

Annex 1-2

Notes on the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchanges*

In order to regulate the listing, trading, cross-border conversion, and information disclosure of or in relation to depository receipts under the Stock Connect Scheme between Shenzhen Stock Exchange (the “SZSE”) and Overseas Stock Exchanges, the SZSE drafted the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchanges* (the “**Interim Measures**”). Some drafting explanations regarding are given as follows:

I. Background and Orientation

Recently, China Securities Regulatory Commission (the “CSRC”) officially released the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* (the “**Provisions**”). The *Provisions* expanded the scope of application to include SZSE-listed companies in the Eastbound Link (Chinese depository receipts) and markets in Switzerland and Germany in the Westbound link; made arrangements for introducing the financing function to Chinese depository receipts; and adjusted and optimized the disclosure requirements on financial information, internal control, annual report and equity changes. As the basic rules governing the depository receipts under the Stock Connect Scheme, the *Interim Measures* made targeted and adaptive arrangements concerning activating financing function for Chinese depository receipts, optimizing ongoing supervision and information disclosure requirements, establishing a cross-border conversion mechanism and improving investor protection after taking into account the revision of the *Provisions* and the practice and experience of the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange.

II. Basic Principles

(1) Adopting a comprehensive mode of basic rules supported by the guidelines

The rules on depository receipts under the Stock Connect Scheme cover various business areas including listing, ongoing supervision, information disclosure, trading and cross-border conversion. Therefore, the SZSE intends the *Interim Measures* to serve as broad and comprehensive basic rules and the formulate relevant supporting guidelines for detailed implementation, covering market making and cross-border conversion, etc.

(2) Optimizing institutional connection to be in alignment with reforms of market basic rules

In terms of insitutional design, the *Interim Measures* optimize cross-border institutional connection to align with and prepare for reforms of market basic rules. First, aligning review processes with administrative authority. The *Interim Measures* provide that the application of overseas issuers for the listing of CDRs on the SZSE shall be reviewed by the SZSE, and make arrangement for connection with the administrative permission system of the CSRC. Second, improving ongoing supervision. The *Interim Measures*, in respect of the information disclosure, ongoing supervision

rules and operating practices of the overseas market, allow overseas issuers to apply for an adjustment to the application of the disclosure requirements or ongoing supervisory rules of the SZSE. For example, the *Interim Measures* make adaptive arrangements for the disclosure of material and related party transactions of overseas issuers. The *Interim Measures* supplement provisions on termination of listing and make differentiated arrangement for voluntary termination of listing and compulsory termination of listing. Third, optimizing the trading rules. The *Interim Measures* make adaptive arrangements for the price limit of CDRs, introducing the hybrid trading system of competitive market making under the auction trading system, and the cross-border conversion mechanism between depository receipts and underlying shares with reference to international practices.

(3) Strengthening investor protection and safeguarding the bottom line of risk prevention

The *Interim Measures* address investor protection and risk prevention with a focus on the following aspects: in terms of ongoing supervision, overseas issuers are required to ensure that the protection of the rights and interests of Chinese domestic investors is generally not less than the requirements of Chinese laws, administrative regulations and the rules of the CSRC, and there are provisions on investor protection matters after termination of listing; in terms of trading, the investor suitability management system is introduced; in terms of self-regulation, responsibilities of market participants are strengthened to maintain orderly operation of the market.

III. Main Contents

The *Interim Measures* include 131 articles in eight chapters, i.e. General Provisions, Listing of CDRs, Ongoing Information Disclosure for CDRs, Trading of the CDR, Delisting of CDRs, Matters Related to the GDRs, Market Self-Regulation and Ancillary Provisions. The main contents are as follows:

(1) Clarifying the scope and object of application, strengthening investor protection obligation (Chapter I General provisions)

First, this chapter contains provisions on the purpose, basis, and scope of application of the *Interim Measures* and parties subject to self-regulation. Second, this chapter provides that overseas issuers, CDR sponsors, depositories and relevant securities service institutions shall earnestly fulfill the obligation of protecting the rights and interests of investors. Third, basic matters such as registration and settlement are clarified.

(2) Formulating the listing and reviewing mechanisms of CDRs, setting out the relevant procedure and disclosure requirements (Chapter II Listing of CDRs)

First, this chapter defines the listing criteria, including public offering requirements, market capitalization standards (with market capitalization not less than RMB 20 billion), listing history (having been listed on the Overseas Stock Exchange for at least 3 years), and initial size (not less than 50 million units of CDRs representing not less than RMB 500 million of corresponding underlying shares). Second, this chapter provides the matters relating to review by the stock exchange. Third, this chapter clarifies the relevant requirements for the establishment of initial liquidity of CDRs, listing application documents and disclosure matters.

(3) Defining basic principles and requirements for ongoing information disclosure of CDRs, stipulating the periodic reports, ad hoc reports and other relevant matters (Chapter III Ongoing Information Disclosure for CDRs)

First, this chapter provides that overseas issuers and relevant information disclosure obligors shall follow the principles of fair disclosure, simultaneous disclosure and consistent disclosure. Second, it provides the contents, formats and audit of periodic reports, and clarifies the disclosure standards for material transactions and related party transactions. Third, it makes special provisions on the exercise and disclosure of the rights of CDR holders, ongoing disclosure of depository plans, disclosure of equity changes, disclosure of domestic market concentration, suspension and resumption of trading, etc.

(4) Setting up the investor suitability management system for CDRs, defining its trading and cross-border conversion mechanism (Chapter IV Trading of CDRs)

First, this chapter specifies the investor suitability conditions and requirements for trading CDRs. Second, it clarifies the differentiated trading mechanism for CDRs, such as market maker system, daily price limit, price benchmark on the first day of listing, etc. Third, it clarifies the operation and regulatory requirements for cross-border conversion, and makes specific provisions on the business process of cross-border conversion, the registration and compliance requirements for cross-border conversion institutions, and the error correction mechanism.

(5) Establishing mechanism for delisting of CDRs, clarifying relevant procedures and investor protection arrangements (Chapter V Delisting of CDRs)

First, this chapter makes differentiated arrangements for different types of termination of listing such as voluntary termination of listing and compulsory termination of listing, and clarifies the delisting process, hearing, review and other issues. Second, it makes special provisions on the protection arrangements for CDR investors.

(6) Prescribing matters related to GDRs, setting forth the requirements for the listing of underlying shares and the conversion of GDRs (Chapter VI Matters Related to GDRs)

First, this chapter defines the requirements for domestic listed companies to apply for the listing of underlying shares as well as the matters related to GDRs that must be disclosed on the Exchange. Second, it clarifies the registration and regulatory requirements for cross-border GDR conversion institutions and GDR depository.

(7) Clarifying self-regulatory measures, strengthening subject responsibility requirement (Chapter VII Market Self-Regulation)

First, this chapter provides that the SZSE can impose day-to-day supervisory measures on market entities that participate in the business of depository receipts under the Stock Connect Scheme. Second, it provides content of self-regulatory measures or disciplinary sanctions on relevant violators.

IV. Opinions Received and Reviewed

During the consultation period, we have received a total of 32 comments on the *Interim Measures*. In general, market participants responded positively, with specific comments mainly focusing on

simplifying the information disclosure requirements, improving the provisions on the protection of investors in the case of delisting, and shortening period for submitting the application materials for the listing of additional domestic securities underlying the GDRs. Relevant opinions and suggestions have been incorporated with careful consideration and the *Interim Measures* have been enhanced accordingly. For comments regarding the understanding and interpretation of the articles, the SZSE has provided explanation through consultation symposiums and policy Q&A, etc.