

# Research Report of Chinese Growth Enterprise Market, 2009

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## **Description**

On 31<sup>st</sup> March, 2009, China's Securities Regulatory Commission issued Provisional Measures for the Administration of the Stock Issuance in the Growth Enterprise Market for the First Time and put into practice on 1<sup>st</sup> May, which means the growth enterprise market prepared with more than ten years is expected to open officially on 1<sup>st</sup> May, 2009.

According to the measures, the enterprises willing to listed in the growth enterprise market should be the stock limited companies set up legally with more than three years' operation successively and gaining profits in recent two years and the net profits no less than 10 million Yuan (1.46 million USD) in recent two years, which kept rising; or the company should gain profits in recent one year with the net profits no less than 5 million Yuan (730 thousand USD), the operation revenues no less than 50 million Yuan (7.3 million USD) and the growth rate of the operation revenues no less than 30% in recent two years. After the issuance, the total amounts of the capital stocks are no less than 30 million Yuan (4.38 million USD).

The growth enterprise market, also known as the second board market, namely, the second stock exchange market, refers to the securities exchange market engaged in providing the financing channels and the development space for the medium, small and new born enterprises except that in the main board market. Most companies listed in the growth enterprise market are specialized in the hi-tech businesses with high development potential but short time in operation and small in scale without outstanding business achievements. The growth enterprise market is favorable for the potential medium and small enterprises to gain more funds and effective supplement to the main board market, occupying an important position in the capital market. Therefore, familiarly speaking, the growth enterprise market is a stock market with low entry, high ventures and strictly supervision and also the cradle of breeding the scientific and growing enterprises.

The growth enterprise market, started in 1970s in America and sprang up in the 1990s, is the outcome of all over the world engaging in supporting the start-up enterprises and creativity. American Nasdaq Stock Market, breeding a batch of world top 500 enterprises like Microsoft, is regarded as the synonym of the growth enterprise market. With more than 30-year probation and practice, the growth enterprise market is playing more and more important role in propelling industrial upgrade and promoting the scientific creativity at present all over the world. After the severe test of the Internet bubble breakdown in 2000, the growth enterprise market was again widely accepted and step into the new development period. By the end of 2007, more than 40 growth enterprise markets were in operation in the world covering the major international real economy subjects and the concentrated industrial areas.

In China, developing the growth enterprise market is to provide more convenient fund channels for the medium and small enterprises and build normal exit systems for the venture capitals. The establishment of the growth enterprise market will further perfect the level of the capital market and optimize the structure of the capital market, favorable to the healthy development of Chinese

capital market from long run, which is also an important measure to adjust Chinese industrial structure and propel the economic reforms.

In accordance with the revealed provisional measures, there are three large differences between Chinese growth enterprise market and the main board market. The growth enterprise market requests the proposed list companies of profiting for successive two years with the total amounts no less than 10 million Yuan (1.46 million USD); but the main board market requests the companies of profiting for successive three years with the total amounts no less than 30 million Yuan (4.38 million USD). The growth enterprise market demands the operation revenues of the companies no less than 50 million Yuan (7.3 million USD) in recent one year with the growth rate no less than 30% in recent two years; but the main board market demands the operation revenues of the companies no less than 300 million Yuan in recent three years. It is obvious that the entry conditions of the growth enterprise market are lower than the main board market. But in consideration of the venture controlling, the conditions are high than the overseas growth enterprise market. Second, the requirement of the issuance scale is low. The growth enterprise market requests the total capital stocks no less than 30 million Yuan (4.38 million USD), but the lowest requirement of the main board market is no less than 50 million Yuan (7.3 million USD). Third, the requirement of the investors is high. Although the related detailed rules and regulations have not been issued, it is said in the measures that the growth enterprise market should set up the entry systems in conjunction with the investors' risk tolerance and point out the investment risks adequately. It is predicted that the growth enterprise market will be stricter in the field of the capital conditions and up and down limit than the main board market. Besides, in order to avoid the companies taking the growth enterprise market as the investment paradise, the management hierarchy set up the management commission in the growth enterprise market to supervise the information reveal and the exit systems, also different from the main board market.

There is also difference between the growth enterprise market and the minor enterprise board. The companies in the minor enterprises board are the small-cap stocks. The minor enterprise board orientates to the mature minor enterprises, which can be developed larger and in scale. But the growth enterprise market is an independent one, orientating to the creative and fast development enterprises. The listed standards and conditions of the growth enterprise market are also lower than the minor enterprise board.

Chinese growth enterprise market faces high market risks. The listed companies in the growth enterprise market are small in scale, hard to evaluate the market value and low stability in the value results. The massive stock exchange behavior could lead to the great fluctuation of the stock price. Therefore, the present exchange systems are unsuitable to the growth enterprise market and it is necessary to adjust them properly.

Because the growth enterprise market orientates to the growing service companies and mainly supports the development of the independent creative enterprises, the profit models and creativity of the start-up enterprises vary from that in the main board. Therefore, China's Securities

Regulatory Commission not only adjusts the issuance audit standards, but also set up the special issuance audit commission for the growth enterprise market, adds certain quantities of scientific commissioners and employs some experts.

For the investors, the risks in the growth enterprise market are higher than the main board market. Of course, the profits are probably higher. In Special Exchange Provisions for the Growth Enterprise Market, the exchange systems and the market monitor systems will be different from the main board market through improving the investors' exchange conditions, controlling the new stocks to play in the first public day, intensifying the exchange suspension systems because of the extraordinary fluctuation of the stock price and strengthening the exchange information transparency and etc so as to enhance the market monitor and the operation rate. The governments from different countries supervise over the growth enterprise market strictly taking the information reveal as the corn. Besides, the supervision departments help the investors to choose high quality enterprises by the sponsor systems.

Among the measures of the growth enterprise market, the new added investors' entry systems are the most noticeable. The detailed rules and regulations related to all the investors are being formulated, which also brings wildfire discussions. According to in-group sources, the entry condition of the growth enterprise market is possibly between 30 to 100 thousand USD, but more analysts tend to the comprehensive evaluations, including the comprehensive strengths of the investors and operation experiences. The reason that set up the entry conditions attributes to the high risks in the growth enterprise market. It is understood that there is no buffer time like the main board market if the listed enterprises in the growth enterprise market want to exit the market.

The problems in the growth enterprise market could be mentioned in the same breath with the share reform. As a crucial step of the system construction in the capital market, the growth enterprise market not only brings giant profits for the related listed companies, but also an important step to guarantee the employment and propel the transformation.

The medium and small enterprises provide more than 80% employment in China. At present, the unsmooth of the fund channel is still the major bottleneck of restraining development of the medium and small enterprises. The benefactors of the fast issuance of the credit loans are mainly the large and medium enterprises and the infrastructure construction projects. So, from the aspect of keeping the long term vigor of Chinese economy, it is the inevitable choice to provide better survival and development system environments for the medium and small enterprises. Meanwhile, from a higher aspect, the release of the growth enterprise market is as meaningful as the 4 trillion investment plans, which not only drive the private investment, but also of crucial importance to propel the economic transformation.

As is known to all, Chinese economy needs to be transferred urgently at present, the economy in the coastal developed areas transferring to the service industry and the high quality manufactures, the central and western regions to continuing the industry transformation from the east regions.

The listed rules and the fortune effect of the growth enterprise market will promote the venture investments and industrial capitals to the new technical industry, advanced manufactures and the advanced service industry, realizing the economic transformation in China. The reform of the stock allocation solves the inborn system drawbacks in the stock market. The growth enterprise market is to solve the single list environment, which is a new beginning in Chinese capital market.

More following information can be obtained in this report:

- Present Situation of Chinese Securities Market
- Policies of Chinese Growth Enterprise Market
- Monitoring Systems of Chinese Growth Enterprise Market
- Accesses of Chinese Growth Enterprise Market
- Economic Environments of Chinese Growth Enterprise Market
- Influences of International Financial Crisis on Chinese Growth Enterprise Market
- Issuance and List Steps of Chinese Growth Enterprise Market
- Transaction Steps of Chinese Growth Enterprise Market
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