

**Frequently Asked Questions Series 29 (Effective on 17 November 2014  
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**Shanghai and Shenzhen Connect**

**Status of “Frequently Asked Questions”**

The following frequently asked questions (FAQs) are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Department may be consulted on a confidential basis. Contact the Listing Department at the earliest opportunity with any queries.

# Shanghai and Shenzhen Connect

## FAQs for Listed Issuers

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, **Shanghai and Shenzhen Connect**) are securities trading and clearing links programmes for establishing mutual market access between Mainland China and Hong Kong. The mutual order-routing connectivity and related technical infrastructure established by The Stock Exchange of Hong Kong Limited (**SEHK**) and Shanghai Stock Exchange (**SSE**) / Shenzhen Stock Exchange (**SZSE**) will enable investors in their respective markets to trade designated securities listed in the other's market.

For SEHK listed issuers whose securities are eligible for southbound trading (for both buy and sell) through Shanghai and Shenzhen Connect ("**Eligible SEHK Issuers**") and SEHK listed issuers whose securities are eligible for sell only through Shanghai and Shenzhen Connect ("**Other Connect Issuers**")<sup>1</sup>, they are, and will continue to be, governed by the Listing Rules of SEHK. The implementation of Shanghai and Shenzhen Connect is not expected to cause any material changes to the issuers' continuing listing obligations.

Nevertheless, Eligible SEHK Issuers and other Connect Issuers should bear in mind that their shareholder base may expand to include Mainland investors, and take this into account when complying with the Listing Rules. In particular:

- (i) when proposing corporate actions, adhere to the principle of fair and equal treatment of all shareholders;
- (ii) for A+H issuers, simultaneous trading suspensions in both markets pending release of inside or material information or clarification to address false market concern to maintain a fair, orderly and informed market for trading listed securities; and
- (iii) ensure its corporate communications with all shareholders is clear.

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<sup>1</sup> For example, Mainland investors holding securities in Eligible SEHK Issuers through Shanghai and Shenzhen Connect may receive other securities (which are not Eligible Securities but are listed on SEHK) as entitlements under pre-emptive issues or distributions (see also FAQ number 4 below). Mainland investors may sell the entitlement securities on SEHK through Shanghai and Shenzhen Connect but they will not be allowed to buy such securities.

## CORPORATE ACTIONS

1. **When Eligible SEHK Issuers and Other Connect Issuers propose pre-emptive issues (including rights issues, open offers, bonus issues and scrip dividend schemes) or distributions in specie to shareholders, should they offer or distribute entitlement securities to Mainland investors holding the issuers' securities through Shanghai and Shenzhen Connect (“Southbound Shareholders”)?**

Yes.

2. **Are there new PRC requirements for Eligible SEHK Issuers and Other Connect Issuers to offer or distribute securities to Southbound Shareholders in the above corporate actions?**

- (a) Rights issues and open offers

Yes. The China Securities and Regulatory Commission (**CSRC**) has issued the Announcement [2016] No. 21 “Filing Requirements for Hong Kong Listed Issuers Making Rights Issues to Mainland Shareholders through Mainland-Hong Kong Stock Connect”. The document sets out the requirements for Eligible SEHK Issuers and Other Connect Issuers offering securities to their Southbound Shareholders in rights issues / open offers (see also question 3 below).

Issuers should also note that under Shanghai and Shenzhen Connect, China Securities Depository and Clearing Corporation Limited (**ChinaClear**) will provide nominee services for Southbound Shareholders to (i) sell their nil-paid rights on SEHK; and/or (ii) subscribe for their entitlement securities under the rights issues / open offers in accordance with relevant laws and regulations. However, it will not support excess applications by Southbound Shareholders through Shanghai and Shenzhen Connect<sup>2</sup>.

- (b) Bonus issues, scrip dividend schemes and distributions in specie

No rules or guidance has been published by the CSRC.

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<sup>2</sup> See Article 23 of ChinaClear's Implementing Rules for Registration, Depository and Clearing Services under Mainland-Hong Kong Stock Connect (**ChinaClear Stock Connect Implementing Rules**) 中國證券登記結算有限責任公司《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》

3. **Rule 13.36(2) states that an issuer may exclude overseas shareholders from a rights issue/open offer if, having made enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange, the directors of the issuer consider such exclusion to be necessary or expedient. Can Southbound Shareholders be excluded from participation in rights issues/open offers made by Eligible SEHK Issuers and Other Connect Issuers?**

No. Based on the CSRC Announcement [2016] No. 21 “Filing Requirements for Hong Kong Listed Issuers Making Rights Issues to Mainland Shareholders through Mainland-Hong Kong Stock Connect” which sets out the procedure for the filing of rights issue/open offer prospectus documents of Eligible SEHK Issuers and Other Connect Issuers, the Listing Department does not consider that Eligible SEHK Issuers and Other Connect Issuers have grounds to exclude the Southbound Shareholders from participation in the rights issues/open offers.

Rule 2.03 sets out the general principle expected to be upheld by issuers, and requires that (i) all holders of listed securities should be treated fairly and equally; and (ii) all new issues of equity securities by a listed issuer should first be offered to the existing shareholders by way of rights unless they have agreed otherwise. This rule seeks to secure for holders of securities equality of treatment. Accordingly, on the basis of Rule 13.36, an Eligible SEHK Issuer or Other Connect Issuer failing to make its rights issue/open offer available to the Southbound Shareholders will not be granted an approval for the listing of the rights/open offer shares by the Listing Department under Rule 2A.06.

**4. What are the additional considerations for Eligible SEHK Issuers and Other Connect Issuers if the securities to be offered or distributed to shareholders in the above corporate actions are not eligible for trading under Shanghai and Shenzhen Connect?**

The scope of securities eligible for southbound trading under the Shanghai and Shenzhen Connect (**Eligible Securities**) is set out in [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Eligiblestock.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm)<sup>3</sup>.

Southbound Shareholders may receive different types of securities from SEHK Eligible Issuers and Other Connect Issuers as entitlements under pre-emptive issues or distributions (e.g. warrants or convertible securities of the issuers, or shares of other entities):

- if the entitlement securities are not Eligible Securities but are listed on SEHK, Southbound Shareholders may sell them on SEHK through Shanghai and Shenzhen Connect, but they will not be allowed to buy such securities<sup>4</sup>; and
- if the entitlement securities are not listed on SEHK, Southbound Shareholders will not be allowed to buy or sell the securities on SEHK. HKSCC and ChinaClear will determine how to deal with the securities subscribed or received by Southbound Shareholders on an individual case basis<sup>4</sup>.

Issuers are reminded of their obligation to treat all shareholders fairly and equally when they propose to offer or distribute securities to shareholders. They should consider making the following arrangements<sup>5</sup>:

- providing all shareholders with an option to receive their entitlements in cash rather than securities; and
- if the entitlement securities are not to be listed, offering a means for the shareholders to dispose of these securities.

Issuers should also make clear disclosures in their corporate communications about actions their shareholders need to take in respect of the offered/distributed securities.

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<sup>3</sup> The list contains securities eligible for both buy and sell through Shanghai and Shenzhen Connect.

<sup>4</sup> See Article 77 of SSE Stock Connect Pilot Provisions 《上海證券交易所滬港通試點辦法》, Article 76 of SZSE Stock Connect Implementation Rules 《深圳證券交易所深港通業務實施辦法》, and Article 24 of ChinaClear Stock Connect Implementation Rules

<sup>5</sup> See the “Guide on distribution of dividends and other entitlements” published on the HKEX website

## ISSUERS WITH A SHARES AND H SHARES LISTED ON SSE / SZSE AND SEHK

### 5. What is the trading suspension arrangement for issuers with A shares and H shares listed on SSE / SZSE and SEHK?

There will be no change in the general policy for trading suspension of A+H issuers as a result of the implementation of Shanghai and Shenzhen Connect:

#### (a) Suspension arrangement

##### (i) *Suspension pending release of inside or material information or clarification to address false market concern*

Where an A+H issuer has any inside information<sup>6</sup> or material information<sup>7</sup> or where there is concern about the possible development of a false market<sup>8</sup>, the issuer's A and H shares will be suspended in both markets to prevent potential or actual market disorder.

##### (ii) *Suspension due to other reasons (i.e. other than those mentioned in (i) above)*

In other specific circumstances where trading suspension is required in one market, and not the other, under the respective home market rules, the current practice will continue to apply. They include:

Reasons for suspension	SSE / SZSE	SEHK
<b><i>Non-routine suspension</i></b>		
Insufficient public float	Suspend after the public float falls below the minimum requirement <sup>9</sup> for 20 consecutive days	Suspend when the public float falls below the minimum requirement <sup>9</sup> and there is a lack of open market in the listed securities
Delay in publication of annual results	Suspend when the issuer fails to publish the annual report by the deadline (which is 4 months from the year end date)	Suspend when the issuer fails to publish the results announcement by the deadline (which is 3 months from the year end date)

<sup>6</sup> See SEHK Listing Rule 13.09

<sup>7</sup> See SSE listing rules 2.3 and 2.10 / SZSE listing rule 2.7

<sup>8</sup> See SEHK Listing Rule 13.10

<sup>9</sup> Under the SSE/SZSE listing rules, an issuer shall maintain a public of at least 25% of the total issued share capital (or 10% if the issuer's share capital exceeds RMB400 million). Under SEHK Listing Rules, an issuer shall maintain a public of at least 25% of the total issued share capital (or a lower percentage if waiver was previously granted by SEHK).

Reasons for suspension	SSE / SZSE	SEHK
Failure to meet continuing listing criteria	<p>Listing may be suspended if the issuer fails to meet financial requirements after it is put under delisting risk warning:</p> <ul style="list-style-type: none"> <li>- Net loss for the latest 3 consecutive years; or</li> <li>- Net liability in the latest 2 consecutive years; or</li> <li>- Revenue less than RMB10 million for the latest 2 consecutive years; or</li> <li>- Auditors issued a disclaimer opinion or adverse opinion on its financial statements for the latest 2 consecutive years</li> </ul>	Suspend if the issuer fails to maintain sufficient assets or operations for listing
<p>Material asset restructuring<sup>10, 12</sup></p> <p>(a) An issuer announces that it may undertake a possible material asset restructuring</p> <p>(b) The issuer convenes a board meeting and announces details of its material asset restructuring proposal</p> <p>(c) The issuer publishes an announcement upon the receipt of the CSRC's notice in relation to the vetting of the issuer's material asset restructuring proposal</p>	<p>(a) Suspend for not more than three months (unless an extension is permitted) when the possible material asset restructuring is in contemplation</p> <p>(b) Suspend for not more than 10 days when the announcement is subject to post-vetting by SSE / SZSE</p> <p>(c) Suspend during the vetting period</p>	<p>(a) No suspension where the announcement contains inside information concerning the possible material asset restructuring</p> <p>(b) No suspension after the announcement of the proposed transaction.<sup>11</sup></p> <p>(c) No suspension</p>

<sup>10</sup> See the "Measures for the Administration of the Material Asset Restructurings of Listed Companies" issued by the CSRC

<sup>11</sup> Issuers are reminded that if the proposed transaction constitutes a very substantial disposal, very substantial acquisition or reverse takeover under the SEHK Listing Rules, the issuer should submit the draft announcement for the transaction to SEHK for pre-vetting.

<b>Reasons for suspension</b>	<b>SSE / SZSE</b>	<b>SEHK</b>
Non-public issuance of new shares <sup>12</sup>	Suspend for not more than 10 days (unless an extension is permitted) when an issuer announces that it may undertake a possible issuance of new shares	No suspension where the announcement contains inside information concerning the possible issuance of new shares
Other material matters <sup>12</sup>	Suspend for not more than 10 days when an issuer announces that it is contemplating material matters (e.g. change in control, material contract, acquisition or disposal subject to shareholder approval, external investment)	No suspension where the announcement contains inside information concerning the possible material matters
<b><i>Routine suspension</i></b>		
Rights issue	Suspend during the acceptance period	No suspension
Delay in publication of quarterly results	Suspend for 1 day if the issuer fails to publish quarterly report by the due date	No suspension (There is no requirement under the SEHK Listing Rules for Main Board issuers to publish quarterly results.)
Issuers under delisting risk warnings	Suspend for 1 day if the issuer is put under the delisting risk warning (*ST) or other kinds of special treatment (ST) under the SSE / SZSE rules	No suspension

## **(b) Communications with exchanges**

A+H issuers are reminded that they must notify both SEHK and SSE / SZSE as soon as possible after they become aware of any matter that may require a trading suspension of their shares on SEHK and/or SSE / SZSE. The issuers should, to the extent practicable, make early contact with SEHK and SSE / SZSE to allow sufficient time for each exchange to deal with the matter before the markets open.

## **(c) Disclosure in announcements**

Where trading is to be suspended in one market only (see paragraph (a)(ii) above), timely disclosure of the suspension details (including the time of suspension and the reason for the suspension) in the other market is necessary to ensure that shares in the other market can continue to be traded in an orderly manner.

<sup>12</sup> See the “Guidelines on trading suspension and resumption for listed companies in contemplation of material matters” 《上市公司籌劃重大事項停複牌業務指引》 and the “Disclosure memorandum for Main Board no.9 – Listed companies’ trading suspension and resumption” 《主板信息披露業務備忘錄第 9 號——上市公司停複牌業務》 issued by SSE and SZSE respectively



**6. Once suspended, will trading resumption of an issuer's A and H shares take place at the same time?**

**(a) Resumption arrangement**

- (i) Normally, if an issuer's A and H shares are suspended due to inside or material information or false market concern, trading in the shares will resume in both markets at the same time after the issuer has published an appropriate announcement through SEHK and SSE / SZSE.
- (ii) Nevertheless, as mentioned in paragraph (a)(ii) under question 5, there may be specific circumstances where trading suspension is required in one market, and not the other, under the respective home market rules. In those circumstances, trading in the issuer's shares may resume in one market when it has satisfied the requirements of that market, but remain suspended in the other market under its rules.

**(b) Communication with exchanges**

The suspended issuer should keep both SEHK and SSE / SZSE informed of its developments and should allow sufficient time for the exchanges to decide whether and when trading can be resumed.

**(c) Disclosure in announcements**

Where trading is to be resumed in one market only (see paragraph (a)(ii) above), the issuer should publish an announcement setting out the reasons for the continued suspension of its shares in the other market.

**7. When an A+H issuer proposes a corporate action (e.g. distribution of dividends or other entitlements), does it need to disclose the timetables for both A and H shareholders in the same announcement?**

Yes. The issuers should ensure clear communications to all shareholders if they propose different timetables (e.g. ex-entitlement date, record date and payment date) for their distributions to shareholders in the two markets.