

# Analysis of the Listing and Financing Status Quo for Chinese Sports Enterprises

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**Abstract.** Objective: To analyze the listing and financing status quo of Chinese sports enterprises in domestic and foreign capital markets, discuss the development scale, status and potential of the listing and financing and offer solutions to possible problems in the listing and financing. Methods: Literature review, expert consultation, case study and logic analysis are employed to gather, analyze and process information and data, endeavoring to render this research. Results: Chinese sports industry has begun to take shape. With the increased living standards of Chinese people, Chinese sports industry has been enjoying a quick development of an above 20% annual growth rate and witnessing an ever-increasing weight in GDP of its added value. After the successful listing and public financing, the environment for starting a business should be optimized and the capital operational benefit should be increased through channeling the raised fund and increasing the fund efficiency. It is concluded that only through supporting the quickening efforts of local sports enterprises to undergo restructuring and listing can we continually enhance the enterprise comprehensive strength and core competitiveness and promote the good and fast development of the regional economy.

**Keywords:** sports power; sports enterprise; stock market; listing and financing

## 1. Introduction

It is pointed out in the "Development Outline of Chinese Sports Industry for the five years of 1995 to 2010 that at present Chinese sports enterprises can be classified into three types. The first type is sports-oriented enterprises, whose activities are to bring into play sports inherent economic functions and values, such as holding sports competitions and performances and running sports training, fitness and recreation programs. The second type is sports-related enterprises, which provide service for sports activities, such as manufacturing and marketing sports apparatuses and wears. The third type is sports enterprises guided and assisted by sports departments aiming to facilitate the development of sports cause. Developing sports industry demands raising money through multiple channels and diversifying the management mode to provide society with various kinds of good products and services and enhance its self-development potential. Adequate capital is demanded in the supply of sports products, ranging from the investment in scientific research on competition techniques and outfits to the management of sports clubs and the marketing of sports products. Amid the wave of the intense intercourse between the sports industry and the capital market, it is necessary for sports enterprises to list and finance in domestic and foreign stock markets to gain a competitive edge over their peers. In England and Spain, stock markets are the major source of the capital needed to develop the sports industry. 60% of Spanish most famous professional football clubs are listed companies. Compared with western developed countries, domestic sports enterprises grow in a relatively enclosed environment, with most companies depending on their own capital for development, while only few companies financing in foreign capital markets. In this regard, in order to actualize the quick development of Chinese sports industry, we should borrow from western developed countries their successful experiences in and approaches of using the stock market to promote sports industry development to help Chinese sports industry solve the problem of lack of capital in its development process.

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## **2. Analysis of the Listing and Financing Status Quo of Chinese Sports Enterprises**

### **2.1 Financing Status Quo of Sports Enterprises in Domestic Stock Markets**

Chinese stock markets develop pretty rapidly, which greatly contributes to driving national economic development. The capital market of the new China has started from scratch and grown from triviality to prosperity in the past 20 years, with the number of listed companies rising from 11 in 1990 to near 1800 in 2010 and the domestic capital market financing companies with the share value of 2500 billion RMB. In 2007, China topped the whole world with the IPO (Initial Public Offering) share value reaching 459.9 billion RMB. At home, the main board market and SME (Small and Medium Enterprise) board represented by Shanghai Stock Exchange and Shenzhen Stock Exchange as well as Shenzhen GEM (Growth Enterprise Market) board are called A-share market. Major representatives of sports enterprises listed in A-share market to raise money are China Sports Industry Group, HL. Corporation and Pathfinder Group.

An analysis of the basic situation of domestic listed sports enterprises reveals the following characteristics: firstly, the number of listed companies is small. According to incomplete statistics, there are less than ten sports enterprises listed in domestic A-share market and only one listed in GEM board, accounting for less than 1% of total listed companies. The market value is less than 0.1% of the total A-share market value. Due to the fact that the main board market sets a high demand on issuers in terms of their financial situation and imposes a series of constraints on share-issuing entities. For example, issuers must be joint stock companies, the subscribed shares of issuers should be no less than 30 million RMB, and companies must make profits for three consecutive years before they can issue shares in the stock market. At the same time, a large number of sports enterprises are hard to pass the rigid qualification examination by securities regulatory commissions and thus cannot finance through IPO (Initial Public Offering). Secondly, the major business of listed companies is changing. At present, there is not a single listed company with its major business directly being the production and management based on developing sports resources. In other words, no listed companies can be found in sports principal enterprises whose main activities include sports competitions and performances, and sports training, fitness, recreation, consultancy, and cultivation. The financial report for the first half of 2009 of China Sports Industry Group which has been branded as the first share of Chinese sports industry indicates that the earnings generated by real estate development accounts for nearly 60% of the major business earnings, while the fitness service revenues and sports competition earnings only account for 0.04% and 3.51% respectively. In such major cities as Guangzhou, Shanghai, Tianjin and Beijing, the major sources of company profits come from the development of Olympic garden projects. The main reason is that at present rigid withdrawal mechanism regulates Chinese security market. Article 157 and Article 158 in China Corporation Law stipulate: listed companies that operate at a loss for three consecutive years and cannot reverse the trend within the deadline will be suspended from listing by the Security Regulatory Department under the State Council. Due to long-term mismanagement, the Northern Five Rings was suspended from listing in 2003 and cannot be relisted up till now. Another famous company Qingdao Double Star in the main board market is forced to shift its major business to the production of commercial tire and rubber under the double pressure of relevant rigid stipulations and present general low profits in order to satisfy the basic requirement of listing and financing in the stock market. Thirdly, the P/E (Price to Earnings) ratio is comparatively low. The P/E ratio refers to the ratio between the share price and the share earnings within one survey period which is generally composed of 12 months. Investors usually gauge the value of a certain share according to the P/E ratio. The high P/E ratio can, in a certain degree, reflect the identification of investors with the growth potential of the share company. Judging from the average P/E ratio of each share for the three companies in the first chart after their IPO, their average P/E ratio is comparatively low compared with the respective average P/E ratio of 29%, 61% and 63.16% for contemporary main board market, SME board and GEM board, with the P/E ratio of HL. Corporation less than half of the 61% P/E ratio for then SEM new shares. The situation has something to do with the phase characteristics of great fluctuation in the security market operation, which obliquely reflects the confidence of investors and markets in the future of sports enterprises.

### **2.2 Share-Issuing Status Quo of Sports Enterprises in Foreign Stock Markets**

Part of the domestic famous brands manufacturing sports wears, one after another, begin to make their way into the international market after taking hold of the domestic market. They proceed first from the capital globalization to brand globalization, then to talent globalization and R&D globalization and finally market globalization. Most of them favor foreign capital markets after recent years of development and accumulation and get listed in U. S Nasdaq, HK Stock Exchange, Malaysian Stock Exchange and Singaporean Stock Exchange to broaden the financing channels.

According to the basic situation analysis of present sports enterprises listed in foreign stock markets, we can summarize the following characteristics. Firstly, in terms of the enterprise property, their major businesses do not involve sports principal enterprises, such as Lining Group and China Dongxiang Group whose major business is sports wear production and Fujian Jinjiang Sports Shoes Manufacturing Company represented by such brands as Anta and Xidelong.

All of these listed companies are sports wear manufacturers with independent brands, attaching great importance to brand construction and enjoying a fairly good share and popularity in domestic sports wear market. Most of them have once been credited with such titles as China Well-Known Trademark, China Famous Brand, National Level High-Tech Technology Company, Above Provincial Level Enterprise Technical Center. Xtep (China) Company Ltd regards the development goal of “Global Vogue and Sports No. 1 Brand” as its major task. It is the first domestic company to appoint entertainment stars as spokespersons for sports brand and promote its brand with entertainment marketing, winning the title of “China Famous Brand” for two consecutive years and the honor of “China Top 500 Most Valuable Brand” as well as “NO. 1 Brand of Sports Wear Category in China Brand Annual Trophy”. Secondly, in terms of regional distribution, among representative sports shoe manufacturers, Fujian Jinjiang Comprehensive Sports Wear Group alone has five companies. Statistics indicate that retail sales of China shoes in 2009 reached 212 billion RMB, marking a growth rate of near 30% compared with 161 billion RMB in 2006. In recent years, China’s annual consumption of shoe products amounts to near 2 billion pairs, exceeding the U.S annual consumption of 1.6 billion pairs and ranking first in the world. The quick development of the company means enlarged demand on capital. With the successful capital operation of these brands comes the gradual salient capital pulling effect, which accelerates the dawn of the capitalization age of the whole sports industry. Thirdly, in terms of the property ownership structure, all belong to non-state-owned companies. Be it the Lining Group which is the first to get listed in HKEx or the Xidelong Group which gets listed in US Nasdaq through a recent reverse takeover, the biggest share-holder, or the actual share-holder in each group is a family business, which runs the company in a typical family-styled management mode. Fourthly, in terms of the company management, their major businesses are consistent with the national industry policy and possess good growth potential. Companies are registered, founded and operated in line with the “Corporation Law of PRC”. The modern company mechanism is basically established and the corporate governance structure is sound. They enjoy not only the form and content of modern companies but also the capacity to advance to higher levels and participate in international competition in terms of the financing ability and the technological innovation. Since its founding, Anta Group has dedicated itself to building up independent R&D strength, transforming from a labor-intensive one to a technology-intensive one. Anta Technical Center covers an area of about 8000 square meters, boasting more than 300 talented technicians and managerial personnel and more than 35 million RMB original worth of R&D instrument and equipment. Fifthly, in terms of the listing process, the local government plays an important role in the listing of local sports wear companies. Jinjiang Municipal Government in Fujian Province makes preferential policies according to the sports industry characteristics and creates corresponding agencies to guide and promote the sports industry entry into the capital market with the help of relevant industry associations. Jinjiang City specially creates the “Listing Office” and sets the “Committed Fund for the Development of Jinjiang Listed Companies” to support the restructuring and listing of companies. The mayor himself even acts as the team leader to guide the listing of the companies. Full-time cadres are assigned to coordinate efforts and solve problems in the listing process.

### **3. Development Countermeasures for the Listing and Financing of Chinese Sports Enterprises**

#### **3.1 Cultivate Sports Key Enterprises and Quicken Current Enterprise Upgrading**

It is clearly laid out in the newly-issued “Guidelines” by the General Office of the State Council that by 2020 a group of sports key enterprises and groups with international competitiveness should be cultivated and a bunch of sports products and brands with Chinese flavor and international influence should be formed. It is further demanded in the “Guidelines” that the sports industry development be promoted through such measures as giving more support in investment and financing and perfecting the tax-levying preferential policy. At present, the majority of Chinese sports enterprises are small and medium-sized companies, not qualified for listing and financing. So lots of fundamental work needs to be done before the company can get listed, including integrating and regrouping resources to actualize the integration of the whole industry and industry chain. It is practical and workable to cultivate the key enterprises and groups based on the integration of current key enterprises or even listed companies. The restructuring, development, and growth in size and strength of industry leading companies can contribute to the quickened listing of sports enterprises. The key to the survival and development of modern enterprises is the possession of relatively complete industry chain. Only in this way can endless capital be bestowed on. Sports enterprises can only depend on the added-value mode of the industry value chain to navigate the flow of such different funds as the risk investment

fund, the private equity fund and the industry investment fund and reap investment earnings through such means as bonus sharing, equity transfer and listing. Meanwhile, partial development fund should be acquired and pluralistic investment bodies should be actualized through the share-holding system reform and private equity; effective corporate governance structure and internal management mechanism should be established and perfected; the real market-oriented development mechanism should be formed; operation should be in rigid compliance with the demand of share-holding companies; furthermore, the fund-raising capacity of the capital market should be fully exploited to enlarge the investment scope and field and the reasonable concentration of advantageous resources in listed companies and would-be listed companies; other links in the industry chain should be purchased through the capital market to increase the added-value of the sports industry; the key enterprises and groups should be nurtured to generate the agglomerative effect to collectively enlarge the sports industry market. The nurturing of the key enterprises and groups not only contributes to the realization of sports industry integration but also drives the development of related industries.

### **3.2 Create and Perfect the Service System, Quicken the Listing Efforts of Sports Enterprises**

Due to the unique level and field involved in the listing of sports enterprises, special importance should be attached to the guidance, coordination and service of the government. Each local government should make active efforts to grasp the essence of the “Guidelines”, make practical and workable policies to support local efforts and well perform jobs in such aspects as the fund-raising channel, venture investment and issuing and recommending shares to cultivate the reserve resources for outstanding listed companies. From the outset, supportive policies and measures should be adopted for would-be listed companies. It is clearly expressed in the “Guidelines” that supportive level and strength of investment and financing should be enhanced and the tax-levying policy should be perfected to support the sports industry development. To broaden the channel and source of capital for the sports industry development, the government can take such measures as arranging the subsidiary fund, supporting the efforts of capable sports enterprises to finance in the capital market through issuing securities and stocks, project financing, asset restructuring, and equity replacement. Each local government, on condition that no listing barriers will be caused, should supportively and properly handle the policy-induced and historically-inherited problems in the restructuring and listing process of various would-be listed sports companies involving such areas as tax, land, asset designation and service charge. The government-guided and market-oriented operation mode should be adopted to positively provide such social service systems as the intangible asset evaluation, fund raising, and tech support, management and consultancy for the sports industry. Next, the construction of the credit guarantee system for the sports industry cluster should be quickened. The successful listing experience of Jinjiang Sports Wear Manufacture industry cluster should be borrowed. It is suggested that the credit guarantee agency should be formed to provide credit fund guarantee for the internal companies in the cluster under the leadership of the government or the guild association and with the membership of the internal companies in the sports industry cluster. Each sponsor should found the company in rigid accordance with the legal provisions and each level of business responsible department should offer specific guidance in line with the practical situation. Unified share registration and trusteeship for Co. Ltd should be established throughout the province. Massive support and encouragement should be given to top and key sports enterprises to create conditions to develop into outstanding listed companies. Competitive strategic investors and institutional investors should be encouraged in their risk share investment in SMEs with positive market prospects and potential growth.

### **3.3 Designate the Positioning of Enterprises and Broaden the Listing Channel of Sports Enterprises**

With the entry of the sports industry into a new phase, lots of sports enterprises eagerly demand stepping into and financing in the security market. As a result, sports enterprises should be positively guided and encouraged to seize the opportunity to fully exploit the multiple approaches to the capital market to broaden the channel and quicken the effort of sports enterprises to get listed. First, in terms of the listing mode, both the IPO and the reverse takeover are workable. The strength of the former lies in the ability to raise large amount of money, shape the good corporation image, create high identification and enjoy strong market effect. However its weakness is also obvious. Companies must undergo the rigid scrutiny and win the approval of the Securities Regulatory Commission before IPO is made possible. To some degree, the choice of domestic sports wear companies represented by Anta and Erke to list in foreign stock markets is limited by the high listing threshold of domestic main board market. Meanwhile, IPO sets a more rigid demand on would-be listed companies of their financial indices, the sponsor independence as well as the company management. On the other hand, the strength of the reverse takeover can be found in avoiding the policy risk, comparatively small fund raising but greatly shortened listing period and easier handling. Xidelong Group headquartered in Jinjiang finally realized its goal after suffering various setbacks in its efforts to get listed. On Nov. 21,

2009, the owner of the Xidelong brand, Windrace, assisted by the investment of New Horizon Fund, declared the completion of the reverse takeover of the U.S. listed company 2020 ChinaCapAcquiro and changed the brand name into Exceed, making Xidelong the first China fast consumer product manufacturer to land in U.S. Nasdaq. The major weakness of the reverse takeover lies in the possible massive energy consumption and huge cost in the asset treatment of the “reverse” resources themselves and the arrangement of the personnel. Secondly, in terms of the listing characteristics, enterprises should analyze the pros and cons of listing in foreign stock markets according to their own development status. At present, in view of such difficulties as high issuing threshold in domestic listing and long issuing period, enterprises should be encouraged to list in foreign stock markets. Currently, most sports wear manufacturers are non-state-owned SMEs. Non-state-owned enterprises gradually win the recognition and admiration of foreign markets with their clear property rights ownership and good growth and listing in foreign markets gradually becomes an important financing channel for them. We should seize this favorable opportunity to actively push non-state-owned enterprises to reasonable positioning themselves and list and finance in foreign stock markets with reference to their practical situations and chances of success. The listing mode for a given enterprise should be fixed by the enterprise itself in view of its own specific situation.

#### 4. Conclusion

Chinese sports industry has begun to take shape. With the increased living standards of Chinese people, Chinese sports industry has been enjoying a quick development of an above 20% annual growth rate and witnessing an ever-increasing weight in GDP of its added value. Chinese sports enterprises are the pillar of the sports industry. In western developed countries. The prosperity of Chinese stock market, the consummation of the share-holding system restructure in sports enterprises, the maturity of sports industry market as well as the revision of relevant legal provisions make it possible for various kinds of sports industry enterprises to get listed. At present, the public offering situation for Chinese sports enterprises is not optimistic. In order to quicken the listed financing efforts and channels of Chinese sports enterprises, we must, from the angle of promoting the development from a major sport country to a sports power, pinpoint the sports industry task, comprehend the policy spirit and grasp the policy essence in the process of arduous implementation and quickened development, exploit the policy room to make development strategies and tap advantaged resources within the policy principal and employ market means to scheme good projects. As a result, each local government should seize the rare opportunity to strive for strategic development under the guidance of the “Science Development Outlook”. Specially speaking, relevant policies to promote the restructuring and listing of sports enterprises should be made; certain preferential policy and treatment should be given regarding such respects as the share issuing, guarantee, revenue, audit and financial support in view of international advanced experience and the market development law; the support level should elevated and the special supporting fund should be founded to provide local restructuring enterprises with financial assistance; minimal fees should be demanded for local restructuring enterprises as far as the locally-levied charges are concerned to reduce the listing cost; after the successful listing and public financing, the environment for starting a business should be optimized and the capital operational benefit should be increased through channeling the raised fund and increasing the fund efficiency. It is concluded that only through supporting the quickening efforts of local sports enterprises to undergo restructuring and listing can we continually enhance the enterprise comprehensive strength and core competitiveness and promote the good and fast development of the regional economy.

| Brand                       | Listing Time | Listing Place                               | Chief Business                                | Business | Fund Raised through IPO | IPO              | P/E Ratio | Actual Shareholder(s)   |
|-----------------------------|--------------|---|---|----------|-------------------------|------------------|-----------|---|
| China Sports Industry Group | Feb., 1998   | Shanghai Stock Exchange (Main Board Market) | Real Estate                                   |          | 0.25075 Billion (RMB)   | 45 Million Share | 15%       | Fund Management Center of National Sports General Administration Bureau |
| HL. Corporation             | Jan., 2007   | SEM Board                                   | Physical Fitness and Rehabilitation Apparatus |          | 0.2312 Billion (RMB)    | 68 Million Share | 29.99%    | Liao Xuejin Family  |
| Pathfinder Group            | Sept., 2009  | Shenzhen GEM Board                          | Outdoor Leisure Sports Outfit                 |          | 0.3216 Billion (RMB)    | 17 Million Share | 53.1%     | Sheng Faqiang and Wang Jing Couple                                      |

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