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Analysis of Selectec IPO in the Chinese Financial Market

Description:
1. Introduction
2. Characteristics of the main principles of the IPO
3. Description of the functioning of the IPO in the Chinese financial market
4. Comparison of the selected IPO
5. Conclusion

Bibliography

List of Abbreviations

Declaration of Utilization of Results from the Bachelor Thesis

List of Annexes

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The declaration

Herewith I declare that I elaborated the entire thesis, including all annexes, independently.”

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Annexes
1 Introduction

At present China is promising become the biggest IPO market in the world, the trend will continue in the future. The IPO in China just has short history, it is developing from 1991. The IPO market is complex in China, because of it development very quickly in a short period. There have many problems about it, the problems such as the listed too fast and too much, the SME (small and middle size enterprise) issue stock and going public. It will be discussed in parts. In 2012, there had new 150 stocks issued, and the companies issued new stock in from there new stocks in GEM (growth enterprise market) board market and SEM board market accounted around 87%. In totally, this situation turn out the small and medium-sized enterprises gradually become the main force of China's capital market

IPO listed in China have two places which are the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE).

The objective of this thesis is the comparison of companies issued stocks in SSE and SZSE, one the one hand, which can help us realize the differences between issues in SSE and SZSE and on the other hand, it can show us the growth of economic power of in China in recent years.

In this thesis, we can start from the basic situation about IPO in China. In 2\textsuperscript{nd} part, the definition will be given first of all, we also need to know the history and development about IPO in china, the body of the part are introduce main principle of IPO, function of it, the decision to go public, preparation of IPO.

In 3\textsuperscript{rd} part, we will start from the little introduction about SSE and SZSE, then we will list conditions and process of two stock exchanges, and after we will work out the analysis of the main problem about IPO. And using the same way to summarize the industry distribution of IPO, in the end of the part we can give a successful company as the example to show the important of IPO.
In 4th part, we need to elaborate the comparison of the four selected IPO, to analysis from the companies before IPO and after IPO, and give other evidences such as EPS profitability and price range to analysis the companies and their IPO.
2 Characteristics of the Main Principles of the IPO

When a corporation has been established, the owners of the company are willing to develop it. When entrepreneurs begin to operate a company, they always provide all the financing from their personal resources, such as home equity loans, fixed assets like saving or even credit cards. As the corporation evolves, it will need lots of money to support its growth, which includes equipment, inventory, factories, and other fees for cost. In this circumstance, many entrepreneurs will find that the money from themselves is not enough, so they have to turn to external financing. But they cannot get the funds from banks because of the high risk. So the founders must sell stock to outsiders to get the funds to support their company, and if their companies are potential enough, it will attract many people to invest like private investments (often called angels), investment companies, or venture capitalists. And if the corporation continues to grow, it may become successful enough to attract lending from banks, or it can raise additional funds through an initial public offering by selling stock to the public on a large scale. After an IPO, companies keep their financing by loans from banks, issuing bonds, or selling additional shares of stock.

Firstly, we will have a brief introduction about IPO.

2.1 Definition of IPO

IPO is to point to a enterprise (issuers) will be the first of its shares to sell to the public, to show the enterprise through the stock exchange to investors for the first time publicly issued shares of stock, in order to raise funds for the process of enterprise development. When a large number of investors subscribe for new shares,
need to draw form distribution stock, new subscription investors expect can use higher than the price of the subscription price sold.\(^1\)

Or to use another explain, IPO through a stock exchange for the first time publicly to investors’ additional shares to raise funds for enterprise development process. Typically, the listed company's shares according to the terms agreed in the prospectus or registration statement issued to the corresponding securities will be sold through a broker or market maker. In general, once the IPO is completed, the company can apply to the stock exchange or quotation system traded.

According to primary market, most of public offering of shares into market by investment banks underwriting, then banks in accordance with a discount price from the issuer to buy their own account, and then sold to the agreed price, public offering preparation costs, private to some extent part to avoid such charges.

According to history\(^2\), this phenomenon was launched in the U.S. in the late 1990s, when the United States is experiencing the dot.com bubble. Founders of the independent capital to set up a company and hope that during the bull market fund raising through initial public offering. These companies have the opportunity to become Microsoft Second, the initial listing of the shares they usually raise as investors.

Many founders became a millionaire overnight. Benefits from stock options, employees also earn a considerable income. In the U.S., mostly through an initial public offering of stock to raise capital will be traded in the Nasdaq market.

The company will in many Asian countries through a similar method to raise funds to develop the company's business. Generally we can find two ways to achieve the listing traded in securities exchange or offer listed.

Usually, the listed company's shares are based on the corresponding securities will be issued by the prospectus or registration statement in the terms of the agreement through brokers or market makers for sale. Generally speaking, once the initial public offering is completed, the company can apply to the securities exchange or offer listed.

\(^1\) Source: investopedia
http://www.investopedia.com/terms/i/ipo.asp

\(^2\) Source: http://www.investopedia.com/terms/i/ipo.asp
2.2 History and development of IPO in China

Before we start, we should know about the IPO history and development in China, it can help us deeper to realize the market of IPO in China.

2.2.1 History of IPO

From China IPO consulting net we can know the history³, in 30 years of China's reform and opening up, China's rapid development of socio-economic. Of course it including stock market, the number of listed companies of A-share increased from 14 in 1991 to more than 1,500 now, the stock market value increased from 10.919 billion in 1991 to 22910 billion in 2012, has become the world's fourth-largest stock market after the United States, Japan, Britain. At present, China's capital market has reached a certain size, market infrastructure has been continuously improved, gradually improve the relevant laws and regulations system, the degree of standardization of China's stock market has also been further improved, China's socialist market economic system an important component part. Issue the stocks is the most basic link in stock market operating, only stock distribution system is running well, in order to the stock market express the functions as allocation of resources or economic barometers. Stock distribution system in China has gone through the approval system and approval system, the efficiency level determines the its entire market listed companies to ensure the quality of the good or bad. Because of stock distribution system affect the healthy development of the capital market and China's social and economic development, so know the historical evolution of China's IPO system and analysis of the different stages of the IPO system in China are necessary, for the scientific development of China's stock market and reasonable strategic choice has important theoretical and practical significance.

³ Source: China IPO consulting net
http://ipo.ocn.com.cn/info/201107/yanjin191624.html
2.2.2 Development of IPO

Until now, we have known the history about IPO in China, and how about it development. Through the history we can summarized the difficulties we had happened when it development. Then analysis the reason, these lessons will help the better development of China’s IPO. In this part I will date from the institutions of stocks issue to introduce the development. We can through 3 parts explain the development evolution of the stock issuance System: historical evolution of the stock issuance examination system; the historical evolution of stock issuing way; offering pricing system historical evolution.

- **Historical evolution of the stock issuance examination system**

  For historical evolution of the stock issuance examination system, we need to two points to explain: from the system to the deeds of authorization; Sponsor system on a trial basis.

  *From the system to the deeds of authorization* is because of release management is the first step of management of the entire stock market supervision and evaluation, the main issue of the level of quality has a direct impact on the stability and development of the securities market as a whole, therefore the overwhelming majority of countries of the securities issued strict management.

  *Sponsor System pilot* is responsible for the recommendations and guidance of the issuer's listed by the Sponsor, verification files issued by the Company with the information contained in the listing document is true, accurate and complete, to assist issuers to establish a strict information disclosure system and liable for risk prevention. The Sponsor System is a more market-oriented approach, it transfer the market risk by regulatory authorities to market the main body. The result is that investment banks pay more attention to the quality of the company, thus contributing to a number of good qualities, small-scale enterprises, especially private enterprises listed, and ultimately help to improve the structure of the capital market and the overall

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improvement of the quality of listed companies.

- **The historical evolution of stock issuing way**

  Because our country securities market starts late and there have many way of stock issuance, mainly divided into two stages:

  First stage: 1984-1984, because there had no unified stock exchange, stock issued by exchange outgoing pedestrians self-issued, generally no object of underwriting, and rarely have the participation of intermediary agencies;

  The second stage: since 1990, mainly USES the electronic trading system of stock exchange. It also experienced a lot of historical evolution process.

- **Offering pricing system historical evolution**

  There have four main steps about development change of pricing system:

  The first stage: joint-stock reform started in 1984, since there is no unified system for issuing stocks. In practice, most issuers use issued by stock value.

  The second stage: 1990-1990, the IPO price is basically according to the distribution enterprise earnings per share and a relatively fixed level of p/e ratio to determine. Play an important role for the IPO pricing is the p/e ratio and earnings per share after tax profit of two factors.

  The third stage: 1998-2001 in March, for the IPO P/E ratio restrictions began to let go, no longer its cap, start the IPO pricing way towards marketization;

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6 Source: China IPO consulting net
   http://ipo.ocn.com.cn/info/201107/yanjin191624.html
7 Source: Sina finance
The four\textsuperscript{th} stage: in 2005, our country began commissioning market-oriented pricing mechanism, introduce stock issue enquiry system. By issuing shares of companies and their sponsors to inquiry object inquiry approach to determine the stock issue price.

### 2.3 Main principles of IPO

As we all know, the main purpose for IPO is financing for the potential corporation, so joint-stock companies of shares issued, after approved by the relevant departments can in the stock market publicly listed for trading activities.

#### 2.3.1 Common basic principles\textsuperscript{8}

Shares traded must have some certain conditions, and according to certain principles and procedures of operation and operation. In stock trading, in order to effectively protect the interests of investors and does not harm the public interests, equity in the process of public generally should follow several principles\textsuperscript{9}:

- **The openness principle**
  
  It is a basic principle should be followed in the stock market. It requires that the shares must be issued and listed companies shall be continuous, in a timely manner to public company's financial statements, operating conditions and other relevant data and information, enable investors to obtain enough information to carry on the analysis and selection, to safeguard the interests of investors;

- **Justice principle**
  
  It is involved in securities trading activities of each person, each agency or department, all needs to stand on the fair and objective stance reflect the situation, can not have to hide, fraud, or fraud causes the mistake of the behavior of others. So that can keep balance of IPO market;

- **Fairness principle**
  
  Refers to the parties in stock trading, including, brokers, and investors, the securities

\textsuperscript{8}Source: MBA lib, http://wiki.mbalib.com/wiki/%E8%82%A1%E7%A5%A8%E4%B8%8A%E5%B8%82

\textsuperscript{9} Source: http://baike.baidu.com/view/160778.htm
firm should be equal in trading activities of the conditions and opportunities;

- **Voluntary principle**

Refers to the stock trading in various forms, the principle must be on the premise of voluntary and not hard apportionment, constant, also can not attach any conditions.

### 2.3.2 Common basic conditions

These are the basic principle of IPO, and in China there have many securities exchanges, they have the different conditions in stock exchange for the stock issuing, but after arranged we can find all securities exchanges include the following items:

- **Amount of capital**, general provisions of the paid-in capital of listed companies shall not be less than a certain value;
- **Earning ability**, general with after-tax net income accounts for the total capital ratio to reflect the profitability, this ratio is generally not less than a certain value;
- **Basic structure** in recent year is used in the net worth of accounts for the ratio of total assets to reflect capital structure commonly, the ratio generally shall not be less than a certain value;
- **Solvency ability**, in recent year is used in the current assets of current liabilities ratio (i.e., liquidity ratio) to reflect the solvency commonly, this ratio is generally not less than a certain value;
- **The dispersion of equity**, in general the number of shareholders of listed companies shall not be less than a certain value.

Then we will describe the main principles of IPO in China through the function of IPO, and discuss the characteristic of going public.

### 2.4 Function of IPO in China

In China, there have 2 main function of IPO including stock market function and improve the efficiency of resource allocation function.

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10 Source: [http://baike.baidu.com/view/160778.htm](http://baike.baidu.com/view/160778.htm)
2.4.1 Function of stock market

- **Risk-based pricing**
  It is prices of risky assets to determine, reflects the benefits and risks of a function of capital assets, the most basic functions of the stock market. Pricing of risk for investors, is for the investors of the securities market stakeholders to be able to earn a reasonable return, is for the stock market trading can be a large number of continuous; for financing people, it determining possession conditions of the venture capital; only the investors who can able to pay a risk-reward fund-raisers in order to obtain the right to use of capital resources, which is to protect the scarce capital resources can only flow to the more efficient use of the department. Therefore, the risk-based pricing is not only to protect the legitimate rights of investors, but also to protect the rational allocation of resources.

- **Assets Current functions**
  It is financial assets requires a high degree of liquidity in order to eliminate the non-equilibrium of the market, investors freely in and out of a variety of securities market, form the compete to promote market yields converge, so that the entire stock market formed average profit margins.

- **Resource allocation function**
  The resource allocation function is not only appear in the securities market, but also occur in the secondary market. In the primary market named Issued market, the performance of resource allocation is the finance function, and the issuance of shares and the actual allocation of resources directly related. In the secondary market the performance function of restructuring of property rights.

- **Improve the function of corporate governance structure**
  Through securitization financing to achieve the purpose of improving governance structure, reflects the control functions of the securities.
2.4.2. IPO improving the function of resource allocation efficiency

Through the information from internet \(^{11}\) we can know the core function of the stock market is to optimize the allocation of resources function, but because of the public information on the stock issue market, information from the public to be received, and investors to judge information weak effectiveness, make relevant information disclosure, transmission, analysis and feedback occurred in the process of different degree of leakage, led to the issue of asymmetric information on the market, the market trade both parties to the transaction object or content with information on quantities and quality are not equal. Usually show the deal a party to have more complete information, even while the other has only a small number of information, which may lead to information disadvantaged party transaction decision-making errors, or the information advantage party ruled against the weak party.

Issuer will use information advantage price manipulation, damage the informed investors, with focus on propaganda advantage information, cover a disadvantage the opportunism tendency of information, the disclosure of information can't reflect the enterprise the management performance, market failures will inevitably lead to resource allocation function of the normal play, market failure so as to constitute the economic foundation of the existence of share issuance system.

The core function of IPO system's is to increase the stock issue market transparency of information, so as to improve the expected return rate control for stock investors, thus affect the stock price, then guide the capital flows to the high returns of production enterprise, industry, and guide the rational allocation of resources, make up for the defect of the stock market, improve the efficiency of resource allocation.

2.5 The decision to go public.

Going public means sell outside a part of stock of the whole company’s shares to the investors in an IPO, for companies it can get money for financing and for the

\(^{11}\) Source: http://ipo.ocn.com.cn/info/201107/yanjin191624.html
investors they can get profit from the stock if the price of the stock increased. Then we will discuss the advantages and disadvantages of the public stock ownership.

2.5.1 Advantage of going public

No matter what through the listing process or become a listed company, listed has many advantages. The most important of which include access to funds, prestige, and flow to the owner of the revaluation of wealth transfer. From summarizing, we can find the main advantages of the public including\(^\text{12}\):

- *To obtain money*, listing of the most obvious advantage lies in its access to capital;
- *Liquidity enhancement*, the private companies usually do not have liquidity and hard to sell, especially to small shareholders. Going public create an open market which have better liquidity than private enterprise equity for the company's stock. Investor’s equity, institution’s equity, founder’s equity and owner's equity all have liquidity which help the trading of equity becomes more convenient;
- *Improve the image and set up reputation*, the advantage of the IPO is not only to raise capital. Listing can help the company gain a reputation and trust, when a company's stock is publicly traded, it can attract a lot of media attention. This is equivalent to do free advertising for the company;
- *About compensation and capital*, listed companies can attract and retain talented employees use the stock and stock options. Stock options to improve employee loyalty and become competitors to prevent employees leave the company. When issue stock, the employees know their company's stock would rise and they are also the shareholders, so the company business performance better then they will get the more appreciation;
- *Facilitates merger negotiations*, once established the listed companies' stock market and valuations, they will have the advantage by trading stock to acquire other companies;

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• Other small points,\textsuperscript{13} such as permits founders to diversify, as the old saying goes: don’t put all eggs in one basket, so the founders prefer to selling some of their stock in a public offering to reducing their riskiness of their personal portfolios; the second is increases potential markets, it is easy to find that will be easier to sell their products and services to potential customers after they become publicly traded; the third one is corporate governance, private companies decided to listed needs to review its management structure and internal control, the establishment of the internal norms and procedures, as well as persistence will eventually lead to better and more successful of corporate governance standards management.

2.5.2 The disadvantages of going public

Listed are the advantages of immense and far-reaching, but we must consider the major adverse factors listed and listed the cost as well. An IPO does not mean that no cost of capital can bring to the company. Through the IPO to raise money has its drawbacks, shortcomings have including\textsuperscript{14}:

• Listings and other expenses, the most obvious cost is the cost of an IPO. As we all know, financing needs to pay the cost. Spending legal fees are required for registration of IPO, printing cost and billing together can be very high.

• Disclosure and accountability, listed companies must constantly report to the exchange and various regulators. Because of the policy is very complex about listed company, so most companies must hire experts to deal with the paperwork.

• The disclosure of the proprietary information, companies are listed on resistance is a major reason why need to disclose the proprietary information on your company's operations and policies. The company's financial information from public sources may bring the fittest strategic advantages to competitors.

\textsuperscript{13} Source: http://baike.baidu.com/view/10862.htm
• **Loss of confidentiality**, company's listing process contains the histories of companies and business of a large number of surveys. It needs a thorough analysis for the company's all business transactions.

• **Profit pressures and the risk of losing control**, the shareholders of listed companies shall have the right to participate in the management of the election, under certain circumstances can even replace the company's founder. After going public, the original owner will no longer be in a private company, and can no longer be around from others to make decisions.

### 2.6 Preparation of IPO

The companies want to listed generally are hope to get the money for enterprise development at home and abroad capital market, but the enterprise also in order to expand business visibility and improve the credit level of company operations, and improve enterprise more regularization and even international image. After a corporate decided to go public, they should prepare a lot for listing, there also have many problems about listing such as how to determine the issue price of stock and the number of issued shares to the public, how to sell the stock to a large number of investors, and so on like these question. For achieve the going public successful, we should realize the following sections.

#### 2.6.1 Selecting an investment bank

Of investment Banks is the most typical financial institutions, it is generally believed that an investment bank is in the capital market for enterprise to issue bonds, stocks, provide intermediary services to raise long-term capital of financial institutions. It mainly engaged in securities underwriting, corporate merger and acquisition and assets reorganization, corporate finance, fund management and other business. Its basic characteristics are comprehensive business capital markets business. Investment bank is not our usual conceptual engage in loan business of commercial

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Banks, commercial Banks can't engage in investment banking, investment banks are not engaged in personal corporate loan business.

The traditional role associated with investment banking is the underwriting of securities. Entities that issue securities include agencies of the government, state and local government, corporations, supranational entities, foreign governments, and foreign corporations.¹⁶

The investment bank can help the founders determine how many stocks should be issued and determine the stock price of issuing, or price range. When we recommend investor to buy our new shares, the good repute, credit and good experience of the investment bank are very important, and it will help us to have more investors.

In the sale of new securities, investment bankers need not undertake the function of buying the securities from issuer (we always call it underwriting). ¹⁷

And listed companies and listed companies are usually regarded as interbank competition for high-end customer; they are most likely to be the future big customer of the bank. First of all, this stage of the enterprise has spent a dangerous venture period, in the aspect of financial management, corporate governance will be specification, the risk is relatively low. While these mergers and acquisitions to expand tend to be the fastest period, no mutter a optimizing a company report, or realization of capital expansion, and they all is an urgent need comprehensive support to bank. In addition to the traditional lending business, there have more large require of bank business such as supply chain finance, capital controls, corporate finance.

On the other hand, these IPO companies generally have light asset characteristics, and perhaps they have a new business model and a large number of intellectual property rights, but they still do not have enough collateral, so this reason provide the innovation power for the investment bank.

2.6.2 The underwriting and underwriting syndicate

When a publisher through the stock market to finance, they will retain securities business institutions to help it sell the securities. Securities business institutions with his reputation in the securities market and business office, within the valid period for issuing the securities are sold, a process known as underwriting\(^{18}\). And underwriter is to point to the securities business institutions in the offering exclusive led the organization underwriting syndicate underwriting or sell. International underwriters generally by well-established, powerful merchant bank (UK), an investment bank (United States) and for large securities firms.

In our country, the underwriters in general act as the trust investment company which is a qualified securities company to or sideline the securities. In the whole process of IPO, securities companies have 2 roles named sponsors and underwriter.

Guarantor is a role recommended enterprise listed, the main responsibility is to understand enterprise during the reporting process (due diligence), cooperate with accountants, lawyers to help enterprises to solve the problems on law and finance, such as the ownership of stock right is clear in the history, the corporate government structure is it in line with the requirements of listed companies, financial system is it sound, use financial policy is reasonable in accordance with regulations and so on. Continuous supervision after the success listed in the market. Sponsor will assumed a large proportion of the risk for the listed enterprises. When issued, security companies will act as underwriting and help companies sell shares. It is divided into consignment and underwriting, under the underwriting the underwriters have to buy the stocks that are failed to sell. And underwriters are the most important intermediary retained by the issuer, it is offering underwriters. As well as the issuer of the financial advisers, and often or issuer listed references. If the issuer offering to the global, the underwriters are global co-ordinators for the issuer to issue shares as well.

Securities underwriters include underwriting syndicate and other members lead

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\(^{18}\) Source: http://wiki.mbalib.com/wiki%E8%AF%81%E5%88%B8%E6%89%BF%E9%94%80
http://wiki.mbalib.com/wiki%E6%89%BF%E9%94%80%E5%95%86
underwriters. As underwriting securities has a great influence for the underwriter reputation and the right of publicity on investors' investment behavior, thus there have strict laws for underwriters actions in all countries.

From the summarizing we also can find the role of underwriters. The roles of underwriters in the issuer issued shares and listed.

2.6.3 The way of underwriting and characteristics

Look from underwriting practices, underwriting basically has the following four ways: sell goods on a commission basis, help for selling, underwriting, underwriting syndicate underwriting.\(^{19}\)

- **Securities underwriting on the commission**
  
  Securities underwriting on the commission is refers to the underwriters to sell securities, and after the launch date, return all unsold securities to the issuer. Underwriting on commission means that the securities issuer to investors to sell securities underwriting institutions entrusted agency. If not sold out within the prescribed period of time and then returned to the issuer unsold part. Between the underwriter and the issuer is agency relationship, don't take risks. The fee of underwriting is 0.5\% of the total amount of the fees for the actual stock sold to 1.5\%. Underwriter is refers to the underwriter according to the contract to buy or sell the rest of the all securities, assume all risk on sales. The relations between issuers and underwriters is business, underwriting fees are 1.5\% to 3\% of the total fee of underwriting stocks.

- **Help for selling securities**\(^{20}\)
  
  The so-called help for securities is refers to the underwriting, as stipulated in the underwriting contract within the prescribed after the expiry of the underwriting of securities investment to buy the rest of underwriting (stand-by commitment

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\(^{19}\) Source: [http://baike.baidu.com/view/165273.htm](http://baike.baidu.com/view/165273.htm)
[http://wiki.mbalib.com/wiki/%E8%AF%81%E5%88%B8%E6%89%BF%E9%94%80](http://wiki.mbalib.com/wiki/%E8%AF%81%E5%88%B8%E6%89%BF%E9%94%80)

\(^{20}\) source: [http://baike.baidu.com/view/165273.htm](http://baike.baidu.com/view/165273.htm)
underwriting), or in the rest of the amount of loans to the issuer, to ensure that the issuer of the fund-raising with information and plan implementation smoothly. Securities law in our country put the stand-by commitment of underwriting in the way of underwriting.

- **Underwriting securities**

Underwriting securities refers to the so-called securities issuance, underwriters with their own money to buy all or part of the plan to issue securities and then sold to the public, the expiry of the underwriting not sold out when the parts are still held by the underwriters of a way of underwriting. Securities underwriting and in two ways: a full underwriting, underwriting is a norm. Full underwriting is offering is underwritten by the underwriters all securities, the underwriters will be effected according to the contract agreed to pay the total amount of funds to the issuer of securities. Norm securities underwriting is underwrite a part of the issuer is underwritten by the underwriters. Both full underwriting and norm underwriting, there are the securities business relationships between the issuer and the underwriter securities trading.

- **Underwriting syndicate underwriting**

It is also called "joint underwriting", refers to two or more securities underwriting joint accepts the commission of the issuer to sell a security from the public. Consisting more than two underwriting and temporary an underwriting institution called the underwriting syndicate.

Our country "securities law" regulation, the securities for public issuance in society the total face value of more than 50 million yuan, shall be underwritten by the underwriting syndicate. The underwriting syndicate shall be composed of the principal underwriting and involved in underwriting security of company.
2.6.4 The cost of new issue

When a Company going public to market, behind a lot of work involved, and each work all need to pay the cost. The cost not only obvious cost, but also some hidden cost, listed in the process need to spend cost management and other employees. While such costs, however, cannot be ignored, we need to discuss listed in the process of all kinds of obvious to pay costs.

- **Obvious cost**

Counts for initial public offering in China need to pay the cost, the most typical examples include sales commissions, professional service, issued by the stock cost, transfer and bank fee, publicity fee and exchange cost, etc. For each project listed need to be paid is not completely the same, it can influence factors include the size of the issuer, to raise the money amount, choose the type of list of market channel, (which is listed as a major listed or the second market) etc.

Table 2.1 is an example searched from the Shenzhen Business newspaper it is a company that has a market value of 1.6 billion yuan in the main board of IPO, public sale 400 million yuan. The main costs are listed as a percentage estimates for raise the amount.

Underwriting commission listed accounts for the largest part in the total cost, then is the professional fees secondly. And the exchanges share listing fee for the first time are relatively few - in the example Table 2.1, account for about 1.9% of the total, equivalent to 0.1% of the amount raised.

In January 2000 to June 2002, there have 77 cases (92%) of the underwriting fee is 2.5% in 84 new board of IPO. This situation may be questionable whether IPO have enough competition in services market. In fact, there provides many chances in investment banking services industry, numerous agencies, and market entry threshold is not high. From time to time there have more newcomers join competition on the market and gain considerable market share. Market in the United States also similar:

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21 Source: http://www.bwchinese.com/article/1017261.html
22 Source: Shenzhen Business Newspaper issued 9th July 2012, page B01
23 Source: China IPO consulting net; http://ipo.ocn.com.cn/info/201207/muzi090917.html
in local medium-sized IPO activity, more than 90% of its costs are raised accounted for 7% of the amount.

### Table 2.1: A company listing cost in China

<table>
<thead>
<tr>
<th></th>
<th>For raising(%)</th>
<th>Account for the first cost(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underwriting commission</strong></td>
<td>2.5</td>
<td>42.7</td>
</tr>
<tr>
<td><strong>Professional fees</strong></td>
<td>2.2</td>
<td>37.8</td>
</tr>
<tr>
<td>Investment Banks</td>
<td>0.6</td>
<td>10.7</td>
</tr>
<tr>
<td>Legal adviser</td>
<td>1.1</td>
<td>17.9</td>
</tr>
<tr>
<td>Reporting accountant</td>
<td>0.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Property valuation</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Others-translation and relations</td>
<td>0.1</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Transfer and bill-to bank charges</strong></td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Cited in support</td>
<td>0.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Tour to promote</td>
<td>0.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Reported</td>
<td>0.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Public relations</td>
<td>0.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Information and print</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exchange costs</strong></td>
<td>0.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Listing fee for the first time</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Transaction fee (IPO)</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>0.3</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>In total</strong></td>
<td>5.9</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Shenzhen Business Newspaper issued 9th July 2012, page B01
In addition, other factors may also be very important. Listed on the second low cost seems to be the first listed, especially if the publisher has been approved by the exchange. Cost is also different from main board listed on the gem. Although the gem listing fee is low, but underwriting commission seems to be much bigger than the main board - 3.5% to 4.5%, relative to 2.5% in the main board listing.

- **Hidden costs - offering discount**

If compared IPO pricing with potential equilibrium market price, the IPO pricing usually have a discount, so in the first day of trading stock prices tend to rise sharply, especially when in a bull market. On sale with discount price can help successful IPO activity, it is thought to have the necessary in business strategy. In addition, the underwriter also wants to reduce risk, so the amount of discount may vary, depending on the adopted on sale mechanism, such as longer offering period will increase the risk of underwriter, set out the discount also tend to be larger.
3 Description of functioning of IPO in Chinese financial market

We can start from starting time of IPO in China, the China’s stock market just have 23 years history, and it including Shanghai stock exchange and Shenzhen Stock Exchange. For easy to know the general situation about the China’s Initial public offerings, the next part we will get a short introduction about Shanghai security exchange and Shenzhen security exchange, from these we can know the stock exchange development. Then analysis the data about listed companies to know the development of economic.

3.1 Shanghai Security Exchange²⁴

Shanghai is a city of the earliest Chinese mainland stock, stock trading and stock exchange. SSE is one of the two stock exchanges in mainland China.

SSE founded in 1990 in on November 26, the same year on December 19, began to formal business. The stock trading can be traced to 19 Century 60's. In 1920 and 1921, the Shanghai Securities and Commodities Exchange and the Shanghai Chinese stock exchange opened. Until 30 years, Shanghai has become the financial center of the Far East, the Chinese and foreign enterprises and foreign investors could trade stocks, bonds, government bonds and futures.

Since 1980, along with the reform and opening up and development of the socialist market economy, China's securities market gradually grew up. 1981 recovery treasury bonds, stocks and corporate bonds issued in 1984, Shanghai and other places coupons. Since the SSE was established and during 21 years of rapid development, the SSE has entered a new stage of development, the size of the market fast speed expansion of infrastructure is becoming very efficient, continuously improve the extent of regulation. Through the years, the SSE skills advantage of significantly enhanced.

²⁴ Source: SSE.com; http://www.sse.com.cn/aboutus/sseintroduction/introduction/
http://baike.baidu.com/view/68956.htm
After many years of sustained development, the SSE has become China's leading market, all the indexes in the lead of China such as listed companies, listed shares, total value, clinch a deal amount, stock circulation market value, securities turnover and clinch a deal amount of national debt, etc.

By the end of 2009, Shanghai has 870 listed companies, listed securities number is 1351, the total stock market value of 18.465523 trillion yuan. By the end of 11th March in 2013, Shanghai has 954 listed companies, listed securities number are 2214, the total stock market value of 16.075071 trillion yuan. A large number of companies such as backbone enterprises, key enterprises, national economy foundation industry enterprises and high-tech enterprises through going public, raise the development money already, as well as transform the operation mechanism.

3.2 Shenzhen Security Exchange

SZSE started the earliest dating back to 1986. And some enterprises had a joint-stock reform in order to get rid of the plight of the operation. On 1st April in 1988, the Shenzhen Development Bank in the SAR counter securities companies began the first securities trading. In November 1989, the Shenzhen Municipal Government made the decision to establish the Shenzhen Stock Exchange. Then the Shenzhen Stock Exchange had trial operation on 1st December 1990. Shenzhen Stock Exchange in April 1991 was formally approved the establishment of the People's Bank of China.

In May 2004, the approval of the State Council, the China Securities Regulatory Commission approved the agreement to set up SME board of the Shenzhen Stock Exchange in the motherboard market. June 25, 2004, the Shenzhen Stock Exchange SME board opening bell sounded, the first batch of eight new centralized traded on the same day. As of May 11, 2010 Number of SME board listed companies reached 402, which is 50 times that of 2004; IPO financing of 66.22 billion yuan, 9.36 billion refinancing in January to April 2010 alone, 2004 years 8.3 times the scale of financing;

SME board stock has a market value of more than 2 trillion as of April 30, 2010.

3.3 Listed conditions of two stock exchanges

Because SSE and SZSE both belong to the main stock exchange in China, so the listed and conditions and process have no very big different. Stock market listing requirements usually include the following aspects: the number of stock holding in public, the number of shareholders and published at least several years of financial statements etc.

3.3.1 Conditions for listing companies in SSE

- **Right as principle**
  Issuers should be established according to law and legal term limited corporation; according to law is approved by the state council, the limited liability company change to company limited by shares can be a public stock offering;

- **Corporate governance**
  The issuer has been in accordance with the law, established the system like the general meeting of shareholders, board of directors etc, their duties according to law;

- **Independence**
  The list company should have a complete business system and directly facing the market independent management ability, assets should be complete. Personnel, financial, institutional and business must be independent;

- **Competition in same industry**
  Listed company shall not have horizontal competition with controlling shareholders and actual controllers; after implementation of investment projects to raise funds, they also won't produce competition;

- **Related transactions between related part enterprises**
  Listed company shall not show unfair related transactions with controlling shareholders.

shareholders, actual controllers;

- **Financial requirements**

  Accumulative total of net profit more than 30 million yuan before issuing 3 years; accumulative total of net operating cash flow more than 50 million yuan or accumulative total of revenue more than 300 million yuan before issuing 3 years.

  Intangible assets divided by net assets no more than 20%.

- **Share equity and public owner of share**

  Listed company shall have the number of shares for issuing more than 30 million; total shares equity in listed joint-stock company's is not lower than 50 million yuan; public ownership of shares at least 25%. If issued in more than 400 million shares, shares issued ratio can be reduced, but shall not be less than 10%.

- **Other requirements**

  The main business of the issuer and directors, senior management personnel had not changed much, the actual control of people don't change in recent three years; issuer's productions and business operation conform to the provisions of the laws and the articles of association, in line with national industrial policy; the issuer can’t have behavior violating the law in recent 3 years.

  Before we have know the SSE is for blue-chip stock, so there have higher conditions for SSE, but SZSE have more different conditions for different issuing stocks.

### 3.3.2 Conditions for listing companies in SZSE²⁷

Listed stock in Shenzhen stock exchange can be divided to three parts named first kind of listed shares, second kind of listed shares and third kind of listed shares. Because of the three kind of listed stock are all similar in conditions, the second kind of listed stocks have the lower requirement for companies issued stock than first kind of listed shares, and third kind of listed stocks have the lower requirement than the second kind of listed stocks as well, so we just list the first kind of listed stock as an

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²⁷ Source: SZSE, [http://www.szse.cn/main/](http://www.szse.cn/main/)
example.

*The first kind of listed stocks have following conditions*\(^{28}\):

- Business records: the applying listed companies should satisfy have more than five years to engaged in the main business and have stable business foundation and good prospects for development;
- Capital amount: applications of companies actually issued by the company's common stock should be in 50 million yuan denomination;
- The stock market price: the issue stock applied for should be higher than 10% of its face value in the recent six months of average closing price;
- Capital structure: the company applying for issue stock should come true the requirement that net equity after tax the divided by total assets should be above 25% and no cumulative loss in recent 1 year;
- Profitability: the company’s profit records should be consistent with one of the following standards: pre-tax profit divided by share capital in annual in recent three years annual all above 10%; or net profits before tax more than 10 million yuan and the equity of profit margins no less than 5% in recent three years;
- The shareholding dispersion: if the applications of the company issue stock get agreement, its equity distribution should: first is the registered shareholder number more than 2000 people, second is the amount of shares accounted for less than 2% of the total equity of shareholders, the sum of its holdings of shares shall be more than 25% of a company's total net equity;
- Stock circulation: the stock of company appear for issue, total trading par value of listed shares denomination should be more than 2.5 million yuan or and the ratio of average daily trading par value not less than one over ten thousand in the recent 6 months.

The first kind of listed shares have the highest requirement for issuing stock, the second kind of listed shares and third kind of listed shares are creating for small and have potential of development companies. From these three parts for kind of issuing

\(^{28}\) Source: http://baike.baidu.com/view/3384212.htm
stocks, we can easily find the first kind of issuing stock have the very high conditions, because this part is the main board market for large size of listed companies. The conditions of these three parts become weak for the companies applying for issue stocks. In the second and third kind of issuing stock conditions, we can judge this is for SME board market.

3.4 Listing process of two stock exchange

Neither SSE or the SZSE, they have very similar listed process for issuing the new stock.

We can separate four parts to state the process of IPO.

3.4.1 Restructuring stage

Enterprise restructuring and offering listed has wider problems involving the complexity, in enterprise hired completed with the assistance of professional institutions. Companies must determine brokerage- securities firm, with the help of securities firms selected other intermediaries as early as possible. Stock restructuring of the main agents involved are: securities firms, accounting firms, asset appraisal institution, land appraisal institutions, law firms.

3.4.2 Guidance stage

After obtaining the business license, joint-stock company established in accordance with the law. In accordance with CSRC, before public initial offering, filing an application for stock issuance to China securities regulatory commission, shall be have the qualifications of main underwriting securities company for counseling, mentoring period for a year.

Source: http://baike.baidu.com/view/9632364.htm
SSE.com; SZSE.com
3.4.3 The stage of declaration of material production and application

● The application materials
Joint-stock company was set up to run a year later, checked by the CSRC acceptance qualified, can make a formal application materials. Application materials produced by main underwriters with each division of intermediary institutions, issued by the lead underwriter summary and recommendation, after completing checked by the main underwriter and declaration materials submitted to the China securities regulatory commission to examine. Certified public accountants will provide a basis for legal and professional in the prospectus related content by audit report, the appraisal institution of asset appraisal report.

● Declare material report
First trial; The China securities regulatory commission will make a decision on whether to accept after receipt of the application documents within 5 working days. If it is accepted, according to the relevant provisions of the state for audit fee RMB 30000. During process of check by China securities regulatory commission, they will discuss if the investment project from the issuer is in line with the national industry policies for national development planning.
Issuance examination committee review; The China securities regulatory commission will check deeply to supplement complete application documents according to the preliminary examination opinion and within 60 days after acceptance of application documents, submit reports and submit application documents issuance examination committee review.
The approval issue; China securities regulatory commission will make a decision of approval or disapproval the issuer’s apply. Approval shall be approved and issued by a public file. Disapproval shall issue a written opinion, elucidate the reasons for disapproval. The China securities regulatory commission will make a decision for at least 3 months since accepted application. The enterprise for issuing the stock apply is not approved, the company accept the decision from China securities regulatory commission within 60 days from could apply for reconsideration. China securities
regulatory commission will make a decision for application of reconsideration within 60 days after receipt of the application for reconsideration.

3.4.4 Stage of stock issuance and listing

- Stock issue application after the approval of the issuance examination committee, made the China securities regulatory commission approved the approval;
- Publish a prospectus, through the media tour road, according to the distribution plan to issue shares;
- Published listed format, content arrangement listed under traded on exchanges.

3.5 The problem about companies which listed fast

From last part we can find the history of IPO in China just more than 20 years, but there have many companies listed. Some scholars believe that is an adventure for China's securities market through the too fast speed of the expansion new companies. Using an example to say, like achieve the same the 800 stocks, for the United States with 100 years, for Hong Kong need 33 years, while China spent only eight years. Because of China just use 8 years to came true listed 800 companies, so there have some disadvantages of course. The next two parts will explain the disadvantages of listed in a quickly speed and the practice of this situation in China.

3.5.1 The risk and damages about excessive expansion in stock market

We will analysis four influences about risk and damages about excessive expansion in stock market.

- Excessive expansion in the stock market is a direct result of the decline of the stock index. It would become market losses;

30 Source: http://wenku.baidu.com/view/b1d3343b376baflfc4fad26.html
For a example: In 2001, when the stock market continue expansion, Shenzhen and Shanghai listed companies growth from 1100 point in basic year to 1463 point in August 2004, there have 33% listed companies increased during three years but the stock index dropped from over 2200 points to 1341.74 points. The stock float market capitalization showed no growth even still broken shrunk. According to statistics, from June 2001 to June 2004 the listed companies raised in total of 362.815 billion yuan of funds, but the loss of circulation market value of 62.6196 trillion yuan(SSE) and 132.2248 trillion yuan(SZSE), the loss of the total market value of this expansion policy is not worth the candle.

- *Excessive expansion caused the stock market index fell endless benefits individuals, bank losses heavy;*

Enterprises through public financing sum cost of capital in the stock market. However, the stock market is over-expansion caused by the continuous decline of the stock index, personal, investment institutions, banks suffered heavy losses, and the formation of situation like "one person happy and one hundred persons unhappy". Which is the most costly individual investors undoubtedly, general loss rate of 40% -70% and made a lot of millionaires become a bankrupt a few years. Look at the banks, along with the growth rate of the stock market expansion, stock index down all the time, then the broker in running of the capital chain rupture will lead to financial crisis.

- *The stock market expansion caused the index fell, the stock market lost wealth effect, affect the healthy development of the national economy as a whole;*

Some people think Chinese stock markets are not attractive to investors. One important reason is the wealth effect of the stock market is a problem. American economist from studies have shown in 1929 ~ 1987 U.S. stocks tumbled on consumer spending, the stock price rose for every $ 1 may stimulate consumption increase of 4 cents, this expenditure will enable the U.S. annual GDP growth by 1 percentage point; on the other hand, the share price fell $ 1 per hundred reducing consumer spending fell 7 cents as the price of the negative impact of the consumption more significant.
Equity of financing is the alienation of some listed companies will become the tools for get the money.

According to the modern theory of capital structure, financing order should follow the orderly financing theory that internal equity financing first, followed by bond financing, external equity financing last. China’s listed companies are presented with the financing structure, contrary to the modern capital structure theory, excessive preference for equity financing. China’s listed companies is contrary to the principles of economics if it usually over-reliance on equity financing. In addition, China both including state-owned enterprises and private enterprises, force on the restructuring and listing, there will have no responsibility and risk of financing funds for dominator and price will not be a wasted of money and loss, so the low using ratio of funds, the ultimate victims the only medium and small shareholders especially shareholders of tradable shares.

3.5.2 The measure for excessive expansion

Slowing down the speed of the IPO, and enhance the supervision of listed companies;

The stock market expansion too fast is the direct reason of the stock market into a downturn, then the relevant departments should slow down the speed of the new shares issued, comprehensive evaluation of listed qualifications for the application listed companies. Especially put the eyes on the SME in China, which is different from the Western countries, the SME is the real have the potential count board in China, in essence, it is private enterprise in China of motherboard market sector. From the most of these private enterprises, chairman of personal or family holding, the proportion of non-tradable shares more than 70%, resulting in the absolute controlling position of chairman of the individual or family. So compared to the state-owned enterprises, listed motives of these private enterprises are more intense.

Moreover, due to the current stock market system is not perfect, a listing will be able
to misappropriating and low-cost financing, which can easily lead to these private listed companies, appearing false accounts, providing false information, manipulate stock prices and other violations.

- **Delisting mechanism in China's stock market should be established. The listed companies in the survival of the fittest.**

For a long time, China closed the stock market caused by the ever-increasing situation of a listed company. Mature and developed securities market has a relatively complete delisting mechanism. Such as Nasdaq in the United States, it does not directly face the listed companies in the development of standards, but to judge the texture of the Company through market transactions. Nasdaq delisting criteria, the most famous is'. One U.S. dollar the delisting rules ". It means listed companies' stock if the price less than $1 a share and this state continued to 30 trading days, the Nasdaq stock market will be warned beforehand lose, warned the company if the warnings by 90 days, still will not take corresponding measures to save in order to change the price, will be announced to stop trading.

### 3.6 The industry distribution of IPO\(^3\)\(^1\)

Across the developed countries financial structure development general rule: the total cost of the financial assets approach gross national wealth, capital securitization rate more than 100% in general. Financial development is the optimization of financial structure and financial market efficiency essentially. Under the condition of the total funds established, competition mechanism can guarantee funds flow to the efficient investment projects, efficient allocation of funds, the higher efficiency, and thus lead to economic growth of financial development.

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\(^3\) Source: http://wenku.baidu.com/view/33357bff0242a8956bece41a.html
3.6.1 Regional differences between the numbers of listed companies with the industry

Table 3.1 Number of listed companies and industry distribution in SSE every year

<table>
<thead>
<tr>
<th>Year</th>
<th>Industrial</th>
<th>Business</th>
<th>Real estate</th>
<th>Utility</th>
<th>Comprehensive</th>
<th>In total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>63</td>
<td>14</td>
<td>8</td>
<td>11</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>1994</td>
<td>93</td>
<td>34</td>
<td>9</td>
<td>15</td>
<td>20</td>
<td>171</td>
</tr>
<tr>
<td>1995</td>
<td>109</td>
<td>34</td>
<td>9</td>
<td>12</td>
<td>24</td>
<td>188</td>
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<tr>
<td>1996</td>
<td>164</td>
<td>46</td>
<td>9</td>
<td>22</td>
<td>52</td>
<td>293</td>
</tr>
<tr>
<td>1997</td>
<td>218</td>
<td>50</td>
<td>9</td>
<td>33</td>
<td>73</td>
<td>383</td>
</tr>
<tr>
<td>1998</td>
<td>257</td>
<td>49</td>
<td>9</td>
<td>38</td>
<td>85</td>
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<tr>
<td>1999</td>
<td>291</td>
<td>49</td>
<td>9</td>
<td>39</td>
<td>96</td>
<td>484</td>
</tr>
<tr>
<td>2000</td>
<td>347</td>
<td>54</td>
<td>9</td>
<td>50</td>
<td>112</td>
<td>572</td>
</tr>
<tr>
<td>2001</td>
<td>402</td>
<td>56</td>
<td>13</td>
<td>59</td>
<td>116</td>
<td>646</td>
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<tr>
<td>2002</td>
<td>451</td>
<td>60</td>
<td>15</td>
<td>67</td>
<td>122</td>
<td>715</td>
</tr>
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<td>2003</td>
<td>505</td>
<td>60</td>
<td>15</td>
<td>72</td>
<td>128</td>
<td>780</td>
</tr>
<tr>
<td>2004</td>
<td>546</td>
<td>59</td>
<td>17</td>
<td>82</td>
<td>133</td>
<td>837</td>
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<td>2005</td>
<td>544</td>
<td>58</td>
<td>17</td>
<td>83</td>
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<td>2006</td>
<td>544</td>
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<td>19</td>
<td>88</td>
<td>133</td>
<td>842</td>
</tr>
<tr>
<td>2007</td>
<td>545</td>
<td>58</td>
<td>24</td>
<td>90</td>
<td>143</td>
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<tr>
<td>2008</td>
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<td>24</td>
<td>95</td>
<td>167</td>
<td>931</td>
</tr>
</tbody>
</table>

Because of more than 20 years of China's stock market development, promoting the development of China's financial deepening and economic. From 2001 China began to implement equity issuance approval system that are more inclined to market-oriented, made stock issuance can reflect the overall operating performance more of listed companies, let listed companies and the region's economic development has more correlation.

Based on this, we need look at the relationship between province stock number and the problem of the economic development after the year of 2001. Because SSE major for large companies issued stocks, so we can analysis it with more exact. Because of SSE is more active than SZSE, so we will use the SSE as the model to analysis. From the Table 3.1, we can see the industry class is the highest number of listed companies, so we have to say the industry class get successful, this is one of the main reason which Chinese economic development so quickly.

Business and utility the sum of number of listed companies have not reached half of the industry listed companies, and the second industry is still dominant, this is decision by the current level of our country economic development level, structure.

After 2001, the business class growth in the number of listed companies only two; the Utility class of listed company in public utilities sector supported by rapid development and increased to 36; industrial class newly increased number up to 185 of listed companies, and material, metallurgical and pharmaceutical fields of the large number of listed companies increased, this situation is fit to the economic structure and the principles and policies that country adjusted.

3.6.2 The number of regional differences of listed companies

According to the traditional eastern, central and western, divided into 10 years, the central and western regions listed company few in number, the sum of the number of listed companies have not reached the eastern region and the number of listed companies in the central and western regions has not reached the average number of

32 Source: http://wenku.baidu.com/view/33357bff0242a8956bece41a.html
calendar year and the increase the number of listed companies have the same situation like this. This is the regional distribution of listed companies in China. The table 8 listed total number of listed companies and Percentage in every main city.

Table 3.2: Regional distribution of listed companies

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Total number of listed companies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anhui</td>
<td>29</td>
<td>3.24</td>
</tr>
<tr>
<td>Beijing</td>
<td>88</td>
<td>9.84</td>
</tr>
<tr>
<td>Fujian</td>
<td>31</td>
<td>3.47</td>
</tr>
<tr>
<td>Gansu</td>
<td>10</td>
<td>1.12</td>
</tr>
<tr>
<td>Guangdong</td>
<td>39</td>
<td>4.36</td>
</tr>
<tr>
<td>Guangxi</td>
<td>11</td>
<td>1.23</td>
</tr>
<tr>
<td>Guizhou</td>
<td>9</td>
<td>1.01</td>
</tr>
<tr>
<td>Hainan</td>
<td>7</td>
<td>0.78</td>
</tr>
<tr>
<td>Hebei</td>
<td>17</td>
<td>1.90</td>
</tr>
<tr>
<td>Henan</td>
<td>21</td>
<td>2.35</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>22</td>
<td>2.46</td>
</tr>
<tr>
<td>Hubei</td>
<td>35</td>
<td>3.91</td>
</tr>
<tr>
<td>Hunan</td>
<td>19</td>
<td>2.13</td>
</tr>
<tr>
<td>Jilin</td>
<td>17</td>
<td>1.90</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>66</td>
<td>7.38</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>16</td>
<td>1.79</td>
</tr>
<tr>
<td>Liaoning</td>
<td>27</td>
<td>3.02</td>
</tr>
<tr>
<td>Neimeng</td>
<td>15</td>
<td>1.68</td>
</tr>
<tr>
<td>Ningxia</td>
<td>4</td>
<td>0.45</td>
</tr>
<tr>
<td>Qinhai</td>
<td>6</td>
<td>0.00</td>
</tr>
<tr>
<td>Shandong</td>
<td>49</td>
<td>5.48</td>
</tr>
<tr>
<td>Shanxi</td>
<td>17</td>
<td>1.90</td>
</tr>
<tr>
<td>Shanxi</td>
<td>17</td>
<td>1.90</td>
</tr>
<tr>
<td>Shanghai</td>
<td>148</td>
<td>16.55</td>
</tr>
<tr>
<td>Sichuan</td>
<td>33</td>
<td>3.69</td>
</tr>
<tr>
<td>Tianjin</td>
<td>17</td>
<td>1.90</td>
</tr>
<tr>
<td>Xizang</td>
<td>6</td>
<td>0.67</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>21</td>
<td>2.35</td>
</tr>
<tr>
<td>Yunnan</td>
<td>13</td>
<td>1.45</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>67</td>
<td>7.49</td>
</tr>
<tr>
<td>Chongqin</td>
<td>17</td>
<td>1.90</td>
</tr>
</tbody>
</table>

From the Table 3.2, it is not difficult to get differences in comparison of in area and industry of listed companies. North of Yangtze river, coastal and northwest comprehensive economic zone of the large number of agricultural listed companies. Northeast comprehensive economic zone always is the high-yield area of agricultural production in China, the agricultural listed company in northeast have less quantity stated the level is weak in deep processing and fine processing of agricultural products, the lack of modern agricultural enterprises. Three regional difference of agricultural listed company quantity is not very big, stated the agricultural industrialization in three major area have no obvious distinction.

There have the less number of industrial listed companies in Midwest than the number of listed companies in eastern region. In services, the number of listed companies occupy mostly in eastern region, almost accounted more than two-thirds of the total all services listed companies in every year. In this way, there have no obvious advantage for agriculture listed company in the Midwest, the quantity of listed company of industry and services is far less than the eastern regions’, the situation show three major industries of the area of three almost completely tend to the development of the eastern region.

3.7 Analysis a the company named Kweichow Moutai with successful IPO

For better understand the IPO market in whole China, we can through analysis a very successful listed company for further understanding of the Chinese IPO market.

3.7.1 Introduction the basic information

China Kweichow Moutai group limited liability company consists of nearly 20 companies which including 7 launched companies. The company production liquor, this is a popular industry in China, so the IPO and the development are very good. The detail of the company we will discuss in the part 4. And we will compare other
three companies with it.

We can use Table 3.3 to realize to basic IPO information clearly. This is the situation about Kweichow Moutai’s IPO, they issued time were very early for IPO in China. The IPO of Kweichow Moutai are successful judged from issued price per share in second market are 31.91, but the closing price on the first are 35.55, the highest price on first day are 37.78, so in the first day of it issued, the price of stock were increased 3.5 yuan.

<table>
<thead>
<tr>
<th>Date of establishment</th>
<th>1999/11/20</th>
<th>Listing date</th>
<th>2001/8/27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuing p/e ratio (times)</td>
<td>23.93</td>
<td>Online issue date</td>
<td>2001/7/31</td>
</tr>
<tr>
<td>Issuing way</td>
<td>Online issue</td>
<td>Issue price per share (yuan)</td>
<td>31.39</td>
</tr>
<tr>
<td>The number of issuance shares (million yuan)</td>
<td>71.5</td>
<td>Issue market capitalisation (billion yuan)</td>
<td>2.24</td>
</tr>
<tr>
<td>Issued cost (million yuan)</td>
<td>42.21</td>
<td>On the first day opening price (yuan)</td>
<td>34.51</td>
</tr>
<tr>
<td>Net to raise money (yuan)</td>
<td>2.2 billion</td>
<td>Turnover rate on first day</td>
<td>56.83%</td>
</tr>
<tr>
<td>On the first day closing price (yuan)</td>
<td>35.55</td>
<td>The highest price on first day(yuan)</td>
<td>37.78</td>
</tr>
</tbody>
</table>

Source: East money, company profile, http://quote.eastmoney.com/sh600519.html?
3.7.2 Compare with Kweichow Moutai in the same industry in China

It is not enough to analyze the Moutai company, we should compare with other companies in the same industry can help us understand this listed company deeply.

Using the data from list of Annexe 1, we can make the graph about total market capital in each listed company. This can show us the Kweichow Moutai is higher a lot than the second one—Wuliangye in total market capital. Other companies don’t have a large difference about total market capital.

Chart 3.1: Comparative of four companies in total market capital

Source: east money, list of Annexe 1

But although Kweichow Moutai is the large listed company and have the largest total market capital, but its net income is lower than Wuliangye which has the second large total market capital, we can get it in graph of net income. So it means not the largest listed companies which have more total market capital are always get more profit. The management and operation also determined the net income for the listed companies. The chart3.2 and chart 3.3 are about the net income and operating income.
Chart 3.2: Comparative of four companies in net income

Wuliangye has the highest income in six listed companies, compare with Kweichou Moutai combine with operating income. We can see Wuliangye have more operating income than Moutai, but the net income is a little higher than Moutai, so the Moutai has less total of cost than Wuliangye, Moutai has a better management and plan on cost.

Chart 3.3: Comparative of four companies in operating income

Except compare Kweichow Moutai with Wuliangye, we also can see another
interesting situation. Qingdao beer has the highest operating income come to 25.8 billion yuan, but the net income of it is very low, just in ranking of number 4. For Kweichow Moutai, there have about 52.58% net income in operating income, but for Qingdao beer, there have about 7.13% net income in operating income. Because the Kweichow Moutai have more net profit per product, and this is also famous listed company in China for selling white spirit, so they don’t worry about the number of selling and force more on the net profit per product; Qingdao beer are force on the number of selling, because this is a company of beer for all regular consumption people in market, they take the policy of meager profit but high turnover, so the operating income is so high, but the net profit per production too less, then get net income lower than Kweichow Moutai.
4 Comparison of the Selected IPO in China

In our country we only have two stock exchanges at present: SSE and SZSE. They both established around 22 years. But during this short time, the Chinese stock had a big exchange increased from few listed companies to more than thousands listed company. Including too much difficulties and hardships when it development, but as a capital market one of the most important reform of the stock market it raised the speed of economic growth.

In this part we will make comparison of companies the selected IPO in two main stock exchanges and listed in SSE and SZSE. Before the part 3, we had known the history and basic information about these two stock exchanges. Under the basic information we will analysis the IPO deeply in this special and complicated stock exchange market in China.

4.1 Compare the selected companies from introduction

In this part we will compare Kweichow Maotai with Bank of China in SSE and Dahua stock and ST Chaori in SZSE. Kweichow Maotai is the best stock from it issued, we picket it up for explain the successful of IPO in China before part 3. And the Bank of China is below than Kweichow Maotai in Shanghai stock, but the Bank of China is the largest company and it also famous in international. The reason we choice is that Kweichow Maotai and Bank of China are issued in SSE, and SSE is force on main board market for large and stable companies. The Kweichow Maotai is the best one and the Bank of China is the largest one. These two companies can stand for us the Chinese typical IPO companies in SSE.

And about the reason which choice Dahua stock and ST Chaori is they both belong to SME board market in SZSE. Because SZSE is force on GEM (growth enterprise market) board market and SME (small and medium size enterprise) board market. The
SME board market is for the specially and potentially small companies in China. The speed of increase and development about IPO in SME board market are very quickly. From there two companies, Dahua stock is the positive represent for SME board market and ST Chaori as for a negative represent for SME board market. So we are choice a successful one and a failing one to compared in SZSE’s SME board market. And we also can get the experiences and reasons from the failing one.

Firstly, we should know the basic situation about the selected four companies for better analysis.

4.1.1. Dahua Stock

The total name of Dahua stock is Zhejiang Dahua technology limited liability Company. It's the leading supplier of monitoring products and solutions provider, to provide in international leading video storage, front-end, display control, and intelligent transportation and other series products. Company is established on April 4, 2002, the people's Government of Zhejiang province enterprise approach Dahua to list with the net worth of $10.8 million yuan as the foundation, in a ratio of 1:1 become 10.8 million shares become the limited ability company.

The company registration at Zhejiang province administration for industry and commerce in June 18, 2002, the registered capital is 10.8 million yuan.

The business scope including: Computer software development, services, sales of electronic products and communications products design, development, production, installation and sales, network product development, system integration and sales of electronic products, engineering design, installation, operating import and export business.

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33 Source: East money
4.1.2 Bank of China

Bank of China is one of China's large state-controlled commercial Banks. In February 1912, approved by sun yat-sen, the Bank of China was formally established. From 1912 to 1949, the Bank of China successively exercised central Banks, international exchange and foreign trade professional Banks function. After the founding of new China, the Bank of China became a national foreign trade professional foreign exchange Banks. In 2003, the Bank of China began to shareholding system reform. In August 2004, the Bank of China limited company was founded. In June, July, 2006, Bank of China has been successfully listed on the Hong Kong stock exchange and SSE, listed on the mainland and Hong Kong became the first Chinese commercial Banks.

The business scope is very large in Bank of China including: absorption of RMB deposits; issuing short-term, medium-term and long-term loans; for settlement; deal with discounted bills; the issuance of financial bonds; agent distribution, proxy cashing and underwriting of government bonds; buy and sell government bonds; engaged in the interbank lending; provide credit service and guarantee; agency receipt and payment funds and agency of insurance business; provides safekeeping service; foreign exchange deposit; foreign exchange loans; foreign exchange remittance; foreign exchange; the international settlement; interbank foreign exchange borrowing; foreign currency bills acceptance and discounting; foreign borrowing; foreign exchange guarantee; foreign exchange settlement and sale; distribution and agency issue shares outside of foreign currency securities; trading and agent of buy and sell stocks outside of foreign currency securities; foreign exchange dealings; valet foreign exchange trading; foreign currency credit card issuance and agent of foreign credit card issuance and payment; credit investigation, consultation, to witness operations; organization or to participate in the syndicated loan; the international precious metals trading; overseas branches of local law permits of all banking business and other

source: East money
scopes.

4.1.3 ST Chaori

The total name of ST Chaori is Shanghai super solar technology limited company. On June 30, 2007, net assets of Chaori limited company have 154.851517 million yuan, according to the 1:0. 7426 the proportion of 115 million shares, other money around 39.85 million yuan become capital reserves and statutory surplus reserves. The company on October 12, 2007 the registered and Securities category belong to Shenzhen stock exchange SME board market and capital of 115 million yuan.

Scope of business including: solar energy materials, solar energy, solar lamps and lanterns, electrical and electronic equipment production, sales, installation, is engaged in the import and export of goods and technology import and export business.

4.1.4 Kweichow Moutai

kweichow Moutai group limited liability company consists of nearly 20 companies which including 7 launched companies, it's(we will call it Moutai in next parts) main promoter put the production operating net worth 24830.63 ten thousand yuan which through confirmed by the assessment to investment its limited corporation, according the ratio of 67.658% discount for 168 million shares of state-owned legal person share; other seven promoters all investment 2511.82 ten thousand yuan by cash, according to the same percentage of total share discount of 17 million. After the August 2001 issue of public offerings 71500 thousand shares, the total share capital more than 250 million shares.

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35 Source: East money
36 Source: East money
4.2 Before IPO

Through Tables 4.1 about compare the IPO in four companies, we can find Kweichow Moutai has the earliest listing date time, it established in 2001, this is a good period for developing IPO in China. Through the date of establishment we can see the Bank of China has the longest history for development but the first time to issued stock in 2006. ST Chaori was listed in 2010, this company just stay less than three years in SZSE. Dahua stock was listed in 2008, this is the period after 2008 for the SME and GEM market to development.

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Kweichow Moutai</th>
<th>Dahua stock</th>
<th>Bank of China</th>
<th>ST Chaori</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of establishment</td>
<td>1999/11/20</td>
<td>2002/4/4</td>
<td>1983/10/31</td>
<td>2007/10/12</td>
</tr>
<tr>
<td>Issuing p/e ratio (times)</td>
<td>23.93</td>
<td>19.87</td>
<td>24.77</td>
<td>58.06</td>
</tr>
<tr>
<td>Issuing way</td>
<td>Online pricing issue</td>
<td>Offline inquiry issue, Internet pricing issue</td>
<td>Offline inquiry issue, Internet pricing issue, private placements</td>
<td>Offline inquiry issue, Internet pricing issue</td>
</tr>
<tr>
<td>The number of issued shares (million yuan)</td>
<td>71.5</td>
<td>16.8</td>
<td>6490</td>
<td>66</td>
</tr>
<tr>
<td>Issued fees (million yuan)</td>
<td>42.21</td>
<td>17.68</td>
<td>549</td>
<td>89.38</td>
</tr>
<tr>
<td>Net to raise money (billion yuan)</td>
<td>2.2</td>
<td>0.39</td>
<td>19.5</td>
<td>2.29</td>
</tr>
<tr>
<td>On the first day closing price (yuan)</td>
<td>35.55</td>
<td>42.01</td>
<td>3.79</td>
<td>47.64</td>
</tr>
<tr>
<td>The highest price on first day(yuan)</td>
<td>37.78</td>
<td>49.7</td>
<td>4.05</td>
<td>49.37</td>
</tr>
<tr>
<td>Name of company</td>
<td>Kweichow Moutai</td>
<td>Dahua stock</td>
<td>Bank of China</td>
<td>ST Chaori</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------</td>
<td>-------------</td>
<td>---------------</td>
<td>----------</td>
</tr>
<tr>
<td>Listing date</td>
<td>2001/8/27</td>
<td>2008/5/20</td>
<td>2006/7/5</td>
<td>2010/11/18</td>
</tr>
<tr>
<td>Online issue date</td>
<td>2001/7/31</td>
<td>2008/5/8</td>
<td>2006/6/23</td>
<td>2010/11/8</td>
</tr>
<tr>
<td>Issue price per share (yuan)</td>
<td>31.39</td>
<td>16.8</td>
<td>3.08</td>
<td>36</td>
</tr>
<tr>
<td>Issue market capitalization (billion yuan)</td>
<td>2.24</td>
<td>0.407</td>
<td>20</td>
<td>2.38</td>
</tr>
<tr>
<td>On the first day opening price (yuan)</td>
<td>34.51</td>
<td>48.5</td>
<td>3.99</td>
<td>45.8</td>
</tr>
<tr>
<td>Turnover rate on first day</td>
<td>56.83%</td>
<td>42.01%</td>
<td>51.06%</td>
<td>77.44%</td>
</tr>
</tbody>
</table>

Source: Data from East Money, author

For Bank of China the number of issuing is the highest one from these four stocks, but the price of per share issued is the lowest one, so we use the number of issuing shares times the price of per share is equal to 20 billion yuan, this is the issue market capitalization, the Bank of China get the highest issue market capitalization, so we can say this is the largest company, as we judged, Bank of China is an international famous and large company.

The fee of issue for Bank of China equal to 549 million yuan, accounted for a small proportion in issue market capitalization around 2.745%. Because Bank of China has very low issue price for first market is equal to 3.08 and the issuing price on second market is 3.99, the issuing P/E ratio is 24.77 times. And the net to raise money is also the high one because it is equal to issue market capitalization subtract issue fee, equal to 19.5 billion.

For Dahua stock the issue market capitalization is also very high, based on the number of issuing shares times the issue price per share. As for a small company listed in SME board market, the issue market capitalization can get this number is not
very good, because of it was depended on the number of issuance and issued price in first market, it is lower than other three. So the issue fee and the net to raise money is also the lowest one. It lead to few people can believe this is a very good company, but in future, this company become more large and famous in China because the price of stock increase all way. About issuing P/E ratio, it is the lowest one in four companies, this is another reason which people are not willing to investment it.

About ST Chaori, they have a large number of shares for issuing and the high price of shares. Of course, ST Chaori got the high net raise money because the high issue market capitalization, just below the Bank of China, but near to the third one. This company has the highest issue price per share, so the issue market capitalization is high. The issue P/E ratio is the highest one is equal to 58.06 times, so we can judge this is the best company to investment from this table.

After analysis that three companies, we can start to talk about Moutai, which is the best one, but we can look out it from its IPO. The net to raise fund is high, it is near to ST chaori and lower than the Bank of China and higher than Duhua stock. The issue P/E ratio is similar to the Bank of China, on another angle, they are both the large company and have long history, the basic of net issue market capital not high but can create the high market capitalization is a potential company.

4.3 The current situation (After IPO)

Here we can use the Table 4.2 to compare the company’s current situation. We can find the evidence from the Table 4.2 Bank of China is the largest company in these four, the circulation stock issue is the biggest one and more than the total of three others, the other circulation stock issue are very similar, all around 1 billion.

Look other data from the Table 4.2, Kweichow Moutai have the highest net asset value per share equal to 32.89. The return on equity, undistributed profit per share are all the highest in selected companies. Comparing with companies in operating revenue and net profit, we can calculate net profit divided by operating revenue. Moutai is 50.3%, Dahua stock is 19.83%, Bank of china is 38.09%, ST Chaori is
more than -1. So we get the conclusion, Moutai has lowest cost in total revenue, ST Chaori is deficit now. We also can find Dahua stock has the highest increase rate of business revenue and net equity growth rate, the new equity growth rate is 38.51%, this is very quickly on development.

Table 4.2 Compare four companies about the current situation in 2012

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Kweichow Moutai</th>
<th>Dahua stock</th>
<th>Bank of china</th>
<th>ST Chaori</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listing date</td>
<td>2001/8/27</td>
<td>2008/5/20</td>
<td>2006/7/5</td>
<td>2010/11/18</td>
</tr>
<tr>
<td>Circulation stock (billion yuan)</td>
<td>1.04</td>
<td>0.611</td>
<td>195.5</td>
<td>0.457</td>
</tr>
<tr>
<td>Net asset value per share(2012-12-31) (yuan)</td>
<td>32.89</td>
<td>3.838</td>
<td>2.95</td>
<td>1.318</td>
</tr>
<tr>
<td>Operating revenue (2012) (million yuan)</td>
<td>26455.34</td>
<td>3531.21</td>
<td>366091</td>
<td>1637.97</td>
</tr>
<tr>
<td>Net equity growth rate</td>
<td>25%</td>
<td>38.51%</td>
<td>8.30%</td>
<td>-84.11%</td>
</tr>
<tr>
<td>Total issued stocks(billion yuan)</td>
<td>1.04</td>
<td>1.12</td>
<td>279.1</td>
<td>0.844</td>
</tr>
<tr>
<td>earnings per share(2012)(yuan)</td>
<td>12.82</td>
<td>1.25</td>
<td>0.5</td>
<td>-1.99</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>45.00%</td>
<td>38.53%</td>
<td>18.10%</td>
<td>-84.11%</td>
</tr>
<tr>
<td>Increase rate of business revenue</td>
<td>19.11%</td>
<td>58.32%</td>
<td>11.07%</td>
<td>-83.06%</td>
</tr>
<tr>
<td>Net profit in 2012 (million yuan)</td>
<td>13308.08 million</td>
<td>700.16 million</td>
<td>139432 million</td>
<td>-1675.83 million</td>
</tr>
<tr>
<td>Undistributed profit per share(yuan)</td>
<td>31.11</td>
<td>1.19</td>
<td>1.01</td>
<td>-2.06</td>
</tr>
</tbody>
</table>

Source: Data from East Money, author

So we can assume that if Dahua stock is listed in 2001, it will not below than Moutai although this is a small company at that time. Then we can see the asset liability ratio, it is also an evidence to know the company’s situation.

The most important is EPS, it is one of the important indexes of stock investment
value, it is also a basic index to analyze the value of a share and it is an important indicator of profitability of company, it is the company's net profit for a period and the number of shares ratio. This ratio reflects per share create the profit after-tax, the higher the ratio, show that creates the more profits. So from the Table 4.2 we know the high EPS in 2012 is 12.82 created by Kweichow Moutai, then we can say Moutai is the best company of development from it listed.

The number of EPS from Dahua stock is more than Bank of China’s, is equal to 1.25, the Bank of China’s EPS in 2012 is equal to 0.5. Then we should realize that Bank of China is an international large company but the Dahua stock is a development company, so the potential for Dahua stock is very good. Compare Moutai with Dahua, the Moutai is listed in SSE for a large company but the Dahua is listed in SZSE as for a small company in SME board market. And in another part, the listing date of Moutai is in 2001 but Dahua is in 2008. So they are both potential of development in market. About ST Chaori, we can get the EPS is negative in 2012, so this company was deficit.

**Chart 4.1: Asset liability ratio for four companies from 2004 to 2012**

![Asset liability ratio chart](image)

Source: Data from East Money, author.

Last we can look at range of the asset liability ratio in Chart 4.1, it is the index about the risk of investment. If a company will issue the stock, we will look at the asset liability to judge the risk, from the graph we can see Bank of China have the highest asset liability ratio, but we need to realize it is a stock from bank, this is a
special industry, according to the “Basel agreement "regulation of commercial banks risk core capital adequacy ratio of 8%, that is to say, the bank's assets debt ratio below 92% is a normal level.

4.4. EPS

Chart 4.2 Compare the EPS of four companies each quarter

Source: Data from East Money, author

For analysis EPS in every company, we can look at Chart4.2, because of the different listing time, so we choice the period from 2005 to now in each quarter. Kweichow Moutai had the largest range in increasing. We also can look at the Table 4.3 for detail data.

The Table 4.3 has the detail data for Bank of China Chare 4.2, because of there have two companies issued in recent years that we just need the data in recent years. In 2008, we can find the Moutai’s P/E ratio is just 2.37, it is 13.9 times as bank of china and 1.3 times as Dahua stock, and until 2012/12/31, Moutai increased to 12.82, it is 5.4 times as it listed. In the end of 2012, we can find the profit of per stock of Moutai keep increasing and increased more and more quickly, other tow companies kept increasing as well, but ST chaori appears the negative increase in the end of 2011.
### Table 4.3 Compare the EPS of the selected companies each quarter

<table>
<thead>
<tr>
<th>Date</th>
<th>Kweichow</th>
<th>Bank of China</th>
<th>Dahua stock</th>
<th>ST Chaori</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/3/31</td>
<td>3.46</td>
<td>0.14</td>
<td>0.13</td>
<td>-0.31</td>
</tr>
<tr>
<td>2012/12/31</td>
<td>12.82</td>
<td>0.5</td>
<td>1.25</td>
<td>-1.99</td>
</tr>
<tr>
<td>2012/9/30</td>
<td>10.04</td>
<td>0.38</td>
<td>0.68</td>
<td>0.01</td>
</tr>
<tr>
<td>2012/6/30</td>
<td>6.74</td>
<td>0.26</td>
<td>0.4</td>
<td>-0.27</td>
</tr>
<tr>
<td>2012/3/31</td>
<td>2.86</td>
<td>0.13</td>
<td>0.24</td>
<td>0.07</td>
</tr>
<tr>
<td>2011/12/31</td>
<td>8.44</td>
<td>0.44</td>
<td>1.35</td>
<td>-0.1</td>
</tr>
<tr>
<td>2011/9/30</td>
<td>6.33</td>
<td>0.35</td>
<td>0.73</td>
<td>0.45</td>
</tr>
<tr>
<td>2011/6/30</td>
<td>5.2</td>
<td>0.24</td>
<td>0.46</td>
<td>0.25</td>
</tr>
<tr>
<td>2011/3/31</td>
<td>2</td>
<td>0.12</td>
<td>0.28</td>
<td>0.14</td>
</tr>
<tr>
<td>2010/12/31</td>
<td>5.35</td>
<td>0.39</td>
<td>1.91</td>
<td>1.09</td>
</tr>
<tr>
<td>2010/9/30</td>
<td>4.42</td>
<td>0.31</td>
<td>1.04</td>
<td></td>
</tr>
<tr>
<td>2010/6/30</td>
<td>3.28</td>
<td>0.2</td>
<td>0.59</td>
<td></td>
</tr>
<tr>
<td>2010/3/31</td>
<td>1.34</td>
<td>0.1</td>
<td>0.28</td>
<td></td>
</tr>
<tr>
<td>2009/12/31</td>
<td>4.57</td>
<td>0.32</td>
<td>1.75</td>
<td></td>
</tr>
<tr>
<td>2009/9/30</td>
<td>4.01</td>
<td>0.24</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>2009/6/30</td>
<td>2.96</td>
<td>0.16</td>
<td>0.5094</td>
<td></td>
</tr>
<tr>
<td>2009/3/31</td>
<td>1.29</td>
<td>0.07</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>2008/12/31</td>
<td>4.03</td>
<td>0.25</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>2008/9/30</td>
<td>3.33</td>
<td>0.23</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td>2008/6/30</td>
<td>2.37</td>
<td>0.17</td>
<td>1.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data from East Money, author

From the EPS we can analyze the Moutai have the high and quick development; the Bank of China is the development with steady; Dahua stock is the high and quick development company as well, but the speed is lower than Moutai; ST Chaori have
the negative from the end of 2011 until now, we have to say it is not worth to investment.

4.5 Profitability

Table 4.4 Net worth of yield ratio of four companies from 2008 to 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Kweichow Moutai (%)</th>
<th>Bank of China (%)</th>
<th>Dahua stock (%)</th>
<th>ST Chaori (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/3/31</td>
<td>10</td>
<td>18.86</td>
<td>6.45</td>
<td>-26.92</td>
</tr>
<tr>
<td>2012/12/31</td>
<td>45</td>
<td>18.1</td>
<td>38.51</td>
<td>-84.11</td>
</tr>
<tr>
<td>2012/9/30</td>
<td>36.16</td>
<td>18.66</td>
<td>22.59</td>
<td>0.22</td>
</tr>
<tr>
<td>2012/6/30</td>
<td>24.56</td>
<td>18.99</td>
<td>13.94</td>
<td>-5.03</td>
</tr>
<tr>
<td>2012/3/31</td>
<td>11.21</td>
<td>19.81</td>
<td>4.35</td>
<td>1.24</td>
</tr>
<tr>
<td>2011/12/31</td>
<td>40.39</td>
<td>18.27</td>
<td>28.36</td>
<td>-1.85</td>
</tr>
<tr>
<td>2011/9/30</td>
<td>31.34</td>
<td>19.15</td>
<td>16.21</td>
<td>7.58</td>
</tr>
<tr>
<td>2011/6/30</td>
<td>23.53</td>
<td>19.87</td>
<td>10.37</td>
<td>4.22</td>
</tr>
<tr>
<td>2011/3/31</td>
<td>9.74</td>
<td>20.23</td>
<td>3.27</td>
<td>1.2245</td>
</tr>
<tr>
<td>2010/12/31</td>
<td>27.454</td>
<td>18.87</td>
<td>26.4</td>
<td>25.67</td>
</tr>
<tr>
<td>2010/9/30</td>
<td>26</td>
<td>19.5</td>
<td>15.55</td>
<td></td>
</tr>
<tr>
<td>2010/6/30</td>
<td>18.8466</td>
<td>19.4</td>
<td>9.0146</td>
<td></td>
</tr>
<tr>
<td>2010/3/31</td>
<td>8.0453</td>
<td>4.82</td>
<td>2.19</td>
<td></td>
</tr>
<tr>
<td>2009/12/31</td>
<td>29.81</td>
<td>15.69</td>
<td>14.1482</td>
<td></td>
</tr>
<tr>
<td>2009/9/30</td>
<td>27.17</td>
<td>12.52</td>
<td>7.78</td>
<td></td>
</tr>
<tr>
<td>2009/6/30</td>
<td>21.56</td>
<td>8.63</td>
<td>4.57</td>
<td></td>
</tr>
<tr>
<td>2009/3/31</td>
<td>9.77</td>
<td>3.81</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>2008/12/31</td>
<td>33.79</td>
<td>13.57</td>
<td>10.74</td>
<td></td>
</tr>
<tr>
<td>2008/9/30</td>
<td>29.7</td>
<td>13.03</td>
<td>2.485</td>
<td></td>
</tr>
<tr>
<td>2008/6/30</td>
<td>23.12</td>
<td>9.65</td>
<td>34.24</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data from East Money, author

We can analyze the profitability of the selected companies through the Table 4.4, ST Chaori is losing in the end of 2011, it was listed in the end of 2010 and just after one year it was appeared negative net worth of yield ratio, it can tell us the investment this company combine with risk; other three are the positive ratio. It is depended by the net profit of the company, Moutai and Dahua are keeping high speed of increasing, the speed of Bank of China is smoothly, this situation means this is a stable company keep development. Moutai and Dahua stock both belong to have large range of net
worth of yield ratio, because these two companies is development quickly, the net profit also relative high, but when we choice them for investment we should think about the risk.

**Chart 4.3 Net worth of yield ratio of four companies from 2005 to 2012**

Source: Data from East Money, author

We also can see the change of range clearly from chart 4.3, Moutai and Dahua stock get the high increase in the net worth of yield, the bank of china have the relative stably increase because of the large asset and there have more difficulties than other three companies in the operating and management. ST chaori had a huge losing in the end of 2012.

**4.6 Yield and volatility**

Except using net worth of yield ratio, we also should use average yield to analysis the profitability of the companies. In Chart 4.4 we can see the every month earning of four companies from May 2011 to May 2013.

Chart 4.4 we use the price of basic month divided by price of last month to get the earning. We also can find the number in Table 4.5. Though the earning in every month from May 2011 to May 2013, we can get the average yield of two years: Kweichow Moutai equal to 0.08%; Bank of China equal to -0.59%; Dahua Stock equal to -1.09%; ST Chaori equal to -5.45%. And the volatility in accordance with is
looking for the above orders are 7.9%; 3.8%; 19%; 16%. The ratio of volatility higher means bigger change of the companies, from table 4.5 we can know Moutai has the relative stable increasing in recent years, Bank of China the average yield show the negative but the speed of decrease are slowly, Dahua stock had negative average yield but less than ST Chaoris’, but these two companies both have the high speed of decrease about yield. The reason about increase or decrease we will discuss in next part.

**Chart 4.4 Yield of four companies every month in two years**

![Chart 4.4](chart.png)

Source: Eastmoney, Annexes 2, author

**Table 4.5 Average yield and volatility of four companies in every month with two years**

<table>
<thead>
<tr>
<th>Kweichow Moutai</th>
<th>Bank of China</th>
<th>Dahua Stock</th>
<th>ST Chaori</th>
</tr>
</thead>
<tbody>
<tr>
<td>average yield</td>
<td>0.08%</td>
<td>-0.59%</td>
<td>-1.09%</td>
</tr>
<tr>
<td>volatility</td>
<td>7.9%</td>
<td>3.8%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Eastmoney, Chart 4.4, Annexes 2, author
4.7. Range of stock price and analysis the reason

And we also can see the price of stock range to judge the company is it worthy to investment. If company appearing huge price change between increasing and decreasing, it means there have a large risk to investment. After look at the trend of price, we should analysis the reason about it.

4.7.1 Kweichow Moutai

This is the price range of Moutai. The issue price is 35.5, increased all the way, in highest time the price is more than 235, it increased more than four times. During 2007 to 2008, the stock price increased very quickly, while in 2008 to 2009, the price decreased. After 2009 the price increased again. Until the end of 2012, the price stopped increasing and going down.

Chart 4.5 the change about stock price of Kweichow Moutai from the listed period

Source: Data from East Money, stock number 600519

The price increased so quick because the product from Moutai are accepted by the
market, most of people think this is an good produce lead to the price increased; the per produce profit high, it also become the reason to determine the net profit; there have less competitor.

During 2008, China stock market was influenced by economic crisis, the price of most stock in stock exchange went down a lot in market, so this is the reason which stock price of Moutai become low. The second decrease happened in recently, this went down of price because of adjustment by market, the stock price is too high, the market can accept the speed of increasing so quickly, the price went down also have another reason, our country find a poison material in white wine named DEHP in November 2012, the event influence all white wine industry, Moutai also be escaped from this event.

4.7.2 Bank of China

This is price range about of Bank of China, it is increased a lot during 2007 to 2008, but after 2008 the price decreased, than the stock price increased again after 2009 but the speed of increase is smoothly. The price is ranged around 2.6 to 3.2 now, the range is not high, and the risk is low relative to other stocks as well.

Chart 4.6 the change about stock price of bank of china from the listed period

Source: Data from East Money, stock number 601988
Because of Bank of China is the biggest bank in China, so we can find the price kept increasing from it listing, during 2007 to 2008, this is a good period for the development of bank, in the period the speed of bank’s development are so quickly because the support from the government and market. During 2008 to 2009, the all stock market was influenced by economic crisis. After 2009 the price of stock increased smoothly. But after 2010 the price go down slowly, this is because of the market, after 2010 until now, all stock about bank had the trend of decline.

4.7.3 Dahua stock

The Dahua stock just listed six years, but the price range is very steep not only increase but also decrease. From Chart 4.8, before 2010, the whole trend was going up because economic crisis, but in 2010 they had a big decreased than increased again in the same year. During 2011 to 2012 the price of the stock go down quickly, in this year go up again. We can find this stock always have a big change in price, although the profit are considerable but compared with high risk.

**Chart 4.7 the change about stock price of Dahua stock from the listed period**

Source: Data from East Money, stock number 002236
We can find during the middle of 2010, the price of stock decline in a huge range, from around 85 go down to 45, the reason is about wrong investment for an project, the wrong investment make the company loss a lot and lead to stock price went down another reason is dividends, they had dividend for per 10 shares give a present 5 shares. Although the price is range in a large scope, there still many people believe this is and potential company.

4.7.4 ST Chaori

ST Chaori is a risk stock. From the Chart 4.8 we can see the price go down quickly during 2011 to 2012, and doesn’t go up again. In China’s stock has many company have high risk like this one.

Chart 4.8 the change about stock price of ST Chaori from the listed period

Source: Data from East Money, stock number 002506

As for a positive example, the price of the stock decreased in a large range in 2011, after 2011, the price still not went up. This is because a wrong investment too, the
company put money for investment a project without profit, to make the price of the stock went down. But the can recover the losing because the wrong investment, so they can not calculate the money, so they are staying the down stock price but regain.

In China, there have many companies stock with high risk in the market such as ST Chaori, if the person want to investment they should do adequate preparation to analysis the finance of the company, it will decrease the risk of investment.

4.8 Summary

In the end of analysis the selected four companies, we need to have a conclusion. Moutai is a very good company with high speed of increasing about price of stock and quickly development. In China, liquor industry is very popular. From the real economy operation of wine industry, liquor industry is still the highest revenue and profit growth of industry. And Moutai is the best one in this industry because of the superior technology of making the white whine. So this product is accepted and praised by people. In China, a white wine named Moutai can be sold more than 1500 yuan in the market, some of other type are sold during 2000 to 30,000 yuan one bottle, it is worth to explain the price of white wine increase quickly in China. Kweichow Moutai is the top of the white wine industry. And we also can say Moutai is the luxury in liquor in all China. So this is the main reason for successful.

As for ST Chaori, because the company have a unsuccessful investment, using a large part of money after investment they find that is a wrong project, but can’t regain the money, this behavior lead the price of the stock go down a lot. This means the important of decision in the market, with the failing decisions the company may loss a lot even go bankrupt. Another reason is the sun industry can not get the good supply from the government in China. Because of poor policy for this industry, make all companies in this industry can’t get the good development.

Dahua stock is a typical company stand for the SME market in China, we can judge this is a very potential company with high development and high profit. The products from this company is take market’s fancy, the high technology product become more
and more popular in China, so this products have a good market for selling. The high technology is not easy to be imitated and replaced as well, the products are popular with less competitors, this is the company why can get successful in China.

The Bank of China is a huge company, it also have great reputation in all world. The stock of this company is relative stable, because this is a company with steady development.

4.9 SSE and SZSE

Lastly we need to compared SSE and SZSE in the number of listed companies, market capitalization and P/E ratio in SSE and SZSE. We can know the differences deeper between these two main stock exchanges in China.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SSE</td>
<td>931</td>
<td>894</td>
<td>870</td>
<td>864</td>
<td>860</td>
<td>842</td>
<td>834</td>
<td>837</td>
<td>780</td>
<td>715</td>
</tr>
<tr>
<td>SZSE</td>
<td>1411</td>
<td>1169</td>
<td>830</td>
<td>740</td>
<td>670</td>
<td>579</td>
<td>544</td>
<td>536</td>
<td>505</td>
<td>508</td>
</tr>
</tbody>
</table>

Source: SSE and SZSE, author

From Table 4.6, during 1996 to 2012, there both have companies were listed in the two main stock exchanges. In 1996 the number of listed companies in SSE is more than number of listed companies in SZSE. But the number of listed companies in SZSE more than the number of listed companies in SSE a lot in 2012. The reason is there have many SME companies listed in SZSE and there have many SME in China, the large companies listed in SSE, so the number of listed companies in SZSE is more than SSE. Chart 4.9 is a range of number of listed companies for SSE and SZSE.
So we find that SZSE have more companies listed because it has more than one main board market but two small board markets. From the chart, we can find from the 2008, the number of listed companied in SZSE increased quickly, in 2009, the number of listed companies in SZSE is equal to the SSEs’. It means from 2009, there have a large number of small and middle size companies development. The phenomenon can improve the growth of economic in China.

**Table 4.7 Comparison Market Capitalization of SSE and SZSE (2004-2011)**

<table>
<thead>
<tr>
<th>Year</th>
<th>SSE</th>
<th>SZSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2.61</td>
<td>3.08</td>
</tr>
<tr>
<td>2005</td>
<td>2.31</td>
<td>4.25</td>
</tr>
<tr>
<td>2006</td>
<td>7.16</td>
<td>3.98</td>
</tr>
<tr>
<td>2007</td>
<td>26.98</td>
<td>1.74</td>
</tr>
<tr>
<td>2008</td>
<td>9.73</td>
<td>4.54</td>
</tr>
<tr>
<td>2009</td>
<td>18.47</td>
<td>1.5</td>
</tr>
</tbody>
</table>
Year | SSE | SZSE
--- | --- | ---
2010 | 17.9 | 0.85
2011 | 14.8 | 1.11
2004 | 2.61 | 3.08

Source: SSE and SZSE

According to the Table 4.7 and Chart 4.10, we can find SSE has more market capitalization than SZSE. Especially in 2007 the market capitalization in SSE is 15.5 times than SZSE. The market capitalization is not range in stable. It depends on the total stock price and total of number of stock on basic year.

**Chart 4.10 Comparison Market Capitalization of SSE and SZSE (2004-2011)**

P/E ratio is the most commonly used to assess whether reasonable stock level indicator, for individual stocks, shares and the market is very important reference index, we can calculate the stock price divided by the EPS to get the P/E ratio. Table 4.8 shows us the different P/E ratio of SSE and SZSE.
Table 4.8 Comparison P/E ratio of SSE and SZSE (2004-2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>SSE</th>
<th>SZSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>24.23</td>
<td>24.63</td>
</tr>
<tr>
<td>2005</td>
<td>16.33</td>
<td>16.36</td>
</tr>
<tr>
<td>2006</td>
<td>33.3</td>
<td>32.72</td>
</tr>
<tr>
<td>2007</td>
<td>59.24</td>
<td>69.74</td>
</tr>
<tr>
<td>2008</td>
<td>14.85</td>
<td>16.72</td>
</tr>
<tr>
<td>2009</td>
<td>28.73</td>
<td>46.01</td>
</tr>
<tr>
<td>2010</td>
<td>21.61</td>
<td>44.69</td>
</tr>
<tr>
<td>2011</td>
<td>13.4</td>
<td>23.11</td>
</tr>
</tbody>
</table>

Unit %

Source: SSE and SZSE, author

From Table 4.8, the P/E ratio we can look at in 2011, the investors can buy stock at low price in order to obtain rewards in SSE. Generally, the normal P/E ratio should be during 14 to 20, so through the P/E ratio the best time is in 2008. We can say when P/E ratio below 13, the stock price was undervalued. In 2004, SSE and SZSE have the similar P/E ratio, as time goes by, we can find SZSE’s P/E ratio are more than SSEs’. Because there are more companies listed in SZSE. It also shows the SME market become more and more large and mature.
When P/E ratio during 21 to 28, it means the stock price was overrated; if more than 28, it will reflect market showed a speculative bubble. So from the model we can find we are easy to show the speculative bubble in China, use another words, it means we always estimate the price of stock too high. This is a reason make the economic growth without stable.
5 Conclusion

Although China is promising to become the largest market in the world, the mechanism of China's capital market still has a lot of problems waiting to solve. The problems mainly includes such as the structure, mechanism, and cultural problems. The goal of IPO in China is to become the first-class in the world market on 2020, the capital market development path are going to become marketization, legislation and the internationalization.

Chinese stock exchange got a very successful development in 22 years, SSE and SZSE witnessed the history and development of China. SSE become the fifth largest stock exchange in the world and SZSE also become one of largest stock exchange in China for development the SME.

In this thesis, we compared IPO in SSE and SZSE to show the development of IPO in different scope of companies. There have more details about the history, development, principle, functions, requirements and analysis about IPO in SSE and SZSE in part two and part three. The core part was part four: comparison selected IPO in four companies, because we have the basic information and analysis in part two and part three, we can have deeper comparison under them.

In 2012, many countries because of the weak status of market economy, securities market is very unstable, lead to the global IPO market trading performance. It also had influence of the IPO in Chian. For listing, the companies also have more requirements should be achieved in the future, such as the company should improve the standardized operation of enterprises continuously, strengthen enterprise profit ability, reasonable plan to raise funds use, and the company can be in the changeable market environment.

In this thesis, the market and company information and date are the most important thing for study. Though the study, we can get the summary of the development of company and get more experience, to catch the opportunity in the future.
Bibliography

Book

Documents:

Website
List of Abbreviations

*Abbreviations*

SSE: Shanghai stock exchange

SZSE: Shenzhen stock exchange

SME: Small and middle size company

GEM: Growth Enterprises Market

SAR: Specific absorption rate

CSRC: China Securities Regulatory Commission
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Ostrava dated 25th May 2013

[Signature]

Mingxin Zhou
List of Annexes

Annexe 1--- Kweichow Moutai compare with other companies in the same industry in the scale of compare

Annexe 2-- The price of stock and earning for each month from 2011-5-1 to 2013-5-1 and the average yield
**Annexe 1**

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Source: Eastmoney, author