

RMB Equity: Frequently Asked Questions (as of 22 June 2011)

I. General Questions

1. Question: When will the Hong Kong market be ready for a RMB IPO?

Answer: Both HKEx and the market are ready for the listing, trading and clearing of pure RMB products. Three RMB-denominated debt securities and one RMB-denominated REIT have successfully listed and are trading on HKEx. As of 31 May 2011, 196 Exchange Participants (EPs), out of total 313 EPs on the list of RMB readiness, have traded at least once in the Hui Xian REIT. These 196 EPs contributed about 80 per cent of the total market turnover for May 2011

2. Question: If an issuer decides to raise funds through a RMB IPO, will it result in additional delays in the Listing Review process?

Answer: There should not be any delays in the listing review process as all IPOs will be subject to the same process regardless of the currency of the funds that they are raising. However, since we are in the early stage of the development of RMB products on the HKEx platform, there may be additional disclosure requirements and mechanics in relation to a RMB IPO. We will dedicate necessary resources to work closely with all prospective issuers seeking a RMB IPO to prevent unnecessary delays in the process.

3. Question: If an issuer raises funds through a RMB IPO, will it automatically be able to remit the proceeds to the Mainland?

Answer: Regardless of the currency involved, if an issuer wishes to remit IPO proceeds to the Mainland, it will have to obtain all necessary approvals from the relevant Mainland authorities. The procedure should be similar to the existing arrangement for remitting funds raised in Hong Kong back to the Mainland.

4. Question: Does an issuer need approval to remit the RMB proceeds to the Mainland at the time of A1 filing, Listing Committee Hearing or listing?

Answer: There is no HKEx Listing Rule requirement to obtain prior approval, but any remittance of funds into the Mainland will require the necessary approvals (see question 3).

5. Question: Can issuers list HDRs (Hong Kong Depositary Receipts) in RMB?

Answer: HKEx Listing Rules do not restrict RMB denomination under the HDR regime.

II. "Single Tranche, Single Counter" Model

6. Question: Can investors use HKD in addition to RMB to subscribe for RMB IPOs?

Answer: We are in principle positive to enabling HKD subscription as an option for RMB IPOs. Any model that enables HKD subscription should recognise that RMB is the principal fund-raising currency in a RMB IPO, and therefore there has to be a minimum level of subscription in RMB. If an issuer is to provide a HKD subscription option to investors, the prospectus should clearly disclose the detailed subscription mechanism, including in particular the HKD/RMB conversion mechanism, the associated costs and risks to the investors as well as the

application of the claw-back and re-allocation mechanism between subscriptions in RMB and subscriptions in HKD. We will continue to explore with relevant stakeholders including the share registrars to achieve a proper balance between the key drivers and operational complexity of such a model.

III. “Dual Tranche, Dual Counter” Model

7. Question: What is a Dual Tranche, Dual Counter RMB IPO?

Answer: A Dual Tranche, Dual Counter RMB IPO is the simultaneous offering and initial listing of a tranche of RMB-traded shares and a tranche of HKD-traded shares by the same issuer. All shares from the two tranches are of the same class and all shareholders are treated equally. Upon listing, shares of the two tranches will be traded under two separate counters on the HKEx in their respective currencies (ie one in RMB and one in HKD). The trades of the respective counters will be cleared and settled separately under CCASS, HKEx’s Central Clearing and Settlement System for securities. The Dual Tranche, Dual Counter model may entail a mechanism whereby a shareholder may convert his/her shares from one tranche to the other through the share registrar. The concept is similar to dually-listed companies whose shares may be traded in different currencies in different markets, except that the Dual Tranche, Dual Counter model being studied by HKEx will work in the same market. The above describes how a possible Dual Tranche, Dual Counter model would work. HKEx retains flexibility for other possible IPO models.

8. Question: Under the Dual Tranche, Dual Counter model, what is the allocation mechanism between the RMB and HKD tranches before pricing?

Answer: We expect the two tranches will work in largely the same way as two parallel IPOs except that the upfront allocation of shares between the two tranches and the minimum RMB tranche size will have to be clearly disclosed in the prospectus; and the offer price of the two tranches should be the same (subject only to HKD/RMB conversion), etc. The prospectus will also need to fully disclose the clawback and re-allocation mechanisms and that they function independently within the tranche. Having satisfied the intra-tranche claw-back/re-allocation requirements, the issuer may re-allocate shares between the two tranches in the light of market demand, subject to the minimum RMB tranche size.

9. Question: Should RMB and HKD tranches be priced at the same level?

Answer: See answer to Question 8 above, the offer price of the two tranches should be the same after foreign exchange conversion. The FX rate or the mechanism for the determination of the FX rate to be used for the purpose of calculating the final offer price should be clearly disclosed in the prospectus.

10. Question: Will the ownership disclosure requirement apply to each tranche or combined tranches?

Answer: The ownership continuity and control requirement will be based on the combined tranches. We will review the requirement based on the circumstances and merits of individual cases.

11. Question: Under the Dual Tranche, Dual Counter model, will HKD-traded shares and RMB-traded shares be convertible?

Answer: Convertibility between the two tranches of shares post-listing will help to ensure the efficiency of arbitrage and thereby maintain the prices of the two counters in the secondary market within a reasonable gap. Therefore, in principle we favour allowing convertibility between the two tranches of shares. Since we are still at the early stage of development of RMB equities in Hong Kong, there may be a need to have a short period of non-convertibility for the first few RMB IPOs. We will retain flexibility on this issue and work with prospective issuers who are interested in a Dual Tranche listing to find an optimal solution on convertibility during the IPO process.

12. How will underwriters' stabilisation work after a Dual Tranche, Dual Counter IPO?

Answer: The existing "Greenshoe" mechanism (ie the over-allotment option) will apply to each of the two tranches on the basis of their respective pre-determined offer size. We will review the requirement based on the circumstances and merits of individual cases.

13. Question: Will a RMB tranche of shares require an additional intermediary like an HDR does?

Answer: In general, we do not see the need for any additional intermediaries for a RMB IPO other than what is required under the Listing Rules for the issuance of shares. Any new requirements will be considered in more detail on the circumstances and merits of individual cases.

IV. Corporate Actions

14. Question: Will dividends be paid in HKD or RMB?

Answer: Any dividend policy (and for that matter other corporate actions) will have to be consistent with the fact that the shares of the two tranches are the same class of shares. Subject to the above and insofar as dividend payment is concerned, the issuer may offer an option to all the shareholders to elect to take a dividend in the currency in which the dividend is declared or in an alternative currency or currencies, and set a different default currency for the respective tranches in the absence of an election by the shareholder. In the case the issuer offers to pay a dividend in RMB (as an option), it will have to consider its access to RMB for dividend payment and its obligation in that respect in relation to the availability of RMB. There should be adequate disclosure in relation to dividend payment and currency options (if any) in the prospectus.

15. Question: Will issuers who raise funds through RMB IPOs or RMB follow-on offerings be subject to additional HKEx compliance rules?

Answer: At the moment, we do not see the need for any additional compliance rules for issuers of RMB IPOs other than what are currently in the Listing Rules. We will review such need from time to time and as the situation may require as the RMB equity market in Hong Kong develops.

V. Secondary Trading

16. Question: Will the Trading Support Facility (TSF) be made available during subscription in an IPO?

Answer: No. The TSF will be used to support secondary trading only.

17. Question: Will the TSF be made available during the stabilisation period?

Answer: Yes. The TSF will be available for secondary market trading, including the stabilisation period.

18. Question: If an investor uses the TSF to purchase RMB shares in the secondary market, will the investor receive RMB when shares are sold?

Answer: No. If an investor uses the TSF to purchase RMB shares with HKD, the investor will receive HKD when he/she sells the shares. This is the “HKD-in, HKD-out” principle of the TSF). For more details of the TSF, please refer to TSF information at the HKEx website (link: http://www.hkex.com.hk/eng/market/sec_tradinfra/TSF/TSF.htm).

Abbreviations

CCASS – Central Clearing and Settlement System

FX – foreign exchange

HDRs - Hong Kong Depositary Receipts

HKD – Hong Kong dollar(s)

HKEx – Hong Kong Exchanges and Clearing Limited

IPO – initial public offering

REIT – Real Estate Investment Trust

RMB – renminbi