

## Notice for Clients Trading in SSE and SZSE Securities and Key Risk Disclosure

### Information on Stock Connect

**The Shenzhen-Hong Kong Stock Connect or the Shanghai-Hong Kong Stock Connect (together “Stock Connect”)** is a securities trading and clearing links program developed by the Stock Exchange of Hong Kong Limited (“SEHK”), the Shanghai Stock Exchange (“SSE”), Shenzhen Stock Exchange (“SZSE”), Hong Kong Securities Clearing Limited (“HKSCC”) and China Securities Depository and Clearing Corporation Limited (“ChinaClear”) for the establishment of mutual market access between Hong Kong and Shanghai/ Shenzhen.

- Chong Hing Securities Limited (CHS) only provides Northbound Trading ( trading SSE/SZSE securities under Stock Connect), Nominee Services and Corporate Actions.
- CHS does not provide margin financing, short selling, and stock borrowing and leading for trading SSE/SZSE securities.

All trading must be conducted on SSE/ SZSE, i.e. no over-the-counter (OTC) or manual trades are allowed. Also, clients are prohibited from naked short selling in SSE/SZSE Securities and are not allowed to participate in any securities lending on the Mainland.

For clients who want to invest those securities listed and traded on SSE/ SZSE which may be traded by Hong Kong and overseas investors under the Stock Connect (“SSE/SZSE Securities”), are obliged to realize all relevant market practices such as the trading and settlement procedures, the related custodian charges, service fees, various levies and taxation and the trading rules and regulations. For more details, please refer to the official website of Hong Kong Exchange and Clearing Limited (“HKEx”) ([www.hkex.com.hk/chinaconnect](http://www.hkex.com.hk/chinaconnect)).

The information of Stock Connect would be updated from time to time, please refer to the HKEX for the news.

### Investment Quota

13 billion of Daily Quota on Northbound trading of Shenzhen-Hong Kong Stock Connect and the Shanghai-Hong Kong Stock Connect separately. The daily quota is applied on a "net buy basis". The remaining balance is calculated as below:

Daily quota balance = Daily quota – Buy orders + Sell trades + Adjustments\*

\* Daily quota balance will be increased when

- a buy order is cancelled;
- a buy order is rejected by the other exchange; or
- a buy order is executed at a better price.

The Northbound daily quota balance is updated each time when a Northbound order is received and executed. Once the Northbound daily quota balance drops to zero or the daily quota is exceeded during a continuous auction session (continuous trading), no further buy orders will be accepted for the remainder of the day, and new buy orders will be rejected. However, please note the following:

- Sell orders will not be affected. SEHK will resume services for Northbound buy orders on the next trading day.
- As order cancellation is common during opening call auction, the Northbound daily quota balance may resume to a positive level before the end of the opening call auction. When that happens, SEHK will again accept Northbound buy orders.
- Unused daily quota will not be carried over to next day's daily quota.
- Buy orders already accepted will not be affected by the daily quota being used up and will remain on the order book of SSE unless otherwise cancelled by the relevant exchange participants

### Eligible stock

**Shanghai-Hong Kong Stock Connect**

Index constituent stocks: Constituent stocks of SSE 180 Index and SSE 380 Index

A+H shares: SSE- listed A shares (not include as constituent stocks of the relevant indices) which are simultaneously listed and trade on SEHK.

**Shenzhen-Hong Kong Stock Connect**

Index constituent stocks: Constituent stocks of SZSE Component Index and SZSE Small/ Mid Cap Innovation Index which have a market capitalization of not less than RMB 6 billion

A+H Shares: SZSE- listed shares which are not traded in RMB or which are included which are simultaneously listed and traded on SEHK.

Excluding SSE/SZSE – listed shares which are not traded in RMB or which are included in the “risk alert board” or under delisting arrangement under the SSE/ SZSE Listing Rules.

Initially, only institutional professional investors (as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC, being a person failing under paragraphs (a) to (i) of the definition of “professional investors” in section 1 of Part 1 of the Securities and Futures Ordinance (Cap. 571, the Law of Hong Kong)) may trade the stocks listed on the ChiNext Board of SZSE which are eligible for trading under SZSE Northbound Trading. Therefore, Chong Hing Securities Ltd. does not provide the service of trading the stocks listed on the ChiNext Board of SZSE.

The list of eligible stocks for Northbound Trading is available on HKEx's website.

Hong Kong and overseas investors will only be allowed to sell an SSE/ SZSE security but will be restricted from further buying if:

- (a) the SSE/ SZSE security subsequently ceases to be a constituent stock of the relevant indices; and/or
- (b) the SSE/ SZSE security is subsequently under “risk alert”; and/or
- (c) the corresponding H share of the SSE/ SZSE security subsequently ceases to be traded on SEHK; and/ or
- (d) the SZSE security is, based on any subsequent periodic review, determined to have a market capitalization of less than RMB6 billion, as the case may be.

### Trading arrangement

1. For trading in SSE/SZSE Securities, clients must accept and agree the risks concerned in Northbound trading, including but not limited to being liable or responsible for breaching the SSE and SZSE Listing Rules, SSE and SZSE Rules and other applicable laws and regulations.
2. In investing in SSE Securities, clients must have signed the “Power of Attorney” with version used on or after 11 April, 2011 in order to give CHS the rights to withdraw, to deposit and/or to hold fund from their RMB accounts in Chong Hing Bank Limited (“CHB”). Furthermore, clients have to read the related Risk Disclosure, know, understand and accept the risks involved in listed Renminbi-denominated (RMB-denominated) securities subscription and/or trading.
3. The trading hours of SSE/SZSE Securities are listed below:

Trading session	SZSE Trading Hours	SSE Trading Hours	Time for SEHK Exchange Participants to input Northbound orders
Opening Call Auction	09:15 - 09:25		09:10 - 11:30
Continuous Auction (Morning)	09:30 - 11:30		
Continuous Auction (Afternoon)	13:00 - 14:57	13:00 - 15:00	12:55 - 15:00
Closing Call Auction	14:57 - 15:00	--	--

- a. CHS Northbound Trading Hotline: 3768-9808. (No services relating to Northbound Trading will be provided via 3768-9888 & 3768-9111);
  - b. During the period from 09:20 to 09:25 of a trading day, SSE will not accept order cancellation;
  - c. During the period from 09:20 to 09:25 and 14:57 to 15:00 of a trading day, SZSE will not accept order cancellation;
  - d. During the following periods of 09:10 - 09:15, 09:25 - 09:30 and 12:55 - 13:00, SSE and SZSE does not execute or accept new orders and order cancellations. Order cancellations placed in those periods cannot be processed immediately and may eventually fail to be executed in the following SSE/SZSE Trading Session because the original orders have been filled;
  - e. Orders that are not executed during the Opening Call Auction Session will automatically enter the Continuous Auction Session.
4. The trading board lot size of SSE/SZSE securities is 100 shares per lot with RMB 0.01 as a Tick unit. SSE and SZSE Securities trading accepts odd-lot sale orders which are being transacted at the same platform of the purchase orders of the same stock, the final quantity of SSE Securities purchased for a buyer may eventually result in odd-lot number although the purchase order is not an odd-lot order.
  5. There is a general price limit at SSE and SZSE of  $\pm 10\%$  (ie ST and \*ST stocks) in the risk alert board) based on previous closing price. All orders input for eligible SSE/SZSE-listed securities must be at or within the price limit. Any orders with price beyond the price limit will be rejected by the SSE/SZSE (but not affect trading) .
  6. Referring to the rules of trading in SSE/SZSE Securities, only “Limit Orders” and “Order Cancellations” are accepted. Besides, all SSE/SZSE Securities being sold should have been ready in the clients’ securities accounts before the market opens.
  7. No “Day Trading” (i.e. Selling the SSE/SZSE Securities purchased on the same trading day) is allowed. Furthermore, the sale proceeds of RMB-denominated securities listed in SEHK cannot be used to settle the same day purchases of SSE/SZSE Securities.
  8. All SSE and SZSE Securities are issued in scripless form and no physical deposits and withdrawals of SSE and SZSE Securities into/from the CCASS Depository is available and the settlement arrangement of Northbound Trading is as follows:
    - a. Securities are settled on the transaction day (“T day”)
    - b. Money settlement is completed by the following trading day (“T+1 day”).
  9. HKEx may upon SSE/SZSE’s request, require CHS to reject orders from the client. Also, SSE/SZSE may request HKEx to require CHS to issue warning statements (verbally or in writing) to their clients, and not to extend Northbound trading service to their clients.
  10. In addition to paying trading fees and stamp duties in connection with SSE/SZSE Securities trading, the Client carrying out Northbound trading may also bear any new portfolio fees, dividend tax and tax concerned with income arising from stock transfers which would be determined by the relevant authorities.

### Severe Weather Conditions

If Typhoon Signal Number 8 (or above) is issued in Hong Kong after SSE/SZSE market has opened, all outstanding orders remaining in SSE’s and SZSE’s trading system are still valid but starting from 15 minutes after the signal being issued, no new orders will be accepted and only order cancellations by electronic means (i.e. via CHS i-web or MSS Services for all CHS clients) can be placed as no hotline services will be available. Also CHS shall have the right to cancel client’s outstanding orders without prior notice in case of contingency such as hoisting of Typhoon Signal Number 8.

### Settlement arrangement

1. Any purchase order without sufficient available fund in the client’s designated account maintained with CHB (“settlement bank account”) may be rejected. After receiving a client’s purchase order, CHS has the absolute right, but not an obligation, to hold the full or partial or none of transaction amount with the related transaction fees (“the amount”) in the designated settlement bank account. Clients are still solely responsible to perform their own personal financial management with the settlement bank accounts and none of any parties should depend on or take reference to the fund holding action while performing their own financial management. In all circumstances, clients are obliged to fully settle their securities dealing orders. The amount for securities

purchases will be put on hold at the same time of order placing.

- a. For filled buy orders, the amount will be held until withdrawal for settlement on the corresponding settlement day.
  - b. For unfilled buy orders, the amount will be released no later than the immediate midnight.
2. The acceptance and/or execution of an order of purchasing SSE/SZSE Securities do not necessarily indicate that there is sufficient available fund in the client's RMB settlement bank account. Clients are still solely responsible to perform their own personal financial management with the RMB settlement bank accounts and prepare sufficient RMB for settlement before T+1 settlement date. Generally, no partial settlement for any trade will be accepted. All overdue payment is required to pay interest on the overdue amount at the rate 6% per annum above the prime rate charged from time to time by CHB. In addition, when the payment has become overdue, under the "Cash Client Agreement"/ "Margin Client Agreement" CHS reserves the rights to sell or transfer the Securities purchased upon such terms and conditions and at such price as the company may in its absolute discretion consider appropriate.
  3. CHS may not be able to deliver client's order cancellation requests in case of contingency such as when HKEx loses all its communication lines with SSE/ SZSE, etc. and client should still bear the settlement obligations if the orders are matched and executed.
  4. Money Settlement for all securities transactions executed via CHS will be settled through the designated accounts maintained with CHB and recorded in Combined Statement and Contract Note ("Daily Statements") and Monthly Statements, physically or electronically, issued by CHS for client verification. The Daily Statements will record details of all securities transactions of the same trading day and will be sent out on the next trading day. Clients who have not received the Daily Statements for more than 3 trading days after their transactions should immediately inform CHS. Please note that CHS will never request clients to pay cash or other means to any staff personally for settlement of any transaction.
  5. CHS, HKEx, SEHK, SEHK Subsidiary<sup>§</sup>, SSE and SSE Subsidiary<sup>§</sup>, SZSE and SZSE Subsidiary<sup>§</sup> and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by the clients arising from or in connection with Northbound trading or the order routing system (China Stock Connect System (CSC)).  
  
<sup>§</sup>*SEHK Subsidiary refers to SEHK's wholly-owned subsidiary to be incorporated in Shanghai for Shanghai-Hong Kong Stock Connect. SSE Subsidiary refers to SSE's subsidiary incorporated in Hong Kong for Shanghai-Hong Kong Stock Connect. SZSE Subsidiary refers to SZSE's subsidiary incorporated in Hong Kong for Shenzhen-Hong Kong Stock Connect.*
  6. For details of general securities trading, settlement, custody and other service charges (e.g. brokerage commission, custody fee and others handling charges), please refer to the prevailing "Notices" of the services and "Service Charge Schedule". Clients will receive the Notices and the Schedule during the time of their securities account opening, and may get the latest version of them at any branch of CHB/CHS or download from our web-site ([www.chsec.com.hk](http://www.chsec.com.hk)).

#### **Disclosure obligation and compliance with the applicable laws in Mainland**

1. Under Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect, A-shares listed companies and trading in SSE/SZSE Securities are subject to market rules and disclosure requirements of the A-share market. Any changes in laws, regulations and policies of the A-share market or rules in relation to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect may affect share prices. The Client should also take note of the foreign shareholding restrictions and disclosure obligations applicable to A-shares. The Client will be subject to restrictions on trading (including restriction on retention of proceeds) in A-shares as a result of its interest in the A-shares. The Client is solely responsible for compliance with all notifications, reports and relevant requirements in connection with its interests in A-shares. Under the current Mainland rules, once an investor holds up to 5% of the shares of a company listed on the SSE or SZSE, the investor is required to disclose his interest within three working days and during which he cannot trade the shares of that company. The investor is also required to disclose any change in his shareholding and comply with related trading restrictions in accordance with the Mainland rules. According to existing Mainland practices, Hong Kong and overseas investors as beneficial owners of A-shares traded via Stock Connect cannot appoint proxies to attend shareholders' meetings on their behalf. CHS should have the right to force-sell client's shares upon receiving the forced-sale notification from HKEx.
2. CHS may forward the client's identity to HKEx which may on-forward to SSE/SZSE for surveillance and investigation purposes. If the SSE/SZSE Rules are breached, or the disclosure and other obligations referred to in the SSE/SZSE Listing Rules or SSE/SZSE Rules are breached, SSE/SZSE has the power to carry out an investigation, and may, through HKEx, require CHS to provide relevant information and materials and to assist in its investigation.

#### **Key Risks of investing through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect**

##### **1. Not protected by Investor Compensation Fund**

Investors should note that any Northbound trading under Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect will not be covered by Hong Kong's Investor Compensation Fund.

Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Examples of default are insolvency, in bankruptcy or winding up, breach of trust, defalcation, fraud, or misfeasance.

As for Northbound trading, according to the Securities and Futures Ordinance, the Investor Compensation Fund will only cover products traded in Hong Kong's recognised securities market (SEHK) and recognised futures market (Hong Kong Futures Exchange Limited, HKFE). Since default matters in Northbound trading via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect do not involve products listed or traded in SEHK or HKFE, so similar to the case of investors trading overseas securities, they will not be covered by the Investor Compensation Fund.

For further information on Hong Kong's Investor Compensation Fund, please refer to the website of Investor Compensation Company Limited. For information on licensees and registered institutions under the SFC, please consult the Public Register of Licensed Persons & Registered Institutions in the SFC website.

On the other hand, according to the Measures for the Administration of Securities Investor Protection Fund 《證券投資者保護基金管理辦法》, the functions of China Securities Investor Protection Fund (CSIPF, 中國投資者保護基金) include "indemnifying creditors as required by China's relevant policies in case a securities company is subjected to compulsory regulatory measures including dissolution, closure, bankruptcy and administrative takeover by China Securities Regulatory Commission (CSRC) and custodian operation" or "other functions approved by the State Council". As far as Hong Kong investors participating in Northbound trading are concerned, since they are carrying out Northbound trading through securities brokers in Hong Kong and these brokers are not Mainland brokers, therefore they are not protected by CSIPF on the Mainland.

**2. Quotas used up**

Once the daily quota is used up, acceptance of the corresponding buy orders will also be immediately suspended and no further buy orders will be accepted for the remainder of the day. Buy orders which have been accepted will not be affected by the using up of the daily quota, while sell orders will be continued to be accepted. Buying services will be resumed on the following trading day.

**3. Difference in trading day**

As mentioned above, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will only operate on days when both the Hong Kong and Mainland markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the Mainland market but Hong Kong investors cannot carry out any A-share trading. Investors should take note of the days Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are open for business and decide according to their own risk tolerance capability whether or not to take on the risk of price fluctuations in A-shares during the time when Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are not trading.

**4. Restrictions on selling imposed by front-end monitoring**

For investors who usually keep their A-shares outside of their brokers, if they want to sell certain A-shares they hold, they must transfer those A-shares to the respective accounts of their brokers before the market opens on the day of selling (T day). If they fail to meet this deadline, they will not be able to sell those A-shares on T day.

**5. The recalling of eligible stocks**

When a stock is recalled from the scope of eligible stocks for trading via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect for above-mentioned reasons, the stock can only be sold but restricted from being bought. This may affect the investment portfolio or strategies of investors. Investors should therefore pay close attention to the list of eligible stocks as provided and renewed from time to time by SSE, SZSE and SEHK.

**6. Currency risks**

Hong Kong and overseas investor who holds a local currency other than RMB will be exposed to currency risk if they invest in a RMB product due to the need for the conversion of the local currency into RMB. During the conversion, investors will also incur currency conversion costs. Even if the price of the RMB asset remains the same when you purchase it and when investors redeem / sell it, they will still incur a loss when they convert the redemption / sale proceeds into local currency if RMB has depreciated.

**7. Risks relating to ChiNext Board of SZSE**

Certain eligible A-shares under Shenzhen Connect are listed on the SZSE's ChiNext Board, which will be limited to the institutional professional investors at the initial stage of Shenzhen Connect. Generally, stocks listed on ChiNext Board contain higher risk than those listed on Main Board.

• **Business risk**

Companies listed on ChiNext Board are generally startups at the initial growing stage, whose business is unstable, profitability is low, and resistance to market and industry risk is low. Business risks experienced by these companies often include technology failure, new products are not well-received by the market, failure to catch up the market development and any changes in the founder, management team and core technician team.

• **Delisting risk**

Compared to the Main Board, the proportion of companies delisting is higher on the ChiNext Board.

• **Fluctuation in stock price**

As companies listed on ChiNext Board are relatively small and their business performance are unstable, they are more vulnerable to speculation. Share price of the ChiNext stocks is more volatile.

• **Technology risk**

Companies listed on ChiNext Board are mainly high-tech companies, whose success is subject to technology innovation. However, these companies are exposed to the risks and challenges relating to technology and innovation, such as high R&D costs, technology failure, technology lag behind competitors, and frequent changes in technology and product market.

• **Risks relating to valuation**

Generally, it is difficult to estimate the value of a company listed in ChiNext Board as they are startups at the initial growing stage with short operation history and unstable profits and cash flow. Therefore, traditional valuation method, such as price-to-earnings ratio and price-to-book ratio, is difficult to be applied.

The above is only an overview of some of the risks related to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

**The information above is sourced from Investor Education Centre, HKEx website, SFC website.**