% |
| 4 | Lu Yongjun | Vice-president, chairman of subsidiary | 650 | 0.64% | 1.39% |
| 5 | Shou Linping | Assistant president | 273 | -- | 0.58% |
| 6 | Guo Lixiang | Director and general manager of subsidiary | 254.8 | -- | 0.31% |
| 7 | Wang Aimin | Assistant president | 169 | -- | 0.21% |
| 8 | Yin Weize | General manager of subsidiary | 156 | -- | 0.19% |
| 9 | Liu Angui | General manager of subsidiary | 156 | 0.18% | 0.32% |
| Total | | | 6741.8 | | |

and development strategy, quality of accounting, financial statements and the prospects for development, in order to grasp the overall situation of the enterprise, so as to predict the future development of the enterprise.

Firstly, the strategic analysis includes three dimensions: the development of the industry, market status and company competitive strategy. Steel structure building may open up the industry boundaries and set into a new cycle of building industrialization system. However, the development of the steel structure in our country is still very backward. According to the Xinhua News Agency reported in the "12th Five-Year" period, the proportion of domestic steel structure steel production accounted for 5% to 6%. What's more, in residential buildings and small and medium span bridges, the proportion of steel structure is less than 1%. Thus, compared with the developed countries, the domestic steel market has a vast and infinite space. And the main advantage of HXSS lies in the local government support, independent innovation and advantages of the main business. On the one hand, local governments put forward to the strategy of strengthening the supporting force in finance and purchasing priority. On the other hand, HXSS has a huge R&D team and strong patented technology. The application of new technology and the development of mature product are the guarantee of the company's growth.

Secondly, in terms of the quality of assets, HXSS's asset liability ratio has been high since 2011, and at the end of 2013 as high as 80.73%. The main reason is that the production scale of the company maintained a high level, and affected by the factors which are a long period construction industry projects, a slow capital turnover, and a large quantity money demand, so that the company had to increase the use of financial leverage and liabilities to meet the needs of business expansion. In addition, through nearly five years of HXSS profitability analysis, profitability decreased and then increased. According to the company's annual report shows that in 2012 the company achieved operating income of RMB 3.042 billion, down 15.03% compared to the same period in 2011, net profit loss RMB 115 million, down 263.47%. The main reason for the loss of performance is affected by the market environment and the industry's gross profit margin, while the impact of the construction contract dispute, resulting in the provision for asset impairment of contingencies and predicted liability. At the same time, the company must bear annual huge financial costs, which further added to the financial burden and eroded the company's profits. **Table 5** shows financial analysis of HXSS from 2011 to 2015.

In conclusion, company raised funds to supplement working capital through private offerings that conducive to ease the pressure on the company's funds with the continued growth of accounts receivables, and protect the company's capital needs on the basis of continuing to promote the expansion of the scale of the company's business. And it also has a positive effect on reducing the size of the company's liabilities, cutting financial costs and improving profitability.

Finally, we carry out the prospective analysis and predict the future development of HXSS. Based on the above analysis, the industry of steel structure has a good market prospect. Although the proportion of steel structure construction in our country is still at a low level and the developed countries like European, American and Japanese occupy more than 50% market share of steel structure, the advantages of steel structure as a typical

Table 5. Financial analysis of HXSS from 2011 to 2015.

| Financial indicators | Year | | | | |
|---|--------|---------|--------|--------|--------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Current ratio | 1.03 | 1.02 | 1.03 | 1.14 | 1.25 |
| Quick ratio | 0.38 | 0.25 | 0.27 | 0.33 | 0.45 |
| Asset-liability ratio | 76.94 | 79.96 | 80.73 | 75.75 | 68.94 |
| Receivables turnover ratio | 6.58 | 5.98 | 7.52 | 5.48 | 3.95 |
| Inventory turnover ratio | 1.52 | 0.85 | 0.94 | 0.85 | 0.79 |
| Net profit margin | 2.50 | -3.47 | 1.69 | 1.9 | 3.87 |
| ROE | 8.47 | -14.38 | 5.82 | 6.04 | 8.52 |
| EPS | 0.15 | -0.25 | 0.1 | 0.11 | 0.17 |
| main business's increasing rate of income (%) | 3.38 | -15.03 | 30.5 | -1.03 | -3.72 |
| Growth rate of net profit (%) | -24.99 | -263.47 | 138.6 | 32.95 | 103.3 |
| Growth rate of net assets (%) | -29.98 | -289.43 | 136.42 | -10.64 | 99.16 |
| Growth rate of EPS (%) | -24 | -263.82 | 138.55 | 16.67 | 120.27 |

representative of the green building are concerned by more and more people, catering to the policy of green environmental protection, energy conservation and emission reduction and circular economy. Then, from the point of view of financial statement data, HXSS's performance in recent years has improved and will have a good prospect and investment value in the long-term development combining with the comprehensive consideration of business strategy, development planning, and future development of the industry.

3.2. Analysis of the Relationship between Market Timing and Market Quotation

Enterprise managers always tend to adopt the changes of the market quotation and the degree of information asymmetry affecting the investors' accurate judgment on the enterprise, accordingly, this paper will explore the market timing of senior executives' subscription offerings from the point of view on the difference between the benchmark price of issuance and the stock price.

HXSS announced the plan for HXSS' first private issuing of A-shares on 6 June 2013, and the stock price was still at historic lows. According to the company announcement and executives explain that a number of executive purposes to participate in the private placement can be summed up as confidence in enterprise development and optimistic about the future development of the industry. While the reaction of the secondary market unexpectedly, and it later settled the day down 5.21% and the closing price at RMB 4.37, respectively, once trading resumed. On June 24th 2013, the stock price has fallen sharply below the offering price of RMB 3.83 per share. After a period of ups and downs, until April 2nd 2014, HXSS's announced that 90 million shares of funds have been credited into account, and closed at RMB 3.80 per share, closing to the offering price. Then, on April 4th 2014, HXSS's closing price of 3.84 yuan per share, higher than the issuance price. Thereafter, on April 18th, 2014, HXSS posted the annual financial report and announced that company had made a profit instead of suffering a loss. **Figure 1** shows that the price's changes of HXSS from May 2013 to April 2014.

Then, we can find that the company's shares fell in the notice given by the day is also affected by the market and the industry as a whole. **Figure 2** shows the comparison of the cumulative return among HXSS, the architectural decoration industry and the market. Since the stock was in the suspension period from May 23rd to June 5th, and cumulative return rate was constant. However, after issuing the speed of HXSS's cumulative return rate declined faster than the industry and market, and the trend is particularly significant in the period after the company announced the resolution of private placement. Evidence shows that the first private issuing of A-shares matter didn't bring significant benefits, and media and outsiders doubt that HXSS may exist the suspicion of tunneling and until the annual report and correction posted the suspicion to be eliminated. Then the company

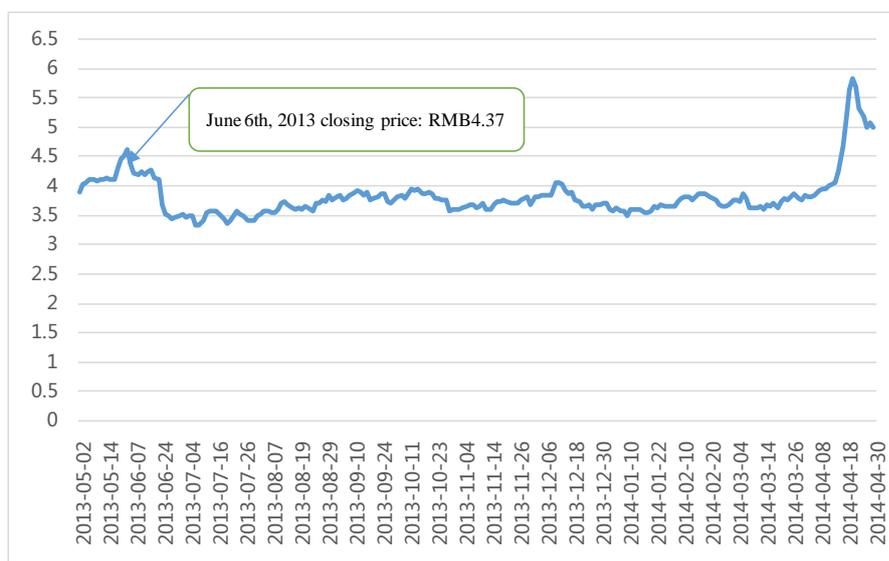


Figure 1. The stock price's changes of HXSS from May 2013 to April 2014.

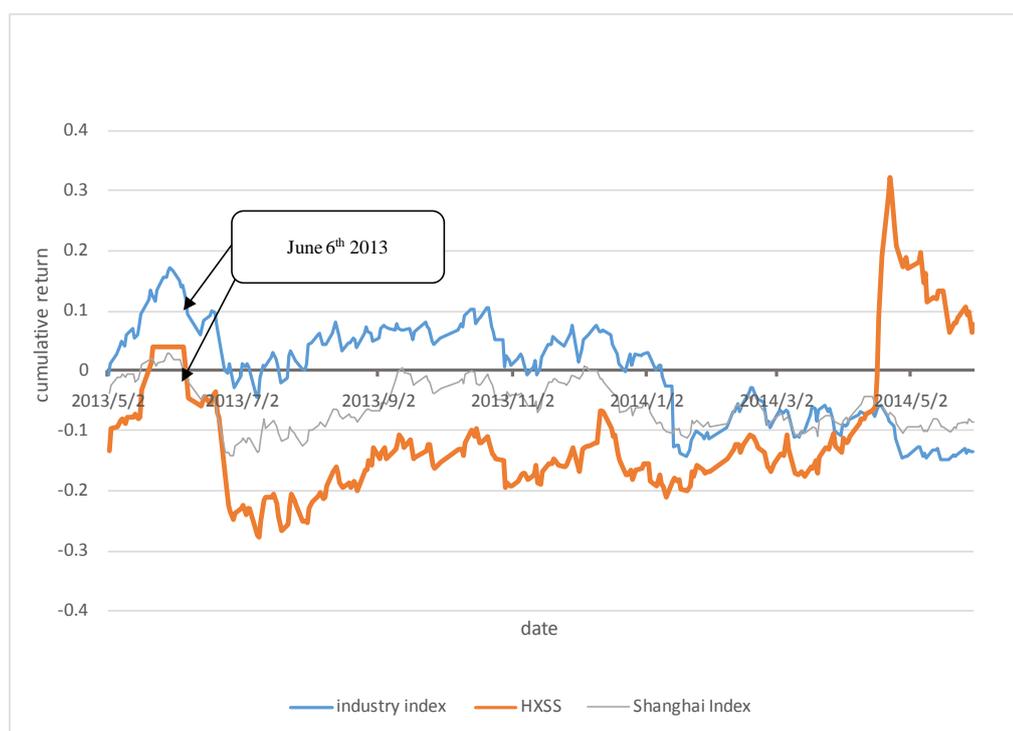


Figure 2. The cumulative return of HXSS, Industry Index and Shanghai Composite Index in 2013.

announced that it had successfully raised funds, so company was able to carry out many high quality items, provides sufficient funds preparation for the rapid development, paves the way to enhance the enterprise's own long-term earning capacity. Correspondingly, cumulative return rate is also significantly more than the cumulative return rate of the industry and the market.

In March 2015 when the market was in bull market starting stage, HXSS chose to implement the second private issuing. Then once trading resumed, the closing price at RMB 7.63 and the cumulative growth in the next four trading days has reached to 35.7%, causing the secondary market's response dramatically. And this is different from the last private placement is that HXSS committed to pay cash dividends and stock dividends, and

subsequently the company launched the equity incentive plan, therefore, the multiple positive market environment stimulated the market to have expectations, and the stock price's performance was also prominent and shown in **Figure 3**.

Figure 4 shows that the difference of the cumulative return among HXSS, the architectural decoration industry and the market was not significant in the 2015 from Jan. to Mar. Then, when HXSS announced the plan for HXSS' second private issuing of A-shares on Mar. 30th 2015, the company's stock price rise and the cumulative rate of return is higher than the growth rate of the industry and the market index. And this trend is particularly significant at this point in the resolution, and more than the cumulative return rate of the industry and the market. It proved that the private placement had brought significant benefits.

3.3. Analysis of the Effect of Economic Consequences

This paper used event studies to analyze the market response. We judged the impact of the senior executives' subscription on the HXSS's secondary market stock price and immediate benefits to investors by examining the short-term abnormal return and the cumulative abnormal return. When considering the market reaction of HXSS's private placement, in this paper we focused on the short-term market reaction before and after the announcement of the plan. So the two sets of plan announcement were June 6th 2013 and Mar. 30th 2015, and we

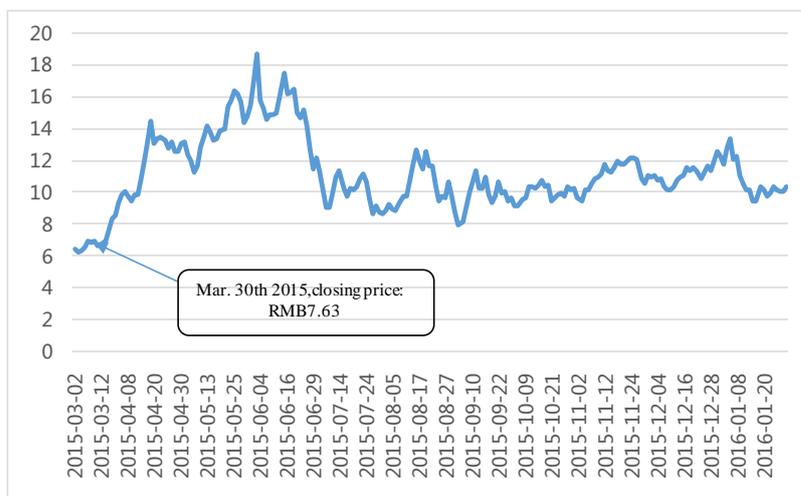


Figure 3. The stock price's changes of HXSS from Mar. 2015 to Feb. 2016.



Figure 4. The cumulative return of HXSS, Industry Index and Shanghai Composite Index in 2015.

used Shanghai Composite Index daily return rate instead of the actual rate of the market portfolio. In this case, the data sources are daily data of the company's closing price and the Shanghai Composite Index during the 180 days before HXSS's announcement date and 30 days after the announcement date, and compute the abnormal announcement period return over days $[-30,30]$.

The regression equation of the first set's estimation window:

$$y = -0.001061 + 1.210387x . \quad (1)$$

We computed AR and CAR and the results can be seen from **Figure 5** and **Figure 6**, AR before or after the announcement were 2.92%, -1.64%, respectively. The announcement effect of HXSS's first private placement was negative. What's worse, AR of the announcement date was -3.56%. It explained that the market was not optimistic about the events, and the market reaction was worse than before and after the day of announcement. Next, we discussed the main reason for the negative announcement effect.

Firstly, the media and outsiders had suspected that the behavior of executives' subscription is the sign of tunneling. In 2012, HXSS's inventory was mainly reflected in the settlement project and the real estate development cost, but the amount of unrecognized was more than RMB3 billion. In addition, "Wanjun Metropolis" Phase I project as the company's self-developed project, had sold 1288 sets residential buildings and the rate of sale was 63.80% at the end of 2012. However, the annual report in the 2011 shown that the project was completed by the end of 2012, the completion date has been postponed to May 2013. So Media reports said the

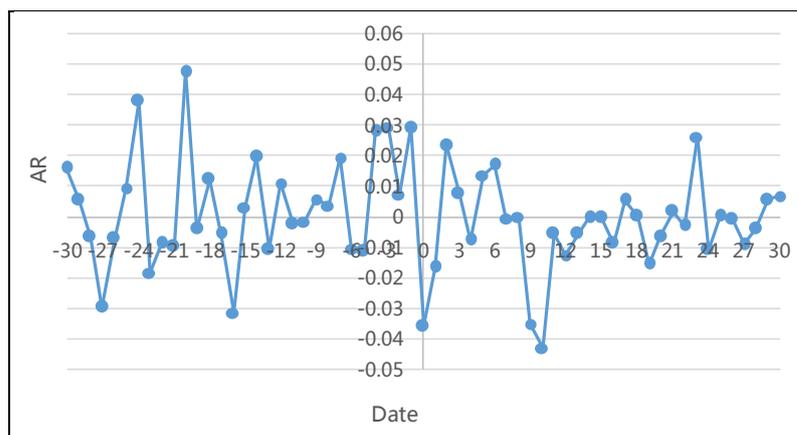


Figure 5. The AR of the first HXSS's before and after private placement in 2013.

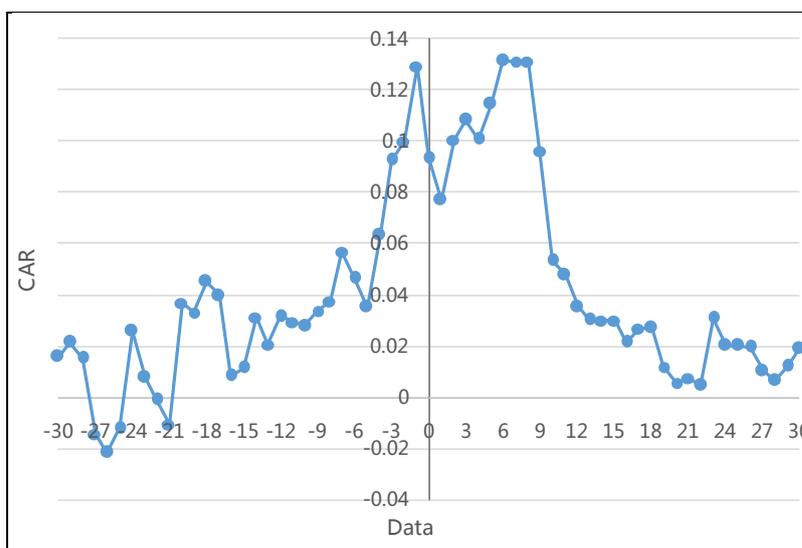


Figure 6. The CAR of the first HXSS's before and after private placement in 2013.

above acts alleged manipulation of accounting data, and the purpose of the act was delaying to confirm revenues so that artificially improved the performance after private placement.

Secondly, the market investors were pessimistic about the behavior of HXSS’s executives’ subscription, and have been interpreted as demand expansion because of the weak industry. From March to June in the 2013, China’s steel prices showed a clear downward trend due to the poor performance of the entire steel industry, showing that the market’s response to the latter stage of the steel industry is not optimistic about the prevailing market demand for light steel, industrial production is also at a low level.

In addition, the media had mentioned the event that the executive’s spouse of the company was suspected of insider trading, which caused investors’ negative sentiment growing.

The regression equation of the second set’s estimation window:

$$Y = -0.0006723 + 0.7400444x . \tag{2}$$

We computed the change of AR and CAR before and after the private placement announcement day and the results can be seen from **Figure 7** and **Figure 8**. AR of the announcement date was 8.10%, and CAR in the first 5 days before the private placement was relatively stable, from 19.03% to 18.24%, and in the announcement date to 26.34%. It explained that the market was not optimistic about the events, and the market reaction was worse than before and after the day of announcement. Next, we discussed the main reason for the negative announcement effect. Overall, the CAR after the announcement day shown an unilateral upward trend, indicating that the market is more optimistic about the reaction of the second private equity placement. And it showed that the announcement effect of HXSS’s first private placement was positive.

4. Conclusions

Through case analysis of this article, the following conclusions can be reached: the growth potential of the

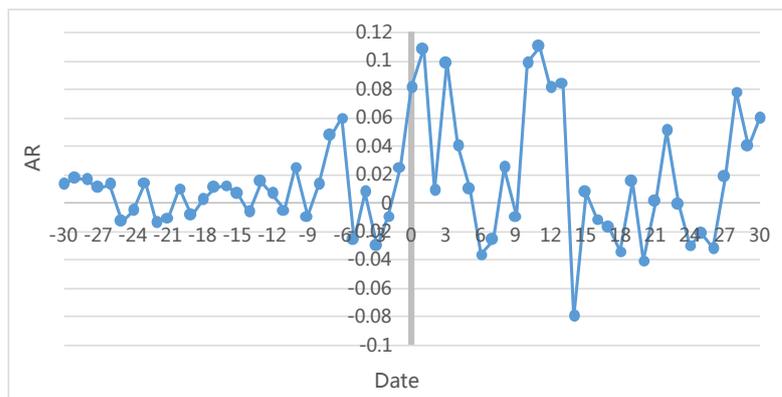


Figure 7.The AR of the second HXSS’s before and after private placement in 2015.

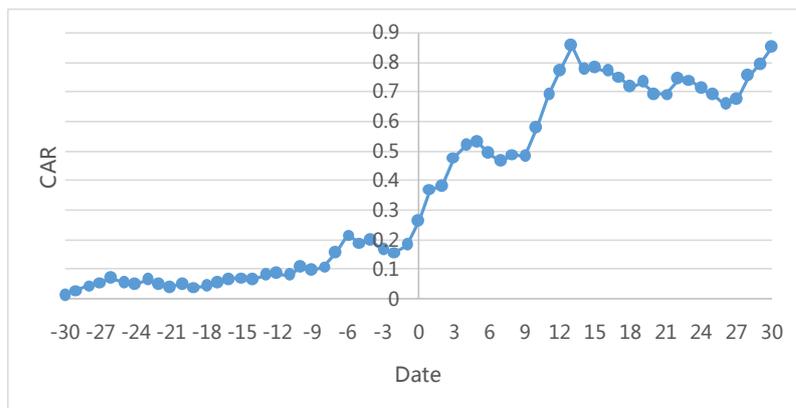


Figure 8. The CAR of the second HXSS’s before and after private placement in 2015.

company and the industry's prospects is the main factor that influence HXSS's executives on subscription placement of shares. With varieties of market conditions and different market timing of the issuance, the motivation and market reaction are also different. And the reason why the market reaction in stock price of the HXSS's second private placement was quite different was the judgment of the secondary market's investors on the private placement phenomenon. Investor sentiment and media attention will affect the judgment of investors on the market of private placement, thus affecting the stock price response.

In view of the above findings, the following suggestions are put forward in this paper:

First of all, in market timing, there is information asymmetry between management and investors, according to the changes in the market, the timing of the issuance of private placement is more likely to be conducive to the objects of private offerings. In this case, the market response to HXSS's first private placement is not hopeful, reflecting that investors do not trust in the intention of enterprise executives' subscription. So HXSS's management should take the interests of small shareholders into consideration when making a decision on the price of private offerings, so as not to make public opinion and the market reaction is too negative.

And then improve the ability of public opinion guidance in the securities market. In the case we can see the impact of investor sentiment on the stock price cannot be ignored, and individual investors are easily affected by the media and market participants' remark. Particularly in China's securities market, the investors' sentiment has reached the level that can be enough to affect the trend of the market price, the securities market supervision and regulation still need to be strengthened.

Thirdly, supervision departments should strengthen the supervision of funds to invest. Private offering as a main form of seasoned equity offering is the first choice for the enterprise managers to achieve the purpose of tunneling and raising funds. In the "rational person" assumption, the owner and operator pursue their own interests, and there exist conflicts of interest, as a concrete manifestation of the moral risk and adverse selection. Executives hope to expand the scale of the company, but there are no strict requirements for investment projects, so it belongs to the irrational SEO behavior, while investors are always in a vulnerable position information, they could not be exactly distinguished the motivation of enterprise financing, and it's also the cause that market reaction is not as expected.

References

- [1] Hertzels, M.G. and Smith, R.L. (1993) Market Discounts and Shareholder Gains for Placing Equity Privately. *Journal of Finance*, **48**, 459-485. <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.1993.tb04723.x/full>
- [2] Chemmanur, T.J and Fulghieri, P. (1999) A Theory of the Going-Public Decision. *Review of Financial Studies*, **12**, 249-279. http://www.jstor.org/stable/2646018?seq=1#page_scan_tab_contents
<http://dx.doi.org/10.1093/rfs/12.2.249>
- [3] Xia, Z. (2011) A Research on the Motives and Causes for Listed Companies' Private Placement. Master Thesis, Anhui University, Anhui.
- [4] Renneboog, L., Simons, T. and Wright, M. (2007) Why Do Public Firms Go Private in the UK? The Impact of Private Equity Investors, Incentive Realignment and Undervaluation. *Journal of Corporate Finance*, **13**, 591-628. [http://www.sciencedirect.com/science/article/pii/S0929-1199\(07\)00033-8](http://www.sciencedirect.com/science/article/pii/S0929-1199(07)00033-8)
<http://dx.doi.org/10.1016/j.jcorpfin.2007.04.005>
- [5] Gomes, A. and Phillips, G. (2012) Why do Public Firms Issue Private and Public Securities? *Journal of Financial Intermediation*, **21**, 619-658. <http://dx.doi.org/10.1016/j.jfi.2012.03.001>
- [6] Normazia, M. and Hassan, T. (2013) Private Placement, Share Prices, Volume and Financial Crisis: An Emerging Market Study. *Global Finance Journal*, **24**, 203-221. <http://dx.doi.org/10.1016/j.gfj.2013.10.003>
- [7] Cao, L.H. and Xia, X.P. (2009) Offer Characteristics and Announcement Effect of Private Investment Public Equity in China. *Journal of WUT (Information & Management Engineering)*, **31**, 333-337.
- [8] Zhang, W.D. and Zhao, A.Q. (2012) The Effects of Private Placement on Long-Term Shareholder Wealth—Evidence from Chinese Listed Companies. *Shanghai Economic Review*, **1**, 42-52.
- [9] Zhang, M. and Guo, S.Y. (2009) Private Placement under the Control of Major Shareholder and Wealth Tunneling. *China Journal of Accounting Studies*, **5**, 78-87.



Submit or recommend next manuscript to SCIRP and we will provide best service for you:

Accepting pre-submission inquiries through Email, Facebook, LinkedIn, Twitter, etc

A wide selection of journals (inclusive of 9 subjects, more than 200 journals)

Providing a 24-hour high-quality service

User-friendly online submission system

Fair and swift peer-review system

Efficient typesetting and proofreading procedure

Display of the result of downloads and visits, as well as the number of cited articles

Maximum dissemination of your research work

Submit your manuscript at: <http://papersubmission.scirp.org/>