

Trading of the 31 Mainland Companies which Issued Both A-shares and H-shares

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Summary

- *As of the end of 2005, 31 H-share companies also issued A-shares. A-shares have been trading at premiums over their H-share counterparts. Nevertheless, such premiums have declined significantly in recent years. The weighted average premium² fell from some 830% as of the end of 2000 to 22% as of the end of 2005.*
- *In 2005, the turnover of the 31 H-shares totalled US\$39.9 bn (65%), whilst that of the 31 A-shares was US\$21.7 bn (35%). In volume terms, 69% of the trading took place in Hong Kong and the remaining 31% in the Mainland. The market share of H-shares rose in 2005 in value terms, though the share dropped in volume terms. Most importantly, A-shares and H-shares are segregated markets. A change in the trading activities in one market should not lead to a change in the trading activities in the other market.*

A-shares Have Been Trading at Premiums Over H-shares, But Such Premiums are Declining

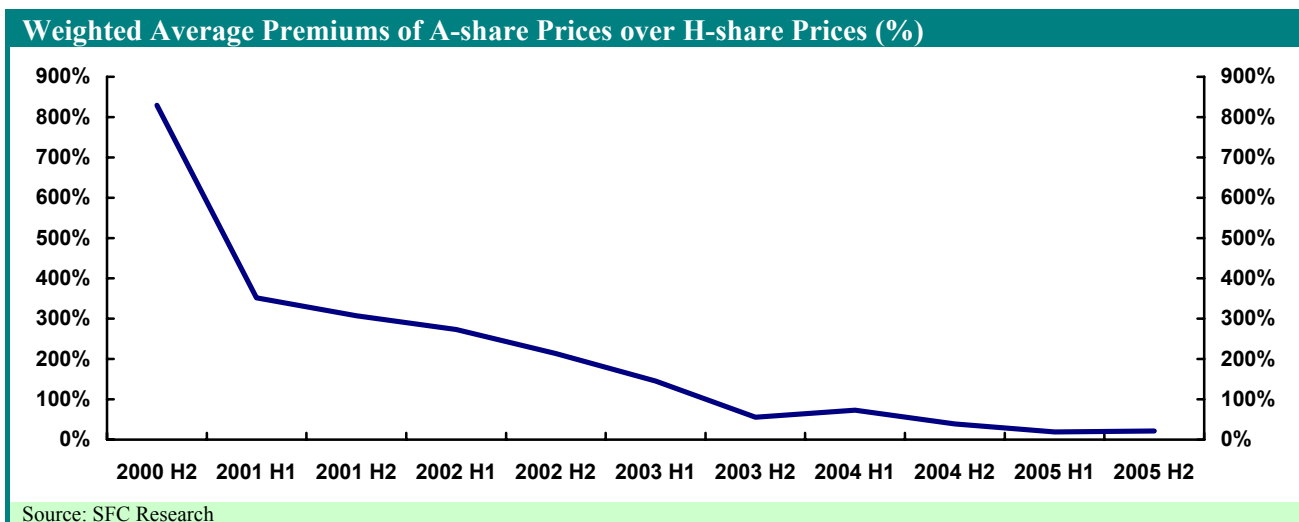
1. As of the end of 2005, 31 H-share companies also issued A-shares (which are traded in the Mainland markets by domestic investors). The aggregate market cap of the 31 stocks was US\$6.9 bn for the A-shares in the Mainland and US\$20.3 bn for the H-shares in Hong Kong. Of the 31 stocks, 27 A-shares were traded at premiums over their H-share counterparts (four H-shares were traded at the premiums of 2.5-9.3% over their A-share counterparts) as of the end of 2005. The premiums ranged from 2.3% to 294%, with a weighted average of about 22%.

Price Differences between A-shares and H-shares (Number of stocks)	
Premium of A-shares over H-shares	End December 2005
0 – 50%	11
50 – 100%	8
100 – 200%	4
200 – 300%	4
Sub-total	27
Premium of H-shares over A-shares	
0 – 25%	4
Sub-total	4
TOTAL	31
Source: SFC Research	

¹ This paper is for pure fact-finding and research purposes, and is not an attempt to comment on the developments of any markets/companies or interpret the policies concerned. The views expressed in this paper do not represent those of the SFC.

² Premiums are weighted by market capitalisation.

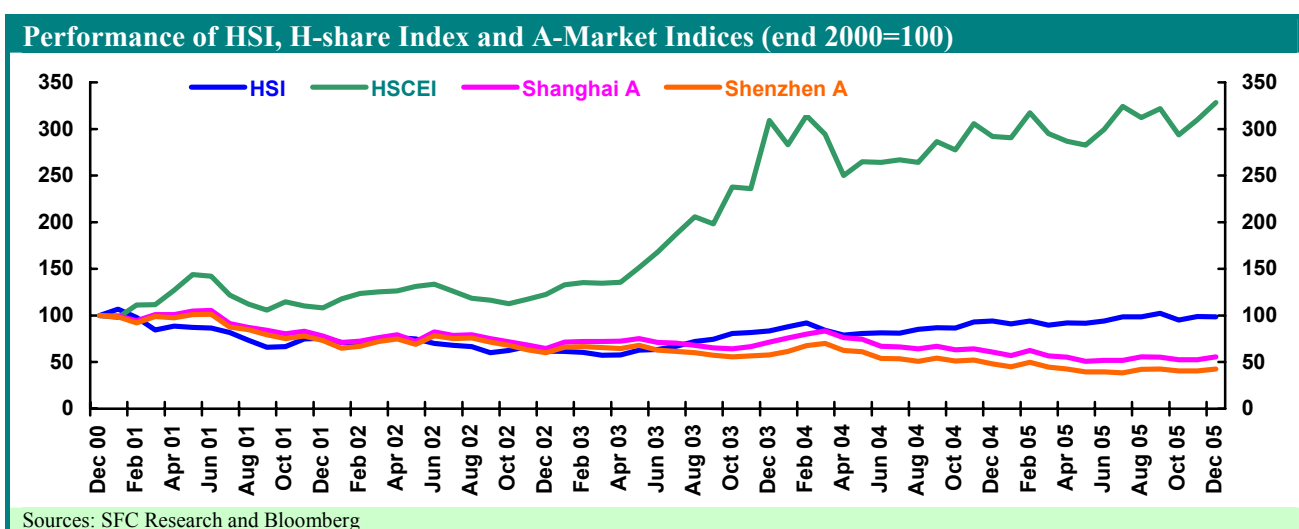
2. Nevertheless, the premiums of A-shares over H-shares narrowed from a weighted average of some 830% as of the end of 2000 to 22% as of the end of 2005. As of the end of 2000, all A-shares were traded at very high premiums over their H-share counterparts. In contrast, as of the end of 2005, most stocks were traded at much lower premiums (some even at discounts) over their H-share counterparts. Between the end of 2000 and the end of 2005, the Shanghai A and Shenzhen A indices dropped 44% and 58% respectively. In contrast, the H-share index rallied 228%, despite the HSI falling 1.5% over the period.



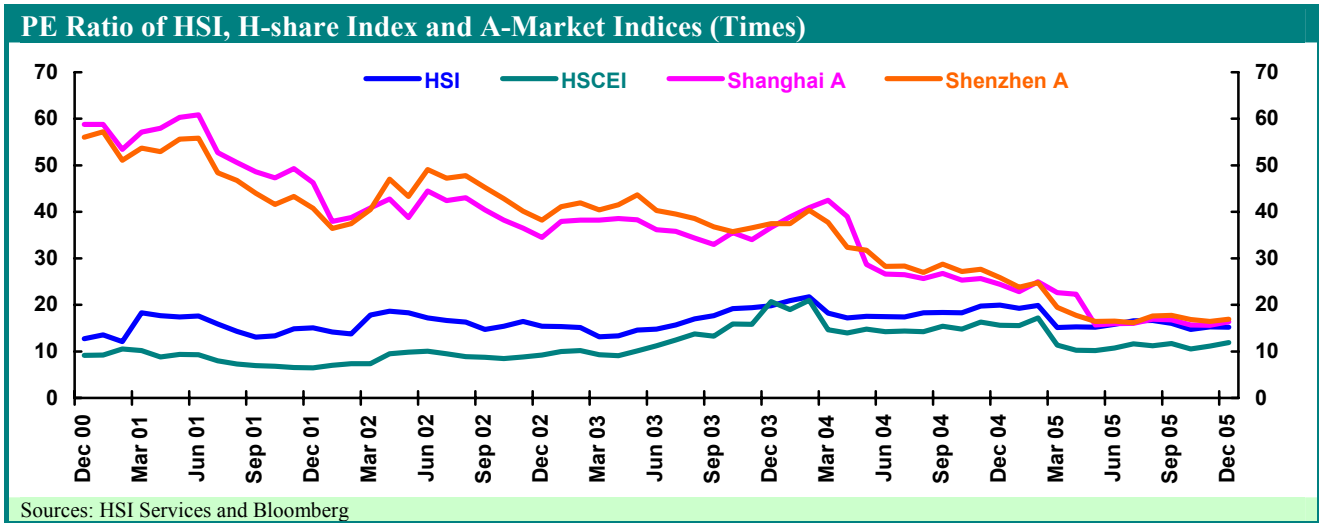
Price Differences between A-shares and H-shares (Period end, number of stocks)

Premiums of A-shares over H-shares	2000	2001	2002	2003	2004	2005
0 – 100%	0	0	2	12	14	19
100 – 200%	0	1	6	10	9	4
200 – 300%	0	6	1	6	4	4
300 – 500%	6	12	11	0	1	0
>500%	13	5	7	0	0	0
Sub-total	19	24	27	28	28	27
Premiums of H-shares over A-shares						
0 – 25%	0	0	0	1	2	4
Sub-total	0	0	0	1	2	4
TOTAL	19	24	27	29	30	31

Source: SFC Research

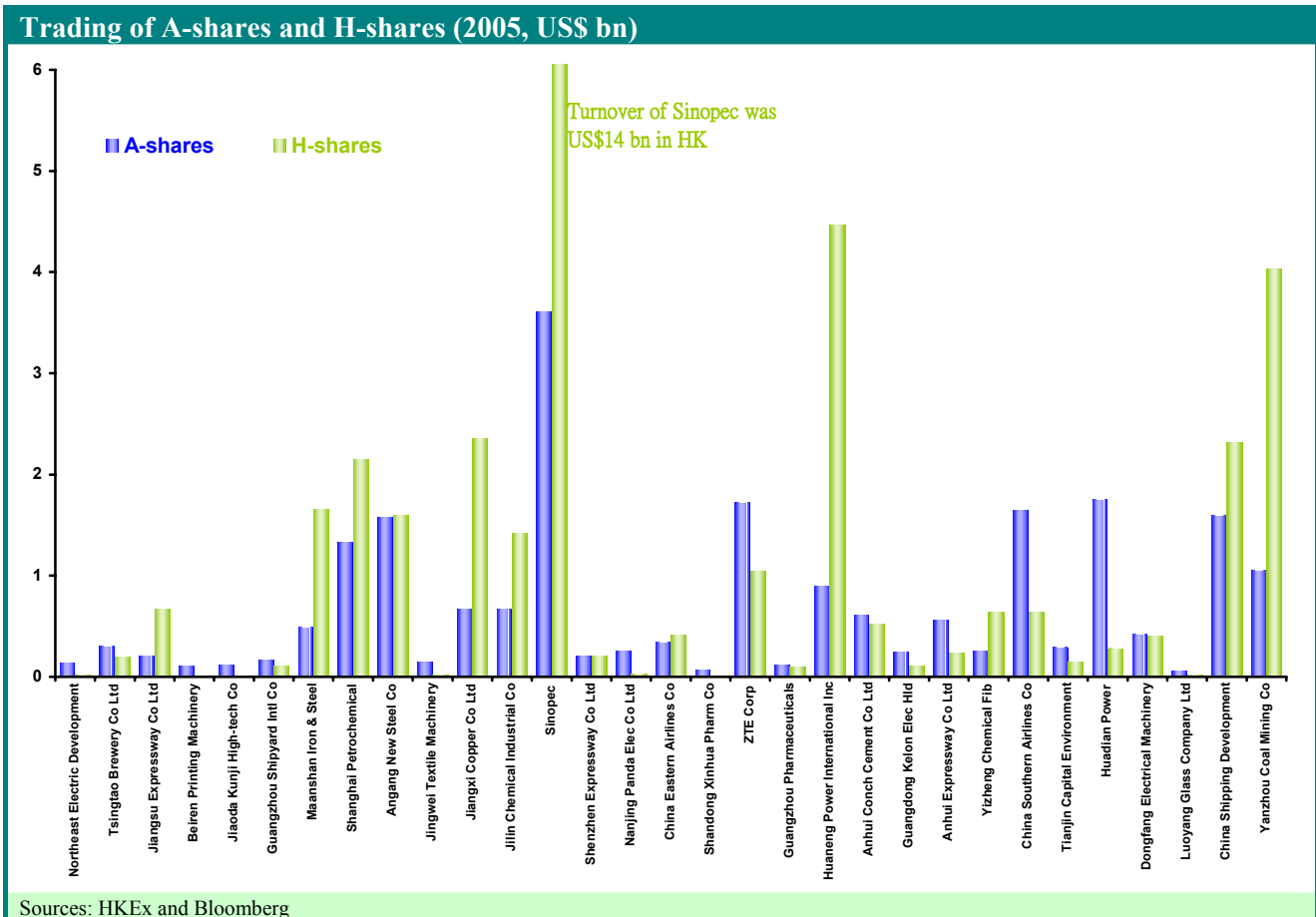


- According to information vendors, the PE ratios for the benchmark Shanghai A and Shenzhen A indices trimmed from 59 times and 56 times respectively as of the end of 2000 to 16 times and 17 times as of the end of 2005. In contrast, the PE ratio for the H-share index increased from 9 times to 12 times over the period, whilst that for the HSI also rose from 13 times to 15 times.



Aggregate Trading Value of H-shares is Higher Than A-shares

- Of the 31 stocks, turnover of 13 H-shares was higher than that of A-shares in 2005. Nevertheless, the aggregate trading value of H-shares was higher than that of A-shares.



5. The total turnover of the 31 H-shares in Hong Kong amounted to US\$39.9 bn in 2005, whilst that of the A-shares was US\$21.7 bn. In other words, about 65% of the total trading value took place in Hong Kong, compared to the market share of 35% for the A-shares in the Mainland.
6. It is worth noting that the three most actively traded stocks (namely Sinopec, Huaneng Power International and Yanzhou Coal Mining) accounted for 45.6% of the total turnover of the 31 stocks in the two markets. For these three stocks, the market share of Hong Kong was all about 79-83%. On one hand, it appears that the Hong Kong market is able to capture a large market share in the most actively traded stocks. On the other hand, stripping out the three stocks, 52% of the trading value took place in Hong Kong, whilst 48% in the Mainland.

31 A-shares and H-shares in 2005

	A-shares				H-shares				Total			
	Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)	Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)	Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)
Northeast Electric Development	0.14	548.10	0.04	368.19%	0.02	202.68	0.02	90.90%	0.16	750.77	0.06	272.09%
Tsingtao Brewery Co Ltd	0.30	281.55	0.21	144.82%	0.20	183.40	0.69	28.15%	0.49	464.95	0.90	54.92%
Jiangsu Expressway Co Ltd	0.21	279.10	0.12	180.62%	0.67	1,316.40	0.69	96.56%	0.88	1,595.49	0.81	108.90%
Beiren Printing Machinery	0.11	223.34	0.03	348.06%	0.01	45.25	0.02	58.15%	0.12	268.60	0.05	240.47%
Jiaoda Kunji High-tech Co	0.12	254.89	0.03	449.31%	0.004	24.88	0.01	39.90%	0.13	279.77	0.04	341.32%
Guangzhou Shipyard Intl Co	0.17	384.33	0.06	293.16%	0.11	460.39	0.03	384.65%	0.29	844.72	0.09	323.72%
Maanshan Iron & Steel	0.49	1,245.63	0.20	241.99%	1.66	4,816.83	0.54	308.81%	2.15	6,062.46	0.74	290.46%
Shanghai Petrochemical	1.33	2,743.63	0.37	357.79%	2.15	5,843.59	0.89	239.96%	3.48	8,587.22	1.27	274.65%
Angang New Steel Co	1.58	2,870.93	0.46	343.78%	1.60	2,971.99	0.48	334.52%	3.19	5,842.92	0.94	339.06%
Jingwei Textile Machinery	0.15	365.61	0.08	189.83%	0.02	88.86	0.05	48.88%	0.17	454.47	0.12	137.81%
Jiangxi Copper Co Ltd	0.67	1,077.76	0.14	465.45%	2.36	4,583.80	0.66	359.35%	3.04	5,661.56	0.80	378.50%
Jilin Chemical Industrial Co	0.67	1,196.54	0.13	520.85%	1.42	4,739.65	0.35	407.44%	2.09	5,936.19	0.48	437.89%
Sinopec	3.61	7,159.54	1.62	223.53%	14.00	33,075.95	8.33	168.00%	17.61	40,235.50	9.95	177.03%
Shenzhen Expressway Co Ltd	0.21	377.65	0.08	260.42%	0.21	583.20	0.25	86.01%	0.42	960.85	0.32	128.40%
Nanjing Panda Elec Co Ltd	0.26	492.04	0.04	726.19%	0.03	206.27	0.05	60.29%	0.29	698.32	0.08	342.44%
China Eastern Airlines Co	0.34	938.77	0.09	381.41%	0.42	2,445.83	0.25	170.20%	0.76	3,384.59	0.34	226.17%
Shandong Xinhua Pharm Co	0.07	178.82	0.03	252.49%	0.01	49.41	0.02	36.33%	0.08	228.23	0.05	159.09%
ZTE Corp	1.72	523.70	1.04	164.95%	1.05	340.06	0.54	195.02%	2.77	863.76	1.58	175.22%
Guangzhou Pharmaceuticals	0.12	182.12	0.06	204.10%	0.10	288.88	0.09	111.34%	0.22	470.99	0.15	148.80%
Huaneng Power International Inc	0.90	1,155.69	0.36	252.76%	4.47	6,192.78	2.01	222.67%	5.37	7,348.47	2.37	227.20%
Anhui Conch Cement Co Ltd	0.61	674.15	0.24	257.45%	0.52	522.94	0.53	97.54%	1.13	1,197.09	0.77	146.79%
Guangdong Kelon Electric	0.25	777.66	0.05	487.44%	0.11	539.41	0.05	204.76%	0.36	1,317.07	0.10	344.19%
Anhui Expressway Co Ltd	0.56	670.74	0.19	298.61%	0.24	410.83	0.24	99.87%	0.79	1,081.57	0.42	186.94%
Yizheng Chemical Fib	0.26	779.85	0.07	393.18%	0.64	3,466.24	0.30	210.38%	0.90	4,246.09	0.37	243.23%
China Southern Airlines Co	1.65	4,246.90	0.33	503.30%	0.64	2,048.18	0.34	189.46%	2.29	6,295.08	0.67	344.38%
Tianjin Capital Environment	0.29	591.72	0.05	565.95%	0.15	476.24	0.08	183.80%	0.44	1,067.96	0.13	333.59%
Huadian Power	1.75	4,472.92	0.20	888.99%	0.28	1,006.76	0.37	77.74%	2.03	5,479.68	0.56	361.67%
Dongfang Electrical Machinery	0.42	294.49	0.09	457.41%	0.40	411.71	0.17	230.65%	0.82	706.20	0.27	309.47%
Luoyang Glass Company Ltd	0.06	159.60	0.02	360.56%	0.02	140.17	0.02	80.40%	0.07	299.76	0.04	203.80%
China Shipping Development	1.59	1,635.97	0.24	668.35%	2.32	2,922.21	0.95	243.91%	3.92	4,558.18	1.19	328.92%
Yanzhou Coal Mining Co	1.05	1,305.07	0.21	497.51%	4.04	4,317.78	1.26	321.77%	5.09	5,622.85	1.47	347.07%
Total	21.69	38,088.78	6.85	316.58%	39.87	84,722.58	20.27	196.70%	61.56	122,811.37	27.12	226.98%

Sources: HKEx and Bloomberg

Trading of H-shares is Even More Active Than A-shares in Volume Terms

7. Because the majority of A-shares are trading at premiums over their H-share counterparts, it will be useful to compare the trading activities in volume terms (i.e. to eliminate the price effect). In volume terms, the trading of 16 H-shares was higher than that of A-shares in 2005. On an aggregate basis, 69% of the trading volume took place in Hong Kong, whilst the remaining 31% in the Mainland. Having eliminated the price effect, the trading volume of the 31 stocks is even more concentrated in Hong Kong.

Turnover Ratio (Total Turnover as % of Market Cap) of A-shares is Higher Than H-shares

8. Turnover ratio measures trading activities of a stock relative to the size of its shares. In 2005, the overall turnover ratio for the 31 H-shares was 196.7% whilst that for the A-shares in the Mainland was 316.6%. This would imply that for the 31 stocks, all outstanding shares changed hands twice in Hong Kong and three times in the Mainland. The turnover ratio for the 31 A-shares ranged from 145% to 889%, as compared to 28-407% for the H-shares. Particularly, the turnover ratios for Huadian Power and Nanjing Panda Electronics Co. were 889% and 726% for A-shares respectively, whilst those for their H-share counterparts were only 78% and 60%.

A-shares and H-shares are Segregated Markets

9. The market share of H-shares rose in 2005 in value terms, though the share dropped in volume terms. Most importantly, A-shares and H-shares are segregated markets – investors in the Mainland are not allowed to invest in overseas markets whilst overseas investors are only allowed to invest in the Mainland A-share markets through the QFII scheme. A change in the trading activities in one market should not lead to a change in the trading activities in the other market.

Summary of A-shares and H-shares

Year	Number of Listed Companies	A-shares				H-shares				Total			
		Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)	Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)	Turnover Value (US\$ bn)	Turnover Volume (mn shares)	Market Cap (US\$ bn)	Turnover Ratio (%)
2003	29	20.66	34,039.05	7.30	283.01%	24.76	88,682.02	19.08	129.79%	45.42	122,721.06	26.38	172.19%
2004	30	27.78	36,724.45	6.79	409.19%	44.24	96,932.17	19.26	229.68%	72.02	133,656.61	26.05	276.47%
2005	31	21.69	38,088.78	6.85	316.58%	39.87	84,722.58	20.27	196.70%	61.56	122,811.37	27.12	226.98%

Sources: HKEx and Bloomberg

10. The turnover of the A-share markets depends very much on the domestic market sentiment, the performance of the stocks and the domestic economic environment. In contrast, the turnover of the H-share market depends on, among other factors, the global market sentiment, the performance of the stocks and the global economic environment.