



The Role of the Depository Bank

A Resource for Issuers in the U.S.
and Global Securities Markets

Issuer Services



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The Role of the Depository Bank

A Depositary Receipts (DR) program is an effective option for companies seeking to further tap global capital markets and expand their equity base outside their home market. Issuers establishing DR programs may benefit from a broadened investor base, potentially increasing liquidity as a result of an expanded market, and enhanced visibility. From the investor perspective, DRs have long been a popular instrument in worldwide capital markets, particularly where the elimination of custody and cross-border safe-keeping charges are a key benefit.

DRs were created in 1927 to assist U.S. investors seeking to purchase shares of non-U.S. corporations. Since then, DRs have grown into widely accepted flexible instruments that provide issuers worldwide with access to investors outside their home markets. Historical and recent data point to the growing size of this opportunity. According to the U.S. Federal Reserve, total U.S. investment in non-U.S. equities, including DRs and non-U.S. shares, has increased steadily over the last 23 years, rising from \$279 billion in 1991 to \$6.6 trillion in 2014. Additionally, overall DR trading volumes totaled 152.0 billion shares in 2014, growing at a compound annual growth rate of 9% since 2006, reinforcing the long-term trend of constant growth in cross-border trading. Moreover, stock exchange enhancements such as the International Order Book, a dedicated depository receipt trading service on the London Stock Exchange, further deepens market liquidity for DRs as an access product. Similarly, capital raised in the form of DRs by non-U.S. companies reached \$37.3 billion in 2014, with approximately \$32.8 billion (or 88%) coming from initial public offerings.

Features and Benefits of Depositary Receipts

Issued by a depository bank, a DR is a negotiable instrument evidencing ownership of shares in an overseas corporation. Each DR evidences depository shares (DSs), representing a specific number of underlying shares

on deposit with a custodian in the issuer's home market. The term "DR" is commonly used to refer to both the physical certificate as well as the security itself. DRs are generally subject to the trading and settlement procedures of the market in which they trade. The different types of DRs are frequently identified by the markets in which they are available, or the rules and regulations associated with the structures.

For example:

- American Depositary Receipts (ADRs) are DRs that are publicly available to investors in the U.S.;
- Global Depositary Receipts (GDRs) are DRs that may be offered to investors in two or more markets outside the issuer's home country, usually pursuant to Rule 144A and Regulation S (Reg S) under the U.S. Securities Act of 1933;
- Local Depositary Receipts (LDRs) extend the traditional ADR concept to various markets globally. Examples include Hong Kong Depositary Receipts (HDRs), Japanese Depositary Receipts (JDRs), and Brazilian Depositary Receipts (BDRs).

DRs can be publicly offered in the U.S., privately placed or issued pursuant to an international offering. The structure of the DR program typically defines the segment of investors that can purchase the securities. In the U.S., publicly offered securities are available to the broadest spectrum of investors

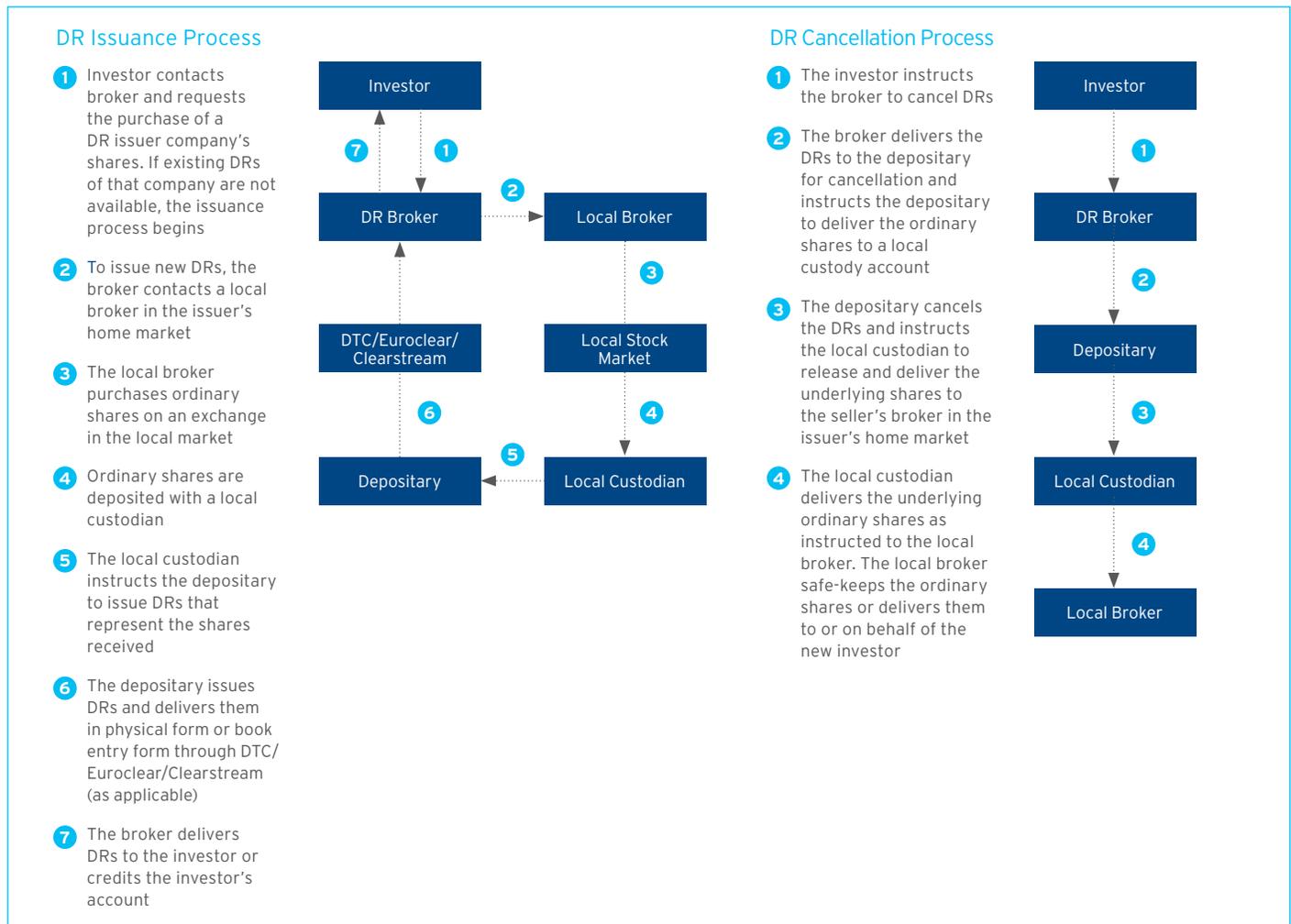
and trade either on a national stock exchange (e.g., NASDAQ or the New York Stock Exchange (NYSE)) or in the over-the-counter (OTC) market. GDRs are usually offered to institutional investors through a private offering, in reliance on exemptions from registration under the U.S. Securities Act of 1933. These exemptions are Reg S for non-U.S. investors and Rule 144A for U.S. investors that are Qualified Institutional Buyers (QIBs). QIBs in the U.S. include institutions that own and invest in at least \$100 million in securities of non-affiliates and registered broker-dealers that own or invest on a discretionary basis at least \$10 million in securities of non-affiliates. A GDR offering often has a Rule 144A component as well as a placement to non-U.S. investors pursuant to Reg S.

Issuance and Cancellation: Fungibility of DRs with Ordinary Shares

Based upon availability and market conditions, an investor may acquire DRs either by purchasing existing DRs or by converting shares purchased in the issuer's home market to new DRs. New DRs are created subsequent to the deposit by an investor (or broker) of shares with the depository's local market custodian. The depository then issues new DRs, which represent the shares on deposit, to the investor or broker. This is referred to as an issuance of DRs.

Conversely, an investor may cancel the DRs and sell the underlying ordinary shares in the relevant home market upon delivery of the DRs

Table 1



and cancellation instructions to the depository, which in turn, cancels the DRs and notifies its custodian to release the underlying shares. The investor or broker may then either safe-keep or sell the ordinary shares in the local market.

Liquidity

For many DR market participants, liquidity – the breadth and depth of trading activity – is considered the best measure for long-term success of a DR program. Without the ability to move into and out of positions of sufficient size, institutions are often reluctant to add the security to their managed portfolios. Likewise, brokers prefer to deal in liquid securities, and both sell-side and buy-side analysts prefer to cover liquid securities with high standards of financial

disclosure providing an important added protection. Once established, liquidity can be facilitated and maintained through a strong Investor Relations (IR) effort and the resources of the depository bank and other partners.

The findings of Citi's *The Liquidity Premium* study (published in 2007 by the Rutgers University School of Law Business Law Journal) built upon academic research showing that firms cross-listed on a U.S. exchange, such as the NYSE or NASDAQ, benefit from, on average, a sustainable valuation premium of 33% over companies that do not cross-list. The Citi study demonstrated that, on average, companies with liquid DRs, whether cross-listed or direct-listed, had higher valuations, as measured by

their price-to-book-value ratios, than those with less liquid DRs.

Limited Two-Way Market

Some countries, such as India, Taiwan and Korea, maintain restrictions on the reissuance of DRs. In this limited two-way market environment, after withdrawal and sale of ordinary shares from the DR facility, the shares are subject to limitations on redeposit into the DR facility. Deposits may, for example, occur only up to a certain prescribed limit. Once that limit has been reached, the DR facility may be closed for reissuance pending receipt of required permissions. In contrast, most countries have an unlimited or free two-way market, where foreign investors may purchase at any



time ordinary shares in the local market for deposit into the DR facility.

Relaxed restrictions may benefit issuers through:

- Increased opportunity for immediate issuance of DRs;
- Enhanced liquidity over time as the ability to issue and cancel the company's DRs potentially enhances trading activity. The associated advantages include higher investor demand and higher valuation;
- Decreased risk resulting from lower share price volatility – due to larger pool of a company's stock – changes in supply and demand yield smaller price changes; and
- Broadened opportunity for non-U.S. investment in the local market.

A DR premium is the differential between the ordinary share price in the local currency and the price of the DR. Historically, in limited two-way markets, when the U.S. market outperforms the non-U.S. market, the premium grows. When the local market outperforms the U.S. market, the premium typically shrinks.

The DR Ratio

A primary step in establishing a DR program is to determine the ratio of underlying shares to depositary receipts (DRs). The share-to-DR ratio may be established as a one-to-one or as a multiple or fraction of the underlying shares. This ratio can influence the price-trading range. In setting the ratio, the issuer should consider:

- Industry peers – securities of companies in the issuer's industry will often trade in a certain price range and the issuer may want to conform to industry norms in the market where the DR will be listed;
- Exchange options – each exchange has average price ranges for the shares listed and, generally speaking, issuers may want to conform to that range; and
- Investor appeal – U.S. Institutional and retail investors are more likely to buy shares that they perceive to be well-priced and fairly valued.

While many DR programs are established with a 1:1 ratio (one underlying share equals one DR), DR programs have been known to

have ratios as high as 100,000:1 and as low as 1:100. The depositary will work with issuers to determine the most appropriate ratio at the inception of the DR program. In addition, the ratio can be adjusted at a future date, for example, to address changes in market conditions.

Depositary Receipts compared with a Direct Listing

Generally, depositary receipts provide issuers with more benefits and flexibility than direct listings of ordinary shares. Issuers can leverage the economies of scale and local market expertise of the depositary bank to maximize their strategic objectives in cross-border listings. Specifically, DRs provide the following advantages over directly listing ordinary shares:

- Flexibility
 - Use of the Deposit Agreement to facilitate local regulatory requirements
 - DRs are easily fungible with ordinary shares, while listing a class of ordinary shares does not offer the same level of seamless fungibility

- DRs provide flexibility to adjust the stock price in line with peers in the overseas market through the use of DR ratio
- Seamless Asset Servicing
 - DR issuers can leverage depository banks to provide seamless asset servicing, which is a benefit that is not available in the case of ordinary share listing
 - Issuers can benefit from the “one stop shop” in case of DRs, in which appointing a share registrar and transfer agent is the Depository Bank’s responsibility; in ordinary share listings, the issuer will have to deal with multiple service providers.
- Cost-Effective
 - DR issuers will avoid the need to have costly infrastructure in place to service overseas listed securities
 - In certain cases, DR banks absorb costs associated with the listing
- Value-Add Services
 - Issuers will benefit from the complimentary IR Advisory services provided by Citi
 - Issuers will also have access to dedicated account managers who will be a single point of contact and will coordinate with the issuer and industry participants on all DR-related matters including regulatory and tax matters
 - Issuers will benefit from the Depository Bank’s equity distribution network which will help gauge investor sentiment on real-time basis and facilitate systematic investor targeting.

Cross-border Transactional benefits of DRs

DRs can play a critical role in multiple types of cross-border transactions, such as privatizations, mergers and acquisitions, corporate actions, and strategic Issuer objectives.

Privatizations

The privatization of state-owned assets is an important undertaking for governments worldwide, as countries seek to restructure their economies and reduce fiscal deficits. Infrastructure and service enterprises such as telecommunications, utilities, airlines and petrochemicals are among those commonly targeted for privatization.

DRs have been used successfully by governments seeking to privatize state-owned enterprises. Privatizations require a successful offering of securities to investors, and DRs provide an effective mechanism both to increase private ownership and to raise capital overseas.

M&A and Other Corporate Actions

DRs can enhance the ease of trading and settlement related to cross-border mergers and acquisitions. Types of M&A transaction that have made successful use of DRs include:

- Spin-offs of non-U.S. subsidiaries;
- Equity-based acquisitions of U.S. business entities; and
- Equity-based acquisitions of non-U.S. business entities.

Strategic Objectives

Issuers can also structure a DR program based on particular corporate objectives. An issuer’s aims in selecting and establishing a DR program to align with their strategic objectives may include:

- Expanding its shareholder base;
- Gaining international recognition for the company name and for its products and services;
- Using DRs as a capital-raising tool; and
- Providing a convenient investment vehicle for its globally based employees.

Benefits of a DR program specific to issuers and investors are highlighted in Table 2.

Table 2: Benefits of a DR program

DRs enable issuers to:	DRs aid investors by:
Access capital outside the issuer’s home market	Facilitating diversification into non-U.S. securities
Build issuer visibility in the United States and/or internationally	Trading, clearing and settling in accordance with the practices of the investor’s home market
Broaden and diversify issuer shareholder base	Eliminating cross-border custody safe-keeping changes
Increased opportunities to increase local share prices as a result of global demand/trading	Enhancing accessibility of research and of price and trading information
Enlarge the market for the issuer’s shares, potentially increasing liquidity	Allowing easy comparison to securities or similar companies trading in the investor’s home market
Adjust share price levels to those of peers through a DR ratio	Permitting dividend payments in U.S. dollars and corporate action processing
Utilize DRs to facilitate privatizations, M&A and strategic corporate objectives for the Issuer	Enabling uniform proxy and corporate action processing
Develop stock option plans and stock purchase plans for employees outside the issuer’s home market	Providing opportunities to move between markets

Roles and Relationships for the Issuer and the Depositary

In order to establish any type of DR program, the issuer assembles a team of advisors that typically includes investment bankers, lawyers and accountants. The issuer also selects a depositary bank, a key partner that enlists the services of a local market custodian and other key support service providers to assist in the implementation of the program.

Once the issuer and its advisors have evaluated the company's unique needs, and have determined the type of DR program best suited to its objectives, the issuer and the depositary execute a deposit agreement, a contract which sets forth the terms of the DR program. Based upon the contract, the depositary performs certain specific services on behalf of the issuer and the DR holders. Many of these same parties may play key roles in the long-term development and day-to-day management of the issuer's DR program; however, the depositary bank will remain a critical liaison between the issuer and brokers and investors, while the functions of lawyers and accountants become focused on periodic reporting. In addition, the investment bankers are typically not involved with a DR program unless the issuer is intending to go back to the market.

Table 3: Roles in the Establishment of a DR program

Role of depositary:	Role of issuer:
Consult on DR facility structure	Determine corporate and financial objectives
Appoint custodian	Appoint depositary, legal counsel, investment bank and accountants
Assist with DR requirements	Determine program type
Coordinate with lawyers and investment bankers to ensure that all the implementation steps are in place	Obtain approval from board of directors, shareholders and regulators as needed
Prepare and issue DRs	Provide financial information to accountants and advisors
Announce program establishment to investor community	Develop an investor relations plan

Table 4: Roles in the ongoing development of a DR program

Role of depositary:	Role of issuer:
Issue and cancel DRs	Provide required certificates to the DR bank and the issuance of DRs, if needed
Serve as registrar and transfer agent for the DRs	Communicate with depositary regarding the DR program including potential program changes
Act as paying agent, processing dividend payments or other entitlements for DR holders	Pay dividends to local custodian for transfer to the DR holders
Process corporate actions	Communicate with depositary on corporate actions
Provide ongoing account management support to the issuer	Ongoing regulatory reporting and filing
Coordinate proxy process for DR holders	Communicate with depositary for shareholder services
Offer value-added services such as investor relations counsel	Develop an investor relations plan

Types of DR Programs

DRs may be structured as:

- **ADRs** listed on a U.S. exchange such as the NASDAQ Stock Market or the NYSE (Level II);
- **ADRs** issued as a public offering of securities on a U.S. exchange (Level III);
- **GDRs** placed with QIBs in the Rule 144A market;
- **GDRs** placed outside the U.S. in accordance with Reg S (note that Reg S programs are often offered in global markets in conjunction with 144A programs in the U.S. market);
- **ADRs** traded over-the-counter (OTC) through OTC markets (Level I).

U.S.-Listed ADR Programs (Level II and Level III)

Listing on one of the U.S. national exchanges can promote active trading in ADRs and may increase the issuer's visibility within the U.S. Listed ADRs typically receive wider research coverage by U.S. analysts and the financial media, hence providing investors with increased information about the issuer and its securities.

Issuers can also use ADRs to access institutional investors that may be prohibited or limited by their respective charters, or by regulation, from investing in non-U.S. securities. In addition, U.S. investors may prefer to purchase ADRs rather than shares in the issuer's home market as the DR securities trade, clear and settle according to U.S. market conventions.

For a Level II ADR program, in which the ADRs are listed in the U.S., the issuer must comply with the requirements of the relevant stock exchange. The issuer must also register under the Securities Act of 1933 and the

Securities Exchange Act of 1934, and file an initial registration statement and periodic financial reports. Non-U.S. issuers that are listing their securities must reconcile all financial statements to U.S. generally accepted accounting principles (U.S. GAAP) or international financial reporting standards (IFRS), as published by the International Accounting Standards Board. Financial reporting for individual business segments need not be reconciled to U.S. GAAP or IFRS. Listing securities on an exchange in the U.S. exempts non-U.S. issuers from complying with various state securities regulations.

In a Level III ADR program, the issuer offers new shares to U.S. investors in ADR form. A public offering provides the issuer with the ability to raise capital by accessing the broadest U.S. investor base. In order to conduct an initial public offering (IPO) in the U.S., the issuer must:

- Submit Form F-1 to the Securities and Exchange Commission (SEC) to register the underlying securities to be offered;
- Fully reconcile its financial statements to U.S. GAAP or IFRS (or include U.S. GAAP financials); and
- Submit Form F-6 to the SEC to register the ADRs issued by the depository.

In establishing a Level III ADR program, the issuer also selects an investment bank to advise on and underwrite the offering and to market the ADRs to U.S. investors. Once the offering has been completed, the ADR program is maintained as a listed facility and can typically accept ongoing deposits from investors for ADR issuance. An issuer may also raise capital in subsequent offerings. In such a follow-on offering, the issuer may file a Form F-2 or Form F-3 with the SEC.

GDR Programs (Rule 144A & Reg S)

GDRs allow an issuer to raise capital through a global offering. Global offerings allow issuers to access shareholders in capital markets outside the issuer's home market. GDRs use a global settlement convention which may include the Depository Trust Company, Euroclear and Clearstream to provide global clearing and settlement, ultimately promoting increased liquidity through cross-border trading. GDRs can be issued in either the public or private market. Most GDRs include an international tranche placed pursuant to Regulation S outside the U.S. GDRs placed in Europe are often listed on the Luxembourg or London Exchanges. Several additional listing destinations have become viable, potentially expanding the opportunities for DR issuers. These include the Singapore Exchange, Frankfurt Stock Exchange and Nasdaq Dubai.

Additionally, GDRs can include a U.S. tranche which can be privately placed. These DRs are offered pursuant to Rule 144A which, adopted in 1990, greatly increased the liquidity of privately placed securities by allowing QIBs to resell those securities privately to other QIBs without a holding requirement or other formalities.

The evolution of region-specific DRs is evidence of the flexibility of the GDR, allowing issuers to select the investor base they wish to access and broaden their shareholder base into new markets. For example, an issuer could establish a GDR program that targets European, Asian and/or Latin American investors and does not offer shares in the U.S. Over time, the GDR program could be enhanced to reach additional markets and investors.

Over-the-Counter Traded ADR Programs (Level I)

An over-the-counter traded ADR program (Level I) is the most cost-effective way for a non-U.S. company to have its equity traded in the U.S. and access the incremental pool of available capital. Level I ADRs are traded on the OTC Markets platform, which includes three trading levels:

- **OTC Pink:** A centralized marketplace designed for all types of companies with no specific financial standards or reporting requirements. The platform is further sub-categorized by the levels of information that issuers provide and is an ideal stepping stone platform for entrance into the U.S. markets with limited requirements from issuers
- **OTCQB:** For small or developing U.S. companies (SEC reporting) or an internationally listed company on a qualified non-U.S. stock exchange
- **OTCQX:** Exclusively for companies that meet the financial standards and undergo a qualitative review. To qualify, companies must meet financial standards, be current in their disclosure, and be sponsored by a

professional third-party advisor. Ideal for issuers that desire a high-level engagement with their DR programs.

Investor access to OTC traded ADRs is comparable to listed U.S. securities as it provides access to incremental pools of capital through U.S. funds that are mandated to invest in U.S. dollars or do not have local custody capabilities to invest in the ordinary shares. Additionally, retail investors can buy and sell OTC-traded ADRs, through their brokers. However, solicitation to retail investors requires Blue Sky exemption.

OTC-traded ADRs provide a multitude of benefits to issuers seeking to test the U.S. equity markets and build a core level of ADR holders, prior to exchange listing or raising capital by Level III issuances. Level I ADRs have minimal regulatory requirements in which no reconciliation of financial statements to U.S. GAAP is required and exemption is granted from Sarbanes-Oxley Act and other U.S. reporting requirements under SEC Rule 12g3-2(b). As a result, OTC-traded ADRs are the simplest and most cost-effective type of ADR program to establish, while affording

issuers access to a diversified shareholder base.

Similarly, investors can achieve a wide range of benefits from Level I ADR programs. These programs facilitate investor's desire for diversification and trade, clear and settle in accordance with practices in the investor's home market, eliminating the need for local custody and safe-keeping solutions. Additionally, as ADRs are quoted in and pay dividends in U.S. dollars, this overcomes obstacles investors may have with purchasing securities outside their local market.

In order to establish a sponsored Level I ADR program in the U.S., the issuer must:

- Confirm and qualify for Rule 12g3-2(b) exemption
- File Form F-6 with the SEC which includes the Deposit Agreement as an exhibit.

A Level I ADR can be "sponsored" by a single depository bank involving the issuer or "unsponsored" by multiple depository banks with no involvement from the issuer. Unsponsored ADRs are created based on investor demand

Table 5: A Snapshot of DR Program Types

	U.S. Market – ADR				
	Broaden Shareholder Base with Existing Shares		Raise Capital with New Shares		Raise Capital with New Shares
	Over-the-Counter Level I	U.S. Listing Level II	U.S. Listing and Public Offering Level III	U.S. Private Placement Rule 144A DR	Non-U.S. Private Placement Regulation S (GDR)
Description	• Unlisted Program in the U.S.	• Listed on a major U.S. Exchange	• Offered and listed on a major U.S. Exchange	• Private placement in U.S. to Qualified Institutional Buyers (QIBs)	• Placement in non-U.S. markets • May also be accompanied by a U.S. tranche as a Rule 144A placement
Trading	• OTC: Quoted in the Pink Sheets or on OTCQX	• NYSE or NASDAQ	• NYSE or NASDAQ	• In U.S. 144A DRs are traded OTC	• Usually a non-U.S. Exchange
SEC and GAAP Requirement	• No U.S. GAAP reconciliation required	• SEC compliance and partial reconciliation to U.S. GAAP or qualifying IFRS	• Full SEC compliance including full U.S. GAAP reconciliation or qualifying IFRS	• GAAP conformity not required	• GAAP conformity not required
SEC Filings	• File Form F-6	• File Form F-6, 20F	• File Form F-6, F-1 and 20F	• No SEC registration requirements	• No SEC registration requirements

and the result of access is the same compared to a sponsored Level I program as both trade on the OTC market. In an unsponsored program,

the issuer must still qualify for 12g3-2(b) exemption and the depository bank will file the F-6 and perform most corporate action services.

Ultimately the choice between listed and OTC-traded DRs depends on the issuer's strategic objectives and how it wants to leverage the DR vehicle.

Table 6: Market Requirements

	Hong Kong Stock Exchange (HDRs) ⁽¹⁾	London Stock Exchange (GDRs)	NYSE (ADRs)
Minimum Public Float	At least 25% of total issued share capital (inclusive of shares underlying in the HDRs and all fungible shares) subject to a minimum of US\$6.4 million (equivalent to HK\$50 million)	A minimum of 25% of shares in public hands ⁽²⁾ UKLA will consider lower FF if it is satisfied that there is sufficient liquidity in market	US\$ 100 million worldwide or US\$ 60 million for an affiliated company
Operating History	At least 3 years, and ownership continuity for the most recent audited financial year	3 years from the date of the prospectus; exceptions may apply	3 years or 12 months for an affiliated company
Financial Requirements	Company must meet one of the following financial standards: 1. Profit Test 2. Market Cap/Rev Test 3. Market Cap/Rev/Cash Flow Test	A minimum of GBP £700,000	Company must meet one of the following financial standards: 1. Earnings Test 2. Valuation/Revenue Test • Valuation/Revenue with Cash Flow Test; • Pure Valuation/Revenue Test 3. Affiliated Company Test
Accounting Requirements	Hong Kong Financial Reporting Standards or IFRS; U.S. GAAP	Main Market: IFRS or equivalent PSM: National GAAP	Prepared to U.S. GAAP; reconciled to U.S. GAAP; or prepared to IFRS for permitted companies
Initial/Annual Listing Fees⁽³⁾	Based on Market Capitalization of USD, 1) \$26 million; 2) \$260 million; 3) \$650 million Initial: 1. US \$22,750 2. US \$58,500 3. US \$78,000 Annual: 1. US \$18,850 2. US \$70,330 3. US \$138,970	Initial Fee (GBP): See table 7 for full list of admission fees by issuer market capitalization Annual Fee (GBP)*: • Issuers whose securities qualify as most actively traded instrument: ⁽⁴⁾ £60,000; or • Issuers whose securities are subject to Central Counterparty (CCP) clearing services: £31,500; or • Issuers whose securities are not subject to CCP clearing services: £12,000 <small>*VAT, currently at 20 per cent, must be added to the fee derived for issuers where applicable.</small>	<i>Fees are based on the number of shares issued</i> Initial Fee (USD\$): • \$0.004 per share; plus • A one-time fee of \$50,000; • Up to a maximum total fee of \$295,000 including one-time fee of \$50,000 Annual Fee (USD\$): \$0.000105/share; with a minimum fee of \$59,500
Ongoing Obligations/Deadline for the Disclosure of Financial Results	1. Annual reports published within 4 months of fiscal year-end 2. Semi-annual reports published within 3 months after the date upon which the financial period ended	Main Market: Annual financial reports published within 4 months of fiscal year-end. Semi-annual financial reports published within 2 months of the period end PSM: Annual reports and accounts published within 6 months of fiscal year-end	Must file an annual report on Form 20-F within 4 months of fiscal year-end NYSE requires a Company to disclose material information that may affect the market in the Company's securities by notifying the NYSE The Company is not required to file a document with the NYSE if it has filed such document with the SEC through EDGAR

1. Based on HK Main Board listing requirements.

2. A minimum of 25% of shares in public hands assuming the issuer is not a sovereign controlled company.

3. Amounts are calculated in USD for illustration purposes using an exchange rate of 1 HK\$ = US\$0.13 as of January 2017.

4. Issuers with a depository program size above £8 million (calculated as the average number of DRs outstanding during the last quarter of the previous trading year) qualify for status as most actively traded instrument.

Sources: The Hong Kong Stock Exchange, London Stock Exchange and NYSE.

Table 7: London Stock Exchange Admission Fees

Market Capitalization (£m)		Increment per £m	Cumulative Maximum Fee (£)
Greater than or equal to (a)	Less than	(b)	(c)
0	5	Minimum fee	33,000
5	50	1,320	92,400
50	250	495	191,400
250	500	165	232,650
500	And above	150	575,000
		Maximum fee	575,000

To determine the admission fee:

- locate the market capitalization band of the securities to be admitted in column (a)
- multiply any additional amount over the 'greater than' figure by the corresponding figure in column (b)
- add the result of this calculation to the maximum fee in the previous market capitalization band in column (c).

In the event of an application being made whereby more than one class of security is being admitted, a separate fee will be charged for each class of security. VAT, currently at 20 per cent, must be added to the fee derived for issuers where applicable.

Table 8: NASDAQ Global Select Market Financial Requirements

Financial Requirements	Standard 1: Earnings	Standard 2: Capitalization with Cash Flow	Standard 3: Capitalization with Revenue	Standard 4: Assets with Equity
Pre-tax earnings (income from continuing operations before income taxes)	Aggregate in prior three fiscal years > \$11 million and Each of the prior three fiscal years > \$0, and Each of the two most recent fiscal years > \$2.2 million	NA	NA	NA
Cash Flows	NA	Aggregate in prior three fiscal years > \$27.5 million and Each of the prior three fiscal years > \$0	NA	NA
Market Capitalization	NA	Average > \$550 million over prior 12 months	Average > \$850 million over prior 12 months	\$160 million
Revenue	NA	Previous fiscal year > \$110 million	Previous fiscal year > \$90 million	NA
Total Assets	NA	NA	NA	\$80 million in the most recently completed fiscal year
Stockholders' Equity	NA	NA	NA	\$55 million
Bid Price	\$4	\$4	\$4	\$4
Market Makers	3 or 4	3 or 4	3 or 4	3 or 4
Corporate Governance	Yes	Yes	Yes	Yes

Table 9: NASDAQ Global Select Liquidity Requirements

Liquidity Requirements	Initial Public Offerings and Spin-Off Companies	Seasoned Companies: Currently Trading Common Stock or Equivalents	Affiliated Companies
Round lot shareholders or Total shareholders or Total shareholders and Average monthly trading volume over past twelve months	450 or 2,200	450 or 2,200 or 550 and 1.1 million	450 or 2,200 or 550 and 1.1 million
Publicly held shares	1,250,000	1,250,000	1,250,000
Market value of publicly held shares or Market value of publicly held shares and Stockholders' equity	\$45 million	\$110 million or \$100 million and \$110 million	\$45 million

Source: 2017 NASDAQ OMX



Regulatory Considerations for DRs

There are various regulatory aspects to DRs which not only depend on the type of DR, but also the market in which they operate and the issuer's objective. However, there have been certain regulatory changes which have facilitated the use of the DR product.

U.S. Securities Regulations and DRs

Issuers of DRs must comply with the regulations of the markets in which their DRs are issued. In the U.S., the U.S. Securities and Exchange Commission (SEC) was created as an independent agency of the U.S. government to enforce federal securities laws governing securities offerings, trading practices and persons dealing in the securities markets. The SEC protects U.S. investors and U.S. markets by requiring disclosure of material facts concerning public offerings of securities. The SEC is empowered to issue regulations and enforce provisions of both federal securities laws and its own regulations.

The two key U.S. securities laws with which DR issuers must comply are:

- Securities Act of 1933; and
- Securities Exchange Act of 1934.

The primary purpose of the Securities Act is to provide investors with full and fair disclosure of material information regarding an issuer in connection with the offer and sale of its securities. The Securities Exchange Act is different in that its primary purpose is to provide investors trading securities in the secondary market with access to full and fair disclosure of material information about an issuer on an ongoing basis.

With the arrival of the more stringent regulatory climate in the U.S., in 2002 some DR issuers initially felt a need to reassess the costs compared to the benefits of their U.S. listings. Many did not see the U.S. regulatory climate as

an obstacle, given that most countries have tightened their compliance rules in recent years. In fact, many equities markets outside the U.S. are known to have equally strict, and perhaps even stricter, corporate governance requirements. Some Investor Relations experts argue that more stringent standards represent an opportunity for companies to differentiate themselves. When investors calculate the risk/reward equation, there is a greater "comfort factor" with companies known to have cleared certain regulatory hurdles. The SEC noted issuer concerns regarding some of the burdens caused by recent corporate governance legislation. For example, the SEC has applied and is continuing to evaluate certain exemptions for non-U.S. companies from provisions of the Sarbanes-Oxley Act. In addition, a series of reforms came into effect in December 2005 that impacted the securities offering process in the U.S. These measures simplify access to the U.S. capital markets for both U.S. and non-U.S. companies, including those issuing DRs.

Safe Harbor Laws of GDRs through Regulation S and Rule 144A

Regulation S provides an exclusion from the registration requirements of the Securities Act of 1933 for offerings made outside the U.S. by both U.S. and foreign issuers. A securities offering, whether private or public, made by an issuer outside of the U.S. in reliance on Regulation S need not be registered under the Securities Act. The Regulation S safe harbors are non-exclusive, meaning that an issuer that

attempts to comply with Regulation S also may claim the availability of another applicable exemption from registration (such as Rule 144A). Regulation S is available for offerings of both equity and debt securities, such as Global Depositary Receipts and Notes, and targeted towards non-U.S. institutional investors.

Similarly, Rule 144A provides a safe harbor from the registration requirements of the Securities Act of 1933 for resales to U.S. institutional investors reasonably believed to be "qualified institutional buyers" ("QIBs"). QIBs include institutions that own and invest at least \$100 million in securities and also include registered broker-dealers that own or invest, on a discretionary basis, \$10 million in securities of non-affiliates. As a result, securities sold in a Rule 144A offering are "restricted securities" and resales inside the U.S. may only be made to a purchaser that the seller (and any person acting on its behalf) reasonably believes is a QIB. The seller must take reasonable steps to ensure that the purchaser is aware that the seller is relying on Rule 144A exemption. However, securities sold under Rule 144A offerings may not be the same class as listed or quoted securities in the U.S., and cannot be upgraded to unrestricted facilities.

The availability of these exemptions for GDR deals makes them an efficient and cost-effective means of implementing cross-border capital-raising transactions. The predominant listing venues for Reg S GDRs are the London and Luxembourg Stock Exchanges, however, GDRs have



also been listed on the Singapore Exchange, Frankfurt Stock Exchange and NASDAQ Dubai. On the other hand, Rule 144A GDRs trade in the U.S. over-the-counter market.

When GDRs are offered simultaneously in Reg S and Rule 144A form, but in separate and distinct tranches, they exist inside what is known as a bifurcated GDR program. When the GDRs are offered simultaneously in Reg S and Rule 144A form, but not in separate and distinct tranches, they exist inside what is known as a unitary GDR program. GDRs can also be offered in Reg S form only.

Due to the general flexibility afforded by GDRs, issuers from a variety of regions, including Europe, the Middle East, Africa, and Asia Pacific, have been utilizing GDR programs to help meet their capital-raising needs on an increasing basis.

Upgrading a GDR to a Publicly Listed Program

A non-U.S. company may decide to list its DRs subsequent to its global Rule 144A and Regulation S offering. Upgrading from a GDR to a U.S.-listed ADR program is a viable option for companies wishing to achieve greater global reach and visibility. Although

the Regulation S tranche may easily be moved to a listed facility 40 days after the Regulation S offering, generally upgrading the Rule 144A tranche is slightly more challenging. A Rule 144A facility cannot actively coexist with a U.S.-listed program. In order to upgrade the Rule 144A facility to a listed program, the issuer will typically first need to file a Form F-4 registration statement pursuant to the Securities Act. After the F-4 registration statement has been filed, a registered exchange offer with the QIBs may be undertaken to exchange Rule 144A GDRs with ADRs. Under certain circumstances, and if the Rule 144A program is “seasoned,” the issuer may opt for a private exchange using a certification process rather than a registered exchange under the Securities Act of 1933.

Regulatory Enhancements: JOBS Act

The Jumpstart Our Business Startups Act (the “JOBS Act”), enacted on April 5, 2012, liberalized certain aspects of the Securities Act of 1933 and Securities Exchange Act of 1934, in regards to registration and reporting regimes for issuers that qualify as “Emerging Growth Companies” (“EGCs”) with annual revenues of less than \$1 billion. The law attempts to

reduce regulatory burdens on securities offerings and thereby facilitate capital formation and job creation. It is said that the JOBS Act is the most significant Congressional relaxation in memory of restrictions surrounding the IPO process, public company reporting, and private capital formation.

The results of the JOBS Act remain positive as the IPO market has re-energized. Specifically, DR IPO activity has surged as global issuers now view the U.S. as a more attractive international listing destination due to a less costly regulatory environment.

How to Evaluate a Depository Bank

The depository bank plays a critical role for issuers that wish to expand their access to capital, broaden their investor base globally, and take advantage of all the benefits of DRs. The issuer and the depository bank enter into a relationship that extends through the offering process and implementation stages and continues through to the ongoing management of the DR program.

As a guideline for evaluating depository banks, the issuer should consider the resources and track record of the provider, as well as its core competencies and value-added services that are offered.

Key Questions to ask a Depository Bank

Key questions include the following:

- How extensive is the depository bank's expertise in securities processing?
- Can the depository bank offer your company a complete range of banking and financial products?
- How is the depository positioned with investors and other global market participants?
- Does the depository bank have local presence and commitment to the home market?
- What peers in your region and worldwide exemplify how the depository has managed liquid DR programs?
- How many years of experience does the organization have in serving DR issuers in your region?
- What awards has the depository bank won that represent third-party endorsements of its superiority over its competitors?

The Depository's commitment to Investor Relations

The breadth of value-added services offered by a depository can enhance a company's internal investor relations (IR) effort and should be a key consideration for the issuer in selecting a depository services provider. Citi pioneered the depository's role of IR counsel, delivering the expertise and

resources required for its sponsored issuers to achieve their international IR goals.

For example, where appropriate, a depository's IR counsel may work closely with the issuer in formulating investor strategic plans and identifying, targeting and accessing new investors. IR counsel may also advise the issuer on financial media relations, non-deal road shows, IR website development and the selection of outside IR firms. The depository may also provide shareholder intelligence tools, delivering comprehensive share ownership and peer ownership data and analytical flexibility.

Conclusion

DRs are a winning proposition for global financial markets, benefiting non-U.S. issuers and international investors alike. For issuers, a DR program can serve to broaden and diversify a company's shareholder base, broadening the market for its shares and potentially increasing liquidity. DRs are attractive to investors worldwide who are looking to eliminate cross-border custody safekeeping charges and benefit from

enhanced accessibility to research and price and trading information.

The depository is a key partner for the issuer, both in establishing a DR program and in developing and managing the program on an ongoing basis. The role of the depository includes advising on DR facility structure, and coordinating with lawyers and investment bankers to ensure that all implementation steps

are completed. The critical roles of the depository include issuing DRs and providing ongoing account management and IR support to the issuer.

A crucial consideration for the issuer in selecting its depository is the depository's experience and offerings of value-added services, which should complement the company's IR effort.

About Citi's Depository Receipt Services

Citi Depository Receipt Services is a leader in bringing quality issuers to global capital markets and in promoting DRs as an effective capital markets tool. Citi began offering DRs in 1928 and today is widely recognized for providing issuers with its powerful global platform, facilitating access to a global network that issuers can use to build and grow their DR program.

In support of a depository receipt program, Citi Depository Receipt Services provides issuers with access to the following value-added resources:

- Global sales and equity distribution network with access to large and mid-tier institutional investors.
- Dedicated Account Management team – enabling a single point of contact for comprehensive support.
- Specialized Structuring and Implementation team that ensures the efficient execution of transactions.
- Innovative Product Management team to develop solutions for enhanced access to markets and investors.
- Investor Relations (IR) counsel – a team of former in-house corporate IR executives who consult and support clients in all aspects of their global IR objectives.

Investor Relations

Citi Depository Receipt Services pioneered the role of Investor Relations counsel for DR clients, providing issuers with expertise and resources to support their IR goals. Citi Depository Receipt Services' IR counsel team develops a tailor-made approach for each individual client, taking into account the unique situation of every company and their specific IR objectives. Strongly focused on the training and educational needs of our clients, we constantly

look for ways to provide clients with the knowledge base to build a state-of-the-art IR program.

Throughout the year, we conduct roundtables and other training sessions across EMEA, Asia and Latin America. We also offer several IR/DR training sessions in London and New York. Citi Depository Receipt Services' IR counsel also assists issuers in identifying, targeting and accessing new investors, thus supporting their goal to achieve greater liquidity in their DR program. Other areas of expertise include assisting issuers with IR website design and evaluation, message development and presentation advice, assistance on non-deal road shows, interaction with sell-side and buy-side analysts, and crisis management training.

Global Distribution

Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

For DR clients, our services encompass information, support and counsel to major global issuers, as well as access

to broad broker and investor audiences. We assist clients in accessing a diverse range of investors, including the largest global portfolio managers, wealth management advisory firms, Separately Managed Accounts (SMA) portfolios and specialized hedge funds. Our local presence in many markets is unmatched by any other depository and we facilitate superior liquidity for our programs via our global distribution network.

Citi's network is composed of salespeople and sales traders around the world, and is one of the largest institutional networks for DRs. Together with our comprehensive range of reporting, investor targeting and analytical services, this places Citi in a leading position to manage and grow clients' DR programs globally. No other depository bank provides such a comprehensive network.

Citi's commitment to provide issuers with access to a comprehensive suite of value-added resources, including a combination of global reach and local expertise, access to an industry-leading global equity distribution network and specialized global investor relation support, helped win key depository bank mandates.

For more information please visit www.citi.com/dr.

About Citi

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Issuer Services

https://www.citibank.com/mss/issuer_svcs/

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