

(Translation)

OUTLOOK FOR HONG KONG'S FINANCIAL MARKET

Remarks by

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Chairman of the Securities and Futures Commission of Hong Kong

at the

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Chairman, Ladies and Gentlemen,

1. First of all, I wish to express our gratitude to the government of the Shanghai Municipality and the Hong Kong-Shanghai Economic Development Association Ltd. for the warm hospitality, which makes us feel so at home here.
2. Both Shanghai and Hong Kong are on the leading edge of China's financial landscape. Today, I wish to say a few words about the latest developments in Hong Kong's financial market.
3. Let me begin with the Hong Kong stock market. I am pleased to report that its capitalization has now reached US\$568.7 billion as at end of April, of which red chips and H-shares together account for US\$125.1 billion, with China Mobile having the largest capitalization in the Hong Kong market.
4. For the Growth Enterprise Market (GEM) we launched last November, its

total capitalization now stands at US\$8.1 billion. So, taking into account a number of forthcoming listings, the total capitalization of the Hong Kong stock market is expected to add up to US\$629.1 billion. Actually, ever since the Asian financial crisis, the Hong Kong stock market has been among the top-performers in the Asia-Pacific region excluding Japan. This year, we have seen our market turnover rally towards or recover to pre-turmoil levels, with the Hang Seng Index registering new highs time and again breaking pre-crisis records.

5. Following the Asian financial turmoil, the SAR government took steps to introduce a three-pronged reform programme for the financial industry, and the majority of such new measures have already been implemented. On the market reforms, the Hong Kong Exchanges and Clearing Ltd. (HKEx) has already been established and is scheduled to be listed in around June or July this year; as regards the reforms on financial infrastructures, a world-class fully electronic hit-tech infrastructural platform will be set up in two years' time; as for the securities legislative over-haul, public consultation in the form of a White Bill has commenced since 2 April.

6. Meanwhile, to cater for the demands of the knowledge economy and the development of high-growth enterprises, the GEM has been launched in Hong Kong since last November. A disclosure-based market, the GEM is designed to facilitate the financing of high-growth enterprises. As such, both mainland and Taiwan enterprises have expressed keen interest in the GEM, which also serves to broaden the investors' choices and increase the depth of the market as a whole. At present, there are all together 25 companies listed on the GEM with a total market capitalization of approximately US\$8.1 billion. There are 40 odd listing candidates still waiting in the line.

7. To further internationalize the Hong Kong securities market, Hong Kong has successfully arranged the listing of 7 Nasdaq issuers on the HKEx commencing on 31 May 2000. With this pilot programme aimed at increasing the choices for investors, the HKEx will use its best endeavours to attract world-class issuers to Hong Kong for listing.

8. Also worth-noting is the Hong Kong debt market whose potential for

growth is enormous. Compared to developed markets such as USA and Japan, etc., the local debt market accounts for just a tiny portion of the GDP. Hong Kong will strive to expand its debt market with a view to upgrading and further satisfying the financing needs of the mainland enterprises and the government.

9. Now, let me turn to Hong Kong's Mandatory Provident Fund system (MPF), which will be implemented this December. At the initial stage, the annual contribution to the MPF is estimated at around US\$1 billion, which is expected to reach US\$7 billion as the system matures.

10. The MPF will result in the institutionalization of savings, which will in turn boost the demands for Hong Kong dollar debt instruments, ensure a stable source of long-term savings and increase the stability of the local stock market. It will also be conducive to lifting the standards of corporate governance and facilitating innovations by enterprises, further contributing to the development of financial instruments for hedging purposes. We believe the MPF will foster the overall development of the Hong Kong securities market.

11. Over the past years, Hong Kong has been serving as a fund-raising centre for mainland enterprises. As at the end of April, a total of 46 state-owned enterprises and 44 red chips are listed in Hong Kong, raising funds to the tune of US\$29 billion in aggregate since 1993. It is envisaged that a large number of medium to large state enterprises with high-growth potentials will be listed in Hong Kong. From Hong Kong's point of view, growth in the mainland capital market means more expansion opportunities for Hong Kong resulting from initiatives like the revamp of the A-share and B-share markets, the alignment of standards of mainland listed issuers with those of their overseas counterparts, the development of the debt market on the mainland, assistance to small and medium-sized enterprises in raising capital on the GEM and the promotion of the prudential use of derivatives.

12. There has been extensive cooperation between Shanghai and Hong Kong in many areas. On the securities front, Hong Kong stands ready to keep on providing facilities for tapping international funds to finance enterprises in the Shanghai Municipality. Presently, the H-shares of two well-established companies, Shanghai Petrochemical and China Eastern Airlines, have already

been listed on the Hong Kong market. As regards the red chips, Shanghai Industrial Holdings performed so well that it has become one of the Hang Seng Index constituent stocks. In particular, SIIC Medical Science and Technology under Shanghai Industrial Holdings was among the first batch of issuers listed on the GEM at the end of last year.

13. Both the Stock Exchange of Hong Kong and the SFC have been working closely with the Shanghai Stock Exchange, engaging in frequent exchange of views on market regulatory issues. There are also successful joint efforts in respect of staff training and the sharing of information, etc.

14. At present, with continued progress in advanced and innovative technologies, securities markets worldwide are undergoing large-scale consolidation and restructuring. In this regard, I believe the HKEx will be most prepared to talk with the Shanghai Stock Exchange to forge closer ties, while the government departments concerned and the SFC will step up our efforts in exploiting Hong Kong's status as an international financial centre so as to meet the financing needs of the mainland enterprises, including those in the Shanghai region.

15. The recent years have witnessed the rapid development of the mainland stock market. Total listed issuers on the Shenzhen and Shanghai markets have outnumbered those of Hong Kong, and equally rapid growth has been attained in both Shenzhen and Shanghai markets in respect of total market capitalizations and turnovers. Meanwhile, the mainland securities market is endowed with tremendous potential for development: the total capitalization of the Shanghai and Shenzhen markets currently representing a mere 32% of the GDP in 1999, the securities market, with the high savings rate on the mainland, can help deleverage state-owned enterprises, improve corporate governance and enhance their competitive edge. Moreover, the mainland's entry into the World Trade Organization will not only bring new opportunities and challenges for deepening the reforms in mainland enterprises as well as the securities market but also open up new avenues for investors' participation in the PRC markets. I deeply believe that the mainland securities market has immense potential for growth.

16. Both Shanghai and Hong Kong are recognized as two major financial hubs of our country. In this light, I trust Shanghai and Hong Kong may join hands in a number of areas to further our contribution towards the financing and development of mainland enterprises: we may organize joint education and training programmes to promote communication between personnel and engage in the sharing of experience, resources and knowledge to enhance the competitiveness of the two cities; we may develop financial infrastructures and products together; we may also collaborate to improve the quality of the markets and raise the standards of corporate governance to provide better and more comprehensive services towards the restructuring of state-owned and private enterprises on the mainland.

17. Let us work together to step up the friendly cooperation between Shanghai and Hong Kong by further leveraging on the strengths of both cities in the financial world. Together, we shall be able to contribute a lot more to the economic reforms and development on the mainland.

Thank you.