



# SHANGHAI-HONG KONG STOCK CONNECT

Investment and Financing  
in Hong Kong and China

QFII : Qualified Foreign Institutional Investor  
RQFII : Renminbi Qualified Foreign Institutional Investor

# INVESTMENT ENVIRONMENT IN CHINA AND HONG KONG

- Although the laws and regulations in China and Hong Kong are different, due to the fact that they are using **different law systems** and the attitudes of government towards the market.
- However, since corporation between China and Hong Kong can actually benefit themselves, they always cooperate to facilitate flow of funds and investment activities.

E.g. QFII, RQFII, Shanghai-Hong Kong Stock Connect

- We would like to focus on Stock Connect System to overview the legal, political and economic business environment, specifically financing and investment, in China and Hong Kong.

HKSCC : Hong Kong Securities Clearing Company Limited  
ChinaClear : China Securities Depository and Clearing Corporation Limited

# INTRODUCTION

- **Joint Announcement** for the establishment of mutual stock market access between Mainland China and Hong Kong on 10 April 2014
- Mutual order-routing connectivity and related technical infrastructure (Trading Links) to enable investors of their respective market to trade shares listed on the other's market
- HKSCC and ChinaClear will establish the **Clearing Links** to provide arrangements for the clearing and settlement of trades executed through the Trading Links and the provision of depository, nominee and other related services to investors in the Mainland and Hong Kong.

# INTRODUCTION

SSE : Shanghai Stock Exchange  
SEHK : Hong Kong Stock Exchange

- SSE and SEHK will enable investors to trade eligible shares listed on the other's market through local securities firms or brokers.
- Shanghai-Hong Kong Stock Connect is comprised of a Northbound Trading Link and a Southbound Trading Link.
- Shanghai-Hong Kong Stock Connect will be founded on the existing rules and regulations and operational models governing trading and clearing in each market.

# BENEFIT

- Enhance the overall strength of China's capital markets, enhance the competitiveness of both markets
- Consolidate the position of Shanghai and Hong Kong as financial centres and enhance the attractiveness of both markets to international investors
- Promote the internationalization of the RMB and development of Hong Kong as an offshore RMB business centre by enabling Mainland investors to directly participate in the Hong Kong stock market using RMB
- Expand investment channels for offshore RMB funds and facilitate an orderly flow of RMB funds between the two markets

# INVESTOR AND PARTICIPANT ELIGIBILITY

## Investor Eligibility

SSE Securities (i.e. Northbound Trading)	SEHK Securities (i.e. Southbound Trading)
<ul style="list-style-type: none"><li>All Hong Kong and oversea investors</li></ul>	<ul style="list-style-type: none"><li>Mainland institutional investors</li><li>Individual investors who satisfy the eligibility criteria (hold and aggregate balance of not less than RMB 500,000)</li></ul>

## Participant Eligibility

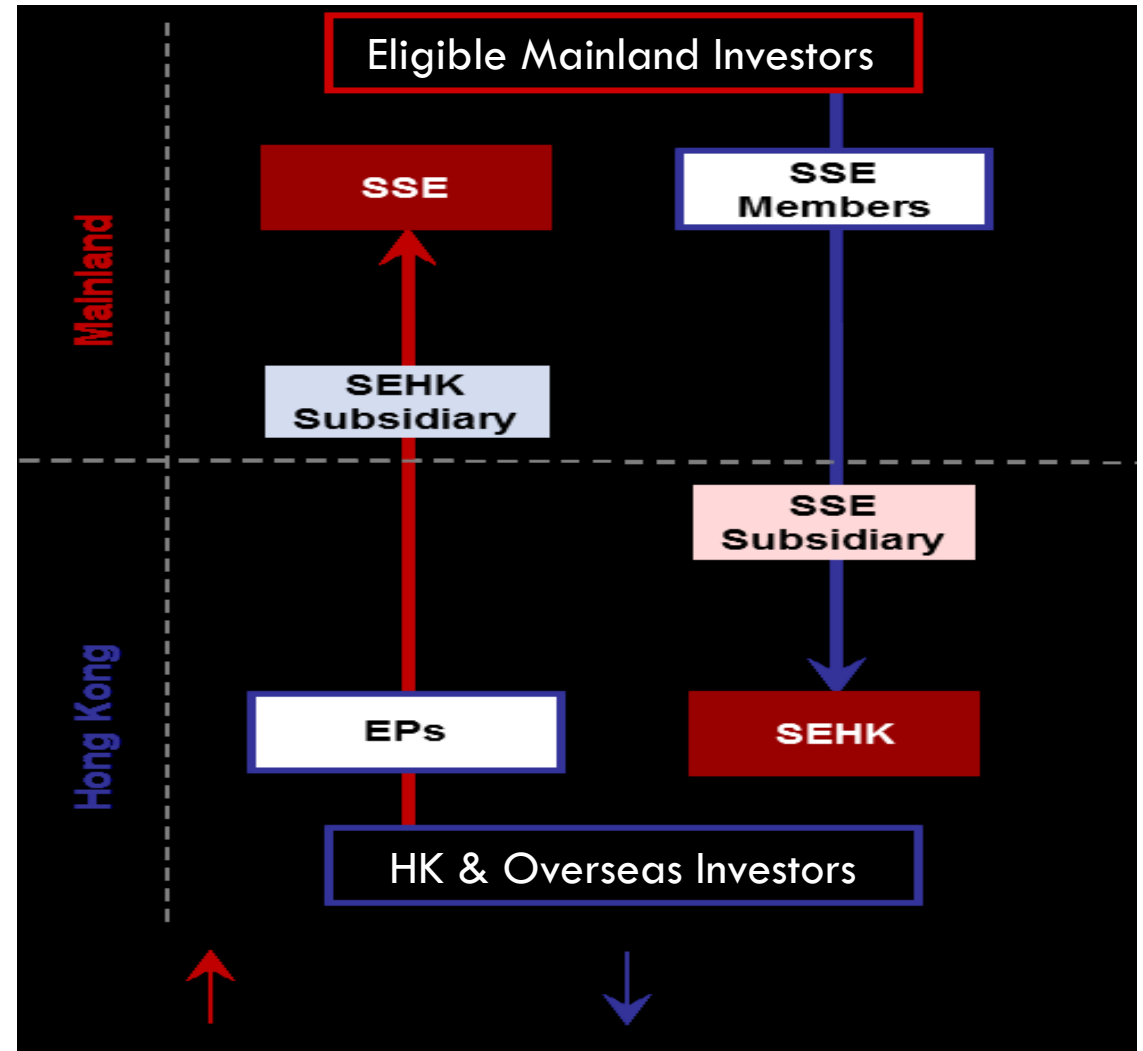
- It will be open to all SEHK Exchange Participants (EPs), SSE Members, HKSCC's Clearing Participants (CPs), and ChinaClear Participants,
- subject to their meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and / or clearing house.

# ELIGIBLE STOCKS

Stocks applicable	Northbound trading	Southbound trading
<b>Eligible shares</b>	Only A shares	Only equities listed on Main Board
<b>Index Constituent Stocks</b>	<ul style="list-style-type: none"> <li>SSE 180 Index</li> <li>SSE 380 Index</li> </ul>	<ul style="list-style-type: none"> <li>Hang Seng Composite LargeCap Index</li> <li>Hang Seng Composite MidCap Index</li> </ul>
<b>A+H Shares</b>	SSE-listed shares which are simultaneously listed and traded on SEHK	H-shares which are simultaneously listed and traded on SSE
<b>Excluding</b>	All SSE-listed shares which are not traded in RMB or which are under risk alert	<ul style="list-style-type: none"> <li>All Hong Kong-listed shares which are not traded in HKD;</li> <li>H-shares which have corresponding A-shares listed and traded on a Mainland exchange other than SSE;</li> <li>H-shares which have corresponding SSE-listed shares placed under risk alert</li> </ul>

# TRADING ARRANGEMENT

- To facilitate the Northbound trading, SEHK will establish **SEHK Subsidiary** in Shanghai, whose principal function will be to receive orders to trade in SSE Securities from EPs and route them onto SSE's trading platform.
- Upon trade execution, trade confirmation received from SSE will be sent to EPs.
- Northbound trades will be executed on the **SSE platform**, and therefore will follow the SSE market practices in general.
- Similar reciprocal arrangements will be adopted for Southbound trading.





# QUOTA

- Trading under Shanghai-Hong Kong Stock Connect will, initially, be subject to a **maximum cross-boundary investment quota** (i.e., Aggregate Quota), together with a Daily Quota.
- Northbound trading and Southbound trading will respectively be subject to a separate set of Aggregate and Daily Quota, which is monitored by SEHK and SSE respectively.
- Both the Aggregate Quota and the Daily Quota will apply on a “net buy” basis. Under that principle, investors will **always be allowed to sell** their cross-boundary securities regardless of the quota balance.

# QUOTA

	<b>Northbound trading</b>	<b>Southbound trading</b>
<b>Aggregate Quota</b>	Aggregate quota at RMB = 300 billion	Aggregate quota at RMB = 250 billion
<b>Daily Quota</b>	Daily quota at RMB = 13 billion	Daily quota at RMB = 10.5 billion

## Aggregate Quota

Aggregate Quota Balance

= Aggregate Quota – Aggregate buy trades + Aggregate sell trades

- If **Aggregate Quota Balance < Daily Quota**, Northbound buying will be **suspended** on the next trading day.
- However, investors can continue to sell SSE Securities, which will then increase the Aggregate Quota Balance.
- SEHK will re-open Northbound buying once the Aggregate Quota balance returns to the Daily Quota level or above.

## Daily Quota

Daily Quota Balance

= Daily Quota – Buy Orders + Sell Trades + Adjustments

- Daily Quota will be refreshed and remain the same everyday, subject to the balance of the Aggregate Quota.
- Unused Daily Quota will NOT be carried over to next day's Daily Quota.
- Once the Northbound Daily Quota Balance drops to zero or is exceeded during a continuous auction session (Continuous Trading), no further buy orders will be accepted for the remainder of the day.
- Subject to the Aggregate Quota Balance, SEHK will resume the Northbound buying service on the following trading day.

# TRADING AND SETTLEMENT

	Northbound trading	Southbound trading
<b>Trade and settlement currency</b>	RMB	Trade in HKD, settle in RMB
<b>Day (turnaround) trading</b>	<ul style="list-style-type: none"> <li>Day trading is not allowed,</li> <li>shares can only be sold on and after T+1</li> </ul>	Allowed
<b>Clearing and settlement cycle</b>	<ul style="list-style-type: none"> <li>Shares will be settled on T day;</li> <li>money will be settled on T+1 day</li> </ul>	Both shares and money will be settled on T+2 day
<b>Trading fees</b>	Handling fee, securities management fee, transfer fee, stamp duty, portfolio fee	Trading fee, trading tariff, transaction levy, stock settlement fee, stamp duty on stock transactions, portfolio fee
<b>Deposition and custody of stocks</b>	Hold the stocks through HKSCC	Hold the stocks through ChinaClear

# CLEARING, SETTLEMENT

CCASS : Central Clearing and Settlement System operated by HKSCC for the clearing of securities listed or traded on SEHK

# AND DEPOSITORY ARRANGEMENT

## Stock Transfer and Depository Services

- In the initial stage of the operation, Hong Kong and overseas investors who have acquired SSE Securities through Northbound trading should maintain the SSE Securities with their brokers or custodians' CCASS stock accounts.
- CCASS Participants can transfer SSE Securities between their CCASS stock accounts by way of [Settlement Instructions \(SIs\)](#).
- For the avoidance of doubt, Investor Participants (IPs) account will not be available for SSE Securities custody in the initial stage.

# TRADING REGULATION

	Northbound trading	Southbound trading
Price limit	Entire trading session : <ul style="list-style-type: none"><li>• <math>\pm 10\%</math> and <math>\pm 5\%</math> for SSE stocks in the risk alert board (i.e. ST and *ST stocks) of the previous closing price</li><li>• implement dynamic price checking for Northbound trading, see details below</li></ul>	No limit
Odd lots	Can only be sold (all odd lots should be sold in one single order for Northbound)	

# COVERED SHORT SELLING

- Naked short selling is prohibited for Northbound Trading. Covered short selling of SSE Securities will be allowed subject to the following requirements:
  - (a) Only eligible SSE Securities (Short Selling Security) can be short sold.
  - (b) China Connect EPs can input short selling orders during the opening call auction session and continuous auction sessions on each CSC trading day;
  - (c) China Connect EPs are required to flag the short selling orders when inputting them into the system;



# COVERED SHORT SELLING

- (d) Short selling orders must be submitted in multiples of 100 shares;
- (e) Short selling orders will be subject to some [price restrictions](#).
- (f) For each Short Selling Security, there will be [quantity restrictions](#) (i.e. Short Selling Ratio limits) for short selling.
- (g) There will be [mandatory reporting](#) requirements for short selling activities, including Short Selling Weekly Report and Large Open Short Position Report.

# COVERED SHORT SELLING

	<b>Information Display</b>	<b>Update time / Frequency</b>
(a)	Maximum number of shares available for short selling for the CSC trading day	Before market open
(b)	Remaining balance available for short selling	Every 15 minutes
(c)	Short selling turnover (in shares and in value) for each stock	After the close of morning session and after market close
(d)	Respective daily and 10-day cumulative short selling percentage	After market close

# STOCK BORROWING AND LENDING

- SBL of SSE Securities will be allowed in the following situations:
  - (a) for covered short selling; and
  - (b) for meeting the pre-trade checking requirement in certain circumstances.
  
- SBL in SSE Securities will be subject to restrictions set by SSE to be incorporated into the Rules of SEHK. These include :
  - (a) SBL agreements for covered short selling purpose cannot be longer than one month;
  - (b) SBL agreements for pre-trade checking purpose cannot be longer than one day (roll-over not allowed);
  - (c) Stock lending will be restricted to certain types of persons to be determined by SSE; and
  - (d) SBL activities will be required to be [reported](#) to SEHK.

# STOCK BORROWING AND LENDING

- SBL for the purpose of short selling will be **limited to those SSE Securities which are eligible for both buy orders and sell orders** through the Shanghai-Hong Kong Stock Connect, i.e. excluding SSE Securities that are only eligible for sell orders.
- SBL for the purpose of meeting the pre-trade checking requirements will **cover all SSE Securities**, including SSE Securities that are only eligible for sell orders through the Shanghai-Hong Kong Stock Connect.

	Who can be lenders?	Who can they lend to?		
		Clients	China Connect EPs	Trade-Through EPs
EPs	(a) China Connect EPs	√	√	√
	(b) Trade-Through EPs	√	√	√
	(c) Non-Registered Eps		√	√
QIs	(d) Qualified Institutions		√	√

# CLEARING, SETTLEMENT AND DEPOSITORY ARRANGEMENT

## Clearing and Settlement Arrangement Overview

Northbound Trades	Southbound Trades
<p>ChinaClear : host Central Counterparty (CCP)</p> <p>HKSCC : participant of ChinaClear, take up settlement obligations of its CPs and settle the trades directly with ChinaClear</p> <ul style="list-style-type: none"><li>• Follow the A share settlement cycle</li><li>• ChinaClear will debit or credit its participants' stock accounts before 6:00pm on T day</li></ul>	<p>HKSCC : host CCP</p> <p>ChinaClear : Clearing Agency Participant, take up settlement obligations of its CPs and settle the trades with HKSCC</p>

# CLEARING, SETTLEMENT AND DEPOSITORY ARRANGEMENT

## Nominee Services and Corporate Actions

- HKSCC will **extend its existing nominee services** to CCASS Participants/investors for their SSE Securities held in CCASS as far as practicable.
- HKSCC will **endeavor to collect and distribute cash dividends** relating to SSE Securities to CCASS Participants a timely manner. Upon receipt of the dividend amount on payment date, HKSCC will to the extent practicable arrange to distribute to the relevant CCASS Participants on the same day.

# CLEARING RISK MANAGEMENT

- To avoid risk spill-over across the border, both HKSCC and ChinaClear will **not participate in each other's mutualized risk management pools** (e.g. default fund) that are normally contributed by their home market clearing participants.
- As such, ChinaClear will not contribute to the HKSCC Guarantee Fund and ChinaClear will **not be required to share any default loss** of CPs. CPs' Guarantee Fund contributions will not be utilized to offset close-out loss in ChinaClear's default.

# TRADE MONITORING

- According to Mainland regulations, before an investor sells any share, there should be sufficient shares in the account, otherwise SSE will reject the sell order concerned.
- SEHK will carry out pre-trade checking on A-share sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.
- For Southbound trading, SSE will adopt the existing pre-trade checking to the Mainland investors when they trade SEHK securities.



# PRE-TRADE CHECKING

- For Northbound trading, SEHK will apply similar checking on all Northbound sell orders at the EP level to ensure there is no overselling by individual EPs. Sell orders will be rejected if the cumulative sell quantity for the day is higher than the EP's shareholding position at market open.
- An **additional settlement instruction (SI) session** will be available in the morning on T day to allow custodians to transfer SSE Securities. The sellable quantity of SSE Securities will then be updated for pre-trade checking.
- For Southbound trading, SSE will adopt the existing pre-trade checking to the Mainland investors when they trade SEHK securities.

# DYNAMIC PRICE CHECK

- SEHK will put in place a dynamic price checking for buy orders to prevent the abuse of Northbound quotas.
- Buy orders with input prices lower than the current best bid (or last traded price in the absence of current best bid, or previous closing price in the absence of both current best bid and last traded price) beyond a prescribed percentage will be rejected by CSC.
- Dynamic price checking will be applied throughout the trading day, from the 5-minute input period until the end of the afternoon Continuous Auction.
- SEHK intends to set the dynamic price checking at 3% during the initial phase of Shanghai-Hong Kong Stock Connect. The percentage may be adjusted from time to time subject to market conditions.

# MARKET OBLIGATIONS AND RESTRICTIONS

	Northbound trading	Southbound trading
<b>Disclosure obligations</b>	<ul style="list-style-type: none"> <li>Once the shareholdings reach 5% or more the holders</li> <li>have to disclose to the regulators and exchanges within 3 working days,</li> <li>and trading in the relevant stock is not allowed within the 3 days</li> </ul>	<ul style="list-style-type: none"> <li>Once the shareholdings reach 5% or more the holders</li> <li>have to disclose to the other exchange within 3 working days, but trading in the relevant stock may continue.</li> <li>If it is the first time, the holders have to disclose to the other exchange within 10 working days</li> </ul>
<b>Foreign shareholding restrictions</b>	<ul style="list-style-type: none"> <li>Single foreign investors' shareholding by any Hong Kong or overseas investor must not hold more than 10% of the total issued shares;</li> <li>and aggregate foreign investors must not hold more than 30% of the total issue shares</li> </ul>	No limit

# SHAREHOLDING RESTRICTIONS ON SSE SECURITIES

- If aggregate foreign shareholding exceeds the 30% threshold, the foreign investors concerned will be requested to **sell the shares on a last-in-first-out basis** within five trading days.
- SSE Securities purchased through Shanghai-Hong Kong Stock Connect will be considered in **totality with those purchased by QFII and RQFII**, and be subject to the same foreign shareholding restriction.

# TAXATION

	<b>Northbound trading</b>	<b>Southbound trading</b>
	<p>Tax on cash dividend and/or bonus shares of SSE securities:</p> <ul style="list-style-type: none"><li>• Both retail and institutional investors are required to pay at a standard rate of 10%;</li></ul>	<p>Tax on cash dividend and/or bonus shares of SEHK securities:</p> <ul style="list-style-type: none"><li>• Retail investors, including those who invest via equity investment funds, are required to pay at a standard rate of 20%.</li><li>• For institutional investors, the dividend received is subject to enterprise income tax in accordance to the laws.</li></ul>

# TAXATION

	Northbound trading	Southbound trading
	<p>Capital gains tax and business tax:</p> <ul style="list-style-type: none"><li>• Both retail and institutional investors are exempted from both taxes</li></ul>	<p>Capital gains tax:</p> <ul style="list-style-type: none"><li>• Retail investors are exempted from capital gains tax for 3 years.</li><li>• For institutional investors, the capital gains are subject to <b>enterprise income tax</b> in accordance to the laws.</li></ul> <p>Business tax:</p> <ul style="list-style-type: none"><li>• Retail investors are temporarily exempted from business tax.</li><li>• For institutional investors, the business tax is either exempted or required to be paid in accordance to the <b>Mainland taxation laws</b>.</li></ul>

# MAJOR RISKS

- Quotas used up
- Difference in trading day
- Recalling of eligible stocks
- Mainland market risk :  
Market volatility risk, Macro-economic risk, Liquidity risk, Currency risk

# CROSS-BOUNDARY REGULATORY FRAMEWORK

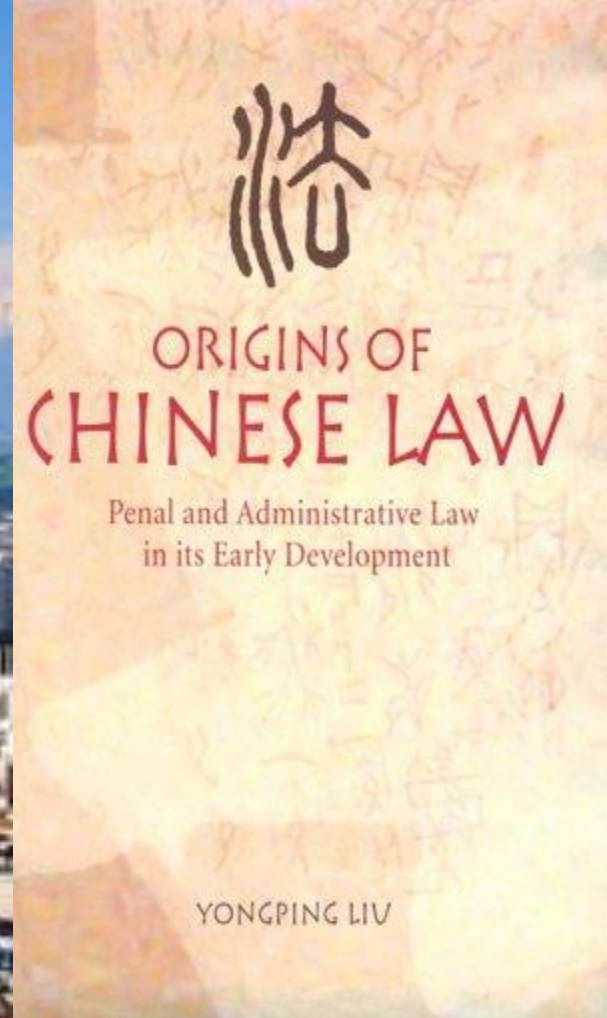
- The CSRC and the SFC will improve the current bilateral agreement to strengthen enforcement cooperation in respect of the following areas:
  - (a) Referral and information exchange mechanisms concerning improper activities;
  - (b) Investigatory cooperation in relation to cross boundary illegal activities including disclosure of false or misleading information, insider dealing and market manipulation;
  - (c) Bilateral enforcement exchange and training; and
  - (d) Enhancement of general standards of cross-boundary enforcement cooperation.
  
- The Joint Announcement further notes that the two Commissions will establish a **dedicated liaison mechanism** for Shanghai-Hong Kong Stock Connect to deal with any issues that may be encountered during the pilot programme which may require joint resolution.



# REGULATION ANALYSIS

## Differences between Hong Kong Stock Exchange and Shanghai Exchange

Categories	Items
Trading and Clearing	<ul style="list-style-type: none"><li>• Day trading</li><li>• Clearing and settlement cycle</li></ul>
Methods for Trading	<ul style="list-style-type: none"><li>• Covered Short Selling</li><li>• Stock Borrowing and Lending</li></ul>
Share Restrictions	<ul style="list-style-type: none"><li>• Price Limit</li><li>• Foreign Shareholding Restrictions</li></ul>
Fees	<ul style="list-style-type: none"><li>• Trading fees</li><li>• Taxation</li></ul>



# LAWS AND REGULATIONS OF SHANGHAI STOCK EXCHANGE AND THAT OF HONG KONG STOCK EXCHANGE

# LAWS AND REGULATIONS (SHANGHAI)

- a) Issuance of Stocks
- b) Parties Involved Regulations
- c) Listing of Securities
- d) Prohibited Trading Acts

# ISSUANCE OF SECURITIES

Generally, a company who wants to undergo initial public offer of stocks should:

1. have a complete and well-operated organization
2. have the capability of making profits successively and a sound financial status
3. no false record in its financial statements over the latest 3 years and having no other major irregularity
4. meet any other requirements as prescribed by the securities regulatory authority under the State Council (國務院)

# PARTIES INVOLVED TRADING REGULATIONS

Within their tenures or the relevant statutory term,

The employees and practitioners of:

1. stock exchange
2. securities companies
3. securities registration and clearing institutions
4. the functionary of securities regulatory bodies and
5. any other personnel who have been prohibited by laws and administrative regulations from engaging in any stock transaction

shall, not hold or purchase or sell any stock directly or in any assumed name or in a name of any other person, nor may they accept any stocks from any other person as a present.

Anyone, when becoming any person as prescribed in the preceding paragraph herein, shall transfer the stocks he has held according to law.

# PARTIES INVOLVED TRADING REGULATIONS

A securities trading service institution and the relevant personnel that produce such documents as auditing reports, asset appraisal reports or legal opinions for:

1. stock issuance may not:

- purchase or sell any of the aforesaid stocks within the underwriting term of stocks or within 6 months as of the expiration of the underwriting term of stocks

2. listed companies may not:

- purchase or sell any of the aforesaid stocks within the period from the day when an entrustment of a listed company is accepted to the day when the aforesaid documents are publicized for 5 days.

# LISTING OF SECURITIES

A stock-limited company that applies for the listing of its stocks shall fulfill the requirements:

1. The stocks shall have been subject to the examination and approval of the securities regulatory authority under the State Council and shall have been publicly issued
2. The total amount of capital stock shall be no less than RMB 30 million yuan
3. The shares as publicly issued shall reach more than 25 % of the total amount of corporate shares; where the total amount of capital stock of a company exceeds RMB 0.4 billion yuan, the shares as publicly issued shall be no less than 10% thereof; and
4. The company may not have any major irregularity over the latest 3 years and there is no false record in its financial statements.

# LISTING OF SECURITIES

Where a listed company is in any of the following circumstances, the stock exchange shall decide to suspend the listing of its stocks:

1. Where the total amount of capital stock or share distribution of the company changes and thus, fails to meet the requirements of listing
2. Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, which may mislead the investors
3. Where the company has any major irregularity
4. Where the company has been operating at a net loss for the latest 3 consecutive year; net liability for the latest 2 consecutive years; revenue less than RMB10 million for the latest 2 consecutive years; auditor's disclaimer or adverse opinions on its financial statements for the latest 2 consecutive years
5. Under any other circumstance as prescribed in the listing rules of the stock exchange



# LISTING OF SECURITIES

Where a listed company is in any of the following circumstances, the stock exchange shall decide to terminate the listing of its stocks:

1. Where the total amount of capital stock or share distribution of the company changes and thus, fails to meet the requirements of listing, and where the company fails again to meet the requirements of listing within the period as prescribed by the stock exchange
2. Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, and refuses to make any correction
3. Where the company has been operating at a loss for the latest 3 consecutive years and fails to gain profits in the year thereafter
4. Where the company is dissolved or is announced bankruptcy
5. Under any other circumstance as prescribed in the listing rules of the stock exchange

# PROHIBITED TRADING ACTS

- a) Insider trading
- b) Manipulating market
- c) Fabricating or disseminating any false information
- d) Fraudulent acts in the process of securities trading
- e) Unlawfully making use of any other person's account to undertake any securities trading
- f) Lending securities account
- g) Misappropriating any public fund to trade securities

# LAWS AND REGULATIONS (HONG KONG)

1. General Principles for Listing
2. Black out period
3. Listing of Equities
4. Market Misconduct

# GENERAL PRINCIPLES FOR LISTING

The listing of securities on the Exchange is governed in such a way as to ensure that investors have and can maintain confidence in the market. The general principles are set out below:

1. Applicants are suitable for listing
2. The issue and marketing of securities are conducted in a fair and orderly manner and potential investors are given sufficient information to enable them to make a properly informed assessment of an issuer
3. Investors and the public are kept fully informed by listed issuers, and in particular immediate disclosure is made of any information, to be evenly disseminated, which might reasonably be expected to have a material effect on market activity in, and the prices of, listed securities
4. All holders of listed securities are treated fairly and equally
5. Directors of a listed issuer act in the interests of its shareholders as a whole, particularly where the public represents only a minority of the shareholders.

# BLACK OUT PERIOD

a director to deal in the issuer's securities when in possession of unpublished price sensitive information and during a black out period. A black out period refers to the 60-day period before publication of annual results, and the 30-day period before publication of interim results.

# LISTING OF EQUITIES

a) Main Board

b) GEM

1. Financial Requirements
2. Operating History and Management
3. Minimum Market Capitalization
4. Market Capitalization of Public Float
5. Suspension Arrangements

# FINANCIAL REQUIREMENTS (MAIN BOARD)

*A Main Board new applicant must have a trading record of not less than three financial years and meet one of the following three financial criteria:*

	Profit Test	Market Cap/ Revenue Test	Market Cap/ Revenue/ Cashflow Test
Profit Attributable to Shareholders	At least HK\$50 million in the last 3 financial years (with profits of at least HK\$20 million recorded in the most recent year, and aggregate profits of at least HK\$30 million recorded in the 2 years before that)	-	-
Market Cap	At least HK\$200 million at the time of listing	At least HK\$4 billion at the time of listing	At least HK\$2 billion at the time of listing
Revenue	-	At least HK\$500 million for the most recent audited financial year	At least HK\$500 million for the most recent audited financial year
Cashflow	-	-	Positive cashflow from operating activities of at least HK\$100 million in aggregate for the three preceding financial years

# FINANCIAL REQUIREMENTS (GEM)

A GEM new applicant must have a trading record of at least two financial years comprising:

1. A positive cash flow generated from operating activities in the ordinary and usual course of business of at least HK\$20 million in aggregate for the two financial years immediately preceding the issue of the listing document
2. Market cap of at least HK\$100 million at the time of listing



# OPERATING HISTORY AND MANAGEMENT

## Main Board

A Main Board new applicant must have a trading record period of at least 3 financial years with:

management continuity for at least the 3 preceding financial years; and

ownership continuity and control for at least the most recent audited financial year.

Exception:

Under the Market Cap/Revenue test, the Exchange may accept a shorter trading record period under substantially the same management if the new applicant can demonstrate that:

its directors and management have sufficient and satisfactory experience of at least three years in the line of business and industry of the new applicant; and

management continuity for the most recent audited financial year.

## GEM

A GEM new applicant must have a trading record of at least 2 full financial years with:

substantially the same management throughout the 2 full financial years; and

a continuity of ownership and control throughout the full financial year immediately preceding the issue of the listing document.

Exception:

The Exchange may accept a shorter trading record period and waive or vary the ownership and management requirements for:

newly-formed "project" companies; and

natural resources exploitation companies,

supported by reasons acceptable to the Exchange.

# MINIMUM MARKET CAPITALISATION:

Main Board

HK\$200 million

GEM

HK\$100 million

---

# Market CAPITALISATION of Public Float:

Main Board

HK\$50 million

GEM

HK\$30 million

# PUBLIC FLOAT:

At least 25% of the issuer's total issued share capital must at all times be held by the public. Where the issuer has one class of securities or more, the total securities of the issuer held by the public at the time of listing must be at least 25% of the issuer's total issued share capital.

# SUSPENSION ARRANGEMENTS

1. Suspend when the public float falls below the minimum requirement and there is a lack of open market in the listed securities
2. Suspend when the issuer fails to publish the results announcement by the deadline (which is 3 months from the year end date)
3. Suspend if the issuer fails to maintain sufficient assets or operations for listing

# MARKET MISCONDUCT

1. False trading
2. Price rigging
3. Disclosure of information about prohibited transactions
4. Fraudulent or deceptive devices, etc. in transactions in securities
5. Stock market manipulation
6. Disclosure of false or misleading information inducing transactions
7. Insider dealing

# ANALYSIS OF THE LAWS OF CHINA AND HONG KONG

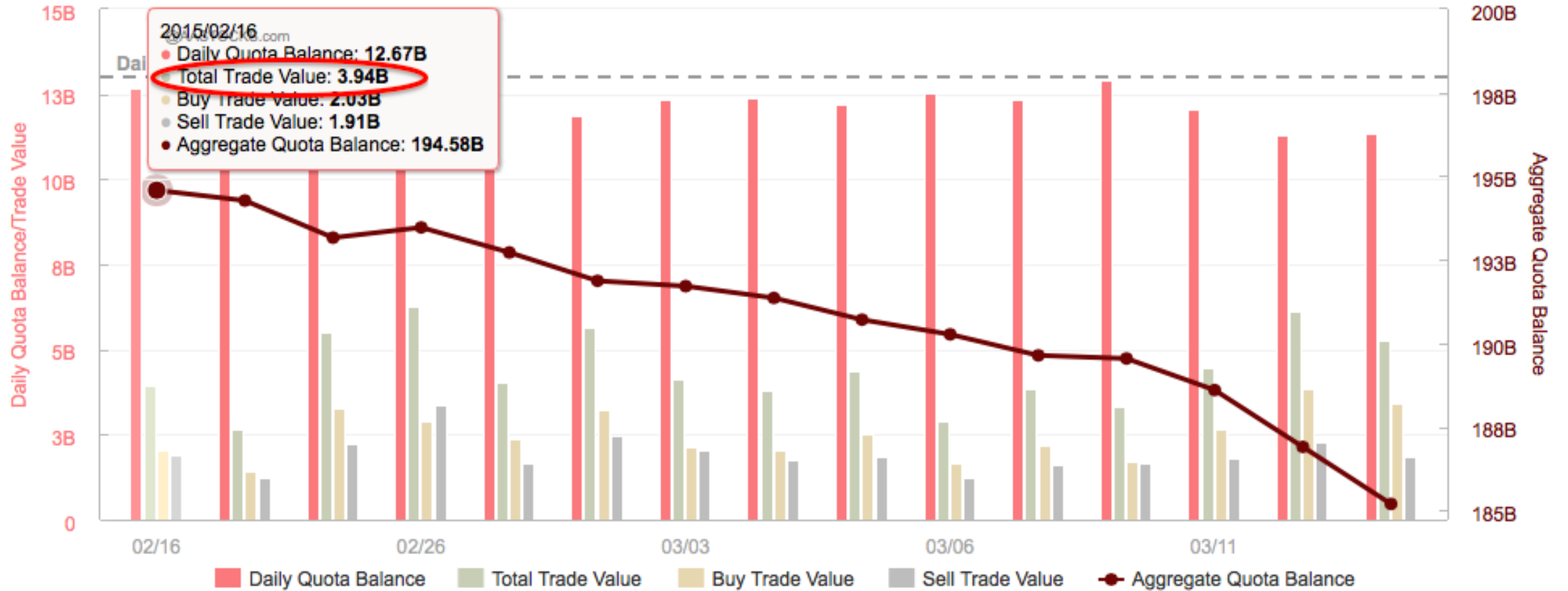
- More parties' trading behavior is limited in China
- Lower threshold in entering the China's stock market
- Similar prohibited acts in both markets
- Complicated market structure in Hong Kong as there are two boards in Hong Kong Stock Exchange



# PRECEDENT TRANSACTION ANALYSIS

# Northbound Trading Quota (Cash Flow To Shanghai) 16/02/2015

Quota Balance Data

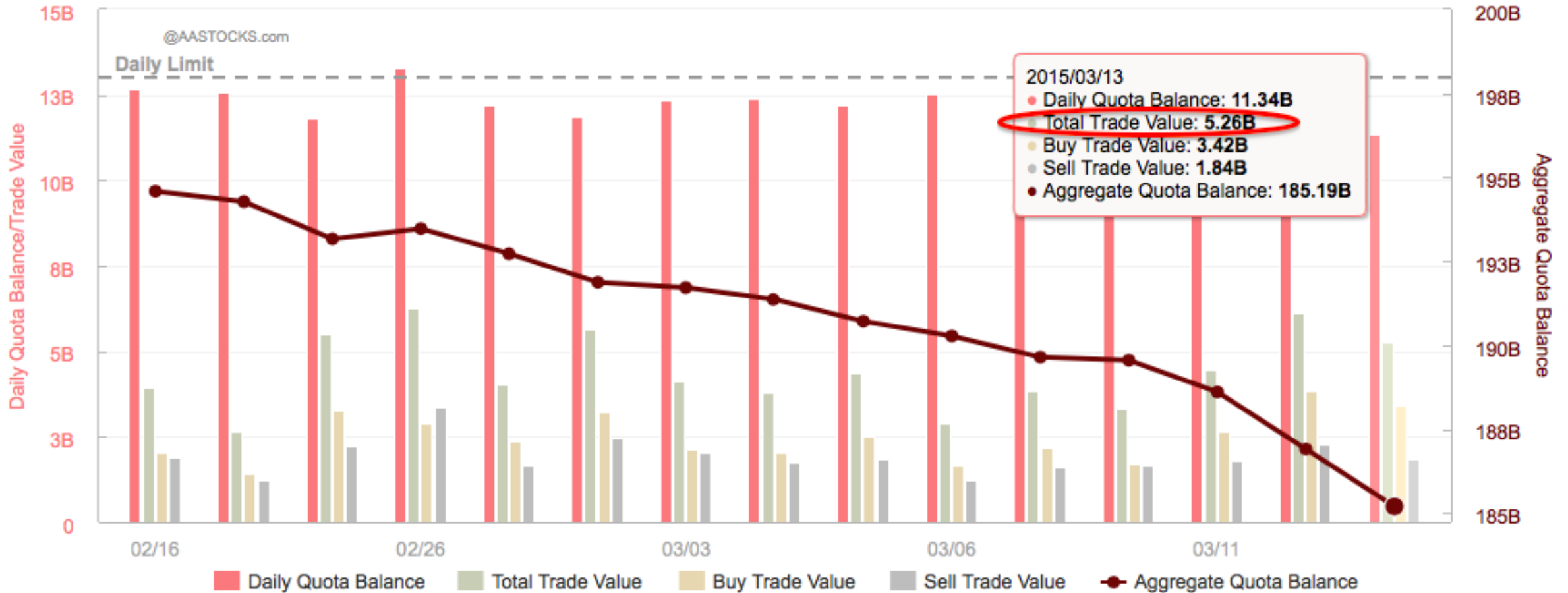




# Northbound Trading Quota (Cash Flow To Shanghai) 13/03/2015

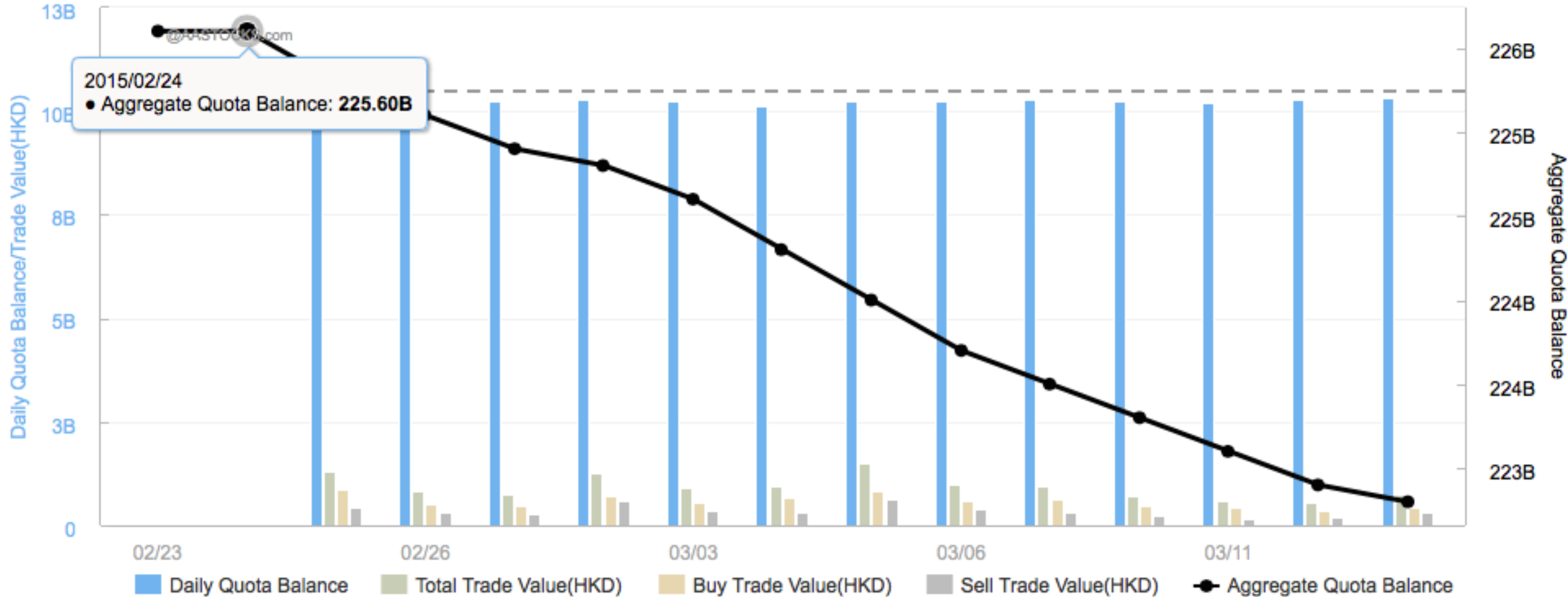
Total net cash flow increases in Mar when comparing with Feb

## Quota Balance Data



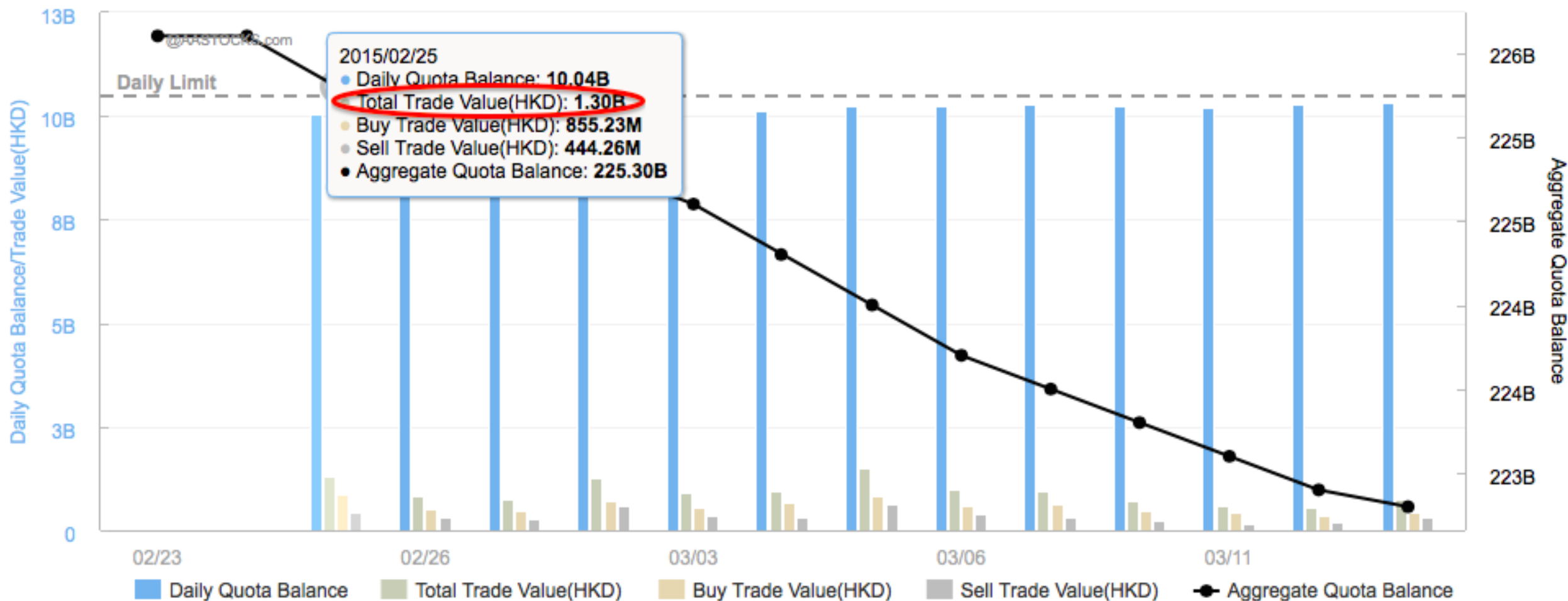
# Southbound Trading Quota (Cash Flow To Hong Kong) 24/02/2015

Quota Balance Data



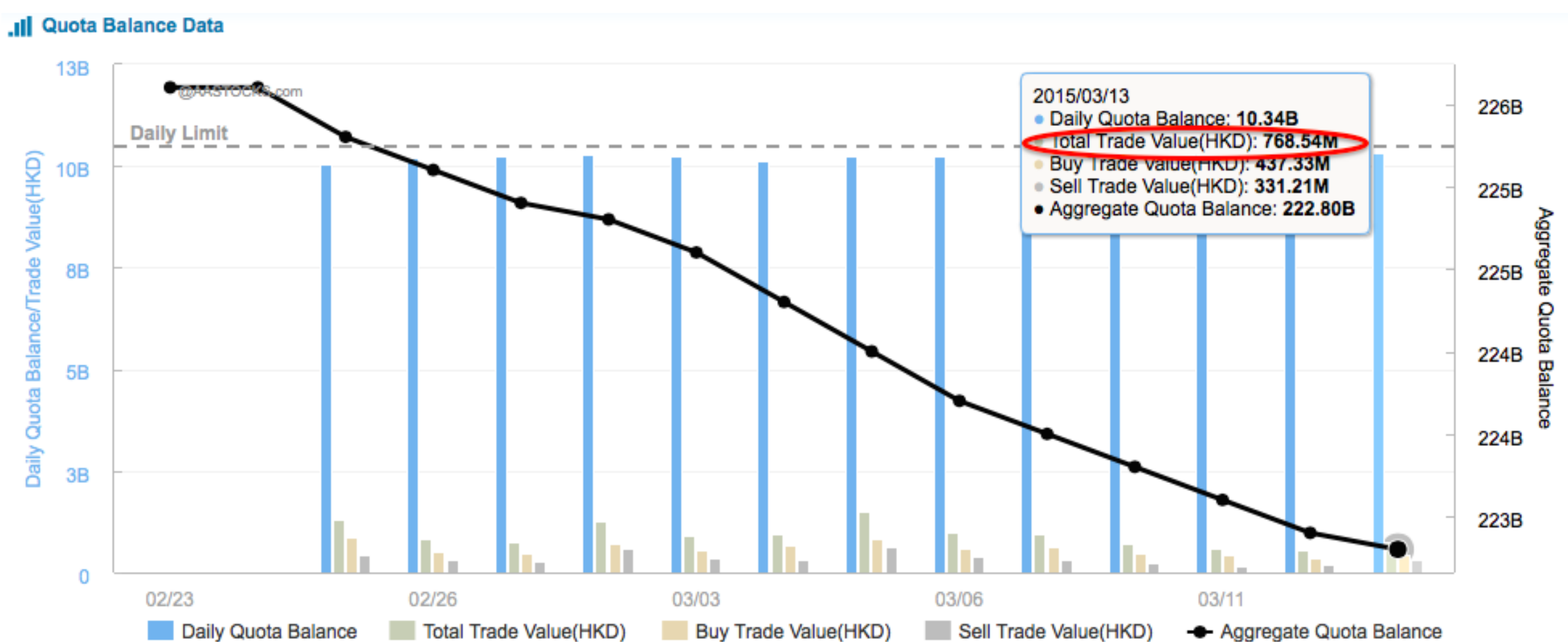
# Southbound Trading Quota (Cash Flow To Hong Kong) 25/02/2015

Quota Balance Data



# Southbound Trading Quota (Cash Flow To Hong Kong) 13/03/2015

Total net cash flow decreases in Mar when comparing with Feb



# COMPARISON(13/03/2015)

	Hong Kong	Shanghai
Buy Trade Value	437M	3.42B
Sell Trade Value	331M	1.84B
Net Cash Flow	106M	1.58B

Net Cash Flow to Shanghai is far more than Net Cash Flow to Hong Kong

# WHAT ARE THE REASONS BEHIND?

Higher performance in Shanghai Stock Market



# WHAT ARE THE REASONS BEHIND?

	<b>Northbound Trading</b>	<b>Southbound Trading</b>
<b>Potential Purchaser</b>	1. Hong Kong Individual investors	1. Shanghai Individual Investors
	2. Foreign Investors	

# WHAT ARE THE REASONS BEHIND?

Investment Quota	Northbound Trading	Southbound Trading
Aggregate Quota (RMB)	300 billion	250 billion
Daily Quota (RMB)	13 billion	10.5 billion

The Quota in fact indicates the demand side of Northbound Trading is higher





Complicated structure of the party

POLITICAL ISSUE

# ANNUAL RITUAL OF NATIONAL PEOPLE'S CONGRESS



# ANNUAL RITUAL OF NATIONAL PEOPLE'S CONGRESS

- China's strongman leader, *Xi Jinping* , is hoping that a crackdown on dissent and corruption will shore up the party's rule.
- This move deeply entrenched interest groups—such as state-owned enterprises.
- With his aggressive anticorruption campaign, the normal business model is adversely affected.

# GOAL OF POLITICS

- “39 legislators have either resigned or been dismissed. Our tough stance on corruption is here to stay,” Mr Li said.
- This is a warning to officials and bosses of state-owned enterprises not to obstruct reforms.



# GOAL OF ECONOMICS

- Mr Li called for growth of “about 7%” this year, which was already the slowest in nearly a quarter-century. He said the slowdown was what the government had expected as it tries to build a steadier, stronger economy.
- *“This is the new normal”*



# CONTRADICTION OF BOTH OBJECTIVES

- “... Calls for further economic reform, despite the complaints of industries hit by closures and job losses.”

- *Economist* - “*Go slow*”

- “The endgame of Chinese communist rule has now begun, I believe, from the instability of economics and internal power struggle.”

- *Dr. Shambaugh* - “*The Coming Chinese Crackup*”

China needs state-owned enterprises to boost the economy, while the congress are trying to scrutinize them.

# THE ONLY WAY OUT

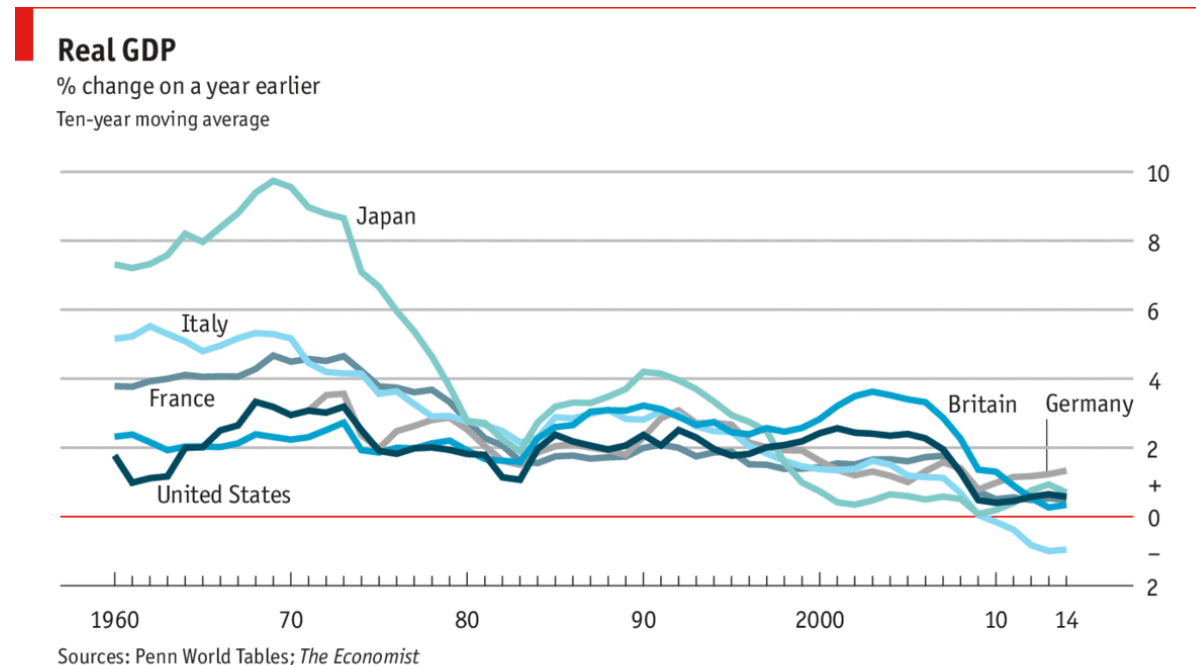
*Foreign direct investment* is the main source.

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise

But there is a few problems.

# PROBLEM OF INCORPORATING A WHOLLY OWNED SUBSIDIARY OR COMPANY

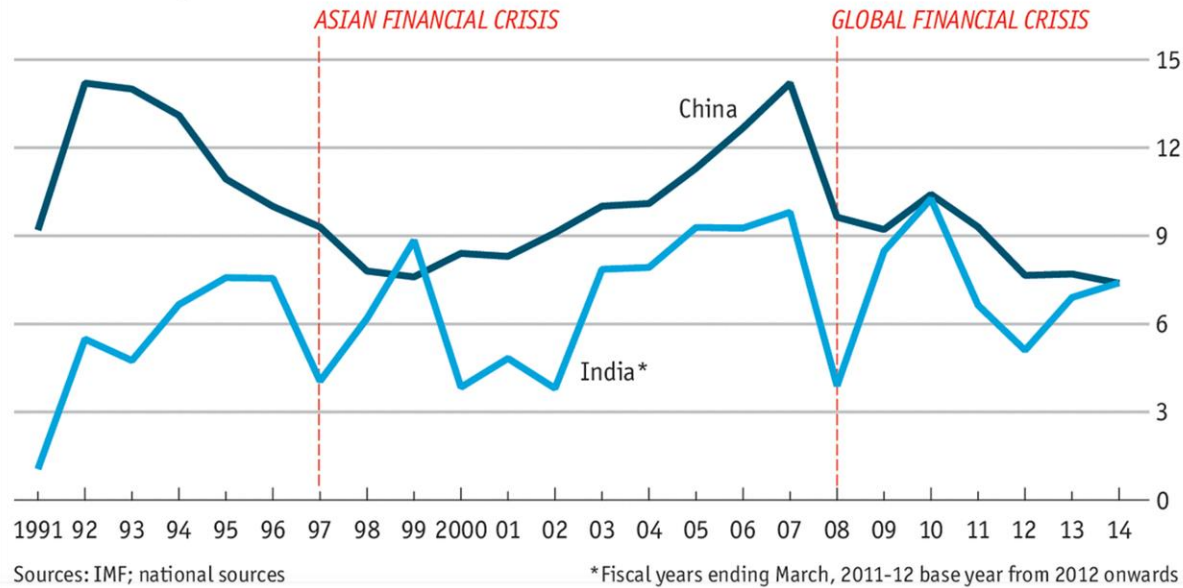
- Global competition
- China is losing edge for it's attractiveness in Asia, let alone in the position comparing to US
- Secular Stagnation
  - Worldwide, the demand of investment is shrinking.





## GDP

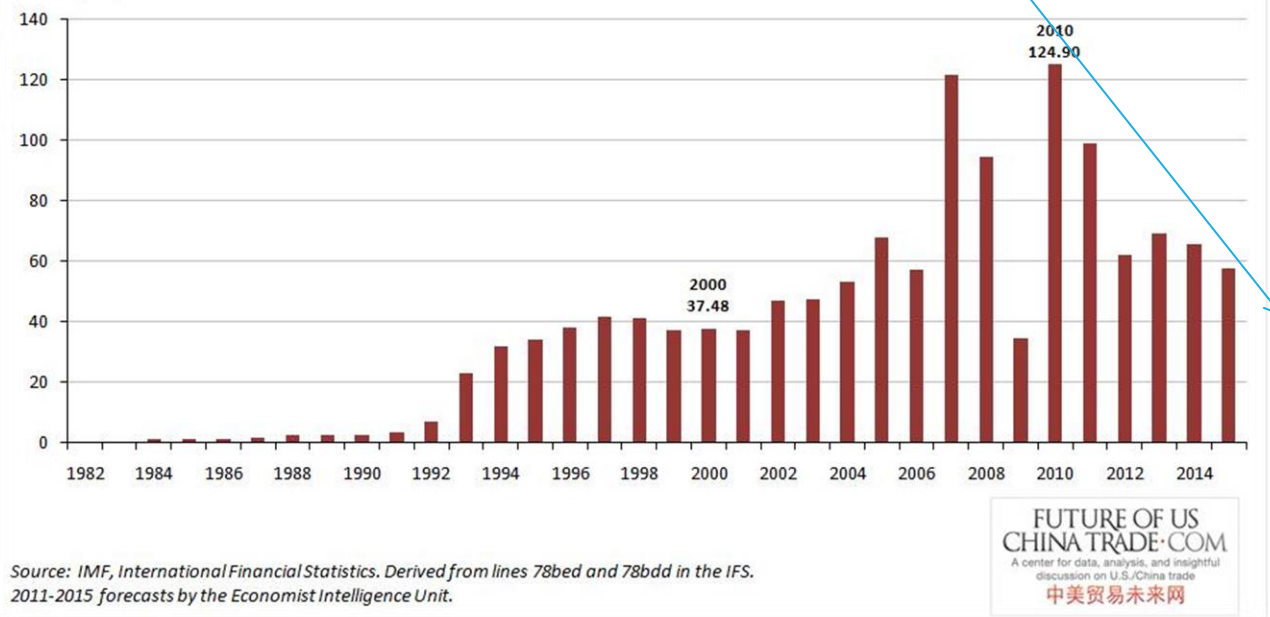
% increase on a year earlier



- China loses its attractiveness as other countries in Asia are catching up.

## China's Net Foreign Direct Investment, 1982-2015

Billions of US\$



- FDI are decreasing in a steady pace.
- Due to the indifference of transparency, investors are losing fate in China.

## The out and in club

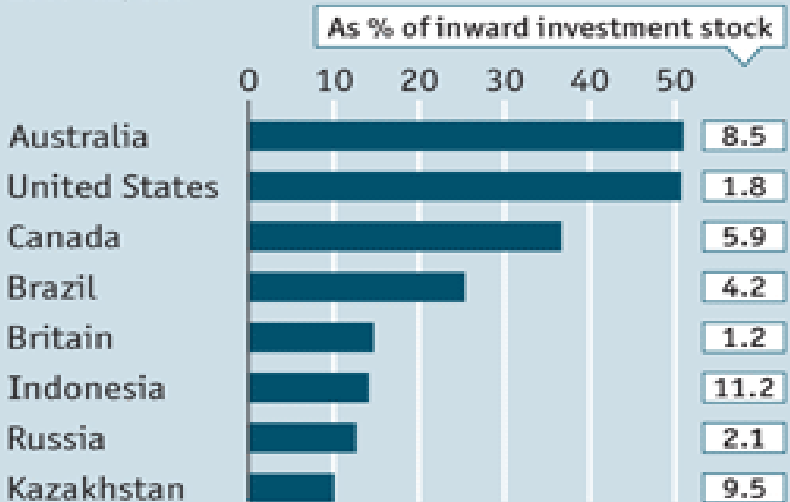
China's direct investment flows, \$bn



- China began to face a negative net investment flow. Associating with a slow growth of GDP, NPC faced an immediate need to remedy the problem.

## Where the money goes

Top destinations for Chinese outward investment 2005-12, \$bn



Sources: The Heritage Foundation; Economist Intelligence Unit

- Wealthy investors are deploying their capital into Australia and USA to avoid tax and remain stable return.
- China needs other source of investment.

# PROBLEM OF ACQUIRING SHARES IN AN ENTERPRISE

- A-shares are available only to mainland citizens and selected professional foreign investors.
- Foreign investments of A-shares are only allowed through a regulated system called Qualified Foreign Institutional Investor (QFII).
- *Too many restrictions to become a QFII, let alone you are individual but not institution.*

# SUMMARY OF THE PROBLEM

*Chinese government is undercutting the state-owned enterprises in the midst of the fading economy and sensitive competition of foreign direct investment from the global.*



*SHANGHAI-HONG KONG STOCK  
CONNECT*

# SHANGHAI-HONG KONG STOCK CONNECT

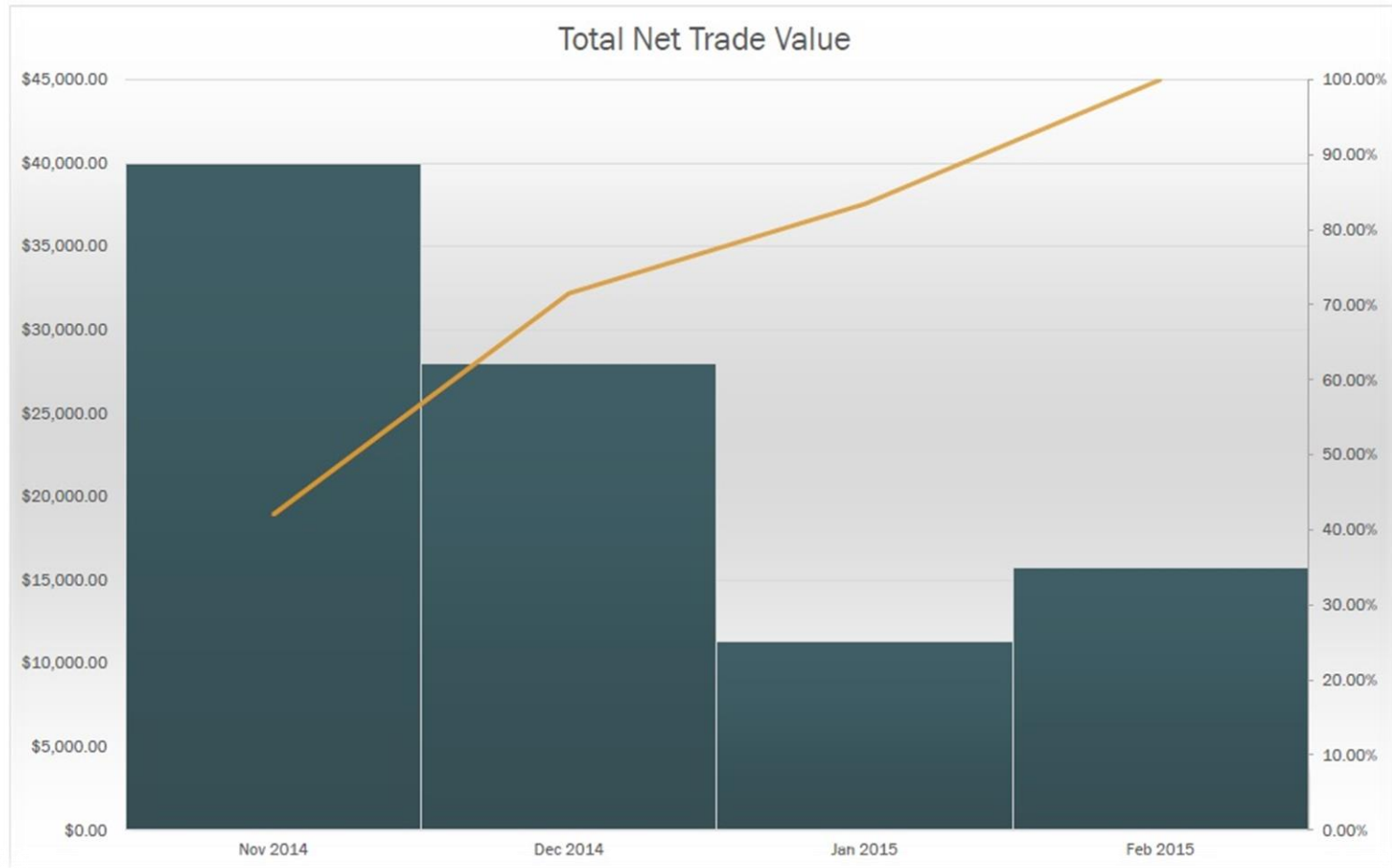
- The true aim of this *pilot programme* is to attract foreign investment(which include, but not limit to, Hong Kong) to support China's economy.
- It is an associate move with anti-corruption, in which Xi Jinping wants to establish a transparent place to be invested, reforming the structure of labor market, and stand in a moderate position of growth.

# PILOT PROGRAMME WITH STRATEGIC GOAL

- Stocks in China have never been traded by foreigners in a completely free, transparent and efficient market. The terms and restrictions always are in favor of the PRC to monitor the activity.
- This *pilot programme* aims at embarking this ambitious vision, turning Chinese exchange into an international platform.

- Net Trade value is calculated by subtracting the Buying volume with the Selling volume.
- Currency is stated as RMB.
- It shows that over a course of 4 months, China influx of capital is \$95,086 millions.

### Investment from foreign region



### ANALYSIS

Northbound Trading	Monthly Volume	Percent of Total	Cumulative Percent
<i>Nov 2014</i>	<i>\$40,000.00</i>	<i>42.07%</i>	<i>42.07%</i>
<i>Dec 2014</i>	<i>\$28,016.00</i>	<i>29.46%</i>	<i>71.53%</i>
<i>Jan 2015</i>	<i>\$11,322.00</i>	<i>11.91%</i>	<i>83.44%</i>
<i>Feb 2015</i>	<i>\$15,748.00</i>	<i>16.56%</i>	<i>100.00%</i>
<b>Total</b>	<b>\$95,086.00</b>	<b>100.00%</b>	



# SO, IS THIS PERFORMANCE SATISFIED?

## Top destinations for foreign direct investment in 2014

China	\$128bn
Hong Kong	\$111bn
US	\$86bn
Singapore	\$81bn
Brazil	\$62bn
UK	\$61bn
Canada	\$53bn
Australia	\$49bn
Netherlands	\$42bn
Luxembourg	\$36bn

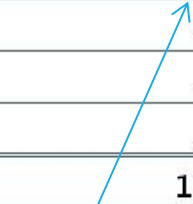
SOURCE: UNCTAD

- Foreign Direct Investment in China in 2014
- Amounting to \$128 billion dollars.
- Converting to RMB, it would be \$960,000 million dollars.
- \$95,086 millions generated in 4 months from the programme has a huge effect on the FDI as a whole.

# SO, IS THIS PERFORMANCE SATISFIED?

## ANALYSIS

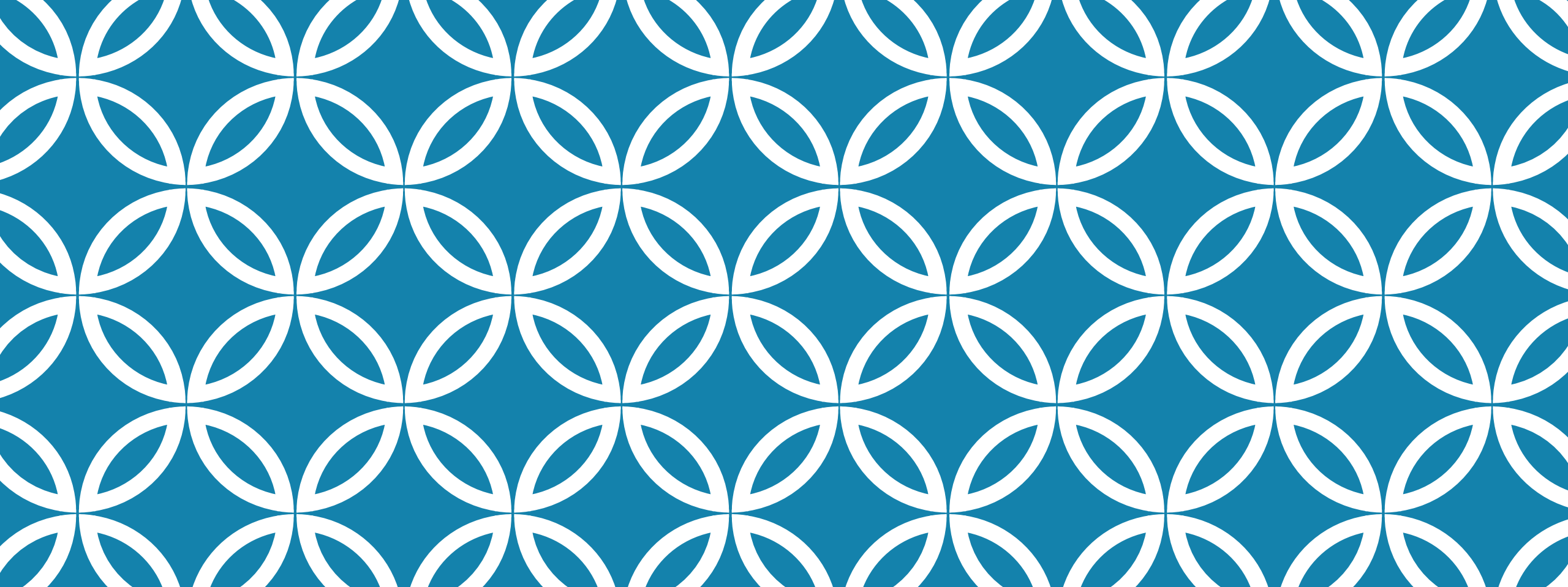
Northbound Trading	▼ Monthly Volume	▼ Percent of Total	▼ Cumulative Percent	▼
<i>Nov 2014</i>	<i>\$40,000.00</i>	<i>42.07%</i>	<i>42.07%</i>	
<i>Dec 2014</i>	<i>\$28,016.00</i>	<i>29.46%</i>	<i>71.53%</i>	
<i>Jan 2015</i>	<i>\$11,322.00</i>	<i>11.91%</i>	<i>83.44%</i>	
<i>Feb 2015</i>	<i>\$15,748.00</i>	<i>16.56%</i>	<i>100.00%</i>	
<b>Total</b>	<b>\$95,086.00</b>	<b>100.00%</b>		



- But we should also notice that there is a declining trend in the capital inflow.
- Actually, nearly 45% of the inflow was came from the premiere of the programme.
- As a result, the programme may not be sustainable to support the political reform, saying that the reform would undergo a decade to process.

# SHOULD WE JUDGE THE PERFORMANCE BY TRADING VOLUME

- As mentioned, Trading Volume is only one of the three goals of this pilot scheme.
  - A. Increase the capital inflow
  - B. The first stage to transfer China stock market into a more transparent and efficient platform.
  - C. A smooth system that can implement in other provinces.
  - D. Turning Chinese exchange into an international platform.



# **POLITICAL AND LEGAL CONTRADICTION**

Scrutinizing versus efficient  
market

# WE START FROM SHORT-SELLING

## THE WALL STREET JOURNAL.

Top News

MARCH, 06, 2015, 5:27 AM

1/2

### China's Stock Connect Falls Short on Bets Against Shares

*Industry officials say short selling rules make it impossible to bet against stocks*

By GREGOR STUART HUNTER

A week after China allowed foreign investors to bet against shares on the mainland, no one had taken up the challenge.

Industry officials say the rules that govern how the short selling should be done make it nearly impossible to bet against the stocks.

The opening of Chinese shares to short



selling came as part of the Shanghai-Hong Kong Stock Connect, which gives foreign investors unprecedented access to China's main stock market in Shanghai. The connection opened in November and trading volume has been weak in its initial months.

Regulators approved short selling via Stock Connect beginning on Monday, and no shares were sold short during the first week of trading, according to data from the Hong Kong Stock Exchange.

Asked whether Stock Connect currently permits short selling of shares, Andy

# CONFLICT BETWEEN RULE AND REGULATION

- A week after China allowed foreign investors to bet against shares on the mainland, no one had taken up the challenge.

- The rules that govern how the short selling should be done make it nearly impossible to bet against the stocks.



# RULES MADE IT DIFFICULT TO SHORT IN CHINA

Only brokers and broker affiliates can participate in short selling.

But they're not able to lend.

there's not a lot of shares(or no share) to borrow from.

# SHANGHAI-HONG KONG STOCK CONNECT

- Chinese government pursues stability in the financial(stock) market.
- They wanted to monitor demand activity before investing.
- They want to achieve a freer market, stable capital influx and avoid manipulative speculation.
- The threshold set on investor, the restrictions on trading and the market which is not fully opened.
- These legal restrictions hinders China from pursuing both goals.



滬港通  
SHANGHAI - HONG KONG  
STOCK CONNECT



WHY SHENZHEN-HONG KONG

# GEOGRAPHICAL AREA



# COMPARATIVE FINANCIAL FOUNDATION

HK: ranked 3<sup>rd</sup> as a global financial centre

SZ: ranked 4<sup>th</sup> in aggregate economic output

SZ: ranked 3<sup>rd</sup> in competitiveness on mainland

SZ: one of Mainland's important capital markets

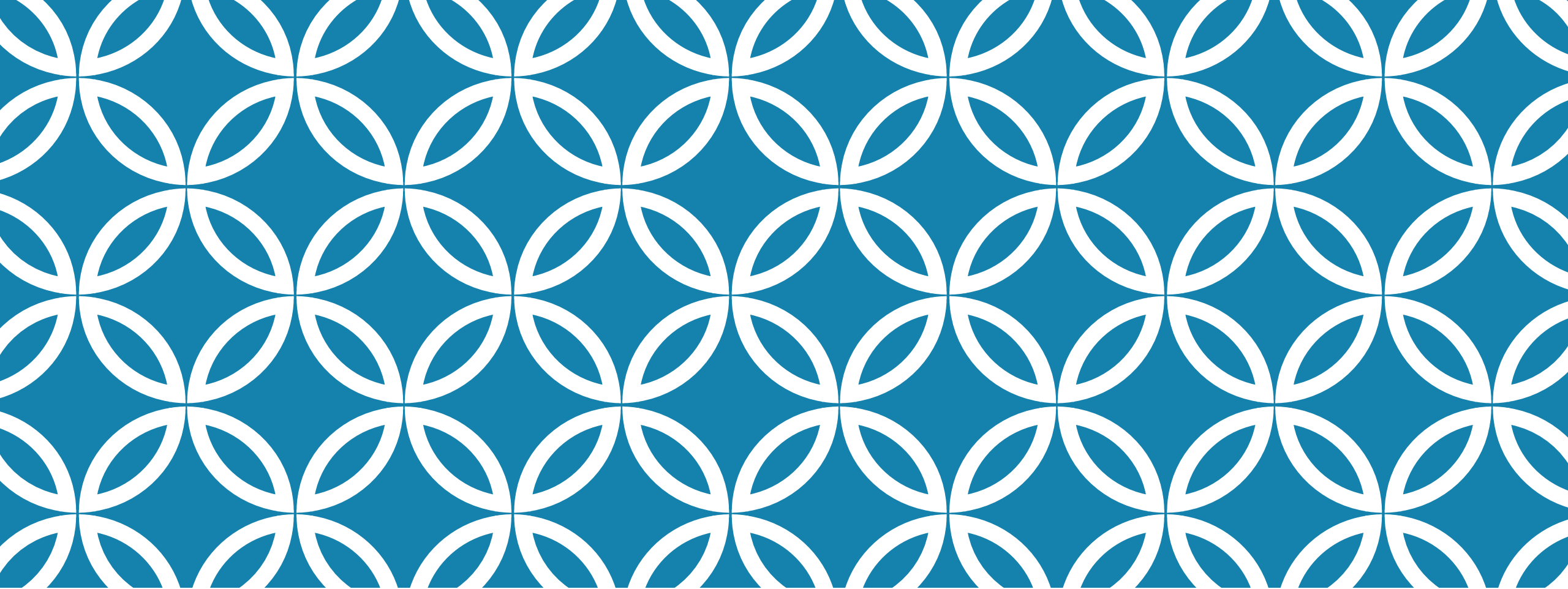
# MUTUAL BENEFITS

HK: global financial centre

Best channel to connect Mainland and the world

SZ extends HK's economic hinterland into Mainland

Hinterland: the area that surrounds a big city or port and on which the city or port depends for economic growth



# **PREDICTIONS ON SHENZHEN-HONG KONG STOCK CONNECT**



# CHINA SECURITIES REGULATORY COMMISSION (中國證券監督管理委員會)

Chairman: Xiaogang (蕭鋼)



# CHINA SECURITIES REGULATORY COMMISSION

- Technical preparation is completed
- Expected to introduce in the 3rd Quarter of this year
- Mainland plans to list medium-sized and small-sized enterprises
- Expects HK to introduce Hang Seng Midcaindex and mini-Hang Seng Index component stock

# SHENZHEN STOCK EXCHANGE (深圳證券交易所)

Chairman: Wu Lijun (吳利軍)





# 1<sup>ST</sup> PRINCIPLE

Basic structure and mode will be similar to Shanghai-Hong Kong Stock Connect

Major market operations and technical system framework will not be altered

---

# 2<sup>ND</sup> PRINCIPLE

In line with market equality principles

Emphasize on characteristics of both SZ and HK markets: large variety and multi-level

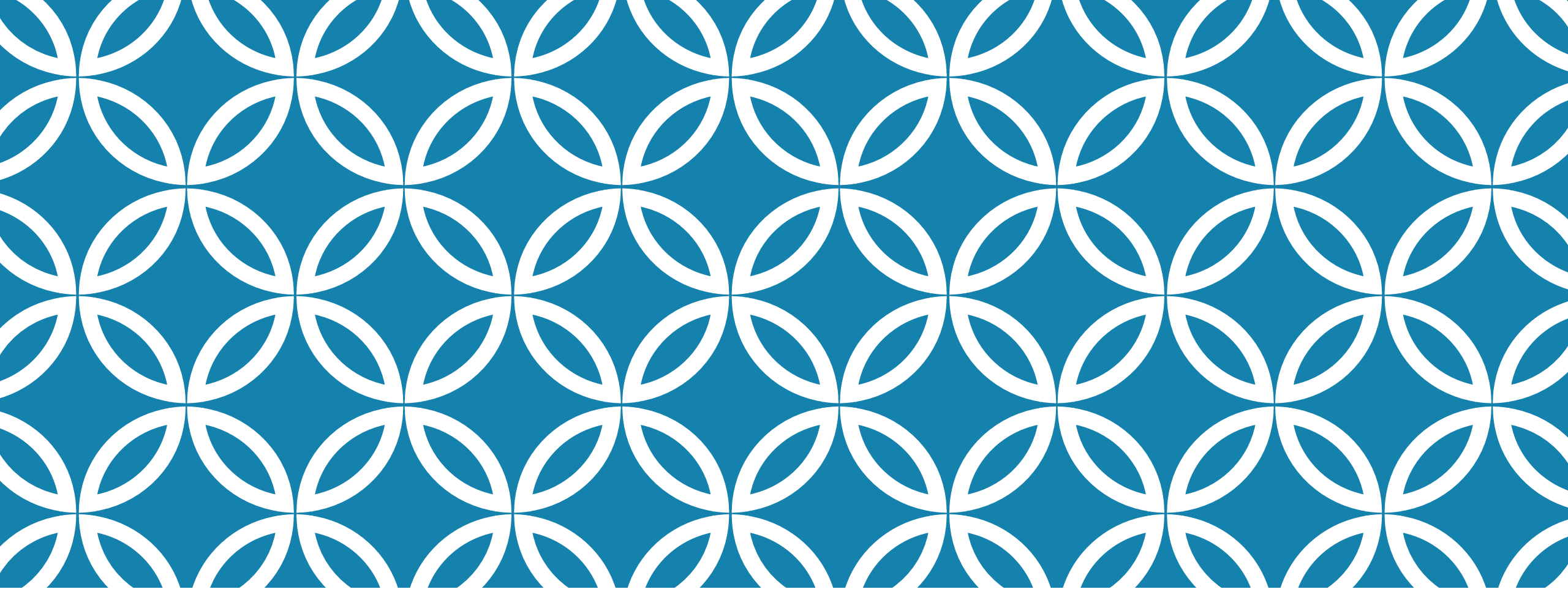
# 3<sup>RD</sup> PRINCIPLE

Scheme design will be based on market demand

---

## GENERAL PRINCIPLE

Enhance collaboration at a “newer, broader and more innovative” level



# **DIFFERENCES BETWEEN SHANGHAI STOCK MARKET AND SHENZHEN STOCK MARKET**



# LISTED COMPANIES

SH: mainly large state-owned enterprises, including banks, insurance companies, etc.

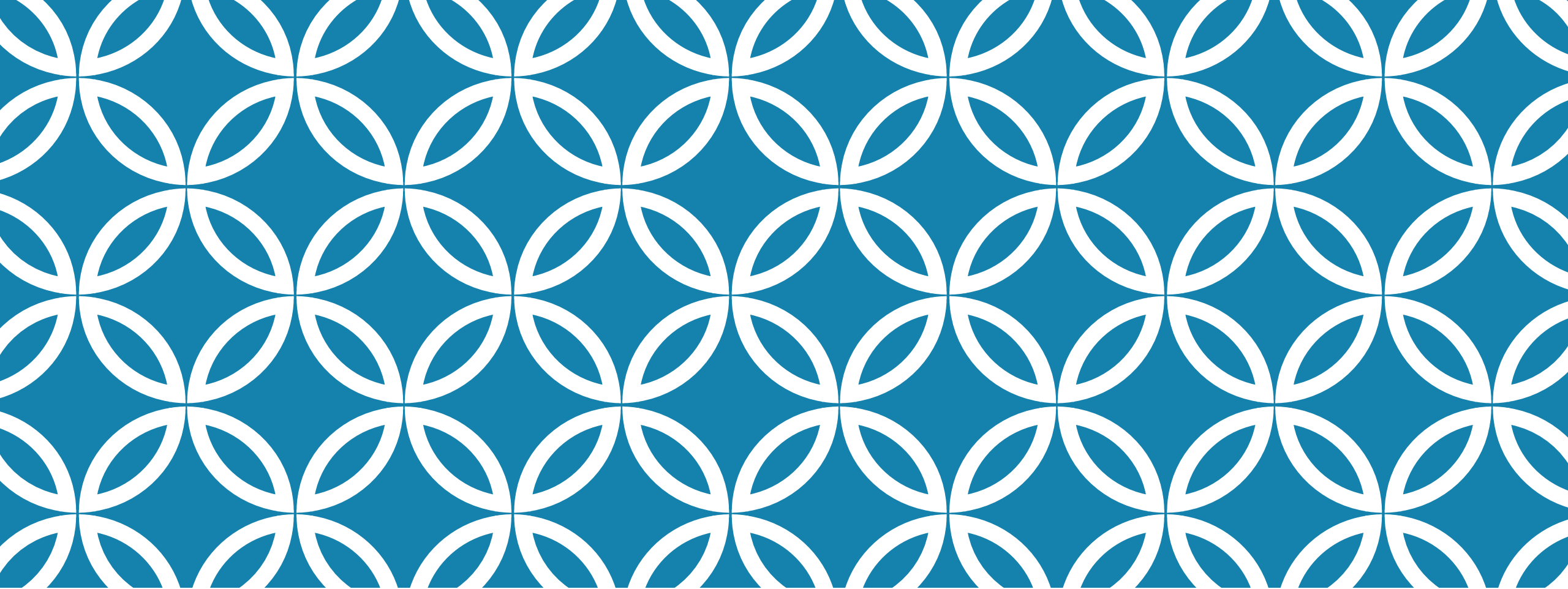
SZ: larger proportion on medium- and small-capital growth stock

SZ: More companies in emerging industries, including internet, cultural media, health

# CHANNELS OPENED UP TO OVERSEAS INVESTORS

SH-HK Stock Connect: Mainland blue chip stocks

SZ-HK Stock Connect: Mainland growth stocks



# IMPACTS ON SHENZHEN/MAINLAND



# GLOBALIZATION OF MAINLAND CAPITAL MARKET

- Reduce price difference between A shares and H shares
- Integrate mainland capital market and international market
- Urge international stock market index companies to bring A shares into component stocks
- Increase mainland stocks' actual investment value

# CAPITAL LIQUIDITY

*Before:* Overseas investors can only invest on A shares through QFII (Qualified Foreign Institutional Investor ) and RQFII (RMB Qualified Foreign Institutional Investor)

*Now:* Capital flows in more freely through SH-HK and SZ-HK Stock Connect  
Capital flow into A shares expanded

# SHENZHEN FINANCIAL STATUS

- Important channel for capital flow of RMB
- Increase financial status
- Promote development of financial sector and various industries

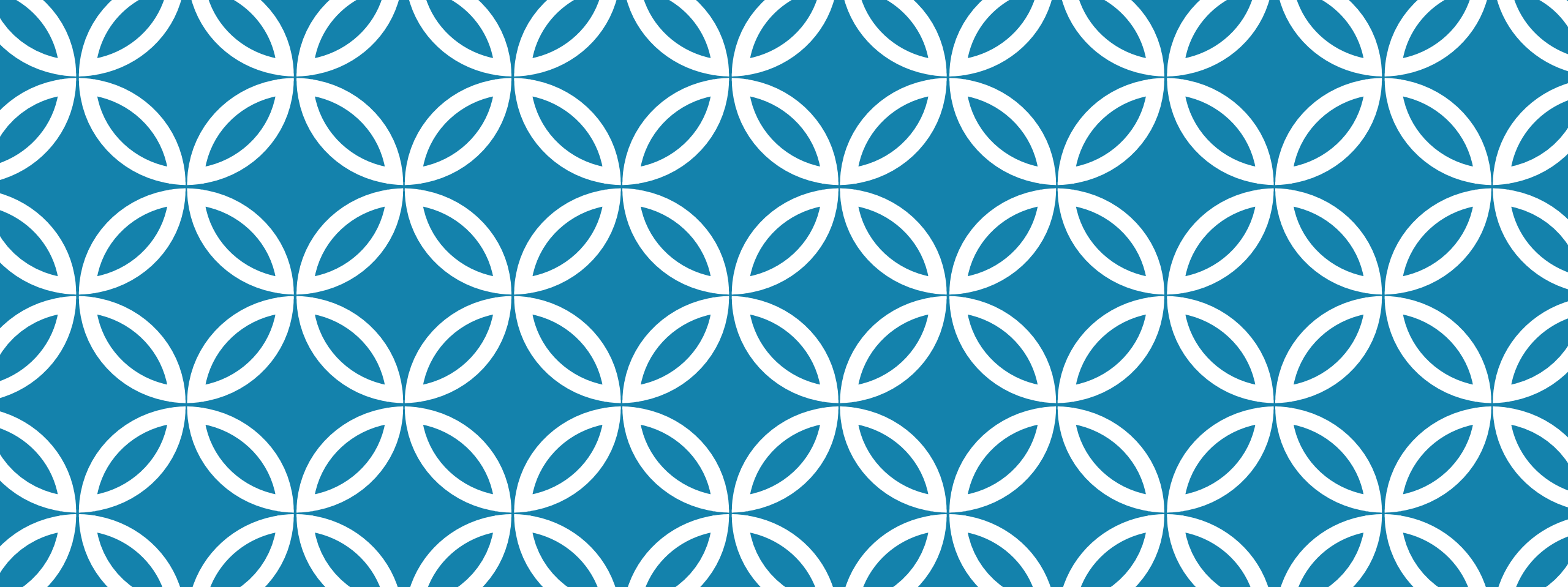


# ILLEGAL TRANSACTIONS

- Lack of legal and official platform for cross-border investment activities
- Grey zone for investors from both HK and SZ
- Illegal transactions through unofficial channels
- Opportunity for both governments to foster development of legal platform and adjust market demand

# GLOBALIZATION OF RMB

- a) 2007 US Subprime Mortgage Crisis
- b) Credibility of USD decreasing
- c) China: Economic superpower
- d) RMB globalization is a solution



# IMPACTS ON HONG KONG STOCK MARKET



# STATUS OF GLOBAL FINANCIAL CENTRE (SHORT RUN)

- Increase the importance of HK as an intermediary

# STATUS OF GLOBAL FINANCIAL CENTRE (LONG RUN)

- Mainland market may be completely opened up
- Global investors do not have to invest via HK
- Globalization of SH and SZ poses threat to HK's global financial centre status
- HK needs to innovate and provide extra value-added services in order to maintain its status

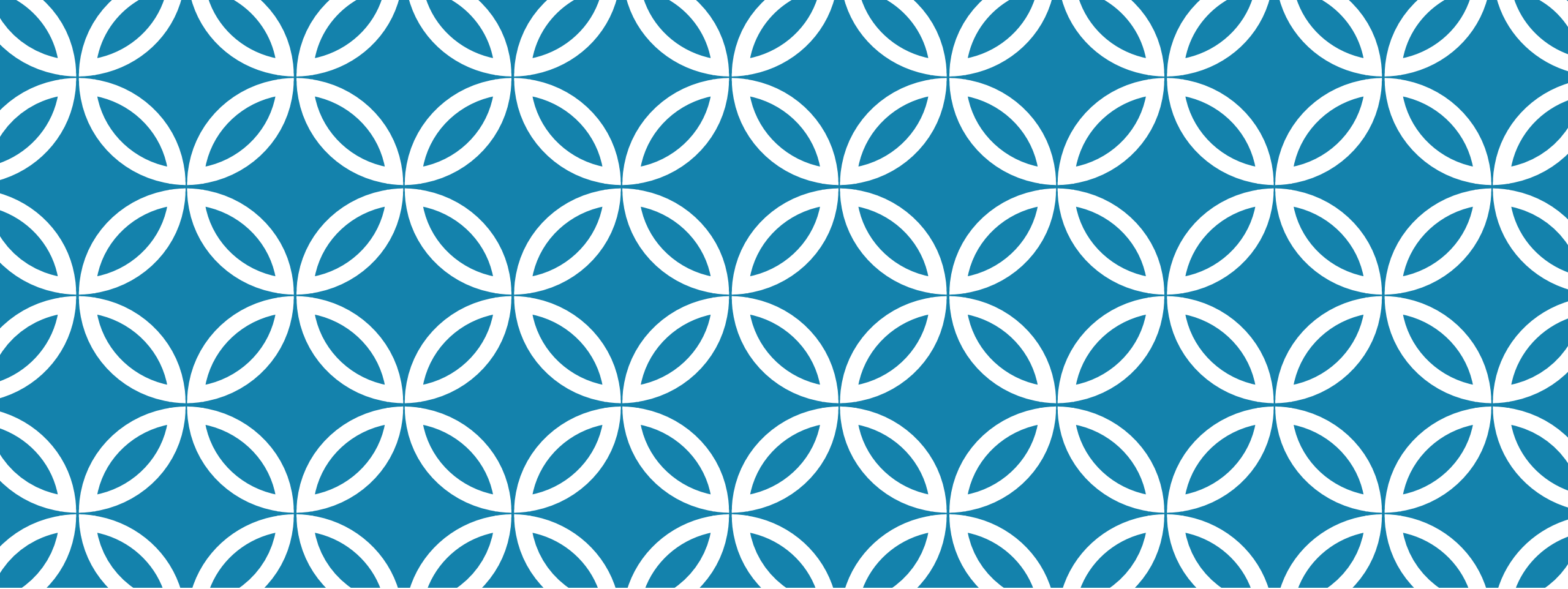


# ECONOMIC HINTERLAND

- SZ extends HK's economic hinterland into Mainland
- Enhance HK's status as a global financial centre

# LARGER VARIETY OF STOCKS

- A shares
- Only available for purchase by mainland citizens
- Foreign investment is only allowed through a tightly-regulated structure (QFII and RQFII)



# IMPACTS ON OVERSEAS STOCK MARKET



# ATTRACTIVENESS

- Gradual opening up of mainland stock market
- More variety in stock market
- More attractive to global investors





# Q&A SECTION

# SHOULD WE JUDGE THE PERFORMANCE BY TRADING VOLUME

- As mentioned, Trading Volume is only one of the three goals of this pilot scheme.
  - A. Increase the capital inflow
  - B. The first stage to transfer China stock market into a more transparent and efficient platform.
  - C. A smooth system that can implement in other provinces.

# WHAT ARE THE REASONS BEHIND?

Investment Quota	Northbound Trading	Southbound Trading
Aggregate Quota (RMB)	300 billion	250 billion
Daily Quota (RMB)	13 billion	10.5 billion

The Quota in fact indicates the demand side of Northbound Trading is higher