

Media Briefing on Models for RMB IPOs

22 June 2011



Agenda



Topic	Speaker
1 Part I: HKEx RMB Strategies	Eric Landheer <i>Head of Issuer Marketing</i>
2 Part II: Why Issue RMB Equities in Hong Kong	Eric Landheer <i>Head of Issuer Marketing</i>
3 Part III: RMB IPO Models and Trading Support Facility	Bryan Chan <i>Head of RMB Task Force</i>

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Key Theme: Enhance Competence and Maximise the Unique Opportunity



CHAPTER 1

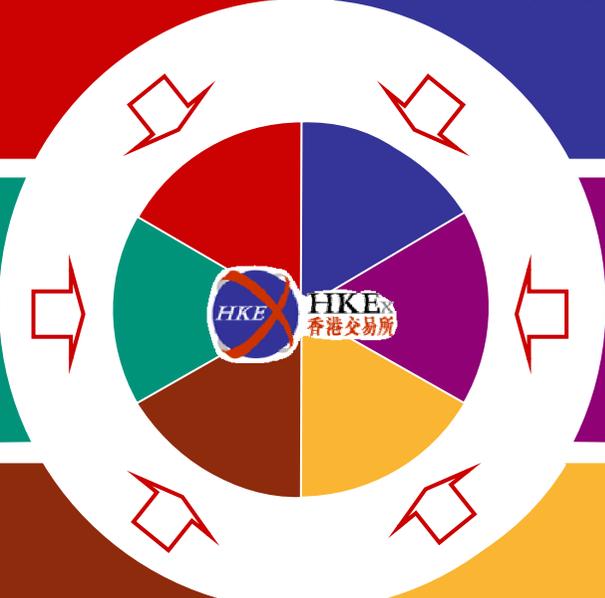
China Issuers

International Investors

- Equities – Cash and Derivatives

CHAPTER 2

China Investors



International Issuers

- International listings
- RMB products

CHAPTER 3

China Market & Participants

International Markets & Participants

- OTC clearing
- New asset classes

RMB Product Development – A Core Focus of HKEx’s Strategic Planning



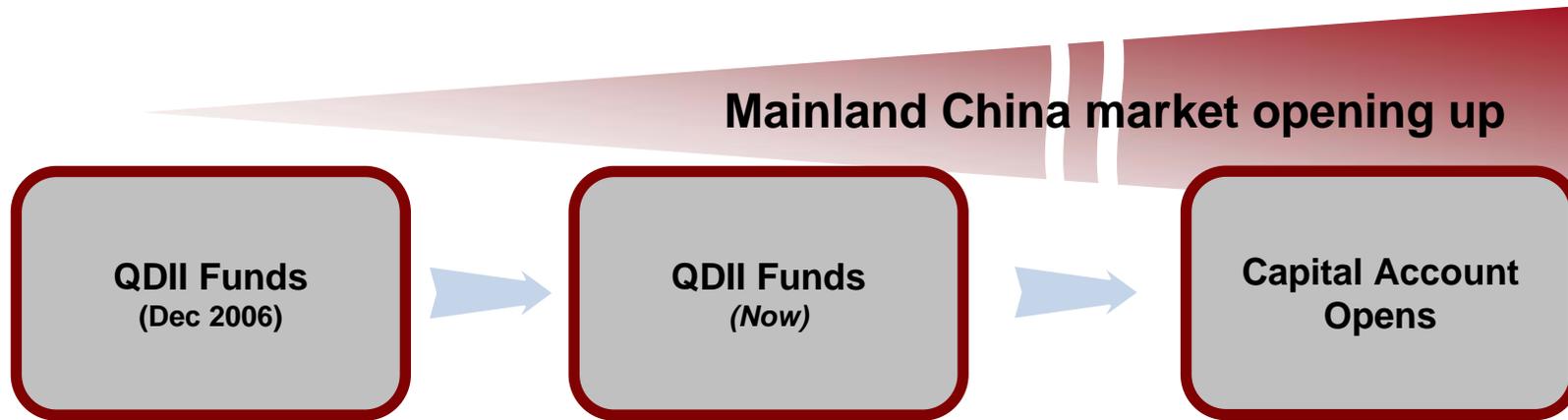
RMB Strategies

- Develop RMB Products
- Lobby for Policy Change
- Set Up RMB Infrastructure
- Expand Mainland Market Data
- Facilitate Mainland Connectivity
- Implement OTC Clearing

HKEx Positioning



Future China Opportunities

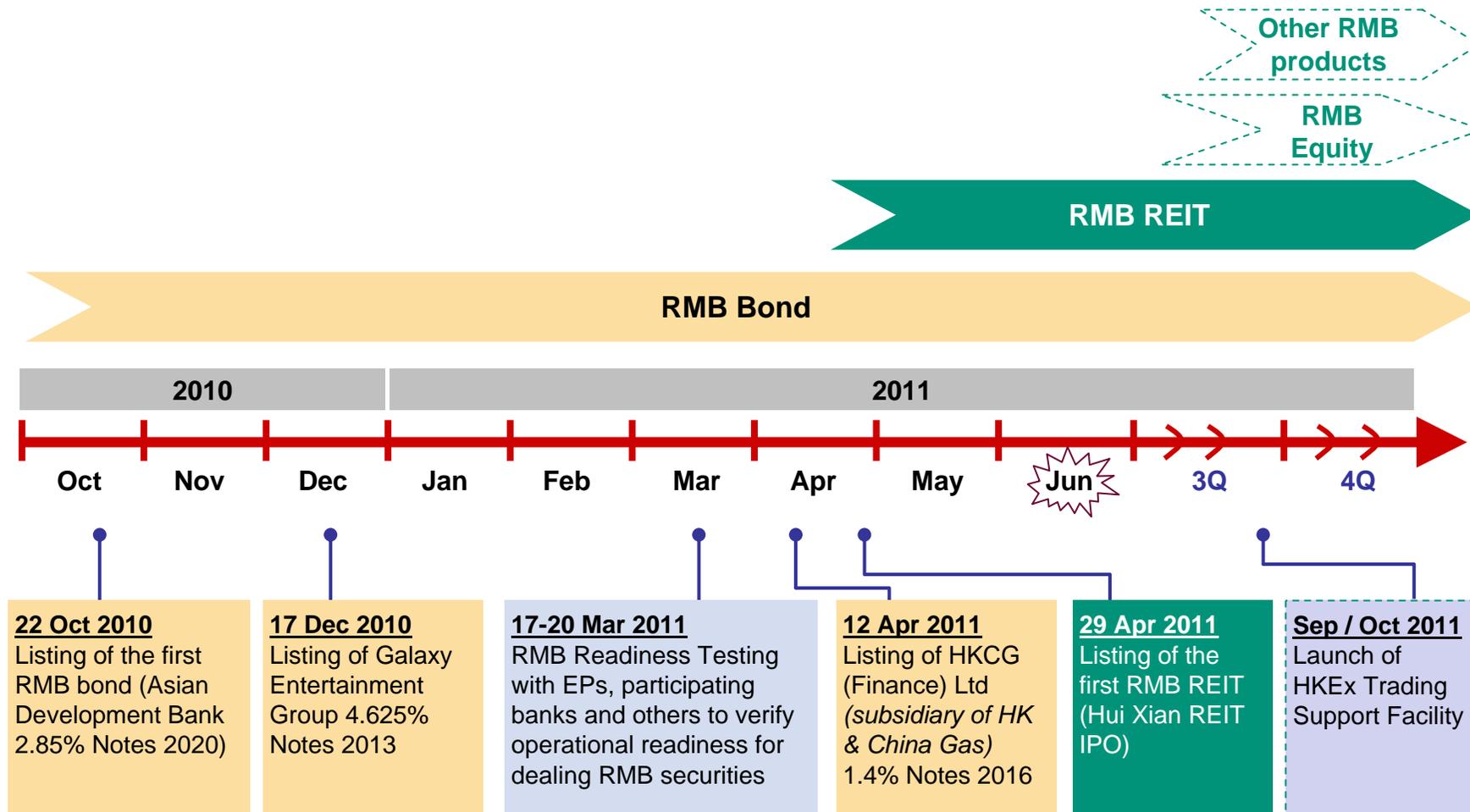


- Total approved quota was USD18.3 bn
- Less than 20 approved institutions (banks, asset management & insurance companies)

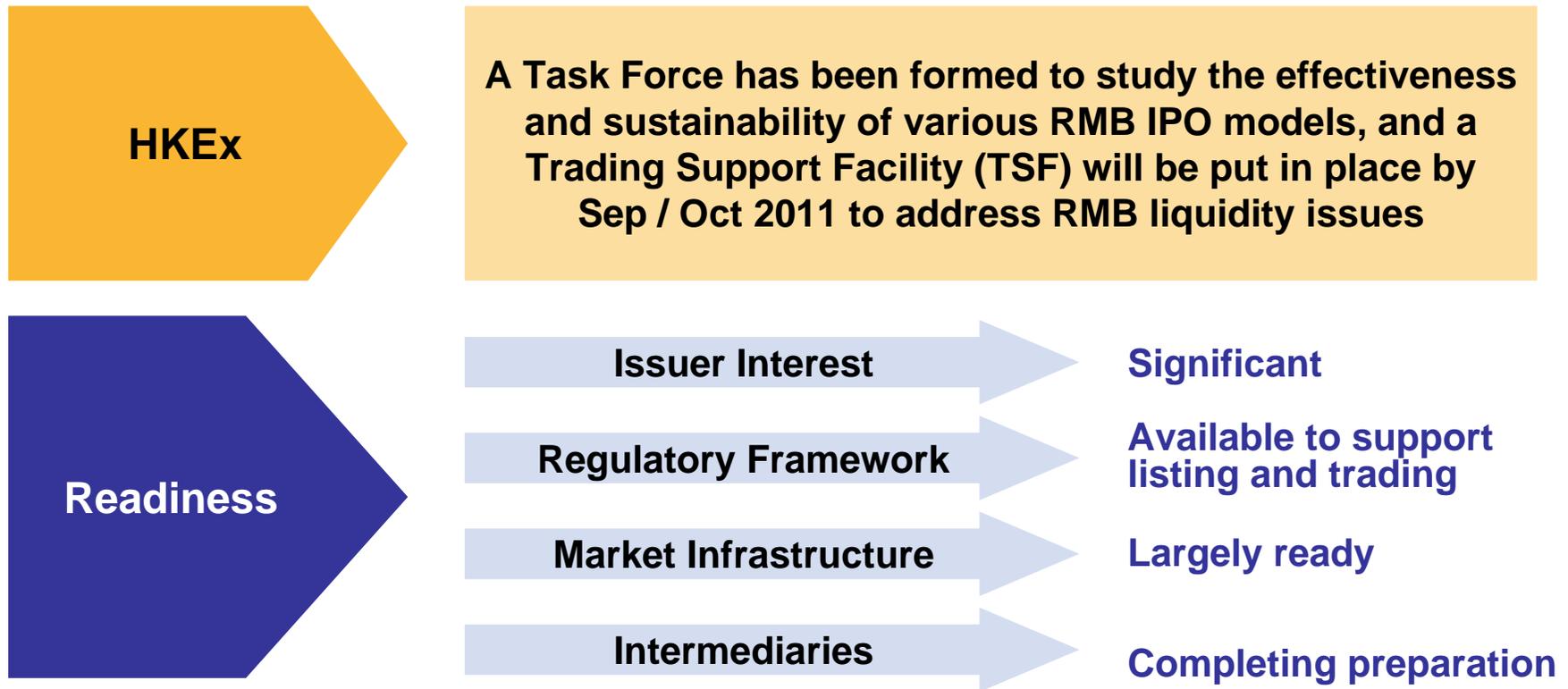
- Total approved quota increases to about USD67 bn (*2.7x higher*)
- About 90 approved institutions, and extends to trust companies

- Currently, about 100m investors in Mainland China
- If Mainland China investors are allowed to trade overseas stocks freely, listed companies in HK will likely be the biggest beneficiaries
- **Market re-rating is likely with increased turnover**

HKEx RMB Product Key Milestones



RMB IPO Readiness



Everything is ready and target to have additional RMB IPOs by end of 2011

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Why Issue RMB IPO?

1

Raise Company Profile



- Be among the first few companies to issue RMB IPO outside of Mainland China
- RMB IPOs will attract strong local and international investor interest
- Expect to receive high level of media attention internationally
- Publicity in Mainland China will help brand-building

2

Untapped Demand for RMB Products



- Untapped demand for RMB products among investors - Hong Kong RMB deposits of RMB510 billion by end of April 2011
- In contrast to relatively low-yielding savings accounts, RMB IPOs have potential capital appreciation

Why Issue RMB IPO?

3

Reduce FX Risk



- Ideal way for companies with substantial RMB operating expense requirements to hedge against an appreciating RMB and to deploy capital for Mainland expansion

4

Potential Exposure to Mainland Investors



- Potential interest from Mainland investors in the future as capital account opens
- Likely market re-rating with increased turnover
- Facilitate future follow-on fund raisings

Concern: HKEx Readiness



Concern

How can the concern be addressed?

■ Is HKEx ready to support RMB listing and secondary trading?

- HKEx is fully prepared and technically ready for the listing, trading and clearing of pure RMB products
- Three RMB-denominated debt securities and one RMB-denominated REIT are already successfully listed and trading on HKEx
- HKEx held a successful RMB Readiness Test in March 2011 to allow Exchange Participants and other relevant parties to verify their operational readiness for dealing in RMB-denominated securities
- As of 31 May 2011, 196 Exchange Participants (“EPs”) have traded at least once on Hui Xian REIT. These 196 EPs contributed around 80% of the total market turnover for May 2011

HKEx is ready for RMB IPO issuance and secondary trading

Concern: RMB Liquidity



Concern

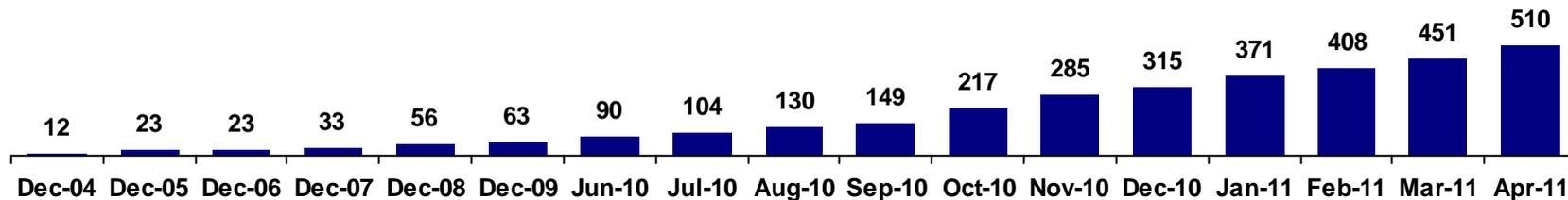
How can the concern be addressed?

■ Is there enough RMB to support IPO and post-IPO liquidity?

- The total current RMB deposits of RMB510 billion provides enough RMB liquidity for initial fund raisings
- Past cases of RMB bond issuance in HK demonstrates investor demand for RMB products
- RMB IPO models allow additional flexibility and allow HKD holders to subscribe for RMB shares
- RMB Trading Support Facility will be in place by Sep / Oct 2011 to facilitate secondary market trading

RMB Deposits in Hong Kong

(RMB bn)



Source: HKMA

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RMB IPO Models

1

a. Single Tranche, Single Counter

b. Subscription Process of HKIPO for Single Tranche

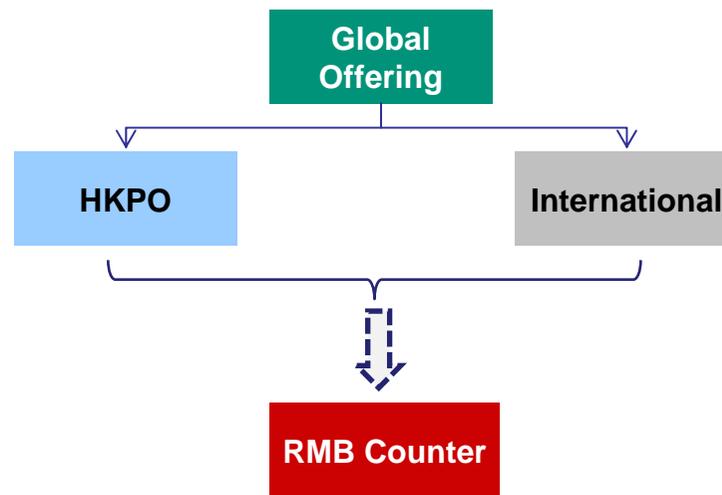
2

Dual Tranche, Dual Counter

1a. Single Tranche, Single Counter



IPO Structure



Key considerations

Offer size and secondary market fund raising

Subscription level of HKPO

Secondary market liquidity and performance

Options

Dual Counter Dual Tranche model

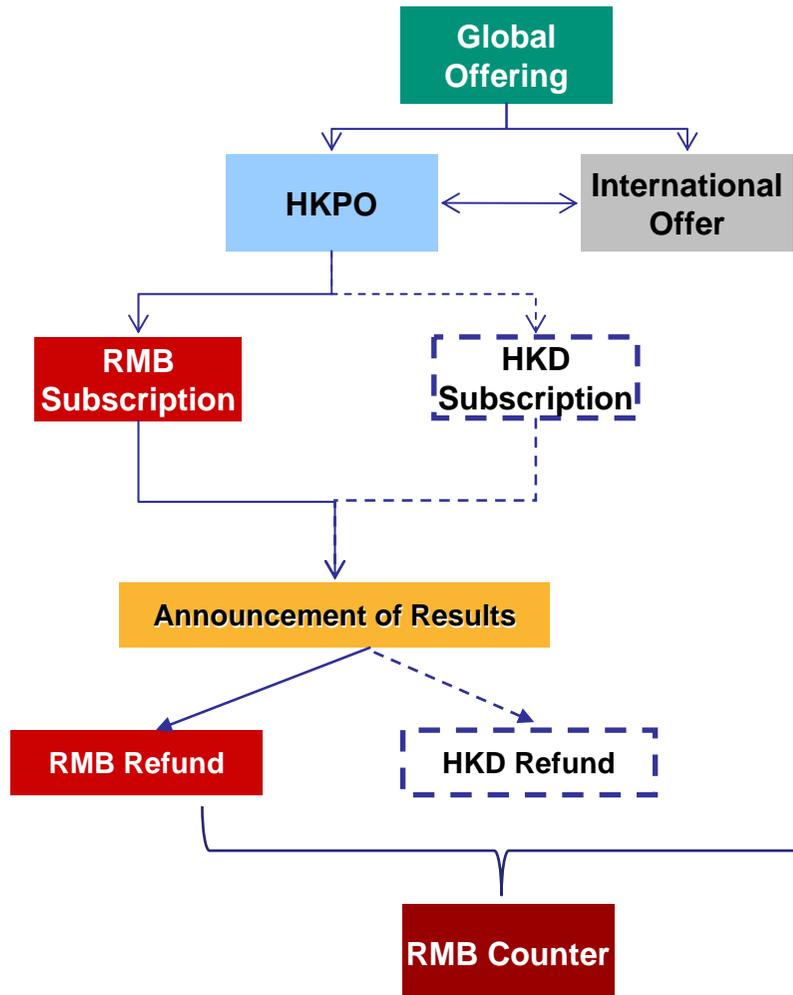
Allow HKD holders to subscribe

Trading Support Facility

1b. Subscription Process of HKPO for Single Tranche



IPO Structure



Key Features

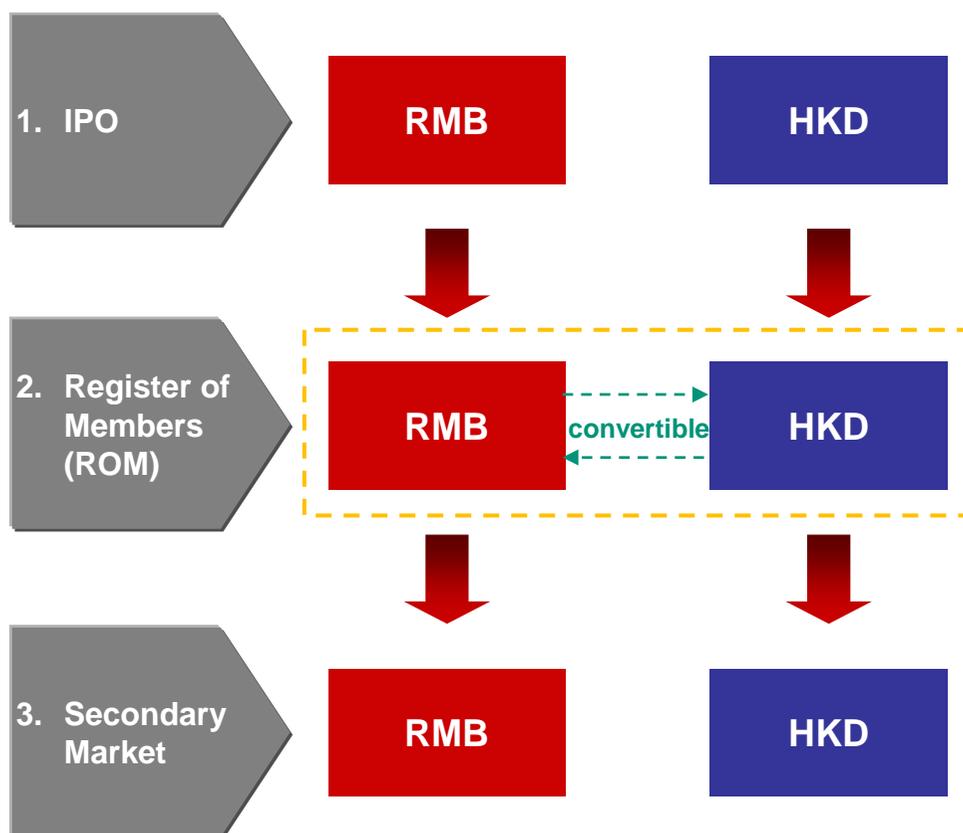
- Optional to issuers
- Minimise stress on CNH* market during IPO period if heavily over-subscribed
- Enable issuers to leverage upon the HKD deposit base
- Ensure minimum level of RMB subscription
- Margin-financing using HKD
- Proper balance between key drivers and operational complexity
- Need to work further with key stakeholders

* CNH: RMB in Hong Kong

2. Dual Tranche, Dual Counter Overview



Dual Tranche Dual Counter Model



Description

- **Simultaneous offering and initial listing** of a tranche of **RMB-traded shares** and a tranche of **HKD-traded shares** by the same issuer
- **Same class of shares with identical shareholders' rights**
- Shares of respective RMB tranche and HKD tranche are denoted on the ROM accordingly, with option of "**convertibility**" post-listing
- Secondary market trading, clearing and settlement in **two "counters"** with **two stock codes** in RMB and HKD tranches, respectively
- RMB-traded shares and HKD-traded shares will be accepted by **CCASS** for settlement of trades of the respective counter only

2. Dual Tranche, Dual Counter Convertibility



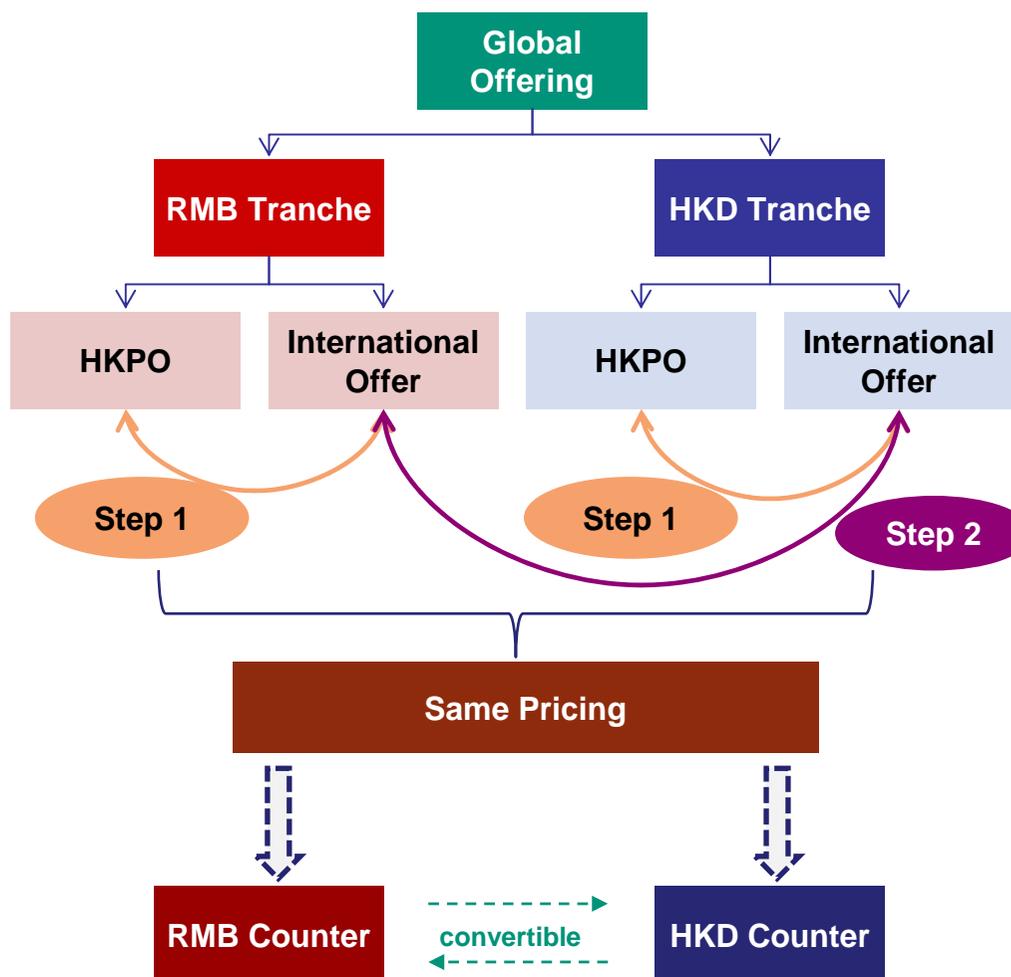
Option	Advantages	Considerations
Convertible	<ul style="list-style-type: none">■ Allow efficient arbitrage■ Provide ultimate safety net against any adverse regulations to offshore RMB■ Allow movement of shares between two counters based on market forces	<ul style="list-style-type: none">■ Possible risk of inadequate RMB counter liquidity
Non-Convertible	<ul style="list-style-type: none">■ Lock up shares in RMB counter■ Establish liquidity in RMB counter	<ul style="list-style-type: none">■ Large price gap could exist■ Other problems to resolve when convertibility is introduced in future

Allow convertibility

2. Dual Tranche, Dual Counter Mechanism



IPO Structure



Clawback/Re-allocation

- Step 1**
- Intra-tranche clawback applies as per PN18
 - Intra-tranche re-allocation (where applicable) also applies as per existing IPO practice and Listing Rules
- Step 2**
- Inter-tranche re-allocation allowed
 - After satisfying intra-tranche clawback/re-allocation
 - Subject to minimum RMB tranche size requirement (to be further considered)
 - Same pricing for both RMB tranche and HKD tranche after currency conversion

2. Dual Tranche, Dual Counter Key features



Same offer price

Allows convertibility

Over-allotment to respective tranches

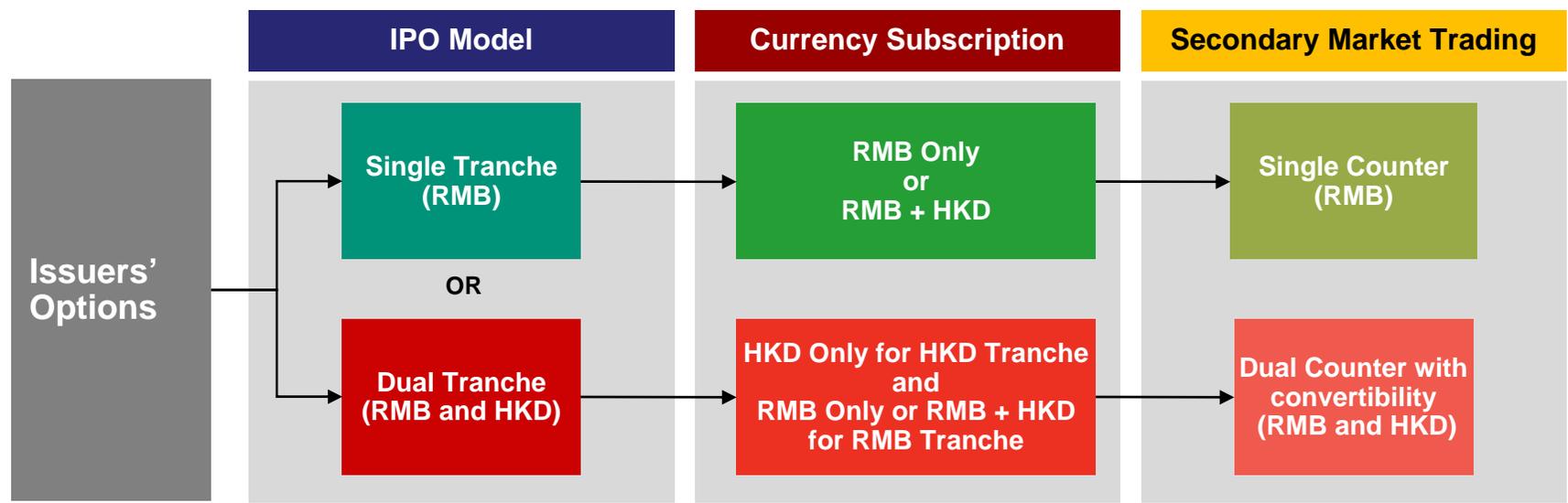
Ownership disclosure on combined tranches

Same class of shares treatment for corporate actions

**No additional compliance rules for follow-on offerings
Continuous review**

**No additional intermediary required
Continuous review**

Summary of RMB IPO Options



HKEx's Position

- Accepts both Single Tranche and Dual Tranche
- Market driven

- Enables subscription in HKD for RMB tranche
- Proper balance between key drivers and operational complexity

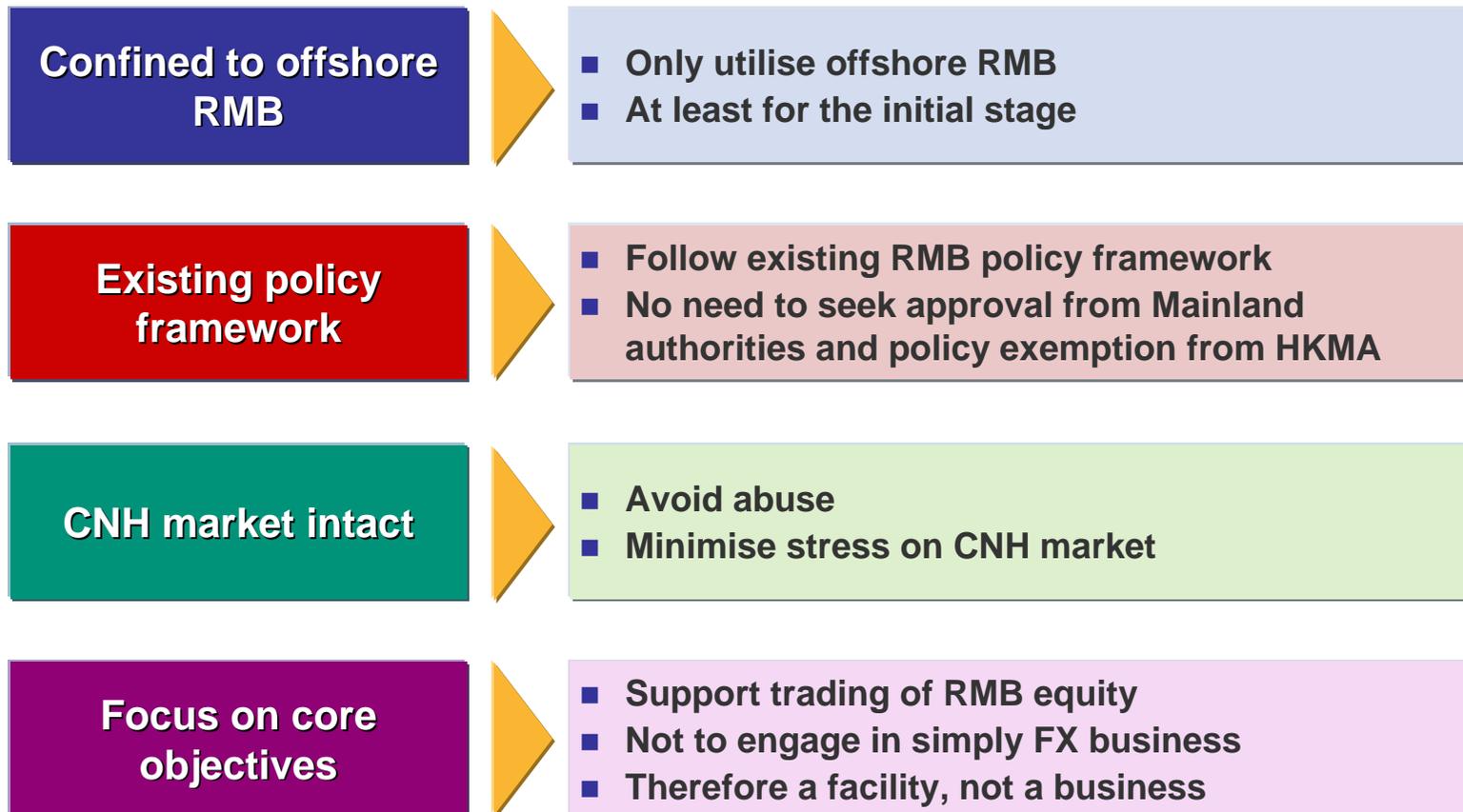
- Under Dual Tranche Dual Counter model, allows convertibility
- TSF to help address secondary market RMB liquidity

Objective of Trading Support Facility

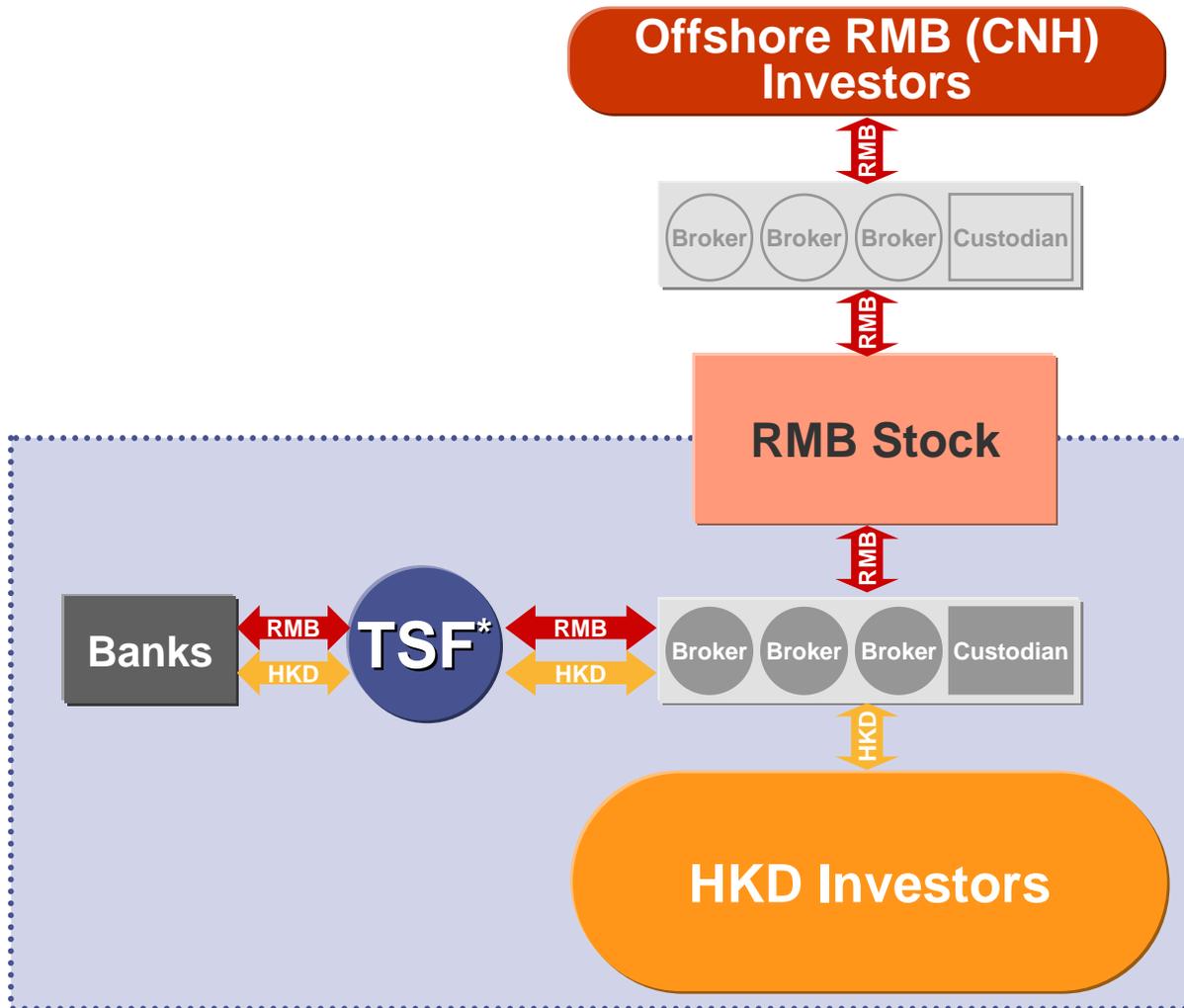


**Develop a sustainable trading model
for RMB Equity
not completely dependent upon
availability of RMB liquidity**

Trading Support Facility - Key Design Principles



How does the TSF work?



Key Features

Back-up

Re-cycle

Open (but optional) to all brokers / custodians

Committed in size, but commercially-priced

* Subject to regulatory approval

Other RMB Related Action Items



TSF

- 2 rounds of market briefings completed
- Internal system enhancement and rule preparation
- Target launch date September / October 2011

Stamp Duty / Trading Fee / Transaction Levy Collection

- Convert RMB into HKD for EPs for stamp duty / trading fee / transaction levy – under consideration

Derivatives Market Readiness

- HKEx internal system readiness by end June
- Market rehearsals in end Q3/early Q4 2011

RMB Product Roadmap

- HKEx is considering readiness conditions for other RMB products (e.g. structured products, ETFs & derivatives)

Q & A