THE ROLE OF HONG KONG CAPITAL MARKETS IN FINANCING CHINESE MAINLAND ENTERPRISES

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INTRODUCTION

The Hong Kong equity market was the tenth largest in the world and the second largest in Asia by market capitalization as of September 2000 (HKEx 2001b).[3] The Hong Kong securities market was the most active in Asia and the fourth most active in the world by the amount of new capital raised during 2000 (HKTDC 2001a). The Hong Kong capital markets play a key role in financing Chinese enterprises in the Chinese mainland (China hereafter), which helps the reform of inefficient state-owned enterprises (SOEs), numerous infrastructure development projects, as well as newly emerging growth enterprises in China.

This paper reviews recent developments in the Hong Kong capital market and examines the significance of that market in supporting the development of enterprises in China (Chinese enterprises, hereafter). We first present an overview of the financial markets in Hong Kong as well as a description of the regulatory framework of the capital market. Then we discuss the listing of Chinese enterprises in the Hong Kong equity market not only as a source of additional capital but also as a training ground for their participation in global capital markets, using the case of Zhejiang Expressway Company, Ltd. to illustrate.

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OVERVIEW OF THE FINANCIAL MARKETS IN HONG KONG

This section reviews recent developments in the banking industry and the bond market as well as the equities market in Hong Kong and compares the relative importance of the banking industry and the capital market.

The Banking Industry

The banking industry in Hong Kong has gone through a number of significant reforms since the early 1960s, moving from laissez-faire to world-class prudential supervision. This was a result of the government's timely and determined responses to the banking crises that occurred in the early 1960s, the mid-1980s, and the early 1990s. In 2000, about 64 percent of banks' liabilities in Hong Kong dollars were deposits from customers, while their dominant types of assets during the period 1995 to 2000 were loans and advances to customers. The amount due to banks outside of Hong Kong has the highest percentage of liabilities in foreign currency, but this category gradually declined from 72.81 percent in 1995 to 42.49 percent in 2000. On the other hand, the amount due from banks outside of Hong Kong has the highest percentage of assets in foreign currency from 1998 to 2000. This category has increased gradually from 48.15 percent in 1998 to 60.37 percent in 2000. Loans and advances to customers occupy the highest percentages of assets in foreign currency from 1995 to 1997 and in total assets (both Hong Kong dollars and foreign currency) from 1995 to 2000. The composition of liabilities changes slightly after 1997. From 1995 to 1997 the amount due to banks outside of Hong Kong dominated total liabilities, and from 1998 to 2000 deposits from customers had the largest share of total liabilities (HKC&S, 2000; and HKMA, 2001a).

Bank lending, equity finance, and bond issuance are the major sources of corporate financing. It has been well established that financial development is a prerequisite for economic growth; all the sectors of the financial market (banking, equity, and debt) must grow and become more sophisticated. A more interesting question is how the relative importance of these three sources of corporate financing changes over the course of economic development.

In the case of Hong Kong, bank finance has continued to be important. Even in 2000 (after the Asian financial crisis), domestic credit provided by the banking sector was 158 percent of GDP (compared with 100 percent in Singapore, 109 percent in Japan, 128 percent in the UK, and 73 percent in the United States). Bank credit is so significant perhaps because Hong Kong has long had a modern and advanced banking system under extremely prudent government regulation and supervision. Corporate governance regulations have also been elaborate. In accordance with Diamond (1984), bank finance can be as effective as other sources of financing if it is possible for banks to minimize the agency problems arising from information asymmetry. The stock market has played an increasingly important role in corporate financing in Hong Kong in line with the theory of economic development. In 2000, the capitalisation of Hong Kong's stock market was 377 percent of GDP (c.f. Singapore’s 247 percent, Japan’s 71 percent, UK’s 185 percent, and the United States’ 157 percent). On the other hand, Hong Kong corporations' use of the debt markets as a source of financing remains relatively insignificant. The reasons for this are discussed in the next section.

Development of the Bond Market

Unlike the equity market, the debt market in Hong Kong is relatively small and the bond market appears inactive when compared to the markets in other developed economies. From 1994 to 2000 the bond market grew from 8 percent of GDP to only 37 percent (HKTDC 2001b).

Following the classification of the International Federation of Stock Exchanges (IFSE), the Hong Kong bond market consists of domestic public, domestic private, and foreign bonds. Domestic public bonds are Exchange Fund Bills and Notes, which are issued and managed by the Hong Kong Monetary Authority (HKMA). Domestic private bonds are mainly issued by commercial banks and large corporations such as the Mass Transit Railway Corporation (MTR) and the Kowloon Canton Railway Corporation (KCR) (HKTDC 2001b). The foreign bonds listed on the SEHK are issued by non-resident institutions, including foreign companies, foreign governments, international banks, and supranational organisations such as the World Bank group and the Asian Development Bank.

Foreign bonds comprised from 83 to 93 percent of the market value of all bonds listed in Hong Kong from 1997 to 2000, while domestic private bonds represented less than 3 percent of the market (Table 1). In contrast, foreign bonds comprised only around 3 percent of the market value of the bonds listed on the New York Stock Exchange. While the great preponderance of the value of the NYSE bond market was public issues, private domestic bonds still represented around ten percent of the market value. Thus, we can see that the domestic bond market in Hong Kong is inactive compared with the markets for domestic bonds in highly developed economies.

TABLE 1
Market Value of Bonds Listed in Hong Kong and New York, 1997-2000

	Domestic Private Bonds		Domestic Public Bonds		Foreign Bonds		All Listed Bonds	
	US$ million	% of all bonds	US$ million	% of all bonds	US$ million	% of all bonds	US$ million	% Change from 1997
	Stock Exchange of Hong Kong							
1997	2,588	2.46	3,889	3.70	98,519	**93.83**	104,995	-
1998	1,955	1.77	4,805	4.35	103,679	**93.88**	110,438	5.18
1999	2,935	2.97	11,563	11.69	84,412	**85.34**	98,910	-10.44
2000	2,650	2.96	12,449	13.92	74,302	**83.11**	89,401	-9.61
	New York Stock Exchange							
1997	249,988	9.52	2,321,270	**88.42**	54,099	2.06	2,625,357	-
1998	242,080	9.48	2,256,892	**88.36**	55,150	2.16	2,554,122	-2.71
1999	230,840	9.61	2,108,845	**87.81**	61,920	2.58	2,401,605	-5.97
2000	232,678	10.95	1,827,994	**86.03**	64,117	3.02	2,124,789	-11.53

Note: Private domestic bonds are issued by domestic private companies. Domestic public bonds include government and municipal bonds. Foreign bonds are ones listed on the stock exchange and issued by non-resident institutions (i.e., foreign companies, foreign governments, and international banks) or by supranational issuers such as the World Bank group and the Asian Development Bank. Bold typeface indicates the type of bond comprising the largest percentage of total market value in each year.
Source: International Federation of Stock Exchanges 1997-2000.

The Hong Kong bond market is much smaller than the U.S. bond market overall. The year-end market value of bonds listed in Hong Kong amounted to only about four percent of the value of bonds listed on the New York Stock Exchange from 1997 to 2000 (Table 1). Moreover, generally speaking the value of the bond market in Hong Kong is smaller relative to the equity market than is the case in the United States. In 1998, in the aftermath of the Asian crisis, the value of the bond market in Hong Kong reached 32 percent of equity market capitalisation, which was well above the 24 percent in the United States (Table 2). In the more normal years of

1997, 1999, and 2000, however, the bond market in the United States was larger relative to the equity market than it was in Hong Kong. For both the United States and Hong Kong, the bond market declined relative to the equity market after 1997. Furthermore, debt markets appear to have shrunk in both countries during recent years. The rate of growth in the value of the bond market was negative in 1999 and 2000 for both Hong Kong and the United States (Table 1).

TABLE 2
Market Value of Bonds versus Equity Market Capitalisation in Hong Kong and New York, 1997-2000

	Domestic Private Bonds		Domestic Public Bonds		Foreign Bonds		Total Market Value of Bonds		Equity Market Capitalisation
	US$ million	% equity mkt. cap.	US$ million	% equity mkt. cap.	US$ million	% equity mkt. cap.	US$ million	% equity mkt. cap.	US$ million
					Stock Exchange of Hong Kong				
1997	2,588	0.63	3,889	0.94	98,519	23.84	104,995	25.40	413,323
1998	1,955	0.57	4,805	1.40	103,679	30.18	110,438	32.14	343,567
1999	2,935	0.48	11,563	1.90	84,412	13.86	98,910	16.24	609,090
2000	2,650	0.43	12,449	2.00	74,302	11.92	89,401	14.34	623,398
					New York Stock Exchange				
1997	249,988	2.82	2,321,270	26.14	54,099	0.61	2,625,357	29.57	8,879,631
1998	242,080	2.36	2,256,892	21.97	55,150	0.54	2,554,122	24.87	10,271,900
1999	230,840	2.02	2,108,845	18.44	61,920	0.54	2,401,605	21.00	11,437,597
2000	232,678	2.02	1,827,994	15.85	64,117	0.56	2,124,789	18.42	11,534,613

Note: Private domestic bonds are those that are issued by domestic private companies. Domestic public bonds include government and municipal bonds. Foreign bonds are those that are listed on the stock exchange and issued by non-resident institutions (i.e., foreign companies, foreign governments, and international banks); they also include supranational issuers such as the World Bank group and the Asian Development Bank.
Source: International Federation of Stock Exchange 1997-2000, *Market Statistics Annual*.

Within the region, Hong Kong's bond market is relatively large. The SEHK ranked fifth among the eleven Asia-Pacific stock exchanges from 1997 to 2000 in the market value of listed bonds (Table 3). The two largest bond markets in the Asia-Pacific region in terms of market value were in Japan (Tokyo and Osaka), while the smallest regional bond market in these four years was in the Philippines.

TABLE 3
Ranking of Asian Pacific Bonds Markets by Market Value of Listed Bonds

	1997		1998		1999		2000	
	Rank	US$ million	Rank	US$ million	Rank	US$ million	Rank	US$ million
Australia	6	76,107.6	6	68,329.2	6	76,697.4	6	59,101.0
Colombo	10	5.3	10	46.6	9	64.4	9	70.2
Hong Kong	5	104,995.4	5	110,438.3	5	98,910.0	5	89,401.0
Jakarta	9	109.2	9	50.3	10	21.3	10	15.5
Korea	4	132,222.2	3	277,785.5	3	321,706.1	3	335,718.3
Kuala Lumpur	8	1,836.9	8	1,310.5	8	1,752.6	8	1,563.2
Osaka	2	1,785,308.4	1	2,253,635.7	2	2,624,293.4	2	2,535,507.1
Philippines	11	3.7	11	0.0	11	0.0	11	0.0
Singapore	3	171,625.9	4	182,946.2	4	198,938.9	4	218,791.5
Taiwan	7	32,807.0	7	36,577.9	7	44,370.0	7	48,455.4
Tokyo	1	1,814,982.4	2	2,219,012.0	1	2,639,619.2	1	2,548,332.0

Source: International Federation of Stock Exchanges. 1997-2000.

Three factors usually affect the development of debt markets. The first, on the supply side, is the presence of reputable firms that are creditworthy potential bond issuers. The second, on the demand side, is the existence of potential buyers with adequate spare funds. The third is the institutional framework (corporate governance, accounting standards, law enforcement, and judicial system) that helps protect investors. Many developing economies lack all three factors and, hence, their debt markets are underdeveloped.

Hong Kong is somewhat different from other developing economies. On the supply side Hong Kong certainly has many reputable firms, which are potential bond issuers, but the government has not been an issuer for a long time because of its strong fiscal position. In consequence, there was no benchmark against which private bond prices could be set. Only recently has it become possible to construct a yield curve, as a result of the issuance, first, of 2- to 3-year government paper and, then, of 5- to 10-year paper. In addition, for reputable firms in Hong Kong, issuing bonds incurs higher transactions cost than other sources of financing because of firms' easy access to bank finance and the equity market. On the demand side, although Hong Kong has a high savings rate, investors are risk-preferred and there are relatively few large-scale pension funds. Hong Kong's institutional framework is not an obstacle because for a long time it has had a credible legal and judicial system and well-established schemes to protect investors. Since the Asian financial crisis, the Hong Kong government has undertaken various measures to promote the development of the debt market (SFC 2001c).

The Equity Market

In the past, Hong Kong's equity market had a relatively simple structure. It was comprised of two major platforms, the Stock Exchange of Hong Kong Limited in the cash market and the Hong Kong Futures Exchange (HKFE) in the derivatives market, as well as three associated clearing houses: the Hong Kong Securities Clearing Co. Ltd. (HKSCC), the Stock Exchange Options Clearing House (SEOCH), and the HKFE Clearing Corporation Ltd. (McGuinness 1999).

To increase its competitiveness and meet the challenges of the increasingly globalised capital market, the Hong Kong equity market went through several major changes in recent years. These included the demutualisation of the two exchanges (SEHK and HKFE), the merger of their clearing houses, the launch of the Growth Enterprise Market (GEM) and the Pilot Program for trading U.S. securities, and the introduction of the Third-Generation Automatic Order Matching and Execution System (AMS/3) and the upgraded version of Central Clearing and Settlement System (CCASS/3) (HKEx 2001b). Hong Kong Exchanges and Clearing Limited (HKEx), the holding company of the SEHK, the HKFE, and the integrated HKSCC, was established on 6 March 2000 and subsequently listed on its own exchange on 27 June 2000. To meet the financing needs of smaller and high growth companies that do not qualify for listing on the main board (i.e., the SEHK), the GEM was launched on 15 November 1999. The GEM was considered a designated offshore securities market by the U.S. Securities and Exchange Commission (SEC) in 2000 (HKEx 2001a and 2001b).

During May 2000 in conjunction with NASDAQ, the SEHK introduced the Pilot Program to globalise Hong Kong's equity market. Under this Program initially seven established NASDAQ stocks were quoted and traded, but not listed, on the SEHK. As these trades were settled and cleared in Hong Kong dollars through HKSCC, they followed the standard trading and clearing procedures with T+2 settlement period. To increase market efficiency through the formation of electronic linkages among investors around the world, the SEHK launched an

AMS/3 trading system in 2000. The three important features of this modernised trading system are its multi-workstation, its open gateways, and its order routing system (ORS). The ORS allows investors to trade Hong Kong stocks by computer or mobile phone from anywhere in the world over the Internet.

Characteristics of Listed Companies and Investors

As of May 2001 the main board of the SEHK listed 741 companies with a total market capitalisation of US$575 billion. In comparison, the GEM listed 75 companies with a total market capitalisation of approximately US$9 billion (HKTDC 2001a).

The SEHK classifies listed companies into one of seven industry categories: finance, utilities, properties, consolidated enterprises, industrials, hotels, and miscellaneous (HKEx 2001b). From 1991 to 2000 the three most important industries in the Hong Kong equity market were consolidated enterprises, finance, and properties (Table 4). Consolidated enterprises' share of total market capitalisation was the largest of the seven industry categories in 1991, 1992, 1994, 1995, and 2000, while the finance industry had the largest share, about one-fourth, from 1997 to 1999. The property industry had a significant presence in the Hong Kong equity market before the Asian financial crisis of 1997, claiming the largest share of market capitalization in 1993 and 1996 and the second largest share in 1994 and 1995. On the whole, similar to other Asian financial markets, the equity market in Hong Kong was sluggish with negative growth rates in 1997 and 1998. It recovered in 1999 with a growth rate of about 77 percent, but slowed again in 2000.

According to the market value of their ordinary shares, in 1996 and 1997, over half of the companies listed on the SEHK were capitalised at HK$501 million or more and less that twenty percent were capitalised at under HK$201 million (Table 5). This distribution shifted downward after 1997. In 1998 only 35 percent of companies were capitalised at HK$501 million or more, while for approximately 40 percent market values were below HK$201 million. From 1996 to 2000, under 10 percent of companies had market values exceeding HK$10 billion.

TABLE 4
Market Capitalisation of the Stock Exchange of Hong Kong by Industry, 1991-2000

	Industry Classification														SEHK Total Capitalisation	
	Finance		Utilities		Properties		Consolidated Enterprises		Industrials		Hotels		Miscellaneous			
	HK$ billion	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% of market cap.**	**HK$ billion**	**% change from prev. year**
1991	154.0	16.23	175.7	18.51	255.6	26.93	270.7	**28.52**	65.9	6.94	20.8	2.19	6.3	0.67	949.2	-
1992	297.9	22.36	222.8	16.72	332.7	24.98	352.3	**26.45**	92.6	6.95	28.1	2.11	5.8	0.43	1,332.2	40.35
1993	599.7	20.16	420.7	14.14	856.6	**28.79**	828.8	27.86	186.7	6.27	73.6	2.47	9.1	0.31	2,975.4	123.35
1994	452.4	21.70	321.7	15.43	533.3	25.58	581.4	**27.88**	128.7	6.17	59.1	2.83	8.6	0.41	2,085.2	-29.92
1995	570.0	24.27	328.0	13.97	621.1	26.45	634.9	**27.04**	137.3	5.85	52.1	2.22	5.0	0.21	2,348.3	12.62
1996	805.5	23.17	357.5	10.28	1,079.3	**31.05**	903.2	25.98	252.0	7.25	68.8	1.98	9.6	0.27	3,476.0	48.02
1997	864.0	**26.98**	598.9	18.70	679.3	21.21	674.8	21.07	320.0	9.99	48.2	1.51	17.4	0.54	3,202.6	-7.86
1998	787.4	**29.58**	527.7	19.83	562.6	21.14	528.0	19.84	217.0	8.15	31.6	1.19	7.5	0.28	2,661.7	-16.89
1999	1,224.2	**25.89**	1,132.5	23.96	773.5	16.36	1,170.7	24.76	377.5	7.99	40.0	0.85	9.2	0.19	4,727.5	77.61
2000	1,441.1	30.05	290.0	6.05	698.4	14.56	1,968.4	**41.05**	333.8	6.96	34.6	0.72	28.8	0.60	4,795.2	1.43

Note: Bold typeface indicates the industry with the largest percentage share of total market capitalization in each year.
Source: HKEx 1997 and 2001b.

TABLE 5
Distribution of Listed Companies by Market Value of Ordinary Shares, 1996-2000

	Market Value of Ordinary Shares:																Total number of listed companies
	10 - 100 HK$ million		101 - 200 HK$ million		201 - 300 HK$ million		301 - 500 HK$ million		501 - 1,000 HK$ million		1,001 - 3,000 HK$ million		3,001 - 10,000 HK$ million		10,001 HK$ million & over		
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
1996	25	4.69	57	10.69	55	10.32	79	4.82	107	**20.08**	107	**20.08**	58	10.88	45	8.44	533
1997	23	3.75	96	15.66	72	11.75	93	15.17	113	18.43	114	**18.60**	61	9.95	41	6.69	613
1998	131	**20.34**	130	20.19	73	11.34	77	11.96	93	14.44	70	10.87	39	6.06	31	4.81	644
1999	72	10.68	113	16.77	85	12.61	83	12.31	116	**17.21**	114	16.91	47	6.97	44	6.53	674
2000	83	11.58	142	19.80	91	12.69	102	14.23	117	**16.32**	102	14.23	38	5.30	42	5.86	717

Note: Bold typeface indicates the market value category with the most companies in each year.
Source: DataStream-All ordinary index.The Transaction Survey 2000 conducted by HKEx provides some indication of the characteristics of market participants (HKEx 2001d). From 1991 to 2000, most activity on the SEHK was on behalf of clients (agency trading) with principal trading, for the trader's own account never amounting to more than 8 percent of trades, and usually much less than this (Table 6). Trading on behalf of individual and institutional clients in Hong Kong comprised from two-thirds to almost three-fourths of activity during the decade. Most such local agency trading is for individual rather than institutional investors. After 1997, institutional trading on behalf of overseas clients surpassed institutional trading for local clients.

TABLE 6
Distribution of Hong Kong Investors by Type of Trade, 1991-2000
(Percent Share of Total market Turnover)

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Principal trading	2.60	2.33	1.43	2.70	4.43	8.43	4.77	5.06	5.38	2.90
Overseas agency trading	25.04	22.84	29.43	25.15	30.02	31.84	21.85	32.12	31.53	30.19
Individual trading	2.36	2.05	1.96	1.85	2.08	2.35	2.49	1.54	1.30	2.13
Institutional trading	22.68	20.79	27.47	23.3	27.94	29.49	19.36	30.58	30.23	28.06
Local agency trading	72.36	74.83	69.14	72.15	65.54	59.73	73.38	62.83	63.09	66.91
Individual trading	**47.24**	**52.80**	**42.40**	**45.75**	**32.73**	**33.76**	**52.94**	**41.16**	**44.87**	**49.38**
Institutional trading	25.12	22.03	26.74	26.4	32.81	25.97	20.44	21.67	18.22	17.53
Total trading	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: Principal trading refers to trading in the participant firm's own account. Individual trading refers to trading on behalf of individual clients. Institutional trading refers to trading on behalf of institutional clients. All percentages are based on the Transaction Survey by the Stock Exchange of Hong Kong, Limited. Bold typeface indicates type of trading that had the largest share of total market turnover in each year.
Source: HKEx 2001d.

Regulatory Framework

The HKMA and the Securities and Futures Commission (SFC) are the two major regulatory bodies for the capital market, with the SFC being the principal regulator of the securities and futures markets. The HKMA was founded on 1 April 1993 by merging the Office of Exchange Fund with the Office of the Commissioner of Banking. As the government's monetary authority, the HKMA is responsible for maintaining monetary and banking stability by keeping the Hong Kong dollar stable, managing the Exchange Fund (Hong Kong's official reserves) effectively, promoting the safety of Hong Kong's banking system, and developing sound financial infrastructure for Hong Kong (HKMA 2001b).

The SFC was established on 1 May 1989 under the Securities and Futures Commission Ordinance. It is an independent non-governmental statutory body that is responsible not only for the regulation of the securities and futures markets, takeovers, merger activity, and offers of investment products in Hong Kong, but also for the enforcement of laws regarding market malpractice (SFC 2001b). To avoid potential conflict of interest, HKEx and its subsidiaries (the SEHK, HKFE, and HKSCC) are also directly regulated by the SFC as listed issuers (SFC 2001a).

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The Hong Kong equity market supports the development of Chinese enterprises in two ways. The first is financial: the equity market channels international capital to firms in China. The second is educational: Hong Kong serves as a training ground where Chinese enterprises gain experience in the corporate standards and practices expected by international capital markets.

Financing Mainland Enterprises through H-shares and Red Chips

In recent years, investors in the Hong Kong equity market have been financing enterprises in mainland China through purchases of China-related securities that are listed on the SEHK, the so-called 'H shares' and 'red chips'. Red chips, also referred to as 'China-affiliated corporations', are “Hong Kong-listed companies which are at least 35 percent owned, directly or indirectly, by state institutions, provincial or municipal organisations in the mainland” (HKEx 2001c). Whereas H shares are issued by companies incorporated in mainland China, red chips are issued by China-affiliated companies that are incorporated in Hong Kong (or other overseas countries). Therefore, red chips are subject to the same securities regulations and disclosure requirements as all Hong Kong incorporated companies. The SEHK has no additional listing and disclosure requirements for red chips.

In 2000, the Hang Seng China-Affiliated Corporations Index (HSCCI) covered 45 red chips compared to 24 in 1993 (Table 7). Prior to 1998, about one-third of the red chips were consolidated enterprises and a slightly smaller share were industrials, but from 1998 to 2000 red chips that were industrial companies outnumbered those in all other categories. There are no red chips in the utility sector and a few in the finance and hotel sectors. (A list of these red chips and their market values as of December 2000 is provided in Appendix 1).

TABLE 7
Industry Composition of the Hang Seng China-affiliated Corporations Index (HSCCI), 1993-2000

	Finance		Utilities		Properties		Consolidated Enterprises		Industrials		Hotels		Misc.		Total Number of Companies
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	
1993	3	12.50	0	-	**7**	**29.17**	6	25.00	6	25.00	0	-	2	8.33	24
1994	3	10.34	0	-	7	24.14	9	**31.03**	8	27.59	0	-	2	6.90	29
1995	3	9.68	0	-	7	22.58	10	**32.26**	9	29.03	0	-	2	6.45	31
1996	3	9.38	0	-	7	21.88	10	**31.25**	10	**31.25**	0	-	2	6.25	32
1997	4	11.11	0	-	7	19.44	12	**33.33**	11	30.56	0	-	2	5.56	36
1998	4	8.51	0	-	9	19.15	14	29.79	17	**36.17**	0	-	3	6.38	47
1999	3	7.14	0	-	6	14.29	10	23.81	20	**47.62**	0	-	3	7.14	42
2000	5	11.11	0	-	5	11.11	13	28.89	18	**40.00**	1	2.22	3	6.67	45

Note: Boldface type indicates the industry with the largest percentage of HSCCI companies in each year.
Source: HKEx 1995-2000 and 2001b and HSI Service Ltd., 2001b.

H shares are shares of companies "incorporated in the People’s Republic of China (PRC) and approved by the China Securities Regulatory Commission (CSRC) for a listing in Hong Kong" (HKEx 2001b). The CSRC, the SEHK, the SFC, and the Shanghai and Shenzhen Stock Exchanges signed a Memorandum of Regulatory Co-operation on 19 June 1993 for listing mainland-registered enterprises in Hong Kong. H shares are subscribed for and traded in Hong Kong dollars; their par value is denominated in Renminbi (RMB). In addition to listing H shares, some Chinese enterprises also list on the New York Stock Exchange (N shares), the London Stock Exchange (L shares), and the Singapore Stock Exchange (S shares). (The H-share, N-share, L-share, and S-share companies are shown in Appendix 2 along with their market values and listing dates.)

The first mainland enterprise to list H-shares on the SEHK was Tsingtao Brewery Company on 15 July 1993. By 2000 there were 50 H-share companies, 47 listed on the main board and 3, Beijing Beida Jade Bird, Tong Ren Tang, and Shanghai Fudan, listed on the GEM (Table 8). The majority of these mainland issuers are categorised as industrial companies and there are none in the hotel or finance sectors.

TABLE 8
Number and Distribution of H Shares on Growth Enterprise Market (GEM) and on Stock Exchange of Hong Kong Main Board by Industry, 1993-2000

	Total H shares	GEM		Main Board													
				Finance		Utilities		Properties		Consolidated Enterprises		Industrials		Hotels		Misc.	
	#	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
1993	6	0	-	0	-	0	-	0	-	0	-	**6**	**100.0**	0	-	0	-
1994	15	0	-	0	-	0	-	0	-	0	-	**14**	**93.3**	0	-	1	6.67
1995	16	0	-	0	-	0	-	0	-	0	-	**15**	**93.7**	0	-	1	6.25
1996	23	0	-	0	-	1	4.30	0	-	1	4.35	**20**	**86.9**	0	-	1	4.35
1997	39	0	-	0	-	2	5.13	1	2.56	2	5.13	**33**	**84.6**	0	-	1	2.56
1998	41	0	-	0	-	3	7.32	1	2.44	2	4.88	**34**	**82.9**	0	-	1	2.44
1999	44	0	-	0	-	5	11.36	1	2.27	2	4.55	**35**	**79.5**	0	-	1	2.27
2000	50	3	6.00	0	-	5	10.00	1	2.00	3	6.00	**36**	**72.0**	0	-	2	4.00

Note: Bold typeface indicates the industry with the largest percentage of H-shares on the main board each year.
Source: HKEx 1996-2000 and 2001b; CSRC 1997, HSI 2001b.

Development of Overseas Listing by Chinese Enterprises

Hong Kong is the major overseas equities market for China-incorporated companies, although the other markets are rising in importance. Of the fifty-three Chinese enterprises listed overseas in December 2000, fifty were listed on the SEHK, compared to only ten on the NYSE, five on the LSE, and two on the SSE (Table 9). Moreover, in 2000, H-shares accounted for 50 percent of the market value of the Chinese enterprises listed on all four overseas markets (Table 10). This was down from 70 percent in the years 1993 to 1999. The importance of the London and New York markets increased significantly from 1999 to 2000, with the market value of L-shares growing 850 percent and that of N-shares growing 353 percent. At the same time, the market value of H-shares rose a comparatively modest 103 percent.

TABLE 9
China-domiciled Companies Cross-listed in New York, London, Singapore, and Hong Kong, 1993-2000

	New York	London	Singapore	Hong Kong	Total
1993	1	-	-	6	6
1994	2	-	-	15	16
1995	3	-	1	16	18
1996	4	-	1	23	25
1997	7	3	2	39	43
1998	8	3	2	41	44
1999	8	3	2	44	47
2000	10	5	2	50	53

Note: Entries under New York were listed both in New York and Hong Kong. Note that Huaneng Power International, Inc. was listed only in New York in 1994 and in both Hong Kong and New York from 1998. Zhejiang Southeast Electric Power was listed in London from 1997. Zhejiang Expressway Co. was listed in Hong Kong from 1997 and in both London and Hong Kong in 2000. Entries for Singapore indicate companies listed in Singapore only.
Source: HKEx 1996-2000 and 2001b; CSRC2001a; NYSE 2001; LSE 2001; and SGX 2001.

TABLE 10
Market Capitalisation of Chinese Enterprises Listed in Overseas and Domestic Markets, 1993-2000

	Overseas Markets									Domestic Market			
	Overseas Markets Total	New York		London		Singapore		Hong Kong		Domestic Market Total	A Shares	B Shares	Red Chips
	US$ mil.	US$ mil.	%	US$ mil.	%	US$ mil.	%	US$ mil.	%	US$ mil.	US$ mil.	US$ mil.	US$ mil.
1993	3,069	710	23.1	0		0		2,359	76.9	60,769	57,121	3,649	9,775
1994	3,528	946	26.8	0		0		2,582	73.1	43,700	41,628	2,072	6,109
1995	3,057	928	30.4	0		0		2,129	69.7	41,757	39,798	1,971	6,973
1996	5,855	1,710	29.2	0		68	1.2	4,077	69.6	118,174	113,455	4,731	21,276
1997	9,034	1,865	20.7	780	8.7	114	1.3	6,275	69.5	210,939	206,426	4,513	24,794
1998	6,156	1,264	20.5	495	8.0	68	1.1	4,329	70.3	235,605	233,105	2,488	16,446
1999	7,485	1,613	21.6	359	4.8	125	1.7	5,389	72.0	319,717	316,058	3,672	25,192
2000	21,765	7,312	33.6	3,411	15.7	126	0.6	10,916	50.2	580,992	573,320	7,671	21,719

Note: % indicates the individual exchange's percentage share of the total capitalisation of China-incorporated enterprises in the four overseas exchanges. Red chips are China-affiliated corporations incorporated and listed in Hong Kong.
Source: Data on overseas companies listed in New York, London and Singapore were obtained from *Datastream*. Data on overseas companies listed in Hong Kong were obtained from HKEx 2001b. Data on companies listed in the Chinese mainland (i.e. A and B shares listed on the Shanghai and Shenzhen Stock Exchanges) were obtained from State Statistical Bureau 2001. Data on China-affiliated corporations were obtained from *Datastream* for those listed in Hong Kong from 1993 to 1996; and from HKEx 2001b for those listed in Hong Kong from 1997 to 2000.

The H-share market has a larger capitalisation than the domestic B-share market.[4] Moreover, the H-share market is much more liquid than the B-share market (Table 11). The trading volume of H shares significantly exceeded the trading volume of B shares in every year from 1993 to 2000 except 1996. In 2000, the trading volume of H shares was more than three times the B-share volume. Prior to 2001, only foreign investors (i.e., non-PRC citizens) were allowed to purchase B shares listed on the SHSE and the SZSE.

TABLE 11
Trading Volume of Equities Listed in Hong Kong and in Mainland China, 1993-2000
(US$ million)

	Listed in Hong Kong		Listed in Mainland China	
	Ordinary Shares	H Shares	A Shares	B Shares
1993	158,254.61	4,031.35	61,302.81	1,807.07
1994	146,990.70	4,274.06	94,752.67	1,479.96
1995	106,932.31	2,183.93	51,914.18	937.56
1996	182,590.00	3,218.08	252,773.64	3,361.99
1997	488,961.13	38,426.84	364,560.77	5,138.39
1998	219,586.16	9,492.66	282,856.83	1,533.98
1999	246,470.78	13,222.94	375,022.65	3,261.07
2000	390,728.53	21,066.15	728,235.92	6,620.44

Source: HKEx 1997 and 2001b and State Statistical Bureau 2000 and 2001.

4. China has two major stock exchanges: the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Both offer Class A shares (A shares) and Class B shares (B shares) of common stocks that are issued by China-domiciled companies. B share listings carry the same rights as A share listings. For all intents, B shares are identical to A shares except for who can buy them. A shares are restricted to PRC citizens while B shares were restricted to non-PRC citizens in the past but became available to both PRC citizens as well in 2001.

The relative importance of all overseas listing by Chinese enterprises increased significantly since the Asian financial turmoil of 1997. From 1999 to 2000 the market value of overseas shares rose 191 percent, while the value of the Chinese domestic market increased by only 82 percent (Table 10). The PRC's new Securities Law, effective 1 July 1999, requires that a Chinese enterprise which offers securities overseas and is listed on the secondary market, is still subject to approval by the domestic securities regulatory authorities (CSRC 2001b).

According to CSRC (2001b), overseas listing can make a significant contribution to the reform and opening-up of Chinese enterprises to international markets. Overseas listing benefits China in several ways. First, it provides additional outlets for raising capital for the construction and growth of the Chinese economy. Second, it can facilitate the privatisation of SOEs. That is, it can promote the segregation of SOEs from government control. Third, it can strengthen China's relationship and exchanges with the international capital market. Lastly, it can enable Chinese enterprises to learn about management methods, accounting systems, laws and regulations, and regulatory measures in other well-established markets.

This last advantage of overseas listing is particularly associated with listing in Hong Kong. The CSRC has recognised the need to improve transparency and reduce regulatory suppression of Chinese enterprises to attract foreign investors (CSRC 2001b). To promote voluntary disclosure of information, the CSRC held training workshops for board chairmen, CEOs, and other key personnel of overseas-listed companies. The CSRC also invited staff from the Hong Kong Securities and Futures Commission and the SEHK to lecture on listing rules and mergers and acquisitions in order to gain government officials' support for disclosing information on foreign listings.

The SEHK added a separate chapter to its Listing Rules relating to issuers incorporated in the PRC after 25 June 1993 (i.e., for H-share issuers, SEHK 1989-2002; Poon and Fung 2000). For example, H-share companies are required to disclose performance results to the public on a timely basis and to prepare interim and year-end financial statements using internationally accepted accounting systems (IAS). The SEHK also published a guidebook for listing Chinese companies in Hong Kong (SEHK 1998). Thus, in preparing for H-share listing, managers of China-incorporated enterprises gain practical experience for listing in larger or more sophisticated capital markets such as the New York Stock Exchange (NYSE).

Literature on China's Equity Markets

The China equity markets are still in an early stage of development. It is of interest and significance to examine the financial characteristics of China's equity markets in the context of the existing literature. The following survey examines China's A- and B-share markets and the role of the H shares and red chips in Hong Kong's capital markets as a substitute for B shares. This review would throw light on the role of Hong Kong's capital markets in the development of China's equity markets.

Beginning with the preliminary empirical evidence of Bailey (1994), researchers have taken a notable interest in studying the financial characteristics of China's equity markets. Most of the recent literature on China's equity market is interested in segmentation and information transmission, whereas some papers concern the under-pricing of Chinese initial public offerings (IPOs) (Su and Fleisher, 1999a) or the relationship between the shareholding structure and the corporate performance of listed Chinese companies (Qi et al. 2000).

Bailey (1994) studied the early evolutionary stage of both the Shanghai and Shenzhen stock markets and found that B-share returns display little or no correlation with international equity index returns. Bailey's study implies that B shares can be considered good diversification investments for foreign investors and confirms the effectiveness of market segmentation in A- and B-share markets. Poon et al. (1998) examined the impact of the initial listing of B-share issues on the prices of already listed A shares. They found that the abnormal returns on A-share companies that also offer B shares are significantly negative, and these A-share firms seem to experience a decline in investor base and a decline in liquidity.

Qi et al. (2000) investigated whether and how the shareholding structure affects the corporate performance of Chinese companies listed on the SHSE from 1991 to 1996. Their results indicate that firm performance, measured by the return on equity, is positively related to the fraction of legal-person (LP) shares and negatively related to the fraction of shares owned by the state (state-owned shares). They also found that firm performance increases with the degree of relative dominance of LP shares over state shares.

Some researchers examine whether there is any difference in prices between A and B shares in China, while others attempt to explain the price difference (Chakravarty et al. 1998; Su, 1999; Su and Fleisher (1999b), Sun and Tong, 2000; and Chen et al., 2001). As documented in the recent studies, B shares trade at a significant discount relative to A shares in China, which is contrary to the evidence from other markets with a similar segmented structure. Incorporating both information asymmetry and market segmentation in their model, Chakravarty et al. (1998) derived a relative pricing equation for A and B shares. They show that the B-share discount is significantly related to their proxies for information asymmetry. Similarly, Su and Fleisher (1999b) conclude that information asymmetry constitutes stock-price and return volatility differentials between A- and B-share markets in China.

Employing a one-period capital asset pricing model (CAPM) under share ownership restrictions, Su (1999) also attempted to explain differences in prices and expected returns between Chinese A and B shares for the period April 1994 to September 1996. The results of the study indicate that the price differentials and return spread between the two share groups can be explained by the CAPM's beta.

In contrast to these explanations, Sun and Tong (2000) suggest that B-share discounts over the period April 1994 to February 1998 can simply be explained by basic economic principles. They consider that the H-share and the red-chip markets in Hong Kong provide good substitutes for the B-share market, and thus foreign investors' demand for B shares could be quite elastic. They found that the B-share discount increases with the number of H shares and red chips listed in Hong Kong. On the other hand, Chen et al. (2001) attribute the B-share discount to the liquidity problem in the B-share market for the sample period 1992 to 1997. They explain that relatively illiquid B shares are priced lower and have higher expected returns to compensate investors for increased trading costs due to lower liquidity in the B-share market.

Long et al. (1999), Fung et al. (2000), and Sjoo and Zhang (2000) empirically examine the information transmission between the A- and B-share markets, while Poon and Fung (2000) extend the scope of study by including H shares and red chips in the sample. Long et al. (1999) investigate market efficiency and the price-volume relation in A and B shares on the SHSE relative to the U.S. stock market over a 100-week period from February 21, 1992 to January 14, 1994. Consistent with the evidence from U.S. stock markets, their results show a significant positive relationship between changes in volume and absolute price returns in both A and B shares. In addition, their market efficiency tests support that the A- and B-share markets in Shanghai follow a random walk.

Sjoo and Zhang (2000) demonstrate information flows from foreign to domestic investors in the Shanghai market but this information diffusion process goes in the opposite way in the smaller Shenzhen market during the study period July 1993 through June 1997. Their results imply that the direction of the information flow is determined by the choice of stock exchange. Interestingly, Fung et al. (2000) provide additional evidence to illustrate that the Shanghai stock market responds to information less quickly than the Shenzhen stock market for the period May 1993 to June 1997. Recently, using daily data for the period 4 August 1994 to 27 June 1997, Poon and Fung (2000) study the information flow between China-backed securities comprising H shares, red chips, and Shanghai-and Shenzhen-listed common shares. They indicate that there are significant return and volatility spillover effects among the China-backed securities. In addition, the results suggest that the red chip market processes information faster than the other markets.

CASE STUDY: ZHEJIANG EXPRESSWAY CO., LTD.

The experience of Zhejiang Expressway Co., Ltd (ZE) illustrates the many ways in which listing in Hong Kong facilitates the development of Chinese enterprises. ZE was incorporated in China as a joint stock limited company on 1 March 1997. It is mainly engaged in investing in, constructing, and managing toll roads and other infrastructure projects in Zhejiang Province. Its ancillary businesses include automobile servicing, operating petrol stations, and billboard advertising along toll roads. The company has a majority interest in the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway (ZE 2000a). An Australian group expressed interested in acquiring a majority stake, but the company chose instead to list in Hong Kong to open the door to future financing (Lancher 1997). The retail portion of ZE's US$449 million offering of H shares on 15 May 1997 was 118 times over subscribed. The over-subscription attracted a lot of attention among China infrastructure companies (Gailey 1997). Three years later, on 5 May 2000, ZE listed L shares on the LSE. This was different from other Chinese enterprises listing in London or New York as well as Hong Kong, which did so simultaneously (Appendix 2).

We look first at ZE's financial performance and corporate activity after listing in Hong Kong and then at how ZE adapted to the standards of international capital markets.

Post-listing Financial Performance and Corporate Development

As of 31 December 2000, H shares comprised approximately 33 percent of ZE's issued share capital (ZE 2000b). The financial performance of the company improved considerably after it listed. Return on equity (ROE) gradually increased from 3.61 percent in 1997 to 6.5 percent in 1999 and net profit grew by 85 percent from RMB296 million in 1997 to RMB548 million in 1999 (ZE 2000b). The H-share listing also broadened the company's shareholder base and raised its profile among international investors. For example, in 1999 an analyst at U.S. stockbrokerage Warburg Read recommended ZE as one of the best-valued infrastructure stocks in the market (Leung 1999).

The additional capital raised from the 1997 H-share offering enabled ZE to undertake several acquisitions. The company invested HK$194.4 million initial capital in a joint-venture project known as Zhejiang Expressway Petroleum Development. About HK$160 million of this investment came from internal resources with the balance financed by proceeds of the Hong

Kong IPO (SCMP 1998). ZE also acquired 30 percent ownership in JoinHands Technology on 6 April 2000 (ZE 2000b).

Moreover, by enabling ZE to fund additional projects the H-share offering contributed indirectly to the restructuring of state enterprises and the development of infrastructure in China. For example, in June 1999, ZE acquired an additional 4 percent ownership interest in Shangsan Co., the holding company of the Shangsan Expressway, from Xinchang Transport, a state enterprise wholly owned by the Xinchang County Transport Bureau. This RMB114.1 million acquisition increased ZE's ownership share from 51 to 55 percent and reduced the state's (i.e., Xinchang Transport's) share from 6 to 2 percent (ZE 1999). In addition, ZE completed construction of the Shangsan Expressway on 26 December 2000. ZE also completed the Shanghai-Hangzhou-Ningbo Expressway, which is the only direct highway link between these three major cities along China's East Coast (ZE 2000b).

Beyond improving corporate performance and contributing to China's development, ZE's listing on the SEHK led the company's management to modify many practices, initiating it to the behaviours and requirements of participating in global capital markets.

Corporate Governance and Compliance

Becoming listed on the SEHK apparently provided the impetus for ZE to improve corporate governance. Appendix 14 of the *Rules Governing the Listing of Securities on the SEHK* (Listing Rules) lays out a "Code of Best Practice" for corporations listed in the Hong Kong market (SEHK 1989-2002). The Code is intended as a framework to guide each company in devising its own governance structure, not as a rigid set of rules. According to the Code all listed companies should appoint "non-executive" directors. If the independent non-executive directors hold views contrary to those of the executive directors in the board meeting, their views should be clearly reflected in the board minutes. In addition, companies listing on the SEHK must establish an audit committee comprising at least two non-executive directors to supervise the company's financial reporting process and internal controls (Salomon 2001).

After listing its H shares ZE made several changes to bring its corporate structure into line with the SEHK's Code of Best Practice. In 2000, it increased the number of non-executive directors to two and the number of independent non-executive directors to three. Moreover, on 28 February 2000 it formed an Audit Committee consisting of five non-executive directors to enhance internal control. In its *2001 Interim Report* ZE specifically pointed out that the company operates in compliance with the Code of Best Practice of the Listing Rules (ZE 2001).

These changes brought ZE partway to meeting the stricter corporate governance standards of the London Stock Exchange. The LSE requires listed companies to state in their annual reports not only whether or not they have complied with the 1998 Combined Code on Corporate Governance throughout the accounting period, but also how they have applied the Code's principles of good governance (Salomon 2001).[5]

Insider Trading and Shareholder Protection

Listing in Hong Kong brought ZE under the jurisdiction of Hong Kong laws regarding securities trading and forced the company to adopt new practices in order to comply with these laws. For example, companies listing in Hong Kong must obey the Disclosure of Interests Ordinance (Chapter 396 Cap. 396 of the Laws of Hong Kong), which requires disclosure of beneficial interests of directors and chief executives in securities of a listed company and its associated companies as well as its substantial shareholders. A substantial shareholder is defined as one "who is holding over 10 percent of the voting share capital of a listed company". ZE's recent *Interim Report* (ZE 2001) included a listing of the interests of the chief executive, the directors, and the supervisors as well as their associates.

In addition, Hong Kong's Insider Dealing Ordinance (Chapter 395 Cap. 395 Laws of Hong Kong, HKSAR 1991-2002) indicates that a person who is connected with a listed company and is in possession of price-sensitive information not available to the general public should not be

5. The NYSE does not require a non-U.S. company to modify its corporate governance policies to conform to those of U.S. companies, but it does always encourage foreign issuers to comply with U.S. corporate governance policies and audit committee requirements (NYSE 2002).

involved in the securities trading of that company or any affiliated company. So, because of its listing H shares, ZE had to seriously address the issue of insider trading by disclosing interests of the chief executive and directors to ensure that the company complied with the Laws of Hong Kong. Shareholder protection codes are even stricter in the UK and in the United States than in Hong Kong. For example, while insider trading is not a crime in Hong Kong it has been a criminal offence in the UK since 1980. Section 16 of the U.S. Securities Exchange Act 1934 discourages insider trading and requires insiders to file public reports of their stock ownership and trading activities in equity securities. Both civil remedies and criminal penalties can be used to enforce Section 16, although criminal action for a reporting violation is unlikely (Salomon 2001).

Information Disclosure and Transparency

Listing in Hong Kong also required ZE to adopt certain international standards of information disclosure and transparency. In preparation for listing on the SEHK, a company must present an accountant's report of its financial history and assets and liabilities that conforms with accounting standards approved by the Hong Kong Society of Accountants or with the International Accounting Standards (IAS) (SEHK, 1989-2002).[6] ZE appointed one of the top accountancy firms in Hong Kong, Ernst and Young Certified Public Accountants, as its auditor and reporting accountant (ZE 2000b and 2001). The SEHK also requires listed companies to release audited interim and year-end financial reports including the minimum financial information (i.e., balance sheet, income statement, and cash flow statement) described in Appendix 16 Disclosure of Financial Information of the Listing Rules (SEHK 1989-2002). Thus, after listing its H shares, ZE must continue to maintain its accounts and periodically disclose its financial information in a manner that meets the standards of the exchange.

According to the 2000 Reuters Survey of Global Emerging Markets, brokerage analysts

6. According to SEHK (1989-2002), “an overseas issuer, which has a secondary listing on the Exchange, may prepare annual accounts drawn up in conformity with Generally Accepted Accounting Principles in the United States of America (US GAAP)”.

ranked ZE second in transparency and quality of reporting and disclosure among listed issuers in Asian emerging markets (ZE 2000b). To list on other overseas exchanges, however, ZE must further improve information disclosure and transparency. The registration and periodic reporting requirements of the U.S. securities laws are regarded as the most stringent among major international markets. Companies signing the NYSE listing agreement are bound to notify the exchange of specific facts, such as any change in the general character or nature of their business, and any change of officers or directors that will materially affect the financial position of the company (Salomon 2001).

CONCLUSION

The financial sector in Hong Kong developed rapidly and it is now at an advanced level, comparable to that in developed economies. Corporate financing through the stock market is of primary importance while the debt markets are relatively underdeveloped, as in most developing economies. Bank finance has continued to be important because of its efficiency and prudent government supervision.

The Hong Kong stock market has expectedly played a vital role in the modernisation and internationalisation of financing of Chinese mainland enterprises. Hong Kong served Chinese enterprises in two ways. First, the Hong Kong stock market provided a venue for the Chinese enterprises to be listed and to have access to international capital. As of December 2000, there were 50 H-share and 45 red chip Chinese enterprises listed in the Hong Kong Stock Exchange. The amount of capital they have raised is tremendous and significant for the financing of China's economic development.

Second and even more important, preparation for listing in Hong Kong provided a practical learning experience in which Chinese enterprises acquired knowledge of modern corporate finance and how to comply with international regulatory standards and systems. The Hong Kong Securities and Futures Commission and Stock Exchange of Hong Kong played an instrumental role in the various aspects of this learning process for Chinese enterprises. The experience of Hong Kong and the cultural affinity make Hong Kong's contribution unique and irreplaceable. The preparation work for overseas listing (with the assistance of relevant Hong Kong organisations) was often so well done that listing was able to take place simultaneously in Hong Kong and in other capital markets such as New York and London, which have extremely stringent listing conditions.

Third, the cross-listing of these Chinese enterprises in domestic and overseas markets has had an impact on China's domestic capital markets. These overseas-listed Chinese enterprises have become drivers in the modernization and rationalization of the domestic-listed enterprises. Hong Kong's SFC and SEHK have consistently and continuously been providing advice and support to these Chinese enterprises.

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APPENDIX 1

CHINA-AFFILIATED CORPORATIONS (RED CHIPS) LISTED IN HONG KONG, IN DESCENDING ORDER OF MARKET CAPITALISATION, DECEMBER 2000

	Market Value (HK$ million)	Listing Date
Legend Holdings	36,625.01	14/2/1994
China Resources Enterprise	19,766.37	N.A.
COSCO Pacific	12,942.33	19/12/1994
Shanghai Industrial Holdings	12,749.56	30/5/1996
China Everbright	12,419.30	26/2/1973
China Merchants Holdings	11,582.63	15/7/1992
CITIC Ka Wah Bank	6,941.25	17/7/1980
China Overseas Land	5,490.87	20/8/1992
Beijing Enterprises	4,419.75	29/5/1997
China National Aviation	4,205.74	17/12/1997
Denway Motors	4,011.66	22/2/1993
China Travel	3,186.09	11/11/1992
ICBC (Asia)	3,020.84	14/3/1973
Founder Holdings	2,444.26	21/12/1995
China Resources Beijing Land	2,439.23	8/11/1996
CNPC (Hong Kong)	2,426.78	13/3/1973
Guangdong Investment	2,310.87	N.A.
Guangzhou Investment	2,283.17	15/12/1992
Shum Yip Investment	1,554.48	7/3/1997
China Aerospace Int'l	1,499.69	25/8/1981
Tianjin Development	1,263.68	10/12/1997
Top Glory Int'l Holdings	1,257.31	N.A.
Stone Electronic Technology	1,256.06	16/8/1993
GZI Transport	1,213.88	30/1/1997
COSCO Int'l	1,188.48	11/2/1992
China Foods Holdings	1,129.23	7/10/1988
Guangnan (Holdings)	1,010.92	9/12/1994
China Pharmaceutical	955.14	21/6/1994
Logic Int'l Holdings	950.56	7/11/1994
Continental Mariner Investment	921.11	30/8/1973
China Everbright Int'l	751.75	N.A.
China Everbright Technology	647.49	10/12/1991
Sinopec Kantons	611.73	25/6/1999
HK Construction	543.40	29/5/1987
Chu Kong Shipping	480.00	23/5/1997
Shougang Concord Int'l	436.05	30/4/1991
CASIL Telecom Holdings	353.60	11/8/1997
Oriental Metals (Holdings)	336.53	15/12/1994
Guangdong Brewery Holdings	331.25	8/8/1997
Poly Investments Holdings	302.31	6/4/1988
Zhu Kuan Development	279.65	26/5/1998
Min Xin Holdings	248.09	28/6/1982
Shougang Concord Technology	235.51	23/12/1988
ONFEM Holdings	204.63	20/12/1991
Shenyin Wanguo (HK)	176.58	N.A.
Total	169,404.86	

Source: HKEx 2001b and 2001a.

APPENDIX 2

CHINESE ENTERPRISES ON HONG KONG, NEW YORK, LONDON, AND SINGAPORE STOCK EXCHANGES, DECEMBER 2000

	Hong Kong Listing	Overseas Cross-listing	Market Value (US$ million)	Listing Date
Hong Kong (H shares) subtotal			**10,915.75**	
PetroChina Co	main board	with N shares	2,930.40	7/4/2000
Sinopec Corp	main board		2,667.66	19/10/2000
Huaneng Power Int'l	main board	with N shares	725.96	21/1/1998
Beijing Datang Power	main board	with L shares	371.42	21/3/1997
China Southern Airlines	main board	with N shares	357.52	31/7/1997
Beijing Capital Int'l Airport	main board		302.02	1/2/2000
Yizheng Chemical	main board		262.05	29/3/1994
China Eastern Airlines	main board	with N shares	247.09	5/2/1997
Yanzhou Coal Mining	main board	with N shares	234.29	1/4/1998
Sinopec Shanghai Petrochem	main board	with N shares	233.00	26/7/1993
Zhejiang Expressway	main board	with L shares	227.94	15/5/1997
Shandong Int'l Power Dev	main board		225.66	30/6/1999
China Shipping Dev	main board		196.06	11/11/1994
Jiangsu Expressway	main board		192.70	27/6/1997
Guangshen Railway	main board	with N shares	177.99	14/5/1996
Great Wall Technology	main board		148.38	5/8/1999
Qingling Motors	main board		123.42	17/8/1994
Jiangxi Copper	main board	with L shares	102.30	12/6/1997
Beijing Yanhua	main board	with N shares	101.20	25/6/1997
Sinopec Zhenhai Refining	main board		98.35	2/12/1994
Shenzhen Expressway	main board		92.00	12/3/1997
Maanshan Iron & Steel	main board		82.20	3/11/1993
Angang New Steel	main board		81.01	24/7/1997
Beijing Beida Jade Bird	GEM		77.00	27/7/2000
Guangdong Kelon Elect	main board		76.00	23/7/1996
Tsingtao Brewery	main board		72.48	15/7/1993
Beijing North Star	main board		70.70	14/5/1997
Shenyang Public Utility	main board		56.05	16/12/1999
NJ Panda Electronics	main board		53.36	2/5/1996
Sichuan Expressway	main board		52.80	7/10/1997
Jilin Chemical	main board	with N shares	50.71	23/5/1995
Anhui Expressway	main board		44.87	13/11/1996
Tianjin Bohai Chemical	main board		30.07	17/5/1994
Tong Ren Tang	GEM		29.86	31/10/2000
Anhui Conch Cement	main board		25.45	21/10/1997
Guangzhou Phar	main board		23.96	30/10/1997
Jingwei Textile	main board		23.17	2/2/1996
Harbin Power	main board		20.75	16/12/1994
Shanghai Fudan	GEM		20.27	3/8/2000
First Tractor	main board		19.75	23/6/1997
Chongqing Iron & Steel	main board		16.18	17/10/1997
Shandong Xinhua	main board		15.96	31/12/1996
Luoyang Glass	main board		15.70	8/7/1994
CATIC Shenzhen	main board		12.41	29/9/1997
Northeast Electrical	main board		10.91	6/7/1995
Chengdu PTIC	main board		9.84	13/12/1994
Beiren Printing	main board		9.61	6/8/1993
Guangzhou Shipyard	main board		9.18	6/8/1993
Kunming Machine Tool	main board		7.33	7/12/1993
Dongfang Electrical	main board		7.30	6/6/1994

APPENDIX 2 (CONTINUED)

New York (N shares) subtotal		**7,311.84**	
Petrochina Company Ltd.	with H shares	2,912.08	6/4/2000
China Petroleum & Chemical Co.	with L shares	2,559.02	18/10/2000
Huaneng Power International	with H shares	707.81	6/10/1994
China Southern Airlines Co Ltd.	with H shares	349.32	30/7/1997
China Eastern Airlines Co Ltd.	with H shares	237.98	4/2/1997
Sinopec Shanghai Petrochemical Co Ltd.	with H shares	224.26	26/7/1993
Guangshen Railway Co Ltd.	with H shares	173.55	13/5/1996
Beijing Yanhua Petrochemical Co Ltd.	with H shares	98.97	24/6/1997
Jilin Chemical Industrial Co Ltd.	with H shares	48.84	22/5/1995
Yanzhou Coal Mining Co Ltd.	with H shares	0.01	31/3/1998
London (L shares) sub-total		**3,411.36**	
China Petroleum & Chemical Co.	with N shares	2,642.92	18/10/2000
Beijing Datang Power Generation	with H shares	371.44	20/3/1997
Zhejiang Expressway Co.	with H shares [b]	227.95	5/5/2000
Jiangxi Copper Co.	with H shares	169.03	12/6/1997
Zhejiang Southeast Electric Power [c]		0.02	23/9/1997
Singapore (S shares) sub-total		**125.96**	
China Merchants Shekou Holdings Co Ltd.		94.46	7/24/1995
Tianjin Zhong Xin Pharm Group Co Ltd.		31.50	6/27/1997
Grand total		**21,764.92**	

Notes: Huaneng Power International, Inc. was listed in New York in 1994 but it was only listed in both New York and Hong Kong from 1998. Zhejiang Expressway Co. was listed only in Hong Kong from 1997 but in both Hong Kong and London from 2000. Zhejiang Southeast Electric Power was listed in London in 1997.
Source: HKEx 2001b; NYSE 2001; LSE 2001; and SGX 2001.