

IPOs Back after Long Suspension

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The official China Securities Journal reported on its website late Thursday that Guilin Sanjin Pharmaceutical Co had received a regulatory notice from the China Securities Regulatory Commission (CSRC) allowing it to seek a stock exchange listing.

Earlier reports said that Guilin Sanjin, along with Zhejiang Wanma Group Cable and Shenzhen Salubris Pharmaceutical, had applied to be listed on the small- to medium-sized enterprises board on the Shenzhen Stock Exchange.

The share offer by Guilin Sanjin, a traditional Chinese medicine maker, is likely to mark the resumption of IPOs, which have been quietly suspended since September after the Shanghai Composite Index had fallen by almost 60 percent in the first nine months.

The stock market collapse was attributed, at least partly, to the drain of liquidity by the large number of IPOs by enterprises keen on tapping the market to prepare for leaner economic times ahead.

The suspension also created an opportunity for the CSRC to revise the IPO rules and the subscription mechanism that were seen to have been abused by some financial intermediaries, resulting in unfair distribution of new shares and price volatility after trading began.

Initial drafts of the new IPO rules were circulated among financial intermediaries for comments; and the final draft incorporating some of their feedback was published earlier this month.

Stockbrokers and investors generally welcomed the IPO resumption, saying it would allow the stock exchange to regain its basic function of providing capital to fund the growth of the corporate sector.

But they also warned that the expected stampede by the many cash-starved private companies to tap new capital could put a strain on liquidity and short-circuit the market recovery.

The lifting of the IPO ban is not surprising, said Zhao Xijun, a professor of finance at Renmin University of China.

"Facilitating the raising of capital by enterprises is the primary function of the stock market," he said, adding it is a positive move in line with the government policy of stimulating domestic demand.

Li Daxiao, a director of Yingda Securities, said it is important for the CSRC to regulate the pace of new listings

Sources said the CSRC's listing panel has reviewed the IPO applications of 33 companies of various businesses and sizes.

They include corporate heavyweights such as China State Construction Engineering Corp, Everbright Securities and Sichuan Expressway. The companies are expected to raise at least 1 billion yuan each.

Market worries about a liquidity drain were clearly demonstrated in the nearly 2 percent fall of the benchmark index last Friday on rumors of an impending large IPO from China State Construction.

"I believe the CSRC will exercise great care in minimizing the potential impact of a rush of capital after the IPO ban is lifted," Li said.

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