Shenzhen Stock Exchange Market Bulletin

June 01, 2020 (Issue 15)

Market Summary

Listed Companies (No.)	2,241
- Main Board	470
- SME Board	958
- ChiNext Market	813
Funds	552
Bonds	7,521
Market Cap. (US$ bn)	3,534.1
- Main Board	1,054.6
- SME Board	1,476.9
- ChiNext Market	1,002.7
Average Turnover Ratio	2.34
Average P/E Ratio	25.65
No. of IPO (YTD)	37

Most Active Companies

1	Guangdong Advertising Group Co.,ltd. (002400)
2	Wuliangye Yibin Co.,ltd. (000858)
3	Zte Corporation (000063)

Top Gainers

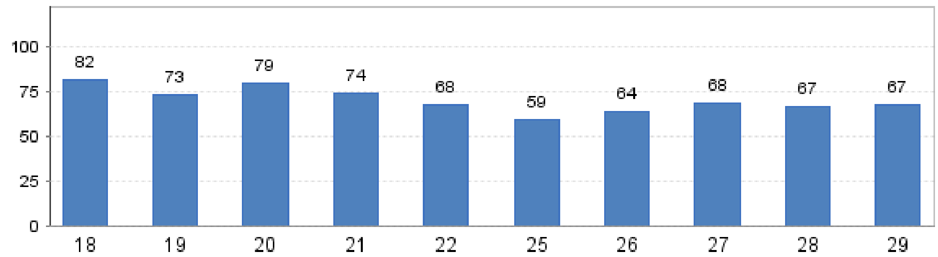
1	Sinomag Technology Co., Ltd. (300835)
2	Maxvision Technology Corp. (002990)
3	Xi"an Peri Power Semiconductor Converting Technology Co.,ltd. (300831)

Top Decliners

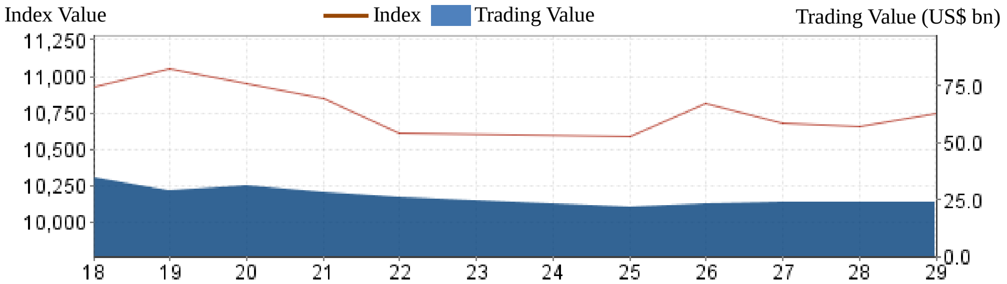
1	Anhui Shengyun Environment-protection Group Co., Ltd (300090)
2	Shenwu Environmental Technology Co.,ltd (300156)
3	Jiangsu Tongguang Electronic Wire And Cable Co.,ltd (300265)

Daily Trading Value (May 18 – May 29)

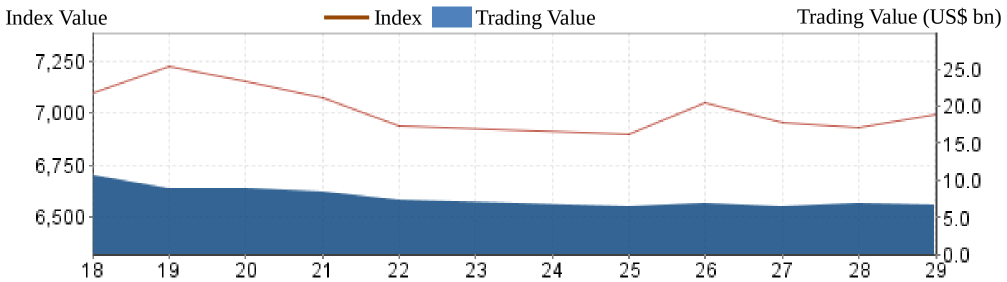
(US$ bn)



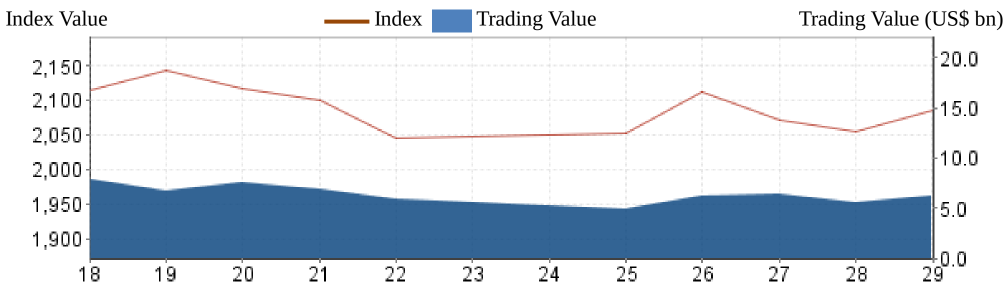
SZSE Component Index (May 18 – May 29)



SME Index (May 18 – May 29)



ChiNext Index (May 18 – May 29)



New Listing

Sinomag Technology (300835)

Sinomag Technology Co., Ltd. principally engages in research, development, production and sale of new functional materials based on permanent ferrites. In 2019, its operating income reached 551 million yuan with the net profit of 84.63 million yuan.

Market News

"Ministers' Corridor" during the 2020 NPC & CPPCC Annual Sessions

1. Minister of Commerce Zhong Shan offers measures to boost FDI

Mr. Zhong Shan, Minister of Commerce said on the sideline of the two sessions that the government's priority is to stabilize foreign trade entities. The government offers assistance in taxation, financing, insurance and access to industrial and supply chains in support of business sustainability.

According to Mr. Zhong, the government focuses on expanding FDI inflows. This requires opening-up on a larger scale, extended market access, a shortened negative list and platforms of higher-quality opening-up. In particular, we need to develop pilot free trade zones and free trade ports to attract foreign investors. The second is to stabilize foreign investment. According to Mr. Zhong, we should implement the Foreign Investment Law,

Maxvision Technology (002990)
Maxvision Technology Corp. principally engages in providing integrated solutions for smart port inspection systems and relevant smart products. In 2019, its operating income reached 807 million yuan with the net profit of 213.10 million yuan.

TopA Intelligent (300836)
Kunshan TopA Intelligent Equipment Co., Ltd. principally engages in the research, development, design, production and sale of intelligent equipment and its components. In 2019, its operating income reached 422 million yuan with the net profit of 64.27 million yuan.

foster a business environment featuring fairness, equality and transparency, safeguard the legitimate rights and interests of foreign investors and protect intellectual property rights.

2. Prudent monetary policy more flexible and appropriate
The central bank vows to strike a balance between epidemic containment, economic activity restoration and risk control, enhance counter-cyclical adjustments and steadily push forward work on defusing risks. Governor of PBOC Yi Gang noted the PBOC will use a variety of monetary policy tools and develop new ones to maintain ample liquidity and ensure M2 money supply and that aggregate financing grow at notably higher rates than last year. Yi noted that the country will support banks, especially small and medium-sized lenders, to replenish capital through multiple channels and improve management to enhance their capacity to handle bad loans.

3. **China not fixated on specific target for GDP growth**
Mr. He Lifeng, Director of National Development and Reform Commission said that under current circumstances, not setting a specific growth target allow China to focus more on key tasks such as expanding domestic demand, ensuring “six priorities” and stability in six areas for economic fundamentals, supply-side reform, high-quality development, as well as stabilizing employment and ensuring living standards, win the battle against poverty, and achieve the goal of building a moderately prosperous society in all aspects.
There are 25 indicators in building a moderately prosperous society in all aspects, 12 of which are numerical targets, including GDP and per capita income, and 13 are constraining requirements. Judging from the current implementation, indicators such as the urbanization rate of the permanent population have been achieved ahead of time. The work to achieve most of the indicators is advancing in due course. According to He, China is capable of meeting most targets and exceed some targets to create a comprehensive well-off society by the end of this year.

4. **Strengthen financial support for local governments**
China will adopt a more proactive fiscal policy by expanding central government budget deficit and increasing fund transfers to local governments to boost investment and maintain stable economic growth according to Finance Minister Liu Kun. China’s deficit-to-GDP ratio this year is projected at more than 3.6 percent, compared with 2.8 percent last year. The deficit increase is projected at 1 trillion yuan ($140.6 billion) over last year. The issuance of a 1 trillion yuan central government special bond to contain the COVID-19 pandemic will also be delivered to the local governments.

5. **Supporting SMEs and new-energy vehicles sector**
China will continue to implement the policies of reducing taxes and fees for enterprises including the SMEs this year. The central government has issued about 90 policies in various fields, which have promoted the development of the SMEs, according to Mr. Miao Wei, Minister of Industry and Information Technology. The ministry will urge relevant departments to formulate detailed rules to implement the policies as soon as possible, and ask local governments to introduce SMEs-boosting policies based on their specific conditions.
The government has decided to extend subsidies and tax exemptions for new energy vehicle (NEV) purchases by another two years to restore NEV production and sales. Restrictions on NEV contract manufacturing will be lifted in an orderly manner, while wider use of NEVs in public services will be encouraged. The ministry will also step up the construction of charging hub facilities and enhance their interconnectivity.

A Review of **Equity Incentives for Cohesion of Enterprises in China**

Equity incentives have become an effective measure to improve corporate governance, enhance corporate cohesion and the competitiveness of listed companies. Proposals were initiated at the NPC to lessen tax burdens on companies engaged in equity incentives.

1. Development of equity incentives for Chinese listed companies

In the 1990s, equity incentives were introduced in China with the reform of China's state-owned enterprises. For the past 30 years, the number of companies implementing equity incentives in China has been continuously increasing.

（1）Exploration Stage: 2006-2009

From 2006 to 2007, a series of laws and regulations were promulgated, marking the launch of China's equity incentive system. In 2007, China launched the campaign for the corporate governance of listed companies, further refined the requirements of equity incentives. In 2007, 13 listed companies announced equity incentive plans.

In 2008, driven by corporate governance campaign and the development of the capital market, a total of 60 listed companies in Shenzhen and Shanghai announced equity incentive plans, a dramatic rise compared with that in 2007. In 2009, a total of 28 companies announced equity incentive plans.

(2) Steady and standardized development stage: 2010-2012

The launch of the ChiNext Market in 2009 and the recovery of the Chinese economy in 2010 provided a sound external environment for equity incentives, and the number of companies announcing equity incentive plans surged. In 2011, 114 equity incentive plans were announced, 34 on the ChiNext Market, 54 on the SME board, and 26 on the Shanghai and Shenzhen Main Boards. In 2012, companies listed on the SME Board and ChiNext Market became main source of equity incentive initiatives. The equity incentives system in China entered a "golden stage".

(3) Rapid and Rational Development Stage: 2013-2020

The "Measures for the Equity Incentives of Listed Companies" promulgated on August 13, 2016, gave great support to the practice of equity incentive. In the following years, many listed companies have established equity incentive systems, which enhanced their rapid growth. In 2019, Shenzhen-listed companies launched a total of 218 equity incentive plans and 88 employee stock ownership plans. As of April 2020, a total of 507 companies on the ChiNext Market launched 881 equity incentive plan covering 7.8 billion shares. More than 60% of companies have incentive plans, and more than 20% of companies have more than one incentive plan. Equity incentives in technology-intensive industries such as software and information technology services have become a commonly-adopted practice.

2. Share Incentives for Foreign Employees of Domestic Listed Companies

China currently supports participation by foreign employees in share incentive plans of domestically listed companies, with past restrictions gradually removed. The Measures for the Administration of Share Incentives of Listed Companies (2016) provides that foreign employees of domestic listed companies can have access to share incentive plans with certain limitations. Foreign employees who are eligible to participate in share incentive programs can open securities accounts for to receive shares from the incentive plan.

In 2018, the newly-amended A*dministrative Rules of Share Incentives of Listed Companies* expanded the scope of recipient eligibility from foreign employees based in China's mainland to all foreign employees. At the same time, after CSRC's amendments to the Measures for the Administration of Securities Registration and Settlement, "eligible foreign individuals" were included into CSRC's investor categories and non-resident foreign employees were allowed to open A-share accounts.

In 2019, the Measures for the Administration of Share Incentive Fund for Foreign Employees of Domestic Listed Companies clarifies the management principles of the funds involved: Foreign employees of domestic listed companies can directly handle relevant cross-border income and expenditure, fund transfer and foreign exchange business at banks with their certificate of share incentive plan participation, with no prior approval required.

3. **Share incentives reform in ChiNext Market**

The reform of share incentive policies is one of the highlights of the reforms on continuous supervision of ChiNext-listed companies, aiming at further enhancing flexibility and addressing restrictions on the ratio, recipients, prices, and procedures.

• Higher Ratio: The revision will increase the upper limit of equity-incentives-to-total-share-capital from 10% to 20%. Growth companies face less policy hurdles when introducing multi-batch incentive plans, and innovative companies are enabled to implement greater incentives to retain talents.

• More Recipients: Shareholders or actual controllers holding more than 5% of the shares and their spouses, parents, children, etc., who serve as directors, senior managers, core technical personnel or core business personnel in listed companies are included in potential recipients of share incentives.

• Flexible Price: The purchase price of restricted stocks is allowed to be set at a discount of over 50% compared to the market price.（The ceiling was 50% before）

• Streamlined Procedures: For eligible companies, the shares can be vested in employees in batches, instead of having to complete registration within 60 days. For employees who have worked for the company for over 12 months, there will be no lock-up period after the registration of actual vested shares.

Suggestions:

Experts believe that share incentives of listed companies can help enhance employees' sense of belonging and encourage them to perform better, ease cash flow pressure, and enhance market confidence. But there is still room for improvement in the implementation. The following is suggestions by industry experts.

First, enterprises should be allowed to declare the pre-tax deduction of enterprise income tax during the period in which share expenses are recorded in the accounts. When the share incentives are completed, the enterprise shall settle the tax according to the "difference between the market price and the exercise price at the time of the actual exercise". Any excess payment shall be refunded, and any deficiency repaid.

Second, enterprises that cancel the implementation of equity incentive plans should not be required to recognize the share-based payment expense as accounted for in an acceleration of the vesting period. As such, enterprises can avoid recognizing large amount of expenses and ease pressure of current expense.

(Note: According to China's Accounting Standards for Business Enterprises and related interpretations, the cancellation or settlement of equity instruments is accounted for as an acceleration of the vesting period—If a grant of equity instruments is cancelled or settled by the entity or the counterparty, the enterprise should recognize immediately the amount of the expense that would otherwise have been recognized over the remainder of the vesting period.)

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