China's International Financing Strategies

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Abstract

In order to finance rapid economic growth in the 1990's, Chinese companies tried different strategies for raising capital in international capital markets. The strategies ranged from the use of depository receipts to listings on major stock exchanges. The lessons learned from the experiences of the Chinese companies could be valuable for managers from many other countries seeking to raise capital in international capital markets and to investors seeking some foreign investments for their portfolios. In addition, there are many implications for researchers in international business and economics fields, such as: regulatory policies regarding overseas listings (registration procedures, foreign exchange control), initial public offering (IPO) processes for foreign companies, investment returns with and without international financing, efforts to narrow the differences between accounting standards, international investment banking and accounting services, and World Trade Organization (WTO) changes. While Chinese companies have been active in many capital markets, the focus of this study is upon the activities of Chinese companies in American capital markets.

1. Regulatory Policies Regarding Overseas Listings

"Overseas listing is an important policy for the reform and opening up of Chinese enterprises to the outside." (CSRC, 2000). Since the listing of Tsing Dao Beer on the Hongkong Stock Exchange (HSE) on July 1993, and Shang Petrochemical dual listing on NYSE and HSE, there are more than 70 stocks listed overseas. People are accustomed to call those listed in Hong Kong Stock Exchange 'H share", "N share" for New York listing, and "L Share" for London listing. Overall, Hong Kong serves the most active financing role. However, as U.S is the world's biggest capital market, U.S. listing is prestigious symbol for most Chinese companies who want a long-term relationship with international capital markets (Balfour, 2002).

For a long time, the State Securities Council worked along with the National Planning Committee and the National Economic Committee to choose the candidates, who are in capital hungry, and government supported industry, such as the petrochemical, steel, or freeway industry. The finalists always are those startup enterprises or key industry players. The strategy has been to use overseas capital raisings and listings to sustain China's long-term, strong economic growth. The overseas listings also help the state-owned companies becoming public companies. Managements have been learning the modern management knowledge, accounting system and regulations on well-established markets to compete with international rivals.

The PRC Securities Law, effective on July 1, 1999, stipulated that Chinese enterprises directly or indirectly offering securities overseas or becoming listed in secondary markets shall be approved by the domestic securities regulatory committee. In addition, The State Council issued document No.21 "Circular of the State Council on Further Strengthening the administration of Issuing Stocks and Going Public on Foreign Markets" in 1997, which sets the tone that the government authority encourages the state owned enterprises listing overseas directly. The candidate is handpicked by the government. As for the Chinese controlled companies registered overseas, these companies should follow the local law. However, the domestic equity holders of the controlling Chinese holders shall report the issue to the Chinese Securities Regulatory Committee (CSRC) for further reference (China online, 2000). In the year 2000 the CSRC released a circular, which reiterates the 1997 requirements and adds details of the minimum disclosure requirements companies must follow when preparing to list overseas (Chinaonline, 2000).

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There are also other regulations covering this area, including "Special Regulation of the State council on Raising Capital and Listing Overseas by a joint –Stock Company Limited", "The Compulsory Provisions for Articles of Association of companies for overseas listing". Relevant ministries also issued related regulations to ensure the smooth progress of overseas listing (CSRC, 2000)

The overseas Chinese companies are required to follow the foreign currency control policy. Right now, the current account exchange is fully convertible, however, the capital account is still strictly controlled. The Chinese government seems to have learned from the 1997 Asian crisis and may slowly to liberalize this field (Chinagate, 2002).

The candidate overseas listing company should register with the Foreign Currency Administration Bureau after they obtain the overseas listing approval from the CSRC. The capital raised should be transferred back to a domestic bank (Sohu, 2002).

To reinforce and strengthen regulatory communication and cooperation, China has been actively involved in international regulatory community. On April 28, 1994, the CSRC's then Chairman Mr. Liu Hong-ru signed the "Memorandum of Understanding regarding Co-operation, Consultation and the provision of Technical assistance" with the U.S. SEC's then Chairman Arthur Levitt. So far, China has signed 16 Memos of Understanding with other IOSCO members, such as Singapore, Britain, and Hong Kong. In 1998, China was elected as an executive member of the committee (IOSCO, 2002).

2. Initial Public Offering (IPO) and Listing Processes for Foreign Companies

The U.S. capital market is world's largest capital market. Having IPO projects in U.S. expands the access to capital, facilitates mergers and acquisitions. A pubic company can merger with other company by exchanging stocks in a secondary offering. In addition, a public company could benefit from the financial media, as their names will be mentioned or discussed. For non-U.S. companies, you can also diversify the shareholder base and enable U.S. employees to invest in the parent company. Meanwhile, being a public company means you have to share corporate control and profits with third parties. You competitors may know your strategic plan, your suppliers and big customers. Also, you will incur start up costs and ongoing fees, such as annual listings fees, and audits fees. The following table provides an estimate for costs of going public.

Offering Value	**$25 million**	**$50 million**
Total Shares Outstanding	5,880,000 Shares	5,880,000 Shares
Item	**Estimated Fee**	**Estimated Fee**
Underwriting Discounts & commissions	$1,750,000	$3,500,000
Item 13 from Registration Statement		
SEC Fees	9,914	19,828
NASD Fees	3,375	6,250
Printing and Engraving	100,000	100,000
Accounting Fees & Expenses	160,000	160,000
Legal Fees & Expenses	200,000	200,000
Blue-Sky Fees	25,000	25,000
Miscellaneous	34,200	34,200
Nasdaq Entry Fees	63,725	63,725
Nasdaq Annual Fees	11,960	11,960
Transfer Agent & Registrar Fees	5,000	5,000
Total	**$ 2,363,174**	**$4,125,963**

Source: "Going Public", NASDAQ Stock Exchange

Going public is a long march for Chinese companies, especially for those state-owned companies. They bear too much social service burden, such as hospitals and schools; while at the same time they need to run as profit-seeking enterprises. Many of them need to do restructuring first, clarifying the title and ownership for different investors over time. Peeling off the non-performing assets makes the candidate more attractive.

Managing underwriters play a key role in the whole IPO process. They will help to organize the entire process, establish a timetable, and assign tasks to the various players; reviewing in detail the content of prospectus to make sure there is no inaccuracy or material omission; and to gather other banks to form a underwriting syndicate.

The IPO company should consider following factors when choosing the managing underwriters: the IPO price the underwriter is willing to place, the recent track for its reputation in all and Chinese business, and the ability to look for strategic investors or institutional investors which could promote the market confidence and stability. Morgan Stanley helped China Petroleum and Chemical Corp (Sinopec) to obtain investments by Exxon Mobil Corp, BP Amoco PLC and Royal Dutch/Shell Group, the world's top three public oil companies. Shares for which they subscribed were equivalent to US$1.83 billion. Sweden's ABB Ltd was the fourth strategic investor and put US$100 million into the IPO to gain a foothold in the country's lucrative energy market **(**The Business Times, 2000). Goldman Sachs got the Standard Chartered for Bank of China HK IPO (Irvine, 2002).

A seasoned investment banking firm would provide full range of service. They have strong corporate financing team, wide sales network and experts in specific industries. Almost all of the big investment banking firms set up their Asia-Pacific offices in Hong Kong with a mainland Chinese business unit. 80% of the Chinese ADR companies are also dual listed on the Hong Kong Stock Exchange.

Non U.S. companies would have several choices to decide which class of stocks to list in the U.S. stock markets. ADRs (American Depository Receipts) and ordinary shares are the two most common types. Ordinary shares are used for those companies who raise capital directly in US markets without a home country listing. The Chinese regulatory authority seems not happy to see listed companies that are out of their control. Therefore, ADR is the most common type for Chinese companies tapping the US capital markets.

ADRs first appeared in late 1920s by JP Morgan to offer US investors a convenient way to invest on foreign equities while still staying in US market, trading and receiving dividends in US currency. The receipts are certificates issued by U.S. depositary bank and deposited in a custodian bank in the company's country of origin. Each ADR represents a number of non-US company ordinary shares (NASDAQ, 2002). Normally, there are five different ADR programs. The following table provides the major characteristics:

Level I and Level II don't involve the capital raising function. So far, since the first Chinese ADR was listed on the NYSE, there have been 39 ADRs listed the US markets of different ADR types. They could be classified into three stages:

1. **Early time in the Wall Street (1993-1995)**

The first Chinese company that showed up in the US equity market was Shanghai Petro Chemical in July 1993 via ADR. Maanshan Steel and Yizheng Fiber followed, using 144 A private placements. Shenzhen Real Estate Group and Erfang Machinery used the Level 1 ADR. Within 3 years, there are all together 14 Chinese companies listed on Wall Street as the first step for the Chinese companies.

2. **Infrastructure ADR (1996-1998)**

Since 1996, there was the change for the industry category of the issuers. The percentage for the traditional manufacturing has decreased. Instead, the infrastructure and utilities companies, including airline, railway, highway and power generation companies emerged. Examples were: Huaneng Power, Eastern Airline, Southern Airline, and Guangshen Railway. More companies are engaging using the Level III ADR. This matches the Chinese fiscal policy at that time, which was to stimulate the domestic demands and to expand investment in the infrastructure. And the "Red Chip" China Mobil also appeared at that time. In this stage, the purchasers are institutional investors, which was different from the previous stage. It helped to stabilize the market and to improve publicity.

3. **High-tech and big company (2000-2001)**

ADR Program options-main features

	Level I (Unlisted)	**Level II (Listing)**	**Level III (U.S. listing & public offering)**	**Rule 144A (U.S. private placement)**	**Reg. S (non-U.S. private offering)**
Objective	Develop/broaden U.S. investor base with existing shares	Develop/broaden U.S. investor base with existing shares	Raise equity in U.S. and broaden U.S. investor base	Raise equity in U.S. among QIBs	Raise equity outside of U.S.
Disclosure/ Accounting	Home market	U.S. GAAP	U.S. GAAP	Home market (U.S. GAAP optional)	Home market
U.S. reporting requirement	Exempt (Rule 12g3-2(b) compliance	Form 20-F	Form 20-F	None	None
SEC Registration	Form F-6	Form F-6	Form F-1 and F-6	None	None
Trading	OTC	NYSE, Amex or NASDAQ	NYSE, Amex or NASDAQ	PORTAL	London, Luxembourg
Estimated timing: mandate to launch	5-9 weeks	14 weeks	14 weeks	7 weeks	7 weeks

(Source: "The ADR Reference Guide", JP Morgan)

Since 1999, with emerging of the new economy, a lot of start up or internet companies sought capital. Lots of high technology companies, especially Internet companies, have to look for capitals overseas. CSRC released "Notice for the companies looking for overseas listings". China.com and China Mobil had nice first day openings.

The important characteristic of this stage is also the large companies becoming listed overseas. The biggest three giants in oil and petrochemicals are all listed on the NYSE. This was a very strategic decision for those companies. After China's accession to WTO, energy and steel companies will feel the pains, as they were under government protection for a long time. Therefore, they need to update their facility and get the advanced technology to face the challenge. The Chinese domestic capital markets are too small and immature to help them. (Jiang and Qu, 2002)

A successful ADR program would have the following factors: active communication of the story to US investors; liquid underlying shares in the local market; investor-friendly ADR structure (ratio, depository service fees); NYSE or NASDAQ-listed; easy access of ADR information on company home page or special link.

Having a good investor relationship is a big contributing factor to have a successful ADR program. Initial offerings and listings on the markets are only the first step of the "Long March'. Now, the company should be continuing take seriously the investor relationship. U.S. equity markets are very competitive markets. There are about 20,000 listed equities are trying to catch investors' eyeballs.

The company's investor relationship strategy may include: activities to organize or hold analysts meetings with presentations by senior management; utilize company website to host archives of all disclosed information; make name appear on key financial document frequently (JP Morgan, 2002).

The normal timetable for a Level III ADR program (popular for Chinese Companies) is:

Action	Week	Key Parties
Establish and organize transaction team	1-2	I. D, L, A, IB, IR
Begin Planning U.S. road show and on-going investor relations program: communications materials, website enhancements, target institutional investors organize direct purchase programs for retail investors, ownership plans (if applicable), select ratio	1>	I, IR,D
Underwriter conducts preliminary due diligence	1-3	IB
Prepare and submit to SEC offering circular/prospectus, Form F-1(and commit to file Form 20-F within 12 months if not already filing Form 20-F as an SEC reporting company with Level II ADR0. Meet with SEC to resolve any and all matters involving registration and disclosure. Note: Depositary provides "description of ADRs" for prospectus	2-13	I, L, A, D, IB
Negotiate Deposit Agreement	2-5	I, D, L
Submit exchange listing application and agreement; receive approval	2-5	I, L, (D)
Prepare Form F-6 and submit to SEC (along with Deposit Agreement); get approval	5-9	I, D,L
Received SEC comments on Form F-1 and other Forms; amend if necessary	9-14	I, D, L
Complete requirements for listed trading and settlement ; obtain DTCC eligibility, CUSIP number, ticker symbol, prepare ADR certificate	9-14	D, I, L
Receive SEC declarations of effectiveness on Forms; execute deposit agreement	12-14	D, I, L
Conduct road show meeting with U.S. investors (group and one-on-one meetings)		I, IB, (D)
Print final prospectus, price the offering, sell the ADRs; shares listed and begin trading	14	IB, I
Closing :underwriter delivers cash proceeds to issuer, depositary's custodian receives underlying shares, depositary delivers ADRs to syndicate, for forward delivery to investors. (Note: settlement occurs typically 3-5 after trading begins)	14	D, IB, I
Distribute press release and broker announcements to media and investment community via newswire, Internet, e-mail	14	D, I, IB, L, IR
Place tombstone advertisements	14-18	D, I, IB, L, IR

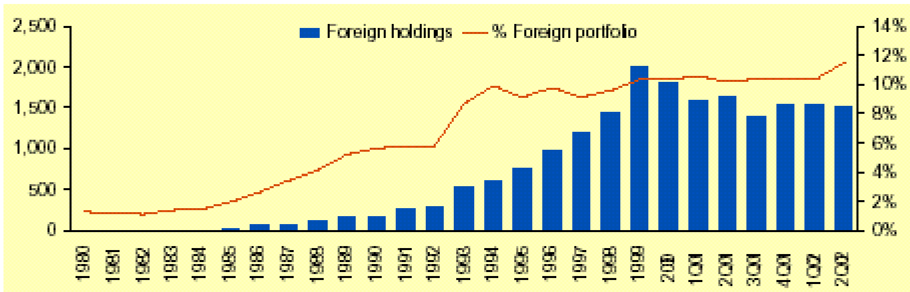
Legend for parties:
Issuer(I)
Depositary bank(DB)
Legal counsel (L) for depositary and issuer)
Accountant(A)
Investment Bank (IB)
Investor Relations firm (IR)

Source: JP Morgan, The ADR Reference Guide

3. Market Performance

As more and more US investors increased their exposure to foreign equities to diversity their portfolios and foreign companies have been seeking capital help and making global presence, the U.S. investment in the foreign equities have been growing significantly in the recent 20 years. (JP Morgan, 2002)

US investment in foreign equities (ADR and local share)
1980-2002 US $BN



Source: Federal Reserve, Sept. 2002

As U.S. domestic economy remains sluggish, foreign equities in U.S. portfolio have increased to record high of 11.5%. A newly released report concludes that ADRs are outperforming their home markets:

Analysis of Bloomberg ADR index constituents: 1997-May 2000 YTD (US$ Terms)

Year	Average ADR Return (1)	Average Country Index Return (2)	Average U.S. Index Return (3)
1997	16.8%	8.9%	29.2%
1998	0.5%	1.1%	21.7%
1999	80.4%	45.2%	22.0%
2000	-17.1%	-18.3%	-11.9%
2001	-5.0%	-7.1%	-12.1%
May 2002 YTD	3.7%	2.2%	-5.6%
All Years	12.8%	5.1%	6.7%

Source: Citibank

(1) Simple, equal-weighted average of annual price appreciation returns for all of the 42 stocks in the Bloomberg ADR index.
(2) A simple average was calculated of the annual returns of the home country index for each of the 42 stocks. The free-float weighted Salomon Smith Barney Global Equity index for each respective country was used as the country benchmark.
(3) The Wilshire 5000 index was used as the benchmark for total U.S. market returns.

The best performing Chinese ADR year to date is Huaneng Power International, increasing by 30.37%. The worst performance is China Southern Airlines Corp, decreasing by 16.82% (JP Morgan, 2002).

4. Efforts to Narrow the Differences between Accounting Standards

High quality financial information will definitely help the Chinese companies to attract investors. During the old days under the planned economy, the state owned enterprises took the fund accounting method and they are the only user for the information. Their general budget and accounting system were required to approved by different levels of government authority.

Since the economic reform in the early 1980's, with multiplication of investment in the development of economy, the accounting system was reformed. On May 1, 1985, the "Accounting Law of the People's Republic of China" came into force, which symbolized that accounting reporting system is on the legal track instead of government authority (Chinagate, 2002). The milestone is the 'Enterprise Accounting Standards" (EAS) approved and promulgated by the Sate Council in the end of 1992, effective in July 1993. EAS covers 12 accounting principles, including objectivity, relevance, consistency, accrual concepts, and matching. The definitions of the financial statement elements, such as assets and liabilities, are included. It puts an end of to the history when different enterprises have different reporting systems because of different ownership and of belonging to different industries.

Chinese Securities Regulatory Commission (CSRC is authorized to promulgated the disclosure rule for the listed companies. Table below is the regulatory framework of China's financial reporting system.

Issuing body	Laws and Regulation
The State Council	Auditing Law, Company Law, Accounting Law, Law of Certified Public Accountants
The Ministry of Finance	Enterprise Accounting Standards, Enterprise Finance Principles, various specific industry accounting rules
Department of Administration of Accounting Fairs (DAAA)	Detailed accounting rules, interpretation of accounting standard
China Securities Regulatory Committee	Format and content of information disclosed by companies issuing shares to the public (including annual and interim report)
China Institute of Certified Public Accountants	Auditing standards and principles, licensed activities

(Source: Qing liang Tang, Managerial Finance, 2000)

Significant progress has been made in the internationalization of accounting systems and standards, and of auditing principles. So far, the Ministry of Finance (MOF) published has 16 accounting standards, 11 of which were issued or revised in 2001(U.S Chamber of Commerce-P.R.C, 2002). The areas covered include: intangible assets, borrowing costs, leases, construction contracts, disclosure of related party transactions, post balance sheet events, non-monetary transactions, debt restructuring, accounting policies, estimates and correction of accounting errors, cash flow statements, investments, interim reporting, inventories, and fixed assets. These accounting standards are applied to all businesses (Lin, 2000). In addition, the government regulatory authority sets higher standards for listed companies.

The companies are asked to submit and publish timely financial reports with required items, timely disclosure of big events, contents of the company's articles, and to have impendent board members. (CSRC, 2002)

Taken together, these new standards and regulations indicate Chinese authorities recognize the need to upgrade accounting and auditing practices. However, there still remain some problems. The education and experience level is still low. In 2000, China had 38,000 CPAs, 10% of what the country needs (Lee and Chung, 2001). The standards mentioned above mostly are directly copied from industrialized world with mature business environment. These seem remote for a majority of accountants and auditors and may cause implementation problems (Jin, 2002). The Ministry of Finance is the government agency that is responsible for making the ruler. For a long time, those standards were released without public debate, just directly released, asking all the related parties to implement the rules (U.S chamber of commerce-P.R.C, 2002).

Transition from the existing accounting models to newly introduced models would take time. The achievements so far are great. After more than 10 years of efforts, China has set up an accounting system close to western standards, although there are still some differences because of the history, culture, political system. Anthony Wu , Ernst & Young China Chief, rates China's accounting standards higher than Japan's. "If you compare China with Japan, you will find China quite advanced," Wu said, 'Japan has its own standards and is very closed.' (Prelychan, 2002)

In 1995, China joined the International Federation of Accountants (IFAC) and accepted IAS as the accounting standards for foreign invested companies. Companies that have issued B-Shares (local RMB Chinese denominated, traded by US dollars in Shanghai Stock Exchange, Hong Kong dollar in Shenzhen Stock Exchange) must follow IAS. Companies that have issued H-Shares (traded in Hong Kong only) are allowed to follow either IAS or Hong Kong accounting standards (IASB, 2002). As most H share companies have dual listing status, which also listed in U.S via GDR, they prefer to use International Accounting Standards..

However, it's still a big time and financial burden for those dual listing companies, as the U.S. SEC requires complying with U.S. GAAP. In February 2000, U.S. SEC issued a concept release on IAS, asking for the comments on various issues. The core problem is whether it's necessary to reconcile financial statement with U.S GAAP for non-U.S. companies when filing registration document with SEC. The feedback opinions are varied. Many questioned the usefulness of reconciliation. (Epstein and Mirza, 2002). However, so far the SEC has not taken action to change its position. (IASB, 2002) In a May 2001 released opinion, SEC permits the non-U.S companies using home country GAAP or IAS to prepare their financial statements. However, it still insists the reconciliation of significant variations from U.S. GAAP should be included. (SEC, 2001)

The China Petroleum and Chemical Corporation is listed on the Shanghai Stock Exchange, Hongkong Stock Exchange and the New York Stock Exchange. It prepared its financial report with Chinese GAAP, and in conformity with IAS. It also provides reconciliation with the U.S GAAP. The net income under Chinese GAAP is RMB 14,018 million in 2001; under IAS it's RMB 16,025 million. The biggest variance contributor is the depreciation. Oil and gas properties are depreciated on a straight-line method. IAS uses the unit of production method. The net income under US GAAP is RMB 17,315 million or approximately $ 2,092 million. The variance here is the revaluation of property, plant and equipment. Both Chinese GAAP and IAS accept the market value when doing the revaluation. Therefore, the depreciation expense would be higher than that of expenses assets valued under historical method **(**Sinopec, 2002).

5. International Investment Banking and Accounting Services

"From 1992, China's economic reforms picked up speed. And the government decided to push some of the SOEs to get listed on overseas stock exchanges and raise capital. All investment banks see China as being a big market." (CIR, 2002). These investment banks had hard time at the beginning, as the Chinese business people were used to definition of bank as being for lending and borrowing. As the Chinese economy keeps strong, (8% GDP growth rate in 2000, 7.3% in 2001 to $1.16 trillion) (Euromoney,2002), the international firms show up in this wonderland. They usually take Hong Kong unit to support their Chinese business. The competition is intense. The Bank of New York dominated the ADR market. Among 39 listed companies, 30 companies chose Bank of New York as their depositary bank.

All the big four public accounting firms have opened the offices in major Chinese cities. Business in China is their fastest growing business area. KPMG 2001 revenue in China was increased up by 50%. As for the size, PriceWaterhouseCoopers is the earliest and biggest international firm in China with 3,000 employees. It has taken a large portion of the H share and N share IPO in Chinese market. Early this year, PriceWaterhouse (China) merged with Arthur Andersen (China), which was separated from Andersen International because of the Enron turmoil.

6. World Trade Organization (WTO) Changes

In November 2001, China became the WTO's 143rd member and further opened its door. It changes a lot the ways Chinese people are doing business. State-owned companies realize they will lose government protection within 5 years, even before the accession.

Big state-owned enterprises (SOEs) have been streaming into the international market to raise capital. In April, 2000, Petrochina dual listed on Hong Kong and New York, issuing 17.5 billion shares, raising capital for $3.1 billion. In June 2000, China Uniom, the biggest IPO in China, raised $6 billion. In October, China Petroleum & Chemical followed the step (Qu, 2001). This capital raising fever is quite different from those of in the early 1990's. In the early 1990's, most of them were heavily debt financed, management was appointed by the government without business experience. Things changed. All of those top 3 in the industries show up to call for the investors. They want their name internationally spread (Cheng, 2000).

The government has also changed its position. They are more willing let the market decide when and which one is a good candidate. It the changes the quote system of application for listing,, a symbol in the planned economy. In addition, non-state owned business emerged in the market as they always facing financing restriction in the homeland.

WTO accession brings business opportunities for all level professionals. The Foreign Service firms, such as banks, accounting firms, and legal consultants are the great beneficiaries. BNP Paribas, a French banking group, has been granted approval by the Chinese government to establish a joint venture investment bank in Beijing.

As a WTO member, China needs to follow the GATS for market concession. The General Agreement on Trade in Services (GATS), negotiated in the Uruguay Round and completed in 1994, marks the first time that services have been covered by a global trade agreement. As an agreement liberalizing international financial services sectors, GATS will have deep influence on China's stock market.

The two principles of GATS are the national treatment and market access. Discrimination measures are commonly used such as: business license restriction, foreign bank couldn't engage in the business of local currency, cap on their market share. GATS takes the general accepted national treatment and market access to reduce or eliminate such barriers. The national treatment means the foreign services providers could enjoy same privilege as the nationals of the host country. However, National treatment under GATS does not apply unconditionally, but only applies to those sectors a State has places on its schedule. As for market access, it means the service providers would have the right to enter a host-country market in whatever form a service provider chooses. "A foreign service supplier could decide to invest locally and provide services across borders to host country customers, it could also choose to establish a branch or a subsidiary" (Wang, 2002).

In its WTO accession agreement, China committed that foreign investor could form a joint venture securities company or investment fund company within 33% ownership immediately and up to 49% in 3 years. (CSRC, 2002). Many foreign forms are rushing for the opportunity. They believe that this opportunity provides Chinese roots and more competitive advantages. A good Chinese partner may help them to locate a potential IPO client and smooth the ways when dealing with the government. BNP Parisnas, a French banking group, has been approved by the Chinese government to establish a joint venture investment bank in China. (Li, 2002)

But, some don't believe so. An investment bank is largely relying on its culture and people. To integrate with a different background may take time to become successful. Merrill Lynch does not think this is the right thing for the company at this time. They believe the cap on the ownership means Merrill would have little influence. (China Daily, 2002)

GATS requires a transparent legal environment. China's Ministry of Foreign Trade and Economic Cooperation announced in May that more than 2,300 laws and regulations had been amended to comply with WTO rules and 830 abolished since the WTO accession (The China Business Review, 2002). A transparent legal environment makes foreign investors more confident about the markets and focus on the long term.

7. Conclusions and Suggestions for Future Research

In summary, the prospects for Chinese companies listing overseas are bright. Up today, there are only 41 ADRs on U.S. markets, counted 8-9% of the Asian markets, which is far below Japan, Korean and Taiwan according to the estimate by JP Morgan (Slater, 2002).

An overseas listing is more suitable for a large company with an established industry reputation. A small- or medium-size company may better find financing in the domestic market at least for a time being. As China has been opening its own securities market, smaller companies may be noticed in their homeland market.

There are at least two major directions for future research. In order to obtain a good price on its IPO in an overseas listing, a state-owned enterprises (SOE) often needs to do restructuring first. This means that these enterprises must find ways to remove inefficient assets and overhead burdens from the financial statements of the enterprises listed on overseas exchanges. Sinopec left out of the new company more than two thirds of its former 1.54 million employees. China National Offshore Oil left out 95% of its former employees (Ma, 2002). Future research may focus upon the best ways for governmental authorities to solve the problems for those employees, assets, and overhead cots excluded from new ventures. How is it possible to improve positions in the international markets and maintain the stability of local economy and community? In addition, many overseas listed companies still have not realized the importance of having investor relations. After the IPO, their names might not be heard again. A second major direction for future research would be to focus upon ways companies can improve investor relations to assure successful future rounds of financing.

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Appendix: Overseas listing via ADR
Source: CitiBank, 2002

Overseas Listing Via ADR			
ISSUE	**EXCHANGE**	**INDUSTRY**	**DATE**
ALUMINUM CORPORATION OF CHINA LIMITED	NYSE	Multi-Industry	2001.12.05
BEIJING DATANG POWER GENERATION COMPANY LIMITED	OTC	Util-Gas,Elec&Water	2001.09.04
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED	NYSE	Auto-Auto Parts	2000.04.17
CHINA EASTERN AIRLINES CORPORATION LIMITED	NYSE	Airlines	1997.01.30
CHINA MOBILE (HONG KONG) LIMITED	NYSE	Telecom-Data Ntwking	1997.10.16
CHINA SHIPPING DEVELOPMENT CO., LTD. 144A	PORTAL	Transp:Services	1994.11.01
CHINA SHIPPING DEVELOPMENT COMPANY LIMITED	OTC	Transp:Services	1996.03.01
CHINA SOUTHERN AIRLINES CO., LTD.	NYSE	Airlines	1997.07.24
CHINA UNICOM LIMITED	NYSE	Telecom-Data Ntwking	2000.06.16
GUANGZHOU PHARMACEUTICAL COMPANY LIMITED	OTC	Pharma-Healthcare	2002.06.21
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED	OTC	Engineer-Machinery	1995.07.13
HARBIN POWER EQUIPMENT COMPANY LTD 144A	PORTAL	Electrical Equipment	1994.12.01
JILIN CHEMICAL INDUSTRIAL COMPANY LTD.	NYSE	Chemicals	1995.05.01
NETEASE.COM, INC.	NASDAQ	Tech:Service	2000.06.29
PETROCHINA COMPANY LIMITED	NYSE	Oil & Gas-Service	2000.03.30
SHANGHAI CHLOR-ALKALI CHEMICAL CO., LTD.	OTC	Chemicals	1994.03.01
SHANGHAI ERFANGJI CO. LTD.	OTC	Engineer-Machinery	1993.12.01
SHANGHAI JINQIAO PROCESSING DEV CO. LTD.	OTC	Real Estate	1996.07.01
SHANGHAI LUJIAZUI FINANCE & TRADE ZONE DEVELOPMENT	OTC	Real Estate	1996.07.01
SHANGHAI TYRE AND RUBBER CO. LTD.	OTC	Indus Gds-Rubb&Plast	1995.10.01
SHANGHAI WAIGAOQIAO FREE TRADE ZONE	OTC	Multi-Industry	1995.05.01
SHENZHEN S.E.Z. REAL ESTATE AND PROPERTIES	OTC	Real Estate	1994.08.01
SINOPEC BEIJING YANHUA PETROCHEMICAL CO., LTD.	NYSE	Chemicals	1997.06.20
SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED	NYSE	Chemicals	1993.07.01
TINGYI (CAYMAN ISLANDS) HOLDINGS CORP.	PORTAL	Food-Agribus-Tobacco	1996.02.01
TSINGTAO BREWERY COMPANY LIMITED	OTC	Beverage	1996.02.01
YANZHOU COAL MINING COMPANY LIMITED	NYSE	Mining & Minerals	1998.03.27
ZHEJIANG EXPRESSWAY CO., LTD.	OTC	Transp:Services	2002.02.14
ZHEJIANG SOUTHEAST ELECTRIC POWER CO. LTD. 144A	PORTAL	Electrical Equipment	1997.09.11
ZHEJIANG SOUTHEAST ELECTRIC POWER CO. LTD. REG S		Electrical Equipment	1997.09.11
CHINA PETROLEUM & CHEMICAL CORPORATION	NYSE	Oil & Gas-Service	2000.10.18
JIANGLING MOTORS CORP - REG S		Auto-Auto Parts	1995.09.29
MAANSHAM IRON & STEEL LTD. 144A	PORTAL	Steel	1993.11.01
QINGLING MOTOR COMPANY, LTD. - REG S		Auto-Auto Parts	1994.08.11
QINGLING MOTOR COMPANY, LTD. GDR	PORTAL	Auto-Auto Parts	1994.08.11
YIZHENG CHEMICAL FIBRE COMPANY 144A	PORTAL	Chemicals	1994.03.25
CNOOC - CHINA NATIONAL OFFSHORE OIL CORP	NYSE	Oil & Gas-Service	2001.02.19
GUANGSHEN RAILWAY COMPANY LIMITED	NYSE	Transp:Services	1996.05.01
HUANENG POWER INTERNATIONAL INC.	NYSE	Util-Gas,Elec&Water	1997.09.29