

**Fact sheet on the listing of H-shares
6 August 2013**

1. General background of the listing of H shares

The Stock Exchange of Hong Kong Limited (SEHK), which became a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx) in 2000, began the project in mid-1991.

On 17 June 1993, SEHK announced amendments to the Listing Rules for the purpose of listing state enterprises in Hong Kong. The amendments mainly provided for the listing for H shares in Hong Kong.

On 19 June 1993, the China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong's Securities and Futures Commission (SFC) and SEHK signed a memorandum of understanding on Sino-Hong Kong regulatory cooperation in the Great Hall of the People in Beijing. The purpose was to increase investor protection, ensure compliance with stock market-related rules and promote mutual exchanges of information and cooperation. In short, the door was formally opened for the listing of Mainland firms in Hong Kong.

Nine state enterprises were approved to list in Hong Kong on 6 October 1992. Tsingtao Brewery was the first to list. Its shares started trading on the Exchange on 15 July 1993.

The second batch was announced on 27 January 1994. There were 22 companies, mainly from heavy industries such as energy, transport and raw materials.

SEHK had no involvement in the picking of the companies. SEHK understood the selection at that time took into account the readiness of the enterprises in terms of their quality and structure, their business prospects and the location of the company.

After that the regulator felt the intermediaries and the market had developed a set of criteria to identify the more mature candidates for listings in Hong Kong and hence the selection process was gradually handed over to the market.

Many people contributed to the project's success, including government officials and regulators on the Mainland and in Hong Kong. Charles Lee, who was Stock Exchange chairman from 1992-94, certainly had a major role. He has said no other exchange outside the Mainland had thought of attracting Mainland enterprises because the Mainland had no company or securities law at the time. He has also said he was always a firm believer in requiring Mainland enterprises to comply fully with Hong Kong listing requirements, just as any other Hong Kong-listed company, because that would help them reach their true growth potential, and that has proven to be a very good policy. The then vice premier Zhu Rongji was the Mainland's driving force. Another important figure was the chairman of the CSRC at that time, Liu Hongru.

2. Why was SEHK interested in starting H-share listings?

SEHK was naturally interested because of the opening up of the Mainland economy (the Open Door policy began in 1978) held the promise of a new stream of listing candidates, and the Mainland side was interested too.

During the 1980s, Hong Kong manufacturer listing applicants had been investing in Mainland operations, some Mainland enterprises had set up in Hong Kong, and there had been the first Red Chip listings (under foreign holding companies).

Eventually, the idea emerged to list Mainland state-owned enterprises (SOEs) directly. The first thought was that because of the rudimentary state of Mainland corporate regulation, there was no way such enterprises could comply with Hong Kong listing and prospectus requirements, and therefore they should be listed on some kind of lower-quality caveat-emptor type of board.

However, Zhu Rongji, the then vice premier, insisted on parity for Mainland companies, ie Main Board listing. A key Mainland objective, in addition to pure capital raising, was to upgrade SOEs' management and corporate governance standards by exposure to international practices – which obviously meant high standards and practices required for listing on the Main Board in the 90's in the last century.

Accordingly, the H share regime – which supplemented Mainland domestic regulations with additional provisions (regarding audit and accounts and investor protection and recourse to arbitration) – was born.

3. Why the name "H-shares"?

H simply represents Hong Kong. It was purely practical, to distinguish the Hong Kong listings with the listings on the Mainland exchanges for the convenience of investors.

There were already B shares (internationally-owned shares) and A shares (domestically-owned shares) in the Mainland market, so it was natural to use another letter.

At that time, someone proposed “C” shares, but that may be misinterpreted as lower grade shares. Other proposals were “I” for international shares and “W” for world shares but “H” was eventually selected to reflect the listing place of the shares which was Hong Kong.

4. What are the benefits for Mainland companies to list in Hong Kong?

The Hong Kong market has an obvious function for Mainland enterprises of being able to raise capital in a freely convertible currency, on the Hong Kong market, for their business development. Mainland companies have also taken full advantage of the Hong Kong market’s relatively greater liquidity and its more effective and better regulated risk management investment instruments.

The listing of Mainland businesses in Hong Kong has another deeper meaning. Market forces can effectively push for the deepening of corporate reforms and the strengthening of corporate governance. Regulators, shareholders, big and small investors, analysts and the media combine into a market force that pushes for continuous corporate governance improvement, greater management transparency, strong human resources management, higher operating efficiency and better financial results. Through flotation, businesses can accelerate their pace of reform and increase their ability to follow international practices and transform themselves into international entities.

A successful Hong Kong listing greatly improves the international standing of a Mainland company and boosts investors' confidence in it, making it possible for the company to introduce international strategic investors and participate in the international market.

5. What are the benefits for the Hong Kong market?

From the Hong Kong perspective, the listing of Mainland businesses is also beneficial. Instead of being a securities market dominated by property and finance counters, Hong Kong is now a marketplace with a great diversity of securities and other products. Hong Kong-listed Mainland companies have improved the Hong Kong securities market in width and depth and increased its influence and attractiveness.

Hong Kong-listed Mainland businesses have greatly expanded the Hong Kong securities market. The effects of an enlarged market are seen in the number of listed companies, market capitalisation and turnover.

A greater advantage is that the listing of Mainland businesses in Hong Kong has led to the convergence of a large number of international financial securities institutions and professionals in Hong Kong, including investment banks, accountants, lawyers, valuers, analysts, fund managers and institutional investors.

6. Milestones of H-share listing

Mid-1991	Exploration of the listing of H-shares began
17 June 1993	Listing Rules to permit the listing of H-shares announced
19 June 1993	Memorandum of regulatory cooperation that paved the way of H-share listing signed by CSRC, Shanghai and Shenzhen stock exchanges, SFC and SEHK
15 July 1993	First H-share company Tsingtao Brewery listed
27 October 2005	First fully convertible H-share company China Construction Bank listed; also first mega-sized H-share listing through a single IPO in Hong Kong
27 October 2006	First simultaneous listing of H- and A-share company Industrial and Commercial Bank listed

Market Statistics about H-share Listings

(Data as of the end of June 2013; dollar unit: HKD)

H-share companies have come a long way over the past 20 years.

Listed Companies

	End June 2013	End 2003	End 1993
Number of H-share companies	176	92	6
Number of Mainland enterprises (including H-share companies, red chip companies and Mainland private enterprises)	743	249	40
Number of listed companies	1,567	1,037	477

Market Capitalisation

	End June 2013	End 2003	End 1993
MC of H-share companies	\$4,219 billion (20.37% of total MC)	\$408 billion (7.36% of total MC)	\$18 billion (0.61% of total MC)
MC of Mainland enterprises	\$11,575 billion (55.90% of total MC)	\$1,680 billion (30.28% of total MC)	\$144 billion (4.83% of total MC)

Market Capitalisation / HK GDP

	Market Cap of Stock Market	Hong Kong's GDP*	(MC/GDP)
1993	\$2,975 billion	\$931 billion*	319.5%
2012	\$21,950 billion	\$2,042 billion*	1,075%
	\$20,707 billion (30 June 2013)		

*Source: Census and Statistics Department

Turnover

	Up to end June 2013	2003	1993
Turnover of H shares	\$2,229 billion (38.34% of market's equity turnover)	\$506 billion (21.96% of market's equity turnover)	\$33 billion (3.01% of market's equity turnover)
Turnover of Mainland enterprises	\$4,153 billion (71.42% of market's equity turnover)	\$1,052 billion (45.64% of market's equity turnover)	\$122 billion (11.14% of market's equity turnover)

Funds Raised

	Up to end June 2013	2012	2003	1993
IPO funds raised by H-share companies	\$22.5 billion	\$63.8 billion	\$47.5 billion	\$8.1 billion
Total funds raised by H-share companies	\$54.7 billion	\$123.7 billion	\$48.3 billion	\$8.1 billion

Total equity funds raised by H-share companies since 1993 till end June 2013: \$1,525 billion (Total equity funds raised by Mainland enterprises, including H-share companies, red chip companies and Mainland private enterprises since 1993 till end June 2013: \$3,526 billion)

Historic Highs

H-share index	20400.07	30/10/2007
Highest average daily turnover of H-shares (percentage of equity turnover)	\$31,595,659,433.19 (46.62%)	2007
Highest single day turnover of H-shares (percentage of equity turnover)	\$99,998,481,000 (68.09%)	13 May 2009
Total market cap of H-shares	\$6,445,551,709,607	30 Oct 2007
H-share IPO funds raised (percentage of total IPO funds raised in the year)	\$291,795,934,420 (87.40%)	2006

10 Biggest Hong Kong IPOs (\$ billion)

1	AIA Group Ltd.	159.08
2	Industrial and Commercial Bank of China Ltd. - H Shares	124.95
3	Agricultural Bank of China Ltd. - H Shares	93.52
4	Bank of China Ltd. - H Shares	86.74
5	Glencore International plc	77.75
6	China Construction Bank Corporation - H Shares	71.58
7	China Unicom Ltd.	43.61
8	China CITIC Bank Corporation Ltd. - H Shares	32.92
9	China Mobile Ltd.	32.67
10	China Minsheng Banking Corp., Ltd. - H Shares	31.23

20 Most Actively Traded Stocks by Turnover Value in the first six months in 2013

	Stock Code	Company Name	Turnover in HKD mil
1	01398	Industrial and Commercial Bank of China Ltd. - H Shares	205,527.25
2	00939	China Construction Bank Corporation - H Shares	198,201.02
3	00941	China Mobile Ltd.	177,243.16
4	02318	Ping An Insurance (Group) Co. of China Ltd. - H Shares	159,248.85
5	03988	Bank of China Ltd. - H Shares	151,848.93
6	00005	HSBC Holdings plc	149,417.97
7	00700	Tencent Holdings Ltd.	147,612.21
8	01299	AIA Group Ltd.	127,997.83
9	00883	CNOOC Ltd.	107,571.99
10	02628	China Life Insurance Co. Ltd. - H Shares	99,281.80
11	00386	China Petroleum & Chemical Corporation - H Shares	95,498.79
12	00857	PetroChina Co. Ltd. - H Shares	86,989.73
13	00016	Sun Hung Kai Properties Ltd.	79,727.17
14	00388	Hong Kong Exchanges and Clearing Ltd.	71,567.76
15	00001	Cheung Kong (Holdings) Ltd.	65,615.07
16	00013	Hutchison Whampoa Ltd.	64,426.44
17	01088	China Shenhua Energy Co. Ltd. - H Shares	64,132.15
18	01988	China Minsheng Banking Corp., Ltd. - H Shares	62,578.17
19	00688	China Overseas Land & Investment Ltd.	62,189.82
20	01288	Agricultural Bank of China Ltd. - H Shares	61,308.86

30 Biggest Stocks by Market Capitalisation (\$ million) as of 30 June 2013

**Only the H-share part is counted in the market cap of H-share companies*

1	China Mobile Ltd.	1,628,173.24
2	HSBC Holdings plc	1,513,389.73
3	China Construction Bank Corporation - H Shares	1,319,891.09
4	CNOOC Ltd.	587,545.39
5	Tencent Holdings Ltd.	563,283.05
6	Industrial and Commercial Bank of China Ltd. - H Shares	424,422.88
7	Standard Chartered PLC	413,135.78
8	AIA Group Ltd.	395,645.40
9	Hutchison Whampoa Ltd.	347,677.89
10	Sands China Ltd.	294,479.12
11	Sun Hung Kai Properties Ltd.	267,361.96
12	Bank of China Ltd. - H Shares	266,755.06
13	BOC Hong Kong (Holdings) Ltd.	252,160.81
14	Cheung Kong (Holdings) Ltd.	243,660.49
15	China Unicom (Hong Kong) Ltd.	243,432.83
16	Hang Seng Bank Ltd.	219,288.36
17	Wharf (Holdings) Ltd., The	197,538.22
18	Hong Kong and China Gas Co. Ltd., The	181,251.35
19	PRADA S.p.A.	180,141.21
20	Bank of Communications Co., Ltd. - H Shares	175,059.31
21	PetroChina Co. Ltd. - H Shares	174,065.93
22	China Overseas Land & Investment Ltd.	166,312.74
23	MTR Corporation Ltd.	165,800.22
24	Ping An Insurance (Group) Co. of China Ltd. - H Shares	163,372.03
25	Galaxy Entertainment Group Ltd.	159,987.01
26	CLP Holdings Ltd.	158,534.77
27	Want Want China Holdings Ltd.	144,446.91
28	Power Assets Holdings Ltd.	142,782.10
29	Swire Pacific Ltd.	139,846.35
30	China Petroleum & Chemical Corporation - H Shares	139,303.37

H-share Index (HSCEI) Performance

Date	Nikkei 225		Straits Times Index (STI)*		S&P 500		FTSE 100		HSI		HSCEI		CSI 300	
	Last Price	Change	Last Price	Change	Last Price	Change	Last Price	Change	Last Price	Change	Last Price	Change	Last Price	Change
15/07/1993	20158.02		1376.93		449.22		2831.70		6978.54		3964.65		1316.46**	
28/06/2013	13677.32	-32.15%	3150.44	128.80%	1606.28	257.57%	6215.47	119.50%	20803.29	198.10%	9311.44	134.86%	2200.64	67.16%

* Straits Times Index (STI) was revamped from Straits Times Old Index on 10 Jan 1998.

** 4 Jan 2002 (the earliest data available from Bloomberg)

Source: Bloomberg

HSCEI was launched on 8 August 1994 but the index has been backdated to 15 July 1993 for comparison. The universe is small on both cases. If we use the data of 15 July 1998, the fifth anniversary of the first H-share listing and by which time the index had gained breadth, with a total of 41 constituents, its gain to the end of June this year is 427 per cent vs 37 per cent for the S&P500.

New Listings and Delistings*

	H-share new listings	Total new listings	H-share delistings	Total delistings
1993-2013 (first half)	185	1,355	9	204

* Figures do not include transfers of listings from GEM to Main Board.

Futures

The average daily volume (ADV) of H-shares index futures exceeded ADV of HSI futures for the first time in June 2013.

Average Daily Volume in June 2013 (contracts)

H-shares Index Futures	107,285
Hang Seng Index Futures	104,846

Average Daily Volume (ADV) of H-shares Index (HHI) Futures and Hang Seng Index (HSI) Futures

