

Launch of Shenzhen Connect: The Shenzhen-Hong Kong Stock Connect will allow global investors access to the country's tech-heavy exchange

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This material is **solely for the attention of « professional » investors** (see more details and definitions at the end of the document).

Key Features of the Stock Connect Programme

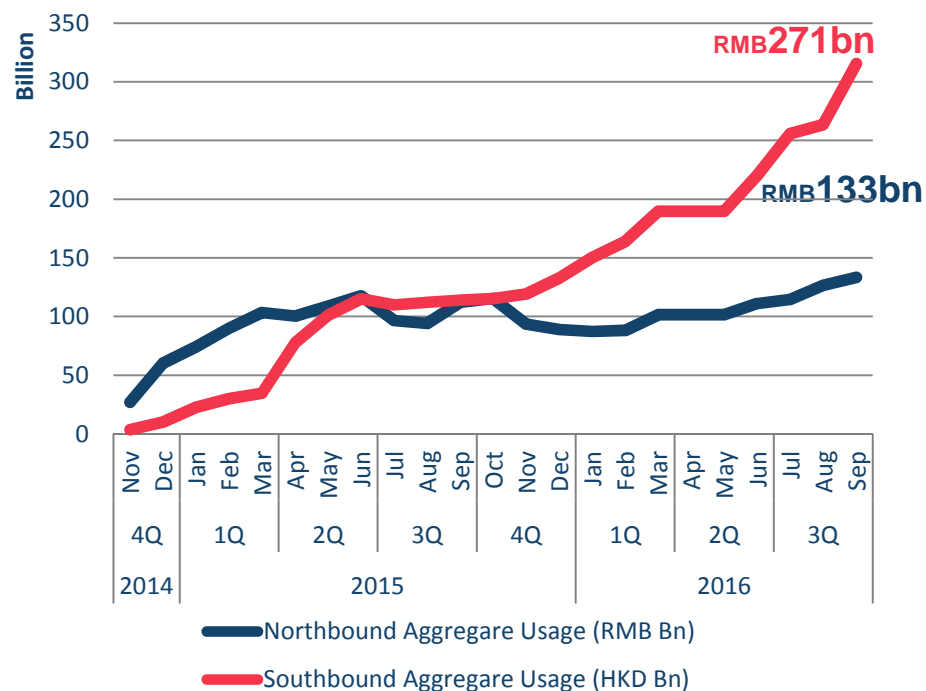
Estimated based on data as of end July 2016

			Shanghai Connect NB Trading	Shenzhen Connect NB Trading
NORTHBOUND	Eligible Stocks	No.	567 (One single board)	~880 ¹ (Main: ~270, SME: ~410, ChiNext: ~200)
		Mkt Cap	RMB 21.8tn (85%)	~RMB 15tn (74%)
		ADT	RMB 137bn (68%)	~RMB 230bn (68%)
	Quota	Agg. Quota	Abolished	None
		Dly. Quota	RMB 13bn	RMB 13bn
	Investors	Eligibility	None	ChiNext participation limited to institutional professional investors initially ³
			Shanghai Connect SB Trading	Shenzhen Connect SB Trading
SOUTHBOUND	Eligible Stocks	No.	318 (Hang Seng Composite LargeCap, MidCap & A+H shares not in indices)	~417 ² (Hang Seng Composite LargeCap, MidCap, SmallCap & A+H shares not in indices)
		Mkt Cap	HKD 19.8tn (82%)	~HKD 21tn (87%)
		ADT	HKD 37bn (85%)	~HKD 39bn (92%)
	Quota	Agg. Quota	Abolished	None
		Dly. Quota	RMB 10.5bn	RMB 10.5bn
	Investors	Eligibility	RMB 500k	RMB 500k

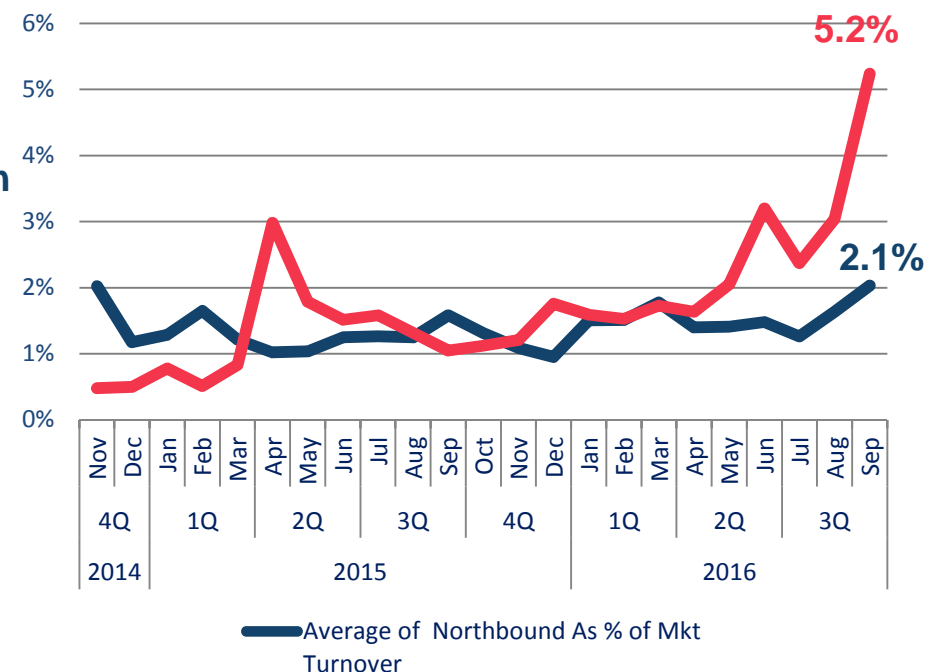
¹ Shenzhen Connect Northbound: Constituents of SZSE Component & SZSE Small/Mid Cap Innovation indices with market capitalisation of at least RMB 6 bn, and SZSE-SEHK A+H shares (except shares under "risk alert" or delisting arrangement). Periodic review of eligible stock list inline with half-yearly rebalancing of underlying indices. Methodology: 6-month daily average 1 Nov 2015 till 30 Apr 2016 (review period for end 2016 launch) (2) SZ Southbound: Constituents of Hang Seng Large & Mid-Cap indices, constituents of Hang Seng Small-Cap index with market capitalisation of at least HKD 5 bn, and SSE-SEHK and SZSE-SEHK A+H shares. Periodic review of eligible stock list inline with half-yearly rebalancing of underlying indices. Methodology: 12-month monthly average 1 Jul 2015 till 30 Jun 2016 (review period for end 2016 launch) (3) Subject to resolution of related regulatory issues, other investors can trade ChiNext stocks listed on SZSE

Shanghai Connect: New Trends in Northbound and Southbound Trading

Stock Connect Aggregate Usage



Stock Connect Turnover as a % of Market Turnover



Southbound investment continues to grow while Northbound shows steady increase in recent months

CES China 120 Index

Cross border Mainland: A benchmark for the China equity market

Features of CES 120:

- 53.4% weighting on A-shares, 46.6% on HK listed Mainland stocks (Sep 2016)
- Closely track movement of A-shares
- Correlation with CSI300 / A50 > 0.90*
- Risk diversified with H-shares

A-shares: 53.4%

Share Class Distribution by Market Capitalisation

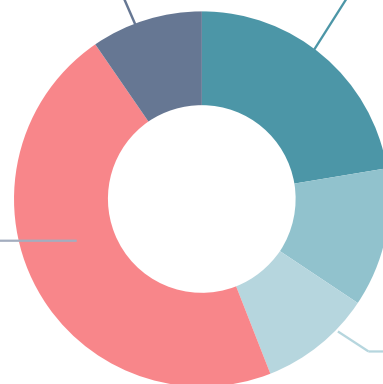
HK Shares: 46.6%

Shenzhen A-shares: 11.7%

China Vanke (000002)
Gree Electric (000651)
Suning Commerce (002024)
Ping An Bank (000001)
Midea Group (000333)

Shanghai A-shares: 41.7%

Ping An Insurance (601318)
China Merchants Bank (600036)
China Minsheng Bank (600016)
Industrial Bank (601166)
CITIC Securities (600030)



H-Shares: 21.5%

CCB Corp (939)
ICBC (1398)
Bank of China (3988)
Cn Ping An (2318)
China Life Ins (2628)

Red Chips: 14.2%

China Mobile (941)
CNOOC (883)
China Overseas (688)
CITIC (267)
China Unicom (762)

P Chips: 10.9%

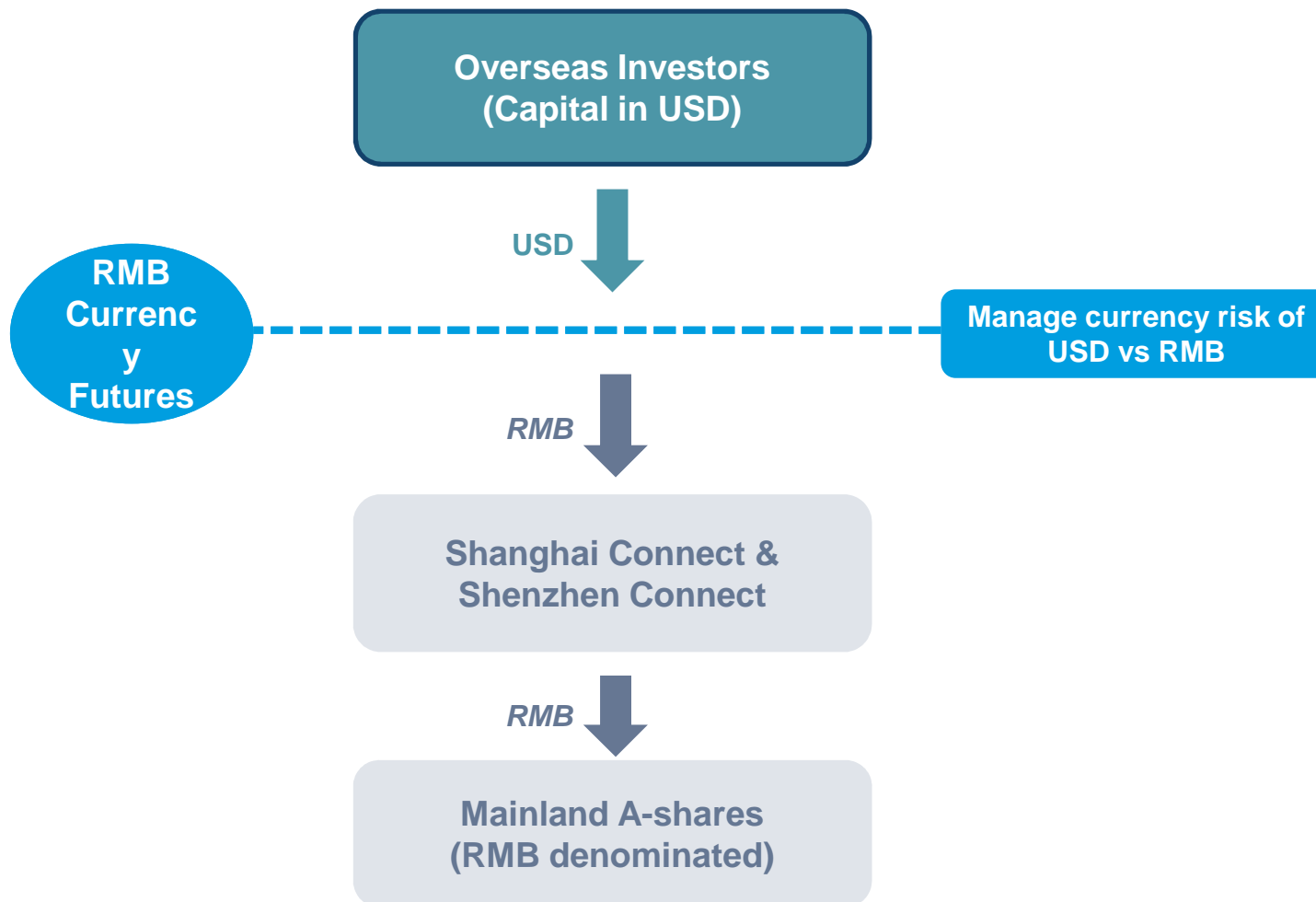
Tencent (700)
Hengan Intl (1044)
Want Want China (151)
Belle Intl (1880)
Tingyi (322)

90% Correlation to CSI300*

Futures contract available through HKFE

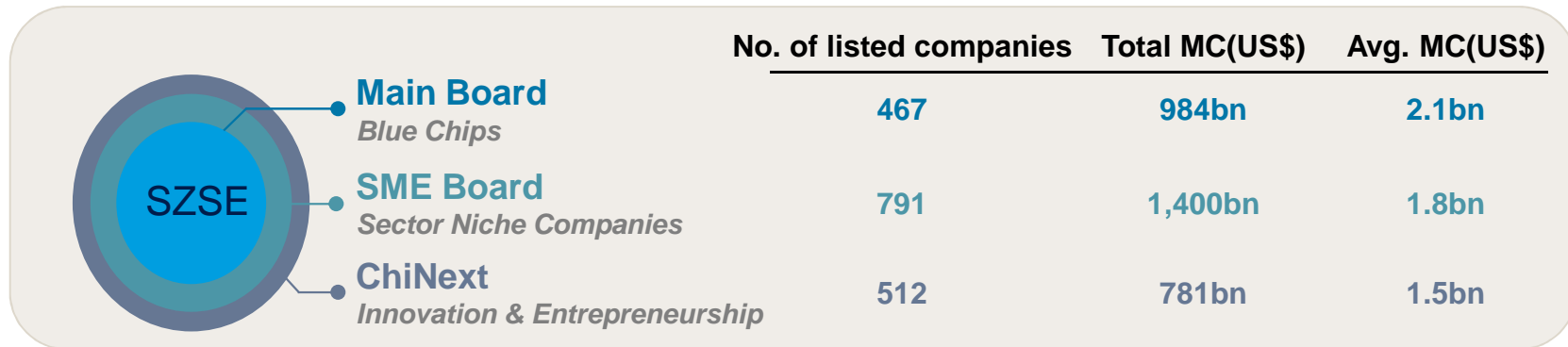
RMB Currency Futures as a Risk Management Tool

For Northbound Trading



Overview of the Shenzhen Market

Three market tiers - serving companies at different stages of development



SZSE's presence in the A-share market:

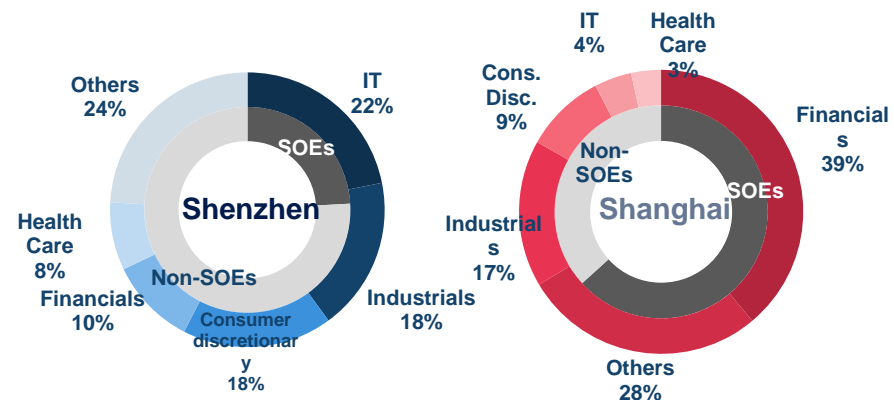
62% of listed companies
(SZ: 1,781)

46% of total market cap (SZ: US\$3.2tn)

60% of equity funds raised¹
(SZ: US\$84.5bn)

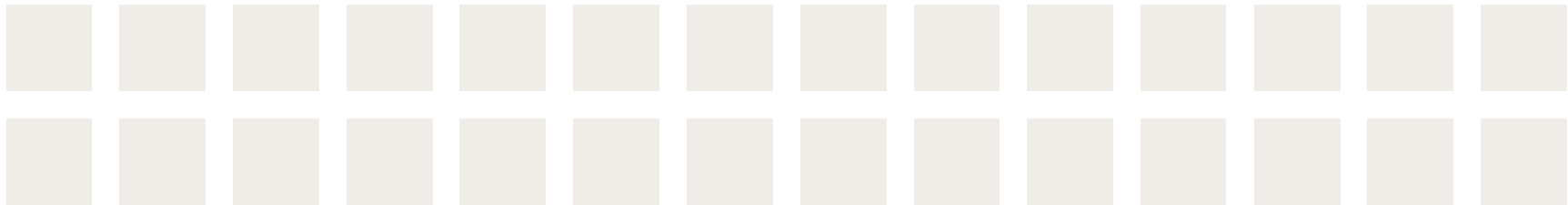
62% of trading value¹ (SZ: US\$6.1tn)

Breakdown of Market Cap by Sector and by Ownership Structure



Key Focus on Tech Companies and Strategic Emerging Companies

- 76% of all A-shares companies in the emerging industries are listed on SZSE
- 70% of SZSE-listed companies are certified hi-tech companies
- 30% of SZSE-listed companies' R&D intensity² exceeds 5%



Addendum

Stock Connect Vs QFII/RQFII (cont'd)

	Shenzhen Connect (NB) Live Date: TBD	Shanghai Connect (NB) Live Date: Since Nov 2014	RQFII Live Date: Since 2011	QFII Live Date: Since 2002
Investors	(1) For A-shares listed on the Main Board and the Small and Medium Enterprise Board of SZSE, Hong Kong and international institutional and retail investors (2) For A-shares listed on the ChiNext Market of SZSE, only those Hong Kong and international investors who are institutional professional investors	Institutional and Retail investors	Qualified Institutions only	Same as RQFII
Eligible No. of Brokers	Appoint up to 20 brokers for each SPSA	Appoint up to 20 brokers for each SPSA	Each QFII investor ID could appoint a max. of 3 brokers per exchange	Same as RQFII
Access to Market	Direct access through existing account of SEHK Participants	Direct access through existing account of SEHK Participants	Application for licenses, quota and approval before access	Same as RQFII
Currency	CNH	CNH	CNH	CNY
Investment Options	SZSE Component + SZSE Small/MidCap Innovation (MC ≥ RMB6 Bn for constituents of both indices) A+H Dual Listed 880 stocks (estimation as of 31 July 2016) Main board: ~270, SME board: ~410, ChiNext board: ~200	SSE 180 Index SSE 380 Index A+H Dual Listed 567 stocks (estimation as of 31 July 2016)	Equities, bonds, open-ended funds, close-ended funds, ETFs, warrants, stock index futures and other instruments permitted by CSRC	Same as RQFII
Quota	- Daily Quota: RMB13 Bn - Aggregate Quota: NIL - Quotas are at market level	- Daily Quota: RMB13 Bn - Aggregate Quota: abolished - Quotas are at market level	- Approved Quota: RMB508.39 Bn for 169 entities as of July 2016 - Total Quota: RMB1160 Bn - Quotas are allocated to institutions, holders can only trade within the quota limit	- Approved Quota: US\$81.38 Bn for 273 entities as of July 2016 - Total Quota: US\$150 Bn - Allocation and trading mechanisms same as RQFII

Source: CSRC, SAFE

Stock Connect Vs QFII/RQFII (cont'd)

	Shenzhen Connect (NB) Live Date: TBD	Shanghai Connect (NB) Live Date: Since Nov 2014	RQFII Live Date: Since 2011	QFII Live Date: Since 2002
Shareholding Limitation	Refer to the relevant regulations on domestic security investment for QFIIs	Refer to the relevant regulations on domestic security investment for QFIIs	A single investor's shareholding ratio should not exceed 10% of the listed company's total shares. All investors' shareholding ratio should not exceed 30% of the listed company's total shares (no limitation on strategic investors' shareholding ratio)	Same as RQFII
Short Selling Rules	Shenzhen Connect will have the same short selling model as Shanghai Connect	Covered Short Selling only on eligible SSE securities. Orders must be submitted in multiples of 100 shares and subject to price and quantity restrictions, such as up tick rule	Not permitted	Same as RQFII
Global Custody Chain to Sub-custody	Yes	Yes	Investors require to appoint onshore RQFII custodian. However, RQFII can delegate to their global custodians for the account operations	Same as RQFII
Pre Trade Checking	For a sell trade to occur pre-trade checking is done at the EP level to ensure no oversell	For a sell trade to occur pre-trade checking is done at the EP level to ensure no oversell	Broker must confirm holding with custodian before trade	Same as RQFII
Pre Funding	Prefunding not required	Prefunding not required	Custodian must confirm funding before trade	Same as RQFII
Fund Flow	- Restriction on buy trades only - Close loop mechanism for trading and settlement	- Restriction on buy trades only - Close loop mechanism for trading and settlement	Lockup periods applied	Restrictions on repatriation and lockup periods applied
Capital Lock-up Period	Not Applicable	Not Applicable	No requirement for open ended funds 3 month lock-up when cumulative principal inflows have reached RMB 100mn	3 month - lock-up period commences when a QFII remits in equivalent of US\$20mn or more
Onshore Account / Visibility	HKSCC as nominee holder of omnibus account	HKSCC as nominee holder of omnibus account	Proprietary / client money / open-ended China fund	Same as RQFII

Source: CSRC, SAFE

Stock Connect Vs QFII/RQFII (cont'd)

	Shenzhen Connect (NB) Live Date: TBD	Shanghai Connect (NB) Live Date: Since Nov 2014	RQFII Live Date: Since 2011	QFII Live Date: Since 2002
Balance Sheet Usage	Cash transactions with CCP - HKSCC	Cash transactions with CCP - HKSCC	Subject to counterparty risk and risk capital charges	Same as RQFII
Block Trade	Not permitted	Not permitted	Permitted	Permitted
Clearing & Settlement	<ul style="list-style-type: none"> - Same day Delivery vs Payment settlement is available between brokers and their clients - CP's SZSE and SSE's obligations will be netted and consolidated into one for settlement with HKSCC 	<ul style="list-style-type: none"> - Same day Delivery vs Payment settlement is available between brokers and their clients - CP's SZSE and SSE's obligations will be netted and consolidated into one for settlement with HKSCC 	<ul style="list-style-type: none"> - As per China Clear onshore settlement arrangement (i.e., Sell trades: Stock delivery T+0; Cash T+1) - RQFII's on-shore custodians in China face each of the Shanghai and Shenzhen branches separately. Not settling net against ChinaClear on aggregate. 	Same as RQFII
Tax	Subject to further regulatory announcement. Current PRC tax policies applicable to Shanghai Connect regarding capital gains tax, dividend tax, stamp duty and value-added tax shall also apply to Shenzhen Connect	Northbound: Temporarily exempted from income and business taxes; only need to pay a dividend tax at 10% and stamp duties at 0.1% Southbound: inland investors will be exempted from personal income tax for three years while buying H-share stocks	Temporarily exempt from corporate income tax	Same as RQFII
Trading Fee	Subject to the approval of the SFC, same fees as Shanghai Connect (covering handling fees, securities fee, transfer fee, portfolio fee & stamp duty)	Handling Fee (SSE): 0.00487% Securities Fee (CSRC): 0.002% Transfer Fee (China Clear): 0.002% Transfer Fee (HKSCC): 0.002% Stamp Duty (SAT): 0.1%	Stamp Duty 0.1% (Seller only) Handling Fee 0.00487% (Buyer & Seller) CSRC Fee 0.002% (Buyer & Seller) Transfer Fee 0.002% (Buyer & Seller)	Same as RQFII

Stock Connect Vs QFII/RQFII (cont'd)

	Shenzhen Connect (NB) Live Date: TBD	Shanghai Connect (NB) Live Date: Since Nov 2014	RQFII Live Date: Since 2011	QFII Live Date: Since 2002
Initial Setup Duration	Client on boarding varies from broker to broker	Client on boarding varies from broker to broker but it usually take about a month	The applications are typically approved in a 2-3 month horizon. The application can be prepared in English but a translated Chinese version needs to be submitted that will be reviewed by the regulators.	Same as RQFII
Setup Cost	No specific costs for setting up trading and clearing accounts with brokers for Shenzhen Connect Northbound	No specific costs for setting up trading and clearing accounts with brokers for Shanghai Connect Northbound	Legal fees associated with the RQFII application documents required by the CSRC and SAFE	Same as RQFII
Repatriation Cost	Not Applicable	Not Applicable	No restriction. Other than annual audit, relevant audit reports must be presented when RQFIIs conduct profit repatriation. Except for Open-Ended China Fund, RQFIIs must obtain an audit report issued by certified public accountants in PRC to conduct repatriation for accumulated realized profits, and tax clearance certificate on profits. Audit Fee for each fund ranges from US\$5,000~	Cumulative calendar month amount repatriated (principals + profit) cannot exceed 20% of last year end's QFII's onshore (or open ended funds) AUM. Plus the operational filing costs.
Annual Audit Fee	Not Applicable	Not Applicable	As per the local regulations, RQFII must be audited by a certified public accountant in the PRC within the first three months of the following year. Annual audit fee for each fund ranges from US\$5,000 ~ per annum	Same as RQFII

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