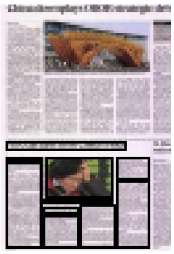

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ASX can cash in on China's risks

Angus Grigg
AFR correspondent

In all the opportunities thrown up by China's rise, the one never mentioned is the dysfunction of mainland stock markets.

These casino-like exchanges in Shanghai or Shenzhen are hardly pillars of corporate governance, which provides a very large opening for Australia to lure credible, private Chinese companies to list on the ASX. The difficulty and length of time it takes to list in China provides Australia with another opportunity.

The only problem is that so far the theory has run ahead of the reality, as those mainland companies to have listed on the ASX are often seen as opaque and with illiquid share registers.

But that might be about to change.

Small Melbourne investment bank Beer & Co is in the market, raising $25 million for the listing of Chinese complementary medicine company Eagle Health, which will be valued about $125 million once it hits the ASX.

The listing is shaping up as both a test case for those who believe China's immature capital markets are an opportunity for Australia, and for whether mainland companies can do what is required to win the confidence of Australian investors.

"Most Chinese companies just don't get it," says Michael Beer from Beer & Co. "They don't understand their obligations as a listed company."

Beer should know, having previously listed three Chinese companies on the ASX with mixed success.

But he believes Eagle might just change entrenched perceptions.

While the merits of its business model will be judged by the market, on the corporate governance front it has ticked a few crucial boxes.

For starters, the Chinese founders have appointed an independent, non-executive chairman in former Howard-government minister Andrew Thomson. He's a corporate lawyer and fluent Mandarin speaker with a good understanding of both the landscape in China and what's required to be a listed company in Australia.

He will be joined on the board by two other Australian directors, including Rodney Hannington, who has spent most of his career in fast-moving consumer goods companies across Asia.

Beer will also stay on after the float as the company secretary, although he won't be on the board.

"They [Eagle] understand they need to do much more than any Australian company when it comes to communicating with the market and being open," says Beer.

"We can't have any more poor-performing Chinese companies, otherwise they [the ASX] won't let them list."

Beer is selling Eagle as a Chinese version of Blackmores, albeit a far smaller one.

The Xiamen-based company manufactures and distributes health food products and nutritional supplements under its own brands in China.

Eagle plans to use some of the proceeds from the listing to develop and market a new range of Australian products in China.

Identifying what these products might be is part of Hannington's brief, with the products to then be pushed through Eagles' 258 distribution partners in 23 provinces across China.

"For Australian companies or products this is a superhighway to access Chinese consumers," he says, noting Eagle can help with regulatory approval, distribution and marketing.

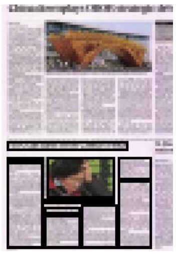
Eagle generates 98 per cent of its $85 million in sales through traditional bricks-and-mortar channels.

According to Hannington, the shunning of the e-commerce giants such as Alibaba and JD.com has allowed Eagle to maintain margins above 25 per cent. It booked $15.8 million in profits last financial year.

"You do see lots of discounting on e-commerce sites ... our prices are much more stable," says Hannington.

Initially, much of the support for the stock is likely to come from Asian investors who know Eagle's founder and largest shareholder Zhang Mingwang.

But in the longer term, if the company does indeed communicate properly with the market and deliver on its strategy, then it could change the perception of Chinese companies listed on the ASX and provide a big opportunity for Australian investors.



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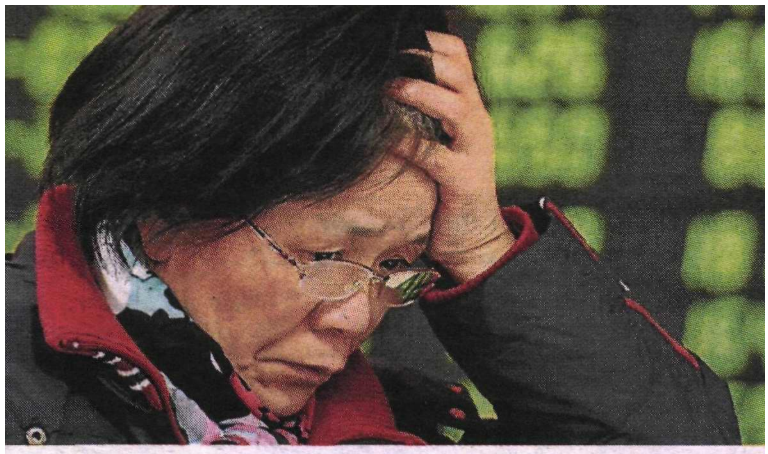

An investor reacts to tanking share prices, depicted in green in China. The country's markets are hardly pillars of sound corporate governance. PHOTO: AP