Information on Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

Getting to know Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
Shanghai-Hong Kong Stock Connect is a programme developed by Hong Kong Exchanges and Clearing Limited (“HKEx”), The Stock Exchange of Hong Kong Limited (“SEHK”), Shanghai Stock Exchange (“SSE”), China Securities Depository and Clearing Corporation Limited (“ChinaClear”) and Hong Kong Securities Clearing Company Limited (“HKSCC”) for establishing mutual stock market access between Shanghai and Hong Kong.

Through Shanghai-Hong Kong Stock Connect, Hong Kong and overseas investors are allowed to trade selective SSE stocks (“SSE Northbound Trading”) while eligible Mainland investors are accepted to trade SEHK stocks through SSE.

The successful launch of Shanghai-Hong Kong Stock Connect has provided the foundation for the launch of Shenzhen-Hong Kong Stock Connect, which is introduced by HKEx, SEHK, Shenzhen Stock Exchange (“SZSE”), ChinaClear and HKSCC for establishing mutual market access between Shenzhen and Hong Kong. Through Shenzhen-Hong Kong Stock Connect, Hong Kong and overseas investors will be allowed to trade selective SZSE stocks (“SZSE Northbound Trading”) while eligible Mainland investors will be accepted to trade SEHK stocks through SZSE.

At the initial stage, Hong Kong and overseas investors can only hold SSE securities and SZSE securities through their brokers/custodians.

Dah Sing Bank, Limited (“Dah Sing Bank”) shall extend services enabling its customers to trade via Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. The purpose of this information leaflet is to provide customers with an overview of SSE Northbound Trading and SZSE Northbound Trading (collectively, “Northbound Trading”) and the key risks associated.

Investment Quota
Northbound Trading under each of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will, respectively, be subject to a daily quota (each a “Daily Quota”) and collectively the “Daily Quotas”). The Aggregate Quota previously applicable to Shanghai-Hong Kong Stock Connect has been abolished since 16 August 2016.

Investors should note that each of the Daily Quotas is calculated on a "net buy" basis. Under this principle, investors will always be allowed to sell their SSE securities and SZSE securities regardless of the balances of the Daily Quotas.

Current Daily Quotas for Northbound Trading

<table>
<thead>
<tr>
<th>Purpose</th>
<th>SSE Northbound Trading</th>
<th>SZSE Northbound Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>It limits the maximum net buy value of SSE stocks each day.</td>
<td>It limits the maximum net buy value of SZSE stocks each day.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operation</th>
<th>SSE Northbound Trading</th>
<th>SZSE Northbound Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>The operation of Daily Quota for each of SSE Northbound Trading and SZSE Northbound Trading would be as follows:-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Daily Quota balance = Daily Quota – Buy orders + Sell trades + Adjustments**

* Daily Quota balance will be increased when (a) a buy order is cancelled; (b) a buy order is rejected by SSE or SZSE (as the case may be); or (c) a buy order is executed at a better price.

SEHK will monitor the usage of the Daily Quota on a real time basis.

Daily Quota will be refreshed and remain the same every day. Unused Daily Quota will not be carried over to next day’s Daily Quota.

Once the Daily Quota balance drops to zero or the Daily Quota is exceeded during a continuous auction session (i.e. continuous trading), no further buy orders will be accepted for the remainder of the day. The same arrangement will apply to the closing call auction session of SZSE.

Once the Daily Quota balance drops to zero or the Daily Quota is exceeded during the opening call session, new buy orders will be rejected. If the Daily Quota balance resumes to a positive level before the end of the opening call session, SEHK will again accept buy orders.

Eligible stocks
Currently, the scope of eligible stocks is as follows:-

<table>
<thead>
<tr>
<th>SSE Northbound Trading</th>
<th>Northbound Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td></td>
</tr>
<tr>
<td>Index constituent stocks</td>
<td>SSE 180 Index and SSE 380 Index</td>
</tr>
<tr>
<td>A+H shares</td>
<td>SSE-listed A shares (not included as constituent stocks of the relevant indices) which are simultaneously listed and traded on SEHK</td>
</tr>
<tr>
<td>Excluding</td>
<td>SSE-listed shares which are not traded in RMB or which are included in the “risk alert board” under the SSE Listing Rules.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SZSE Northbound Trading</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td></td>
</tr>
<tr>
<td>Index constituent stocks</td>
<td>Constituent stocks of SZSE Component Index and SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB6 billion</td>
</tr>
<tr>
<td>A+H shares</td>
<td>SZSE-listed A shares (not included as constituent stocks of the relevant indices) which are simultaneously listed and traded on SEHK</td>
</tr>
<tr>
<td>Excluding</td>
<td>SZSE-listed shares which are not traded in RMB or which are included in the “risk alert board” or under delisting arrangement under the SZSE Listing Rules.</td>
</tr>
</tbody>
</table>

Initially, only institutional professional investors (as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC, being a person falling under paragraphs (a) to (i) of the definition of “professional investors” in section 1 of Part I of Schedule I to the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong)) may trade stocks listed on the ChiNext Board of SZSE which are eligible for trading under SZSE Northbound Trading.

The list of eligible stocks for Northbound Trading is available on HKEx’s website.

Hong Kong and overseas investors will only be allowed to sell an SSE security but will be restricted from further buying if:
(a) the SSE security subsequently ceases to be a constituent stock of the relevant indices; and/or
(b) the SSE security is subsequently under “risk alert”; and/or

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Securities are settled on the trading day (“T day”) while money is settled on T+1 day.

Hong Kong and overseas investors will only be allowed to sell an SZSE security but will be restricted from further buying if:

(a) the SZSE security subsequently ceases to be a constituent stock of the relevant indices; and/or
(b) the SZSE security is, based on any subsequent periodic review, determined to have a market capitalization of less than RMB6 billion; and/or
(c) the SZSE security is subsequently under “risk alert”; and/or
(d) the corresponding H share of the SZSE security subsequently ceases to be traded on SEHK, as the case may be.

Order Type
For Northbound Trading, only limit orders will be accepted throughout the day. However, unlike SEHK limit orders which can only be matched at the specified price, SSE and SZSE limit orders can be matched at the specified price or a better price.

Settlement arrangement
For Northbound trades, ChinaClear will act as the host Central Counterparty and HKSCC will be a participant of ChinaClear. HKSCC will take up settlement obligations of its clearing participants in respect of Northbound trades and settle the trades directly with ChinaClear in the Mainland. Securities are settled on the trading day (“T day”) while money is settled on T+1 day.

Trading hours and trading days
Trading hours
Northbound Trading will follow SSE’s and SZSE’s trading hours.

<table>
<thead>
<tr>
<th>SSE Northbound Trading</th>
<th>SSE trading session</th>
<th>SSE trading hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening call auction</td>
<td>09:15 – 09:25</td>
<td></td>
</tr>
<tr>
<td>Continuous auction (morning)</td>
<td>09:30 – 11:30</td>
<td></td>
</tr>
<tr>
<td>Continuous auction (afternoon)</td>
<td>13:00 – 15:00</td>
<td></td>
</tr>
</tbody>
</table>

09:09-09:25: SSE will not accept order cancellation.
09:10-09:15: 09:25-09:30: 12:55-13:00: Orders and order cancellations can be accepted by SEHK but will not be processed by SSE until SSE’s market opens. Orders that are not executed during the opening call auction session will automatically enter the continuous auction session.

<table>
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<th>SZSE Northbound Trading</th>
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<td></td>
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<td>09:30 – 11:30</td>
<td></td>
</tr>
<tr>
<td>Continuous auction (afternoon)</td>
<td>13:00 – 14:57</td>
<td></td>
</tr>
<tr>
<td>Closing auction</td>
<td>14:57 – 15:00</td>
<td></td>
</tr>
</tbody>
</table>

09:09-09:25: 14:57-15:00: SZSE will not accept order cancellation.
09:10-09:15: 09:25-09:30: 12:55-13:00: Orders and order cancellations can be accepted by SEHK but will not be processed by SZSE until SZSE’s market opens. Orders that are not executed during the opening call auction session will automatically enter the continuous auction session. Orders that are not executed during the continuous auction session will automatically enter the closing call auction session.

Trading days
Initially, Hong Kong and overseas investors will only be allowed to trade on SSE and SZSE on days where both the Hong Kong and the Mainland markets are open for trading, and banking services are available in both markets on the corresponding settlement days. The following table illustrates the trading arrangement of Northbound Trading:

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Mainland</th>
<th>Hong Kong</th>
<th>Northbound Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day 1</td>
<td>T day</td>
<td>T day</td>
<td>Yes</td>
</tr>
<tr>
<td>Day 2</td>
<td>T day</td>
<td>T day</td>
<td>No</td>
</tr>
<tr>
<td>Day 3</td>
<td>T day</td>
<td>Holiday</td>
<td>No</td>
</tr>
<tr>
<td>Day 4</td>
<td>Holiday</td>
<td>T day</td>
<td>No</td>
</tr>
</tbody>
</table>

Subject to the above, if a trading day is a half trading day in Hong Kong market, Northbound Trading will continue until SSE market or SZSE market (as the case may be) closes.

Trading arrangement
The following table summarizes the trading arrangements under Northbound Trading:

<table>
<thead>
<tr>
<th>Stock code of SSE securities and SZSE securities</th>
<th>6 digits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading board lot size</td>
<td>100 shares per lot (for buy orders)</td>
</tr>
<tr>
<td>Tick size</td>
<td>RMB0.01</td>
</tr>
<tr>
<td>Price limit</td>
<td>±10% (and ±5% for stocks under special treatment (i.e. ST and *ST stocks) in the risk alert board) based on previous closing price</td>
</tr>
<tr>
<td>All orders input for SSE securities must be at or within the price limit. Any orders with price beyond the price limit will be rejected by SSE. The upper and lower price limit will remain the same intraday.</td>
<td></td>
</tr>
<tr>
<td>SSE Northbound Trading:</td>
<td>±5% (and ±5% for stocks under special treatment (i.e. ST and *ST stocks) in the risk alert board) based on previous closing price. Stocks traded on ChiNext Board are also subject to a ±10% price limit based on the previous closing price.</td>
</tr>
<tr>
<td>All orders input for SZSE securities must be at or within the price limit. Any orders with price beyond the price limit will be rejected by SZSE. The upper and lower price limit will remain the same intraday.</td>
<td></td>
</tr>
</tbody>
</table>

Maximum order size | 1 million shares
Day trading
Day trading is not allowed. Hence, investors buying SSE securities and SZSE securities on T day can only sell the securities on and after T+1 day.

Odd lot trading
Order amendment
Only available for sell orders
Not available

Block trades
Not available

Over-the-counter or manual trades
Not available

Short selling
Investors are prohibited from naked short selling in SSE securities and SZSE securities. Covered short selling is allowed subject to the requirements set by SSE and SZSE respectively, but Dah Sing Bank currently does not offer such service.

Margin financing
Allowed in limited circumstances, but Dah Sing Bank currently does not offer such service.

Stock borrowing and lending
Allowed in limited circumstances, but Dah Sing Bank currently does not offer such service.

Subscription of new stock issues
Initially, Hong Kong and overseas investors can participate in rights issue/open offer subscription of SSE-listed issuers and SZSE-listed issuers but NOT initial public offering of SSE securities and SZSE securities.

Physical deposits and withdrawals
Not available

Trading fees
Handling fee, securities management fee, transfer fee, CCASS fees, stamp duty and tax on cash dividend and/or bonus issues (For details, please refer to the related information published on HKE's China Stock Markets Web.)

Issuing of corporate announcements
Through SSE website or SZSE website (as the case may be), four officially appointed newspapers (Shanghai Securities News, Securities Times, China Securities Journal and Securities Daily), and www.cninfo.com.cn.

Language of corporate announcements
Simplified Chinese

Order cancellation and rejection
Investors should note that:
(i) their order may be cancelled in case of contingency;
(ii) their order cancellation request may not be processed in case of contingency and in such event they shall bear the settlement obligations; and
(iii) their order may be rejected upon request of SSE, SZSE or SEHK.

Severe weather conditions
Initially, the trading arrangement under severe weather conditions for Northbound Trading will be as follows:-
(a) If SSE or SZSE is suspended due to bad weather, there will be no trading on Northbound Trading on the relevant market and SEHK will inform investors accordingly;
(b) If typhoon signal no. 8 ("T8") (or above) is hoisted and/or black rainstorm warning is issued in Hong Kong before Hong Kong market opens, Northbound Trading will not open. If the signal and/or warning is/are subsequently cancelled on the same day, arrangement for the resumption of Northbound Trading will follow that for the Hong Kong market. Investors should refer to HKE's website for the details of the arrangement;
(c) If T8 (or above) is hoisted in Hong Kong after Hong Kong market opens but before SSE market or SZSE market opens (between 9 a.m. and 9:15 a.m.), Northbound Trading will not open; and
(d) If T8 (or above) is hoisted in Hong Kong after SSE market or SZSE market has opened, trading will continue for 15 minutes after hoisting of the relevant signal, during which order input and cancellation are allowed. After the said 15 minutes, only order cancellation is allowed. China Stock Connect System (i.e. the order routing system set up by SEHK to capture and handle Northbound Trading orders) will continue to open until SSE market or SZSE market closes.

The arrangements above are further summarized by the table below:-

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Northbound Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>T8 or above / Black rainstorm warning issued before HK market opens (i.e. 9:00 a.m.)</td>
<td>Not open</td>
</tr>
<tr>
<td>T8 or above issued after HK market opens but before SSE market / SZSE market opens (i.e. 9:00 a.m. – 9:15 a.m.)</td>
<td>Not open</td>
</tr>
<tr>
<td>T8 or above issued after SSE market / SZSE market opens (i.e. 9:15 a.m.)</td>
<td>Trading will continue for 15 minutes after T8 or above issuance, thereafter, only order cancellation is allowed till SSE market / SZSE market closes.</td>
</tr>
<tr>
<td>Black rainstorm warning issued after HK market opens (i.e. 9:00 a.m.)</td>
<td>Trading continues as normal</td>
</tr>
<tr>
<td>T8 / Black rainstorm cancelled at or before 12:00 noon</td>
<td>Trading resumes after 2 hours</td>
</tr>
<tr>
<td>T8 / Black rainstorm cancelled after 12:00 noon</td>
<td>Not open</td>
</tr>
</tbody>
</table>

Pre-trade checking
According to Mainland regulations, before an investor sells any share, there should be sufficient shares in the account at the end of the previous day, otherwise SSE or SZSE (as the case may be) will reject the sell order concerned. Therefore, investors should ensure that they have sufficient shares in their accounts prior to placing sell orders.

Dynamic price checking
Dynamic price checking for buy orders would be in place to prevent mischievous behavior towards the use of the Northbound Trading quotas. Dynamic price checking will be applied throughout the trading day, (in the case of SSE) from the 5-minute input period before the start of the opening call auction session until the end of the continuous auction session in the afternoon and (in the case of SZSE) from the 5-minute input period before the start of the opening call auction session until the end of the closing call auction session. 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 China Stock Connect System. During the opening call auction session, the current bid (or previous closing price in the absence of the current bid) will be used for checking. The percentage has been set at 3% during the initial phase and it may be adjusted from time to time subject to market conditions.
Nominee services and corporate action
Hong Kong and overseas investors are holding SSE securities traded via Shanghai-Hong Kong Stock Connect and SZSE securities traded via Shenzhen-Hong Kong Stock Connect through their brokers or custodians while HKSCC, being the nominee holder of such SSE securities and SZSE securities, is providing the brokers and custodians nominee services such as collection and distribution of cash dividends, distribution of shareholders’ meeting notices, consolidation and submission of voting instructions. Accordingly, Hong Kong and overseas investors are to exercise their shareholder rights in relation to the SSE securities and the SZSE securities through HKSCC in accordance with the CCASS Rules and CCASS Operational Procedures. However, it should be noted that, under the CCASS Rules, HKSCC as nominee holder shall have no obligation to take any legal action or court proceeding to enforce any rights on behalf of the investors in respect of the SSE securities and SZSE securities in Mainland or elsewhere. As HKSCC is the shareholder on record of SSE securities traded via Shanghai-Hong Kong Stock Connect and SZSE securities traded via Shenzhen-Hong Kong Stock Connect (in its capacity as nominee holder, as described above), it can attend shareholders’ meeting as shareholder. Where the articles of association of a listed company do not provide for appointment of multiple proxies by its shareholder, HKSCC will make arrangements to appoint investor(s) as its proxies or representatives to attend shareholders’ meeting when instructed.

Foreign shareholding restrictions
Under the current regulatory regime in the Mainland, Hong Kong and overseas investors holding shares in a listed company are subject to the following shareholding restrictions:

- Single foreign investors’ shareholding by any Hong Kong or overseas investor in a listed company must not exceed 10% of the company’s total issued shares; and
- Aggregate foreign investors’ shareholding by all Hong Kong and overseas investors in an A share must not exceed 30% of the total issued shares.

Should the aggregate foreign shareholding of an individual A share exceeds the aggregate foreign shareholding limit, the investors concerned may be required to unwind their position on the excessive shareholding according to a last-in-first-out basis within a specific period in compliance with the applicable forced-sale procedures. SEHK and SSE and/or SZSE (as the case may be) will also issue warnings or restrict the buy orders for the related A-shares if the percentage of total shareholding is approaching the upper limit.

If an investor’s shareholding in a listed company exceeds the single shareholding limit, the investor will be subject to forced-sale arrangement as well.

If a customer of Dah Sing Bank is subject to forced-sale arrangement but fails to sell the relevant shares within the stipulated timeframe, Dah Sing Bank shall take appropriate action on behalf of the customer to ensure compliance.

Disclosure obligation and compliance with the applicable laws in the Mainland
Investors should familiarize themselves with and observe the applicable laws, rules and regulations in the Mainland concerning Northbound Trading. Under the current regulatory regime in the Mainland, when an investor holds or controls 5% or more of the issued shares of a listed issuer, the investor is required to disclose his interest within three working days in the Mainland. Such investor may not buy or sell the shares in the listed issuer within the three-day period.

If a change in shareholding of the investor or the shareholding controlled by him is less than 5% but results in the shares held or controlled by him exceeding 5% of the issued shares in the listed issuer, the investor is required to disclose the information within three working days in the Mainland.

Besides, under Mainland Securities Law, where a director, supervisor or member of the senior management of a listed issuer, or any shareholder holding more than 5% of the issued shares of the listed issuer makes a profit on a sale or purchase of the issuer’s shares within a prescribed period (currently 6 months of the acquisition or sale of the relevant shares), such person shall return the profit to the issuer.

Investors should further note that his identity may be forwarded to SEHK and on-forwarded to SSE and SZSE (as the case may be) for surveillance and investigation purpose. If the applicable rules of exchange are breached, or the disclosure and other obligations referred to therein are breached, SSE and/or SZSE (as the case may be) may, at their own discretion, have the power to carry out an investigation, and may, through SEHK, require the parties concerned to provide relevant information and materials to assist in the investigation. Further, Dah Sing Bank may not extend Northbound Trading services to customers if SEHK issues warning statements requiring Dah Sing Bank to do so.

Market data
Currently, Hong Kong and overseas investors may source real time market data of SSE via licensed information vendors, a list of which is available on the website of China Investment Information Services Limited established in Hong Kong, which is the authorised international sole agent of SSE information. Investors can also access real time market data through internet. The licensed vendor for market data is published on the website of SSE InforNet Ltd., Co.

As for SZSE market data, real-time market data of SZSE may be sourced via licensed information vendors, a list of which is available on the website of Shenzhen Securities Information Co. Ltd., SZSE’s exclusive agent for local and overseas market data businesses.

Trade suspension mechanism for Mainland A-shares
SSE
Under the Rules of the Shanghai Stock Exchange on the Real-time Monitoring of Unusual Securities Transactions (上海證券交易所證券異常交易實時監控細則), trading of SSE securities may be suspended temporarily during a trading day to suit market needs should there be unusual fluctuations during the trading of A-shares. Examples of unusual fluctuations include:

- during the trading of a stock which is not subject to daily price limit, the price has risen or fallen by more than 10% over the opening price, or has risen or fallen by more than 20% in a single auction;
- the turnover rate (trading volume ÷ actual floating volume on that day x 100%) of a stock which is not subject to daily price limit has exceeded 80%;
- the turnover rate of a risk alert stock which is subject to daily price limit has exceeded 30%;
- where there are trading activities suspected of violating laws and rules, which may substantially affect the trading price or seriously mislead other investors; and
- other circumstances considered by either China Securities Regulatory Commission (“CSRC”) or SSE in justifying temporary suspension of trading during a trading day.

SSE will make announcements of temporary suspension and resumption of trading through its Market Trading Reminder webpage and through its satellite communications system.

SZSE
Under the Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect (深圳證券交易所深港通業務實施辦法), should there be unusual trading circumstances which are determined by the SZSE and which prevent or may prevent certain or all SZSE securities from being traded normally via SZSE Northbound Trading, SZSE may decide to take measures including suspension of the trading of the relevant SZSE securities, suspension of the acceptance of all or part of SZSE Northbound Trading orders or temporary closure of the SZSE, and SZSE shall make announcements accordingly.

Further, if the amount bought or sold via SZSE Northbound Trading within a short period of time exceeds a certain amount and this constitutes an unusual trading situation under the rules of the SZSE, SZSE may implement measures to handle the situation accordingly.
Circuit Breaker Mechanism

China Securities Regulatory Commission announced new regulations introducing a circuit breaker mechanism for trading of A-shares on SSE and SZSE in December 2015. According to the trading rules of SSE and SZSE respectively, trading of A-shares on SSE and/or SZSE will be suspended when the CSI 300 Index rises or falls by a specified percentage compared to its previous close.

Imposition of a circuit breaker in SSE and/or SZSE will result in the suspension of the execution of trades through the SSE and/or SZSE market systems (as the case may be) for such period(s) as set out in the relevant trading rules. The lifting of a circuit breaker during a continuous auction session of any Northbound Trading day may result in trades being executed through call auction.

The implementation of the circuit breaker mechanism has been suspended since 8 January 2016. Investors should take note of any further developments. Details of the circuit breaker mechanism may be found in SSE’s and SZSE’s websites.

Rules and Regulations

This information leaflet is prepared based on the prevailing information available to Dah Sing Bank. The information and materials contained herein are subject to further changes as implementation of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and promulgation of the relevant rules, regulations, agreements and other documentation progress, and they may not be updated to reflect material developments which may occur after its distribution.

This information leaflet serves to provide customers of Dah Sing Bank with an overview of Northbound Trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and the key risks associated. It does not purport to be comprehensive or to cover all aspects of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. It is not designed to provide legal, financial, investment or any other form of advice and should not be relied on as such. Investors are strongly encouraged to seek independent professional advice with regards to his specific circumstances prior to engaging in trades through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Dah Sing Bank shall not be responsible or liable for any direct, consequential, incidental, indirect or special loss or damage, howsoever caused, of any kind, arising from the use of or reliance upon any information or materials provided in this information leaflet, or for any errors, omissions or inaccurate information contained in this information leaflet.

HKEx, SEHK, SEHK subsidiary, SSE, SSE subsidiary, SZSE and SZSE subsidiary and their respective directors, employees and agent shall not be responsible or held liable for any loss or damage directly or indirectly suffered by investors or any third parties arising from or in connection with Northbound Trading or China Stock Connect System.

Key Risks of investing through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

Risks of investor assets received or held outside Hong Kong

Investor assets received or held outside Hong Kong are subject to the applicable laws and regulations of the relevant overseas jurisdiction which may be different from the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong) and the rules made thereunder. Consequently, such investor assets may not enjoy the same protection as that conferred on investor assets received or held in Hong Kong.

Not protected by Investor Compensation Fund

Investors should note that any Northbound Trading under Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect will not be covered by Hong Kong’s Investor Compensation Fund.

Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Examples of default are insolvency, in bankruptcy or winding up, breach of trust, defalcation, fraud, or misfeasance.

As for Northbound Trading, according to the Securities and Futures Ordinance, the Investor Compensation Fund will only cover products traded in Hong Kong’s recognised securities market (SEHK) and recognised futures market (Hong Kong Futures Exchange Limited, HKFE). Since default matters in Northbound Trading via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect do not involve products listed or traded in SEHK or HKFE, so similar to the case of investors trading overseas securities, they will not be covered by the Investor Compensation Fund.

For further information on Hong Kong’s Investor Compensation Fund, investors should refer to the website of Investor Compensation Company Limited. For information on licensees and registered institutions under the SFC, investors should consult the Public Register of Licensed Persons & Registered Institutions in the SFC website.

On the other hand, according to the Measures for the Administration of Securities Investor Protection Fund (《證券投資者保護基金管理辦法》), the functions of China Securities Investor Protection Fund (CSIPF, 中國投資者保護基金) include “indemnifying creditors as required by China’s relevant policies in case a securities company is subjected to compulsory regulatory measures including dissolution, closure, bankruptcy and administrative takeover by China Securities Regulatory Commission (CSRC) and custodian operation” or “other functions approved by the State Council”. As far as Hong Kong investors participating in Northbound Trading are concerned, since they are carrying out Northbound Trading through securities brokers in Hong Kong and these brokers are not Mainland brokers, therefore they are not protected by CSIPF on the Mainland.

Quotas used up

Once the relevant Daily Quota is used up, acceptance of the corresponding buy orders for SSE Northbound Trading or SZSE Northbound Trading (as the case may be) will also be immediately suspended and no further buy orders for the relevant market will be accepted for the remainder of the day. Buy orders for the relevant market which have been accepted will not be affected by the using up of the relevant Daily Quota, while sell orders will continue to be accepted. Buying services will be resumed on the following trading day.

Trading day

As mentioned above, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will only operate on days when both the Hong Kong and Mainland markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the Mainland market but Hong Kong investors cannot carry out any A-share trading. Investors should take note of the days Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are open for business and decide according to their own risk tolerance capability whether or not to take on the risk of price fluctuations in A-shares during the time when Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are not trading.

Restrictions on selling imposed by front-end monitoring

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For investors who usually keep their A-shares outside of their brokers, if they want to sell certain A-shares they hold, they must transfer those A-shares to the respective accounts of their brokers by the end of the day immediately preceding the target trading day. If they fail to meet this deadline, they will not be able to sell those A-shares on the target trading day.

The recalling of eligible stocks

When a stock is recalled from the scope of eligible stocks for trading via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect for above-mentioned reasons, the stock can only be sold but restricted from being bought. This may affect the investment portfolio or strategies of investors. Investors should therefore pay close attention to the list of eligible stocks as provided and renewed from time to time by SSE, SZSE and SEHK.

Currency risks

Hong Kong and overseas investors who hold a local currency other than RMB will be exposed to currency risk if they invest in a RMB product due to the need for the conversion of the local currency into RMB. During the conversion, investors will also incur currency conversion costs. Even if the price of the RMB asset remains the same when investors purchase it and when investors redeem / sell it, they will still incur a loss when they convert the redemption / sale proceeds into local currency if RMB has depreciated.

Investors should also note that RMB is currently subject to exchange controls imposed by the PRC government, the exchange rate may be easily affected by change in government policies.

Risks of investing in companies listed on the ChiNext Board of SZSE (“ChiNext Companies”)

Hong Kong and overseas investors who trade stocks of ChiNext Companies should further take note of the following:

(a) Differences in rules: There are substantial differences in terms of system and rules between the ChiNext Board and the Main Board, including but not limited to:
   1) Different conditions for the initial public offering and listing; and
   2) Different rules of information disclosure (for instance, ChiNext market ad hoc reports are required to be disclosed on the website designated by the CSRC and the company’s website only. If investors only use the channels for the Main Board market information enquiries, they may not be informed of the disclosed information of ChiNext Companies in time).

(b) Delisting: Compared to the Main Board, it may be more common for ChiNext Companies to delist, and the delisting process for ChiNext Companies may be faster. After delisting, the stock of the company may no longer be traded and thus investors who bought that stock may lose the entire principal.

(c) Operation of ChiNext Companies: Compared to companies listed on the Main Board, ChiNext Companies are usually in their preliminary stage of development with smaller scale and shorter history of operation, and ChiNext Companies may not have a high resistance to market risks and industry risks. In addition, while ChiNext Companies may have great growth potential, there is uncertainty as to the advancement and reliability of new technologies, the applicability and maturity of new models, the market volume and growth potential for new industry, etc. Investors’ expectations for high growth in ChiNext Companies may not be realised, and the risks involved in the ChiNext Board are higher than that in the Main Board.

(d) Higher fluctuation in stock prices: There may be higher fluctuation in the stock prices of ChiNext Companies by reason of the following factors:
   1) Due to the risks involved in the operation of ChiNext Companies (as mentioned above), as the performance of the ChiNext Companies change, they are subject to higher fluctuation in stock prices;
   2) ChiNext Companies have fewer shares circulating in the market. Therefore, stock prices may be more susceptible to manipulation and stock prices may fluctuate more significantly as a result of market speculation.
   3) Performance of ChiNext Companies may not be stable. Conventional valuation methods may not be applicable to them and different investors’ valuation may be vastly different.

(e) Technological failure: It is uncertain whether technologies developed or owned by ChiNext Companies may be turned into real products or services. The relevant products and technologies may be updated or eliminated rapidly. Technological failure may result in loss.

Source: HKEx’s Investor Education Centre, the Code of Conduct for Persons Licensed by or Registered with the SFC, Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect and Guidelines for the Agency Agreement for the Trading of Securities of the Securities Association of China

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