

Hong Kong Market Report

22 – 24 November 2012

Mumbai, India



香港證券業協會
HONG KONG SECURITIES ASSOCIATION



ASF 2012
Asia Securities Forum

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Economic Performance

| | 2009 | 2010 | 2011 | Q2 2012 |
|--|---------------|---------------|---------------|---------------|
| GDP (yoy, %) | -2.6 | 7.1 | 5.0 | 1.2 |
| CPI (yoy, %) | 0.5 | 2.4 | 5.3 | 3.7 |
| Unemployment rate (June, %) | 5.4 | 4.3 | 3.5 | 3.2 |
| Foreign reserve (June, US\$billion) | 205.67 | 256.37 | 276.54 | 293.33 |
| Balance of Payments (US\$billion) | 78.53 | 7.58 | 11.13 | 7.27 |

Source : Census & Statistics Department, The HKSAR Government



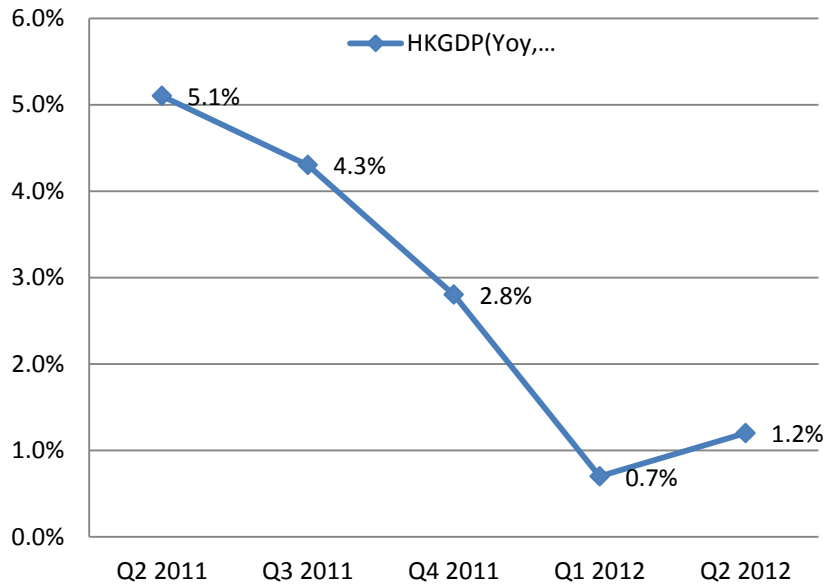
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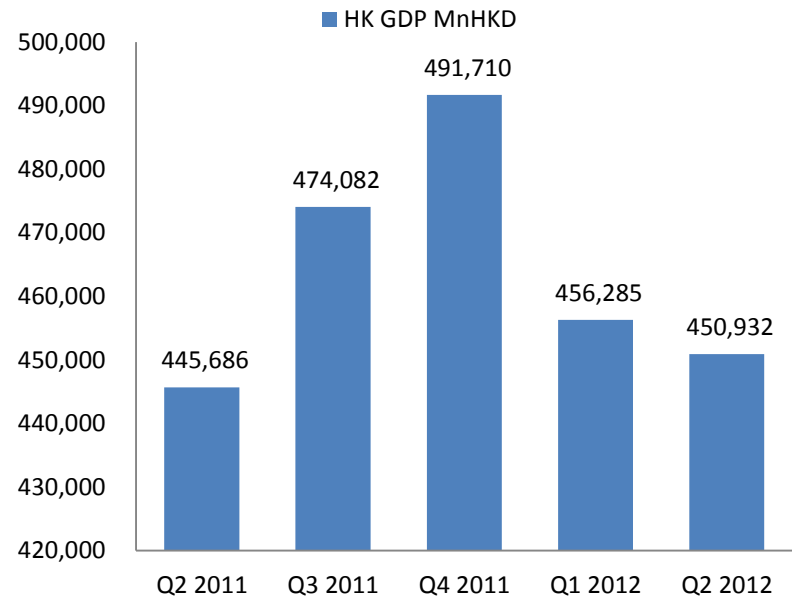
Hong Kong GDP

Q2 2011 – Q2 2012

HKGDP(YoY,%)



HK GDP MnHKD



US\$1 = HK\$7.8

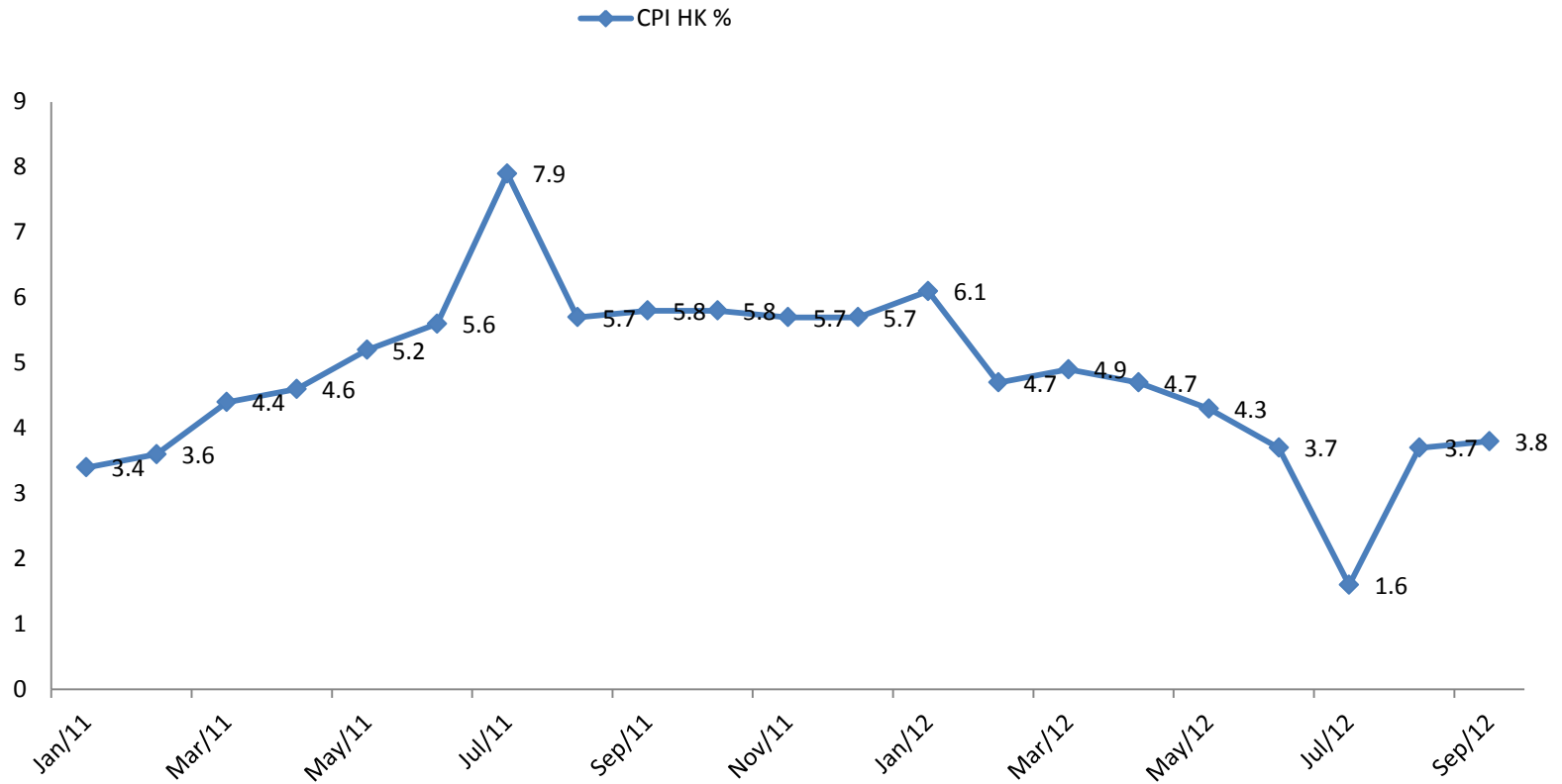
Source : Census & Statistics Department, The HKSAR Government – In chained (2010) dollars



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Inflation Rate in HK Jan 2011 – Sep 2012



Source : Census & Statistics Department, The HKSAR Government

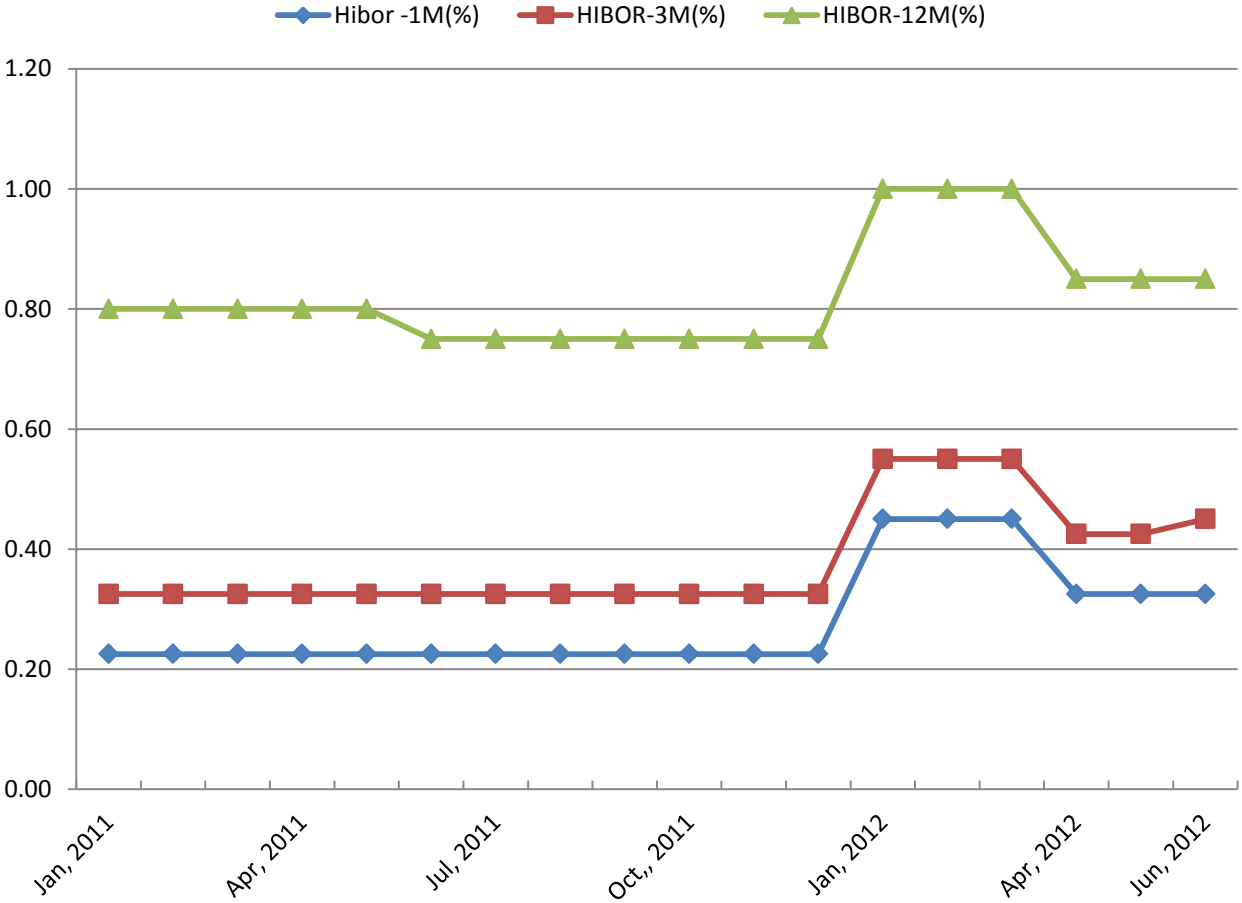


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Hong Kong Dollar Interest Rates 1H 2011 – 1H 2012



Source : Census & Statistics Department, The HKSAR Government



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Economic Trends in HK

- Shanghai Stock Exchange Composite Index and the Shenzhen Stock Exchange Composite Index continues its downward trend throughout 2011 up to Q3 2012. China's economy shows sign of slowing down. As a result, investors lack confidence in the HK stock market, share prices and trading volume remains low throughout the period. Most investment turns to the property market.
- The Central Government expressed its support for Hong Kong's development into an offshore RMB business centre. On 17 August, Vice Premier Li Ke-qiang announced a series of policies in supporting Hong Kong's development as an offshore RMB business centre and the internationalization of RMB.
- As it is expected that RMB exchange rate is near equilibrium, the growth of RMB deposit in HK starts to stabilize. RMB certificates of deposit and bank deposits reaches RMB683 billion by end June 2012.



Economic Trends in HK

- Residential property prices increased by over 20% in 2011. In order to prevent the overheating property market, the Government has put forward a special stamp duty in November 2011 which were levied on properties that were resold within 24 months after the date of acquisition.
- The effect of the SSD was short lived. Abundant liquidity, low interest rate, participation by foreign investors and the U.S. Federal Reserve announcement of QE3 on 13th September 2012 caused property prices to rise sharply again. In October 2012, the Government amended the SSD to levy properties which will be resold within 36 months. The government also put forward a Buyer's Stamp Duty on residential properties acquired by non HK permanent resident at a rate of 15%.



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Hong Kong Capital Market

June 2009 – June 2012

Listed shares (as at late June 2012 on the main and GEM boards)

| | June 2012 | June 2011 | June 2010 | June 2009 |
|--|-----------|-----------|-----------|-----------|
| Number of listed companies | 1,519 | 1,448 | 1,344 | 1,273 |
| Total market capitalization (HK\$ Bil) | 18,429 | 21,104 | 17,131 | 14,148 |
| Number of listed securities | 6,926 | 7,276 | 6,737 | 5,859 |
| Number of equity warrants | 16 | 17 | 26 | 31 |
| Number of derivatives warrants | 4,032 | 4,836 | 4,114 | 2,726 |
| Number of CBBCs | 1,021 | 711 | 1,020 | 1,620 |
| Number of mutual funds | 103 | 87 | 72 | 39 |
| Number of debt securities | 231 | 173 | 158 | 167 |

Source: HKEx

US\$1 = HK\$7.8

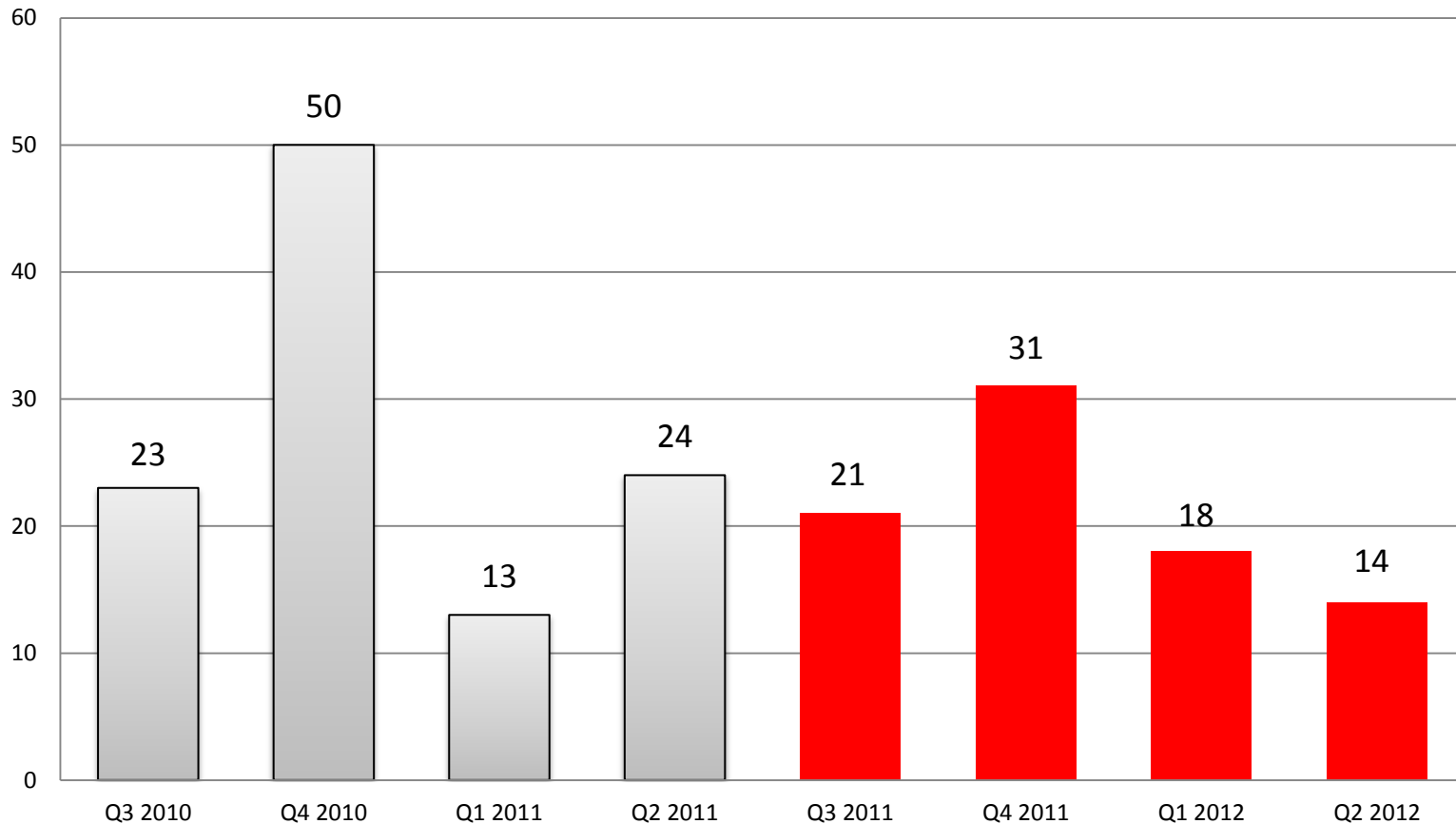


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Hong Kong Capital Market 2H 2010 – 1H 2012

Primary Market No of IPO



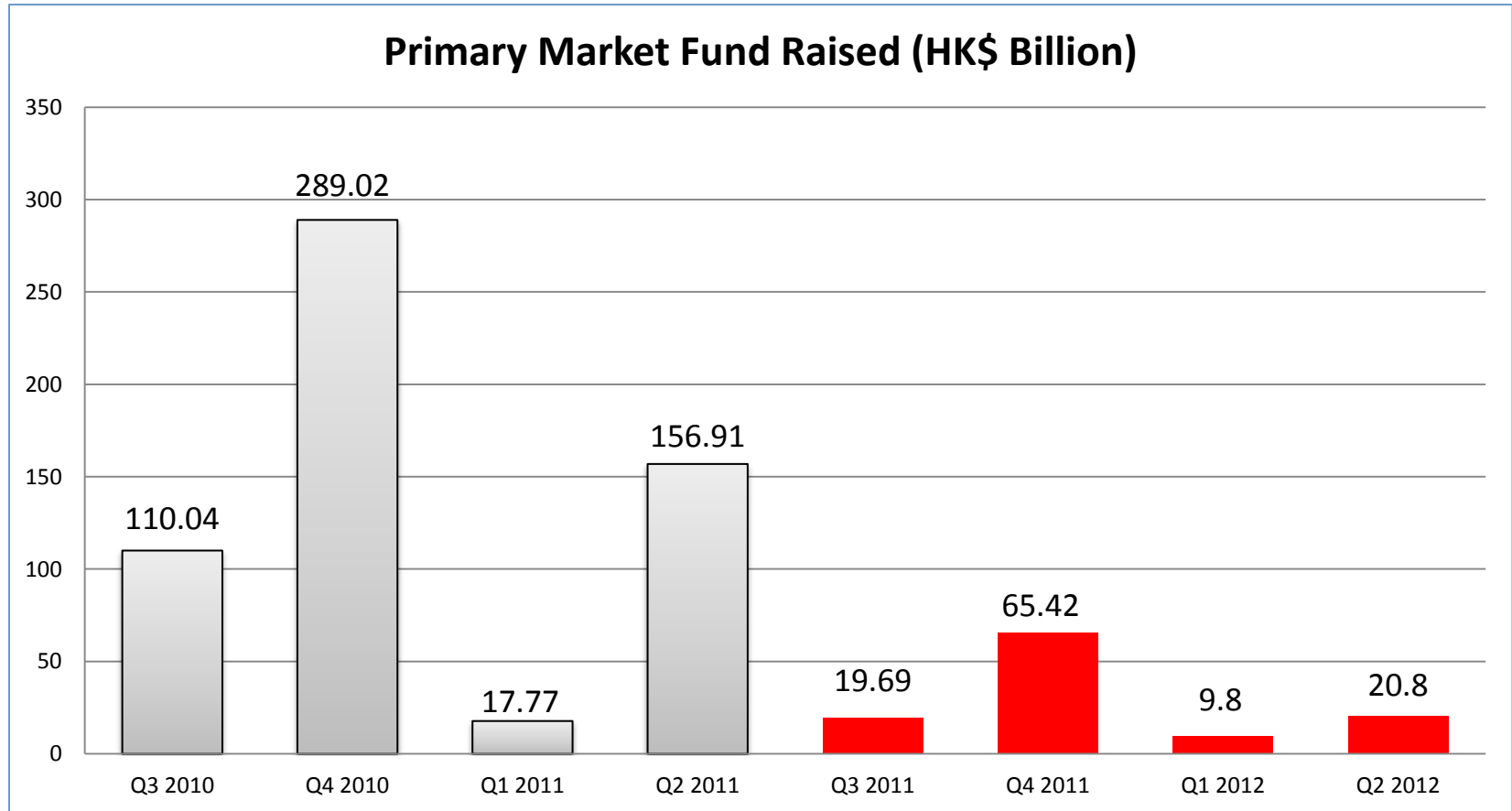
Source: HKEx



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Hong Kong Capital Market 2H 2010 – 1H 2012



Source: HKEx

US\$1 = HK\$7.8



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Hong Kong Capital Market

- A total of 84 IPOs were recorded between 2H 2011 and 1H 2012
- Although number of IPO has dropped compared with the same period last year, Hong Kong's securities market led the world in fundraising through IPO for the third consecutive year in 2011.
- Hong Kong's securities market had listings from several overseas economies for the first time in 2011. They included the first Hong Kong Depository Receipts (HDR) listings by companies incorporated in Japan and the US. Also listing by a Kazakhstan and Italian company and also a company headquartered in Switzerland.
- On 22 November, the People's Bank of China (PBOC) and the HKMA signed a renewed currency swap agreement of RMB400 billion for a term of another three years to facilitate the development of Hong Kong's offshore RMB business



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Hang Seng Index Nov 2011 – Nov 2012



Source : ET Net



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Hang Seng China Enterprises Index (HSCEI) Nov 2011 – Nov 2012



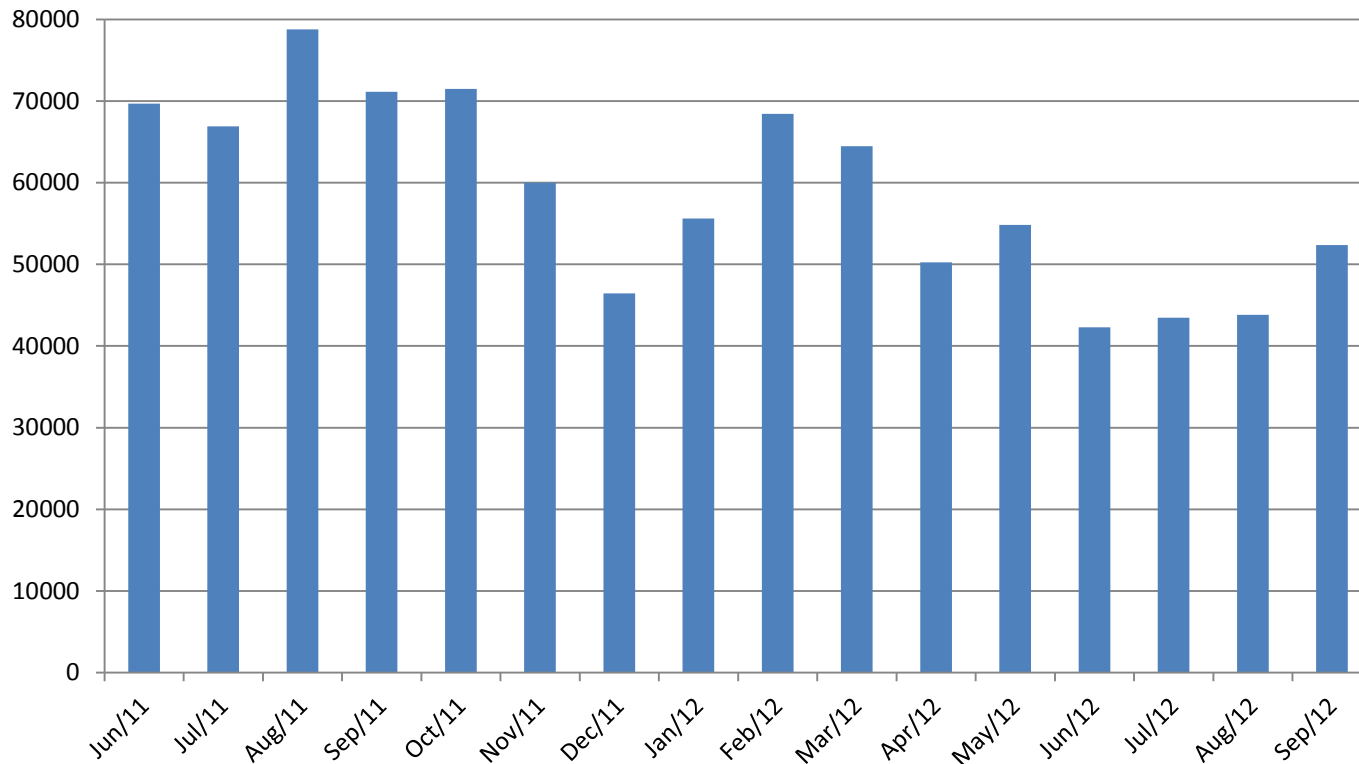
Source : ET Net



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Hong Kong Equities Market Turnover (Main and GEM Board) Average Daily by Value (HK\$million)



Source: HKEx

US\$1 = HK\$7.8



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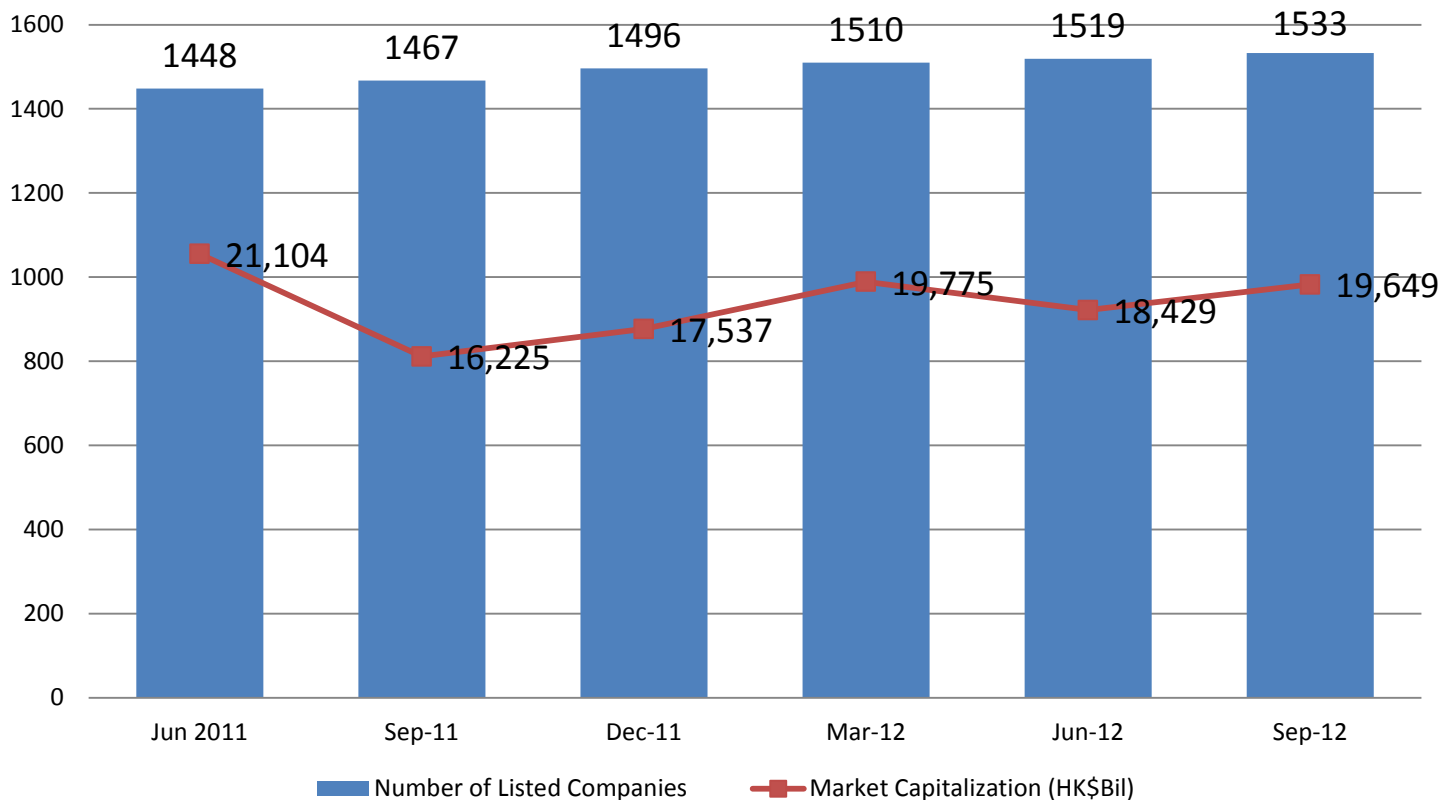


Hong Kong Equities Market

- As of the end of June 2012, 27 RMB debt securities, one RMB REIT and one RMB ETF had been listed.
- Compared with an average daily turnover of over HK\$69 billion in 2010 and 2011, daily turnover dropped below HK\$50 billion for many of the months in 2012.
- The stock market generally remains bearish for the period as there were no sign of economic recovery in the US and Europe, coupled with the fear that China has lost momentum in growth. It was not until the end of Q3 when the US Fed launches QE3, HK market saw a strong rebound of over 1600 index points or over 18% in 2 months.



Number of Listed Companies in HK and Market Capitalization (Main Board and GEM)



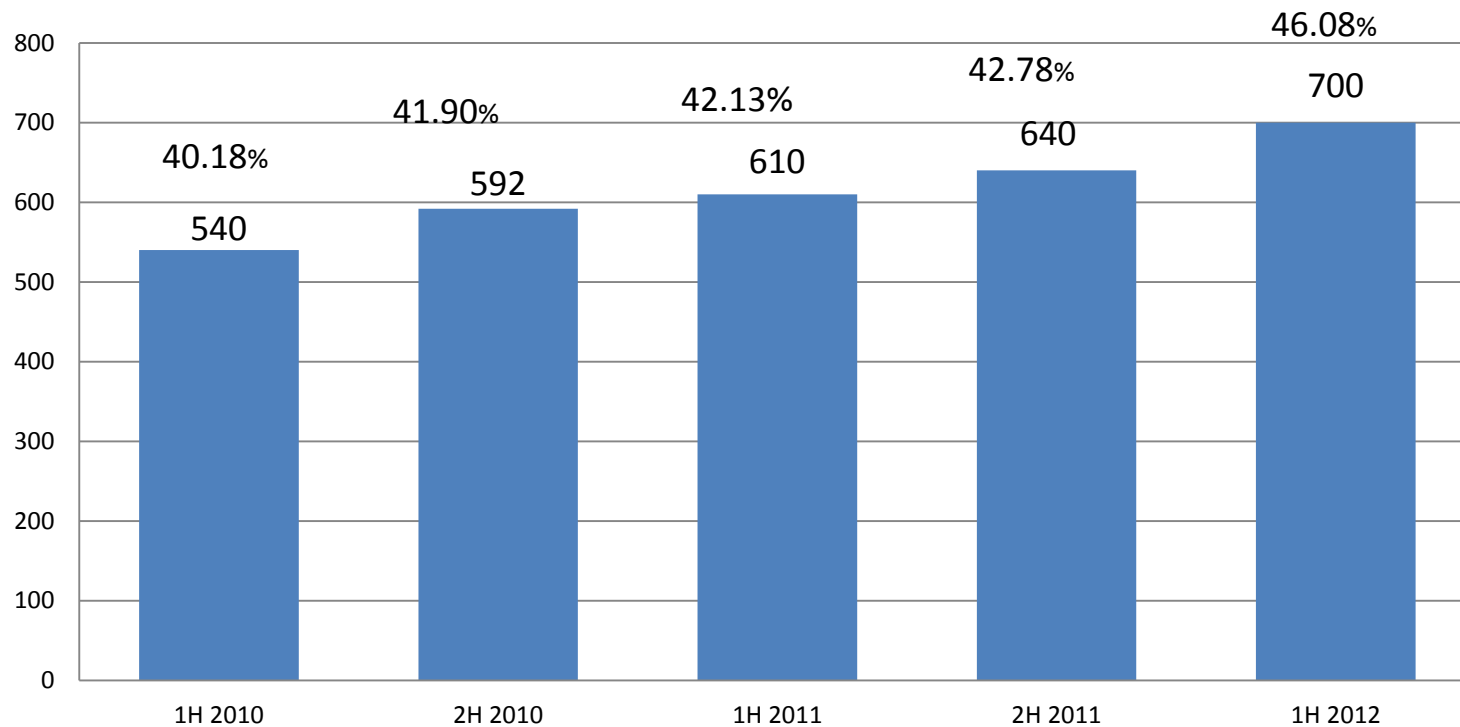
Source: HKEx



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Number of Mainland Enterprises & Its % to Total Listed Companies in Hong Kong



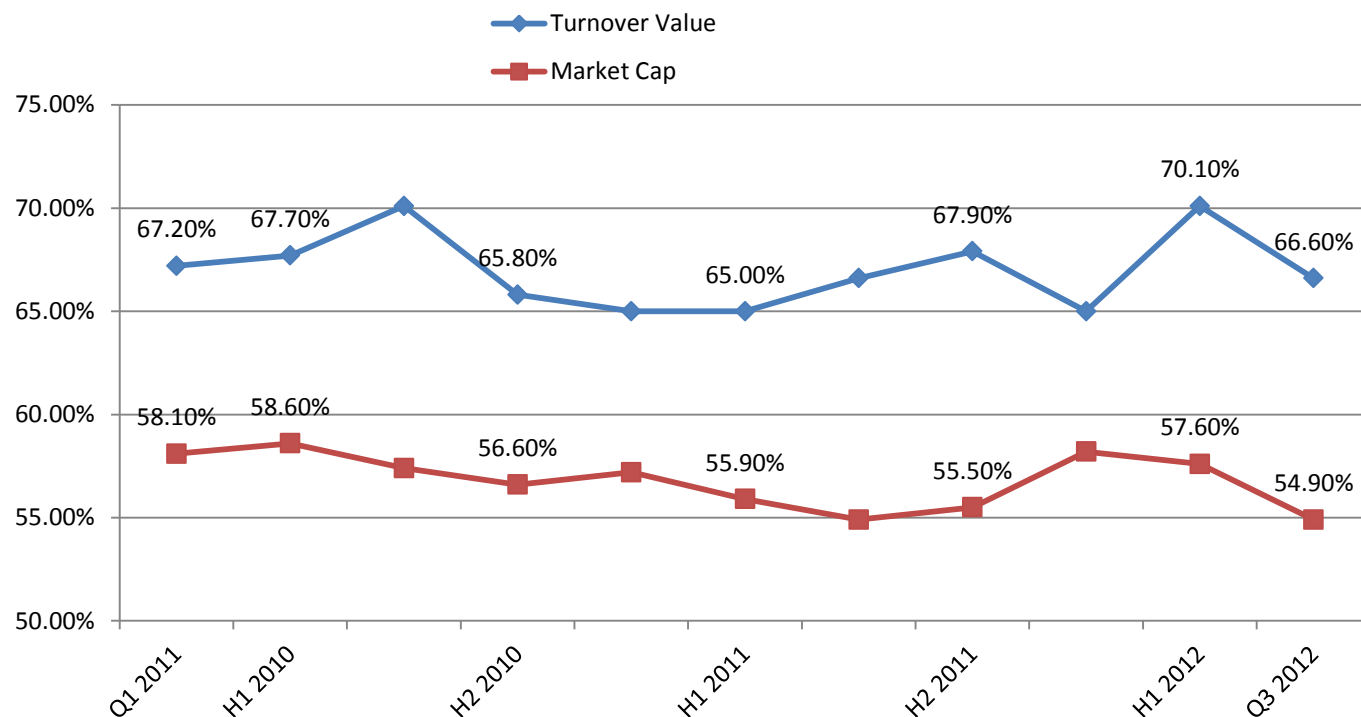
Source: HKEx



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Mainland Enterprises Market Capitalization and Turnover Value (% of Market Total)



Remarks: Mainland enterprises include H share companies, red-chip companies and non-H share Mainland private enterprises.

Source: HKEx



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Major Events in HK Securities Market

- On 10 August 2011, HKEx's designated website for disseminating issuer information was disrupted by outside hacking attacks. 7 stocks had been suspended as a result.
- On 24 October 2011, HKEx's RMB Equity Trading Support Facility (TSF) system was operationally ready as a backup facility to prepare for the future trading of RMB stocks on the SEHK.
- On 29 November, HKT Trust was listed on the SEHK as the first listed business trust in Hong Kong.
- On 5 December, HKEx upgraded the Third Generation Automatic Order Matching and Execution System (AMS/3) to version 3.8. The system's processing capacity was increased from 3,000 orders per second to 30,000 and the latency was reduced from 0.15 second to 2 milliseconds.



Major Events in HK Securities Market

- On 14 February 2012, HKEx listed the first ETF traded in RMB, the Hang Seng RMB Gold ETF.
- On 20 February 2012, HKEx introduced VHSI futures (volatility index).
- On 30 March 2012, HKEx and four other exchanges from the BRICS economies — BM&FBOVESPA (BVMF) from Brazil, Open Joint Stock Company MICEX-RTS (MICEX-RTS) from Russia, BSE Limited (BSE) from India and JSE Limited (JSE) from South Africa —cross-list their benchmark equity index derivatives on each other's trading platforms.
- On 19 June 2012, Financial Dispute Resolution Centre commenced operation.



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Major Events in HK Securities Market

- On July 25 2012, LME shareholders vote in favour of acquisition by HKEx.
- On 17 September 2012, RMB currency futures contract trading started. It is the world's first deliverable RMB currency futures contract ever listed.
- On 29 October 2012, the first “dual counter” stock was traded in HK. Hopewell Highway Infrastructure Limited shares will be traded in HK dollars and RMB at different counters.
- 30 October 2012, China Exchanges Services Company launches. It is a joint venture among Hong Kong Exchanges and Clearing Limited (HKEx), Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE) for the development and franchising index-linked and other equity derivatives; compilation of cross-border indices based on products traded on the three markets.



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Prospects

- Continue development as RMB offshore centre
 - To allow QFII to invest in mainland securities markets with an initial size of RMB 20 billion (RQFII)
 - Increase RMB Bonds issues
- Development as Asset Management centre
 - Widen RMB products
 - Islamic funds
- Improve market infrastructure
 - Orion – a HK\$3billion HKEx project to revolutionize IT infrastructure
 - After-hours trading for Hang Seng Index futures



Prospects

- Market expansion
 - Establishment of Financial Services Development Council
 - Synergy with LME
 - China Exchanges Services Company - development of index representing Greater China economy
 - Position as Asia's leading listing venue for natural resources companies and luxury goods companies along as the premier international market for listing China's Mainland enterprises.
- HKEx establishment of a clearing house by the end of 2012 for derivatives traded in Hong Kong's OTC market.
- Qianhai Development Plan

