



国泰君安证券
GUOTAI JUNAN SECURITIES

诚信、亲和、专业、创新

Introduction to “Science and Technology Innovation Board”

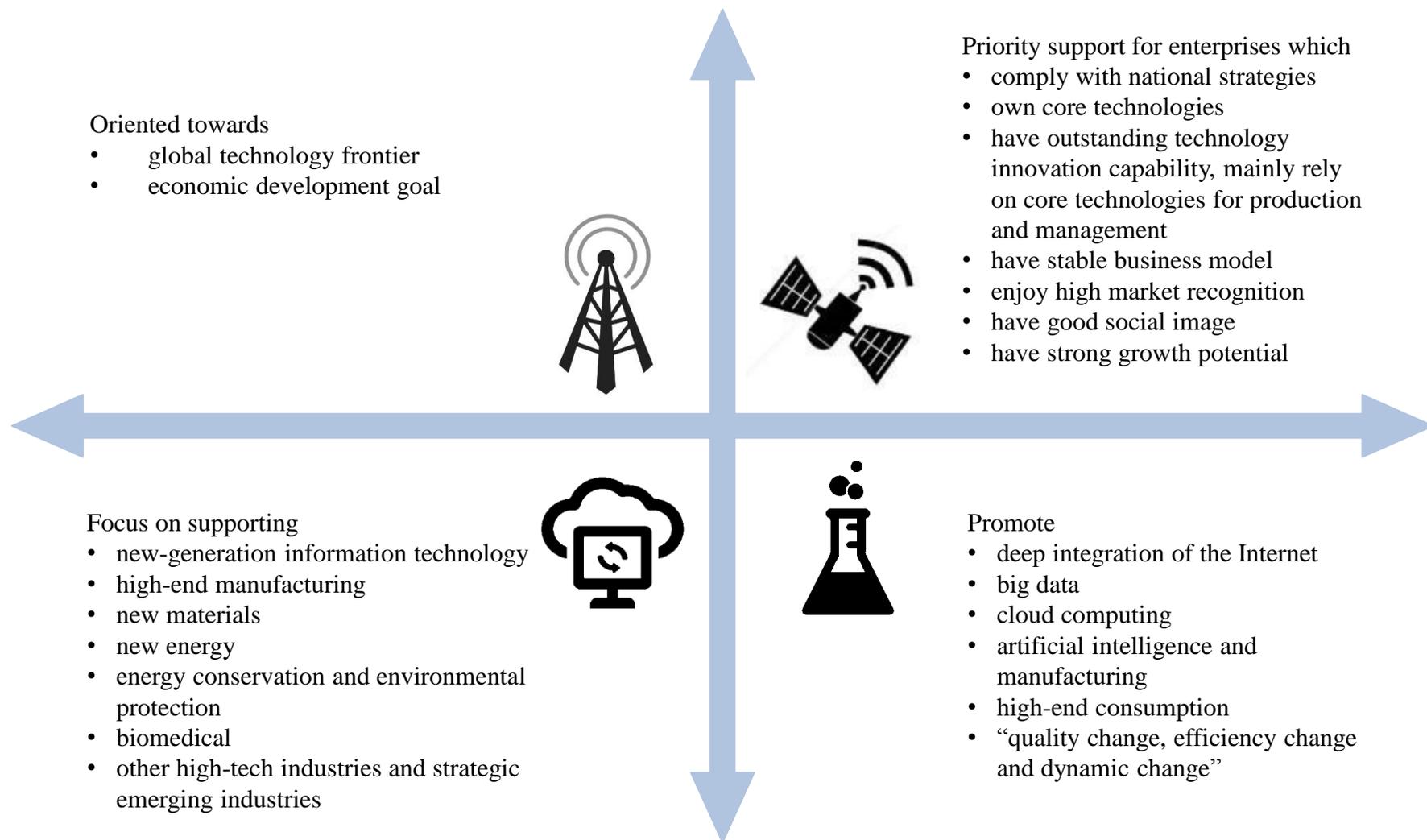
Oct., 2019

Science and Technology Innovation Board (“STIB”) is designed to:

- Provide more convenient financing support for new economy and innovative enterprises
- Promote China capital market reform and enhance market vitality

Features:

- Flexible listing criteria
 - Looser listing requirements on financials and others
 - Allow listing of non-profitable companies, red chips, and those with A/B share structure
- Market-based pricing mechanism for new share issuance
 - Full adoption of market-based pricing method in replacement of direct pricing method; pricing based on inquiry in replacement of ceiling P/E ratio guidance
- Streamlined regulatory approval process
 - Listing on registration basis in replacement of regulatory approval process
 - The whole process shortened to 6 months from 1-2 years on Main Board/SME/GEM
- More responsibility for sponsors and advisors
 - Greater emphasis on securities firms’ responsibilities and abilities in assessment of business, technology, pricing, information disclosure, and continuous supervision after listing
 - Sponsors encouraged to subscribe to 2-5% new issuance on proprietary account
 - Aggravated punishment for negligence and violation of laws and regulations
- Improved trading system
 - No restriction on price fluctuation within 5 days after IPO, and relaxed fluctuation limitation thereafter (20% daily, versus current 10%)
 - Pledged share financing is allowed from the 1st day of IPO
 - Limited to experienced players (>CNY500k in security account and >2 years trading experience); small and inexperienced investors encouraged to invest in related funds
- Less limitation on equity incentive plan, in terms of share numbers, strike price, and value relative to cash incentives
- Strict requirements on information disclosure
- Strict delisting requirements



Issuer Qualification

- Company in form of “limited by shares”
- Has been running for 3 successive years

Accounting

- Normative accounting framework
- Complete and effective internal control
- Unqualified audit opinion + unqualified internal control verification opinion

Business and Operation

- Complete assets, independent operation (i.e. versus dependency on related parties)
- No substantial adverse change in directors, supervisors, key management, and core employees in last 2 years
- No change in ultimate controlling shareholder in last 2 years (for Red Chip, 3 years)
- No disputes on ownership of core assets, key technologies, or IP

Compliance

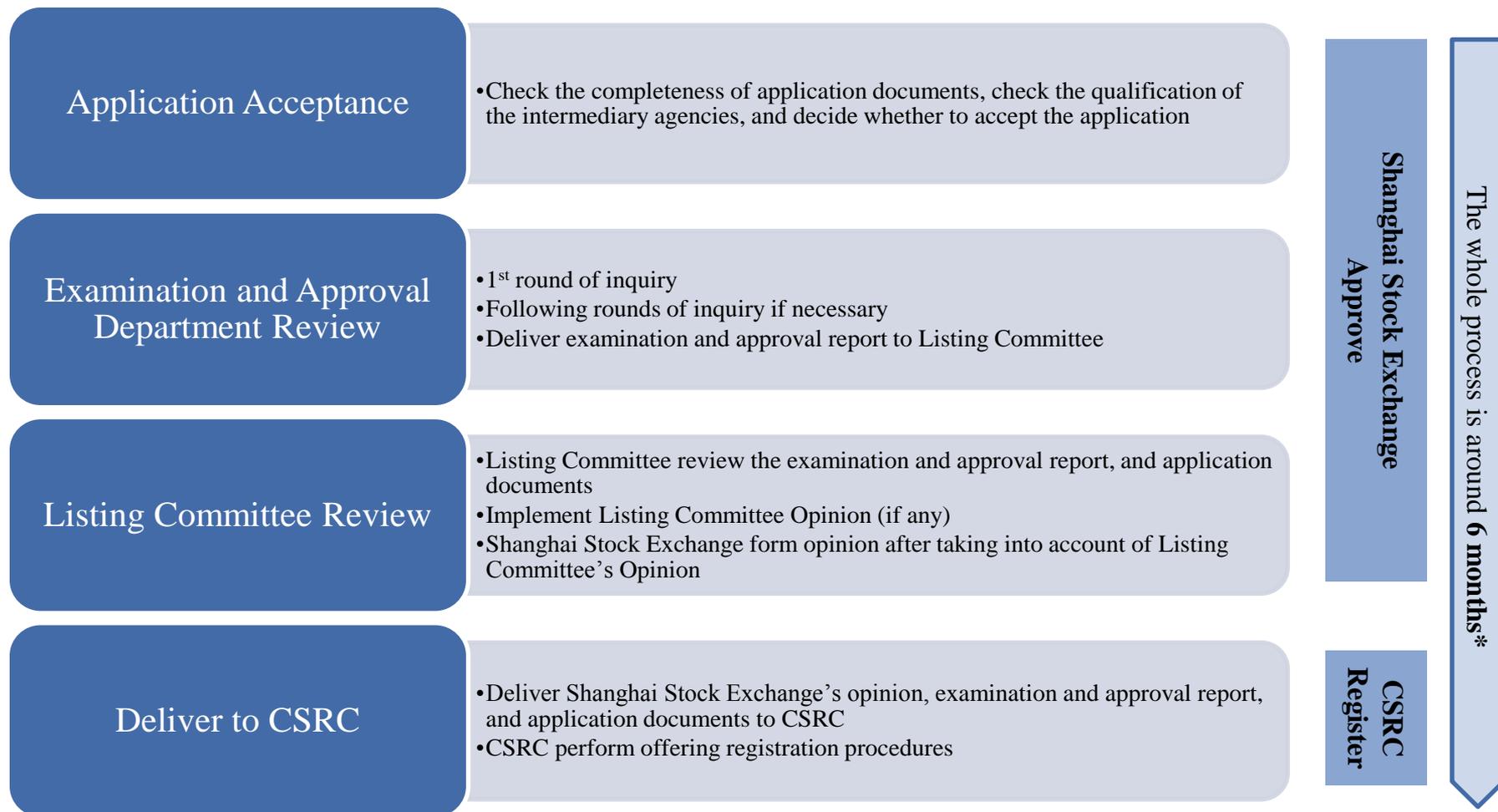
- In line with national industrial policy
- For Issuer, controlling shareholder, and ultimate shareholder no major illegal acts in last 3 years
- For directors, supervisors, and key management, no punishment by CSRC in last 3 years or under unsolved investigation

Comparison of Key Listing Criteria

	Science and Technology Innovation Board	Main Board/SME	GEM
Financials	<p>1. <u>For general companies (must satisfy one of the following 5 requirements)</u></p> <p>① Anticipated market cap \geq CNY 1 billion; continuously making profits in last 2 years and accumulated net profit \geq CNY 50 million, or making profit in last year and sales \geq CNY 100 million</p> <p>② Anticipated market cap \geq CNY 1.5 billion; sales in the last year \geq CNY 200 million; accumulated R&D investment/accumulated sales in last 3 years \geq 15%</p> <p>③ Anticipated market cap \geq CNY 2 billion; sales in the last year \geq CNY 300 million; accumulated net operating cash inflow in last 3 years \geq CNY 100 million</p> <p>④ Anticipated market cap \geq CNY 3 billion; sales in the last year \geq CNY 300 million</p> <p>⑤ Anticipated market cap \geq CNY 4 billion; main business or products need to be approved by related government departments, have large target market, and staged results have been achieved. For pharmaceutical company, at least one core product is approved to carry out Phase II clinical trials; for other companies that meet the positioning of the Science and Technology Innovation Board, must have obvious technical advantages and meet the corresponding conditions</p> <p>2. <u>For Red Chips* (must satisfy one of the following 4 requirements)</u></p> <p>① For already listed in overseas capital market, market cap \geq CNY 200 billion</p> <p>② For unlisted, sales in last year \geq CNY 3 billion; valuation \geq CNY 20 billion</p> <p>③ For unlisted, anticipated market cap \geq CNY 10 billion; have rapid growing revenue, independent R&D, international leading technology, and comparative advantage in industry</p> <p>④ For unlisted, anticipated market cap \geq CNY 5 billion; sales in last year \geq CNY 500 million; have rapid growing revenue, independent R&D, international leading technology, and comparative advantage in industry</p> <p>3. <u>For companies with A/B share structure[^] which complies with rules (must satisfy one of the following 2 requirements):</u></p> <p>① Anticipated market cap \geq CNY 10 billion</p> <p>② Anticipated market cap \geq CNY 5 billion; sales in last year \geq CNY 500 million</p> <p><i>*Red Chips refer to PRC companies registered overseas with main operation in mainland China</i> [^]A/B share structure refers to A and B types of shares, each representing different number of voting rights</p>	<p>① Continuously make profit in last 3 years and accumulated profits $>$ CNY 30 million</p> <p>② Accumulated net operating cash inflow in last 3 years $>$ CNY 50 million, or accumulated sales $>$ CNY 300 million</p> <p>③ On latest stub period balance sheet, intangible assets (excluding land use rights, aquaculture water use rights and mining rights etc.) / net assets \leq 20%</p> <p>④ On latest stub period balance sheet, no deficit that is not yet made up</p> <p><i>Note: For special case, condition 1 and 4 can be waived</i></p>	<p>① Continuously make profit in last 2 years and accumulated profits \geq CNY 10 million; or make profit in last year and sales \geq CNY 50 million</p> <p>② On latest stub period balance sheet, net assets \geq CNY 20 million, and no deficit that is not yet made up</p> <p><i>Note: For special case, condition 1 and “no deficit that not yet made up” can be waived</i></p>
Capital	<ul style="list-style-type: none"> Injected capital after listing \geq CNY 30 million 	<ul style="list-style-type: none"> Injected capital before listing \geq CNY 30 million Injected capital after listing \geq CNY 50 million 	<ul style="list-style-type: none"> Injected capital after listing \geq CNY 30 million
Others	<ul style="list-style-type: none"> Science and Technology Innovation Board also loosens requirements on certain areas, e.g. horizontal competition, connected transactions, shareholding clarity, and continuous operation. 		

	Science and Technology Innovation Board	Main Board/SME/GEM
Pricing Mechanism	<ul style="list-style-type: none"> ● Full adoption of market-based pricing method in replacement of direct pricing method ● Similar with the listing requirement of other foreign mature capital market (e.g. US, HK), if the market cap of the issuer is not able to satisfy its market cap or financial criteria for listing, the listing process will be terminated. 	<ul style="list-style-type: none"> ● Although pricing inquiry mechanism is in place, in practice, final listing price has unspoken price ceiling of 23x P/E ratio
Price Inquiry Counterpart	<ul style="list-style-type: none"> ● 7 types of professional institutes, including Securities Firms, Fund Management Companies, Trusts, Insurance Companies, Financial Companies, Qualified Foreign Institutional Investors, Private Fund Management Companies ● Same as current Main Board regulation 	<ul style="list-style-type: none"> ● 7 types of professional institutes, including Securities Firms, Fund Management Companies, Trusts, Insurance Companies, Financial Companies, Qualified Foreign Institutional Investors, Private Fund Management Companies
Average Quote Price and Disclosure	<ul style="list-style-type: none"> ● Disclosure of effective (i.e. excluding the highest price) median and average quote price, and the effective median and average quote price of mutual funds, social insurance funds, and pension funds ● If issuance price is higher than aforementioned median and average price, sponsors and issuers should disclose investment risk announcement at least one week before subscription, leaving sufficient time for investors to conduct due diligence and make decisions 	<ul style="list-style-type: none"> ● No requirement for disclosure; but if the issuance P/E ratio is higher than market average, weekly announcement of investment risk is required for three consecutive weeks

- Greater emphasis on Securities Firms' responsibilities in Science and Technology Innovation Board, especially in terms of in-depth assessment of the companies including technology, R&D, growth and competitiveness, and capabilities of market-based pricing and continuous supervision



For comparison, Main Board/SME/GEM listing process usually take 1-2 years and subject to regulatory and policy timing and approval uncertainty

Relevant Party	Lock Up Period	Notes
Controlling Shareholder and Ultimate Shareholder	36 months For unprofitable company at IPO, before making profits, stock selling should be $\leq 2\%$ of company total issued shares in 4 th and 5 th year each	If in form of auction in the market, stock selling $\leq 1\%$ of company total issued shares in any 90 successive days; If in form of block trade, stock selling $\leq 2\%$ of company total issued shares in any 90 successive days;
Core “Technicians”	12 months, or 6 months after resignation For unprofitable company at IPO, 36 months before making profits. Applies to resignation situation as well.	Within 4 years after end of lock up period, each year stock selling $\leq 25\%$ of total shares held at IPO
Directors, Supervisors, and Key Management	12 months, or 6 months after resignation For unprofitable company at IPO, 36 months before making profits. Applies to resignation situation as well.	During tenure, each year stock selling should $\leq 25\%$ of shares at hand; If number of holding shares ≤ 1000 , can be sold in lump sum

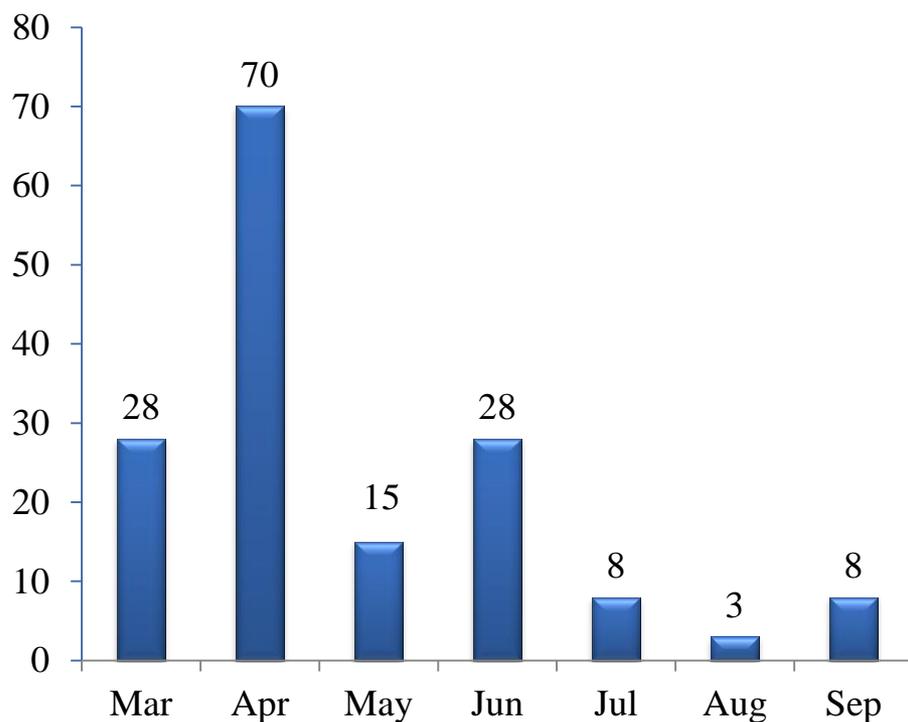
Comparison of Delisting Requirements

- Delisting was infrequent in A share market, relative to mature foreign capital markets. STIB adopts stricter delisting requirements and is piloting efforts to improve China's capital market delisting mechanism

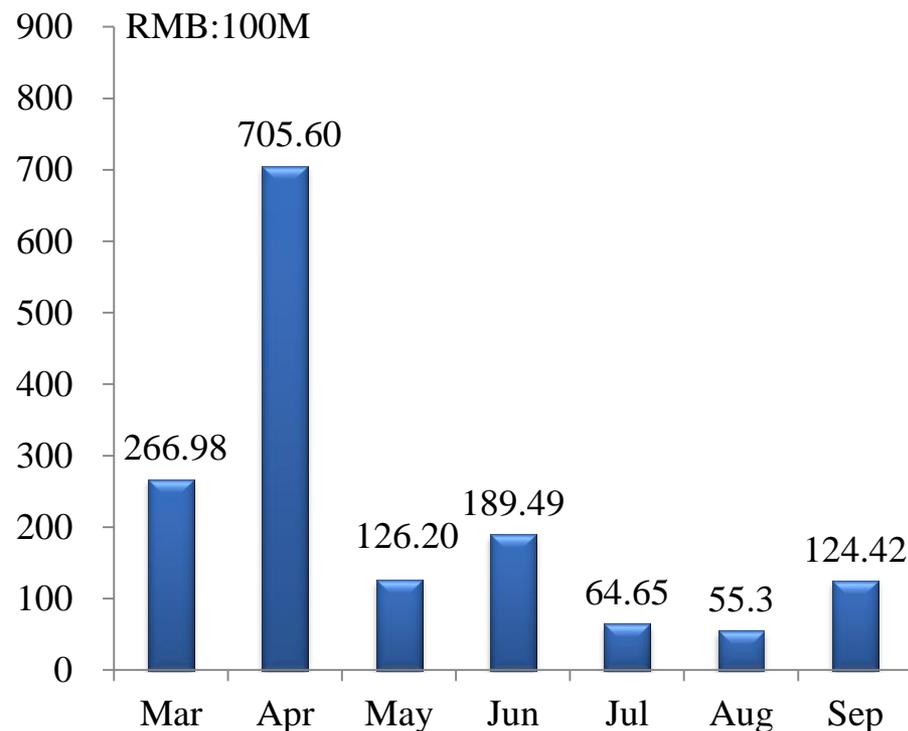
		Delisting Risk Warning		Delisting			
		SSE Main Board	STIB	Main Board	SME	GEM	STIB
Financials	Successive loss	2 years	① Loss (before or after normalization) and revenue < CNY 100mm in last accounting year ② Negative net assets in last accounting year ③ Revenue mainly comes from connected transactions with no business substance, or from trading business deviating from core operation	4 years (or not disclose annual report within certain time after listing suspension)		2 years (or not disclose annual report within certain time after listing suspension)	① Core business suspended or runs at very low scale ② Significant loss of operating assets leads to failure of daily operation ③ Revenue or profits mainly come from connected transactions with no business substance ④ Revenue or profits mainly come from trading business deviating from core operation ⑤ Other failure to maintain continuous operation situations
	Negative net assets	1 year		2 years (or positive net assets, but normalized net loss position), (or not disclose annual report within certain time after listing suspension)			
	Revenue < CNY 10 mm	2 years	④ R&D company fails its development on fundamental tech or this tech is prohibited	4 years (or not disclose annual report within certain time after listing suspension)			
Trading	Trading volume		Accumulated trading volume < 1.5mm shares in 90 successive trading days	Accumulated trading volume < 5mm shares in 120 successive trading days	Accumulated trading volume < 3mm shares in 120 successive trading days	Accumulated trading volume < 1mm shares in 120 successive trading days	Accumulated trading volume < 2mm shares in 120 successive trading days
	Closing price vs. par value; market cap		Closing price < par value or market cap < CNY 300mm in 10 successive trading days	Closing price < par value in 20 successive trading days			Closing price < par value or market cap < CNY 300mm in 20 successive trading days
	Shareholders		Shareholders < 400 in 10 successive trading days				Shareholders < 400 in 20 successive trading days
Others	STIB doesn't adopt process of listing suspension, listing resumption and re-listing mechanism as what are used in existing China capital market. Company will be delisted directly if fails to meet performance requirements						

- By 2019.9.30, the Shanghai Stock Exchange has accepted 160 listing applications for its new Science and Technology Innovation Board

Number of application by month

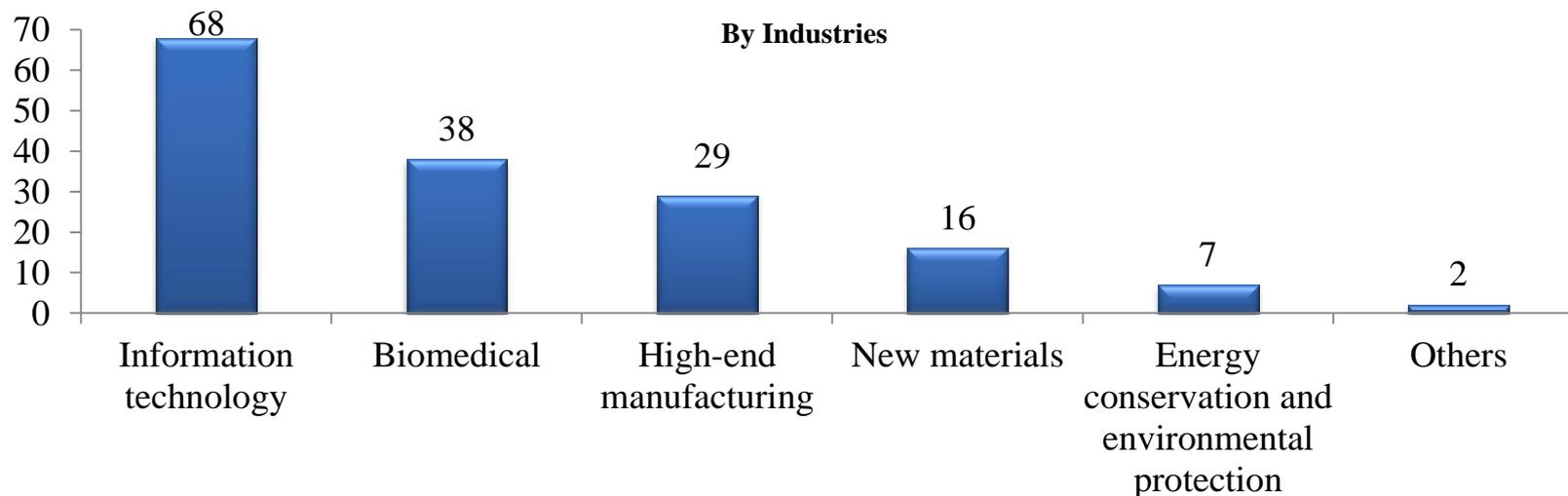
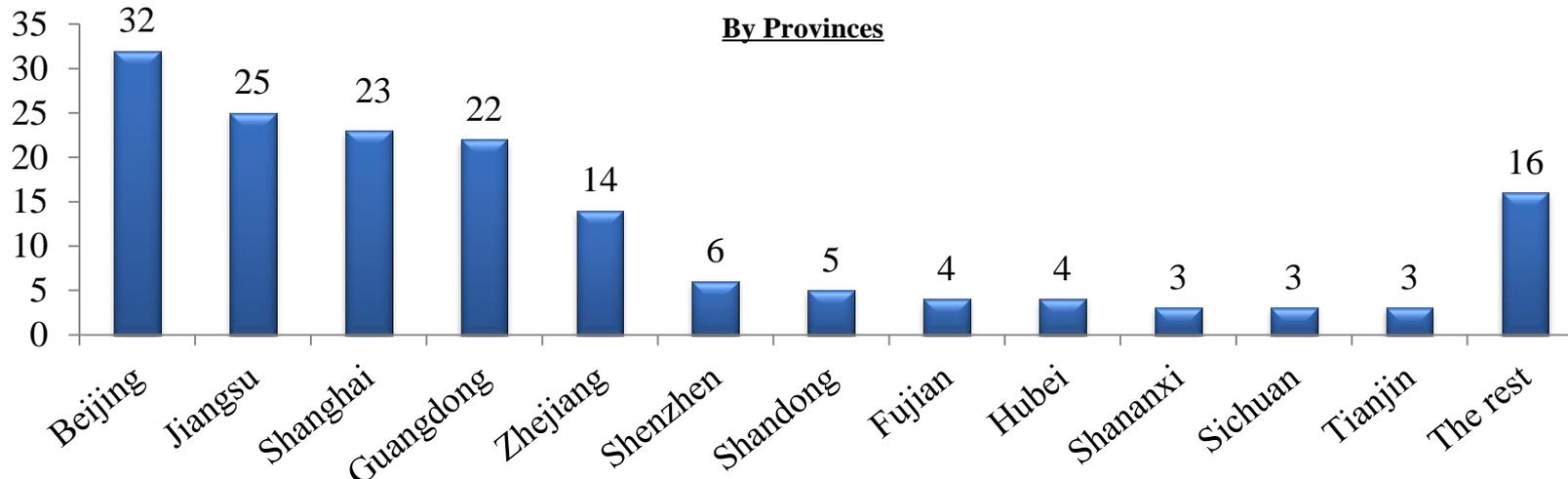


Funds to be raised per IPO application by month



Note: according to Wind database category

- By 2019.9.30, the Shanghai Stock Exchange has accepted 160 listing applications for its new Science and Technology Innovation Board



Note: according to Wind database category

IPO P/E ratio by 2019.9.30

- By 2019.9.30, there are 33 stocks listed on new Science and Technology Innovation Board

Industry	Security Code	IPO P/E	Average P/E for the industry	Difference between IPO P/E And Average P/E for the industry
New-energy vehicles related industry	688005.SH	58.21	31.11	87.11%
	688006.SH	39.80	31.30	27.16%
	688388.SH	37.41	31.20	19.90%
Semiconductor	688012.SH	170.75	32.87	419.47%
	688099.SH	58.42	31.92	83.02%
	688008.SH	40.12	30.93	29.71%
Biomedical	688321.SH	467.51	30.79	1,418.38%
	688029.SH	39.92	31.92	25.06%
	688016.SH	39.75	31.92	24.53%
High-end manufacturing	688003.SH	57.48	31.26	83.88%
	688010.SH	49.39	28.25	74.83%
	688001.SH	41.08	31.11	32.05%

Note1: data source: according to Wind database category

Note2: Difference between IPO P/E And Average P/E for the industry = (IPO P/E - Average P/E for the industry)/ Average P/E for the industry.



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