

Shanghai-Hong Kong Stock Connect

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1 Overview

2 Key Features

3 Implementation Timetable

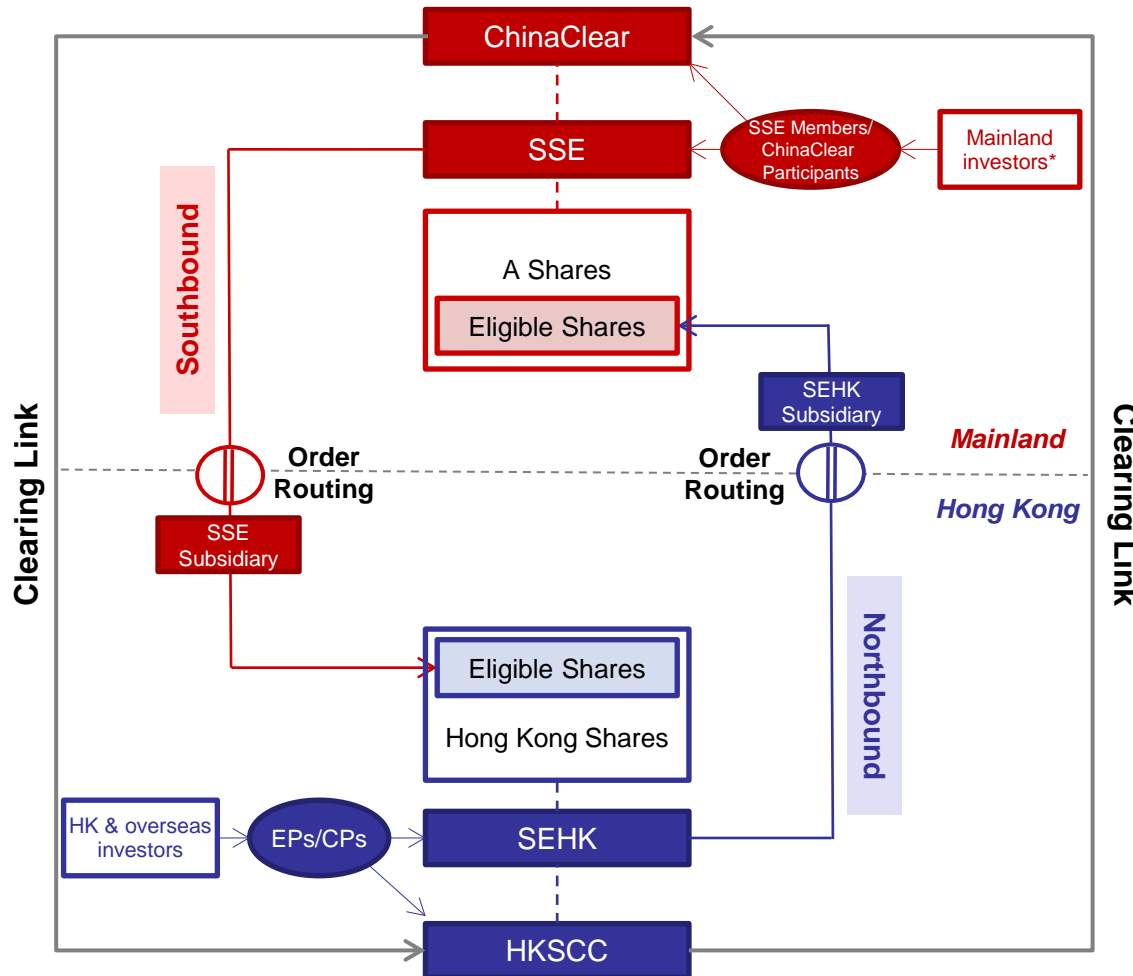
What is Shanghai-Hong Kong Stock Connect?



Shanghai-Hong Kong Stock Connect is a mutual market access programme, through which investors in Hong Kong and Mainland China can trade and settle shares listed on the other market respectively via the exchange and clearing house in their local market

Key Features of Shanghai-Hong Kong Stock Connect

To achieve maximum market efficiency with minimum systemic risks



- Order Routing in Gross for Maximum Price Discovery
- Clearing and Settlement in Net for Minimum Cross-boundary Fund Flow
- All RMB Conversion in HK, Facilitating Offset of Currency Conversion
- Closed Loop Cross-Boundary Fund Flow to Achieve Stringent Risk Management
- “Home Market” Rules and Laws Apply to the Extent Possible
- Reciprocal Structure for Alignment of Interest
- Equal Revenue Sharing to Achieve Win-win Solution
- Quota Applied for Smooth and Stable Launch
- Scalable in Size, Scope and Market in the Future

*Note: Only eligible Mainland investors can participate in Southbound trading

Strategic Rationale – What Does It Mean for Mainland?



Facilitate the internationalisation of Mainland's capital markets
by attracting a broader range of investors

Enable investment portfolio diversification for Mainland investors

Facilitate the development of Shanghai as Mainland's international financial centre

Pave the way for RMB internationalisation and further opening up
of China's capital market

An important step in the opening up of the China capital market and enhancing capital market connectivity between Mainland China and Hong Kong

Strategic Rationale – What Does it Mean for Hong Kong?



**Solidifies Hong Kong's status as the gateway for Mainland to go global
and for international investors to access Mainland**

Enhances Hong Kong's position as the primary offshore RMB centre

Enhances Hong Kong market liquidity and broaden investor base

Paves the way for mutual market access for other asset classes

Reinforces Hong Kong's position as an international financial centre

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Overview of Key Features



Applicable Rules

Trading Links

Clearing Links

Eligible Securities

Participant and Investor Eligibility

Quotas

Applicable Rules



- *All cross-boundary orders executed under Shanghai-Hong Kong Stock Connect will be subject to the rules and applicable laws of the exchange/jurisdictions where the orders are matched and executed*
- *Cross-boundary market practice is reflected in own market's exchange and clearing rules and procedures*

For example:

Northbound

Southbound

Trading Hours	<ul style="list-style-type: none"> • 09:15 – 09:25 / 09:30 – 11:30 / 13:00 – 15:00 • Allow order input 5 min. prior to opening of A share market 	<ul style="list-style-type: none"> • Follow SEHK trading hours
Settlement Cycle	<ul style="list-style-type: none"> • Securities settlement: T-day • Money settlement: T+1 	<ul style="list-style-type: none"> • T+2
Currency	<ul style="list-style-type: none"> • Trading and settlement: RMB 	<ul style="list-style-type: none"> • Trading currency: HKD • Between Mainland brokers & ChinaClear: RMB • Between ChinaClear & HKSCC: HKD
Price Limit	<ul style="list-style-type: none"> • $\pm 10\%$ on previous closing price • Any orders with price beyond the price limit will be rejected 	<ul style="list-style-type: none"> • No price limit
Fees*	<ul style="list-style-type: none"> • Subject to existing fees and levies applicable to the A share market • New fee for corporate action services for A shares 	<ul style="list-style-type: none"> • Subject to existing fees and levies applicable to the Hong Kong securities market

Note: * SSE and SEHK, ChinaClear and HKSCC will equally share the revenue generated from the Trading Links and Clearing Links on a fair and equitable basis respectively

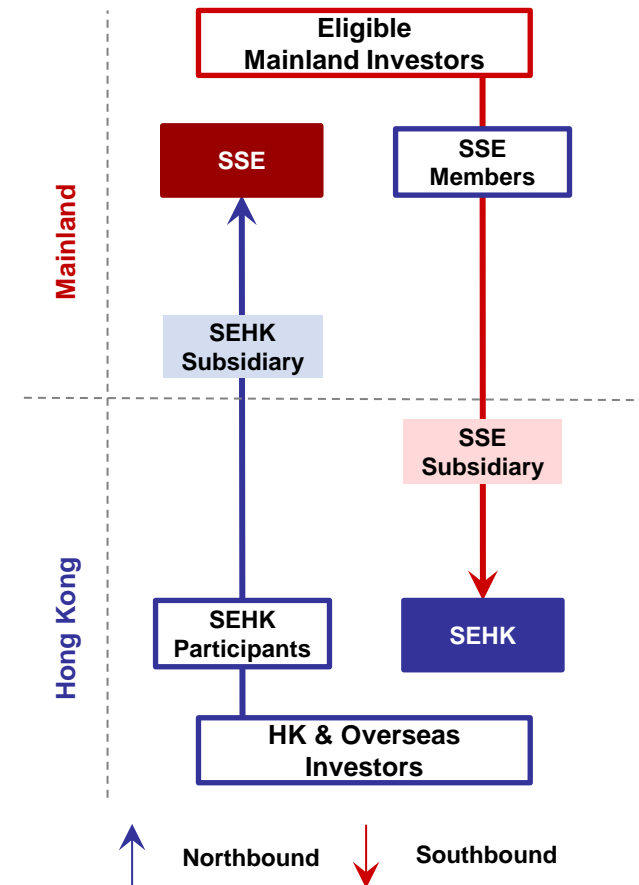
Trading Links

Between SEHK and the SSE



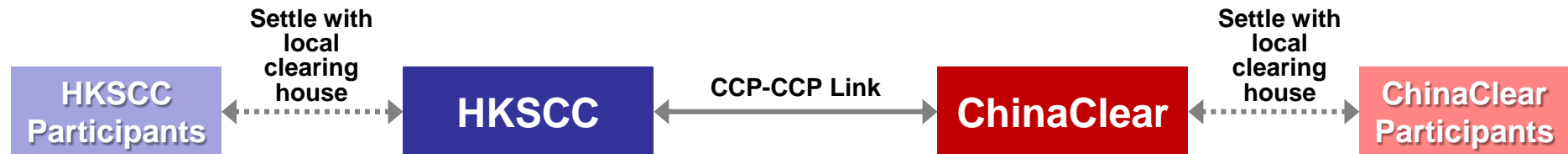
- Each exchange sets up a subsidiary in the other market, and becomes a special participant of the other exchange
- Mutual order-routing connectivity enabled by designated gateway and through the subsidiary of each exchange
- Investors, through local brokers, send orders to and receive confirmation from the subsidiary of local exchange
- Investors and market participants continue to be governed by local trading rules, which will be amended to facilitate Shanghai-Hong Kong Stock Connect

Illustration of Order Flow



Clearing Links

Between HKSCC and ChinaClear



- Clearing houses become each other's special clearing participant
- Responsible for the clearing and settlement of the trades executed by its market participants and investors on the other's market
- CCP-CCP Link:
 - Each clearing house settles with the Home CCP* on behalf of its local participants for their cross-boundary trades
 - Subject to Home CCP's clearing and risk management rules
- Settlement between CCP and own participants:
 - Home CCP imposes risk management measures on the other clearing house, the other clearing house generally imposes the same on its own participants
- Each clearing house will provide nominee services to own participants for their securities acquired through Shanghai-Hong Kong Stock Connect

Eligible Securities



	Northbound: SSE Securities	Southbound: SEHK Securities
Index Constituent Stocks	SSE180 SSE380	HS LargeCap HS MidCap
A+H	SSE-SEHK A+H	SSE-SEHK A+H
Excluding	Stocks under "Risk Alert"	<ul style="list-style-type: none"> • HK Shares that are not traded in HKD • A+H on any other Mainland exchange
Total No of Stocks	568	266
Market Capitalisation	90%	82%
Average Daily Turnover	80%	78%

Note: No. of stocks as at 10 April 2014; MC as at 31 March 2014 and ADT is for Jan-March 2014

At this stage, Shanghai-Hong Kong Stock Connect does not apply to IPOs

Investor and Participant Eligibility



Investor Eligibility

Northbound

All Hong Kong and overseas institutional investors

All Hong Kong and overseas individual investors

Southbound

All Mainland institutional investors

Qualified individual investors (with minimum securities and cash asset value of RMB 500,000)

Participant Eligibility

Northbound

All SEHK Participants

All HKSCC Participants*

Southbound

All SSE Members

All ChinaClear Participants

Subject to Participants/Members meeting certain eligibility and readiness requirements

* Except for Investor Participants who should maintain their A shares with their brokers or custodians

	Northbound Trading SSE Securities	Southbound Trading SEHK Securities
Maximum Aggregate Quota	RMB 300 billion	RMB 250 billion
Daily Quota	RMB 13 billion	RMB 10.5 billion

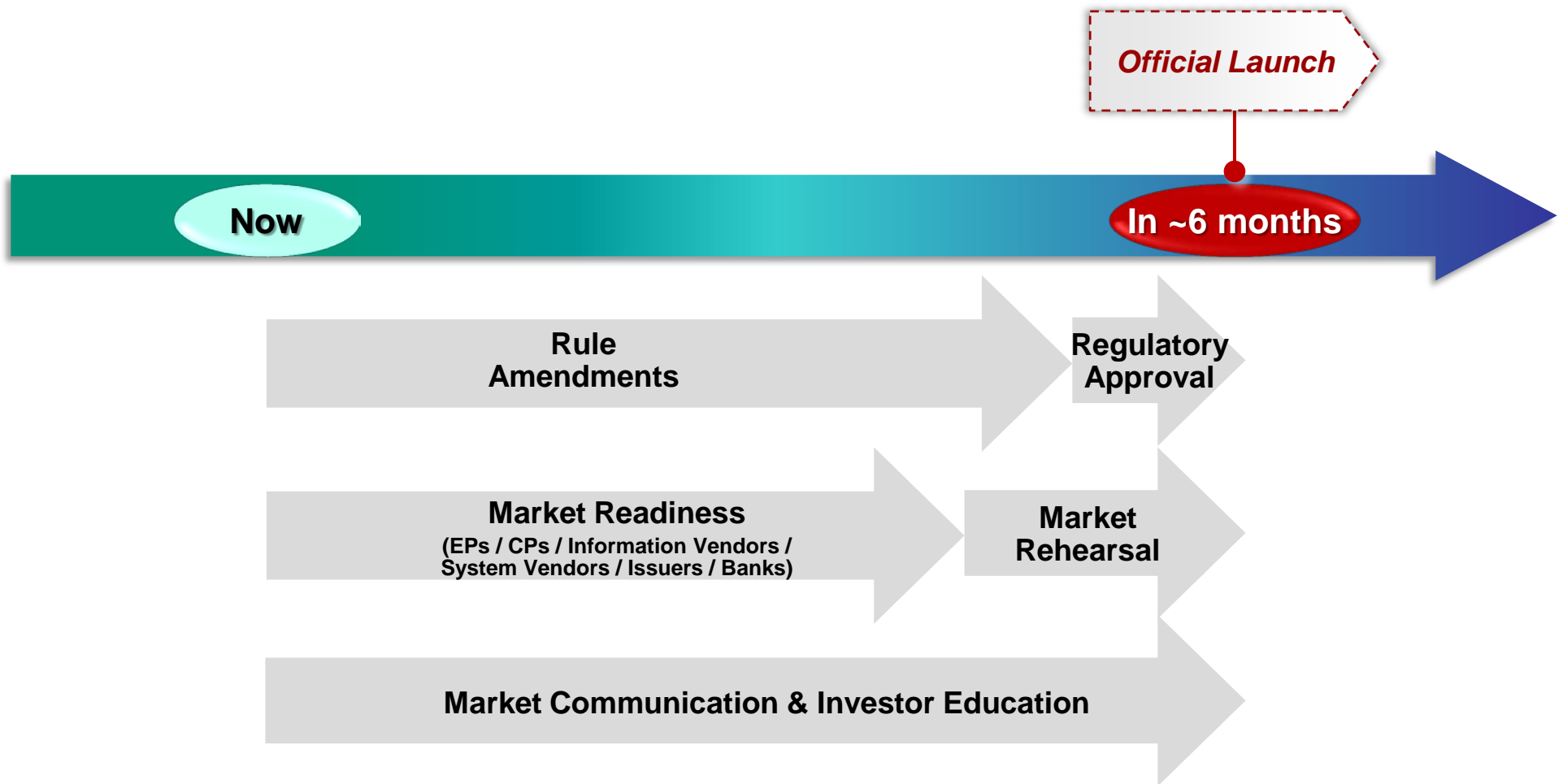
- Purpose: To ensure stability in Hong Kong and Mainland China markets, and the smooth implementation of Shanghai-Hong Kong Stock Connect
- Calculated on “net buy” basis
- If quota is used up, no new buy orders will be accepted
- No restrictions on sell orders
- Quotas may be adjusted in the future

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High-level Implementation Timetable



It should take approximately six months to complete the preparation for formal launch

More Information on the Website



Visit Shanghai-Hong Kong Stock Connect Web Corner at:

www.hkex.com.hk/chinaconnect

Is not a new product,

Is not a concessionary policy,

Is not a stimulus for A shares,

Is not a gift to Hong Kong.

It is a milestone of China financial market opening,

It is the first ship of the historic voyage of China's capital market opening.

Smooth Sailing, Safe Arrival



Questions and Answers