More Chinese companies say *ni hao* to ASX

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The Australian Stock Exchange (ASX) has become a more popular and viable destination for IPOs by Chinese companies in recent years. The ASX published a Chinese version of its listing guidelines in 2008, and at least five China-based or China-backed companies have listed in Australia so far in 2009. They include home textiles retailer Thomas Bryson International and automatic *mah-jong* table manufacturer Treyo Leisure and Entertainment. The latest such listing took place on July 30 2009 for Shenhua International, raising just over A$14 million (US$11.7 million) in the IPO, and more Chinese companies are in the pipeline to list.

Industry observers believe a backlog of companies waiting to list in China is one of the main explanations for the ASX's newfound popularity. According to Wang Dongming, chairman of CITIC Securities, there are 300 to 400 companies waiting to be listed in China, a queue which is expected to take two years to clear. The backlog is due to a listing halt on the Chinese share markets since September 2008 which, according to China Securities Regulatory Commission's vice-chairman Fan Fuchun, was "because the market needed a rest". Although the halt has since been lifted, uncertainty over the security regulator's proposed new system for pricing public offerings, combined with the non-transparent system determining who gets listed, has caused smaller private Chinese enterprises to consider other exchanges.

The ASX listing rules are much more listing-friendly for smaller corporations

Compared to the relatively more onerous and elaborate listing requirements of Hong Kong, the ASX listing rules are much more listing-friendly for smaller corporations. For example, Hong Kong requires a company to have a market capitalisation of at least HK$200 million (US$25.8 million) at the time of listing, which works out to be more than three-times the A$10 million threshold set by the ASX. Also, to list on the Hong Kong main board, a company must have aggregated profits of HK$50 million in the last three financial years – only A$1 million is required by the ASX.

For smaller companies in Asia, the ASX's palatability may also be explained by reasons including Australia's business environment, market track record, high-quality analysts, auditors and legal firms, and similar time zone.

But Chinese companies seeking to list on the ASX should not oversimplify the task. Although Australian investors are becoming more aware of the economic potential of China and its importance to the Australian economy, they are sophisticated and well informed at large and will not rush into subscribing for all China-related IPOs. In the absence of a natural investor base, it is up to Chinese companies to establish a true Australian connection and presence to trigger investor interest. This means setting up a permanent base in Australia, assembling an experienced board of directors and executives, undertaking Australian activities and investments, developing a local network of professional consultants and advisers to ensure the company will meet all regulatory compliance requirements and implementing changes and systems to adapt to the Australian regulatory and investment environment. To maintain investor interest after listing, companies should also employ appropriate strategies to garner and encourage secondary market support. Having institutional and sophisticated investors backing in the IPO and secondary market will usually send positive messages to the open market in relation to the value proposition for investing in the company as well as increasing the company's overall investment profile. Adopting sound communication and regular disclosure practices will help investors to track the company's performance while marketing initiatives, such as being involved in regular reviews and forecasts by independent financial service providers, can in turn help generate interest and liquidity in the shares. The financial upkeep for Australia-listed companies will be significant.

Once listed, public companies in Australia are subject to stringent continuing disclosure rules imposed by the ASX's listing rules and Australian corporate law regime, with potentially serious consequences and penalties for non-compliance. These rules and obligations can be technical and complex, making their compliance a costly exercise for the companies. This may be of particular concern for Chinese companies used to operating under the relatively less transparent business environment in China, as they run the risk of giving away excessive company information to their competitors back home.

Australia's corporation law regime places significant responsibilities on company management and board members in order to safeguard shareholder interests as well as integrity within the market. Public companies are also answerable to the Australian Securities and Investments Commission (ASIC) which has statutory jurisdiction to prosecute companies in the event of ill-practice.

Despite the stringent legislative regime for Australian public companies, the ASX's lower barrier of entry for IPOs, combined with Australia's sophisticated business environment and geographical proximity to Asia, continues to make the trip down-under an attractive one for smaller Chinese companies. They are likely to continue to say *ni hao* (hello) to Australian investors, especially as market conditions improve.

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