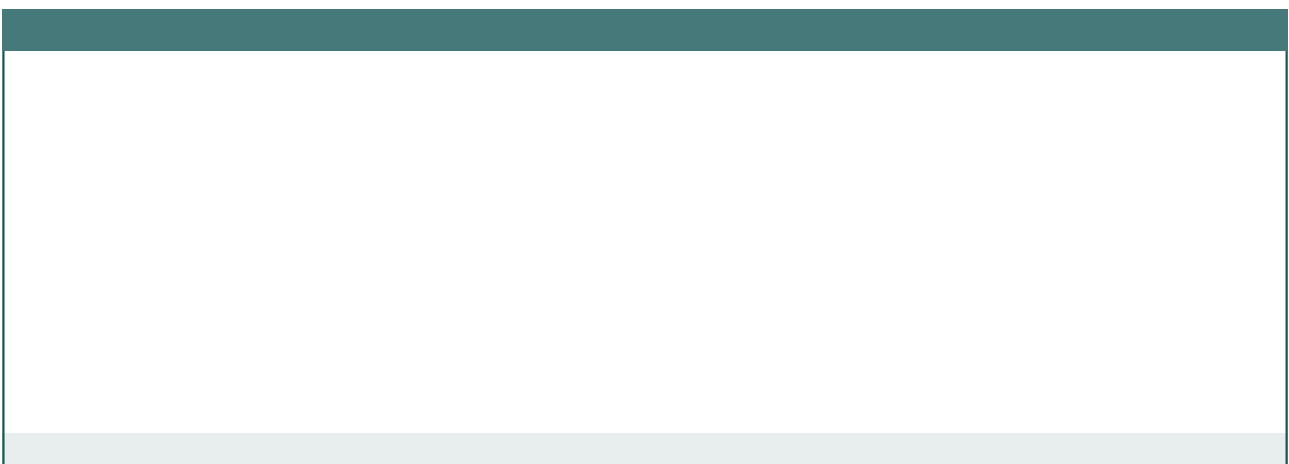
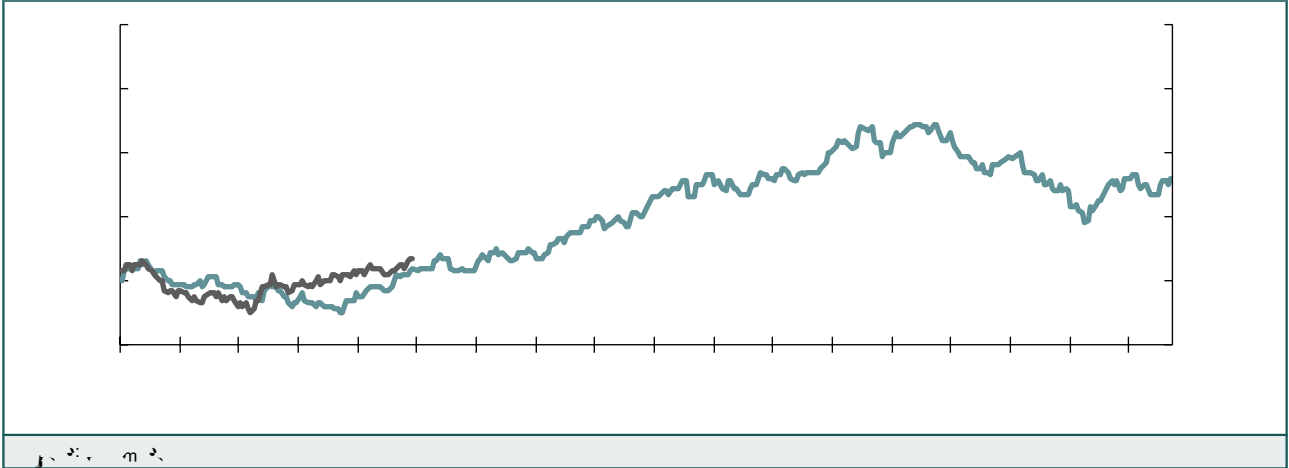


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A Note from the Editor

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Chart 1 – Performance of the US and Hong Kong Markets (end 2002 = 100)



Asia

6. The Japanese markets were supported by a strong economic growth and the perception that a weakened Yen might support the country's exports. In addition, investors expected improvements in business conditions. The Nikkei advanced 11.1% during the first half of 2004 whilst its P/E ratio was 18 times as of the end of June 2004. Most other Asian markets also advanced except those in India, Thailand and Korea which slumped 19.9%, 16.3% and 3.1% respectively.
7. The Mainland markets were dampened by the spread of bird flu in early 2004. Later, worries over macro-economic control and credit-tightening measures further dragged down the markets. Investors were also disappointed by the performance of stocks listed on the Second Board of the Shenzhen Stock Exchange. During the first half of 2004, the markets retreated 6.3-17.2%.

Table 1 – Performance of Major Stock Markets (end 2004 H1)

	2004 H1		% Change from (in local currency)		% Change from (in US\$)	
	Index		End 2003	2003 H1	End 2003	2003 H1
Australia						

quarter of 2004 from 1.8% in the first quarter of 2004 and 3.0% in the second half of 2003. Meanwhile, the expectation of mild interest rate hikes in the US trimmed some losses. The 25-basis point interest rate hike in the US has not led to a corresponding increase in the local lending rate due to adequate funds parked at the banking sector. Reflecting this, the Aggregate Balance maintained at an average of HK\$48.1 bn in the first half of 2004 (HK\$5.3 bn in the second half of 2003 and HK\$553 mn in the first half of 2003) and the HKD 1-year forward rate was traded at an average discount of 556 pips in the first half of 2004 (an average discount of 112 pips in the

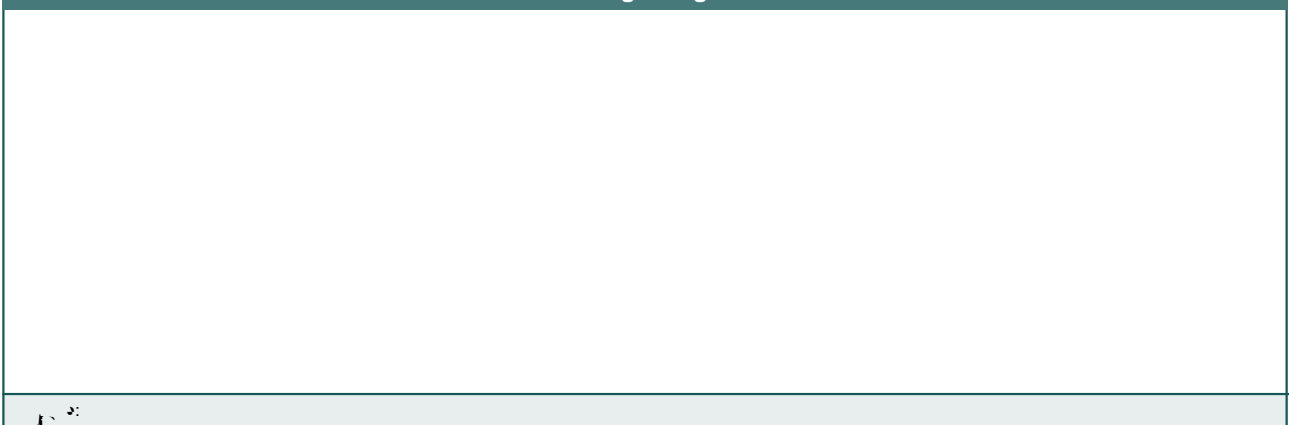
second half of 2003 and an average premium of 180 pips in the first half of 2003). On balance, the HSI receded 2.3% during the first half of 2004 (Chart 3). The PER for the HSI as of the end of June 2004 was 18 times (Chart 4).

9. Share prices of H-shares and red chips consolidated in the midst of credit-tightening measures adopted in the Mainland. Both H-shares and red chips underperformed the broad market with indices dropping 14.5% and 4.9% respectively during the first half of 2004. The PERs for the H-shares index (HSCEI) and red-chips index (HSCCI) as of the end of June 2004 were both 14 times.

Chart 3 – Performance of Hong Kong Markets (end 2002 = 100)



Chart 4 – PERs for Benchmark Indices of the Hong Kong Markets



Trading Activities of Major Stock Markets in 2004 H1

10. Trading activities of major markets were more active during the first half of 2004 (Chart 5). Turnover increased 20% and 29% in the US and UK respectively. In Asia, turnover in the Mainland markets surged 103%. Trading in other

Asian markets was also robust. In Taiwan, Indonesia and Japan, for instance, rises of 37%, 35% and 29% were recorded respectively. In contrast, turnover in Thailand and Philippines shrank 17% and 16% respectively.

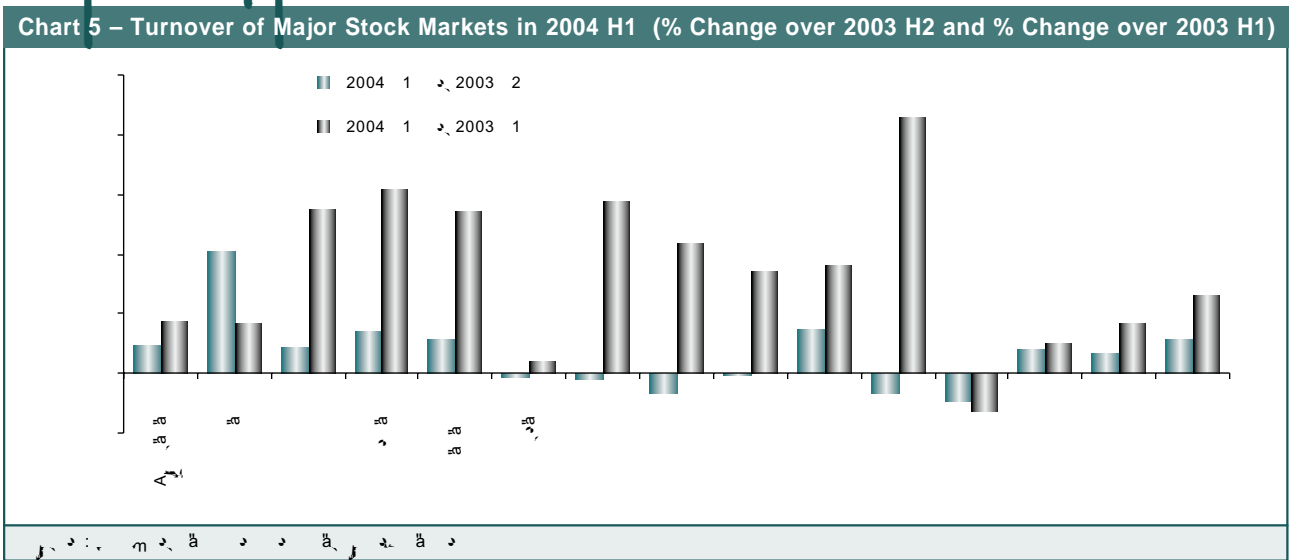
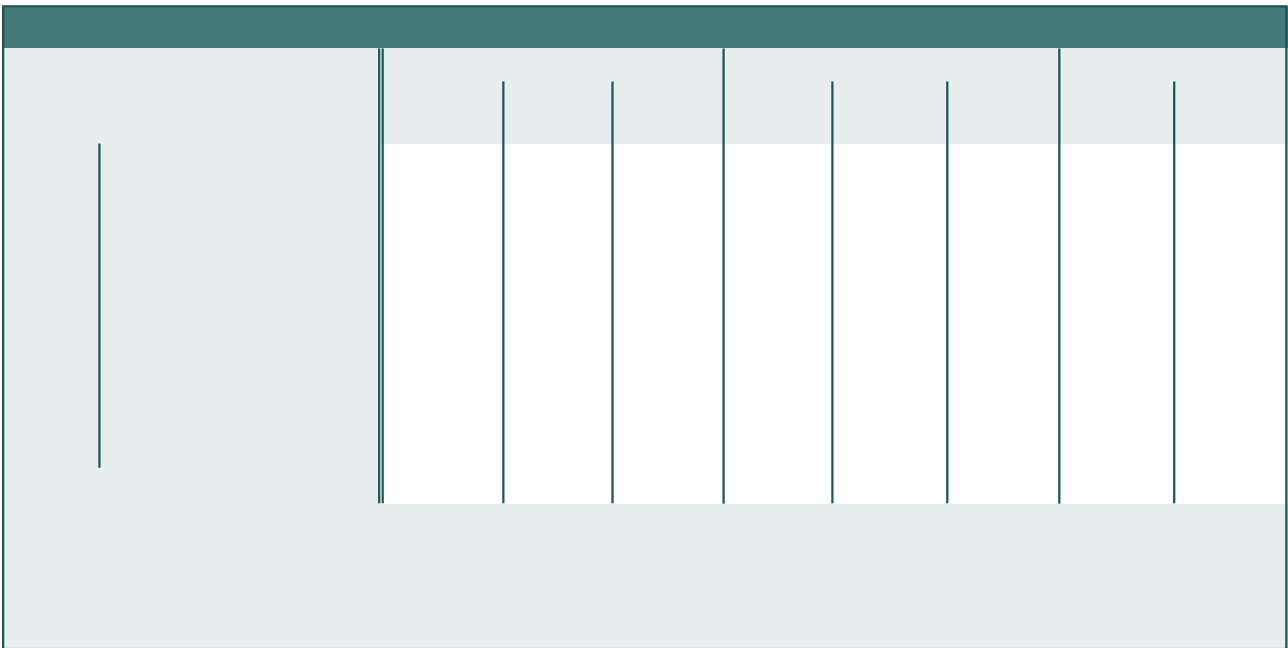


Chart 6 – Market Share of SEHK Participants by Broker Category (%)

Short selling activities

13. Short selling activities grew slightly faster than the overall market turnover, but still remained at reasonable levels. Short selling averaged HK\$608 mn a day in the first half of 2004, 3.6% of the total market turnover. The corresponding figures were HK\$362 mn and 2.7% in the second



Business Performance of HK Pc n

22. Remarkable improvement in the performance of the stock brokerage industry was shown in Table

25. In terms of employment, the number of licensed representatives (mainly account executives and dealing staff) employed by Category C SEHK participants has remained steady at around 4,400 during the period from May 2003 to April 2004.

26. The SFC also helped negotiate CEPA initiatives to allow Hong Kong professionals to enter employment in the Mainland. It is continuing to discuss CEPA initiatives on behalf of the securities industry, subject to Mainland constraints. ■■

