

Compiled and published by HSI Services Ltd, a wholly-owned subsidiary of Hang Seng Bank, the Hang Seng family of indexes can trace its roots to the development of the Hang Seng Index (HSI) in the 1960s.



Mr Joseph Poon, Chairman of the HSI Advisory Committee (centre, seated) and Mr Vincent Kwan, Director and General Manager of HSI Services Ltd (centre, standing), with members of the Advisory Committee.

Initiated by the Hon Lee Quo-Wei, the Bank's former Honorary Chairman, and launched to the public in 1969, the HSI is now the barometer of the performance of the Hong Kong stock market and is widely followed and quoted by investors and media around the world.

During the past four decades, the number of indexes compiled by HSI Services has grown to 60, including 30 real-time price indexes and 30 total return indexes. This growth reflects investor demand for separate benchmarks to assess the relative risk and return profiles of listed companies according to industry, geographical area or market capitalisation. It also reflects the increasing size and depth of the Hong Kong stock market, particularly as growing numbers of mainland China companies list their shares in Hong Kong.

Index operations and development are guided by an advisory committee that includes specialists from the Hong Kong government, universities and the legal and accounting professions as well as investment consultants. The committee meets at least four times a year to discuss issues relating to the indexes, such as constituent stock changes and new index development.

The Year In Review

In 2006, significant changes were made to the flagship HSI to ensure that it continues to reflect the structure of the Hong Kong stock market and to serve as the best market benchmark.

Following an extensive round of market consultation, HSI Services decided in February that Mainland companies with an H-share listing in Hong Kong would be eligible for

inclusion in the HSI. The first H-share company entered the HSI on 11 September 2006.

It was also decided to change the HSI compilation methodology to a freefloat-adjusted market capitalisation weighted formula with a 15 per cent cap on individual stock weightings. The first phase of the change was completed in September 2006. The second phase will be implemented on 9 March 2007 after market close and the third and final phase is scheduled for September 2007. The adoption of the new methodology is designed to ensure that the HSI provides a good basis for the development of various index-linked derivatives.

The number of HSI constituents will also be expanded gradually to a maximum of 50.

In September 2006, HSI Services modified its Hang Seng Industry Classification System, broadening it to 11 industry and 28 sector categories to better address demand from investors for more detailed sector classification. A major exercise to classify all stocks listed on Hong Kong's Main Board or Growth Enterprise Market (GEM) under the Industry Classification System was completed in 2006. This change will prove useful to investors and analysts tracking the performance of Hong Kong-listed companies.

In November 2006, the Hang Seng China H-Financials Index was introduced to track the performance of the growing number of Mainland financial services companies listing in Hong Kong. This new index covers all financial stocks included in the Hang Seng China Enterprises Index (H-share Index). It currently has eight constituents – five banks and three insurance companies.

The H-share Index was the first Mainland-focused index, launched in 1994 to measure the performance of those Mainland companies listing their stocks in Hong Kong in the form of H-shares. This was followed in 1997 by the Hang Seng China-Affiliated Corporations Index, often referred to as the Red-chip Index, which tracks companies strategically owned by Mainland government authorities.

HSI Services now has 12 indexes in its index series tracking the growing Mainland segment of the market, which accounts for about 45 per cent of the market capitalisation of the Hong Kong market.

Index Derivatives

In addition to serving as benchmarks of market performance, HSI Services' indexes continue to facilitate the development of index-linked investments and derivatives. By the end of 2006, exchange-traded funds (ETFs) licensed to passively track the Hang Seng Index and the H-share Index had assets under management of approximately HK\$40 billion and HK\$9 billion respectively. These ETFs are listed on the Hong Kong and Singapore stock exchanges, Euronext Paris, Borsa Italiana in Milan and Deutsche Borse in Frankfurt.

In 2006, futures and options on both the HSI and H-share Index traded on

the Futures Exchange of the Hong Kong Exchange and Clearing Company recorded significant increases in turnover. The number of futures and options contracts traded on the HSI grew by 29 and 33 per cent to 13.1 million and 4.1 million respectively compared with 2005. Those for the H-share Index showed even greater increases, rising year-on-year by 147 per cent for futures and 195 per cent for options.

Both the HSI and H-share Index are widely used by investment banks and derivative issuers in Asia and Europe as the underlying indexes for various index-linked instruments such as warrants, structured products and many over-the-counter index-linked notes.

Hang Seng Indexes: A Brief History

1969	HSI launched	
1985	HSI Sub-indexes launched	
1986		HSI futures launched by Hong Kong Futures Exchange
1987		First HSI-linked bond launched by Paribas Investment (Asia)
1993		HSI options launched by Hong Kong Futures Exchange
1994	Hang Seng China Enterprises Index launched	
1995		First HSI-linked fund launched by Hang Seng Investment Management
1997	Hang Seng China-Affiliated Corporations Index launched	
1999		The Tracker Fund of Hong Kong, the first HSI exchange-traded fund, debuts on the Stock Exchange of Hong Kong
2000		Mini HSI futures launched by Hong Kong Futures Exchange
2001	Hang Seng Composite Index Series and Hang Seng Stock Classification System launched	
2002	Hang Seng Freefloat Index Series launched	Mini HSI options launched by Hong Kong Futures Exchange
2003	Hang Seng Freefloat Prime Indexes launched	H-share index futures launched by Hong Kong Futures Exchange and Hang Seng H-shares Index exchange-traded fund launched by Hang Seng Investment Management
2004	Hang Seng Total Return Index Series launched	H-share index options launched by Hong Kong Futures Exchange and HSI exchange-traded fund launched by Hang Seng Investment Management
2005		First overseas Hang Seng China Enterprises Index exchange-traded fund debuts on Euronext Paris
2006	Hang Seng China H-Financials Index launched	