



RMB Follow-on Fund Raising in Hong Kong Media Workshop

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Topic

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Part I: HKEx RMB Strategies

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Part II: Why Issue RMB Equities in Hong Kong

3

Part III: RMB Follow-on Offering and Trading Support Facility

Appendix: RMB IPO Models

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Appendix: RMB IPO Models

Key Theme: Enhance Competence and Maximize the Unique Opportunity



CHAPTER 1

China Issuers

International Investors

- Equities – Cash and Derivatives

CHAPTER 2

China Investors

International Issuers

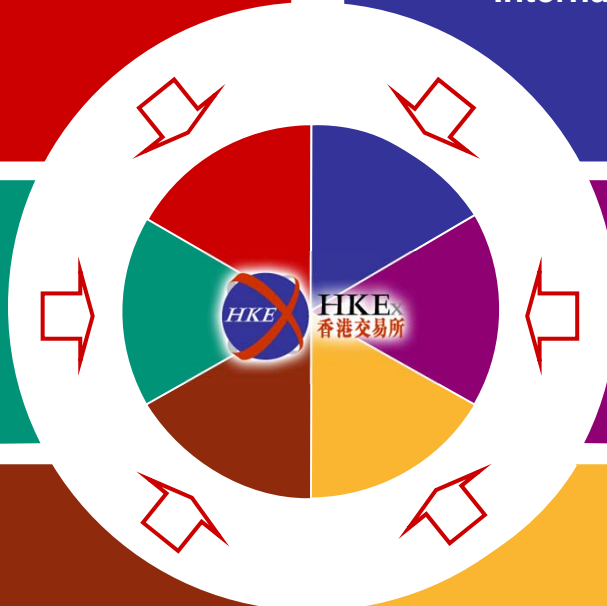
- International listings
- RMB products

CHAPTER 3

China Market & Participants

International Markets & Participants

- OTC clearing
- New asset classes



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



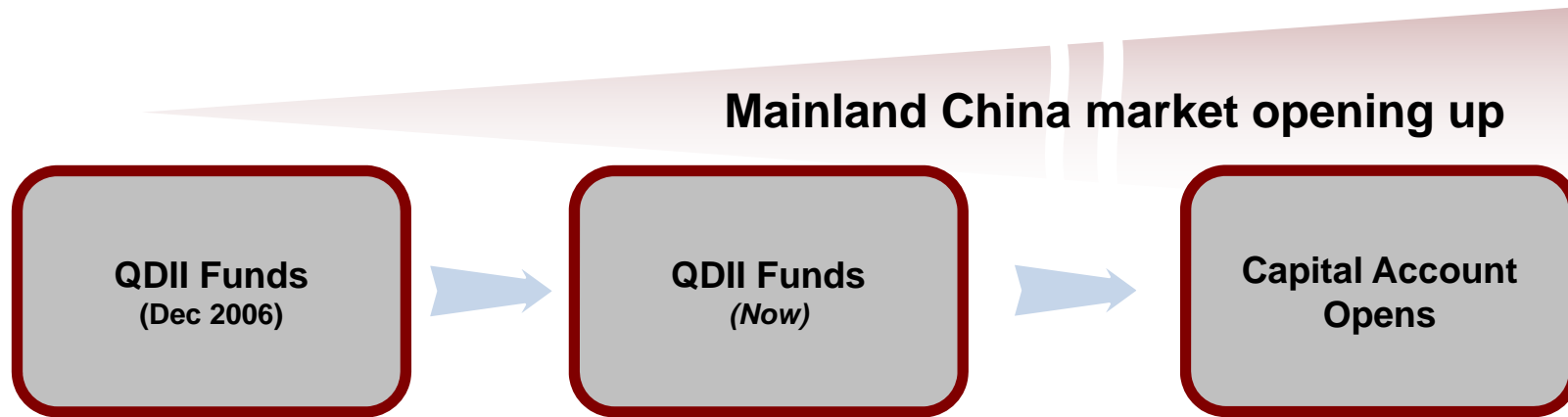
RMB Strategies

- 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)

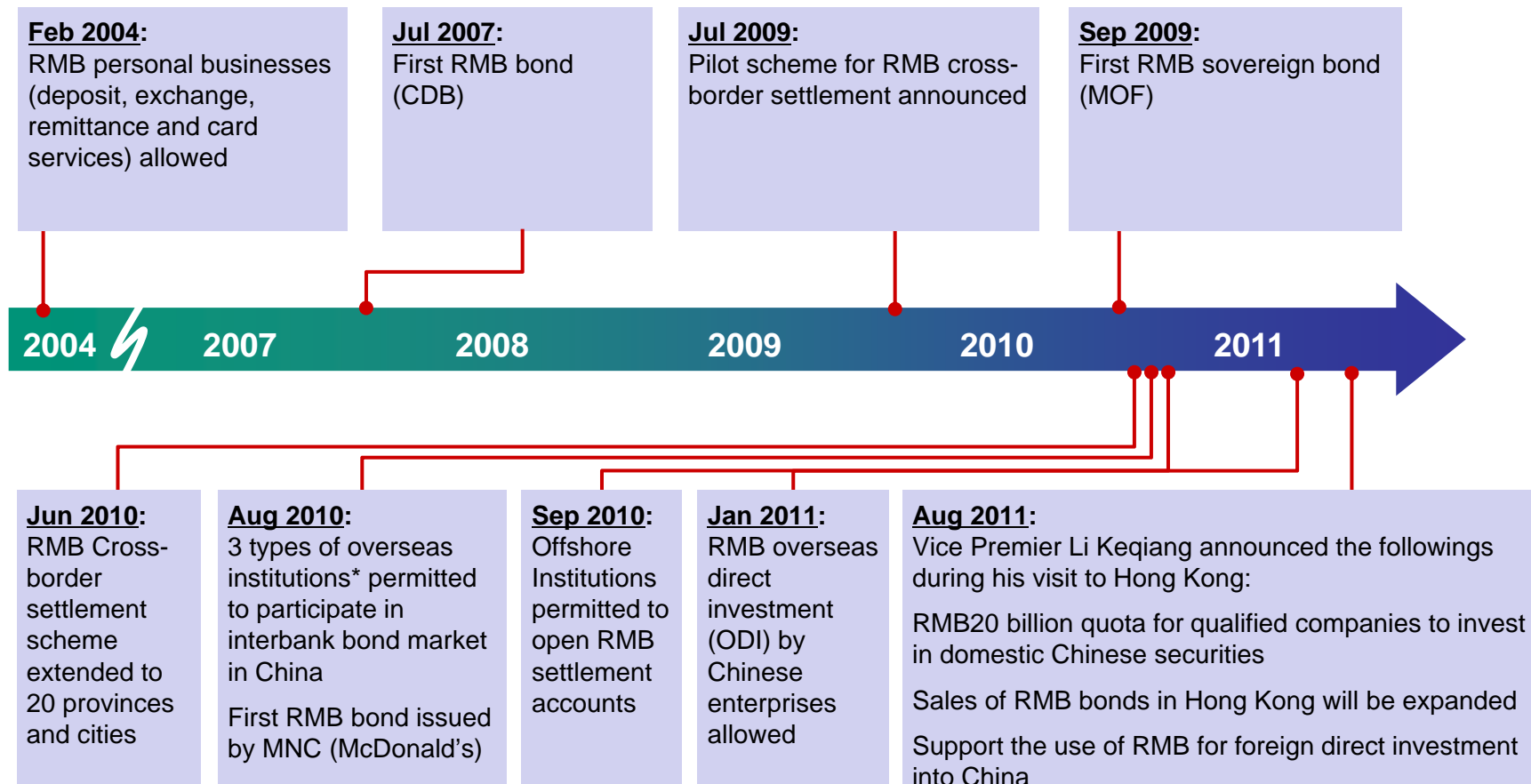
- Total approved quota increases to about USD67 bn (2.7x higher)
- About 90 approved institutions, and extends to trust companies

- 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**

RMB Internationalisation Key Milestones

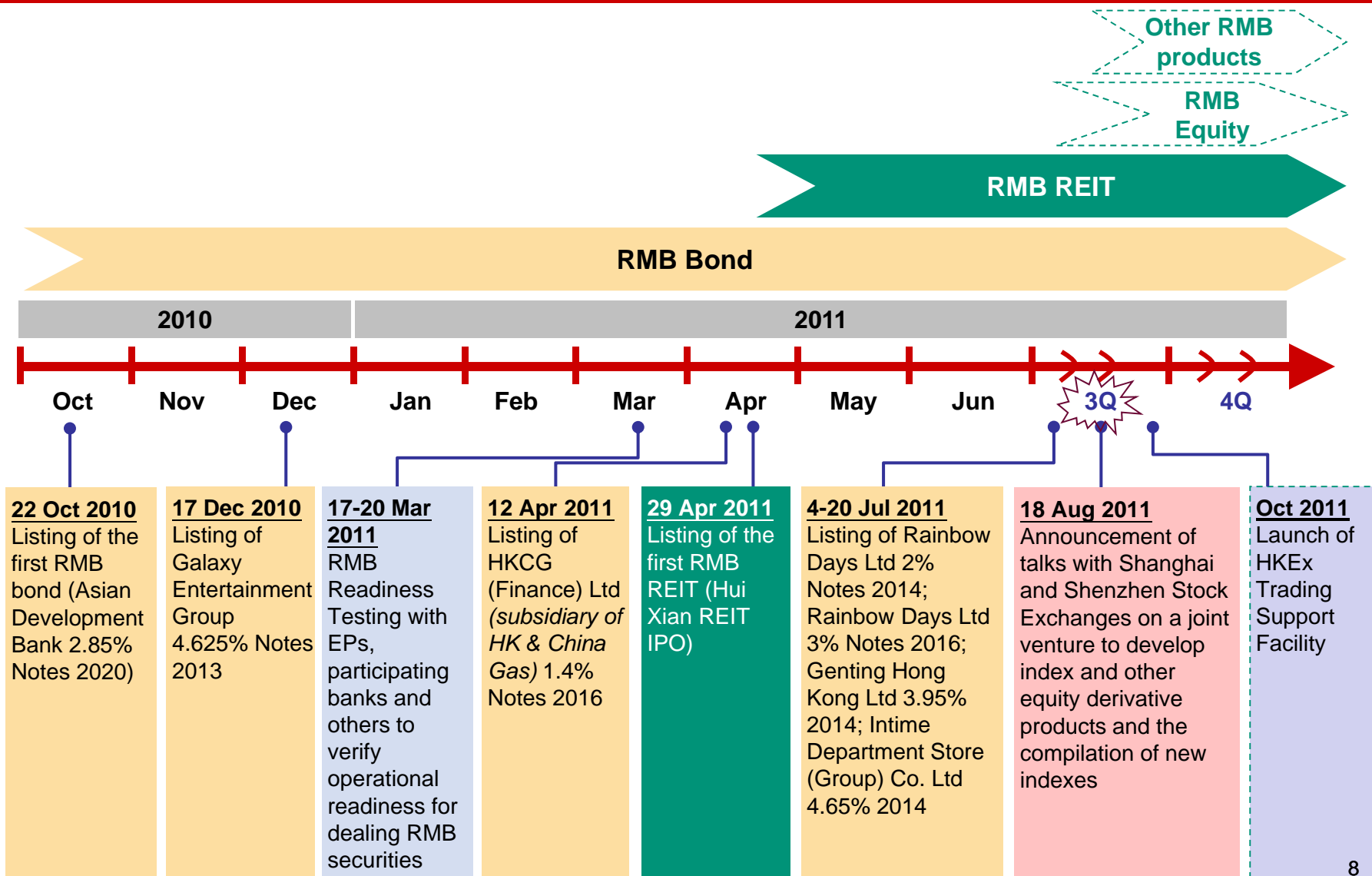


Development of offshore RMB liberalisation



* Include foreign central banks and monetary authorities, RMB business clearing banks in Hong Kong and Macau, and offshore authorized participating banks for cross-border RMB settlement

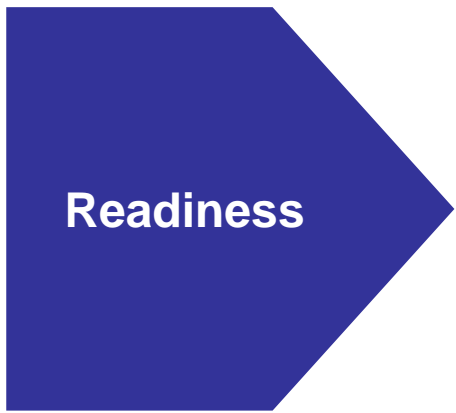
HKEx RMB Product Key Milestones



RMB Equities Issuance Readiness



A Task Force has been formed to study the effectiveness and sustainability of various RMB Equities Issuance models, and a Trading Support Facility (TSF) will be put in place by Oct 2011 to address RMB liquidity issues



- Issuer Interest** → **Significant**
- Regulatory Framework** → **Available to support listing and trading**
- Market Infrastructure** → **Largely ready**
- Intermediaries** → **Completing preparation**

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

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Why Issue RMB Shares?

1

Raise Company Profile



- Be among the 1st few companies to issue RMB shares in the secondary market outside of China
- RMB follow-on fund raising will attract strong local and international investor interest
- Expect to receive high level of media attention internationally
- Publicity in Mainland China help brand-building

2

Untapped Demand for RMB Products



- Untapped demand for RMB products among investors - Hong Kong RMB deposits of RMB553 billion by end of June 2011
- In contrast to relatively low-yielding savings accounts, RMB equities have potential capital appreciation

Why Issue RMB Shares?

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

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
- Seven RMB-denominated debt securities and one RMB-denominated REIT are already successfully listed and trading on HKEx
- As of 30 June 2011, 313 Exchange Participants representing 87% of market share, are ready to trade and clear RMB products

HKEx is ready for fund-raising in RMB and secondary trading

Concern: RMB Liquidity



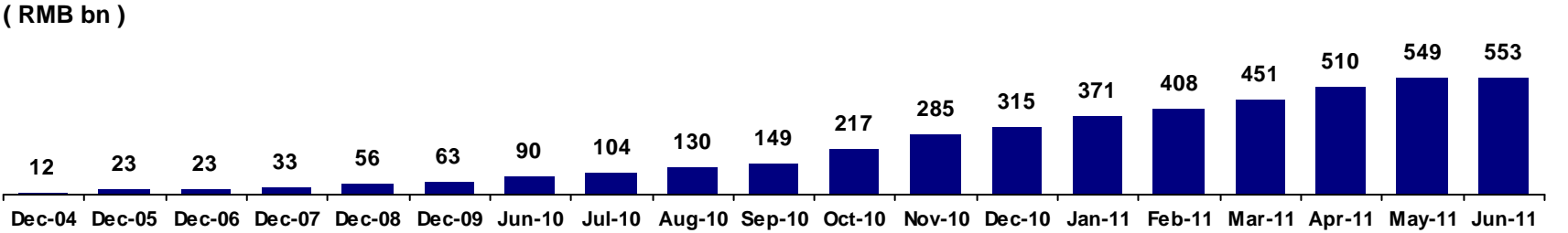
Concern

How can the concern be addressed?

■ Is there enough RMB to support fundraising in RMB and secondary market liquidity?

- The total current RMB deposits of RMB553 billion provides enough RMB liquidity for initial and follow-on fund raising
- Past cases of RMB bond issuance in HK demonstrates investor demand for RMB products
- RMB fund-raising models allow additional flexibility and allow HKD holders to subscribe for RMB shares
- RMB Trading Support Facility will be in place by Oct 2011 to facilitate secondary market trading

RMB Deposits in Hong Kong



Source: "Monthly Statistical Bulletin", HKMA

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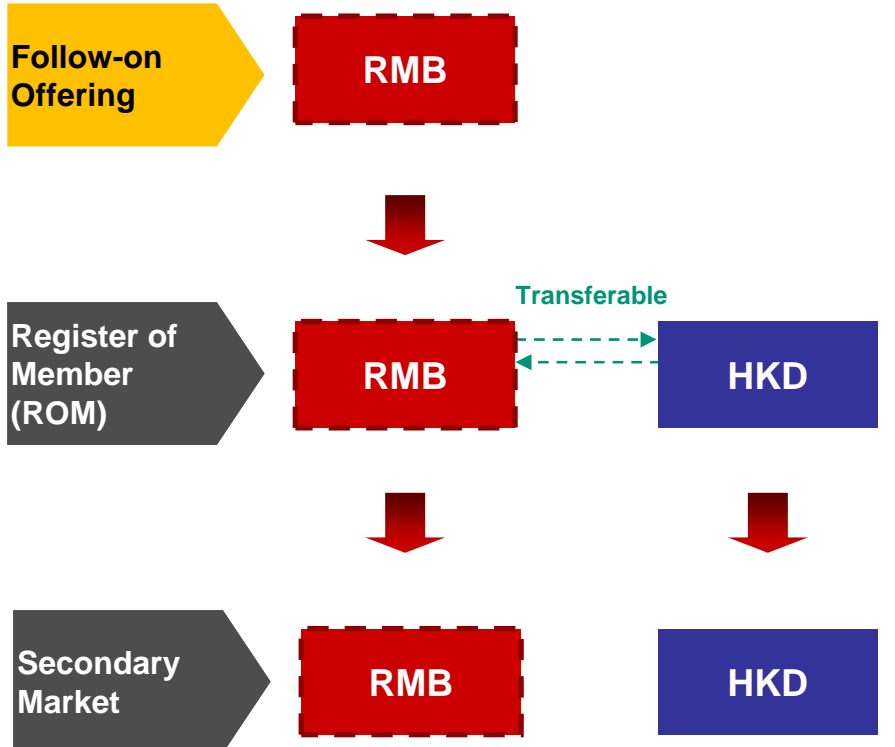
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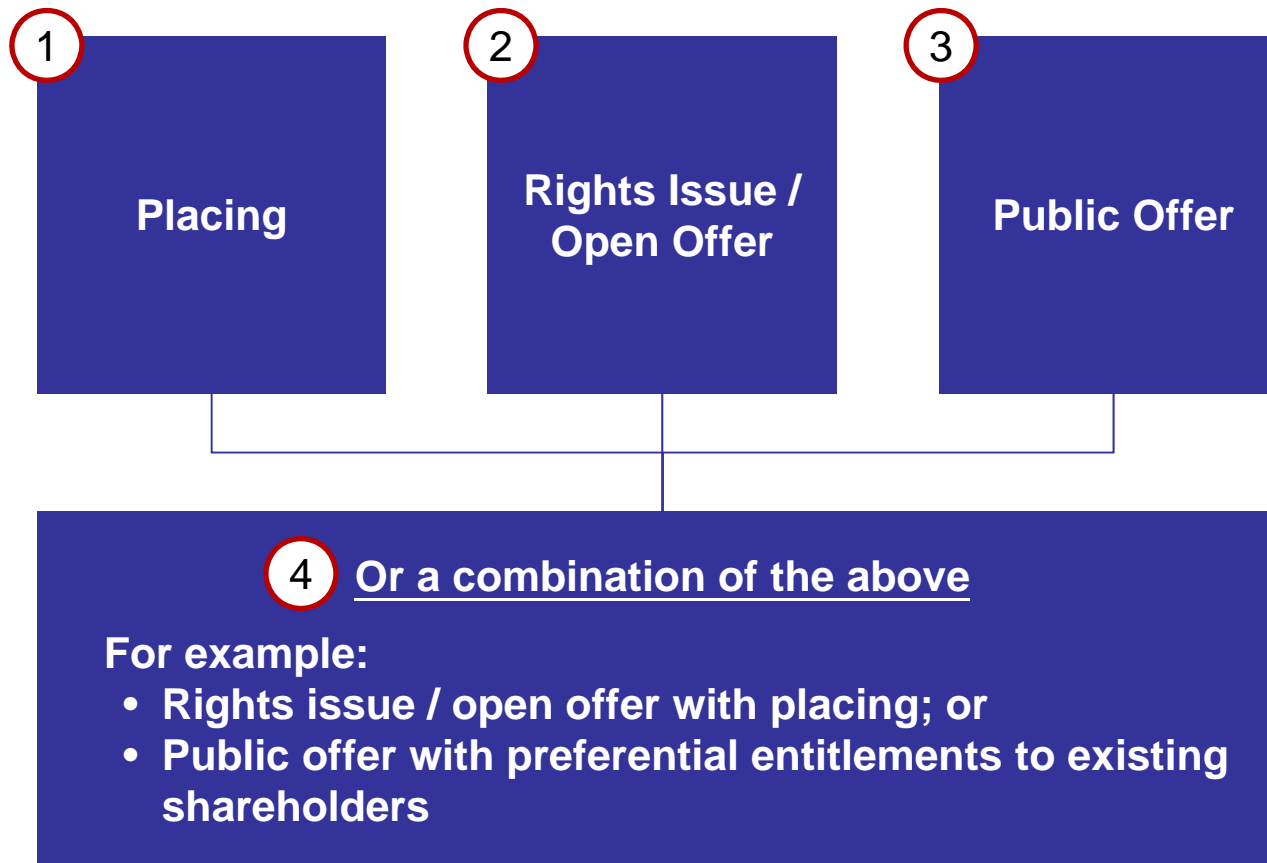
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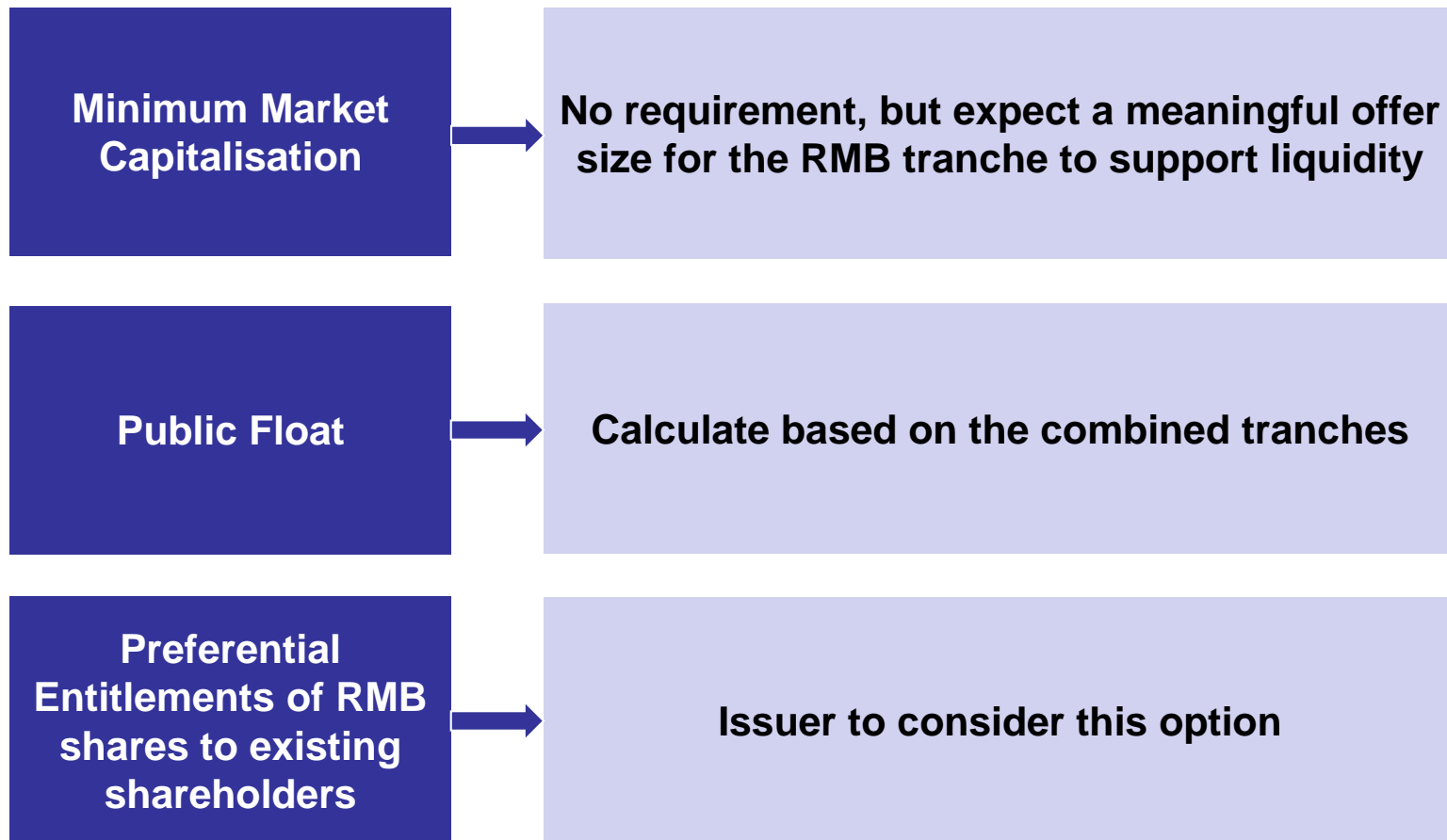
RMB Follow-on Offering Overview

Follow-on Offering	Description	
	<ul style="list-style-type: none"> ■ For listed issuer with HKD-traded shares ■ Follow-on offering: The listed issuer raises fund in RMB, resulting in a new counter of RMB-traded shares, alongside with the existing counter of HKD-traded share ■ Transferability: Shares of respective RMB counter and HKD counter are denoted on the ROM accordingly, with option of “transferability” post offering ■ Secondary market trading, clearing and settlement: in two “counters” with two stock codes in RMB and HKD counters, respectively ■ CCASS: RMB-traded shares and HKD-traded shares will be accepted by CCASS for settlement of trades of the respective counter only ■ Shareholders’ rights: Same class of shares with identical shareholders’ rights 	

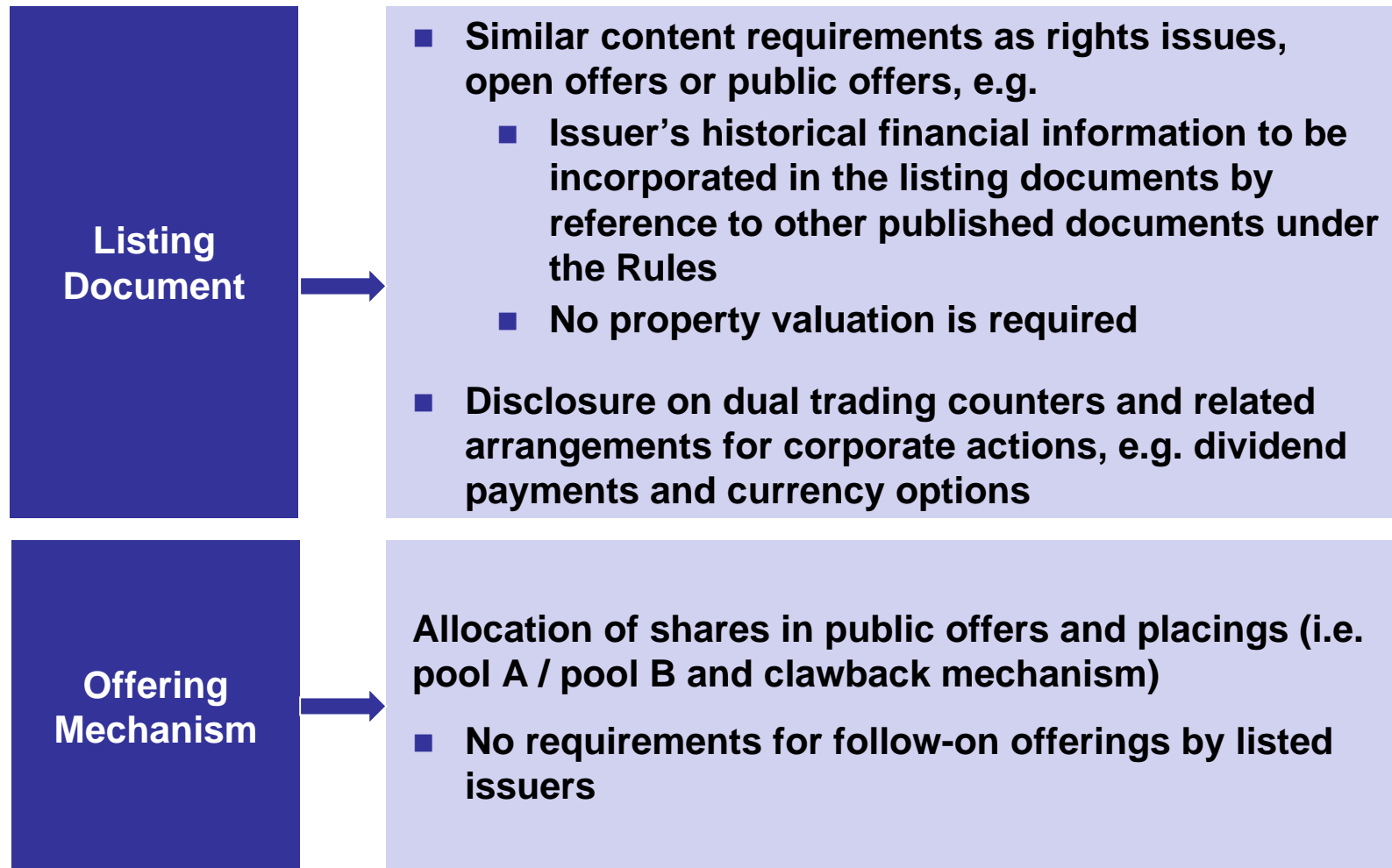
Methods of RMB Follow-on Offerings



Requirements for RMB Follow-on Offerings



Requirements for RMB Follow-on Offerings



Listed issuers' obligations for proposing RMB follow-on offerings

Documentation

- Announcement
- Circular (if shareholders' approval is required)
- Listing document (where applicable)

Shareholders' approval

- a non pre-emptive offer, unless a general mandate is available (e.g. a placing or public offer)
- a large scale rights issue / open offer (e.g. offer size > 50% of total issued share capital or market capitalization)
- any issue of new shares to connected persons under the follow-on offering

Transferability

Option	Advantages	Considerations
<p>Transferable</p>	<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 force 	<ul style="list-style-type: none"> ■ Possible risk of inadequate RMB counter liquidity
<p>Non-transferable</p>	<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 transferability is introduced in future

Allow transferability

Trading Support Facility (TSF)

Key Design Principles

Confined to offshore RMB

- Only utilize offshore RMB
- At least for the initial stage

Existing policy framework

- Follow existing RMB policy framework
- No need to seek approval from Mainland authorities or policy exemption from HKMA

CNH market intact

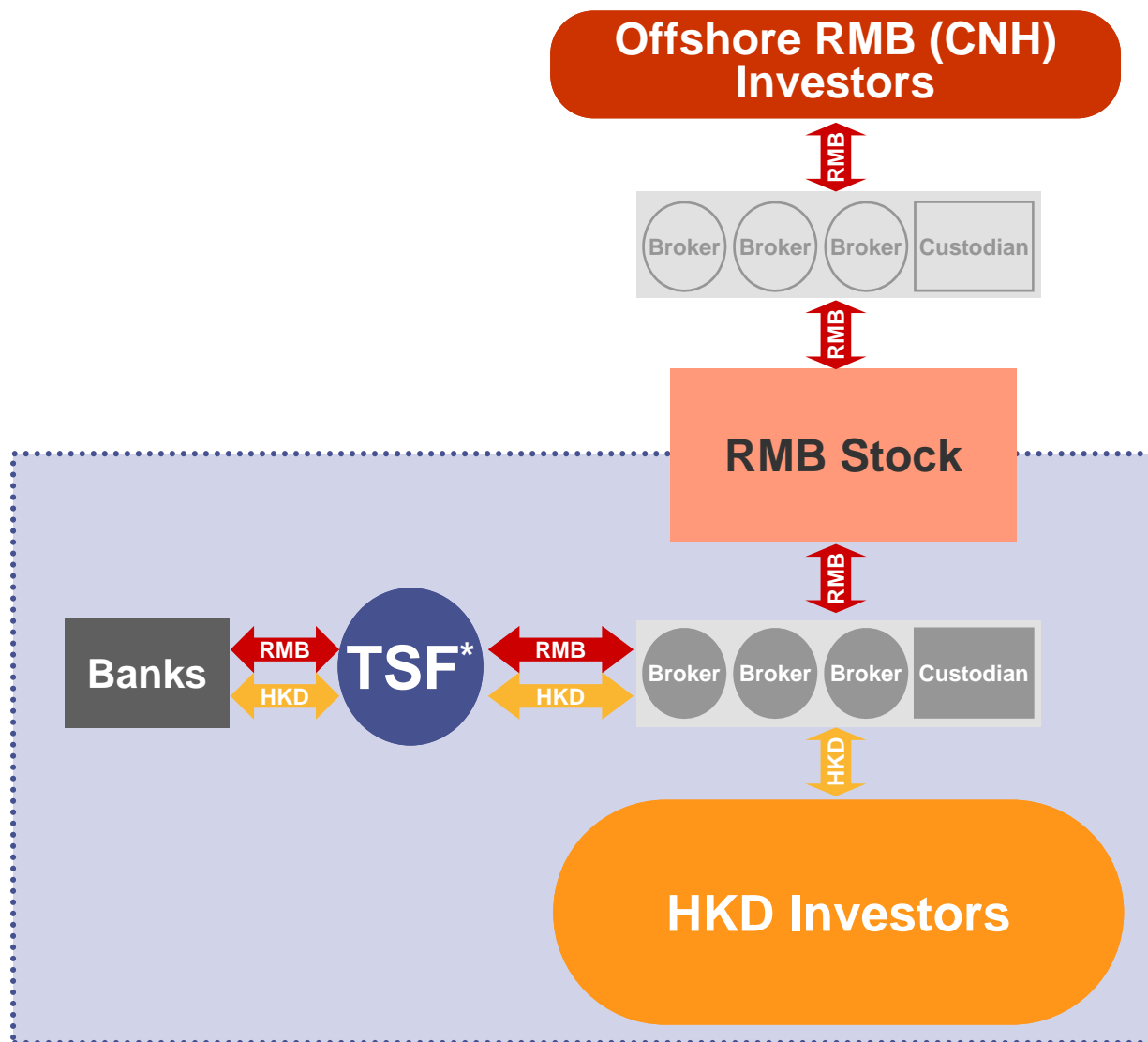
- Minimise stress on CNH market

Focus on core objectives

- Support secondary market trading of RMB equity
- Not to engage in FX business
- A facility, not a business

* CNH: RMB in Hong Kong

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

Q & A

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RMB IPO Models

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**Single Tranche, Single Counter
(STSC)**

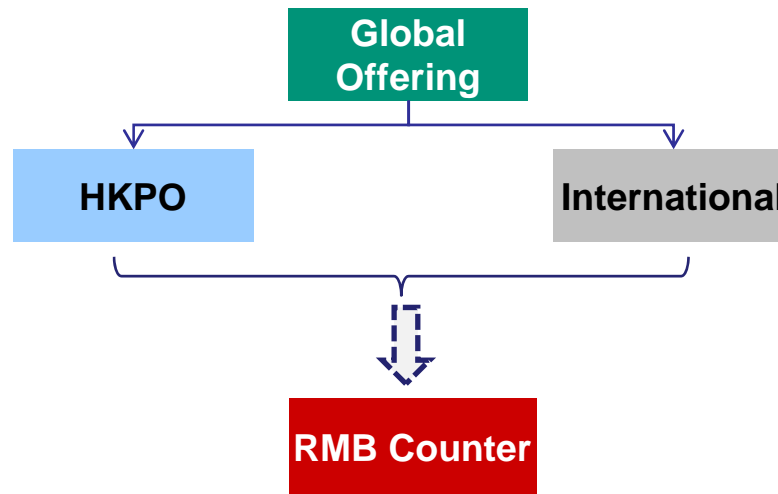
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Dual Tranche, Dual Counter (DTDC)

Single Tranche, Single Counter



IPO Structure



Key considerations

- Offer size and secondary market fundraising
- Subscription level of HKPO
- Secondary market liquidity and performance

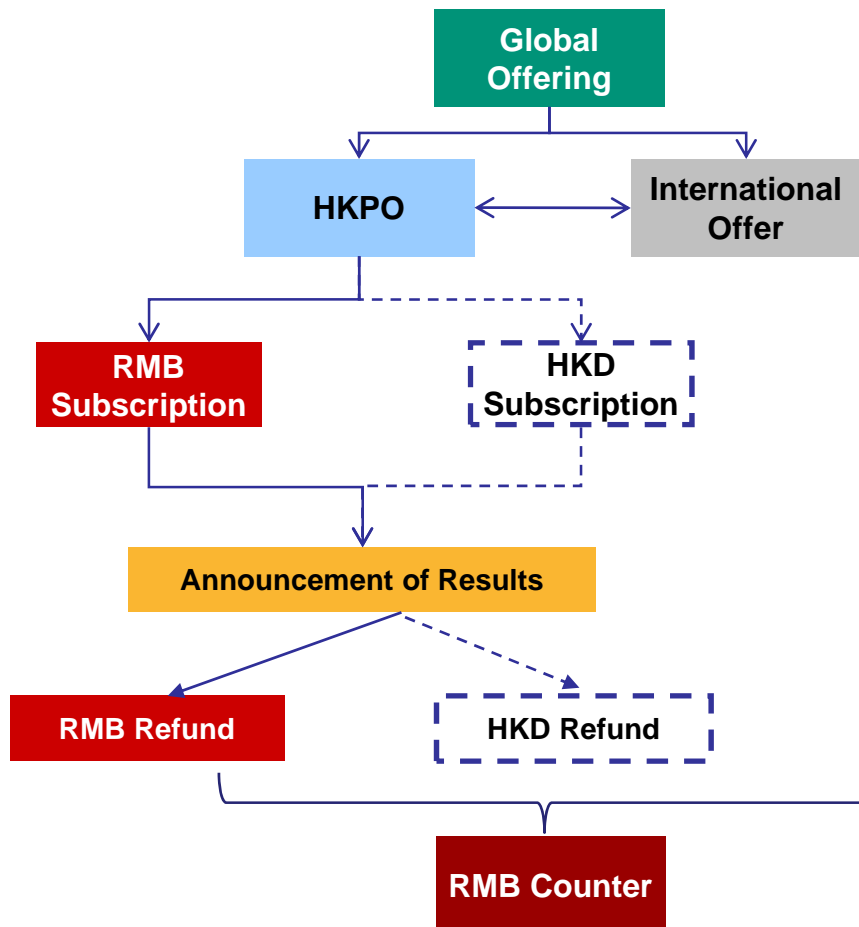
Options

- Dual Counter Dual Tranche model
- Allow HKD holders to subscribe
- Trading Support Facility

Subscription process of HKPO for Single Tranche



IPO Structure



Key Principles

- Optional to issuers
- Ensure minimum level of RMB subscription
- Proper balance between key drivers and operational complexity

Other Features

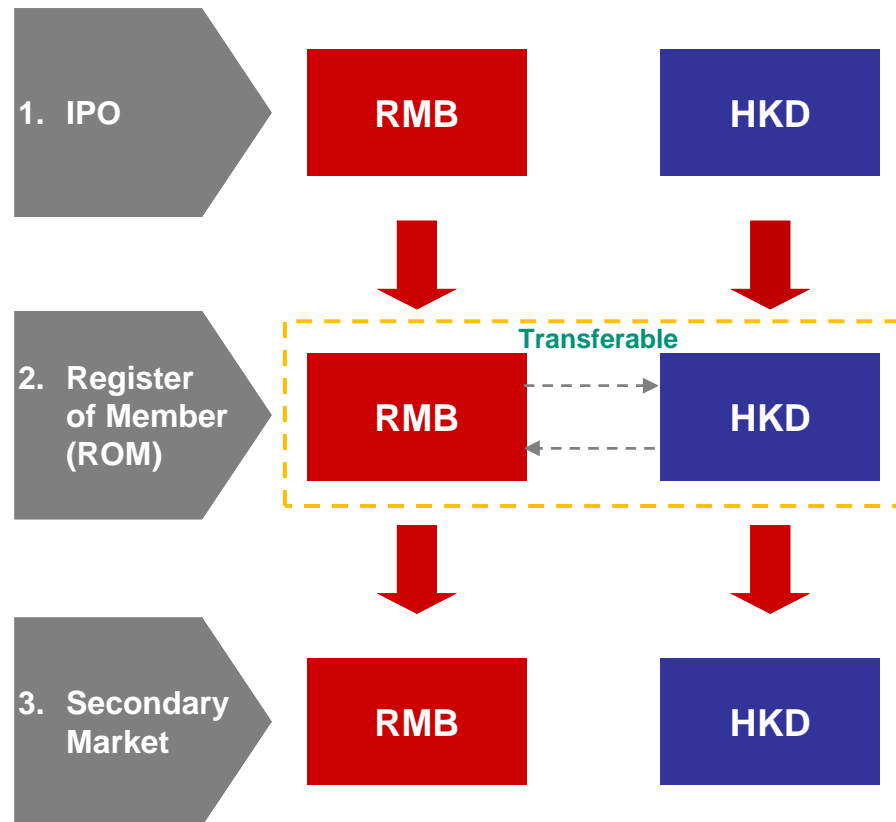
- Minimise stress on CNH* market during IPO period if heavily over-subscribed
- Enable issuers to leverage upon the HKD deposit base
- Margin-financing using HKD

* CNH: RMB in Hong Kong

DTDC Overview



Dual Tranche Dual Counter Model

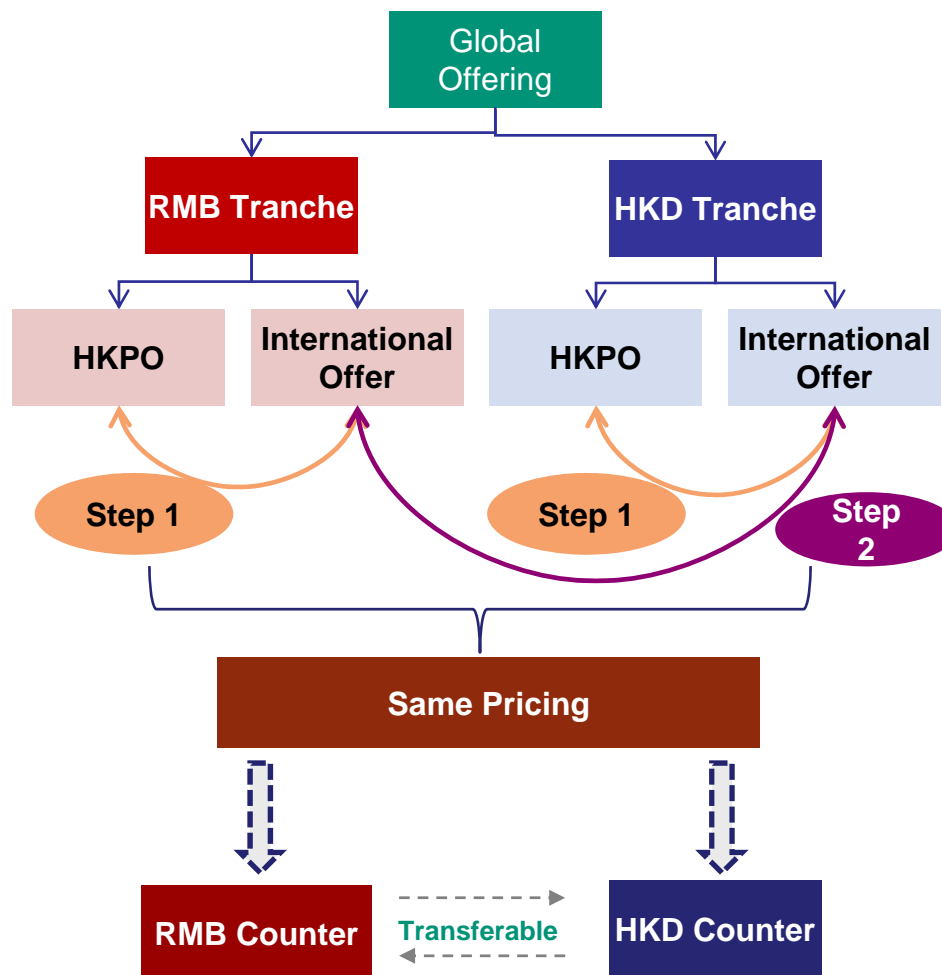


Description

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

DTDC Mechanism

IPO Structure



Claw-back / Re-allocation

- Step 1**
- Intra-tranche claw-back 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 claw-back/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

DTDC Key Features

Same offer price

Allows transferability

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)