

## The Listing of Mainland Companies on HKEx and the Implications for Hong Kong

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### Summary

- *The stock market of Hong Kong used to be dependent on the property sector, but now has a more diversified structure due to the increasing importance of Mainland companies (i.e. H-shares and red chips) which consist mostly of companies in the energy, telecom and industrial sectors. Nevertheless, the stock market has become more dependent on the finance sector, mainly as a result of the growth of HSBC but also because of the listings of Bank of China (HK) and Standard Chartered Bank.*
- *Some Mainland stocks are also traded in overseas markets. Compared to the US and the UK, Hong Kong had a substantial share of about 70% of the total trading, notwithstanding the higher growth rates in the US and the UK.*

### Importance of Mainland Stocks in Hong Kong Has Increased

1. The importance of Mainland stocks<sup>2</sup> in the Hong Kong stock market has increased (Table 1).
  - As of the end of June 2004, there were 177 Mainland stocks (16.6% of the total number) listed in Hong Kong. This compared to 69 (11.8%) listed at the end of 1996.
  - The market capitalisation of Mainland companies totalled HK\$1,538.4 bn (27.7% of the total market cap) as of the end of June 2004. This has increased from HK\$294.8 bn (8.5%) at the 1996 year-end.
  - Turnover of Mainland stocks totalled HK\$1,594.9 bn for the 12 months ending June 2004 (42.1% of the total turnover). This has increased from HK\$160.3 bn (11.4%) in 1996.

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<sup>1</sup> This paper is for pure fact-finding and research purpose, 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.

<sup>2</sup> Mainland stocks in this paper refer to H-shares and red chips. The definitions of H-shares and red chips are adopted from HKEx, and are found in Table B2 of the Statistics section of the SFC Quarterly Bulletin.

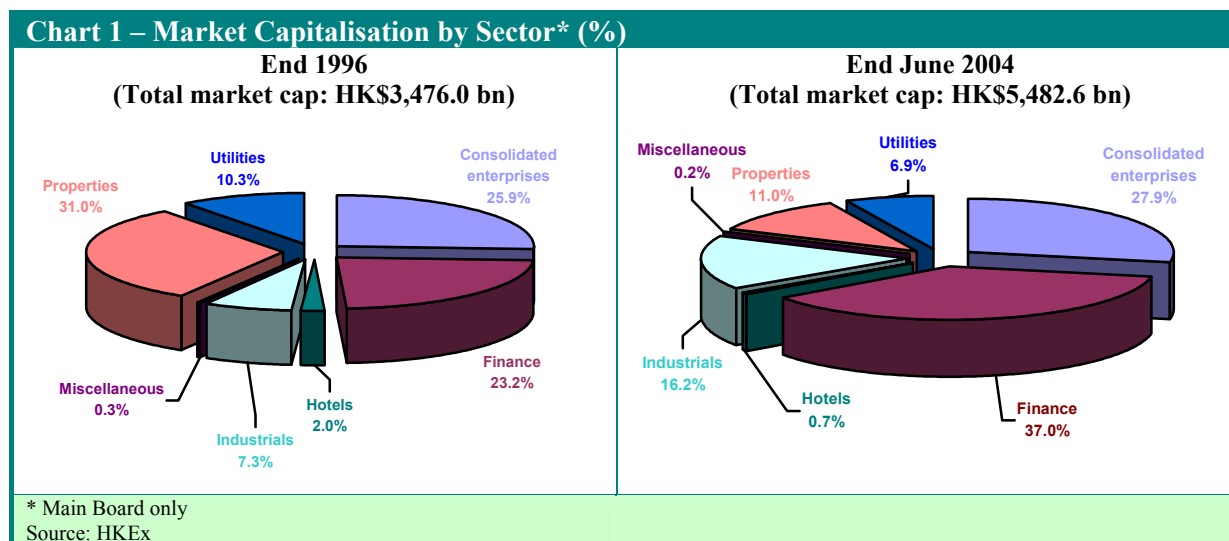
**Table 1 – Highlights of the Hong Kong Stock Market by Stock Type**

	1996	1997	1998	1999	2000	2001	2002	2003	2004 June
<b>Number of Listed Companies (period end)</b>									
Total (Main Board + GEM)	583	658	680	708	790	867	978	1,037	1,068
<i>Mainland companies</i>	69	98	104	112	119	127	146	164	177
- <i>H-shares</i>	23	39	41	44	50	58	74	92	103
- <i>Red chips</i>	46	59	63	68	69	69	72	72	74
<b>Market Capitalisation (period end, HK\$ bn)</b>									
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	5,555.3
<i>Mainland companies</i>	294.8	521.6	368.5	1,000.1	1,290.5	1,011.6	938.8	1,606.0	1,538.4
- <i>H-shares</i>	31.5	48.6	33.5	41.9	86.1	101.7	131.6	408.2	398.9
- <i>Red chips</i>	263.3	473.0	335.0	958.2	1,204.4	909.9	807.2	1,197.8	1,139.5
<b>Market Turnover (12 months ending, HK\$ bn)</b>									
Total (Main Board + GEM)	1,412.2	3,789.0	1,701.0	1,919.5	3,131.8	1,989.5	1,643.1	2,583.8	3,783.9
<i>Mainland companies</i>	160.3	1,341.5	442.9	458.3	846.9	749.2	453.3	1,000.4	1,594.9
- <i>H-shares</i>	24.9	297.8	73.5	102.8	171.2	251.4	143.6	506.1	914.4
- <i>Red chips</i>	135.4	1,043.7	369.4	355.5	675.7	497.8	309.7	494.3	680.5

Source: HKEx

## HKEx is Less Dependent on the Property Sector, But is More Dependent on the Finance Sector

2. Based on the classification system of HKEx, the property sector accounted for 31.0% of the total market capitalisation as of the end of 1996. The share declined to 11.0% as of the end of June 2004; i.e. a drop of 20 percentage points over the period (Chart 1).



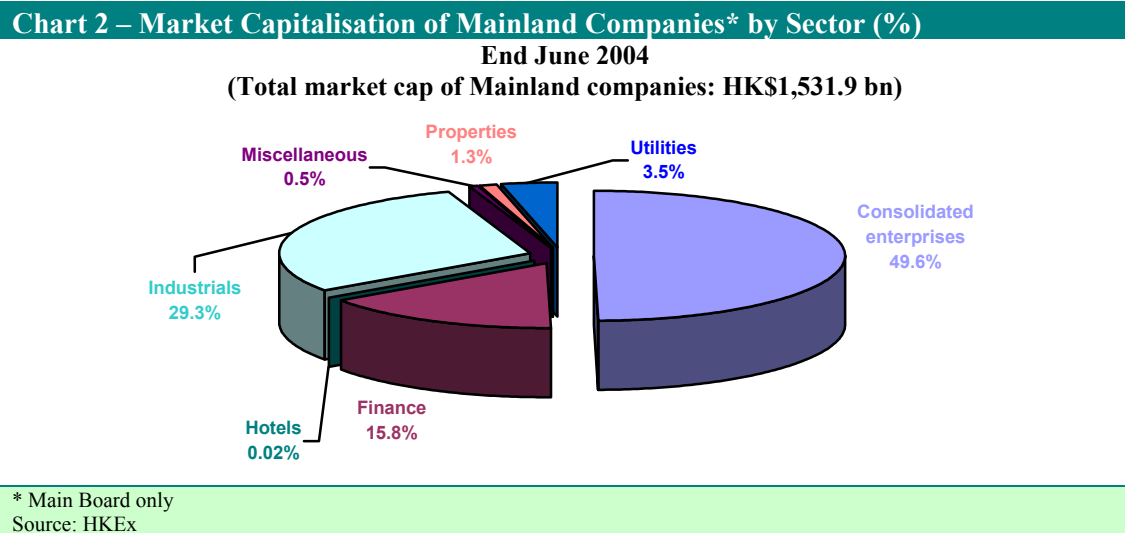
3. The finance sector's share rose from 23.2% to 37.0%. The rise was the result of the growth of HSBC and the listings of Bank of China (HK) and Standard Chartered Bank over the period.
- The market capitalisation of HSBC soared 337% from HK\$296.3 bn as of the end of 1996 to HK\$1,295.3 bn as of the end of June 2004. Excluding HSBC, the share of the finance sector only rose from 16.0% to 17.5%.
  - Bank of China (HK) and Standard Chartered Bank were listed on HKEx in July 2002 and October 2002 respectively. Their combined market capitalisation was HK\$288.1 bn as of the end of June 2004.

4. Comparing the top ten listed companies (by market cap) as of the end of June 2004 with those as of the end of 1996 (Table 2),
- there were less companies in the property sector;
  - there were more companies in the finance sector; and
  - there were more Mainland companies.

	<b>As of the end of 1996</b>	<b>As of the end of June 2004</b>
<b>Number of Companies in the Property Sector</b>	Four <ul style="list-style-type: none"> <li>• Sun Hung Kai Properties</li> <li>• Cheung Kong Holdings</li> <li>• Henderson Land</li> <li>• New World Development</li> </ul>	Two <ul style="list-style-type: none"> <li>• Sun Hung Kai Properties</li> <li>• Cheung Kong Holdings</li> </ul>
<b>Number of Companies in the Finance Sector</b>	Two <ul style="list-style-type: none"> <li>• HSBC</li> <li>• Hang Seng Bank</li> </ul>	Four <ul style="list-style-type: none"> <li>• HSBC</li> <li>• Hang Seng Bank</li> <li>• Standard Chartered Bank</li> <li>• Bank of China (HK)*</li> </ul>
<b>Number of Companies in the Industrial Sector</b>	Nil	One <ul style="list-style-type: none"> <li>• CNOOC*</li> </ul>
<b>Number of Companies in Other Sectors</b>	Four <ul style="list-style-type: none"> <li>• Hutchison Whampoa</li> <li>• Hong Kong Telecom</li> <li>• Citic Pacific*</li> <li>• Wharf Holdings</li> </ul>	Three <ul style="list-style-type: none"> <li>• China Mobile*</li> <li>• Hutchison Whampoa</li> <li>• China Light and Power</li> </ul>

Remark: \* denotes Mainland companies

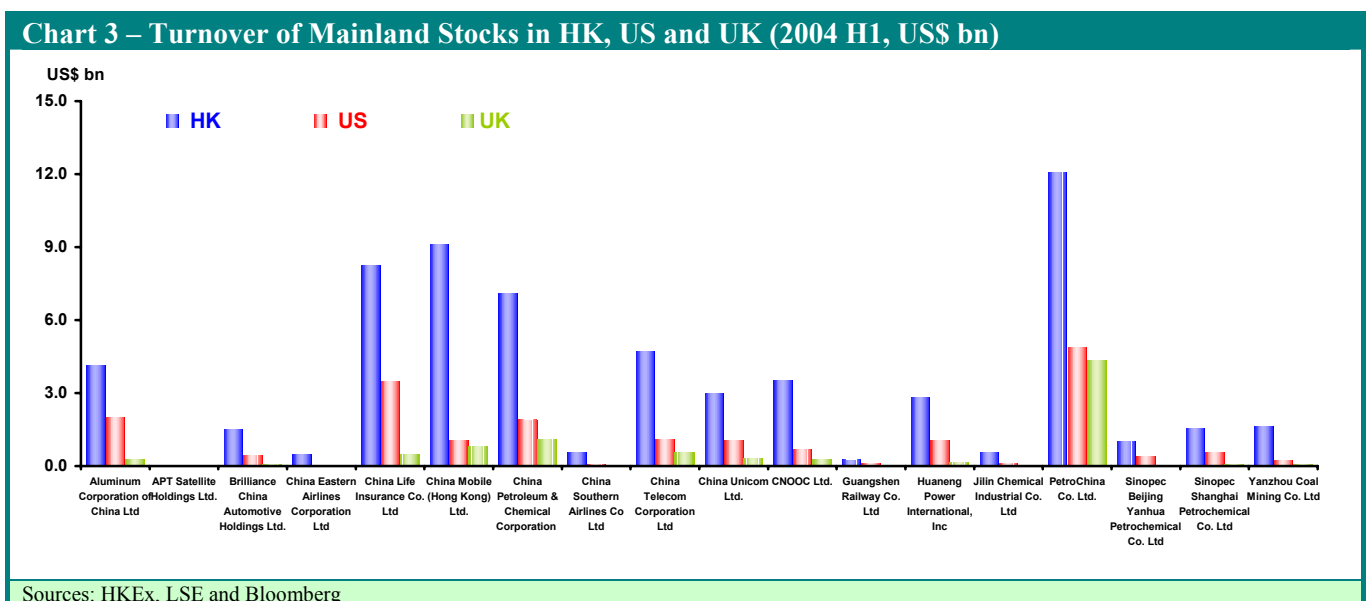
5. The listing of Mainland companies has widened the breadth of the Hong Kong stock market and provided more choice to investors.
6. Of the top ten Mainland companies (by market cap) listed on HKEx as of the end of June 2004,
- five were red chips and five were H-shares;
  - nine were listed after 1996;
  - none belonged to the property sector;
  - four belonged to the consolidated enterprises sector (including telecom companies, based on the classification system of HKEx, such as China Mobile, China Unicom and China Telecom);
  - three belonged to the industrial sector (including energy companies such as CNOOC, PetroChina and Sinopec); and
  - three belonged to the finance sector (including insurance companies such as China Life Insurance and Ping An Insurance).
7. The composition of Mainland companies in
- the consolidated enterprises sector was 49.6%;
  - the industrial sector was 29.3%; and
  - the finance sector was 15.8% (Chart 2).



8. The increasing importance of Mainland companies has led to a more diversified structure for the Hong Kong stock market. The energy sector (refers to oil and coal companies in this study), for instance, accounted for about 5% of the total market cap as of the end of June 2004. Excluding Mainland companies, the energy sector would be negligible.

**Trading of Mainland Stocks in Hong Kong is More Active than in the US and the UK**

9. As of the end of June 2004, there were 18 Mainland stocks traded in both Hong Kong and in the US and the UK. In the first half of 2004, the turnover of all of them was higher in Hong Kong than in the UK whilst the turnover of 17 of them was higher in Hong Kong than in the US (Chart 3).



10. The turnover of the 18 Mainland stocks in Hong Kong totalled US\$62.2 bn in the first half of 2004, whilst in the US and the UK it was US\$19.1 bn and US\$8.6 bn respectively. In other words, 69% of the total turnover took place in Hong Kong. The shares of the US and the UK were 21% and 9.6% respectively (Table 3).

**Table 3 – Turnover of Mainland Stocks (2004 H1, US\$ bn)**

	Hong Kong			US			UK			Total		
	Value	% of Row Total	% change from 2003 H2	Value	% of Row Total	% change from 2003 H2	Value	% of Row Total	% change from 2003 H2	Value	% of Row Total	% change from 2003 H2
Aluminum Corp of China	4.15	64.4%	126.1%	2.01	31.3%	129.7%	0.28	4.3%	54.7%	6.44	100.0%	122.7%
APT Satellite Holdings	0.005	15.5%	-66.2%	0.03	83.8%	-73.1%	0.0002	0.8%	-83.5%	0.03	100.0%	-72.4%
Brilliance China Automotive	1.49	75.4%	-11.9%	0.42	21.3%	9.5%	0.07	3.3%	-26.7%	1.98	100.0%	-8.7%
China Eastern Airlines	0.46	90.3%	-11.6%	0.04	7.4%	95.3%	0.01	2.4%	-28.8%	0.51	100.0%	-8.5%
China Life Insurance	8.25	67.5%	139.3%	3.49	28.5%	14.4%	0.48	4.0%	127.9%	12.22	100.0%	82.2%
China Mobile (Hong Kong)	9.12	82.9%	-2.8%	1.06	9.6%	19.2%	0.82	7.4%	-35.0%	10.99	100.0%	-4.6%
Sinopec	7.09	70.3%	158.0%	1.89	18.8%	87.5%	1.10	10.9%	105.2%	10.08	100.0%	134.8%
China Southern Airlines	0.57	87.0%	-13.9%	0.06	9.4%	67.3%	0.02	3.5%	4.3%	0.66	100.0%	-9.2%
China Telecom	4.71	74.1%	34.1%	1.09	17.1%	98.5%	0.55	8.7%	76.4%	6.35	100.0%	45.2%
China Unicom	2.97	68.3%	27.8%	1.04	24.0%	26.8%	0.33	7.7%	-8.1%	4.34	100.0%	23.8%
CNOOC	3.52	79.0%	22.7%	0.67	15.1%	68.4%	0.26	5.9%	n.a.	4.45	100.0%	36.3%
Guangshen Railway	0.25	66.5%	-35.2%	0.11	30.8%	14.0%	0.01	2.7%	-49.2%	0.37	100.0%	-25.9%
Huaneng Power International	2.81	70.2%	48.2%	1.04	26.1%	66.5%	0.15	3.7%	15.1%	4.00	100.0%	50.9%
Jilin Chemical Industrial	0.55	86.0%	-41.5%	0.09	13.2%	130.7%	0.01	0.8%	57.9%	0.64	100.0%	-34.7%
PetroChina	12.05	56.6%	112.9%	4.88	22.9%	159.3%	4.36	20.5%	721.8%	21.29	100.0%	163.7%
Beijing Yanhua Petrochemical	1.03	71.5%	17.4%	0.38	26.6%	343.4%	0.03	1.9%	148.9%	1.43	100.0%	47.7%
Shanghai Petrochemical	1.55	70.5%	77.3%	0.57	25.8%	250.2%	0.08	3.6%	54.7%	2.19	100.0%	102.0%
Yanzhou Coal Mining	1.62	85.4%	98.4%	0.22	11.4%	126.2%	0.06	3.3%	23.6%	1.90	100.0%	97.3%
<b>Total</b>	<b>62.18</b>	<b>69.2%</b>	<b>53.7%</b>	<b>19.08</b>	<b>21.2%</b>	<b>71.6%</b>	<b>8.62</b>	<b>9.6%</b>	<b>127.4%</b>	<b>89.89</b>	<b>100.0%</b>	<b>62.4%</b>

Sources: HKEx, LSE and Bloomberg

11. The trading of these 18 Mainland stocks has increased significantly from the second half of 2003 in all three markets, though the growth rate for Hong Kong was the lowest at 54%. The growth rates for the US and the UK were 72% and 127% respectively. The turnover of the 18 Mainland stocks in Hong Kong totalled US\$40.5 bn in the second half of 2003, whilst in the US and the UK it was US\$11.1 bn and US\$3.8 bn respectively. The market shares of Hong Kong, the US and the UK were 73%, 20% and 6.9% respectively in the second half of 2003.
12. The high growth rate in the UK was largely attributable to the increase in the turnover of PetroChina, which was in turn the result of a placement of 3.5 bn shares (20% of the issued H-shares) by British Petroleum in January 2004. The turnover of PetroChina in the UK amounted to about US\$3.6 bn in the month. This was much higher than the average monthly turnover of US\$151 mn during February-June 2004. Excluding PetroChina, the growth rates for Hong Kong, the US and the UK would be 44%, 54% and 31% respectively.
13. Mainland stocks are gaining increasing importance in the Hong Kong stock market, and some Mainland stocks are also traded in overseas markets. Compared to the US and the UK, Hong Kong had a substantial share of about 70% of the total trading, notwithstanding the higher growth rates in the US and the UK.