

2008 Interim Results Announcement

Sustainable Business in Challenging Times

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Agenda

❖ Overview

❖ Financial Review

❖ Business Review

❖ HKEx Strategic Initiatives – 2008

❖ Conclusion

Overview – HKEx

- ❖ One of the largest listed exchanges in the world
- ❖ \$16.4 trillion market capitalisation as of 30 Jun 2008 – up 3% YoY
- ❖ \$87.3 billion average daily turnover – up 47% YoY
- ❖ 430,149 options & futures contracts traded daily on average – up 55% YoY
 - Open interest of 5,138,904 contracts on 30 Jun 2008 – up 23% YoY
- ❖ Cost to income ratio of 18%¹ – one of the lowest among global exchanges
- ❖ Strong growth in after tax profit – CAGR 69% in the past five years²
- ❖ Dividend payout ratio of 90% in the past five years

1. Cost to income ratio in 2008 H1
2. 2003 H1 to 2008 H1

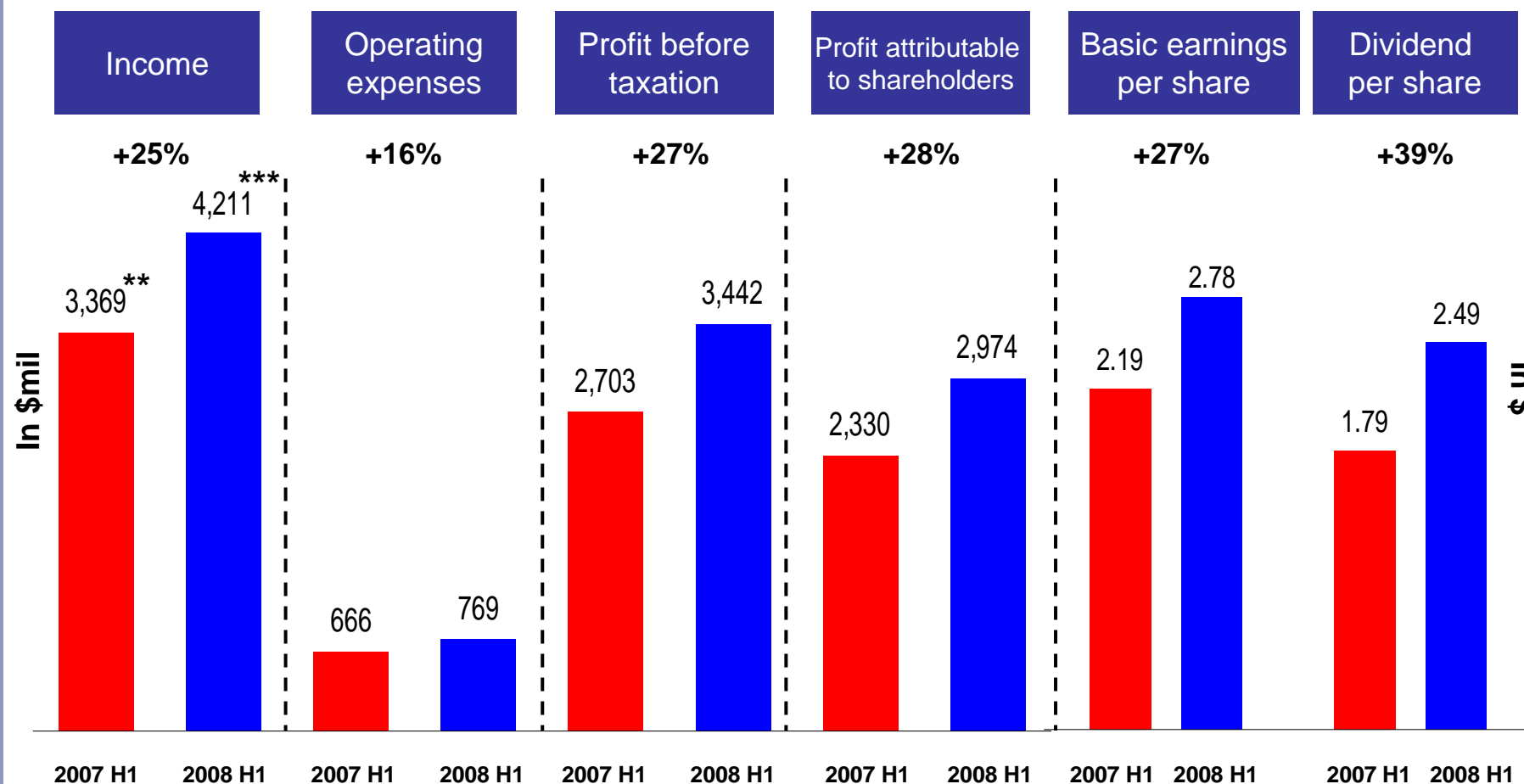
Hong Kong – A Leading International Financial Centre

- ❖ **Among global exchanges (as at 30 Jun 2008)**
 - **#1 in derivative warrants turnover globally**
 - **#1 in stock options turnover in Asia Pacific including Australia***
 - **#1 in ETF turnover in Asia**
 - **#7 in capital raised**
 - **#7 in derivatives turnover in Asia***
 - **#8 in market capitalisation**
 - **#10 in equity turnover**

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2008 Interim Results Overview - Financial



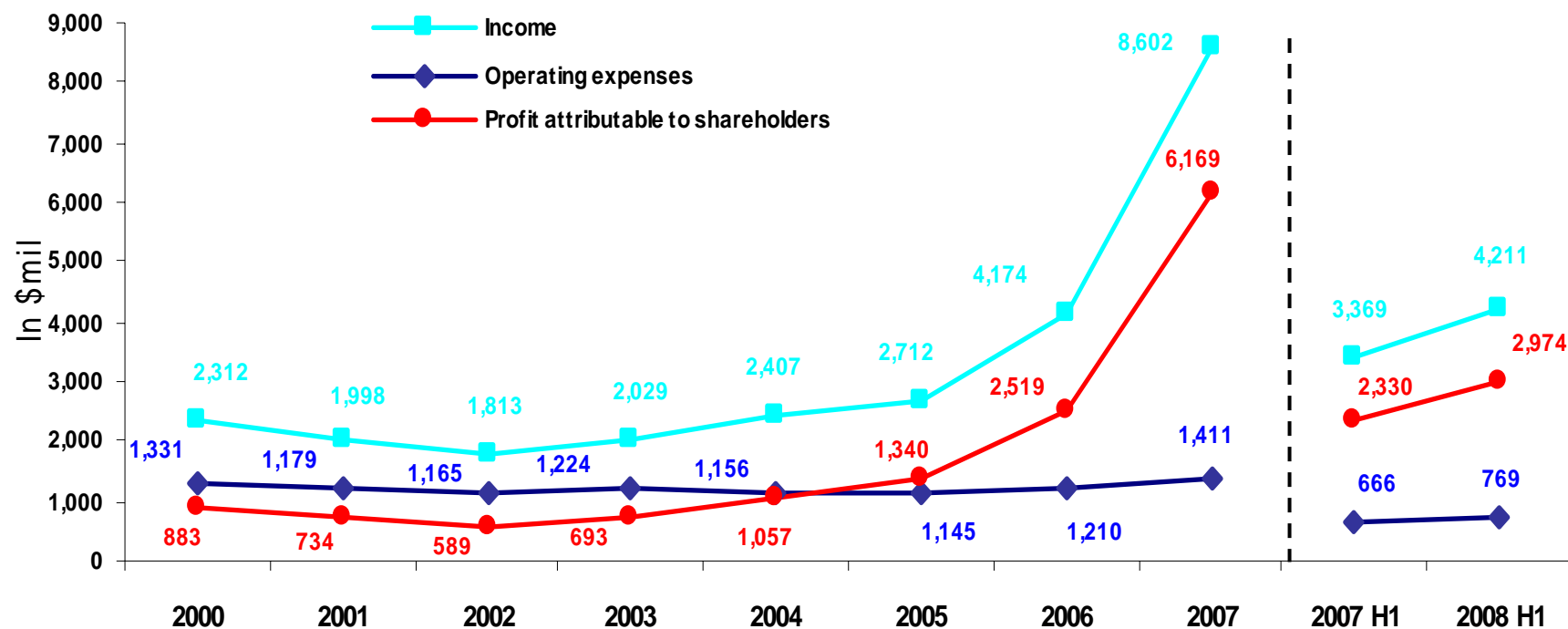
*Percentages are calculated based on actual results rounded to the nearest thousand dollars.

**Includes one-off gain on disposal of an associate of \$206 million and share of profit of an associate of \$6 million

***Includes one-off gain on disposal of two properties of \$69 million

Source: 2008 HKEx Interim Report

Results Since Merger

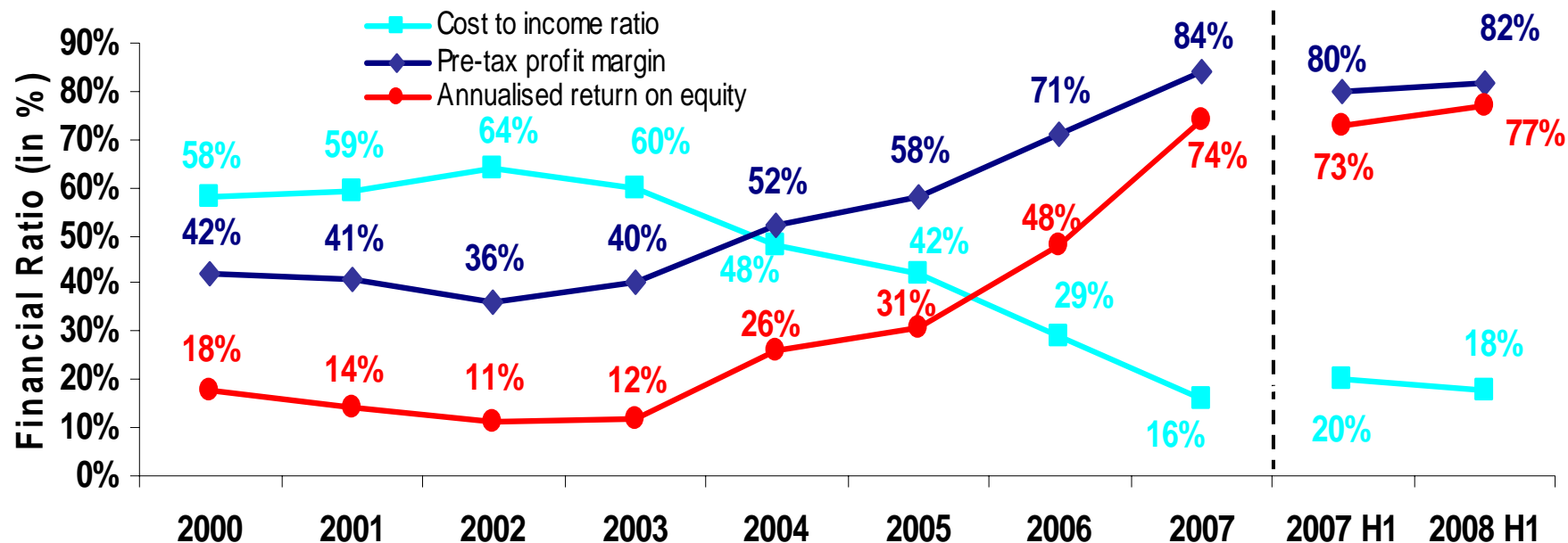


In \$ mil										
Year	2000	2001	2002	2003	2004	2005	2006	2007	2007 H1	2008 H1
Income (Note)	2,312	1,998	1,813	2,029	2,407	2,712	4,174	8,602	3,369	4,211
Operating expenses	1,331	1,179	1,165	1,224	1,156	1,145	1,210	1,411	666	769
Profit attributable to shareholders	883	734	589	693	1,057	1,340	2,519	6,169	2,330	2,974

Note: Includes one-off gains on disposal of an associate and properties

Source: HKEx Annual and Interim Reports

Key Performance Indicators



In \$mil										
Year	2000	2001	2002	2003	2004	2005	2006	2007	2007 H1	2008 H1
Income (Note 3)	2,312	1,998	1,813	2,029	2,407	2,712	4,174	8,602	3,369	4,211
Operating expenses	1,331	1,179	1,165	1,224	1,156	1,145	1,210	1,411	666	769
Profit before taxation	981	819	648	805	1,251	1,567	2,964	7,191	2,703	3,442
Profit attributable to shareholders	883	734	589	693	1,057	1,340	2,519	6,169	2,330	2,974

Note 1: Financial ratios are calculated based on actual results rounded to the nearest thousand dollars.

Note 2: Return on equity is calculated based on total shareholders' funds at 31 December for full year results and at 30 June for half year results.
 ROE for 2007 H1 and 2008 H1 have been annualised for comparison purpose.

Note 3: Includes one-off gains on disposal of an associate and properties

Source: HKEx Annual and Interim Reports

Financial Highlights

	2008 H1 \$ mil	2007 H1 \$ mil	Change
Results			
Income	4,211	3,157	+33%
Operating expenses	769	666	+16%
Operating profit	3,442	2,491	+38%
Gain on disposal of an associate	-	206	-100%
Share of profit of an associate	-	6	-100%
Profit before taxation	3,442	2,703	+27%
Taxation	(468)	(373)	+25%
Profit attributable to shareholders	2,974	2,330	+28%
Basic earnings per share	\$2.78	\$2.19	+27%
Diluted earnings per share	\$2.76	\$2.16	+28%
Interim dividend declared per share	\$2.49	\$1.79	+39%
Dividend payout ratio	90%	82%	N/A
Dividend payout ratio (excluding gain on disposal of an associate)	90%	90%	N/A

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Breakdown of Income

	2008 H1 \$ mil	2007 H1 \$ mil	Change
Income affected by market turnover:			
Trading fees and trading tariff	1,553	1,075	+45%
Clearing and settlement fees	775	571	+36%
Depository, custody and nominee services fees	296	308	-4%
	2,624	1,954	+34%
Stock Exchange listing fees	356	294	+21%
Income from sale of information	354	276	+29%
Net investment income	590	453	+30%
Gain on disposal of properties	69	-	N/A
Other income	218	180	+21%
Total	4,211	3,157	+33%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Net Investment Income

	Corporate Funds	Margin Funds	Clearing House Funds	HKEx Group Total
2008 H1				
Gross investment income (\$mil)	81	565	17	663
Interest expenses (\$mil)	(1)	(67)	(5)	(73)
Net investment income (\$mil)	80	498	12	590
Average amount of funds available for investment (\$mil)	9,990	58,154	1,747	69,891
Gross return	1.63%	1.94%	1.92%	1.90%
Net return	1.61%	1.71%	1.39%	1.69%
2007 H1				
Gross investment income (\$mil)	176	519	41	736
Interest expenses (\$mil)	(4)	(268)	(11)	(283)
Net investment income (\$mil)	172	251	30	453
Average amount of funds available for investment (\$mil)	6,356	27,135	2,027	35,518
Gross return	5.54%	3.83%	4.00%	4.14%
Net return	5.42%	1.85%	2.91%	2.55%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Breakdown of Operating Expenses

	2008 H1 \$ mil	2007 H1 \$ mil	Change
Staff costs and related expenses	452	387	+17%
Information technology and computer maintenance expenses			
Cost of services and goods consumed by the Group	74	67	+10%
Cost of services and goods directly consumed by Participants	48	34	+42%
	122	101	+21%
Premises expenses	70	66	+6%
Product marketing and promotion expenses	9	7	+36%
Legal and professional fees	9	4	+102%
Depreciation	50	42	+18%
Other operating expenses	57	59	-3%
Total	769	666	+16%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Second & First Quarter Comparison

	2008 Q2	2008 Q1	Change
	\$ mil	\$ mil	
Results			
Income	1,926	2,285	-16%
Operating expenses	386	383	+1%
Profit before taxation	1,540	1,902	-19%
Taxation	(216)	(252)	-15%
Profit attributable to shareholders	1,324	1,650	-20%

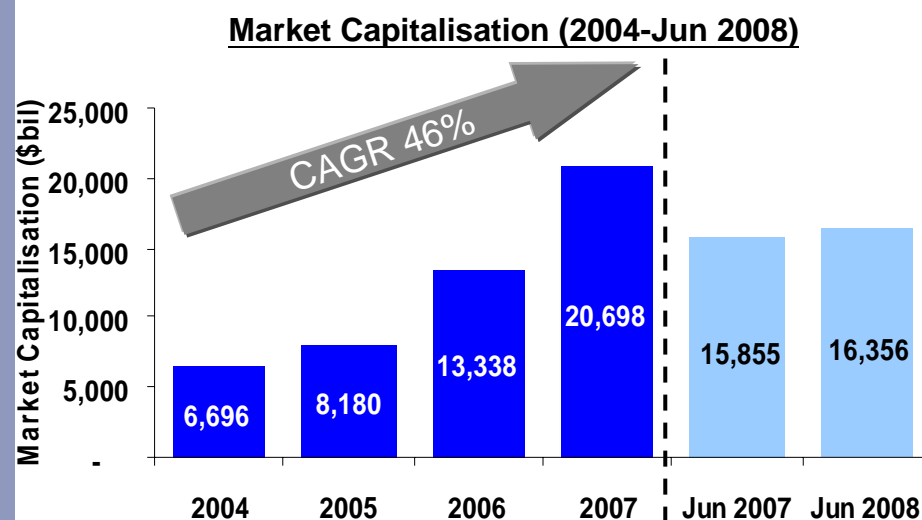
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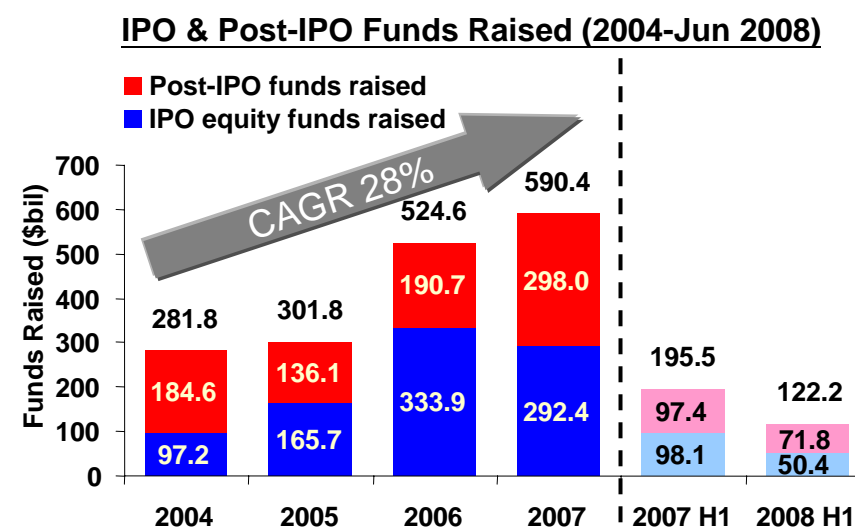
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Market Capitalisation and Funds Raised

- ❖ 1,254 listed companies in Hong Kong (30 Jun 2008)
 - 449 Mainland companies
- ❖ Number of newly listed companies (2008 H1)
 - 21 on Main Board
 - 2 on GEM
- ❖ IPO pipeline remains strong
 - 84 new applications accepted (2008 H1)
 - 57 applications being processed (as of 30 Jun 2008)
 - 26 applications approved pending listing (as of 30 Jun 2008)



Source: HKEx statistics



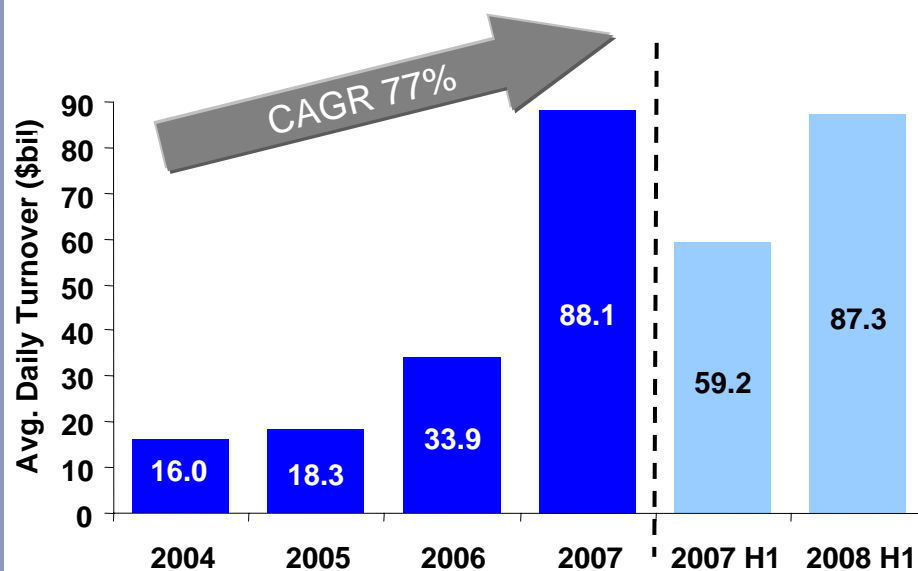
One of the Fastest-Growing Exchanges by Market Capitalisation

Market Capitalisation Ranking and Growth Rate of Major World Exchanges				
Rank	Exchanges	Jun 2008 (US\$bil)	Dec 2007 (US\$bil)	CAGR 2002-Jun 2008
1	New York Stock Exchange	14,413	15,651	9%
2	Tokyo Stock Exchange	4,043	4,331	13%
3	NASDAQ	3,603	4,014	11%
4	Euronext	3,501	4,223	16%
5	London Stock Exchange	3,309	3,852	12%
6	TMX Group	2,168	2,105	27%
7	Shanghai Stock Exchange	2,106	3,694	42%
8	HKEx	2,096	2,654	32%
9	Deutsche Börse	1,812	2,187	19%
10	BME Spanish Exchanges	1,749	1,800	27%
:				
15	Bombay Stock Exchange	1,020	1,819	45%
21	Shenzhen Stock Exchange	489	785	23%
22	Singapore Exchange	485	539	33%

Cash Market Trading (Jan-Jun 2008)

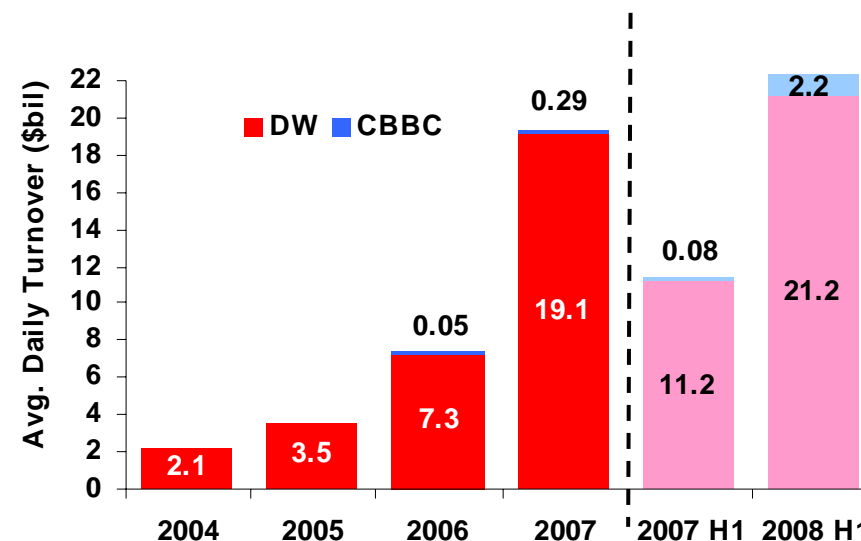
- ❖ Average daily securities market turnover up 47% YoY
- ❖ Average daily turnover of DW up 89% YoY – accounting for 24% of market turnover
- ❖ Average daily turnover of CBBC up more than 24 times YoY – in June 2008, trading of CBBC accounted for 6% of market turnover
- ❖ 97 Market Access Products (MAPs) were listed as of 30 Jun 2008

Average Daily Turnover (Overall)



Source: HKEx statistics

Average Daily Turnover (DW+CBBC)



Spectacular Growth in Equity Turnover Since 2002

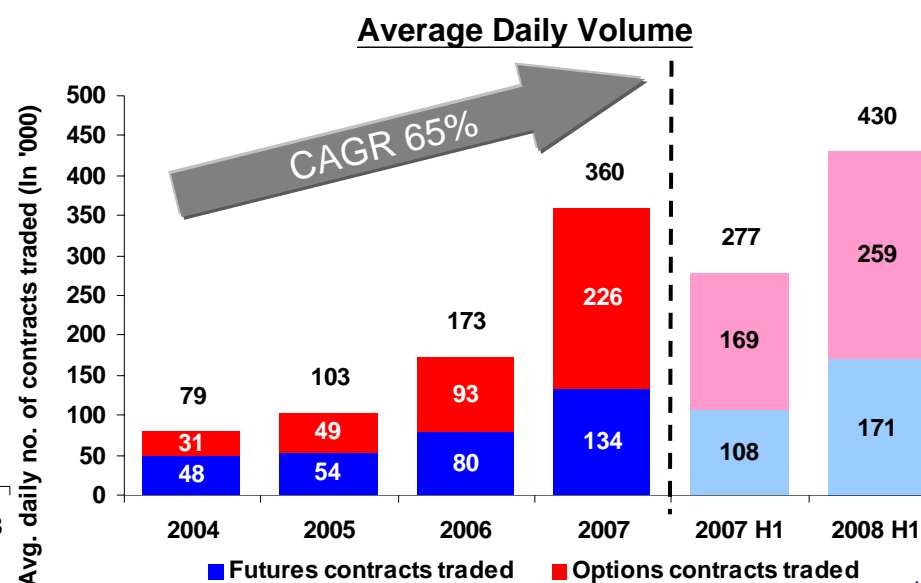
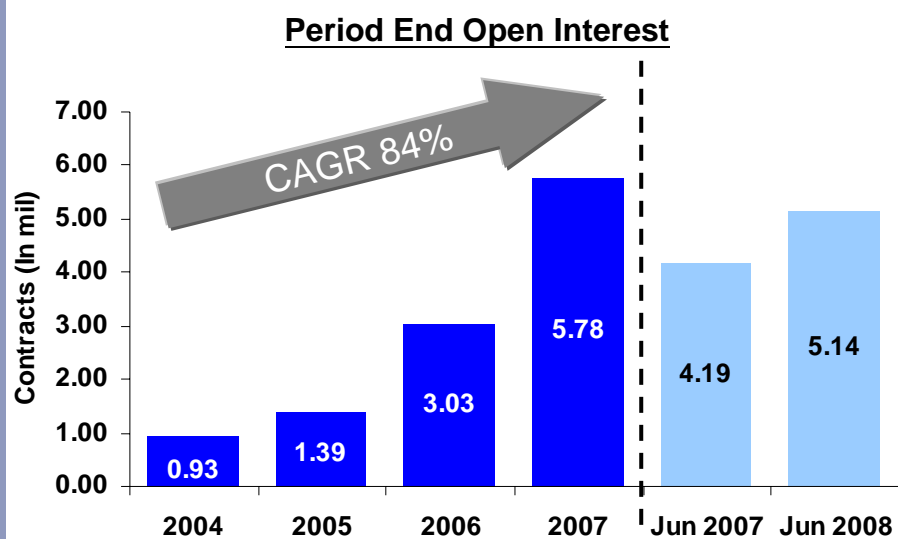
Equity Turnover Ranking and Growth Rate of Major World Exchanges

Rank	Exchanges	Total Volume 2008 H1 (US\$bil)	Total Volume 2007 (US\$bil)	CAGR* 2002-Jun 2008
1	New York Stock Exchange	17,077	29,210	24%
2	NASDAQ	7,350	15,320	14%
3	London Stock Exchange	3,967	10,324	13%
4	Tokyo Stock Exchange	3,068	6,476	28%
5	Euronext	2,542	5,648	19%
6	Deutsche Börse	2,192	4,324	26%
7	Shanghai Stock Exchange	1,621	4,070	64%
8	BME Spanish Exchanges	1,434	2,970	31%
9	Borsa Italiana	974	2,313	23%
10	HKEx	964	2,139	52%
11	TMX Group	937	1,649	32%
:				
15	Shenzhen Stock Exchange	784	2,102	55%
24	Singapore Exchange	159	382	34%

Source: World Federation of Exchanges website
 * Based on monthly average

Derivatives Market Trading (Jan-Jun 2008)

- ❖ Open interest increased 23% YoY to 5.14 million contracts on 30 Jun 2008
- ❖ Stock options volume increased 82% YoY and accounted for 56% of total derivatives trading
- ❖ Enrichment of product offerings: Mini-HHI futures (31 Mar 2008), gold futures (20 Oct 2008) and possibly emissions-related products



Source: HKEx statistics

Among Fastest-Growing Derivatives Exchanges in Asia Pacific

Derivatives Market Turnover Ranking of Major Asia Pacific Exchanges Jan-May 2008

Rank	Exchanges in Asia Pacific	Total Volume (Contracts in mil)			Change 2006/07
		2008 Jan-May	2007 Jan-Dec	2006 Jan-Dec	
1	Korea Exchange	946	2,709	2,475	9%
2	National Stock Exchange of India	183	380	194	95%
3	Dalian Commodity Exchange	119	186	120	58%
4	Zhengzhou Commodity Exchange	81	93	46	101%
5	Osaka Securities Exchange	61	109	61	80%
6	Taiwan Futures Exchange	53	115	115	0%
7	HKEx	43	88	43	105%
8	Shanghai Futures Exchange	39	86	58	47%
9	Multi Commodity Exchange of India	33	69	46	51%
10	Sydney Futures Exchange	33	91	78	17%
11	Singapore Exchange	24	44	37	21%

Mainland Enterprises Contributed to Market Growth

	Unit	Total	Mainland Enterprises / Underlyings	% of total
<u>As of 30 Jun 2008</u>				
No. of listed companies	Number	1,254	449	36%
H Share	Number		150	
Red Chip	Number		93	
Non H-share Mainland Private Enterprises	Number		206	
Market capitalisation	\$bil	16,356	9,344	57%
<u>2008 H1</u>				
Total equity funds raised	\$bil	122.2	61.2	50%
Funds raised through IPOs	\$bil	50.4	36.7	73%
Funds raised in secondary market	\$bil	71.8	24.5	34%
Average daily turnover - equity	\$bil	62.1	43.9	71%

The 10 largest IPOs in Hong Kong have all been by Mainland enterprises
Since 1993, Mainland enterprises have raised about \$2 trillion in Hong Kong

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HKEx Mission 2007-09

“To be a leading international marketplace for securities and derivative products focused on Hong Kong, Mainland China and the rest of Asia.”

**Mainland
Positioning**

**Business
Expansion**

**Service
Improvement**

- ❖ Capture more Mainland-related listings, trade more Mainland-related products, and engage more Mainland-related participants and investors.
- ❖ Expand business into new areas, including developing an Asian focus and diversifying into new product types.
- ❖ Improve service offering and strengthen the internal infrastructure supporting service delivery.

Challenges and Opportunities

Weakened Investment Sentiment Globally

Invest in long term growth

Improve service and product offerings

Continue to exercise prudent cost control

Improvements in listing regulation

- GEM enhancement (1 Jul 2008)
- Depository receipts mechanism (1 Jul 2008)
- Study of feasibility to introduce a Professional Board
- Review of Listing Rules and related processes

Development of new products and services

- Market Access Products
- Mainland related products (e.g. Mini-HHI index futures on 31 Mar 2008)
- Gold ETF (31 Jul 2008) and gold futures (20 Oct 2008)
- Emissions trading
- Expansion of market data business in the Mainland

Recruitment of new Exchange Participants (EPs) and improvement of services offered

- Streamlining of EP admission and registration procedures (20 Jun 2008)
- Participant training and market education
- Ten SEHK Participants and nine HKFE Participants were admitted in 2008H1
- Working with SFC on Remote Participantship

Streamlining of internal operations

- Automation of listing processes
- Consolidation of IT offices and data centres (2008-09)

Challenges and Opportunities

Global Exchange Consolidation Trend

Leverage on our core strengths

Invest in core businesses

Return earnings to shareholders

Cross-country mergers and acquisitions not on our agenda

- Synergy achieved through integration of exchanges and clearing houses in 2000
- Focus on organic growth
- Investment decision left with shareholders
 - 90% dividend payout for the past five years

Enhancement of trading infrastructure to support growth of business

- Flexible position limits for HSI and HHI futures and options (3 Jan 2008)
- Introduction of five-digit stock codes (7 Apr 2008)
- Introduction of closing auction session (26 May 2008)
- Revision of market maker obligations (2 Jul 2008)
- Suspension of tick rule and related short selling restrictions

Challenges and Opportunities

Intense Competition with Global Exchanges in Attracting Listings

Leverage on position as Mainland's international capital formation centre

Home market effect still prevails

Attracting listings from Mainland enterprises

- Stepping up cooperation, exchange of information and know-how with Mainland authorities and intermediaries
- Marketing trips covering over 30 Mainland cities in 15 provinces
- Conducting 35 presentations to a total of 5,000 attendees
- Organisation of promotional events in cities such as Shijiazhuang, Dalian and Jiangyin

Attracting listings of foreign companies, particularly those with Mainland nexus

- Co-organising four conferences and participating in over 20 overseas events organised by intermediary firms
- Conducting over 100 meetings with potential listing candidates, intermediaries and government bodies

Challenges and Opportunities

Competition from Mainland Exchanges as the Market Opens Up

Benefiting from gradual opening of Mainland market

Attraction of global market intermediaries crucial to success

Market quality crucial to maintaining competitive advantage

Fund flows from the Mainland as market becomes more open

- Mainland market is enormous – large population coupled with high savings rate
- Increase in size of QDII

Improvement in transparency and corporate governance standards

- Combined Consultation Paper on Changes to the Listing Rules (11 Jan 2008)
- Joint Consultation Paper with SFC on Issue of Paper Application Forms with Electronic Prospectuses (1 Apr 2008)
- Online CCASS Shareholding Disclosure Service (28 Apr 2008)
- Launch of HKExnews website and completion of Electronic Disclosure Project (25 Jun 2008)
- Shortening deadlines for half-year and annual reporting by Main Board Issuers (Jun / Dec 2010)
- Review of Code on Corporate Governance

Challenges and Opportunities

Technology and Regulation Creating New Dynamics in Global Competitive Landscape

Vertically integrated business model of exchanges in Asia provides mitigating effect

Enhance systems and operations to capture opportunities for growth

Price and speed of execution becoming more important

Increase of reliability and speed of market systems

- Capacity and technology upgrade for the Cash Market systems
- Capacity and technology upgrade for the Derivatives Market clearing and information dissemination systems
- Upgrade of SDNet bandwidth
- Study of approach to further upgrade trading and clearing systems to meet changing market needs
- Strengthening of technical requirements for information vendors
- Corporate website revamp
- Independent review of IT Governance and Electronic Disclosure System

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HKEx: Market Quality Key to Securities Market Success



Achieved through

- ❖ Adoption of international practices and best standards in accounting, corporate governance, asset valuation, management discipline, etc.
- ❖ Transparent disclosure and information dissemination regime
- ❖ Efficient market operation
- ❖ Robust risk management system
- ❖ Reliable IT infrastructure
- ❖ Wide range of product and service offerings
- ❖ Reduction of transaction costs in the long run

Thank you

HKEx Corporate Website: www.hkex.com.hk
HKExnews Website: www.hkexnews.hk