Case Study on The Failure of World Agricultural Machinery IPO

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Abstract. The relatively low financial requirements of GEM have made it possible for companies to IPO, but at the same time the review has become more stringent. Through the analysis of the failure of the IPO of World Group, this study finds that the main reasons for its failure in the IPO process are the lack of continuous operation ability and the defects of internal control, and points out two corresponding suggestions based on the reasons for the failure, namely, improving the ability of enterprises to continue operating and improving the internal control of enterprises, which will be the key to improve the success rate of World Group IPO. This study provides experience and reference for GEM listed companies by analyzing in detail the reasons for the failure of World Group IPO and pointing out the corresponding suggestions, which is of certain significance for improving the IPO success rate of GEM companies.

Keywords: IPO failed; world group; the ability to continue operations

1. Introduction

Since its opening in October 2009, GEM has been committed to supporting the national innovation-driven strategy and providing a channel for small and medium-sized innovative enterprises to raise capital, which has effectively promoted the development of these enterprises. Compared with the main board, the listing conditions of GEM are more relaxed, the listing cycle is shorter, and the overall listing threshold is lower. Liang Yupeng suggests that GEM is a stock exchange market that provides financing channels and development space for small and medium-sized, innovative high-tech enterprises, and is an important part of the capital market with a lower listing threshold [1]. Kang Jun also believes that the overall endogenous financing rate of GEM-listed companies is low. Compared with small-sized companies, large-sized companies are more risk-resistant, more competitive, and more likely to generate good performance [2]. Therefore, GEM has become an important platform for cultivating entrepreneurial small and medium-sized enterprises (SMEs), providing capital financing channels for small and medium-sized innovative enterprises, strongly promoting the development of these enterprises, and serving as a cradle for incubating entrepreneurial SMEs.

With the advancement of China's agricultural modernization, the agricultural machinery industry has become an area of great concern. For example, as a member of the World group, it is strategically important for World Group to obtain financial support through IPO to further expand its production scale and enhance its competitiveness. However, the company's IPO failure not only had a negative impact on its own development, but also served as a warning to the agricultural machinery industry and the capital market. Therefore, an in-depth study of the IPO failure case of World Group can help summarize the lessons learnt and put forward corresponding improvement measures, so as to promote the healthy development of China's agricultural machinery industry and capital market.

World group submitted the GEM IPO application information on 23 December 2020, and finally stopped the registration on 18 September 2023 after layers of auditing, after three years of listing application, due to the incomplete disclosure of information of World group, the company's business model is not standardized and so on, and finally ended with its failure. This study will analyze the reasons for the failure of World Group's IPO and make suggestions for other companies' IPOs.

2. World Group Case Background

2.1. World Group Company Profile

"Jiangsu World Group Agricultural Machinery Co., Ltd" (hereinafter referred to as 'World Group') was established in 1998, the company's main commodities are construction machinery, agricultural machinery, pressure machinery, garden machinery and automobile parts, etc., and there are about 21 member companies under its umbrella. . According to the disclosure of the prospectus, World Group is "a leading large-scale modern agricultural machinery and equipment manufacturer in China", mainly engaged in the research and development, production and sales of agricultural machinery products. "At present, World Group has formed a product matrix with combine harvesters and tractors as the core, and rice transplanters, balers, sugarcane machines, plant protection drones, sprayers, dryers and other combinations."

2.2. World Group Public Offering Programme and Use of Funds

The company originally planned a public offering of no more than 300 million shares, to raise funds of 6 billion yuan, invested in World Group agricultural machinery and equipment expansion project, World Group (Shenyang) agricultural machinery expansion project construction project, World Group high-tech agricultural machinery and its spare parts expansion project construction project, World Group agricultural machinery and accessories expansion project construction project, World Group (Thailand) agricultural machinery and its spare parts manufacturing Project, World Group Zhiyun industrial Internet platform construction project and supplementary liquidity, of which the supplementary flow of up to 2.338 billion yuan..

2.3. World Group IPO Application Process

World Group's IPO application was accepted as early as December 2020, but the subsequent review process did not go smoothly. in January 2021, World Group received the first round of enquiries, then went through a second round of enquiries, and in January 2022 it took a year to finally pass the Listing Committee meeting, and the following month (February 2022) the company filed for registration. The results of the registration should have come out within 20 working days, but there was a delay, and the card was stuck for one year and seven months, with the sponsor eventually choosing to withdraw the material on its own initiative (see Fig. 1)

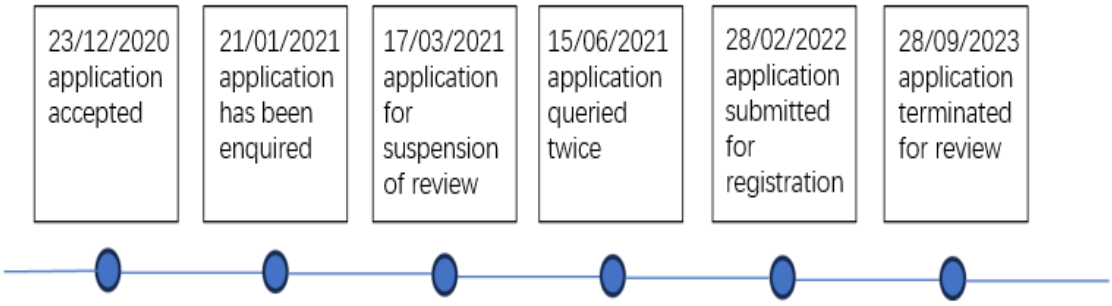


Figure 1. World Group IPO process (Picture credit: Original)
Date from: Based on data from Beijing Business News

3. Analysis of the Reasons for the Rejection of the IPO of World Group

3.1. Lack of Ability to Continue as a Going Concern

3.1.1. Profitability declined

Profitability refers to the level at which a business obtains profits over a certain period of time. Profitability analysis is conducive to the objective evaluation of the operating performance of the

accounting period, and it is a concentrated reflection of the company's operating efficiency and operating results during the accounting period [3]. Profitability is an important consideration for companies that want to successfully apply for an IPO, and they must have a certain level of profitability and financial stability.

Table 1. Revenue structure of the company (Unit: 10000 yuan)

	January-June 2022		In 2021		In 2020		In 2019	
	amount	Percentage	amount	Percentage	amount	Percentage	amount	Percentage
Complete agricultural machinery	452470.68	98.98%	956551.92	98.24%	672307.72	97.55%	441558.88	96.99%
Accessories for agricultural machinery	4683.05	1.02%	16454.32	1.69%	16003.99	2.32%	6223.29	1.37%
Special machinery and equipment			673	0.07%	906.60	0.13%	7477.40	1.64%
total	457153.73	100%	973679.24	100%	689218.32	100%	455259.58	100%
Main business income:								
combine	284563.35	62.89%	694034.97	72.56%	471175.46	70.08%	318971.04	72.24%
tractor	136477.10	30.16%	172535.86	18.04%	126602.14	18.83%	69895.33	15.83%
Other agricultural machinery	31430.23	6.95%	89981.08	9.41%	74530.13	11.09%	52692.51	11.93%
total	452470.68	100%	956551.92	100%	672307.72	100%	441558.88	100%
Gross profit	31,803.26		163,402.89		132,499.64		87,452.60	

Date from: Compiled according to the Prospectus

Due to limited disclosure in the prospectus, only data from January to June will be analyzed in 2022. According to the data in Table 1, it can be seen that the company's main business income of agricultural machinery accounted for a relatively high proportion, which were 96.99%, 97.55%, 98.24% and 98.98% respectively. From the perspective of the composition of the main business income, the company's main business is divided into three major sectors: combine harvesters, tractors and other agricultural machinery. Combine harvester is the company's largest source of income, accounting for about 65% of revenue, and the company's combine harvester business revenue from 2019 to 2022 is 3189.7104 million yuan, 4711.7546 million yuan, 6940.3497 million yuan and 2845.6335 million

yuan respectively. If the above indicators continue to fall, it will eventually affect the company's operating conditions.

3.1.2. Cash flow performance is sluggish

Due to limited disclosure in the prospectus, only data from January to June will be analyzed in 2022. According to the data in Table 2, the company's data on net cash flow from operating activities, net cash flow from investment activities, net cash flow from financing activities, and net growth in cash and cash equivalents all increased first and then decreased.

At the same time, the company's net increase in cash and cash equivalents in the past four years was -73.6825 million yuan, 176.9695 million yuan, 755.4767 million yuan and -739.2439 million yuan respectively. It can be seen that the company has performed volatile in terms of cash flow, with some volatility and challenges.

Table 2. Consolidated cash flow of the company (Unit: 10000 yuan)

year	January-June 2022	In 2021	In 2020	In 2019
Net cash flow from operating activities	-67855.09	142145.35	74100.69	60607.74
Net cash flows from investing activities	-4841.04	-70457.17	-51516.08	-48038.17
Net cash flow from financing activities	-3039.96	5135.33	-3164.70	-20249.88
Net increase in cash and cash equivalents	-73924.39	75547.67	17696.95	-7368.25

Date from: Compiled according to the Prospectus

3.1.3. Non-standard management of working capital

Working capital management is to ensure the normal development of the daily business activities of the enterprise, and at the same time to ensure that the enterprise has sufficient working capital to meet the temporary capital needs, including but not limited to the management of current assets such as accounts receivable. According to the data in Table 3, the company's accounts receivable have gradually increased in the past four years, while the proportion of accounts receivable to current assets has decreased, but the overall trend is increasing, which indicates that the company's accounts receivable management may have certain problems.

Accounts receivable turnover rate reflects the operating capacity of the enterprise, generally the asset turnover rate is an indicator to represent the turnover of accounts receivable, so the observation of accounts receivable turnover rate can reflect the problems faced by the enterprise. From January to June 2019, 2020 and 2021, the accounts receivable turnover rates of World Agricultural Machinery were 3.80, 5.02 and 4.27 times, respectively, and the average accounts receivable turnover rates of comparable listed companies in the same industry were 5.37 times, 6.75 times and 5.64 times, respectively. If the company is unable to collect accounts receivable in a timely manner, it may lead to cash flow problems and even affect the company's operating conditions.

Table 3. Accounts receivable of the company (Unit: million yuan)

year	January-June 2022	In 2021	In 2020	In 2019
Accounts receivable	316,219.02	187,763.98	149,883.31	127,824.77
liquid asset	942,045.33	845,029.38	630,726.80	432,736.77
Percentage	34%	22%	24%	30%
Accounts receivable turnover ratio	3.69	5.89	5.02	3.80

Date from: Compiled according to the Prospectus

3.2. Internal Control Deficiencies

3.2.1. Frequent occurrences of illegal activities

Prior to the report, there were numerous administrative penalties and contract disputes with "world group" and its subsidiaries.

Table 4. Illegal matters of Ward Agricultural Machinery Company

September 2017	An electrician experienced an accident while inspecting and repairing a crane in the engineering manufacturing department, resulting in his death.
August 2019	The Chongqing Traffic Administrative Law Enforcement Corps has issued an Administrative Penalty Decision, It is determined that the company has engaged in excessive transportation (weight exceeding limit) behavior, and it is decided to impose an administrative penalty of RMB 2000 on the company.
June 2020	Ren County Transportation Bureau issues an Administrative Penalty Decision, It is determined that the company has engaged in road transportation business activities due to human interference with satellite positioning device signals, Decided to impose an administrative penalty of RMB 2000 on the company.
2020	Thinker Agricultural Machinery filed a lawsuit alleging infringement of six patent rights by world group and Precision Farming Machinery ,Requesting world group to compensate for economic losses and reasonable rights protection expenses totaling RMB 374 million
July 2022	The actual controller Wang Weiyao has a dispute over the transfer of equity in World Baohua between the companies he controls, including World International, World Heavy Industries, World Construction Machinery, World Crane, and Taihe Jincheng, Litigation filed by Taihe Jincheng, Wang Weiyao is required to assume joint and several guarantee liability.

Date from: Compiled based on the prospectus of "World group" company and relevant data from China Economic Network

According to the information in Table 4, as of the date of signing the prospectus, there are a total of 6 major litigation or arbitration cases with outstanding subject matter amounts of over 4 million yuan for world group and its controlling subsidiaries. According to its prospectus, from 2018 to the end of June 2021, world group had a total of 19 quality disputes. From 2017 to 2020, world group committed three illegal and irregular acts and was subject to administrative penalties by relevant regulatory authorities. According to the Enforcement Notice issued by the Supreme People's Court on July 28, 2022, Wang Weiyao’s 80% equity in world group has been frozen for a period of 36 months. As of the signing period of the prospectus, Wang Weiyao’s equity is still frozen.

3.2.2. Incomplete information disclosure

According to the prospectus of World group, there are 24 main raw material suppliers with overlapping suppliers between the issuer and related parties. From 2018 to the first half of 2021, the issuer's procurement amount from overlapping suppliers accounted for about 15%. Upon inspection, it was found that there should be 853 overlapping suppliers from 2018 to 2021. The purchasing prices and proportions of the issuers are shown in Table 5:

Table 5. Purchase prices and proportion of issuers and overlapping suppliers from 2018 to 2021 (Unit: billon yuan)

project	2018	2019	2020	2021
Procurement amount of the issuer	2.038	19.73	36.16	44.45
Share in total procurement amount	75.56%	72.66%	71.70%	69.98%

Date from: Data source: China Securities Regulatory Commission

The prospectus of World group disclosed that there are 5 main overlapping customers between the issuer and related parties.

A survey found that from 2018 to 2021, there should be 20 overlapping customers between the issuer and its related parties in the manufacturing industry, including 3 domestic distributors, 3 overseas distributors, and the remaining 14 waste sales customers. The issuer's sales amount and proportion are shown in Fig. 2:



Figure 2. Sales amount of issuers and overlapping customers (Picture credit: Original)

Date from: China Securities Regulatory Commission

3.2.3. Unreasonable equity structure

Jiangsu World Agricultural Machinery Co., Ltd. has approximately 25 shareholders, The largest shareholder is Danyang World Industrial Development Co., Ltd. The shareholders of Danyang World Industrial Development Co., Ltd. are Wang Weiyao and Zhang Ami, who hold 80% and 20% of the shares respectively. During this period, they held 73.62% of the shares of Jiangsu World Agricultural Machinery Co., Ltd., therefore the actual controller of Jiangsu World Agricultural Machinery Co., Ltd. is Wang Weiyao (see Fig. 3).

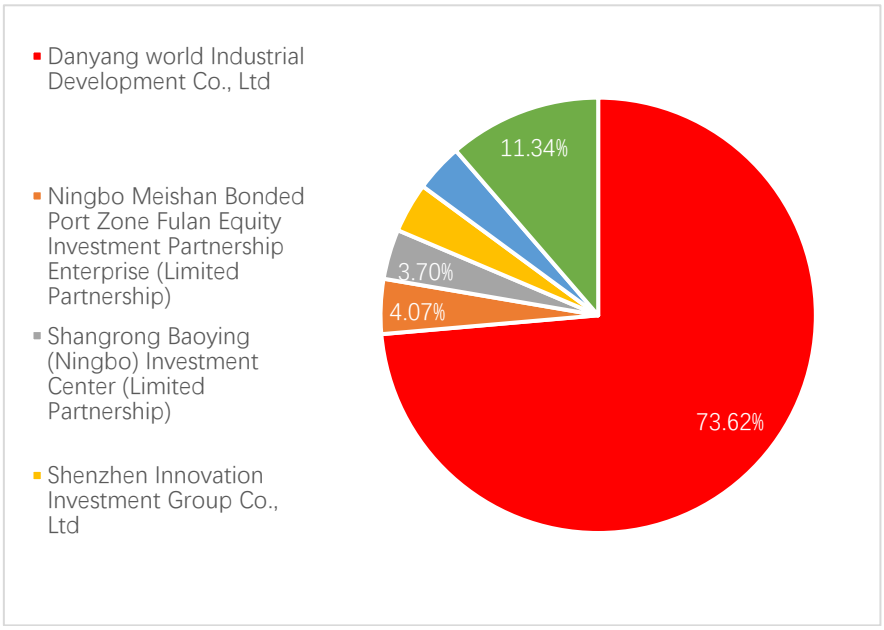


Figure 3. Equity structure diagram of Wode Agricultural Machinery (Picture credit: Original)

Date from: Compiled according to the Prospectus

The actual controller can use their voting and operational decision-making power to exert significant influence on the issuer's production, operation, and development strategies. Due to the concentration of ownership, major shareholders have more voice and voting rights in the company's management. If they have adverse guidance on the issuer's decisions or finances, it will have a negative impact on the company's finances. The high concentration of equity can lead to a high level of participation by controlling shareholders in the company, resulting in a more serious problem of interest encroachment, leading to the abuse of control by controlling shareholders to embezzle company assets, funds, and transfer company profits.

4. Suggestions for Improving the Success Rate of World Group IPO

4.1. Improve the Company's Ability to Continue to Operate

4.1.1. Improve the profit model

From the above analysis, it can be seen that the company has the problem of a relatively high proportion of main business income in operating income. In this regard, the company should first focus on the main business, dig deep into the professional track, and build a competitive advantage. In the process of focusing on the core business, resources are concentrated and invested in key profit growth points, so that they can respond to the "ever-changing" fierce market competition environment with "unchanged" hard power [4]. Secondly, this paper should broaden sales channels, tap potential customers and seek new customers, and solve the problem of excessive customer concentration, so as to reduce the business risk of the enterprise and improve the ability of the enterprise to continue to operate.

4.1.2. Strengthen fund management

As can be seen from the above analysis of the company's cash flow statement, the company's performance in terms of cash flow is not stable, so it is recommended to optimize operating activities and increase cash inflow. To this end, companies can improve their ability to generate cash inflows from their operating activities by strengthening marketing, improving sales efficiency, and strengthening cost control [5].

4.1.3. Improve the working capital management system

From the above analysis, it can be seen that the company's ability to recover accounts receivable in a timely manner during the reporting period is gradually weakening. This can lead to the risk of insufficient operating cash flow, which can increase the pressure on the company's working capital management. In this regard, scientific and reasonable collection measures should be adopted according to the operating conditions of the cooperative enterprise and the time and amount of receivables [6]. The accounts receivable risk early warning management system can be constructed, and the accounts receivable can be accurately divided according to its time period and nature, and the corresponding risk early warning identification can be made and the corresponding treatment plan can be determined. In addition, this research can further build the accounts receivable responsibility system, clarify the responsibility to specific units and individuals, and improve the incentive and punishment system.

4.2. Improve Internal Control of Enterprises

4.2.1. Strengthening internal management

From the previous analysis, it can be seen that World group and its subsidiaries were subject to multiple administrative penalties and litigation disputes before and during the reporting period. To avoid such incidents from happening again, the following steps can be taken: Firstly, Wang Zhengbin believes that guiding enterprises to continuously adjust the hierarchy of the equity structure chain, optimizing the management framework, and thereby suppressing the behavior of the ultimate controller to seize benefits [7]. Secondly, Wang Zhengbin believes that increasing support for financing of small-scale enterprises and expanding their financing channels can alleviate their financing difficulties to a certain extent [7]. Thirdly, the equity of Ward Company should be diversified. The actual controller, Wang Weiyao, holds about 80% of the company's equity, which has a significant impact on the company. His equity should be diversified to avoid harm caused by major shareholders to the company.

4.2.2. Deepening information disclosure work

From the above analysis, it can be seen that World group Company has information disclosure flaws, and the prospectus is asymmetric with actual data, The authenticity and completeness of information disclosure have a significant impact on the success of an IPO. It is important to disclose

the issuer's relevant information as fully, accurately, and clearly as possible, in accordance with regulatory authorities' rational judgments on information disclosure. World group can be achieved through the following steps: first, determine the purpose and object of information disclosure, and achieve transparent and truthful disclosure. Secondly, Tan Siming and Zhang Huiying believe in enhancing awareness of environmental information disclosure and strengthening environmental accounting. Enterprises should recognize that by disclosing high-level environmental information, they can enhance their reputation, thereby improving financial performance and forming a virtuous cycle [8].

4.2.3. Optimizing equity structure

Excessive concentration of equity may lead to the dominant decision-making of major shareholders, therefore companies should find ways to maintain the dynamic balance of equity and ensure the stability and sustainable development of the company. Jiao Jian believes that the optimal level of equity balance can limit the encroachment of interests by major shareholders to the greatest extent possible. There must be a limit to the checks and balances of other shareholders against major shareholders, as being too high or too low is detrimental to the development of the company. It is necessary to prevent "one share dominance" and not blindly pursue diversification of stock rights [9].

Huang Zeyue believes that the more small and medium-sized shareholders participate in business decision-making, the more advantageous it is to curb the encroachment of major shareholders. Due to the increase in the degree of separation of rights and the improvement of the external institutional environment, this phenomenon is also increasing. Further analysis indicates that small and medium-sized shareholders achieve incremental governance effects beyond voting rights by increasing the probability of veto of proposals [10].

In summary, the literature review, conclusion, and induction of different solutions to the infringement of major shareholder interests show the universality of infringement of major shareholder interests. Currently, there are still some limitations in solving the infringement of major shareholder interests in China, and the methods and means of infringement of major shareholder interests are also more diversified. By increasing the participation of small and medium-sized shareholders, the power of major shareholders can be constrained and balanced, thereby dispersing power to solve problems, improving the company's governance structure, mutually constraining each other, and developing approval processes that meet standards and are efficient to avoid abuse of power.

5. Conclusion

GEM is a stock market with low threshold, high risk and strict regulation, and it is also a cradle for incubating entrepreneurial and small and medium-sized enterprises. On the whole, the low listing threshold of GEM has made it less difficult for enterprises to IPO, which has greatly stimulated the willingness of relevant enterprises to IPO. However, on the other hand, GEM IPO failures are not uncommon, and an in-depth study of the causes of failed IPOs will effectively reflect their shortcomings for other companies to learn from. Of course, there are some shortcomings in this study: first, there is a lack of in-depth interpretation of professional literature in daily study, and the ability to retrieve the latest foreign literature is lacking; Second, this paper mainly focuses on the failures of IPOs from the perspective of enterprises, and does not think enough about the perspective of stakeholders, and does not conduct a more comprehensive analysis, which has certain limitations.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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