Venture Capital and the Structure of Stock Market: Lessons from China

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Abstract
Existing literature suggests a strong relationship between a vibrant venture capital market and an active stock market: venture capital flourishes when the venture capitalist can easily exit from a successful portfolio company through an IPO in turn enabled by an active and efficient stock market. Meanwhile, despite a relatively short experience with venture capital, China has, through concerted government efforts at central and local levels, engineered the second largest venture capital market (by investment volume) in the world till date. Does the stock market - venture capital market correlation hold in China, whose economy underwent drastic transformation from a planned to a market economy in the last 20 years? Based on both empirical methodology and select interviews, this article uses China as a case study to explore the connection between the stock market and venture capital market and discusses the government’s role in creating a robust venture capital market through improving institutional structure and optimizing regulatory processes. It concludes that, for venture capital availability, law indeed matters – even in China: strong and sustained government policies and the continuous evolution of China’s IPO system indeed facilitating venture capital-backed IPOs typically succeeded by an increase in new venture capital availability thereafter. Nonetheless, to fully develop its venture capital market, China would do well to further orient its capital market system towards market economics.

Key words: Venture Capital, Stock Market, Exits, China, IPO Reform
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I. Introduction

Venture capital is an important source of financial capital for early-stage, high-potential and high-growth entrepreneurial and technology companies. It has been widely recognized as a powerful engine for a nation’s innovation, job creation and economic growth.¹ Developing a robust venture capital market is one of China’s key national strategies and biggest challenges. After three decades’ development, China is now the second largest country in terms of venture capital investment, ranking only after the United States (U.S.).² In 2014 alone, 258 new venture capital funds were set up in China, collectively raising USD 19 billion worth of fresh capital eligible for investment.³

A typical venture capital cycle in China is much like the international version. There are three major parties involved: (1) investors who provide capital to the venture capital fund, (2) venture capitalists who manage the venture capital fund and who identify and give credibility to their portfolio companies by providing management assistance, intensive performance monitoring and reputational capital, and (3) entrepreneurs within the portfolio companies.⁴

Likewise, there are two major types of contracts within a venture capital cycle. The first is the contract between the venture capital fund and the portfolio company (the Fund-Portfolio Company contract), which deals with the relationship between the fund and portfolio company on the fund-investment level.⁵ The other contract is the one between investors and the venture capital fund (the Investor-Fund contract), which mainly regulates the relationship between investors and venture capitalists on the fund-raising level.⁶ In China, a venture capital fund is usually organized as a limited partnership wherein the venture capital firm serves as the general partner while investors serve as limited partners.

A venture capital cycle typically involves three stages: investment in a venture capital fund (fund raising); the venture capital fund’s investment in a portfolio company (investment); and exit, through which venture capital investments are returned to the

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⁴ ZOU JING, FUNDRAISING AND OPERATION OF PRIVATE EQUITY FUND (China Law Press, 2014) at 64.
⁵ See Gilson, supra note 1.
⁶ Id.
venture capital fund and profits are realized. The exit process is of central interest to
venture capitalists and investors because venture capital investments typically do not
pay dividends. Instead, returns from investments are derived from capital gains upon
exit.7 According to Cumming et al., there are five principal venture capital exit
vehicles: (1) an initial public offering (IPO), in which a significant portion of the firm
is sold into the public market; (2) an acquisition exit, in which the entire firm is sold
to a third party; (3) a secondary sale, in which only the venture capitalists’ shares are
sold to a third party (typically a strategic acquirer); (4) a buyback, in which the
venture capitalists’ shares are purchased by the entrepreneurial firm itself; and (5) a
write-off, in which the venture capital walks away from the investment.8

Extensive academic literature has found a strong correlation between the size and
liquidity of a nation’s stock market and the extent of its venture capital market.9 In
particular, Black and Gilson contended that the vibrancy of the venture capital market
is dependent on the presence of an active stock market through which the venture
capitalist can exit from a successful portfolio company via the IPO.10 IPOs enable the
venture capitalist to exit from the venture capital investment while leaving
entrepreneurs in control of the start-up.11 The option of an IPO exit is necessary for
the negotiation of an incentive-compatible implicit contract at the time of the venture
capital investment.12 Black and Gilson have also argued that the venture capital
industry tends to be stronger and more vibrant in stock market-centered systems, like
the U.S., relative to countries (like Germany and Japan) which neither have a strong
stock market nor a robust venture capital market.13

In this light, China’s stock markets have long been blamed as underdeveloped and

literature questioned the importance of stock market in a venture capital market. Marc-Oliver Fiedler and Thomas Hellmann, “Against All Odds: The Late but Rapid Development of the German Venture Capital Industry”. The Journal of Private Equity (2001), at 32-33 (Fiedler and Hellmann argued against this theory in the context of
Germany. They contended that there were a number of “push factors that made entrepreneurship and venture
capital more attractive to German, not just the stock market.”).
10 Black & Gilson, supra note 4.
12 Id.
13 Black & Gilson, supra note 4.
less functional because of weak investor protection, weak enforcement, inefficient pricing, accounting fraud, market manipulation, and poor disclosure.\textsuperscript{14} China’s unique political and institutional infrastructure also means China’s two stock exchanges are not state-independent and lack significant autonomous regulatory authorities.\textsuperscript{15} One of the legacies of China’s planned economy is that the Chinese stock market was not established until 1990 when two stock exchanges were set up – the Shanghai Stock Exchange (“SSE”) in November 1990 and the Shenzhen Stock Exchange (“SZSE”) in December 1990. Since then, the Chinese stock market has developed alongside economic reform and served specific political missions, such as the privatization of state-owned enterprises (“SOE”) and the stimulation of investment sentiment amongst the public.\textsuperscript{16}

Nonetheless, in recent years, the China Securities Regulatory Commission (“CSRC”) has taken substantive steps to improve the regulatory environment of the stock market, particularly in minority protection and creating multi-layered capital markets (\textit{duocengci ziben shichang}). The stock market has grown rapidly within a short time in size and liquidity. As of May 2015, China’s two main stock exchanges, i.e. the SSE and SZSE, are worth over USD 10 trillion, with the SSE being the second largest stock exchange in Asia by market capitalization.\textsuperscript{17}

China provides an important and instructive case study to test the theory that stock markets and venture capital markets are closely linked. The pivotal question is this: if a well-developed stock market is necessary for venture capital to flourish, how has China managed to create the second largest venture capital market without a relatively well-developed stock market like its U.S. counterpart?

In this light, this paper fills the literature gap by empirically exploring the connection between the venture capital market and the stock market in the context of China and examining the role of law and government in developing a domestic stock market. My findings are consistent with the general theory that there is a link between a robust stock market and an active venture capital market. It is hoped that this article provides a concrete and vivid example of how institutional infrastructure for an active stock market has been gradually built up to facilitate the development of the venture capital industry.

The remainder of the article consists of five parts. Part II critically reviews the historical development of the stock market and venture capital market in China. Part III explores the link between China’s stock market and its venture capital market from

\begin{footnotes}
\item[15] \textit{Id.} at 931.
\item[16] \textit{Id.} at 935.
\end{footnotes}
both quantitative and qualitative perspectives and argues that a strong stock market is conducive to a strong venture capital market. Thereafter, Part IV analyses existing deficiencies in the stock market and how they could hinder venture capital accumulation. Finally, Part V discusses recent major initiatives to improve the stock market and their implications for the venture capital market.

Finally, Part VI concludes by crystallising the lessons to be learnt China’s experience. Based on both empirical methodology and extensive interviews, this article finds that there is a close connection between the stock market and venture capital market in China and further that active government involvement, particularly through improving the institutional structure and regulatory environment of domestic stock markets, is instrumental in creating a robust venture capital market.

II. The Development of the Stock Market and the Venture Capital Market

The US has over 70 years of experience in venture capital, beginning from the 1940s. On the contrary, China has had a much shorter history of venture capital. Before the reform of the economic system and the opening up of China’s markets to the outside world (gaige kaifang) in 1978, China was a planned economy. There were no private enterprises, startups or venture capital in China.

The concept of venture capital was first officially introduced in China in 1985 in the central government’s “Decision to Reform the Science and Technology System”. In the same year, the first venture capital firm, the China New Technology Venture Capital Company (zhongguo xinjishu chuangye touzi gongsi) was set up. Thereafter, local governments and government agencies established companies to provide financing to technology companies. However, due to unfamiliarity with the concept of venture capital as well as the lack of a national-wide capital market, venture capital developed very slowly in the 1980s.

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18 The empirical study consists of three parts. Part A is a study on a sample of fifty venture capital limited partnership agreements. These agreements are obtained from leading Chinese law firms and venture capital firms, i.e. Gaorong Capital, Chengwei Capital, Beijing Fangda Law Firm, Beijing Global Law Firm, Beijing Jincheng Tongda Law Firm, Chongqing Zhonghao Law Firm, Shanghai Yuantai Law Firm and Shenzhen Huashang Law Firm. Part B is the author’s interviews with practitioners. This consists primarily of venture capitalists, counsel, and investors from twenty venture capital funds. The interviewees come from the six cities that are the major places of venture capital investments in China, i.e. Beijing, Shanghai, Tianjin, Shenzhen, Chongqing, and Guangzhou. Part C comprises the study of data and reports published by a leading service provider and investment institution in China’s venture capital industry, Qingke Annual Report of the Venture Capital Market in China published by the Zero2IPO Research Centre, and the China Venture Capital Yearbook published by China Venture Capital Research Institution.

19 See Gompers & Lerner, supra note 1, at 8.


As mentioned above, the year 1990 saw the establishment of China’s capital market. Two stock exchanges in China – the SSE and the SZSE (the “Main Boards”) were established this year. These offered new exit channels for venture capital-backed (“VC-backed”) companies. Another turning point in the 1990s was the presentation of the so-called “No.1 proposal” to the first meeting of the 9th Chinese People's Political Consultative Conference urging the development of venture capital in China. After that, a series of government policies and laws was issued and promulgated to facilitate the development of the venture capital market.

In 2002, the planned launch of a National Association of Securities Dealers Automated Quotations (NASDAQ)-style secondary board was delayed, undermining investor confidence in the venture capital market. Nearly a hundred of domestic venture capital firms based in Shenzhen closed that year. The decline of venture capital investment in the early 2000s was exacerbated by the “dot-com burst” in 2001 and the global economic slowdown in 2002.

In 2004, the Small and Medium-sized Enterprise board (“SME board”) was launched to provide a new exit channel for startups. However, the new board did not substantially improve the exit environment for venture capital-backed firms because listing requirements for the SME board were very similar to those of the Main Boards. Both were very stringent on profit requirements. Hence, few venture capital backed firms were able to list on the SME board.

Figure 1 provides a timeline for the venture capital market in China. It illustrates how the venture capital market is largely developed and constrained by the development of the domestic stock market. On one hand, continuous improvements to China’s capital markets since year 2008 have contributed significantly to the growth of venture capital fund raising in China. For example, the long-awaited secondary board - the ChiNext board - was established in October 2009. In 2011, both the number of newly established venture funds and the amount raised doubled.

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23 In 1999, the Ministry of Science and Technology, the State Development Planning Commission, the State Economic and Trade Commission, the People’s Bank of China, the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission jointly issued the “Opinions on Establishing a Venture Investment Mechanism”. See also The Circular of the State Council Concerning the Approval of the National Development Zones for New and High Technology Industries and Relevant Policies and Provisions (1991), the Decisions Concerning Technology Innovations, Development of High-Technology and Realization of Industrialization (1999) and Several Opinions on the Establishment of the Venture Capital Mechanism (1999) Other measures included the Law of the PRC on Promoting the Transformation of Scientific and Technological Achievements 1996 and The Interim Measures of Shenzhen Venture Capital High Technology Industry, the latter of which was the first local regulation on venture capital firm.
25 In 2004, the Small and Medium-sized Enterprise Board was launched in Shenzhen, China.
Positive changes made to the stock market in 2012 and 2013 also contributed to an increase in venture capital fund-raising in 2014. These changes include the split share structure reform; the launch of National Equities Exchange and Quotation system; as well as the reopening of the IPO market at the end of 2013. In the third quarter of 2015, 192 Chinese enterprises listed on the three domestic markets, an increase of 37% as compared to the same period of the previous year. Funds raised from these 192 listings amounted to USD 23.173 billion, an increase of 72% from the previous year. Finally, larger growth in the number of listings and amount of funds raised can partly be attributed to the bull market in the A-share market in the first half of 2015.

On the other hand, numerous IPO closures have led to freeze-ups in venture capital markets. For instance, the closure of the IPO process in the period of December 2008 and June 2009, November 2012 to January 2014 was followed by substantial decreases in venture capital fund-raising in the following years as venture capitalists became concerned with the viability of IPOs as exit options. After the CSRC suspended new listings in July 2015, there were only 5 listings on domestic stock market in the third quarter of 2015, a sharp decrease as compared to previous quarters.

Figure 1: New Venture Capital Commitments over the Years and the Major Changes to the Stock Market (2002-2014)

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26 Since the government placed a moratorium on IPOs in 2011, Chinese venture capital firms have faced huge difficulty in fund raising and exit. However, that freeze was lifted early 2014, and since then venture capital investment has dramatically increased.


28 Id.


30 Full 2015 figures are not available as of the date of this article, thus 2015 data is not reflected in this table.
III. Venture Capital Exists in China: Some Empirical Findings

This chapter offers two interesting empirical findings on the correlation between the stock market and the venture capital market, as well as the special features of VC-backed exits in China.

A. The link between the Stock Market and Venture Capital

The section submits that the amount of venture capital raised in China is directly influenced by the health of the Chinese stock market. To show this, Figure 2 plots the number of VC-backed IPOs against new capital commitments to venture capital funds in China in the same year. Indeed, it will later be shown that regression analysis suggests a significant correlation between the number of IPOs and the amount of venture capital raised the following year (see Figure 3).

Figure 2: VC-backed IPOs and New Capital Commitments to Venture Capital Funds in China 2006 – 2014

Immediately noticeable from Figure 2 above is the sheer volume of exits via IPOs by VC-backed Chinese firms from 2006 to 2014. In 2014 alone, 172 venture capital backed companies went public in China, raising over 19 billion USD. Further, there seems to be a correlation between IPO number and funds raised. Except in 2008 and 2010, investors’ willingness to invest in venture capital funds and the number of VC-backed IPOs moved in tandem.

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31 Source: Annual Research Reports On Venture Capital In China, published by Zero2IPO.
A qualitative explanation of the data observed in Figure 2 will first be offered. From 2002 to 2010, China’s venture capital market saw steady growth, both in the number of new funds created and the total amount of funds raised, albeit with a minor decline during the 2008 financial crisis. Thereafter, the establishment of the ChiNext in 2009 and the expansion of qualified limited partners in 2010 increased the ease of exit through IPOs. Thus in Q1 2010, the average rate of return (ARR) of the SME board and the ChiNext was more than 10%. In Q2 2010, the ARR for IPOs on the ChiNext was 23.31%. Such developments significantly encouraged the growth of venture capital fund raising and investment.

However, in 2013, approval of IPOs in China’s A-share market was suspended for approximately 14 months. Accordingly, the number of venture-backed IPOs fell dramatically. With IPOs no longer available as a primary means of exit, a range of alternative exit channels emerged and mergers and acquisitions (M&A) became favoured as an exit mechanism. As the CSRC began to approve IPOs again in early 2014, venture capital financing experienced growth again.

Quantitatively, there is some statistical evidence reinforcing the visual correlation between the number of venture-backed IPOs and new capital commitments to venture capital funds. Following the approach adopted by Gilson & Black 1998, Figure 3 summarises the results of an ordinary least-squares regression of new capital commitments in year X+1 on the number of VC-backed IPOs in year X. Interestingly, statistical significance only emerges when the data is controlled for the number of months of IPO closure in year X. IPO closure is an important control variable being a rather unique feature of the Chinese capital markets.

It should be noted that these regressions do not and are not meant to conclusively explain the relationship between venture-backed IPOs and new capital commitment in China especially when presently available data is limited (to 8 observations only). Further, as alluded to throughout this paper, venture capital availability is influenced by numerous factors. This also explains why the statistical significance levels

33 A-shares refer to the shares traded on the two main boards of China- the Shanghai Stock Exchange and the Shenzhen Stock Exchange. A-shares are only available to Chinese citizens (what about China’s companies and other legal entities?).
34 The ordinary least-squares regression is a statistical technique that uses sample observations to predict the true extent the independent variable (in this case the number of VC-backed IPOs in year X) affects the dependent variable (in this case the amount of new capital commitments in year X+1). This is done by finding a linear equation that best fits the data (ie. a line which minimises the distance each sample point is from that line). The result is a coefficient for the independent variable that, loosely speaking, demonstrates how much the dependent variable changes with a marginal change in the independent variable. A result is then said to be “statistically significant” if the probability of observing such a relationship from the sample data given that no relationship in fact exists is smaller than an arbitrary “significance level” set by the researcher. This probability is captured by the p-value. Common significance levels are 10%, 5%, 1% and 0.01%.
35 Cf G Black and Gilson, supra note 4, where “year” was used as a control variable.
emerging from regressions 1 and 2 are, strictly speaking, not strong. A definite conclusion on the above relationship is rightly a challenge for a more specialised study.

Table 1: VC-backed IPOs, New Capital Committed To Venture Capital Funds In China, and IPO Window Closure (months) 2007 – 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>VC-backed IPOs</th>
<th>New capital committed to VC funds in the next year (US$Million)</th>
<th>IPO Closure (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>30</td>
<td>5,484.98</td>
<td>5</td>
</tr>
<tr>
<td>2008</td>
<td>100</td>
<td>7,310.07</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>43</td>
<td>5,855.86</td>
<td>1</td>
</tr>
<tr>
<td>2010</td>
<td>82</td>
<td>11,169.00</td>
<td>6</td>
</tr>
<tr>
<td>2011</td>
<td>331</td>
<td>28,201.99</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>312</td>
<td>9,311.55</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>144</td>
<td>6,919.07</td>
<td>2</td>
</tr>
<tr>
<td>2014</td>
<td>33</td>
<td>19,021.78</td>
<td>12</td>
</tr>
</tbody>
</table>

Figure 3: Ordinary Least Squares Regression Analysis of the Correlation Between VC-backed IPOs and New Venture Capital Raised:

<table>
<thead>
<tr>
<th>Mode</th>
<th>Intercept</th>
<th>VC-backed IPOs in X</th>
<th>IPO Closure (months) in X</th>
<th>Adjusted $R^2$</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capital contributio n in X+1</td>
<td>7263.94 (4091.02)</td>
<td>32.71 (23.23) t = 1.408 p = 0.209</td>
<td>NA</td>
<td>0.1232</td>
</tr>
<tr>
<td>2</td>
<td>Capital contributio n in X+1</td>
<td>-697.47 (5318.69)</td>
<td>59.88 (23.77) t = 2.518 p = 0.0533</td>
<td>1326.47 (683.57) t = 1.941 p = 0.1100</td>
<td>0.3998</td>
</tr>
</tbody>
</table>

B. The IPO as a Preferred Exit Option to M&A

Consistent with international practices, the principal venture capital exits in China include: (1) IPO; (2) M&A, in which the entire firm is merged with or acquired by another firm; (3) share transfer, in which the venture capitalists shares are bought by a

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36 Source: Annual Research Reports On Venture Capital In China, published by Zero2IPO.
37 Id.
third party; (4) share buyback,\textsuperscript{38} in which an entrepreneurial firm repurchase its own shares from the venture capitalist or venture capital fund which had invested in it; and (5) write-off.

According to Zero2ipo, there were 2245 exits by private equity and VC-backed firms in China from 2009 to 2013 (inclusive).\textsuperscript{39} This was composed of 1,433 exits via IPO (63.8%), 275 exits via M&A, 227 exits via share transfer, 177 exits via share buyback, 8 exits via write-offs, and 75 exits via other methods.\textsuperscript{40}

It is logical that the IPO was the most popular exit method; there were far fewer instances of other exits mechanisms in China. My interviews indicate that share buybacks are usually only opted for either when exits cannot be done via IPO or M&A or when the portfolio company no longer wishes to be controlled by the venture capitalist.\textsuperscript{41} This is unsurprising given further that share transfers and share buybacks usually mean relatively lower rates of return on investment. Moreover, there are relatively more legal restrictions and requirements placed on share buybacks under Chinese law.\textsuperscript{42} Finally, write-offs are naturally the venture capital fund’s last resort, only used reluctantly when portfolio company performance is, put mildly, unsatisfactory.

Further, Table 2 below shows that, in China more venture capital exits have taken place via IPO than M&A. In 2014, out of 444 venture capital exits in China, there were 172 exits via IPO (accounting for 38.7% of all venture capital exits) and 111 exits via M&A (25% of all venture capital exits).\textsuperscript{43} From 2006 to 2014, a total of 1247 VC-backed IPO exits took place - almost four times the number of VC-backed M&A exits in the same period (347).

A useful contrast can be made with the US, where a greater proportion of venture capital exits occur through M&A as compared to IPO (1996-2014). In 2015, the US venture capital industry saw 115 exits via IPO and 459 exits via M&A (see Table 2 below).\textsuperscript{44} From 2006 to 2014, only 539 VC-backed IPOs took place – roughly one-eighth of the number of VC-backed M&A exits in the same period (4076).

\textsuperscript{38} Share buyback by an entrepreneurial firm is permissible under the \textit{Measures for the Administration of Venture Capital Enterprises} and the \textit{Provisions on the Administration of Foreign-funded Startup Investment Enterprises}.

\textsuperscript{39} Zero2ipo, “[2014 Zhongguo VC/PE Tuichu Yanjiubaogao] China VC/PE Exits Research Report”.

\textsuperscript{40} Id.

\textsuperscript{41} Interview with Ms S, Gaorong Capital, 29 October 2015 (on file with author) and Ms K, Global Law Firm, 29 October 2015 (on file with author).

\textsuperscript{42} The \textit{PRC Company Law} Article 74 provides clear restrictions on companies which wish to repurchase their own shares.


\textsuperscript{44} National Venture Capital Association, \textit{2015 National Venture Capital Association Yearbook}, 18d ed (Thomson Reuters, 2015) at 75.
Table 2: China Venture Capital Exits via IPO and M&A
Number of exits via IPOs, M&As and share transfers of venture-capital-backed companies, as well as the corresponding amount of new capital committed to VC funds, from 2006-2014
Source: Zero2IPO & ChinaVenture

<table>
<thead>
<tr>
<th>Year</th>
<th>Methods of Exit</th>
<th>Total number of exits</th>
<th>Amount of new capital committed to VC funds (in US$Mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IPO</td>
<td>M&amp;A</td>
<td>Share transfer</td>
</tr>
<tr>
<td>2014</td>
<td>172</td>
<td>111</td>
<td>70</td>
</tr>
<tr>
<td>2013</td>
<td>33</td>
<td>76</td>
<td>58</td>
</tr>
<tr>
<td>2012</td>
<td>144</td>
<td>31</td>
<td>44</td>
</tr>
<tr>
<td>2011</td>
<td>312</td>
<td>55</td>
<td>41</td>
</tr>
<tr>
<td>2010</td>
<td>331</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>2009</td>
<td>82</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>2008</td>
<td>43</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>2007</td>
<td>100</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>30</td>
<td>25</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 3: US Venture Capital Exits via IPOs and M&A
Number of exits via IPOs and M&As of venture-capital-backed companies, as well as the corresponding amount of new capital committed to VC funds, from 2004-2014
Source: National Venture Capital Association & Thomson Reuters

<table>
<thead>
<tr>
<th>Year</th>
<th>Methods of Exit</th>
<th>Amount of new capital committed to VC funds (in US$Mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IPO</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>2014</td>
<td>115</td>
<td>459</td>
</tr>
<tr>
<td>2013</td>
<td>81</td>
<td>385</td>
</tr>
<tr>
<td>2012</td>
<td>49</td>
<td>477</td>
</tr>
<tr>
<td>2011</td>
<td>50</td>
<td>493</td>
</tr>
<tr>
<td>2010</td>
<td>67</td>
<td>525</td>
</tr>
<tr>
<td>2009</td>
<td>13</td>
<td>351</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>416</td>
</tr>
<tr>
<td>2007</td>
<td>90</td>
<td>488</td>
</tr>
<tr>
<td>2006</td>
<td>67</td>
<td>482</td>
</tr>
<tr>
<td>2005</td>
<td>58</td>
<td>446</td>
</tr>
<tr>
<td>2004</td>
<td>81</td>
<td>402</td>
</tr>
</tbody>
</table>

45 For 2008-2014 data.
46 For 2006-2007 data.
47 Total figure includes management buyouts and share buybacks.
48 See Zero2IPO, supra note 43.
49 “Share transfer” excludes management buyouts and share buybacks.
50 See National Venture Capital Association; supra note 44, at 27, 77 & 81.
Various reasons can be proffered to explain investors’ preference for IPOs to M&A in China, particularly during 2011 and 2012.

Firstly, IPO exits tend to give high returns on investments in China. As of December 31, 2015, the average price-earnings ratio (P/E ratio) of A-shares on the SSE and SZSE were 17.61 and 53.34 respectively - far higher than the average P/E ratio of shares on the Hong Kong Exchange (HKEx) Main Board (at 9.88).\(^5\) The P/E ratio for the SME board and the ChiNext and were even higher, at 68.06\(^5\) and 109.01\(^5\) respectively. In fact, SME’s board’s highest P/E ratio in 2015 was 85.65; ChiNext’s was 146.57.

Secondly, M&A transactions tend to require a high level of professional assistance and consequently create demand for M&A practitioners. A sophisticated M&A industry requires experienced entrepreneurs and management, within venture capital-backed companies themselves, who can create value for the companies. There is also a need for financial intermediaries, such as investment banks and accountant firms, which are able to provide professional advice throughout the M&A deal, such as helping the bidder identify the right target, negotiating the deal, and eventually reaching the right price. However, there is a shortage of sophisticated financial intermediaries which have the relevant expertise in China, due to the short history of China’s capital market.\(^5\) Given the limited domestic talent pool, banks have also struggled to find enough talent to sustain their operations.\(^5\) Therefore, few M&A transactions have been entered into and these deals commonly do not succeed.\(^5\)

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\(^5\) source: http://sme.szse.cn/
\(^5\) source: http://chinext.szse.cn/
\(^5\) See, e.g. The Boston Consulting Group, “The 2012 BCG 50 Chinese Global Challengers: End of Easy Growth” (2012), online: Boston Consulting Group Perspectives <https://www.bcgperspectives.com/content/articles/globalization_2012_chinese_global_challengers_end_of_easy_growth/?chapter=4> (that “few Chinese companies have developed a mastery of the M&A and postmerger integration processes … for many Chinese executives, dealmaking and deal integration are still foreign concepts. Their deals frequently fall short of their original goals. … [Chinese companies] they suffer from a lack of experience. Many Western companies have spent 30 or more years developing capabilities in evaluating, executing, and integrating deals.”)
\(^5\) See, e.g. Pricewaterhouse Coopers, “PwC Foreign Banks in China 2013 Report” (2014), online: Pricewaterhouse Coopers China <http://www.pwccn.com/webmedia/doc/63525186547653351_fbic_2013.pdf> at 28 (that “Nearly all foreign banks struggle to find and retain sufficient talent to support the continued growth of their mainland operation. Most foreign banks in China said their staff were overwhelmingly Chinese, but given the limited number of years of reform, the existing domestic talent supply is still limited.”)
Thirdly, it is suggested that the preference for IPOs may further be explained by cultural factors. It has been observed that Chinese entrepreneurs are generally very attached to their companies, and are thus unwilling to completely let go of the company via M&A.\(^\text{57}\)

Nonetheless, it is worth noting that there is an inkling of a trend towards exits via M&A in recent years, especially in the venture capital industry. There has been a twofold increase in transaction quantity from 76 in 2013 to 111 in 2014 (See Table 3). Likewise, the total value of M&A exits in China has doubled from USD 34,660 million in 2013 to USD 68,829 million in 2014.\(^\text{58}\)

Arguably, the growing experience and improving attitudes of investors contribute to a smoother M&A exit channel for venture capital investments. Findings from Deloitte have indicated that Chinese investors are increasingly more optimistic about market dynamics with respect to M&A and are developing an appetite for larger M&A transactions.\(^\text{59}\) Also, with these heightened expectations, Chinese investors have become more willing to involve professional advisors in their transactions. Notably, this includes engaging professional to resolve issues pertaining to post-merger integration – an aspect widely accepted in China as crucial to a successful transaction.\(^\text{60}\)

IV. The Existing Problems of and Impediments to VC-backed Exits
Although the IPO is the preferred means of exit for venture capitalists in China, listing on the Chinese stock market can be problematic. This chapter explores certain obstacles faced by venture capitalists in the process.

A. Main Board
The primary concern for venture capitalists in China is China’s approval-based IPO system that sets up stringent financial requirements for would-be issuers.\(^\text{61}\) Under the current approval-based system, offerings of shares are subject to tight administrative regulations. However, recent developments indicate a shift towards a more flexible system that accommodates the needs of venture capitalists and their investee companies.

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\(^{57}\) Interview with Mr. S, partner of Yuantai Law Firm in Shanghai, December 22, 2015 (on file with author).


\(^{59}\) See Deloitte, “More experienced buyers, higher return expectations: 2014 Greater China outbound M&A spotlight” (2014), online: Deloitte <http://www2.deloitte.com/content/dam/Deloitte/xe/Documents/About-Deloitte/me_csg_2014-china-outbound.pdf> at 31. Note though that this Deloitte study was conducted in relation to outbound M&A. (“Respondents are more optimistic about the market dynamics in the coming year compared with those in the 2013 survey.” And “Large M&A transactions will probably happen more frequently. Chinese M&A investors expect mid- and large-sized M&A transactions (US$150 million-US$500 million) will happen more frequently in the coming year. The expectations of small-sized M&A transactions (US$5 million-US$50 million) dropped significantly in the 2014 survey, showing Chinese investors were developing an appetite for larger transactions, especially for targets with higher valuations or with a leading position in their particular industry.)

\(^{60}\) Ibid.

\(^{61}\) Interview with Ms. S, Vice President of Gaorong Capital, October 29, 2015; Mr. G, Vice President, Chengwei Capital, 11 November 2015 (on file with authors).
controls. The Securities Law of the People’s Republic of China specifies the substantive requirements (shizhi yaojian) for the public issuance of stock: a company must have “sustainable profitability (chixuyingli nengli) and be financially sound” and “meet other requirements as prescribed by the securities regulatory authority under the State Council and as approved by the State Council.”\(^\text{62}\) In accordance with this statutory requirement, the Main Boards provide various requirements for an issuer. Among these are requirements on:

- the minimum duration that an issuer must have conducted continuous business operations for;
- profitability;
- cash flow;
- net asset ratios; and
- minimum share capitalization.\(^\text{63}\)

To illustrate, to list on the Main Board, a prospective issuer must have, within the past three accounting years:

- Either generated a cumulative cash flow exceeding RMB 50 million or earned a cumulative business revenue exceeding RMB 300 million; and
- Reported profits with an aggregate amount exceeding RMB 30 million.

These requirements are extremely high for a young entrepreneurial firm and thus become formidable obstacles preventing these firms from listing their shares on the Main Board. A recent survey also found that a major reason for the CSRC to object listings is the “sustainable profitability”.\(^\text{64}\)

Moreover, under the approval-based IPO system, the CSRC controls the listing process, invariably increase inefficiency and time costs for IPOs. The whole listing process on China’s Main Board usually takes an average of 1 to 3 years.\(^\text{65}\) This is considerably longer than the same process on the New York Stock Exchange (“NYSE”), which clocks an average of 12 to 16 weeks from start to finish,\(^\text{66}\) or the NASDAQ which needs an average 5 to 6 weeks for listing.\(^\text{67}\) Indeed, the listing process could take even longer if the CSRC suspends the IPO window altogether. In fact, from January 1994 to December 2015, the IPO window has been suspended 9

\(^{62}\) Article 13, Securities Law of the People’s Republic of China

\(^{63}\) See Appendix 1 for detailed requirements.


\(^{67}\) NASDAQ's Initial Listing Guide - Nasdaq Listing Center, at 3
times for a total of 52 months. In other words, the IPO window was suspended for almost 20% of the 264 calendar months in that period. Resultantly, many pre-IPO firms missed the strategic IPO timings – a problem exacerbated by how high-technology companies are often dependent on high growth and agility. Therefore, a number of firms in the Technology, Media & Telecommunications (“TMT”) industry have chosen to list their shares on overseas stock markets instead of domestic ones. As of December 31, 2014, 168 Chinese enterprises with combined market capitalization of 3.99 trillion RMB have listed in the U.S., including the top IT giants Alibaba, Tencent, JD.com, Baidu, Sohu and NetEase.

Further, for a long period of time, stock pricing (especially in relation to the P/E ratio) in China fell under the strict control of the CSRC. Although there have been improvements to the CSRC’s pricing control system over the years, the CSRC still indirectly controls the pricing of a stock. According to the Circular on Relevant Issues Concerning IPO Pricing, additional disclosure and internal approval requirements are required where the P/E ratio of the newly issued shares is 25% higher than the industry average. The assumption that industry averages exist and are instructive seems somewhat unrealistic for high-technology startups that typically market themselves on being in a class of their own with unique, innovative products. Further, the CSRC may also require the issuer and the underwriter to re-conduct a pricing enquiry or to re-submit an IPO application to the CSRC under certain circumstances. Therefore, the price of a stock may not objectively reflect the value of the company. In turn, such price distortions undermine that market’s ability to efficiently allocate capital.

B. SME boards

In light of how difficult it was for SMEs to be listed on the Main Board, the SME board was launched on 17 May 2004 to provide a new financing channel for SMEs in China. The listing of COSHIP Ltd Co. on the SME board in 2006 was the first venture-backed exit on China’s SME board. However, the SME board’s ten-year experience has proven that it does not provide a suitable exit channel for venture capitalists. This could be attributed to one of its major shortfalls – stringent listing requirements and an investment threshold that is almost the same as those of the Main Board.  

68 Zero2IPO. See Table 1 above for data for 2007-2014.  
71 Issued on 30 May 2012 by the CSRC.  
72 Article 8 of the Circular on Relevant Issues Concerning IPO Pricing.  
73 Articles 9 and 10 of the Circular on Relevant Issues Concerning IPO Pricing.  
Board. For example, the issuer must have reported profits in the last three consecutive years; its net profits for the last three years cannot be less than RMB 30 million; the issuer must either have with an overall cash flow of above 50 million RMB in aggregate or an annual revenue of over 300 million RMB in the past three accounting years. These stringent requirements price out most VC-backed firms.

C. ChiNext

In a bid to build up a multi-layered capital market by setting up a new secondary board in China, the ChiNext, which literally means “China Next” and which is also known as the Growth Enterprise Board (chuangyeban), was officially launched on October 30, 2009 on the SZSE. ChiNext is aimed only at attracting firms in high-growth sectors and high-tech firms and seeks to meet pent-up demand from SMEs with difficulties in securing financing. ChiNext provides more relaxed listing requirements as compared to the Main Board and the SME board. For example, a company is only required to have a share capital of not less than 30 million RMB post-IPO (as compared to 50 million RMB for the Main Board and SME board). ChiNext’s profit requirements are also lower than the Main Board and SME board.

The launch of ChiNext did facilitate VC-backed exits. In a five-year span since ChiNext was launched, 519 exits were made via ChiNext, with a market return of 743.4 billion RMB. As of October 23, 2014, 519 companies that were backed by venture capital/private equity were listed on ChiNext.

Nonetheless, as compared to NASDAQ, which is an important exit venue for high-tech firms, the financial requirements of ChiNext are stricter and less flexible. The NASDAQ adopts 11 sets of standards for three different market tiers (i.e. NASDAQ Capital Market for firms with small market capitalization; NASDAQ Global Market for those with medium market capitalization and NASDAQ Global Select Market for those with large market capitalization). In contrast, ChiNext adopts only two standards on profitability requirements, as follows:

1. Either:
   a. The issuer must have been profitable for the last two consecutive years; and
   b. The issuer’s net profits in that period must have increased continuously; and
   c. The issuer’s net profits in that period must have exceeded RMB 10 million;

See Appendix 1.

See Appendix 1.

See Appendix 1.


See Appendix 1
2. Or:
   a. The issuer must have been profitable in the year immediately preceding; and
   b. The issuer’s net profits in that period must have exceeded RMB 5 million.

In addition, revenue for the most recent year must have been over RMB 50 million and a growth rate of at least 30% in the last two years.81

While a high financial standard for a relatively young exchange is necessary to reduce speculation and increase investor protection, it is argued that the stringent listing requirements of ChiNext makes it difficult for a startup that has yet to be profitable to be listed on the ChiNext.

D. The Lack of a Dual-Class Share Structure

Dual-class share structures are typically characterized by one class of shares with only one vote per share (ie the common shares which usually offered to public investors); and another class of shares with multiple votes per share (the superior class of shares usually issued to the founders).82 Dual-class share structures are commonly used in VC-backed firms when they seek listing as they enable the entrepreneurs to maintain control of the firm even after the firm is listed.

Nevertheless, unlike in the U.S. where dual-class share structures are permissible, companies incorporated in China are generally not allowed to offer shares with multiple voting rights. The Chinese stock market has long been constrained by the “one share one vote” system and allows only one class of shares, i.e. the ordinary share.83 Arguably, the lack of the dual-class share structure has contributed to the fact that a sizeable and increasing number of Chinese enterprises have chosen to list on overseas stock exchanges. In the year of 2014, 11 out of 15 Chinese companies listed on the NYSE and the NASDAQ adopted the dual-class structure, including the two largest Chinese e-commerce companies Alibaba and JD.com.84

As these high-growth and high-potential companies have chosen to list on overseas stock exchanges, China’s stock markets have lost these IT giants as valuable potential applicants. This inevitably reduces the attractiveness of the domestic stock exchanges, as many domestic investors are unable to partake in the considerable investment returns brought by the rapid growth of these companies.

81 Art 11 of the Administrative Measures for Initial Public Offerings and Listing on the Secondary Board.
83 The “one share, one vote” principle was specified under Article 126 of the Company Law of the People’s Republic of China. In Chinese academia, there are arguments that while non-listed limited liability companies are not prevented from issuing dual-class shares in theory, these companies are unable to issue dual-class shares in practice.
Meanwhile, with the improved IT infrastructure, there is a considerable number of high-tech companies in China. For instance, in “Chinese Silicon Valley” – Zhongguanchun, 49 start-ups were birthed daily in 2014. With the expansion and urgent financing needs of these high-growth startups, there is a reasonable demand within the founders of these firms for a dual-class share structure. Arguably, the adoption of dual-class share structures in China will give domestic entrepreneurial firms greater flexibility in terms of capital structures and provide domestic investors with a wider range of investment opportunities.

V. Major Steps towards a Better Exit Environment and the Way Forward

Given increasing demand from large number of SMEs, startups and entrepreneurs, Chinese governments are taking substantial steps to facilitate the mutual development of the stock and venture capital markets. For instance, the SSE is planning to launch a NASDAQ-style new market for small and innovative companies - the Strategic Emerging Industries Board (chuangye xinxing ban) in 2016. This part examines two of the major steps taken by Chinese regulators and their implications for the venture capital market. It also makes suggestions for future law reform to facilitate venture-backed exits.

A. The Launch and Expansion of the New Third Board

1. The Special Features of the New Third Board

The National Equities Exchange and Quotation (“NEEQ”, quanguo zhongxiaotiye gufenzhuanrang xitong) system, more commonly known as the New Third Board, is a national stock exchange designed for medium, small and micro-sized businesses (zhongxiaowei qiye). It is the third national stock exchange in China after the SSE and the SZSE. It is also the first company-type stock exchange in China – the New Third

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86 While there is attractiveness of dual-class share structure to entrepreneurial management, numerous problems would also arise from the use of dual-class share structure, such as the potential risk of corporate abuse by the management. Due to the concentrated shareholding structure in Chinese listed companies, the major corporate governance issue within a typical listed company is the conflict between controlling shareholder and minority shareholder. Given such circumstances, a concern for adopting dual-class share structure is it may exacerbate the conflict.


Board is administered by a special purpose company that was registered on 20 September 2012 and officially operated since 16 January 2013.\textsuperscript{89} The New Third Board began in 2006 as a trial over-the-counter ("OTC") programme involving only a few high-tech enterprises in Beijing’s Zhongguancun Science Park. In 2013, the pilot program was expanded to cover all qualified companies nationwide.\textsuperscript{90} A year later, the market maker mechanism (see page 21 below for a detailed explanation of this characteristic) was introduced by the Regulations of the National Equities Exchange and Quotations on the Administration of Market Makers' Market-Making Business on 5 June 2014.

Arguably, the launch of the New Third Board moved China’s stock market a step closer to the market-oriented model. It would greatly facilitate financing for VC-backed companies.

First, unlike the Main Boards, the SME board, and the ChiNext which employ the approval-system for IPOs (see Part IV above) the New Third Board uses the filing system - board listings will not be subject to CSRC approval. Instead, it is for the New Third Board itself to approve the listing based on the application materials submitted and prepared by the sponsors of the applicant companies.

Second, the relatively low listing requirements and shorter listing timeline greatly facilitate financing for small, high-growth Internet enterprises, especially companies that were hitherto unable to meet the listing standards of the Main Board, the SME board and/or the ChiNext.

As shown in Appendix 1, amongst all stock markets in China, the New Third Board has the least stringent listing requirements. Listing on the New Third Board requires a company to have a valid existence for two years; the other three boards (to recall: the Main Board, the SME board, and the ChiNext) require three years.\textsuperscript{91} Meanwhile, unlike the other three boards that have minimum pre-IPO profit requirements, the New Third Board only requires a company to have “sustainable profitability” and does not specify detailed requirements.\textsuperscript{92} Further, while the other boards have a minimum requirement of 200 shareholders, companies listing on New Third Board may have less than 200. There is also no requirement on cash flow, net assets or total share capital for companies listing on New Third Board.\textsuperscript{93} Finally, unlike listing on

\textsuperscript{89} Id.
\textsuperscript{90} On 14 December 2013 after the State Council issued the Decision of the State Council on Issues concerning the National Equities Exchange and Quotations.
\textsuperscript{91} Appendix 1.
\textsuperscript{92} Id.
the Main Board which usually takes one year,\textsuperscript{94} listing on the New Third Board only needs an average of 6 months.\textsuperscript{95}

Third, companies listed on the New Third Board can seek financing through various means including, for instance, private placement of ordinary shares, private issuance of preference shares, issuing convertible debt, and privately-raised company bonds. These investment tools meet the particular needs of the high-growth enterprises that constantly need urgent funding and prevent the problems of share dilution after IPO. Moreover, the founders and the management of VC-backed firms are typically instrumental to these firms’ success and financing through non-public means complements the nature of these high-tech firms well.

Fourth, unlike the Main Board, the SME board and ChiNext, which mainly use the order-driven mechanism (jingjia jiaoyi), in which trades occur between buyers and sellers by biding, the New Third Board runs on the market maker mechanism introduced in 2014. Under the market maker system, transactions are not concluded directly between buyers and sellers. Instead, they run through a market maker. Market makers are employed by many leading stock markets such as NASDAQ and London Stock Exchange. The market maker has to meet certain trading requirements and bear various obligations in order to “make the market”. These include responding to quote requests within a set time limit and providing continuous stock quotes within certain trading hours. Because of these features, the market maker mechanism has been empirically proven as an important intermediary that increases liquidity, price efficiency and price stability in stock markets.\textsuperscript{96}

Fifth, a consultation paper on the market tiers of the New Third Board, modelled on the NASDAQ’s three-market-tier system (see page 18 above), was issued on 20 November 2015. The paper proposed two different market tiers for the New Third Board, i.e. the Basic Tier (Jichuceng) and the Innovation Tier (Chuangxinceng), as well as three different sets of rules to meet the varying needs of different companies. It is suggest that this is likely to create more exit opportunities for venture capitalists and investors.

With a series of positive laws and policies being promulgated to facilitate the development of the New Third Board, this Board has emerged as an attractive and important financing channel for small and medium sized companies. Total funds raised on the New Third Board reached RMB 850 billion as of May 2015, an increase


of 621% from less than RMB1.1 billion in the entire year of 2013.\textsuperscript{97} In 2014 alone, trading volume on the New Third Board grew to 1.21 billion shares with a turnover value of RMB 6.67 billion. As of December 31, 2015, 5129 companies were listed on the New Third Board, with trade volume reaching a new high at 102.363 billion shares. Total market capitalization also reached 2458.4 billion, reaching new milestones both in terms of trading volume and turnover value (Figure 4).\textsuperscript{98}

2. Existing Problems and Possible Solutions
Nevertheless, as a new market, the New Third Board is not without its problems. One typical issue is the low liquidity of the market – 2816 out of 5074 listed companies on the New Third Board have not seen any transaction in their shares via the Board as of December 29, 2015.\textsuperscript{99} Its average daily turnover was only 1457.4610 million as of December 31, 2015,\textsuperscript{100} which was much less than that of the SZSE.\textsuperscript{101} Arguably, the high investor threshold of the New Third Board has partially contributed to the low liquidity of the market. For institutional investors, only institutions with legal personality and a registered capital of more than 5 million RMB or partnership enterprises with paid-up capital of more than 5 million RMB can trade on the market.\textsuperscript{102} For individual investors, the admission standard was also 5 million RMB in the securities account.\textsuperscript{103} While a high investor threshold is ostensibly necessary given the majority of companies listed on the New Third Board are high-risk and high-growth companies,\textsuperscript{104} such strict requirements are not found in the NASDAQ which similarly hosts a number of high-risk venture backed-firms. Thus, the New Third Board may need to consider lowering the threshold.

Second, as the CSRC administers and controls the licensing of market makers, there are only 83 qualified market makers in China. The market has come to be “monopolized” by a few market makers which in turn control the pricing of shares in New Third Board-listed companies.\textsuperscript{105} Meanwhile, as the market maker is a new trading mechanism in China, there is still a lack of sophistication in and familiarity with this mechanism among qualified market makers.\textsuperscript{106}

\textsuperscript{98} National Equities Exchange and Quotations Market Information, online: Homepage of the New Third Board \url{http://www.neeq.com.cn/index} (hereinafter NEEQ market data).
\textsuperscript{99} Id.
\textsuperscript{100} 253.6547606 billion as of December 31, 2015. See NEEQ data, supra note 88.
\textsuperscript{101} Shanghai Stock Exchange Market Data, online: \url{http://www.sse.com.cn/market/index.shtml}.
\textsuperscript{102} See Appendix 1.
\textsuperscript{103} Id.
\textsuperscript{106} Interview with Ms. K, Global Law Firm, October 29, 2015 (on fine with author).
It is suggested that the CSRC should strengthen supervision on market makers so as to prevent market manipulation, insider trading and other economic crimes. One possible way of doing so is requiring the market maker to disclose trading information in a timely manner. Moreover, more qualified market makers should be permitted to trade in the New Third Board. Arguably, the emerging unified national credit reporting system run by the People’s Bank of China should be integrated with the stock exchanges so as to encompass more enterprises and individuals within the market. Further, overseas markets such as NASDAQ and London Stock Exchange operate mixed trading mechanisms which utilize both the market maker and order-driven models. It is suggested that the New Third Board may also consider introducing the order-driven mechanism to broaden the choices of trading mechanisms and prevent a monopoly by existing market makers.

Third, although the New Third Board is targeted at high-growth, high technology companies, the low listing requirements of the New Third Board have attracted a large number of companies from different industries, including many low quality companies which were not able to be listed on the Main Boards. Meanwhile, unlike the Main Boards which impose the price limit of ±5% daily on bad performing firms assigned the special treatment (ST) status, stocks listed on the New Third Board do not have daily price limits. Thus some stocks may swing 300 to 400 per cent a day. On the one hand, introducing daily price limits may relieve the concerns of investors, especially long-term institutional investors in the New Third Board. However, on the other hand, regulatory price limits arguably work against free market efficiencies. Therefore, how to solve this issue is a big challenge facing by the New Third Board.

109 E.g. Shenzhen Stock Exchange Trading Rules, Rule 3.3.15; Shanghai Stock Exchange Trading Rules, Chapter 2 Rule 14.
B. Reform of the IPO Regime

China’s IPO regime has long been subject to tight administrative controls commonly blamed for distorting the capital market and encouraging official corruption. Under the current approval system, many aspects of the securities offering are heavily regulated, such as the pace of listing, price of shares, and permitted industries, significantly hampering the efficiency of the capital market as well as the operation of market forces. As mentioned above, due to the difficulties in listing on China’s stock markets, many Chinese companies, especially high-growth and Internet companies

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have chosen to turn to overseas capital markets for listing. To address this issue, the CSRC is taking a revolutionary step to reform the IPO system from the approval-based system to a U.S.-style registration system (zhucezhi). The year 2015 saw a significant move in orienting China’s stock markets to market demands and deepening the IPO regulatory reform. On 20 April 2015, the draft bill of the Securities Law of the People’s Republic of China was published and specified the new registration system of stock issuing and listing.

1. A Brief History of China’s IPO Regime

China’s IPO system has undergone much different iteration since the 1990s. Hence, a brief detour into the history of China’s IPO regimes is necessary to properly appreciate the implications of the proposed registration system.

The first system to be implemented in China was strictly planned “Quota Management” system (e du guanli). From 1993 to 1995, prospective issuers were required to go through two levels of administrative approvals. First, the issuer must obtain share issue quotas from local governments or central ministries. Second, the approved stock issuance application must be reviewed by the CSRC who would then scrutinise the value and prospects of the company and decide the volume, issue price, method of distribution, and timing etc. of the shares to be issued.

From 1996 to 2000, the IPO system transitioned into the “IPO Number Management” (zhibiao guanli) system. Simply put, the State Planning Commission and the then State Council Securities Committee (“SCSC”) would first set a the total allowable scale for IPOs nationwide. Accordingly, the CSRC would then set a quota for the number of IPOs, based on market conditions, and instruct provincial governments and the relevant administrative departments accordingly. These local bodies would then recommend preselected enterprises for listing, subject to review and approval by the CSRC and SCSC.

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112 “China mulls draft law to ease regulation on securities”, Xinhua News (20 April 2015), online: Xinhuanet <http://news.xinhuanet.com/english/2015-04/20/c_134166615.htm> (In April 2015, a draft amendment to the Securities Law was read by the Standing Committee of the National People's Congress (NPC). The draft amendment outlined a stock issuance registration system that would replace the current examination and approval system. This would mean the stock issuance examination committee under the Securities Regulatory Commission will dissolved.)
113 On 25 Apr 1993, the State Council of the People’s Republic of China issued Provisional Regulations on the Administration of Share Issuance and Trading, signaling the official establishment of the administrative approval system.
114 People’s Governments of the province, autonomous regions, municipality directly under the Central Government or municipality listed separately under State plan (collectively referred to as the “local governments”).
116 In 1996, the State Council Securities Committee (“SCSC”) published Opinions on Work Arrangement for the National Securities & Futures Market in 1996.
117 Supra note 115.
118 In 1997, the CSRC issued the Circular on the Improvement of the Share Issuance Work in 1997, which implemented an additional administrative procedure that sought to examine the pre-selection materials for
In 2001, the “Channel System” (tongdazhi) was established. Each securities firm could only recommend a certain number of companies to apply for IPOs. If a securities firm was qualified to be a main underwriter, it could obtain a channel quota from two to eight from the CSRC. Notably, recommendations could only occur in succession. Initially, this meant that only when a recommended issuer had been approved could the next recommendation be made. On 24 June 2001, the policy was amended such that the first recommendation had to be listed before the next one could be made. It is evident therefore that under the channel system, the number of IPOs was still limited and controlled. Nonetheless, compared to previous systems in which the issuers were administratively selected, underwriters have the right to recommend issuers and to bear the risks and of an IPO to some extent.

Next, from 2004 till date, the Sponsorship System has been used (baojianzhi). Under this regime, certified sponsors may recommend companies for stock issuance and listing. They are required to instruct, assist, and guide companies on information disclosure, as well as to guarantee that all financial information provided in the IPO prospectus is truthful. The Sponsorship System reinforces the responsibility and accountability of the sponsors, though the rights of approval for IPO applications are still vested with the CSRC.

2. The Forthcoming Registration System
On 27 December 2015, the standing committee of the National People’s Congress approved a proposal to revamp the IPO system (the Proposal), authorising the State Council to implement changes to the system that could be made in March 2016. Under the registration-based system, the market, rather than the regulator, would play the decisive role in allocating resources. This part examines the potential implications of the IPO reform for the stock market and the venture capital market.

enterprises applying for IPO. The CSRC would take over the role of pre-selecting enterprises recommended by local governments or the departments in charge of central enterprises. This procedure in turn changed the simple old practice of local recommendation under the two-level administrative review system, and ushered in an examination mechanism prior to any formal selection.

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On 27 December 2015, the standing committee of the National People’s Congress approved a proposal to revamp the IPO system (the Proposal), authorising the State Council to implement changes to the system that could be made in March 2016. Under the registration-based system, the market, rather than the regulator, would play the decisive role in allocating resources. This part examines the potential implications of the IPO reform for the stock market and the venture capital market.

.enterprises applying for IPO. The CSRC would take over the role of pre-selecting enterprises recommended by local governments or the departments in charge of central enterprises. This procedure in turn changed the simple old practice of local recommendation under the two-level administrative review system, and ushered in an examination mechanism prior to any formal selection.

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Supra note 115. Further, in the Opinions on Further Promoting the IPO System Reform, online: <http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201401/t20140108_242271.html> that under the registration-based IPO system, the CSRC said it would focus on compliance review of the new listing candidates without judging the profitability of the IPO companies; the timing of new share issuance and how to issue shares will be determined by the market. This was in the hope that valuations of new share offerings will better reflect market demand and supply.
The major feature and key objective of the new registration system is the shift from an administrative regime towards a market-driven one. Presently, IPO applications are subject to CSRC approval. Under the new system, however, financial intermediaries will be primarily responsible for the substantive verification of such applications.124

Under the registration system, the main role of the stock exchanges is to assess the “completeness, consistency, and intelligibility” (qibeixing, yizhixing, kelijixing) of application materials submitted by issuers. The completeness requirement mainly refers to an inquiry as to whether the contents, scope and degree of the materials have satisfied disclosure rules and provide necessary and sufficient information for investors to make informed decisions.125 The consistency requirement concerns the reasonableness of the operating conditions of the enterprise as disclosed, the logicality of financial statements articulated, and the extent financial and non-financial data corroborate.126 Finally, the intelligibility requirement requires that the language and expression of the submitted materials are succinct and understandable.127

Upon completing the review of the application materials, if the stock exchange deems the application acceptable, the stock exchange will issue a favorable opinion and submit this, together with the application materials, to the CSRC for registration.128 The CSRC will then validate the registration within a prescribed timeframe from the date of application unless a dissenting opinion is issued by the stock exchange.129

3. Implications for VC Backed-IPOs
It is submitted that the shift from an administrative approval-based system to a registration-based on would greatly simplify the IPO process and substantially reduce transaction costs for venture backed-IPOs. In line with the government policy to encourage innovation and entrepreneurship, the new system will also greatly facilitate capital financing for SMEs and enable entrepreneurs themselves to be rewarded financially from the listing.

Second, the shift would likely impact Chinese venture capital firms’ choice of portfolio companies and investment timings. Under the current system, the regulator rather than the market decided the price of an issuer’s shares. Since the CSRC controls the IPO process, investors are likely to presume that a successfully listed company is financially strong and has high potential, having survived through the tedious and burdensome CSRC approval process. This has partially contributed to the extremely high P/E ratios on China’s stock markets.130 Therefore, in the past few

125 Id.
126 Id.
127 Id.
128 Id.
129 Id.
130 See text accompanying supra notes 51-53.
years, a number of venture capital firms which traditionally invest in early-stage startups became inclined to invest in pre-IPO projects so as to get fast and high returns.  

However, after the impending IPO system reform, the market will presumably play a more decisive role in capital allocation and price setting. The pre-IPO phenomenon among venture capital funds is likely to diminish. Venture capital funds may shift back to investing, as they traditionally did, in early-stage portfolio companies, thus providing funding for more nascent companies that may actually need financing more.

Nevertheless, it is argued that more elaborate rules must be issued to allow the implementation of registration system to effectively re-orient China’s stock markets onto a market-driven track. Specifically, many auxiliary legal reforms and institutional improvements are needed. As alluded to above, these include enhancing investor protection, building and attracting more professional financial intermediaries and sophisticated investors, promulgating a well-designed delisting mechanism, and establishing a competent regulatory body with effective public enforcement. In terms of shareholder protection, for instance, while shareholder lawsuits, especially in the form of class action suits, are an effective shareholder remedy in the US, China does not have any legal mechanism enabling class actions. In further contrast with the US, shareholders in China, especially minority shareholders, are less active and often hesitate to sue upon any rights. 132 This problem is exacerbated by how firms in China typically have highly concentrated shareholding structures. 133 Therefore, in order to address potential risks of management abuse in the listed companies, regulatory authorities may consider imposing a stricter information disclosure regime.

VI. Conclusion

At first glance, China’s thirty-years of successful economic development does not conform with LLSV’s legal origin theory that “law matters” in economic development. 134 Nor does China’s sustained economic success square with Western notions of the “rule of law” as a concept premised on a rights-based legal system. 135

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133 Id.
Nonetheless, academics have argued that administrative governance has been pivotal in the development of China’s stock markets. Some have even argued that the government has no alternative but to play an even larger role in the stock markets.

Indeed, it is clear from this article that law, especially business–related law from the Securities Law to administrative regulation issued by the State Council and trading rules issued by the stock exchange, has been a key factor in the creation and growth of China’s stock markets (see also Appendix 2). By enacting an abundance of laws and initiating various law reforms, China has developed a strong underlying legal and regulatory infrastructure to facilitate venture backed-IPO exits.

China’s institution-building experience in area of stock market offers interesting evidence of how government efforts are facilitating the mutual development of the stock market and the venture capital market. Preliminary empirical results present above suggest that the legal environment driven by efficient stock market has significant impact on the venture capital market in China, particularly when it comes to investors and venture capitalists’ investment decisions. Favourable investment policies were typically accompanied by observable increases in venture capital availability; IPO window closures heralded the exact opposite. Indeed, the connection between the stock and venture capital markets is not unique to China, having been observed empirically in Europe and more generally around the world.

The article also shows that the Chinese government has made significant efforts to develop China’s stock markets and improve the exit environment for venture capital investments. This is especially through enacting laws and initiating regulatory reforms, including the recent IPO system reforms and the launch of the New Third Board. The evolving IPO system and the development of the multi-layered capital markets also provide an instructive example on the changing role of the government in capital allocation as it transitions from a direct participant in the market to a mere regulator and facilitator.

However, despite China’s tremendous progress towards cultivating a favorable regulatory environment for the VC-backed exits, there remain various impediments within the stock markets which may hinder the development of the venture capital

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139 See Bonini and Alkan, “The Political and Legal Developments of Venture Capital Around the World” (2012) 39 Small Bus Econ 997. This study analysed data from 16 countries around the world and using new statistical methods found evidence confirming LLSV’s hypothesis.
industry\textsuperscript{140}. The effect of the newly introduced registration system and the various undergoing reforms conducted by the New Third Board also remains to be seen.

Meanwhile, on top of a robust stock market, an effective venture capital market also requires a wide range of complex institutions, specifically sophisticated financial intermediaries, strong investor protection and effective court enforcement. Ultimately, there is significant distance to cover before China’s stock market can play a meaningful role in allocating capital in the venture capital market and strike a proper balance between government control and market autonomy.

\textsuperscript{140} Some of the problems identified in this article have indeed persisted for a long time. See Wang Jiangyu, supra Note 128 at pp 32-44, as well as Victor Yeo, “China’s Equity Markets: A Legal and Regulatory Perspective of Foreign Participation” (1995) 7 Asian Business Law Review 20 at 26-29, for earlier critiques of the Chinese stock market.
Appendix 1: A Comparison of the Listing Requirements under China’s various Stock Markets

<table>
<thead>
<tr>
<th></th>
<th>New Third Board</th>
<th>ChiNext</th>
<th>Mainboard / SME board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listing requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General requirements</td>
<td>The issuer must be a joint stock company that is not already listed and must either have (1) cumulatively more than 200 shareholders or (2) stock that can be publicly transferable</td>
<td>The issuer must be a joint stock company lawfully established and must have been in continuous operation for the last 3 years.</td>
<td>The issuer must be a joint stock company established in compliance with the Companies Law of the PRC and other conditions prescribed by the securities regulatory authority. Documents such as the company’s articles of association, the promoters’ agreement, and the prospectus must be submitted to the securities regulatory authority.</td>
</tr>
<tr>
<td>Number of shareholders</td>
<td>The number of shareholders is not allowed to exceed 200. If the number of shareholders is more than 200, the listing requires CSRC approval</td>
<td>Not less than 200 persons</td>
<td>Not less than 200 persons</td>
</tr>
<tr>
<td>Minimum duration of continuous</td>
<td>2 years</td>
<td>3 years, unless approval is otherwise granted by the CSRC</td>
<td>3 years, unless approval is otherwise granted by the CSRC</td>
</tr>
</tbody>
</table>

141 Art 2, Measures for the Supervision and Administration of Unlisted Public Companies (2013 Revised)
142 Art 11(1), Administrative Measures for Initial Public Offering and Listing on ChiNext (2009)
144 Decision III, Decision of the State Council on Issues concerning the National Equities Exchange and Quotations (2013)
145 Rule 5.1.1, Rules Governing the Listing of Stocks on ChiNext on the Shenzhen Stock Exchange (2014 Revision)
146 Art 10, Securities Law of the PRC (2006): “Issuing securities to more than 200 specific persons in aggregate or to unspecified objects will be deemed to be a public offering”
147 Art 2.1, National Equities Exchange and Quotations Share Transfer Business Rules (2013 Revision)
148 Art 11(1), Administrative Measures for Initial Public Offering and Listing on ChiNext (2009)
149 Art 9, Administrative Measures for Initial Public Offering and Listing of Shares (2006)
<table>
<thead>
<tr>
<th>us business operations of the issuer</th>
<th>Profitability requirements</th>
<th>Cash flow requirements</th>
<th>Net asset requirements</th>
<th>Minimum share capitalization requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable profitability(^{150})</td>
<td>Either: (1) positive net profits for the last 2 consecutive fiscal years, with cumulative net profits not less than RMB 10 million, or (2) positive net profit for the last fiscal year, with annual revenue not less than RMB 50 million.(^{151})</td>
<td>Nil</td>
<td>Nil</td>
<td>RMB 30 million(^{156})</td>
</tr>
<tr>
<td>Positive net profits for the last 3 consecutive fiscal years, with cumulative net profits for those 3 years not less than RMB 30 million(^{152})</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>RMB 50 million(^{157})</td>
</tr>
</tbody>
</table>


\(^{151}\) Art 11(2), *Administrative Measures for Initial Public Offering and Listing on ChiNext* (2009)


\(^{154}\) Art 11(3), *Administrative Measures for Initial Public Offering and Listing on ChiNext* (2009)


\(^{156}\) Art 11(4), *Administrative Measures for Initial Public Offering and Listing on ChiNext* (2009)

### Supervision of brokers

| Continuous supervision[^158] | For IPOs and new listings, the period of supervision is the remainder of the current year and the following 3 full fiscal years. For an already listed company that issues new stocks or convertible corporate bonds, the period of supervision is the remainder of the current year and the following 2 full fiscal years[^159]. | For IPOs and new listings, the period of supervision is the remainder of the current year and the following 2 full fiscal years. For an already listed company that issues new stocks or convertible bonds, the period of supervision is the remainder of the current year as well as the following full fiscal year[^160]. |

### Investor requirements

| Qualified investors, including: Institutional investors that are (1) corporate entities with a registered capital of RMB 5 million or more, or (2) partnership enterprises that have paid-in capital contributions of RMB 5 million or more[^161]; and Natural persons who (1) own securities that have a combined market value of more than RMB 5 million[^162], or (2) have more than 2-year experience in securities investment, accounting, finance or other related professional backgrounds[^163]. | Legal persons, funds, individuals[^164] | Legal persons, funds, individuals[^165] |

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[^158]: Art 2.1, National Equities Exchange and Quotations Share Transfer Business Rules (2013 Revision)
[^161]: Art 3, Detailed Rules of the National Equities Exchange and Quotations System on Management of Investor Fitness (for Trial Implementation) (2013 Revision)
[^162]: The 3 million requirement was increased to 5 million
[^163]: Art 5, Detailed Rules of the National Equities Exchange and Quotations System on Management of Investor Fitness (for Trial Implementation) (2013 Revision)
[^164]: Access to ChiNext must be tailored according to the risk bearing capabilities of investors, and investment risks must be adequately disclosed to them. Legitimate investor rights and interests must be protected, especially those of small to medium-scale investors: Art 10, Administrative Measures for Initial Public Offering and Listing on ChiNext (2014). Under the same regulations, investors who are natural persons with not less than 2 years of stock trading experience must sign an Investment Risk Disclosure Statement, and access to ChiNext may be provided two days later. Investors who are natural persons with less than 2 years of stock trading experience must not only
<table>
<thead>
<tr>
<th>Major Trading mechanisms</th>
<th>Auction trading</th>
<th>Auction trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer by Agreement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xieyizhuanrang); Dealer/Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>maker trading (zuoshishang)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

sign an Investment Risk Disclosure Statement, but must additionally sign a Special Statement acknowledging that he is voluntarily assuming the market risk: see the *Implementation Measures for Assessing Investor Suitability for ChiNext on the Shenzhen Stock Exchange* (2009).

365 There are no express qualifications regarding setting up a securities trading account, but investors will not be considered professional investors unless they satisfy certain requirements specified in Art 10 of the *Guidelines for Securities Investors* (2013). For instance, investors who are natural persons will not be considered professional investors unless their financial assets exceed RMB 5 million and they have more than 2 years of relevant investment experience, with not less than 40 stock market transactions in the last 12 months.
Appendix 2: Heavy Government Involvement:
Legal Developments in China’s Capital Markets
1990-2015

<table>
<thead>
<tr>
<th>Dates</th>
<th>Law/policy</th>
<th>Implications for the VC market</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1, 1990</td>
<td>Shanghai stock exchange was established.</td>
<td>First stock exchange in China.</td>
</tr>
<tr>
<td>December 19, 1990</td>
<td>Shenzhen stock exchange was established.</td>
<td>Second stock exchange in China.</td>
</tr>
<tr>
<td>December 28, 2003</td>
<td>“Interim Measures for the Stock Issuance and Listing Sponsorship System”</td>
<td>Established the sponsorship and sponsor accountability mechanism.</td>
</tr>
<tr>
<td></td>
<td>was published, marking an official shift from a system under which IPO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>applications were recommended by a lead underwriter to a sponsorship</td>
<td></td>
</tr>
<tr>
<td></td>
<td>system.</td>
<td></td>
</tr>
<tr>
<td>June 25, 2004</td>
<td>Establishment of the SME Board, a sub-board of the Shenzhen Stock Exchange</td>
<td>This breakthrough was not only an important step in building a multi-level capital market in</td>
</tr>
<tr>
<td></td>
<td>for the listing of small and medium-sized enterprises.</td>
<td>China, but was also seen as a prelude to the Growth Enterprise Market.</td>
</tr>
<tr>
<td>April 29, 2005</td>
<td>China Securities Regulatory Commission announced split share structure</td>
<td>Before 2005, local venture capitalists faced two difficulties: firstly, fundraising was</td>
</tr>
<tr>
<td></td>
<td>reform</td>
<td>inadequate; secondly, it was difficult to exit investments. The share structure reform created</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a smoother exit channel for venture capital.</td>
</tr>
<tr>
<td>May, 2005</td>
<td>The Small and Medium-sized (“SME”) Board was launched in 2005, for the</td>
<td>To meet the financing needs of different types of companies.</td>
</tr>
<tr>
<td></td>
<td>purposes of establishing of a multi-tier capital market system and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>providing a new fundraising platform for SMEs.</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Publication of related regulations such as the “Administrative</td>
<td>New approval-based IPO system came into effect.</td>
</tr>
<tr>
<td></td>
<td>laws.”</td>
<td></td>
</tr>
</tbody>
</table>

This table is not intended to be an exhaustive survey of all the legislations or polices issued since the launch of the Shanghai Stock Exchange and Shenzhen Stock Exchange in 1990. It only seeks to highlight the most important legal developments in relation to the development of the venture capital market and the stock markets in China.
<table>
<thead>
<tr>
<th>Date</th>
<th>Measures/Provisions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2006</td>
<td>“Equity Incentive Measures for the Administration of Listed Companies (Trial Implementation)” was published.</td>
<td>Introduced the stock option system and provided that restricted shares and stock options were to be the main equity incentive measures used.</td>
</tr>
<tr>
<td>September 8, 2006</td>
<td>“Provisions on the Merger or Acquisition of Domestic Enterprises by Foreign Investors” was implemented.</td>
<td>Facilitated the exit of venture capitalists.</td>
</tr>
<tr>
<td>September, 2007</td>
<td>China Securities Regulatory Commission set up a Listed Companies Mergers and Acquisitions Audit Committee, specifically responsible for reviewing applications for mergers and acquisitions by listed companies.</td>
<td></td>
</tr>
<tr>
<td>March 2011</td>
<td>State Council issued the Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic China</td>
<td>Decided to expand the pilot programme of the Agency Share Transfer System and to accelerate the development of OTC market.</td>
</tr>
<tr>
<td>November 30, 2013</td>
<td>The State Council of China issued the “Guiding Opinions on the Pilot Launch of Preference Shares”</td>
<td>Allowed the use of preference shares.</td>
</tr>
<tr>
<td>December 27, 2013</td>
<td>CSRC issued the Measures for the Supervision and Administration of</td>
<td>Officially expanded the New Third Board to nationwide.</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>April 20, 2015</td>
<td>Draft Bill of the Securities Law of People’s Republic of China was</td>
<td>Specified the registration-based IPO system</td>
</tr>
<tr>
<td></td>
<td>issued</td>
<td></td>
</tr>
<tr>
<td>June 5, 2014</td>
<td>Regulations of the National Equities Exchange and Quotations on the</td>
<td>Market maker mechanism introduced</td>
</tr>
<tr>
<td></td>
<td>Administration of Market Makers’ Market-Making Business was</td>
<td></td>
</tr>
<tr>
<td></td>
<td>promulgated</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exchange and Quotations Co. Ltd. for the Confirmation and Modification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of Stock Transfer Method</td>
<td></td>
</tr>
<tr>
<td>December 23, 2015</td>
<td>State Council decided on the launch of the Strategic Emerging</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Industries Board (chuangye xinxing ban) in 2016</td>
<td></td>
</tr>
<tr>
<td>December 26, 2015</td>
<td>CSRC issued Notice of National Equities Exchange and Quotations</td>
<td>Expanded the scope of institutional investors in the New Third Board to</td>
</tr>
<tr>
<td></td>
<td>System Co. Ltd. on Issuing Guidelines for Relevant Business of the</td>
<td>include fund companies, subsidiaries of the future companies, securities</td>
</tr>
<tr>
<td></td>
<td>National Equities Exchange and Quotations System</td>
<td>investment consultation companies, private funds, etc.</td>
</tr>
<tr>
<td>December 27, 2015</td>
<td>Announcement of the Implementation of the Registration system of IPO</td>
<td>Fundamental change of the IPO system from approval to registration-based</td>
</tr>
<tr>
<td></td>
<td>in 2016</td>
<td></td>
</tr>
</tbody>
</table>