China's stock market is agog with talk about the sluggish IPO scene, which appears to have been exacerbated by, among other factors, the recent strengthening of regulations to improve market quality.

An old IPO case involving Guangdong-based Liangang Optoelectronic Technology Co Ltd at the ChiNext of the Shenzhen bourse in June 2023 has stoked fresh market concerns over IPOs.

The Shenzhen Stock Exchange had expressed concerns on Nov 17 over some details in Liangang's IPO application. The fact that 98 percent of the company's stake is held by promoters and company employees and only 2 percent is being sought to be offered to retail investors via the IPO caught the bourse's attention.

Liangang specializes in optical communication and electroacoustic products, and its IPO sponsor CITIC Securities responded on Jan 16 to the Shenzhen bourse's concerns by saying the company's key shareholders have put in place a solid corporate governance structure, internal controls and other arrangements to protect individual investors.

Liangang and CITIC Securities also drew attention to eight other companies that have successfully listed on the A-share market despite their key shareholders holding very high stakes.

This move, however, led to interpretations by some investors that Liangang was challenging the stock exchange.

But independent stock market analyst Wang Jiyue said such interpretations are unfounded. He said the bourse's concerns as well as the company's response are "normal".

Mention of successful precedents in a company's response is common practice. The point is, equity concentration should not be an obstacle to the IPO process, he said.

Liangang said as much on Tuesday, insisting its reply on Jan 16 was normal and free of "bad feelings".

Its case is being discussed again only because the A-share IPO scene is in doldrums, said Wang.

Data from the market tracker Wind Info showed the A-share market registered only 26 IPOs so far this year, down nearly 50 percent from the same period in 2023.

Unprecedentedly, at least 75 companies have withdrawn their IPO applications on their own to date. This shifted market attention to securities firms that serve as IPO sponsors. China Securities has seen as many as nine IPO withdrawals so far, followed by seven of CITIC Securities and six of Minsheng Securities.

Tian Lihui, director of the Institute of Finance and Development at Nankai University, said the less-than-stellar business performance over the past 12 months has been a major reason that affected IPOs.

In the past, stock exchanges' most frequently raised inquiries were about the accuracy of companies' goodwill calculations, transactions with related parties and past disputes of companies' actual controllers. Strengthened regulation is another major reason for IPO withdrawals now, said Tian.

Wu Qing, chairman of the China Securities Regulatory Commission, the country's top securities watchdog, said at a news conference during the two sessions earlier this month that entry into the stock market should be tightly controlled and profiteering should not be the purpose of IPOs.

In a news conference in late February, Yan Bojin, head of the CSRC's department of public offering supervision, said the regulator has stepped up supervision across the IPO gamut and will adopt strict punishment for financial frauds and fraudulent floats. On-site inspections of IPO applicants will significantly increase, he said.

On-site supervision is of much importance to ensure a float's quality at the beginning of the registration-based IPO mechanism. It is crucial to ensure that the IPO applicant's information on assets, fiscal status and shareholder structure is true. In this regard, supervision can help a great deal, said Tian of Nankai Univeristy.

Dong Zhongyun, chief economist at China AVIC Securities, said a tighter regulatory grip over IPOs can reduce the number of disqualified and risky companies in the market. The A-share market's systemic risks and volatility will be thus effectively lowered and investors' interests can be better protected, he said.

Tian Xuan, associate dean of Tsinghua University's PBC School of Finance, said financial intermediaries, which are the capital market's "gatekeepers" serving direct financing, should better fulfill their responsibilities by selecting only the truly qualified as IPO applicants.