

立法會

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From : Clerk to Panel

To : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Eric LI Ka-cheung, JP (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Dr Hon David LI Kwok-po, JP
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Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Jasper TSANG Yok-sing, JP
Hon Emily LAU Wai-hing, JP
Hon Timothy FOK Tsun-ting, SBS, JP
Hon FUNG Chi-kin

LegCo Panel on Financial Affairs

Follow-up to meeting held on 7 October 1999

Launch of TraHK

In response to Hon SIN Chung-kai's enquiry about the Tracker Fund of Hong Kong, the Administration has provided a further information paper which is attached for members' reference.

(Ms Connie SZETO)
for Clerk to Panel

Encl.

- c.c. Hon Fred LI Wah-ming, JP (non-Panel Member)
- Hon MA Fung-kwok (non-Panel Member)
- Hon Christine LOH (non-Panel Member)
- Hon CHAN Yuen-han (non-Panel Member)
- Hon CHAN Kam-lam (non-Panel Member)
- Hon Mrs Sophie LEUNG LAU Yau-fun, JP (non-Panel Member)
- Hon LAU Chin-shek, JP (non-Panel Member)
- ASG1
- ALA6

Information Note for the Legislative Council

Panel on Financial Affairs

Government Share Disposal Programme

Launch of TraHK

This note informs Members of the results of the launch of the “Tracker Fund of Hong Kong” (TraHK) and the future plans of Exchange Fund Investment Limited (EFIL) to dispose of the remainder of the Hong Kong equity portfolio.

Details

2. The Initial Offer of TraHK received a very positive response from both retail investors in Hong Kong and institutional investors in Asia, Europe and North America. A total of 184,314 applications were received in the Retail Offer, involving a total demand of approximately HK\$28 billion. While we do not have information on the profile of these retail applicants, we believe, on the basis of informal feedback from the retail brokers who participated in the offer, that a significant number of retail investors in TraHK are first time investors who have sought to diversify their savings into investments in the equity market. This is in line with our objective of encouraging broad retail participation in TraHK. Total demand for the Institutional Offer was about HK\$20.3 billion. On 8 November, EFIL announced that the Initial Issue Size would be HK\$33.3 billion, an increase from the Indicative Offer Size of HK\$10 billion as stated in the Prospectus for TraHK. The units were priced at HK\$12.88 each, representing a 5.25% discount to the Reference Market Price (being essentially a three-day averaged market price). In addition, qualified retail investors will be entitled to receive 1 loyalty bonus unit for every 20 units held continuously for 1 year

and another 1 loyalty bonus unit for every 15 units held continuously for 2 years. Listing of and dealings in TraHK units on the Stock Exchange of Hong Kong began on 12 November. The Initial Offer of TraHK is the biggest public offer in Asia outside Japan.

3. **Price.** The price of a TraHK unit has risen by approximately 18.8% from its Issue Price of HK\$12.88 to close at HK\$15.30 on 26 November. TraHK units have traded at a price close to its net asset value ranging from a discount of 0.1% to 1% since listing.

4. **Trading Volume and Liquidity.** TraHK has become one of the most actively traded securities on the Stock Exchange of Hong Kong. Average daily turnover for the 11-day period up to 26 November was 51.9 million units or HK\$749 million. TraHK accounted for 23% of the total market volume on the first day of listing and an average of 5.7% of the total daily market turnover for the 11-day period ending 26 November.

5. **Use of Tap Facility.** 232.9 million units (HK\$3 billion at the IPO price of HK\$12.88 per unit) were available for issuance under the Tap Facility in the first quarter ending 31 December 1999. The Tap Facility has proved very popular and was fully drawn down after 4 days of trading on 17 November. As a result, the Exchange Fund has disposed of another HK\$3 billion of stocks via the Tap Facility in addition to the HK\$33.3 billion initial offer of TraHK. The Hong Kong Monetary Authority will announce the maximum size of the Tap Facility for the next quarter beginning January 2000 in late December this year.

6. **Fund Size.** The in kind creation and redemption mechanism has been actively used by market participants. During the 11-day period up to 26 November, a total of 232 million units were created in cash via the Tap Facility and another 206 million units were created in kind by the Exchange

Fund to meet its obligations to distribute loyalty bonus units as described in the Prospectus. On the other hand, a total number of 643 million units were redeemed in kind. Average daily creations and redemptions numbered 39.8 million and 58.5 million units respectively. Following listing and up until the close on 26 November, the net size of TraHK decreased by 205 million units or around 8% of the Fund.

7. **Public Relations.** The Prospectus for TraHK clearly states that the performance and the net asset value of TraHK are not guaranteed by the HKSAR Government and that investors may lose money by investing in TraHK. Further, all publicity materials used for the launch of TraHK including the leaflets, TV and press advertisements also clearly stated that the price of TraHK units may fall as well as rise. Throughout the marketing campaign, the retail syndicate managers have been repeatedly asked to remind investors of the risks of investing in TraHK (and the equity market).

Changes to the Composition of the Hang Seng Index

8. HSI Services Limited announced on 17 November that the following changes would be made to the constituent stocks of the Hang Seng Index (HSI) effective 6 December 1999 :-

(a) Existing stocks to be dropped (present weightings in HSI)

Guangdong Investment	(0.10%)
Hongkong and Shanghai Hotels	(0.20%)
Hopewell Holdings	(0.14%)

(b) New stocks (approx. weightings in HSI)

Dao Heng Bank	(0.89%)
Johnson Electric	(1.27%)
SmarTone	(0.63%)

9. In accordance with the provisions in the Prospectus for TraHK, State Street Global Advisors (HK) Limited, as Manager of TraHK, will make adjustments to the TraHK portfolio as appropriate in the light of the index change. As one of the largest index fund managers in the world, State Street Global Advisors are very experienced in rebalancing portfolios with minimal tracking error. The Index Basket to be published by the Manager on 6 December will reflect the changes to the HSI and all in kind creations and redemptions will from that date be implemented in the form of the revised index basket.

10. When the changes in the HSI constituent stocks take effect on 6 December 1999, the Government will not be holding perfect baskets of index shares for delivery under the Tap Facility. It is therefore necessary to consider the source of supply for the three new index stocks in order to continue to supply perfect index baskets under the Tap Facility for the first quarter of the year 2000 and beyond. In this connection, EFIL will shortly be appointing passive managers to manage part of the Exchange Fund's Hong Kong equity portfolio. These passive managers, once appointed, will adjust the portfolios under their management to reflect the HSI changes. This should provide the Exchange Fund with a source of supply of the three new stocks for the Tap Facility.

Future Disposal Plans

11. Under the terms of the Prospectus for TraHK, there is a lock-up period of 140 days from 25 October 1999, during which the government will not dispose of the remainder of its Hong Kong equity portfolio by any other means other than via the Tap Facility. Other methods of disposal will be considered after the expiry of this lock-up period but it is too early to say which methods will be adopted. Much will depend on the prevailing market

conditions and investors' demand. However, it should be made clear that there will be no further offer of TraHK other than the Tap Facility.

Exchange Fund Investment Limited
30 November 1999