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National Public Offering Group
March 2013

POG Flash Insights - A New Era for H-Shares

On the back of the long-awaited queue for A-share IPO review and the recent relaxation of overseas listing requirements for Chinese companies ('Guidelines for Supervising the Application Documents and Examination procedures for the Overseas Stock Issuance and Listing of Joint Stock Companies' (No.45 [2012] of the China Securities Regulatory Commission (CSRC) or the previously so called '456 requirements'), Hong Kong's role as the major fundraising hub of Mainland companies is expected to become more eminent in 2013. It is time for Chinese companies to rethink how they can tap onto this very competitive platform to grow larger and stronger.

On 28 December 2012, the CSRC released the 'Notice on Conducting a Special Inspection of IPO Companies' 2012 Financial Reports' (Faxing Jianguanhan [2012] No. 551) requiring sponsors and accounting firms to conduct self-inspection on the financial accounting information of companies that are under IPO review. Against this background, there were still 847 companies in the IPO pipeline as of 14 March 2013. Based on the number of new listings in 2011 (281 IPOs) and 2012 (154 IPOs), it could take between three to five years for all of these applicants to go public.

We believe the relaxed 456 requirements, which took effect on 1 January 2013, would offer alternate and more effective fundraising channels for these companies, especially the small and medium enterprises (SMEs).

The relaxed requirements first came in the Supplement IX to the Closer Economic Partnership Arrangement (CEPA IX), which was signed on 29 June 2012 and stipulated that the Chinese authorities should revise and enhance the overseas listing requirements for Mainland companies. This would create favourable conditions for Chinese SMEs in particular, to raise capital through direct listing in overseas markets in return.

Under the new rule, Chinese companies that list in the form of H-shares are no longer subject to the previous financial pre-requisites. The corresponding review and approval procedures at the CSRC have also been simplified to expedite the process.

`Guidelines for Supervising the Application Documents and Examination Procedures for the Overseas Stock Issuance and Listing of Joint Stock Companies'

- Repeal 'The Notice on Relevant Issues concerning Enterprises' Application for Overseas Listing' (No. 83 [1999] of the CSRC) issued on 14 July 1999
- Lift the financial requirements for issuers seeking overseas listings to have
  - RMB400 million net assets;
  - an offering size of US$50 million; and,
  - RMB60 million net profits.
- Simplify the overseas listing review and approval procedures at the CSRC
  - Require fewer application documents (from 28 to 13)

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Major regulatory changes for Mainland companies seeking overseas IPOs

We believe some of the future IPO issuers at Hong Kong's Main Board may come from some of the 400 plus companies that are at the initial review and enquiry stages of their IPO applications with the Shenzhen SME Board and Shanghai Main Board.

IPO Review Status	No. of IPO Applicants by Bourse*		
	Shanghai Main Board	Shenzhen SME Board	ChiNext
Initial review （初审中）	69	100	28
Responding to enquires from the CSRC （落实反馈意见中）	74	198	219
Pre-disclosure （已预披露）	20	29	9
Passed the Offering Review Meeting （已通过发审会）	10	31	47
Submitted to the Offering Review Meeting for discussion and pending for decision （已提交发审会讨论，暂缓表决）	1	1	0
Termination of review （中止审查）	1	2	8

Source: CSRC, 14 March 2013.

To strengthen Hong Kong's role as an offshore Renminbi (RMB) market, more measures that can facilitate RMB transactions have launched or are expected to launch. These measures include:

- Launch of RMB-denominated exchange traded funds (ETFs) tracking Hong Kong stocks;
- Launch of CES120, the first cross-border index, which tracks the performance of shares in the Chinese Mainland and Hong Kong;
- Expansion of the types of pilot institutions and relaxation of investment products under the RMB qualified financial institutional investors (RQFII) scheme for Hong Kong institutions; and,
- Development of the qualified foreign individual investor (QFII2) and qualified domestic individual investor (QDII2) pilot schemes.

With the continuous integration of the Chinese Mainland and Hong Kong markets and the gradual opening up of Mainland capital accounts, we expect the domestic shares of future H-share issuers would be fully circulated in the market in the near term. We also expect the lock up level and period of these shares would be subject to the Chinese Securities Law and the Listing Rules of the Stock Exchange of Hong Kong (HKEx).

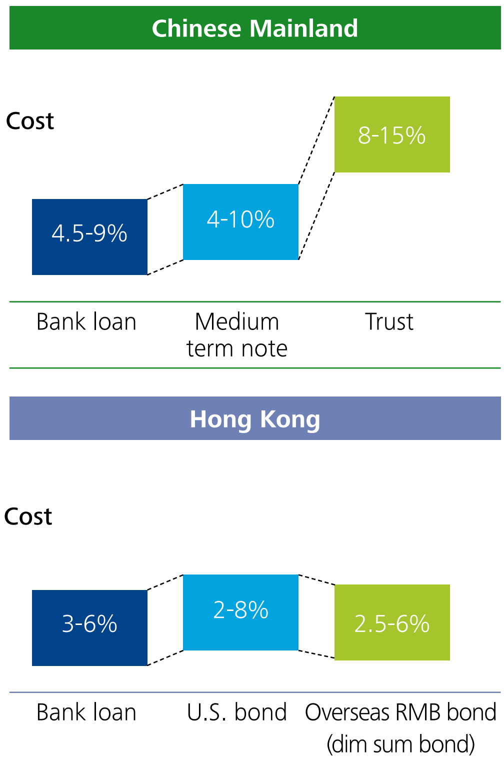
In the longer run, we anticipate rules would be further amended to allow H-share IPOs to raise offshore RMB in Hong Kong.

Why Hong Kong than other overseas markets?

Among other popular overseas listing destinations for Chinese companies, we believe Hong Kong remains the top spot. In fact, Hong Kong has been the first choice of overseas listing venues for Chinese companies for the following reasons:

- Being one of the top five global IPO spots since 2002 and the world's largest fundraising venue between 2009 to 2011;
- A more predictable listing timetable;
- Active and high daily turnover;
- Closer valuations of its listed companies with their peers on the A-share market;
- Mainland companies listed in the form of H-shares can adopt the same structure to debut on the A-share market subsequently;
- Strong refinancing capabilities;
- Low interest rate and cost in refinancing; and,

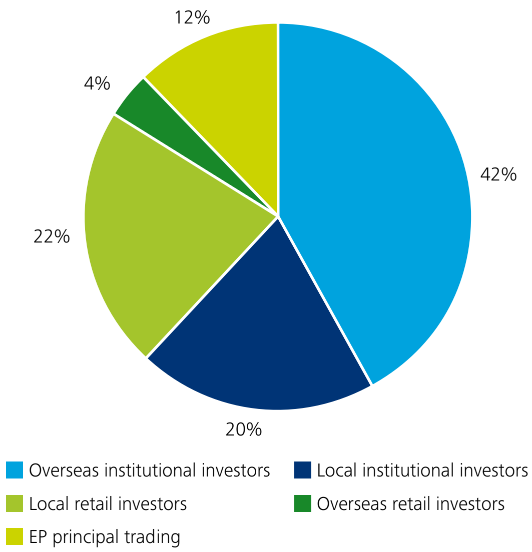
Comparison of Interest Rates of Different Financing Vehicles between the Chinese Mainland and Hong Kong*



*The above example is for reference only. The actual refinancing cost should be based on the interest rate, loan rate, the market conditions and the industry sector. There is a possibility that the final refinancing cost could be significantly higher or lower than the above illustration.

- High participation of international investors, setting a foundation for future expansion of its listed companies.

Distribution of Cash Market Trading Value by Investor Type



Source: HKEx, October 2011 – September 2012

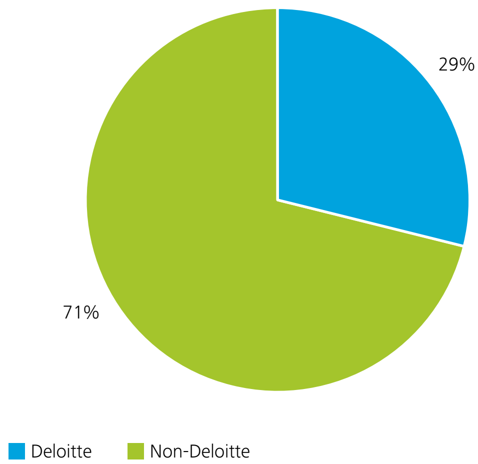
Deloitte championed as leader of Hong Kong IPO services for fourth consecutive year

Leading market share

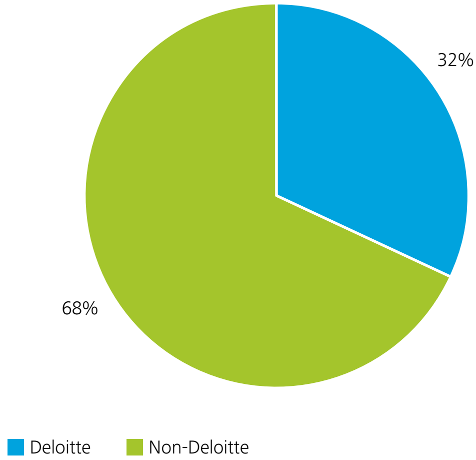
Deloitte remained the leader of Hong Kong IPO services for the fourth straight year in 2012. This is a stellar performance given various market challenges, including the lingering Eurozone crisis and the weakening of the Chinese economy and macro-economic environment.

In 2012, Deloitte completed 18 IPOs, which accounted for nearly 30 percent of the total number of Hong Kong's new listings. In terms of IPO proceeds, we assisted our clients in raising approximately HK$29.1 billion, representing 32 percent of the total funds raised in the market in 2012.

Number of IPOs



IPO Proceeds Raised



Source: HKEx, Deloitte Analysis

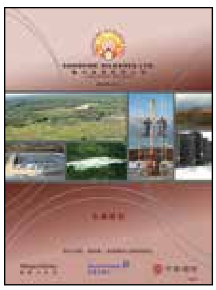
Remarkable IPO projects

In 2012, the following remarkable IPOs underscored further our leadership in Hong Kong:

- Four of the top 10 IPOs* (Haitong Securities, Sunshine Oilsands, Zhengzhou Coal Mining Machinery Group and China Nonferrous Mining) of the year in Hong Kong, leading other Big Four firms;
- Haitong Securities as Hong Kong's second largest IPO* of the year;
- Sunshine Oilsands as the largest international listing* in Hong Kong in 2012;
- China Nonferrous Mining Corp. as the first Chinese firm with copper assets in Zambia that spun off from a Mainland state-owned enterprise to list in Hong Kong;
- Haitong Securities and Zhengzhou Coal Mining Machinery Group as two of the three A-share companies that made H-share offerings in Hong Kong; and
- CIFI Holdings (Group) as the first IPO of a key Mainland property developer since the launch of 'the Notice on Further Adjustment and Control of Real Estate Market' by the General Office of the State Council in January 2011.

*In term of proceeds raised

Haitong Securities Co., Ltd.



Sunshine Oilsands Ltd.

CIFI Holdings (Group) Co. Ltd.

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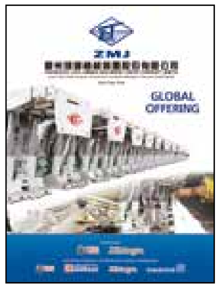

Zhengzhou Coal Mining Machinery Group Company Ltd.

China Nonferrous Mining Corporation Ltd.

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