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A New Horizon for Cross Border Investment

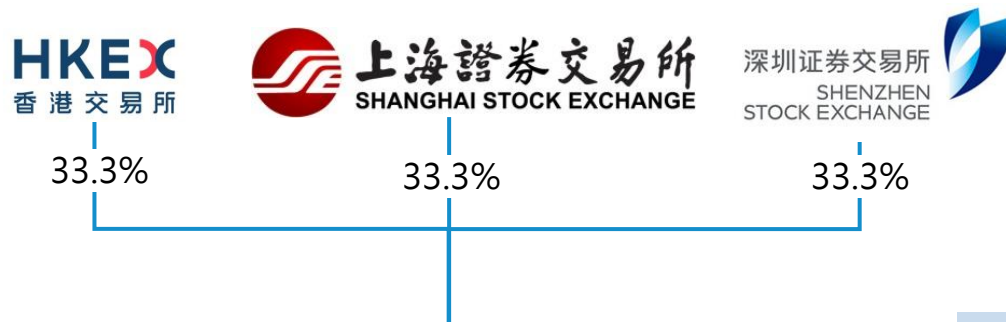


Gary Lui

Head of Index Development

China Exchanges Services Company Limited

CESC – A Joint Venture of HKEX, SSE, SZSE



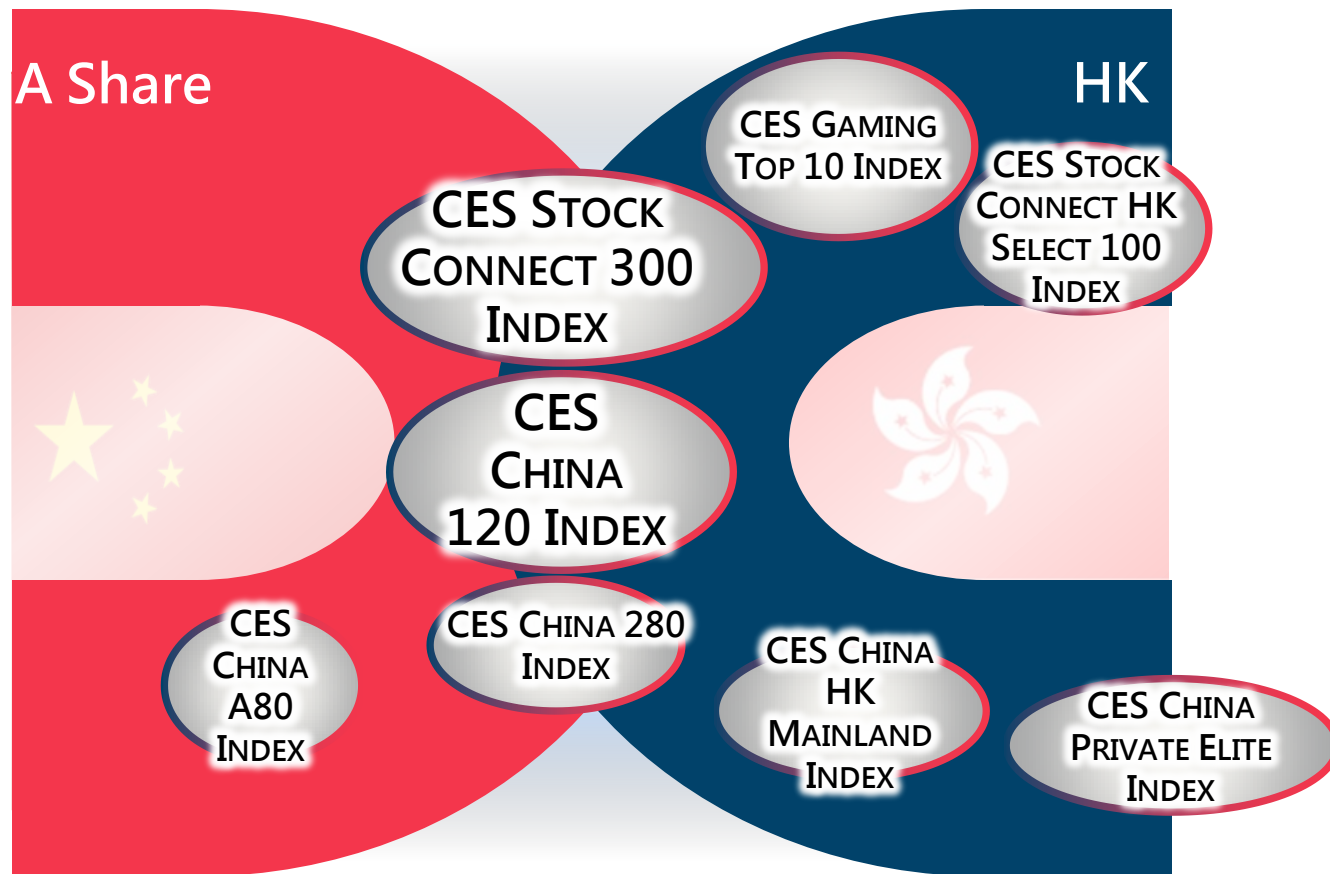
Contribute to the further internationalisation of China's capital market:

- Develop indices for the development of cross border financial products
- Provide global investors with exposure to China's financial market

Main Services

- Develop cross-border indices based on securities traded on the three markets
- Facilitate the development of new products based on CES indices (ETF, index futures, options, etc.)

CES Indices – Cross-border & Stock Connect Theme



The B&R Initiative is a Development Strategy

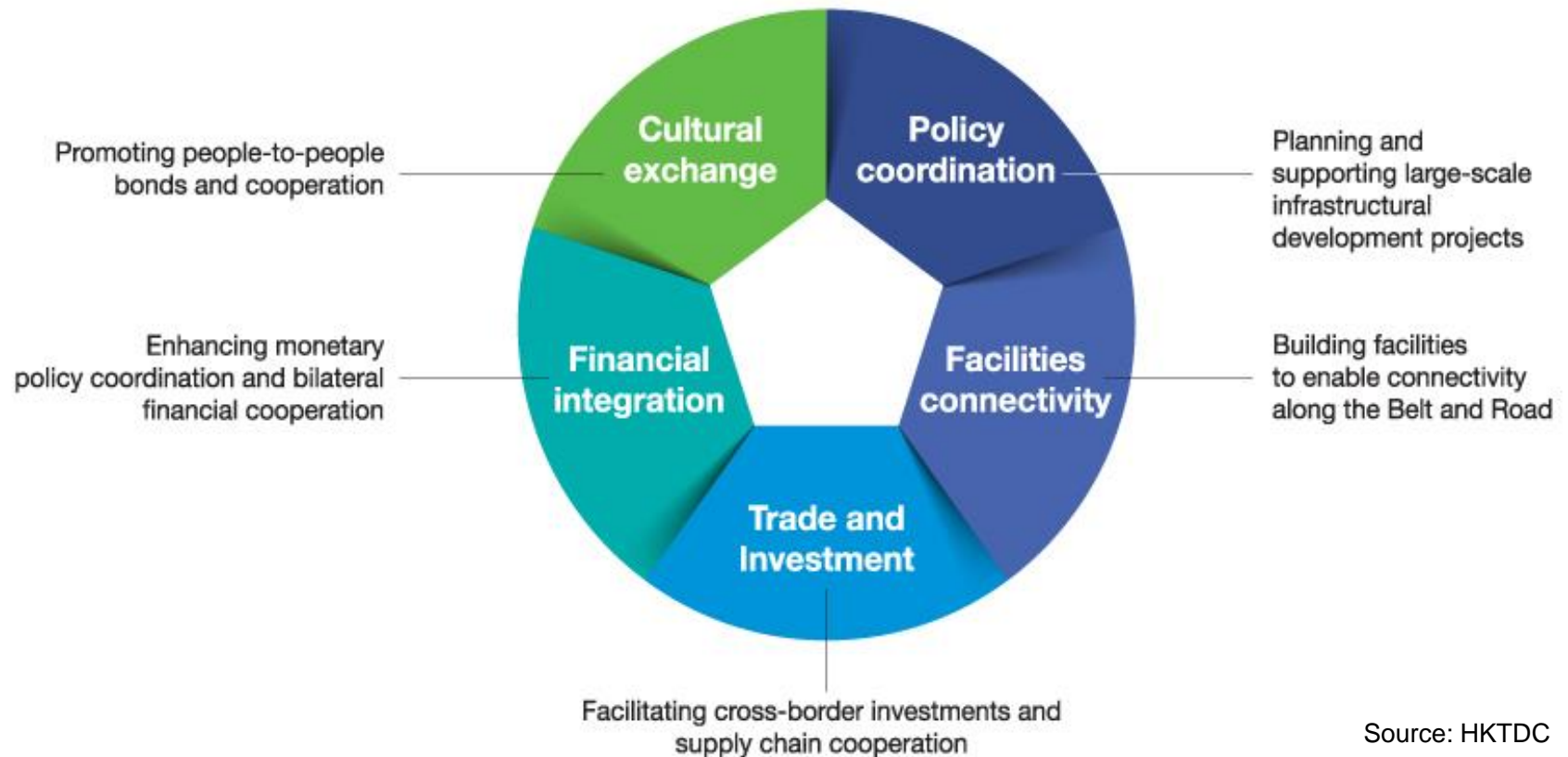
- ❑ Proposed by China as the development strategy in 2013.
- ❑ Land-based "Silk Road Economic **Belt**", which will link China with Europe through Central and Western Asia; Seagoing "21st Century Maritime Silk **Road**", which will connect China with Southeast Asian countries, Africa and Europe
- ❑ China Go Global Strategy



Source: Xinhua

Opportunities in 5 Key Areas

❑ Why should China promote the Belt and Road initiative?



Source: HKTDC

Key Numbers About the B&R Initiative

- ❑ Key numbers about the Belt & Road initiative:
 - 30% of global GDP
 - China's combined imports and exports with B&R countries reached US\$954 billion in 2016, accounts for 25.7% of China's total trade
 - Over 40 countries and international organizations have signed cooperation agreements with China
 - Chinese businesses have invested more than US\$60 billion in B&R countries
 - China has built 56 economic and trade cooperation zones with B&R countries
 - China has already allocated \$40 billion for the Silk Road Fund and \$100 billion for the Asian Infrastructure Investment Bank (AIIB), providing financial sources of support for the initiative

Source: Xinhua

How People are Investing in B&R Initiative

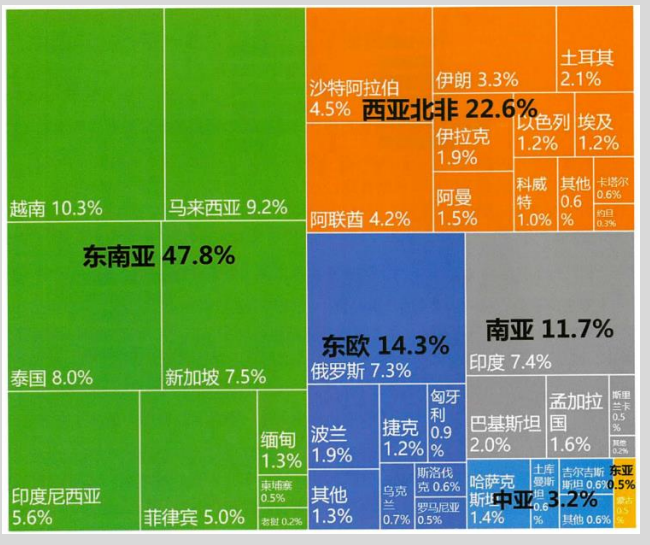
Index ETF/Fund

- The eligible stocks of existing belt & road indices are restricted to certain pre-defined sectors:
 - ✓ Infrastructure
 - ✓ Materials
 - ✓ Energy
- Overseas exposure
- Constituent selection is based on company size
- Market capitalization weighting

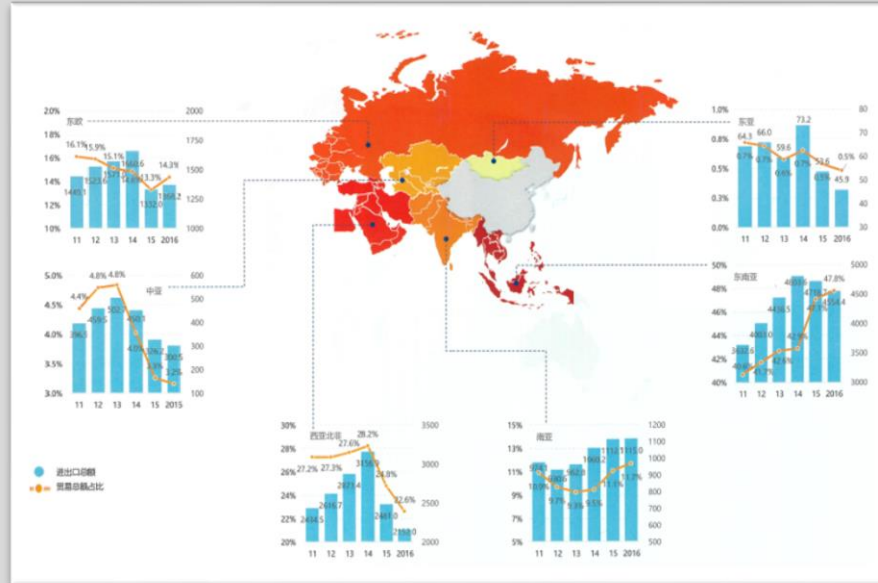
Public Data on B&R Initiative is very limited

- Listed Company Information – No separate business data on Belt & Road Initiative
- Public Information/Statistics – Like trade data between China and the Belt and Road countries.

2016 Trade Distribution Between China and Major Regions of Belt & Road Initiative



2011-2016 Trade Data Between China and Major Regions of Belt & Road Initiative



(Source: Big Data Report of Trade Cooperation Under The Belt and Road Initiative issued by State Information Centre)

Collection of B&R Data from Listed Companies and Public Information

- ✓ 6 types of Belt & Road data have been collected directly from Stock Connect Companies and their annual report.

6 Types of Belt & Road Data

1. Goods/Services Sales Amount
2. Goods/Services Purchases Amount
3. Newly Signed Engineering Contract Value
4. New Investment Value
5. Financing / Loan Amount (for Financial Institutions only)
6. Insured Amount (for Financial Institutions only)

Other Data

- Belt & Road Revenue Contribution to Company
- Company Expectation on Involvement in Belt & Road Initiative in the next 3 Years

Companies from Different Sectors & Markets are Participating in B&R Initiative

Based on the data provided by listed companies:

- 596 out of 1288 listed companies has involved in B&R Initiative
- Companies from all 10 major sectors have participated in B&R Initiative

	Number
Invited companies	1840
Replied companies	1288
Replied rate	70%
No. of Companies Involved in 2016 B&R Initiative	596
% involved in B&R (Over Replied Companies)	46%

Industry analysis	2016 B&R participation	
	No. of company	% of total
Energy	13	2%
Industrials	175	29%
Materials	100	17%
Consumer Staples	27	5%
Consumer Disc.	86	14%
Financials	31	5%
Telecom	19	3%
Information Tech	94	16%
Health Care	44	7%
Utilities	7	1%
Total	596	100%

Increasing Participation in B&R Initiative

According to figures from 2014 to 2016 :

- No. of companies participating in six business areas shows increasing trend.
- Companies expect more involvement in Belt & Road Initiative in the next 3 years.

Table 1. Companies Involved in B&R (No. of Companies)

	Sales	Purchase	Contract	Investment	Financing	Insurance
2014	491	202	50	98	11	6
2015	529 ↑	228 ↑	59 ↑	130 ↑	14 ↑	6
2016	540 ↑	239 ↑	69 ↑	153 ↑	17 ↑	6

Table 3. Expectation on Involvement on B&R Initiative for Next 3 years (No. of Companies)

Increase	Maintain	Reduce
381	199	1

Table 2. Companies Involved in B&R (RMB Billion)

	Sales	Purchase	Contract	Investment	Financing	Insurance
2014	873	1,077	158	76	1,921	2,733
2015	756	716	182	88	2,056	2,848
2016	828	943	328	135	2,753	3,094

(AH dual listing companies was excluded from above data. Total 596 companies involved in B&R development.)

Chinese Companies Heavily Involved in B&R Initiative

- Chinese companies are heavily involved in trading, infrastructure contracts, investments in B&R countries.
- Non-Chinese companies have higher involvement in financing and insurance business in B&R countries .
- The involvement of Chinese companies in financing business increased from 2.2% in 2014 to 25.6% in 2016

Distribution of Six Business Areas Chinese Companies Vs Non-Chinese Companies

	2014		2015		2016	
	CN	Non-CN	CN	Non-CN	CN	Non-CN
Sales	79.2%	20.8%	76.0%	24.0%	76.8%	23.2%
Purchase	93.6%	6.4%	90.3%	9.7%	92.4%	7.6%
Contract	99.6%	0.4%	99.8%	0.2%	99.9%	0.1%
Investment	89.0%	11.0%	92.0%	8.0%	90.8%	9.2%
Financing	2.2%	97.8%	15.8%	84.2%	25.6%	74.4%
Insurance	11.5%	88.5%	16.3%	83.7%	15.8%	84.2%

Private-owned Companies are Involved in B&R Initiative

Revenue	2014	2015		2016	
	RMB Bn	RMB Bn	Growth %	RMB Bn	Growth %
SOE	594.5	456.9	-23%	480.7	+5%
Private	97.2	117.6	+21%	155.3	+32%

Purchase	2014	2015		2016	
	RMB Bn	RMB Bn	Growth %	RMB Bn	Growth %
SOE	967.6	597.8	-38%	803.9	+34%
Private	41.0	49.2	+20%	67.4	+37%

Contract	2014	2015		2016	
	RMB Bn	RMB Bn	Growth %	RMB Bn	Growth %
SOE	144.3	171.7	+19%	275.0	+60%
Private	13.5	9.5	-30%	52.4	+452%

Investment	2014	2015		2016	
	RMB Bn	RMB Bn	Growth %	RMB Bn	Growth %
SOE	63.6	65.3	+3%	78.7	+21%
Private	4.5	16.0	+256%	44.4	+178%

- SOE is large in absolute size.
- Private-owned companies shows a higher growth rate in revenue and purchase (Export & Import).

- SOE signed mega-size contract.

- Private-owned companies invested tenfold in the past 2 years.

Revenue Contribution from B&R Initiative

Table 1. Revenue from B&R (No. of Companies)

B&R Revenue/ Total Revenue	2014	2015	2016
>50%	8	6	10
>20% to 50%	36	41	35
>10% to 20%	64	66	78
>5% to 10%	82	86	82
<=5%	308	335	342

- In general, about $\frac{3}{4}$ companies have revenue from B&R less than 20%.
- The situation did not change in the past.

Table 2. Revenue Contribution (% of Sales)

	2014	2015	2016
Chinese Companies			
SOE	7%	7%	7%
Private	7%	6%	7%
Non-Chinese Companies	21%	20%	19%

- In the past, Chinese companies focused more on local market.
- In contrast, non-Chinese companies were doing business globally.

Summary of Key Discussion

- Trade data is not the only statistics to show B&R development, infrastructure contracts, investment, financing and insured amount are all indicators to show B&R activities.
- To invest B&R Initiative, we need to:
 - ✓ Expand the selection universe to all sectors and companies listed in mainland China and HK; and
 - ✓ Include both SOE and private-owned companies in the portfolio.
- Revenue contribution from B&R is low at this moment. The listed company performance may become more sensitive to B&R development in the future.

Key Numbers About the Belt & Road Initiative

For further information, please contact:

China Exchanges Services Company Limited
Suites 906-908, 9/F, Two Exchange Square
8 Connaught Place, Central, Hong Kong
f: +852 2868 3770
w: www.cesc.com

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