Analysis of Financing Risk in China's GEM

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Abstract. The establishment of GEM in China has provided new means of absorbing capital for China's newly developing small and medium-sized enterprises and emerging industries, and has also created a new road for the development of China's socialist market. Gem listed companies are ranked below the main board of the second largest stock market in China refers to the Shenzhen GEM. In 2009, Chinext was launched. Its establishment has attracted attention from all sides. Its establishment provides a financing platform for many small-scale enterprises and gives potential enterprises greater development opportunities. At the same time, opportunities and risks coexist. It is still relatively young, and its problems are obvious\textsuperscript{[1]}. The Gem market is different from the main board market. Generally speaking, the probability of financial risk is greater. Financial Crisis is hidden in the key link of the financial operation of enterprises. Once discovered, it will lead to the normal operation of enterprises, to take timely measures to control.

1. Introduction

GEM is also called growth enterprises market. The concept of GEM was first put forward by the United States and began to emerge in the 1970s, but by the 1990s it had already begun to thrive. In October 2009, GEM in China was officially established after a lot of ups and downs, with the first batch of 28 companies entering. GEM has become a financing platform for small and medium-sized enterprises in China. However, these enterprises face the challenge of financing risk after going public. With the establishment and development of market economy, most listed companies need to solve the financing problem. It is difficult to get rid of capital shortage and long-term development capital demand, no matter the enterprise scale, economy and development prospect are very big. One of the problems that the listed company must solve is how to reduce and evade the financing risk.

2. The Characteristics of Listed Companies on GEM

Listed companies on GEM refer to those company that have applied for and obtained permission from the GEM of various countries around the world after meeting the requirements for GEM entry, that is listed on the market and is governed by different market’s rules. The so-called GEM is a secondary securities market next to the main board market. Its threshold is much lower than the main board, and there is a big gap between them for the management system and the information system. GEM companies are very different from the main board companies and Small and Medium-sized board companies, serving the innovative small and medium-sized enterprises as well as in the initial stage of the listed companies to open the stock issue and trading market. The function of GEM is to solve the financing problem for these growing enterprises and to give some help for the high-tech development of enterprises. Because admittance criterion of GEM are not very hard and strict, in comparison with others, listed companies may face more risks. we should ensure the steady development of listed companies on GEM need to pay effective measures to avoid risk.

First, GEM provides a financing method for the small and medium-sized enterprises, which can make the small and medium-sized enterprises in the process of business operations to ensure the normal supply of capital chain. Main board market is the target of large mature enterprises, who exist for a relatively long time, and with strong capital. The growth enterprise market is targeted at
small and medium enterprises and High-tech Enterprises, with slow development and lack of enterprise money sometimes in initial phase. but high-tech enterprises have great potential for development, with high growth rate, and it is easy to grow up.

Second, compared with the Main board market, the entry threshold of listed companies on GEM is much lower, less listing conditions, more stringent operation. the time of set up and the size of enterprises will not become an issue to appear on the market. The difference between the main board and GEM is level of listing requirements.

Third, risk is accompanied by return, the higher the yield the higher the risk. on the contrary, the lower the return risk will be reduced. Industries on GEM has strong self-development ability and fast growth speed, but many enterprises are established in a short time, small scale, growth is not yet mature, performance is not fixed, there are all kinds of uncertainties.

Fourth, the GEM supervision and management system is strict. Because the risk of GEM is very high, more strict information disclosure is needed to supervise and control the normal development of GEM, and regular financial statements are needed to disclose the sensitive information.

3. The Financing Status of Listed Companies on GEM

3.1. Financing Environment Improved, but the Competition is More Intense

The financing environment is divided into the financing ability of the entity and the investment confidence of the investors. Statistics show that since 2010, China's listed companies have partially improved their performance. In 2016, the operating income of listed companies on GEM reached 805.272 billion yuan, about 34.36 percent from the same time last year. Net profit was 93.216 billion yuan, About 38.15 percent from the same time last year. It can be seen that China's financing environment is relatively more dynamic and modern atmosphere. Most of the companies with huge growth potential are emerging in a financing environment that is thriving. At the end of 2016, about 83.9 percent of companies reported higher revenue than last year, and about three-quarters reported rising net profits, all higher than their asset structure at the end of 2015, with 29.7 percent reporting an increase of more than 50 percent. But the competition between each other is more cumulative, large enterprises in a virtuous circle, but the small and medium enterprises has been continuously nibbled in the fierce competition, into the financing pressure, the risk is difficult to evade the plight.

3.2. Moral Hazard and Refinancing Risk Increased

Moral Hazard is an economic activity that maximizes its effectiveness in taking action against others. China's stock market has become one of the worst-hit areas. The decision-making ability of Companies on the GEM is low, at the same time there are different degrees of moral hazard. In recent years, a series of irregular bosses, companies, major shareholders, illegal enterprises and illegal guarantees have been appeared in the stock market, which has led to the decline of the profits and the decline of the credit of some listed companies. The biggest risk of refinancing is that the benefit of the enterprise is out of step with the increase of the stock capital, the image of the enterprise is further reduced, and even the enterprise will lose the qualification of financing. In recent years, Shanghai and Shenzhen stock markets have been sluggish, and the refinancing of listed companies has basically stagnated. It is hard to Financing through the issuance of stocks and stock markets, even if the price of their successful issuance or allotment price will also be very low, it is very difficult to get through the securities refinancing market.

3.3. Financial Risk Increased

Financial risk caused by enterprise financing, that is, the unplanned risk caused by common shareholders because of the utility of financial leverage. Financial risk increases the risk to common shareholders. Due to the continuous reform of the non-tradable stock market and the decline of the stock market, the listing of China's securities market is strictly controlled, and external financing relies on efforts to increase bank credit debt financing. As the debt increases, financial risks also rise, the risk to shareholders is increased by the increasing likelihood that debt will not be repaid.
when it comes due. Due to the low performance level of many listed companies, high debt ratio will lead to the negative impact of financial leverage, even the principal of non-payment of debt and financial situation of the interests of deterioration, increase the possibility of corporate bankruptcy. Financial risk can be subdivided into financing risk, investment risk and tax planning risk in the process of enterprise operation. In the daily operation of the company, financial risk will continue to deepen, the risk faced by the enterprise will continue to intensify.

4. The Factors of the Financial Risk on GEM

4.1. The Complex and Changeable Macro-economic Environment

In recent years, the global economic crisis has resulted in persistent economic instability and frequent inflation problems. This increases the cost of capital and the value of the Principal, which makes it difficult to continue the normal business activities. The global economic environment is unpredictable, it is both opportunity and challenge for listed companies on GEM, enterprises need to actively deal with globalization, to ensure that in the trend of globalization in an invincible position.

4.2. Financial Relationship in Enterprise is Confusion

Financial operation network of departments in the list enterprise is complex. from the bottom of the procurement and other departments to the top of the management and decision-making departments, financial issues throughout the entire enterprise. Nowadays, quite a number of enterprises have huge and complex financial relationships among various departments, and there are great financial problems in the distribution of funds and enterprise funds, which will lead to confusion in enterprise management and financial responsibility cannot be investigated. Not only this financial relationship will lead to the decline of funds using efficiency, the security of funds cannot be guaranteed, and investors will affect the judgment of the enterprise.

4.3. Lack of Risk Awareness on the Part of Financial Personnel

Financial hazards lurk in every corner of the business operation. But the enterprise staff's operation mistake also can cause the financial harm to produce similarly. In the process of Enterprise Management, the basic academic quality of enterprise financial personnel is insufficient, lack of financial risk sensitivity, let alone risk awareness. The financial situation is not sensitive, resulting in financial crisis.

5. Conclusion

In the face of the complex financial environment of the gem market, enterprises need to set up a financial risk early-warning mechanism, at the same time, enterprises also need to hire outstanding managerial talents, so that the enterprise's financial management can be more orderly. So that It can be avoided a financial crisis choose reasonable financing strategy, determine the best financing term financing strategy is the same way to avoid financing risk, set a scientific financing final date. Gem listed enterprises in the fund-raising, the choice of first inside and outside the order will be a good choice. At the same time, the determination of the optimal financing period will enable enterprises to obtain reasonable financing, thus implementing a longer-term financing plan.

The huge market potential of the GEM culture communication industry requires the government's strong support, The GEM market, because of its own characteristics, is more prone to market failure. It is necessary to establish laws and regulations in line with China's national conditions, so as to raise the overall level of the gem market and create a favorable environment, it is beneficial to the development of the GEM market.
References
