



Shenzhen-Hong Kong Stock Connect

Shenzhen-Hong Kong Stock Connect was finally launched commencing on 5 Dec 2016 after Shanghai-Hong Kong Stock Connect have been introduced after two years. Shenzhen-Hong Kong Stock Connect will further strengthen the interconnectivity between China and Hong Kong capital markets, and expand the investment scope for investors.

Difference between Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and Eligible Securities for Northbound and Southbound Trading

There are not material differences between Shenzhen-Hong Kong Stock Connect versus Shanghai-Hong Kong Stock Connect. The aggregate quota for Shanghai-Hong Kong Stock Connect has been abolished, and no aggregate quota has been established for Shenzhen-Hong Kong Stock Connect. Daily quota under Shenzhen-Hong Kong Stock Connect is the same as Shanghai-Hong Kong Stock Connect, which means Northbound daily quota is set at RMB13 billion, while Southbound daily quota is set at RMB10.5 billion. It is worth mentioning that in addition to the existing securities which are eligible for investment under Shanghai-Hong Kong Stock Connect, constituent stocks of the Hang Seng Composite SmallCap Index which have market capitalization of not less than HK\$5 billion, as well as HKEx-listed H shares which have corresponding A shares listed on SZSE, are also eligible for investment under Shenzhen-Hong Kong Stock Connect. In addition to existing securities that can be traded via Shanghai-Hong Kong Stock Connect, an additional 102 stocks (a total of 417 securities) listed in Hong Kong are eligible for Southbound investors under Shenzhen-Hong Kong Stock Connect. On the other hand, trading of constituent stocks of the Shenzhen Stock Exchange (SZSE) Component Index and the SZSE Small/Mid Cap Innovation Index which have market capitalization of not less than RMB6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on Hong Kong Stock Exchange, are open to all Hong Kong and overseas investors. ChiNext stocks will be limited to institutional professional investors during the initial launch of Shenzhen-Hong Kong Stock Connect. Northbound investors are able to invest in 881 SZSE-listed securities. There are plans to include ETFs in Shenzhen-Hong Kong Stock Connect in the future.

Shanghai-Hong Kong Stock Connect Trading Statistics

According to HKEx, average turnover of Northbound Trading per annum in the past two years was approximately RMB1,100 billion and average daily turnover reached RMB5 billion, with net capital inflow of RMB130 billion in the past two years. On the other hand, average turnover of Southbound Trading per annum in the past two years was approximately HK\$740 billion and average daily turnover reached HK\$1.6 billion, with net capital inflow of HK\$350 billion in the past two years. Northbound

Trading and Southbound Trading represented approximately 1.3% and 1.8% of the turnover of corresponding markets in the past two years, respectively. From the perspective of net capital inflow, currently investors are more willing to hold HKEx-listed securities than SSE-listed stocks. Northbound investors in general preferred blue chips, but higher risk tolerance is observed as investments in mid-cap stocks account for a larger proportion than the past. On the other hand, Southbound investors loved to invest in mid-cap stocks in the first year after Mutual Market Access was launched but blue chips were more favourable to them in the second year.

Special Alert

The SZSE Component Index and the SZSE Small/Mid Cap Innovation Index for Northbound Trading and the Hang Seng Composite SmallCap Index for Southbound Trading are all reviewed half-yearly. In addition, each constituent stock of the above indexes are required to meet the minimum capitalization requirement. SZSE indexes are measured using average daily market capitalization while Hang Seng Composite SmallCap Index is measured using average month-end market capitalization of the constituent stock. The market capitalization of a constituent stock of SZSE indexes and Hang Seng Composite SmallCap Index is calculated using the average daily market capitalization in the six months prior to the periodic review of the relevant index and the average month-end market capitalization in the twelve months prior to the periodic review of the relevant index, respectively, while the current market capitalization of a constituent stock does not matter. According to current market capitalization of each constituent stock, at least five securities which are eligible for Southbound Trading could be removed and a few could be added in the future. In addition, market capitalization for constituent stock of Hang Seng Composite SmallCap Index is only calculated using average month-end data. Thus, share price of such constituent stock could be more volatile at the last trading day each month. On the other hand, AH premium/discount actually widened after the launch of Shanghai-Hong Kong Stock Connect. Thus, AH premium/discount might not be narrowed following the kick-off of Shenzhen-Hong Kong Stock Connect.