



BROAD
Investment & Securities LLC

2026 Broad Investment Securities White Paper on Standards for Chinese Value Stocks (CVS)

BROAD

Investment & Securities LLC

Copyright Statement

This white paper is compiled and published by the Research Department of Broad Investment Securities LLC. All rights reserved © 2025 Broad Investment Securities. All rights reserved.

Disclaimer

This report is based on independent research and aims to propose an analytical framework and conceptual standards for "Chinese Value Stocks (CVS)". The content of this report is for academic discussion and market observation only, and does not constitute any investment offer, advice, or guarantee. The information contained in this report is derived from public sources, and Broad Investment Securities LLC strives but does not guarantee its accuracy and completeness. The views expressed herein are solely the analysis of the research team based on specific assumptions, and market conditions may change. Investors shall bear their own risks for any decisions made based on this report.

Executive Summary

Over the past two decades, driven by China's rapid economic development and globalization, numerous Chinese enterprises have chosen to list in the United States. Leveraging the capital and brand effect of the international capital market, they have achieved rapid expansion in scale and influence. During this period, "Chinese concept stocks" once became synonymous with growth, vitality, and market opportunities, attracting widespread attention and allocation from global capital.

However, in recent years, the connotation of this label has undergone significant changes. After experiencing market volatility, evolving regulatory environments, and individual corporate governance risk incidents, "Chinese concept stocks" have gradually been shrouded in vague, generalized doubts in the U.S. capital market. In the eyes of some institutional investors, their image has shifted from "growth stories" to being perceived as potentially high-risk, low-transparency assets with uncertain governance and questionable sustainability. This cognitive bias has led many high-quality enterprises to be "lumped together" with problematic ones, enduring a systematic valuation discount disconnected from their fundamentals.

Based on long-term observations of cross-border capital market practices, Broad Investment Securities LLC has identified that the core issue is not that Chinese enterprises lack the ability to create value, but that existing market frameworks and cognitive labels fail to effectively identify and distinguish which Chinese companies truly possess long-term investment value. The market lacks a recognized, rigorous screening standard to clearly identify high-quality enterprises with standardized governance, transparent finances, and sustainable businesses from the heterogeneous group. To address this, we formally propose and define a new, more discriminative asset class—**Chinese Value Stocks (CVS)**

Chinese Value Stocks (CVS) is not a mere rhetorical enhancement or marketing rebranding of "Chinese concept stocks", but aims to establish a verifiable, screenable, and binding institutional standard system. Through a series of open, objective, and rigorous access and behavioral guidelines, it strives to achieve the following core objectives:

1. **Provide U.S. and global institutional investors with a long-term**



configurable screening framework for Chinese enterprises

Assist investors in transcending vague "nationality labels" and identifying investment targets with mature governance, solid businesses, and sustainable growth based on clear qualitative and quantitative standards, thereby reducing screening costs and the risk of misjudgment.

2. Provide high-quality Chinese enterprises with an independent valuation anchor decoupled from the overall discount of "Chinese concept stocks"

Provide high-quality Chinese enterprises with an independent valuation anchor decoupled from the overall discount of "Chinese concept stocks"

3. Explore a new feasible path for repairing and rebuilding trust between Chinese and U.S. capital markets

Through enterprises' voluntary commitment to adhering to governance and behavioral guidelines that exceed basic listing requirements, and implementing them in a verifiable manner, market credibility will be gradually accumulated. CVS aims to serve as a "signal mechanism" for trust, promoting the formation of a more resilient new type of trust relationship in the capital market based on facts and performance.

BROAD

Investment & Securities LLC

Table of Contents

I.The Real Reasons for the Valuation Failure of Chinese Concept Stocks.....	1
The Misunderstood "Regulatory Narrative"	1
Three Internal Drivers of Valuation Failure in Chinese Concept Stocks.....	2
The True Attitude of the U.S. Market.....	8
II.Official Definition of Chinese Value Stocks (CVS).....	11
Core Definition of CVS.....	11
Five Mandatory Access Criteria for CVS	13
III.Why "\$300 Million Market Cap" Is a Critical Dividing Line	19
Practical Threshold for U.S. Stock Institutions	19
Structural Dilemma of Small-Cap Stocks.....	22
\$300 Million - \$2 Billion: The "Golden Range" for Value Reassessment.....	24
IV.Three Typical Business Models of Chinese Value Stocks	27
Chinese Manufacturing + Global Demand.....	27
Chinese Technology + Overseas Customers	28
Chinese Brands + International Channels.....	30
V.Corporate Governance Is the Invisible Moat of CVS	32
Shift in Demand: From "Chasing Growth" to "Requiring Controllability"	32
Conceptual Upgrade: From "Compliance Cost" to "Valuation Asset"	34
Building the Moat: Three Key Governance Principles	36
VI.CVS Capital Market Code of Conduct	40
Prohibited Behaviors: Drawing Clear Red Lines for Trust	40
Recommended Behaviors.....	42
VII.The Significance of CVS for Investors.....	44
VIII.CVS Evaluation and Watch List Methodology.....	48
Evaluation Framework.....	48
Dynamic Maintenance of the Watch List	50
Principles and Commitments of the Methodology.....	51

I. The Real Reasons for the Valuation Failure of Chinese Concept Stocks

The Misunderstood "Regulatory Narrative": Exogenous Shocks Are Not the Whole Truth

Over the past few years, in market comments and investor discussions, a prevalent and seemingly reasonable explanatory framework has attributed the valuation pressure faced by Chinese concept stocks mainly, if not entirely, to changes in the external regulatory environment:

- **China-U.S. regulatory frictions:** Transaction restrictions, technological blockades, and investment reviews triggered by geopolitical tensions.
- **Audit regulatory issues:** Delisting risks arising from long-standing disputes over cross-border inspections of accounting firm audit working papers.
- **Domestic policy uncertainty:** Strengthened regulatory policies introduced in China targeting areas such as internet platforms, education and training, and data security.

However, attributing the entire valuation discount to regulatory factors is an incomplete and misleading narrative. While it explains some fluctuations in market sentiment and selling pressure during specific periods, it fails to fully account for why this discount has persisted so long and systematically across different regulatory cycles. In fact, even when regulatory dialogues make progress and the macro policy environment stabilizes, the overall valuation recovery of Chinese concept stocks remains weak and uneven.

The core distinction lies in: regulatory risks are exogenous variables affecting all market participants, while corporate valuation is essentially an endogenous result of a company's inherent quality and capital mar-

ket credibility. Exogenous shocks are like a storm, testing the structure of the ship itself and the competence of the helmsman. Those ships (enterprises) with solid structures and standardized operations will sway in the storm but can maintain their course and value; while ships with structural flaws may expose more serious problems or even sink in the wind and waves. What the market ultimately punishes is not the storm itself, but the vulnerability revealed during the storm.

Three Internal Drivers of Valuation Failure in Chinese Concept Stocks

Stripping away external noise and delving into the corporate structure and market behavior, we have identified three fundamental endogenous issues that lead to systematic valuation failure:

(1) Insufficient Verifiability of Revenue and Cash Flow

Concerns about the verifiability of financial information of Chinese concept stocks are not unfounded, but based on long-term, data-supported collective memory. According to statistics, between 2010 and 2025, there were 151 publicly recorded short-selling incidents targeting listed companies, with a significant proportion involving Chinese concept stocks. Especially after 2018, short-selling activities have become more frequent. Although in recent years, with the improvement of the quality of some enterprises and their enhanced ability to counter short-selling, the immediate impact of short-selling reports has decreased, the issues they reveal—such as revenue authenticity, related-party transactions, and the sustainability of business models—have become long-standing doubts in the minds of investors. Historical data also shows that as of the beginning of 2020, approximately 30% of Chinese companies listed in the United States have delisted for various reasons. These past cases have collectively created a market atmosphere of "presumption of guilt", making any financial doubts likely to be quickly amplified. The cornerstone of trust is information. The doubts faced by many Chinese concept stocks

stem from investors' difficulty in penetratingly verifying their financial substance.

The core of the problem is that investors struggle to verify the authenticity of business through complex structures. Typical cases include Luckin Coffee's disclosure of approximately USD 310 million in revenue fraud in 2019, and short-selling institutions' allegations that some education companies may have inflated their revenue by more than 80% or even 90%. Whether these allegations are fully substantiated in the end or not, they have severely shaken the foundation of market trust in the credibility of financial reports of the entire group. More importantly, this distrust extends to doubts about whether their "profits can be converted into real cash flow". Some cases show a huge discrepancy between the substantial cash balances claimed by companies and investigation evidence, while others present a state of "profitable but cash-strapped", with profits continuously occupied by high capital expenditures or operating funds.

When investors cannot be certain that the cash on the statements is freely disposable and cross-border transferable, all valuation models based on cash flow will lose their foundation.

This predicament of insufficient verifiability has ultimately escalated into a systematic regulatory risk. Under the Holding Foreign Companies Accountable Act (HFCAA), the Public Company Accounting Oversight Board (PCAOB) has placed a large number of Chinese concept stocks on the "provisional delisting list" due to its inability to inspect audit working papers. As of the end of 2022, the total number of Chinese concept stocks on the list reached 172, accounting for as high as 61.6% of Chinese companies listed in the United States at that time. Although Chinese and U.S. regulatory authorities reached a cooperation framework in 2022, temporarily alleviating the delisting crisis, this years-long impasse has profoundly revealed the potential mismatch between Chinese con-

cept stocks' audit transparency and international regulatory requirements. It sends a clear signal to all investors: investing in Chinese concept stocks, in addition to business risks, also carries an additional layer of difficult-to-quantify "information and compliance accessibility risk", which directly leads to long-term risk premiums and valuation discounts.

(2) Long-Term Disorder in Capital Market Behaviors and Erosion of Trust

Listing is not the end, but the beginning of a long-term dance with the capital market. The capital operation behaviors of some Chinese concept stocks after listing have seriously eroded the trust of investors, especially long-term institutional investors.

The disorder in the capital market behaviors of Chinese concept stocks is essentially a structural crowding-out caused by the lack of trust. Data shows that although Chinese concept stocks account for approximately 8% of the total market value of U.S. stocks, their share of fundraising in the U.S. stock secondary offering market in 2025 was as low as 0.31%. This extreme mismatch in scale indicates that most Chinese concept stocks have been excluded from conventional refinancing channels by mainstream capital. At the same time, companies that barely obtain financing often face severe market scrutiny, and their stock prices generally come under pressure after secondary offerings. In some cases, existing shareholders even need to seek exit at a discount of nearly 40%.

These behaviors collectively point to a deep-seated crux: the market cannot reach a consensus with most Chinese concept stocks on a "fair capital consideration".

The capital market has long held a distrust of the refinancing behaviors of Chinese concept stocks, which is directly reflected in market performance. For example, the stock prices of some Chinese concept stocks face enormous pressure after secondary offerings. Statistics show that there have been cases where the average decline within 30 days after the offering reached 18%. In extreme cases, existing shareholders sold

their shares at a significant discount for cash during secondary listings, further exacerbating external investors' concerns about potential interest damage. These behaviors have undermined the trust foundation for building a long-term, stable shareholder base, making any financing move likely to be interpreted by the market as a negative signal. The "disorder in capital market behaviors" of Chinese concept stocks can be interpreted as a systematic structural dilemma:

- **"Disorder" in financing opportunities:** Most Chinese concept stocks, especially small and medium-cap companies, face the problem of "difficulty in refinancing" rather than an excess of opportunities. This forms a polarization with some leading companies that can obtain financing.
- **"Disorder" in pricing power:** In a difficult market environment, the bargaining power of financiers (or selling existing shareholders) is very weak. Both the significant discount in secondary listings and the stock price pressure after secondary offerings indicate that the capital market has given a significant "vote of no confidence" in their behaviors.
- **The root lies in the "trust deficit":** An 8% market value share only translates to a 0.31% financing share, which most intuitively shows that the core of the problem is not the tools themselves, but the market's systematic distrust of the Chinese concept stock group in terms of corporate governance, fund usage, and shareholder return commitments.

(3) "Formal Compliance" and "Substantive Failure" of Corporate Governance

Although meeting the minimum listing requirements at the legal and regulatory level, the effectiveness of governance is generally questionable in actual operation. This governance state of "discrepancy between form and substance" is specifically reflected in three key aspects: control rights, financial boundaries, and supervisory functions.

- **Excessive Concentration of Controlling Shareholders' Power: Distortion of Control Rights Under Formal Compliance**

Founders or controlling shareholders legally concentrate control through mechanisms such as super-voting rights, but this often renders the checks and balances of the board of directors and general meeting of shareholders ineffective. A deeper issue is that to meet the formal requirement of the listing venue for the minimum economic interest share of super-voting right holders, it may lead to unconventional distortions in the governance structure.

Ke Holdings Inc. provides a typical case: To comply with Hong Kong stock listing rules, the company granted a huge amount of restricted stock to its CEO, resulting in his book "annual salary" reaching SD 65.5 million and USD 98.3 million in 2022 and 2023, respectively. Although this operation formally meets the regulatory requirements for the controlling shareholder's economic interests in the "weighted voting rights" structure, it highlights the serious separation of control rights (high voting rights) and cash flow rights (low economic interests) in an extreme way. The company's decisions are excessively dependent on individual will, which not only increases the risk of strategic volatility but also fundamentally amplifies the potential agency costs arising from the mismatch between control rights and claim rights.

- **Blurred Boundaries Between Financial and Capital Operations: Interest Transfer in the Gray Areas of Rules**

Financial transactions between listed companies and other private businesses owned by controlling shareholders often become blurred under the cover of formal compliance. NIO Inc.'s lawsuit by GIC, the world's sixth-largest sovereign wealth fund, in 2025 provides a highly representative illustration. GIC's core allegation is that NIO sold batteries in a single transaction through an affiliated com-

pany "Wuhan Weinan" in which it holds a 19.84% stake (deliberately below the 20% consolidation threshold) and recognized a huge amount of revenue, suspected of inflating performance. More importantly, GIC pointed out that NIO has approximately 55% of the actual economic interest in the affiliated company through business arrangements and financial guarantees, and should conduct a substantive consolidation. This case accurately reveals how some enterprises design complex related-party transactions by exploiting the gray areas of accounting standards and disclosure rules. Such operations that are formally compliant but substantively questionable make related-party transactions a potential channel for conflicts of interest, seriously damaging the independence and purity of the listed company's finances.

• **Voided Functions of Independent Directors and Key Committees: Contrast Between Low Dissent Rate and High Penalty Rate**

The supervisory functions of independent directors in key committees such as audit, compensation, and nomination often remain at the formal level of "attending meetings" and "approving proposals". Authoritative statistical data reveals the prevalence of this "rubber stamp" culture: in 2024, the rejection rate of proposals at board meetings of A-share listed companies was only 1.26%. However, in sharp contrast to this extremely low "dissent rate", as many as 85 independent directors were subject to regulatory penalties in the same year for failing to perform their duties diligently (such as failing to effectively supervise financial authenticity and the fairness of related-party transactions). The coexistence of this "low rejection rate" and "high penalty rate" is the most direct evidence of "formal compliance but substantive failure". It indicates that in many companies, independent directors have not played a substantive supervisory and checks-and-balances role, rendering the first line of defense for internal control and risk prevention ineffective. This is the fundamental reason why regulatory authorities have vigorously

promoted the reform of the independent director system in recent years, requiring them to move from "formal independence" to "substantive independence".

The persistent problem of corporate governance is not simply "non-compliance", but "failure" under the guise of "compliance". Whether it is unconventional incentives generated to meet rules, complex related-party transactions designed to exploit gaps in standards, or the silence and failure of independent directors to speak up, all point to a common core: when governance practices only pursue compliance with rule provisions and abandon the spirit of safeguarding the substantive fairness of shareholders (especially minority shareholders), the cornerstone of trust will collapse. Rebuilding trust must start with the "substance" rather than the "form" of governance.

The True Attitude of the U.S. Market: Rejecting the Unknown, Not China

In summary, the prudence and even pickiness displayed by the U.S. capital market do not stem from fundamental doubts about China's economic growth potential or the innovation capabilities of Chinese enterprises. On the contrary, as a mature system dominated by long-term institutional investors, its behavior is essentially a rational manifestation of the core instinct of "information-based risk pricing".

The core demands of the market are not nationality labels, but "assessability" and "trustworthiness". It has not rejected Chinese enterprises, but systematically avoided "assets that cannot be clearly priced". A company will face capital alienation regardless of its place of registration if it exhibits the following characteristics:

- **The substantive business is difficult to penetrate and verify** (Is the source of revenue real? Is the cash flow freely disposable?);

- **Corporate behaviors are difficult to predict and constrain** (Is the financing decision fair? Will the strategy suddenly shift?);
- **The foundation of governance is difficult to place trust in** (Are shareholder rights nominal? Is there a mismatch between control rights and interests?).

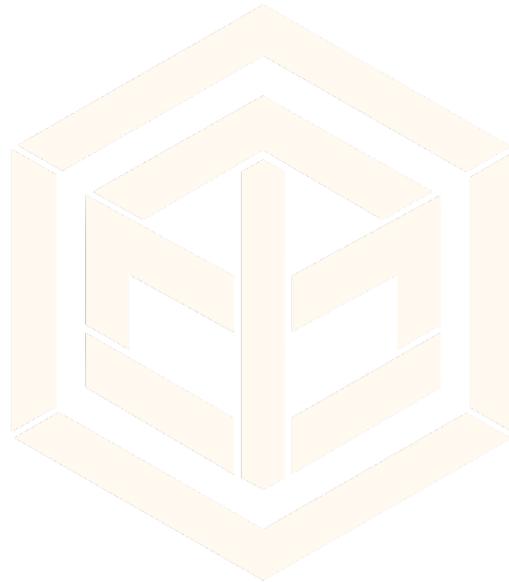
Faced with such "unknowns" and "uncertainties", the choice of rational capital is highly consistent and ruthless: demanding extremely high risk compensation (i.e., valuation discount) or directly excluding it from the investment scope. The systematic valuation pressure currently endured by the Chinese concept stock group is a collective punishment caused by this pervasive "trust deficit". It is not targeted at "Chineseness", but at the "opacity" and "uncontrollability" existing in some enterprises that have not been effectively resolved through institutional means.

Therefore, the key to resolving the dilemma should not lie in verbal disputes over the external environment, but in seeking internal solutions, pointing to whether enterprises themselves can carry out a profound and systematic credibility revolution. This requires Chinese enterprises to take the initiative to go beyond formal compliance and reconstruct a complete set of trust credentials from financial disclosure, governance structure to capital behavior in the language and logic commonly used in the international capital market.

This is the fundamental starting point and historical mission of our proposal of the "Chinese Value Stocks (CVS)" standard system. CVS aims to build a clear, rigorous, and verifiable "trust infrastructure", whose essence is to help enterprises convert their intrinsic value into public commitments that are understandable, verifiable, and reliable to the market. It attempts to answer the core concern of the U.S. market: how to effectively identify high-quality enterprises from among numerous companies that truly practice transparency, fairness, and long-termism, and

thus have assessable risks and investable value?

In short, the door to the U.S. market is always open to trustworthy value creators. CVS is the internationally standardized "trust key" forged for Chinese enterprises to unlock this door.



BROAD

Investment & Securities LLC

II. Official Definition of Chinese Value Stocks (CVS)

Core Definition of CVS: Transcending Labels and Returning to the Essence of Value

Chinese Value Stocks (CVS) is a rigorously defined concept designed to identify and aggregate a specific type of high-quality enterprise. It is not a broad classification based on region or industry, but a comprehensive standard integrating four dimensions: scale threshold, source of core competitiveness, market structure, and behavioral guidelines. Its complete definition is as follows:

Chinese Value Stocks (CVS) refer to Chinese-background listed companies whose market value has reached and continuously maintained the research and allocation threshold of mainstream institutional investors in U.S. stocks, whose core competitiveness is rooted in the unique operational efficiency and industrial chain depth of the Chinese market, but whose main source of income and growth market are clearly global-oriented, and which have taken the initiative to follow and internalize internationally accepted (especially U.S.-style) high standards and transparent disciplines in their corporate governance structure and capital market behaviors.

A further interpretation of this definition can be decomposed into four mutually supportive pillars:

1. **Market access threshold for scale and liquidity:** The market value standard is the first practical screening process. It ensures that the enterprise has passed the fragile start-up stage, possesses a considerable scale of operations and risk resistance capacity, and that its stock liquidity is sufficient to support institutional investors' substantive position building and exit, enabling it to truly enter the investable horizon of mainstream capital.

2. **Unique source of core competitiveness:** CVS enterprises recognize and leverage their "Chinese roots". This does not refer to geographic labels, but to their profound understanding and ultimate optimization of the verified efficient operational systems, agile supply chain management, rapid iterative product development capabilities, or insights into the huge consumer demand formed in the Chinese market environment. This is the source of their cost advantages, innovation speed, or service depth.
3. **Global-oriented income and market:** To avoid being misunderstood as a carrier of single-economy risks, CVS enterprises must demonstrate the inherent globality of their business. This means that their products, services, or technologies have been accepted by the international market, their main income is significantly derived from outside China, or their customer and partner networks are highly internationalized. This proves the portability of their competitiveness and the universality of their business models.
4. **Proactively committed governance and behavioral guidelines:** This is the core dimension that distinguishes CVS from traditional "Chinese concept stocks". It requires enterprises not only to formally meet the minimum compliance requirements of the listing venue, but also to substantially embrace the U.S.-style capital market philosophy centered on "protection of shareholder rights, independent and effective board of directors, sufficient and transparent information disclosure, and fair and predictable capital operations", and to self-regulate accordingly.

Therefore, the core essence of CVS does not lie in whether the enterprise's place of registration or main place of operation is in China, but in whether it has built and publicly practiced a set of commitment systems on value creation and shareholder return that can be identified and trusted by the international capital market. In short, the screening criteria of CVS have achieved a complete shift from the geographic label of

"China" to a set of substantive quality and trust indicators of "sustainable value, predictable behavior, and verifiable governance". It marks a fundamental evolution of the evaluation framework: from "this is a Chinese company, so I need to pay attention to its special risks" to "this is an enterprise that meets CVS's high standards, and its quality and credibility can be verified and trusted according to a clear set of global guidelines".

Five Mandatory Access Criteria for CVS

To ensure the seriousness, consistency, and investment reference value of the "Chinese Value Stocks (CVS)" concept, we have established a set of clear and verifiable mandatory access criteria. This set of criteria aims to conduct a rigorous screening of enterprises from five dimensions: market participation, business quality, global resilience, governance reliability, and behavioral predictability. All criteria are mandatory access conditions, and applicants or candidate enterprises must meet all five criteria simultaneously; failure to meet any one of them will result in exclusion from the CVS system. This reflects CVS's determination to "prioritize quality over quantity" and strive to build a cluster of high-quality and high-credibility enterprises.

Criterion 1: Market Value and Liquidity Standards: Cornerstone for Entering Mainstream Capital's Horizon

This criterion ensures that the enterprise has met the basic scale and liquidity requirements for institutional investors to conduct fundamental research and substantive allocation, avoiding "marginalized" pricing and liquidity discounts caused by excessively small scale or poor trading activity.

- **Market value threshold: Current or post-listing market value continuously not less than \$300 million**

This threshold is a critical dividing line between "investable tar-

gets" and "micro-cap stocks" in the U.S. stock market, indicating that the enterprise has passed the start-up stage and possesses a certain degree of operational stability and risk resistance capacity.

- **Liquidity requirement: Average daily trading volume must meet the needs of institutional position building and adjustment**

Specifically, there must be sufficient public shareholding and active secondary market trading to ensure that institutional investors can complete the construction and adjustment of investment portfolios within a reasonable time without significant impact costs.

- **Trading quality: Liquidity should not be maintained through abnormal or related-party transactions**

Trading activities should mainly come from a wide range of scattered market participants, rather than arbitrage between a few accounts or frequent operations by specific related parties, to ensure the effectiveness and fairness of the price discovery mechanism.

Criterion 2: Revenue Quality and Business Transparency: Verifying the Authenticity and Sustainability of the Business Model

This criterion penetrates financial figures, focusing on the clarity, stability of the enterprise's core business and its logical consistency with financial performance, aiming to assess its ability to create real and sustainable value.

- **Core business is clear and explainable:** The company must have a clear and easy-to-understand core business, and its revenue drivers, market positioning, and competitive advantages can be clearly elaborated and modeled by analysts and investors. Avoid excessively complex businesses, vague narratives, or frequent transformations.

- **Stable revenue structure with extremely low proportion of related-party transactions:** Revenue should mainly come from independent third-party customers, and the dependence on related parties or customers with special relationships must be extremely low (for example, it is usually required that the proportion of revenue from related-party transactions is less than 5% and fully disclosed in accordance with fair principles). The dispersion and independence of revenue sources are key to judging the real market demand.
- **Gross profit margin is logically consistent with the industry and business model:** The gross profit margin level must be within a reasonable range of its industry, and its changing trend has a logical corresponding relationship with the company's claimed strategic initiatives such as economies of scale, technological upgrading, or product structure optimization. Abnormal and unexplainable fluctuations or deviations in gross profit margin will arouse doubts about the authenticity of revenue and cost recognition.

Criterion 3: Globalization Capability: Hedging Single Market Risks and Proving the Universality of Competitiveness

CVS enterprises must demonstrate that their business has successfully crossed national borders, not only for growth but also to prove that their business models and core competitiveness have global adaptability and resilience.

- **Substantial proportion of overseas revenue or customers:** Requires the enterprise to have a significant proportion of revenue or customer contributions from outside the Greater China region (for example, overseas revenue accounts for more than 30% for two consecutive fiscal years) and shows a stable or growing trend. This proves the acceptance of its products/services in the interna-

tional market.

- **International enforceability of key assets and contracts:** Core intellectual property rights (patents, trademarks, software copyrights) should have legal protection and clear ownership in major business regions. Major commercial contracts (such as long-term supply agreements, technology licenses) must follow international business practices, and their legal effect and enforcement mechanisms can be guaranteed in the international arbitration or judicial system. Capital settlement channels are smooth without major cross-border flow obstacles.
- **Not highly dependent on the policy environment of a single country:** The enterprise's growth narrative and profitability should not be based on specific subsidies, franchises, or highly skewed industrial policies of a single country (including China). Its success should mainly stem from market-oriented competitiveness, thereby reducing the systematic business risks caused by policy changes in a certain region.

Criterion 4: Corporate Governance Structure: Building a Framework for Internal Checks and Balances and Professional Supervision

Excellent governance is the cornerstone of long-term trust. This criterion requires enterprises to establish and operate a substantially independent, professional, and effective checks-and-balances governance mechanism beyond legal formal compliance.

- **Substantive independence of the board of directors:** Independent directors must account for the majority of the board of directors and effectively lead key committees such as audit, compensation, and nomination. Independent directors should possess relevant industry, financial, or legal professional knowledge, have

sufficient time and resources to perform their duties, and be able to prove that they have played an independent judgment and supervisory role in major decisions, rather than being "rubber stamps".

- **Chief Financial Officer (CFO) with international capital market experience:** The CFO or core financial person in an equivalent position should have senior experience working in listed companies in mature international capital markets (such as U.S. stocks, Hong Kong stocks), and have a profound understanding of International Financial Reporting Standards (IFRS/US GAAP), Sarbanes-Oxley Act (SOX) compliance requirements, and communication paradigms with global investors.
- **Clear and fair boundaries between the controlling shareholder and the listed company:** Through clear articles of association provisions, related-party transaction control procedures, and sufficient disclosure, ensure that there is no substantive conflict between the personal interests of the actual controller, other unlisted assets under their control, and the interests of the listed company. Unfair transfer of funds, customers, and assets is strictly prohibited to protect the independence and integrity of the listed entity.

Criterion 5: Capital Market Behavior Constraints: Committing to Long-Termist Shareholder-Friendly Policies

This criterion focuses on the way enterprises interact with the capital market, requiring their behaviors to be predictable and centered on respecting and rewarding shareholders.

- **Restrained and explainable financing strategy:** Any equity financing activity (including secondary offerings, post-listing private equity investments) should be for clear strategic purposes

conducive to the company's long-term development (such as major mergers and acquisitions, core technology investments) and conducted on fair terms close to the market price. Avoid high-discount and unnecessary dilution to ease short-term liquidity or transfer benefits to specific parties.

- **Clear shareholder return expectations and framework:** The company should establish and communicate its long-term policy framework for shareholder returns, such as regular dividends, share repurchase plans, or a capital allocation strategy that clearly reinvests free cash flow in high-return projects. This conveys a signal that the management attaches importance to capital efficiency and shareholder value.
- **Proactive, continuous, and forward-looking information disclosure mechanism:** On the basis of meeting the minimum regulatory disclosure requirements, voluntarily provide more detailed and timely operational data (such as key performance indicators KPI), business outlook, and risk discussions. Establish stable and smooth communication channels with institutional investors, and provide market expectation guidance as much as possible before the occurrence of major events to reduce speculation and volatility caused by information asymmetry.

In summary, the five mandatory criteria of CVS form an interconnected and complete system. It draws a detailed roadmap for enterprises to become "trustworthy long-term investment targets" from five aspects: market presence, business essence, geographical distribution, internal mechanisms, and external behaviors. Only when all these criteria are met can an enterprise be recognized as a true "Chinese Value Stock", thereby completely separating from the old and doubtful "Chinese concept stock" narrative and gaining independent valuation and respect based on its own quality in the global capital market.

III. Why "\$300 Million Market Cap" Is a Critical Dividing Line

Setting the "\$300 million market cap" as the mandatory access threshold for Chinese Value Stocks (CVS) is not an arbitrary choice, but a critical dividing line deeply rooted in the structural reality of the mature U.S. capital market, the operational logic of institutional investors, and the efficiency of value discovery. This threshold effectively distinguishes enterprises with "investability" from those still in the "observation zone".

Practical Threshold for U.S. Stock Institutions: Scale as a Prerequisite for Participation

For mainstream mutual funds, pension funds, hedge funds, and index funds managing billions or even tens of billions of dollars in assets, their investment decisions are by no means simple individual stock selections, but a systematic process constrained by internal strict charters, cost-benefit analysis, and risk control models. The \$300 million market cap is the implicit red line drawn by this system in practice, mainly determined by three practical factors:

1. **Research Costs and Resource Allocation Efficiency**

Research coverage by internal or external sell-side analysts is a scarce resource. If a company's market cap is too small, its potential investable market value is also limited. In mature market practices, stocks with a market cap below \$300 million are clearly defined as "micro-cap stocks" by mainstream securities service institutions and are generally regarded as high-risk, low-liquidity research categories. This definition itself means that covering such companies is difficult to achieve research "economies of scale", and they are usually not included in the core research scope of institutions, thereby being excluded from the initial stock selection pool of most mainstream funds.

Covering a company requires investing fixed time and human costs to track financial reports, conduct management research, and perform valuation modeling. If a company's market cap is too small, even if its growth is considerable, its potential investable market value is limited. The maximum amount of capital an institution can allocate to the stock is often unable to cover the research costs and opportunity costs invested. Therefore, the market cap threshold ensures research "economies of scale".

2. **Investment Portfolio Risk Control and Compliance Requirements**

Many large funds have clear investment guidelines that prohibit or strictly restrict investments in "micro-cap stocks" or "small-cap stocks". This restriction is not only an internal regulation but also reflected in the customer service policies of securities firms.

For example, Interactive Brokers, a well-known international online securities firm, has set strict restrictions on trading U.S. "micro-cap stocks" (defined as stocks with a market cap between \$50 million and \$300 million and a stock price below \$5). It usually only allows qualified clients with assets not less than \$5 million to conduct relevant operations, and requires that such positions shall not exceed half of their account assets. This clearly indicates that for institutions managing large-scale funds, investing in small-cap companies faces substantial entry barriers and compliance costs at the operational level.

3. **Rigid Demand for Exit Liquidity**

Institutional investors manage large-scale funds, and their position building and reduction behaviors themselves can have a significant impact on stock prices. For companies with a market cap below \$300 million, their average daily trading volume is usually low. If institutions make heavy positions, they will face the dilemma of "easy to get in, hard to get out". This concern about liquidity has been directly reflected in the latest regulatory trends.

According to the latest information at the end of 2025, the U.S. Securities and Exchange Commission (SEC) has approved the Nasdaq Stock Exchange's plan to raise IPO liquidity thresholds, which will take effect on January 17, 2026. A key provision is that companies listing through IPO or reverse merger must have a public float market value of no less than \$25 million. Regulators raising liquidity thresholds at the source of listing is precisely to prevent market manipulation and sharp volatility risks caused by insufficient liquidity. This confirms from the opposite side that the liquidity flaws of enterprises with excessively low market caps (even after listing) have become a common concern of the market and regulators, and institutional investors will naturally remain highly cautious about companies with market caps far below \$300 million.

Therefore, the \$300 million market cap is a substantive threshold for companies to enter the "investable stock pool" of mainstream institutional investors. It not only stems from the precise calculation of research costs, risk control, and liquidity needs within institutions but also echoes the strict definition of "micro-cap stocks" by global mainstream securities firms and the mandatory liquidity requirements of the latest regulatory rules. Below this line, enterprises are essentially excluded from the core capital forces driving the long-term pricing of U.S. stocks, which is the market structural basis for the CVS standard to set \$300 million as

the mandatory access threshold.

Structural Dilemma of Small-Cap Stocks: A Vicious Cycle of Liquidity and Credibility

Small-cap stocks refer to Chinese enterprises (and all enterprises) with a market cap below \$300 million. Even if their business fundamentals are solid, they often fall into a vicious cycle caused by market structure, which we call the "small-cap trap."

- **Susceptible to Manipulation and Distorted Pricing**

Low liquidity and limited attention make stock prices more vulnerable to the impact of a small amount of capital, market rumors, or short-term technical transactions. This provides an opportunity for certain speculative funds or short-selling institutions, leading to sharp stock price fluctuations that are often disconnected from fundamentals and fail to reflect the company's true value.

A textbook case occurred in India's small and medium-sized enterprise sector: the stock price of listed company DU Digital Global was artificially pushed up by 2467% through internal matching transactions by 26 affiliated entities between August 2021 and November 2022 without any fundamental support. The investigation found that at certain stages, the opening prices of more than 90% of trading days were manipulated by these affiliated parties, and nearly half of the trading volume was the "false prosperity" created by them. This latest case punished at the end of 2025 extremely proves how low-liquidity stocks can be completely disconnected from their true value and reduced to manipulation tools.

- **Difficult to Price and Lack of Consensus**

Due to insufficient research coverage and liquidity, the market

struggles to form a stable and reasonable valuation consensus on small-cap companies, resulting in their valuations often being either severely undervalued or abnormally high due to speculation. Taking the Indian market as an example, although its small-cap index underperformed in 2025, its 12-month forward price-to-earnings ratio remained as high as 25.1 times, significantly exceeding the long-term historical average of 16.7 times. This "mismatch between profitability and valuation" indicates that prices are not determined by solid performance expectations, but distorted by scarce liquidity and speculative sentiment. Such high volatility itself will deter institutional capital seeking pricing certainty.

- **Lack of Institutional Support, Leading to Negative Feedback**

Mainstream institutions, due to their strict risk control and liquidity requirements, usually systematically avoid small-cap stocks. This phenomenon is particularly prominent in the recent trends of the A-share market: under regulatory pressures such as the new delisting rules, many fund companies have taken the initiative to raise the "pool entry" standards for individual stocks and strictly restrict investments in small-cap stocks. This makes small-cap stocks more prone to "liquidity crises" due to capital outflows.

At the same time, a small number of funds focusing on this field are prone to "herding behavior", pushing transaction crowding to historical highs. Once this fragile capital structure reverses, it will trigger a sharp decline. This further reinforces institutions' inherent perception of them as "high-risk and uncontrollable", forming a vicious cycle of "poor liquidity → institutional avoidance → worse liquidity".

It must be emphasized that falling into the "small-cap trap" is largely a structural issue of the capital market, rather than a final judgment on the

enterprise's operational capabilities. Many excellent enterprises may temporarily remain in this range due to being in a specific development stage, industry cycle, or simply because they are not fully understood by the market. One of the purposes of the CVS standards is to provide a clear advancement path and certification mark for enterprises that have the ability and willingness to break through this trap.

\$300 Million - \$2 Billion: The "Golden Range" for Value Reassessment

For Chinese enterprises whose market value has crossed the \$300 million threshold and moved up into the \$300 million to \$2 billion range, they are in an extremely attractive "Golden Range for Value Reassessment". Enterprises in this range exhibit the following key characteristics, making them ideal candidates for practicing the CVS concept and achieving a value leap:

1. **Proven survival and expansion capabilities:** Reaching this scale means the enterprise has successfully passed the life-or-death test from 0 to 1, completed the verification of its business model, and established a stable customer base and revenue foundation. They are no longer concept-based companies, but entity operators with tangible assets and cash flow.
2. **Undervalued with cognitive gaps:** Compared with giants worth tens or hundreds of billions of dollars, such mid-cap companies have not been fully researched or widely held by the market. Their growth potential and unique competitive advantages may be overshadowed by the overall negative narrative of "Chinese concept stocks" or the simple label of "small-cap stocks", resulting in valuations that fail to fully reflect their fundamentals and industry status. This provides an opportunity for savvy investors to discover

"hidden champions".

- 3. Greatest potential for "repair-type investments" and value re-lease:** This is where the CVS framework can exert its maximum effect. By proactively adopting and strictly adhering to CVS's mandatory standards in governance, transparency, and capital market behaviors, these enterprises can send the strongest "credibility" signals to the market. This commitment to self-regulation can effectively break the inherent prejudices of the market and catalyze a profound "value reassessment". Institutional investors will recognize that this is no longer an "unjudgeable" small and mid-cap Chinese company, but a high-quality investment target that meets international high standards and has predictable behaviors. The resulting valuation recovery and improved liquidity will open up broader capital space for the enterprise's future development.

The "\$300 million market cap" is by no means an isolated or arbitrary number. It is a critical dividing line forged by the infrastructure, institutional behaviors, and regulatory trends of the mature capital market. This dividing line clearly separates two distinct worlds:

Below the dividing line lies the structural dilemma of the "small-cap trap". Even if enterprises have solid businesses, they will be trapped in a vicious cycle of insufficient liquidity, lack of research coverage, and avoidance by institutional capital. The extreme case of a stock price manipulated to soar by more than 2400% in the Indian market, as well as the strict trading restrictions on "micro-cap stocks" by global securities firms, ruthlessly reveal the essence of this trap: due to excessively low market capitalization, enterprises struggle to obtain effective pricing, credible supervision, and sustainable capital support, and their value discovery mechanism has failed. This is not a negation of the enterprise's fundamentals, but a systematic discount caused by structural

flaws in the market.

Above the dividing line is the starting point leading to the palace of mainstream capital and the "Golden Range for Value Reassessment". Crossing the \$300 million threshold means the enterprise begins to enter the "investable horizon" of global institutional investors. This is first and foremost a preliminary certification of its viability and business model. More importantly, for enterprises with a market value between \$300 million and \$2 billion, they stand at a critical turning point: they have proven themselves, are not yet fully priced, and most need to break market prejudices by improving governance transparency and behavioral predictability. The intervention of the CVS standard at this moment precisely provides a standardized operation manual for this group of most potential "repair-type" enterprises to gain trust and achieve value reassessment.

Therefore, the profound intention of CVS setting \$300 million as the mandatory access threshold is to guide high-quality Chinese enterprises to actively identify and cross this "survival line" set by the market structure. It is not only a filter but also a clear strategic roadmap—guiding enterprises to shift from relying on uncertain theme speculation to embracing definite institutional logic; from passively enduring liquidity discounts to proactively building trust premiums. Crossing this line is the first step to bid farewell to marginalized games and enter the mainstream value pricing system, as well as the cornerstone for launching the next phase of high-quality international capital journey.

IV. Three Typical Business Models of Chinese Value Stocks

The proposal of Chinese Value Stocks (CVS) aims to identify enterprises that are not only rooted in China's efficient system but also able to convert their advantages into sustainable competitiveness in the global market. Through analysis, we have summarized three most representative business models that are most likely to meet CVS's strict standards. These models clearly illustrate how "Chinese roots" and "global value" are organically combined, providing investors with a traceable map.

Chinese Manufacturing + Global Demand: Global Monetization of Supply Chain Depth

Enterprises in this category are models of the upgrading of the "world factory". Their core lies in accurately aligning China's unparalleled complete industrial chain supporting facilities, large-scale manufacturing capabilities, rapid engineering implementation, and cost control advantages with rigid or growing global market demand.

- **Typical Fields:**
 - **Industrial equipment and core components:** In fields such as photovoltaic, lithium-ion battery equipment, general machinery, and auto parts, Chinese enterprises have become indispensable suppliers in the global industrial chain by virtue of their technological iteration speed and cost-performance advantages. They are not only manufacturers but also solution providers.
 - **Consumer electronics and smart hardware:** From smartphones and drones to innovative consumer electronic products, enterprises rely on the high-density electronic industrial clusters in the Pearl River Delta and Yangtze River Delta to achieve an efficient closed loop from R&D, design to

mass production, and quickly respond to global consumption trends.

- **Specialized manufacturing and new materials:** In specific niche areas (such as high-end glass, consumer drones, minimally invasive surgical instruments, and specialty chemicals), enterprises have achieved leading global market share by deepening technological processes. Their competitiveness stems from the continuous R&D and process improvement capabilities under the "Made in China" system.
- **CVS Alignment:**
Enterprises in this category have highly internationalized revenue and often solid cash flow; their core competitiveness (supply chain management, cost control, delivery efficiency) is easy for global customers to understand and verify. The key is that they need to demonstrate their technological barriers and customer stickiness, avoid being simply regarded as replaceable processing plants, and prove the sustainability of their pricing power and profit margins through transparent governance.

Chinese Technology + Overseas Customers: Cross-Border Export of Digital and Intellectual Property

Enterprises in this category represent the soft power of "Intelligent Manufacturing in China". Their business model does not rely on the cross-border flow of physical goods, but sells software products, technical tools, or professional services refined in China's huge market and technical talent pool to global corporate customers.

- **Typical Fields:**

- **SaaS (Software as a Service):** In vertical fields such as cross-border e-commerce, enterprise collaboration, digital marketing, and human resources, Chinese SaaS companies have developed highly competitive products based on their understanding of complex business scenarios and successfully launched them in markets such as Southeast Asia, Europe, and the United States.
- **Tool-type software and developer services:** In fields such as audio-visual processing, cloud computing infrastructure, data intelligence, and design tools, technical tools developed by Chinese teams have been widely adopted by global developers and enterprises due to their excellent performance and user-friendly experience.
- **Professional technical services and solutions:** Including game outsourcing, architectural engineering design, chip design services, and cloud computing consulting, enterprises use China's high-quality engineers and professional technical teams to provide cost-effective and high-quality solutions for global customers.
- **CVS Alignment:** This model inherently has the characteristics of "light assets, high gross profit, and cross-border applicability", with strong revenue predictability and easy global standardization. Its core challenges are highly consistent with CVS's focus: clear and internationally protected intellectual property rights, true and auditable revenue recognition, and verifiable customer success cases. Excellent governance and transparent data disclosure can effectively alleviate market concerns about its technological independence and data security.

Chinese Brands + International Channels: Global Recognition of Culture and Quality

Enterprises in this category have achieved a leap from "Chinese products" to "Chinese brands". They directly reach global end consumers or professional users with brand concepts containing Chinese cultural elements, unique design aesthetics, or excellent cost-performance ratios through self-built or cooperative international channel networks.

- **Typical Fields:**
 - **Consumer goods and fashion:** Including sportswear, household appliances, consumer robots, smart homes, and Guochao (Chinese trend) design brands. They establish brand awareness and user loyalty through DTC (Direct-to-Consumer) models or cooperation with large overseas retail channels.
 - **Medical and health:** Covering innovative medical devices, household health equipment, and traditional Chinese medicine health products (in the form of modern consumer goods). Enterprises need to obtain international certifications (such as FDA, CE) and establish localized clinical support and after-sales service networks.
 - **Professional services and experiences:** Such as high-end hotel management, characteristic catering chains, and vocational training certifications, replicating mature service standards and business models polished in the Chinese market internationally.
- **CVS Alignment:** Brand value is their core asset, and trust is the foundation of the brand. Such enterprises must demonstrate excellent brand management capabilities, global supply chain control capabilities, and a deep understanding of local compliance

and cultural differences. Under the CVS framework, they need to prove that their brand premium is real and sustainable, that marketing investment can be effectively converted into long-term customer value and market share, and that they adhere to unified quality and ethical standards in global operations.

In summary, these three business models provide vivid annotations for "Chinese Value Stocks". Together, they depict a clear path: Chinese enterprises are evolving from undertaking global demand by leveraging cost advantages to defining and leading global demand through technological, efficiency, and brand innovation. The CVS standard aims to select leaders who have truly achieved business globalization, governance internationalization, and behavioral standardization in this upgrading process, enabling their value to gain fair recognition and long-term companionship from the capital market.

BROAD

Investment & Securities LLC

V. Corporate Governance Is the Invisible Moat of CVS

Shift in Demand: From "Chasing Growth" to "Requiring Controllability"

Over the past decade, the core demand of the U.S. capital market for Chinese enterprises has been highly focused on a single "growth narrative"—extreme user growth rate, explosive revenue curve, and enormous potential to disrupt traditional markets constituted the main appeal attracting capital. At that stage, high-speed growth itself was sufficient to temporarily cover flaws in corporate governance, profit paths, and social responsibility, and capital was willing to pay a significant premium for "future possibilities".

However, with the shift in macroeconomic cycles, the solidification of industry competition patterns, and especially the successive outbreaks of corporate governance scandals and environmental and social risk incidents, the market's evaluation framework has undergone a fundamental and structural evolution. Growth stories are no longer sufficient to independently support long-term trust. Currently and in the future, the core demand of mature U.S. institutional investors has systematically shifted to the in-depth integration of "controllability" and "sustainability".

This means that investors' evaluation focus has shifted profoundly from "how big it can grow" to "how to grow steadily and well". They ask the following questions with equal or even higher weight:

1. **Are operational and governance risks knowable, manageable, and controllable through checks and balances?** This includes the authenticity and transparency of financial data, the effectiveness of board supervision, the fairness of related-party transactions, and the traceability and accountability of core executive decisions.

2. **Are long-term strategies and capital market behaviors predictable and monitorable?** Does the company have clear and consistent capital allocation discipline? Does it respect shareholder rights and avoid opportunistic financing behaviors? Is its growth built on solid competitive barriers rather than unsustainable subsidies or resource consumption?

3. **Are environmental and social risks identified, mitigated, and converted into resilience?** This is directly related to the ESG (Environmental, Social, and Governance) dimension. Investors pay close attention to: Does the enterprise's supply chain have climate resilience and ethical compliance? Is its business model in line with global low-carbon transformation trends? Are social issues such as talent management, data security, and community relations properly managed to avoid severe impacts of "black swan" events on market value?

In this evolution, ESG is no longer an optional extra, but a core assessment indicator for evaluating an enterprise's "controllability" and "long-term viability". It systematically internalizes previously ignored or externalized environmental and social risks into key costs and risk factors affecting the enterprise's financial fundamentals, brand reputation, and operational permissions. A company with significant flaws in ESG governance will see a sharp increase in the "uncontrollability" and "uncertainty" of its growth prospects in the eyes of investors.

Therefore, in a global environment with increasing uncertainty, the certainty and long-term resilience provided by "controllability" and "sustainability" jointly built by excellent governance, environmental management, and social responsibility are fully surpassing the mere pursuit of unsustainable high growth in value. Capital is redefining "value": it is not only financial return but also investing in an organization that can navigate steadily, responsibly, and reliably in a complex world. This pro-

found shift in demand is the historical background and fundamental driving force for the "Chinese Value Stocks (CVS)" standard system to deeply integrate ESG principles into its governance and behavioral guidelines.

Conceptual Upgrade: From "Compliance Cost" to "Valuation Asset"

For enterprises aspiring to become "Chinese Value Stocks (CVS)", a fundamental cognitive revolution is imperative: they must completely reverse the traditional concept of corporate governance and achieve a strategic upgrade from a passive burden to a source of value.

The traditional, outdated perspective narrowly defines corporate governance as a passive "compliance cost". Under this framework, governance is a set of cumbersome procedures, format documents, and meeting combinations that have to be dealt with to meet the regulatory bottom line of the listing venue. It is regarded as a purely defensive "necessary evil" that consumes management energy and financial resources, with its core goal being "avoiding mistakes" rather than "creating excellence". From this perspective, a sound governance structure is often misunderstood as a constraint on management's decision-making efficiency and business flexibility, and its value lies only in avoiding regulatory penalties, which is a typical cost-center mindset.

However, what the CVS framework advocates is a proactive, future-oriented strategic perspective: excellent corporate governance is a "strategic asset" and "valuation asset" that can generate significant financial returns. It is not a cost but an investment; not a constraint but an enabler. This value creation is achieved through multiple key mechanisms:

Capitalization of trust: It sends a strong signal of trustworthiness and predictability to the capital market, systematically reducing the

"risk premium" caused by information asymmetry and agency problems. Investors are willing to pay a premium for certainty, thereby directly increasing the valuation multiple.

Reshaping capital attractiveness: It attracts and locks in "patient capital" that focuses on long-term fundamentals, such as global top pension funds, sovereign wealth funds, and ESG-themed funds. The participation of such capital can not only reduce financing costs but also stabilize stock prices and reduce abnormal volatility caused by short-term speculative capital flows.

Premium for decision quality and risk mitigation: A board of directors with substantive independence and a clear checks-and-balances mechanism can effectively optimize major strategic decisions, avoid irrational risky behaviors, and early warn of operational and compliance risks. This built-in "risk shock absorber" capability provides guarantee for the enterprise's long-term stable operation, and its value is particularly prominent during crises.

ESG integration and value discovery: Strong governance is the cornerstone for effectively managing environmental (E) and social (S) issues. Good ESG performance is increasingly proven to be related to lower capital costs, stronger brand resilience, and better long-term financial performance. Excellent governance capability is precisely the converter that transforms ESG from a reporting commitment into a substantive competitive advantage.

In short, excellent corporate governance itself is a profound and difficult-to-imitate "invisible moat". It does not directly produce products, but protects the enterprise from internal friction, loss of control, and trust crises; it does not directly create revenue, but can provide credible endorsement and a solid discount rate foundation for the enterprise's profitability and growth story. What this moat defends is the enterprise's

core intangible asset—long-term market trust—and ultimately converts this trust into better and more sustainable market valuations. For CVS enterprises, investing in governance is the wisest value investment.

Building the Moat: Three Key Governance Principles

To convert governance into a valuation asset, CVS enterprises must strictly implement the following three key principles in their organizational structure and daily operations:

Principle 1: Clear Division of Powers and Responsibilities—Checks and Balances Rather Than Centralization

- **Core Connotation:** Establish a clear and transparent power distribution and checks-and-balances mechanism to ensure that no individual or single group can dominate the company without constraints. The board's strategic supervision power, management's daily operational power, and the supervision power of audit and compliance institutions must have distinct boundaries.
- **Practical Requirements:**
 - **Board effectiveness:** Independent directors account for the majority and lead key committees. They need to have relevant professional backgrounds and invest sufficient time to make independent judgments and raise challenging questions.
 - **Clear authorization system:** The company shall have a clear "Authorization Management Measures" specifying the decision-making authority of managers at all levels. Major matters such as major investments, related-party transactions, and executive compensation must be approved by the board of directors or professional committees.
 - **Protection of shareholder rights:** Ensure that all sharehold-

ers, especially minority shareholders, have a fair right to speak and vote on major matters (such as amendments to the articles of association and changes in control rights).

Principle 2: Financial Independence—Boundaries Are Bottom Lines

- **Core Connotation:** The financial system of a listed company must be completely independent of the controlling shareholder, actual controller, and their related parties. Capital transactions, asset transfers, and profit distributions must strictly comply with the principle of market fairness and be fully disclosed.
- **Practical Requirements:**
 - **Isolation and disclosure:** Establish a strict firewall system to eliminate fund occupation, asset transfer, or guarantee without proper procedures and fair pricing. All related-party transactions must be reviewed by independent directors in advance and continuously disclosed in a prominent manner.
 - **Professionalism and authority of the financial team:** The Chief Financial Officer (CFO) and their team shall be directly responsible to the board of directors and CEO, with clear authorization and channels to refuse improper financial instructions. The financial reporting process shall be free from interference from business departments.
 - **Independence of internal audit:** The internal audit department shall report directly to the audit committee, and its budget, personnel, and assessment are independent of management to ensure its objectivity and deterrence.

Principle 3: Traceable Decision-Making—Sunlight Is the Best Disinfectant

- **Core Connotation:** The process of major strategic, investment, and operational decisions of the company shall have complete and clear records to ensure that their logic, basis, and responsible persons can be traced and reviewed. This is not only a faithful record of history but also an effective constraint for the future.

- **Practical Requirements:**
 - **Standardization of processes:** Establish a standardized decision-making process. Important meetings (such as board meetings and investment review meetings) must have detailed minutes, recording the discussion, disputes, opposing opinions, and final voting results of each motion.

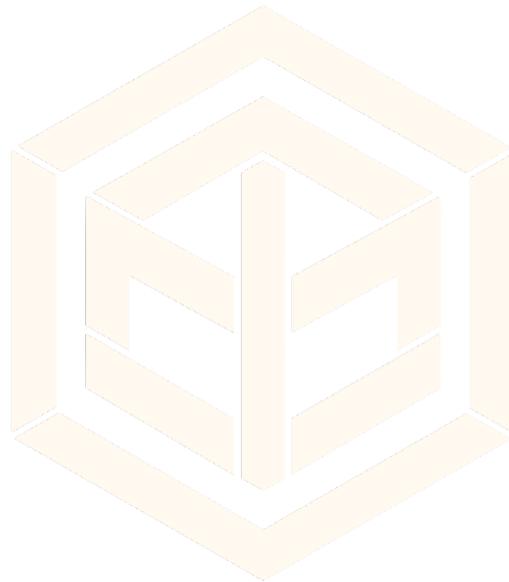
 - **Accessibility of information:** Key documents supporting decisions, such as market analysis, financial models, and legal opinions, shall be properly archived and accessible to directors, auditors, and regulators when necessary under compliance premises.

 - **Closed-loop accountability:** The decision-making of major projects shall be linked to subsequent execution tracking and ex-post evaluation, and a feedback mechanism for decision-making effects shall be established to ensure the equality of powers and responsibilities, and reduce blind decision-making and "impulsive projects" mechanically.

Investment & Securities LLC

For CVS enterprises, excellent corporate governance is no longer a "luxury" for decoration, but a "necessity" for survival and development. By building a solid framework of "clear division of powers and responsibilities, financial independence, and traceable decision-making", it sends the strongest credibility signal to the capital market. This "invisible moat" cannot be easily crossed by rapid technological iteration or marketing offensives. It defends the enterprise's most precious asset—long-term in-

vestor trust—and ultimately converts this trust into more stable and superior valuation performance.



BROAD

Investment & Securities LLC

VI. CVS Capital Market Code of Conduct

If excellent corporate governance is the "invisible moat" of CVS, building the internal foundation of trust, then its public behaviors in the capital market are the "signal lighthouse" showing its credibility to the outside world. Behaviors are an extension and touchstone of governance concepts. A clear, publicly committed, and strictly followed "Capital Market Code of Conduct" is a public contract for CVS enterprises to distinguish themselves from the past and win long-term capital trust.

This code aims to clearly define the core behavioral norms of "what shall not be done" and "what must be done" for CVS enterprises in their interaction with the capital market, transforming "shareholder interests first" and "long-termism" from slogans into supervisable and verifiable specific actions.

Prohibited Behaviors: Drawing Clear Red Lines for Trust

The following behaviors seriously erode shareholder value and market trust, and CVS enterprises must publicly commit to and strictly adhere to a "zero-tolerance" policy:

1. High-discount PIPE (Private Investment in Public Equity) and Secondary Offerings:

- **Connotation:** It is prohibited to privately issue new shares to specific investors at a price significantly lower than the current fair market price (for example, a discount exceeding 10%). This behavior is essentially predatory dilution of existing shareholders' rights and interests.
- **Guidelines:** The pricing of any equity financing behavior must be based on a strict market-oriented inquiry mechanism, and full consideration shall be given to the fairness to

existing shareholders. The urgency and necessity of financing must be convincingly explained to all shareholders.

2. **Non-market-oriented and Opaque "Relationship-Based" Financing:**

- **Connotation:** It is prohibited to set financing targets, terms, or processes mainly based on non-commercial relationships (such as related parties or specific parties not publicly selected) without sufficient competitive comparison and disclosure.
- **Guidelines:** All financing activities shall adhere to the principles of openness and fairness. If related parties are involved, stricter review by independent directors, a fairness opinion issued by an independent financial advisor, and prominent disclosure must be followed.

3. **Shareholder Dilution Without Clear Strategic Explanation:**

- **Connotation:** It is prohibited to conduct frequent or large-scale share issuances for vague purposes (such as "supplementing working capital" or "general corporate purposes"). Financing without a clear capital allocation direction is regarded as a sign of management's poor capital allocation capability or lack of respect for shareholder capital.

- **Guidelines:** Each equity financing must be accompanied by a detailed "Capital Utilization Plan" specifying projects, expected returns, and timetables, and a regular disclosure and accountability mechanism for subsequent capital usage shall be established.

Recommended Behaviors: Establishing a Predictable Return Framework

CVS enterprises should proactively establish and continuously practice the following positive behavioral models to build stable and predictable shareholder return expectations:

1. Clear Shareholder Return Policy and Framework:

- **Connotation:** Formulate and announce a clear long-term policy framework for cash dividends and/or share repurchases. The framework shall explain its logical relationship with the company's development stage and free cash flow level.
- **Guidelines:** For example, commit to using a certain percentage (such as 30-50%) of annual free cash flow to reward shareholders; or set a target dividend payout ratio. This sends a strong signal to the market that management attaches importance to shareholder cash returns and pursues capital efficiency.

2. Institutionalized and High-Quality Annual Investor Communication Mechanism:

- **Connotation:** Go beyond mandatory quarterly earnings conference calls and establish an in-depth, strategic annual communication practice.
- **Guidelines:** Hold an annual "Capital Market Day" or similar event, where the core management elaborates on the 3-5-year strategic plan, financial goals, investment priorities, and risk management. Provide clear long-term guidance instead of focusing only on short-term quarterly fluctuations.

3. Proactive, Continuous, and Forward-Looking Disclosure Mecha-

nism for Major Matters:

- **Connotation:** Voluntarily and timely disclose major information that may affect its long-term value to the market, including opportunities and risks, beyond the minimum requirements of laws and regulations.
- **Guidelines:** Establish a proactive disclosure process for major business progress, technological breakthroughs, key personnel changes, potential acquisitions, or changes in the competitive landscape of major markets. When facing negative risks, conduct transparent communication and elaborate on response plans as early as possible instead of passive response or concealment.

The essence of the CVS Capital Market Code of Conduct lies in "restraint" and "transparency". It requires enterprises to restrain the impulse of short-term financing that harms shareholder value and the desire to profit from information asymmetry; at the same time, it requires enterprises to treat capital transparently, communicate strategies transparently, and face challenges transparently. By publicly swearing and abiding by this code, CVS enterprises will fundamentally change their interaction model with the capital market—from a potentially confrontational and game-like relationship to an alliance-like relationship based on common long-term interests. This is not only the compliance with rules but also a declaration of business philosophy, and the most solid behavioral foundation for CVS to obtain valuation premiums.

Investment & Securities LLC

VII. The Significance of CVS for Investors

For global, especially U.S., institutional investors, participating in China's economic growth story has always been strategically attractive, but the "trust deficit" and "screening dilemma" at the execution level have long hindered large-scale and long-term capital allocation. The proposal of the Chinese Value Stocks (CVS) framework is precisely to fundamentally resolve this contradiction. For investors, CVS is far more than a new conceptual label; it provides a structured, low-friction, and high-credibility China asset allocation solution, whose core value is reflected in three dimensions:

1. Allocable China Exposure: From "Ambiguity Fear" to "Clear Choice"

The ambiguity of the traditional "Chinese concept stocks" category and the huge heterogeneity of internal quality have put investors in a difficult position when allocating Chinese assets: either bear huge research and identification costs, conduct "basket" investments to passively endure overall risk discounts, or simply choose to avoid.

Through its five mandatory access criteria, CVS provides the market with a pre-screened, high-quality "investable list". It helps investors:

- **Significantly reduce research and screening costs:** The CVS standards have completed preliminary "due diligence", excluding enterprises with weak corporate governance, opaque finances, and unpredictable behaviors, allowing investors to focus on targets that truly have long-term value.
- **Achieve precise exposure positioning:** Based on the three typical business models defined by CVS (Chinese Manufacturing + Global Demand, Chinese Technology + Overseas Customers, Chinese Brands + International Channels), investors can conduct more precise industry and thematic allocation combined with their own

judgments on industry cycles, instead of making vague bets at the country level.

- **Break free from passive "narrative binding":** Investing in CVS enterprises is based on their individual fundamentals and compliance commitments, rather than macro games on China's overall policies. This enables investors' decisions to return more to the company itself, reducing interference from geopolitical and market sentiment noise.

2. Controllable Risk Structure: Systematically Reducing the "Trust Risk" Premium

The capital market requires compensation for all risks, and the most expensive one is the unquantifiable "uncertainty premium". In traditional Chinese concept stock investments, the huge discount is largely a compensation for "governance risk", "integrity risk", and "behavioral risk".

Through institutional commitments, the CVS framework systematically compresses these uncontrollable risk spaces:

- **Controllable governance and transparency risks:** CVS's mandatory governance standards (board independence, financial independence, traceable decision-making) and information disclosure requirements transform the internal operation "black box" into a supervisable and verifiable transparent system, greatly reducing agency costs and the risk of insider interest transfer.
- **Controllable capital market behavioral risks:** The CVS Code of Conduct clearly prohibits short-term financing behaviors that harm shareholder value and advocates positive shareholder return policies. This ensures that investors' capital will not be arbitrarily diluted, and there is a predictable framework for returns, reducing the risk of capital abuse.

- **Diversified business and geopolitical risks:** CVS's requirement for "globalization capabilities" ensures the diversification of enterprise revenue sources without excessive reliance on a single market. This naturally provides investors with a buffer against regional economic or policy fluctuations, organically combining the "China story" with "global cash flow".

3. Long-Term Holdable Cash Flow Assets: From "Trading Targets" to "Core Holdings"

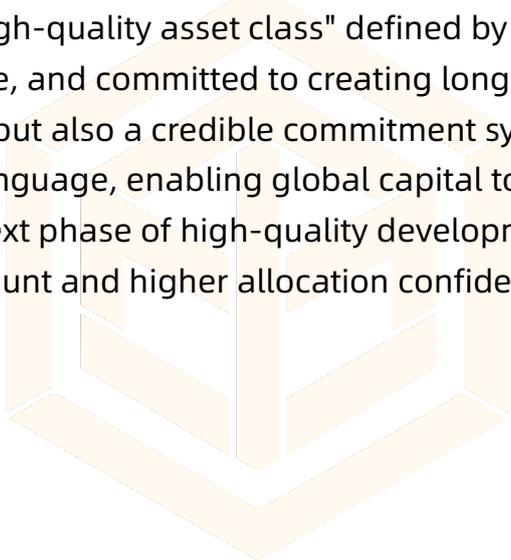
Due to the above risks, many Chinese concept stocks have become high-volatility "trading chips" or "speculative allocations" in investors' portfolios, making it difficult for them to enter the list of long-term core holdings pursuing stable compound interest.

Enterprises that CVS aims to screen and cultivate have the characteristics of becoming "long-term holdable cash flow assets":

- **Focus on sustainable value rather than unsustainable growth:** CVS standards emphasize revenue quality, profit conversion capability, and global resilience, guiding enterprises to shift from pursuing cash-burning scale expansion to creating solid and sustainable free cash flow.
- **Stable shareholder return expectations:** A clear repurchase or dividend framework allows investors to model investment returns over the long term. This attracts long-term capital such as pension funds and insurance funds that pursue stable cash flow, thereby further stabilizing stock prices and forming a positive cycle.
- **Build long-term capital partnerships:** By following the CVS Code of Conduct, enterprises and management demonstrate their position of respecting shareholders and focusing on the long term to

the capital market. This position can attract and lock in "patient capital" with the same long-term perspective, forming a solid shareholder base and reducing market volatility caused by short-term capital inflows and outflows.

For investors, the value of CVS lies in its completion of a key "paradigm shift". It transforms an uncertain and difficult-to-analyze "China asset package" into a "high-quality asset class" defined by clear rules, with a known risk structure, and committed to creating long-term cash flow. It is not only a guide but also a credible commitment system and an efficient investment language, enabling global capital to share the dividends of China's next phase of high-quality development with a lower psychological discount and higher allocation confidence.



BROAD

Investment & Securities LLC

VIII. CVS Evaluation and Watch List Methodology

To ensure the seriousness, consistency, and long-term credibility of the "Chinese Value Stocks (CVS)" standards, making it a truly trustworthy screening framework for the capital market, Broad Investment Securities LLC will establish and implement a systematic, transparent, and dynamic evaluation and maintenance mechanism. This mechanism is not only used for the initial screening of enterprises that meet the CVS standards but also committed to the continuous tracking and supervision of selected enterprises. Its core pillars lie in the trinity of "quantitative scoring", "qualitative review", and "continuous tracking".

Evaluation Framework: Dual Penetration of Quantitative and Qualitative Analysis

CVS evaluation is not a single-dimensional judgment but a dual verification process integrating objective data and in-depth insights.

1. Quantitative Scoring System (Objective Screening Based on Public Data)

We will develop a detailed quantitative scoring card based on the "Five Mandatory Access Criteria". The card will assign weights and scores to sub-indicators under each criterion to conduct preliminary, data-driven screening of enterprises. For example:

- **Market value and liquidity:** Average market value over 90 consecutive trading days, average daily trading volume, institutional ownership ratio, etc.
- **Revenue quality and globalization:** Trend of overseas revenue ratio, concentration of top five customers, volatility of gross profit margin, etc.

- **Governance and behavior:** Ratio of independent directors, scale and disclosure level of related-party transactions, historical financing discount rate, dividend and repurchase history, etc.

Quantitative scoring aims to quickly and objectively identify enterprises that clearly do not meet the mandatory thresholds, forming a preliminary screening pool.

2. Qualitative Review Committee (In-Depth Evaluation Based on Professional Judgment)

Enterprises that pass the quantitative preliminary screening will enter the in-depth evaluation stage of the "CVS Qualitative Review Committee" composed of internal and external experts from Broad Investment Securities LLC. The focus of the review is to verify the authenticity and intent behind the data:

- **Verify "substance over form":** Review board meeting minutes, investor relations activity records, and major decision-making process documents to assess whether governance principles (clear division of powers and responsibilities, financial independence, traceable decision-making) are implemented in substantive operations.
- **Evaluate management philosophy and integrity:** Assess whether management truly recognizes and internalizes the values of long-termism and shareholder interests first by analyzing their remarks over the years, strategic consistency, and the fulfillment of past capital market commitments.
- **Judge the sustainability of the business model:** Beyond financial data, evaluate its technological barriers, brand moat, supply chain resilience, and plans to address geopolitical risks to determine whether the foundation of its "globalization capabilities" is

solid.

Only enterprises that pass both the quantitative scoring threshold and the in-depth qualitative review can be officially included in the CVS Watch List.

Dynamic Maintenance of the Watch List

The CVS Watch List is not a static honor roll but a "living" system that requires continuous supervision and dynamic updates.

1. Continuous Tracking and Monitoring

For enterprises already on the CVS List, we will establish a regular monitoring mechanism:

- **Regular re-evaluation:** Conduct data updates and screenings every quarter, and comprehensive in-depth re-evaluations every year
- **Event-driven Review:** Initiate special reviews in response to major events occurring at the enterprise (such as major mergers and acquisitions, refinancing, changes in core senior management, regulatory investigations, financial statement restatements, etc.), to assess whether its behaviors still comply with CVS guidelines.

2. Hierarchical and Early Warning Mechanism

The watch list will implement hierarchical management to clearly convey our continuous evaluation opinions:

- **CVS Core List:** Consistently and fully meet all standards with outstanding performance.
- **CVS Watch List (Needs Attention):** Basically meet the standards,

but have minor fluctuations or noteworthy changes in individual aspects (such as a certain indicator approaching the threshold, an unconventional but reasonably explained related-party transaction). We will publicly prompt the key points of attention.

- **Removal Warning:** When an enterprise exhibits behaviors or trends that may violate key guidelines (such as proposing a high-discount PIPE plan, unfavorable changes in governance structure, a continuous and significant decline in the proportion of overseas revenue), a public "Removal Warning" will be issued, providing the enterprise with a window period for explanation and rectification.

3. Removal Mechanism

Once an enterprise is confirmed to have substantially and continuously violated any of the CVS mandatory access criteria or core behavioral guidelines, regardless of its past performance, it will be immediately removed from the CVS Watch List, and the reasons for removal will be publicly explained to the market. This strict "one-vote veto" discipline is the lifeline for safeguarding the brand reputation of CVS.

Principles and Commitments of the Methodology

We commit to unwaveringly adhering to three core principles throughout the dynamic maintenance of the CVS evaluation and watch list: Independence, Transparency, and Consistency. These three principles are the lifeline of the CVS system, a solemn covenant we make to the market, and the fundamental guarantee for ensuring that the CVS label remains a trustworthy value benchmark in the long run.

1. Independence: Interest Isolation, Standards First

We ensure a high degree of independence in the evaluation process, which is never influenced by any business cooperative relationships, interest ties, or short-term market sentiment. The CVS Evaluation Commit-

tee enjoys full autonomy in organization and decision-making, with strict institutional and information firewalls established between its operations and other business lines of the company (such as investment banking and financing services). All judgments are made strictly based on established quantitative models and publicly disclosed objective information (such as audited financial reports, exchange announcements, legal documents, etc.), eliminating subjective assumptions. We firmly believe that only complete independence can endow the CVS list with indisputable objectivity and credibility, making it a true public good serving all market participants.

2. Transparency: Process Visible, Decision Traceable

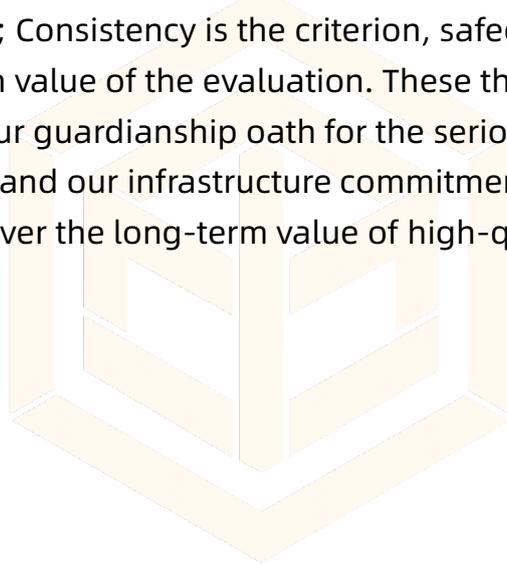
We firmly believe that trust stems from openness, and public credibility is built on transparency. Therefore, we will fully disclose the core dimensions, indicator weights, scoring methods, and threshold standards of the CVS evaluation framework. For the decision to include, place under observation, or remove any enterprise from the list, we will provide a detailed explanatory report based on facts and specific criteria, clarifying the key data basis and core judgment logic. This approach aims to transform the "black box" into a "glass box" for joint scrutiny and verification by the market. We are not only responsible for the results but also for the complete logical chain leading to the results, thereby building a stable and predictable market communication mechanism.

3. Consistency: Unified Standards, Fair Comparability

We commit to applying the same set of open, stable, and consistent standard systems to all candidate and selected enterprises—regardless of their industry, scale, or popularity. The evaluation model will not be "tailor-made" or temporarily modified for specific companies, ensuring that all enterprises are measured by the same ruler. At the same time, this set of standards will maintain continuity over time, and its core principles and main weights will not be arbitrarily changed to ensure the long-term comparability and seriousness of the CVS list. The consistency

principle eliminates selective application, ensures the fairness and authority of evaluation results, and prevents the gold content of the CVS label from being diluted with the passage of time and changes in enterprises.

In summary, Independence is the foundation, ensuring our pure motives; Transparency is the bridge, allowing the market to understand and supervise our work; Consistency is the criterion, safeguarding the fairness and long-term value of the evaluation. These three principles together constitute our guardianship oath for the serious concept of "Chinese Value Stocks" and our infrastructure commitment to inviting global investors to rediscover the long-term value of high-quality Chinese assets.



BROAD

Investment & Securities LLC

Conclusion and Outlook

The CVS evaluation and watch list methodology constructed by Broad Investment Securities LLC aims to serve as a "trustworthy screening process" and "continuous supervisor" for the capital market. It not only answers "who is currently a CVS" but also continuously answers "who qualifies as a CVS" through a dynamic management mechanism. This rigorous process itself is the most powerful practice of the CVS concept, making a solemn commitment to global investors: behind the CVS label lies continuous efforts, verifiable standards, and uncompromising discipline.

The original intention of compiling and releasing this White Paper on Chinese Value Stocks (CVS) is by no means merely to reflect on or correct the setbacks and misunderstandings encountered by Chinese concept stocks in the capital market in the past. The page of history has been turned, and our gaze must firmly be directed towards the future. The core mission of CVS is to prospectively define how Chinese enterprises can participate in and integrate into the global capital market in a more mature, trustworthy, and sustainable manner over the next decade and beyond.

It proposes a value commitment system that transcends national labels and is written in a globally accepted language. This system takes "market value and liquidity" as the entry ticket, "revenue quality and globalization" as the touchstone, "corporate governance" as the invisible moat, and the "Capital Market Code of Conduct" as the public contract. It clearly outlines the complete portrait that a Chinese enterprise aspiring to become a long-term partner in the global capital market should possess.

Under this framework, valuation can and will inevitably be reassessed. When the market can separate high-quality enterprises from uncertainties based on clear and verifiable standards, value reassessment will become a spontaneous and rational market behavior. The true value sup-

pressed by misattribution and emotional discounts will eventually be released.

However, more fundamental, arduous, and precious than valuation re-assessment is the reconstruction of trust. Trust is the cornerstone of all long-term relationships in the capital market. It cannot be purchased through financial techniques or short-term narratives, but can only be accumulated inch by inch through consistent transparent behaviors, discipline in abiding by commitments, and sincere respect for the supremacy of shareholder interests. What CVS provides is a feasible path for the systematic reconstruction of trust—transforming abstract "credibility" into specific, actionable, and supervisable standards and actions.

Therefore, CVS is not only a set of screening standards but also an initiative for the future. It calls on Chinese enterprises to proactively embrace the best practices of the global market with higher self-requirements; it also invites global investors to discover and invest in the solid forces representing the new direction of China's high-quality economic development from a new, more structured perspective.

Valuation can be restarted, but trust must be reconstructed. The journey of Chinese Value Stocks (CVS) begins with this firm commitment to rebuilding trust, aiming to ultimately cultivate a more rational, healthy, and constructive new ecology of global capital. This is not only our research conclusion but also our expectation for the future.

Investment & Securities LLC