

Pilot Programme for Mutual Connection of Transactions in Shanghai and Hong Kong Stock Markets Approved

The China Securities Regulatory Commission (“CSRC”) and the Securities and Futures Commission (“SFC”) have approved, in principle, the development of a pilot programme for establishing mutual stock market access between Mainland China and Hong Kong in order to promote the common development of the capital market. It will take around six months to formally start the Shanghai-Hong Kong Stock Connection (the “Connection”) from the date of announcement on April 10, 2014 to complete the preparation for formal launch.

The pilot programme will operate between Shanghai Stock Exchange (“SSE”), the Stock Exchange of Hong Kong Limited (“SEHK”), China Securities Depository and Settlement Corporation Limited (“China Settlement”), Hong Kong Securities Settlement Company Limited (“HKSSC”).

The main contents of this announcement are described as follows:

1. SSE and SEHK will enable investors to trade eligible shares listed on the other’s stock market through local securities firms or brokers.
2. The Connection will be established based on the existing stock exchange rules and regulations and operational models in each market. There are five principal elements of the Connection as follows:

- a. Applicable Transaction, Settlement and Listing Rules

Transaction, settlement arrangements and listed companies will be subject to the regulations and rules of the market where transaction and settlement take place or companies are listed.

- b. Settlement

China Settlement and HKSSC will establish a direct link for the cross--boundary settlement. Each of them will participate in the other’s settlement to provide settlement services.

- c. Eligible Shares

Shares eligible to be traded under Northbound Link (trading shares in SSE through SEHK) will include all the constituents of the SSE 180 Index and SSE 380 Index, and shares of all SSE-listed companies which have issued both A shares and H shares. Shares eligible to be traded under Southbound Link (trading shares in SEHK through SSE) include all the constituents of the

Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and shares of all companies listed on both SSE and SEHK. The scope of the Connection may be further adjusted after the launch of the pilot programme.

d. Quotas

In the beginning the pilot programme, a maximum cross-boundary investment quota and a daily quota for the transaction are fixed and will be monitored on a “real time” basis. The Northbound Link will be limited to an aggregate quota of RMB 300 billion and a daily quota of RMB 13 billion, and the Southbound Link will be limited to an aggregate quota of RMB 250 billion and a daily quota of RMB10.5 billion. Quotas may be adjusted in future.

e. Eligible Investors

In the beginning of the pilot programme, the SFC requires Mainland investors participating in the Southbound Link to be limited to institutional and individual investors who hold an aggregate balance of not less than RMB 500,000 in their securities and cash accounts.

3. Both the CSRC and the SFC will actively enhance cross-boundary regulatory and enforcement cooperation and will also establish a dedicated liaison mechanism for the Connection to deal with issues during the pilot programme period.

4. Benefits

The Connection is an important step in the opening of China capital market and it will enhance capital market connectivity between Mainland China and Hong Kong, bringing various benefits, including:

- a. Enhancing the overall strength of China’s capital markets through a new and significant collaborative mechanism.
- b. Further consolidating the position of Shanghai and Hong Kong as financial centers, and enhancing the attractiveness of both markets to international investors.
- c. Promoting the internationalization of RMB and development of Hong Kong as an offshore RMB business center.