Motivations And Effects of NEEQ's Transfer To SSE STAR Market In The Context Of Registration Reform: A Case Study Of TZTEK

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Abstract. NEEQ, officially known as the National Equities Exchange and Quotations, is the third national equity trading venue after Shanghai Stock Exchange and Shenzhen Stock Exchange. The National Equities Exchange and Quotations Corporation Limited (NEEQ Co. Ltd.) was registered with the State Administration for Industry & Commerce (SAIC) on September 20, 2012 with registered capital of RMB 3 billion, and was inaugurated on January 16, 2013 and gradually opening up to all regions nationwide. For small and medium-sized enterprises (SMEs), NEEQ offers a vital financing channel and enhances their liquidity. As a result, the number of enterprises listing on the NEEQ market has surged. However, this growth has brought about certain issues that cannot be ignored and have become increasingly serious. These issues include a high concentration of equity ownership and a decline in market liquidity. Consequently, the trading volume and turnover rate of NEEQ-listed companies have been decreasing year by year. This decline has significantly constrained the growth potential of some promising enterprises, such as TZTEK. These companies, which typically have good growth prospects, are often compelled to consider transferring to a different board in pursuit of sustainable development. This paper will first introduce the research significance and background of this chosen topic. Secondly, it will provide an overview of TZTEK's background of board transfer and transfer process. Then, it will analyze the motivation behind TZTEK's board transfer from the perspectives of financing, shareholder structure, and company valuation. The study will also involve an analysis of market effects, growth capability, and debt repayment capacity for TZTEK, both before and after the board transfer, using a series of relevant data. Finally, the paper will conclude with a summary of the research findings.

Keywords: NEEQ; SSE STAR Market; Reasons and effects of board transfer; TZTEK

1. Introduction

For a long time, China's capital market has adhered to the rule that companies seeking IPOs must pass the scrutiny of the China Securities Regulatory Commission (CSRC) before they are allowed to go public. However, under this rule, several issues have arisen, such as lengthy approval times and vague audit standards. To address these problems, the registration-based reform has been initiated. Compared to the previous system, the registration-based approach is more market-oriented and legally grounded. It places greater emphasis on the importance of information disclosure, allowing companies to attract investors by disclosing accurate and truthful information, thus achieving the goal of going public. The registration-based system focuses on market reactions to information disclosure and price discovery, emphasizing the role of the market in supervising listed companies.

In the process of advancing the registration-based system, NEEQ and SSE STAR Market have gradually taken shape. Currently, NEEQ consists mostly of smaller enterprises, while the Growth Enterprise Market (GEM) is comprised mainly of well-established businesses with stable earnings. In contrast, SSE STAR Market primarily serves innovative technology companies, particularly startups or large-scale enterprises that have not yet met profitability and other stringent criteria, providing them with a pathway to go public. As the registration-based system advances, some medium-sized enterprises in the NEEQ phase, which have potential for growth, are considering the option of transferring to SSE STAR Market. This decision is influenced by the advantages offered by SSE STAR Market, such as diverse financing channels, a higher valuation premium, and a more sophisticated shareholder structure.
Based on the background information provided above, this paper will select a representative enterprise that has successfully transferred to TZTEK for further research. The aim is to understand the motivations, process, and effects of companies moving from NEEQ to SSE STAR Market.

1.1. Research Background

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1.2. Literature review

In the early stages of the SSE STAR Market, there was a high level of public interest in companies transferring and listing on the SSE STAR Market. Some scholars also conducted research on the motivations and effects of enterprises going public on the SSE STAR Market. Gu Yuxiao (2023), starting from theoretical frameworks and drawing on relevant domestic and international literature, conducted a focused study on the reasons behind the Western Superconducting Technologies Co., Ltd.’s demand for transferring to a different board, potential challenges in the transfer process, and the positive effects that emerged after the company's transfer and listing. The research revealed firstly, the resources offered by NEEQ were no longer sufficient to support the company's growth requirements, leading the company into a development predicament that needed to be addressed through a transfer. Secondly, Western Superconducting Technologies Co., Ltd. needed thorough preparation for the transfer, as inadequate preparations could lead to transfer failure and negative repercussions for the company. Thirdly, the study found that after transferring to the SSE STAR Market, Western Superconducting Technologies Co., Ltd. experienced positive market effects, resulting in overall company development improvement [1].

Rui Qiang (2021) conducted a study by analyzing various data indicators before and after the transfer of Jiayuan Technology Co., Ltd. The research was divided into two main categories: financial effects and non-financial effects, aiming to analyze the outcomes of small and medium-sized enterprises (SMEs) transferring from NEEQ to the SSE STAR Market. The study found that Jiayuan Technology achieved a doubling of shareholder wealth in the short term after the transfer. Additionally, liquidity was strengthened, innovation capability was enhanced, and corporate governance improved to some extent. The author also provided recommendations for future transferring companies, emphasizing the importance of improving capital utilization efficiency [2].
Zhu Jiaqi (2022) analyzed China's current policies and capital market system since 2019. By selecting UCAP CLOUD INFORMATION TECHNOLOGY as the subject of the study and using NEEQ, SSE STAR Market, and the status of NEEQ transfers as background, the analysis focused on the motivations behind the transfer. Secondly, based on the characteristics of UCAP CLOUD INFORMATION TECHNOLOGY’s main business, operations, and financial situation, the study analyzed the company's own conditions for transferring and the reasons for choosing the SSE STAR Market. The research found that the external factors driving UCAP CLOUD INFORMATION TECHNOLOGY’s transfer were primarily due to insufficient liquidity in NEEQ, difficulties in financing, and the impetus provided by current transfer policies. The internal motivations for the company's transfer were primarily to enhance its influence, expand operational demands, fulfill technological innovation needs, and secure funds for investment projects [3]. Wu Jingxu (2020) conducted an empirical study using TZTEK as a case to analyze the feasibility of constructed models and the rationality of participating in TZTEK's private placement of shares. Various models were employed, including the Real Options Pricing Model, Binomial Option Pricing Model, Discounted Cash Flow (DCF) Model, and Triangular Fuzzy Number Theory. Additionally, Wu Jingxu examined the current status of the NEEQ market and SSE STAR Market, identifying common characteristics among listed companies in these two markets. From this analysis, the study summarized the factors influencing the valuation of companies transitioning from NEEQ to the SSE STAR Market [4].

Zhang Jiani (2022) employed a multi-case study approach and comparative analysis to draw several conclusions. First, companies with strong innovation capabilities tend to incur lower conversion costs and experience a greater increase in valuation after transitioning to a different market. Second, while companies may witness short-term improvements in performance following the transition, this does not necessarily translate to long-term increases in profitability or competitive advantages. Lastly, the study found that the innovation capabilities of companies do not significantly improve after transitioning, but there is an enhancement in the stability of their innovation capabilities [5]. Deng Yayuan (2022) found that market liquidity is provided by companies with larger scale and a greater number of shareholders. Among them, companies with stronger profitability, a greater focus on research and development investment, and those listed on the more mature innovation layer exhibit better liquidity compared to other companies listed on the innovation layer. This suggests that to enhance liquidity in the New Third Board market, higher requirements regarding a company's size, growth potential, and profitability can be imposed in terms of market access [6]. Wu Shuting (2022) suggested that although tiered listings have encouraged increased research and development (R&D) investment among enterprises, disparities exist across different industries and types of companies. This analysis attributes these differences to deficiencies in the tiering criteria and information disclosure within the New Third Board market. Consequently, recommendations are proposed at the national level to further advance reforms in the New Third Board market. Additionally, it is noted that the incentive effect of R&D output relative to R&D investment is relatively low. This can be attributed to environmental challenges encountered by companies during the conversion of input into output, as well as their own innovation shortcomings. As a result, suggestions for enhancing the innovation environment are put forward based on this analysis [7].

Huang Shuying (2022) conducted a study that revealed current research primarily focuses on the New Third Board transfer system, with most recommendations emphasizing the development and improvement of regulations. There has been limited research into the changes in company performance following the transfer. This paper adopts a case study approach, selecting Tianzhun Technology as the case, and conducting a comparative analysis of its performance indicators before and after the transfer. The analysis covers four aspects: shareholder wealth, market valuation, financial indicators, and innovation capabilities. Additionally, it explores the impact mechanism of the transfer on its performance through an analysis of financing capacity, stock liquidity, and brand image. This research aims to provide empirical evidence for the relationship between New Third Board companies' transfer to the Sci-Tech Innovation Board (SSE STAR Market) and their performance, thereby enriching related theoretical research outcomes [8]. Wang Yan's (2022)
research is primarily divided into four main aspects. The first part of the study provides an analysis of the background of the New Third Board, its role in the multi-tiered capital market, and the current status of the regulatory system on the New Third Board. This analysis highlights the practical challenges of establishing a transfer system within the current New Third Board environment. The second part involves a fundamental analysis of the transfer system. It clarifies the concept of the transfer system in theory, categorizes it from different perspectives, and discusses its feasibility and significance both in macro and micro aspects. This section emphasizes the importance of the transfer system in building a multi-tiered capital market. The third part conducts a detailed examination of the existing multi-tiered capital market systems and transfer systems in the United States and the Taiwan region of China. By comparing and summarizing the experiences of these regions, valuable insights are gained that could be applied to the development of China’s New Third Board transfer system. The fourth part provides practical recommendations for the construction and implementation of the New Third Board transfer system in China within the context of financial reform, with a focus on legal perspectives [9]. Lu Yunzhu's (2022) research makes several significant contributions. Firstly, it innovatively selects a company that experienced both a failed first attempt and a successful subsequent attempt to transfer to the Sci-Tech Innovation Board (STAR Market), providing valuable comparative insights. This approach adds a fresh perspective and reference value to the existing literature, which often focuses on single instances of transfers. Secondly, the research analyzes the current state of transfers and the circumstances of companies that failed to transfer. It identifies key characteristics of successful companies that transferred to the STAR Market and offers transfer recommendations. These findings can serve as a useful reference for companies planning to transfer and help them prepare adequately and improve their practices. Lastly, this study enriches the body of research related to transfers. Existing literature on transfers in China primarily focuses on transfer effects and regulatory aspects, with limited research on the factors influencing successful transfers. Furthermore, there is a scarcity of case studies on transfers to the STAR Market. Lu Yunzhu's research fills this gap by providing an analytical framework that includes external factors like policy background and industry conditions, as well as internal factors like competitive advantages, corporate governance, financial conditions, transfer motivations, compliance, and information disclosure. The specific case analysis of Titan Technology further supports the study of transfer-related topics and offers a foundation for future research [10].

1.3. Research Significance

Studying the motivations behind NEEQ companies transferring to the SSE STAR Market allows for a deeper understanding of the development needs and external factors influencing the decision to transfer, shedding light on changes in corporate development strategies. The SSE STAR Market, as a platform serving innovative technology companies, differs from traditional markets in terms of its market mechanisms and investor structure. By analyzing the financial and non-financial effects before and after NEEQ companies transfer to the SSE STAR Market, it can summarize the positive impact of such transfers on the development of NEEQ companies.

Shareholder structure is one of the significant factors affecting corporate governance quality. After NEEQ companies transfer to the SSE STAR Market, they may face higher information disclosure requirements and governance standards, and optimizing investor structure can also impact corporate governance efficiency. Studying the adjustments in shareholder structure after NEEQ companies transfer to the SSE STAR Market allows for an analysis of how such changes affect corporate governance. This research can provide valuable insights into the implications of transfers for future NEEQ companies looking to move to the SSE STAR Market.
2. TZTEK Transfer and Motivation Analysis

2.1. Introduction to the Background of TZTEK's Transfer

In December 2005, Beijing TZTEK Co., Ltd. was registered and established in Zhongguancun, Beijing. In August 2009, Suzhou Tianzhun Precision Technology Co., Ltd. was registered and established. In February 2015, Tianzhun completed its shareholding reform and changed its name to 'Suzhou TZTEK Co., Ltd.' in the same year, in August, the company successfully listed on the 'NEEQ.' On July 22, 2019, TZTEK was officially listed on the SSE STAR Market.

Suzhou TZTEK is a company specializing in semiconductor materials and equipment manufacturing. In the semiconductor industry, materials and equipment play a crucial role in the entire semiconductor manufacturing process and chip performance. Suzhou TZTEK has gained a high level of recognition in the field of semiconductor materials and equipment and is one of the globally renowned companies. The company's products and technologies in the field of semiconductor materials are widely recognized. As an active player in the field of technological innovation, Suzhou TZTEK has a certain strength in the research and development of semiconductor materials and equipment. It continuously promotes the development of new technologies and products, contributing to the growth of the Chinese semiconductor industry. Since its establishment in 2005, Suzhou TZTEK has been focusing on precision manufacturing in industries such as consumer electronics and semiconductors. It is committed to leading industrial digitalization and intelligence development. This aligns with the positioning of the SSE STAR Market, which aims to serve technology innovation enterprises that are in line with national strategies, break through key core technologies, and have high market recognition. Tianzhun meets all the requirements for listing on the SSE STAR Market. On January 30, 2018, TZTEK delisted from NEEQ due to the company's long-term strategic planning and development needs. On July 22, 2019, Suzhou TZTEK became one of the first companies to be officially listed on the SSE STAR Market.

2.2. The Process of TZTEK's Transfer

After being listed on NEEQ on August 11, 2015, TZTEK faced challenges in financing due to NEEQ being a regional equity trading market with relatively limited financing channels, making it difficult for companies to raise funds. By the end of 2017, according to an announcement by TZTEK, the company's management carefully considered the situation and planned to apply for the termination of the company's listing on NEEQ. Subsequently, the company submitted the counseling filing materials for its initial public offering and listing to the Jiangsu Regulatory Bureau. On January 30, 2018, the company was officially delisted from the NEEQ market. On April 2, 2019, TZTEK's application for listing on the SSE STAR Market was accepted. According to the information, TZTEK belonged to the sixth batch of companies accepted, and among the first three companies to be reviewed, it was the latest one. In terms of the timeline, some experts believed that TZTEK was not in an advantageous position. On April 14, the company entered the inquiry stage, and on May 5 and May 20, TZTEK responded to the first and second rounds of inquiries. On June 5, during the SSE STAR Market Listing Committee's first review meeting for 2019 held by the Shanghai Stock Exchange, TZTEK was asked for further disclosures. Finally, the company successfully passed the review. On July 22, 2019, TZTEK was officially listed on the SSE STAR Market [11].

2.3. Analysis of the Reasons for TZTEK's Transfer and Listing on the SSE STAR Market

2.3.1. Smoothed financing channels

According to market data from the NEEQ official website, both the trading volume and trading amount of NEEQ stocks showed an upward trend from 2015 to 2017. However, there was a sharp decline from 2017 to 2018, and from 2018 to 2019, both of these indicators showed a gradual decrease. According to data from the Shanghai Stock Exchange, the trading amount on the SSE STAR Market in 2019, from July 22 of the same year to the end of the year, was approximately CNY 13,31.38 billion, with a trading volume of approximately 30.54 billion shares. The trading amount for the first
half of 2019 on the SSE STAR Market was about 16 times the annual trading amount of NEEQ, and the trading volume was approximately equal to the entire annual trading volume of NEEQ.

As is well known, NEEQ is a regional equity trading market with individual investors as the primary participants, with a small number of small institutional investors. The participation of professional investment institutions is low, and the investor structure is relatively dispersed. In contrast, the SSE STAR Market has more institutional and professional investors, leading to a more professional and diversified investor structure.

2.3.2. Improve shareholder structure

Equity pledge is an important financing channel for NEEQ companies and a significant financing method for major shareholders of these companies. According to a report by Jiemian Global, NEEQ companies have a high degree of equity concentration. Although equity pledge behavior accounts for a relatively small proportion in NEEQ, its risks cannot be ignored, which may affect the continuous and stable development of companies. In contrast, the SSE STAR Market has certain requirements for equity structure and imposes stricter restrictions on restricted shares. This is conducive to optimizing the shareholder structure of companies and enhancing corporate governance capabilities.

2.3.3. Increase company valuation and enhance corporate image and recognition

TZTEK is classified as an information service technology company, which typically has high technological innovation, substantial investment costs, and often finds it challenging to expand its business and achieve sustained growth solely through its profits. Therefore, external financing channels are urgently needed. However, the NEEQ market, due to its lack of liquidity, often struggles to meet the financing needs of these growing companies. The SSE STAR Market, with its public offering of new shares and registration system, provides new financing options and a favorable market environment for these high-quality enterprises that already possess solid capabilities [12].

SSE STAR Market is a segment designed for technology innovation companies and offers a higher valuation premium. For companies already demonstrating high growth potential and promise within NEEQ, transferring to SSE STAR Market may enhance their market capitalization and valuation, thus improving their financing capabilities and attractiveness. Furthermore, as SSE STAR Market is a significant component of China's capital market and a part of the innovation-driven development strategy, NEEQ companies transferring to SSE STAR Market can gain more attention and recognition, enhancing their influence and position within and beyond the industry.

3. Analysis of TZTEK's Board Transfer Effects

3.1. Analysis of Market Effects Before and After TZTEK's Transfer

According to a report by Jiemian Global, as of July 8, 2016, there were 7,725 companies listed on NEEQ. Among these, only 16 companies had all their shares unrestricted, while 3,232 companies, accounting for 90% of the total, had restricted shares. There were 2,520 companies, or 32.62% of all NEEQ enterprises, where 100% of the shares were restricted, making their stocks completely untradable [13]. During its listing period on NEEQ, TZTEK faced challenges related to poor market liquidity, resulting in a low turnover rate. From January 2016 to June 2017, the average monthly price fluctuation for the company's stock was around 3%.

According to publicly available data from CSMAR, after transferring to SSE STAR Market, the turnover rate of the company, TZTEK, relatively increased. This could be attributed to SSE STAR Market's emphasis on information disclosure, which attracted more investors to gain further insights into the company and invest, effectively enhancing TZTEK's direct financing efficiency and expanding its financing scale. On the other hand, government policies in support of SSE STAR Market also played a positive role, leading to increased market activity in the stock market. Additionally, the initial "T+0" trading system in SSE STAR Market promoted an increase in the turnover rate of the secondary market, demonstrating a significant financing scale effect.
In the third quarter of 2019, TZTEK's stock turnover rate had an average of 19.3%. Although the turnover rate decreased in subsequent years, the average remained at around 5%. Looking at the trading volume in the secondary market, TZTEK's average trading volume in the first quarter after listing was 8.5278 million shares, highlighting a significant increase in the company's financing scale following its transfer to SSE STAR Market. This also reflects the motivation behind TZTEK's transfer, which aimed for more accessible financing channels.

3.2. Financial Effects Analysis Before and After TZTEK's Transfer to SSE STAR Market

3.2.1. Growth Capability Analysis

Based on the TZTEK annual report data published by Finance Sina, it can be observed that from 2017 to 2019, the asset growth rate showed an overall increasing trend. In 2019, due to TZTEK's transfer to SSE STAR Market, the company raised significant equity funds, resulting in an expansion of its asset size and a total asset growth rate of 199.09%. However, during the same period, the revenue growth rate exhibited a decreasing trend, reaching its lowest point in three years in 2019, possibly due to a decrease in the purchasing willingness of major customers.

After 2019, the revenue growth rate increased significantly, but the growth rate of net profit could not keep up with the growth rate of revenue, thereby not contributing immediately to the company's income. Overall, it can be concluded that TZTEK did not experience a significant improvement in its growth capability after transferring to SSE STAR Market.

3.2.2. Debt Servicing Capability Analysis

According to data from Tonghuashun Finance, the current ratio and quick ratio of the company were relatively low from 2017 to 2018. However, in 2019, both the current ratio and quick ratio showed a significant improvement. According to TZTEK's IPO prospectus released in 2019, the company used the funds raised from the IPO to provide effective funding for research projects and base construction, resulting in sufficient working capital and an improved short-term debt repayment capability.

Prior to transferring to the new board, TZTEK had a debt-to-equity ratio above 30% in both 2017 and 2018, which was within a reasonable range. After TZTEK's listing on the new board in 2019, the company absorbed a significant amount of equity funds, leading to a substantial decrease in the debt-to-equity ratio. The decrease in the debt-to-equity ratio indicates an enhancement in TZTEK's debt repayment capability. According to data from Tonghuashun, the equity ratio remained low from 2017 to 2020, especially after the transfer in 2019 when there was a noticeable decline. A low equity ratio suggests that the company has a higher proportion of self-owned capital, which makes it more resilient when facing debt repayment pressures and indicates a stronger long-term debt repayment capability.

4. Conclusion

This paper conducts an analysis of TZTEK's transition from NEEQ to SSE STAR Market in the context of the Registration-based reform, using financial indicators and other analytical methods. The research findings are as follows:

Firstly, based on the earlier investigation into the motivations behind TZTEK's move to SSE STAR Market, it is revealed that NEEQ suffered from poor market liquidity, which restricted the company's financing options. To increase its financing capacity, improve shareholder structure, enhance company valuation, and elevate its corporate image and recognition, the company opted to list on SSE STAR Market, a platform better suited for its future development. Secondly, after TZTEK's transition, regarding market effects, the company's direct financing efficiency significantly improved, and stock liquidity notably increased. Concerning growth capability, the growth rate of operating income showed substantial improvement. However, the growth rate of net profit failed to keep up with the growth in operating income, indicating no significant improvement in growth capability. In
terms of debt repayment capacity, the increase in working capital enhanced its short-term debt repayment ability. Additionally, after the transition, both the debt-to-equity ratio and equity ratio experienced a certain degree of decline, highlighting the company's stronger long-term debt repayment capability.

It is important to note that this study focused solely on the case of TZTEK, and a considerable amount of time has elapsed since TZTEK's transition. Consequently, the research results may lack generalizability and timeliness. Furthermore, due to the unavailability of internal data, most of the data used in this study were obtained directly from various financial websites, limiting the precision of the analysis. To address these limitations, future research should adhere to standardized research methods, enhance data acquisition capabilities, and expand the scope of literature references.

References