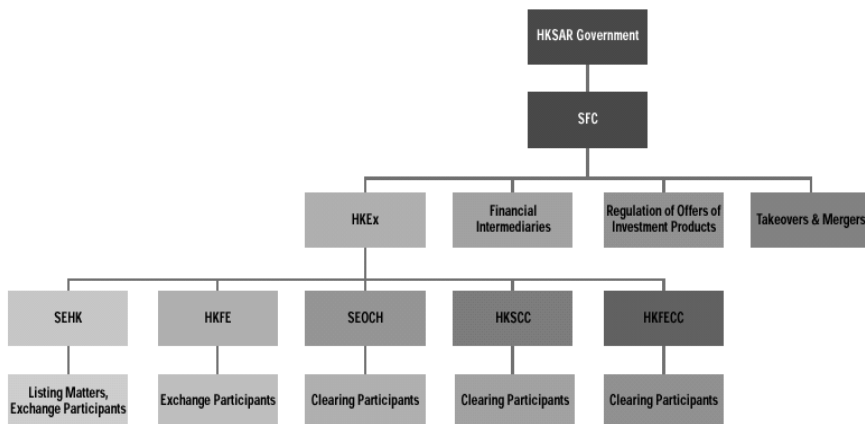


Hong Kong's Securities Markets – Key Indicators

REGULATORY STRUCTURE OF THE SECURITIES MARKETS

The regulatory structure of the securities markets in Hong Kong is depicted in Chart 1. The Securities and Futures Commission (SFC) was established in May 1989, based on the recommendations of the Ian Hay Davison Report on The Operation and Regulation of the Hong Kong Securities Industry in May 1988. Hong Kong Exchanges and Clearing Ltd (HKEx) was established following the comprehensive market reform of the securities and futures markets announced by the Financial Secretary in March 1999. The reform of the exchanges involved the demutualisation of The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE), and the merger of these two exchanges and their associated clearing houses into a single holding company, HKEx, on 6 March 2000. HKEx was listed on 27 June 2000.

Chart 1 - Regulating the Securities Market



- ♦ HKSAR Government - The Government of the Hong Kong Special Administrative Region
- ♦ SFC - Securities and Futures Commission
- ♦ HKEx - Hong Kong Exchanges and Clearing Limited
- ♦ SEHK - Stock Exchange of Hong Kong Limited
- ♦ HKFE - Hong Kong Futures Exchange Limited

- ♦ SEOCH - SEHK Options Clearing House Limited
- ♦ HKSCC - Hong Kong Securities Clearing Company Limited
- ♦ HKFECC - HKFE Clearing Corporation Limited

Source: SFC

DEVELOPMENTS IN THE SECURITIES MARKETS

Overview

Hong Kong's securities markets are well developed, with its equity market ranking tenth place in the world by market capitalisation, and second position in Asia-ex-Japan as at end 2001. The derivatives market ranked number four in Asia-ex-Japan as at December 2001, and there is potential for much further growth and development. Table 1 provides some major indicators of the securities markets.

**Table 1 - Major Indicators of the Securities Markets in Hong Kong
(Period-end figures unless otherwise specified)**

Cash Market		1988	1992	1996	2000	2001
Main Board						
Number of Listed Companies		304	413	583	736	756
Market Capitalisation	Total	580	1,332	3,476	4,795	3,885
(HK\$ billion)	HSI Constituents	404	941	2,436	3,866	3,136
Worldwide Ranking by						
Market Capitalisation		17 (a)	8	7	10	10
Market Capitalisation to GDP (%)		127	171	292	382	306
Market Value of Top 10 Stocks over						
Total Market Capitalisation (%)		46	47	52	68	64
Average Daily Turnover	Total	804	2,802	5,672	12,338	8,025
(HK\$ million)	HSI Constituents	442	1,490	3,075	5,677	4,558
Number of Trading Days		248	250	249	247	243
Liquidity (%) (Turnover / Year-end						
Market Capitalisation)		34	53	41	64	50
Hang Seng Index (HSI)		2,687	5,512	13,451	15,096	11,397
P/E ratio (HSI)		12.51	14.23	17.30	12.74	15.06
Funds Raised (HK\$ billion, annual)		19	105	100	451	59

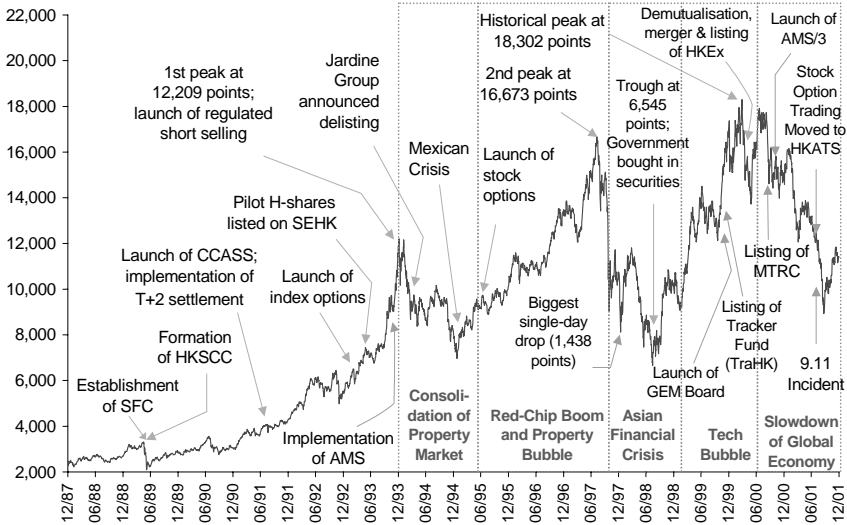
Cash Market		1988	1992	1996	2000	2001
Growth Enterprise Market						
Number of Listed Companies		n.a.	n.a.	n.a.	54	111
Market Capitalisation (HK\$ million)		n.a.	n.a.	n.a.	67,290	60,964
Average Daily Turnover (HK\$ million)		n.a.	n.a.	n.a.	341	162
Growth Enterprise Index (GEI)		n.a.	n.a.	n.a.	309.42	199.42
Funds Raised (HK\$ billion, annual)		n.a.	n.a.	n.a.	16	5.8
Derivatives Market						
Types of Products		1	1	5	6	8
Turnover (’000 contracts, annual)	All Products	140	1,089	7,215	9,261	10,550
	HSI Futures	140	1,089	4,656	4,023	4,400
	HSI Options	n.a.	n.a.	1,094	544	716
	Stock Options	n.a.	n.a.	1,270	4,189	5,202
Open Interest (contracts)	All Products	1,163	14,212	147,493	534,975	356,870
	HSI Futures	1,163	14,212	38,524	31,246	33,138
	HSI Options	n.a.	n.a.	56,841	10,519	29,741
	Stock Options	n.a.	n.a.	50,981	462,494	231,657
Remarks: (a) 1990 figure n.a. - not applicable						
Sources: HKEx, FIBV, HSI Services Limited						

Price Indices

The stock market of Hong Kong climbed to the first peak in January 1994 when the property market took off and Mainland companies began to list in Hong Kong in the form of H-shares and Red Chips. The red-chip boom that followed pushed the Hang Seng Index (HSI) to the second peak of 16,673 points in August 1997. With the onset of the Asian Financial Crisis, the HSI plunged to an intraday low of 6,545 points in August 1998 before the HKSAR Government bought in securities. Following the turnaround in the economy and the tech fever, the index climbed to a historical high of 18,302 points in March 2000. The tech bubble burst thereafter and continued into 2001, concurrent with the slowdown of the global economy. The HSI fell to

a 30-month low of 9,210 after the 9.11 incident and rebounded to pre-9.11 level within a month. It continued to strengthen to end the year at 11,397 points (Chart 2).

Chart 2 - Major Stock Market Events : 1988- 2001

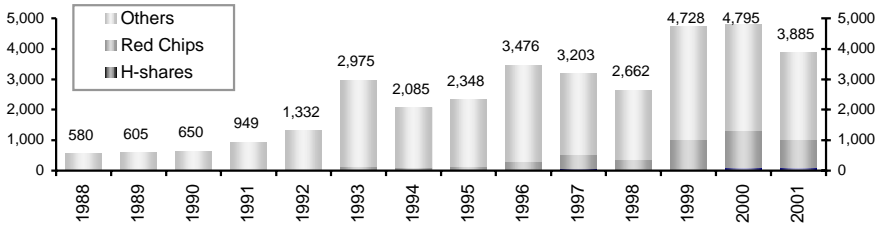


Sources: Bloomberg and HKEx

Market Capitalisation

Since 1988, capitalisation of the Hong Kong stock market has expanded 5.7 times and was the second largest market in Asia-ex-Japan and tenth largest in the world at the end of 2001. One of the contributing factors is the listing of Mainland enterprises (H-shares and Red Chips) from 1993 onwards (Chart 3). At the end of 2001, the value of Mainland enterprises listed on HKEx amounted to HK\$1,012 billion, accounting for 26% of total market capitalisation.

Chart 3 - Market Capitalisation of the Main Board from 1988 to 2001 (HK\$ billion)

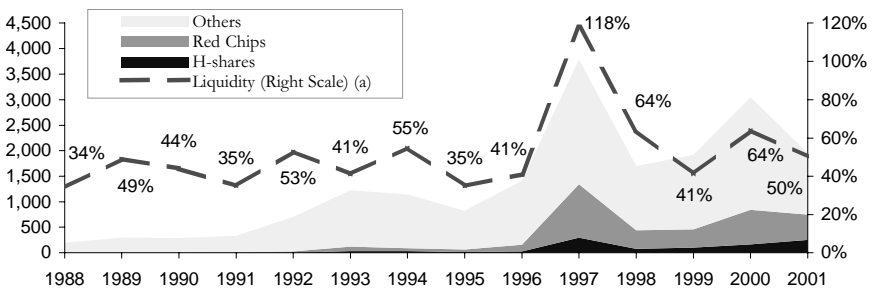


Source: HKEx

Market Turnover

Market turnover rose from an average of HK\$364 billion per year from 1988-1992 to HK\$1,678 billion per year during 1993-1997 (Chart 4). 1997 marked the record annual turnover of HK\$3,789 billion (or an average daily turnover of HK\$15.5 billion). Turnover shrank by more than half during the Asian crisis and recovered strongly in 2000 (with annual turnover of HK\$3,048 billion or average daily turnover of HK\$12.3 billion). Trading value dropped again in 2001, attributable to both broad declines in stock prices and higher perceived risks after the 9.11 incident.

Chart 4 - Turnover of the Main Board from 1988 to 2001 (HK\$ billion)



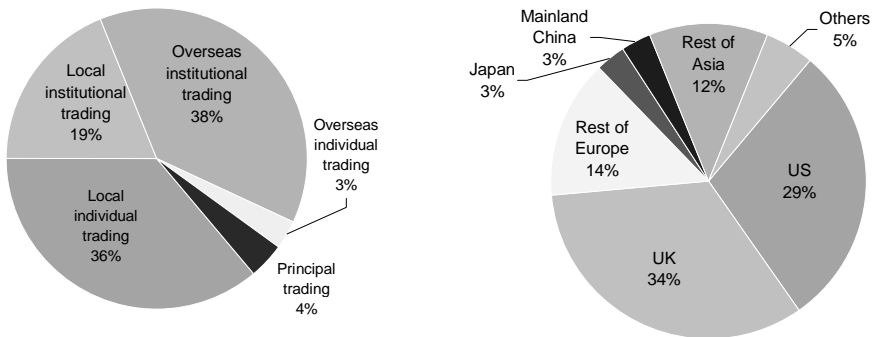
Remark: (a) Liquidity (%) is derived from annual turnover divided by year-end market capitalisation

Source: HKEx

Investor Base

In terms of investor base, Hong Kong provides a level playing field with a balanced proportion of institutional and individual investors (Chart 5).

Chart 5 - Turnover of the Hong Kong Stock Market by Type of Investors and Geographical Distribution of Overseas Investors in 2001 (%)

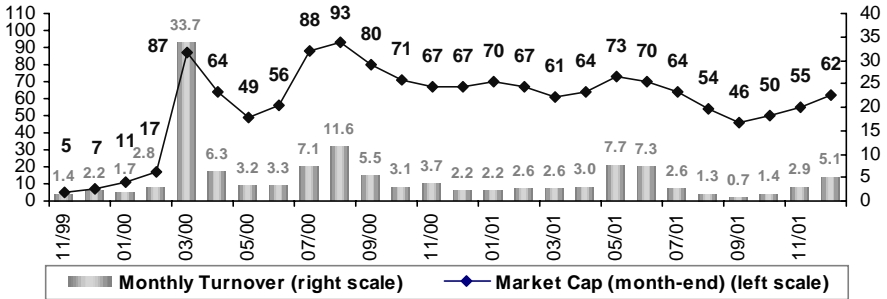


Source: Cash Market Transaction Survey, HKEx

Second Board - Growth Enterprises Market (GEM)

At the end of 2001, GEM was the third largest second board in Asia after Korea and Taiwan. Similar to most second boards around the globe, the second board is mainly composed of technology and telecommunication companies. Market capitalisation peaked in August 2000, and then shrank following the burst of the tech bubble (Chart 6). Since its inception in November 1999, US\$3 billion has been raised from the GEM board.

Chart 6 - Capitalisation of the Growth Enterprise Market (GEM) since Inception in November 1999 (HK\$ million)

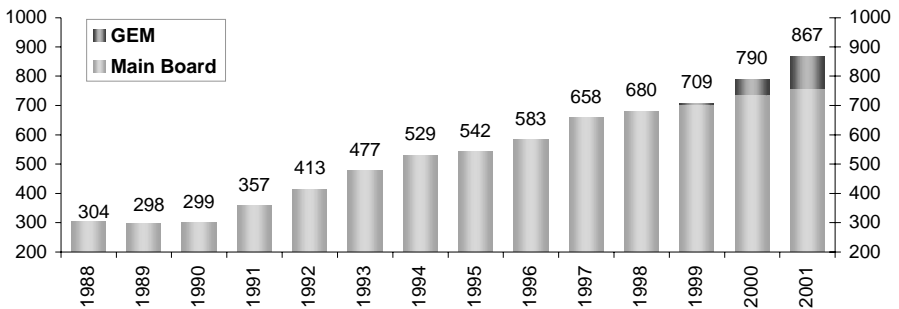


Source: HKEx

Number of Listed Companies

The number of listed companies rose at a steady rate from 1990 onwards (Chart 7). Most of the listed companies on the Main Board are engaged in a wide range of services industries, while most GEM companies are much smaller and younger companies with growth potential, and are more concentrated in emerging industries.

Chart 7 - Number of Listed Companies (1988 - 2001)

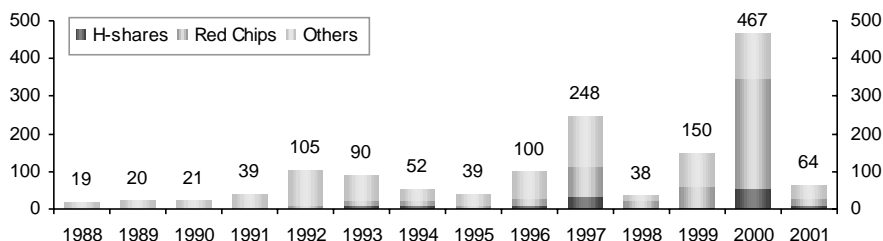


Source: HKEx

Funds Raised in the Primary Market

The Hong Kong stock market raised a tremendous amount of funds during 1996 - 2000, reflecting the strong demand by Mainland enterprises to raise funds through Hong Kong (Chart 8). Two big deals initiated by Mainland enterprises in 2000, amounting to HK\$279 billion, contributed to a record total of HK\$467 billion raised during the year. However, fund-raising activities slowed in 2001, amidst sluggish market sentiment around the globe and fewer asset acquisitions initiated by the listed companies.

Chart 8 - Funds Raised Directly and Indirectly through Hong Kong (HK\$ billion)



Source: HKEx

Derivatives Market¹

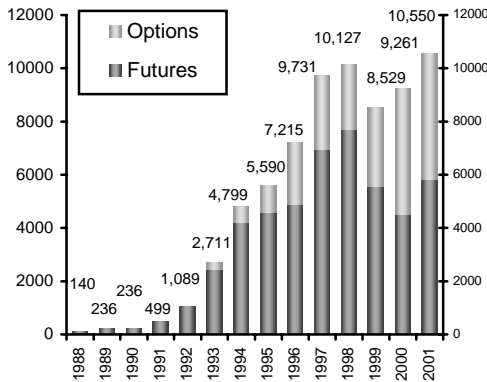
The derivatives market in Hong Kong is growing in both size and diversity. At the end of 2001, trading volume of all derivatives amounted to 10.6 billion contracts, compared with 0.14 million contracts in 1988 (Chart 9). Currently Hong Kong is the fourth largest derivatives market in Asia-ex-Japan, offering eight types of derivative products mainly on stocks and indices² (Chart 10). The most actively traded derivative

¹ Derivatives primarily refer to futures and options listed on the exchanges.

² Including index options and futures, stock options and futures, rolling forex, HIBOR futures, EFN futures and international stock options (options on futures).

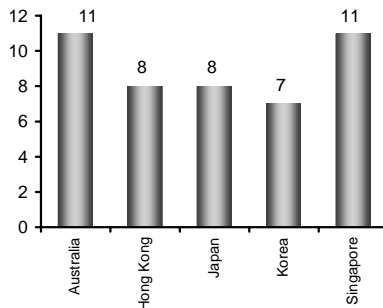
product is the HSI Futures. Some of the more successful products are stock options, HIBOR futures and Mini-Hang Seng Index (Mini-HSI) Futures. HKEx trades MSCI China Free Index Futures and international stock futures and options based on 20 stocks trading in US, Japan, Korea and Taiwan, as well as Three-Year Exchange Fund Note (EFN) Futures.

Chart 9 - Total Turnover of Derivative Products in Hong Kong ('000 Contracts)



Sources: websites of various exchanges

Chart 10 - Types of Products Offered in Various Exchanges (as at end 2001)



Sources: websites of various exchanges & FIBV

Authorised Investment Products

The number of unit trusts and mutual funds more than doubled during the past decade and accounted for over 82% of all authorised investment products as at 31 March 2001 (Table 2). Equity funds have been the most popular product, growing 14 times in terms of net asset value between 1990 and 2001 (Table 3). As at end-March 2001, there are 263 Mandatory Provident Fund (MPF) master trust schemes and pooled investment funds for the purpose of MPF.

Table 2 - Authorised Collective Investment Schemes (as at end of March)

Type of Authorised Products	1991	1994	1998	2001
Unit trusts & mutual funds	920	903	1,526	1,870
Investment-linked assurance schemes	35	57	61	76
Pooled retirement funds	34	36	58	40
Immigration-linked investment schemes	9	8	11	0
MPF master trust schemes	n.a.	n.a.	n.a.	49
MPF pooled investment funds	n.a.	n.a.	n.a.	214
Others	n.a.	3	20	18
Total	998	1,007	1,676	2,267

n.a. - not applicable

Source: SFC

Table 3 - Origin / Net Asset Value of Authorised Unit Trusts and Mutual Funds (US\$ Million)

	1991		1994		1998		2001	
	No of Funds	NAV	No of Funds	NAV	No of Funds	NAV	No of Funds	NAV
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
By Type								
Bond	116	6,525	118	8,628	210	12,718	307	44,544
Equity	481	14,317	457	29,550	829	100,503	1,118	219,934
Diversified	51	1,141	15	2,200	93	9,586	128	26,869
Money Market	189	3,343	175	3,862	189	7,078	74	15,788
Fund of Funds	15	259	9	149	29	591	77	2,529
Warrant	21	173	21	443	15	277	4	22
Other Specialized (c)	2	19	41	661	31	1,629	22	1,765
Umbrella Structures	45	n.a.	67	n.a.	130	n.a.	140	n.a.
Total	920	25,777	903	45,493	1,526	132,383	1,870	311,449
By Region								
Hong Kong	139	2,630	73	1,729	71	1,991	75	5,982
Jersey	130	1,606	75	3,118	79	2,839	59	6,010
Luxembourg	268	3,436	285	8,871	674	48,905	1,036	183,502
Ireland	-	-	62	4,501	191	11,682	299	37,211
Guernsey	120	2,727	127	3,461	175	5,541	95	3,644
United Kingdom	91	7,334	40	11,376	23	8,401	68	31,011
Other Europe	8	5,316	11	4,512	10	5,283	15	15,172
Bermuda	43	875	67	1,254	66	1,601	30	1,073
Bahamas	19	495	22	623	8	419	4	20
British Virgin Islands	-	-	25	1,965	34	2,846	26	2,215
Cayman	75	587	103	3,028	184	4,409	149	5,474
Others	27	773	13	1,057	11	38,466	14	20,136
Total	920	25,777	903	45,493	1,526	132,383	1,870	311,449
Remarks:	(a) As at 31 March of the year							
	(b) As at 31 December of the preceding year							
	(c) Include Futures & Options funds, Guaranteed funds & Leveraged funds							
	n.a. - not applicable							
Source:	SFC							

Registered Intermediaries

The number of licences issued has increased threefold in the 1990s concurrent with the expansion of the securities market (Table 4a and 4b). There was a significant increase in applications for registration under the Securities Ordinance towards the end of March 2001 in anticipation of the new competence requirement effective 1 April 2001.

A new class of registrants called "securities margin financier" was introduced by the Securities (Margin Financing) (Amendment) Ordinance 2000. Just prior to the enactment of the Ordinance, most of the finance companies that previously provided securities margin financing either terminated their business or transferred it to their associated dealer firms. As at 31 March 2001, there were 10 registered securities margin financiers and 268 securities margin financier's representatives.

Table 4a - Number of Registered Intermediaries (Licensed Firms) (as at end March)

Business	1990	1993	1997	2000	2001
Under Securities Ordinance					
Dealers	801	685	680	701	725
Advisers	417	509	620	621	659
Margin Financiers	n.a.	n.a.	n.a.	n.a.	20
Sub-Total	1,218	1,194	1,300	1,322	1,404
Under Commodities Trading Ordinance					
Dealers	104	106	155	164	158
Advisers	53	50	124	119	128
Sub-Total	157	156	279	283	286
Under Leveraged Foreign Exchange Trading Ordinance					
Discretionary Traders	n.a.	n.a.	12	8	6
Non Discretionary Traders	n.a.	n.a.	7	5	4
Introducing Agent	n.a.	n.a.	3	3	0
Sub-total	n.a.	n.a.	22	16	10
Licensed Firms	1,375	1,350	1,601	1,621	1,700

Table 4b - Number of Registered Intermediaries (Licensed Persons) (as at end March)

Individual	1990	1993	1997	2000	2001
Under Securities Ordinance					
Dealers and Representatives	4,109	5,076	8,539	12,175	14,898
Advisers and Representatives	1,155	1,690	3,433	6,118	6,316
Margin Financier's Representatives	n.a.	n.a.	n.a.	n.a.	268
Sub-Total	5,264	6,766	11,972	18,293	21,482
Under Commodities Trading Ordinance					
Dealers and Representatives	1,246	1,323	3,272	4,257	4,446
Advisers and Representatives	80	80	331	380	409
Sub-Total	1,326	1,403	3,603	4,637	4,855
Under Leveraged Foreign Exchange Trading Ordinance					
Trader's Representatives	n.a.	n.a.	1,349	998	817
Licensed Persons	6,590	8,169	16,924	23,928	27,154
n.a. - not applicable					
Source: SFC					

MAJOR EVENTS DURING 1988 - MARCH 2002

Market Regulations, Codes and Guidelines Issued by the SFC³	
1990	Code on Share Repurchases
	Code on Immigration-linked Investment Schemes
	Fit and Proper Criteria
1991	Securities (Disclosure of Interests) Ordinance
	Securities (Insider Dealing) Ordinance
	Code on Investment-linked Assurance and Pooled Retirement Funds
	Code on Unit Trusts and Mutual Funds (1st Edition)
	Rules introducing stock borrowing and lending
1992	Revised Code on Takeovers and Mergers (consolidated with Code on Share Repurchases)
	Securities and Futures (Clearing Houses) Ordinance
1993	Financial Resources Rules for Persons Registered with the Securities and Futures Commission

³ See website of the Securities and Futures Commission for more details, at <http://www.hksfc.org.hk>

Market Regulations, Codes and Guidelines Issued by the SFC³	
1994	Leveraged Foreign Exchange Trading Ordinance Guidelines on Cash Commission Rebates and "Soft Dollar" Benefits received by fund managers from brokers Code of Conduct for Persons Registered with the Securities and Futures Commission Enactment of s29A of the Securities and Futures Commission Ordinance
1995	Guidance Notes to Registered Persons Regarding Money Laundering Guidance on Core Operational and Financial Risk Management Controls for Over-the-Counter Derivatives Activities of Registered Persons Code on Unit Trusts and Mutual Funds (2nd Edition)
1996	Consultation Paper on draft Composite Securities and Futures Bill
1997	Management, Supervision and Internal Control Guidelines for Persons Registered With or Licensed by the SFC Money Laundering Revised Guidance Notes issued by the Securities and Futures Commission Plain language guidelines issued for public announcements by listed issuers Code on Unit Trusts and Mutual Funds (3rd Edition) Fund Manager Code of Conduct
1998	Revised Code on Takeovers and Mergers Client Identity Rule Code on Insurance-linked Assurance Schemes Code on Pooled Retirement Funds
1999	SFC Code on MPF Products Guidance on Internet Regulation Registration Guidelines for Intermediaries advising on securities incidental to the marketing of Mandatory Provident Fund Schemes only Guidance for Review of Internal Controls and Systems of Trustees/Custodians
2000	Guidelines on eIPO Securities (Margin Financing) (Amendment) Ordinance 2000 Revised Financial Resources Rules for Securities and Futures Intermediaries (2000) Guidance Note on the Application of the Electronic Transactions Ordinance to Contract Notes Guidance Note for Short Selling Reporting and Stock Lending Record Keeping Requirements Draft SFC Composite Bill Fit and Proper Criteria (Revised)

Market Regulations, Codes and Guidelines Issued by the SFC³	
2001	Guidance on Exempt Fund Manager Status and Exempt Principal Trader Status under the Code on Takeovers and Mergers
	Guidance Note for Persons Advertising or Offering Collective Investment Schemes on the Internet
	Guidance Note on Continuous Professional Training
	Guidance Note on Competence
	Code of Conduct for Persons Registered with the Securities and Futures Commission (Revised)
	Joint Announcement with HKEx on the Market Consultation and Changes to the Rules governing the Listing of Securities on the Growth Enterprise Market
	Consultation on the Offering of Hedge Funds
	Amendments to the mandatory offer provisions of the Hong Kong Code on Takeovers and Mergers
	Revised Hong Kong Codes on Takeovers and Mergers and Share Repurchases (Phase 1)
	Code of Conduct for Share Registrars
	Corporate Finance Advisor Code of Conduct
2002	Provisions for Index Funds in the Code on Unit Trusts and Mutual Funds
	Revised Hong Kong Codes on Takeovers and Mergers and Share Repurchases (Phase 2)
	Guidelines for the Regulation of Automated Trading Services
	Consultation Paper on Proposals for a Scripless Securities Market
	Enactment of the Securities and Futures Ordinance on 13 March

Market Reform	
1989	Establishment of SFC (following the enactment of Securities and Futures Commission Ordinance)
1991	Approval of devolution of listing responsibility to SEHK
	Joint statement with SEHK on compromise agreement on restructuring of the Exchange Council
1993	Listing of Mainland enterprises in the form of H-shares
1994	Launch of regulated short selling
1998	HKSAR Government announced 30-point programme to further strengthen the regulatory and operation systems and enhance the discipline and transparency of the securities and futures markets
1999	Launch of Growth Enterprise Market
2000	Demutualisation and merger of stock and futures exchanges (March), listing of HKEx (June); SFC assumed direct responsibility for the regulation of all securities and futures intermediaries

Financial Infrastructure	
1990	Establishment of Hong Kong Securities Clearing Company
1992	Full implementation of Central Clearing and Settlement System (CCASS) and T+2 settlement
1994	Implementation of Automatic Order Matching and Execution System (AMS)
1996	Launch of AMS Second Terminal System
1999	Setting up of the Steering Committee on the Enhancement of the Financial Infrastructure in Hong Kong
2000	Implementation of AMS/3
	Migration of HSI Futures to Automated Trading System (HKATS)
	Implementation of the system for the electronic submission of Financial Resources Rules returns
2001	Launch of FinNet
	Migration of Stock Options to HKATS

Investor Education	
1992	Announcements of Public Interests (API) - " <i>Know Your Broker and Do Your Homework</i> ". Subsequent API messages: " <i>Do your homework and ask the right questions before investing</i> " (1997), " <i>Do not follow the crowd</i> " (1998), " <i>Learn the rules of the game</i> " (1999), " <i>Get the facts before you invest</i> " (2001) and " <i>When you invest, bank on facts, not rumours</i> " (2002)
1993	Establishment of the Investor Hotline
1995	Launch of first Retail Investor Survey
1996	Debut of free investor publication programs
	Publication of investor stories based on closed cases
	5-minute TV series <i>All About Investing</i> (投資本色)
1997	Half-hour TV documentaries <i>Invest Wisely</i> (投資本色)
1998	Formation of Investor Education Advisory Committee
	Broadcast of the first radio drama
1999	Interactive drama campaign <i>Don't guess when you invest</i> (股非估) for secondary school students
2000	Launch of Electronic Investor Resources Centre (eIRC). Revamped in 2002
	First series of workshops for secondary school teachers
	<i>Investor Alert</i> on SFC's website on investment risks and market pitfalls

HKEx and SFC

Hong Kong Exchanges and Clearing Ltd (HKEx)	http://www.hkex.com.hk
Securities and Futures Commission (SFC)	http://www.hksfc.org.hk
Investor Resources Centre	http://www.hkeirc.org