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# Guidelines No.1 on the Application of Securities Trading Rules of the Shanghai Stock Exchange for Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors

**Article 1** These *Guidelines* are formulated in accordance with the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* and *the Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors*, and the applicable business rules of the Shanghai Stock Exchange (“SSE” or the “Exchange”) to regulate the trading of securities and their derivatives on the Exchange by eligible qualified foreign institutional investors and RMB qualified foreign institutional investors (hereinafter referred to as “qualified foreign investors”) and maintain an orderly market.

**Article 2** These *Guidelines* shall apply to the trading of securities and their derivatives by qualified foreign investors on the Exchange. Matters uncovered herein shall be governed by the *Trading Rules of the Shanghai Stock Exchange*, the *Member Management Rules of the Shanghai Stock Exchange* and other applicable rules of the Exchange.

**Article 3** When participating in the trading of securities and their derivatives on the Exchange, qualified foreign investors and their domestic custodians, securities companies and futures companies shall abide by laws, regulations, administrative rules, and the business rules of the Exchange, and shall not violate rules on shareholding limits, information disclosure requirements, and trading activity supervision, etc.

**Article 4** Matters concerning the registration and settlement of securities and their derivatives trades executed by qualified foreign investors on the Exchange shall be handled by an SSE-designated registration and settlement institution in accordance with its own business rules.

**Article 5** A qualified investor shall authorize domestic securities companies which are members of the Exchange to engage in the trading of securities on the Exchange on its behalf and shall authorize domestic securities companies and futures companies which are stock options trading participants of the Exchange to engage in the trading of stock options.

If the qualified foreign investor has opened multiple securities accounts or derivatives accounts for the trading of securities or derivatives on the Exchange, it can designate only a single domestic securities company or futures company for each account.

**Article 6** The securities company and futures company authorized by a qualified foreign investor (“authorized securities and futures company”) shall act with diligence and care to strengthen the management of the qualified foreign investor’s trading activities and constantly oversee the trading of the qualified foreign investor. When detecting any abnormal trading activities that may seriously affect the trading order or suspected violations of applicable laws and regulations during the qualified foreign investor’s trading of securities and derivatives, the company shall take measures in accordance with the brokerage agreement, and timely report it to the Exchange.

The authorized securities and futures company shall agree with the qualified foreign investor in their brokerage agreement that if the qualified foreign investor uses its account in violation of applicable laws or regulations or engages in other abnormal trading activities that may seriously affect the trading order or suspected violations of applicable laws and regulations, the authorized securities and futures company may refuse to accept its trading orders, close out its positions as required by the Exchange, or terminate their authorization.

**Article 7** An authorized securities and futures company shall keep the trading order record, executed trade record, and other data of its qualified investor for a period of at least 20 years.

**Article 8**  The custodian shall report relevant information about the qualified foreign investor, its custodian and the authorized domestic securities and futures company according to the rules or requirements of the Exchange.

An authorized securities and futures company shall report the qualified foreign investor’s holding and close-out of positions and other matters according to the rules or requirements of the Exchange.

**Article 9** The inspector of a qualified foreign investor shall oversee the investments and information disclosure of the qualified foreign investor.

When detecting any violation of the relevant laws and regulations, administrative regulations and the Exchange’s business rules of the securities and derivatives trading, the inspector shall promptly stop the qualified foreign investor and report it to the Exchange within 10 trading days.

**Article 10** If a qualified foreign investor engages in any abnormal trading activity that may seriously affect the trading order or suspected violation of laws and regulations, the Exchange may require the qualified investor to timely report to the Exchange information on the securities trading, derivatives trading and shareholdings of foreign investors under its name.

**Article 11** A qualified foreign investor may invest in the following securities instruments and their derivatives traded or transferred on the Exchange:

(1) Stocks, including common stocks, preferred stocks and other stocks recognized by the Exchange;

(2) Depository receipts;

(3) Bonds, including treasury bonds, treasury bonds eligible for when-issued trading, local government bonds, government-backed bonds, corporate bonds, enterprise bonds, convertible corporate bonds, equity warrant bonds, exchangeable corporate bonds, policy-based financial bonds, subordinate bonds, and other bonds recognized by the Exchange;

(4) Asset-backed securities;

(5) Funds, including all types of exchange-traded funds (ETFs), closed-end funds, listed-open-end funds, money market funds, and other funds recognized by the Exchange;

(6) Stock options;

(7) Other securities and derivatives instruments recognized by the CSRC.

A qualified foreign investor may participate in the subscription process of IPO, bond issue, ABS issue, secondary offering, rights issue, margin trading, securities lending and bond repurchase.

**Article 12** Where the foreign investor under the name of a qualified foreign investor engages in the securities and derivatives trading on the Exchange, the qualified investor shall fully disclose risks in domestic securities and derivatives investment to the foreign investor under its name, and require them to abide by laws, regulations, and administrative rules governing domestic securities and derivatives investment and the business rules of the Exchange and accept the supervision of the Exchange.

The qualified foreign investor shall agree with the foreign investor under its name that if the foreign investor violates the applicable shareholding limits and information disclosure requirements, or engages in other abnormal trading activities that may seriously affect the trading order, the qualified foreign investor may refuse to provide services to the actual investor, close out the actual investor’s positions as required by the Exchange, or take other measures to stop and correct such violation or abnormal trading activities.

**Article 13** Where the securities and derivatives trading on the Exchange conducted by a foreign investor meets the requirements of information disclosure, the foreign investor shall, as an obligor of information disclosure, submit the information to be disclosed to the Exchange through the qualified foreign investor.

The qualified foreign investor shall be fully aware of the shareholding the foreign investor under its name and urge the foreign investor to strictly comply with the relevant provisions on information disclosure.

**Article 14** When performing their information disclosure obligations, a qualified foreign investor and foreign investors under its name shall respectively aggregate the domestically and overseas listed stocks of the listed company held by both of them in accordance with the law, and abide by laws and regulations governing information disclosure.

A qualified foreign investor and foreign investors under its name shall disclose relevant securities and their derivatives investment information of persons acting in concert according to information disclosure rules of listed companies.

**Article 15** When making domestic securities investment, qualified foreign investors and other foreign investors shall observe the following shareholding limits:

(1) A single qualified foreign investor or other foreign investor shall hold no more than 10% of the total stocks of a single listed company;

(2) All qualified foreign investors and other foreign investors shall collectively hold no more than 30% of the total A-share stocks of a single listed company.

Where a qualified foreign investor or other foreign investor makes strategic investment in a listed company in accordance with the law, the shares they hold through strategic investment shall not be subject to the aforementioned limits.

Where there are domestic laws, administrative regulations and industrial policies that provide stricter provisions on the proportion of shares owned by qualified foreign investors and other foreign investors, such provisions shall prevail.

**Article 16** When all qualified foreign investors and other foreign investors collectively hold 24% or more of the total A-share stocks of a single listed company, the Exchange will, before the market open of the next trading day, announce on its website the total number of the A-share stocks of the company held by the foreign investors and such number as a percentage of the total number of the company’s stocks.

**Article 17** If, after the close of a trading day, the stocks of a listed company held by a single qualified foreign investor or other foreign investor exceeds the shareholding limit, the qualified foreign investor or other foreign investor shall, within 5 trading days, close out the positions in excess of the shareholding limit and, as required, timely perform its obligation to disclose information related thereto.

**Article 18** If, after the close of a trading day, the A-share stocks of a single listed company collectively held by all qualified foreign investors and other foreign investors exceed the shareholding limit, the Exchange will issue a close-out notice to the authorized securities and futures company and the custodian of each investor involved on the next trading day.

The qualified foreign investors and other foreign investors shall, within 5 trading days after receiving such notice, close out the portion of their positions in the stocks in excess of the shareholding limit according to the following categories and in the following order of priority:

(1) The stocks obtained other than through the means described in the (2) to (4) categories listed in this article (including the negotiable unlisted stocks obtained through participating in rights issue, secondary offering and the offline placing tranche, stocks obtained from stock options businesses, conversion of convertible bonds and stocks paid back from previous securities lending );

(2) Those obtained through block trading on that trading day;

(3) Those obtained through after-hours fixed price trading on that trading day;

1. Those obtained through call auction trading on that trading day; and

If the positions in the stocks under the (1) or (2) category listed in the preceding paragraph exceeds the total positions therein that shall be closed out on that trading day, each qualified foreign investor or other foreign investor shall close out its positions according to the proportion of the stocks under the (1) or (2) category added to its holdings on that day in those added to the collective holdings of all qualified investors on that trading day; if the total positions in the stocks under the (1) and (2) categories are less than the total positions therein that shall be closed out on that trading day; and if the total positions in the stocks under the (1) and (2) categories are less than the total positions therein that shall be closed out on that trading day, the order of priority for the close-out of positions in the stocks under the (3) and (4) categories shall be determined on a last in, first out basis.

Where the Exchange has other regulations on the reduction of shares, these regulations shall prevail in determining the order of priority for closing positions.

Any of the qualified foreign investors and other foreign investors who have been notified to reduce their holdings may apply to the Exchange to keep its original holdings of the stocks if the other investors’ voluntary reduction of their holdings of the stocks within 5 trading days has brought the above total shareholdings below the shareholding limit.

**Article 19** If a listed company reduces registered capital or engages in other actions and therefore drives the collective holdings of all qualified foreign investors and other foreign investors above 30% of all stocks of the listed company, qualified foreign investors and other foreign investors may keep their original holdings. They are not allowed to continue to increase holdings until the total share holdings of all qualified foreign investors and other foreign investors is less than 30% of all stocks of the listed company.

**Article 20** Where a qualified foreign investor agrees to transfer the shares of a listed company, the transfer shall be handled in accordance with the relevant business rules for listed company share transfer by agreement.

Where a qualified foreign investor changes the business entity under the same control, modifies the accounts of the same qualified foreign investor or changes the manager of its fund products or accounts, and such change helps to improve the investment efficiency or clarify the account structure, the qualified foreign investor can make non-trading securities transfer in accordance with the regulations of securities registration and settlement institutions.

**Article 21** The Exchange exercises real-time monitoring over the trading of securities and derivatives by qualified foreign investors in accordance with the law, and monitors and analyzes their abnormal tradings. Where a qualified foreign investor conducts abnormal tradings or suspected violation of laws and regulations, the Exchange will take corresponding supervisory measures or disciplinary sanctions against the qualified foreign investor. Cases of serious violation will be reported to the CSRC for investigation.

**Article 22** Where a qualified foreign investor breaches the shareholding limit, and fails to deal with its shareholdings in excess of the shareholding limit as required, the Exchange has the right to notify its authorized securities and futures company and the custodian to close out its positions, and may take supervisory measures or disciplinary sanctions against the qualified foreign investor and, in the case of a serious violation, shall report such violation to the CSRC for investigation.

**Article 23** If a qualified foreign investor commits any of the following violations, the Exchange may take supervisory measures or disciplinary sanctions against it and, in the case of a serious violation, shall report such violation to the CSRC for investigation:

(1) It fails to timely report related information to the Exchange;

(2) It fails to fulfill information disclosure obligations;

(3) It fails to take effective measures to ensure that actual investors under its name perform their close-out, information disclosure, and other obligations as required; or

(4) It violates any other provision of these *Guidelines*.

**Article 24** If a foreign investor under the name of a qualified foreign investor violates the shareholding limits, information disclosure requirements, or any other provisions of these *Guidelines,*the Exchange may take supervisory measures or disciplinary sanctions againstthe foreign investor and, in the case of a serious violation, shall report such violation to the CSRC for investigation.

**Article 25** The Exchange shall have the right to, pursuant to its applicable business rules, take corresponding supervisory measures or disciplinary sanctions against any authorized securities and futures company or custodian who, in violation of this Guidelines, fails to fulfill its duty of diligence and care.

**Article 26** The total amount of the stocks of a single listed company referred to in these Guidelines means the sum of the listed company's RMB common stocks (A shares), RMB special stocks (B shares) and overseas listed stocks (including H shares).

**Article 27** These *Guidelines* shall be implemented on November 1, 2020. The  *Notice on Matters related to Strengthening the Management of Securities Trading by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* issued on January 13, 2014 by the Exchange and *Implementing Rules of the Shanghai Stock Exchange for the Trading of Securities* *by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* issued on March 19, 2014 by the Exchange shall be repealed simultaneously.

**Article 28** The Exchange shall reserve the right to interpret these *Guidelines*.