

Introduction of the Securities Markets in Hong Kong and the Mainland of China

With closer economic ties between Hong Kong and the Mainland, the interaction between the financial markets in both places has been increasing. In order to help you better understand the features of the respective securities markets, Bank of China (Hong Kong) (“BOCHK”) provides a detailed overview of securities investment to help you make your investment decision.

The first securities transaction in Hong Kong dated back to 1866. In 1891, the first official stock exchange in Hong Kong, the Association of Stockbrokers, was set up and renamed as the Hong Kong Stock Exchange in 1914. Given the rapid development of Hong Kong economy in the 1960’s, the Far East Exchange, the Kam Ngan Stock Exchange and the Kowloon Stock Exchange were established during the period from 1969 and 1971. The said four exchanges were then merged to become the Stock Exchange of Hong Kong which commenced operation in 1986. In 1999, in order to support the development of technology industries and small and medium-sized enterprises, the Growth Enterprise Market (“GEM”) was launched. In the same year, the Stock Exchange of Hong Kong, Hong Kong Futures Exchange Limited and their respective clearing houses were merged under a single holding company, Hong Kong Exchanges and Clearing Limited (“HKEx”).

* Source: The above information is extracted from “A Glimpse of the Past” of HKEx.

The securities market in Hong Kong has developed for over 100 years with the following features:

- **Stringent regulations under the regulatory framework**
- **High liquidity, a great variety of listed derivative products and vibrant trading activities**
- **Sound trading infrastructure in place to protect investors’ interests**

For more information about HKEx, please visit its website to view “About HKEx”.



1 Comparison of market participants

Overseas investors enjoy a higher degree of participation in the Hong Kong securities market. The trend of the Hong Kong securities market is closely linked with the global economy and international financial markets. In addition to local factors, its performance is also affected by the financial and economic policies of the Mainland, Europe and the United States. According to the “Retail Investor Survey 2011” of HKEx, almost 80% of the retail investors have conducted securities transactions mainly through banks.

| | Mainland securities market | Hong Kong securities market |
|--|---|--|
| Distribution and types of investors | Institutions, organisations or individuals from the Mainland of China (excluding investors from the Taiwan region, Hong Kong SAR and Macau SAR) | International participants (the trading conducted by overseas investors has accounted for 46%* of the total transaction volume.) |

*Source: “Cash Market Transaction Survey 2010/11” of HKEx

2 Comparison of trading hours

| | Mainland securities market | Hong Kong securities market |
|--|----------------------------|-----------------------------|
| Pre-opening Session (Auction Session) | 9:15-9:25 | 9:00-9:30 |
| Morning Continuous Trading Session | 9:30-11:30 | 9:30-12:00 |
| Lunch Session | 11:30-13:00 | 12:00-13:00 |
| Afternoon Continuous Trading Session | 13:00-15:00 | 13:00-16:00 |

3 Comparison of investment account

| | Mainland securities market | Hong Kong securities market |
|--|---|--|
| Agent/Nominee of securities trading | Broker firms | Banks [#] |
| Investment account/capital account opening procedures | Investors are required to open a securities account, a capital account and complete all related procedures at a broker firm | Investors can open an investment account with a bank |
| Securities settlement account | Capital account maintained with the broker firm | Savings/current account maintained with the bank |
| Deposit and custody of funds | Investors are required to complete the procedures at a bank for depositing funds to settle securities transactions. This is commonly known as "third-party custody of funds" that the funds in the capital account are under the custody of the bank | <ul style="list-style-type: none"> ➢ No deposit or custody procedures are required ➢ The funds deposited in the settlement account are under the custody of the bank |
| Withdrawal of funds | <ul style="list-style-type: none"> ➢ Investors are required to set up bank transfer services at the branches such that the funds can be transferred from savings accounts to capital accounts for the settlement of securities transactions. ➢ Investors have to make sure that there are sufficient funds in their capital account before order placement. The funds have to be transferred from the capital account to the general savings account for withdrawal | Settlement account is a general savings or current account and deposit or withdrawal of funds can be made at any time |

[#] The above is only the information of investment in the Hong Kong securities market through banks. Investors can also conduct securities transactions in the Hong Kong securities market through broker firms.

4 Comparison of trading rules and settlement arrangement

| | Mainland securities market | Hong Kong securities market |
|--|--|---|
| Price Limit | Yes (A stock with price fluctuation over a certain percentage will be suspended from trading for a specific period of time) | No |
| Display colour of quotations for stocks with rising price | Red | Green |
| Display colour of quotations for stocks with falling price | Green | Red |
| Trading currency | RMB | Mainly in HKD (RMB-denominated securities have also been launched) |
| Trading unit | 100 units or its multiples | Board lot (Board lot size varies among stocks) |
| Day-trade (also known as T+0 trading in the Mainland) | Not allowed (The securities bought cannot be sold on the same day) | Allowed (There is no limit on the number of transactions) |
| Settlement date | T+1 | T+2 |
| Withdrawal of proceeds received from the sale of securities | T+1 (The proceeds received from the sale of securities can be used to buy stocks on the same day. Cash withdrawal can be made on T+1) | T+2 |



5 Comparison of IPO subscription

| | Mainland securities market | Hong Kong securities market | |
|--------------------------------|---|---|--|
| Subscription method | IPO subscription can be made on the basis of an individual investor. Allotted shares will be deposited directly into investor's securities account | White form <ul style="list-style-type: none"> ➤ Physical scrips of allotted shares will be given ➤ The physical scrips must be deposited into the investment account before trading | Yellow form <ul style="list-style-type: none"> ➤ Subscription can be made through Internet Banking. Allotted shares will be deposited directly into investor's investment account ➤ Allotted shares can be traded on the first day of listing |
| Subscription unit | 1,000 units or its multiples | Board lot (Board lot size varies among stocks) | |
| Allotment of new shares | <ul style="list-style-type: none"> ➤ A number will be assigned by the Exchange to every 1,000 shares of all subscriptions in sequence ➤ The Exchange will announce the allotment ratio and conduct random drawing based on the total numbers assigned and allotment ratio. The allotment result will be announced | <ul style="list-style-type: none"> ➤ Allotment of shares or not and the number of allotted shares are determined according to the overall subscription amount ➤ If the IPO is over-subscribed for specified multiples, the company to be listed can increase the ratio to be allotted to the public offering according to the established mechanism specified in the prospectus | |
| IPO Financing | IPO financing is restricted to a small number of securities companies | The IPO financing ratio will be determined by the bank up to 9 times of the margin paid by the investors | |

6 Comparison of trading fees and charges

No upper limit is imposed by the Hong Kong regulatory authorities on the brokerage fee, which can be determined by the banks/broker firms according to the market conditions. In addition to the brokerage fee, investors are also subject to stamp duty, trading fee and transaction levy, which are charged respectively by the HKSAR Government, HKEx and the Securities and Futures Commission of Hong Kong.

| Major fees and charges | Mainland securities market | Hong Kong securities market |
|-------------------------|---|--|
| Brokerage fee | No more than 0.3% of the transaction amount | Determined by banks/broker firms |
| Stamp duty | 0.1% of the transaction amount (Payable by the selling party only) | 0.1% of the transaction amount (Payable by both the buying and selling parties) |
| Transaction levy | Not available | 0.003% of the transaction amount |
| Trading fee | Not available | 0.005% of the transaction amount |

7 Frequently used terms in securities markets

| 內地證券市場 | 香港證券市場 | English |
|---------------|---------------|--|
| 名義價格 | 按盤價 | nominal price |
| 價格 | 價位 | price |
| 賣出 | 沽出 | sell |
| 數量 (如交易數量) | 股數 (如落盤股數) | quantity (number of shares) |
| 可賣出數量 | 可沽股數 | number of shares available for sale |
| 買賣單位 | 每手 | board lot |
| 交易/下單 | 落盤 | order placement |
| 更改交易 | 改盤 | order amendment |
| 取消交易 | 消盤 | cancellation of order |
| 限價委托 | 限價盤 | limit order |
| 市價委托 | 市價盤 | market order |
| 開盤集合競價時間 | 競價時段 | pre-opening session |
| 資料刷新 | 資料更新 | information update |
| 中籤結果 | 配股結果 | allotment result |
| 權證 | 窩輪 | warrant |
| 摘牌 | 除牌 | delisting |
| 除權日 | 除淨日 | ex-date |
| 送股 | 紅股派送 | scrip issue; issue of bonus share |
| 板塊 | 行業 | sector |
| 回轉交易 | 即日鮮 | day trade transaction |
| 保證金賬戶 | 孖展賬戶 | margin account |
| 多方 | 好友 | optimist |
| 空方 | 淡友 | pessimist |
| 做多 | 做好 | long |
| 做空 | 做淡 | short |
| 缺口 | 裂口 | gap |
| 補漲股 | 落後股 | laggard |

Source:

The above information is extracted from the website of Shanghai Stock Exchange and the website of HKEx.

Risk Disclosure:

The following risk disclosure statements cannot disclose all the risks involved. You should undertake your own research and study before you trade or invest. You should carefully consider whether trading or investment is suitable in light of your own financial position and investment objectives. You are advised to seek independent financial and professional advice before you trade or invest. You should seek independent professional advice if you are uncertain of or have not understood any aspect of the following risk disclosure statements or the nature and risks involved in trading or investment.

Risk of Securities Trading:

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities.

Risk Disclosure of Securities Margin Trading:

The risk of loss in financing a transaction by deposit of collateral is significant. You may sustain losses in excess of your cash and any other assets deposited as collateral with the licensed or registered person. Market conditions may make it impossible to execute contingent orders, such as "stop-loss" or "stop-limit" orders. You may be called upon at short notice to make additional margin or interest payments. If the required margin or interest payments are not made within the prescribed time, your collateral may be liquidated without your consent. Moreover, you will remain liable for any resulting deficit in your account and interest charged on your account. You should therefore carefully consider whether such a financing arrangement is suitable in light of your own financial position and investment objectives.

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