

Factors Influencing the Unsuccessful IPO Attempts: A Case Study of Bama Tea

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Abstract: This study delves into the comprehensive rules introduced by the China Securities Regulatory Commission in February 17, 2023, pertaining to the implementation of the stock issuance registration system, a key element of the Fifth Plenary Session of the 19th CPC Central Committee's initiatives to fortify capital market functionality. The research focuses on the case of Bama Tea Company, scrutinizing its three unsuccessful attempts at an initial public offering (IPO) within a decade. A multifaceted analysis is presented, encompassing regulatory compliance, operational intricacies, and financial considerations. Operational challenges include the absence of standardized production leading to fluctuating product quality, as well as the company's response to regulatory complaints. Financial hindrances encompass inadequate profitability, meager research and development investments, and high inventory levels impeding effective capital turnover. The findings underscore the paramount significance of innovation and integrity in ensuring successful IPOs and sustaining corporate development. This academic inquiry contributes valuable insights to the literature on IPOs in the context of the evolving regulatory landscape in China. The study endeavors to provide a nuanced understanding of the challenges faced by companies navigating the intricate process of IPOs, offering guidance for entities seeking to navigate these complexities successfully.

Keywords: Initial Public Offering, Influencing Factors, Unsuccessful Attempt

1. Introduction

An IPO is the first time a company sells its shares to the public. IPOs have a significant impact on business development and operations. If a company wants to be listed and traded on a stock exchange or quotation system, then the company needs to have an IPO first, which, in other words, is a prerequisite for a company to go public. Listing can help enterprises raise funds and rapidly improve their strength; improve their credit status and enjoy the convenience of low-cost financing. It has richer financing and refinancing channels for rapid expansion. It can improve internal control and standardise the governance structure as well as improve the management system to operational efficiency. By using stock options and other ways to achieve effective incentives for employees and management, it can attract talented people and enhancing the strength of corporate development. Meanwhile, it proves the enterprise management level, development prospects, profitability, improve corporate visibility, enhance corporate image, expand corporate influence with the help of market-based evaluation mechanism to discover the true value of enterprise stocks. IPOs increase stock liquidity, cash investment capital, maximise return on equity, establish a direct financing platform,

increase the proportion of enterprise's own capital, improve the capital structure, and improve its own risk-resistant ability. China currently uses the IPO registration system [1]. On 17 February 2023, the China Securities Regulatory Commission (CSRC) issued rules on the system related to the full implementation of the registration system for the issuance of shares. In order to improve the function of the capital market and increase the proportion of direct financing, the Fifth Plenary Session of the 19th CPC Central Committee proposed the full implementation of the registration system for stock issuance. The IPO registration system was announced on 5 November 2018 by General Secretary Xi Jinping at the Shanghai Stock Exchange to set up and pilot the KTC. It has since been gradually rolled out on the NSE, GEM and others. Following the introduction of IPO registration, the requirements for companies applying for IPOs have been reduced, but it is still more difficult. A total of 2,693 companies have applied for IPOs since 5 November 2018 up to July 2023, of which 634 companies have terminated, a termination rate of approximately 23.54%. Many of these companies chose to apply again after failure. So it is also important to analyse the reasons for IPO failure to help subsequent enterprises to be able to pass the IPO application more smoothly.

2. IPO

Taking the Shanghai Stock Exchange as an example, according to the Company Law, Securities Law, Administrative Measures for Initial Public Offering and Listing, Rules for Listing of Stocks on the Shanghai Stock Exchange and other laws and regulations, the main conditions for an enterprise to make an initial public offering and listing on the Main Board (the requirements for listing on different boards are different, and Bama Tea applies for the Main Board) can be divided into three parts: main qualification, operation standard and financial index, where the main qualification and operation standard are the issuance requirements, while the financial standard is the requirement for listing. First of all, the requirements for the qualification of the main body is that the enterprise must be a company limited by shares with continuous operation for more than three years, and have a sound and well-functioning organisational structure, the relevant institutions and personnel can perform their duties in accordance with the law. There is no major ownership disputes leading to a possible change of control, there has been no change of the actual controller in the last three years; the main business, the management of the management of stability in the last three years, the main business, the directors, executives have no significant changes in the actual controller has not changed; production and operation is legal, the issuer does not have major assets, major debt servicing risks, major guarantees, litigation, arbitration and other contingencies. Changes in the actual controller did not change; production and operation is legal, the issuer does not have major assets, core technologies, trademarks and other major ownership disputes, major debt servicing risks, major guarantees, litigation, arbitration and other contingent matters, the business environment has been or will be significant changes in the continuing operation of the significant adverse impact of the matter. For standardised operation, it is required that the issuer's production and operation are in compliance with laws and administrative regulations, and in line with national industrial policies. Within the last 3 years, the issuer and its controlling shareholders and actual controllers have not committed any criminal offence of embezzlement, bribery, misappropriation of property, misappropriation of property or undermining the order of the socialist market economy, and have not committed any fraudulent issuance, material disclosure offence or any other material illegal act in the fields of national security, public security, ecological security, production security or public health and safety. There is no recent three years by the China Securities Regulatory Commission administrative penalties, or because of suspected crimes by the judicial organs of the investigation or suspected violations of law by the China Securities Regulatory Commission investigation, has not yet been a clear conclusion, etc.; internal control system is sound and is effectively implemented. The requirements for listing are that the market capitalisation and financial indicators of the domestic

issuer should meet at least one of the following criteria: (1) positive net profit for the last three years, and the cumulative net profit for the last three years is not less than 150 million yuan, the net profit for the most recent year is not less than 60 million yuan, and the cumulative net cash flow from operating activities for the most recent three years is not less than 100 million yuan or the cumulative operating income for the most recent year is not less than 1 billion yuan. (2) the projected market capitalisation is not less than 5 billion yuan, and the cumulative net profit for the most recent year is positive, and the most recent operating income for the most recent year is not less than 600 million yuan. The cumulative net cash flow from operating activities for the most recent three years is not less than 150 million yuan. (3) the estimated market capitalisation is not less than 8 billion yuan, and the net profit for the most recent year is positive, and the operating income for the most recent year is not less than 800 million yuan [2]. Net profit is the lower of net profit before and after extraordinary gains and losses, net profit, operating income and net cash flow from operating activities refer to audited values, and market capitalisation refers to the total nominal value of the issuer's shares calculated by multiplying the total share capital by the issue price after the public issue of shares.

The process of initial public offering and listing of a company is divided into six main steps. The first step is restructuring and reorganisation, which requires the identification and approval of relevant programmes, assessment of assets to be reorganised and the establishment of a joint stock company. The second step is due diligence and counselling, which requires due diligence, problem diagnosis and rectification, listing training, counselling and filing of the final acceptance of the counselling. The third step is the production and filing of the documents, which requires the production of the application documents by intermediary institutions, the completion of internal decision-making on the issuance of the declaration by the enterprise, and the filing of the application documents by the brokerage firms with the SEC. The fourth step for the issuance of audit, need for preliminary examination, seek the views of the provincial government, feedback response, preliminary examination meeting, through the issuance of the examination meeting and receive the issuance of approval; the fifth step for the roadshow inquiry pricing, need for preliminary cumulative inquiry, negotiation to determine the price, carry out the roadshow promotion, the sixth step for the issuance of the listing of the listing of the issuance of the offline and online issuance of the shares of the custodianship, registration, listing of the listing of the brokerage firms responsible for the listing of the continuous supervision [2].

3. The Case of Bama Tea

Bama Tea Company Limited was established in 1997, formerly known as Shenzhen Xiyuan Tea Company Limited, is a national intangible cultural heritage project oolong tea production techniques (Tieguanyin production techniques) representative inheritor of the creation of the brand, headquartered in Shenzhen, Guangdong Province, is mainly engaged in the research and development and design of tea and related products, the standard of the output and the brand of the retail business, is China's leading brand of tea, as of 30 June 2023, the national shop more than 3,000 shops. Its products are not only loved by the people in the country, but have also made their mark in the international community. In 2011, Bama Tea's product "Sai Zhen Zhu" Tieguanyin global tasting will set sail from Quanzhou, and in the following twelve years, it has brought the fragrance of tea to 25 countries, 70 cities, and 192 guests; Eight Horse Tea has appeared on many important diplomatic occasions such as the Xiamen Meeting of BRICS leaders and the China-India East Lake Tea Ceremony as a representative of Chinese tea. During the International Tea Day in May 2023, Bama Tea was invited to the United Nations Headquarters, the Chinese Embassy in the U.S., and the headquarters of the Food and Agriculture Organization of the United Nations (FAO), etc., to showcase Chinese tea culture to the world and promote the Chinese tea brand to the world.

Bama Tea failed to impact A-shares three times in ten years since 2013 and up to 2023. 2012 Eight Horse Tea received nearly 150 million RMB investment from four institutions including IDG, Tiantu Capital, Tongchuang Weiyi, and Tianguixing, which was the highest investment received by a Chinese tea enterprise at that time; in 2013 Bama Tea submitted a prospectus to the Shenzhen Stock Exchange (SZSE) for the first time to seek a listing on the small and medium-sized plate, which was rejected in 2014. In 2015, it chose to be listed and traded on the New Third Board, and on 24 April 2018, it terminated its listing on the New Third Board due to the need for long-term strategic planning adjustments. In April 2021, BaMa Tea filed a GEM IPO application to the Shenzhen Stock Exchange, and after three rounds of inquiries by the Shenzhen Stock Exchange involving dozens of types of questions on the company's positioning, connected transactions, sales model, etc. In May 2022, Bama Tea withdrew its listing application, and the Shenzhen Stock Exchange Termination of its GEM IPO audit. In September 2022, Bama Tea again to the main board of the Shenzhen Stock Exchange to launch a listing application, March 1, 2023, IPO full registration system after the implementation of the prospectus level to the Shenzhen Stock Exchange, and was accepted for review but delayed into the questioning stage. In June 26, the Shenzhen Stock Exchange, said Bama Tea industry due to the issuer and the sponsor to update the financial information, and take the initiative to apply for suspension of the issuance of the listing audit procedures. On 19 September, Bama Tea Industry directly applied for the withdrawal of the issue of listing application documents.

4. Analysis of the Reasons for the Failure of Bama Tea's IPO

The reasons for enterprises' IPO being rejected are mainly related to sustainable profitability, equity relationship, consistency of information disclosure, consistency of accounts, customer dependence and the necessity of project fund-raising. The main reasons for the failure of Bama Tea's IPO can be divided into two parts: business norms issues and financial issues.

The first problem analysed is the issue of business norms, the first of which is inconsistent quality due to lack of standardisation. Lack of standardisation is a problem that all tea enterprises will face, due to the Chinese tea enterprises are many and scattered, so most of them are small in scale, there is no one big situation. The total number of tea enterprises in China is close to 70,000, of which the scale of the enterprise is more than 1,600, only 87 enterprises with total assets of more than 100 million, 6 enterprises with total assets of more than 1 billion, and most of them are small and medium-sized private enterprises to really reach a certain scale and have a full industrial chain from planting to processing to sales of few and far between 2019 China's tea industry, the market share of the top five is only 3.7%, far lower than the same period of Japan (42%), Hong Kong, China (74%), Taiwan, China (35%), so there is no one to develop a set of standardised forms to make the production standards uniform [3]. Most offerings of Bama Tea's teas are customised teas. The main tea products are dependent on external suppliers, and the same kind of tea is produced by different suppliers, each of which produces and grows in different geographical environments, so the quality of the product may become unstable due to the suppliers' changes. And tea is a kind of agricultural products, its quality will be different with the climate of each year made by different water and heat conditions are different, may be the year before the conditions here are good to produce out of the quality of tea is good, and today here suffered a natural disaster so the quality is poor. So because of the lack of standardisation of tea enterprises will lead to its quality is not stable, and the quality of the product will affect the product reputation. In terms of the impact of IWOM on people's consumption behaviour, most studies agree that IWOM affects product sales by influencing consumers' purchasing behaviour. So product word of mouth has an important influence on product sales [4].

The second issue based on the code of practice is the alleged multiple complaints reported by BaMa Tea. In 2017, CCTV's Weekly Quality Report tested some of Bama's teas and found that the products had poor quality oolong tea samples; excessive pollutants, measured quality lower than the

expressed grade, etc. On 27 September 2018, Eight Horse Tea advertised its products as the designated tea of the 2018 Boao Forum for Asia and used a forged certificate of authorisation in its official website's "Merchants to Join" page used a forged Boao Forum for Asia authorisation. The same year 9 was month Boao Forum for Asia pointed out false propaganda. Bama Tea issuer suspected of false propaganda and unfair competition. 2021 January, Bama Tea age treasure flower good garden shop employees to make their own "white tea has drug efficacy" promotional cards placed on the shelves, by the consumer to "product publicity in violation of the food safety law, mislead the consumer" In July 2021, Bama Tea sold "Temple Collection Old Tree Peony" at the "Jingdong Eight Horse Tea Flagship Store", the grade parameter of which was expressed as special grade, and the product was tightly pressed tea, which does not have a grade. Consumers reported to the competent market supervision authority on the grounds of false propaganda. In the three-year period 2018-2021, Bama Tea is suspected of reporting 113 complaints, of which 63 were false propaganda and 23 involved product quality issues [5].

The second major problem that Bama Tea faces is financial, the first of which is the lack of going concern. Both the revenue and net profit of Bama Tea are in a lackluster state, and Bama Tea Industry's revenue is 1,022,549,800 yuan, 1,266,171,200 yuan, 1,744,138,000 yuan and 1,406,109,900 yuan in January-September of 2019, 2020, 2021, and 2022, respectively. Although its revenue exceeds one billion yuan, but because of its 2019 to 2021, the sales cost is 358 million yuan, 429 million yuan, 576 million yuan, accounting for 35.02%, 33.85%, 33.04% of revenue so it leads to the lack of profitability [6]. If the enterprise has problems such as core products or technologies related to its main business are about to be eliminated, net profit mainly comes from investment income outside the scope of the consolidated statement, heavy reliance on related parties for revenue and profit, major disputes or defects in important trademarks and patents, etc., and heavy reliance on financial subsidies or tax incentives, etc., it proves that the sustained profitability of the enterprise is in doubt [7]. About 40% of Bama Tea's revenue comes from franchises, which shows that Bama Tea's revenue is heavily dependent on franchises.

The second problem is insufficient investment in research and development, as Table 1 shown. Bama Tea's investment in research and development can be said to be very small. Its R&D investment accounted for the proportion of operating income of less than 1%, and its personnel only 17 people accounted for 0.73% of the company's number of people, the core technical staff is only 6 people, the issuer only mastered four core technologies (strong Tieguanyin quality style formation technology, clear Tieguanyin quality style formation technology, automatic tea packaging technology, supply chain management technology). Bama Tea and its subsidiaries have a total of 26 patents, including 5 invention patents, 11 utility models, 10 designs. In the market competition want to be invincible, the core competitiveness is the key, the enterprise has a unique resource advantage can bring its competitive advantage, the enterprise in the IPO process can be achieved through technological innovation, focus on the development strategy, improve the process, large-scale production and other means of differentiation strategy and production cost reduction, in order to improve their core competitiveness, and at the same time, to further strengthen the ability to withstand risks [8].

Table 1: Bama Tea Industry's R&D Investment and Percentage of Revenue [5].

sports event	2019	2020	2021	January-September 2022
R&D investment	570.22	328.01	664.12	560.95
Percentage of operating income	0.56%	0.26%	0.38%	0.40%

The third issue is business funding. The higher inventory level of Bama Tea restricts the liquidity of the enterprise. Bama Tea will store a portion of tea raw materials, homemade semi-finished

products and products in progress, packaging materials and working capital materials, and inventory goods every year. As at 30 September 2022, 31 December 2021, 31 December 2020, 31 December 2019, the total inventory of Bama Tea amounted to ¥378,820,600,000, ¥351,431,100,000, ¥32,046,300,000 and ¥208,996,900,000, accounting for approximately 26.37%, 26% and 26% of the Group's total assets, respectively. As at 31 December 2020, 31 December 2019 and 31 December 2020, the total amount of inventories of Bama Tea was ¥378.8206million, ¥351.4371million, ¥320.4613million and ¥208.9969million respectively, accounting for approximately 26.37%, 26.77%, 35.48% and 27.81% of the Group's total assets respectively [9]. This limits the liquidity of the business and the selling price of the inventory is affected by changes in market demand which results in lower selling price of the goods affecting the revenue of the business. In turn, large inventories may lead to a reduction in profitability as they may depreciate in value over time or even become unsellable. Most of the cash flows from operating activities of Bama Tea are negative (see Table 2), which shows that there are problems in the operating activities of Bama Tea. The low cash flow of the enterprise will lead to less liquidity and not enough cash to face some unexpected situations. On the basis of controlling the traditional financial indicators, the creativity of free cash flow is significantly negatively correlated with the risk of default, i.e. the weaker the creativity of free cash flow, the higher the risk of default [10].

Table 2: Cash flow situation, significant investing and financing activities not involving cash receipts and payments and their impacts [5].

Accounting Items (Unit: ¥10,000)	2019	2020	2021	Jan.-Sep. 2022
Net cash flows from operating activities	14,515.67	6,946.25	29,828.43	25,150.23
Net cash flows from investing activities	-10,141.99	-8,491.61	-10,442.39	-18,645.06
Net cash flows from financing activities	-1,130.90	-2,007.23	-11,574.43	-9,908.08
Net increase in cash and cash equivalents	3,242.78	-3,552.59	7,811.61	-3,402.91

5. Conclusion

There are many reasons that lead to the failure of enterprise IPO, but one of the most important and most frequent reasons are insufficient investment in research and development, insufficient sustained profitability, insufficiently standardised operation, and problematic fund management. In view of the above several problems, the following measures can be taken. (1) Enhance the core competitiveness of enterprises, increase R & D efforts, thereby reducing production costs and improving productivity; (2) Accelerate capital turnover, reduce the stock of funds, the level of reserve fund stock directly affects the speed of capital turnover and the effectiveness of the use of funds; (3) In the premise of lawfulness, legitimate competition to stimulate the vitality of the enterprise; (4) Enterprises in the determination of the working capital When determining the working capital financing decisions, it should focus on liquidity and short-term solvency; (5) Enterprises adopt the quality first, reasonable marketing competition strategy, to establish a long-term business advantage. This paper believes that the most important point for enterprises to succeed in IPO and develop smoothly is innovation, because innovation is the first driving force for development, followed by integrity, because integrity is the foundation of an enterprise. It hopes that more and more enterprises will seize the opportunity to continue to innovate and develop, not forgetting the original intention, taking sincerity as the basis, strengthening the cooperation with foreign enterprises, constructing a new development pattern based

on the domestic single-cycle, and the domestic and international double-cycle promoting each other, and promoting the development of China's economy.

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