

China Business Advisory

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China pilots Employee Stock Ownership Plans

China has recently¹ released a set of guidance on employee stock ownership plans (“ESOP”). China Securities Regulatory Commission (“CSRC”) will soon allow ESOP to be trial run in companies listed in China, subject to conditions such as:

1. The aggregate of stocks owned by employees shall not exceed 10 percent of the relevant company’s total stocks; and
2. No individual employee shall own more than 1 percent of the company’s total stocks

The guidance stipulates, amongst all, durations employees have to maintain their stock holding, disclosure requirements and a variety of other rules in connection with ESOP.

Converting British Pound Sterling into Chinese Renminbi

The London Stock Exchange announced² that it had entered into clearing agreements with two of China’s largest banks³ on offshore trading in China’s official currency, the Renminbi. This is another important step in the gradual internationalisation of the Renminbi, following similar arrangements in Hong Kong and Singapore. The arrangement will further boost London’s role as an international

¹ CSRC Announcement [2014] No. 33, which was issued and has become effective on 20th June 2014.

² 22nd June 2014

³ Bank of China and China Construction Bank

financial hub, and will no doubt facilitate businesses and individuals in the UK to trade with and / or invest in China.

‘Shanghai-Hong Kong Stock Connect’

At Boao Forum for Asia 2014 held in April this year, Chinese Premier, Li Keqiang announced the Shanghai-Hong Kong Stock Connect Programme. Following Li's announcement, CSRC has released a set of regulations⁴ primarily dealing with implementation of the Programme and summarised below:

- Investors in Hong Kong will be able to trade Chinese stocks listed in Shanghai Stock Exchange through the Shanghai subsidiary company of Hong Kong Stock Exchange, and vice versa.
- Investors from Mainland China are limited to institutional investors or those with more than RMB 500,000 held in their securities and cash account.
- ‘Northbound Trading’ link to Shanghai⁵ is subject to a RMB 300 billion quota and a daily quota of RMB 13 billion. For ‘Southbound Link’⁶, the quotas are RMB250 billion and RMB 10.5 billion respectively.
- Unless restricted otherwise, an individual foreigner is allowed to hold no more than 10% of the A-shares of a company, and aggregate holding by foreigners is limited to 30%. Strategic investments could however fall beyond such limits.
- Measures are in place to safeguard operations of both exchanges if irregularities are detected.

The Programme is aimed at attracting more investors abroad to trade in the A-share market which to now has been exclusively reserved to Chinese investors trading in Renminbi. The Programme is expected to attract investors into China, backed by Hong Kong’s more developed financial system.

Thanks to the new legitimate avenue, it is expected that Mainland investors will actively participate in the Hong Kong stock market. As the Chinese financial market becomes more open to foreign investors, it is expected that more opportune reforms to the financial market will come about and further internationalisation of Renminbi will set in.

4【第 101 号令】《沪港股票市场交易互联互通机制试点若干规定》

5 Trading shares in Shanghai Stock Exchange

6 Trading shares in Hong Kong Stock Exchange

Service Highlight

China is committing efforts to reforming her financial market and the internationalization of her currency. This will undoubtedly have impacts on global economic activities. Sino-Bridge assigns top priority to update our CBA readers of information about China to enhance their investments and business presence in China. If you need any further assistance from us, please feel free to contact our Marketing Executive, Ms. Yannes Lam, on (852) 3579 8745 or E-mail her at yanneslam@sinobridge-consulting.com.

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