

Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (for trial implementation)

No. 30 [2018] of China Securities Regulatory Commission

Article 1 The objectives of this *Provisions* are to regulate the offering, trading, cross-border conversion, information disclosure, and other activities in relation to Depository Receipts Business under the stock connect scheme between Shanghai Stock Exchange and London Stock Exchange (hereinafter referred to as the "*Depository Receipts Business under the Shanghai-London Stock Connect*"), to protect the legitimate rights and interests of investors, and to maintain the order of the securities markets. The *Provisions* is thus formulated in accordance with the *Securities Law of the People's Republic of China* (hereinafter referred to as the "*Securities Law*"), the *Opinions on Launching the Pilot Program of Domestic Offering of Stocks or Depository Receipts by Innovative Enterprises* (hereinafter referred to as the "*Opinions*"), the *Administrative Measures of Offering and Trading of Depository Receipts (Trial)* (hereinafter referred to as the "*Administrative Measures of Depository Receipts*"), and other applicable laws, administrative regulations, and departmental rules.

Article 2 The term "*Depository Receipts Business under the Shanghai-London Stock Connect*" as used in this *Provisions* refers to the depository receipts (CDRs) publicly offered in the Chinese domestic market and listed on Shanghai Stock Exchange (the SSE) by qualified issuers of underlying overseas securities listed on London Stock Exchange (the LSE), and the depository receipts (GDRs) offered in the overseas market and listed on the LSE by qualified companies listed on the SSE .

The issuers of underlying overseas securities prescribed in the preceding paragraph shall be listed companies on the LSE in the scope recognised by China Securities Regulatory Commission (the CSRC).

Article 3 To publicly offer and list CDRs that represent existing shares in the domestic market, the issuer of underlying overseas securities shall meet the requirements on public offering of Depository Receipts as set out in the *Administrative Measures of Depository*

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Receipts, fulfill the due obligations as issuers and listed companies in compliance with laws, and assume corresponding legal liabilities.

Domestic investors shall meet the investor suitability requirements stipulated by the SSE in order to hold and trade the CDRs prescribed in the preceding paragraph.

Article 4 When publicly offering and listing CDRs in the domestic market that represent existing shares, the issuer of underlying overseas securities shall file the application with the CSRC. The CSRC designates the SSE to accept the application documents submitted by the issuer of underlying overseas securities. The SSE shall review the application and assess the issuer's eligibility to list CDRs and meet other requirements in accordance with SSE rules. The CSRC shall review the application in accordance with applicable laws and make the final decision on the application, which shall not be submitted to the CSRC's Public Offering Review Committee for approval.

After publicly offering and listing CDRs in the domestic market that represent existing shares, issuers of underlying overseas securities that proceed with right issue shall meet the requirements as set out in Article 5 of the *Administrative Measures of Depository Receipts* and file the application with the CSRC for approval in accordance with the procedure prescribed in the preceding paragraph. Aforesaid requirements and approval procedure shall not apply where the rights are sold by the means of prescribed terms as set out in depository agreement.

Article 5 The issuer of underlying overseas securities shall submit the following application documents for publicly offering and listing CDRs that represent existing shares:

- (1) The prospectus and confirmation statement signed by authorized director(s);
- (2) The application report;
- (3) Relevant resolutions by the issuer of underlying overseas securities;
- (4) Sponsor letter and sponsor's work reports;
- (5) Financial reports and audit reports for the latest three years and financial reports for the latest accounting period;
- (6) Legal opinions and legal work reports given by domestic legal counsel;

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- (7) Issuer's incorporation documents and articles of association;
- (8) Depository Agreement and Custodian Agreement;
- (9) Sponsorship Agreement;
- (10) Other documents required by the CSRC.

The documents prescribed in the preceding paragraph shall conform to relevant requirements stipulated by the CSRC and the SSE. The contents and formats of the prospectus shall comply with the provisions in the *No. 23 Rules on the Preparation of Disclosure Documents by Companies Offering Securities to the Public: Guidelines on the Content and Format of Prospectus of Pilot Red-Chip Enterprises Publicly Offering Depository Receipts*. Should the aforesaid requirements for application documents be deemed not applicable or in need of adjustments, the issuer of underlying overseas securities shall make a statement of explanation in the application documents.

Article 6 The issuer of underlying overseas securities shall prepare financial reports in accordance with the Chinese Accounting Standards or other accounting standards recognised by the Ministry of Finance of the People's Republic of China.

The financial reports shall be audited in accordance with the Chinese Auditing Standards or other auditing standards recognised by the Ministry of Finance of the People's Republic of China by domestic accounting firms licensed for securities and futures business in Chinese Mainland, or by foreign accounting firms recognised by the CSRC and the Ministry of Finance of the People's Republic of China.

Article 7 Unless otherwise stipulated by the CSRC, the sponsor and its sponsor representatives shall perform the following sponsorship duties:

- (1) The sponsor and its sponsor representatives shall perform the sponsorship duties in accordance with the *Administrative Measures for the Sponsorship Business of the Offering and Listing of Securities*, examining and disclosing key issues such as risk factors, compliance of information disclosure of the issuer of underlying overseas securities, legal differences in the domestic and overseas markets, investor protection for CDR holders, arrangements for cross-border conversion in respect of the offering and listing of CDRs, and custodian arrangements for underlying securities and etc.

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(2) A due diligence shall be performed in accordance with the provisions in the *Sponsor Due Diligence Code of Conduct* and with reference to the relevant provisions applicable to the overseas-listed red-chip enterprises in the *Implementation Provisions on Due Diligence for Sponsoring Domestic Offering of Stocks or Depository Receipts of Innovative Enterprises*.

The issuer of underlying overseas securities and the sponsor shall make a filing with the local CSRC office in the domicile of the issuer's domestic office for securities affairs regarding the sponsorship arrangements and accept closure inspections carried out by the local CSRC office.

Article 8 The number of outstanding CDRs shall not exceed the amount cap approved by the CSRC. The amount cap shall be adjusted accordingly if the number of CDRs changes as a result of stock dividend, stock split, reverse stock split, change of CDRs conversion ratio, etc..

Article 9 The CDR depository shall conform to the relevant requirements as set out in the *Administrative Measures of Depository Receipts* and assume corresponding legal obligations. Where a commercial bank serves as CDR depository, it is required to obtain depository license in accordance with the *Provisions on Matters Concerning Commercial Banks Serving as the Depository in the Pilot Program on Depository Receipts*.

Article 10 After the issuer of underlying overseas securities has been approved by the CSRC to publicly offer CDRs representing existing shares, qualified domestic securities companies may, in accordance with the rules stipulated by the SSE, acquire underlying shares by purchasing with proprietary fund or taking orders from non-specific investors who meet the investor suitability requirements and other lawful means, and deliver the shares to the depository. The depository shall issue corresponding depository receipts to the aforesaid domestic securities companies or investors in accordance with applicable rules and depository agreement.

When the amount of outstanding CDRs meets the listing requirements stipulated by the SSE, the issuer of underlying overseas securities can apply to the SSE to list its CDRs for trading.

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Article 11 The qualified domestic securities companies prescribed in Article 10 shall be domestic securities companies which are licensed for proprietary trading, and possess adequate experiences in international business with sound and effective internal control. Such qualified domestic securities companies shall make a filing in accordance with the SSE rules.

The domestic securities companies prescribed in the preceding paragraph shall appoint a bank with custodian qualifications for securities investment funds to serve as the custodian. The custodian shall provide custodian services in accordance with the *Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (QDII)*, and appoint a foreign custodian to provide overseas custodian services.

Article 12 After the listing of CDRs, qualified domestic securities companies engaging in cross-border conversion business may instruct the depository to convert the overseas underlying shares into CDRs or to convert the CDRs into corresponding overseas underlying shares.

Where domestic securities companies apply for converting CDRs into corresponding overseas underlying shares, the depository shall cancel the CDRs in accordance with relevant rules and the terms in the depository agreement, and deliver the corresponding underlying shares to the domestic securities companies.

Domestic securities companies may accept the instruction by qualified Chinese Mainland investors to carry out cross-border conversion in accordance with the SSE rules.

Article 13 Domestic securities companies engaging in cross-border conversion business may trade the corresponding underlying shares of CDRs and the following investment instruments in accordance with regulations of competent authorities for the purpose of cross-border conversion and risk hedging. The outstanding assets held in overseas markets shall not exceed the limit stipulated by the CSRC.

- (1) Money management tools;
- (2) Financial products or instruments designed to hedge market risks associated with the underlying shares and foreign exchange risks;
- (3) Other investments instruments recognised by the CSRC.

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Domestic securities companies conducting cross-border trading in the aforementioned assets and domestic depository participating in corporate actions such as dividend payout in accordance with the terms in depository agreement, shall comply with applicable Chinese provisions concerning cross-border capital management and submit reports on overseas investments and cross-border capital flows to the CSRC and SSE in a timely manner.

Article 14 This *Provisions* shall remain applicable for the ongoing supervision after the listing of CDRs. For outstanding supervisory issues not provided for in this *Provisions*, reference can be made from the relevant provisions regarding overseas-listed red-chip enterprises in the *Implementing Measures for Ongoing Supervision of Innovative Enterprises Following Listing of Domestically Offered Stocks or Depository Receipts (Trial)* (hereinafter referred to as the "*Implementation Measures for Continued Supervision*"), other relevant regulations of the CSRC, and the relevant SSE rules.

Article 15 The issuers of the underlying overseas securities shall disclose periodic reports, including annual and semiannual reports. Disclosure of quarterly reports in the issuer's overseas market, either voluntarily or as required by the local regulations, shall be made simultaneously in the Chinese Mainland market.

Article 16 In respect of material asset transactions outside ordinary course of business, including asset acquisition and sale or other arrangements, by the issuers of the underlying overseas securities and entities under the issuers' holding or control, the reporting obligations stipulated in Article 36 of the *Implementation Measures for Continued Supervision* and associated obligations shall not apply, with the exception that the asset acquisition is financed through CDRs offered by the issuers of underlying overseas securities in the Chinese Mainland market.

Domestic securities companies with holdings of the underlying overseas shares and CDRs as a result of fulfilling market making obligations are not bounded by the provisions regarding changes in CDRs domestic holdings in the Section 2 of Chapter 4 in the *Implementation Measures for Continued Supervision*.

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Article 17 Domestic listed companies offering GDRs representing newly-issued shares or listing GDRs representing existing shares shall meet the requirements set out in the *Securities Law, Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Stocks by Joint Stock Limited Companies*, and other applicable laws, regulations and relevant CSRC provisions regarding offering and listing securities by domestic companies in overseas markets.

Domestic listed companies shall not be allowed to offer GDRs representing newly-issued shares under any of the following circumstances:

- (1) The application documents for the current offering contain any misrepresentations, misleading statements or major omissions;
- (2) The rights and interests of the listed company are severely impaired by its controlling shareholder or actual controller, and the impairment has not been relieved;
- (3) The listed company or its subsidiary companies has illegally provided external guarantees, and the guarantee has not been discharged;
- (4) Incumbent board directors or senior executives of the listed company have received administrative penalties from the CSRC in the latest 36 months or have been reprimanded publicly by the stock exchange in the latest 12 months;
- (5) The listed company or its incumbent board directors and senior executives are under ongoing investigations by judicial authorities for suspected criminal offenses, or under ongoing investigations by the CSRC for suspected violations of laws or regulations;
- (6) Qualified opinion, adverse opinion, or disclaimer of opinion on the listed company's financial reports for the latest year or the latest accounting period are given by the auditors, unless the major consequences of the issues indicated by aforesaid opinions have been completely relieved or unless the current offering involves material asset restructuring;
- (7) Other circumstances that impose severe damages to the legitimate rights and interests of the investors, and social and public interests.

Article 18 Where domestic listed companies offer GDRs representing newly-issued shares, the offering price of GDRs after pro-rata conversion shall, in principle, not be lower than 90% of the average price of the underlying shares in 20 transaction days prior to the benchmark date of pricing.

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The benchmark date of pricing prescribed in the preceding paragraph is the first day of the offering period of GDRs.

Article 19 Domestic listed companies offering GDRs shall fulfill due procedures to list, register, and make custodian arrangements for the corresponding newly-issued shares of GDRs in accordance with rules of the SSE and the securities registrar and clearance institution.

Article 20 GDRs offered by domestic listed companies can be fungible with the underlying domestic shares in accordance with relevant rules and regulations.

The GDRs which are initially and publicly offered by domestic listed companies shall not be converted into domestic underlying shares within 120 days as of the listing date. The GDRs subscribed to and held by the listed company's controlling shareholder, actual controller and entities under its control shall not be transferred within 36 months as of the listing date.

The number of outstanding GDRs shall not exceed the amount cap approved by the CSRC. The amount cap shall be adjusted if the number of GDRs changes resulting from stock dividend, stock split, reverse stock split, or change in the GDRs conversion ratio, etc..

Article 21 The depository of GDRs and the overseas securities institutions that conduct cross-border conversion business shall appoint domestic securities companies so as to trade the underlying shares of the corresponding GDRs and make a filing with the SSE. Domestic securities companies designated by overseas securities institutions shall conduct a prudent verification of the overseas securities institution's qualification, business experience and business scale, and enter into a service agreement with the overseas securities institution. It shall see to compliance of cross-border conversion business conducted by the overseas securities institutions with applicable laws and regulations via effective oversight.

Article 22 The overseas securities institutions conducting cross-border conversion business and the depository of GDRs shall appoint and deposit assets with custodians serving qualified foreign institutional investors or qualified securities investment fund custodians.

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The custodian prescribed in the preceding paragraph shall fulfill custodian obligations with reference to the *Administrative Measures of Domestic investment by Qualified Foreign Institutional Investors (QFII)*.

Article 23 Overseas securities institutions engaging in cross-border conversion business may trade the corresponding underlying shares of CDRs and the following investment instruments in accordance with regulations of competent authorities for the purpose of cross-border conversion and risk hedging. The outstanding assets held in the domestic markets shall not exceed the limit stipulated by the CSRC.

- (1) Money market funds;
- (2) Treasury bonds; and
- (3) Other investment instruments recognised by the CSRC.

Overseas securities institutions conducting cross-border trading in the aforementioned assets and overseas depository participating in corporate actions such as dividends payout in accordance with terms of the depository agreement, shall comply with applicable Chinese provisions concerning cross-border capital management.

Article 24 Domestic listed companies who acquire assets by offering GDRs representing newly-issued shares as underlying securities shall meet the requirements stipulated in Article 43 of the *Measures for the Administration of the Material Asset Restructurings of Listed Companies*.

Article 25 Equities of domestic listed companies acquired by investors and persons acting in concert through GDRs holdings or other means shall be calculated on a consolidated basis. Investors and persons acting in concert shall comply with relevant provisions of securities regulations and foreign investment management, and fulfill the associated legal obligations.

Equities of a single listed company held by one overseas investor shall not exceed 10% of the total shares of the company. The aggregate A-shares holdings by all overseas investors in a listed company shall not exceed 30% of the total outstanding shares of the company. Overseas investors' strategic investments in listed companies abiding by the law shall not be bounded by the aforesaid limits.

The depository of GDRs that hold the underlying shares in fulfillment of depository

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obligations is not subject to regulations concerning equity changes of domestic listed companies.

Article 26 Market participants in violations of this *Provisions* will be subject to regulatory and administrative measures taken by the CSRC in accordance with the *Securities Law*, the *Administrative Measures for the Disclosure of Information of Listed Companies*, the *Administrative Measures of Depository Receipts*, and other relevant provisions of the CSRC.

Article 27 The CSRC may conduct on-site inspections of domestic securities companies or enter premises of suspected offence in domestic securities companies for investigation or evidence collection purposes in accordance with Article 45 of the *Administrative Measures of Depository Receipts*. The CSRC may impose regulatory measures on domestic securities companies or overseas securities institutions in accordance with Article 46 of the *Administrative Measures of Depository Receipts* in the event of violation of this *Provisions*.

In the event where the overseas investments held by a domestic securities company exceed the scope and quota specified in Article 13 of this *Provisions*, or the domestic investments executed by a domestic securities company in acceptance of orders from overseas securities companies exceed the scope and quota specified in Article 23 of this *Provisions*, the said domestic securities company will be subject to penalties in accordance with Article 219 of the *Securities Law*. The domestic securities company failing to report to the CSRC in a timely manner on its overseas investment positions or cross-border fund flows will be subject to penalties in accordance with Article 222 of the *Securities Law*. In the event where a domestic securities company conducting cross-border conversion business violates this *Provisions* or other relevant regulations, it will be subject to regulatory measures or penalties in accordance with the *Regulation on the Supervision and Administration of Securities Companies*.

Article 28 In the event where a domestic depository or a custodian of overseas underlying shares fails to fulfill depository obligations in accordance with the *Administrative Measures of Depository Receipts* or relevant rules, or in other cases where a domestic depository or a custodian of the overseas underlying securities violates this *Provision*, the CSRC may impose regulatory measures and penalties in accordance with Article 53 of the *Administrative Measures of Depository Receipts*.

Article 29 In the event where data errors occur in the cross-border conversion of CDRs due to

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force majeure, technical failures of the trading and deposit system, or human errors etc, corrections and other arrangements shall be made in accordance with relevant business rules of the SSE and the securities registrar and clearance institution.

Article 30 This *Provisions* shall take effect as of the date of release.

Courtesy Translation