
Alternative proxies to the Individual Investment Scheme

Individual Investment Scheme

To be launched soon. On 20 August, China's State Administration of Foreign Exchange (SAFE) announced a scheme to allow individuals in the country invest in overseas securities. The initial trial will be carried out in Hong Kong, with the Bank of China's (BOC) (3988 HK, HK\$4.01, NR) Tianjin New Area Branches and Bank of China International (BOCI) designated as exclusives agents. The "Individual Investment Scheme", originally scheduled for launch on 27 August, has yet to be approved by the People's Bank of China (PBOC), China Securities Regulatory Commission (CSRC) and SAFE. The investment community expects its launch this month.

How does it work? Under the scheme, Chinese citizens who set up an "individual overseas securities investment foreign exchange account" with BOC's branches in Tianjin New Area and authorize the bank to open a counterbalance securities agency account with BOCI will be allowed to invest in overseas securities listed on the Hong Kong Stock Exchange (HKEX). BOCI is expected to provide trading and custody services for the investors. The minimum fund requirement is RMB100,000.0 per account. Individuals will be able to invest their own foreign currencies or purchase foreign currencies (in this case, HKD). Their investments will not be subject to the individual foreign currencies purchase limit of US\$50,000.0 stipulated by the "Implementation Details of the Administration of Foreign Exchange Held by Individuals". They will be free to invest in any securities listed on the HKEX but margin financing will not be allowed. Those investing their owned foreign currency will be able to retain their investment returns and principal in foreign currencies or in RMB.

Tremendous opportunity. Between January and August 2007, the average aggregate daily turnover of China's stock markets (Shanghai A and B shares and Shenzhen A and B shares) totaled about RMB201.3b, compared with Hong Kong's HK\$67.4b. As of the end of June 2007, China's individual deposits reached RMB17.3 trillion. As of the end of July 2007, 49.5m individuals in China had securities accounts. Assuming that 10.0% of them invest RMB100,000.0 each in Hong Kong via the scheme, US\$656.1b will flow into Hong Kong securities, presenting a tremendous boost Hong Kong's securities industry.

Possible extension. We expect the government to expand the scheme to Beijing, Shanghai and Shenzhen, and after the trial run to involve as agents more financial institutions, including brokerages and banks in China and Hong Kong. In fact, the Industrial and Commercial Bank of China (1398 HK, HK\$5.02, NR) and Construction Bank (939 HK, HK\$6.51, NR) have shown their interest in cross-border securities trading.

International Financial Network (8123 HK, HK\$0.229, NR). The company announced in July 2007 that it would acquire the entire issued share capital of First China for HK\$90.0m. Established in August 1997, First China provides financial information about China's equity market to retail/individual investors in China via its owned internet portal "Stock Online". It also bundles the subscription to its portal with its proprietary Internet-based financial information software, "Stock Expert", and sells it to clients. First China refers clients to brokers in China such as United Securities, CITIC Securities, China Merchant Securities and HuaTai Securities for commission. It may expand its scope to provided financial information about Hong Kong's market. It could replicate its referral business model in China by introducing individual investors to local brokers for a share of commission income.

Goldbond Group (172 HK, HK\$0.89, STRONG BUY) is a SME/high net worth individual bridge financing provider in China with 4 pawn shops under its operation. Once a owner of local broker (Goldbond Securities) with more than HK\$1.0b cash in hand, the group has both of the capital and expertise to provide the cross-broader margin financing services to the high net worth individual investors in China.

Hong Kong Economic Times (423 HK, HK\$0.89, NR). Publishes Hong Kong Economic Times, one of Hong

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China Merchants China Direct Investments (133 HK, HK\$36.1, NR). Investment holding company with stakes in three brokerages in China (owns 0.74% of Industrials Securities Co, 4.66% of Jutian Securities Co and 0.28% of China Merchants Securities). China Merchants Securities offers IPO sponsorship, securities underwriting, brokerage, proprietary trading, investment consulting and financial advisory services. It has 54 branches and offices across the country and as of end-2006, managed RMB6.98b in composite financial products, the highest amongst domestic securities firms. Industrials Securities offers IPO sponsorship, securities underwriting, brokerage, proprietary trading and investment consulting. Jutian Securities has 16 offices across the country. On 13 October 2006, CSRC appointed China Merchants Securities as a custodian and asked it to carry out the administrative takeover of Jutian Securities' brokerage business and sales offices.

First Shanghai Investment (227 HK, HK\$3.40, NR). Owns 100.0% in First Shanghai Financial Holding, which provides brokerage and investment banking services in Hong Kong.

China Everbright (165 HK, HK\$25.60, NR). Owns 100.0% in China Everbright Securities (HK) Ltd, a local brokerage/investment bank, and 39.3% in Everbright Securities Co. Ltd., one of major brokers in China with 3.25% of the country's securities market in 1H 2007. As of the end of 1H FY12/07F, Everbright Securities had a network of 77 operation units and 14 offices across 19 provinces, municipal cities and autonomous regions. With well established arms in China and Hong Kong, China Everbright is very likely to be one of the main agents under the "Individual Investment Scheme", once it is expanded to other financial institutions. Everbright Securities plans to float no more than 520.0m new A-shares on the Shanghai Stock Exchange soon.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Placing Agent for Goldbond Group (350.5m vendor shares at HK\$1.26) on August 6, 2007.