

## Market Summary

Listed Companies (No.)	2,245
- Main Board	470
- SME Board	960
- ChiNext Market	815
Funds	553
Bonds	7,681
Market Cap. (US\$ bn)	3,695.1
- Main Board	1,088.5
- SME Board	1,544.2
- ChiNext Market	1,062.4
Average Turnover Ratio	2.31
Average P/E Ratio	26.81
No. of IPO (YTD)	41

## Most Active Companies

1	Boe Technology Group Co., Ltd (000725)
2	Guangdong Advertising Group Co., Ltd. (002400)
3	East Money Information Co., Ltd. (300059)

## Top Gainers

1	Zhejiang Linuo Flow Control Technology Co., Ltd. (300838)
2	Shenzhen Strongteam Decoration Engineering Co., Ltd. (002989)
3	Rongfeng Holding Group Co., Ltd (000668)

## Top Decliners

1	Dongfengsci-tech Group Co., Ltd (200160)
2	Tianguang Zhongmao Co., Ltd. (002509)
3	Leshi Internet Information & Technology Corp., Beijing (300104)

## New Listing

### Zhejiang Linuo (300838)

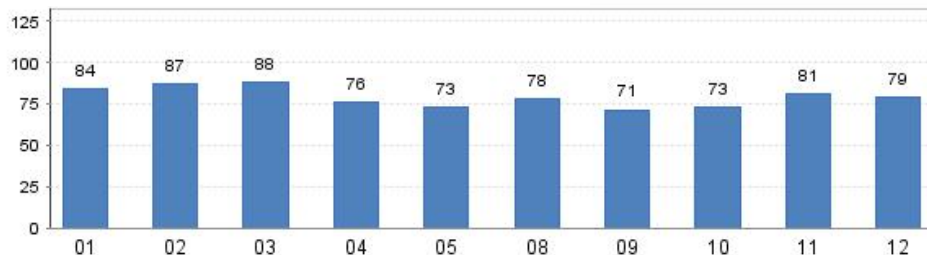
Zhejiang Linuo Flow Control Technology Co., Ltd. principally engages in the research and development, production and sale of industrial control valves. In 2019, its operating income reached 452 million yuan with the net profit of 67.78 million yuan.

### Strongteam Decoration (002989)

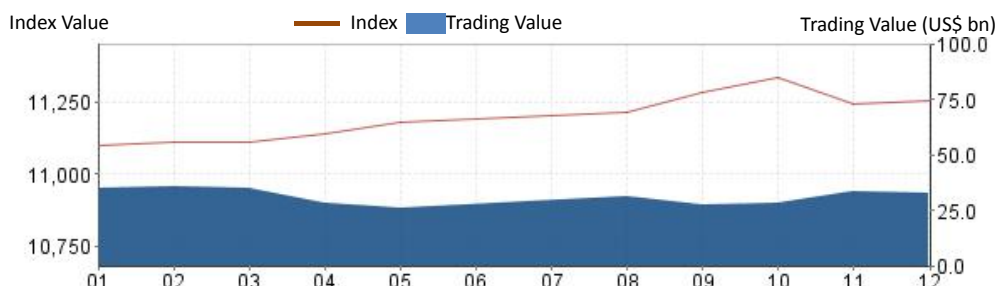
Shenzhen Strongteam Decoration Engineering Co., Ltd. principally engages in providing batch fine decoration services. In 2019, its operating income reached 234 million yuan with the net profit of 183.23 million yuan.

## Daily Trading Value (June 01 – June 12)

(US\$ bn)



## SZSE Component Index (June 01 – June 12)



## SME Index (June 01 – June 12)



## ChiNext Index (June 01 – June 12)



## SPECIAL ISSUE on SZSE ChiNext Market Reform

### The ChiNext Market Reform Entered the Practical Operation Stage with Measures for Registration-based System of ChiNext Unveiled

On June 12th, the China Securities Regulatory Commission (CSRC) released the Administrative Measures on IPO Registration on the ChiNext Market (For Trial Implementation), the Administrative Measures on Securities Issuance and Registration for Listed Companies on the ChiNext Market (For Trial Implementation), the Measures for Continuous Supervision of Listed Companies (For Trial Implementation), and the Administrative Measures on Sponsorship for Securities Issuance and Listing, all of which came into effect on June 12th.

On the same day, the Shenzhen Stock Exchange (SZSE) published business rules related to information disclosure and relevant supporting arrangements on ChiNext Reform and Pilot Registration-based IPO System. Among them were 8 key business rules and 18 supporting implementation rules, guidelines and notices. Starting from June 15th, SZSE will begin to accept applications for IPO, refinancing, M&A from enterprises transferred from CSRC. From June 30th, SZSE will begin to accept applications from enterprises that newly

apply for ChiNext Market listing.

Previously in a special issue of SZSE market bulletin distributed on April 30th, we summarized the key points on ChiNext Market reform regarding registration-based IPO system. Combined with the release of formal rules, this issue will walk you through the relevant amendments and improvements, and key contents of market concern.

## I. Major feedbacks and revisions from the market consultation

From April 27 to May 11, SZSE publicly solicited opinions on eight business rules and regulations. Opinions that are reasonable and feasible are fully absorbed and adopted into relevant rules and regulations.

### On Listing Review

- Positioning of ChiNext Market is further clarified in the principle of inclusiveness with an industry negative list.
- Fast track micro refinancing mechanism was improved, defining the applicable conditions for micro refinancing so as to encourage and support well-regulated high quality listed companies to refinance through capital market in a flexible and convenient way.
- Review time limit was revised and improved, specifying the three month time limit requirement.
- Notice time arrangement of the listing committee meeting was shorten from 7 working days to 5 calendar days prior to the listing committee meeting.
- The valid period of the prospectus was clarified. Financial statements presented in the prospectus shall be valid for 6 months from the deadline of the latest period. Under special circumstances during the review period, the issuer may apply for an appropriate extension, which shall not exceed 3 months.
- Notice on transitional arrangements for the review of offering was made. The order of review and the deadline for submission of working papers of sponsorship are specified among other matters.

### On Continuous Supervision

- **Listing and delisting criteria for red chip enterprises was improved.** Listing criteria on share capital and equity structure for red chip enterprises were modified. It is clearly mentioned that share capital shall be calculated based on the total number of shares or depository receipts. The standard on “rapid growth in operating income” for listing criteria is further defined. Delisting criteria for trading reasons for red chip enterprises are also modified.
- **Delisting criteria were further optimized.** Delisting criteria on market value basis was adjusted to below RMB 300 million for 20 consecutive trading days. Specially treated stocks (\* ST stocks) due to financial reasons will be delisted on the occasion that financial report of the next year is issued with qualified opinion.
- **Listing standards of stocks and convertible bonds were clarified.** It is clarified that application by a listed company for listing of stocks or convertible bonds is supposed to meet the listing requirements”, which is consistent with the staus quo of refinancing practise.

### On Trading

- Maximum order size was adjusted. For limit orders and market orders, single maximum order size is adjusted to 300,000 shares and 150,000 shares respectively.
- Meanwhile, the daily price limit on the trading of relevant funds is adjusted to  $\pm 20\%$ .

## II. Arrangements of red chip companies

**Special arrangements were made for red chip companies to better accommodate the difference between Chinese and overseas practices.**

- **Arrangements for preferential rights in the VAM (valuation adjustment mechanism) were clarified**

On the occasion that a red chip company has issued preference shares to investors with

agreed redemption and priority rights, such shares can be converted to ordinary shares before an IPO if issuer and the shareholders promise not to exercise their priority rights during the IPO application and issuance period.

- **Calculation method of total share capital was adjusted**

Given that organization forms, face values and share capital requirements of red chip companies are different from domestic enterprises, and related arrangements fall into corporate governance category, the total share capital requirement for listing of red chip companies are calculated as the total number of shares after issuance or the total number of depository receipts rather than the total capital amount.

- **Definition of “rapid growth in operating income” was further clarified**

Specific judgement standards were made with regard to *rapid growth in operating income* from the perspectives of operating income, compound growth rate and peer comparison. However, the *rapid growth in operating income* requirements are not applicable to red-chip enterprises on the stage of research and development and red-chip enterprises of great significance to the national innovation-driven development strategy.

- **Special securities identification label will be made**

In order to remind the trading risks of stocks and depository receipts in ChiNext Market, and protect the legitimate rights and interests of investors, red chip enterprises with framework controlled by VIE or similar special arrangements will be specially labeled. The label will be removed if such an arrangements ceases after listing.

- **Clarify the adaptive adjustment of information disclosure**

Red chip companies that apply to ChiNext information disclosure requirements and continuous regulatory requirements may apply for adjustment if they may result in non-compliance with the relevant regulations of the company’s place of registration or the generally accepted standards in the market, and explain the reasons and alternatives and issue laws opinion.

- **Accommodating arrangements were made in information disclosure**

Red chip companies may apply for adjustment of implementation of rules which contradict with the rules of their registration location and market prevailing practices. Statement of reason for such adjustment and solutions shall be made on such occasion with legal opinions.

- **Trading-based delisting parameters were adjusted**

Face-value-based-delisting standards for red-chip companies in the form of stock listing is "the daily stock closing price is less than 1 RMB Yuan for 20 consecutive trading days" while red-chip companies in the form of DR listing apply to "the market value of daily depository receipts is less than 300 million US dollars for 20 consecutive trading days". It is specified that the delisting standard based on the number of shareholders does not apply to red chip companies listing their DR on SZSE.

- **Protection of investor rights was emphasized**

Where the laws and regulations of the place of registration are applied to matters such as corporate governance and operation compliance of red-chip enterprises, it is emphasized that the level of protection of investors' rights and interests should not be lower than the requirements stipulated by domestic laws and regulations, and that equal treatment of domestic and overseas investors shall be ensured.

### III. Arrangements for issuance and underwriting system

#### **Issuance and underwriting system was improved to better price the IPO.**

##### **I. Differentiated pricing mechanism of IPO was improved**

- 1) **Book Building.** Participants of book building in an Initial Public Offering include securities companies, fund management companies, trust companies, financial companies, insurance companies, qualified foreign investors and private equity fund managers.
- 2) **Direct Pricing.** Profitable companies that issue less than 20 million shares and have no shareholder public offerings can issue shares in a fixed price in an IPO, which helps

reduce the issuance costs of small and medium-cap companies and improves the efficiency of issuance.

## **2. To give full play to the pricing power of professional institutional investors**

- 1) **Increase the proportion of new shares in the placing tranche.** The initial size of the placing tranche shall be increased by 10% of shares in the public offering and the ratio of the placing tranche will be increased even after the portion of the placing tranche were clawed back to the public subscription tranche. These arrangements raise the portion of shares placed with mid-term and long-term investment, improve the effectiveness of participation of professional institutional investors, and facilitate reasonable pricing for new shares.
- 2) **Remove the pre-conditions for shares placed with strategic investors.** It is up to the issuer and the underwriter on whether they will place shares with strategic investors. The specific requirements on the number of strategic investors and the ratio of shares placed with strategic investors are adjusted for companies of different issuance size, which enhances flexibility of strategic investor placement mechanism.

## **3. Market participants shall shoulder responsibilities as strict mechanism of issuance and pricing are imposed**

- 1) **Improve the mechanisms of co-investment.** While the mechanisms of co-investment by sponsors are becoming more flexible, 4 types of special enterprises are required to be co-invested by the sponsor, thus urging the sponsor to effectively prevent and control risks and conduct sound pricing in a prudent manner.
- 2) **Set a lock-up period to guide investors in the placing tranche to participate in the bidding process on the principle of prudence.** The issuer and lead underwriter may set a lock-up period of no less than 6 months for a certain portion of shares in the placing tranche, adopting a lottery approach or on a pro-rata basis to decide the portion of shares to be locked up.
- 3) **Strengthen the regular supervision of market entities including issuers and intermediaries.** Irregular activities of participating entities were clarified regarding IPO of the ChiNext Market and equity refinancing issuance and underwriting process, and SZSE's self-regulatory measures and disciplinary actions.

1) Issuance arrangements to specified investors apply to a fast track in which bidding process is placed before the application. Improve the financing efficiency for high-quality listed companies and further enhance the predictability of issuance results and progress.

2) Issuance pricing methods and subscription payment procedures were refined and arrangements were made for circumstances under which the issuer and the principal underwriter may agree to suspend the issuance during stock issuance to specific investors.

## **IV. Application and Recommendation of Shares Issuance and Listing on**

*The Interim Provisions on the Application and Recommendation of Issuance and Listing on ChiNext Market* guide and regulate the application of ChiNext Market issuers and recommendations by sponsors in four aspects:

- Innovative and entrepreneurial enterprises that conform to the positioning of the ChiNext Market are welcomed to list on the market, so as to implement the strategy of innovation-driven development and serve the high-quality development of the real economy.
- The positioning of ChiNext Market was further clarified as a market of companies from high-tech and strategic emerging industry and a negative list was made to rule out enterprises from real estate and other traditional industries in principle.
- Traditional enterprises included in the negative list of industries are also eligible to apply for listing in ChiNext Market providing that they are deeply integrated with new technologies, new industries, new forms of business, and new models.
- The negative list shall not apply to enterprises already under review by CSRC. The current and previous rules shall be further coordinated in order to stabilize market

expectations.

## V. Real-time monitoring of abnormal trading on ChiNext Market

The market surveillance rules for ChiNext Market were accordingly improved. The core content of *The Detailed Rules for Real-time Monitoring of Abnormal Stock Trading of ChiNext Market (For Trial Implementation)* is highlighted as follows:

- The main types of abnormal trading behaviors were identified. There are 5 main types of typical abnormal trading behaviors, including spoofing, ramping/dumping, maintaining at daily (upward/downward) price limits, wash trade/straddling and self-trading, and quoting rate abnormalities of abnormally volatile stock.
- Threshold of abnormal trading indicators were clarified in a quantitative way. Definition and constituent elements of various types of abnormal trading behaviors were made and thresholds of specific indicators were clarified, including the number and frequency of declarations, the scale of stock transactions, market share, and stock price fluctuations. The monitoring standards may be adjusted dynamically in accordance with market development.
- Identification standards for abnormal trading behavior were specified. Identification of abnormal trading behaviors requires judgement based on both quantitative standards (quote numbers and frequency, scale of stocks trading and its proportion of the whole market, fluctuation of the stock price) and qualitative standards (stocks' fundamental, major information, performance of the stock).
- Members' duty of client management is consolidated. Members are required to, in supervision of abnormal trading behaviors, work with SZSE to maintain the order of the ChiNext Market by knowing their clients ex ante, monitoring clients trading in such a manner that abnormal trading behavior can be identified, managed and reported in a timely way.

## Upcoming Event

### **SZSE to host webinar with FTSE Russell on 17 June**

SZSE will introduce the prospect of ChiNext Reform and the takeaways for foreign investors. Areas like performance of SZ-HK stock connect amid Covid-19 and the upcoming FTSE Russell's last tranche inclusion of A shares Phase I will also be covered. It is expected that over 50 institutional investors will attend the webinar.

The experts from FTSE Russell, Hong Kong Exchanges and Clearing, and Shenzhen Stock Exchange will discuss the following topics:

- China A June implementation highlights and next phase considerations
- Latest development on the Stock Connect Programme, "What to look for in 2020?"
- Update of SZ-HK Stock Connect and the prospect of ChiNext reform

**REGISTER NOW:** <https://www.brighttalk.com/webcast/9819/413415>

**CONTACT:** [ljgao@szse.cn](mailto:ljgao@szse.cn)

**DATE:** Wednesday, 17 June 2020

**TIME:** 03:30 p.m. HKT

**1. Yan Qingmin: Financial fraud is a "malignant tumor" of the stock market**

On June 6, Yan Qingmin, Vice Chairman of the China Securities Regulatory Commission, pointed out at the China Association for Public Companies (CAPCO) 2020 Annual Meeting that further measures will be taken to improve the quality of listed companies to enhance their transparency and compliance. Yan Qingmin proposed four principles for the supervision of listed companies, ie, enhancement of integrity, improvement of information disclosure quality, prevention of risks of listed companies and the effectiveness of regulation.

**2. Hainan free trade port won't weaken HK's status**

With different orientations and priority industries, Hainan and Hong Kong are more complementary than competitive, Lin Nianxiu, Deputy Director of the National Development and Reform Commission, said at a press conference. The construction of the Hainan free trade port "will not bring shocks to Hong Kong," said Lin, adding that the island province will focus on developing tourism, modern services, and high-tech industries. "We should give full play to Hainan's rich natural resources, unique geographical location, and its advantages of being backed by an ultra-large domestic market," he said. The governments will work to promote the joint development of Hainan and the Guangdong-Hong Kong-Macao Greater Bay Area and ensure Hong Kong's long-term prosperity and stability, Lin noted. Hainan Free Trade Port will establish a zero-tariff negative list and three positive lists, with a key focus on supporting hightech, environmental protection and specialty industries. The first phase of the government's master plan is to be completed in 2025, with a key focus on liberalization and facilitation of trade and investment. The second phase will focus on further optimizing opening-up policies and institutional arrangements.

**3. Supportive measures to buoy up the economy**

China's central bank, the PBoC, launched a set of policies last week to shore up financial services for small and micro enterprises. It announced 30 supportive measures, such as lower costs and faster growth of credit while encouraging financial institutions to raise more funds from the bond market. The target of net financing from corporate bonds this year is set at RMB 1 trillion (more than that of 2019). Financial institutions shall issue special bonds of at least RMB 300 billion for supporting small and micro companies, among other measures to serve SMEs financial needs.

China will set up a special transfer payment mechanism to ensure that this year's newly increased fiscal funds can directly benefit businesses and the people. Green lights are given to a host of supporting arrangements on Tuesday at the State Council's executive meeting, chaired by Premier Li Keqiang. This year, the government will reduce tax and fees on enterprises by RMB 2.5 trillion (USD 353 billion).

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*We welcome any feedbacks with respect to Market Bulletin or other information services offered by the SZSE. Should you have any inquiries, comments or proposal for cooperation, please let us know at [international@szse.cn](mailto:international@szse.cn)*

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