

# **Guide of CSDC Shanghai Branch to Southbound Trading Depository and Settlement Business**

*Disclaimer: For the avoidance of doubt, if there is any conflict in the meaning between the English version and the Chinese version, the Chinese version shall prevail.*

Shanghai Branch of China Securities Depository and Clearing  
Corporation Limited

## Version and Explanations for Revision

Date	Major revisions
September 2014	Released for the first time
November 2014	Adjusted the trading fee standards, and added the contents of stamp tax exemption and tax treatment for H share dividend distribution.
February 2015	Adjusted the content of custody of eligibility for rights issue and added the content of offer for sale.

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For the purpose of the Guide, southbound trading means investors on the Chinese Mainland authorize mainland-based securities companies to declare to The Stock Exchange of Hong Kong Limited ("HKSE" (order routing) via the securities trading service company established by Shanghai Stock Exchange ("SSE"), and trade the specified stocks listed on the HKSE.

The Guide applies to the depository, clearing, settlement, risk management and corporate action processing business in the southbound trading, including relevant securities treatment derived from corporate actions. All settlement participants may deal with relevant business with reference to the Guide.

## **Chapter I Depository**

### **I. Overview**

Southbound trading investors may participate in southbound trading through RMB ordinary share accounts for SSE, and the H shares settled are recorded in RMB ordinary share accounts for SSE.

China Securities Depository and Clearing Corporation Limited ("CSDC"), as the nominee, deposits, in its name, the securities acquired by southbound trading investors in Hong Kong Securities Clearing Company Limited ("HKSCC"), and exercises the rights against securities issuers through HKSCC.

The securities held by southbound trading investors in the name of CSDC are registered in the register of shareholders of the companies listed on The Stock Exchange of Hong Kong Limited ("HKSE") in the name of HKSCC Nominees Limited.

Investors may enjoy the rights and interests in the shares purchased in the southbound trading according to law. The securities holding records issued by CSDC shall be a valid certificate proving southbound trading investors enjoy the securities' rights and interests.

Investors of southbound trading shall not demand deposit or withdrawal of paper

share certificates, unless otherwise stipulated by CSRC.

CSDC does not provide cross-border custodian transfer services for southbound trading.

## **II. Inquiry about Securities Holding and Change Records**

### **i. Acceptance scope**

The Guide applies to investors' inquiry about the holding of and changes in the securities acquired by them through southbound trading.

### **ii. Required materials and handling procedures**

The required materials and handling procedures for investors' inquiry about H share holding and changes shall refer to A share-related business rules of CSDC.

### **iii. Notes**

1. H shares are settled on T+2 day, and the balance of H shares held is divided into balance held at the end of the day, available number, pending number and frozen number. Available number= Balance held at the end of the day + pending number - frozen number.

2. When an investor simultaneously inquiries about A shares and H shares recorded in the accounts of RMB ordinary shares on SSE, fees on inquiry about the holding of and changes in holding of H shares shall be charged together with A shares according to securities accounts, and shall not be charged separately.

[Case 1]

A securities account has a holding balance of 1,000 shares at the end of T-1 day. On T day, conduct T+0 turnaround trade of H shares, buy 800 shares and then sell 1,800 shares. On T day, the pending number recorded is  $800-1800 = -1,000$  shares. Available number is written down 1,000 shares at the end of T day. After completion of settlement on T+2 day, the balance held at the end of the day is 0.

Date	Matters	Available number (A)	Balance held at the end of the day (B)	Pending number (P)	Frozen number (F)
T-1		1000	1000	0	0
T	Buy 800 shares and sell 1,800 shares	0	1000	-1000	0
T+1		0	1000	-1000	0
T+2		0	0	0	0

### **iii. Assistance in Enforcement**

#### **i. Acceptance scope**

The Guide applies to the assistance given to the people's court, procuratorate, public security organ and other competent organs to inquire about, freeze and unfreeze (including queued-up freeze, continued freeze and queued-up unfreeze), withhold and transfer H shares held in trust by CSDC, for the purpose of case hearing and execution.

#### **ii. Required materials and handling procedures**

The required materials and handling procedures for assistance in H share enforcement shall refer to A share-related business rules of CSDC.

#### **iii. Notes**

1. On the day the freeze is accepted, CSDC assists in freezing and withholding (maximum frozen number = balance held at the end of the application day (A day)) - net sale number on A-1 day - net sale number on A day - frozen number) based on the settlement results after completion of the settlement procedures.

2. Frozen H shares may include bonus shares and cash dividends without option distributed through HKSCC during the freezing period. If the bonus shares distributed are not entitled to southbound trading but listed and traded on HKSE, they must be frozen as well. Cash dividends without option, after being unfrozen or withheld, shall be distributed to investors through the securities companies for the designated transactions of securities accounts according to the amount distributed by HKSCC to CSDC.
3. On a day that is a non-trading day of Hong Kong but a trading day of Chinese Mainland, CSDC may accept and deal with the assisted enforcement of southbound trading business.
4. If CSDC assists in enforcement of withholding, it will calculate and charge the stamp tax on transfer and transfer fee based on the relevant fee standards on non-trading transfer set forth in Schedule 3. CSDC mails tax declaration materials to HKSC, and delivers the stamp tax to HKSCC, which will then forward it to Hong Kong Stamp Office, affix stamp to transaction documents and mail them to CSDC. Upon receipt of relevant notice and materials, CSDC will handle share transfer and mail the transaction documents to investors.
5. Given the payment of stamp tax to Hong Kong Stamp Office, assisted enforcement of withholding needs a period of at least eight southbound trading days, Investors must take note of stock price fluctuation and other risks possibly brought thereby.

## **IV. Securities Pledge**

### **i. Acceptance scope**

This Guide applies to investors' registration and deregistration of pledge of H shares in RMB ordinary share account in SSE.

### **ii. Required materials and handling procedures**

When an investor handles registration or deregistration of H shares pledge, the



required materials and handling procedures shall refer to A share pledge registration business rules and guide of CSDC.

### **iii. Notes**

1. On the day the pledge registration is accepted, CSDC deals with pledge registration (maximum pledged number = balance held at the end of the application day (A day)) - net sale number on A-1 day - net sale number on A day - frozen number) based on the settlement results after completion of the settlement procedures.
2. Collaterals used in pledge include corresponding number of securities recorded in the pledge registration application and bonus shares and cash dividends without option distributed through HKSCC for these securities during the effective period of pledge registration. If the bonus shares distributed are not entitled to southbound trading but listed and traded on HKSE, the pledgor may sell these shares after cancellation of pledge. Cash dividends without option, after cancellation of pledge, shall be distributed to the pledgor through the securities companies of the designated transactions of the pledgor according to the amount distributed by HKSCC to CSDC.
3. On a day that is a non-trading day of Hong Kong but a trading day of Chinese Mainland, CSDC may accept and deal with southbound trading pledge business.

## **V. Securities Alteration Registration**

### **i. Acceptance scope**

This Guide applies to non-trading transfer of H shares involved in deprivation of corporate capacity, inheritance, divorce, donation to foundations by investors and the circumstances approved by competent authorities of the country.

### **ii. Required materials and handling procedures**

The materials required to be submitted for non-trading transfer of H shares shall refer

to A share-related business rules of CSDC.

If CSDC reviews and approves non-trading transfer application materials, it will calculate and charge the stamp tax on transfer and transfer fee based on the relevant fee standards on non-trading transfer set forth in Schedule 3. CSDC mails tax declaration materials to HKSCC, and delivers the stamp tax to HKSCC, which will then forward it to Hong Kong Stamp Office, affix stamp to transaction documents and mail them to CSDC. After receiving relevant notice and materials, CSDC will handle the share transfer and mail the transaction documents to investors.

### **iii. Notes**

1. CSDC does not deal with non-trading transfer involved in agreed transfer by southbound trading investors.
2. On a day that is a non-trading day of Hong Kong but a trading day of Chinese Mainland, CSDC may accept and deal with securities alteration registration relating to southbound trading.
3. Given the payment of stamp tax to Hong Kong Stamp Office, non-trading transfer needs a period of at least eight southbound trading days, Investors must take note of stock price fluctuation, judicial freeze and other risks possibly brought thereby.
4. With respect to the matters of deprivation of corporate capacity or inheritance, it is allowed to apply for exemption from payment of stamp tax if meeting the requirements of laws and regulations of Hong Kong. In case of applying for exemption, CSDC mails, on behalf of customers, exemption materials to HKSCC, which forwards the materials to Hong Kong Stamp Tax Office. If Hong Kong Stamp Tax Office approves, the stamp tax can be exempted.

## **Chapter II Clearing and Settlement**

## **I. Basic principles**

### **i. Settlement institution connection**

CSDC, as a settlement institution participant in HKSCC, shall accept the instructions of SSE Securities Trading Service Company, complete securities and fund settlement with HKSCC and assume the responsibility for settlement with HKSCC according to the business rules of HKSCC and the clearing data provided by HKSCC.

In case HKSCC fails to fully perform the obligations for settlement with CSDC due to its bankruptcy, CSDC's responsibility for southbound trading settlement business shall be only limited to assisting domestic settlement participants to demand payment by HKSCC according to relevant legal procedures of Hong Kong, and proportionally allocating the securities and funds recovered to domestic settlement participants which have suffered losses. The losses finally incurred thereby shall be borne by domestic settlement participants.

### **ii. Multi-level settlement**

Securities and fund settlement shall follow the principle of multi-level settlement.

Domestic settlement of southbound trading is completed by CSDC. CSDC, as the central counterparty of domestic settlement participants, provides multilateral net settlement services for southbound trading.

CSDC is responsible for handling the securities and fund clearing and settlement among domestic settlement participants, and domestic settlement participants shall perform the final responsibility for settlement with CSDC according to their settlement obligations determined when trades are concluded.

Domestic settlement participants are responsible for handling securities and fund clearing with southbound trading investors. Securities transfer between domestic settlement participants and southbound trading investors shall be entrusted to CSDC.

### **iii. Settlement currency and currency exchange arrangements**

Except for risk management business that is settled in RMB, the other business between CSDC and HKSCC shall be settled in the currency as determined by HKSCC.

CSDC and domestic settlement participants use RMB as settlement currency.

The exchange between HKD and other currencies and RMB shall be conducted by CSDC and settlement banks with southbound trading exchange qualifications ("exchange banks") in Hong Kong.

## **II. Clearing**

### **i. Securities clearing**

At the end of each southbound trading working day<sup>1</sup> ("working day"), CSDC calculates the number of receivable and payable securities of each transaction record on the settlement day based on the transaction data of SSE.

### **ii. Fund clearing**

Fund clearings are divided into securities trading fund clearing, securities portfolio fee clearing, corporate action fund clearing and risk control fund clearing, all including twice clearing in HKD and RMB.

At the end of each working day, CSDC conducts intraday trading fund clearing based on the transaction data sent by SSE; CSDC conducts securities portfolio fee clearing based on the end-of-day securities holding number of investors and closing price on the previous day; CSDC conducts corporate action clearing based on the corporate acquisition, participation in rights issue, public placement, cash dividends and other data declared by investors through CCNET<sup>2</sup>; CSDC conducts risk control fund clearing based on the pending position data of each participant.

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<sup>1</sup>Southbound trading working days refer to the trading or settlement days of southbound trading.

<sup>2</sup> Namely the original PROP.

The above funds shall successively go through twice clearing in HKD and RMB:

- Conducting RMB fund clearing of securities trading funds and securities portfolio fees based on the applicable buying and selling settlement exchange ratios on the day.
- Conducting RMB fund clearing based on the exchange rate, after receiving dividend funds or corporate acquisition funds from HKSCC, completing currency exchange in Hong Kong and remitting RMB funds to Chinese Mainland.
- Conducting RMB fund clearing based on the valid declaration data of rights issue or public placement, after inquiring of the exchange bank and determining the exchange rate.
- Conducting RMB fund clearing of risk control funds based on the risk control fund exchange rate provided by HKSCC (see "Chapter III Risk Management").

### **1. Clearing of trading funds (including related taxes and fees) and securities portfolio fees**

The two funds are cleared first in HKD and then in RMB according to the applicable exchange rate.

(1) Receivable and payable amount of single transaction (in HKD)

=Transaction amount– (stamp tax+ trading charge+ trading fee+ trading system use fee+ share settlement fee)

Where,

Trading amount = -Round (trading number× trading price, 2), buying is negative, selling is positive (trading number is positive when buying, trading number is negative when selling);

Stamp tax = Roundup (|Trading number|× trading price× Stamp tax rate, 0);

Trading charge = Round (|Trading number|× trading price× trading charge rate, 2);

Trading fee = Round (|Trading number|× trading price× trading fee rate, 2);

Trading system use fee = Trading system use fee rate (charged by deal);

Share settlement fee= Round{ If [|Trading number|× trading price× share settlement fee rate >100, 100, Max (|Trading number|× trading price× share settlement fee rate, 2)], 2}

See Schedule 1 for various fee rates.

(2) Clearing amount of securities portfolio fees on each securities account (in HKD)

Securities portfolio fees are depository and corporate action service fees payable by investors to HKSCC for the securities held by them. Securities portfolio fees are equal to the market value of held securities multiplied by corresponding fee rate. Securities portfolio fees are calculated by the excess regressive method. That means the higher the market value, the lower the fee rate. See Schedule 2 for securities portfolio fee rate.

Calculate daily securities portfolio fees on a securities account within a range

=Tier-1 portfolio fee+ tier-2 portfolio fee+...+ portfolio fee of the corresponding tier of the market value held in the securities account at the end of the previous day

= Roundup (Maximum tier-1 market value  $\times$  fee rate of applicable tier/365+ maximum tier-2 market value  $\times$  fee rate of applicable tier/365+...+ (market value held in the securities account at the end of the previous day - minimum value of applicable tier)  $\times$  fee rate of applicable tier/365, 2)

Where,

① Market value held in the securities account at the end of the previous day (in HKD) = $\Sigma$  balance of each securities code in the securities account at the end of the previous day  $\times$  closing price on the previous southbound trading working day

② Securities portfolio fees are charged on the basis of natural day. It will be postponed to the nearest working day for calculation if the day falls on weekend or holidays. For example, the securities portfolio fees for the three days of last Friday, Saturday and Sunday are calculated on this Monday.

③When calculating the market value on a non-working day of southbound trading, the closing price adopts the closing price on the previous southbound trading working day.

④If clearing path (unspecified transactions) cannot be found for the clearing of securities portfolio fees, CSDC shall pend the clearing. After transactions are specified again for the account, the fees will be charged from the reserve account corresponding to the trading unit specified again.

[Case 2]

Assume the market value of a securities portfolio in a securities account on August 1 and 2 is as follows:

August 1 (Thursday): HKD100 billion

August 2 (Friday): HKD300 billion

The securities portfolio fees calculated on August 2 and 5 are as follows:

Clearing date	Start date of calculation	End date of calculation	Calculate securities portfolio fees of each range according to applicable fee rate	Total securities portfolio fees (in HKD)
August 2 (Friday)	August 1 (Thursday)	August 1 (Thursday)	<ul style="list-style-type: none"><li>Range 1: HKD50 billion*0.008%/365</li><li>Range 2: HKD50 billion*0.007%/365</li></ul>	20,547.95
August 5 (Monday)	August 2 (Friday)	August 4 (Sunday)	<ul style="list-style-type: none"><li>Range 1: HKD50 billion*0.008%/365</li><li>Range 2: HKD200 billion*0.007%/365</li><li>Range 3: HKD50 billion*0.006%/365</li></ul>	$57,534.25 \times 3 = 172,602.75$

The calculation results of securities portfolio fees on each natural day keep two digits after the decimal point.

### (3) RMB clearing based on exchange results

After inquiring of the exchange bank and determining the exchange rate, CSDC calculates (see the part of "exchange arrangements" below) and determines the intraday buying and selling settlement exchange rates of the day, and clears RMB amount receivable and payable, based on the HKD clearing results. Calculation results are rounded up and keep two digits after the decimal point. Specifically:

Receivable and payable amount of single buying transaction (in RMB) = Receivable and payable amount of single buying transaction (in HKD) × selling settlement exchange rate

Receivable and payable amount of single selling transaction (in RMB) = Receivable and payable amount of single selling transaction (in HKD) × buying settlement exchange rate

Clearing amount of securities portfolio fees on each securities account (in RMB) =

Clearing amount of securities portfolio fees on the securities account (in HKD) ×  
selling settlement exchange rate

[Case 3]

A123456789 account held 5,000 shares (00002) on July 4 (Friday), with a closing price of HKD58.00 on the day. A123456789 account buys 10,000 shares (00001) at 10:00 of July 7, 2014 (Monday) at a price of HKD120.60 per share, and sold 5,000 shares (00002) at HKD60.90 per share. The account's clearing data on July 7 are as follows:

① First clear HKD data:

Buying payable (in HKD)

=Transaction amount- (stamp tax+ trading charge+ trading fee+ trading system use fee+ share settlement fee)

=-10,000×120.60-

( 10,000×120.60×0.1%+10,000×120.60×0.003%+10,000×120.60×0.005%+0.5+10,000×120.60×0.002% )

=-1,206,000-(1,206+36.18+60.30+0.50+24.12)

= -1,207,327.10

Selling receivable (in HKD)

=Transaction amount- (stamp tax+ trading charge+ trading fee+ trading system use fee+ share settlement fee)

=5,000×60.90-

( 5,000×60.90×0.1%+5,000×60.90×0.003%+5,000×60.90×0.005%+0.5+5,000×60.900×0.002% )

=304,500.00 -(305+9.14+15.23+0.50+6.09)

=304,164.04

Clearing of payable securities portfolio fees (in HKD)

=- ( 5000×58.00×0.008%/365 ) ×3

=-0.07×3

=-0.21



②Then clear RMB data

Assume that the selling and buying settlement exchange rates on the day are calculated at 0.8022 and 0.7978 respectively, the above RMB clearing results are as follows:

Buying payable (in RMB)

= Buying payable (in HKD) × selling settlement exchange rate

= -1,207,327.10 × 0.8022

= -968,517.80

Selling receivable (in RMB)

= Selling receivable (in HKD) × buying settlement exchange rate

= 304,164.04 × 0.7978

= 242,662.07

Securities portfolio fees are incorporated into trading clearing on the day for currency exchange processing. Therefore, the selling settlement exchange rate on the day is also used in clearing:

Payable securities portfolio fees (in RMB)

= -0.21 × 0.8022

= -0.17

Due to the different settlement points of time of trading, risk control and other funds involved in southbound trading business, different southbound trading working days and special circumstances like typhoon signal and black rainstorm in Hong Kong, prior settlement of funds of settlement participants are no longer required for southbound trading business. That means the available balance of southbound trading settlement reserves shall not increase or decrease the traded but pending clearing data. Available balance = Account balance - frozen balance. Settlement participants need to make fund arrangements on their own according to settlement details to ensure the completion of fund settlement.

## **2. Clearing of corporate action business funds**

Relevant business mainly involves the clearing of cash dividends, corporate acquisition and other receivable funds, as well as rights issue and public placement

funds payable (for detailed calculation formula, see relevant content of Chapter IV Corporate Actions in this Guide). For such funds, CSDC first clear them in HKD before in RMB.

(1) Funds receivable

CSDC conducts RMB fund clearing, after receiving corresponding dividend funds in HKD or corporate acquisition funds from HKSCC, completing currency exchange in Hong Kong and remitting RMB funds to Chinese Mainland.

Receivable cash dividends of each securities account (in RMB) = Receivable cash dividends of each securities account (in HKD)  $\times$  exchange rate

Calculation results are rounded up and keep two digits after the decimal point.

(2) Funds payable

After completing the clearing of above payable rights issue/public placement funds, CSDC shall determine the exchange rate in consultation with the exchange bank, to clear RMB funds internally.

Payable rights issue/public placement funds in each securities account (in RMB) = Payable rights issue/public placement funds in each securities account (in HKD)  $\times$  exchange rate

Calculation results are rounded up and keep two digits after the decimal point.

[Case 4]

July 3 is the record date of 01398 stock (without option). Cash dividends of HKD0.90 per share (after tax) are distributed for 01398 stock. A123456789 account holds a total of 40,000 shares (01398) at the end of the day. CSDC completes currency exchange (exchange rate: HKD1 = RMB0.7853) in Hong Kong and remits the funds to Shanghai after receiving relevant dividend funds in HKD from HKSCC on the morning of July 14. CSDC conducts fund clearing on July 15.

① First clear HKD data:

On the record date, CSDC clears dividend right data.

On July 15, CSDC first conducts HKD fund clearing on July 15.

Receivable cash dividends of each securities account (in HKD)

= Number of cash dividend rights of the securities account  $\times$  dividend amount

corresponding to each unit of dividend rights (after-tax, in HKD)

$=40,000 \times 0.90$

$=36,000.00$

②Then clear RMB data

CSDC conducts RMB fund clearing on July 15.

Receivable cash dividends of each securities account (in RMB)

$=\text{Receivable cash dividends of the securities account (in HKD)} \times \text{exchange rate}$

$=36,000 \times 0.7853$

$=28,270.80$

### iii. Currency exchange arrangements

1. On the evening of the natural day before each southbound trading working day (T day), the exchange bank provides the bilateral reference exchange rate of HKD against RMB to CSDC<sup>3</sup> at the time as agreed with CSDC, as the exchange rate reference price for the whole market investors in southbound trading on T day, which is published by SSE to the market. Settlement participants may refer to the exchange rate as the parameter for controlling customer funds. In case of drastic fluctuation of offshore HKD vs. RMB exchange rate after the exchange bank provides it to CSDC, the exchange bank may consult with CSDC to adjust the reference exchange rate range before 6:00 on the morning of T day, and SSE will publish the latest data to the market.

2. After close of the market on T day, CSDC provides the exchange bank with the net payable or receivable amount of HKD clearing (including trading and settlement taxes and fees) on the said date, and the exchange bank provides and confirms actual exchange rate<sup>4</sup> according to the related exchange arrangements determined with CSDC.

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<sup>3</sup>The bilateral reference exchange rate of HKD against RMB provided by the exchange bank is the real time Reuters offshore market central parity up or down 3%, and the central parity is the average of real time buying and selling exchange rates.

<sup>4</sup>Generally, the final exchange rate will not exceed the above reference exchange rate. In case of drastic fluctuation of market exchange rate, the final exchange rate may exceed the reference exchange rate. The exchange transaction is concluded on T day, and the actual currency exchange is settled on T+2 day.

3. After determination of the exchange rate, CSDC allocates the whole market exchange cost based on all buying/selling trading amounts (including trading and settlement taxes and fees), to figure out the buying and selling settlement exchange rates<sup>5</sup> on the day, and thereby clear RMB funds internally.

4. On T+2 day, CSDC completes the fund settlement of exchange trading with the exchange bank on T day based on the above exchange rate determined with the exchange bank, and performs the obligations for fund settlement of securities trading on T day with HKSCC.

[Case 5]

On the evening of July 6, the reference exchange rates for currency exchange on the next day provided by the exchange bank to CSDC are as follows: (bank) buying reference exchange rate: 0.7760; (bank) selling reference exchange rate: 0.8240 (assume when the reference exchange rate is provided, the central parity in Hong Kong's offshore RMB market is 0.8000).

After close of the market on July 7, the HKD clearing results are as follows:

Buying HKD30 billion (including taxes and fees, such as securities portfolio fees), and selling HKD20 billion (including taxes and fees), with a net amount of HKD10 billion payable by CSDC to Hong Kong market (including trading taxes and fees payable to HKSE and settlement fees payable to HKSCC). According to the net settlement amount, CSDC conducts an exchange transaction of buying HKD10 billion from the exchange bank, which quotes an exchange rate of 0.8110. Then CSDC calculates the whole market's exchange cost, allocates it to all buying and selling transactions (including taxes and fees) on the day, and determines the final buying and selling settlement exchange rates. The detailed process is as follows:

HKD payable for buying transactions in the whole market (including taxes and fees, in HKD100 million)	-300
HKD payable for selling	200

<sup>5</sup>H share buying trading uses the selling settlement exchange rate, while H share selling trading uses the buying settlement exchange rate.

transactions in the whole market (including taxes and fees, in HKD100 million)		
Net HKD receivable in the whole market (including taxes and fees, in HKD100 million)		-100
Final exchange rate determined in consultation with the exchange bank (Using the selling price as it is net payable amount)		0.8110
Exchange cost in the whole market (HKD100 million)		$-100 \times (0.8000 - 0.8110) = 1.1000$
Each one HK dollar of trading (including taxes and fees) exchange cost to be apportioned		$1.100 / ( -300  +  200 ) = 0.0022$
Determine the parameter to be used in RMB clearing	Selling settlement exchange rate	Buying settlement exchange rate
	$0.8000 + 0.0022 = 0.8022$	$0.8000 - 0.0022 = 0.7978$

### III. Settlement

#### i. Securities settlement

At the end of T+2 day(before recording rights and interests), CSDC writes up or down each securities account to complete securities settlement, based on the above trading clearing data and related non-trading clearing data.

Since SSE conducts front-end monitoring of trading, default on securities settlement, generally, will not incur to domestic investors.

With respect to the losses incurred to customers by domestic settlement participants' incorrect designation, relevant domestic settlement participants shall assume the corresponding responsibilities.

## **ii. Fund settlement**

### **1. Management of settlement fund accounts**

#### **(1) Opening and change of settlement fund accounts**

CSDC opens proprietary and customers' southbound trading settlement reserve accounts and risk control fund accounts for settlement participants, which are used in fund settlement for southbound trading business. Minimum settlement reserves are temporarily not required for proprietary and customers' southbound trading settlement reserve accounts of domestic settlement participants.

To apply for opening a southbound trading settlement reserve account, the following materials must be provided:

- ① Application for activating southbound trading settlement business;
- ② Letter of authorization for designating the collection account;
- ③ Bank reporting certificate of reserved collection account issued by the account bank and submitted to China Securities Investor Protection Fund Corporation Limited for record (Settlement participants not specified in the Measures for the Administration of Customer Trading Settlement Funds and proprietary bank accounts are not required to provide). For other notes regarding reserved collection account, please refer to the Guide of CSDC Shanghai Branch to Settlement Account Management and Fund Settlement Business;
- ④ Business license and other materials:
  - A. Approval documents of competent organs (e.g. reply of competent organs, Southbound Trading Service Agreement signed with SSE Securities Trading Service Company and the renewed securities business license);
  - B. Copies of the duplicate of corporate business license;
  - C. Seal card (in triplicate);
- ⑤ Other materials as required by CSDC.

After verifying the above materials, the Settlement Business Department of CSDC allocates a corresponding southbound trading settlement reserve account number and

risk control fund account number to the applicant. The settlement participant adopts the original CCNET user without separately opening new one.

After opening a settlement account, CSDC sends a settlement account opening notice to the settlement participant. After being allowed to engage in settlement business, the settlement participant must properly keep for future reference the relevant business results notice and one copy of seal card delivered by CSDC.

In case of changes in the information relating to southbound trading settlement account (including designated collection account, name of settlement participant, reserved seal and other basic materials), the settlement participant shall timely notify the Settlement Business Department of CSDC and submit alteration application materials to ensure the smooth operation of daily settlement business.

The settlement path of southbound trading is the same as that of A share trading on SSE. If involving the change or cancellation of trading unit settlement path, it is required to confirm that the trading unit has no pending southbound trading settlement business or restrictions on change or cancellation of settlement path caused by southbound trading business.

With respect to the asset management products (using trading units of securities companies) of securities companies that are settled by the custodian mode, as well as fund, annuity and insurance products (leasing trading units of securities companies), relevant managers (securities companies, fund companies and insurance institutions) shall ensure the responsibilities for southbound trading settlement in relation to the transaction have been effectively performed, or they must assume all liabilities incurred thereby.

## (2) Settlement fund transfer

### ① Fund transfer-in

CSDC opens a special-purpose deposit account (in RMB) for southbound trading settlement reserves with a domestic southbound trading settlement bank and publishes it to the market. With respect to the funds transferred to the southbound trading settlement reserve account, the settlement participant must transfer the funds to the said account and indicate the number of such account. Should the participant

transfer the funds to an account other than the above special-purpose account, the transfer will fail to be entered into the account and the settlement participant must transfer the funds again.

After the southbound trading settlement bank receives the funds transferred to the account of CSDC, the bank will send an entry instruction to CSDC via CCNET bank terminal according to the settlement fund account number (18 digits) indicated by the settlement participant, and the settlement system will automatically credit the funds to the southbound trading settlement reserve account of the settlement participant.

The southbound trading settlement reserve account is available for entry from 8:30 to 16:00.

When transferring southbound trading settlement funds, the settlement participant must note that:

- A. Southbound trading settlement funds must be transferred to the special-purpose deposit account of southbound trading settlement reserves of the southbound trading settlement bank;
- B. The settlement participant must indicate the southbound trading reserve account number (18 digits);<sup>6</sup>
- C. Inquiry about fund transfer in time.

The settlement participant must inquire about fund transfer in time. If there are problems, it must contact CSDC promptly.

## ② Fund transfer-out

If necessary, the settlement participant may transfer the funds in the southbound trading settlement reserve account to its reserved bank collection account. The settlement participant must give full consideration to the needs for funds in transit and overall fund settlement, exert to ensure the adequacy and stability of settlement funds and avoid the settlement overdraft caused by allocation.

Transfer-out is handled from 8:30 to 15:30.

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<sup>6</sup> Since risk control funds are withheld through the reserve account, when the funds are transferred in, the settlement participant shall also indicate the corresponding reserve account number.



The settlement participant's transfer-out is primarily handled through the CCNET comprehensive business terminal. In special circumstances, it can be handled by faxing written transfer documents with approval of CSDC. For relevant matters needing attention, please refer to the Guide of CSDC Shanghai Branch to Settlement Account Management and Fund Settlement Business.

## 2. Settlement arrangement

CSDC and the domestic settlement participant conduct fund settlement in RMB. On each fund settlement day (T+2 day), CSDC conducts fund settlement in two batches. CSDC does not conduct prior settlement of funds for southbound trading business, nor does it increase or decrease in advance the traded but pending funds in the southbound trading settlement reserve account. The settlement participant shall accurately calculate and reasonably arrange funds to ensure no fund overdraft occurs at the time of settlement.

The southbound trading settlement reserve account is not linked to the A share settlement reserve account.

### (1) Settlement batches

At each settlement point of time, CSDC completes fund settlement based on the corresponding clearing results, and writes up or down the balance of southbound trading reserve account of the settlement participant.

Batch	Time point	Settlement content
Batch 1	10:30	Risk control funds cleared on T+1 day
		Net payable funds of trading fund settlement on T day
		Corporate action funds cleared on T+1 day
Batch 2	18:00	Securities portfolio fees cleared on T+1 day
		Net receivable funds of trading fund

		settlement on T day
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## (2) Settlement overdraft

Insufficient fund settlement at either of the two settlement points of time above shall be deemed as settlement overdraft. Handling of settlement overdraft of the southbound trading settlement reserve account is basically same as the current practice of A shares. Settlement default fine and overdraft fund interest are charged by the method and at the ratio with reference to A shares.

Settlement default fine=Max[Intraday settlement (batch 1) overdraft amount, end-of-day settlement (batch 2) overdraft amount]×default fine ratio

Overdraft fund interest = End-of-day settlement (batch 2) overdraft amount×settlement reserve interest rate/360

## (3) Accrued interest on southbound trading settlement fund account

Handling principles for accrued interest on the southbound trading settlement fund account of the settlement participant: the interest paid by domestic and overseas settlement banks is allocated based on the southbound trading settlement reserve account and the risk control fund account; the interest paid by HKSCC is allocated based on the risk control fund account. Specifically:

After the special deposit account (in RMB) of southbound trading settlement reserves opened by CSDC with a domestic southbound trading settlement bank and the RMB account of settlement bank opened in Hong Kong receive relevant interest, interest shall be calculated and paid proportionally based on the end-of-day cumulative balance of each settlement reserve account and risk control fund account within their respective interest periods.

With respect to the RMB risk control fund interest received from HKSCC, interest shall be calculated and paid proportionally based on the end-of-day cumulative balance of the risk control fund account of each settlement participant within the interest period.

The interest received by the southbound trading risk control fund account will be automatically transferred to the corresponding southbound trading settlement reserve

account.

### 3. Special clearing and settlement arrangements

Due to the bad weather and some special arrangements of Hong Kong market in trading, clearing and settlement, CSDC shall also make clearing and settlement adjustment to domestic market. Specifically:

#### Scenario 1:

If the day is a non-settlement day of HKSCC (signal/early warning is published before 9:00 and is still not cancelled until 12:00) due to typhoon signal and black rainstorm, the fund settlement at 10:30 of the day shall be suspended (starting settlement if it is cancelled before 12:00). If it is still not cancelled until 12:00, and the day is a non-settlement day, the system will process as follows:

With respect to the trading funds receivable and payable, risk control funds, securities portfolio fee payable funds, corporate action funds and related securities settled on the current day (S day), the settlement day shall be adjusted to the next southbound trading settlement day (S+1 day).

The settlement day of the receivable and payable trading funds and securities settled on S+1 day, the settlement day shall be adjusted to S+2 day. The end-of-day clearing on the day shall be handled as usual.

If the adjusted settlement day of HKSCC is a non-settlement day of southbound trading, CSDC does not defer the southbound trading settlement on the current day.

#### Scenario 2:

If the signal/warning is released from 9:00 to 15:00 and is still not cancelled before 12:00, HKSCC will conduct securities settlement on the day, but fund handling is postponed to the next southbound trading settlement day (S+1 day), which is still a settlement day. Under the circumstance:

- (1) The securities settlement on the day is handled as usual.
- (2) The settlement at the batch of 10:30 shall be determined as the case may be.

If the signal/warning is released from 9:00 to 10:30, the batch of settlement shall be suspended; if the signal/warning is released after 10:30, the batch shall be handled as usual.

(3) Settlement date adjustment is made after 12:00, to change the fund settlement period of the batch of 18:00 to S+1 day.

(4) At the end of the day, clearing shall be handled as usual.

If the adjusted fund settlement day of HKSCC is a non-settlement day of southbound trading, CSDC does not defer the southbound trading fund settlement on the current day.

Note: in case of suspending the first batch (10:30) of settlement, the settlement participant shall still make up payable funds, and shall not transfer out corresponding funds based on the actual position until the day is identified as a non-settlement day.

#### Scenario 3: Half-trading day

According to the rules of HKSCC, if the day before the Christmas, the New Year's Day or the Chinese New Year (December 24, December 31 or Chinese New Year Eve) is a working day, such day shall be a half-trading day. That means the first half of the day is available for trading, but the day shall be a non-settlement day. Settlement of trading on the half-trading day (L day) and the trading day before the half-trading day (L-1 day) shall be completed on L+2 day.

For example, December 22 and 23 are southbound trading days, December 24 is a southbound trading half-trading day, and December 25-28 are Christmas holidays.

On December 29, it is required to complete:

Settlement of trading funds on December 22 and settlement of portfolio fees, risk control funds and corporate action funds on December 23 and 24;

On December 30, it is required to complete:

Settlement of trading funds on December 23 and 24 and settlement of portfolio fees, risk control funds and corporate action funds on December 29.

### **Chapter III Risk management**

Risk management of southbound trading business mainly involves securities and funds. Among them, in respect of securities, SSE conducts front-end monitoring of domestic securities accounts based on the available balance data sent by CSDC on a

daily basis, so as to prevent short sale of H shares by investors. In respect of funds, CSDC and domestic settlement participants carry out DVP settlement to control principal risks.

CSDC charges marks payment and deposit from settlement participants with reference to the practice of HKSCC, so as to control the spread risk. The risk control funds above are paid in RMB.

Due to such factors as holding system and net settlement, the risk control funds charged by CSDC from domestic participants are not directly linked to the risk control funds paid by CSDC to HKSCC.

Besides, according to the principle that "market settlement risk in the two places shall be segregated", domestic settlement participants are not required to pay HKSCC's guarantee fund with mutual guarantee functions, or share the losses possibly incurred by the default of HKSCC's participants in HKSE market. But settlement participants must pay settlement margin to CSDC.

## **I. Basic risk control process**

Domestic settlement participants shall apply to CSDC for proprietary and customers' southbound trading risk control fund accounts, which are used to deposit the southbound trading risk control funds paid by participants.

At 18:00 of each day, CSDC clear risk control funds after completion of securities settlement, to calculate the marks payment and deposit payable by each participant for each reserve account on the next settlement day. Risk control fund clearing shall be first calculated in HKD, and then converted into RMB according to the risk control fund exchange rate provided by HKSCC and the discount rate determined by CSDC.

At 10:30 of the next settlement day, CSDC conducts risk control fund settlement in RMB. At the time of settlement, it will fully return the risk control funds charged on the previous day, and then fully charge the payable marks payment and deposit. Charging/return shall refer to the practice of margin for pre-issue of treasury bonds,

and be conducted through the southbound trading settlement reserve account. Charging and return data are sent by the documents of settlement details.

## **II. Calculation of risk control funds payable by settlement participants**

Based on the risk management requirements of HKSCC, CSDC charges marks payment and deposit from domestic settlement participants according to pending positions of domestic settlement participants. The two risk control funds are mainly used to cover the spread price possibly incurred by default of participants.

Among them, marks payment means, after the close of market on each day, CSDC calculates the sum payable by participants for the pending positions of each security in their reserve accounts on settlement days, according to relevant calculation and collection principles, based on the difference between their latest market value and the corresponding trading amount.

Deposit means the sum payable by each domestic settlement participant at the close of market on each day, which is calculated by CSDC based on the deposit ratio and multiplier, as well as the deposit position in each reserve account calculated according to the participant's pending position trading, market value on the day and securities collaterals.

### **i. Marks payment**

#### **1. Calculation principle**

With respect to the southbound trading account of each participant, the securities traded on T day and T-1 day shall also be included by securities code (excluding those exempted from calculation) if there are pending trading positions previously, to sum up the participant's pending positions on the day according to the corresponding settlement day.

Pending positions mean the amount of various receivable and payable securities in each reserve account, which are traded but have not been settled on each trading day, generally including the positions traded but pending on the previous day and on the

current day. In case of special settlement period arrangements, the positions shall also include those arising on previous trading days, and shall have been settled on the current day but are deferred to the next day for settlement.

## **2. Exemption from calculation**

The securities trading which the participant is involved, if under any of the following scenarios, shall be exempt from calculation of "marks payment".

Scenario 1:

Inter-day pending position =0 (i.e. netting of the trading number of the security on T-1 day and T day and previous pending trading position (if any) is zero, and  $|\sum \text{Selling amount}| - |\sum \text{Buying amount}| > 0$ ;

Scenario 2:

Inter-day pending position >0 (i.e. total of the trading number of the security on T-1 day and T day and previous pending trading position (if any) is net buying of shares, and  $|\sum \text{Selling amount}| - |\sum \text{Buying amount}| \geq 0$ ;

## **3. Specific calculation**

With respect to each reserve account, calculate its difference on a daily basis based on the pending position on the corresponding settlement day, and then sum up the inter-day net marks of pending positions of the reserve account and determine its marks payment.

Inter-day net marks of pending position of each reserve account

= Net marks of pending position to be settled on T+1 day + net marks of pending position to be settled on T+2 day

= Pending position to be settled on T+1 day ( $\sum \text{Surplus} + \sum \text{Deficit}$ ) + Pending position to be settled on T+2 day ( $\sum \text{Surplus} + \sum \text{Deficit}$ )

If the inter-day net marks of pending position of the reserve account  $\geq 0$ ,

the marks payment of the reserve account = 0 ..... "is net surplus amount";

or the marks payment of the reserve account =  $|\text{Net marks of its pending position}|$   
..... "is net deficit amount"

Where,

(1) Participants' marks, surplus and deficit are defined as follows:

A reserve account against a security	The participant's marks	Description
Net buying	Closing market value on T day - trading amount $\geq 0$	Surplus
	Closing market value on T day - trading amount $< 0$	Deficit
Net selling	Trading amount - closing market value on T day $\geq 0$	Surplus
	Trading amount - closing market value on T day $< 0$	Deficit
Notes: 1. It is required to calculate the marks of settlement on T+1 day and T+2 day separately. 2. The minimum statistical standard for marks is "participant's reserve account - security - corresponding settlement date"		

(2) Determine whether the surplus and deficit difference of each security is included in the net marks of pending position of the participant based on the following principles, according to the pending trading position of the reserve account of the participant on the corresponding settlement day.

A certain security i of the participant	Domestic market	Exemption in domestic market	Surplus ( $>0$ )	Deficit ( $<0$ )
Net buying or netting is zero	Net buying or netting is zero	/	Included	Included
	Net selling	Fully exempted	Excluded	Included
	Net selling	Partly exempted	Excluded	Included
	Net selling	Not exempted	Included	Included
Net selling	Net buying or netting is zero	/	Included	Included
	Net selling	Fully exempted	Excluded	Exempted depending on balance
	Net selling	Partly exempted	Excluded	Included
	Net selling	Not exempted	Excluded	Included

Notes: ① "Fully exempted" means the collaterals submitted by CSDC are sufficient (according to the business rules of HKSCC, CSDC can only submit net selling variety in domestic market as collaterals).

② "Partly exempted" means the number of collaterals that have been (with respect to the pending position to be settled on T+1 day) or can be submitted by CSDC (with



respect to the pending position to be settled on T+2 day) is more than zero but insufficient.

③ "Not exempted" means a security variety in domestic market is net selling, but the number of collaterals that have been (with respect to the pending position to be settled on T+1 day) or can be submitted by CSDC for the security (with respect to the pending position to be settled on T+2 day) is equal to zero.

④ Surplus "excluded" means the final result is zero when the calculation item is a surplus.

⑤ "Exempted depending on balance" means the participant's deficit = [Net selling deficit  $\times$  (1- participant's available collateral number/participant's net selling number)].

Where, A. With respect to the pending position to be settled on T+2 day

Participant's available collateral number =  $\text{Min}\{\text{Participant's net selling number of pending position to be settled on T+2 day}, \sum \text{Securities account of security i with a net selling pending position to be settled on T+2 day in the participant's reserve account } \{\text{Min} [\text{Max}(\text{End-of-day balance on T day} - \text{net increased number settled on T day} - \text{frozen number}, 0), |\text{Net selling number of shares of pending position to be settled in the securities account on T+2 day}|]\} \}$

Participant's net selling number = Participant's net selling number of pending position to be settled on T+2 day

B. With respect to the pending position to be settled on T+1 day

Participant's available collateral number =  $\text{Min}\{\text{Participant's net selling number of pending position to be settled on T+1 day}, \sum \text{Account of security i with a net selling pending position to be settled on T+1 day in the participant's reserve account } \{\text{Min} [\text{Max}(\text{End-of-day balance on T day} - \text{net increased number settled on T day} - \text{frozen number} - \text{net selling number of pending position to be settled on T+2 day}, 0), |\text{Net selling number of shares of pending position to be settled in the account on T+1 day}|]\} \}$

Participant's net selling number = Participant's net selling number of pending position to be settled on T+1 day

⑥ Pending positions are calculated together by settlement day according to the corresponding settlement day. For example, the first working day after the Christmas in 2014 is December 29, and the trading settlement arrangements before the Christmas are as follows:

Date	Trading day	Corresponding settlement day
12/22	Yes	12/29
12/23	Yes	12/30
12/24	Only open on the morning of the day, which is a non-settlement day	12/30

Therefore, in the calculation of marks payment, the pending position traded on December 22 is calculated separately; pending positions traded on December 23 and 24 are calculated together (because their corresponding settlement days are December 30).

[Case 6]

If the transaction records and amounts of each security account under the name of participant A on T-1 day and T day are as follows, and assume there is no net settlement increase or freeze of each security account on T day.

Transaction date	Stock code	Bond account number	Transaction number (+buy/-sell, share)	Transaction amount (HKD)	Held on T day
T-1 day	600001	A123456789	+100	-140	100
	600001	A123456788	-100	+150	150
	600002	A123456787	-400	+400	150
	600002	A123456786	+100	-110	100
T day	600002	A123456785	-400	+450	0
	600001	A123456784	+500	-540	0

**Calculate the participant's marks payment:**

Corresponding settlement day	Stock code	Net transaction number (+buy/-sell, share)	Net transaction amount (HKD)	Mark-to-market (MTM) price on T day (HKD)	Market value (HKD)	Domestic market conditions	Marks payment (HKD)
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T+1 day	60000 1	0	+10	1.1	0	Netting is 0	+10
T+1 day	60000 2	-300 (net selling)	+290	1.2	360	Net selling, but fully exempted as collateral is sufficient	$(290-360) \times (1-150/300)=-35$
T+2 day	60000 1	+500 (net buying)	-540	1.1	550	Net buying	+10
T+2 day	60000 2	-400 (net selling)	+450	1.2	480	Net selling, but fully exempted as collateral is sufficient	$(450-480) \times (1-0/400)=-30$
Aggregate of marks payment of the participant cleared on T day -45 (HKD) (deficit amount)							

ii. Deposit

1. Calculation formula

Deposit payable by the participant

$$= \text{Deposit position} \times \text{deposit ratio} \times \text{deposit multiplier}$$

Where,

Deposit positions mean CSDC, after the close of market on each day, respectively deducts the market value of eligible securities collateral that can be used as net selling position under the reserve account from the market value of net buying position and the market value of net selling position of each security pending in each reserve account of domestic settlement participants, the bigger one of which will be used as benchmark for deposit calculation.

Margin position

$$= \text{Max (A item - B item, C item-B item, 0)}$$

$$= \text{Max}\{[\text{Total inter-day amount to be collected (i.e. A item)} - \text{total inter-day SSC market value to be delivered (i.e. B item)}], [(\text{Total inter-day amount to be delivered (i.e. C item)} - \text{B item})], 0\}$$

Note 1: "Inter-day amount to be collected" or "inter-day amount to be delivered" means all pending trading positions, generally including T-1 day and T day.

However, if T day is a non-settlement day of HKSCC, "Inter-day amount to be collected" or "inter-day amount to be delivered" shall include three days, i.e. T-2 day, T-1 day and T day, and so on.

Note 2: A, B and C items are measured by reserve accounts of participants based on the MTM price on T day, to calculate the market value.

A. Total inter-day amount to be collected (by MTM price)

=The participant

$$\sum_{i=Category 0}^{Category n} \text{Inter - day amount to be collected for pending security } i$$

Where,

Inter-day amount of pending security i to be collected

= Total inter-day net buying number  $\times$  MTM price on T day.

B. Total inter-day SSC market value to be delivered

=The participant

$$\sum_{i=Category 0}^{Category n} \text{Market value of Inter - day SSC to be delivered for pending security } i$$

Where,

Inter-day SSC market value of pending security i to be delivered (only relating to the varieties with inter-day total of net selling)

= SSC number of eligible security i / inter-day net selling number of security i under the reserve account  $\times$  net selling market value of security i

Where,

Both items (1) and (2) below are calculated based on the inter-day net selling securities.

(1) SSC number of eligible security i

=

Min (  $\sum_{j=Security\ account\ 0}^{Security\ account\ n}$  Number of eligible SSC of security i in security account j , inter-day net selling number of security i under the reserve account)

With respect to the security i, eligible SSC number in the security account j

= Min { Max [Security i in account j (holding balance at the end of T day - Net increased number settled on T day - frozen number), 0], [Inter-day net selling

number of security i in account j|}

With respect to the security i, inter-day net selling number in security account j

= Security account j, is the number of shares of total net selling security i with pending positions on T-1 day, T day and before T day.

(2) Inter-day net selling number of security i in reserve account

= |Number of shares of total net selling security i with pending positions on T-1 day, T day and before T day|

Note: The above is related to security i in the reserve account.

C. C item

Total inter-day amount to be delivered (by MTM price)

=The participant  $\sum_{i=Category\ 0}^{Category\ n}$  Inter – day delivery amount of pending security i

Where,

Inter-day amount of pending security i to be delivered

= Total inter-day net selling number  $\times$  MTM price on T day.

D. Deposit ratio

Deposit ratio means the ratio set by HKSCC based on the largest two-day volatility of Hang Seng Index in the past.

E. Deposit multiplier

Deposit multiplier means the parameters used by CSDC to adjust the deposit collection proportions of domestic settlement participants based on their risk conditions.

[Case 7]

Assume that participant JS101 (with a reserve account numbered 040000000000123456) has three securities accounts, namely A987654321, A987654322 and A987654323, with trading details on T-1 day and T day as follows.

There were no pending trading positions before T-1 day:

Participant's code: JS101; reserve account: 040000000000123456											
Securities account number	Transaction date	Stock code	Transaction direction	Transaction number	Concluding price	Trading amount	MTM price on T day	Market value on T day	A item	C item	B item (see Table 2 for

			tion								details)
A987654321	T-1 day	600001	B	100	2.3	-230.0	2.0	-200.0	0	240	=120/120 ×240 =240
A987654321	T day	600001	B	100	1.8	-180.0	2.0	-200.0			
A987654322	T-1 day	600001	B	100	1.9	-190.0	2.0	-200.0			
A987654322	T day	600001	S	-120	1.8	216.0	2.0	240.0			
A987654323	T-1 day	600001	S	-200	2.2	440.0	2.0	400.0			
A987654323	T day	600001	S	-100	2.1	210.0	2.0	200.0			
Inter-day net selling number of reserves				-120		266.0		240.0			
A987654321	T-1 day	600002	B	600	1.1	-660.0	1.0	-600.0	300	0	0
A987654321	T day	600002	B	100	0.8	-80.0	1.0	-100.0			
A987654322	T-1 day	600002	B	300	1.2	-360.0	1.0	-300.0			
A987654322	T day	600002	S	-100	1.3	130.0	1.0	100.0			
A987654323	T-1 day	600002	S	-500	0.8	400.0	1.0	500.0			
A987654323	T day	600002	S	-100	1.2	120.0	1.0	100.0			
Inter-day net buying number of reserves				300		-450.0		-300.0			
Assume deposit ratio =22% and deposit multiplier =1 as for participant JS101, payable deposit cleared at the end of T day (settled at 10:30 of T+1 day) = Deposit position × deposit ratio × deposit multiplier =Max (A-B,C-B,0) ×22% ×1=Max(300-240,240-240, 0) ×22%=60 ×22%=13.2 HKD											

Table 1: Calculation of deposit

Assume the positions in the three securities accounts above are as follows:

Securities account number	Stock code	Balance held at the end of T day	Net increased number settled on T day	Inter-day net trading number (+B/-S)	Eligible SSC number
A987654321	600001	200	200	200	0
A987654322	600001	100	60	-20	20
A987654323	600001	200	0	-300	200
Eligible SSC number in reserve account 600001=Min(0+20+200, 120)=120					
Inter-day net selling number of reserve account 600001= 120					

Table 2: Detailed calculation of B item

### iii. Collection of centralized security deposit

Apart from marks payment and deposit, HKSCC also charges centralized security deposit from CSDC as the case may be. Given that initial investment quota of southbound trading business is limited and CSDC's own funds are adequate, it is highly unlikely that CSDC meets the conditions for payment of centralized security deposit. Therefore, CSDC temporarily does not collect centralized security deposit

from settlement participants. However, when HKSCC charges centralized security deposit from CSDC, the latter reserves the right to collect such security deposit from domestic settlement participants in proportion to their net buying amount of high-risk securities.

### **III. Handling of fund settlement overdraft**

Should a domestic settlement participant be unable to complete fund settlement at the time of settlement, it shall be deemed as default on fund settlement and CSDC has the right to take the following measures:

#### **i. Collection of default fine and advance interest**

Please refer to the content of settlement overdraft set forth in Chapter II Fund Settlement Arrangements in this Guide.

#### **ii. Do not deliver or withhold securities for the time being**

Domestic settlement participants shall designate the southbound trading securities not settled temporarily on the default day. If a domestic settlement participant fails to designate or its designation is insufficient, CSDC has the right to withhold the settlement participant's proprietary securities to the extent of the default amount.

#### **iii. Securities disposal**

CSDC has the right to dispose of the withheld securities and the rights and interests associated therewith from the next southbound trading day after the settlement default, with the proceeds to be used to offset the default amount and the remainder to be returned to domestic settlement participants. In case of inability to offset the default amount, CSDC has the right to continue to demand payment. The detailed disposal methods and procedures will be otherwise stipulated by CSDC.

## **IV. Other risk management measures**

### **i. Restriction on cancellation of designated transactions**

With respect to the securities accounts with pending business, domestic securities companies shall restrict their cancellation of designated transactions.

### **ii. Payment of settlement deposit**

Domestic settlement participants in southbound trading business must pay settlement margin of RMB200,000 to CSDC (the minimum limit of proprietary settlement deposit account is changed to RMB400,000 from originally RMB200,000), which shall be included in the scope of mutual guarantee according to the settlement deposit management requirements.

For raising, payment, withdrawal and use of settlement deposit, please refer to the Guide of CSDC Shanghai Branch to Settlement Deposit Business.

### **iii. Management of southbound trading business qualifications**

In case a domestic settlement participant substantially violates laws or regulations, CSDC has the right to suspend whole or part of its settlement qualifications for southbound trading, and request SSE to restrict whole or part of its buying transactions in southbound trading.

## **Chapter IV Corporate action handling**

In southbound trading business, CSDC, as the nominee, holds the securities acquired by southbound trading investors. CSDC, as the nominee, provides nominee services for southbound trading investors through settlement participants. Settlement participants, as an important part of the whole holding chain, play the role of linking CSDC to the southbound trading investors under its name.



## **I. Functions of settlement participants in handling southbound trading corporate actions**

In the southbound trading business, the main functions of settlement participants are as follows:

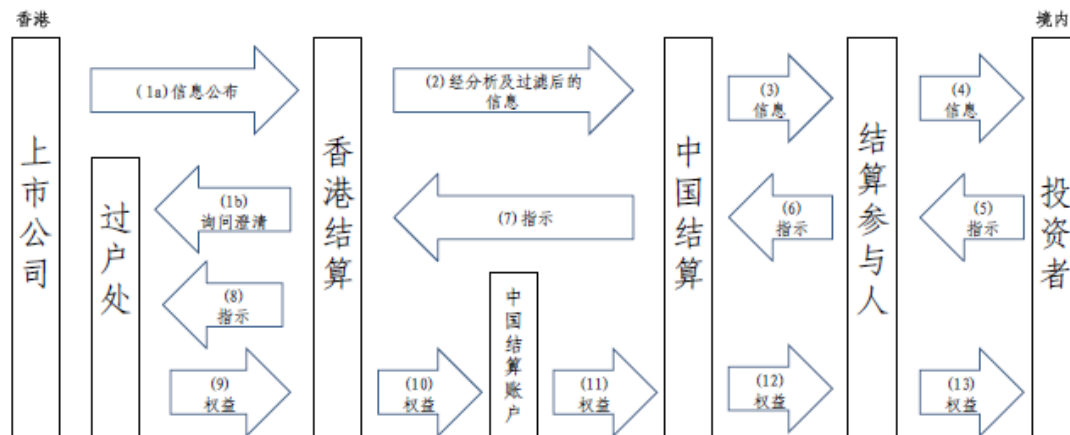
**Forwarding corporate action information:** After CSDC receives relevant corporate action information from HKSCC, it will interpret the information, complete relevant information registration according to internal business arrangements, and inform settlement participants through CCNET system. Settlement participants shall notify relevant information to southbound trading investors under their names through their respective information release channels.

**Will solicitation and declaration:** CSDC is responsible for soliciting willingness of settlement participants through CCNET, summarizing and declaring it to HKSCC. Settlement participants are responsible for soliciting willingness of southbound trading investors under their names, and declaring it through CCNET system. CCNET system responds to declaration requests in a real time manner, and settlement participants may inquire about the real time acceptance results.

**Equity distribution:** After receiving relevant equity from HKSCC, CSDC will distribute it according to certain rules. The equity securities directly corresponding to a securities account shall be directly distributed to related security account. With respect to equity fund, it shall be distributed to the settlement reserve accounts of settlement participants, which will then forward it to the southbound trading investors under their names.

Note that, as to southbound trading investors, CSDC's corporate action timetable may have a certain difference with that announced by HK-listed companies. For example, in order to ensure CSDC submits will solicitation results to HKSCC within the specified period, the will solicitation period set by CSDC for southbound trading investors will expire earlier than that set by HKSCC. With respect to equity funds, after CSDC receives equity funds from HKSCC, it needs to determine the exchange rate with banks and convert foreign exchange dividends into RMB, and then

distribute the funds to the reserve accounts of settlement participants. Accordingly, as to southbound trading investors, the date when cash dividends are actually received is later than the date when HKSCC distribute cash dividends to CSDC.



### Hong Kong

#### Listed companies

(1a) Information publication

#### Transfer office

(1b) Inquiry and clarification

(8) Instruction

(9) Equity

### HKSCC

(2) Analyzed and filtered information

(7) Instruction

(10) Equity

### CSDC account

(11) Equity

### CSDC

(3) Information

(6) Instruction

(12) Equity

### Settlement participants

(4) Information

(5) Instruction

(13) Equity

### Domestic

#### Investors

## **II. Specific business processing**

### **i. Distribution of cash dividends**

#### **1. Distribution of cash dividends (without option)**

##### **(1) Equity information registration and data sending**

CSDC completes equity registration in the system prior to the record date, and sends related information to settlement participants at the end of the maintenance date.

##### **(2) Processing and sending of equity data**

CSDC writes up dividend rights in investor accounts at the end of record date, and sends the dividend right change and holding balance data to settlement participants.

The number of dividend rights in the securities account of each investor is equal to the number of shares held at the end of record date of such securities account.

##### **(3) Dividend clearing and distribution**

On the day of distributing dividend funds by HKSCC, CSDC will inquire whether relevant foreign currency cash dividends have been fully remitted to its bank account. After the relevant funds are fully transferred to its account, CSDC will handle exchange rate confirmation with bank, clearing of RMB dividends and distribution of funds to settlement participants within three southbound trading days.

① Cash dividend amount = Cash dividend amount per share × dividend right number

② The cash dividend amount less than RMB0.01 shall be rounded up.

According to national tax law and policy, dividend amount per share of southbound trading investors which is subject to dividend income tax shall be calculated based on the after-tax amount.

##### **(4) Exchange rate**

CSDC will convert foreign currency dividends into RMB before distributing them to settlement participants (conversion is not required if dividends received are in RMB). In case of discrepancy between the currency of dividends distributed by HKSCC and that of dividends announced by listed companies, CSDC will determine the exchange rates of RMB against the currencies announced by listed companies,

according to the amount of dividends in a currency distributed by HKSCC, exchange rate of such currency against RMB and the receivable amount calculated by CSDC according to the announced dividend currency.

**(5) Distribution of H share dividends within the scope of southbound trading securities**

CSDC will deal with individual income tax and related business in relation to dividend distribution of H share companies within the scope of southbound trading securities, according to national tax policy and arrangements of H share companies.

**2. Distribution of cash dividends (with option)**

**(1) Equity information registration and data sending**

CSDC sends dividends (with option) registration information to settlement participants at the end of dividends (with option) registration and maintenance date.

**(2) Declaration of dividend option**

Within the dividend option declaration period of CSDC, settlement participants shall declare dividend option through CCNET. The number declared shall be the number of dividend rights of the stock dividends declared. The number declared may be a positive or negative integer, of which positive integer stands for declaration and negative integer for cancellation of declaration and cannot be zero. If the cancelled number is bigger than the declared number, declaration failed and the settlement participant may inquire about declared number before declaration. If declaration verification succeeds, it will give a real time feedback of successful acceptance, or it will give a real time feedback of wrong code and explanations. At the end of each day, CSDC will inform settlement participants of the total number of accepted dividend options accumulatively declared by southbound trading investors.

The start date of declaration of domestic dividend option is bigger than the record date, but smaller than the declaration cutoff date. It cannot be declared before information is maintained on the declaration cutoff date.

The cutoff date for declaration of domestic dividend option is two southbound trading working days earlier than the cutoff date of HKSCC.

With respect to the distribution of cash dividends with currency option within the

scope of southbound trading, CSDC will receive the cash dividends distributed by HKSCC in the default currencies, convert them into RMB and then distribute the cash dividends to domestic settlement participants in RMB.

### **(3) Processing and sending of equity data**

CSDC writes up dividend rights in southbound trading investors' accounts at the end of record date, and sends relevant equity data to settlement participants at the end of the day.

At the end of declaration cutoff date of domestic dividend option, CSDC will process the declaration data of dividend option. If the cumulative declaration number of southbound trading investors is more than the available balance (deducting frozen dividend right number) in the accounts of southbound trading investors, the part of excess shall be treated as declaration failure, and the remainder as declaration success. The valid declaration number and dividend right balance in the accounts of southbound trading investors will be sent to settlement participants through relevant data documents.

Upon receipt of the receivable dividend data in its large account from HKSCC on the next southbound trading working day after the cutoff date of dividend option declaration of HKSCC, CSDC will allocate the receivable stock dividends to accounts of southbound trading investors (newly increased receivable stock dividends are not tradable temporarily) based on their valid declaration number of options, and send the receivable stock dividend data to settlement participants.

Receivable stock dividends in investor account = (Number of shares with dividend option declared × dividend amount per share) ÷ price of shares in lieu of dividends, with fractional shares less than one share rounded up.

The fractional shares less than one share to be distributed to investors, CSDC will distribute in cash based on the price of shares in lieu of dividends.

### **(4) Cash dividend clearing and distribution**

On the day of distributing dividend funds by HKSCC, CSDC will inquire whether relevant foreign currency cash dividends have been fully remitted to its bank account. After the relevant funds are fully transferred to its account, CSDC will handle

exchange rate confirmation with bank, clearing of RMB dividends and fractional shares in cash and distribution of funds to settlement participants within three southbound trading days.

① Cash dividend amount in investor account = Dividend amount per share × dividend right balance, with the amount less than RMB0.01 rounded up.

② Receivable fractional shares cash in investor account = (Number of shares with dividend option declared × dividend amount per share) - (receivable stock dividend (integer) in investor account × price of shares in lieu of dividends), with fractional share cash amount less than RMB0.01 rounded up.

According to national tax law and policy, dividend amount per share of southbound trading investors which is subject to dividend income tax shall be calculated based on the after-tax amount.

#### **(5) Exchange rate**

CSDC will convert foreign currency dividends into RMB before distributing them to settlement participants (conversion is not required if dividends received are in RMB). CSDC determines the exchange rates of RMB against the currencies of shares in lieu of dividends price announced by listed companies, according to the amount of dividends in a currency distributed by HKSCC, exchange rate of such currency against RMB and the receivable amount calculated by CSDC according to the announced currencies of shares in lieu of dividends price.

#### **(6) Tradability of stock dividends**

On the day of receiving stock dividends, if the point of time when stock dividends are distributed by HKSCC is earlier than the end-of-day system processing point of time of CSDC, CSDC will deal with business on the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day; if the above time point is later than the end-of-day system processing point of time, CSDC will deal with stock dividend business on the next southbound trading day after the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day.

In the two circumstances above, the tradable date of domestic stock dividends, generally, is one southbound trading day later than in Hong Kong market.

### **3. Arrangements for special circumstances of cash dividend distribution**

(1) Circumstances of working days in Hong Kong which are non-working days on SSE

If a corporate action day can be determined before a working day in Hong Kong and a non-working day on SSE, CSDC makes the following special arrangements (For example, October 3, 6 and 7, 2014 are working days in Hong Kong, and October 1-7, 2014 are non-working days on SSE. The same in the following cases):

① With respect to the record date, if the date of HKSCC falls within the range, domestic record date shall be moved forward to the nearest common working day of Shanghai and Hong Kong markets<sup>7</sup>, for example, if the record date is October 7, 2014, it shall be adjusted to September 30.

② With respect to the dividend distribution date, if the date of HKSCC falls within the range, the time that CSDC initiates dividend distribution processing procedures shall be postponed to the nearest southbound trading day. For example, if the dividend distribution date of HKSCC is October 3, 2014, CSDC will start currency exchange and clearing on October 8.

③ With respect to the option declaration start date, if the start date of HKSCC falls within the range, the start date of domestic option declaration shall be postponed to the nearest southbound trading day. For example, if the declaration start date of HKSCC is October 3, 2014, CSDC's start date shall be October 8.

④ With respect to the option declaration cutoff date, if the cutoff date of HKSCC falls within the range, since CSDC cannot declare to HKSCC until it completes end-of-day processing by system, the cutoff data of domestic option declaration shall be moved forward to the southbound trading working day before the nearest southbound trading working day. For example, if the declaration cutoff date of HKSCC is October 7, 2014, that of domestic declaration shall be adjusted to

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<sup>7</sup> Common working day of Shanghai and Hong Kong markets means a day that is the working day of both Shanghai and Hong Kong markets, e.g. December 31, 2014.

September 29. If the cutoff date of option declaration of HKSCC is the southbound trading day following an asymmetric holiday (e.g. October 8, 2014), the cutoff date of domestic declaration shall be moved forward to the southbound trading working day before the nearest southbound trading working day (September 29). However, if domestic option period does not exist since the declaration cutoff date is moved forward, resulting southbound trading investors' inability to declare, CSDC will handle according to the default choice.

⑤ With respect to the stock dividend distribution date, if the distribution date of HKSCC falls within the range, stock dividend tradability handling date shall be postponed to the nearest southbound trading working day, and the first day when domestic stock dividends become tradable is the next southbound trading day after the tradability handling date. For example, if the stock dividend distribution date is October 3, 2014, the first day when domestic stock dividends become tradable shall be adjusted to October 9.

(2) Circumstances of typhoon signal, black rainstorm and half-trading day

① With respect to a record date, if securities are not settled in Hong Kong market on the day of typhoon signal or black rainstorm, the day or next day which is the record date shall be postponed to the next southbound trading day; if the half-trading day in Hong Kong is a record date, no adjustment will be made.

② With respect to the day when stock dividends become tradable, if securities are not settled in Hong Kong market on the day and receipt of stock dividends is postponed before the end-of-day system processing point of time of CSDC on the next trading day, CSDC will deal with business on the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day; if receipt of the stock dividends is postponed to after the end-of-day system processing point of time of CSDC on the next southbound trading day, CSDC will deal with stock dividend business on the next southbound trading day after the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day.



③ With respect to the dividend distribution date, if funds are not settled in Hong Kong market on the dividend distribution date of CSDC, the domestic dividend distribution date shall be postponed to the next southbound trading settlement date. In the circumstances other than those specified above, CSDC will notify otherwise.

## **ii. Stock dividends**

### **1. Response to general circumstances**

#### **(1) Registration of stock dividends, listing registration and data sending**

HKSCC sends stock dividend data through Hong Kong's system before the record date. CSDC completes stock dividend registration in the system prior to the record date, and sends related information to settlement participants at the end of the maintenance date.

#### **(2) Confirmation of stock dividend amount**

Upon receipt of the receivable dividend data in its large account from HKSCC on the next southbound trading working day after the record date, CSDC will allocate the total receivable stock dividends to each actual holder (newly increased receivable stock dividends are not tradable temporarily) based on the details of all holders on the record date, and send the data to settlement participants. The calculation method is as follows:

##### **① Number of stock dividends in the large account of CSDC**

Number before stock dividend distribution = Balance of the large account of CSDC at the end of record date + number of deferred delivery.

According to relevant rules of HKSCC, in the calculation of "number of stock dividends", i.e. number of stock dividend rights obtained by CSDC, number of stock dividends = number before stock dividend distribution × proportion of stock dividends per share. The fractional shares less than one share shall be rounded up.

##### **② Number of stock dividend distribution to each actual holder**

Number before stock dividend distribution to each actual holder = The number held in the holder's account at the end of the record date.

The total number of stock dividend rights of all actual holders must be equal to the

number of stock dividend rights in the large account of CSDC (i.e. "number of stock dividends").

In the calculation of the number of stock dividends distributed to each actual holder, number of stock dividend rights = number before stock dividend distribution × proportion of stock dividends per share. The fractional shares less than one share shall be calculated by the accurate algorithm.

Accurate algorithm: In the accounts of actual holders, the fractional shares less than one share arising from stock dividend distribution are sorted in descending order by the number of fractional shares held by investors. If the numbers of fractional shares are same, they shall be sorted randomly by electronic settlement system. According to the order, they are registered as one share one by one until completing the distribution of all "number of stock dividends".

### **③ Tradability of stock dividends**

On the day of receiving stock dividends, if the point of time when stock dividends are distributed by HKSCC is earlier than the end-of-day system processing point of time of CSDC, CSDC will deal with business on the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day; if the above time point is later than the end-of-day system processing point of time, CSDC will deal with stock dividend business on the next southbound trading day after the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day.

In the two circumstances above, the tradable date of domestic stock dividends, generally, is one southbound trading day later than in Hong Kong market.

## **2. Special Circumstances**

(1) Circumstances of working days in Hong Kong which are non-working days on SSE

If a corporate action day can be determined before a working day in Hong Kong and a non-working day on SSE, CSDC makes the following special arrangements:

① With respect to the record date, if the record date of HKSCC falls within the range, domestic record date shall be moved forward to the nearest common working day of Shanghai and Hong Kong markets. For example, if the record date of HKSCC is October 7, 2014, the domestic record date shall be adjusted to September 30.

② With respect to the stock dividend distribution date, if the distribution date of HKSCC falls within the range, stock dividend tradability handling date shall be postponed to the nearest southbound trading working day, and the first day when domestic stock dividends become tradable is the next southbound trading day after the tradability handling date. For example, if the stock dividend distribution date is October 3, 2014, the stock dividend tradability handling date is October 8, and the first day when domestic stock dividends become tradable shall be adjusted to October 9.

**(2) Circumstances of typhoon signal, black rainstorm and half-trading day in Hong Kong:**

① With respect to a record date, if securities are not settled in Hong Kong market on the day of typhoon signal or black rainstorm, the day or next day which is the record date shall be postponed to the next southbound trading day; if the half-trading day in Hong Kong is a record date, no adjustment will be made.

② With respect to the day when stock dividends become tradable, if securities are not settled in Hong Kong market on the day and receipt of stock dividends is postponed before the end-of-day system processing point of time of CSDC on the next trading day, CSDC will deal with business on the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day; if receipt of the stock dividends is postponed to after the end-of-day system processing point of time of CSDC on the next southbound trading day, CSDC will deal with stock dividend business on the next southbound trading day after the day of receiving stock dividends, and corresponding stock dividends can be tradable on the next southbound trading day following the processing day.

In the circumstances other than those specified above, CSDC will notify otherwise.

### **iii. Voting**

#### **1. Response to general circumstances**

##### **(1) Publication of voting information**

HKSCC informs CSDC of related voting information, including announcement number, stock code, voting period, type of shareholders' meeting, date and venue of meeting, record date of voting business (if any), proposal number, and outline of proposals (excluding the details of proposals), through company announcements and events established and published through its system with respect to voting.

CSDC registers the above voting information, and sends it to settlement participants at the end of maintenance date.

Settlement participants shall notify southbound trading investors under its name of the voting information above. With respect to the details of proposals, settlement participants shall search corresponding announcements of shareholders' meetings on HKEXnews website, and send relevant content to southbound trading investors under their names.

##### **(2) Voting declaration**

Southbound trading investors, via settlement participants, and settlement participants, via the CCNET system of CSDC, declare their willingness to vote. Voting options include voting for, voting against and abstention (listed companies may not provide the option of abstention). The cutoff date of domestic voting is one southbound trading working day earlier than that set by HKSCC.

##### **(3) Voting results statistics and feedback**

With respect to the same voting business, the voting information declared by settlement participants each time will cover the previous voting information. CSDC deals with the successfully verified declaration records at the end of the domestic voting cutoff date, and summarize and generate the voting willingness of its nominee.

After summarizing the voting willingness of southbound trading investors, CSDC submit, on behalf of southbound trading investors, voting willingness to HKSCC.

Southbound trading investors may vote for or against or abstain from voting on the same proposal. If the total number of votes of the three types exceeds the holding number on the vote registration date or the voting cutoff date of HKSCC, CSDC will proportionally allocate it based on the actual holding.

#### **(4) Real time modification of voting business**

If an issue modifies content or proposals of shareholders' meeting during the voting period of existing voting business, HKSCC terminates the existing voting business through its system, establishes and publishes a new company announcement and event in relation to voting, and notifies CSDC of related voting information. The newly established voting business record date is generally the same as the existing vote registration date (if any).

CSDC terminates existing voting business in advance, registers the voting information relating to the newly established voting business, and sends the information on early termination of existing voting and newly established voting to settlement participants at the end of maintenance date.

If southbound trading investors have declared willingness to vote on the voting business terminated in advance, such willingness shall be deemed as invalid, and CSDC will not summarize or submit the voting results. CSDC shall deal with the voting willingness declared by southbound trading investors for newly established voting business in a way specified in section 3 of the business.

## **2. Special circumstances**

### **(1) Circumstances of working days in Hong Kong which are non-working days on SSE**

If a corporate action day can be determined before a working day in Hong Kong and a non-working day on SSE, CSDC makes the following special arrangements:

① With respect to the record date, if the record date of HKSCC falls within the range, domestic record date shall be moved forward to the nearest common working day of Shanghai and Hong Kong markets. For example, if the record date is October 7, 2014, it shall be adjusted to September 30;

② With respect to the voting start date of HKSCC, if the voting start date of HKSCC falls within the range, domestic voting start date shall be postponed to the nearest southbound trading working day. For example, if the voting start date of HKSCC is October 3, 2014, the domestic voting start date shall be adjusted to October 8;

③ With respect to the voting cutoff date of HKSCC, if it falls within the range, domestic voting cutoff date shall be moved forward to the southbound trading working day before the nearest southbound trading working day. For example, if the declaration cutoff date of HKSCC is October 7, 2014, the domestic voting cutoff date shall be adjusted to September 29.

If the cutoff date of HKSCC is the southbound trading day following an asymmetric holiday of HKSE and SSE, the domestic cutoff date shall also be moved forward to the nearest southbound trading working day. For example, October 8, 2014 is the voting cutoff date of HKSCC, and September 30, 2014 is the domestic voting cutoff date, and CSDC submits to HKSCC on October 8, 2014.

If the voting period of HKSCC is too short and does not exist after being adjusted according to the above rules, resulting in the inability of CSDC to solicit voting willingness, it will not declare voting to HKSCC with respect to the voting business.

## **(2) Circumstances of typhoon signal, black rainstorm and half-trading day in Hong Kong**

In the circumstances of typhoon signal and black rainstorm in Hong Kong which result in pending of securities, CSDC will make the following special arrangements:

With respect to the voting business with a record date on the day of typhoon signal or black rainstorm in Hong Kong, CSDC will cancel the existing voting business according to the notice of HKSCC, and establish a new voting business (the new voting record date is the southbound trading day after the current day).

With respect to the voting business with a record date on the southbound trading day after the day of typhoon signal or black rainstorm in Hong Kong, CSDC will change the record date of existing voting business to the date confirmed by HKSCC and the issuer, according to the notice of HKSCC.

With respect to the voting business with a record date on a half-trading day in Hong

Kong, no adjustment will be made to the record date.

In the circumstances other than those specified above, CSDC will notify otherwise.

#### **iv. Company acquisition**

##### **1. Acceptance scope**

According to the provisions of the Rules on Southbound Trading, any investor accepting suggestions on acquisition of a Hong Kong-listed company (including conditional and unconditional acquisitions) must apply to CSDC for acceptance of declaration or cancellation of declaration for acquisition proposal in relation to acquisition of a Hong Kong-listed company and confirmation of validity, registration of acquired share transfer and payment of corresponding acquisition funds (securities).

With respect to compulsory company acquisition, CSDC will handle the registration of acquired share transfer and payment of corresponding acquisition funds (securities) based on the announcement of HKSCC, and do not require the declaration by investors.

##### **2. Registration of information on Hong Kong-listed company acquisition**

CSDC handles the registration of information on Hong Kong-listed company acquisition according to the company acquisition notice published by the Central Clearing and Settlement System of HKSCC. The cutoff date of registration information declaration will be moved forward according to the holiday arrangements of HKSE and SSE and the internal business processing arrangements of CSDC.

The registration information on Hong Kong-listed company acquisition is sent to settlement participants through H share notice documents (hk\_tzxx.\*\*\*) on the day when it is entered into the system of CSDC. Settlement participants shall timely notify relevant information to customers under their names through their respective information release channels. In case of modification or cancellation of the information on Hong Kong-listed company acquisition, CSDC will send the modified information to settlement participants through H share notice documents (hk\_tzxx.\*\*\*) on the day when the information is modified.

### 3. Declaration of shares for which acquisition proposal has been accepted and the keeping and cancellation of declared shares

#### (1) Declaration method

H share holders who agree to accept the acquisition proposal shall handle the declaration of acceptance or cancellation of acquisition proposal through their designated securities companies. Investors may declare, on a real time basis, and inquire about related declaration acceptance results through the OTC system or online trading system of securities companies.

Upon receipt of applications for declaration or cancellation of declaration from investors, securities companies shall declare one by one through the universal interface software in CCNET of CSDC, or declare in batches through data document import functions.

Declaration period is between the start date and cutoff date (two southbound trading days prior to the cutoff date in Hong Kong market) specified in the registration information on Hong Kong-listed company acquisition published by CSDC; declaration time is between 9:00 and 16:00 of each trading day on Chinese Mainland within the declaration period.

If the processing type is a single batch, the successfully declared number can be cancelled prior to the declaration cutoff date to the extent of accumulatively successfully declared number.

#### (2) Declaration content

When declaration through CCNET of CSDC, securities companies shall declare according to company acquisition codes. Company acquisition codes shall conform to the southbound trading notice documents (hk\_tzxx.\*\*) sent by CSDC, and declaration content mainly includes company acquisition code, securities account, declared number and clearing number. With respect to the declared number, positive number represents acceptance of acquisition proposal, and negative number represents withdrawal of declaration.

#### (3) Confirmation of declaration

CSDC shall conduct real time inspection of declaration data after receiving a



declaration of acquisition proposal or withdrawal of declaration. The inspection content includes whether there are omissions in key fields, uniqueness of declaration number, legality of securities account and company acquisition code, status of securities account and designated transaction relations. If the declaration passes the real time inspection, CSDC will give a feedback of "accepted", indicating that the declaration has been accepted and CSDC will conduct end-of-day processing after the close of the market; if the declaration does not pass the real time inspection, CSDC will provide corresponding incorrect information code.

After the close of the market, CSDC will reinspect the designated transaction relations of the declaration data accepted on the same day. After it passes the inspection, CSDC will confirm the valid number relating to the acceptance of acquisition proposal (declaration) or withdrawal of acceptance declaration (withdrawal of declaration);

Maximum number declarable on the declaration day (A day) = Balance held at the end of A day - net selling on A-1 day - net selling on A day - frozen number. Should the declared share number be more than the maximum number, the valid number shall be the maximum number; if the declared share number is less than the maximum number, the valid number shall be the declared share number.

Should the declared share number withdrawn be more than the declared number that has taken effect, the valid number shall be the declared number that has taken effect; if the declared share number withdrawn is less than the declared number that has taken effect, the valid number shall be the declared share number.

With respect to repeated declarations of the same company acquisition code in the same securities account on the same trading day, these declarations shall be numbered, sorted and handled in order of declaration received by CSDC.

(4) Keeping and deregistration of shares for which acquisition proposal has been accepted

With respect to the valid declaration of acceptance of acquisition proposal, CSDC shall render services relating to the keeping and deregistration of these shares.

CSDC handles the keeping and cancellation of keeping of effectively declared shares on each trading day within the effective period of declaration, and renders the services

relating to the deregistration of the cumulative shares successfully kept within the declaration period on the southbound trading day after the declaration cutoff date. Such change is recorded as "deregistration of company acquisition shares" in the securities change documents. Within the share keeping period, except for the mandatory withholding or transfer by judicial authority, such shares shall not be transferred by any means.

Before receiving funds or shares paid or delivered for acquisition, the investors who accept acquisition proposal shall not modify their designated transaction relations.

#### (5) Reporting of declaration data

After the end of processing on each trading day, CSDC sends the handling results of Hong Kong-listed company acquisition declaration data of the day to securities companies through H share business reporting documents (hk\_ywhb.\*\*).

#### 4. Modification of acquisition information registration

If the conditions of conditional acquisition are satisfied, CSDC shall modify the acquisition type of original acquisition code and extend the declaration period correspondingly on the day when the conditional acquisition is changed to unconditional acquisition, according to the notice of HKSCC. If the instructions on declaration at the conditional acquisition stage remain in force, it is not required to declare again.

#### 5. Return of rejected shares in company acquisition

If the conditions of conditional acquisition fail to be satisfied, or some acquired shares are rejected, CSDC will record the returned shares in the securities accounts of investors on the next trading day after receiving the returned shares from HKSCC. Such changes are recorded as "return of company acquisition shares" in the securities change documents.

With respect to the partial acquisition without guaranteed quota, CSDC calculates the number of shares successfully acquired by each investor according to the successful acquisition number disclosed by HKSCC and the proportion of declaration number of investors in total declaration number, and returns the remaining declared shares.

With respect to the partial acquisition with guaranteed quota, successful acquisition number = Guaranteed quota number + excess successful number. Guaranteed quota number is calculated in round figures according to the balance held in the securities accounts declared by investors at the end of the declaration cutoff date of HKSCC multiplied by the guaranteed quota proportion; excess successful number is calculated according to the proportion of excess number of investors in total excess number. Remaining declared shares shall be returned.

In the calculation of shares successfully accepted by investors in partial acquisition, the fractional shares less than one share are sorted in descending order by the number of fractional shares held by investors. If the numbers of fractional shares are same, they shall be sorted randomly by electronic settlement system, and registered as one share one by one until all of them have been allocated.

#### 6. Distribution of company acquisition funds and share clearing

CSDC shall complete the handling of funds or shares within three southbound trading days after receiving the acquisition funds paid or shares delivered by HKSCC.

(1) In case of payment in cash, after CSDC receives the acquisition funds from HKSCC, it will exchange currency and clear the receivable acquisition funds in HKD and RMB in the accounts of investors, and distribute the acquisition funds (in RMB) to settlement participants on the trading day after the clearing day. Investors may get the funds through the securities companies of their designated trading.

Notes:

① Receivable company acquisition funds in each securities account (clearing amount) (in HKD) = Successful acquisition number of the account × acquisition price.

The results keep two digits after the decimal point, with the third digit after the decimal point omitted.

② Payable stamp tax in each securities account (in HKD) = Successful acquisition number of the securities account × stamp tax calculation price × stamp tax rate (0.1%)

The results keep two digits after the decimal point, with the third digit after the decimal point rounded up (payable amount is indicated in negative number in the settlement details).

③ Payable amount in each securities account (in HKD) = Receivable company acquisition funds in each securities account (in HKD) + payable stamp tax of each securities account (negative)

④ Receivable and payable amount in each securities account (in RMB) = Receivable and payable amount in each securities account (in HKD) × exchange rate

The results keep two digits after the decimal point, with the third digit after the decimal point omitted.

(2) In case of payment in shares (traded on HKSE), upon receipt of acquired shares paid by HKSCC, CSDC will clear the receivable acquired shares in the accounts of investors, and complete the custody of paid shares at the end of the clearing day. Such change is recorded as "consideration for company acquisition shares" in the securities change documents.

Notes:

① Receivable acquisition shares in each securities account = Successful acquisition number of the security in the account × share payment proportion (fractional shares less than one share are calculated by the accurate algorithm)

Accurate algorithm: In the accounts of investors, the fractional shares less than one share are sorted in descending order by the number of fractional shares held by investors. If the numbers of fractional shares are same, they shall be sorted randomly by electronic settlement system. According to the order, they are registered as one share one by one until the shares have been fully distributed.

② Payable stamp tax in each securities account (in HKD) = Successful acquisition number of the securities account × stamp tax calculation price × stamp tax rate (0.1%)

③ Payable stamp tax of each securities account (in RMB) = Payable stamp tax of each securities account (in HKD) × exchange rate

The results keep two digits after the decimal point, with the third digit after the decimal point rounded up (payable amount is negative in the settlement details).

(3) CSDC calculates the payable stamp tax of investors based on the stamp tax announced by HKSCC, and deducts it from the southbound trading settlement reserve accounts of settlement participants on the southbound trading day after the clearing day.

(4) On the acquisition clearing day, CSDC sends settlement detail documents (hk\_jsmx.\*\*\*) to each settlement unit, including detailed reconciliation data of company acquisition fund settlement and detailed data of taxes and fees.

(5) With respect to compulsory acquisition, if there are shares pledged or frozen, and the acquisition is paid in cash, the acquisition funds shall not be distributed temporarily according to corresponding amount until the freeze or pledge is cancelled; in case of payment in shares, the acquired shares paid shall not be frozen until being held in trust in relevant securities accounts.

#### 7. Notes:

(1) General processing principles if the declaration start date or cutoff date of HKSCC is a non-trading day of Chinese Mainland

If the acquisition start date announced by HKSCC is a non-trading day of Chinese Mainland and CSDC has known the acquisition information in advance, CSDC will adjust the acquisition declaration start date to the next nearest trading day of the Chinese Mainland; if the acquisition start date announced by HKSCC is a non-trading day of the Chinese Mainland but CSDC cannot know the acquisition information in advance, the acquisition information registration date of CSDC shall be the next nearest trading day of the Chinese Mainland, and the declaration start date shall be adjusted to the second nearest trading day of the Chinese Mainland.

If the acquisition cutoff date announced by HKSCC is a non-trading day of the Chinese Mainland, the declaration cutoff date of CSDC shall be the two southbound trading days prior to the cutoff data in Hong Kong.

Should the acquisition period announced by Hong Kong just falls on non-trading days of the Chinese Mainland, no processing will be made to the acquisition.

(2) Processing principles if the record date of compulsory acquisition of shares is a non-trading day on the Chinese Mainland

Should the record date of compulsory share acquisition announced by HKSCC is a non-trading day on the Chinese Mainland, the record date of relevant shares maintained by CSDC shall be the next nearest trading day of the Chinese Mainland.

If the period from compulsory acquisition release date to the record date of shares fall on non-trading days of the Chinese Mainland, i.e. CSDC can not know the record date in advance, CSDC will maintain the share record date on the next nearest trading day of the Chinese Mainland and the record date on the trading day after the maintenance date, and deregister the shares on the maintained share record date.

(3) Processing principles if the day when HKSCC returns acquired shares or pays acquisition funds or shares is a non-trading day on the Chinese Mainland

If the day when HKSCC returns acquired shares or pays acquisition funds or shares is a non-trading day on the Chinese Mainland, CSDC will initiate the processing of relevant securities or funds on the next nearest trading day of the Chinese Mainland.

## **v. Share split and merger**

Share split and merger business in Hong Kong market is generally subject to parallel trading arrangements for combined cabinet trading of temporary and new codes.

### **1. Three times of code conversion**

In the share split and merger business, CSDC needs to conduct three times of stock code conversion below:

(1) At the end of the settlement day corresponding to the final trading day of the original stock code, convert the original stock code to a temporary code, and simultaneously adjust the holding balance in the account;

(2) At the end of the single cabinet trading period of temporary code, convert the temporary code into a new stock code;

(3) At the end of the combined cabinet trading period of temporary and new stock codes, convert the temporary code into a new stock code.

The conversion proportion in the second time and the third time is generally 1:1; the conversion objects include holding balance and pending number of temporary code.

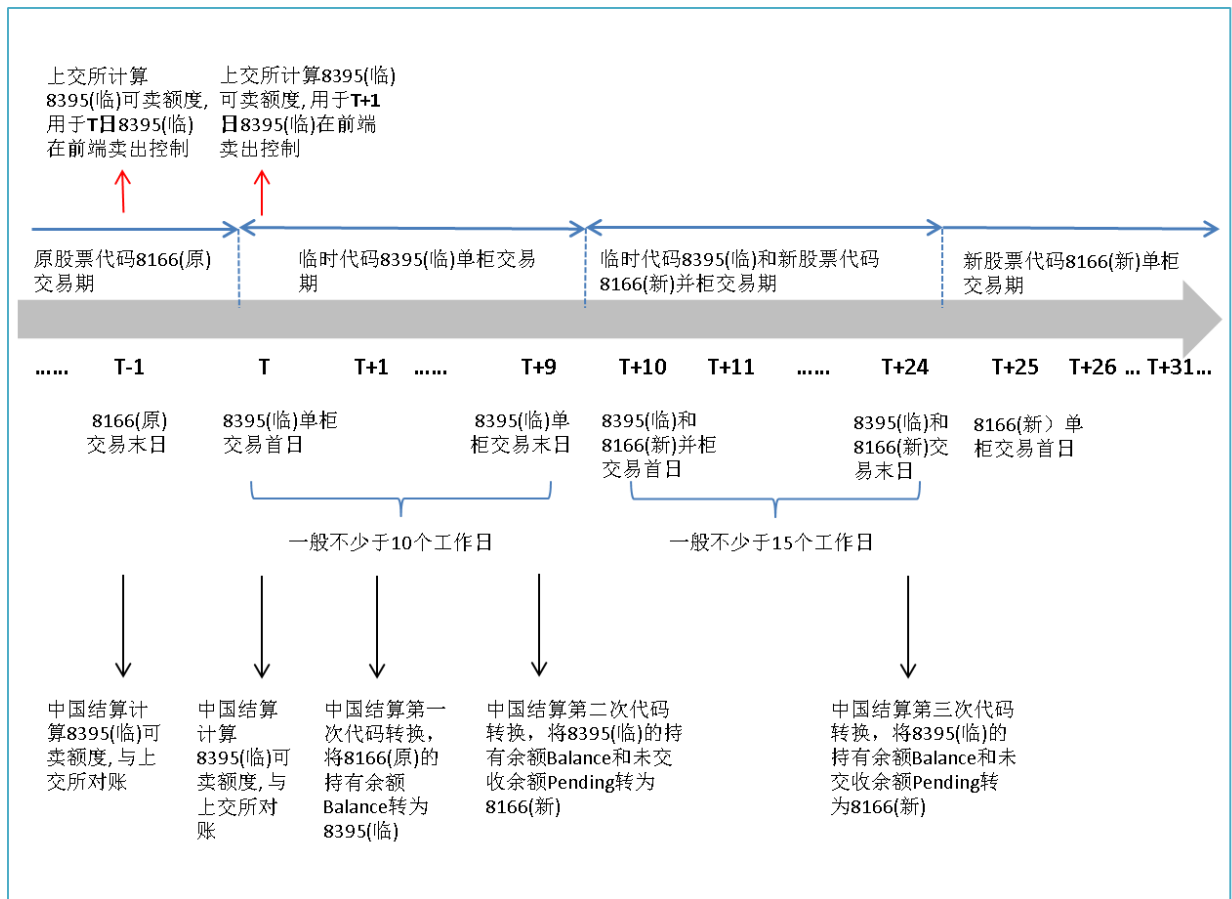
## **2. Information registration and data sending for share split/merger business**

HKSCC sends share split and merger data through Hong Kong's system on the announcement day of share split/merger. CSDC shall complete information registration in the system no later than the end-of-day processing at the end of the original stock code trading day in Hong Kong market, and send the related information to settlement participants at the end of the maintenance date.

The operation process for the share split/merger code conversion is illustrated in the case below.

[Case 8]

The figure below illustrates the case of share merger of a listed company in Hong Kong market, in which every two existing shares with a face value of HKD0.01 are merged into one share with a face value of HKD0.02 ("merged share"). The original stock code is 8166 (original), the temporary stock code is 8395 (temporary) and the new stock code is 8166 (new). Generally, the figures of the new stock code are the same as those of the original stock code.



SSE calculates salable limit of 8395 (temporary), which is used to control front-end sale of 8395 (temporary) on T day

SSE calculates salable limit of 8395 (temporary), which is used to control front-end sale of 8395 (temporary) on T+1 day

Original stock code 8166 (original) trading period

Single cabinet trading period of temporary code 8395 (temporary)

Combined cabinet trading period of temporary code 8395 (temporary) and new stock code 8166 (new)

Single cabinet trading period of new code 8166 (new)

Last trading day of 8166 (original)

First day of single cabinet trading of 8395 (temporary)

Last day of single cabinet trading of 8395 (temporary)



First day of combined cabinet trading of 8395 (temporary) and 8166 (new)

Last trading day of 8395 (temporary) and 8166 (new)

First day of single cabinet trading of 8166 (new)

Generally not less than 10 working days

Generally not less than 15 working days

CSDC calculates salable limit of 8395 (temporary) for reconciliation with SSE

CSDC calculates salable limit of 8395 (temporary) for reconciliation with SSE

CSDC converts code for the first time, and changes the holding balance of 8166 (original) to 8395 (temporary)

CSDC converts code for the second time, and changes the holding balance and pending balance of 8395 (temporary) to 8166 (new)

CSDC converts code for the third time, and changes the holding balance and pending balance of 8395 (temporary) to 8166 (new)

As shown above, the share split/merger business subject to parallel trading arrangements, in general, can be divided into four stages: (1) trading period of the original stock code 8166 (original); (2) single cabinet trading period of temporary code 8395 (temporary); (3) combined cabinet trading period of temporary code 8395 (temporary) and new stock code 8166 (new); (4) single trading period of new stock code 8166 (new). T day is the first day of single cabinet trading of the temporary code.

#### **(1) Code conversion for the first time**

**On T-1 day, at the end of the final trading day of the original stock code 8166 (original):**

CSDC calculates the conversion limit (without deducting the conversion limit of frozen shares of the original stock code) of the temporary code 8395 (temporary) according to the available number of original stock code 8166 (original) and the

split/merger proportion, calculates the frozen conversion limit of the temporary code 8395 (temporary) according to the frozen number of the original stock code, and then factors in the temporary code 8395 (temporary) to generate pending (pending is zero on T-1 day) in the trading of current day, so as to figure out the available limit of temporary code. (The fractional share less than one share in the above limit calculation shall be rounded up)

CSDC sends the temporary code conversion limit (without deducting frozen conversion limit) and temporary code freeze conversion limit to settlement participants for reconciliation through other number reconciliation documents of southbound trading securities at the end of the same day.

Conversion limit calculation formulae are provided for reference:

Temporary code conversion limit (without deducting the conversion limit of the frozen part of the original stock code = Available number of original stock code  $\times$  proportion denominator/proportion numerator, with fractional share limit directly rounded up.

Temporary code freeze conversion limit = Frozen number of original stock code  $\times$  promotion denominator/proportion numerator, with fractional share limit directly rounded up.

Where, every a shares are split/merged into b shares, the proportion numerator is a and the proportion denominator is b, both standing for positive integers. If  $a > b$ , it represents merger, if  $a < b$ , it represents split.

The following formulae of available limits of temporary code are provided for reference:

Available limit of temporary code on T day = Temporary code conversion limit on T-1 day - Temporary code freeze conversion limit on T-1 day + pending (0) arising from intraday trading of temporary code on T-1 day

Settlement participants may calculate the available limit temporary code using the method above, which, upon verification, can be used to control the trading of temporary code 8395 (temporary) of southbound trading investors on T day.

If the share split/merger proposal of a listed company fails to be approved at the

shareholders' meeting, the share split/merger business shall not take effect, the temporary code cannot be tradable on T day, and the southbound trading investors shall trade using the original stock code. CSDC shall complete cancellation of split/merger business in the system no later than the end of T day, and send the related information to settlement participants at the end of the maintenance date.

**On T day, at the end of the first tradable day of the temporary code 8395 (temporary):**

CSDC calculates the conversion limit (without deducting the conversion limit of frozen shares of the original stock code) of the temporary code 8395 (temporary) according to the available number of original stock code 8166 (original) and the split/merger proportion, calculates the frozen conversion limit of the temporary code 8395 (temporary) according to the frozen number of the original stock code 8166 (original), and then factors in the temporary code 8395 (temporary) to generate pending in the trading of current day, so as to figure out the saleable limit of temporary code. (The fractional share less than one share in the above limit calculation shall be rounded up)

CSDC sends the temporary code conversion limit (without deducting frozen conversion limit) and temporary code freeze conversion limit to settlement participants for reconciliation through other number reconciliation documents of southbound trading securities at the end of the same day. Pending data arising from the trading of temporary code 8395 (temporary) on the day are sent to settlement participants through the southbound trading balance reconciliation documents.

The calculation formula of conversion limit and freeze conversion limit of temporary code is the same as that on T-1 day, and the data used are the available number and frozen number of the original stock code 8166 (original) at the end of T day.

The following formulae of available limits of temporary code are provided for reference:

Available limit of temporary code on T+1 day = Temporary code conversion limit on T day - Temporary code freeze conversion limit on T day + pending (0) arising from intraday trading of temporary code on T day (net selling is negative).

Settlement participants may calculate the available limit temporary code using the method above, which, upon verification, can be used to control the trading of temporary code 8395 (temporary) of southbound trading investors on T+1 day.

If some days in the period from T-1 day (exclusive) to T+1 day (exclusive) are holidays in Hong Kong but working days on SSE, CSDC will continuously calculate and send the above conversion limit and freeze conversion limit to settlement participants.

**On T+1 day, at the end of the settlement day corresponding to the final trading day of the original stock code 8166 (original):**

CSDC converts the original stock code 8166 (original) to a temporary code 8395 (temporary) according to the split/merger proportion, and concurrently adjusts the holding number in the securities accounts of southbound trading investors. The fractional shares less than one share are allocated by the accurate algorithm. Generally, the transactions of the original stock code 8166 (original) shall complete settlement fully at the end of T+1 day, and the accounts of southbound trading investors record only the holding balance of the original stock code, without pending balance.

**(2) Code conversion for the second time**

During the combined cabinet trading period of the temporary code 8395 (temporary) and the new stock code 8166 (new), HKSCC continuously absorb temporary code 8395 (temporary) while releasing new stock code 8166 (new) through the deposit and withdrawal arrangements, to constantly strengthen the liquidity of new stock code 8166 (new).

During the combined cabinet trading period, the limits of the temporary code 8395 (temporary) and the new stock code 8166 (new) cannot be shared with each other, and settlement participants conduct front-end trading control using their respective holding data of the temporary code 8395 (temporary) and the new stock code 8166 (new).

**On T+9 day, i.e. at the end of the final day of the single cabinet trading period of the temporary code 8395 (temporary):**

CSDC converts the temporary code 8395 (temporary) into the new stock code 8166 (new) at a ratio of 1:1, and the conversion objects include the holding balance and pending amount of the temporary code 8395 (temporary). On the next southbound trading day, CSDC does not need to use the available number of the temporary code 8395 (temporary) to calculate the salable limit of the new stock code 8166. It can directly use the holding data of the converted new stock code 8166 (new) to control trading.

### **(3) Code conversion for the third time**

Since southbound trading investors can buy shares with temporary code 8395 (temporary) during the combined cabinet trading period, CSDC needs to convert code for the third time, with details as following:

**On T+24 day, at the end of the final day of the combined cabinet trading period  
(At the end of the final day of temporary code 8395 (temporary) trading):**

CSDC converts the temporary code 8395 (temporary) into the new stock code 8166 (new) at a ratio of 1:1, and the conversion objects include the holding balance and pending amount of the temporary code. On the next southbound trading day, CSDC does not need to use the available number of the temporary code 8395 (temporary) to calculate the salable limit of the new stock code 8166. It can directly use the holding data of the converted new code 8166 (new) to control trading.

In the circumstances other than those specified above, CSDC will notify otherwise.

## **vi. Rights issue**

With respect to the rights issue of Hong Kong-listed companies within the scope of southbound trading, southbound trading investors declare within the proportion of rights issue to existing shareholders, and do not participate in the declaration of the excess rights issue of H shares for the time being.

### **1. Response to general circumstances**

#### **(1) Registration of rights issue entitlement information**

CSDC enters basic rights issue information into the system before record date according to the notice of HKSCC, and informs settlement participants.

## **(2) Registration of rights issue entitlement custody**

No later than the southbound trading working day before the tradability day of domestic rights issue entitlement (PAL) (generally the second southbound trading day after PAL is issued by HKSCC), CSDC generates the details of rights issue entitlement of southbound trading investors according to the proportion of rights issue, based on the total rights issue entitlement actually issued by HKSCC, the issuer's information filed with CSRC, and the register of all shareholders of the southbound trading security on the record date. It shall also float the rights issue entitlement in each southbound trading investor's account, which becomes tradable on the next southbound trading day.

## **(3) Rights issue entitlement trading settlement**

During the period of rights issue entitlement trading, guaranteed settlement shall be conducted for the trading settlement on each day with reference to the general southbound trading securities transactions.

## **(4) Acceptance of southbound trading investors' rights issue declaration and payment settlement**

During the period of rights issue declaration, settlement participants may declare to CSDC southbound trading investors' willingness of rights issue through CCNET on a daily basis. Rights issue entitlement declaration can be cancelled after being declared. CSDC records the accounts of southbound trading investors who successfully declare at the end of each day. In order to ensure the timeliness of rights issue payment settlement and currency exchange, CSDC sets the domestic declaration cutoff date as a working day of southbound trading which is earlier than the cutoff date set by HKSCC, with a time interval of two southbound trading settlement days.

Rights issue trading does not affect the declaration of rights issue entitlement. The confirmation results of declaration of rights issue entitlement shall be limited to the available number of rights issue entitlement at the time of payment settlement by southbound trading investors (actual holding number of rights issue entitlement deducting sold but pending number and frozen number).

Rights issue payment is cleared and settled after the end of domestic declaration. Payable rights issue amount in each securities account = Valid number declared by investors  $\times$  declared price. Rights issue shall be cleared at the separate inquiry exchange rate on the southbound trading settlement day after the domestic declaration cutoff date. On the second southbound trading settlement day after the domestic declaration cutoff date, it is required to complete the guaranteed settlement of corporate action business and the currency exchange for rights issue amount, and remit the money to CSDC's settlement bank in Hong Kong.

**(5) Declaration of rights issue entitlement and payment of rights issue amount to HKSCC**

On the second southbound trading day after the domestic declaration cutoff date of rights issue, CSDC declares the total valid declared amount of rights issue to HKSCC, and the latter completes the withholding of rights issue funds collected by CSDC through related instructions on the day of receiving the declaration results from CSDC.

**(6) Related processing of acquisition and listing of shares arising from rights issue**

On the day of mailing shares by HKSCC, CSDC verifies the total shares mailed by HKSCC and completes the listing and tradability procedures. Related shares become tradable on the next southbound trading day.

**2. Special circumstances**

**(1) Circumstances of working days in Hong Kong which are non-working days on SSE**

If a corporate action day can be determined before a working day in Hong Kong and a non-working day on SSE, CSDC makes the following special arrangements:

① With respect to the record date, if the record date of HKSCC falls within the range, domestic record date shall be moved forward to the nearest common working day of Shanghai and Hong Kong markets. For example, if the record date is October 7, 2014, it shall be adjusted to September 30.

② With respect to PAL receipt day, if the receipt day of HKSCC falls within the range, the rights issue entitlement tradability handling day of CSDC shall be postponed to the nearest southbound trading working day. If the PAL receipt day of HKSCC is October 3, 2014, CSDC will handle the tradability procedures for rights issue entitlement on October 8, and relevant rights issue entitlement will become tradable on October 9.

③ With respect to the receipt day of shares in rights issue, if the receipt day of HKSCC falls within the range, the share tradability handling date shall be postponed to the nearest southbound trading working day, and the first day when these shares become tradable is the southbound trading day after the tradability handling date. If the share receipt day of HKSCC is October 3, 2014, CSDC will conduct the listing and tradability procedures for shares in rights issue on October 8, and the first day when domestic shares in rights issue become tradable shall be adjusted to October 9.

(2) Circumstances of typhoon signal, black rainstorm and half-trading day in Hong Kong:

① With respect to a record date, if securities are not settled in Hong Kong market on the day of typhoon signal or black rainstorm, the day or next day which is the record date shall be postponed to the next southbound trading day; if the half-trading day in Hong Kong is a record date, no adjustment will be made.

② With respect to the PAL listing day, if securities are not settled in Hong Kong market on the day and receipt of PAL is postponed before the end-of-day system processing point of time of CSDC on the next southbound trading day, CSDC will deal with business on the day of receiving PAL, and corresponding PAL can be tradable on the next southbound trading day following the processing day; if receipt of the PAL is postponed to after the end-of-day system processing point of time of CSDC on the next southbound trading day, CSDC will deal with PAL on the next southbound trading day after the day of receiving PAL, and corresponding PAL can be tradable on the next southbound trading day following the processing day.

③ With respect to the day when shares in rights issue become tradable, if securities are not settled in Hong Kong market on the day and receipt of these shares is



postponed before the end-of-day system processing point of time of CSDC on the next trading day, CSDC will deal with business on the day of receiving these shares, and corresponding shares can be tradable on the next southbound trading day following the processing day; if receipt of these share is postponed to after the end-of-day system processing point of time of CSDC on the next southbound trading day, CSDC will deal with the shares in rights issue on the next southbound trading day after the day of receiving these shares, and corresponding shares can be tradable on the next southbound trading day following the processing day.

In the circumstances other than those specified above, CSDC will notify otherwise.

#### **viii. Public placement**

With respect to the public placement of Hong Kong-listed companies within the scope of southbound trading, southbound trading investors declare within the proportion of existing shareholders, and do not participate in the declaration of excess public placement of H shares for the time being.

Handling of public placement is similar to that of rights issue, with the difference that public placement right cannot be traded in the secondary market and can only be declared for exercise of right.

#### **ix. Offer for sale**

Offer for sale means the corporation actions that the controlling shareholder of a Hong Kong-listed company sells shares to shareholders who accept the offer, and collects payment on the sale.

CSDC sells according to the notice of HKSCC with reference to the public placement offer above, with the difference that the issuer of the offer for sale is not required to be filed with CSRC.

## **Chapter V Data explanation**

For the explanation for the business data of southbound trading, see the relevant

description in the Guide to Technical Implementation of Market Participants in Southbound Trading Settlement Business published by CSDC. The document can be downloaded from "Technology Zone"→"Shanghai Market"→"Data Interface Standards" on CSDC's website ([www.chinaclear.cn](http://www.chinaclear.cn)) or from the CCNET (PROP) BBS→" Technical Materials".

## **Chapter VI Others**

Those not mentioned in this Guide shall refer to other relevant rules of CSDC.

### Schedule 1: List of Southbound Trading and Settlement Fees

Type	Subtype	Item	Payment object	Charging/calculation standards
Trading taxes and fees (Paid to HKSE or withheld by HKSE)	Trading taxes and fees	Stamp tax	Stamp Tax Office	Two-way, charge at 0.1% of the trading amount (rounded to dollar, and charge the fractional amount less than one HK dollar at one dollar).
		Trading fees	CSRC	Two-way, charge at 0.0027% of the trading amount, and round to two digits after the decimal point.
		Trading fee	HKSE	Two-way, charge at 0.005% (rounded to two digits after the decimal point).
		Trading system use fee		Two-way, charge at HKD0.5 per deal.
Settlement fee (Paid to HKSCC)	Settlement and delivery services	Share settlement fee	HKSCC	Two-way, charge at 0.002% of the trading amount, with one-way minimum and maximum fees of HKD2 and HKD100 respectively (rounded to two digits after the decimal point).
	Depository and corporate action services	Securities portfolio fees	HKSCC Nominee	Set different fees based on the market value of H shares (see Schedule 2).



## Schedule 2: Securities Portfolio Fees

<b>Market Value of H Shares Held (Currency: HKD)</b>	<b>Annual fees</b>
Less than or equal to HKD50 billion	0.008%
More than HKD50 billion but less than or equal to HKD250 billion	0.007%
More than HKD250 billion but less than or equal to HKD500 billion	0.006%
More than HKD500 billion but less than or equal to HKD750 billion	0.005%
More than HKD750 billion but less than or equal to HKD1 trillion	0.004%
More than HKD1 trillion	0.003%

### Schedule 3: Depository Business Fee Standards

Item	Standard	Payer	Payment object
Non-Transaction transfer stamp tax	Charge at 1‰ of the closing market value of transferred shares on the last southbound trading day. If the stamp tax figured out includes fractional amount less than HKD1, it shall be calculated at HKD1. (Charge in RMB that is converted based on the selling price of reference exchange rate, and rounded to yuan; return the overcharge and demand payment of the shortage according to the actual exchange rate)	Investors of transfer	Stamp Tax Office
Non-trading transfer fee	Charge at 1‰ of the closing market value of transferred shares on the last southbound trading day after conversion into RMB (rounded to yuan), with a maximum charge of RMB100,000 (two-way) (adopting the settlement exchange rate on the last southbound trading day as the exchange rate)	Investors of transfer	CSDC
Pledge registration fee	Charge based on the closing market value on the last southbound trading day after conversion into RMB (rounded to yuan) according to the settlement exchange rate on the last southbound trading day. Charge in RMB at 1‰ of the market value for the part with a market value of HKD5 million or below, and 0.1‰ of the market value for the part with a market value of more than HKD5 million, with a minimum charge of RMB100.	Pledge registration applicant	CSDC