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Hong Kong

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SHENZHEN-HONG KONG STOCK CONNECT TO LAUNCH ON 5 DECEMBER 2016

Shenzhen-Hong Kong Stock Connect¹ (**Shenzhen Connect**) launches on Monday, 5 December 2016.

Modelled on the Shanghai-Hong Kong Stock Connect scheme (**Shanghai Connect**) that has been in place since November 2014, Shenzhen Connect is a much anticipated channel for Mainland investors to trade in Hong Kong-listed stocks and for Hong Kong and international investors to invest directly in Shenzhen-listed stocks. Hong Kong and international investors will be offered new opportunities for direct investment in stocks listed on the Shenzhen Stock Exchange (**SZSE**) which ranks as the world's 8th largest stock market both in terms of market capitalisation (US\$ 3.3 trillion at 30 September 2016) and in terms of IPO funds raised – IPOs on the SZSE raised US\$ 4.2 billion in the first three quarters of 2016.² Significantly, Shenzhen Connect will offer international investors a broader range of Chinese companies for investment, with opportunities for institutional (but not retail) investors to buy stocks listed on Shenzhen's ChiNext market which caters for tech and other innovative companies. Shenzhen Connect will offer Mainland investors a broader investment scope, while Hong Kong-listed companies will benefit from a larger investor pool.

On 5 November 2016 the Ministry of Finance (**MOF**), State Administration of Taxation (**SAT**) and China Securities Regulatory Commission (the **CSRC**) of the People's Republic of China (the **PRC**) have issued a joint notice confirming the PRC taxation policy regarding Shenzhen Connect.³

1 <http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=16PR127>

2 Source: World Federation of Exchanges website (data as of 10 November 2016).

3 http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201611/t20161130_2470191.html

Key summary of Shenzhen Connect tax policy

The joint notice issued by the MOF, SAT and the CSRC sets out the taxation policy applicable to Mainland and Hong Kong investors and requirements relating to value-added tax and stamp duty. This is largely similar to the PRC's tax policy for Shanghai Connect.

Southbound trading link *Mainland investors*

- Individual income tax will be temporarily exempted from 5 December 2016 to 4 December 2019 with respect to the gains from the transfer of eligible Hong Kong listed shares via Shenzhen Connect;
- corporate investors will have their gains from the transfer of eligible Hong Kong listed shares via Shenzhen Connect taxed in accordance with corporate income tax law;
- the dividend income from eligible shares listed in Hong Kong will be subject to individual income tax of 20%, withheld by the H-share company in regards to its dividend distribution, and by China Securities Depository and Clearing Corporation for non-H shares ; and
- the dividend income from eligible shares listed in Hong Kong will be subject to corporate income tax except for dividends from H shares which the Mainland corporate investor held for no less than 12 months.

<p>Northbound trading link <i>Investors of the Hong Kong market</i></p>	<ul style="list-style-type: none"> • Gains from the transfer of eligible A shares will be temporarily exempted from individual income tax and corporate income tax; • dividend income from eligible A shares will be subject to 10% withholding tax; and • for recipients who are entitled to a lower treaty rate (e.g. residents of countries who have signed relevant tax treaties with the PRC) a refund may be sought from the PRC tax authorities.
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http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/EP_CP_Book_En.pdf

Shenzhen-Hong Kong Stock Connect – Frequently Asked Questions

http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/FAQ_En.pdf

Shenzhen-Hong Kong Stock Connect – FAQ for Listed Issuers

http://www.hkex.com.hk/eng/rulesreg/listrules/listrulesfaq/Documents/FAQ_29.pdf

Shenzhen Connect information seminar on 30 November 2016 at the Hong Kong Stock Exchange

On 30 November, Hong Kong Corporate Counsel Association, Charltons and HKEx co-organised a seminar on the Shenzhen-Hong Kong Stock Connect⁴ at the Exchange Auditorium, where Mr. Tae Yoo, managing director at the client and marketing services, market development of the HKEx and Julia Charlton, partner of Charltons⁵, were speakers at the event. Julia Charlton's speech⁶ covered the legal aspects of the launch including beneficial ownership of Shenzhen Connect shares, asserting rights over SZSE assets, PRC foreign shareholding restrictions, short selling reporting requirements etc. The slides of the presentation are available for download at www.charltonslaw.com/hong-kong-law/shanghai-hong-kong-stock-connect-and-shenzhen-hong-kong-stock-connect-update-a-new-chapter-in-connecting-international-and-chinese-investors/.

The following Stock Exchange publications on Shenzhen Connect have been issued:

Shenzhen-Hong Kong Stock Connect – Information Book for Investors

http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/Investor_Book_En.pdf

Shenzhen-Hong Kong Stock Connect – Information Book for Market Participants

⁴ <http://www.hkcca.net/event-2370367?CalendarViewType=1&SelectedDate=11/30/2016>

⁵ <http://www.charltonslaw.com/the-firm/people-culture/team-profile/julia-charlton/>

⁶ <http://www.charltonslaw.com/hong-kong-law/shanghai-hong-kong-stock-connect-shenzhen-hong-kong-stock-connect-update/>

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