

Investing In RMB Equity Products

1. What is an RMB equity product?

An RMB equity product refers to an equity product (such as shares in a company and units in a Real Estate Investment Trust) that is priced, traded and settled in RMB. Its price and dividends/distributions are denominated and paid in RMB.

2. What are the differences between Hong Kong Dollar (“HKD”) equity products and RMB equity products?

The biggest difference between HKD equity products and RMB equity products is the denominating currency. HKD equity products are bought and sold in HKD, whereas RMB equity products are bought and sold in RMB.

3. What are the key risks of investing in RMB equity products?

Investment / market risk

Like any investments, RMB equity products are subject to investment risk. The price of the RMB equity product in the secondary market may move up or down, and your investment in the product may suffer a loss even if the RMB appreciates against HKD or other currencies.

Liquidity risk

RMB equity products are a new type of investment product in Hong Kong. Regular trading or an active secondary market may not develop in these products. Therefore you may not be able to sell your investments in the RMB equity products on a timely basis, or you may have to sell them at a deep discount to their value in order to find a buyer.

Also, should the PRC central government tighten foreign exchange controls, the liquidity of RMB or RMB equity products in Hong Kong will be affected and you may be exposed to greater liquidity risk.

Currency risk

If you are a non-mainland PRC investor who holds a local currency other than RMB, you will be exposed to currency risk if you invest in RMB equity products. You will incur currency conversion costs, being the spread between buying and selling RMB, when you convert between your local currency and RMB during the purchase and sale of an RMB equity product.

Moreover, RMB is a restricted currency and subject to foreign exchange controls. Although the PRC central government has relaxed the restrictions by allowing banks in Hong Kong to conduct some forms of RMB business, RMB is still not freely convertible in Hong Kong. You may not be able to convert RMB at your preferred time and/or in your preferred amount or at all, which may lead to investment losses.

Exchange rate risk

As RMB equity products are traded and settled in RMB, they are exposed to exchange rate risk. Even if the RMB/HKD exchange rate remains steady, and the price of the RMB equity products you are holding does not change, you may not receive the same amount of HKD when you sell the products due to the spread between buying and selling RMB. RMB equity products are not an investment instrument for you to use to speculate on movements of the RMB/HKD exchange rate.

Default risk

In general, RMB equity products are exposed to the usual kind of default risks that might be associated with equity products denominated in other currencies.

RMB equity products exposed to the mainland China market are particularly subject to risks that may arise from the relevant market/industry/sector in mainland China.

4. What should I consider before investing in RMB equity products?

Like investing in any products, you should always understand the nature, investment objective, strategy, and key features of the RMB equity products and assess whether these products are suitable for you in terms of your own investment needs and risk profile before you invest in the RMB equity products. You should also understand that RMB equity products may not necessarily give you benefits in terms of appreciation of the RMB (if any).

You should note with caution that RMB is not freely convertible into other currencies, so there is only limited availability of RMB outside mainland China. There are limitations on the conversion of RMB, which may adversely affect the liquidity of RMB equity products. As always, you should read and understand the offering documents, know about the fees related to trading and settlement and carefully consider your own liquidity needs before committing to any investment. Seek professional advice if you are in doubt.

5. How do I know if an RMB equity product is suitable for me?

Before making any investment decision, you should fully understand the RMB equity product's features and know your investment objectives. In addition, according to the Code of Conduct of the Securities and Futures Commission (the "SFC"), when SFC licensed persons and registered institutions solicit you or make a recommendation to you in relation to an investment product, they must ensure the product is suitable for you, taking into account your personal circumstances, such as your financial situation, investment experience and investment objectives.

6. Is there any limit on the amount of RMB that I can acquire?

The existing permitted conversions in relation to personal customers are up to RMB 20,000 conducted through RMB deposit accounts per person per day or up to RMB 20,000 per transaction per person in banknotes for walk-in personal customers. Accordingly, if you are a personal customer and you envisage

applying in an initial public offering (“IPO”) for shares/ units whose subscription price (including associated fees and levies) will exceed RMB 20,000, you will need to accumulate the RMB over an extended period of time.

7. Is margin financing available to personal customers?

Under the requirements of the Clearing Agreement between banks and the Clearing Bank for RMB business in Hong Kong, provision of financing by banks to personal customers is not permissible for the time being.

8. Will an RMB equity product be more volatile than HKD equity products?

Volatility of equity products, no matter whether an RMB equity product or HKD equity product, depends on many factors. However, apart from the limitations on the conversion of RMB, in general, there is no factor, because of its denomination in RMB alone, that may affect the volatility of RMB equity products significantly different from HKD equity products.

9. Is there any guarantee of my investment in RMB equity products?

Like most investments in equity products, there is no guarantee that you will get back the full amount of your investment in RMB equity products.

10. What if the amount of any dividend is more than RMB20,000, is the dividend/distribution paid in one lump sum or does it have to be spread out into RMB20,000 instalments?

Dividend/distribution will be paid in one lump sum.

11. Where can I obtain more information on RMB equity products?

The SFC website www.InvestEd.hk provides general information on RMB equity products. Issuers of the relevant RMB equity product will usually also issue public materials disclosing information on their products, such as prospectuses and other offering documents, website information, leaflets, brochures, etc. Please check with your broker/transaction bank for more details.

Important Note for HSBC Customers on RMB Stock IPO & Secondary Market Trading

1. How can HSBC customers apply for RMB equity products and what should I do in order to be prepared?

HSBC customers will be able to apply for shares/units in an RMB stock IPO through HSBC IPO Nominee Services via HSBC Internet Banking, Phonebanking Services and branches. This can save the hassle to visit branches to obtain an RMB bankers' cashier order which would be required for a traditional White or Yellow Form application.

Through HSBC IPO Nominee Services, we will subscribe for the RMB IPO stock on your behalf. The allotted stock will be credited directly to your investment account on the allotment day, and you can trade your stock on the listing day.

All you need is to maintain an Integrated Investment Account under the HSBC Premier/HSBC Advance/SmartVantage with the Integrated RMB Savings Account activated. These accounts can be opened conveniently online. (Opening RMB savings account is applicable to Hong Kong ID cardholders only.)

To prepare for subscription in an RMB stock IPO, you may need to accumulate sufficient RMB as the conversion of RMB is subject to a daily maximum exchange limit of RMB20,000 per person. You may use our RMB switching service to accumulate RMB. Simply set your preferred exchange rate, frequency and amount on HSBC's Internet Banking, and we will automatically execute your order to convert RMB for you if the pre-set criterion are met.

2. Are the brokerage fee, SFC levy, stamp duty and other trading fees calculated and paid in RMB for trading the RMB equity products via HSBC?

All subscription monies and related charges and fees, such as brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fees shall be paid in RMB for both IPO subscription and the subsequent trading in the secondary market via HSBC