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# Guide to Chinese Share Classes

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# Guide to Chinese Share Classes

China incorporated companies listed in the People's Republic of China (PRC) can issue different classes of shares depending on where they are listed and which investors are allowed to own them. The classes are A, B and H, which are all renminbi-denominated shares but traded in different currencies, depending on where they are listed.

China companies incorporated and listed outside PRC are generally referred to as 'Red Chips', 'P Chips', 'S Chips' or 'N Shares' depending on their ownership structure, revenue source and listing location. These types of shares may have different definitions among index providers or exchanges; please see below for FTSE Russell's definition. Within the FTSE indexes, the eligibility of these share classes is reviewed annually in September; For the purposes of the annual Russell US index reconstitution in June, China share class designation will be evaluated based on information available up to the reconstitution rank date.

Share Class	Country of Incorporation	Country of Listing	Trading Currency	Other Requirements	Available to mainland Chinese investors	Available to other investors
A Share	People's Republic of China (PRC)	China	CNY	None as they are specific share classes issued by the company	Yes	Yes under QFII/RQFII/ Stock Connect programs
B Share	People's Republic of China (PRC)	China	USD (Shanghai) HKD (Shenzhen)		Yes (if they have appropriate currency accounts)	Yes
H Share	People's Republic of China (PRC)	Hong Kong	HKD		Yes if QDII approved or under Stock Connect programs	Yes
Red Chip	Non-PRC	Hong Kong	HKD	See notes below	Yes if QDII approved or under Stock Connect programs	Yes
P Chip	Non-PRC	Hong Kong	HKD		Yes if QDII approved or under Stock Connect programs	Yes
S Chip	Non-PRC	Singapore	SGD		Yes if QDII approved	Yes
N Share	Non-PRC	United States	USD		Yes if QDII approved	Yes

## A Share

A Shares are securities of Chinese incorporated companies that trade on either the Shanghai or Shenzhen stock exchanges. They are traded in Renminbi (Chinese Yuan). They can only be traded by residents of the People's Republic of China or under the Qualified Foreign Institutional Investor (QFII), the Renminbi Qualified Foreign Institutional Investor (RQFII) rules, or via the Stock Connect programs.

## B Share

B Shares are securities of Chinese incorporated companies that trade on either the Shanghai or Shenzhen stock exchanges. They are traded in US dollars on the Shanghai Stock Exchange and Hong Kong dollars on the Shenzhen Stock Exchange. They can be traded by non-residents of the People's Republic of China and also residents of the People's Republic of China with appropriate foreign currency dealing accounts.

## H Share

H Shares are securities of companies incorporated in the People's Republic of China that trade on the Hong Kong Stock Exchange. They are traded in Hong Kong dollars. Like other securities trading on the Hong Kong Stock Exchange, there are no restrictions on who can trade H Shares.

## Red Chip

A Red Chip is a company incorporated outside the People's Republic of China (PRC) that trades on the Hong Kong Stock Exchange and is substantially owned, directly or indirectly, by mainland China state entities with the majority of its revenue or assets derived from mainland China.

- a) To be assessed as a Red Chip, a company must satisfy the following criteria:
- The company is incorporated outside the PRC; and
  - The company is listed on the Hong Kong Stock Exchange; and
  - Over 55 per cent of the revenue or assets<sup>#</sup> of the company are derived from the PRC; and
  - The actual controller of the company (if available) is a Chinese state entity; or
  - The company is controlled by Chinese state entities, i.e. the government, provinces or municipalities, through strategic holdings which, in aggregate, total more than 30 per cent of its voting rights (when there is no actual controller reported).
- b) An existing Red Chip which fails one or more of the following criteria will cease to be classified as a Red Chip:
- The company is no longer incorporated outside the PRC; or
  - The company is no longer listed on the Hong Kong Stock Exchange; or
  - The percentages of revenue and assets<sup>#</sup> derived from the PRC have both fallen below 45 per cent; or
  - The actual controller of the company (if available) is not a Chinese state entity; and
  - The aggregate holding of Chinese state entities, i.e. the government, provinces or municipalities, through strategic holdings is less than 25 per cent of its voting rights (when there is no actual controller reported).

<sup>#</sup> Please refer to the revenue and asset guidelines section for further information.

## P Chip

A P Chip is a company\* controlled by mainland Chinese companies or individuals, with the establishment and origin of the company in mainland China. It must be incorporated outside the People's Republic of China (PRC) and traded on the Hong Kong Stock Exchange with a majority of its revenue or assets derived from mainland China.

\* Provided that the company does not satisfy FTSE Russell's Red Chip definition.

- a) To be assessed as a P Chip, a company must satisfy the following criteria:
- The company is incorporated outside the PRC; and
  - The company is listed on the Hong Kong Stock Exchange; and
  - Over 55 per cent of the revenue or assets# of the company are derived from the PRC; and
  - The company is controlled by mainland Chinese companies or individuals and its establishment and origin are in mainland China.
- b) An existing P Chip which fails one or more of the following criteria will cease to be classified as a P Chip:
- The company is no longer incorporated outside the PRC; or
  - The company is no longer listed on the Hong Kong Stock Exchange; or
  - The percentages of revenue and assets# derived from the PRC have both fallen below 45 per cent; or
  - The company is acquired/a controlling stake is held by a non-mainland Chinese company or individual; or
  - The company now meets the definition of a Red Chip (see above).
- c) In cases where the data could support an assignment as either a Red Chip or a P Chip, the company will be classified as a Red Chip.

# Please refer to the revenue and asset guidelines section for further information.

## S Chip

An S Chip is a company controlled by mainland Chinese companies or individuals, with the establishment and origin of the company in mainland China. It must be incorporated outside the People's Republic of China (PRC) and traded on the Singapore Stock Exchange with a majority of its revenue or assets derived from mainland China.

- a) To be assessed as an S Chip, a company must satisfy the following criteria:
- The company is incorporated outside the PRC; and
  - The company is listed on the Singapore Exchange; and
  - Over 55 per cent of the revenue or assets# of the company are derived from the PRC; and
  - The company is controlled by a mainland Chinese state entity, company or individual and its establishment and origin are in mainland China.
- b) An existing S Chip which fails one or more of the following criteria will cease to be classified as a S Chip:
- The company is no longer incorporated outside the PRC; or
  - The company is no longer listed on the Singapore Exchange; or
  - The percentages of revenue and assets# derived from the PRC have both fallen below 45 per cent; or
  - The company is acquired/a controlling stake is held by a non-mainland Chinese state entity, company or individual.

# Please refer to the revenue and asset guidelines section for further information.

## N Share

N Shares are companies controlled by mainland Chinese companies or individuals, with the establishment and origin of the company in mainland China. It must be incorporated outside the People's Republic of China (PRC) and traded on the New York Stock Exchange, the NASDAQ exchange, or the NYSE American with a majority of its revenue or assets derived from mainland China (only one year's revenue and asset data from the most recent annual report is considered. For the avoidance of doubt: this also applies to the Russell US Indexes – there will be no two year averaging of revenue and asset data for the purposes of evaluating whether a company should be designated an N share).

- a) To be assessed as an N Share, a company must satisfy the following criteria:
- The company is incorporated outside the PRC; and
  - The company is listed on the New York Stock Exchange, the NASDAQ exchange, or the NYSE American; and
  - Over 55 per cent of the revenue or assets<sup>#</sup> of the company are derived from the PRC; and
  - The company is controlled by a mainland Chinese state entity, company or individual and its establishment and origin are in mainland China.
- b) An existing N Share which fails one or more of the following criteria will cease to be classified as an N share:
- The company is no longer incorporated outside the PRC; or
  - The company is no longer listed on the New York Stock Exchange, the NASDAQ exchange, or the NYSE American; or
  - The percentages of revenue and assets<sup>#</sup> derived from the PRC have both fallen below 45 per cent; or
  - The company is acquired/a controlling stake is held by a non-mainland Chinese state entity, company or individual.
- c) American Depositary Receipts (ADRs), where the underlying issue is listed, are ineligible for N Share classification. For example, an H Share with a depositary receipt listed on the New York Stock Exchange will not be classified as an N Share.

<sup>#</sup> Please refer to the revenue and asset guidelines section for further information.

## Revenue and Asset Guidelines

The revenue and asset screens used when determining Red Chips, P Chips, S Chips and N Shares apply the following guidelines:

- Revenue is defined as sales and other operating revenues prior to other income or cash items.
- Assets are defined as non-current (long lived) assets. All other assets are discounted from the evaluation.
- Revenue and asset data are taken from the most recent company filings prior to the annual share classes review in September. The data cut-off date for the revenue/asset data used in the annual review is the last business day in June.
  - For the purposes of the annual Russell US index reconstitution, revenue and asset data available up to the reconstitution rank date will be considered when evaluating whether a company should be considered an N share for the purposes of evaluating potential Russell US index inclusion.
- Geographic breakdowns of revenues and assets will supersede any written statements, but where breakdowns are not available:

- Statements such as “all or virtually all of the company’s revenues reside in PRC” or “all or virtually all of the assets are derived within PRC”, will be viewed as definitive statements and pass the revenue and asset screens.
- Statements such as “majority of the company’s revenues reside in PRC” will be viewed as non-definitive statements as FTSE Russell cannot confirm that a company’s revenues or assets would have passed the relevant thresholds.
- A China share class company that previously passed the revenue and asset screens but whose filings no longer provide geographic breakdowns will continue to meet the relevant thresholds unless there is clear disclosure confirming that the required thresholds are no longer achieved.

# Further Information

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Contact details can also be found on the website.

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**EMEA**

+44 (0) 20 7866 1810

**North America**

+1 877 503 6437

**Asia-Pacific**

Hong Kong +852 2164 3333

Tokyo +81 3 4563 634

Sydney +61 (0) 2 8823 3521