

Regulator rolls out norms for GEB



An investor at a brokerage in Haikou. [Shi Yan]

China's securities regulator has released guidelines for a NASDAQ-like second board, or growth enterprise board (GEB), which will be effective from May 1.

The China Securities Regulatory Commission (CSRC) said on its website yesterday that the steps to introduce the GEB would include regulations on listing applications, prospectus and sponsors.

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"The CSRC will establish a special issuance examination committee for GEB and the Shenzhen Stock Exchange is to roll out the specific regulations on listing and trading. The securities regulators will accept the application material after all the preparatory work is ready," said a CSRC spokesman.

In a move to control the risks at the initial stage, the threshold for companies listed on the GEB would be higher than their counterparts in overseas markets, but much lower than the IPO rule on the main board.

The rule requires firms to have a minimum of 10 million yuan of accumulated net profits in the two years prior to listing, compared with at least 30 million yuan in the previous three years that is required for a listing on China's main boards.

According to the guidelines, companies that seek listing on the GEB should also report profits of at least 5 million yuan for the most recent year on revenues of at least 50 million yuan, with annual revenue growth of at least 30 percent in the recent two years.

"The CSRC solicited public opinion on the draft regulations of the GEB in March 2008 and got feedback from 688 respondents. After comprehensive analysis, we kept the requirements unchanged on the companies' profitability capacity and growth rate, while highlighting the risks for investors," the spokesman said.

China had started discussions on a listing avenue for growth-oriented companies a decade ago. In 2004, a mini second board for small- and medium-sized enterprises (SMEs) was set up at the Shenzhen Stock Exchange to test the waters.

Venture capital firms and SME entrepreneurs have welcomed the plan as a way to spur more

investment into small companies that otherwise have trouble obtaining capital.

"It's really the right time to roll out the GEB this year. In an economic downturn, the participants can benefit from the lowered cost on transaction and investment with low PE (price-earnings) ratio," said Xiong Xiaoge, the founding partner of IDG Technology Venture Investment (IDGVC).

According to TX Investment Consulting Co, only 2 percent of the capital raised by SMEs was from direct financing, while the rest rely on banking loans.

"The SMEs in Wenzhou are quite excited to see the resumption of the IPO market. About 200 companies are in the pipeline to get listed and one-third prefer to go public on the GEB," said Zhou Dewen, head of the Small- and Medium-sized Business Association in Wenzhou.

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We have waited for the GEB for about 10 years and it is really good to know

that it will be launched soon. The move can be a milestone in the development of China's capital markets and will boost the influence of Chinese venture capital companies.

Ni Zhengdong

Chief Executive Officer,
Zero2IPO

The official launch of the GEB is an important step in promoting the growth of SMEs.

The growth of smaller private firms has been restricted due to a lack of funding. With lower listing requirements, the GEB could help increase the financing options for SMEs and provide much needed capital for those with strong growth potential. Companies with strong intellectual capital (hi-tech, domestic brands, scalable services) should benefit the most from it.

Jing Ulrich

Managing Director,
China Equities, JPMorgan



The growth enterprise board can benefit not only hi-tech companies, but also SMEs with

a higher growth rate. The second board will have limited impact on the main board since the capital raised by 50 to 100 SMEs is equal to just one blue-chip on the main board.

Lin Yixiang

Chairman,
TX Investment Consulting Co

The growth enterprise board is ideal for capital-thirsty small- and medium-sized enterprises during an economic downturn.

The regulators can roll out the requirement on dividend payment to make the market more attractive for investors and spell out rules to curb the risks on speculation and illegal money collection.

It is also necessary to implement a delisting scheme for developing a healthy market.

Tang Min

Deputy Secretary-General,
China Development Research Foundation

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