

Business Review

LISTING

Publication of a Feedback Statement on the Consultations on Continuing Listing Criteria and Related Issues

In February 2005, HKEx published a feedback statement on its consultations on continuing listing criteria and related issues which includes a summary of the responses and a commentary on developments over 2004. The latter served to improve transparency.

Consultations on Enhancing Listing Regulation

In March 2005, HKEx submitted its views on each of the Government's and the SFC's consultation documents on proposals aimed at giving statutory backing to major listing requirements. Since then, HKEx has been working closely with the FSTB and the SFC on further developing the initiative that would give "teeth" to major listing requirements with minimal disruptions to the market.

Publication of Listing Committee Annual Report

To continue its commitment to enhance the transparency of the regulatory functions discharged by the Listing Committees and the Exchange, the second Annual Report of the Listing Committee was published in July 2005 and posted on the HKEx website. The Report was an account of the work of the Listing Committees in contributing to the success of the Hong Kong listing regime during the service term of their members from 1 May 2004 to 13 May 2005.

Proposed New Structure for Listing Decision-Making

In February 2005, HKEx issued a consultation paper on the New Structure for Listing Decision-Making to solicit public views on the overall listing decision-making structure together with the proposed amendments to the Listing Rules for implementing such a structure. The consultation closed in April 2005 and the responses were published on the HKEx website in May 2005.

In November 2005, the Listing Committee resolved to address the consultation proposals in two phases. The decision was taken in the light of the forthcoming decision of the Court of Final Appeal in the judicial review of the New World Development Company Limited ("New World") and others, which may have an impact on the future model of hearings and procedures to be adopted by the Exchange, together with the continuing consideration regarding which of the current obligations set out in the Listing Rules will be given statutory backing.

The first phase involved a number of rule amendments in relation to the size, composition and the maximum term for the Committee members, which were approved by the SFC and the Board of the Exchange in December 2005. The second phase will commence once the legislation of part of the Listing Rules has been resolved.

Pursuant to the amendments to the Listing Rules that changed the composition of the Listing Nominating Committee ("LNC") such that the HKEx representatives on the LNC are three non-executive members of the Board rather than two members of the Board and the chief executive of the SEHK, Mr David Webb was appointed by the Board as the third member of HKEx representatives on the LNC on 15 February 2006.

Revision of the Mechanisms for Disseminating Regulatory Information by Main Board Issuers

HKEx published an exposure paper in November 2005 on abolition of the requirement for Main Board issuers to publish paid announcements in newspapers. The purpose of the exposure paper is to invite market comments on certain aspects of the proposed transitional arrangements, including the form and content of the proposed notification announcement. The requirement of publishing notification announcements will be implemented subject to HKEx's system and operational readiness and the approval of the relevant rule amendments by the SFC.

Review of the GEM

HKEx has established an internal working group to co-ordinate studies and develop proposals for the comprehensive review of the GEM. A discussion paper was published on 20 January 2006 to facilitate public discussion of the GEM for the purpose of enhancing its further development and ensuring that its objectives and functions appropriately align with the expectations and needs of various market stakeholders.

Implementation of a Detailed Case Database for the Listing Division

In 2005, the Listing Division established a centralised electronic database, which serves to capture all its precedent and know-how materials. The objective is to facilitate information sharing and distribution within the Division, thus improving the effectiveness and efficiency of work.

IPO Processing

During 2005, the IPO Transactions Department vetted a total of 162 listing applications of which 111 new applications were accepted for vetting in 2005 and 51 applications were brought forward from 2004. A total of 105 first comment letters were issued to new listing applicants. The average time between receipt of an application and the issuance of the first comment letter and the median both were 22 calendar days, and 95 per cent of the listing applicants received the first comment letter within 30 calendar days.

75 cases were reviewed in 2005, including all of the 67 newly listed companies and a selected sample of 8 listing applications which lapsed during the year and were not subsequently listed or refiled. 75 per cent of the listing applicants received 5 rounds of comments or less before the application was reviewed by the Listing Committees, and 72 per cent of the listing applicants received a total of 7 rounds of comments or less before and after the hearing of the respective Listing Committees.

In 2005, a total of 92 applications were brought to the Listing Committees (or their delegates) for decisions, of which 55 cases (or 60 per cent) were reviewed by the respective Listing Committees within 120 calendar days, whilst 17 cases (or 18 per cent) were reviewed in more than 180 calendar days.

The content of the regular month end IPO status statement, currently published on the HKEx website, will be further enriched to include additional performance-related material to improve transparency.

IPO Transactions

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|------|
| Number of new listing applications accepted | 153 | 205 | 101 | 130 | 111 |
| Number of applicants listed on the Main Board | 31 | 60 | 46 | 49 | 57 |
| Number of applicants listed on the GEM | 57 | 57 | 27 | 21 | 10 |
| Number of new listing applications rejected | 1 | 1 | 7 | 15 | 6 |
| Number of applications in process at year-end | 55 | 121 | 51 | 44 | 31 |
| Number of applicants with approval granted but not yet listed at year-end | 14 | 9 | 8 | 7 | 6 |

Number of Listed Companies (as at year-end)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|------------|------------|--------------|--------------|--------------|
| Main Board | 756 | 812 | 852 | 892 | 934 |
| GEM | 111 | 166 | 185 | 204 | 201 |
| Total | 867 | 978 | 1,037 | 1,096 | 1,135 |

Main Board – Number of Listed Companies by classification (as at year-end)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------|------------|------------|------------|------------|------------|
| Finance | 59 | 71 | 75 | 79 | 80 |
| Utilities | 11 | 13 | 14 | 15 | 18 |
| Properties | 97 | 98 | 98 | 100 | 102 |
| Consolidated Enterprises | 240 | 257 | 269 | 293 | 300 |
| Industrials | 327 | 354 | 378 | 388 | 416 |
| Hotels | 14 | 14 | 13 | 12 | 12 |
| Miscellaneous | 8 | 5 | 5 | 5 | 6 |
| Total | 756 | 812 | 852 | 892 | 934 |

Compliance and Monitoring

The Compliance and Monitoring Department (“CMD”) continues to target its monitoring resources in those areas that it perceives to pose the biggest risks to the maintenance of a fair, orderly and informed market. In particular, it pays attention to companies’ compliance with the rules governing the disclosure of price sensitive information and corporate governance standards.

Compliance and Monitoring Actions (as at year-end)

| | 2001* | 2002* | 2003 | 2004 | 2005 |
|--|-------|-------|-------|-------|--------|
| Number of announcements of listed companies vetted | 6,300 | 8,200 | 8,938 | 9,092 | 11,092 |
| Number of circulars of listed companies vetted | 1,300 | 1,600 | 1,773 | 1,919 | 2,409 |
| Number of share price and trading volume monitoring actions undertaken | 7,300 | 5,800 | 8,305 | 6,116 | 6,200 |
| Number of clarification announcements published by listed companies in response to share price and/or trading volume movements in their securities | 2,500 | 1,600 | 3,801 | 3,383 | 3,172 |
| Number of complaints handled | 150 | 320 | 170 | 213 | 262 |
| Number of cases (including complaint cases) referred to the Listing Enforcement Department for investigation | N/A | 64 | 21 | 57 | 88 |

* Figures for 2001 and 2002 were rounded

During 2005, we have taken further steps to make progress on shifting the balance of our review work from pre-vetting of disclosure materials of listed companies towards post-vetting monitoring and enforcement. We have limited the types of announcements that are subject to pre-vetting and reduced the extent of comments given. In the past year, out of the 11,092 announcements vetted, 3,437 announcements (31 per cent) were shifted from pre-vetting to post-vetting. In addition, there were 1,097 announcements which were published without being subject to any vetting. The Division will seek further guidance from the Listing Committees on how to pursue this initiative further.

A robust approach has been adopted to handling companies in long suspension and in the delisting process, which has resulted in the cancellation of listings of eight Main Board and seven GEM long-suspended companies. Five Main Board long-suspended companies had entered the third stage of the delisting process and a notice of the Exchange's intention to cancel their listings had been served on four GEM long-suspended companies.

As part of its regular functions, the CMD undertook 6,200 share price and trading volume monitoring actions and reviewed over 41,989 press articles on listed companies in 2005, which resulted in enquiries and publication of clarification announcements by listed companies, as appropriate. Moreover, 292 enquiries were handled and 122 sponsor-related matters were processed.

Listing Enforcement

The decision of the Court of Appeal in the judicial review brought by New World has had, and continues to have, an impact on the work of the Listing Enforcement Department ("LED"). Notwithstanding the implications of that decision on the operation of the disciplinary process, the LED completed a number of investigations and had successfully taken disciplinary actions, including three cases which were settled by agreement, resulting in the imposition of public and private sanctions by the Listing Committees.

The sanctions imposed in 2005 included issue of public censure, public statements involving criticisms and private reprimands. Further, as part of disciplinary action, the LED had also successfully made recommendations to the Listing Committees directed towards correcting ongoing breaches and improving corporate governance. On one occasion, the Listing Committee required remedial action to be taken by an investment company to correct a spread of investments held in breach of the Listing Rules. Further examples included the direction of a review of compliance procedures of two listed companies and the requirement for the management of a listed company to undergo training in order to improve their understanding of corporate governance matters.

Disciplinary Actions (as at year-end)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------|------|------|------|------|------|
| Number of investigations | 140 | 161 | 178 | 201 | 232* |
| Public censure | 8 | 6 | 4 | 5 | 10 |
| Public statements/criticisms | 8 | 1 | 8 | 14 | 8 |
| Private reprimands | 5 | 7 | 3 | 3 | 3 |
| Warning/caution letters | 117 | 147 | 134 | 161 | 109 |

* This includes cases investigated and concluded in 2005 and those continuing at year-end which were initiated during 2005.

During 2005, 15 cases were referred to the LED by the CMD originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Of those cases investigated, 33 investigations were discontinued with no further action taken.

The LED was also involved in a number of contested sponsor review cases. In one concluded review case in 2005, two members of the senior management of the sponsor were required to resign from their positions.

From the process standpoint, the LED is engaged in an ongoing project to develop the revised operating procedures, taking into account the decision of the Court of Final Appeal in the judicial review of New World when known, with a view to improving consistency and productivity.

The LED will continue its effort to pursue suspected breaches of the Listing Rules and initiate disciplinary actions where appropriate.

CASH MARKET

Market Performance

The Hang Seng Index closed at 14,876 at the end of 2005, up 5 per cent from the 14,230 at the end of 2004. During the year, the Hang Seng Index peaked at 15,466 on 15 August 2005 and was at its lowest of 13,355 on 18 April 2005. For 2005, the total turnover of the Cash Market was \$4,520 billion up from \$3,974 billion and the average daily turnover was \$18.3 billion up from \$16.0 billion in the previous year, both recorded a 14 per cent increase against those of last year.

Closing Indices (as at year-end)

| | 2005 | 2004 | Change (%) |
|--|----------|----------|------------|
| S&P/HKEx LargeCap Index | 17025.45 | 15740.43 | 8 |
| Hang Seng Index | 14876.43 | 14230.14 | 5 |
| Hang Seng Composite Index | 1947.72 | 1831.99 | 6 |
| Hang Seng China Enterprises Index | 5330.34 | 4741.32 | 12 |
| Hang Seng China-affiliated Corporation Index | 1934.89 | 1556.88 | 24 |
| S&P/HKEx GEM Index | 1007.28 | 988.60 | 2 |

In 2005, there were 67 newly listed companies, 57 on the Main Board and 10 on the GEM. As a result, the total number of listed companies on the Exchange increased to 1,135.

Hang Seng Index 01/2002 – 12/2005



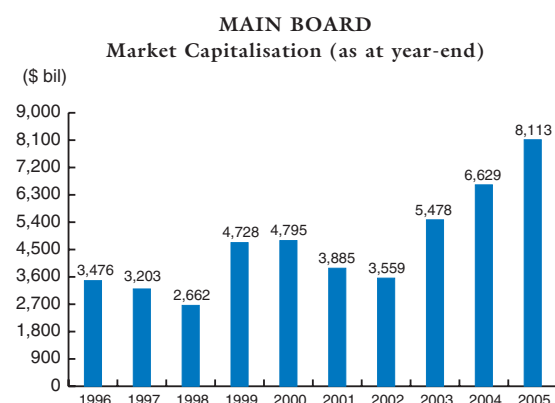
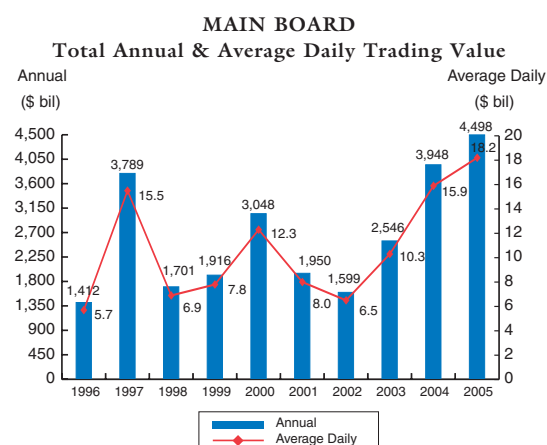
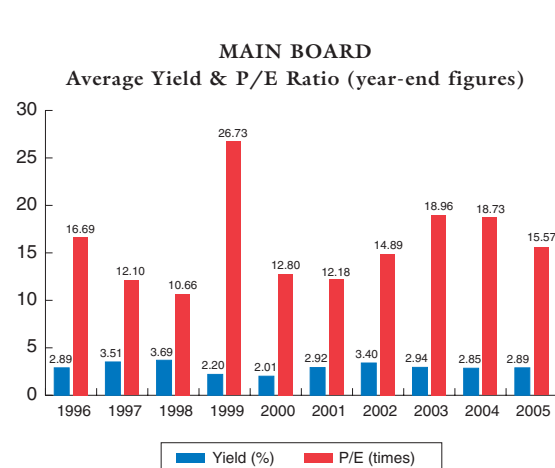
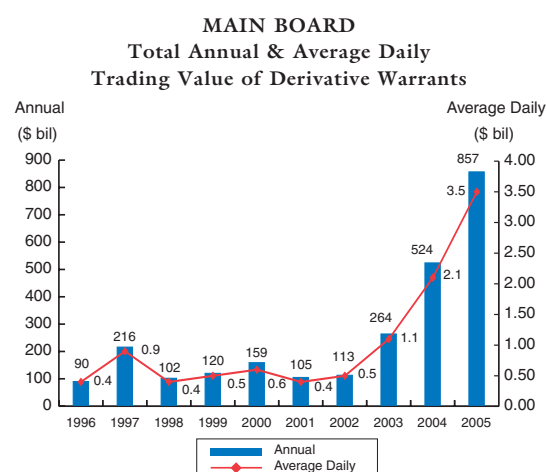
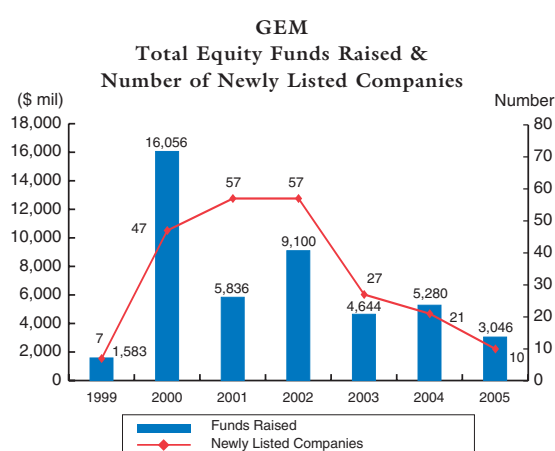
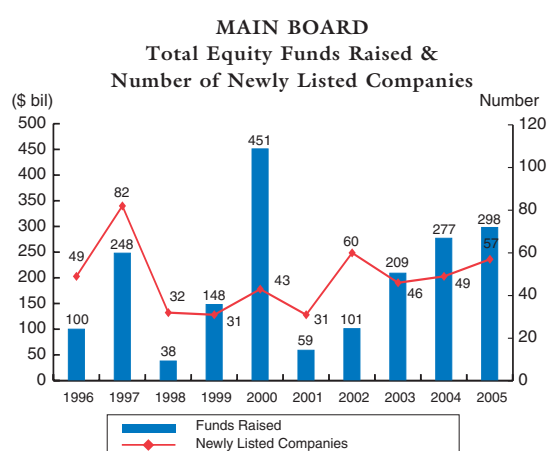
S&P/HKEx GEM Index 01/2002 – 12/2005



Market Performance of the Main Board and the GEM (as at year-end)

| | 2005 | Main Board 2004 | Change | 2005 | GEM 2004 | Change |
|--------------------------------------|--------|--------------------|--------|------|-------------|--------|
| IPO fund raised for the year (\$bil) | 165 | 94 | 76% | 1 | 3 | -67% |
| Market capitalisation (\$bil) | 8,113 | 6,629 | 22% | 67 | 67 | 0% |
| Number of listed companies | 934 | 892 | 5% | 201 | 204 | -1% |
| Number of listed securities | 2,448 | 1,971 | 24% | 201 | 205 | -2% |
| Total turnover for year (\$bil) | 4,498 | 3,948 | 14% | 22 | 26 | -15% |
| Average daily turnover (\$mil) | 18,211 | 15,857 | 15% | 90 | 103 | -13% |

Note: Figures have been rounded



Performance of the GEM (as at year-end)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|------|------|------|
| Newly Listed Companies | 7 | 47 | 57 | 57 | 27 | 21 | 10 |
| Total Funds Raised (\$bil) | 2 | 16 | 6 | 9 | 5 | 5 | 3 |
| Market Capitalisation as at year-end (\$bil) | 7 | 67 | 61 | 52 | 70 | 67 | 67 |
| Trading Value (\$bil) | 4 | 84 | 39 | 44 | 38 | 26 | 22 |

Main Board – New Listings

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------------------|------|------|------|------|------|------|------|------|-------|-------|
| Newly Listed Companies | 49 | 82 | 32 | 31 | 43 | 31 | 60 | 46 | 49 | 57 |
| New Warrants | | | | | | | | | | |
| Equity Warrants | 80 | 101 | 31 | 51 | 46 | 31 | 27 | 10 | 14 | 12 |
| Derivative Warrants | 201 | 351 | 157 | 162 | 279 | 181 | 644 | 678 | 1,259 | 1,682 |
| Total New Warrants | 281 | 452 | 188 | 213 | 325 | 212 | 671 | 688 | 1,273 | 1,694 |
| New Equity Linked Instrument | — | — | — | — | — | — | 25 | 16 | 46 | 0 |
| New Debt Securities | 84 | 61 | 21 | 87 | 20 | 21 | 18 | 20 | 49 | 32 |
| New Unit Trusts and Mutual Funds | 1 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 2 | 6 |

Note: Equity Linked Instrument commenced trading on 5 August 2002

Renovation of the Trading Hall

The renovation of the trading area of the Trading Hall was completed and re-opened for use on 16 January 2006. There are a total of 294 dealing desks including 4 for backup use and 4 for EPs as Internet access workstation in the renovated trading area. As at the opening day, 281 dealing desks were subscribed by 220 EPs at a monthly user fee of \$2,800 per desk for a minimum of 3 years.

Further renovations of the non-trading area, including the Exchange Exhibition Hall, are in progress and are expected to be completed in April 2006.

Exchange Participants and Trading Rights Holders Status (as at year-end)

| | Stock Exchange | Futures Exchange |
|--|----------------|------------------|
| Exchange Participants [#] | 468 | 137 |
| Trading | 429 | 137 |
| Non-trading | 39 | N/A |
| Trading Rights Holders [□] | 51 | 56 |
| Corporate | 2 | 47 |
| Individual | 49 | 9 |
| Average no. of trading rights held by Exchange Participants and Trading Rights Holders* | 1.78 | 1.17 |

[#] The Stock Exchange and Futures Exchange require any person who registers as a participant of the relevant exchange to hold a trading right of the respective exchange.

[□] Stock Exchange Trading Rights Holders refer to (i) those non-trading members of the Stock Exchange as of 6 March 2000 when the exchange merger completed; and (ii) former individual participants of the Stock Exchange who ceased to be a participant effective 1 April 2005 following the amendments to the Rules of the Exchange and are now solely holding a Trading Right of the Stock Exchange.

Futures Exchange Trading Rights Holders refer to former members/participants of the Futures Exchange who resigned as a participant and are now solely holding a trading right of the Futures Exchange.

* Average number of trading rights held by EPs and Trading Rights Holders = total number of trading rights held/total number of EPs and Trading Rights Holders. There were 922 Stock Exchange trading rights and 225 Futures Exchange trading rights as of 31 December 2005.

Product Developments

The ETF market grew steadily in 2005. With the listing of three new ETFs, namely Hang Seng FTSE-Xinhua 25 Index ETF, ABF Hong Kong Bond Index Fund and ABF Pan Asia Bond Index Fund, there were a total of eight ETFs listed on the Exchange as at the end of 2005.

The listing of the two bond ETFs would further increase the diversity of the underlying assets of the market and the listing of ABF Pan Asia Bond Index Fund consisting of bonds denominated in some major regional currencies is a new achievement for Hong Kong.

In addition, HKEx has successfully obtained the SFC regulatory approval for the introduction of CBBC and targets to launch the product in mid-2006.

Market Infrastructure Improvements

Cost savings of 20 per cent for EPs in respect of the monthly user fees effective 1 January 2005 are among the benefits of the network consolidation project. In response to the market development, the Phase 1 spread reduction for shares priced above \$30 including changes of related trading parameters was launched on 4 July 2005. Phase 2 spread reduction for shares priced between \$0.25 and \$20 is expected to be implemented in July 2006 subject to the approval of the necessary rule changes by the SFC. The proposal to exempt placing or fund raising activities by EPs from the current prohibition of dealings in suspended securities under the Rules of the Exchange was implemented on 8 September 2005. To facilitate EPs' order input process, HKEx increased the maximum number of outstanding orders per price queue from 2,000 to 4,000 orders in the AMS/3 on 21 November 2005. The closing price calculation under special situations was enhanced to allow the availability of reasonable closing prices at all times.

Trading System Enhancements

On 28 December 2005, HKEx upgraded the capacity of the AMS/3 to provide higher order throughput and improve the order execution, the update of prices and the response time for order input, particularly at market opening. Moreover, at the end of 2005, the ORS was successfully transferred to the AMS/3 platform, which would deliver savings in annual operating costs. With the newly introduced solutions developed by the Proprietary Network System ("PNS") vendors, the services offered by the PNS under the HKEx's ORS include a wide range of front-end trading services from online order input functions to comprehensive order management tools such as risk checking, order tracking and programme trading. Utilisation of the services offered by the PNS grew by about nine times in 2005.

DERIVATIVES MARKET

Market Performance

2005 was another fruitful year for HKEx's Derivatives Market, marked by the record high daily volume and/or open interest for some of the products. The details are shown in the following table.

Record High Daily Volume and Open Interest Achieved in 2005

| | Record High Daily Volume | | Record High Open Interest | |
|------------------------------|--------------------------|---------------------|---------------------------|---------------------|
| | Date | Number of Contracts | Date | Number of Contracts |
| Hang Seng Index Options | 22 June 2005 | 26,412 | 28 November 2005 | 312,101 |
| Mini Hang Seng Index Futures | – | – | 28 October 2005 | 6,016 |
| H-shares Index Futures | 28 December 2005 | 33,591 | 28 December 2005 | 47,272 |
| H-shares Index Options | 22 July 2005 | 4,280 | 29 August 2005 | 65,249 |
| Stock Options | – | – | 28 September 2005 | 1,655,274 |

For 2005, the total yearly volume for all futures and options markets had increased 30 per cent to 25,523,007 contracts (2004: 19,629,692 contracts). Apart from improvement in Hong Kong's economy, HKEx's continued efforts in product and market infrastructure enhancement, trading system upgrade, education and marketing have contributed to the improved market growth.

Product Developments

To meet market demand, stock options and stock futures on six underlying stocks were introduced in 2005 as follows:

| Underlying Stocks | Type | Trading Commencement Dates |
|--|-----------|----------------------------|
| Esprit Holdings Ltd | Blue Chip | 11 Jul 2005 |
| Denway Motors Ltd | Red Chip | 11 Jul 2005 |
| China Netcom Group Corporation (Hong Kong) Ltd | Red Chip | 7 Nov 2005 |
| Ping An Insurance (Group) Co of China Ltd | H-share | 7 Nov 2005 |
| Bank of Communications Co Ltd | H-share | 7 Nov 2005 |
| China Construction Bank Corporation | H-share | 19 Dec 2005 |

The total number of contracts traded in 2005 in these six additional stock options and stock futures reached 108,353. HKEx endeavours to meet the evolving demand for Mainland China-related derivative products. HKEx introduced FTSE/Xinhua China 25 Index Futures and Options on 23 May 2005 to provide an additional trading and hedging tool for investors in Mainland equities-related derivatives. The total number of contracts traded in 2005 in these new contracts reached 10,268.

To further facilitate the trading of stock options, the position limit and reporting level for stock options have been revised with effect from February 2006.

Market Infrastructure Enhancements

In February 2005, a series of enhancements was made to improve the stock options market which included (1) the provision of continuous quotations to eight active option classes to improve the availability of option market prices; (2) the reduction of stock options strike intervals in 7 option classes to offer more choices of strike levels; and (3) the reduction of the trading tariffs of Tier 1 option classes from \$5 to \$3 to enhance market competitiveness. In 2005, the average daily volume of stock options market was 35,385 contracts, an increase of 56 per cent (2004: 22,720 contracts). The year-end open interest had also grown by 49 per cent to 1,021,913 (2004: 684,052 contracts).

In 2005, there were 12 and six new HKFE participants and Options Trading EPs respectively. Three additional EPs were registered as market makers for stock options.

Trading System Improvements

In February 2005, mass quotation facility was offered to stock options continuous quote market makers to increase their power to provide liquidity to the Stock Options market. All Click workstations were upgraded from Microsoft Windows NT platform to Microsoft Windows XP platform in June 2005. Since the rollout of Phase I of SDNet, the EPs in the Derivatives Market have enjoyed a doubled bandwidth at a reduced cost.

Education and Marketing

In 2005, a total of 121 Derivatives Market training courses and seminars were conducted, attracting about 12,000 attendees, including mainly the staff of EPs and public investors. In the first half of 2005, a promotion project on Stock Options was launched, under which nine Options Trading EPs were sponsored on hosting seminars on product promotions to the public and their clients. In the second quarter of 2005, a large-scale investment event for promoting H-shares and Red-chips investment products and FTSE/Xinhua China 25 Index Futures and Options was conducted and attracted more than 1,700 people. In addition, overseas promotion activities on introducing HKEx's Derivatives Market were also organised.

Derivatives Market Statistics (as at year-end)

| | 2005 | | 2004 | |
|---|-----------------------|--|-----------------------|--|
| | Volume (Contracts) | Year-end Open Interest (Contracts) | Volume (Contracts) | Year-end Open Interest (Contracts) |
| Futures | | | | |
| Hang Seng Index Futures | 9,910,565 | 98,211 | 8,601,559 | 125,860 |
| Mini Hang Seng Index Futures | 1,501,342 | 3,081 | 1,457,681 | 2,044 |
| H-shares Index Futures | 1,978,673 | 35,125 | 1,743,700 | 22,418 |
| FTSE/Xinhua China 25 Index Futures ⁽¹⁾ | 2,882 | 48 | N/A | N/A |
| Dow Jones Industrial Average Futures ⁽²⁾ | 424 | – | 2,673 | 96 |
| Stock Futures | 13,069 | 1,750 | 17,274 | 1,821 |
| 3-Month HIBOR Futures | 24,935 | 1,472 | 58,307 | 6,570 |
| 1-Month HIBOR Futures | 246 | 5 | 733 | 30 |
| 3-Year Exchange Fund Note Futures | 1,250 | – | 2,225 | – |
| Options | | | | |
| Hang Seng Index Options | 3,071,822 | 192,069 | 2,029,068 | 76,444 |
| Mini Hang Seng Index Options | 30,595 | 555 | 26,882 | 613 |
| H-shares Index Options ⁽³⁾ | 257,425 | 32,599 | 77,758 | 9,265 |
| FTSE/Xinhua China 25 Index Options ⁽⁴⁾ | 7,386 | 431 | N/A | N/A |
| Stock Options | 8,722,393 | 1,021,913 | 5,611,832 | 684,052 |
| Total Futures and Options | 25,523,007 | 1,387,259 | 19,629,692 | 929,213 |

(1) Trading in FTSE/Xinhua China 25 Index Futures commenced on 23 May 2005

(2) Trading in Dow Jones Industrial Average Futures suspended with effect from 21 Mar 2005

(3) Trading in H-shares Index Options commenced on 14 Jun 2004

(4) Trading in FTSE/Xinhua China 25 Index Options commenced on 23 May 2005

CLEARING

DCASS Upgrade

Upon the review of the DCASS capacity, the software was fine-tuned to improve the DCASS throughput rate, and thus enhancing the operation efficiency of the participants. To meet future development of the Derivatives Market, a project team was formed for the further upgrade of the current version of the HKATS and DCASS.

DCASS Fee Review

In response to the concerns of the participants' clients on the transaction-based give up fees, the DCASS standard instruction input/processing fee of \$1.5 per transaction per side charged to participants of HKCC and SEOCH for performing external trade transfer on the DCASS had been abolished since 1 March 2005.

With effect from 1 June 2005, the interest retention rates of 1.2 per cent per annum and 2 per cent per annum imposed by HKCC and SEOCH respectively on cash margin deposits provided by participants were abolished, and interest is being rebated to participants at the prevailing bank savings deposit rates on their cash margin deposits. Moreover, the accommodation charges levied by HKCC and SEOCH have been reduced from 1.2 per cent per annum and 2 per cent per annum respectively to a harmonised rate of 0.5 per cent per annum on non-cash collateral utilised for margin coverage.

CCASS Fee Review

HKEx announced CCASS fee proposals in March 2005 which included a new fee structure for the CCASS to be implemented in two phases. HKSCC waived the monthly stock custody fee of \$0.012 per board lot for delisted securities and securities in prolonged suspension effective 1 February 2005. HKSCC had also extended the fee waiver on Short Message Service for IP accounts up to the end of June 2006 and abolished the \$1,000 initial deposit upon account opening with effect from 1 July 2005. Moreover, the scrip fee assessed on deemed book close dates was eliminated effective 1 January 2006.

CCASS Nominee Services Improvements

HKSCC improved its nominee services by extending the CCASS deadline for submitting voting instructions to the business day before the relevant meeting date with effect from 4 April 2005. The CCASS deadline for submitting corporate action instructions had also been extended to the last acceptance day of the issuers starting from 8 August 2005. Further improvements including the provision of corporate action data download function, allowing the cancellation and re-input of authorised instructions, crediting scrip entitlement to participants' stocks accounts on a real-time basis, and extending the service hours of various nominee functions took effect from 3 January 2006.

Other CCASS Services Enhancements

Early in 2005, the hotline for CCASS IPs was revamped to streamline the call flow and make it more user-friendly. The input and enquiry functions of the Interactive Voice Recording System are now available 24 hours a day, seven days a week.

From 8 August 2005 onwards, participants remitting cash prepayments, intra-day marks and subscription monies to HKSCC are able to execute their transactions through the Real Time Gross Settlement ("RTGS") system operated by Hong Kong Interbank Clearing Limited, and they are no longer required to pay the service fee of \$100 per transaction when using the RTGS for cash prepayment.

Expanding Admission of Investor Participants

After taking the legal advice on identified jurisdictions regarding the possibility of expanding admission of IPs to residents and corporations outside Hong Kong, decision was made to first admit Macau residents and corporations.

Third Party Clearing for Cash Market

In response to a formal proposal submitted by a potential Third Party Clearing ("TPC") provider, HKSCC is now assessing the current demand in the Cash Market for the development of the TPC.

T+2 Finality of Payment

Based on the feasibility study conducted, it has been concluded that there is no need for the CCASS to implement the T+2 Finality at the moment because the move to the model will bring limited benefits to the market. However, HKSCC will continue to keep abreast of the developments in other markets and consider the initiative again under appropriate market conditions.

Scripless Project

We are working closely with the Federation of Share Registrars on the project which is subject to the enactment of the applicable legislation.

Risk Management Measures

No default event had occurred throughout 2005.

Intra-day marks collection mechanism has been automated to reduce workload of both broker participants and HKSCC and it paves way for further reduction of market risks by means of reducing the time required for making payment, increasing the frequency of collections and/or reducing the tolerance limit so that more marks can be collected.

Additional insurance cover for the HKCC Reserve Fund has been secured effective 1 July 2005. In 2005, we reviewed the risk management policies and arrangements to further improve risk management functions of the clearing houses and better serve the markets. Upon the review, the capital requirements of different categories of clearing participants were harmonised, and further studies will be conducted on the collateral policy, capital based position limit and daily settlement price methodology. The assessment of other risk management policies such as the liquidity requirements in the event of settlement bank default, the frequency of margin calls, the price movement assumptions for stress testing and the cross margining for the derivatives clearing houses is in progress and will be completed in the first quarter of 2006.

Status of Clearing Participants

| CCASS | As at year-end | |
|------------------------------|----------------|------|
| | 2005 | 2004 |
| Broker Participants | 435 | 440 |
| Clearing Agency Participants | 1 | 1 |
| Custodian Participants | 37 | 39 |
| Stock Pledgee Participants | 7 | 7 |

CCASS Statistics

| | Up to year-end | |
|--|-------------------|-------------------|
| | 2005 | 2004 |
| Average Daily Exchange Trades Handled by CCASS | | |
| – Number of Trades | 149,618 | 149,572 |
| – Value of Trades | \$18.3 billion | \$16.0 billion |
| – Share Quantity Involved | 23.4 billion | 16.2 billion |
| Average Daily Settlement Instructions (SIs) | | |
| Settled by CCASS | | |
| – Number of SIs | 25,354 | 23,778 |
| – Value of SIs | \$46.2 billion | \$38.0 billion |
| – Share Quantity Involved | 14.1 billion | 11.8 billion |
| Average Daily Investor Settlement Instructions (ISIs) | | |
| Settled by CCASS | | |
| – Number of ISIs | 349 | 413 |
| – Value of ISIs | \$100.0 million | \$119.0 million |
| – Share Quantity Involved | 70.7 million | 82.2 million |
| Average Daily Settlement Efficiency of CNS Stock | | |
| Positions on Due Day (T+2) | 99.78% | 99.70% |
| Average Daily Settlement Efficiency of CNS Stock | | |
| Positions on the Day following the Due Day (T+3) | 99.98% | 99.98% |
| Average Daily Buy-ins Executed on T+3 | | |
| – Number of Brokers Involved | 8 | 9 |
| – Number of Buy-ins | 8 | 10 |
| – Value of Buy-ins | \$2.7 million | \$3.7 million |
| Shares Deposited in the CCASS Depository | | |
| – Number of Shares | 1,309.9 billion | 1,217.7 billion |
| – Percentage of Total Issued Share Capital of the Admitted Securities | 55.55% | 60.71% |
| – Value of Shares | \$3,026.9 billion | \$2,465.0 billion |
| – Percentage of the Total Market Capitalisation of the Admitted Securities | 34.60% | 34.46% |

BUSINESS DEVELOPMENT

Promotional Activities to Attract Potential Issuers

In 2005, HKEx continued to focus on organising conferences and seminars for Mainland prospective issuers with the aim of promoting Hong Kong as their preferred listing venue. With the support of our Beijing Representative Office and the special representatives in Shanghai and Guangzhou, we co-organised a total of 14 conferences in the Mainland, covering the Pan Pearl River Delta Region, Yangtze River Delta Region and the Northeast. The one held in collaboration with the Pan Pearl River Delta Region's governments and the Shanghai and Shenzhen stock exchanges in Chengdu in July last year was particularly successful, attracting more than 300 business executives and government officials from the Mainland.

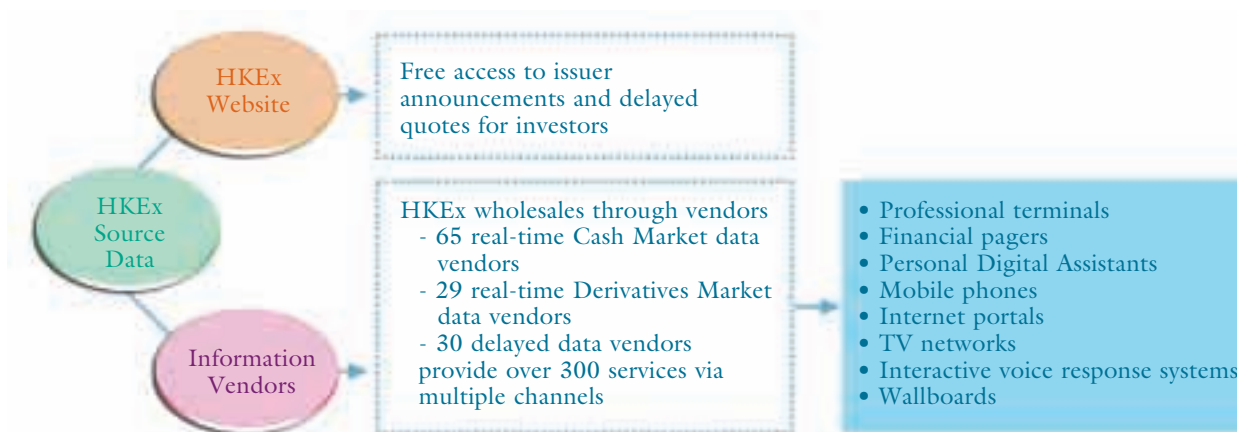
HKEx has expanded its marketing effort beyond the Mainland to attract quality potential issuers from other markets in Asia. We participated as speakers in several conferences held in Osaka, Taipei and Tokyo to introduce the benefits of listing in Hong Kong. HKEx has seen an increase in the new listings of companies from the region.

Training Programmes for Issuers

To ensure a quality market, HKEx is committed to educating the issuers about their continuing listing obligations and the latest developments in the area of corporate governance. In 2005, more than 160 Mainland executives took part in the six training programmes in Hong Kong and Beijing co-organised by HKEx and the Research Centre of the Hong Kong and Macao Affairs Office of the State Council, The Hong Kong Institute of Chartered Secretaries and The Hong Kong Polytechnic University China Business Centre respectively.

HKEx's commitment to attract more quality issuers and increase their awareness of good corporate governance practices is unequivocal. We will raise our marketing effort in the Mainland and Asia Pacific Region to arouse the interests of more enterprises to list on the Exchange and organise more training programmes to help improve the corporate governance standards.

INFORMATION SERVICES



Information Business

There was a five per cent or \$15 million growth in the information income in 2005 to \$323 million, and a steady increase in the use of Internet and usage-based services, e.g. per quote services. As at the end of 2005, there were 65 real-time information vendors for the Cash Market data (2004: 66) and 29 for the Derivatives Market data (2004: 34). They together offered a total of 339 real-time market data services to the market.

In 2005, two more vendors joined the Mainland Discount Programme for real-time market data, bringing the total number of vendors under this programme to 20. The programme, which has been extended to the end of 2006, allows investors in the Mainland to subscribe for HKEx market data at a discounted fee.

A new service for the redistribution of historical data products was introduced in 2005. The first Historical Data Product Vendor Agreement was signed in September.

In order to assist vendors' marketing activities, a free trial unit policy was introduced in April 2005. Under the new policy, information vendors with our prior approval are allowed to provide limited number of trial devices to potential customers free of charge.

Taking the advantage of the migration of the PRS onto the SDNet in the fourth quarter of 2005, we have doubled the data throttle for the PRS from 128Kbps to 256Kbps in support of the market development.

Internal Data Management

To provide better data support to internal departments and external parties, enhancements to internal data systems, namely Stock Market Database (“SMD”) and On-line Data Subscription System, were implemented. In 2005, we also completed a review of the internal processing of historical securities data, with a view to further strengthening the SMD as the central database for securities market statistics and historical trade data. As a result, we have streamlined the internal operation, removed data duplication and enhanced operation efficiency. Going forward, we will continue the review of HKEx’s existing Derivatives Market data products to see if there is a need to restructure the data products and delayed data products to make it more commercially-friendly and attractive to the market. To support the implementation of the proposal to abolish the requirement for Main Board issuers to publish announcements on newspapers, we will make corresponding system enhancements for receiving and publishing issuer announcements.

Mainland Co-operation

In view of the steady economic growth in the Mainland, we have worked closely with our information vendors to develop the Mainland market for our information products. In October 2005, we engaged the third vendor under the Shenzhen Market Data Agency Agreement.

To better facilitate the accessibility of market information of Hong Kong, Shanghai and Shenzhen stock markets via a single platform, the China Stock Markets Web on the HKEx website was enhanced in October 2005 to provide a faster way for its viewers to find out which H-share companies also have A-shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

Moreover, to promote the visibility of the Hong Kong Cash Market in the Mainland, starting from July 2005, Hong Kong stock market summaries and delayed market data have been broadcasted in the financial TV Programme “Trading Day”, which is owned and managed by Shenzhen Securities Information Company Limited, a subsidiary of the Shenzhen Stock Exchange.

INFORMATION TECHNOLOGY

Production Systems Stability and Reliability

The overall stability and reliability of all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continued to be performing excellently throughout 2005, despite a delay for Derivatives Market opening on 11 November 2005 caused by a software deficiency from the HKATS software supplier. HKEx will continue its effort to uphold this high standard of system reliability and stability and pursue continuous and further system improvements.

Capacity Planning and Upgrade

During 2005, HKEx completed the capacity upgrade of the AMS/3 to cater for the continuous growth of market activities and development. In addition, HKEx also upgraded the capacity and substantially enhanced the disaster recovery arrangement for the HKEx website to ensure its highest performance and availability during site disastrous situation. Capacity upgrade for the HKATS, DCASS and PRS will also be implemented in early 2006.

Obsolescent Technology Replacement and System Migration

In June 2005, HKEx upgraded the operating systems of the HKATS, DCASS and CCASS/3 to secure continued and quality system vendor support.

Due to hardware and system software obsolescence, HKEx completed the replacement of more than 400 AMS/3 off-floor terminals installed since 1998, together with an upgraded AMS/3 security solution. To support the Trading Hall renovation programme, the Trading Hall LAN cabling infrastructure as well as all the on-floor terminals and facilities had been upgraded. In December 2005, the migration of the existing AMS/3 ORS to an integrated platform was completed to reduce technology complexity and achieve operational cost savings.

In 2006, HKEx will commence the replacement of obsolete hardware and/or system software for the AMS/3 Open Gateway and Multi-workstation as well as the HKATS network gateway to uphold the high system standard and reliability.

System Consolidation and Operation Efficiency

The consolidation of the existing market system networks into SDNet to ensure a cost effective and high performance network infrastructure for the Cash and Derivatives Markets started in 2005. The migration of participants' circuits of the HKATS, DCASS and PRS onto the SDNet was successfully completed in October 2005. The plan is to complete the migration of the CCASS/3 and AMS/3 participants' circuits to the SDNet in mid-2006 and 2007 respectively.

Consolidation of the AMS/3 satellite systems and the redevelopment of Derivatives Market surveillance system to streamline the overall support and operational efficiency were completed in December 2005. Redevelopment of the Derivatives Market's risk management systems to further improve operational efficiency and effectiveness is in progress.

Fee Reductions in 2004, 2005 and 2006

2004

- One-off waiver for the on-behalf-of processing fee of \$50 per transaction during the stabilisation period of the launch of the DCASS from 6 to 21 April 2004.

2005

- Reduction in monthly user fees for all AMS/3 trading devices by 20 per cent effective 1 January 2005.
- Reduction in the tariffs for Tier 1 stock options classes from \$5 to \$3 effective 1 February 2005.
- Waiver of the monthly stock custody fee of \$0.012 per board lot for delisted securities and securities in prolonged trading suspension held in the CCASS effective 1 February 2005.
- Abolition of the standard instruction input/processing fee of HKCC and SEOCH of \$1.5 per transaction per side effective 1 March 2005.
- Waiver of exchange fee of \$5.00 per contract per side for a period of three months upon the commencement of trading of FTSE/Xinhua China 25 Index Futures Contract effective 23 May 2005.
- Abolition of the interest retention rates of 1.2 per cent for HKCC and that of 2 per cent for SEOCH for cash margin collateral deposited with HKCC and SEOCH effective 1 June 2005.
- Reduction in the accommodation charges for non-cash collateral deposited with HKCC and SEOCH from 1.2 per cent and 2 per cent respectively to 0.5 per cent effective 1 June 2005.
- Interest rebates to participants on their cash margin deposits at the prevailing bank savings deposit rate effective 1 June 2005.
- Abolition of the initial deposit requirement of \$1,000 for opening a CCASS IP Account effective 1 July 2005.
- Reduction in handling charges for scrip fee concessions from 10 per cent of concession granted (with a minimum of \$10,000) to a flat fee of \$1,000 per application effective 8 August 2005.
- Abolition of the service fee of \$100 per transaction for cash prepayment instruction executed via the RTGS system effective 8 August 2005.
- Reduction in the rentals of participant circuits for the HKATS/DCASS/PRS by 20 per cent upon migration to the SDNet effective November 2005.

2006

- Elimination of scrip fee on deemed book close dates effective 1 January 2006.
- Extension of waiver of Short Message Service fees for IP Account Holders who opt for the service until 30 June 2006.
- Extension of discounted monthly fee of \$80 per device (regular monthly fee being \$200) for Mainland users of HKEx's real-time securities trading information until 31 December 2006.
- Waiver of the regular monthly subscription fee for the futures data package of \$25 per device for the users who subscribe to securities market data until 31 December 2006.

TREASURY

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$17.6 billion on average in 2005 (2004 average: \$14.4 billion).

As compared with 2004, the overall size of funds available for investment as at 31 December 2005 increased by 18 per cent or \$2.9 billion to \$19.2 billion (31 December 2004: \$16.3 billion). Details of the asset allocation of the investments as at 31 December 2005 against those as at 31 December 2004 are set out below.

| | Investment Fund Size \$ billion | | Bonds | | Cash or Bank Deposits | | Global Equities | |
|----------------------|------------------------------------|------|-------|------|-----------------------|------|-----------------|------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Corporate Funds | 4.2 | 3.9 | 56% | 64% | 37% | 30% | 7% | 6% |
| Margin Funds | 13.6 | 10.5 | 28% | 34% | 72% | 66% | 0% | 0% |
| Clearing House Funds | 1.4 | 1.9 | 17% | 7% | 83% | 93% | 0% | 0% |
| Total | 19.2 | 16.3 | 33% | 38% | 65% | 60% | 2% | 2% |

Investments are kept sufficiently liquid to meet the Group's operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds (\$0.3 billion as at 31 December 2005 and 31 December 2004), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2005 (\$18.9 billion) and 31 December 2004 (\$16.0 billion) were as follows:

| | Investment Fund Size \$ billion | | Overnight | | >Overnight to 1 month | | >1 month to 1 year | | >1 year to 3 years | | > 3 years | |
|----------------------|------------------------------------|------|-----------|------|-----------------------|------|--------------------|------|--------------------|------|-----------|------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Corporate Funds | 3.9 | 3.6 | 14% | 15% | 23% | 16% | 23% | 21% | 24% | 31% | 16% | 17% |
| Margin Funds | 13.6 | 10.5 | 56% | 40% | 19% | 26% | 17% | 14% | 8% | 20% | 0% | 0% |
| Clearing House Funds | 1.4 | 1.9 | 77% | 83% | 7% | 3% | 9% | 6% | 7% | 8% | 0% | 0% |
| Total | 18.9 | 16.0 | 49% | 39% | 19% | 21% | 18% | 15% | 11% | 21% | 3% | 4% |

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 31 December 2005, had a weighted average credit rating of Aa2 (31 December 2004: Aa2) and a weighted average maturity of 1.3 years (31 December 2004: 1.5 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (“VaR”) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The overall risk, as measured by the VaR methodology, during 2005 and 2004 was as follows:

| | Average VaR \$ million | | Highest VaR \$ million | | Lowest VaR \$ million | |
|----------------------|---------------------------|------|---------------------------|------|--------------------------|------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Corporate Funds | 13.5 | 15.8 | 16.1 | 18.3 | 11.2 | 13.2 |
| Margin Funds | 14.4 | 15.3 | 17.9 | 17.4 | 9.8 | 10.3 |
| Clearing House Funds | 1.0 | 1.1 | 1.5 | 1.2 | 0.6 | 0.8 |

Details of the Group’s investment income are set out in the Income section under the Financial Review and note 7 to the consolidated accounts of this Annual Report.

INVESTMENTS IN ASSOCIATES

Computershare Hong Kong Investor Services Limited (“CHIS”)

In May 2005, the Group acquired a further six per cent interest in CHIS for \$25 million and raised its interest to 30 per cent. As at 31 December 2005, the cost of the investment in CHIS was \$52 million (2004: \$27 million) and the book value of the investment was \$63 million (2004: \$37 million).

ADP Wilco Processing Services Limited (In Liquidation) (“AWPS”)

The Group acquired a 30 per cent interest in AWPS in May 2002 at a cost of \$1.8 million. The book value of the investment as at 31 December 2005 was \$1.3 million (2004: \$1.3 million). AWPS is in the process of a voluntary dissolution. The liquidation proceeds of AWPS are expected to approximate its book value.

INITIATIVES, ACHIEVEMENTS & PRIORITIES UNDER THE 3-YEAR STRATEGIC PLAN

| Major Functions | |
|-------------------------------|---|
| Listing | <p>Responsible for supervising the listing process and the ongoing compliance by listed companies with the Listing Rules. It includes –</p> <ul style="list-style-type: none"> • IPO Transactions Department which is responsible for reviewing new listing applications for both the Main Board and the GEM as well as handling pre-IPO enquiries; • Compliance and Monitoring Department which is responsible for ongoing monitoring of listed companies in respect of compliance with the Listing Rules, processing listing applications, dealing with sponsorship and applications, and handling complaints and enquiries relating to the Listing Rules; and • Listing Enforcement Department which is responsible for investigating possible breaches of the Listing Rules, and where appropriate, initiating disciplinary actions. |
| Cash Trading | <p>Responsible for (i) managing the operations of and the trading in the Cash Market; (ii) coordinating the development and enhancement of market infrastructure for the issuance, trading, information dissemination, clearing and settlement of cash products, and the secondary market trading including rules, policies, systems and related facilities; and (iii) maintaining good relations with market practitioners and providing relevant education to them.</p> |
| Derivatives Trading | <p>Responsible for (i) managing the operations of and the trading of derivative products (futures and options) on the Futures Exchange; (ii) ensuring the stability and efficiency of the trading system; (iii) improving the market infrastructure for market development; (iv) broadening the product distribution channels by recruiting new EPs; and (v) maintaining good relations with market practitioners and providing relevant market education.</p> |
| Clearing | <p>Responsible for clearing, settlement, and related risk management of the securities and derivatives markets. It comprises –</p> <ul style="list-style-type: none"> • Cash Clearing Operations Department which is responsible for handling clearing, settlement, depository and nominee activities of securities traded in the Cash Market; • Cash Clearing Risk Management Department which is responsible for developing and implementing risk management strategies for all cash clearing services; • Clearing Support Services Department which is responsible for handling IP Accounts services, clearing product development and project management of the division; • Derivatives Clearing Operations Department which is responsible for handling clearing and settlement of products traded in the Derivatives Market; and • Derivatives Clearing Risk Management Department which is responsible for developing and implementing risk management strategies for all derivatives clearing services. |
| Business Development | <p>Responsible for (i) identifying prospective issuers and promoting new listings in Hong Kong; (ii) liaising and establishing relationship with Mainland government and regulatory authorities through the Beijing Representative Office and Special Representatives stationed in Guangzhou and Shanghai; and (iii) providing training for Hong Kong-listed Mainland companies and potential listing applicants.</p> |
| Information Services | <p>Responsible for (i) selling market data and issuer information to licensed information vendors for redistribution to selling intermediaries, institutional and retail investors and other market users; (ii) preparing and selling historical data products to the investing public; (iii) maintaining and managing market databases to provide information support for internal and external parties; and (iv) receiving issuer announcements and disclosures of interests and posting them on the HKEx website for public viewing.</p> |
| Information Technology | <p>Responsible for the development and operations of secure, reliable and quality systems to support the securities and derivatives markets in Hong Kong. It comprises –</p> <ul style="list-style-type: none"> • IT System Development and Support which is responsible for the development, implementation, maintenance and support of all HKEx systems, including <ul style="list-style-type: none"> (i) trading, clearing and settlement market data dissemination systems to support the securities and derivatives market operations; (ii) market surveillance, risk management, issuers and other related management information systems; and (iii) other corporate systems to support HKEx internal operations; and • IT Infrastructure & Operations which is responsible for the management and prudent operations of all HKEx systems and infrastructure, including (i) data centre operations; (ii) network and engineering services and support; (iii) technical system services and support; (iv) change management and system security administration; and (v) system vendor and network service provider management and control. |

Building a
Quality
Market

Becoming a
Mainland
Partner

Consolidation

Key Achievements in 2005

- Enhanced regulation of sponsors and IFAs
 - Revised Corporate Governance Best Practices
 - Solicited public views on new structure for listing decision-making
 - Provided support for the establishment of statutory listing requirements
 - Published second Listing Committee Annual Report
 - Set out future model for dissemination of regulatory information by Main Board issuers
 - First phase of Listing Committee structure rule amendments approved by the Exchange
 - Prepared for a major review of the GEM
 - Implemented case database for the Listing Division
- Completed the renovation of the trading area of the Trading Hall
 - Reduced minimum trading spreads (phase 1) and changed the related trading parameters
 - Exempted placing or fund-raising activities by EPs from current prohibition of dealings in suspended securities under trading rules
 - Increased maximum number of outstanding orders per price queue from 2,000 to 4,000 orders in the AMS/3
 - Increased EPs' Open Gateway trading capacity via sale of 271 standard throttles
 - Obtained the SFC's approval for the launch of CBBC
 - Reviewed the derivative warrant market
 - Introduced REITs and 3 new ETFs
 - Provided continuous education and training for 7,200 employees of EPs
- Implemented enhanced measures for stock options
 - Offered mass quotation facility to stock options market makers
 - Launched the FTSE/Xinhua China 25 Index Futures and Options and six additional classes for stock options and futures
 - Obtained SFC's approval on position limits increase for stock options
 - Recruited 12 new HKFE participants and 6 Options Trading EPs
- Upgraded Clearing Service Call Centre and Interactive Voice Recording System
 - Waived monthly stock custody fee for delisted securities and securities in prolonged suspension
 - Abolished the DCASS standard instruction input/processing fee for performing external trade transfer
 - Extended the CCASS deadline for participants to submit voting instructions and corporate action instructions
 - Implemented Derivatives Market Clearing Houses fee changes on interest retention rate and accommodation charge
 - Introduced further fee concessions for IPs Account Services in the CCASS
 - Enhanced the CCASS money settlement
 - Harmonised capital requirements of different categories of clearing participants of the three clearing houses
 - Announced elimination of scrip fee on deemed book close dates
- Organised and co-organised more than 16 conferences and seminars in the Mainland and Hong Kong to promote listings in Hong Kong
 - Co-organised 6 training programmes in Hong Kong and the Mainland for Hong Kong – listed Mainland enterprises
 - Conducted around 100 presentations in Hong Kong and the Mainland respectively
 - Identified more than 560 prospective issuers
- Introduced new service for redistribution of historical data products and signed the first Historical Data Product Vendor Agreement
 - Streamlined processes relating to historical securities data
 - Extended the Mainland Discount Programme for real-time market data
- Upgraded the operating systems of the HKATS, DCASS and CCASS/3
 - Commenced consolidation of the four existing market system networks into the SDNet and completed phase 1 migration of the HKATS, DCASS and PRS network
 - Upgraded the HKEx website capacity and enhanced disaster recovery arrangements
 - Migrated the AMS/3 ORS to an integrated technology platform
 - Upgraded system capacity of the AMS/3
 - Replaced all the AMS/3 off-floor terminals since 1998 and upgraded the corresponding security solution
 - Upgraded the Trading Hall LAN cabling infrastructure and all the on-floor trading terminals and facilities for the renovated Trading Hall
 - Consolidated the AMS/3 satellite system

Priorities in 2006

- Implement the first phase of abolition of paid announcements and enhance issuer information content on the HKEx website
 - Continue work towards the establishment of statutory listing requirements
 - Revamp listing decision-making structure (Phase 2)
 - Study the introduction of a comprehensive electronic management system for the Listing Division
 - Further refine the IPO vetting progress
 - Continue review of the GEM
 - Further enhance corporate governance
 - Support establishment of Financial Reporting Council
 - Establish China Affairs Team
- Complete the Trading Hall renovation
 - Launch and develop the CBBC
 - Strengthen the derivative warrant market education, including developing a web-based resource centre
 - Study further spread reduction for shares with prices below \$30 (Phase 2)
- Establish more favourable position limit regime
 - Review market maker model for the Derivatives Market
 - Review possible introduction of tailor-made combination order functionality
- Implement improvements to CCASS nominee services
 - Further enhance CCASS nominee services in respect of electronic voting
 - Harmonise collateral policies of the three clearing houses
 - Study expanding admission of IPs to the CCASS
 - Explore Third Party Clearing
- Organise listing promotional events in Hong Kong and the Mainland to attract potential issuers to list in Hong Kong
 - Participate in listing promotional events in Taiwan, Japan and other Asia Pacific region to promote Hong Kong as the preferred listing venue
 - Arrange regular training programmes in Hong Kong and the Mainland for Hong Kong-listed Mainland enterprises
- Review the existing derivatives market data products
 - Review policy on delayed data product and indirect vendorship
 - Further develop the Mainland market for HKEx's information products
 - Support the implementation of the proposal to abolish the requirement for Main Board issuers to publish paid announcements on newspapers
 - Further improve the efficiency of historical data management and issuer information processing
- Upgrade the capacity of the HKATS, DCASS and PRS
 - Upgrade the software of the HKATS Network Gateways
 - Implement phase 2 of the network consolidation with migration of the CCASS/3 network to the SDNet
 - Replace the hardware and software of the AMS/3 Open Gateway and Mutli-Workstation
 - Study and prepare for the migration of the AMS/3 for a higher version of server technology