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**Notice on Issuing the Essential Clauses of the Risk Disclosure Statement for  
Trading of Chinese Depository Receipts under the Stock Connect Scheme  
between Shanghai Stock Exchange and London Stock Exchange**

(No.91 [2018] of the Shanghai Stock Exchange)

To All SSE Members and Relevant Market Entities,

To regulate the business related to Chinese depository receipts (“CDRs”) under the stock connect scheme between Shanghai Stock Exchange (the “SSE”) and London Stock Exchange conducted by securities companies and to help investors develop an adequate understanding of the risks associated with the trading of CDRs, the SSE has formulated the *Essential Clauses of the Risk Disclosure Statement for Trading of Chinese Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (the “*Essential Clauses*”) (see Annex for details). The *Essential Clauses* is hereby issued to you for your compliance and implementation.

Securities companies should prepare a *Risk Disclosure Statement for Trading of Chinese Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (the “*Risk Disclosure Statement*”) in accordance with the *Essential Clauses*, establish the relevant systems for managing the suitability of CDR investors in strict compliance with the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange*, comprehensively disclose to investors the risks associated with CDR trading and remind them to be vigilant about investment risks. Securities companies shall effectively conduct the work to manage the suitability of investors and take concrete measures to understand and examine the risk identification capacity of investors.

Securities companies can start to sign the *Risk Disclosure Statement* with investors on the date of issuance.

Annex:

*Essential Clauses of the Risk Disclosure Statement for Trading of Chinese Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange*

Shanghai Stock Exchange

November 2, 2018

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*Courtesy Translation*

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Annex:

## **Essential Clauses of the Risk Disclosure Statement for Trading of Chinese Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange**

To help investors develop a full understanding of the risks associated with the trading of Chinese depositary receipts (“**CDRs**”) under the stock connect scheme between Shanghai Stock Exchange (the “**SSE**”) and London Stock Exchange (the “**LSE**”), each securities company that engages in CDR brokerage business should prepare a *Risk Disclosure Statement for Trading of Chinese Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (the “**Risk Disclosure Statement**”) which provides a comprehensive description of applicable regulations and rules, business processes and risk events, as well as an adequate disclosure of the risks faced by investors who trade CDRs. The Risk Disclosure Statement should at a minimum cover the following topics:

### **I. Risks Associated with the Issuer of the Underlying Overseas Securities**

1. If the equity structure, corporate governance, operating rules, and other aspects of the issuer of the underlying overseas securities corresponding to CDRs (“**overseas issuer**”) who has been incorporated overseas and listed its underlying shares on the LSE are governed by the company laws and other laws and regulations of its place of incorporation, there may be certain differences between the overseas market and the domestic market on the rules governing investors’ rights and the exercise thereof. Moreover, the rights and interests of domestic CDR holders may also be affected by changes in overseas laws and regulations.
2. There may be significant differences in corporate governance between overseas issuers and domestic listed companies in such respects as classes of shares, shareholders’ rights, shareholders’ general meeting, board of directors, staffing and powers of directors and senior executives, resolution procedures at shareholders’ general meetings or the meetings of the board of directors, profit distribution policy, and anti-takeover arrangements, which may impose various levels of restriction on the rights of CDR holders and the exercise thereof.
3. Protection for local shareholders and investors provided under the laws and regulations of the overseas issuer’s place of incorporation and applicable rules of the LSE market may vary from that for CDR holders provided under domestic law, and domestic CDR holders may need to bear the cost and burden of exercising or safeguarding their rights across borders.

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4. Given that the depository of the CDRs will exercise the shareholders' rights vested in the underlying shares after collecting the intents of CDR holders, the depository may set a deadline for collection of voting intents which is slightly earlier than the time when the shareholders' general meeting of the overseas issuer will be held, and the length of this collection period may also differ from that of the voting period of a domestic, A-share listed company.
5. If the overseas issuer has in place a differentiated voting right arrangement, each share with special voting rights may be entitled to a voting right several times of that entitled to by a share with ordinary voting rights, in which case, the voting rights represented by the underlying securities of the CDRs, which securities are shares with ordinary voting rights, would be significantly different from the rights enjoyed by shareholders of a domestic listed company.
6. Financial reports released domestically by an overseas issuer may be prepared according to a Ministry of Finance-recognized accounting standard other than the Chinese Accounting Standards, and the overseas issuer may not be required to prepare a reconciliation statement on the differences. This means investors should read financial reports with care. In addition, the financial year used by the overseas issuer may cover, for example, the period from April 1 of each year to March 31 of the following year, instead of January 1 to December 31 which is familiar to domestic investors. As of a result of this difference, the overseas issuer may disclose periodic reports on different dates compared with domestic listed companies.
7. The overseas issuer may prepare and disclose periodic reports in the format required by LSE rules. Quarterly reports are not mandatory, and only need to be disclosed in the domestic market if, and at the same time as, they are disclosed in the LSE market, either in response to LSE request or voluntarily. The overseas issuer's *ad hoc* reports may vary from those of a domestic list company in terms of types of events, information disclosed, frequency and time of disclosure.
8. Due to difference of time zone, there may be a time lag in the simultaneous disclosure by the overseas issuer in the overseas and domestic markets. If the overseas issuer and relevant information disclosure obligors make a disclosure in the LSE market at any time outside the disclosure period of the SSE market, they should make such disclosure in the SSE market within the next closest disclosure period. Moreover, to synchronize the time of disclosure, the overseas issuer may make a disclosure during the trading sessions of the domestic market without requesting for a trading suspension. This is different from the customary disclosure practice of domestic, A-share listed companies.
9. Disclosure documents published by the overseas issuer in the domestic market must be written in Chinese, but its documents of incorporation and other legal documents may be written in English or other languages.

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10. The overseas issuer may only list a small quantity of the CDRs on the domestic market, which means that the majority or vast majority of its voting rights would be held by overseas shareholders and domestic CDR holders would only hold a small percentage of its voting rights.

11. After deciding to distribute dividends, the overseas issuer has to perform currency exchange, clearing and settlement, and other procedures, which may delay the time at which domestic CDR holders will receive dividends in comparison with the holders of the underlying overseas securities. Such dividend distribution may also be delayed due to factors including foreign exchange control and the policy of place of incorporation. In addition, changes in exchange rate during the period of delay may result in a difference between the dividends actually received by CDR holders and those received by the holders of the underlying overseas securities or the expected amount calculated according to the dividend distribution announcement.

12. After the overseas issuer decides to make a stock dividend, there will be due procedures such as the creation of CDRs by the depositary, which may cause CDR holders to receive their stock dividend later than the holders of the underlying overseas securities.

13. If the overseas issuer makes a rights issue to the holders of the underlying securities without the approval of the China Securities Regulatory Commission (the “CSRC”) or other competent authorities, CDR holders might be unable to participate in such rights issue. In addition, the overseas issuer may, in accordance with the depositary agreement and other agreements, dispose of the CDR holders’ interest in the rights issue by distributing to them renounceable rights and any other means. When the CDR holders participate in the rights issue, the issue price actually paid by the CDR holders may differ from the expected price calculated according to the rights issue announcement due to discrepancy between the rights issue period and the subscription payment period, and changes in exchange rate. Moreover, if the overseas issuer makes interest distribution in the form of warrant or other rights, CDR holders might be unable to exercise such rights through the depositary; if there is the transferability of such rights, the depositary might sell them to other parties and allocate the proceeds, net of applicable taxes, fees and charges, to the CDR holders in accordance with the provisions of the depositary agreement.

14. Corporate actions taken by the overseas issuer, such as dividend distribution, may be subject to taxes, fees and charges according to the legal system and applicable policies of the overseas issuer’s place of incorporation, impacting investment returns. Investors should carefully read the disclosure documents of the overseas issuer to understand such taxes, fees and charges and how they are collected.

15. CDR holders are entitled to initiate a securities litigation in accordance with the *Securities Law of the People's Republic of China*, but they might be unable to do so

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directly as investors in the overseas issuer's place of incorporation or the LSE market in accordance with the overseas legal system.

16. Whether CDR holders can under the domestic law obtain a domestic court's execution of a ruling against the overseas issuer as the defendant depends on whether there is any judicial assistance arrangement or similar arrangement between China and the country or region in which the overseas issuer is incorporated.

## **II. Risks Associated with DRs**

17. CDRs are securities, issued in mainland China by the depositary based on securities listed on the LSE, which represent interest in the underlying overseas securities. While CDR holders' actual interest in the underlying overseas securities is substantially equivalent to that of the holders of such securities, CDR holders are not treated as direct holders of the underlying overseas securities. Before trading CDRs, investors should give adequate attention to the specifics of the depositary agreement; fully understand the differences between the rights represented by the CDRs and the underlying overseas securities in terms of scope, method of exercise, and other pertinent aspects; be familiar with the obligations and potential restrictions in connection with trading and holding CDRs, and keep abreast of the risks generally associated with the trading of securities, such as macro-economic, policy, market, and force majeure risk.

18. The volume of CDRs will not remain constant during listing and trading, and will in fact fluctuate as a result of cross-border conversion, resulting in a quantity change which may impact their trading price. In addition, the quantity of the CDRs should comply with the amount cap approved by the CSRC; after the amount cap is reached, no CDR can be created through cross-border conversion.

19. By purchasing or holding CDRs issued by the overseas issuer in domestic market, investors will automatically be deemed as having executed and become a party to the depositary agreement, and should therefore exercise their rights and fulfill their obligations in accordance with the depositary agreement. The depositary agreement may be amended by mutual agreement of the overseas issuer and the depositary or other means; investors will not be able to separately require the overseas issuer or the depositary to make any additional amendment thereto.

20. CDR holders are neither registered shareholders of the overseas issuer nor able to exercise the shareholders' rights as such; CDR holders can only obtain and exercise such rights as dividend right and voting right through the depositary in accordance with the depositary agreement.

21. Arrangements for CDRs may undergo significant and material changes while they are outstanding, including but not limited to adjustment of the conversion ratio between

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the CDRs and the underlying securities, possible amendments to the depositary agreement by the overseas issuer and depositary, change of the depositary or custodian, and voluntary termination of the listing of the CDRs. Some of these changes may be binding on investors immediately following an advance notice, without giving them the opportunity to vote on such matters.

22. While CDRs are outstanding, their underlying overseas securities and other related assets may be pledged, misappropriated, frozen by the judiciary, compulsorily executed, or otherwise, in which case investors might be dispossessed of their due rights.

23. The depositary might charge CDRs holders fees in connection with the CDRs. Investors should fully understand the fee items and rates for the CDRs.

24. The circumstances, procedures, and other matters relating to the suspension and termination of the listing of the CDRs will be separately provided for by the SSE, and may be different from those for A-shares. Investors should fully understand and pay attention to the risks arising from these differences.

25. In case of termination of listing of the CDRs, investors might be exposed to such risks as the inability of the depositary to sell the underlying securities according to the depositary agreement, the inability of investors to transfer their CDRs to other domestic markets for public trading or transfer, and the inability of the depositary to continue to provide relevant services to investors according to the depositary agreement. In addition, if following such termination of listing the application for transfer services fails to be submitted to the SSE according to applicable provisions, or does not meet the requirements of the SSE for regarding the provisions of such services, the CDRs held by investors will be not be transferable through the SSE.

### **III. Risks Associated with the CDR Trading Mechanism**

26. During the initial creation of the CDRs, the cross-border conversion institution may negotiate and reach an agreement with qualified investors for the transfer of the CDRs through block trade or another method; but during the period between the conclusion and performance of the agreement, the price of the underlying shares may change and impact the investment value and post-listing price of the CDRs.

27. In contrast to domestic A-shares, the CDRs adopts a hybrid trading mechanism which integrates the competitive nature of market making into auction trading. Under this mechanism, market makers perform two-way quoting and other obligations in accordance with applicable rules and requirements.

28. Given the difference of rules between domestic and overseas markets on the suspension and resumption of securities trading, it is possible that, between the CDRs

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and the underlying overseas securities, at a particular instant one is being traded as normal in one market while the other is being suspended from trading in the other market.

29. The price limit of CDRs is not exactly the same as that of A-shares. If day-long market closure at the SSE continues for seven or more calendar days, the price limit will be 20% on the first day the market re-opens.

30. While the CDRs may be converted into the underlying securities through cross-border conversion, during the starting period of the stock connect scheme, only qualified cross-border conversion institutions are permitted to make such a conversion and conversion requests from investors are not accepted. Therefore, investors cannot at this time make cross-border conversion.

Once cross-border conversion becomes accessible to investors, they should be mindful of the possible losses from such transactions due to such factors as the cycle and cost of cross-border conversion, and changes in the price of the underlying securities or CDRs and in the exchange rate during conversion cycles.

31. The cross-border conversion of the CDRs may be suspended under certain circumstances, which might impact their liquidity and trading price. For example, where the overseas issuer conducts corporate actions such as interest distribution and shareholders' general meeting, the depositary will temporarily suspend the creation and redemption of the CDRs; similarly, the depositary will suspend the creation of the CDRs when their quantity reaches the cap amount approved by the CSRC, when the SSE market is closed, or under other specified circumstances.

32. The CDRs and the underlying securities are listed respectively in the domestic and overseas markets, which have different trading hours due to difference of time zone and trading rules. This means the trading price of CDRs may be swayed by the opening price and closing price of the underlying securities and other events in the overseas market.

33. The price of the CDRs may differ from the price of the underlying overseas securities. This price deviation may be further magnified by the fact that there is a price limit for CDRs but generally not for the underlying securities. In particular, there may be significant deviation between the two when the overseas securities experience a substantial price movement due to a major emergent event or other factors. In addition, the domestic and overseas markets have different mechanisms governing such corporate events as interest distribution, rights issue, and shareholders' general meeting, which may also result in a significant difference between the prices of the domestic and overseas securities before and after the ex-rights and ex-dividend date.

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34. Where the overseas issuer distributes cash dividends, the CDRs listed on the SSE will not undergo ex-dividend treatment. This is different from the ex-dividend arrangement for domestic A-shares.

35. The price of the underlying overseas securities may fluctuate significantly due to changes in fundamentals, viewpoints in third party research reports, unusual trading activities, short selling, and political and economic factors, among others, which will affect the price of the CDRs. The price of the CDRs may also be swayed directly by such factors.

36. In such circumstances as the trading, depositary, or clearing of the CDRs cannot proceed as normal; error in trading, depositary, or clearing data; or error in CDR creation or redemption data due to force majeure, technical failure of the trading or deposit and clearing system, human error, or otherwise, the SSE may take corresponding measures to resolve the situation in accordance with applicable rules, and will not be responsible for any loss resulting from such extraordinary events and the measures it has taken in response.

In addition to the above risk disclosure, each securities company may also enumerate the other risks associated with the trading of CDRs in its Risk Disclosure Statement as appropriate. The Risk Disclosure Statement should contain the following statement in a conspicuous type:

CDRs and domestic A-shares are subject to different provisions of laws and regulations governing their offering, listing, trading, information disclosure, and other aspects. Before trading CDRs, investors should carefully read the *Administrative Measures of Offering and Trading of Depositary Receipts (Trial)*, the *Provisions on the Supervision and Administration of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (for trial implementation)*, the *Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange*, as well as other applicable laws, administrative regulations, departmental rules, normative documents, and market rules of the relevant exchange. Matters disclosed in this Risk Disclosure Statement are for illustrative purposes only and do not exhaustively list all the risks associated with the trading of CDRs. Before trading CDRs, investors should be aware of and familiar with other potential risk factors, and make sure that they have made adequate risk assessment and financial arrangement to avoid any unbearable losses arising from their trading of CDRs.

By signing the Risk Disclosure Statement, investors will be deemed to have understood and agreed to bear the risks and losses arising from trading CDRs.

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