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SHANGHAI-LONDON STOCK CONNECT: AN OVERVIEW OF THE RULES AND REQUIREMENTS

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Introduction

The last quarter of 2018 saw the publication of a number of new rules and regulations by the China Securities Regulatory Commission (CSRC), the Shanghai Stock Exchange (SSE) and London Stock Exchange, which together provide the regulatory framework for the introduction of the Shanghai-London Stock Connect (Stock Connect) programme. These rules have been further supplemented by additional rules published in May 2019 by the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) which, amongst other things, prescribe quotas on the capital inflows into China under the Stock Connect programme. Stock Connect provides a mechanism that connects the large pools of capital that exist in Shanghai and in London via a two-way depositary receipt programme where the security underlying such depositary receipt programme is fungible across both markets, and facilitates: (i) Chinese SSE-listed companies obtaining a listing of global depositary receipts (GDRs) in London on London Stock Exchange; and (ii) London premium listed companies obtaining a listing of Chinese depositary receipts (CDRs) in Shanghai on the SSE, and will, in the case of a Chinese SSE- listed company obtaining a London GDR listing, also allow such company to raise capital from overseas investors simultaneously with obtaining its London GDR listing.

We would like to thank London Stock Exchange plc for its contribution to the preparation of this note which has included discussion with them on the topics contained herein and their review of its content.

The publication of these rules and regulations is the result of three years of work and dialogue between, amongst others, the SSE, London Stock Exchange, the CSRC and the United Kingdom Financial Conduct Authority (UK FCA), which first began with the announcement of the proposed initiative which was made following President Xi Jinping's visit to the UK in October 2015. Stock Connect represents an important initiative in deepening financial co-operation between China and the UK and in opening China's capital markets to international investors.

As mentioned above, Stock Connect utilises depositary receipts as the instrument for listing and connecting the two markets. In London, the GDRs that are created in connection with a London GDR listing represent the underlying "A" shares of the Chinese company, which are themselves listed on the SSE. In Shanghai, the CDRs that are created in connection with a Shanghai CDR listing represent the underlying ordinary shares of the London premium listed company, which are themselves listed on London Stock Exchange.

One of the key features and benefits of Stock Connect is that investors trading in each of the two markets can continue to trade under their existing rules, trading hours and clearing and settlement mechanics. For investors trading securities through the London market, this means they can invest in a Chinese SSE-listed company in an instrument they are familiar with – the GDR – and carry out that trading under the rules of London Stock Exchange during London market trading hours (subject to some minor changes to the opening time for trading on London Stock Exchange – see "*Cross-border trading under Stock Connect*" below for further information), and can clear and settle such trades in the same way as they currently do. Similarly, investors trading securities through the Shanghai market will be able to trade the CDR of a London premium listed company, during Shanghai market trading hours and under the rules and settlement mechanics of the SSE.

It is the connectivity and fungibility of the underlying security across both markets that sets the Stock Connect programme apart from, for example, the Hong Kong "H" share listing and Frankfurt "D" Share listing structures that are already available to Chinese SSE-listed companies, because in these later structures there is no fungibility between the securities. Given the fungibility that exists because of the Stock Connect programme, it is hoped that Stock Connect might facilitate greater price uniformity between the GDRs and the "A" shares, or the CDRs and ordinary shares, as the case may be, across both markets, rather than one security trading at a premium or discount to the other, as is often experienced in the case of these other dual-listing structures. Stock Connect is also different to the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programmes because in each of those alternative programmes, it is the investor that crosses over into the other market to trade rather than the actual security itself moving across markets.

The remainder of this note will focus on the westbound leg of the Stock Connect programme, that is Chinese SSE-listed companies obtaining a London GDR listing on London Stock Exchange, and sets out: (i) what a GDR is; (ii) some of the key requirements for, and features of, obtaining a London GDR listing under the Stock Connect programme; (iii) the advantages and benefits of obtaining such a London GDR listing; and (iv) the professional advisers that are needed for the purposes of obtaining a London GDR listing and for capital raising.

What are GDRs?

GDRs are transferable securities issued by a depositary bank (there are currently four major global banks that provide a depositary bank service), which represent a proportion of the underlying shares in a company incorporated outside of the market upon which the depositary receipts are to be listed and traded. In the case of a Chinese SSE-listed company seeking a London GDR listing pursuant to the Stock Connect programme, the underlying shares are the company's "A" shares (which are listed on the SSE). Prior to a depositary creating and issuing GDRs, the company and/or, if applicable, an existing shareholder must deposit the relevant underlying shares (i.e. "A" shares) with the depositary in a specially created GDR facility. The underlying "A" shares will be held by a custodian on behalf of the depositary, but are held on trust for the benefit of the GDR holders pursuant to the terms of the deposit agreement (the agreement entered into between the company and the depositary which governs, amongst other things, the creation of the GDRs and their terms and conditions).

Generally, a GDR facility provides flexibility in allowing transfers of the underlying shares in and out of the facility throughout its lifetime, with the corresponding creation and redemption of GDRs representing those underlying shares carried out by the depositary, with the investor typically bearing the fees of any such deposits or withdrawals. However, this is not quite the case under the Stock Connect programme and its applicable Chinese rules, where: (i) only a "designated broker" has the ability to deposit and/or withdraw the underlying shares to or from the deposit facility (rather than any investor as would typically be the case for a GDR facility) (see "*Cross-border trading under Stock Connect*" below for further information); and (ii) save in limited circumstances, a Chinese investor would not be able to hold the GDRs directly, and nor would an international investor holding GDRs be able to withdraw and hold the underlying “A” shares (however, the investor would still be able to sell the security that it owns by selling the corresponding security in another market through a designated broker).

GDRs are long-established securities, having been used in the London and international (including New York) markets for many years, and so are very familiar to London and international investors. GDRs provide investors with many of the economic and other benefits of holding underlying shares, including voting rights and claims to dividends. GDRs, therefore, offer international investors a means of enjoying many of the benefits of holding securities in an overseas company (e.g. a Chinese SSE-listed company), while avoiding some of the barriers faced by non-residents in certain jurisdictions.

What are the key benefits for a Chinese company in obtaining a London GDR listing under the Stock Connect programme?

One of the key benefits of the Stock Connect programme is that, for the first time, it provides eligible Chinese SSE-listed companies with the opportunity to raise capital from overseas investors by using an instrument that is fully fungible with their domestic “A” shares. This is achieved via a structure which, it is hoped, will result in the creation of a single price for both securities (i.e. the GDRs and the underlying “A” shares) rather than one security trading at a, sometimes significant, premium or discount to the other, as is often the case with some of the existing alternative structures that are available in other markets (for example, the “D” share listing structures used in Frankfurt, and the “H” share listing structure used in Hong Kong). Furthermore, upon raising such capital from international investors (which would typically be denominated in US dollars), there is no obligation on the company to repatriate the proceeds.

In addition to the above key benefit, a London GDR listing also offers the following benefits:

- it provides the company with access to the deepest pool of international capital in the world, and the opportunity to gain an incremental group of strategic institutional investors;
- it provides a significant opportunity to raise the company’s profile globally by joining a world-renowned high-quality stock exchange, allowing Chinese SSE-listed companies to benchmark themselves against a global peer group;
- London is home to a very sophisticated pool of research analysts and so a London GDR listing should help create more extensive and higher-quality research coverage, and wider publicity, assisting with greater price development; and
- it provides an opportunity for the company to issue London listed GDRs as acquisition currency which could, for example, support an acquisitive strategy or phase of growth for a company.

Obtaining a London GDR listing pursuant to Stock Connect

Obtaining a London GDR listing pursuant to Stock Connect involves a two-part process that requires both: (i) an application to the UK FCA for the admission of the Chinese company's GDRs to the Official List maintained by the UK FCA; and (ii) an application to London Stock Exchange for the GDRs to be admitted to the Shanghai-London Stock Connect Segment (Shanghai Segment) of London Stock Exchange's Main Market (Main Market).

An applicant seeking the admission of its GDRs to the Official List must decide on the segment of the Official List to which it wishes to seek admission. There are two segments available: (i) premium; and (ii) standard. A premium London GDR listing, which has only existed since 1 July 2018, is only available to sovereign controlled companies, and as at the date of this note, no company has obtained such a listing. Consequently, this note assumes that a Chinese company obtaining a London GDR listing pursuant to Stock Connect will do so by obtaining the admission of its GDRs to the standard listing segment of the Official List, and to trading on the Shanghai Segment of the Main Market.

A Chinese company seeking a London GDR listing will, pursuant to applicable UK law, be required to prepare a prospectus (in accordance with the UK Prospectus Regulation Rules) which must be approved by the UK FCA and published in the UK. See "*Prospectus*" below for further information.

Whilst every transaction is different, typically it will take a company around four to six months to obtain a London GDR listing.

Eligibility criteria

A Chinese company seeking a London GDR listing pursuant to Stock Connect must satisfy certain eligibility criteria imposed by each of London Stock Exchange and the FCA.

London Stock Exchange's Admission and Disclosure Standards sets out both general requirements applicable in the case of all securities admitted to the Main Market of London Stock Exchange, as well as specific requirements relating to the admission of GDRs to the Shanghai Segment of the Main Market. These specific requirements applicable to a Chinese company seeking the admission of its GDRs to the Shanghai Segment of the Main Market are that:

- the company must have an "A" share listing on the SSE;
- the company must have a minimum market capitalisation of RMB 20 billion; and
- the company must (as described above) prepare and publish a prospectus prepared in accordance with the UK Prospectus Regulation Rules and which is approved by the UK FCA.

The FCA's eligibility criteria, which are set out in the Listing Rules published by the UK FCA, represent basic conditions which must be satisfied for a company's GDRs to be eligible for admission to the Official List. The eligibility criteria that must be satisfied by a company seeking a London GDR listing (including a Chinese company seeking a

London GDR listing pursuant to Stock Connect) depend on whether such company is seeking a premium or standard listing of its GDRs in London. The criteria that follows assumes that a company is seeking the admission of its GDRs to the standard listing segment of the Official List:

- the company must be duly incorporated under the laws of its place of incorporation (i.e. the PRC) and operating in conformity with its constitution;
- the GDRs and the underlying "A" shares must: (i) conform with the laws and regulations of the company's place of incorporation (i.e. the PRC); (ii) be duly authorised in accordance with the requirements of the company's constitution; and (iii) have any necessary statutory or other consents required for listing prior to their issue date;
- the company must seek the admission of its GDRs to trading on London Stock Exchange's Main Market at the same time as applying for admission to the standard segment of the Official List;
- upon admission, the GDRs and the underlying "A" shares must be: (i) freely transferable, and have no restrictions on their transfer; and (ii) fully paid and free from all liens and from any restriction on the right of transfer;
- the value of all GDRs to be admitted must have an aggregate market value of more than £700,000;
- the application for admission must be for all of the GDRs that are to be issued;
- a prospectus must be produced in relation to the admission of the GDRs, which should be published following approval by the UK FCA;
- at least 25 per cent. of the issued GDRs being admitted (but not, for the avoidance of doubt, the underlying "A" shares) must be held by unconnected public investors (which do not hold more than five per cent. of the GDRs) located in one or more European Economic Area member states (EEA) (subject to any derogation sought from, and granted by, the FCA, for example to permit non-EEA investors to count towards free float);
- the GDRs must not impose obligations on the depositary, except to the extent necessary to protect the GDR holders' rights to, and the transmission of entitlements of, the underlying "A" shares; and
- the depositary that issues the GDRs must maintain adequate arrangements to safeguard GDR holders' rights to the underlying "A" shares, and to all rights relating to the "A" shares, and all money and benefits that it may receive in respect of them, subject only to payment of the remuneration and proper expenses of the company of the GDRs.

In addition to the requirement for a company to have prepared, and had approved by the UK FCA, a prospectus prepared in accordance with the UK Prospectus Regulation Rules, and to have satisfied London Stock Exchange's and UK FCA's eligibility requirements, it is also worth noting that a Chinese SSE-listed company will also need to obtain shareholder approval (requiring the preparation and publication of a shareholder circular) as well as the approval of the CSRC, in order to be able to obtain a London GDR listing.

The prospectus

As described above, a Chinese SSE-listed company seeking a London GDR listing is required to prepare and publish a prospectus approved by the UK FCA. Commission Delegated Regulation (EU) 2019/980 (Delegated Prospectus Regulation) sets out the specific content requirements for a prospectus. The Financial Services and Markets Act 2000 (FSMA) also requires other material information, whether or not falling under the headings specified in the Delegated Prospectus Regulation, to be disclosed in a prospectus. Most importantly, FSMA requires that the prospectus contains: "*the necessary information which is material to an investor for making an informed assessment of (a) the assets and liabilities, profits and losses, financial position, and prospects of the issuer of the securities; (b) the rights attaching to those securities and (c) the reasons for the issuance and its impact on the issuer*".

Since 1 July 2018, in the UK, in certain circumstances it is also necessary for a company to prepare and publish a registration document (typically published approximately three to five weeks in advance of the prospectus) which must also be approved by the UK FCA. The principal differences between the content of the registration document and the prospectus is that the registration document will not include a summary section, and nor will it include information about the proposed offering, admission and the securities to be offered, but otherwise will generally include the same disclosure relating to, amongst other things, the company and its group, its business, the risks that apply to its business and industry and financial performance. Given these content requirements, the remainder of this note will only refer to the preparation of a prospectus.

The prospectus will typically include, amongst other things, the following key sections:

- *Risk factors* – this section sets out a detailed description highlighting risks which are specific to the company's group, its business and its industry as well as those relating to the offer and the GDRs;
- *Business description* – this section includes a detailed description of the company's business, including information on the company's operations and principal activities, with information on the products sold and/or services performed. It will also include the company's "equity story" comprising its strengths and strategy;
- *Industry overview* – this section provides an overview of the industry in which the company operates;
- *Regulatory overview* – if the company operates in a heavily regulated sector then the prospectus would also typically contain an overview of the regulation that the group is subject to;
- *Historical financial information and pro forma financial information* – the prospectus must include historical financial information for the group for the latest three financial years (or such shorter period that the company has been in operation). See "*Preparation of financial information in connection with a London GDR listing under Stock Connect*" below for more information. If the company has experienced a "significant gross change", the prospectus will also need to include pro forma financial information;

- *Operating and financial review/Management discussion & analysis* – this section includes a detailed discussion of the group's results of operation for the periods covered by the historical financial information contained in the prospectus, including significant factors affecting the group's results of operations, as well as providing information in relation to: (i) the group's liquidity and capital resources; (ii) capitalisation and indebtedness information; (iii) critical accounting policies and estimates; and (iv) the group's current trading and prospects; and
- *Information relating to the GDRs* – the prospectus will include information in relation to, amongst others, the depositary, the terms and conditions of the GDRs, a description of the arrangements to safeguard the rights of holders of the GDRs.

In addition to the above key sections, the prospectus will also need to include information relating to, amongst other things: (i) what the company will use the proceeds from any capital raising for; (ii) the directors and senior managers, including their names and biographies, information on their other directorships, their remuneration information, their interests, if any, in the company and a description of the terms of their service agreements/letters of appointment, as well as a description of the company's corporate governance arrangements (note, there is no legal requirement for an overseas company seeking a London GDR listing to adhere to the UK corporate governance code, but such company must include an explanation in its prospectus of whether or not it complies with the corporate governance regime in the company's country of incorporation and explain those areas where it does not, and similarly, it is required to include a corporate governance statement in its annual report covering the governance code to which the company is subject); (iii) a description of the company's share capital (i.e. its "A" shares) and its constitutional documents; (iv) descriptions of any incentive arrangements, for example, share plans; (v) pensions-related information; (vi) a description of the material contracts of the group; (vii) a description of any related party transactions that the company has entered into; (viii) a description of any significant change in the financial position or financial performance of the group since the date of the group's historical financial information included in the prospectus; (ix) a statement that the company has sufficient working capital for its present requirements (that is for at least the next 12 months following the date of the prospectus) and (x) a description of any material litigation that the group is subject to.

Once the draft prospectus is "substantially complete", a draft of it is submitted to the regulator, the UK FCA, for its review to check for compliance with the relevant disclosure requirements under the UK Prospectus Regulation Rules, Regulation (EU) 2017/1129 and the Delegated Prospectus Regulation. Typically, the first submission of the prospectus would be made approximately 3-4 months ahead of the anticipated pricing date of the IPO.

The initial review by the UK FCA takes up to ten working days, with subsequent review periods on further submissions of the prospectus taking up to five working days each. At the end of each review period, the UK FCA will provide written comments on the content of the prospectus setting out specific areas where further information needs to be disclosed or where confirmations are required to be given. The draft prospectus is then amended, often following further drafting meetings with all the key participants from the working group in attendance, and resubmitted to the UK FCA. It is common for four or more drafts of the prospectus to be submitted to the UK FCA in this manner for its review before all of its comments have been addressed. All such draft prospectus submissions remain confidential until the prospectus is completed and approved by the UK FCA, following which the company is then required to publish the prospectus.

Once approved by the UK FCA, a prospectus is valid for 12 months from its date of publication, subject to updating by way of publication of a supplementary prospectus where required to do so by law (e.g. in the event of a material inaccuracy or significant new factor arising).

Preparation of financial information in connection with a London GDR listing under Stock Connect

One of the key issues that a company typically faces when undertaking a capital raising or obtaining a listing is the preparation of the necessary financial statements to satisfy the historical financial track record requirements of the host market. In order to obtain a London GDR listing, a company's prospectus must contain audited historical financial information on the company and its group covering the latest three financial years (or such shorter period that the company has been in operation for) and the audit report in respect of each year, and, in circumstances where the prospectus will be dated more than nine months after the end of a company's last audited financial year, the company will be required to include in its prospectus interim financial information. The prospectus must also include interim financial information that the company has published since its last audited financial statements. Furthermore, the last audited financial information must be not more than 18 months old (if audited interim financial information is included in the prospectus) or 15 months old (if unaudited interim financial information is included in the prospectus).

The regulatory position in the UK is that a company seeking a London GDR listing can include historical financial information in its prospectus prepared under: (i) International Financial Reporting Standards (IFRS) (as adopted by the EU); (ii) IFRS (where the notes to the financial statements contain an "explicit and unreserved statement" that the financial statements comply with IFRS in accordance with International Accounting Standards 1 Presentation of Financial Statements); or (iii) a third country's national accounting standards which are deemed to be equivalent to the standards set out in (i) above – such equivalent national accounting standards include, amongst others, PRC GAAP.

Consequently, there already exists in the UK the necessary regulatory framework to permit a Chinese SSE-listed company to use the financial statements that it prepares for the purposes of compliance with its ongoing financial reporting requirements under the SSE, which are prepared under PRC GAAP and which have been audited under applicable PRC standards, in its UK FCA approved prospectus as well as to satisfy its ongoing UK public financial reporting requirements once it has obtained its London GDR listing (see the immediately following paragraph which describes the registration requirements for a PRC audit firm).

Article 45 of Directive 2006/43/EC (as amended by Directive 2014/56/EU) (the Statutory Audit Directive) requires a third country auditor (such as a PRC auditor) providing an audit report concerning the annual or consolidated financial statements of a company incorporated outside the European Union whose transferable securities are admitted to trading on a regulated market of a member state to be registered by the competent authorities of that member state. Consequently, this requirement will become relevant when a company who has obtained a London GDR listing publishes its next audited financial statements following such admission to London Stock Exchange. As such, as a practical matter it will be necessary for a company to seek confirmation from its PRC auditor whether such audit firm is registered as a third country auditor with the UK Financial Reporting Council, and if not to request that it does so in good time ahead of the publication of the company's next audited financial statements. Only a handful of PRC auditors are currently registered with the UK Financial Reporting Council.

Key CSRC rules impacting a London GDR listing and capital raising

Reflecting the fact that overseas companies obtaining London GDR listings is a well-trodden and established path in London, in the UK no material changes have needed to be made to the regulatory framework (which is principally governed by relevant UK and EU legislation) to accommodate the Stock Connect programme aside from the creation of the new Shanghai Segment of the Main Market and some associated changes to London Stock Exchange's Admission and Disclosure Standards. By contrast, in China, the CSRC and SSE have each prepared and published new rules that cover both GDR issuances by Chinese SSE-listed companies as well as rules relating to Shanghai CDR listings by London premium listed companies.

Of the CSRC's rules that apply to Chinese SSE-listed companies seeking a London GDR listing and capital raising, the following have a particularly practical impact:

- the CSRC's rules impose a cap, determined on a case by case basis, on the number of GDRs that can be listed in London on London Stock Exchange (expressed as a percentage of the Chinese SSE-listed company's share capital).
- the CSRC's rules provide that the maximum discount that a GDR can be priced at is "in principle" 10% of the average trading price of the underlying SSE-listed "A" shares of the company over the previous 20 trading days before the start of the investor roadshow promoting the company's GDR capital raising. Any greater discount requires the approval of the CSRC; and
- the CSRC's rules provide that for a 120-day period following the completion of the London GDR listing, the GDRs that are created as part of the initial listing and offering may not be redeemed and cancelled. As such, during this period a holder of GDRs will not be able to redeem their GDRs in order to sell the underlying SSE-listed "A" shares in the Shanghai market. This does not mean that there will be no liquidity at all during this 120-day period, but rather that it will only be able to exist in respect of the GDRs. This will include the trading in GDRs that can take place on the London Stock Exchange. Additional GDRs can be created during this period by purchasing "A" shares in the Shanghai market and depositing them into the GDR facility and receiving the GDRs reflecting such deposited "A" shares from the depositary. In addition to these lock-up restrictions, the CSRC rules also provide that any GDRs held by controlling shareholders and de-facto controllers (each as defined within the relevant Chinese rules) are locked-up for a period of 36 months following completion of the London GDR listing.

The PBOC and SAFE rules prescribe quotas which Designated Brokers (see "*Cross-border trading under Stock Connect*" below for further information on Designated Brokers), will need to comply with. However, these are not expected to have any material impact on investors or their ability to trade GDRs, including by selling the underlying "A" shares through Designated Brokers.

Cross-border trading under Stock Connect

Trading in the GDRs on London Stock Exchange will take place within the International Order Book (IOB) in a new segment of the Main Market called the Shanghai Segment between the London hours of 0900 and 1630. Trading in the Shanghai Segment opens one hour later than the other segments of the Main Market to ensure that there is no cross-over between trading in London and Shanghai in order to assist SSE-listed companies with managing their disclosure obligations. All trading participants with access to the IOB will be able to access the Shanghai Segment of the Main Market.

Cross-border trading under the Stock Connect platform (i.e. the creation or redemption of GDRs by buying or selling the underlying "A" shares in the Shanghai market) can only be conducted through an London Stock Exchange member that has been "designated" by the SSE (Designated Broker). Designated Brokers are permitted to hold accounts with SSE members for buying and selling "A" shares for cross-border trading activities. They are also permitted to hold inventory of "A" shares, cash and other instruments to manage market risk and cross-border trading activity.

When buying GDRs, an investor may: (i) buy GDRs on London Stock Exchange (through the IOB); or (ii) request that a Designated Broker buys "A" shares in the Shanghai market and instructs the depositary to create GDRs representing such acquired "A" shares. Conversely, when selling GDRs, an investor may: (i) sell GDRs on London Stock Exchange (through the IOB); or (ii) request that a Designated Broker redeem and cancel the GDRs and sell the underlying "A" shares in the Shanghai market. In each case, such buy or sell orders, as the case may be, can be placed directly with the Designated Broker (if the investor is a client of that Designated Broker) or through their normal broker (who will then engage with a Designated Broker (if required)).

The application process for Designated Brokers is open, and to date eight Designated Brokers have so far been announced by the SSE. The names of all Designated Brokers will be published by the SSE and will also be available on London Stock Exchange's website.

Professional advisers necessary for a London GDR listing

The first step in the process for a company embarking on a London GDR listing is usually the appointment of professional advisers and the appointment of the depositary. The appointment of a high-quality team of professional advisers is a key requirement for a successful London GDR listing. The team will guide the company to a successful listing, avoiding pitfalls along the way, with each adviser having specific responsibilities. Typical professional advisers that are required for a London GDR listing are:

- *Legal advisers to the company* – a Chinese SSE-listed company seeking a London GDR listing will need both PRC and English law counsel and, if any simultaneous capital raising will include a US offering component, US counsel. The company's legal advisers will advise the company on, amongst other things, compliance with applicable legal requirements of the London GDR listing and with respect to the contents of the prospectus. Particular workstreams performed by the company's legal advisers include, amongst other things, carrying out documentary and management due diligence, taking primary responsibility for drafting the prospectus, amending or drafting appropriate constitutional documents, preparing corporate governance-related documentation, providing customary legal opinions, providing advice on the form and terms of key contractual arrangements, including in relation to the engagement letters entered into with certain professional advisers, the underwriting agreement (entered into between the Company and the underwriters) and the deposit agreement (entered into between the Company and the depositary);

- *Global Coordinator(s) and Underwriters* – a capital raising carried out simultaneously with the company's London GDR listing would typically be underwritten by a group of investment banks (Underwriters) that use "bookbuilding" techniques to effect an underwriting of the offer. While the titles used for marketing purposes by the participating Underwriters can vary, the Global Coordinator(s) usually oversees the bookbuilding process whereby the Underwriters go into the market and assess potential demand from investors for the GDRs prior to pricing of the offer. The Underwriters ask potential institutional investors to indicate the number of GDRs they would be prepared to take up and at what price on the basis of the information set out in the prospectus. The Underwriters will also give advice on market conditions and potential demand for the company's GDRs and advise on the strategy to market the London GDR listing and capital raising to investors, including as to the timing, pricing, method and terms thereof;
- *Legal advisers to the Global Coordinator(s)/Underwriters and the Depositary* – the legal advisers to the Underwriters will generally prepare and advise the Underwriters on the terms of the underwriting agreement, as well as advising the Underwriters in respect of the steps that need to be taken to ensure that the Underwriters protect themselves from liability (so far as possible) in connection with the London GDR listing and capital raising. They will also carry out documentary and management due diligence and review and comment on the prospectus. The Depositary will also need to appoint legal counsel to advise it on, amongst other things, the deposit agreement; and
- *Accountants/Auditors* – the Delegated Prospectus Regulation requires a prospectus to include certain historical financial information for the company and its group. This financial information must be independently audited or reported on by the auditors as to whether or not, for the purposes of the prospectus, it gives a true and fair view in accordance with applicable auditing standards. The reporting accountants will also review and provide "tick and tie" comfort on the financial information included more generally in the prospectus.

Ongoing obligations

Once a Chinese SSE-listed company has successfully obtained its London GDR listing under Stock Connect, it will need to comply with certain ongoing listing obligations prescribed by UK and EU law and regulation as well as continuing to comply with those ongoing obligations that it is subject to by virtue of its SSE-listed "A" shares. This means that from a UK perspective, a Chinese SSE-listed company that has obtained a London GDR listing will need to comply with, amongst other things, the UK FCA's

Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules, London Stock Exchange's Admission and Disclosure Standards and the EU Market Abuse Regulation. Amongst the key UK ongoing obligations that apply to a company with a London GDR listing are that it must:

- publish an annual financial report within four months of the end of its financial year, including audited financial statements, a management report and responsibility statement;
- maintain a public free float of 25 per cent. or more of the GDRs; and
- notify the public as soon as possible of any "inside information" which directly concerns the company. "Inside information" is information relating to the company which is of a precise nature, which has not been made public, which relates directly or indirectly to any member of the company's group or any of their securities, and which if made public would be likely to have a significant effect on the price of the company's GDRs or related derivative financial investments. In practice, a company will need to ensure that investors in the London market are provided with the same material information as the company discloses to investors in the Shanghai market (and vice versa).

The information in question will need to satisfy each limb of the test described above to be classified as inside information requiring disclosure. In determining whether the information in question would be likely to have a significant effect on the price of the company's GDRs, it is necessary to assess whether the information is of a kind which a reasonable investor would be likely to use as part of the basis of his investment decision (the "reasonable investor" test).

A company is permitted to delay disclosure of inside information to the market in limited circumstances, provided that (i) the company has legitimate interest in delaying the disclosure, (ii) the omission would not be likely to mislead the public, and (iii) the company is able to ensure the confidentiality of the information.

In addition, the EU Market Abuse Regulation also requires a company with a London GDR listing to compile and maintain lists of those persons (including officers, employees, and persons/advisers acting on its behalf) working for it who have access to inside information (an insider list), whether this access is on a regular or occasional basis. In addition, a list must be kept of all individuals at a company's advisers or other persons acting on behalf of a company who are aware of any inside information relating to the company. A company may choose to maintain this list itself with the assistance of its advisers/persons acting on its behalf, or, in line with previously accepted principles, a company may choose to maintain a list of principal contact(s) at the company's advisers or other persons acting on behalf of the company who are aware of any inside information relating to the company, and make effective arrangements for such advisers/persons to compile their own lists of insiders and deliver such lists upon demand to the company and/or the FCA.

In addition, persons discharging managerial responsibilities in a company which has obtained a London GDR Listing, as well as their closely associated persons, must also disclose their dealings in the securities of the company to the company and the UK FCA, and the company must then disclose those dealings to the London market.

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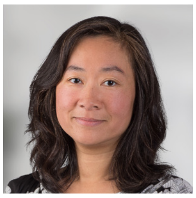

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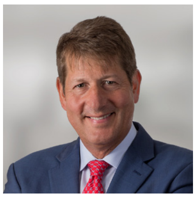

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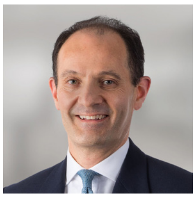

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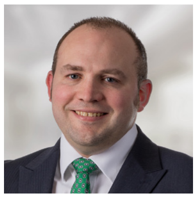

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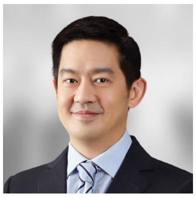

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