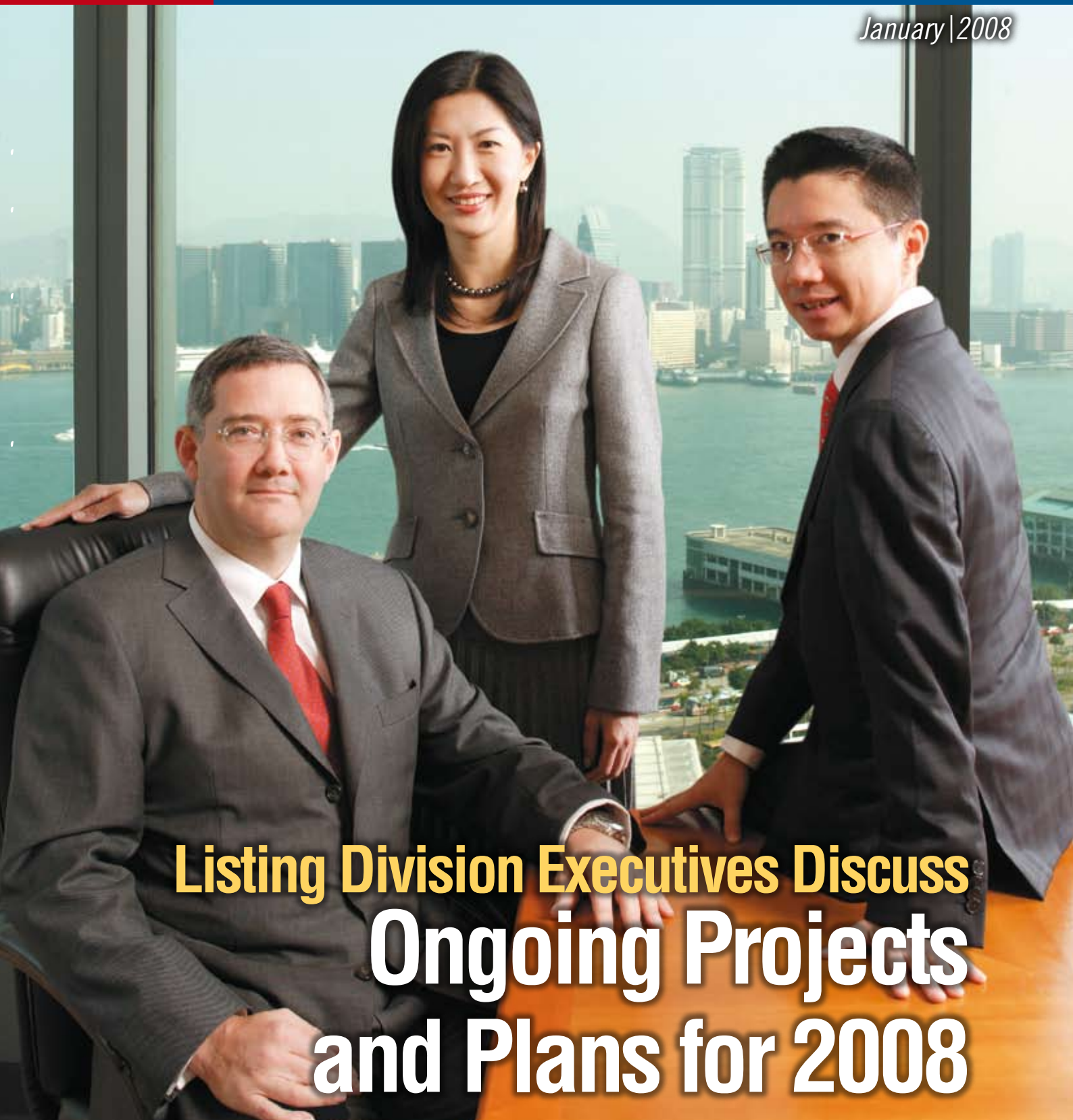


EXCHANGE



January | 2008



Listing Division Executives Discuss Ongoing Projects and Plans for 2008

Mini H-shares
Index Futures

Depository Receipt Plan

Rollout of
Third Party Clearing

C ontents



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Chief Executive's Message

Happy New Year! I am pleased to introduce the January 2008 edition of HKEx's quarterly newsletter, *Exchange*. This edition features articles on some of the projects we expect to complete this year, including the announcement of a framework for the listing of depositary receipts on our Stock Exchange, the introduction of five-digit stock codes and the rollout of Mini H-shares Index futures. All three projects will increase our potential for further growth. There is also an article on the ongoing system upgrades to support the increased trading in our securities and derivatives markets, where average daily turnover rose 160 per cent to \$88,071 million and 105 per cent to 367,678 contracts respectively last year from the previous year.

The other articles include an update on our possible admission of remote exchange participants, which would enable overseas firms with Third Party Clearing (TPC) arrangements to trade directly in our markets without having an office in Hong Kong, and an overview of the TPC regime introduced in our securities market in the fourth quarter of last year.

In the Chat Room, Listing Division executives Richard Williams, Bonnie Chan and Michael Cheng discuss some of the division's recent initiatives and plans for this year. More than 80 companies completed initial public offerings (IPOs) and listed on the Stock Exchange last year. Together, the IPOs raised more than \$290 billion.

This edition of *Exchange* also has reports on a pilot scheme to give individual investors greater access to information on IPOs at an earlier stage of the IPO process and the records that were set in our markets in 2007.

Our Research and Corporate Development Department has contributed an article on the results of its Derivatives Market Transaction Survey 2006/2007. Stock options were the most actively traded product during the period covered by the survey. The results of the survey also show our derivatives market continues to attract institutional and individual investors from Hong Kong and overseas.

The Spotlight this time is on the Designated Issuer Website that we plan to introduce this quarter to provide quick, easy access to regulatory filings and other disclosures by or related to companies listed on the Stock Exchange, and the Snapshot looks at last year's noteworthy increase in Stock Exchange Participants.

As another new year begins, we remain committed to providing quality services and products which meet the needs of investors, and ensuring our market participants and other stakeholders are informed of developments at HKEx. The timetable on the following pages shows key projects we aim to complete this year. I hope you enjoy this edition of *Exchange*. Readers' comments and suggestions are always welcome.

CHOW Man Yiu, Paul

Chief Executive



HKEx's Major Initiatives for 2008

2008 Q1

2008 Q2

Market Development

- Study of possible admission of remote participants
- Discussions with the Securities and Futures Commission (SFC) on suspending the securities market's tick rule
- Implementation of 5-digit stock codes (7 April)
- Introduction of closing auction (26 May)
- Review of parallel trading arrangements
- Listing promotion activities in the Mainland and overseas

Product Development

- Listing of Market Access Products
- Launch of Mini H-shares Index futures (31 Mar)
- Completion of feasibility studies on trading of commodities derivatives and emissions-related products
- Review of Pilot Programme for Trading US Securities

Service Enhancement

- Continued pursuit with major banks of increased immobilisation rate in the Central Clearing and Settlement System
- Development of information businesses on the Mainland
- Streamlining of Exchange Participants Admission and Registration function
- Launch of Shareholding Disclosure Service

Market Quality Enhancement

- Launch of Web Proof Information Pack Pilot Scheme (1 Jan)
- Publication of Combined Consultation Paper on Proposed Changes to the Listing Rules (11 Jan)
- Implementation of changes in suspension policy (late Feb)
- Launch of Designated Issuer Website (Feb)
- Publication of second review of issuers' compliance with Code on Corporate Governance Practices (CG Code) (Feb)
- Publication of Consultation Conclusions on Periodic Financial Reporting

- Training programmes for issuers

System Development

- Review of IT governance and core market systems
- AMS/3 and MDF upgrade to support 5 million daily trades (28 Jan)
- CCASS/3 upgrade to support 5 million daily trades (Mar)
- HKATS and DCASS software upgrade to 19.1 (Mar)
- Upgrade capacity and technology of Securities Market Automated Research, Training and Surveillance System
- Start the HKEx corporate website revamp project
- Review of IT governance and core market systems
- PRS upgrade to deliver 2,200 messages per second
- Agreement with the SFC on system requirements to facilitate electronic submission of disclosure of interests filings

Corporate

- Preparation for the relocation and consolidation of derivatives data centres and IT offices
- Consolidation of HKEx offices
- Launch of project to define and develop LISA, the Listing Information Support Application
- Discussions with the Government on broader stamp duty exemptions or relief for certain transactions to minimise inconsistencies
- Review of HKEx fees to ensure they are and remain reasonable and competitive
- Identification of external consultant to conduct the first annual green audit

2008 Q3

2008 Q4

- Launch of depositary receipt regime
- Launch of enhanced Growth Enterprise Market
- Enhancements to market making services

- Improvement of two-way communication channels with Participants

- Publication of Conclusions on Combined Consultation Paper on Proposed Changes to the Listing Rules
- Review of the CG Code and corporate governance disclosure requirements

- Review of core market systems
- CCASS/3 middle tier technology upgrade

- Review of core market systems
- AMS/3 and MDF upgrade to support 7.5 million daily trades
- AMS/3 technical architecture design study
- CCASS/3 upgrade to support 7.5 million daily trades*
- DCASS and PRS upgrade to support 2.0 million daily trades
- HKEx website and Investment Service Centre capacity upgrade

* CCASS/3 capacity upgrade to 7.5 million trades a day will be initiated if necessary

- Start of refurbishment of derivatives data centre and IT offices

System Development Note:

AMS/3, the Third Generation Automatic Order Matching and Execution System, is the trading system for the securities market. CCASS/3, the Latest Generation Central Clearing and Settlement System, and the Market Data Feed, or MDF, are the other major market systems supporting the securities market. HKATS, the Hong Kong Futures Automated Trading System, is the trading system for the derivatives market. DCASS, the Derivatives Clearing and Settlement System, and PRS, the Price Reporting System, are the other major market systems for the derivatives market.

HKEx Markets Set Records

There were several major records set last year in HKEx's securities and derivatives markets.

Securities Market

The Hang Seng Index, the H-shares Index and market capitalisation rose to all-time highs along with equity fund raising and newly listed derivative warrants. Other records included highest annual, one-month and one-day market turnover.

New Records in the Securities Market

	2007		Pre-2007 Record	
Market Capitalisation[#]	\$23,197 bil	(30 Oct)	\$13,339.9 bil	(28 Dec 2006)
Hang Seng Index	31638.22	(30 Oct)	20001.91	(28 Dec 2006)
Hang Seng China Enterprises Index	20400.07	(30 Oct)	10363.28	(28 Dec 2006)
S & P / HKEx LargeCap Index	38585.09	(30 Oct)	24446.59	(28 Dec 2006)
Turnover	\$21,665.5 bil		\$8,376.3 bil	(2006)
- H-shares	\$7,772.5 bil		\$2,536.6 bil	(2006)
- Derivative Warrant	\$4,693.9 bil		\$1,790.1 bil	(2006)
Single-month Turnover	\$3,487.3 bil	(Oct)	\$1,082.1 bil	(2006)
Single-day Turnover	\$210.5 bil	(3 Oct)	\$79.0 bil	(28 Aug 1998)
Total Equity Capital Raised*	\$558.5 bil[^]		\$524.5 bil	(2006)
- Equity Capital Raised by H-shares IPOs	\$74.1 bil		\$291.8 bil	(2006)
Newly Listed Derivative Warrants	6,312		2,823	(2006)

[#] The figures represent the total market capitalisation of all equity securities listed on the Main Board and Growth Enterprise Market (GEM) and exclude other listed securities such as REITs and government bonds. Trading only stocks under pilot programmes are also excluded.

* The figure excludes funds raised by REITs, which are classified as Unit Trusts.

[^] Provisional figure

Derivatives Market

Annual market turnover rose to an all-time high, led by a large increase in stock options turnover from its record level in 2006. Three index futures contracts and Hang Seng Index options also broke turnover records set in 2006.

New Records in the Derivatives Market

Turnover (contracts)	2007	Previous Record
Total	87,985,686	42,905,915 (2006)
- Stock Options	45,982,968	18,127,353 (2006)
- Hang Seng Index Futures	17,160,964	12,718,380 (2006)
- H-shares Index Futures	10,846,277	4,880,470 (2006)
- Hang Seng Index Options	7,480,183	4,095,679 (2006)
- Mini-Hang Seng Index Futures	4,325,977	2,140,242 (2006)

Open Interest	Contracts	Date
Stock Options	8,302,290	28 Nov
Hang Seng Index Options	476,682	29 Aug
Hang Seng Index Futures	198,789	27 Jun
H-shares Index Futures	149,201	25 Sep

HKEx Plans to Introduce the Mini H-shares Index Futures

HKEx plans to introduce the Mini-Hang Seng China Enterprises Index (Mini H-shares Index) futures in the first quarter of this year, subject to the Securities and Futures Commission's approval.

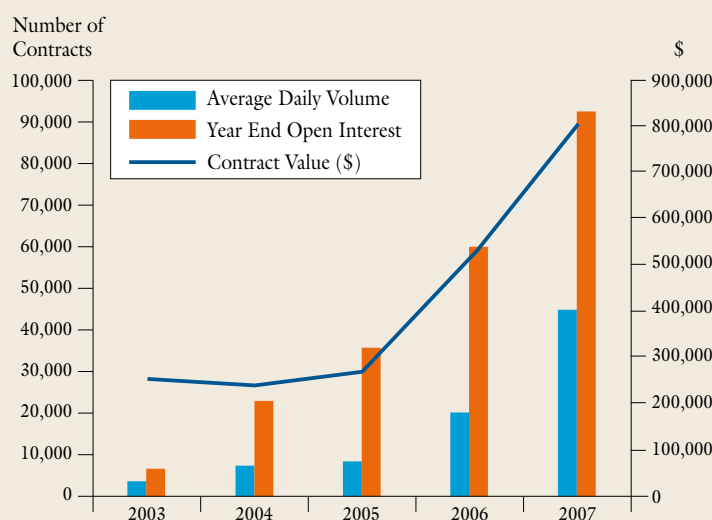
The proposed Mini H-shares Index futures contract would be an effective trading and hedging tool for retail investors and a good solution for individuals and other investors interested in smaller contracts. It would also complement the trading of the standard Hang Seng China Enterprises Index (H-shares Index) futures and options.

The contract multiplier of the proposed Mini H-shares Index futures is \$10 per index point, one-fifth of the contract multiplier for the standard H-shares Index futures. If Mini H-shares Index futures had been available for trading at the end of last year, the value of one contract would have been approximately \$161,247. The other contract specifications of the two products are the same.

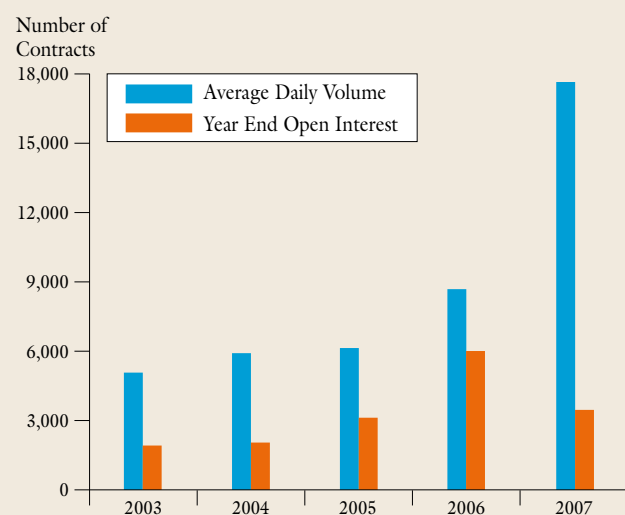
Mini H-shares Index futures have been designed to be fungible with the standard H-shares Index futures in the ratio of 5:1; ie five Mini H-shares Index futures long contracts will be offset by one standard H-shares Index futures short contract or vice versa.

The H-shares index increased more than five times between the rollout of H-shares Index futures on 8 December 2003 and the end of last year, reflecting the extremely strong price performance of the constituent stocks, while the average daily volume of the H-shares Index futures rose from 3,196 contracts in its first month of trading to 43,462 contracts in December last year. The primary customer base of H-shares Index futures is local and international financial institutions.

H-shares Index Futures Contract Value, Average Daily Volume and Year End Open Interest



Mini-Hang Seng Index Futures Average Daily Volume and Year End Open Interest



HKEx Seeks to Establish Depository Receipt Framework

HKEx will seek to expand its business by reducing market barriers, rationalising its fee structure, and enhancing its products and services and promoting these to customers of the exchanges and clearing houses. The listing facility will be expanded to include more overseas jurisdictions and will be promoted to selected markets in order to develop an Asian focus. At the same time HKEx will seek to provide more user-friendly market infrastructure in order to attract overseas securities firms to its markets.

HKEx Strategic Plan 2007-2009

In its Strategic Plan 2007-09, HKEx confirms the goal of listing more overseas companies, so as to broaden its range of listed issuers and contribute to Hong Kong's further development as an international financial centre. To support the plan, HKEx is seeking to establish a framework within its Listing Rules for the listing of overseas companies by way of depository receipts (DRs).

Convenience

At present the Listing Rules require companies listing in Hong Kong to do so in the form of ordinary shares, and to maintain a share register in Hong Kong (Rule 19.05(3)(a)). For companies from jurisdictions which restrict movements of shares abroad or prohibit an overseas register or splitting of the register, these requirements pose a barrier to listing in Hong Kong.

Hong Kong investors may also find it inconvenient to acquire foreign stocks directly. Direct ownership of foreign stocks may involve receipt of dividends in another currency, and registering ownership, paying tax, and exercising entitlements in an overseas jurisdiction.

The internationally-accepted solution to both of these problems is the DR. The depository¹, normally a global bank, takes delivery of shares (usually via a custodian in the issuer's jurisdiction), and issues DRs in a given ratio in respect of these shares in the market of listing. Thereafter, the depository holds the shares for the benefit of the DR holders, collects and converts dividends, accounts for any tax withholding or reclaim, and handles voting and entitlements on the DR holders' behalf. Nowadays the depository also provides other value-added services to the issuer, such as analysis of the DR holder base and advice on investor relations.

¹ In the context of DRs, the depository is the financial institution (normally a bank) which issues the DRs and administers them. The depository should not be confused with the central securities depository, such as HKEx subsidiary Hong Kong Securities Clearing Company which operates the Central Clearing and Settlement System (CCASS), in which the DRs are deposited for trading on the Stock Exchange.

Hong Kong DR framework

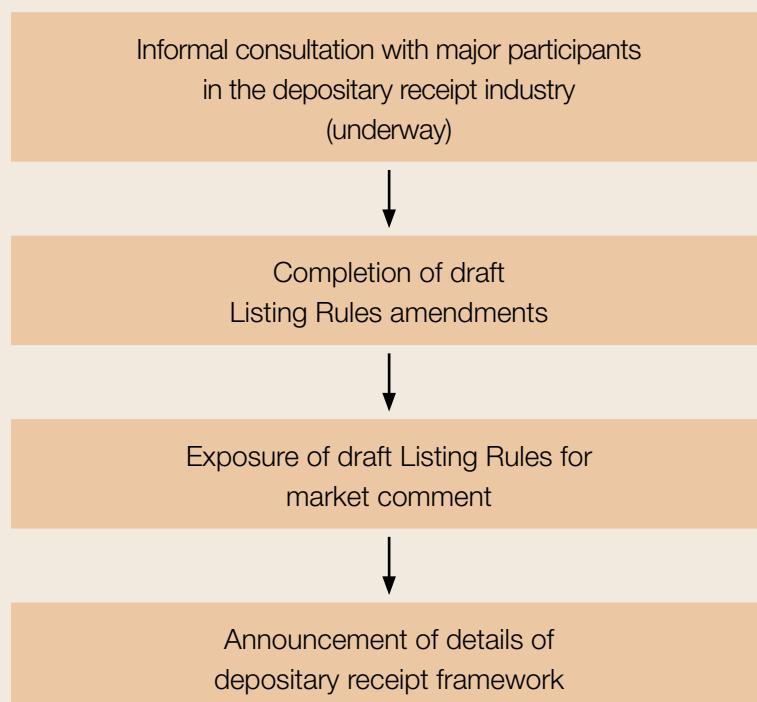
In June 2007, HKEx announced a project to establish a DR framework in its Listing Rules. The Securities and Futures Commission (SFC) has given its support to the project. The governing principle of the DR project is that there will be no policy change. All the existing shareholder protections in the Listing Rules, as amplified by Joint Policy Statement issued by HKEx and the SFC on 7 March 2007, will apply to DR issuers. Any overseas issuer seeking a listing on HKEx will have to comply with the same regime, whether the issuer comes in the form of DRs or of ordinary shares.

The Exchange will expose the draft Listing Rule amendments, when these are ready, for market comment. A process of informal consultation with the major players in the DR business has already begun.

The amendments to the Listing Rules will not be extensive, since the existing admission requirements, continuing obligations and disclosure requirements, and the requirements of Chapter 19 applying to overseas companies, will apply to DR issuers just as they do to overseas issuers of ordinary shares. The amendments will address in particular the two-tier legal structure of DRs, seeking to ensure that the holders of DRs enjoy equivalent rights and protections to holders of the underlying shares. This will be done mainly by imposing requirements as to the depositary agreement and the depositary itself.

HKEx aims to announce details of the DR framework in the third quarter of this year. It is hoped that this will be the first stage in a longer term initiative to improve the attractiveness of Hong Kong as a listing venue for overseas companies.

Roadmap for HKEx Depositary Receipt Framework



Stock Exchange Participants Can Now Opt for Third Party Clearing

HKEx successfully introduced a framework for Third Party Clearing (TPC) service in its securities market on 3 December last year. Under the new clearing framework, General Clearing Participant (GCP) and Direct Clearing Participant (DCP) are the two categories of Clearing Participants of Hong Kong Securities and Clearing Company Limited (HKSCC), the wholly-owned subsidiary of HKEx that operates the Central Clearing and Settlement System (CCASS).

TPC enables a Stock Exchange Participant (SEP) to trade on the Exchange without becoming a CCASS Clearing Participant by outsourcing all its CCASS-related clearing functions to a GCP of HKSCC, which will assume all the EP's trade settlement obligations in CCASS.

The market response on TPC has been encouraging. So far, Fortis Clearing (Options) Hong Kong Limited, Merrill Lynch Far East Limited and Citibank NA have become GCPs of CCASS. In addition, HKEx is processing an application from Goldman Sachs (Asia) Securities Limited and in discussions with a few major SEPs and clearing service providers interested in applying to be GCPs.

TPC has been in place in HKEx's derivatives market for many years. With the introduction of TPC to the securities market, there are now a total of nine GCPs serving Exchange Participants of HKEx's securities market and/or derivatives market.

TPC makes access to the securities and derivatives markets easier and it gives Exchange Participants more flexibility in their business operations. TPC is also a pre-requisite for remote exchange participantship arrangement that HKEx is now considering. Admitting firms as remote exchange participants would allow them to trade in HKEx's markets without having an office in Hong Kong and could help enlarge the markets' investor bases and further increase market liquidity.

Since the launch of the Trading Right tender service in March last year, it has been possible to acquire Trading Rights to become Exchange Participants of HKEx in a timely, convenient and cost efficient manner by applying directly to HKEx. Information about the tender service is available on the HKEx website at: <http://www.hkex.com.hk/tradright/trindex.htm>.

HKEx Considers Admission of Remote Exchange Participants

HKEx has been studying other major exchanges' admission requirements as it considers the possible admission of remote exchange participants. Under the proposed framework now under review at HKEx and subject to further comment by the Securities and Futures Commission (SFC), the regulation of remote exchange participants and their clients is very similar to the current situation when overseas brokers and their clients trade in HKEx's markets via correspondent brokers in Hong Kong.

Major Overseas Exchanges' Remote Participant Requirements

Common requirements for remote participants of major overseas exchanges include the following, according to research conducted by HKEx.

Regulatory Supervision

All exchanges require their overseas participants to be subject to supervision in their home market by a banking or securities/futures market regulator.

Inspection, Provision of Information and Mail Authority

Most exchanges require the remote participants to authorise residents in the exchanges' local jurisdictions to receive correspondence, and to enter into agreements with the exchanges to provide information upon request and allow the exchanges or agents appointed by the exchanges to examine the remote participants' business activities with regard to compliance with the exchanges rules and regulations.

Exchange of Information

Most exchanges require that the exchange of information between the remote participants' local supervisory authorities and the exchanges' own regulatory authorities must be possible to facilitate supervision of the remote participants.

No Opposition by Home Supervisory Authority / Breach of Local Laws

Most exchanges require remote participants to either obtain confirmation from their local supervisory authorities or otherwise confirm by themselves or their lawyers that there will be no breach of their local legislation in their becoming remote participants and in dealing in the exchanges' markets.

Third Party Clearing

All exchanges requires their remote participants to appoint a general clearing participant acceptable to the exchange to perform settlement and clearing functions on the remote participant's behalf or become a clearing member of a clearing house acceptable to the exchange to mitigate settlement risks.

Technical Setup

Most exchanges require their remote participants to have trading facilities acceptable to them for dealing in their markets.

Way Forward

HKEx is currently discussing with SFC the admission requirements and regulatory arrangements, including licensing requirements of the SFC, for remote exchange participants. Remote exchange participants are expected to be subject to HKEx regulatory arrangements similar to locally incorporated exchange participants unless the current HKEx rules are deemed not practical or appropriate for remote exchange participants. A new set of admission rules for remote exchange participants is being prepared for the consideration of HKEx senior management and SFC executives. Subject to the resolution of several regulatory and licensing issues, remote exchange participantship may be considered for implementation this year if the proposed model and regulatory arrangements are agreed upon and approved by HKEx and the SFC.



Stock Exchange Gains More Exchange Participants

With the further growth and liberalisation of the Mainland China economy, HKEx, as operator of China's international exchanges, has become an increasingly popular choice of domestic and international capital interested in Mainland-related securities. Last year, the number of Stock Exchange Participants* (SEPs) increased for the first time since the merger of Hong Kong's two exchanges and three clearing houses in 2000, rising to 439 on 31 December from 425 at the end of 2006.

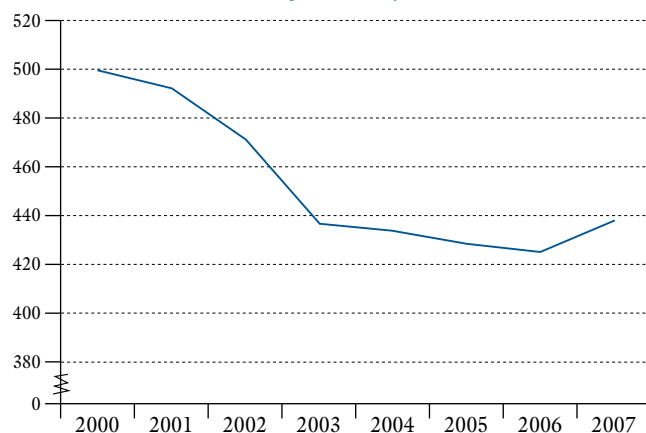
From 1 January to 31 December last year, HKEx admitted 24 new SEPs, including five from Mainland China, seven from Asia excluding the Mainland and Hong Kong, four from Europe, four from North America and one from Africa. There were also eight applications being processed at the end of last year.

HKEx's SEPs are a very diverse group of large and small firms from Hong Kong, the Mainland and overseas. On 31 December last year, there were 133 SEPs owned by non-Hong Kong interests. They comprised 26 from Mainland China, 21 from Taiwan, 32 from the rest of Asia, 34 from North America, 19 from Europe and one from Africa.

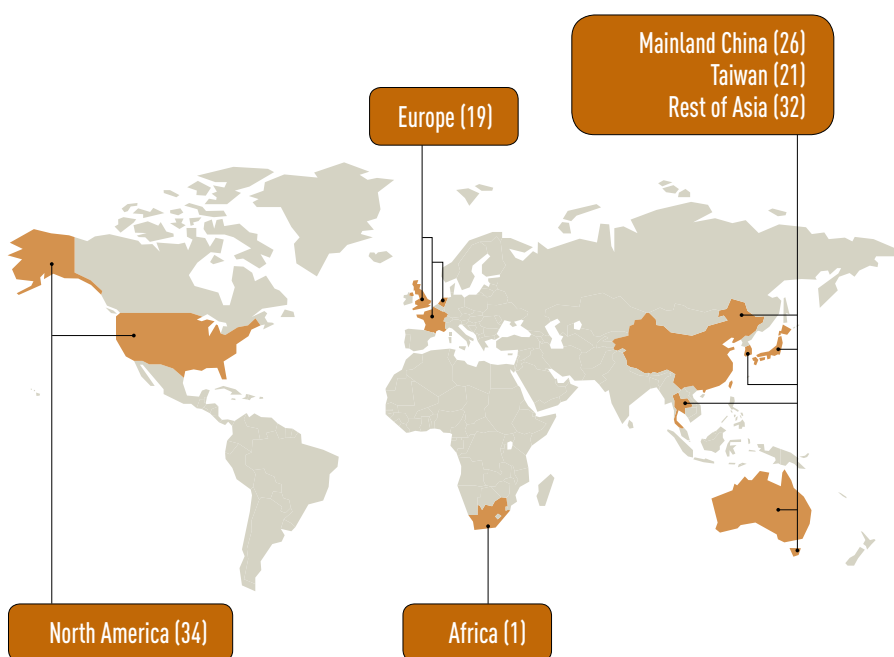
HKEx's mission is to be a leading international marketplace for securities and derivatives focused on Hong Kong, Mainland China and the rest of Asia. Therefore, HKEx is committed to providing user-friendly support to companies from around the world wishing to participate directly in its markets by becoming Exchange Participants.

For enquiries regarding the admission process for Stock Exchange Participants, please contact HKEx by telephone at (852) 2840 3626, or via email at: trd@hkex.com.hk.

Number of Stock Exchange Participants from 2000 to 2007



SEPs Owned by non-Hong Kong Interests (as of 31 December 2007)



* Corporations with the right to trade on or through the Stock Exchange and licensed under the Securities and Futures Ordinance to engage in such activity; it does not include Non-trading Stock Exchange Participants (the Exchange had 38 Non-trading Participants at the end of last year).

Extension of Electronic Voting Service Set Aside after Discussions with Market Participants

HKEx currently provides electronic shareholder voting service to Participants of its Central Clearing and Settlement System (CCASS), as well as those investors who have opened a CCASS Stock Segregated Account (SSA) with Statement Service through their brokers or custodians. In the middle of last year, HKEx studied the feasibility of working with brokers and custodians to extend the electronic voting service to their clients who do not use the SSA service. After considering various models and alternatives, the general view of market participants was that it might be premature to extend electronic voting given the fundamental limitations under the current market structure.

Although market participants were generally supportive about providing an option for their clients to vote electronically, they were concerned about the complicated operational flow and legal implications of the proposed service, given that CCASS as the service provider would have to serve a group of investors without knowing their identities or shareholding details. There were also questions about the effectiveness of the proposed service, as investors using the service would be subject to an earlier voting deadline due to the time needed by each party in the communication chain to process the voting instructions. No satisfactory solutions could be identified for the issues and concerns raised by market participants.

In the views of many market participants, the existing arrangements for voting by their clients, which involve mainly telephone or mail, are quite convenient for shareholders, and there is no evidence that the current mechanism has discouraged shareholders from voting. Therefore, offering electronic voting service to all clients of market participants before resolving the fundamental limitations that have been identified and working out a simple, efficient service model appears to be imprudent.

After carefully considering the views of market participants, HKEx has decided to suspend its plans to extend the electronic voting service. Nevertheless, HKEx will continue to study ways to improve the voting mechanism in CCASS, and to welcome suggestions from the market. Shareholders who want to vote electronically can open an SSA through their brokers or custodians.

SSA information is on the HKEx website at: http://www.hkex.com.hk/segacct/acctsvc/segacct_page.htm

HKEx Prepares for Introduction of Five-digit Stock Codes

With the surge in the number of listed securities, particularly structured products, on the Stock Exchange, it has become necessary to expand the stock code capacity. HKEx has therefore announced a plan to introduce five-digit stock codes with effect from 7 April this year. The initiative will not only offer more stock code capacity to support future market growth but also provide flexibility to standardise and rationalise stock code classification.

In order to minimise changes for market participants, only newly listed structured products will be assigned five-digit codes during the initial stage following the rollout, meaning that the prevailing stock codes and AMS/3 (the Third Generation Automatic Order Matching and Execution System) information page numbers within the range of 1 to 9999 will generally not be affected. Broader usage in the next stage will be considered to optimise stock code classification.

While all HKEx's core IT systems such as AMS/3, CCASS/3 (the Latest Generation of the Central Clearing and Settlement System) and the trading devices HKEx supplies, including AMS Trading Terminals, Open Gateway interfaces for Broker Supplied Systems (BSS), the Multi-workstation System and the Order Routing System, were built to support five-digit stock codes, it is recognised that some market participants may need to enhance their in-house systems and operational processes to be able to use five-digit codes. A six-month lead time was thus provided when the 7 April rollout date was announced.

To facilitate preparation by HKEx's Participants and information vendors, a series of testing sessions and market rehearsals have been planned (see table). Participants are strongly encouraged to join the events, and to leverage on the opportunities to review and verify all their internal systems, both front-end and back-end, including but not limited to trading, clearing and settlement, market data dissemination, accounting and margin call systems. The events are also good opportunities for Participants to examine their internal operating procedures, the processes they use for issuing contract notes, daily statements and month-end statements, and their communication channels and interfaces with clients (eg websites, interactive voice response systems, text message systems and other messaging systems). HKEx is stressing thorough preparation to ensure readiness and smooth implementation.

Implementation Plan for Five-digit Stock Codes

Date/ Tentative Date	Event	Nature
11 to 13 Dec 2007	1st free end-to-end testing session for BSS users	Optional
8 to 10 Jan 2008	2nd free end-to-end testing session for BSS users	Optional
2 Feb 2008	1st testing session for information vendors	Optional
16 Feb 2008	2nd testing session for information vendors	Optional
23 Feb 2008	1st market rehearsal for Exchange Participants and information vendors	Mandatory
24 Feb 2008	1st market rehearsal for Clearing Participants	Mandatory
15 Mar 2008	2nd market rehearsal for Exchange Participants and information vendors	Mandatory
16 Mar 2008	2nd market rehearsal for Clearing Participants	Mandatory
7 Apr 2008	Rollout of five-digit stock codes	

System Upgrades Support Phenomenal Securities Market Growth

HKEx's securities market systems processed more orders, transactions and data last year than ever before as the market experienced unprecedented trading growth. Average daily volume increased significantly, rising from about 450,000 trades in January with a turnover of \$57 billion to a much higher 900,000 trades in October with a turnover of \$166 billion. An all-time high turnover of \$210.5 billion was recorded on 3 October with a total of 1,201,263 trades. The number of listed securities also increased substantially, climbing from 3,500 early in the year to 6,000 at the end of the year as a result of strong investor demand for derivative warrants.

As a market operator, HKEx has a strong commitment to maintaining the reliability, capacity and performance of its trading, clearing and settlement and market data dissemination systems to safeguard the orderly operation of the securities market. The utilisation of core market systems is monitored continually and business volume projections are updated regularly for capacity planning purposes to ensure the various market systems have sufficient capacity to meet the needs of the often fast changing market. This proactive capacity management approach resulted in the series of 2007 and 2008 system upgrade initiatives described below.

AMS/3 (the Third Generation Automatic Order Matching and Execution System) had a software upgrade in January last year to increase the daily processing capacity from 1.2 million to 1.5 million trades. That was closely followed by a technology upgrade of the mainframe system used by CCASS/3 (the Latest Generation of the Central Clearing and Settlement System) to support 1.5 million trades in a day for capacity alignment with AMS/3.

As trading volume continued to surge in the first half of last year, HKEx immediately initiated a capacity and technology upgrade for AMS/3. The plan is to replace the AMS/3 host system with the next generation NonStop Itanium servers to increase capacity more than threefold, from 1.5 million to 5 million trades in a day. HKEx aims to implement the upgrade before the end of January this year and Exchange Participants will be required to participate in market rehearsals prior to the rollout. The market rehearsals are essential for Participants' verification and validation of the capability of their order routing systems

and Internet trading infrastructure to handle a higher volume of order flow and stock price updates. The Market Datafeed system, which disseminates stock price updates to information vendors, will be upgraded together with AMS/3 to support an increased volume of market data. Information vendors are also required to participate in the market rehearsals to verify and ensure their systems and the market data services have sufficient capacity and performance capability to handle increased market data volume.

An upgrade of CCASS/3 in three phases is also underway for capacity alignment with AMS/3. Additional processing power was added to the mainframe system in December last year to immediately increase the capacity from 1.5 million to 2.5 million trades a day. The CCASS/3 data storage and the LAN (Local Area Network) infrastructure will be upgraded in March this year to achieve a capacity of 5 million trades per day. Hardware technology used by CCASS/3 middle tier subsystems will be upgraded in August this year to complete the exercise.

In addition, HKEx is ready to further increase the capacity of various market systems to 7.5 million trades a day by the end of this year if necessary. To prepare for the possible increase, a bandwidth upgrade will be arranged in the second quarter of this year for all AMS/3 circuits so they will be able to disseminate additional market data resulting from new listings and more trading activity. HKEx will inform Participants well in advance if they need to upgrade their systems to support 7.5 million trades per day. HKEx also plans to arrange market rehearsals when necessary for Participants to verify the readiness of their systems so that the market as a whole is well prepared when further substantial growth of the securities market is anticipated.

HKEx Capacity Upgrade Plan for its Core Market Systems

System	Month	Processing Securities Capacity (Trades)	
		From	To
AMS/3	Jan 2007	1.2 million	1.5 million
	Jan 2008	1.5 million	5 million
	4Q 2008 ²	5 million	7.5 million
CCASS/3	Dec 2007	1.5 million	2.5 million
	Mar 2008	2.5 million	5 million
	4Q 2008 ¹	5 million	7.5 million
Market Data Feed	Jan 2008	1.5 million	5 million
	4Q 2008 ²	5 million	7.5 million

¹ CCASS/3 further capacity upgrade to 7.5 million trades will be initiated when trading volume approaches 5 million trades

² If necessary

Financial Reporting Forum Fosters Good Discussion

On 13 November last year, HKEx and the Hong Kong Institute of Certified Public Accountants (HKICPA) held a joint forum in the Exchange Auditorium at which listed issuers, auditors and users of financial statements exchanged views on:

- whether the move towards fair value measurement in financial reporting standards is making information included in financial statements more understandable and more useful for decision making by stakeholders;
- the importance of preliminary annual results announcements, and the Stock Exchange's expectations of external auditors concerning such announcements; and
- the Exchange's recent consultation paper on periodic financial reporting.

The forum was chaired by HKEx Chief Executive Paul Chow and HKICPA Vice President Paul F Winkelmann. The speakers, who also served as panellists for the discussion sessions, included Kelvin Wong from COSCO Pacific, Patricia McBride from HKICPA and HKEx Listing Division executives Richard Williams and Colin Chau. David Webb, a former investment banker who is now an Independent Non-executive Director of HKEx, was a guest panellist for the discussion sessions.

The forum generated considerable interest and the requests for seats outnumbered the supply. The number of participants had to be restricted to 200, the Auditorium's capacity.

The discussions were lively, reflecting participants' diverse views on the topics discussed, in particular fair value measurement issues and proposals in the Exchange's consultation paper on periodic financial reporting regarding shortened deadlines for the release of half-year and annual results announcements and reports, and the introduction of mandatory quarterly reporting for Main Board issuers.



HKEx Chief Executive Paul Chow addresses the joint HKEx-HKICPA forum.



HKICPA Vice President Paul F Winkelmann (right) presents a souvenir to HKEx Chief Executive Paul Chow (left).

Pilot Pre-IPO Information Scheme Supports Hong Kong's Position as an International Financial Centre

The Stock Exchange has introduced a pilot scheme requiring the posting of a Web Proof Information Pack (WPIP) on the HKEx website at an earlier stage of the listing process. The scheme took effect on 1 January this year and will be reviewed three months from that date. The WPIP-posting requirement represents one of the various initiatives the Exchange has been considering to further refine the initial public offering, or IPO, vetting process with a view to enhancing investor protection and supporting Hong Kong's continuing role as an international financial centre.

The pilot scheme applies across the board to all new listing applicants including real estate investment trusts and other collective investment schemes (CIS). Under the pilot scheme, the Exchange issues a "request for posting" around the same time it sends out the letter which sets forth the comments raised and conditions imposed by the Listing Committee (if any) after the Listing Committee hearing, to require every listing applicant to post a WPIP on the HKEx website no later than the dispatch of the red herring prospectus or commencement of marketing to the investors in the placing tranche. In the case of a CIS applicant, the "request for posting" is issued by the Securities and Futures Commission (SFC) around the same time the SFC sends out the approval-in-principle letter.

The Exchange believes that the posting of a WPIP containing essential information about the listing applicants and their businesses will have the beneficial effect of providing greater access to relevant information at an earlier stage of the process more closely equivalent to that enjoyed by professional investors only in the past. This allows public investors more time to analyse and consider the materials before the issue of prospectuses and CIS offering circulars. The Exchange and the SFC are on common ground on this initiative. Conceptually, the posting of a WPIP is consistent with the SFC's consultation conclusions regarding pre-deal research reports by connected analysts.

Details of the pilot scheme are contained in a joint policy statement issued by the Exchange and the SFC in November last year. The news release on the policy statement, other information on the scheme and all WPIPs are posted in the Listing Matters and Listed Companies section of the HKEx website. New listing applicants are encouraged to contact the Exchange's IPO Transaction Team or the SFC's Investment Products Team for further details.

Recommended Contents Layout of a WPIP

Section/Chapters

- Warning
- Contents
- Summary
- Definitions and conventions
- Forward looking statements
- Risk factors
- Waiver from strict compliance with the Listing Rules
- Directors and parties involved
- Corporate information
- Industry overview
- Regulations
- History and development
- Our strategic / corporate Investors
- Business
- Directors, senior management and staff
- Substantial shareholders
- Share capital
- Financial information
- Future plans
- Appendix I - Accountants' report
- Appendix II – Unaudited supplementary financial information (if any)
- Appendix III – Profit forecast (if any)
- Appendix IV – Property valuation (if any)
- Appendix V – Summary of the Company's constitution and law of the place of incorporation
- Appendix VI – Statutory and general information
- Appendix VII – Documents delivered to the Registrar of Companies and made available for inspection

CHAT ROOM

Listing Division executives Richard Williams, Bonnie Chan and Michael Cheng discuss some of the Division's ongoing projects and its plans for 2008.



Bonnie Chan



Richard Williams



Michael Cheng



Richard Williams joined HKEx in October 2002 and became Head of Listing in June 2003. He was the head of Listing Policy and Compliance at the UK's Financial Services Authority (FSA) between 2000 and 2002. Before moving to the FSA, he was the head of Listing Policy at the London Stock Exchange.

Bonnie Chan has led the Listing Division's IPO (initial public offering) Transactions Department since joining HKEx in April last year. Before coming to HKEx, Ms Chan was the head of legal coverage, Asia excluding Japan, for the investment banking division of Morgan Stanley.

Michael Cheng joined HKEx in June last year as leader of the Listing Division's Listing Policy and Mainland China Affairs Group. Prior to joining HKEx, he was the head of the legal department of China International Capital Corporation, or CICC.

How has the reorganisation of the Listing Division over the last few years and shift towards functional teams affected the division and its work?

Richard Williams

At the start of 2004 we completed a reorganisation of the Listing Division into functional departments and teams. This allowed us to have a greater focus on improving the processes in certain key areas. The move has largely paid off. Against a background of significant increases in the volume of transactions we vet, in particular for our C&M (Compliance & Monitoring) Department, we have maintained and slightly improved the timeliness of our reviews and established greater consistency. This change is most noticeable in our handling of IPO applications where far greater consistency and predictability has been achieved through a more structured process and the



adoption of a protocol for taking applications to the Listing Committee earlier than had previously been the agreed practice.

During 2008 we plan to eliminate, in stages, the pre-vetting of almost all announcements and some circulars. This should have a positive impact on the work balance and process re-engineering in the C&M Department. It should also encourage far more market discipline towards disclosure.

What are your priorities for the division and your team(s) in the next 12 months?

Richard Williams

A high priority for the Listing Division over the next couple of years is to improve our use of technology to manage and control our workflows. We think a single IT system should replace the multiple systems currently

used to capture, store and manage listing information. The proposed name for the new Listing system is the Listing Information Support Application, or LISA. During 2008 we are looking to work with external consultants to identify our business requirements for implementation of an automated workflow system and a regulatory information database and to identify some high level options for technical solutions. I expect that we will also re-engineer some of our legacy processes during this project.

Across the Listing Division, we will also be taking forward, starting and completing a number of policy initiatives, both on our own and in conjunction with the SFC (Securities and Futures Commission), including our consultation on Periodic Financial Reporting and the SFC's proposals for mandatory e-filing for Disclosure of Interest notices which is something that the division strongly supports.

Michael Cheng

For the Listing Policy and Mainland China Affairs Group, a key priority is the Combined Consultation Paper on Proposed Changes to the Listing Rules (Combined Consultation), which we published in the middle of January this year. The Combined Consultation seeks the market's views regarding 18 substantive policy issues pertaining to corporate governance and initial listing criteria, including general mandates, qualified accountants and public float issues. It is part of our ongoing effort to ensure that the Listing Rules address developments in the market and relevant international best practice. Other priorities include consultation conclusions to the GEM (Growth Enterprise Market) review, a report on the implementation of the Code on Corporate Governance Practices (CG Code) and initiation of a review of the CG Code.

On the Mainland China Affairs side we plan to continue to provide training on the Mainland to senior management of Hong Kong-listed Mainland enterprises. The aim of the training is to improve knowledge of Hong Kong's regulatory regime for listing and corporate governance.



Bonnie Chan

The IPO Transactions Department will continue focusing on facilitating the listing of more overseas issuers. The Joint Policy Statement Regarding the Listing of Overseas Companies published jointly with the SFC in March 2007 was a major step in this initiative in that it sets out a clear roadmap for issuers from other jurisdictions interested in listing in Hong Kong by clearly stipulating our expectations of appropriate shareholder protection standards. A depositary receipts regime is also being developed to enable overseas issuers wanting to pursue a listing in Hong Kong to do so by way of an alternative instrument instead of directly listing their equity securities. On the IPO-related policy front, the IPO Transactions Department will be reviewing the Listing Rules regarding the public float requirements, as well as other areas relating to IPO allocation practices.

Is the revamp of GEM on the division's agenda for 2008? If so, how does HKEx plan to rejuvenate GEM? Also, has the division received much feedback on HKEx's conclusion that it is too early to adopt the AIM model in Hong Kong (the Alternative Investment Market, or AIM, is the London Stock Exchange's international market for smaller growing companies)?

Richard Williams

The approach agreed among the SFC, the Listing Committee and the (Stock) Exchange is to reposition GEM as a second board. The repositioning involves two key processes.

Firstly, the entry requirements for GEM will be consolidated by introducing a number of quantitative admission requirements, including, among others, a new track record requirement based on operating cash flow, a higher market capitalisation requirement and a tightened public float requirement. The continuing obligations for GEM companies will also be further aligned with the Main Board. These measures are expected to help enhance the quality of GEM companies which should help improve the profile of GEM as a market, and also boost investor confidence in companies listed on GEM.

In November 2007 the Listing Committee endorsed the final direction of amendments to the GEM Listing Rules to implement proposals set out in the July 2007 consultation paper on GEM. The Listing Division is now working up the detailed rule drafting and reviewing the internal decision making procedures for approving GEM applications after the changes become effective.

Secondly, under the repositioning proposal, the more established GEM-listed companies will be encouraged to treat the platform as a stepping-stone to the Main Board when the entry requirements for the latter are met. There will not be any relaxation of the Main Board substantive requirements although there will be some

relaxations of procedural provisions for migration to the Main Board. The intention is to incentivise GEM companies to improve their overall performance towards achieving Main Board status eventually. As long as a GEM company is able to satisfy Main Board requirements, there will be a streamlined process of transfer for these companies which should lead to savings in time and cost.

During the consultation process which ended in October 2007, we received a modest 11 responses, which have been posted on the HKEx website. There were, as we anticipated, several commentaries expressing disappointment that HKEx had not pursued an AIM like model or had abandoned the idea altogether. The idea has not been abandoned and our decision, taken with the benefit of the views of the SFC Executive, not to pursue the AIM model at this stage was carefully explained in our consultation paper.

What is the status of the plan to develop rules to facilitate the use of depositary receipts as a mechanism for listing retail equity products of foreign issuers in Hong Kong?

Bonnie Chan

We believe that the establishment of a depositary receipts regime will further facilitate overseas issuers in pursuing listings in Hong Kong, particularly for those issuers who may be restricted by regulations or other considerations in their home market from directly listing their equity securities on an overseas exchange or maintaining a share register outside of their home jurisdiction. We have assembled a cross-departmental working group within HKEx to develop the structure and the rules enabling the establishment of the depositary receipts regime. This group has been working over the past few months with our external legal advisors and the SFC Executive. We have also been in discussions with the main depositary banks in the market to apprise them of this development and gain further insight into the international depositary receipts market. We are working towards launching the project later in the year.

How have the many listing applications and new listings over the last several months affected the division, and have you noticed any trends?

Bonnie Chan

Last year was an extremely busy year for us in terms of new listings and listing applications which were processed. A total of 125 new applications were accepted during the year and 84 IPOs were completed. The challenge for the IPO Transactions Department is to maintain our efficiency despite the substantial increase in transactions volume, without compromising on quality. IPOs these days often present novel issues. In particular, over the past year we have seen much more pervasive use of pre-IPO investment structures which often involve rather sophisticated financial instruments. While we do not want to intervene with the commercial arrangements between the issuer and its investors, we will focus on making sure that these arrangements do not contravene the principles laid down in the Listing Rules. In connection with this issue, we published a series of Listing Decisions (Series 59) in August 2007 which discussed a number of situations surrounding pre-IPO investments.

How are the Electronic Disclosure Project, Web Proof Information Pack and Designated Issuer Website initiatives progressing, and what are the next steps?

Richard Williams

We are pleased with the implementation of the Electronic Disclosure Project (EDP) to date. The second phase of EDP became effective on 25 December 2007 when issuers were no longer required to publish short form notifications in newspapers.

Our statistics show that investors have increasingly been accessing issuer information on the HKEx website. Year on year the number of page views of issuer information has increased by over 60 per cent. This is evidence of a change in habits on the

part of investors. Over time, we believe that more investors will access an increasingly broad range of corporate information electronically not least because of environmental considerations. In this vein the Combined Consultation includes further proposals with this particular focus.

Newspapers and other media will continue to play a significant role in providing information to investors through their analysis and commentary on significant developments in the corporate world. In particular we expect that newspapers will continue to be a source of information for investors who have become accustomed to relying on newspapers to alert them to market developments. One of the positive developments since the implementation of the Electronic Disclosure Project has been improved news coverage of issuers' announcements, on a timely basis, by an increased number of newspapers and other information providers. We have also noted that a number of issuers have voluntarily published summaries of trading results in a range of newspapers as a good investor relations measure. Prior to 25 June 2007 it was common to find coverage only in those two newspapers, one in Chinese and one in English, carrying the mandatory paid announcements.

One of the initiatives for 2008 is to allow the publication of issuer announcements, including those containing price sensitive information, during the publication windows between 6 am and 9 am and between 12.30 pm and 2 pm without the need to impose a suspension. This will be the first step towards the elimination of unnecessary suspensions.

As for the Designated Issuer Website, this project is in good shape. To facilitate the transition, a temporary page will be set up on the affected links/entries on the HKEx website to inform issuers and other users about the new hyperlinks before and after the launch of the Designated Issuer Website. Users will be able to access issuer information via the existing HKEx website links during the transitional period because

their requests will be directed automatically to the relevant web pages on the Designated Issuer Website. The implementation of the Designated Issuer Website will begin in the early part of this year.

Bonnie Chan

We have received positive comments on the pilot scheme requiring new listing applicants to post a Web Proof Information Pack on the HKEx or GEM website, as applicable, before issuing an IPO prospectus. We developed the scheme with the SFC to address concerns about investor access to draft prospectuses before IPOs. The aim of the initiative is to help level the playing field for institutional and retail investors in receiving information about a listing applicant before the public offering opens. When the pilot scheme was announced in November last year, we said it would be reviewed three months after the launch date, which was 1 January this year. If no major defects are found in the operation of the scheme, we will codify the Web Proof Information Pack requirement by amending the Listing Rules.

With the Listing Division interacting with Mainland issuers and organisations more frequently than ever, how would you characterise your approach and experience?

Michael Cheng

We wouldn't want to be perceived as treating Mainland issuers any differently than issuers from elsewhere. We aim to apply the same regulatory standards across the board.

HKEx's strategic plan for 2007-09 states that our mission is to be a leading international marketplace for securities and derivatives products focused on Hong Kong, Mainland China and the rest of Asia, so I hope to put to good use the experience I gained dealing with Mainland issuers in my investment banking days. The key to success is really very simple: communication.



HKEx to Introduce Designated Issuer Website

As part of its commitment to enhancing the issuer information dissemination regime, HKEx has been working to develop a designated issuer website (Designated Website) that provides a one-stop platform for electronic disclosures of issuer information to the investing public. The key features are highlighted below.

Centralised Platform for Issuers' Regulatory Filings and Disclosures

To enhance its service level, the Designated Website will be separate from the HKEx website with its own domain name (www.HKExnews.hk) and a new identity (HKExnews). The new website will provide a centralised platform for issuers' regulatory filings and disclosures. At launch, it will cover the two main areas outlined below:

- Issuer information generated directly by listed issuers and/or their major shareholders and directors such as issuer documents submitted via the e-Submission System (ESS) and disclosure information filed via the Disclosure of Interests (DI) System; and
- HKEx-generated regulatory information on companies listed on the Main Board and Growth Enterprise Market (GEM) such as status reports on delisting proceedings and suspensions, prolonged suspension status reports and listing enforcement notices/announcements.

Ease of Access to Issuer Information

The Designated Website is designed with a clear and concise information architecture that promotes ease of access to issuer information. Users can go to the exact location they want directly from the homepage (ie it is generally one click away). In addition, all major elements on the website including listed company information, shareholding disclosures and issuer-related information can be accessed via the navigation bar that appears on every page of the new website, and the links to electronic filings via the ESS and DI System are now displayed together in one section on the homepage.

The content page is designed with a full width content area. This gives maximum viewable area for the content to be displayed and makes the content page more printer-friendly. In addition, the new website is composed of text with minimal graphics/images. From the performance perspective, this speeds up the refreshing of the homepage. The presentation of the homepage is illustrated on the next page.

HKExnews Homepage

Click this logo to return to the HKExnews Website homepage

Issuer information generated directly by listed issuers and/or their shareholders and directors

All major issuer information can be directly accessed via the navigation bar which appears on every page of the website

Hyperlink to listed companies' own websites

Hyperlink to Investment Service Centre on HKEx website for other listed company information (ie securities profiles, stock quotes)

Information on issuers prepared by HKEx

Click this logo to return to the HKEx website homepage

Hyperlink to DI System submission screen

Hyperlink to ESS submission screen

Enhanced Features and New Functions

Having considered investors' suggestions on the search facility for issuer documents after the launch of the Electronic Disclosure Project in June last year, HKEx has made improvements to facilitate issuer information searches and to cater for the preferences of different users, where practicable. These are briefly discussed below.

Toggle button to show/hide headlines

A toggle button to show or hide headlines is featured on the Latest Listed Company Information pages. Depending on the user's preference, the show/hide headlines option once selected will be applied to the same machine on his/her next visit.

Latest Listed Company Information (with headlines)

Hyperlink to latest information on GEM-listed companies

Click this link to suppress headlines

Latest Listed Company Information (without headlines)

Click this link to display headlines

Advanced Search

Based on comments received, the Listed Company Information Search input screen from the HKEx website has been refined by reorganising certain search parameters to make it more user-friendly, but there have been no functional changes to the search engine. On the Designated Website, this function has been renamed Advanced Search to distinguish it from the Simple Search facility described below.

Simple Search

A new search facility has been introduced in an effort to simplify search parameter entries. Under the Simple Search, two search methods are provided to cater for different users' needs. Users can simply select listed company documents from a predefined list of frequently requested documents (Predefined Search) or do a keyword(s) search of headline categories (Keyword Search). If more than one headline category matches the search keyword(s), users will be presented with a list of possible matches from which to select. Listed company documents pertaining to the selected headline category will then be displayed.

Both methods allow users to search the latest or the last seven days' listed company documents with minimum search parameters. If users wish to conduct a more detailed search covering a longer search period, they can use the Advanced Search instead.

Transitional Arrangement

To help facilitate the transition to the new website, a temporary page will be set up on the affected links/entries on the HKEx website to inform issuers and other users about the new hyperlinks before and at the launch of the Designated Website. Users will still be able to access the issuer information via the existing links during the transitional period, but their requests will be directed automatically to the relevant webpages on the Designated Website.

The Designated Website will be rolled out in the first quarter of this year, and may be introduced around early February.

Advanced Search Input Screen

Certain search parameters have been reorganised to make the screen more user-friendly

Simple Search Input Screen

New search facility has been added

The Predefined Search allows users to select listed company documents from a predefined list of frequently requested documents

The Keyword Search allows users to search listed company documents based on headline categories

News Briefs

IPO Conference in Vietnam

On 23 November last year, HKEx co-organised a conference with the State Securities Commission of Vietnam (SSC) in Ho Chi Minh City on initial public offerings in Hong Kong. Professor KC Chan, Hong Kong's Secretary for Financial Services and the Treasury, HKEx Chairman Ronald Arculli and SSC Chairman Vu Bang gave keynote speeches at the conference to welcome over 300 Vietnamese guests, including representatives from potential candidates for a listing in Hong Kong and professionals from Vietnam's finance industry. After the speeches, SSC Director Nguyen Ngoc Canh gave a presentation on the development of the Vietnamese securities market. Over 40 representatives from investment banks, accounting firms, law firms, property valuers, venture capital funds and public relations firms with offices in Hong Kong travelled with the HKEx delegation to Ho Chi Minh City to attend the conference and to explain the benefits of listing in Hong Kong.



Professor KC Chan, Hong Kong's Secretary for Financial Services and the Treasury, addresses the November 2007 conference in Vietnam on initial public offerings in Hong Kong.

MOU Signing with Vietnam's Hochiminh Stock Exchange

HKEx and Hochiminh Stock Exchange (HOSE) signed a Memorandum of Understanding (MOU) on cooperation and the exchange of information on 3 December last year. HOSE, one of the two stock exchanges in Vietnam, had 126 listed companies with total market capitalisation of US\$21.9 billion as of 28 November last year.



HKEx Chief Executive Paul Chow (right) and Dr Tran Dac Sinh, the vice chairman and president of HOSE, shake hands after signing a Memorandum of Understanding. Ceremony participants included HKEx Chairman Ronald Arculli (fourth from right), Professor KC Chan, Hong Kong's Secretary for Financial Services and the Treasury (fifth from right) and other senior officials from HKEx and HOSE.

MOU Signing with Mongolian Stock Exchange

HKEx and the Mongolian Stock Exchange (MSE) signed a Memorandum of Understanding (MOU) on cooperation and the exchange of information on 5 December last year. MSE is the only stock exchange in Mongolia and has about 400 listed companies.

Investment Seminars in Europe Co-hosted by HKEx

HKEx Chief Executive Paul Chow travelled to Europe in the fourth quarter of last year to represent HKEx at investment seminars in Milan, Copenhagen and London. He also met with institutional investors. The visit provided excellent opportunities to promote Hong Kong's financial markets and the products listed on HKEx's markets.

HKEx co-hosted the seminars with the firms that organised the events, Daiwa Securities SMBC Europe and Nordea Markets (Copenhagen), a financial services company that focuses on the Nordic and Baltic Sea regions of Europe. The seminars included presentations by HKEx and four other companies listed in Hong Kong followed by question-and-answer sessions.

The seminar participants were primarily fund managers from institutional investment companies operating in Europe. More than 30 institutions were represented at the three events. They included two firms managing more than 10 trillion yen, one firm with more than US\$90 billion in assets under management and three firms that manage more than 7 billion euros.

Feedback on HKEx's presentation was very positive, with all respondents to a survey rating it excellent or very good. Comments included "very clear and to the point" and "very interesting presentation."

Awards for Corporate Governance Disclosure and Annual Reports

HKEx received awards in November last year from the Hong Kong Institute of Certified Public Accountants (HKICPA) and The Hong Kong Management Association (HKMA).

The HKICPA gave HKEx the Gold Award in the Hang Seng Index category of its Best Corporate Governance Disclosure Awards 2007. According to the judges' findings, HKEx's annual report for 2006 set a high standard in terms of corporate governance best practices and disclosure.

The HKMA presented HKEx with the Gold Award in the General Category of its 2007 Best Annual Reports Awards and named HKEx a winner of the Citation for Achievement in Corporate Governance Disclosure (General Category).



Eddy Fong, Chairman of the Securities and Futures Commission (left), presents the HKICPA's 2007 Gold Award for Best Corporate Governance Disclosure in the Hang Seng Index category to HKEx Chief Financial Officer Archie Tsim, who represented HKEx at the awards ceremony.

Hong Kong ICT Award for Electronic Disclosure System

HKEx's Electronic Disclosure System, which is used for the electronic submission and dissemination of listed issuer information in the Hong Kong securities market, received the Hong Kong ICT Awards 2007: Best Business Grand Award from the Hong Kong Computer Society. HKEx Chief Executive Paul Chow accepted the award from Hong Kong Financial Secretary John Tsang at the awards ceremony on 21 January this year. The objective of the awards, formerly known as the IT Excellence Awards, is to promote a wider appreciation and adoption of information and communications technology among Hong Kong business organisations.

Asia Risk Award for HKEx Derivatives Market

HKEx was Asia Risk magazine's Derivatives Exchange of the Year last year. HKEx's advantages included strong turnover, product innovation, robust technology and a sound derivatives platform, Asia Risk said. HKEx's position as a bridge between Mainland China and the rest of the world is another advantage, according to the magazine.

HKEx's 2007 Third Quarter Results

HKEx recorded a profit attributable to shareholders of \$4,012 million for the first nine months of 2007 (first quarter: \$922 million; second quarter: \$1,408 million; third quarter: \$1,682 million) compared with \$1,674 million for the same period in 2006 (2006 first quarter: \$479 million; second quarter: \$629 million; third quarter \$566 million). The January to September 2007 profit exceeded HKEx's record high full-year profit in 2006 of \$2,519 million.

The increase in profit for the nine months ended 30 September 2007 from the same period in 2006 was primarily attributable to the higher turnover-related income resulting from the significant increase in level of activities in HKEx's securities and derivatives markets. Total operating expenses increased by 15 per cent during the period mainly due to higher staff costs, premises expenses and legal and professional fees but partly offset by a decrease in depreciation.



Financial Highlights (Financial figures are expressed in Hong Kong Dollar)

	Nine months ended 30 Sept 2007	Nine months ended 30 Sept 2006	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$72.4 billion	\$30.4 billion	138%
Average daily number of derivatives contracts traded on the Futures Exchange	163,664	96,926	69%
Average daily number of stock options contracts traded on the Stock Exchange	168,392	64,608	161%
	Unaudited Nine months ended 30 Sept 2007 \$'000	Unaudited Nine months ended 30 Sept 2006 \$'000	Change
RESULTS			
Income	5,495,518	2,843,683	93%
Operating expenses	1,028,493	893,651	15%
Operating profit	4,467,025	1,950,032	129%
Gain on disposal of an associate	206,317	—	N/A
Share of profits of associates	5,587	15,986	(65%)
Profit before taxation	4,678,929	1,966,018	138%
Taxation	(666,549)	(291,989)	128%
Profit attributable to shareholders	4,012,380	1,674,029	140%
Basic earnings per share	\$3.76	\$1.57	139%
Diluted earnings per share	\$3.72	\$1.56	138%

Exchange Participants Play a Bigger Role in HKEx Derivatives Market

By Research & Corporate Development Department

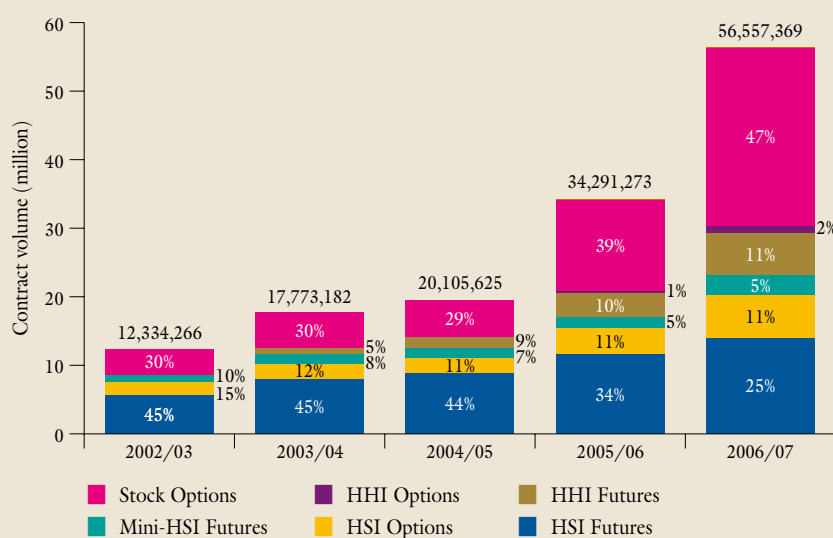
The HKEx Derivatives Market Transaction Survey 2006/07 found that, driven by the increasing dominance of the stock options market, Exchange Participants' principal trading accounted for the majority of derivatives market trading volume. The contributions from overseas and local investors remain significant.

HKEx conducts the Derivatives Market Transaction Survey (DMTS) annually to track trading composition by investor type and by trading purpose in its derivatives (futures and options) market. The latest survey covers the major HKEx futures and options products in terms of turnover volume — Hang Seng Index (HSI) futures, HSI options, Mini-HSI futures, H-shares Index (HHI) futures, HHI options and stock options. These products' turnover accounted for 99.3 per cent of the total turnover volume of the HKEx derivatives market during the study period (July 2006 - June 2007). Figure 1 shows the trading composition by derivative products under study for the latest five surveys.

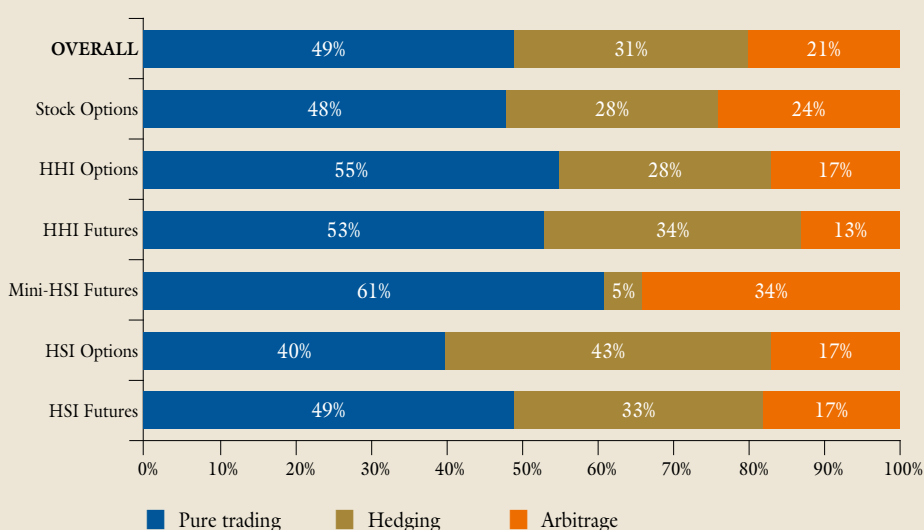
Distribution of Trading by Transaction Purpose

Pure trading remained the main transaction purpose. It accounted for about half of the total derivatives market turnover in 2006/07. The proportions of turnover for hedging and arbitrage were about 30 per cent and 20 per cent respectively. The overall pattern was similar to that in 2005/06. (Figure 2)

1 Contract volume and percentage of total by product under study (2002/03 – 2006/07)



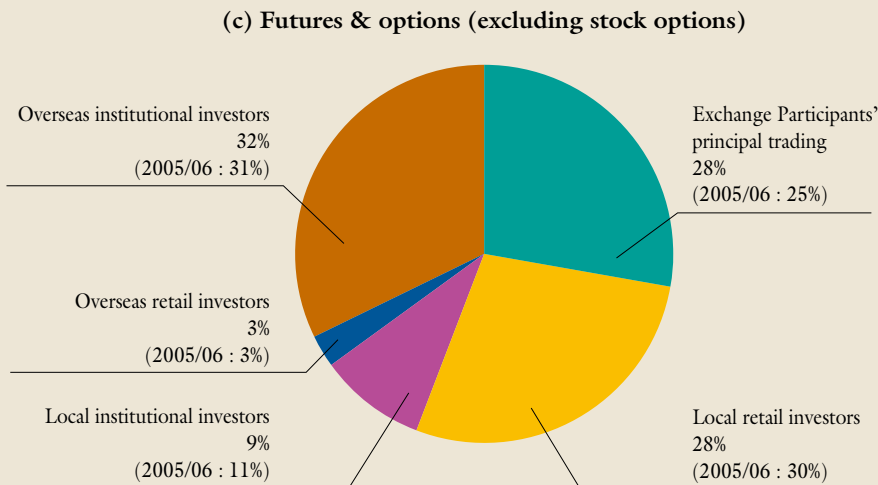
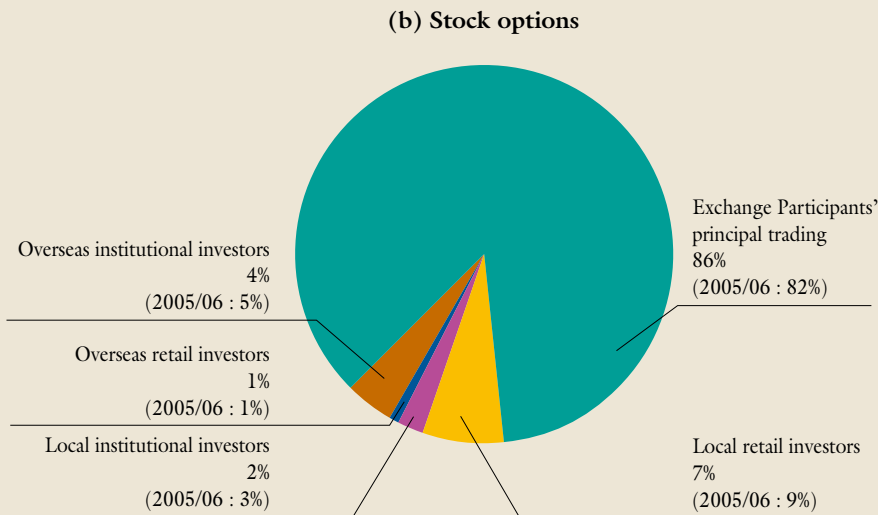
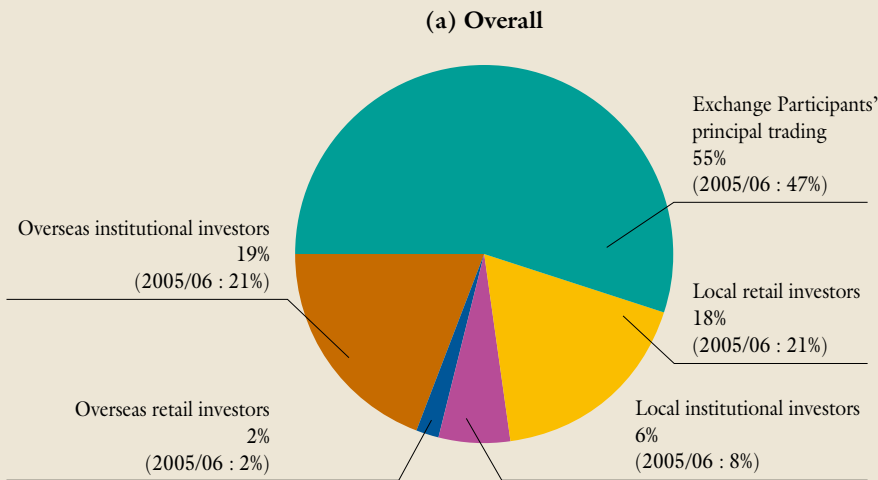
2 Distribution of derivatives market trading volume by transaction purpose (Jul 2006 – Jun 2007)



Note: Numbers may not add up to 100 per cent due to rounding.

3

Distribution of derivatives market trading volume by investor type (Jul 2006 – Jun 2007)



Notes:
 (1) Exchange Participants' principal trading comprised trading as market makers and proprietary trading.
 (2) Numbers may not add up to 100 per cent due to rounding.

Distribution of Trading by Investor Type

In 2006/07, Exchange Participants' (EP) principal trading (comprising trading as market makers and EP proprietary trading) dominated turnover in HKEx's derivatives market, accounting for 55 per cent of total volume (up from 47 per cent in 2005/06) — 40 per cent from market makers (up from 34 per cent in 2005/06) and 15 per cent from proprietary trading (compared to 14 per cent in 2005/06). The contribution from local investors was 24 per cent — 18 per cent from retail and 6 per cent from institutions (down from 21 per cent and 8 per cent respectively in 2005/06). The contribution from overseas investors was 21 per cent (19 per cent from institutions) in 2006/07, compared to 23 per cent in 2005/06. (Figure 3a)

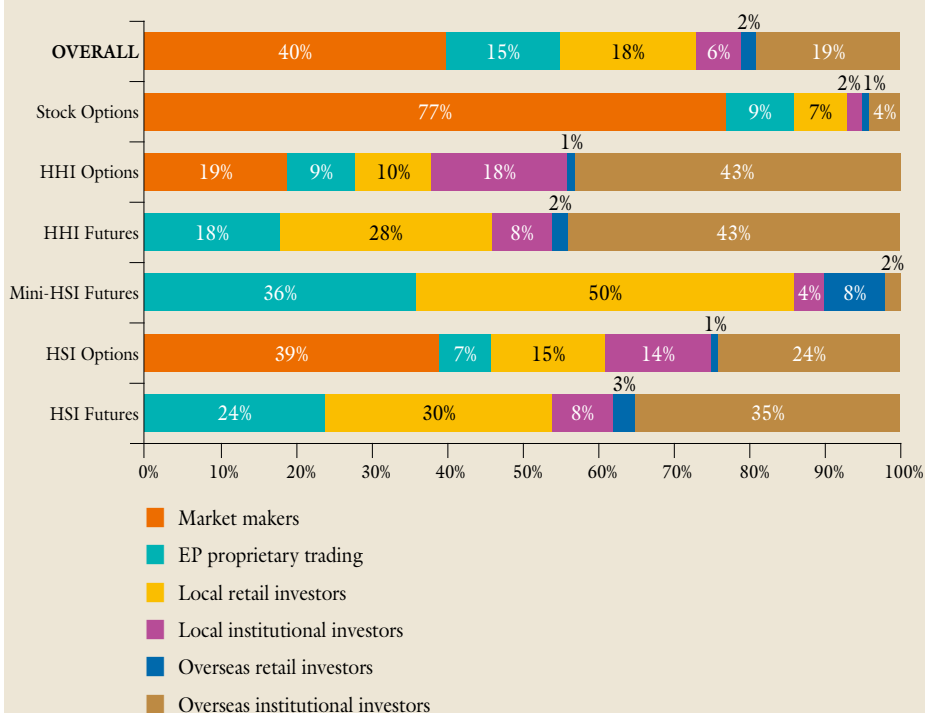
The majority contribution from EP principal trading to total market turnover was driven by the increasing dominance of the stock options market which accounted for 47 per cent of the total market volume in 2006/07. For stock options, EP principal trading contributed 86 per cent (77 per cent from market making) of the product's total volume in 2006/07. For other derivative products in aggregate, EP principal trading contributed 28 per cent (vs 25 per cent in 2005/06). (Figures 3b & 3c)

The trading distribution by investor type differed by product. For HSI futures, the contributions from overseas institutional and local retail investors were both significant (35 per cent and 30 per cent respectively). For Mini-HSI futures, local retail investors were the dominant participant type (contributing 50 per cent of product turnover). Overseas institutional investors were the major contributors to trading in HHI futures and HHI options (43 per cent for both). EP principal trading also contributed the majority of trading in HSI options (over 46 per cent, with 39 per cent from market making). (Figure 4)

Distribution of Overseas Investor Trading by Origin

Overseas investors contributed 21 per cent of total market trading in 2006/07. Among them, UK investors remained the largest contributor — 31 per cent of overseas investor trading in 2006/07 (compared to 33 per cent in 2005/06). US investors overtook European (excluding UK) investors as the second largest contributor to overseas investor trading — 26 per cent in 2006/07 for the former (up from 18 per cent in 2005/06) against 11 per cent for the latter (down from 19 per cent in 2005/06). The aggregate contribution to overseas investor trading from Asian investors (Mainland China, Singapore, Japan, Taiwan and the rest of Asia) was 20 per cent in 2006/07, compared to 21 per cent in 2005/06. (Figure 5)

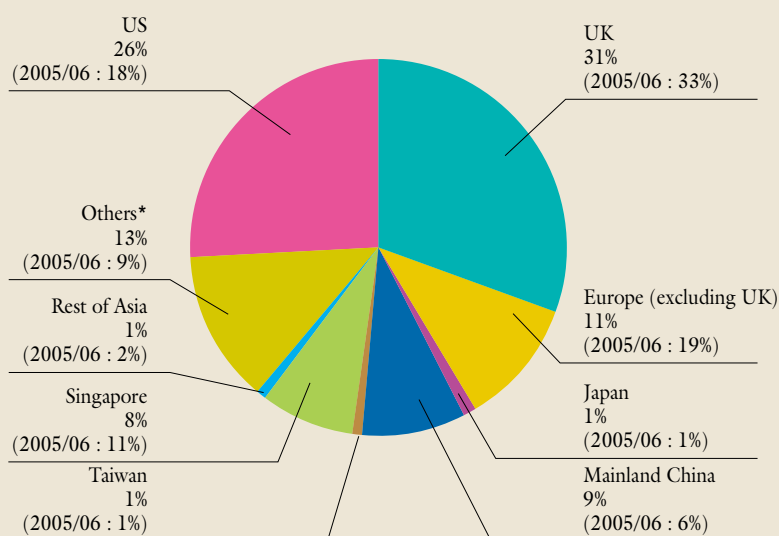
4 Distribution of derivatives market trading volume by investor type for overall market and each product (Jul 2006 – Jun 2007)



Notes:

- (1) Trading as market makers and EP proprietary trading are components of EP principal trading.
- (2) Numbers may not add up to 100 per cent due to rounding.

5 Distribution of overseas investor trading volume in derivatives by origin (Jul 2006 – Jun 2007)



* Reported origins in "Others" are Australia, Bahamas, Bermuda, British Virgin Islands, Canada, Cayman Islands, Mauritius and New Zealand in 2006/07.

Note: Numbers may not add up to 100 per cent due to rounding.

Changes in Contract Volume by Investor Type

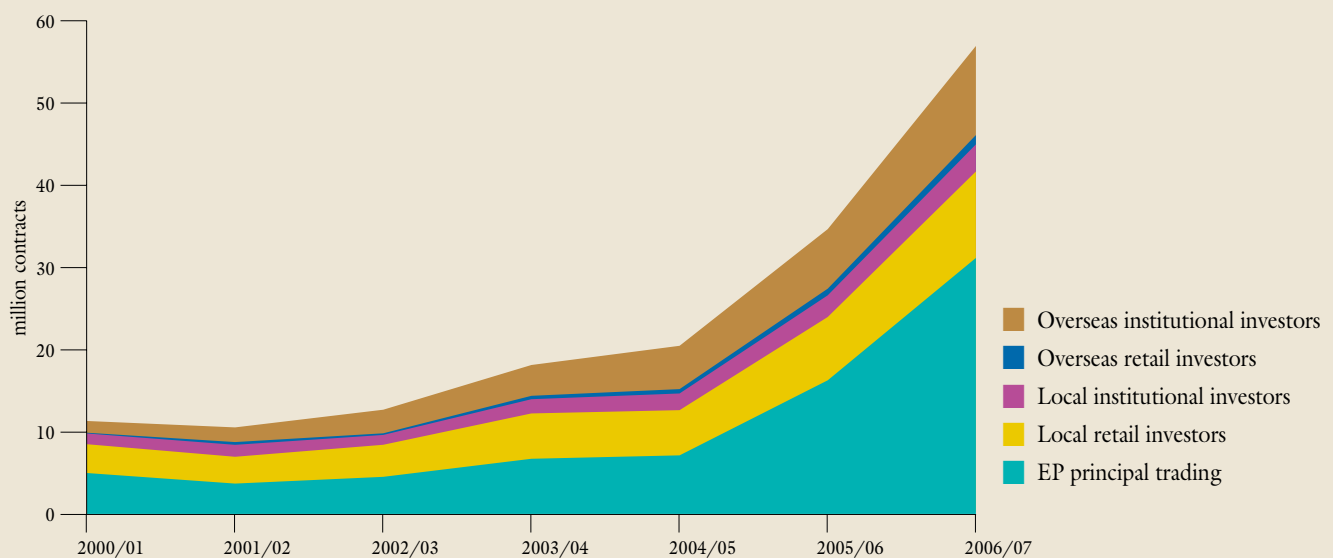
From the percentage contributions obtained from the survey, the implied contract volumes by investor type during each study period were computed based on the actual volume for the products.

In 2005/06 and 2006/07, the contract volume of EP principal trading increased much faster (128 per cent and 92 per cent respectively) than any type of investor trading. This mainly reflected the increasing dominance of the stock options market segment. The segment's contribution to total derivatives market trading increased from 29 per cent in 2004/05 to 39 per cent in 2005/06 and further to 47 per cent in 2006/07 (see Figure 1). For stock options, EP principal trading contributed over 80 per cent of the product's total turnover during the two periods.

All types of investor trading had positive growth in volume terms during the past two survey periods. In particular, the year-on-year growth in overseas investor trading exceeded 35 per cent in each of the past six years. However, the growth rates have varied by overseas origin over the years. For the three major overseas origins of investor trading, the US recorded the biggest growth of 111 per cent in 2006/07, the UK recorded only 40 per cent but Europe (excluding the UK) recorded negative growth (-18 per cent). (See Figures 6 and 7)

6

Implied contract volume of derivatives by investor type (2000/01 – 2006/07)

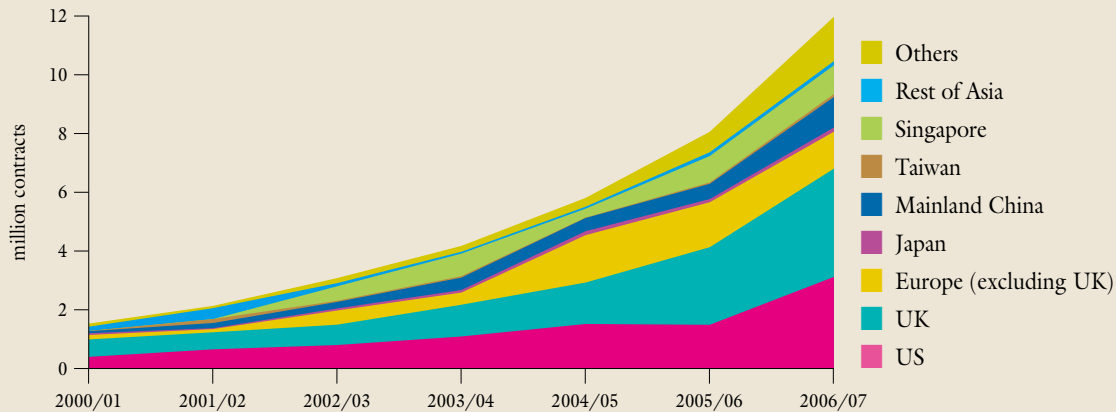


Type of trade	Year-on-year % change					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
EP principal trading	-25.82%	22.24%	48.69%	6.20%	128.14%	91.57%
Local investor trading	-2.14%	8.71%	45.11%	4.11%	39.07%	34.75%
Retail	-7.66%	21.86%	45.28%	-0.29%	42.66%	38.21%
Institutional	11.21%	-17.72%	44.61%	17.29%	29.95%	25.07%
Overseas investor trading	39.52%	44.77%	35.70%	39.28%	38.84%	48.65%
Retail	272.57%	-40.70%	108.19%	28.47%	52.10%	39.87%
Institutional	24.89%	60.77%	30.70%	40.47%	37.51%	49.63%
Total	-7.11%	21.11%	44.08%	13.13%	70.56%	64.93%

Note: Exchange Participants' principal trading comprised trading as market makers and proprietary trading.

7

Implied contract volume of overseas investor trading in derivatives by origin (2000/01 – 2006/07)



Overseas origin	Year-on-year % change					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
US	66.71%	23.07%	36.93%	39.59%	-1.90%	110.60%
UK & Europe	-7.36%	70.40%	27.16%	102.25%	37.97%	18.51%
UK	-1.98%	19.16%	56.08%	30.41%	87.33%	39.52%
Europe (excluding the UK)	-28.37%	344.19%	-14.31%	289.83%	-5.14%	-17.75%
Asia	151.04%	30.85%	49.24%	-30.29%	75.63%	41.01%
Japan	-46.30%	118.01%	23.79%	55.52%	-19.06%	29.61%
Mainland China	145.28%	26.99%	91.35%	5.85%	15.33%	100.38%
Taiwan	1,722.09%	-69.92%	20.05%	-70.04%	230.00%	109.66%
Singapore*	—	—	56.14%	-60.61%	196.62%	9.19%
Rest of Asia*	155.25%	-71.17%	-42.14%	10.37%	88.40%	8.39%
Others	-27.60%	123.90%	15.46%	50.24%	133.24%	116.73%
Total	39.52%	44.77%	35.72%	39.27%	38.84%	48.65%

— : Not applicable

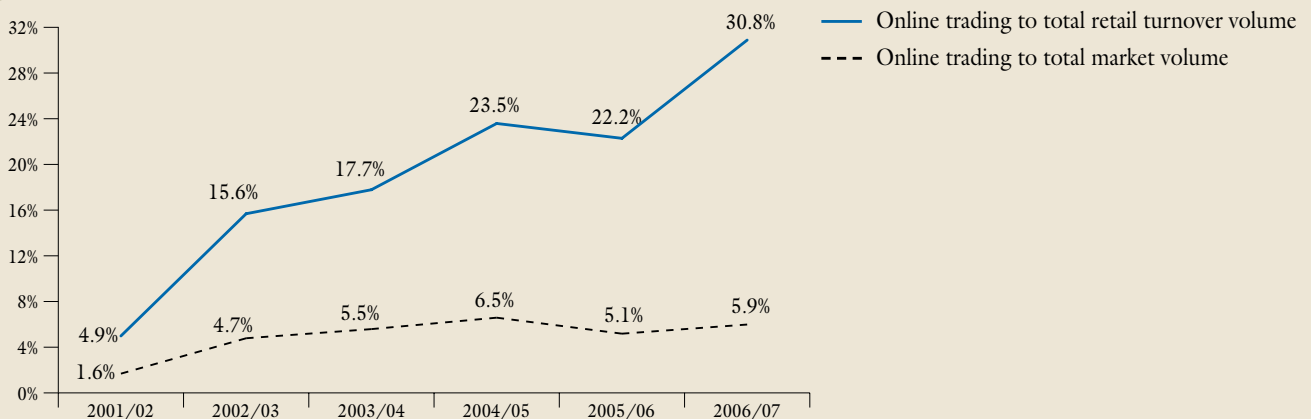
* For surveys before 2002/03, Singapore was included in the Rest of Asia.

Retail Online Trading

Retail online trading contributed 31 per cent of total retail investor trading in 2006/07, a significant increase from 22 per cent in 2005/06. Its contribution to total market turnover was 6 per cent, compared to 5 per cent in 2005/06. (Figure 8)

8

Retail online trading to total retail turnover volume and to total derivatives market volume (2001/02 – 2006/07)



The full survey report is available on the HKEx website: <http://www.hkex.com.hk/research/dmtrs/DMTS07.pdf>.

Note: One of the limitations of the survey is that Exchange Participants might not know the true origins of all their client orders. For instance, an Exchange Participant might classify transactions for a local institution as such when in fact the orders originated from overseas and were placed through that local institution, or vice versa. As a result, the findings may deviate somewhat from the true picture.

Listing Decisions

SUMMARY	
Name of Parties	Company A – a Main Board listing applicant Investor X – a pre-IPO Investor holding more than five per cent of Company A's shares
Subject	Whether certain rights granted to Investor X would be permitted to continue after listing, given that the rights were not generally available to other shareholders of Company A and the nominated directors' compliance with such rights might, in certain circumstances, conflict with the duty of directors to act in the best of the interests of shareholders as a whole at all times.
Listing Rules	Listing Rule 2.03
Decision	The Exchange determined that: (i) The relevant director nomination right provided by the investment agreements between Company A and Investor X should be terminated upon Company A's listing on the Exchange. (ii) The exclusivity provision and the no-more-favourable-terms provision of the investment agreements between Company A and Investor X would be accepted provided that the investment agreements were modified to include an explicit clause recognising the fiduciary duties of directors and that such provisions were described in the prospectus.

Case 1

Summary of Facts

- This matter arose for decision by the Listing Committee in considering a new listing application. As part of an investment in Company A prior to the time of the IPO, Company A agreed to grant various rights to Investor X, pursuant to relevant investment agreements between Company A and Investor X. These rights, among other things, included:
 - Directors nomination right**
Investor X would have the right to nominate one person for election to Company A's board of directors. Company A was required to (1) procure that Company A's board and the relevant board committee recommended such nominated person to the board; and (2) take all corporate action required under the PRC law to cause such nominated person to be duly elected to serve as a member of the board.

(ii) **Exclusivity right**

Company A was not permitted to issue / offer to issue any shares, options, warrants and rights to any direct competitor of Investor X other than in a public offering.

(iii) **No-more-favourable-terms**

Subject to applicable law and explicit policy directives of government entities for the issue of shares to an entity controlled by a PRC government entity, Company A was not permitted to issue any shares to any other person on terms more favourable than the terms on which the shares were issued to Investor X.

The Issue Raised for Consideration

2. Whether certain rights granted to Investor X would be permitted to continue after listing, given that the rights were not generally available to other shareholders of Company A and the directors' compliance with such rights might, in certain circumstances, conflict with the duty of directors to act in the best of the interests of shareholders as a whole at all times?

Applicable Listing Rules or Principles

3. Listing Rule 2.03 sets out the general principles of the Listing Rules as follows:

The Exchange Listing Rules reflect currently acceptable standards in the market place and are designed to ensure that investors have and can maintain confidence in the market and in particular that: –

- (1) applicants are suitable for listing;
- (2) the issue and marketing of securities is conducted in a fair and orderly manner and that potential investors are given sufficient information to enable them to make a properly informed assessment of an issuer and, in the case of a guaranteed issue, the guarantor and of the securities for which listing is sought;
- (3) investors and the public are kept fully informed by listed issuers and, in the case of a guaranteed issue, the guarantors of all factors which might affect their interests – and in particular that immediate disclosure is made of any information which might reasonably be expected to have a material effect on market activity in, and the prices of, listed securities;
- (4) all holders of listed securities are treated fairly and equally;
- (5) directors of a listed issuer act in the interests of its shareholders as a whole – particularly where the public represents only a minority of the shareholders; and
- (6) all new issues of equity securities by a listed issuer are first offered to the existing shareholders by way of rights unless they have agreed otherwise.

In these last four respects, the rules seek to secure for holders of securities, other than controlling interests, certain assurances and equality of treatment which their legal position might not otherwise provide.

The Analysis

4. During the vetting process, the Exchange raised a comment concerning whether certain rights granted to Investor X should be allowed to continue after listing in light of the principle of fairness and equality set out in Listing Rules 2.03(4).
5. The Exchange specifically raised the following comments with respect to each of these rights: –

- a. **Directors nomination right**

Company A was requested to add disclosure in the prospectus to confirm whether the nomination right would be subject to the fiduciary duties of each of the directors serving on Company A's nomination committee. As such nomination rights were generally available to all shareholders holding more than 5 per cent of Company A's shares pursuant to Company A's articles of association, the Exchange requested that disclosure be added to the prospectus to clarify whether and to what extent the nomination right of Investor X was different from those available to other shareholders. To the extent the right held by Investor X did not comply with the principles of Rule 2.03(4), Company A was asked by the Exchange to consider terminating such right upon listing.

- b. **Exclusivity right**

The Exchange commented that the exclusivity right could potentially hinder the board of directors of Company A from considering bona fide alternative proposals that would be in the best interest of Company A and its shareholders as a whole to pursue, even after accounting for any contractual damages that might arise from terminating their investment agreements with Investor X. Company A was requested to advise and disclose in the prospectus:

- (i) whether the respective agreements provided that the exercise of the exclusivity right would be subject to the directors' fiduciary duties; and
- (ii) whether the contractual requirements would override the directors' fiduciary duties requirements under applicable PRC Company Law and Company A's articles of association.

- c. **No-more-favourable-terms**

The Exchange requested Company A to disclose whether the no-more-favourable-terms would override the directors' fiduciary duties requirements under applicable PRC Company Law and Company A's articles of association.

d. “Fiduciary out” clause

Company A was also requested to consider including language in the relevant investment agreements explicitly recognising directors’ fiduciary duties and designed to ensure that directors would not be faced with an impossible conflict between honouring a company’s contractual commitments and honouring their fiduciary duties to shareholders. An example of such provision is set forth below:

“The board may participate in negotiations with or furnish information to a third party if the board decides upon the advice of its outside counsel that failure to do so would result in a breach of the board’s fiduciary duties.”

Comments taken by Company A

6. In response to the Exchange’s comments, Company A and Investor X agreed in principle that: –
- (i) the director nomination right would terminate at the time of Company A’s listing and Investor X would propose any nomination pursuant to the existing articles of association:
 - (ii) the exclusivity right and the no-more-favourable-terms would not operate to override the fiduciary duties of the directors of Company A; and
 - (iii) a clause explicitly recognising the fiduciary duties of directors would be added to the investment agreements with Investor X.

The Decision

7. Based on the above analysis and having regard to the material facts, the Exchange determined that: –
- (i) The relevant director nomination right provided by the investment agreements between Company A and Investor X should be terminated upon Company A’s listing on the Exchange.
 - (ii) The exclusivity provision and the no-more-favourable-terms provision of the investment agreements between Company A and Investor X would be accepted provided that the investment agreements were modified to include an explicit clause recognising the fiduciary duties of directors and that such provisions were described in the prospectus.

SUMMARY	
Name of Parties	Company A – a Main Board listing applicant
Subject	Whether the guaranteed discount to the IPO price of the mandatory Convertible Bonds and the negative pledge under the non-mandatory Convertible Bonds available only to the Convertible Bondholders would violate the fair and orderly principle and the requirement to treat all holders of listed securities fairly and equally under Listing Rule 2.03
Listing Rules	Listing Rule 2.03 Listing Decisions HKEx-LD55-1, HKEx-LD55-2 and HKEx-LD55-3
Decision	The Exchange determined that the guaranteed discount to the IPO price for the mandatory Convertible Bonds and the preferential investment terms of the non-mandatory Convertible Bonds available only to the holders of the Convertible Bonds would violate the fair and orderly principle and the general principle of even treatment of shareholders under Listing Rule 2.03, and as such should be removed prior to Company A's listing on the Exchange.

Case 2

Summary of Facts

1. This matter arose for decision by the Listing Committee in considering a new listing application. A few months prior to the filing of the formal listing application with the Exchange, Company A issued certain amount of mandatory and non-mandatory convertible bonds (the "Convertible Bonds") with maturity in year 2011. The mandatory Convertible Bonds would be convertible into shares of Company A at 90.25 per cent of the IPO price immediately before the Global Offering, and the non-mandatory Convertible Bonds would be convertible into shares of Company A at 104 per cent of the IPO price after 180 days subsequent to the listing of Company A. The Convertible Bonds were listed on a foreign Stock Exchange.
2. In addition, Company A had given negative pledge not to commit any of the following without the prior consent of the Convertible Bondholders:
 - a. create any additional lien, encumbrance or security interest on Company A's assets and revenues;
 - b. engage in consolidations, mergers and amalgamations involving substantially all the assets of Company A;
 - c. incur additional indebtedness other than in the ordinary course of business of Company A; and
 - d. issue any new shares or other securities.

The Issue Raised for Consideration

3. Whether the guaranteed discount to the IPO price of the mandatory Convertible Bonds and the negative pledge under the non-mandatory Convertible Bonds available only to the Convertible Bondholders would violate the fair and orderly principle and the general principle of even treatment of shareholders under Listing Rule 2.03.

Applicable Listing Rules or Principles

4. Listing Rule 2.03 sets out the general principles of the Listing Rules as follows:

The Exchange Listing Rules reflect currently acceptable standards in the market place and are designed to ensure that investors have and can maintain confidence in the market and in particular that: –

- (1) applicants are suitable for listing;
- (2) the issue and marketing of securities is conducted in a fair and orderly manner and that potential investors are given sufficient information to enable them to make a properly informed assessment of an issuer and, in the case of a guaranteed issue, the guarantor and of the securities for which listing is sought;
- (3) investors and the public are kept fully informed by listed issuers and, in the case of a guaranteed issue, the guarantors of all factors which might affect their interests – and in particular that immediate disclosure is made of any information which might reasonably be expected to have a material effect on market activity in, and the prices of, listed securities;
- (4) all holders of listed securities are treated fairly and equally;
- (5) directors of a listed issuer act in the interests of its shareholders as a whole – particularly where the public represents only a minority of the shareholders; and
- (6) all new issues of equity securities by a listed issuer are first offered to the existing shareholders by way of rights unless they have agreed otherwise.

In these last four respects, the rules seek to secure for holders of securities, other than controlling interests, certain assurances and equality of treatment which their legal position might not otherwise provide.

The Analysis

5. During the vetting process, the Exchange raised comments on the specific features of the Convertible Bonds, namely, the guaranteed discount to the IPO price for the mandatory Convertible Bonds, and the apparent preferential investment terms by way of the negative pledge under the non-mandatory Convertible Bonds available only to the Convertible Bondholders. Together, these features may give rise to concerns that the pre-IPO investors would not have assumed investment risks significantly different from those assumed by public investors, or would be protected from certain types of equity risks after listing in a manner that was significantly different from that assumed by public investors.

6. The Exchange specifically raised the following comments:

a. Guaranteed discount of the mandatory Convertible Bonds

The Exchange commented that given the conversion price of the mandatory Convertible Bonds was stated as a fixed discount to the IPO price, in essence there was no price as the price was to be determined only until the date of the IPO. In addition, the guaranteed discount to the IPO price provided to the holders of the mandatory Convertible Bonds would effectively create two different prices for the same securities at listing, hence potentially creating a disruptive effect on the market at the time of listing. The Exchange made reference to Listing Decision HKEx-LD55-1 where the Exchange determined that the terms of the pre-IPO placing in relation to guaranteed discount to the IPO offer price were contrary to the principles of Listing Rule 2.03.

b. Negative pledge under the non-mandatory Convertible Bonds

There is no specific Listing Rule or published listing decisions dealing with convertible bonds having the features of negative pledge (as described in paragraph 2).

In the case of Company A, the non-mandatory Convertible Bonds were to be redeemed at a 4 per cent premium of the IPO price after listing. The Exchange commented that the unconverted Convertible Bonds to be redeemed at such a low premium should be considered in substance to render the Convertible Bonds equivalent to the equity securities offered at IPO because the 4 per cent premium may not be great enough to justify such Convertible Bonds being viewed as a class of debt securities separate from the underlying common equity. The investment risks assumed by the holders of such Convertible Bonds are substantially the same as that assumed by the public investors.

The Exchange made reference to Listing Decisions HKEx-LD55-1, HKEx-LD55-2 and HKEx-LD55-3 that preferential terms available to the pre-IPO investors were determined to have violated the fair and orderly principle and the general principle of even treatment of shareholders under Listing Rule 2.03. The negative pledge were considered as additional rights available to the holders of the non-mandatory Convertible Bonds over and above the rights of other shareholders of Company A.

Comments taken by Company A

7. In response to the Exchange's comments, Company A agreed with the holders of the Convertible Bonds that:
 - (i) the principal amount of the mandatory Convertible Bonds would be fully redeemed such that there would be no conversion of the mandatory Convertible Bonds (with guaranteed discount) prior to the listing.
 - (ii) the clauses related to the negative pledge, issue of additional securities, consolidation, amalgamation and merger, indebtedness as previously provided in the terms of the Convertible Bonds would be removed.

The Decision

8. Based on the above analysis and having regard to the material facts, the Exchange determined that the guaranteed discount to the IPO price for the mandatory Convertible Bonds and the preferential investment terms of the non-mandatory Convertible Bonds available only to the holders of the Convertible Bonds would violate the fair and orderly principle and the general principle of even treatment of shareholders under Listing Rule 2.03, and as such should be removed prior to Company A's listing on the Exchange.

SUMMARY	
Name of Parties	Company A – a Main Board listing applicant Investor A – a member of the sponsor group
Subject	Whether the pre-IPO investment in Company A by Investor A would fulfil the requirement under Listing Rule 2.03(4) that all holders of listed securities are to be treated fairly and equally in a case where: <ul style="list-style-type: none"> (i) the pre-IPO investment agreement was entered into between Investor A and Company A shortly after filing the formal listing application; (ii) the subscription price for the pre-IPO Investment would represent anywhere from a 7 per cent premium to 15 per cent discount to Company A's proposed IPO offer price, depending upon the final pricing of the offering; and (iii) the completion of the pre-IPO Investment would not take place until shortly before the prospectus date.
Listing Rules	Listing Rule 2.03(4)
Decision	The Exchange determined that in order to comply with the principle laid down in Listing Rule 2.03(4), the pre-IPO investment should only be allowed to proceed provided that the price for the pre-IPO Investment was not less than the final IPO price of the public offer of Company A's shares.

Case 3

Summary of Facts

1. This matter arose for decision by the Listing Committee in considering a new listing application. Shortly after filing the formal listing application with the Exchange, Investor A entered into an agreement with Company A to subscribe for certain amount of Company A's new share (the "pre-IPO Investment"). Upon completion of Company A's share offering and the pre-IPO Investment, the shareholding to be held by Investor A in Company A would be diluted to 3.75 per cent of Company A's enlarged issued share capital (assuming over-allotment option not being exercised).
2. Based on the representation of the sponsor and Company A, the Exchange noted the following relevant material facts: –
 - a. the completion of the pre-IPO Investment would not take place until shortly before the prospectus date, if not later;

- b. the pricing of the pre-IPO Investment was arrived at after an arm's length negotiation process. Based on the then current offer statistics, the subscription price for the pre-IPO Investment would represent anywhere from a 7 per cent premium to 15 per cent discount to Company A's proposed IPO offer price, depending upon the final pricing of the offering;
- c. Investor A would have no right to subscribe for further shares in Company A; would be subject to a lock-up restriction of 6 months from the date of listing; and would merely be a passive minority shareholder without influence or operational control over Company A; and
- d. relevant disclosure as to the major terms of the pre-IPO Investment had been included in the prospectus.

The Issue Raised for Consideration

- 3. Whether the pre-IPO Investment in Company A by Investor A would fulfil the requirement under Listing Rule 2.03(4) that all holders of listed securities are to be treated fairly and equally where:
 - (i) the pre-IPO investment agreement was entered into between Investor A and Company A shortly after filing the formal listing application;
 - (ii) the subscription price for the pre-IPO Investment would represent anywhere from a 7 per cent premium to 15 per cent discount to Company A's proposed IPO offer price, depending upon the final pricing of the offering; and
 - (iii) the completion of the pre-IPO Investment would not take place until shortly before the prospectus date.

Applicable Listing Rules or Principles

- 4. Listing Rule 2.03(4) requires that:
 - all holders of listed securities are treated fairly and equally.

The Analysis

5. The Exchange considered that Investor A had not yet assumed a real financial and equity risk for the pre-IPO Investment.
6. The Listing Decision HKEx-LD36-1 (“HKEx-LD36-1”) stated, among other things, that placings of shares shortly before a listing application should be permitted subject to full disclosure in the prospectus. In light of the fact that the pre-IPO Investment agreement was signed after the filing of the formal listing application and the completion of such investment would not take place until shortly before the prospectus date, the Exchange considered that HKEx-LD36-1 would not be applicable to this case and such issue could not simply be addressed by way of disclosure.
7. While the Exchange noted that there are no Listing Rules prohibiting two different IPO prices at a listing, it considered that setting different IPO prices, as driven by market forces, was highly unusual. Such practice was only adopted in a few precedent cases of offerings by government owned companies in which the proposed discount was demonstrably in the public interest and the ‘cheaper’ prices were afforded to individual investors on the basis of an objective criterion (eg investors with HKID cards). In this present case, the potential discounted price was, however, afforded to a private and commercial entity and no identifiable public interest was involved. The Exchange was of the view that several precedent cases were not comparable to the present case.

The Decision

8. Based on the above analysis and having regard to the material facts, the Exchange determined that the pre-IPO Investment should only be allowed to proceed provided that the price for the pre-IPO Investment was not less than the final IPO price of the public offer of Company A’s shares.

Compliance Decisions

The Stock Exchange published the following three decisions in the fourth quarter of 2007 relating to compliance matters.

Date	Action
29 October	Public censure of (i) Linfair Holdings Limited for its failure to issue a profit warning announcement in respect of its financial performance for the six months ended 30 September 2005; and (ii) one current Executive Director and two former Executive Directors for breaching their respective Undertakings in causing or failing to prevent the Company's breach of the Listing Rules.
22 November	Public criticism of (i) Mr Tse Wai Kwok Raymond ("Mr Tse"), a former Executive Director of Fava International Holdings Limited (the "Company") for disposing shares of the Company between 28 April 2006 and 4 May 2006 during the one month black-out period before publication of the Company's 2006 first quarterly results for the period ended 31 March 2006 on 15 May 2006; (ii) Mr Tai Chi Ching ("Mr Tai"), a former Executive Director of the Company for failing to perform his duties as the Compliance Officer of the Company; and (iii) each of Mr Tse and Mr Tai for failing to comply with their respective Undertakings to comply with the GEM Listing Rules (GLR) to the best of his ability or use his best endeavours to procure that the Company complied with the GLR.
28 November	Public criticism of Tan Chong International Limited for its failure to take appropriate steps to ensure timely compliance with the new Listing Rules that have been in effect from 31 March 2004 by disclosing in a timely manner continuing transactions with connected entities.

Linfair Holdings Limited was publicly censured for its failure to publish a profit warning announcement in respect of its financial performance for the six months ended 30 September 2005 (the “Relevant Period”).

On or about 17 November 2005, the Company’s revised draft management accounts for the Relevant Period were made available to the Company’s Executive Directors at the material time, namely Mr Chang Ei Eu, Ms Hsieh Ming Chiu and Mr Chow Kin Ming (the “Relevant Directors”) and the Company’s external auditors. The Relevant Directors therefore knew, at least by 17 November 2005, that the Company’s financial performance for the Relevant Period was substantially worse than that of the corresponding period for the year 2004 and was not in line with the directors’ optimistic outlook of the prospects of the Company as set out in the Company’s prospectus dated 27 May 2005 and the Company’s annual report for the financial year ended 31 March 2005. However, no profit warning was issued.

The Company announced its unaudited financial results for the Relevant Period after trading hours on 20 December 2005. The results showed a decrease in turnover of about 72.3 per cent and a net loss of \$20.6 million as compared to a net profit of \$29.5 million for the corresponding period in 2004. The information regarding the significant downturn in the Company’s performance of its business led to substantial price and volume movements in the Company’s shares on 21 December 2005.

The Listing Committee concluded that the Company was in breach of Rule 13.09 of the Listing Rules in that it had failed to publish a profit warning announcement in respect of its financial performance for the Relevant Period the latest by 17 November 2005.

The Relevant Directors were publicly censured for breaching their respective Undertakings in causing or failing to prevent the Company’s breach of the Listing Rules.

Mr Tse Wai Kwok Raymond (“Mr Tse”), a former Executive Director of Fava International Holdings Limited (the “Company”), was publicly criticised for breaching Rules 5.56 and 5.61 of the GLR and his Undertaking in failing to comply with the GLR to the best of his ability. Mr Tse disposed of a total of 600,000 shares in the Company on 28 April, 2 May and 4 May 2006, all within the one month black-out period before the publication of the Company’s 2006 first quarterly results for three months to 31 March 2006 on 15 May 2006. Mr Tse also failed to comply with internal procedures required for directors’ dealings in the shares of the Company.

Mr Tai Chi Ching (“Mr Tai”), a former Executive Director of the Company, was publicly criticised for breaching his Undertaking in failing to use his best endeavours to procure the Company’s compliance with the GLR. In response to the Listing Division’s (“the Division”) enquiries on unusual share trading on 28 April and 3 May 2006, Mr Tai authorised the Company’s publication of announcements on both days confirming that the Board was not aware of any reasons for the unusual trading. Each announcement was stated to be “Made by the order of the Board, the directors of the Company collectively and individually accepted responsibility for the accuracy of the announcement”. These confirmations gave the impression that all directors of the Company in office at the time had been consulted and that none was aware of anything which required disclosure. In fact Mr Tai had not consulted the other four directors in office at the time including Mr Tse and both announcements were published without their prior notice or approval. Mr Tse’s disposal of shares on 28 April and 2 May 2006 were not disclosed in either announcement. The GEM Listing Committee concluded that there was a breach of GLR17.56 in relation to the 28 April and 3 May 2006 announcements as they were inaccurate or otherwise misleading. The Company became aware of Mr Tse’ share disposal only on 4 May 2006.

Mr Tai was also publicly criticised for breaching Rule 5.20 of the GLR for failing to discharge his duty as the Compliance Officer of the Company by advising on and assist the Board in implementing procedures to ensure the Company’s compliance with the GLR.

Tan Chong International Limited was publicly criticised for its failure to take appropriate steps to ensure timely compliance with the new Listing Rules that were in effect from 31 March 2004 by disclosing the continuing connected transactions with both the Motor Ultima Pte Ltd (“Ultima Group”) and Tan Chong Motor Holdings Berhad and its subsidiaries (the “TCMH Group”) and APM Automotive Holdings Berhad and its subsidiaries (the “APM Group”). The Ultima Group is controlled by members of the Tan Family, a substantial shareholder of the Company; and the TCMH Group and the APM Group are indirectly owned as to 45 per cent and 43 per cent respectively by the Tan Family through Tan Chong Consolidated Sdn Bhd which is wholly owned by the Tan Family. Accordingly, Ultima Group and TCMH Group (including the APM Group) are connected persons of the Company under the Listing Rules and those continuing transactions constituted continuing connected transactions under the Listing Rules. The Company did not disclose the continuing connected transactions until 9 December 2005 by means of an announcement published on that date which amounted to a delay of twenty months and nine days.

The full text of those statements can be found on the HKEx website (<http://www.hkex.com.hk>).

Newly Listed Companies

The following 24 companies were listed on the Stock Exchange between 1 September 2007 and 30 November 2007, 22 new Main Board listings and two new listings on the Growth Enterprise Market, or GEM.




Listing Date	Company with Sponsor(s) in Italics	Stock Code	Market	Business Activities
6 Sep 07	Tech Pro Technology Development Limited <i>(Hantec Capital)</i>	3823	Main Board	Manufactures and sells aluminium electrolytic capacitors.
20 Sep 07	Global Sweeteners Holdings Limited <i>(Goldbond Capital)</i>	3889	Main Board	Produces and sells corn sweeteners and trades sorbitol and high fructose corn syrup.
21 Sep 07	Hidili Industry International Development Limited <i>(UBS / VC Capital)</i>	1393	Main Board	Produces and sells high quality clean coal and coke.
27 Sep 07	China Starch Holdings Limited <i>(CCB International Capital)</i>	3838	Main Board	Manufactures cornstarch and ancillary corn-refined products.
28 Sep 07	Sino-Ocean Land Holdings Limited <i>(Morgan Stanley Asia / Goldman Sachs (Asia))</i>	3377	Main Board	Develops, invests in and manages properties, acts as property sales agents and operates hotels.
2 Oct 07	Qunxing Paper Holdings Company Limited <i>(ICEA Capital / Access Capital)</i>	3868	Main Board	Manufactures and sells specialty paper products, decorative base paper products and printing paper products.
4 Oct 07	DaChan Food (Asia) Limited <i>(Cazenove Asia)</i>	3999	Main Board	Sells chicken meat, feeds and processed foods.
8 Oct 07	SOHO China Limited <i>(Goldman Sachs (Asia) / HSBC)</i>	410	Main Board	Develops and sells commercial properties.
9 Oct 07	China Aoyuan Property Group Limited <i>(Credit Suisse (Hong Kong) / Morgan Stanley Asia)</i>	3883	Main Board	Develops and invests in properties.
9 Oct 07	Kingsoft Corporation Limited <i>(Deutsche Bank / Lehman Brothers Asia)</i>	3888	Main Board	Researches, develops and distributes innovative entertainment and applications software.
10 Oct 07	China Dongxiang (Group) Co, Ltd <i>(Deutsche Bank / Merrill Lynch Far East)</i>	3818	Main Board	Designs, develops, markets and wholesales branded sportswear in Mainland China.






Listing Date	Company with Sponsor(s) in Italics	Stock Code	Market	Business Activities
11 Oct 07	Bosideng International Holdings Limited <i>(Goldman Sachs (Asia) / Morgan Stanley Asia)</i>	3998	Main Board	Researches, designs, manufactures, markets and distributes branded down apparel.
12 Oct 07	Xinjiang Xinxin Mining Industry Co, Ltd# <i>(BOCI Asia)</i>	3833	Main Board	Mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals.
16 Oct 07	International Elite Ltd <i>(Daiwa Securities SMBC)</i>	8313	GEM	Provides customer relationship management outsourcing service focusing on the Hong Kong, Macau and Mainland China markets.
17 Oct 07	Dah Chong Hong Holdings Limited <i>(BNP Paribas Capital)</i>	1828	Main Board	Sells motor vehicles and engages in related businesses, sells food and consumer products and provides logistics services.
2 Nov 07	NetDragon Websoft Inc <i>(Bear Stearns Asia / First Shanghai Capital)</i>	8288	GEM	Develops, operates and markets online games.
2 Nov 07	Ming Fai International Holdings Limited <i>(DBS Asia Capital)</i>	3828	Main Board	Manufactures and sells amenity products and accessories.
6 Nov 07	Alibaba.com Limited <i>(Goldman Sachs (Asia) / Morgan Stanley Asia)</i>	1688	Main Board	Operates online business-to-business marketplaces to facilitate e-commerce between business sellers and buyers.
13 Nov 07	GCL-Poly Energy Holdings Limited <i>(Morgan Stanley Asia / CCB International Capital)</i>	3800	Main Board	Develops, manages and operates cogeneration plants in Mainland China.
13 Nov 07	Zhong An Real Estate Limited <i>(Deutsche Bank / JP Morgan Securities)</i>	672	Main Board	Develops and invests in properties.
19 Nov 07	Rainbow Brothers Holdings Limited <i>(Asian Capital (Corporate Finance))</i>	33	Main Board	Designs, develops, merchandises and provides consumer hard goods, primarily party and festivity products.
22 Nov 07	Value Partners Group Limited <i>(JP Morgan Securities / Morgan Stanley Asia)</i>	806	Main Board	Provides investment management services.
23 Nov 07	Sinotrans Shipping Limited <i>(BOCI Asia / UBS)</i>	368	Main Board	Dry bulk vessel time chartering, container vessel time chartering and crude oil shipping services.
28 Nov 07	Sinotruk (Hong Kong) Limited <i>(China International Capital / JP Morgan Securities)</i>	3808	Main Board	Research, development and manufacture of heavy trucks, related parts and components, including cabins, engines and axles.

Key: # H-share company

Status Report on New Product and Market Development Initiatives

The following initiatives are subject to market support and regulatory approval so they may not be implemented. HKEx will announce further details of these initiatives as they progress.

Initiative	Status on 15 October 2007	Status on 15 January 2008
Electronic Disclosure Project (EDP) 	<p>Phase 2 will commence on 25 December. From that date onwards, Main Board issuers with their own websites will no longer be required to publish notifications in newspapers, while a Main Board issuer without its own website will be required to publish the full announcement in the newspapers as well as on the HKEx website.</p> <p>From 25 June next year onwards, every issuer must have its own website where the public must be able to access documents free of charge.</p>	<p>Phase 2 commenced on 25 December last year. Since 25 December, a Main Board listed issuer with its own website no longer needs to publish notifications in newspapers. A Main Board issuer without its own website must publish full announcements in newspapers as well as on the HKEx website.</p> <p>From 25 June this year onwards, every issuer must have its own website where the public must be able to access documents free of charge.</p>
Review of the Growth Enterprise Market (GEM) 	<p>Comments on the proposals in HKEx's consultation paper on GEM should be submitted on or before 31 October. HKEx will consider the comments received and take them into account in planning GEM's further development.</p>	<p>HKEx is studying respondents' comments. Responses to the consultation paper were posted on the HKEx website in November last year. HKEx aims to launch the revamped GEM in the third quarter this year.</p>
Consultation on Periodic Financial Reporting 	<p>HKEx published a consultation paper on 31 August on possible amendments to the Listing Rules on periodic financial reporting. Comments on the proposals in the consultation paper should be submitted on or before 5 November.</p>	<p>HKEx is studying respondents' comments and aims to publish the consultation conclusions in the second quarter this year. Responses to the consultation paper were posted on HKEx website in November last year.</p>

Initiative	Status on 15 October 2007	Status on 15 January 2008
Combined Consultation on Proposed Changes to the Listing Rules 	Not included in this issue.	HKEx published a consultation paper on 11 January this year seeking comments from the market on a number of substantive policy issues and minor amendments to the Listing Rules. Comments should be submitted on or before 7 April this year.
Possible introduction of depositary receipts 	Work is in hand to develop rules to facilitate the use of depositary receipts as a mechanism for listing within the existing Listing Rules framework for retail equity products.	HKEx aims to announce details of a depositary receipt framework in the third quarter of this year.
Web Proof Information Pack (WPIP) 	HKEx has developed proposals for the posting of information packs in the nature of near-final draft prospectuses on the HKEx website prior to initial public offerings. The market response was generally positive and supportive when similar information packs were posted on the HKEx website for the A+H share initial public offerings of ICBC and China Citic Bank.	A pilot scheme requiring new listing applicants to post a WPIP on the HKEx or GEM website, as applicable, prior to initial public offerings commenced on 1 January this year and will be reviewed three months from that date. If no major defects are found in the operation of the scheme, the WPIP requirement will be codified by amendments to the Listing Rules.
Designated Issuer Website 	HKEx plans to establish a website solely for the regulatory filings and dissemination of issuer information to provide additional support for the electronic disclosure regime introduced under EDP in June. The website will be developed in stages.	The Designated Issuer Website, which is in its final stage of development, is scheduled to be launched in the first quarter this year.
Proposed introduction of a closing auction session in the securities market 	Subject to the approval of the necessary rule amendments by the Securities and Futures Commission (SFC), implementation of the closing auction session is tentatively scheduled for the first half of next year.	Introduction of the closing auction session is scheduled for 26 May this year, subject to market readiness and completion of testing and market rehearsals.

Initiative	Status on 15 October 2007	Status on 15 January 2008
<p data-bbox="150 275 448 304">Five-digit stock codes</p> <p data-bbox="344 465 475 618">9</p>	<p data-bbox="513 275 959 595">HKEx announced on 8 October that its securities market would introduce five-digit stock codes on 7 April next year, subject to market readiness. HKEx will conduct seminars, testing sessions and rehearsals for market participants and promote public awareness via education materials before implementation.</p>	<p data-bbox="997 275 1469 416">Introduction of five-digit stock codes is scheduled for 7 April this year to cater for an increase in new equity and structured product listings.</p>
<p data-bbox="150 645 437 819">Exploration of new financial products / services and review of existing products / services</p> <p data-bbox="256 1406 475 1559">10</p>	<p data-bbox="513 645 959 857">HKEx is working with the SFC to facilitate the listing on its securities market of structured products with non-Hong Kong underlying assets and/or with duration beyond five years.</p> <p data-bbox="513 898 959 1144">HKEx expects to receive the consultants' final reports on their studies of the feasibility of trading commodities derivatives and emissions-related products in Hong Kong before the end of the year.</p> <p data-bbox="513 1361 959 1536">HKEx is exploring the possible introduction of a Mini H-shares Index futures contract similar to its Mini-Hang Seng Index futures contract.</p>	<p data-bbox="997 645 1469 857">The Stock Exchange's structured products regime was enhanced in December last year to facilitate the listing of a wider range of Market Access Products and further encourage financial innovation.</p> <p data-bbox="997 898 1469 1323">The Board has reviewed the consultants' reports and recommendations. HKEx will seek to develop its existing businesses further with emissions- and gold-related products such as initial public offerings, Exchange Traded Funds and structured products, and it will explore new emissions- and gold-related business opportunities including carbon trading in Hong Kong and the reintroduction of gold futures.</p> <p data-bbox="997 1361 1469 1503">HKEx plans to introduce Mini H-shares Index futures on 31 March this year, subject to SFC approval and market readiness.</p>
<p data-bbox="150 1585 453 1653">Suspension of the tick rule for short selling</p> <p data-bbox="256 1704 475 1850">11</p>	<p data-bbox="513 1585 959 1832">HKEx submitted the proposed rule amendments to the SFC in August. The SFC notified HKEx that it needs more time to assess and determine the appropriate time to implement the proposal before approving the rule amendments.</p>	<p data-bbox="997 1585 1469 1653">A date for suspension of the tick rule is pending SFC approval.</p>

Initiative	Status on 15 October 2007	Status on 15 January 2008
Introduction of Third Party Clearing (TPC) in the securities market 12	<p>An explanatory document on TPC, FAQ and a list of clearing service providers have been published on the HKEx website under Market Operations and Infrastructure. Implementation is now progressing on schedule with a tentative launch date in early December this year.</p>	<p>HKEx introduced a framework for Third Party Clearing in its securities market on 3 December last year. The initial market response has been encouraging.</p>
Remote participants in the securities and derivatives markets 13	<p>HKEx is looking into the feasibility of trading on its exchanges by brokerage service providers that are not incorporated in Hong Kong and have not established a licensed brokerage in Hong Kong. The firms would be admitted as remote participants and required to arrange for their transactions to be cleared by third parties.</p>	<p>HKEx is discussing with the SFC the possible admission requirements and regulatory arrangements for remote exchange participants.</p>
AMS/3 capacity upgrade 14	<p>The HKEx Board approved in July and September a technology upgrade for the AMS/3 system. Migration of AMS/3 to the new Itanium platform will increase its daily processing capacity at its optimal performance level more than threefold to 5 million trades. The AMS/3 upgrade will be rolled out in January of next year.</p>	<p>HKEx aims to implement the upgrade before the end of January this year.</p>
CCASS/3 and MDF upgrades 15	<p>Not included in this issue.</p>	<p>HKEx plans to upgrade CCASS/3 and the MDF in the first quarter of this year to support 5 million trades per day.</p>
Derivatives market system upgrades 16	<p>HKEx plans to upgrade HKATS and DCASS to application software Release 19.1 by early next year. The internal acceptance test and integration test were completed successfully in September.</p> <p>Production readiness drills and market rehearsals with Exchange Participants are planned for November and December.</p>	<p>HKEx aims to implement the upgrade in the first quarter of this year, subject to market readiness.</p>

Note: AMS/3, the Third Generation Automatic Order Matching and Execution System, is the trading system for the securities market. CCASS/3, the Latest Generation Central Clearing and Settlement System, and the Market Data Feed, or MDF, are the other major market systems supporting the securities market. HKATS, the Hong Kong Futures Automated Trading System, is the trading system for the derivatives market. DCASS, the Derivatives Clearing and Settlement System, and PRRS, the Price Reporting System, are the other major market systems for the derivatives market.

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