

SPECIAL ISSUE on SZSE ChiNext Market Reform

On April 27, 2020, President Xi Jinping chaired the 13th Meeting of the Central Committee for Comprehensive Deepening Reform. The meeting reviewed and approved the Overall Implementation Plan for SZSE ChiNext Market Reform and Pilot Registration-based System and pointed out that implementing ChiNext Market reform and pilot registration system is important for deepening the capital market reform, improving the fundamental rules of the capital market, and enhancing the function of the capital market.

I Positioning of ChiNext Market

SZSE ChiNext Market was established in 2009. Over the past 10 years, the ChiNext Market has seen a group of outstanding enterprises. ChiNext Market plays an important role in implementing innovation-driven growth and serving the real economy. As of April 27, 2020, 807 companies were listed on the ChiNext Market, with a total market capitalization of over 6.78 trillion yuan. ChiNext Market has become a leading market place of capital formation for innovative companies. ChiNext Index was the best performing index in the world for the Q1 of 2020.

The ChiNext Market reform is positioned to further implement the innovation-driven development strategy, to adapt to the trend of relying more on innovation and creativity, to mainly serve growth-oriented innovative entrepreneurial enterprises, and to support the in-depth integration of innovative technologies, emerging industries, new forms and models of business.

II The Core of ChiNext Market IPO Reform

The core of ChiNext Market reform is the registration-based system in IPO, refinancing, mergers and acquisitions with optimized rules and regulations. There are three main principles in the system design:

- **To deepen reform and fully implement the new Securities Law**

The recent amendment of *the Securities Law of PRC* provides for implementing the registration based IPO system in the spirit of marketization and rule of law. With information disclosure at its core, the registration system covers IPO, refinancing, mergers and acquisitions, and subsequent reforms in basic rules in offering and underwriting, listing, Information disclosure, trading, and delisting, etc. The reforms aim at improving ChiNext Market's ability to serve the innovative and entrepreneurial companies.

- **To enhance synergy and promote market-based allocation of capital elements.**

The ChiNext Market reform is another major reform after the launch of STAR Board. It follows the effective institutional arrangements of the STAR Board, ensures the synergy of the overall rules and contents of registration system in Shanghai and Shenzhen stock markets.

- **To make progress while ensuring stability, and accumulate experience for market wide registration-based reform**

For the first time, the ChiNext Market witnesses simultaneous reform over both existing and upcoming issuances. For companies already listed on ChiNext Market, SZSE shall offer continuity and smooth future transition of rules. Listed companies and investors shall not face sudden changes, while the healthy development of the previous market shall be maintained. It also requires SZSE to focus on the actual development needs, make adaptive arrangements, further remedy institutional shortcomings, improve the quality of listed companies, and determine what is more suitable for the development features of innovative and entrepreneurial companies under the rule of law.

1 Optimize listing Standards expanding the inclusiveness of ChiNext Market.

The amended Rules consider estimated market capitalization, revenue, net profit and other indicators comprehensively, formulating diversified sets of listing qualifications to support innovation-driven and entrepreneurial companies of different types and growth stages to be listed on the ChiNext Market.

- Requirements on profitability are adjusted, requiring either “positive net profit in the past two years and cumulative net profit not less than RMB 50 million” or “estimated market capitalization of RMB 1 billion or more, with positive net profit in the most recent year, and the operating income not less than RMB 100 million”.
- The requirement of “no unrecovered loss at the end of the latest period” is canceled.
- The listings of red chips and profit-making enterprises with special voting structure of certain scale are encouraged
- The listing criteria for unprofitable enterprises are clarified, but such amendment will not be implemented within one year, and will be reevaluated then.

2 Adjust delisting mechanism, and accelerate the exit of unqualified companies.

- **Revised delisting indicators:**

“Continuous negative net profit” is replaced by “net profit before/after (whichever is lower) deducting non-recurring gain or loss being negative, and operating income < RMB 100 million”.

New indicators such as “market capitalization < RMB 500 million for 20 consecutive trading days” and “significant defects in information disclosure or operational compliance without timely correction” are added, while financial indicators are applied comprehensively.

The unified timetable of delisting procedure is set within two years, accelerating the exit of “zombie” and shell companies.

- **Simplified delisting process**

Delisting becomes more efficient. To protect investors’ right to trade, the exchange improves the arrangements for enforced delisting and listing suspension due to major violation of laws.

- **Delisting risk alert**

Delisting risk alert system is established, covering such triggers as financial indicators, compliance-related indicators and major violation of laws.

3 Strengthen corporate governance and protect rights of investors

- A separate chapter is dedicated to corporate governance standards, detailing the requirements on controlling shareholders, de facto controllers, directors, supervisors and senior executives, who shall act with integrity and shoulder responsibilities diligently.
- Clarify specific requirements on the qualification of shareholders with special voting rights, restrictions on the share transfer, and the number and ratio of the voting rights.
- Red chips should ensure domestic investors and overseas holders of underlying securities enjoy equal rights.

4 Adapt to market feature and improve the information disclosure requirements for stockholding reduction.

- To strengthen disclosure requirements of innovative and unprofitable companies regarding industry information, business risks and performance fluctuations.
 - To cancel the mandatory disclosure requirement of preliminary results, relax the disclosure standards for related party transactions and simplify review procedures.
 - To allow companies to release major information during non-trading hours, given that the company fulfills disclosure obligation before the next trading period.
 - To make special arrangements for unprofitable listed companies in terms of controlling shareholder's shareholding reduction proportion and the share lock-in period for its directors, supervisors and management before the company become profitable.
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5. Improve the flexibility of stock option incentive and galvanize enterprise vitality.

- To raise the upper limit of the percentage of incentive and option shares to total shares outstanding from 10% to 20%.
- To clarify the situations where shares granted are registered in batches and listed for circulation directly.
- Controlling shareholder or shareholder(s) with more than 5% shareholding are qualified to be incentive receivers.

IV Registration Procedure for ChiNext Market

The registration-based stock offering system of ChiNext Market is generally in line with that of the STAR market. The registration procedure includes SZSE review and CSRC registration, during which Q&As will be conducted to ensure enhanced information disclosure quality. Compared with that of the STAR market, ChiNext Market's registration-based system differs in three realms:

- **To establish review coordination mechanism between SZSE and SSE to accord review standards and avoid unhealthy competition.**
- **To specify proper interim policies for companies under review to ensure smooth transition to registration-based system.**
- **To simultaneously implement registration-based stock offering system in public offering-involved refinancing and M&As**

V Highlights of ChiNext Trading System Reform

- 1 **Relax price up/down limit to make the market more active.** The market price formation mechanism is improved to reduce trading hurdles, as the daily price limit range on ChiNext Market is renewed at 20% instead of 10%.
- 2 **Adjust trading mechanism for newly listed stocks to improve pricing efficiency.** Given that stock prices witness high fluctuation and turnover rate at the initial stage after listing, market will better play its role under the new arrangement. Newly listed stocks will be subject to no price up/down limit for the first five days of trading.
- 3 **Introduce after-hours trading to meet market needs.** Investors are allowed to buy and sell stocks at closing price after the closing of the auction transaction. After-hours trading provides new method of liquidity management and meets investors' needs. Stock Connect investors are explicitly given access to the after-hours trading session.
- 4 **Improve margin trading and securities lending to strike a balance between long/short trading.** Stocks issued and listed on ChiNext Market under the registration-based system could serve as the underlying securities of margin trading and securities lending from the first trading day. With a market-based reporting method for refinancing, investors could sell the securities borrowed from brokers on the same day through securities lending. Strategic investors are allowed to lend their allocated shares.
- 5 **Improve micro-level mechanism to mitigate risks.** While a single round lot remains 100 shares or its integer multiple, the limit order and market order shall not exceed 100,000 and 50,000 shares respectively. During continuous auction, a 2% up/down range is set in terms of limit order.

VI Improvements on Investor Suitability of ChiNext Market

This amendment keeps the rules for existing investors intact, improves the rules for newly applied investors and enhances risk matching. On the one hand, there is a huge number of existing investors; therefore, the reform has to ensure the stability of existing stocks and the continuity and balance of policy. On the other hand, ChiNext Market reform involves various basic systems such as stock issuance, listing, trading, and delisting, and investors need to have matching abilities to identify and tolerant risk. There are three main aspects of amendment:

- Existing investors of ChiNext Market can continue to trade on the market. Ordinary investors need to resign the risk disclosure document to trade the stocks issued through registration-based IPO

- mechanism.
- To increase the entry threshold for the individual investors newly apply to trade on the ChiNext Market, with an average daily asset volume of 100,000 RMB in the last 20 trading days and trading experience of 24 months.
- With the development of information technology, to facilitate investors, investors do not need to sign the risk disclosure document on site. Instead, they can sign on paper or electronically.

VII Improvements on the M&A and Restructuring on ChiNext Market

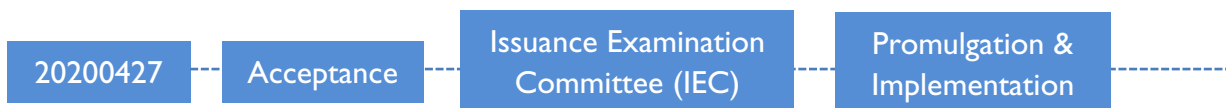
- M&A and restructuring should be in line with the ChiNext Market positioning.** The reform proposed that the targets of mergers and acquisitions should conform to the positioning of ChiNext Market, belong to the same industry with or the upstream and downstream industry of the listed companies. This requirement is in line with the development need of ChiNext Market-listed companies and can enhance the cooperation of companies within the industry chain.
- More flexibility in price formation mechanism.** The core of market selection is the reasonable price based on market mechanism. This reform provides more flexibility in M&A price formation for ChiNext-listed companies by adjusting the pricing standard of stock issuance, so that market plays a better role in resource allocation and both parties in the M&A deal could sufficiently interact.
- Support listed companies' development by implementing registration-based stock offering system.** The M&A system is designed to place more emphasis on the role of market mechanism and the law of market. As certain indicators are adjusted and the registration procedure is shortened (to 5 days), listed companies are provided with strong support to strengthen main business and enhance "hard-core capability" through M&A in an independent, convenient and efficient way.

VIII Improvement on the Refinancing System of ChiNext Market

- To streamline criteria for ChiNext-listed companies' refinancing. The refinancing system, retaining basic criteria for standard and independent operation, regulates refinancing behaviors and helps to enhance authenticity, transparency and compliant operation of listed companies to promote the quality of listed companies.
- To implement the requirements for registration-based stock offering with information disclosure at the core and set up requirements for information disclosure in a more stringent, comprehensive, thorough and accurate way. Listed companies shall be urged to authentically, accurately, and fully disclose information to facilitate investors' decision-making.
- To optimize the procedures for examination of registration, reduce the examination duration of registration, make standards, procedures, content, and processes of examination open and transparent, enhance market predictability, and facilitate financing for companies.

IX The Plan of Transition to Registration-based System

- The CSRC ceases to accept IPO application at ChiNext Market
- The CSRC continues to accept refinancing and reorganization



- IPO applications approved by IEC continue to proceed; Those who haven't been approved can either choose to proceed or suspend and deliver application to the SZSE with new rules.
- Refinancing and reorganization applications approved by IEC continue to proceed with existing rules.

- Within 10 days after implementation, the SZSE only accepts the in-process applications in the CSRC.
- After 10 days of implementation, the SZSE accepts new applications (IPO, SEO and reorganization)

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