Equity Capital Markets & Bird & Bird

Shanghai-London Stock Connect

Investment Opportunities for Chinese Companies on the London Stock Exchange

Shanghai-London Stock Connect (**Stock Connect**) is a reciprocal agreement between the London Stock Exchange (**LSE**) and the Shanghai Stock Exchange (**SSE**) to allow certain large companies traded on those markets to trade depositary receipts on the other market. Stock Connect was launched in June 2019 and also in June 2019, Huatai Securities Co., Ltd became the first Chinese company to list its securities on the LSE under the new programme.

This summary focuses on the potential benefits for Chinese companies looking for 'westbound' investment, the eligibility criteria and process for listing in London.

Potential benefits

For foreign investors looking to invest in companies listed on the SSE, there are potential barriers including the need to qualify as a category of Foreign Institutional Investor in order to be able to invest directly in shares in a Chinese company.

The Stock Connect initiative allows SSE-listed Chinese companies that meet the relevant eligibility criteria (see below) to list global depositary receipts on the LSE, giving them access to foreign investors and London's advisory community and research coverage.

Global Depositary Receipts (**GDRs**) and trading arrangements

The process involves the Chinese company issuing A shares which are listed on the SSE. Those shares are issued to a depositary (such as an investment bank) and held by its custodian in China. GDRs are securities issued by the depositary which represent (are fungible with) the A shares. Holders of GDRs will have rights over the A shares, including the right to direct the voting of the shares and the right to receive dividends paid on the shares.

The GDRs will be admitted to a new "Shanghai-London Stock Connect" segment of the LSE's Main Market (as either a Standard or Premium listing) and traded through the LSE's International Order Book trading service. Clearing would be in London through LCH and settlement through Euroclear Bank. The GDR trading currency is US dollars but trading in RMB and GBP options is also possible.

Under the Stock Connect programme, designated brokers (authorised to trade in London and Shanghai) will be used to enable the cross-border trading of the GDRs and the underlying A shares. Designated brokers will be able to create and redeem GDRs by buying and selling underlying A shares in China. Holders will be able to buy and sell securities or shares (as applicable) in either market, which should lead to a strong correlation between prices on those markets.

The Shanghai Segment trading hours are from 9.00 to 16.30 (London time) on all LSE business days.

Home market rules apply when trading the underlying A Shares, meaning pre-funding and pre-delivery is required in China. To address the differences in settlement cycle, designated brokers will be able to hold cash and underlying shares as inventory to manage risk. Therefore, on a normal settlement cycle, GDR creation settles on T+2, while redemption takes T+3 days (this can be shortened to T+2 using inventory).

Eligibility criteria

GDR issuers under Stock Connect must meet certain eligibility criteria. Issuers must:

- have a minimum market capitalisation of RMB 20bn (approx. USD $2.9bn);
- be listed on the SSE;
- obtain China Securities Regulatory Commission (**CSRC**) approval;
- have any new shares raised admitted to listing on the SSE;
- meet UKLA Listing Rules and LSE Admission and Disclosure Standards;
- publish a full prospectus; and
- comply with 25% free float requirement for their GDRs (not for the underlying A shares) in the European Economic Area

The UK Financial Conduct Authority will be responsible for assessing the eligibility of Chinese companies to list GDRs on the LSE.

CSRC restrictions (caps and quotas)

No redemption of GDRs will be possible for the first 120 calendar days from the date of the GDR listing. CSRC also imposes caps on cross-border capital flows, on the size of GDR issuances and on holdings by individual investors, and restrictions on the pricing of GDRs.

Process

The process would begin with the appointment of UK advisers by the Chinese company, including an investment bank to advise on and co-ordinate the GDR issue and lawyers in both the UK and China.

The most time-consuming elements of the process are likely to be due diligence and the production of a full prospectus for the issuance.

Due diligence is an investigation by the investment banks and legal advisers involved in the issuance into the Chinese issuer, its business and its securities, to confirm suitability and identify and verify material information to be included in the prospectus.

The prospectus is used to market the securities to investors. It will be relied upon by investors and needs to be prepared with a high level of care. The prospectus must also be approved by the UK Financial Conduct Authority.

The prospectus will include information about the Chinese company, including financial information prepared in accordance with EU International Financial Reporting Standards or an equivalent (which includes Chinese GAAP).

The timetable for issuing GDRs is likely to be around 6 months but the ultimate timing of the issuance can be affected by market conditions.

Continuing obligations

UK and EU laws will apply to trading taking place on the LSE and the UK Financial Conduct Authority will regulate market activity in London.

Chinese issuers who issue GDRs will be subject to UK and EU securities laws, including the EU Market Abuse Regulation (**MAR**) which includes obligations to disclose inside (price-sensitive) information and transactions by 'persons discharging managerial responsibilities' (**PDMRs**), such as directors of the issuer. MAR also includes restrictions on dealings by PDMRs in securities during certain 'closed periods', such as immediately prior to the publication of financial results.

Chinese issuers who issue GDRs will also be subject to continuing obligations under the UK Financial Conduct Authority's Listing Rules and Disclosure Guidance and Transparency Rules applicable to the relevant listing segment of the Main Market, such as the publication of annual and half-yearly financial information and the ongoing 25% free float requirement in respect of the GDRs.

About us

Bird & Bird is an international law firm with a focus on helping organisations being changed by technology and the digital world. With over 1300 lawyers in 30 offices across Europe, the Middle East, Asia-Pacific and North America, we're ready to help you wherever you are in the world. If you'd like to know more about the type of work we do, please browse our website for industry news, know-how, and relevant contacts.

Bird & Bird China

Our offices in Beijing, Hong Kong and Shanghai operate as a collaborative integrated practice. We have been operating in China for over 20 years and assist clients with their complex business activities throughout the broader China region. Our lawyers also have extensive experience in advising Chinese state-owned and private companies on their outbound investment opportunities, as well as first-hand knowledge and a deep understanding of the Chinese legal system and the strict legislative framework governing foreign investment.

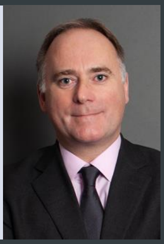
AllBright

In November 2017, we entered into a Co-operation Agreement with AllBright Law Offices ("AllBright") in order to support their domestic client base with their international expansion ambitions, providing these companies with access to our 30 offices in 20 countries in Europe, the Middle East, the US and Asia Pacific. The agreement likewise secured AllBright a base in the European market, with the firm opening its first international representative office out of our London City premises in March 2018.

Get in touch

Clive Hopewell
Partner, London

Tel: +442079056370
clive.hopewell@twobirds.com

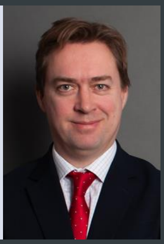


John Shi
Partner, Beijing

Tel: +861059335678
john.shi@twobirds.com

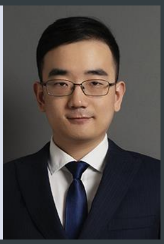
Nicholas Heap
Legal Director, London

Tel: +442074156046
nicholas.heap@twobirds.com



Dean Wu
Associate, Beijing

Tel: +861059335676
dean.wu@twobirds.com



twobirds.com

Abu Dhabi & Amsterdam & Beijing & Berlin & Bratislava & Brussels & Budapest & Copenhagen & Dubai & Dusseldorf & Frankfurt & The Hague & Hamburg & Helsinki & Hong Kong & London & Luxembourg & Lyon & Madrid & Milan & Munich & Paris & Prague & Rome & San Francisco & Shanghai & Singapore & Stockholm & Sydney & Warsaw