

Trading of H-shares on HKEx and NYSE

Research Department¹

Summary

The importance of H-shares² in the Hong Kong stock market has increased. During the last 12 months, the growth in the trading of H-shares was higher than other stock types. In addition, trading of H-shares on HKEx was more active than that on the NYSE. However, the growth in turnover of H-shares on the NYSE was higher.

Importance of H-shares in the Hong Kong Stock Market Has Increased

The importance of H-shares in the Hong Kong stock market has increased (Table 1).

- As of the end of 2003, there were 92 H-shares (8.9% of total) listed in Hong Kong. This compared to 23 (3.9%) listed at the end of 1996.
- The market cap of H-shares totaled HK\$408.2 bn (7.4%) as of the end of 2003. This has increased from HK\$31.5 bn (0.9%) at the 1996 year-end value.
- Turnover of H-shares totaled HK\$506.1 bn for 2003 (19.6%). This has increased from HK\$24.9 bn (1.8%) from 1996.

Table 1 - Highlights of the Hong Kong Stock Market by Stock Type

	1996	1997	1998	1999	2000	2001	2002	2003
Number of Listed Companies (period end)								
Total (Main Board + GEM)	583	658	680	708	790	867	978	1,037
Mainland Enterprises	69	98	104	112	119	127	146	164
- H-shares	23	39	41	44	50	58	74	92
- Red chips	46	59	63	68	69	69	72	72
Market Capitalisation (period end, HK\$ bn)								
Total (Main Board + GEM)	3,476.0	3,202.3	2,661.7	4,734.7	4,862.5	3,946.3	3,611.3	5,547.8
Mainland Enterprises	294.8	521.6	368.5	1,000.1	1,290.5	1,011.6	938.8	1,606.0
- H-shares	31.5	48.6	33.5	41.9	86.1	101.7	131.6	408.2
- Red chips	263.3	473.0	335.0	958.2	1,204.4	909.9	807.2	1,197.8
Market Turnover (12 months ending, HK\$ bn)								
Total (Main Board + GEM)	1,412.3	3,789.0	1,701.0	1,919.5	3,131.9	1,989.5	1,643.1	2,583.8
Mainland Enterprises	160.3	1,341.5	442.9	458.3	846.9	749.2	453.5	1,000.4
- H-shares	24.9	297.8	73.5	102.8	171.2	251.4	143.6	506.1
- Red chips	135.4	1,043.7	369.4	355.5	675.7	497.8	309.9	494.3

Source: HKEx

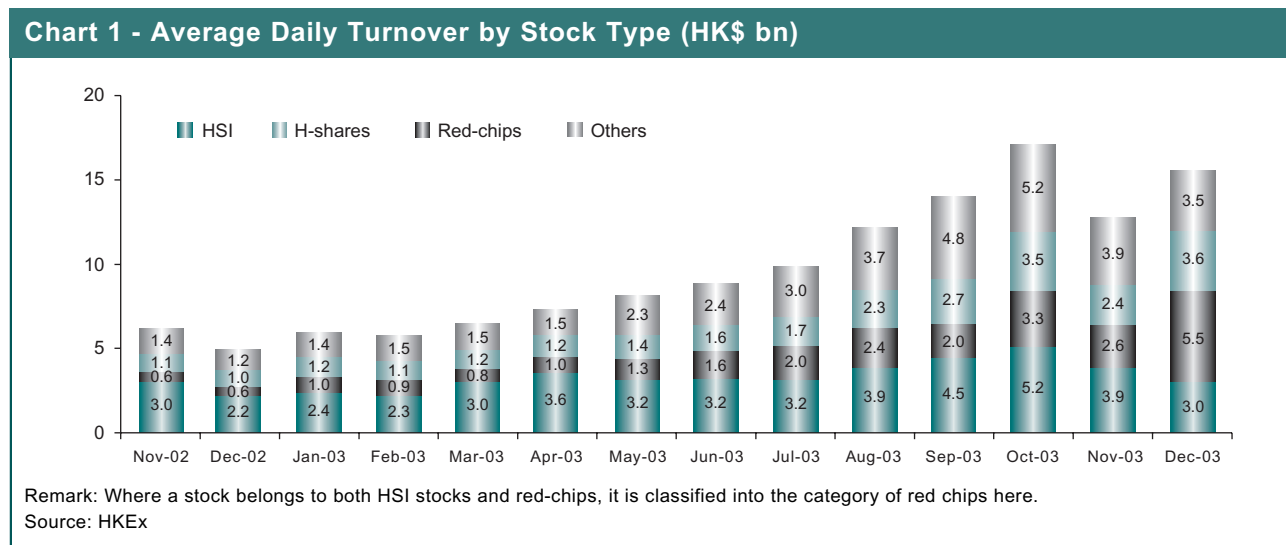
[1] This paper is written for pure fact-finding and research purpose based on public information. It is not an attempt to comment on the developments of the market or interpret the policies concerned. Views expressed in this paper do not represent those of the SFC. Readers are free to use the information contained in this paper, but any usage should not be attributed to the SFC.

[2] For the definition of H-shares, please refer to Table B2 in the statistics section.

Growth in Trading of H-shares is Higher Than Other Stock Types

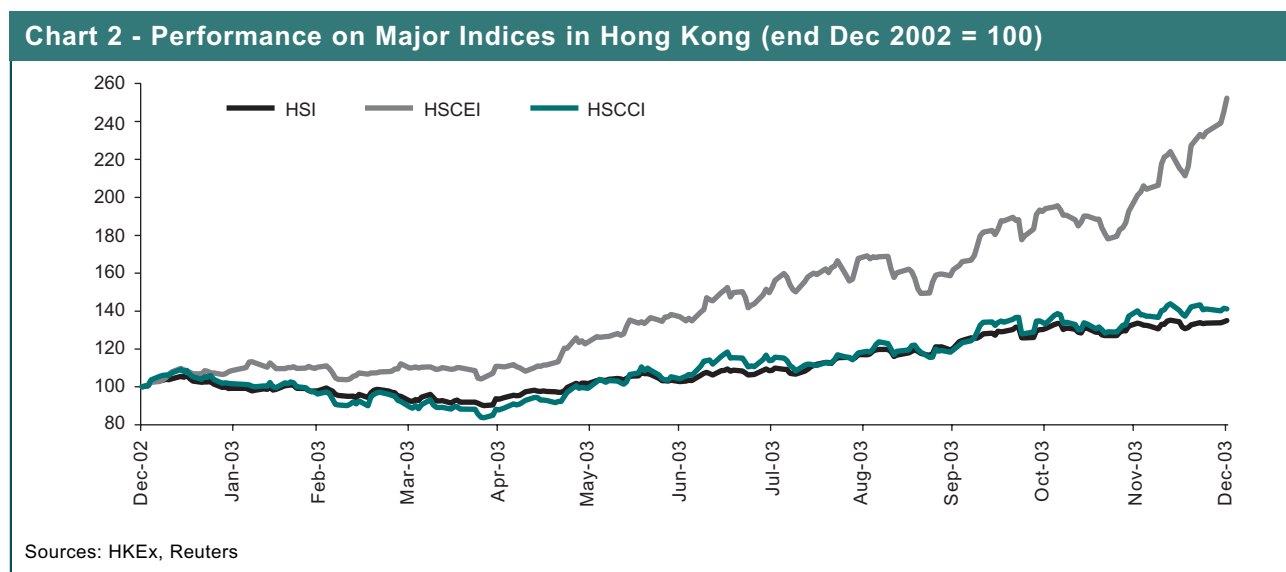
During 2003, the average daily turnover of the whole market was HK\$10.4 bn, 57% higher than in 2002 (Chart 1). Of this, the average daily turnover of HSI stocks and red chips was HK\$4.7 bn and

HK\$2.0 bn respectively, 20% and 59% higher than the corresponding values in 2002. For H-shares, the average daily turnover was HK\$2.0 bn during 2003, 251% higher than the value in 2002.



The strong performance of H-shares was in part attributable to price effect. Since the end of 2002, the H-share index has soared 152% (Chart 2). This

was higher than the gains of 35% and 41% for the HSI and the red chip index respectively.

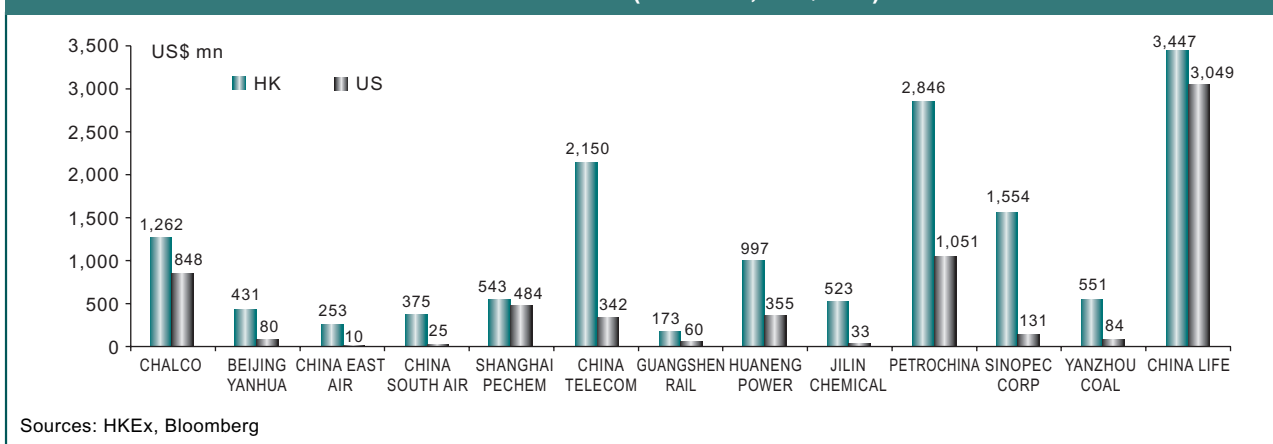


Trading of H-shares on HKEx is More Active Than That on the NYSE

As of the end of 2003 Q4, 13 H-shares were traded on both HKEx and the NYSE. Turnover of all of them were higher on HKEx than on the NYSE.

Turnover of the 13 H-shares on HKEx totaled US\$15,103 mn in 2003 Q4, whilst that on the NYSE was US\$6,553 mn (Chart 3).

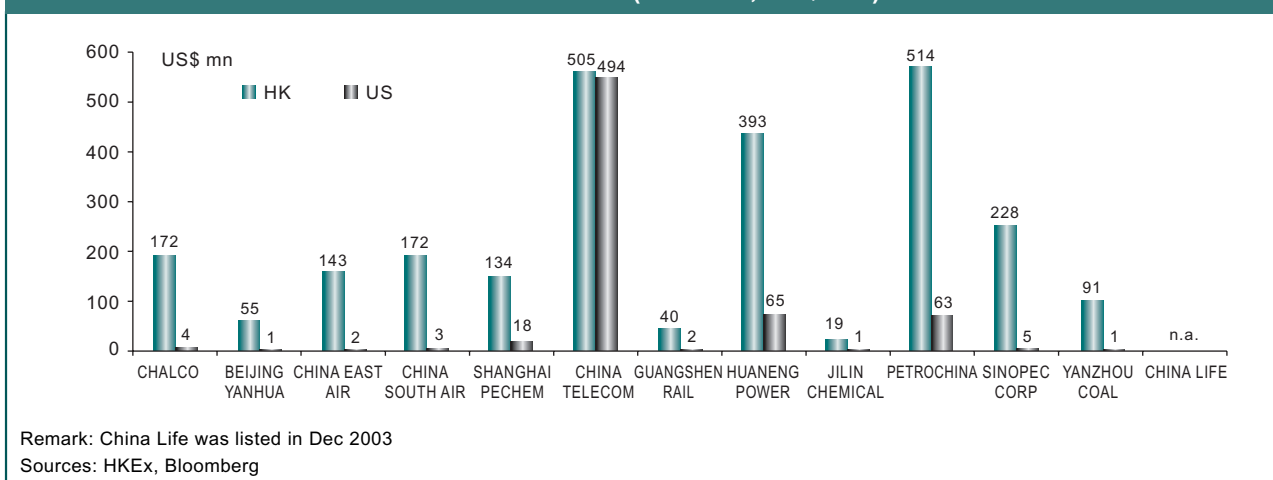
Chart 3 - Turnover of H-shares in HK and US (2003 Q4, US\$ mn)



However, the growth in turnover of these H-shares on the NYSE was higher. As of the end of 2002 Q4, 12 H-shares were traded on both HKEx and the NYSE. Turnover of all of them were higher on HKEx than that on the NYSE.

Turnover of the 12 H-shares on HKEx totaled US\$2,467 mn in 2002 Q4, whilst it was US\$658 mn on the NYSE (Chart 4). In other words, turnover on HKEx of these H-shares has risen 5.1 times from the 2002 Q4 value, whilst it has risen 9.0 times on the NYSE.

Chart 4 - Turnover of H-shares in HK and US (2002 Q4, US\$ mn)



Derivatives Products on H-shares

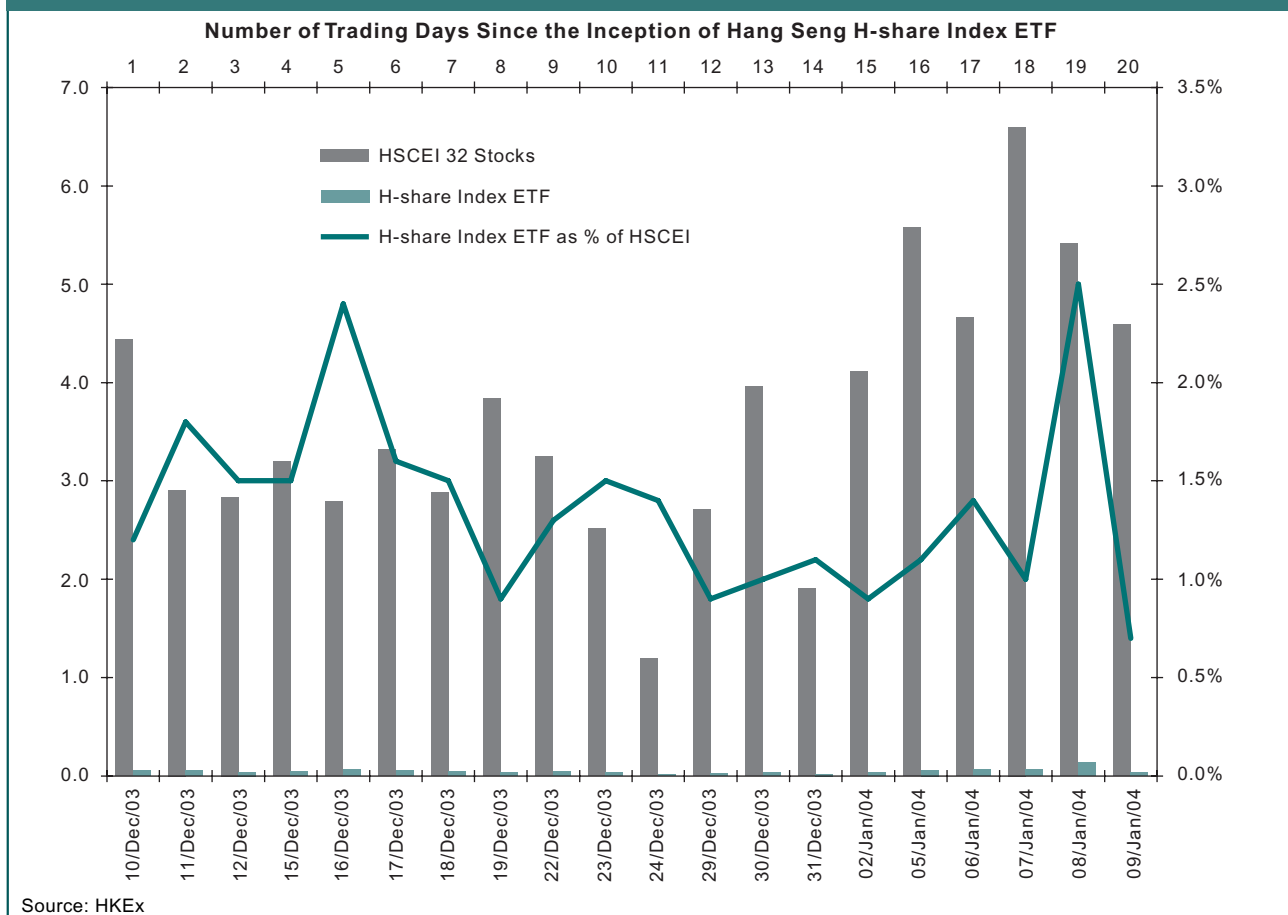
Several derivatives products on H-shares have recently been launched. HKEx launched the H-shares Index Futures on 8 Dec 2003, whilst Hang Seng Investment Management launched Hang Seng H-share Index ETF on 10 Dec 2003. These new products provide investors alternative means to benefit from the economic growth of the Mainland as well as a convenient and cost-effective way to hedge against risks. Trading activities of these new products may also bring more liquidity to the underlying H-shares.

While it may be too early to comment on how successful these products are, some early indications showed that these products are well-received. The average daily turnover of the H-shares Index

Futures during the first 20 trading days was about 3,791 contracts. This compared to the levels of 1,700 contracts for Mini-HSI Futures and 39 contracts for MSCI China Free Index Futures during the first 20 trading days after the inception of these products.

For the Hang Seng H-share Index ETF, the average daily turnover was HK\$49 mn during the first 20 trading days after the product was launched. Benchmarking against the underlying stocks, the average daily turnover of Hang Seng H-share Index ETF was 1.3% of the underlying H-shares during the first 20 trading days (Chart 5).

Chart 5 - Turnover of Hang Seng H-share Index ETF and The Underlying Stocks (First 20 Trading Days Since their Inception, HK\$ bn)



Performance of Major Stock Markets During the Fourth Quarter and 2003

Helped by upbeat corporate profits forecasts and encouraging economic reports, the US markets advanced during the fourth quarter. The decision to keep the Fed Funds rate at a 45-year low also supported the markets. Major Wall Street indices rose to their year-highs, with the blue-chip Dow gaining 13% and both the broader S&P and the tech-laden

Nasdaq jumping 12%. The European markets also finished higher and the gains would be higher in USD terms due to the strength in Euro.

Gains in these markets were larger during 2003, as the war in the Middle East was over and economic situation improved.

Table 2 - Index Performance of Major Stock Markets (end Q4 2003)

		2003 Q4 Index	% Change from (in local currency)		% Change from (in US\$)	
			2003 Q3	End 2002	2003 Q3	End 2002
Australia	-AOI	3,306.00	4.1%	11.1%	29.5%	48.8%
Mainland, China	-Shanghai A	1,569.13	9.5%	10.6%	9.6%	10.6%
	-Shanghai B	104.94	5.9%	-7.6%	5.9%	-7.5%
	-Shenzhen A	393.47	0.3%	-4.0%	0.3%	-4.0%
	-Shenzhen B	272.05	19.6%	45.5%	19.6%	45.5%
Hong Kong	-HSI	12,575.94	12.0%	34.9%	12.5%	35.5%
	-S&P/HKEx GEM	1,186.06	0.1%	24.8%	0.5%	25.3%
	-HSCEI	5,020.18	55.8%	152.2%	56.6%	153.3%
	-HSCCI	1,427.71	18.2%	41.2%	18.7%	41.8%
India	-S&P CNX Nifty	1,879.75	32.6%	71.9%	38.0%	80.8%
Indonesia	-JCI	691.90	15.8%	62.8%	22.4%	73.1%
Japan	-Nikkei 225	10,676.64	4.5%	24.5%	15.1%	37.9%
Korea	-KOSPI	810.71	16.2%	29.2%	22.3%	28.5%
Malaysia	-KLCI	793.94	8.2%	22.8%	8.3%	22.8%
Philippines	-PCOMP	1,442.37	11.2%	41.6%	7.1%	36.7%
Singapore	-STI	1,764.52	8.2%	31.6%	12.3%	34.3%
Taiwan	-TWSE	5,890.69	5.0%	32.3%	7.4%	34.9%
Thailand	-SET	772.15	33.4%	116.6%	44.2%	135.7%
France	-CAC	3,557.90	13.5%	16.1%	31.0%	39.4%
Germany	-DAX	3,965.16	21.8%	37.1%	40.5%	64.6%
UK	-FTSE100	4,476.90	9.4%	13.6%	23.5%	26.0%
US	-DJIA	10,453.92	12.7%	25.3%	12.7%	25.3%
	-Nasdaq	2,003.37	12.1%	50.0%	12.1%	50.0%
	-S&P 500	1,111.92	11.6%	26.4%	11.6%	26.4%

Source: Bloomberg

Asian markets advanced further during the last quarter amid continuous signs of capital inflows. Japanese markets rallied, despite concerns that a stronger Yen could hurt the Japanese economy recovery. The Nikkei gained 4.5% during the fourth quarter. The benchmark indices of India, Korea and Indonesia markets surged more than 15%. The Mainland markets rose 0.3-20%.

Underpinned by a low interest rate environment and tracking the advances in the US, gains in most Asian markets were larger during 2003.

In Hong Kong, supported by improving GDP growth and several large IPOs, market sentiment continued to be bullish. The HSI rallied 12% during the last quarter. The H-shares and red chips extended gains during the quarter, surging 56% and 18% respectively.

During the last quarter, there were 21 IPOs offered to the public raising a total of HK\$43.7 bn. This compared to 18 IPOs raising a total of HK\$8.2 bn during July-September 2003. The 21 IPOs included large IPOs (mostly H-shares) of:

- China Life Insurance Company Limited (HK\$26.7 bn),
- PICC Property and Casualty Company Limited (HK\$6.2 bn),
- AviChina Industry & Technology Company Limited (HK\$2.0 bn),
- Great Wall Automobile Holding Company Limited (HK\$1.7 bn) and
- Fujian Zijin Mining Industry Company Limited (HK\$1.3 bn).

These five IPOs already accounted for 87% of the quarter total or 67% of 2003 total. In particular, China Life Insurance Company Limited was reported to the largest IPO around the globe in 2003 and was the third largest in the history of Hong Kong (after

China Unicom which raised HK\$43.6 bn in June 2000 and the then-called China Telecom which raised HK\$32.7 bn in October 1997.)

Dampened by SARS, the HSI reached the trough of 8,409 on 25 Apr. Since then, the HSI has rebounded strongly. Benefiting from the supportive policies such as the CEPA and the relaxation of Mainland travel rules, the HSI rose for nine months in a row to a 30-month high. During 2003, the HSI advanced 35%. The performance of H-shares was boosted by the better-than-expected earnings and the rumours of granting QDIIs. During 2003, the H-share index upsurged 152%.

Trading Activities of Major Stock Markets During the Fourth Quarter and 2003

Trading activities of major markets rebounded during the fourth quarter, fuelled by optimism on better economic outlook and strong corporate profits. With the exception of the German market which fell 33%, growth in the turnover on the US and European markets was moderate. Underpinned by capital inflow and tracking the upward trend in the overseas markets, trading activities of most Asia markets were more active. The average daily turnover on the Hong Kong market was HK\$15.3 bn in the fourth quarter, rising 28% from the third quarter.

During 2003, turnover of most markets increased, as the war in the Middle East was over and improving economic data. Trading activities of the Asian markets were more active except those of Korea, Philippines and Taiwan which fell 18%, 15% and 6.7% respectively. Nevertheless, turnover in Thailand was robust and outperformed among other markets, rising nearly 140% in 2003. In Hong Kong, the average daily turnover on the Hong Kong market was HK\$10.4 bn, 57% higher than the level of 2002 (Chart 6). ■

Chart 6 - Turnover of Major Stock Markets in 2003 Q4 (% Change over 2003 Q3) and in 2003 (% Change over 2002)

